

Idle Balances and Foreign Portfolio Investments in Nigeria

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Abstract

Purpose: The study analysed the effect of investing inactive bank deposits on the net inflows of foreign portfolio investments in Nigeria.

Methodology: The study utilized secondary data obtained from the Central Bank of Nigeria (CBN) spanning 1981 to 2022. Based on the theory of bank-based financial system, the study modelled net inflows of foreign portfolio investment (PI) as a function of credit supply to private sector (CS), money supply (MS), lending rate (LR), deposit rate (DR), and idle balances (IB). The study employed descriptive statistics, correlation analyses, augmented dickey fuller test, and the Auto-regressive Distributive Lag (ARDL) regression technique to analyse 42 observations.

Results and Conclusions: The results showed that idle balances have negative and significant effect on foreign portfolio investment both in the long and short runs. The study concludes that idle balances, when reduced by way of actively invested in returns generating assets in the stock market of foreign countries will promote portfolio investment net inflows into Nigeria.

Implications: The findings imply that deposit money banks should on behalf of depositors, invest inactive bank deposits (idle balances) in foreign portfolio investment having thoroughly analysed associated risks and returns.

Keywords: Idle Balances, Bank Deposits, Foreign Portfolio Investment, Money Supply, Lending Rate

1. Introduction

The cost of idle balances resulting from increases in the supply of money and credit for both production and consumption activities provides strong bases for the exploration of investment opportunities that will yield returns sufficient to secure the purchasing power of such balances. This is highly essential for consumption smoothing purposes that is, maintaining steady level of consumption and possibly at instances of windfall gains from the basket of investment portfolios, there will increased consumption and consequently an improvement in household welfare. In the Nigerian context, increases in credit and money supply are stimulated by shallowness in funding (Anyamaobi & Okey-Nwala, 2023) weak capacity to access financing, low absorptive capacity for investible credits (Magaji et al, 2023; Fowowe, 2020), wrong application of policy, inadequate liquidity and capital (Tiamiyu et al, 2022) etc.

Idle balances are primarily kept for unforeseen expenses arising from events that are mostly not desired. Unforeseen expenses are not planned for because their occurrence will surely distort the achievement of items planned for by reducing or completely diverting resources allotted to them. Generally, one of the statistically observable indicators of idle balances is the cash reserves held by banks on behalf of individuals and businesses as a fraction of bank their deposits in the bank. These reserves are kept to insure against unplanned financial challenges and adverse fluctuations in sales or major source of income. In Nigeria, the level of these reserves is largely controlled by the Central bank of Nigeria (CBN) using the cash reserves and liquidity ratios. According to Yusuf *et al.* (2025) the CBN can invest these funds in the stock market of other countries on behalf of the depositors to serve the dual advantage of increasing Nigeria's stock of foreign assets and foreign earnings from dividends or returns denominated in foreign currencies for reserve accretion.

Idle balances stand the risk of loss of purchasing power if not invested in income generating assets among which is foreign portfolio investment. Foreign portfolio investment refers to investment in a cocktail of

foreign financial assets that can be easily converted to cash, usually within a short period of one to three years (Corporate Finance Institute, 2025). In relation to Tseeneké *et al.* (2026) foreign portfolio investment can be conceived as the investment opportunity for effective utilization of idle financial resources and preservation of the purchasing power. Foreign portfolio investment falls under the broader spectrum of portfolio investment which according to the Central Bank of Nigeria (2022) comprises corporate bonds, government securities, exchange traded-fund (ETF), equities, and debt securities. Considering the fairly stable investment environment prevalent in developed countries in the global north, foreign portfolio investment which is a sub-component of Nigeria's capital account balance, presents itself a veritable investment opportunity for utilizing idle balances.

Foreign Portfolio investment offers quick returns unlike domestic production or direct investment in the real sector. It covers the purchase of liquid short-term securities and financial assets by investors from another country (Oyekanmi, 2022). These liquid assets could be managed directly by the investor or managed by financial professionals. Besides the need for active and efficient use of idle balances, Nigeria's position with respect to foreign portfolio investment net inflows signals the need for improvement. According to Egwudu (2023), net inflows of foreign portfolio investments in Nigeria declined significantly by 48.7% between January and February, 2023 when compared correspondingly to the year 2022. Specifically, portfolio investment in Nigeria declined to N24.9 billion in January 2023 by 39.7% from N41.31 billion in January 2022. In February 2023 it dropped to N19.62 billion by 56.8% from N45.43 billion in February 2022. This signals reduction in the foreign exchange earning capacity and magnitude of foreign portfolio investment in Nigeria.

