Fiscal Policy, Institutional Quality and Economy Development in Nigeria

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Abstract— Over the years, economists have debated the reasons for differences among countries' economic growth and development. This study examines the impact of institutional quality and fiscal policy on economic growth and development in Nigeria using time series data spanning from 1970-2016. The study employed Augmented dickey fuller (ADF), Philip person(PP) and Kwiatkowski-Phillips-schmids-shin(KPSS) for unit root test, some of the variables I (0)and some are I (1), which called for cointegration test using Johansen cointegration test. The result shows three cointegrated equations, and ARDL was used to estimate the short and long-run impact of institutional quality and fiscal policy on economic growth. The result indicates that institutional quality, government expenditure, and the lag of GDP positively impact economic growth and development in Nigeria in both the short and long run. At the same time, fiscal deficit and inflation positively impact economic growth in the long run but are not statistically significant. Similarly, fiscal policy harms economic growth in Nigeria in the short run but has a positive impact in the long run. The study identifies the importance of institutional quality as a determinant of economic growth and development. The implication is that if the roles of institutions are secure, it will help secure property rights, which will provide incentives for economic growth in the world. It will also lead to an efficient allocation of government expenditure and fiscal policy, which will bust economic growth and development.

Keywords— institutional quality, fiscal policy, economic development, fiscal deficit, and contract intensive money.

1. INTRODUCTION

Developmental economists have been thinking about the reasons for the differences among countries' growth and development over the years. Why are some countries wealthier than some others? Why do some grow while others stagnate? What can be done to induce economic growth and improve standards in a society beset by poverty? To provide lasting solutions to these problems, economists have come up with different suggestions and theories. One of them is that institutions underlie economic growth and development, thus making it suitable for countries to set up the requisite ones. as a result new group or school of thought referred to as the 'New Institutional Economics (NIE) was formed. Teriq Hussain(2013)

According to Institutional Economists, the differences in the prosperity of nations are explained by some institutional factors, which growth and development cannot do without such factors. Economic growth and development is a function of the quality of institutional framework and sound fiscal policy that allows transactions between the tiers of government to take place in an orderly manner; such that the agents in the economic system know and have confidence that the decisions they take and the contracts they make will be protected by law and enforced. Ashraf Galal Eid(2003) When institutions ensure that a potential investor has property rights over the proceeds from his investments, he is more likely to invest than when he expects the fruits of his efforts to be snatched away by other parties in the economy or even by the government. Indeed, all the economic actors – savers, investors, consumers, entrepreneurs, workers and risk-takers of all kinds require a framework of rules (institutions) if rational and optimizing decisions are made. There must be some element of certainty and stability that can only be provided by good governance and sound economic policy-making through the enthronement of the appropriate institutions. Of course, the role of formal institutions in providing a stable economic growth, political and social environment and good policy cannot be overemphasized. Institutional performance has a positive relationship with economic development, implying that the nation will flourish and prosper once the right institutions are in place. Teriq Hussain(2013)

But Edet Okon Anwana(2016) examined the institutional quality and electricity supply growth in Nigeria. He discovered a long-run relationship between institutional quality and electricity supply growth in Nigeria; the result shows that institutional quality negatively impacted electricity supply growth in Nigeria. Also, Emmanuel N.& Ebi Bassey(2013) examine the institutional quality, petroleum resources, and economic growth using different approaches analysis for three countries Nigeria, Brazil and Canada.

The result shows that Nigeria, over the years dependent on oil at the expense of other sectors of the economics. The corruption assessment score for the three countries suggests that Nigeria is more corrupt, implying weak institutions than Canada and Brazil. This call for concern. Based on the results, the study recommended that quality institution (low corruption) is indispensable in bridging the economic growth and development gap between Canada and Nigeria and Brazil and Nigeria. However, Hussin Abdullah (2008) evaluate the impact of fiscal policy, institutional quality and economic growth in Asian economies. The results show that institutional quality has a positive and significant impact on economic growth, but fiscal policy variables negatively impact economic growth.

