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ECONOMIC GROWTH IMPLICATIONS OF FINANCIAL INTERMEDIATION OPERATIONS OF MICROFINANCE BANKS IN NIGERIA

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Abbas Abdullahi Marafa Ph.D.
Department of Economics, Baze University, Abuja– NIGERIA
+2348033800760, abbas.marafa@bazeuniversity.edu.ng

Abstract *This study assessed the economic growth implications of microfinance banks' financial intermediation operations in Nigeria, using quarterly time series data from 2010:Q1 to 2025:Q4, and employed the Autoregressive Distributed Lag (ARDL) approach. The result of the bound test indicates theexistence of a long-run cointegration relationship between economic growth and the MFBs intermediation variables included in the model.This was supported by the coefficient of the ECT, which is negative and statistically significant at 5% significance level, further confirming the existence of a long-run convergence between the variables.The short-run analysis shows a mixed result, while the coefficient of MFBs' loans/GDP and MFBs' investment/GDPare both positive, however, MFBs' loans/GDPis statistically insignificant, the coefficients of MFBs' deposits, lending rates, and liquidity ratios are negative and statistically significant. The result of the long-run analysis indicatesno significant long run effect between economic growth and the intermediation variables, implying that MFBs lack the macro-level scale to drive aggregate long-run economic growth in Nigeria during the study period.The study recommends for enhanced the financial intermediation capacity of MFBs by creating a enabling environment, specifically, MFB Refinancing Facility at single-digit rate to solve negative deposit effect; For the CBN and SMEDAN to link MFBs lending to productive sector, thereby reducing loan diversion to achieve loan impact; and the need to increase MFBs minimum capital to achieve scale for liquidity impact and to boost their long-run investment capacity.*

Keywords Financial Intermediation, Microfinance Banks, Deposits, Loans and advances, Investments, Economic Growth

JEL Classification: G21, O16, C22:

1. Introduction

The hunt for steady economic growth is one of the foremost desires of every nation (Gonji et al., 2022). That is why countries use different policies, programs, and strategies to accomplish this growth quest. Historically, financial institutions have been considered necessary instruments for achieving economic growth, as financial development drives economic growth through increased savings, efficient allocation and investment of financial resources, thereby making the development of financial markets a germane prerequisite

for economic growth. This explains why the level of development and sophistication of a country's financial market is considered one of the key indicators of economic growth (Ekpete & Iwedi, 2017).

In formal financial institution settings, the gap between the demand for and supply of credit has been blurry (Ihegboro et al., 2023; Godfrey, 2022). This gap, which is increasingly becoming more pronounced, is not only a result of the shortage of loanable funds to the poor but also because it is expensive for the poor to borrow from formal financial institutions due to high transaction costs and risks associated with information asymmetries (Stiglitz & Weiss, 1987). That explains why most governments in developing economies intervened to close the gap by creating an enabling environment for easier access to formal credit by the poor through the establishment of microfinance institutions. Financial intermediation, which is the transfer of liquidity from those in surplus to those in deficit (Ihegboro et al., 2023; Godfrey, 2022), is regarded as the basic role of microfinance banks (MFBs) and the needed link for production and consumption to happen simultaneously (CBN, 2005; Ekpete & Iwedi, 2017). This entails efficient coordination between savings and credit and can occur only when intermediaries commence the transfer of funds from surplus to deficit sections of society to boost the real investment process and output growth (Ekpete & Iwedi, 2017).

Nigeria followed global trends in introducing MFBs with the goal of facilitating access to financial and social services for the economically active poor, low-income populations, and vulnerable groups who could not meet the requirements of conventional banks (Nwude & Anyalechi, 2018; Gonji et al., 2022; Babarinde et al., 2021). Over the years, the total assets base, loans and advances, and deposits mobilized of MFBs have proportionally increased, reaching N8,584.4 billion, N4,425.2 billion, and N5,005.5 billion by the end of December 2025, respectively (CBN, 2025). In the same vein, the MFBs were confronted with a series of challenges ranging from a high rate of loan default, diversion of loans to non-productive ventures, liquidity crisis occasioned by credit lines, great unmet demand for credits, high operation cost due to infrastructural deficits, problems of macroeconomic instabilities, among others, which are likely to militate against their operational impact (Ayodele & Arogundade, 2014; Ezeudu & Emori, 2017; Nwude & Anyalechi, 2018; Akinadewoc, 2020).