This decline can be traced primarily to the loss of investors' confidence in foreign portfolio investment in Nigeria. More importantly, the decline can also be traced to the pool of idle balances held in the bank on behalf of common transactors such as individuals, companies, and foreign governments. If idle balances are not deployed, it may lead to loss of diversification opportunity, potential loss of returns accruable to the investment in foreign equity, and limited access to comparative risk-return analyses. On the contrary, if these funds are invested, the problem of dwindling foreign reserve leading to insolvency experienced by foreign investors would drastically reduce. By implication it will enable investors to expand and maintain solvency in the face of economic shocks as noted by (Esiyeden & Uagbale-Ekatah, 2025).

There is the dearth of scholarly evidence on the need for investing idle balances due to the fact it is a fallout from financial deepening efforts. Financial deepening attracts the pool of idle balances and appropriates them among users of funds in both the private and public sector for investments, projects and development purposely to generating returns which form the basis for economic growth (Okuma, 2019). Studies on financial deepening such as Magaji *et al.*, (2023), Tabash *et al.*, (2022), Nwosu *et al.*, (2021), Okuma, (2019), Tari & Oliver (2017), have examined the effects of financial deepening on domestic production and the sectoral components with no consideration for investment in foreign assets. Anyamaobi & Okey-Nwala (2023), and Tiamiyu *et al.*, (2022), investigated the effects of financial deepening on the capital market with no consideration for foreign portfolio investment.

Studies such as Tsaurai (2022), and Ezeanyejí & Ifeako (2019), examined factors influencing of portfolio investment and the effect of portfolio investment on economic growth respectively but not foreign portfolio investment. Tsaurai (2022) considered variables such as Net foreign portfolio investment, real Gross Domestic Product (GDP), inflation rate, market capitalization and trade openness, but excluded issues relating to idle balances. Ezeanyejí & Ifeako (2019) also considered factors driving portfolio investment and not indicators of idle balances nor foreign portfolio investment. Chidi-Okeke *et al* (2023) only considered the debt security (bond) aspect of portfolio investment but not foreign portfolio

investment. This study fills the gap of drawing attention to the idle balances resulting from inactive bank deposits together with the measures of financial deepening and investigated their distinct effects on portfolio investment as an income generating option for preserving the purchasing power of the uninvested funds.

Following the introduction, section two entails the theoretical and empirical review of prior studies. Section three details the methodology. Section four presents and analyses the empirical findings in relation to the expected results or conformity with theory. Finally, section five summarizes the findings, and concluded with plausible recommendations.

2. Literature review

2.1 Stylized Facts

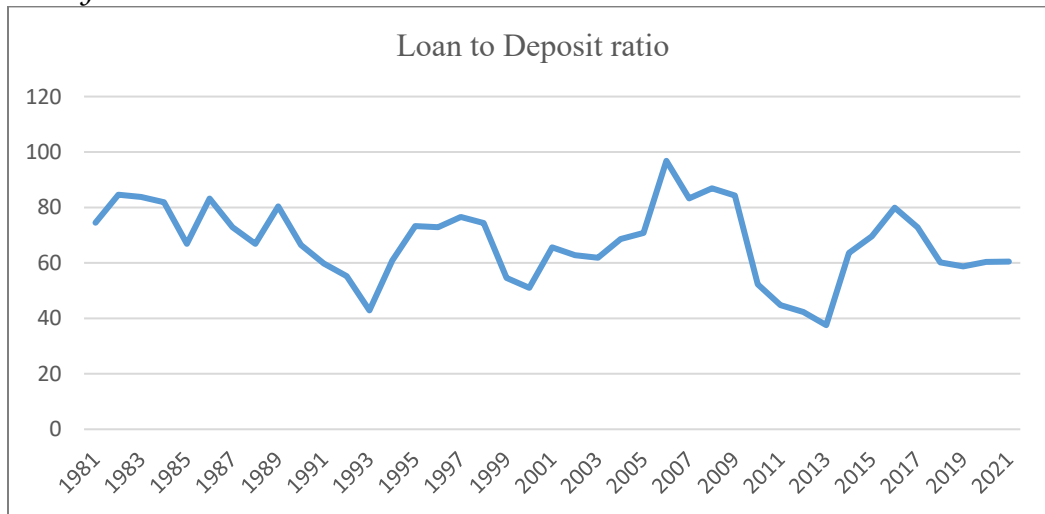


Chart 1: Trend of Loan to Deposit Ratio in Nigeria
Source: Author's Computation, 2025