Nevertheless, Mecek and Janku (2015) examine the impact of fiscal policy on economic growth depending on institutional conditions using panel analysis in the OECD countries for 2000-2012. The result indicates that government expenditure positively impacts economic growth in countries with lower fiscal transparency and negatively with countries with higher fiscal transparency. The result also shows that the negative impact of taxation is more harmful to economic growth in countries with worse institutional quality.

The implication is that for every economy to grow and developed will depend on quality institutions and balance fiscal policy. So based on empirical literature review in work, the result shows that a weak institution characterizes by a high level of corruption, poverty, unemployment rate, and political instability is harmful to economic growth and development. This study investigates the impact of fiscal policy and institutional quality on economic growth and development in Nigeria. The empirical literature review on this work shows that no work examines the impact of institutional quality and fiscal policy on economic growth and development simultaneously in Nigeria. However, this work tends to depart from the existing literature by simultaneously examining the impact of fiscal policy and institutional quality on economic growth and development in Nigerian using time series data spanning from 1970- 2016. The study will examine fiscal policy variables such as government expenditure and fiscal deficit while contract intensive money supply will proxy institutional quality. Also, this study will depart from the previous work for including important variables of fiscal policy such as fiscal deficit.

Fiscal policy over the years *can* be seen as one of the most vital economic policies used by economic policymakers because of the significance or relevance of fiscal policy and its perception in line with essential functions of this policy, such as resource allocation, stabilization and redistribution of income and expenditure. However, it is essential to realize that fiscal policy must also be perceived as the tool of economic growth. Fiscal policy is usually represented by the level and structure of government spending on the one hand and by the level of revenue on the other hand through individual income taxes and tax mix on the other hand.

Although Adolph Wagner (1835-1917) theory of rising government expenditure was an inevitable feature of the developing or industrializing countries of his time, the law state that public expenditure will increase if the per-capital income of industrializing countries increases, the law implies that government expenditure will increase faster than the output of the economy. But peacock and Wiseman criticize Wagner law, empirically use political theory to explain the influence of political events on public expenditure. The postulate that an increase in public expenditure is not smooth as Wagner described but fluctuates since government expenditure depends broadly on revenue generated from taxation. So, as a result, government expenditure will not just be the function of growth and development; instead, it will raise some period and fall some period depends on what government generate from taxes. The above-observed limitation has left a trail on the knowledge gap in the literature, thus warranting the need for a more systematic examination of the relationship between the macro variables of this study from the standpoint of Nigeria.

2. LITERATURE REVIEW

Over time, the impact of fiscal policy and institutional quality on economic growth and development has been a common debate in the economics literature. At various points in time, many economists have attempted to evaluate the impact of fiscal policy on economic growth only. In contrast, some scholars attempted to examine the impact of institutional quality on economic growth only over the years by using different countries, different econometric techniques and different periods. Most studies have analyzed how fiscal policy affects economic growth and how institutional quality affects Nigeria's economic growth and development. Still, not all of the studies try to examine the impact of fiscal policy and institutional quality on economic growth and development simultaneously, which this study intended to investigate. However, a vital fiscal policy variable was omitted from work reviewed under this study, such as fiscal deficit. The evidence from the literature review is discussed below.

Tariq Hussain(2013) examines fiscal policy, institutions quality and governance in selected south

Asian countries. The work examines the fiscal fluctuation among institutions: economic activities and political and governance indicators from 1980-2010 in major south Asian countries. OLS, fixed effects, and the 2SLS technique were used to investigate whether fiscal policy is counter fluctuation or procyclical, which means that political institutions do not perform effectively and governance is poor. To restore stability in the economy's growth in South Asian countries, the most official policy to adopted is counter fluctuation growth policies.

Tariq Hussain(2012)examines fiscal policy, monetary policy and institutions role in Pakistan. The work aims to examine the relationship between fiscal, monetary policies and institutions in Pakistan from 1976-2008. Autoregressive distributed lags (ARDL) the result indicate that there is a long-run relationship among policies growth and institutions role in Pakistan. The work further revealed that institutional quality is the function of economic growth in Pakistan.