Previous studies that evaluated the MFBs and economic growth nexus in Nigeria using level data (Ihegboro et al 2023; Godfrey, 2022; Adegbola et al 2022; Gonji et al 2022; Araga et al 2022; Isiaka & Osifalujo, 2022; Cole & Akintola, 2021). This study uses ratios of MFBs intermediation variables to GDP to capture relative importance. Following this introduction, section two focused on the literature review, while section three captures the methodology used in the study. Section four presents the results and discussions, while section five concludes the study.

2. Literature Review

Microfinance Banks: MFBs are company-licensed to carry on the business of providing a wide range of microfinance services such as deposit mobilization,

advancement of loans and advances, money transfer services, insurance, and other forms of financial services that are needed by the economically poor and low-income persons, and their microenterprises (CBN & NDIC, 2011; Akanni, 2022). MFB aims at providing diversified, affordable, and dependable financial services to those who lack financial access to formal banks and related services, to enable them to engage in productive activities or grow their business through a viable financial system and encourage organized, systematic, and focused involvement of the poor in socio-economic development and resource allocation. (Mago, 2014).

Financial Intermediation: This is concerned with the procedure where surplus units (savers) offer money using deposits to mediators (financial institutions) such as banks, shared funds, insurance companies, and credit unions, who subsequently channel out the money to deficit units (borrowers). It implies the movement of funds from individuals and organizations with surpluses to individuals and organizations with shortages through financial mediators (Saunders & Cornett, 2011; Andries, 2009; Saunders & Cornett, 2011).

Economic Growth: This describes the increase in the inflation-adjusted market value of the goods and services produced by the country over time (Dandana & Nwele, 2011). Conventionally, it is measured as the percent rate of increase in the real gross domestic product (RGDP). The RGDP is estimated using either the monetary value of production generated within the national borders of an economy from factors of production, or the income generated within a country, or the value of expenditure done by all the economic agents within a nation (Dandana & Nwele, 2011; Abu & Ezike, 2012).

Theoretical Framework

This study is based on the Financial Intermediation Theory, which states that financial sector development has a direct link with the income of the poor in society, stressing that an increase in a nation's wealth is related to the development of a financial structure that could substantially facilitate the development process (Goldsmith, 1969). The tasks of financial intermediaries, such as liquidity provision, costs of transaction reduction, provision of information, and management of debt, were brought to the limelight in this theory as it brings together the "haves" and the" have-nots" to meet their transaction needs and provide other services, thereby eliminating information costs and reducing transaction costs (Andries, 2009). The theory is relevant to this study as a result of its discovery of an entity (MFBs), which serves as an intermediary between units that have idle funds to put in savings and the needy side, who need credit to improve productivity.

Empirical Review

Ogbeta et al (2025) used Nigerian data between 1995 and 2023 and discovered that microfinance investment and microfinance deposit have a significant positive relationship with economic growth, while the relationship between microfinance loan and economic growth was positive but insignificant. Similarly, Abdulmumin (2025) employed an ARDL framework, using data from 1993 to 2023, and found that microfinance savings significantly boost

GDP in the long run, while lending and investment exhibit statistically insignificant effects in Nigeria. Idewele et al (2025) concluded that while microfinance deposits and return on assets have a significant positive relationship with economic growth, loans and investment have a significant negative effect and no significant effect on economic growth, respectively, for Nigeria between 1992 and 2021.