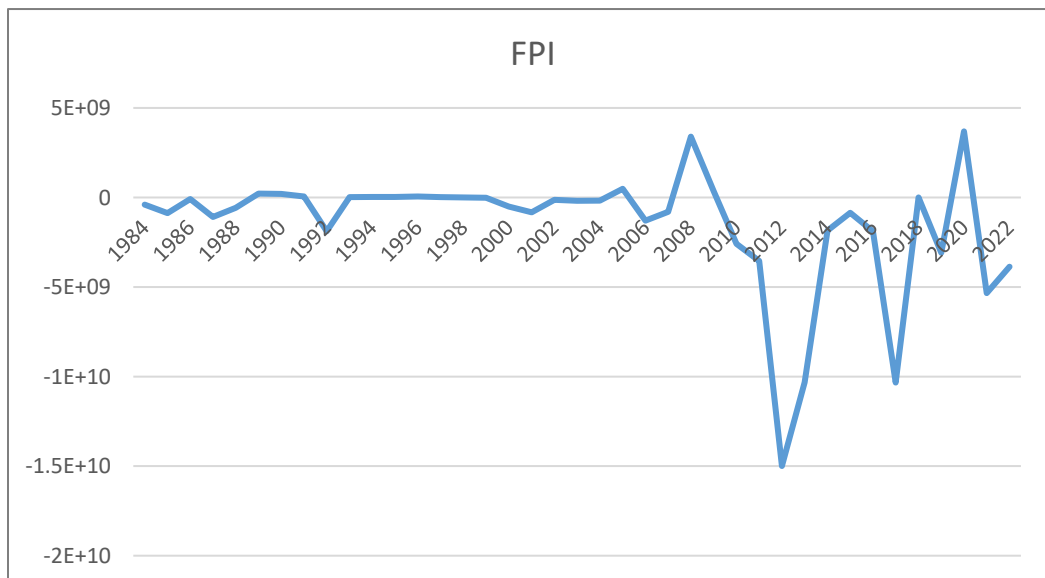


Chart 2: Trends of Foreign Portfolio Investment, net inflows in Nigeria
Source: Author's Computation, 2025

Though Chart 1 reveals that liquidity ratio ranges exceed 50% from 1981 to 2022, an average of 32.5% of deposits are left idle in the banks' custody. Additionally, the average returns on bank deposits in Nigeria, which is 11.54% from 1985 to 2021 is critically below the average inflation rate of 19.2% (CBN statistics, 2022). This implies financial repression that is, returns on bank deposits is not sufficient to offset the effect of inflation on the purchasing power of the idle deposits.

Chart 2 reveals negative trend in the net inflows of portfolio investment from 2005 to 2019 except 2020. The trend shows three episodes of sharp drops in net inflow of portfolio investment that is from 2008 to 2012, 2015 to 2017, and 2020 to 2021 in Nigeria. The sharp drops are traceable to the global financial crisis of 2007, unexpected sharp drop in the global crude oil price, and the COVID-19 pandemic. These negative trends affirms that if idle balances are reduced by way of investment in foreign liquid assets, Nigeria's foreign portfolio investment position is likely to improve.

2.2 Conceptual Literature Review

2.2.1 Idle Balances

From the perspective of the Keynesian theory of liquidity preference, the concept of idle balances originated from the speculative demand for money (Dow & Dow, 1988). They are inactive balances that are not generating returns while holders carefully understudy the speculative market. From the standpoint of financial services from deposit money banks, idle balances in the form of cash reserves – proportion of bank deposits not given out as loans or credit – are kept to finance sudden withdrawals from depositors and consequently prevent liquidity risk (Al Qaysi, & BenMabrouk, 2024).