Hussin Abdullah(2008) Fiscal Policy, Institutions and Economic Growth in Asian Economies: the article intended to examine the relationship between fiscal policy, institutions and economic growth in Asia between 1982 and 2001 through the application of Pedroni's Cointegration approach. The Pedroni Cointegration result shows a long-run relationship between fiscal policy, institutions and economic growth. We find a positive and statistically significant impact of health and education expenditure, an aggregate of government expenditure, the aggregate of fiscal policy and institutions on real per capita GDP. We also find that the defence expenditure, distortionary taxation and budget balance are significantly and negatively related to real per capita GDP.

Alberto Chong(2007) Institutional Quality and Government Efficiency. The study Uses a simple model, and it suggests that increases in growth taxation and welfare are responsible for institutional quality; consequently, optimal tax levels increase with improved institutional quality. The work employs a firm-level perception of the quality of public services and the tax burden to test some of the model's predictions. The article finds out that a higher level of institutional quality bolsters positive perceptions of the quality of public services while at the same time moderating the view of taxes as an obstacle to growth.

Ashraf Galal Eid(2003) investigated budgetary institutions, fiscal policy, and economic growth: the case of Saudi Arabia. This work aim at examines the effect of government expenditure on non-oil private GDP per capita using Autoregressive Distributive lag(ARDL). The study's outcome shows that the Saudi government uses a conservative oil price when estimating oil revenues; government expenditure in general and per capital expenditure in specific is still procyclical. Also, the long-run result shows that the relationship between government expenditure and GDP per capita lagged actual government consumption expenditure has a positive and significant impact on real non-oil private GDP per capita while its contemporaneous effect is negative.

Elgin and Oztunalı(2013) Institutions, Informal Economy and Economic Development. The study uses panel data analysis for 141 countries from 1984-2009 and examines the evolution of the informal economy, economic development in relationship to the institution. The finding shows that institutional quality has a strong relationship between economic development and the informal economy. The implication is that a higher GDP per capita will be associated with a larger size of the informal sector in countries where the institutional quality is low. At the same time, the reverse is the case of countries with good institutions.

Yildirim and Gökalp(2015) examine institutions and Economic Performance: A Review on the Developing Countries: the work is intended to examine the relationship between institutions and macro-economic performance in developing countries. The study employed panel data analysis of 38 developing countries with 23 institutional structure variables from 2000 to 2011. The analysis revealed that institutional structure indicators such as the integrity of the law system, regulations on trade barriers, restriction of foreign investments, the share of the private sector in the banking system, and employment dismissal variables positively impact the macro-economic performance of developing countries. On the other hand, variables such as judiciary independence, government expenditures, transfers and subsidies, civil freedoms, the black market exchange rate, collective bargaining and military tutelage(political stability) harm the macro-economic performance of developing countries.

NicolóAndreula(2009) Institutional Quality and Fiscal Transparency: this study aimed to examine the role of institutional quality in a country's fiscal transparency. The result of the study revealed that there is a causal relationship between institutions and transparency.

Mącek and Janků (2015) The impact of Fiscal Policy on Economic Growth Depending on Institutional conditions: This paper examines the impact of fiscal policy on economic growth depending on the

institutional conditions in the OECD countries over the period 2000-2012. Panel regression was the technique used for analysis. The result shows that government expenditure has a positive relationship with the economy in the countries with lower fiscal transparency, and it has a negative impact on countries with higher fiscal transparency. The result also shows that the negative impact of taxation is more harmful for economic growth in the countries with worse institutional conditions.

Joachim Wehner(2006) Legislative Institutions and Fiscal Policy: This article make use of time series data from a 2003 survey of budgeting practices aimed at evaluate the impact of a range of legislative institutions on public spending in 25 OECD countries. It finds no evidence for most institutional hypotheses. Only the power of the legislature to amend the budget proposal of the executive has a significant impact on public expenditures.