Godfrey (2022), using data from 1992 to 2020, showed that microfinance loans and deposits were positive and statistically significant with economic growth, and a unidirectional causality between microfinance bank loans and microfinance bank deposits exist in Nigeria. On the contrary, Adegbola et al. (2022), with data from 1996 to 2019, reported that the activities of MFBs have not done well in reducing the poverty rate, unemployment rate, and improving living standards in the short run, based on the positive but insignificant relationship, though the existence of a long-run relationship between MFBs and Nigeria's economic development was found. Araga et al. (2022), using data from 1980 to 2020, showed that the short-run analysis indicated that the assets and deposits of MFBs have a significant impact on economic growth, as opposed to loans and advances, which displayed an insignificant effect on economic growth. Similarly, Gonji et al (2022) revealed that capital growth, microfinance interest rate, employment levels, and microfinance loans contribute significantly to the progress of the Nigerian economy from 2005 to 2019. Isiaka and Osifalujo (2022), with data from 1992 and 2018, reported that MFBs' investment strongly influences gross domestic product per capita.

Cole and Akintola (2021), using data from 1999 to 2018, reported a positive relationship between MFBs' credit and RGDP in Nigeria. Babarinde et al (2021), using Nigerian data from 1992 to 2019, established that MFBs' loans and deposits have long-run positive and significant effects on economic growth, while in the short run, loans, investments, and deposits have no significant effects on economic growth. Unidirectional causalities running from economic growth to microfinance loans, as well as bidirectional causalities between deposits and economic growth, and between investment and economic growth, were found. Ezeanyeji et al. (2020) concluded that MFBs' loans and advances do not significantly affect economic growth in Nigeria. The empirical review portrays that the debate on the nexus between MFBs' activities and economic growth in Nigeria is still inconclusive based on the conflicting results. More so, most of the studies reviewed used absolute volume of the MFB variables and annual data, which is infrequent and theoretically inappropriate for studying macro-level economic growth, as it cannot account for the overall growth of the economy. The use of the ratio of MFBs intermediation variables to GDP provides a normalized metric that reveals how much real productive impact MFBs intermediation variables have relative to overall economic output. This study intends to fill in these gaps.

3. Methodology

The study used quarterly time series data from 2010q1 to 2025q4. The choice of study period is informed by data availability on a quarterly basis for all the variables. The data

was sourced from the CBN Quarterly Statistical Bulletin (2025). The dependent variable is Real Gross Domestic Product as a proxy for economic growth, while the independent variables are the Microfinance banks' intermediation variables. Lending rate and liquidity ratio constitute the control variables.

Table 1: Variable Description and Measurement

Variables	Description and Measurement	A Priori Sign
Real Gross Domestic Product (RGDP)	This is a proxy for economic growth; Gross Domestic Product at 2019 Constant Basic Prices is used. The series is in ₦' Million to be converted to natural log.	Dependent
Microfinance Bank Loans and Advances (MFBL)	The ratio of the total credit extended to borrowers to GDP is used. The series is expressed in percentage (%).	Positive
Microfinance Bank Deposits (MFBD)	The ratio of the total funds mobilized and saved by customers with microfinance banks to GDP is used. The series is expressed in percentage (%).	Positive
Microfinance Investments (MFBI)	The ratio of Funds allocated by MFBs into various securities to GDP, the series is expressed in percentage (%).	Positive
Liquidity Ratio (LIQR)	This is the proportion of liquid assets held by MFBs against liabilities. The series is expressed in percentage (%).	Negative
Average Lending Rate (AVLR)	This tracks the cost of borrowing and serves as a proxy for the broader macroeconomic policy environment. The average of prime and maximum lending rate is used. The series is expressed in percentage (%)	Negative

Source: Author's Computation

Model Specification

The study is guided by the intermediation theory and the model in Isiaka and Osifalujo (2022), which studied the relationship between MFBs and sustainable development in Nigeria. Their functional model is specified as:

$$GDPPC = f(MFBI, MFBLA, MPR, MSP, LTDR) \ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where: GDPPC= Gross domestic product per capita (proxy for Sustainable Development), MFBI= Microfinance bank investment, MFBLA= Microfinance bank loan and advances, MPR=Monetary policy rate, MS= Money supply (M2), and LTDR= Loan to deposit ratio.