Idle balances can also be viewed as non-interest earning cash or inactive balances that are not engaged in a way that will add financial value to a business (Corporate Finance Institute, 2025). They are mostly domiciled in savings or checking account and are not generating profit in the form of investments. The effect of inflation on these balances can be traced to the reduction in the value of the real-adjusted returns. Idle balances when not put to active use, has negative value, that is, not appreciating as is with a savings account due to holding costs such as bank account charges. More so, it diminishes in value continually at the instance of persistent inflation as is with Nigeria. This because inflation limits the units of goods or raw materials that can be bought in the future when compared to today. This also follows the law of demand which states inversely that the higher the price the lower the quantity demanded.

Idle balances can fall under the broader spectrum of financial deepening which has been identified as a growth enhancing strategy through savings pooling. Financial deepening is sacrosanct for the mobilization of idle balances held by depositors at bank and needed for wealth maximization for improvement in welfare at firm and household level (Okuma, 2019). It involves increasing the varieties of financial services and access for different categories of firms and consumers. It encompasses increase real stock of finance; channelling of savings mobilized from the surplus units to deficit units, and the ability of financial intermediaries to design and implement relevant blueprint for the expansion of the goods, factor, and financial, markets (Ogbonna & Ejem, 2020).

2.2.2 Concept of Foreign Portfolio Investment

Foreign Portfolio investment falls under umbrella of portfolio investment which involves investment in liquid securities which can be easily converted to cash depending on the maturity period (Nwonodo, 2018). Foreign portfolio investment enhances investment opportunities (Deutsche, 2022). It is an integral part of foreign capital which involves investment in the financial instruments of a domestic country by foreign investors. They cover holding assets such as bonds, mutual funds, stocks, etc. from a foreign country (Nwadibe, 2023). Foreign portfolio investment guarantees financial security for holders of idle balances when investment choices are made based on assets having low risks and high returns. It is an

opportunity for active use of idle balances to generate returns and meet with fiscal, personal, and operational obligations (Osuoha, 2013). Foreign portfolio investment presents the avenue for mobilizing long term funds for investment. This is done through the capital market which avails firms, governments, and individuals the chance to mobilize funds by selling shares. The capital market helps in liquidity matching (Chidi-Okeke et al, 2023).

2.2 Empirical Literature Review

The effects of idle balances can be traced to extant studies on financial deepening. Anyamaobi & Okey-Nwala (2023) showed that financial deepening measures would limit capital market efficiency. This signals that idle balances emanating from financial deepening should not be investment in the domestic capital market. Tiamiyu et al (2022) revealed that the Nigerian stock market is positively driven by efforts to increase credit supply in the long run alone. This implies insufficient liquidity in the short run as well as lack of interest in the capital market.

Fowowe (2020) revealed that borrowing a component of the indicator for idle balances, retards agricultural productivity, signalling weak domestic investment environment and the need to explore options such as the foreign portfolio investment. Tabash *et al* (2022) discovered that increasing money supply improves agricultural and manufacturing outputs and not foreign portfolio investment. Okuma (2019) contrasts with Tabash *et al* (2022) and aligns with Fowowe (2020) that increased money supply adversely affects agricultural production in Nigeria and by implication the Nigerian investment environment is not investment friendly.

Tari & Oliver (2017), Nwosu *et al* (2021), and Magaji *et al* (2023) reveal that financial deepening, financial deepening measures, and commercial bank credit significantly influences economic growth and domestic production. These studies considered the impact of financial deepening which is related to idle balances but not on foreign portfolio investment.

Ezeanyejji & Ifeako (2019) and Oduntan (2020) examined the effects portfolio investment and not the determinants of foreign portfolio investment which could provide insights on determinants relatable to idle balances in Nigeria. Tsaurai (2022) examined the factors influencing portfolio investment in the BRICS. The study found that portfolio investment is positively driven by savings and stock market. With respect to savings, this implies that idle balances in the form of savings would improve portfolio investment but not foreign portfolio. Idowu (2015) discovered that real gross domestic product would improve portfolio investment in both the long and short run. Deutsche (2022) expressed the need for strong economic growth to secure increases in returns expected from investment activity such as foreign portfolio investment. These studies considered the effects of real gross domestic product and need for strong economic growth with no reference to idle balances.