Edit Okon Anwana(2016) Institutional Quality and Electricity Supply Growth in a Developing Economy: The Case of Nigeria. The study examines the effect of institutional quality on electricity supply in Nigeria. Its further adopted the standard econometric error correction mechanism (ECM) and used time-series data from 1981 to 2015. Various preliminary tests were conducted and the result indicate that there exist long-run relationship between the variables in question. ECM result was statistically significant with the correct sign. The speed of adjustment between the short-run and long-run behavior of electricity supply variables was 59.73 percent. Institutional quality, with a coefficient of -1.23 indicates that institutional quality in the country does not contribute positively to electricity supply growth. Based on the above results, the study concludes that institutional quality impacts negatively on electricity supply and therefore inhibit electricity supply growth in Nigeria. The study recommends that to enhance institutional quality and therefore boost electricity supply in Nigeria, policies should be directed at enhancing institutional quality such as policies to encourage contract enforcements, enhance property rights, reduce corruption, enthrone good governance, and improve the legal and security systems.

Emmanuel N. and Ebi B.(2013) Institutional Quality, Petroleum Resources and Economic Growth: A Difference-In Differences Approach Using Nigeria, Brazil and Canada: the examine the impact of institutional quality, petroleum and economic growth comparing Nigeria Canada and Brazil using difference approach. The contribution of oil rents to GDP figure for Nigeria compared to the two countries indicates that

Nigeria is over-dependent on oil at the expense of other sectors of the economy. Corruption assessment scores for the three countries suggest that Nigeria is more corrupt, implying weak institutions compared to Canada and Brazil. This calls for concern. Based on the results, we recommended that quality institution (low corruption) is indispensable in bridging the gap in economic performance between Canada and Nigeria as well as Brazil and Nigeria.

Benson U.(2012) Institution, Macroeconomic policy and the growth of the Agriculture sector in Nigeria. The study design to examine the effect of institutional support and macroeconomic policy on the growth performance of the agricultural sector in Nigeria. Time series data was use spanning from 1970-2008. The study usefully modified ordinary least squares technique was used and the results shows that the volume of credit to the Agricultural sector, deficit financing income (GDP) and institutional reform(Dum) were positively and significantly accounted for innovations in Agricultural output for the period studied. The rate of interest has a negative relationship with agricultural output growth but not significant. The work recommends liberalized interest rate policy and enhanced institutional support to the agricultural sector.

From the above literature review, it is evident that fiscal policy and institutional quality work hand in hand in other to achieved a sustainable economic growth and development, but this has been overlooked by most studies carried out for Nigeria. However, this study aims at examining the impact of fiscal policy and institutional quality in Nigeria. This is because it is believed that for a growing economy such as Nigeria, the impact of government fiscal policy, institutional quality on economic growth cannot be swept aside, also, the omission of key variable of fiscal policy on most of the study reviewed. The major concern of this study is to examine the impact of fiscal policy and institutional quality on economic growth and development in Nigeria.

3. STUDY METHODOLOGY

As earlier mentioned, the aim of this study is to examine the impact of fiscal policy and institutional quality on economic growth in Nigeria. Thus, while existing studies try to viewed the effect of each of these variables on economic growth but this work choice to depart from the existing literature by examine the impact of fiscal policy and institutional quality on economic growth in Nigeria. This study will employ Autoregressive Distributed Lag(ARDL) approach. This approach, which was first introduced by Pesaran and shin (1999) and then extended by Pesaran et al. (2001), is more

statistically significant approach for determining cointegrating relationship in small samples, while the Johansen cointegration techniques require larger samples for the results to be valid (Ghatak and Siddiqui, 2001). Another advantage of ARDL is that while other cointegration techniques require all of the regressors to be integrated of the same order, the ARDL can be applied irrespective of their order of integration (ARDL) approach can be applied whether the regressors are I(1) and /or I(0) and thus it avoids the pre-testing problems associated with standard cointegration tests(Pesaran et al,2001). Pahlavani(2005) points out that if the unit root properties of data are not known for certain, then applying the ARDL procedure would be more appropriate than other cointegration techniques. Also, the ARDL approach allows different variables to have different optimal lags while this is not allowed in Johansen cointegration techniques.