In this study, economic growth is expressed as a function of microfinance bank intermediation function variables (loans and advances, deposit mobilization, and investments), and control variables (average lending rate and liquidity ratio). The model is specified with a few modifications, as follows:

$$RGDP = F(MFBL, MFBD, MFBI, LIQR, AVLR) \ldots\ldots\ldots\ldots (2)$$

The econometric form of the model is given as:

$$\mathrm{RGDP_t} = \beta_0 + \beta_1 \mathrm{MFBL} + \beta_2 \mathrm{MFBD} + \beta_3 \mathrm{MFBI} + \beta_4 \mathrm{LIQR} + \beta_5 \mathrm{AVLR} + \varepsilon_t \ldots\ldots\ldots\ldots (3)$$

Introducing log into the equation (3), we have:

$$\mathrm{LRGDP_t} = \beta_0 + \beta_1 \mathrm{MFBL_t} + \beta_2 \mathrm{MFBD_t} + \beta_3 \mathrm{MFBI_t} + \beta_4 \mathrm{LIQR_t} + \beta_5 \mathrm{AVLR_t} + \varepsilon_{1t} \ldots\ldots (4)$$

Where: LRGDP_t = log of real domestic product in quarter t; $\mathrm{MFBL_t}$= Ratio of microfinance bank of total loan and advances to RGDP in quarter t; MFBD_t= Ratio of microfinance bank deposit mobilization to RGDP in quarter t; MFBI_t= Ratio of the total microfinance bank investment to RGDP in quarter t; $\mathrm{AVLR_t}$ = average lending rate in quarter t; $\mathrm{LIQR_t}$ = liquidity ratio in quarter t; β_o = intercept; $\beta_1 - \beta_5$= coefficient of the explanatory variables; ε_{1t} = stochastic error terms in quarters t.

Model Estimation Procedure

The variables were analyzed to examine their stochastic properties and to aid in the selection of the right econometric framework. The traditional Augmented Dickey-Fuller (ADF) unit root test was employed. Rejecting the null hypothesis of the unit root test, it implies that the time series variable is I(1) or non-stationary. Second, the Autoregressive Distributed Lag, a bound testing method established by Pesaran and Shin (1999) and Pesaran et al (2001), was used to examine whether a long-run relationship exists between the series. The ARDL superiority lies in the flexibility to incorporate both I(0) and I(1), making it suitable for small sample sizes and ensuring unbiased estimates of long-run parameters.

The long-run form of the model can be specified as:

$$\begin{aligned}\Delta logRGDP_t = {} & \beta_0 + \sum_{t=1}^{k} \beta_1 \, \Delta logRGDP_{1-i} \\ & + \sum_{t=1}^{k} \beta_2 \, \Delta MFBL_{1-i} + \sum_{t=1}^{k} \beta_3 \, \Delta MFBD_{1-i} + \sum_{t=1}^{k} \beta_4 \, \Delta MFBI_{1-i} + \sum_{t=1}^{k} \beta_5 \, LIQR_{1-i} \\ & + \sum_{t=1}^{k} \beta_6 \, AVLR_{1-i} + \mathrm{y}_1 RGDP_{1-i} + \mathrm{y}_2 MFBL_{1-i} + \mathrm{y}_3 MFBD_{1-i} + \mathrm{y}_4 MFBI_{1-i} \\ & + \mathrm{y}_5 LIQR_{1-i} + \mathrm{y}_6 AVLR_{1-i} + \varepsilon_{1t} \quad \ldots\ldots\ldots (5)\end{aligned}$$