Realizing the scantiness of studies on the effect of idle balances on foreign portfolio investment, this study enquired whether idle balances have a significant and or negative relationship with foreign portfolio investment in Nigeria.

2.3 Theoretical Literature Review

The Theory of Bank-Based Financial System

The theory of theory of bank-based financial system which states that banks effectiveness in financing development largely depends on financial liberalization, which is only feasible in a free-market economy and not a mixed economic system as in the case of Nigeria (Anyamaobi & Okey-Nwala, 2023). The study stresses the removal of regulatory restrictions constraining credit supply (financial deepening efforts). This study is anchored to this theory because it supports banks investing the idle balances of depositors

in foreign portfolio investment for income diversification, securitization of purchasing power and availability of liquidity needed for daily transactions without government restrictions.

Other theories identified in the literature include the demand following Hypothesis which indicates that the need for expansion (growth) gives rise to the need for finance (Tabash *et al.*, 2022). The idle balances must be utilized not for purposes of expansion for purposes of preserving the purchasing power of the funds to prevent the real income eroding effects of inflation. The supply-leading hypothesis employed in Okuma (2019), argues that finance precedes economic growth. This growth refers to investment in illiquid assets and not liquid assets contained in portfolio investment, which can be easily converted to cash for purposes of operational efficiency. The Cadelron-Rossell Model of Stock Market Development which suggests that liquidity and real income promote stock market development which encompass portfolio investment (Tiamiyu *et al.*, 2022). This theory supports the introduction of capital control which restricts the capacity of financial institutions to using idle funds.

3. Methodology

3.1 Model Specification

Following the bank-based theory underpinning this study, foreign portfolio investment is modelled as a function of the idle balances (held by banks on behalf of firms and households), the financial deepening measures giving rise to the balances, and the rates of return on liquid assets proxy by lending rate and deposit rate. The function is thus stated as:

$$PI=f(MS, CS, IB, LR, DR) \text{ -Implicit function} \quad 1$$

Where PI represents foreign portfolio investment, MS represents money supply, CS represents credit supply to private sector, IB represents idle balances, LR represents lending rate, and DR represents deposit rate.

The explicit form of equation 1 is written as follows:

$$PI= b_0 + b_1MS + b_2CS + b_3IB + b_4LR + b_5DR + e \quad 2$$

3.2 Data Sources and Variables description

This study sources secondary data from the Central Bank of Nigeria statistics spanning 1981 to 2022. The variables of interest are presented next page in Table 1.

3.3 Estimation Techniques

The descriptive statistics is used to reveal the stability of the variables based on their mean, median, variances and standard deviations. To analyse the effect of an active use of idle balances on portfolio investment the study employed correlation analysis and regression. The correlation coefficient provides evidence on the strength and degree of association between the dependent variable and the independent variables. The study tested the stationarity level of the variables using the Augmented Dickey Fuller (ADF). The ADF is used to determine the uniformity and conformity of time series (Prabhakaran, 2023). This will help insure against spurious regression results. In cases where all the variables are stationary at level, the ordinary least squares (OLS) is applicable. But when all the variables are not stationary at first difference, the appropriate technique is Johansen Co-integration test and the error correction model (ECM). But when there are mixed levels of stationarity that is, level and first difference, then the Auto-regressive Distributed Lag (ARDL) is used.

Table 1: Description of Variables

Variable Type	Series	Description	A-priori Expectation
Dependent variable	Portfolio Investment net inflows (PI)	this refers to investment in short-term assets.	Nil
Independent variables	Credit Supply to the Private Sector (% of GDP, [CS])	This represents credit made available by deposit money banks to the private sector. It measures the level of financial development in Nigeria.	Positive (+) Increase in credit supply should encourage portfolio investment through gearing.
	Money Supply (% of GDP)	The money supply is the stock of money in an economy at a specific time. It measures total volume of currency and liquid assets in Nigeria	Positive (+) Increase in money supply should encourage portfolio investment
	Lending Rate (LR)	This is the interest rate at which bank lends to credit-worthy customers. It measures access to loanable funds.	Positive (+)
	Deposit Rate (DR)	This refers to the amount of money paid out as an interest by financial institution on deposits. It measures incentive from banks to increase deposits available for lending.	Negative (-)
	Idle Balances (IB)	They are bank deposits not loaned out and measured by proportion of bank deposits left inactive in bank coffers.	Negative (-) Idle balances are expected to fall for foreign portfolio investment to rise.