In addition, in order to identify the existence of unit roots in time series data, conventional tests such as Augmented Dickey-Fuller (ADF)(1979, 1981) or Philips-perron, are often used. However, recent contributions to the literature, suggest that such tests may be incorrectly indicated the existence of a unit root; when in fact the series is stationary around a one-time structural break (zivot and Andrews 1992; pahlavani, et al 2006) as a result this employs both ADF, PP and Kwiatkowski-Phillips-schmids-shin(KPSS) in other to overcome the problems of incorrect indication of unit root in a series.

According to pesaran (1997), the following ARDL model of order p and q, ARDL(p,q), is estimated:

$$Y_t = \alpha_0 + \alpha_{1t} + \sum_{t=i}^{p} \Phi i \; y_{t-i} + \sum_{i=0}^{q} \beta f t \, X_{t-i} + \varepsilon_t \quad (1)$$

Where Y_{t-1} is the lagged dependent variable, X_t is a K-dimensional vector of explanatory variables, t represents time, α_0 is the intercept, ε_t is a serially uncorrelated distance with zero mean and constant variance-covariance. The coefficients Φi are scalars while β^f are row vectors.

To capture the short-run effect of institutional quality, fiscal policy that government expenditure and other variables of fiscal policy on economic growth in Nigeria proxy by GDP, ARDL model is estimated in an error correction model(ECM) form. The ECM version of the selected ARDL model can be obtained by rewriting equation (1) in terms of the lagged levels and first difference of yt and xt as follows:

$$\Delta yt = \alpha o + \gamma ECM_{t-1} + \sum_{t=i}^{p} \delta i \Delta yt\text{-}i + \sum_{i=0}^{q} \varphi t \Delta xt\text{-}i + \varepsilon t \quad (2)$$

Where δt and φI are the coefficients that are related to the short-run dynamics of the model and ECM is the error correction mechanism. The magnitude of the error correction term coefficient (γ) shows the speed of adjustment of the dependent variable to the equilibrium level in the previous period.

Model 1: Specification the long run Model

$$Y_t = \alpha_0 + \alpha_1 y_{t-1} + \beta_0 X_0 + \beta_1 X_{t-1} + \beta_2 X_{t-2} + \beta_3 X_{t-3} + \beta_4 X_{t-4} + \varepsilon_t \quad (3)$$

$$GDPy_t = \alpha_0 + \alpha_1 GDPy_{t-1} + \beta_1 CIM_{t-1} + \beta_2 GEXP_{t-2} + \beta_3 FISDEF_{t-3} + \beta_4 INFLA_{t-4} + \varepsilon_t \quad (4)$$

Where GDP = real gross domestic product, CIM =institutional quality proxy by contract intensive money, GEXP=Government expenditure, FISDEF= Fiscal deficit, INFLA=Inflation rate, ε_t = stochastic error term. α_0 = is the intercept, α_1 = is the coefficient of the lag of real gross domestic product, β_1 to β_4 are the coefficient of other explanatory variables.

Model 2: Specification the Short Run Model

$$GDPy_t = \alpha_0 + \alpha_1 GDPy_{t-1} + \beta_1 CIM_{t-1} + \beta_2 GEXP_{t-2} + \beta_3 FISDEF_{t-3} + \beta_4 INFLA_{t-4} + ECM_{t-4} \, \varepsilon t \quad (5)$$

where α0= intercept, α1= is the coefficient of the lag of real gross domestic product,

, β1 to β4 are the coefficient of other explanatory variables such as CIM, GEXP, FISDEF, INFLA, while ECM= is the error correction mechanism and εt = is the stochastic error term.

4. RESULT PRESENTATION
4.1 Unit Root Test Result
Due to the nature of most time-series data, it is imperative to conduct a unit root test on the series in the AR model. If the series are stationary at their level form, then the results obtained from the AR model are considered valid. However, if the series exhibits non-stationarity, it becomes essential to carry out a first-order stationarity test. If stationarity is attained, the series can be said to be free from the unit root.

This study made use of the Augmented Dickey-Fuller (ADF), Phillips-Perron (PP) and the Kwiatkowski-Phillips-SchmidtShin (KPSS) unit root testing procedure to ascertain the level of stationarity of the series. The KPSS test, with the null of stationarity, helps to resolve conflicts between ADF and PP tests. If two of these three tests indicate non-stationarity for any series, we conclude that the series has a unit root.