Δ is the first difference. β_0 and ε are constant and error term respectively. Equation (5) tests the null hypothesis $H_0: y_1 = y_2 = y_3 = y_4 = y_5 = y_6 = 0$, there is no cointegration between the variables against the alternative hypothesis $H_0: y_1 \neq y_2 \neq y_3 \neq y_4 \neq y_5 \neq y_6 \neq 0$ using the bounds testing procedure. First, the top optimal lag length for the model will be chosen, and then the F-test will be used to provide the upper and lower bounds of the critical values. The test's decision rule is that if the F-statistic is greater than the upper boundary, we reject the null hypothesis of no cointegration. When a long-run cointegration exists, the conditional ARDL model is estimated using the ordinary least squares method determined by a given information criterion in the second phase. The short-term relationship can be estimated using the error correction model. The short-run form of the model can be specified as:

$$logRGDP_t = \beta_0 + \sum_{t=1}^{k} \beta_1 \Delta MFBL_{I-i} + \sum_{t=1}^{k} \beta_2 \Delta MFBD_{I-i} + \sum_{t=1}^{k} \beta_3 \Delta MFBI_{I-i} + \sum_{t=1}^{k} \beta_4 LIQR_{I-1} + \sum_{t=1}^{k} \beta_5 AVLR_{I-i} + \mathrm{x}ECT_{t-i} + \varepsilon_{1t} \quad (6)$$

where, δ is the coefficient of the ECT (the error correction term) which quantifies the haste of conjunction of the series to the long-run equilibrium and represent the residual. For short-run convergence to occur, the coefficient should be statistically significant and negative.

4. Result and Discussions

Result of the Descriptive statistics

Table 2 presents the results of descriptive statistics of the variable used in the study. The result indicated that the mean and standard deviation are higher for RGDP. All the variables showed positive skewness, implying that their distributions are characterized by a long right tail. Kurtosis is less than 3 for three variables (RGDP, LIQR, and AVLR), indicating they are Platykurtic, while other variables (MBFL, MFBD, and MFBI) are leptokurtic. The Jarque-Bera test rejects the null hypothesis at the 5% significant level for MBFL, MFBD, and MFBI, implying that these variables are normally distributed.

Table 2: Result of the Descriptive Statistics

	RGDP	MFBL	MFBD	MFBI	LIQR	AVLR
Mean	38448859	1.561519	1.117467	0.085739	10.38732	21.54646
Median	38235155	1.004387	0.499681	0.064429	11.19255	21.15407
Maximum	84883583	6.761289	7.647908	0.422862	21.35149	24.63494
Minimum	11580242	0.474860	0.430548	0.035931	3.062293	18.79733
Std. Dev.	15575601	1.433007	1.405057	0.071316	4.360836	1.724357
Skewness	0.216316	1.973703	2.931523	3.029142	0.044495	0.335115
Kurtosis	2.730660	6.549963	11.50305	12.23604	2.024145	1.892495
Jarque-Bera	0.692572	75.15798	284.4725	325.3527	2.560566	4.468731
Probability	0.707310	0.000000	0.000000	0.000000	0.277959	0.107060
Observations	64	64	64	64	64	64

Source: Author's Computation with E-views 12.

Result of the Unit Root Test

Table 3 reports the results of the ADF tests conducted with intercept and trend specification. The results indicate that LRGDP is stationary at level I(0), while all other variables are nonstationary in their level at a 5 percent level of significance, but they became stationary at first difference, which implies that they are an I(1) process. The results imply that the variables employed in the model have different orders of integration; hence, we can proceed with the ARDL approach.

Table 3: Result of ADF Unit Root Tests

ADFTest Techniques					
Variable(s)	Levels		1st Diff		Decision
	t-statistics	Prob.	t-statistics	Prob.	
LRGDP	-4.091536	0.0105 *	-	-	I(0)
MFBD	-1.764638	0.7100	-8.175820	0.0000 *	I(1)
MFBL	-1.839681	0.6735	-7.782860	0.0000 *	I(1)
MFBI	-1.168730	0.9081	-8.067256	0.0000 *	I(1)
LIQR	-3.200628	0.0937 * * *	-9.614851	0.0000 *	I(1)
AVLR	-1.481322	0.8258	-4.278543	0.0063 *	I(1)

Notes: *, **, *** denote significance at 1%, 5% and 10% levels respectively.
Source: Author's computation with E-views 12.