Source: Author's Initiative, 2025

4. Results and discussion

The mean for the series PI, MS, CS, DR, LR, and IB are -0.51, 15.79, 11.83, 11.48, 13.45, and 33.58 respectively. The median (PI, MS, CS, DR, LR, and IB) are -0.17, 13.06, 8.36, 10.09, 13.50, and 33.30 respectively. The maximum and minimum values for PI, MS, CS, DR, LR, and IB are 1.009 and -3.598, 24.895 and 8.464, 22.755 and 5.806, 26.293 and 2.398, 26.00 and 6.00, and 62.441 and 3.183. The standard deviation for PI is near 1, indicating that the mean of PI is a probable representation of the original series.

For MS, CS, DR, and LR, the standard deviations are greater than one, showing that their means are weak representations of the original series of each of the variables. For IB, the standard deviation very high implying the mean is not a reliable representation of its original observations.

4.1 Results

Table 2: Summary of Statistics

	PI	MS	CS	DR	LR	IB
Mean	-0.51	15.79	11.83	11.48	13.45	33.58
Median	-0.17	13.06	8.36	10.09	13.50	33.30
Maximum	1.01	24.89	22.75	26.29	26.00	62.44
Minimum	-3.59	8.46	5.81	2.39	6.00	3.183
Std. Dev.	1.003	5.39	5.59	4.82	3.75	13.404
Skewness	-1.57	0.42	0.57	0.76	0.88	0.1003
Kurtosis	5.27	1.52	1.57	4.199	5.09	2.703
Jarque-Bera	23.81	4.61	5.303	5.94	11.78	0.203
Probability	0.000007	0.099	0.071	0.051	0.003	0.903

Source: Author's Computation, 2025

The skewnesses for the dependent variables (MS, CS, DR, LR, and IB) are positive and close to zero with a long right-tail. This indicates that MS, CS, DR, LR, and IB are leptokurtic. The kurtosis for PI, DR, and LR are higher than 3 while that of MS, CS, and IB are below 3. The Kurtosis values show that MS, CS, and ICB are platykurtic while PI, DR, and LR are mesokurtic. The probability values for the Jarque-Bera statistics show that MS, CS, DR, and IB are higher than 0.05 while that of PI and LR are lower than 0.05. This indicates that MS, CS, DR, and IB are normally distributed and vice versa for PI and LR.

Table 3: Correlation Matrix

	PI	MS	CS	DR	LR	IB
PI	1					
MS	-0.23	1				
CS	-0.15	0.96	1			
DR	0.125	-0.52	-0.52	1		
LR	-0.028	-0.33	-0.41	0.73	1	
IB	-0.386	0.22	0.14	0.054	0.34	1

Source: Author's Computation, 2025

The correlation results show that MS, CS, LR, and IB have negative and weak relationships with PI. The coefficients imply that MS, CS, LR, and IB explains about 5.29%, 2.25%, 0.09%, and 15.21% variations in PI respectively in Nigeria. The results revealed that DR has positive and weak association with PI. The coefficients indicate that DR explains about 1.56% variations in PI. The correlation coefficients are only indications of mirrored variations but not the actually explained variations.

The stationary test in table 4 shows that CS, DR, EB, and MS are stationary at first difference while PI, IB and LR are stationary at level. Since there is a combination of variables at level and first difference, the study proceeds to using the ARDL regression technique for analysing the long and short run effects of the independent variables (CS, MS, IB, LR, and DR) on the dependent variable (PI).

Table 4: Stationarity Test

Series	Test Stats. @ 1 st Difference	Critical Value 5%	Prob. @ Value	Test Stats. @ 2 nd Difference	Critical Value 5%	Prob. @ Value	Rank
PI	-5.43	-2.94	0.0001	-	-	-	I(0)
IB	-5.16	-2.95	0.0002	-	-	-	I(0)
LR	-3.23	-2.94	0.0261	-	-	-	I(0)
EB	-2.93	-2.94	0.0513	-6.36	-2.95	0.0000	I(1)
DR	-2.47	-2.94	0.1310	-4.16	-2.954	0.0027	I(1)
MS	-0.74	-2.94	0.8237	-5.52	-2.945	0.0001	I(1)
CS	-0.76	-2.95	0.8167	-5.601	-2.95	0.0000	I(1)

Source: Author's Computation, 2025

Table 5: ARDL Bound Test

	F-statistic	Significance	I(0) Bound	I(1) Bound
FPI (model)	9.90	10%	2.37	3.2
		5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: Author's Computation, 2025

The Bound test reveals that a long run relationship exists between PI and the independent variables. This is evidenced in the F-statistic (9.90) which is higher than both the critical values of the lower bound I(0) and upper bound I(1) at all levels of significance.