Table 1: Unit Root Test at Level: H: There Is Unit Root.

Variables	AFTER		PP TEST		KPSSTEST		CONCLUSION OF RESULTS
	ADF STAT.	Unit root result present	PP STAT.	Unit root result present	KPSS STAT.	Unit root result present	
GDP	2.375648	YES	7.686009	NO	0.618327***	YES	YES
KIM	-1.025424	YES	-1.038528	YES	0.449212	YES	YES
FISDEF	0.832921	YES	2.10149	YES	0.585705*,**	NO	YES
NEXT	-2.670000	YES	2.114942	YES	0.663169**,*	NO	YES
INFla	-3.488125	NO	-3.398245	NO	0.190678	NO	NO

Source: Computed by Authors Using Eviews 9.5 Version. Data sources CBN Statistical bulletin

NOTE: *, **, *** represents significance levels at 10%, 5% and 1% respectively.YES- Indicates the presence of unit root in the series.NO- indicates the absence of unit root in the series.

Table 2: Unit root test at 1ˢᵗ difference. HO: there is unit root.

Variables	ADF-TEST		PP- TEST		KPSS-TEST		CONCLUSION OF RESULTS.
	ADF STAT.	unit root result present	PP STAT	unit root result present	KPSS STAT	unit root result present	
GDP	4.544381	NO	-5.805695	NO	1.456340	NO	NO
KIM	-4.682399	NO	-4.689499	NO	0.134253	YES	NO
FISDEF	-5.853787	NO	-5.757683	NO	0.444370**,***	YES	NO
NEXT	-1.891051	YES	-7.055886	NO	0.517000*,**	NO	NO
INFLA							

Source: Computed by Authors Using Eviews 9.5 Version. . Data sources CBN Statistical bulletin

NOTE: *, **, *** represents significance levels at 10%, 5% and 1% respectively. YES- Indicates the presence of unit root in the series. NO- indicates the absence of unit root in the series.

The unit root test above shows that all of the variables with the exception of inflation were found not to be stationary at their level form (See table 1).

A further probe for unit root at 1stdifference (See table 2), however, shows a result of stationarity for all the variables. Thus, confirming that all the variables are integrated of order one; i.e I(1).

4.2 Tests for Cointegration

The Johansen cointegration test utilizes two statistics test namely: the trance test and the maximal Eigenvalue test.

However, both the trace test and maximal Eigenvalue test indicated three cointegration equation. The result is presented below in Table 3 and Table 4.

Table 3: Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05, Critical Value	Prob. Value
None *	0.696393	136.8599	69.81889	0.0000
At most 1 *	0.608352	84.41100	47.85613	0.0000
At most 2 *	0.483218	43.16581	29.79707	0.0008
At most 3	0.201456	14.11991	15.49471	0.0797
At most 4 *	0.091484	4.221463	3.841466	0.0399

Source: Computed by Authors from Eviews Output version 9.5 Data sources CBN Statistical bulletin

Trace test indicates 3 cointegrating equation at the 0.05 level of significance. *, Denotes rejection of the hypothesis at the 0.05 level of significance**,represents Mackinnon-Haug-Michelis (1999) P-values

Table 4: Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05, Critical Value	Prob. Value
None *	0.696393	52.44894	33.87687	0.0001
At most 1 *	0.608352	41.24520	27.58434	0.0005
At most 2 *	0.483218	29.04589	21.13162	0.0031
At most 3	0.201456	9.898450	14.26460	0.2187
At most 4 *	0.091484	4.221463	3.841466	0.0399

Source: Computed by Authors from Eviews Output version 9.5 . Data sources CBN Statistical bulletin

Max-eigenvalue test indicates 3 cointegrating eqn(s) at the 0.05 level of significance. *, Denotes rejection of the hypothesis at the 0.05 level of significance **, represents Mackinnon-Haug-Michelis (1999) P-values.