Result of the ARDL Bound Test

Table 4 reports the result of the ARDL bound test estimated with a restricted constant and no trend specification using (4, 0, 0, 3, 3, 4) selected based on the Akaike information Criterion (AIC). The result of the bound test reported that the value of the F-statistic is 4.48, higher than the upper and lower bounds of 3.38 and 2.39 at 5% significance level, respectively. This confirms cointegration between economic growth and the MFBs intermediation variables included in the model. This result suggests that economic growth and the MFBs' financial intermediation variables move together in the long run. The result is consistent with Godfrey (2022), Babarinde et al. (2021), Ezeanyeji et al. (2020).

Table 4: Result of the ARDL Bound Test

F-Bound Test		**Null Hypothesis: No level relationship**		
Test Statistics	Value	Significance	I(0)	I(1)
F-statistics	4.488241	10%	2.08	3.00
K	5	5%	2.39	3.38
		2.5%	2.7	3.73
		1%	3.06	4.15

Source: Author's computation with e-views 12

Result of the ARDL Short Run Analysis and Error Correction

Table 5 presents the result of the short-run analysis, which confirms the existence of a long-run convergence between the variables based on the coefficient of the ECT, which is negative and statistically significant at 5% significance level. The value of the adjustment coefficient is -0.114211, which shows that about 11.4 percent of the disequilibrium errors in the short-run can converge to form a long-run equilibrium relationship in the current period after 9 quarters. This suggests that the MFBs' intermediation variables have a strong connection with economic growth in the long-run. The short-run coefficient of MFBs' loan/GDP is positive and statistically insignificant. This means that while loans slightly improve economic growth, the effect is too weak, most likely due to the small nature of the MFBs' loans, high operational cost, which erodes the profit margins the loans were meant to generate, and fungibility of capital due to loan diversion, which dilutes the economic impact. This agrees with the findings in Adegbola et al. (2022), Araga et al. (2022), and Ezeanyeji et al. (2020). The coefficient of MFBs deposit/GDP is negative and statistically significant. An increase in this variable will decrease economic growth by -0.389041 (equivalent to 38.9%) in the short run. This is contrary to our theoretical expectations and the results in Ogbeta et al (2025), Abdulmumin (2025), Godfrey (2022), and Araga et al. (2022). This suggests deposit mobilization is not being intermediated. Funds are held as idle cash/treasury bills due to high lending risk, thus crowding out productive lending.The coefficient of MFB's investment/GDP is positive and statistically significant at 1%. An increase in this variable will increase economic growth by 0.902150 (equivalent

to 90.2%). This is in agreement with our theoretical expectation and findings in Ogbeta et al (2025), Isiaka and Osifalujo (2022), and Araga et al. (2022). This indicates that MFBs invest their funds in safer, structured treasury assets with reduced default risks associated with lending to micro-enterprises. The coefficient of MFBs' liquidity ratio is negative and statistically significant at 1%. An increase in this variable will reduce economic growth by -0.071585(equivalent to 7.16%). This is consistent with theory. This result implies a trade-off between institutional safety and economic stimulations, as high liquidity ratios force banks to hold idle assets instead of channeling them into the real sector, thereby hindering growth. The coefficient of MFBs' lending rate is negative and statistically significant at 1%. An increase in this variable will decrease economic growth by -0.071546 (equivalent to 7.15%). This is consistent with theory as a high interest rate creates a heavy debt burden for micro-businesses, thereby driving up the cost of capital, reducing profitability, and discouraging economic expansion.