Table 6: ARDL Regression Results

Var.	Coefficient	Prob.
FPI(-1)	-0.23	0.2334
CS	0.18	0.1388
DR	-0.075	0.2505
DR(-1)	0.11	0.0326
MS	-0.18	0.1436
PLR	0.044	0.5563
IB	-0.034	0.0205
C	0.342	0.7612
R-Squared 0.34	F-Stats Prob. 0.0743	Durbin-Wat. Stat. 1.94

Source: Author's Computation, 2025

The ARDL regression result reveals that PI in the previous year (PI(-1)), DR, MS, and IB adversely affects PI in the current period while CS, the previous value of DR (DR(-1)), and LR would positively drive PI. The coefficients indicate that a 1% increase in CS, the previous value of DR (DR(-1)), and LR will increase PI by 0.18%, 0.11%, and 0.04% respectively. And a 1% increase in the previous value of PI (PI(-1)), DR, MS, and IB will cause PI to decline by 0.23%, 0.08%, 0.18%, and 0.03% respectively. The probability values of the coefficients reveal that only the effects of DR(-1) and IB on PI are significant in the long run. The Durbin-Watson statistic (1.9370) which is higher than the R-squared (0.34) indicates the absence of spurious regression results.

Table 7: ARDL Error Correction Results

Var.	Coefficient	Prob.
D(DR)	-0.075	0.8530
LR	0.044	0.0001
IB	-0.034	0.0139
CointEq(-1)*	-1.229	0.1541
R-Squared 0.6382	Durbin-Wat. Stat. 1.9370	

Source: Author's Computation, 2025

The ARDL error correction results reveal that both DR and IB negatively affects PI while LR positively affects PI in the short run. The R-squared shows that about 63.82% variations in FPI are explained by D(DR), LR, and IB in the short run. The error correcting term (CointEq(-1)) which measures speed of adjustment is negative but not significant.

4.2: Discussion

The weak correlations between the dependent variable PI and the independent variables DR, MS, CS, LR, and IB share credence with Anyamaobi & Okey-Nwala (2023) that there is no significant relationship between financial deepening measures and capital market efficiency in Nigeria. Tsaurai (2022) found that savings has positive and significant impact on foreign portfolio investment. This aligns with the findings that deposit rate which is the returns on banks savings. As deposit rate rises, savings automatically rises and in turn increase mobilized savings for financial deepening and possibility investment in foreign assets.

The regression result reveal that current performance of the PI is limited by previous performances. This could stem from poor business performance of investee or quoted firms. This corroborates with Tihamiyu et al (2022) that previous performance of Nigeria's stock market significantly affects the current performance. This aligns with the conclusion in Tihamiyu et al (2022) that Nigeria ails from financial shallowness.

5. Conclusion

The study analysed the relationship between idle balances and net inflows of portfolio investment in Nigeria using the correlation regression and the ARDL regression technique. Based on the key finding, the study concludes that when idle balances fall by way of investment in returns generating assets in the stock market of foreign countries, PI will rise both in the long and short run. It is thus recommended that all banks should on behalf of depositors invest inactive deposits held in excess (idle balances) in income generating short-term investment such as portfolio investment after careful comparative understanding and analyses of associated risks and returns. This study has extended the finance literature by revealing idle balances can be effective in promoting portfolio investment in Nigeria. This will enrich businesses and households on income diversification benefits of portfolio investment.

Considering the need to invest idle balances to secure the purchasing power of inactive bank deposit to prevent financial repression, this study has been able to show that lower idle balances would lead to higher investment in PI. This result will expedite further studies on exploring other sources of idle balances asides inactive bank deposits in Nigeria and other developing countries.

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