Tables 4.2A and 4 Show the results of the Co-integration tests. Both the Trace test and Rank Test (Maximum Eigenvalue) indicate that there exists three cointegrating equation among the data series. This test suggests two major contentions. First, the selected variables move along together in the long run and short terms deviations will be corrected towards equilibrium

Secondly, cointegration literally indicates causality in at least three directions. This implies that since there exists three co- integration equations in the model, the use of ECM estimation is appropriate for the study because it shows that there is a long-run relationship between the variables under study.

4.3 ARDL Model Estimation Result.

Table 5: Estimated long run Values of the ARDL Model

Endogenous variables	Exogenous variables					
	gdpt-1	Fisdef	Kim	gexp	infla	C
GDP	1.047900 (7.294922) [0.0000]	2.414439 (0.342563) [0.7338]	545902.0 (0.023064) [0.9817]	2.211976 (1.171508) [0.2485]	2560.562 (0.041237) [0.9673]	2560.562 (-0.040487) [0.9679]

R-squared =0.918, Adjusted R-squared=0.908, DW=2.503144() indicates the t-statistics values, [] indicates the probability values

Source: Computed by Authors from Eviews Output version 10. Data sources CBN Statistical bulletin

The long-run estimated result in table 5 above shows that the coefficients of all the explanatory have a positive impact on growth domestic product in the long run, which are not all in line with a priori expectation. Variables such as CIM, GEXP, and GDP-1 are consistent with economic theory. This is true because sound institutional quality, increase in government expenditure can stimulate economic growth and development. This implies that in the actual term, a one per cent increase in last year national income will result in 1.047900 in this year national income ceteris paribus. Similarly, fiscal deficit exerted a positive impact on economic growth (GDP). this result shows that a one per cent increase in the fiscal deficit will bring about 2.414439 increase in the actual gross domestic product in the long run, all things being equal. Still, it is not statistically significant and also not in line with a priori expectation.

However, in the long run, the positive relationship between institutional quality and economic growth implies that in actual terms a one per cent increase or improvement in the quality of institutions in Nigeria will result in a 545902.0 increase in the gross domestic product (GDP) ceteris paribus. Also, the positive relationship between government expenditure and economics is that one per cent of government expenditure will lead to a 2.211976 increase in national income or GDP in the long run ceteris paribus. But the positive relationship between inflation rate and economic growth is not in line with a priori expectation. And it is not statistically significant. In actual terms, a one per cent increase in inflation will lead to 2560.562 increase in the real gross domestic product in the long run. The estimated regression line in the long-run model has a negative intercept, indicating that holding all explanatory variables constant, there will be a decrease in GDP of 725706.1 in the long run. The R^2 of 0.918 shows that about 92% of the total variation in the dependent variables has been explained by the variation in the independent variables. Hence the model has high explanatory power in the long run, while the DW=2.503144 is an indication that the model is free from autocorrelation problems.

Table 6: Estimated Shot Run Values of the ARDL Model

Endogenous variables	Exogenous variables					
D(GDP)	D(gdp(-1))	D(CIM)	D(fisdef)	D(gexp)	D(infla)	C
	0.638688	46631491	-0.379139	-11.10279	10843.97	1388916
	(3.563255)	(1.013277)	(-0.052875)	(-2.688638)	(0.183868)	(1.295811)
	[0.0010]	[0.3175]	[0.9581]	[0.0107]	[0.8551]	[0.2031]
ECM	-0.582627, t=-3.879159, probability: 0.0004					

R^2= 0.389008, F-statistic,= 3.926211, DW=1.805104

( ) indicates the t-statistics values, [] indicates the probability values

Source: Computed by Authors from Eviews Output version 10 . Data sources CBN Statistical bulletin

Discussion of Finding

Based on the short run estimated to result in table 6 above, the coefficient of the lagged of GDP, CIM, and INFLA impacted economic growth and development in Nigeria in the short run. But in actual term, a one per cent increase in the previous GDP, inflation (INFLA), and institutional quality will lead to 0.638688, 10843.97, and 46631491 in the real gross domestic product Nigeria in the short run during the study period, respectively. This is in line with a priori expectation regarding institutional quality and the lag values of real gross domestic product. It implies that with good and quality institutions, there will be a positive impact on GDP, also with an increase in last year GDP, this year GDP will increase. But only the lag of GDP is statistical significant while institutional quality and inflation are not statistically significant. On the other hand, the positive impact of inflation on GDP is not in line with a priori expectation. An increase in inflation is supposed to have an inverse relationship with economic growth, but the reverse is the case for this study. The reason may be that inflation is not the right control variable for this study because it is not statistically significant.