Table 5: Result of the ARDL Short-Run Analysis

Variable(s)	Coefficient	Std. Error	t-Statistics	Prob.
D(LRGDP(-1))	-0.490387	0.123270	-3.978146	0.0003*
D(LRGDP(-2))	-0.784376	0.118686	-6.608840	0.0000*
D(LRGDP(-3))	-0.283871	0.089063	-3.187306	0.0028*
D(MFBL)	0.092080	0.059816	1.539400	0.1316
D(MFBD)	-0.389041	0.149005	-2.610928	0.0126**
D(MFBI)	0.902150	0.182334	4.947779	0.0000*
D(MFBI(-1))	-0.382112	0.113951	-3.353296	0.0018*
D(MFBI(-2))	0.550927	0.101436	5.431272	0.0000*
D(LIQR)	-0.071585	0.017127	-4.179631	0.0002*
D(LIQR(-1))	0.006168	0.009893	0.623525	0.5365
D(LIQR(-2))	-0.032353	0.009256	-3.495242	0.0012*
D(AVLR)	-0.071546	0.024093	-2.969551	0.0050*
D(AVLR(-1))	0.060544	0.038124	1.588065	0.1201
D(AVLR(-2))	-0.091921	0.035055	-2.622171	0.0123**
D(AVLR(-3))	0.068089	0.025181	2.703989	0.0100*
CointEq(-1)	-0.114211	0.075631	-1.510110	0.0389**

Note: *, and ** denote significance at 1%, and 5% levels respectively.
Source: Author's computation with e-views 12.

Result of the ARDL Long Run Analysis

Table 6 presents the results of the long-run analysis, which indicates that the coefficients of MFBs' loans, investments and lending rate are both negative and statistically insignificantat 5% level, while the coefficient of MFBs' deposits and liquidity ratio are positive but statistically insignificant at 5% level. Overall, the long run result indicates that none of the intermediation variables has a long run significant relationship. This implies that MFBs' operations lack the macro-level scale to drive aggregate long-run economic growth in Nigeria. This typically reflect the

high incidence of loan diversion and high default rates due to harsh macroeconomic conditions and short-run capital misallocation. This result is consistent with the findings in Adegbola et al. (2022), Abdulmumin (2025), and contrary to Babarinde et al. (2021).

Table 6: Result of the ARDL Long-Run Analysis

Variable(s)	Coefficient	Std. Error	t-Statistics	Prob.
MFBL	-0.806224	0.784272	-1.027991	0.3101
MFBD	3.406325	2.407879	1.414658	0.1649
MFBI	-1.642524	1.580666	-1.039134	0.3050
LIQR	0.122230	0.176360	0.693072	0.4923
AVLR	-0.019510	0.172437	-0.113142	0.9105
C	1.192564	9.153877	0.130280	0.8970

Source: Author's computation with e-views 12

4.1 Parameter Stability Test

The stability condition of the model was checked using the cumulative sum (CUSUM) and Cumulative Sum of Squares (CUSUMSQ) tests. The result shows that the coefficients lie within the confidence boundary at 5% significance level (see Figure 1); hence, the estimated model is relatively stable, consistent, and reliable for policy.

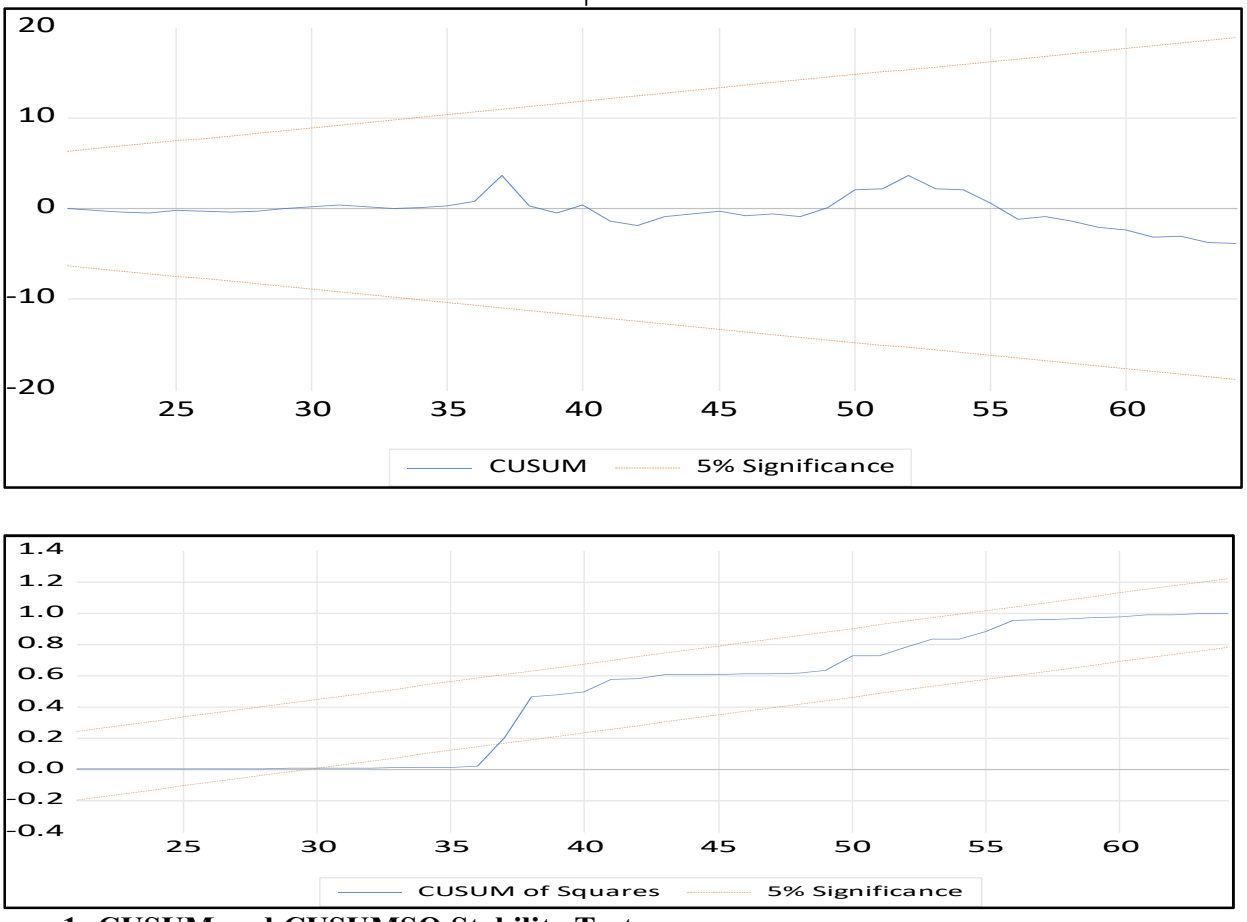

Figure 1: CUSUM and CUSUMSQ Stability Test

5. Conclusion and Recommendations

This paper investigates the economic growth implications of MFBs' financial intermediation operations in Nigeria using the ARDL Cointegration Bound test. Quarterly time series data from 2010:Q1 to 2025:Q4 is used. The result of the short-run analysis confirms the existence of the long-run convergence between the variables. The short-run results indicates that investment drives economic growth in Nigeria, while MFBs deposits, Liquidity ratio and lending rates hurt economic growth. The result of the long-run analysis indicated that none of the intermediation variables is statistically significant, implying that MFBs lack the macro-level scale to drive aggregate long-run economic growth in Nigeria during the study period. In other words,MFBs matter for short-run liquidity but not long-run growth drivers yet.

Based on these findings, the study recommended that: the need for government to initiate new policies that will enhance the financial intermediation capacity of MFBs by creating aenabling environment. Specifically, to create MFB Refinancing Facility at single-digit rate to solve negative deposit effect; The CBN in conjunction with SMEDAN need to link MFBs lending away from consumption to productive sector, thereby reducing loan diversion for MFBs loan impact; The need to increase MFBs minimum capital from N200 million to N1 billion to achieve scale for liquidity impact and to boost their long-run investment capacity.

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