Similarly, the two varieties that are proxy for fiscal policy show a negative impact on Nigeria's real gross domestic product within the period of study. This implies that a one per cent increase in fiscal debt will lead to 0.379139 decreases in real gross domestic product in Nigeria in the short run, while a one per cent increase in government expenditure will result 11.10279 decreases on economic growth in Nigeria in the short run. The short-run model has a positive intercept, indicating that holding all explanatory variables constant, there will be an increase in GDP of 1388916 in the short run.The ECM of -0.582627 was right side and it is the model's adjustment coefficient, which indicates that for any distortion in the economy in the short run, it will take 58% per cent of such error or distortion to be corrected annually. In other words, for any disequilibrium or distortion in the economy, it will take 1 year 7 months for equilibrium to be restored. The R^2

of 0.389008 indicate that 39% of the the explanatory variables has been explained by the dependent variables in the short run. This means that in the short run, the model has low explanatory power compared to the long run R^2.

5. SUMMARY, CONCLUSION AND RECOMMENDATION.

This study investigates the impact of institutional quality and fiscal policy on economic growth and development in Nigeria during the period 1970-2016. Using time-series data, the study also aims to examine if there is any long-run relationship between institutional quality, fiscal policy, and economic growth during the study period. The study uses three different types of unit root tests such as Augmented dickey fuller (ADF), Philip person (PP) and Kwiatkowski-Phillips-SchmidtShin (KPSS). The unit root test results indicate that some of the variables are integrated of order zero, that is I (0) and some are integrated of order one that is I (1) which called for Johansen cointegrations test or bounds test. The cointegration test result shows that three equations are cointegrated that is both Trace Test and maximum engine value indicated three cointegrated equations. The study finally used ARDL to estimated both the short and long-run impact of institutional quality and fiscal policy on economic growth in Nigeria within the period under study.

In conclusion, the results show that the lag of GDP, institutional quality and inflation has a positive impact on economic growth and development in Nigeria in the short run, but it is the only lag of GDP that is statistically significant in the short run. However, the result indicates that fiscal policy harms economic growth and development in Nigeria in the short run. Government expenditure and fiscal deficit are the proxy for fiscal policy in this study.

The ECM of -0.582627 was rightly signed. It is the speed of adjustment coefficient in the model. The economic implication of the speed of adjustment is that for any distortion in the economy in the short run, it will

take about 58% of such error or distortion to be corrected annually. In other words for any disequilibrium in the system, it will take the economy one(1) year and seven(7) months for equilibrium to restore in the system.

Finally, the long-run model shows that all the exogenous variables have a positive impact on economic growth and development in the long run but only institutional quality, government expenditure and the lag of GDP that are statistically significant, while fiscal deficit and inflation has a positive impact on economic growth but not statistically significant. The long-run positive impact between institutional quality and economic growth implies that in real term a one per cent increase or improvement in the quality of institutions in Nigeria will lead to 545902.0 increase in economic growth ceteris paribus. also, the positive relationship between government expenditure and economic growth in tell that one per cent increase in government expenditure will lead to 2.211976 increase in economic growth and development in Nigeria in the long run. The result obtain from this study is in line with the result obtain by Hussin Abdullah(2008) and Mecek and janku(2015).

RECOMMENDATIONS

The study identifies the importance of institutional quality as a determinant of economic growth and development. This is confirming by its positive impact on economic growth and development in both short and long run. The result is in line with the result obtained by H ussin Abdullah(2008). This is not surprising given that institutional quality is positively related to economic growth. The result from this analysis is significant and provides support for the historical evidence presented by North and Thomas(1973) and North(1990). They show that the security of property rights provides incentives for economic growth in the world. Secure the role of institutions also leads to an efficient allocations of government expenditure and fiscal policy which will result or bust economic growth and development.

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