



The Moderating Role of Institutional Quality in the Fiscal Deficit - Poverty Reduction Nexus in Nigeria (1984-2023)

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Abstract: Despite sustained fiscal deficit spending since the early 1980s, poverty in Nigeria has continued to rise, raising questions about the conditions under which deficit financing reduces poverty. Grounded in North's institutional theory, this study examines whether institutional quality moderates the relationship between fiscal deficit and poverty reduction in Nigeria from 1984 to 2023. Real consumption per capita served as the proxy for poverty reduction, with fiscal deficit, a composite institutional quality index, and their interaction as the principal explanatory variables, and inflation, economic growth, and financial development as controls. Annual secondary data from the World Development Indicators and the Central Bank of Nigeria Statistical Bulletin were analyzed using the autoregressive distributed lag (ARDL) bounds testing approach. Unit root tests indicated a mixed order of integration, and the bounds test confirmed a long-run relationship among the variables ($F = 5.2372$). In the long run, fiscal deficit, institutional quality, and their interaction had no statistically significant effect on real consumption per capita, whereas economic growth had a positive and significant effect. In the short run, lagged fiscal deficit exerted positive and significant effects, suggesting delayed policy transmission, and the error correction term (-0.4030) indicated that roughly 40% of disequilibrium is corrected annually. Granger causality ran from fiscal deficit and the interaction term to real consumption per capita. The findings suggest that fiscal expansion alone cannot sustainably reduce poverty without stronger institutions; policy should prioritize transparency, accountability, and efficient public financial management.

Keywords: fiscal deficit, institutional quality, poverty reduction, ARDL bounds testing, Nigeria

INTRODUCTION

Poverty remains a pervasive global challenge and is particularly acute within African nations, with Nigeria standing as a primary example of this developmental crisis. The persistent and increasing state of poverty in the Nigerian context necessitates an urgent reevaluation of current mitigation strategies to ensure more targeted and effective outcomes. Historically, one of the most common tools adopted by governments worldwide to tackle poverty is fiscal deficit spending, a concept rooted in the Keynesian school of thought, which posits that government intervention is necessary to stimulate aggregate demand and enhance social welfare during economic downturns (Anyanwu, 2014; Ibu & Effiong, 2015). This approach has often been recognized and accepted in economic discourse as a necessary cost for the greater good, under the premise that deficit-financed spending can bridge infrastructure gaps and provide essential social services. Nigeria has consistently adopted this ideology, utilizing fiscal deficits as a primary means of addressing poverty since

the early 1980s. However, the expected results do not align with the reality of the Nigerian context, as despite the sustained increase in fiscal deficits over the decades, poverty remains on a significant rise (Odoh & Chukwu, 2012; Ojinwoke, 2018). This paradox has led scholars to question the potency of fiscal policy, with studies by Nwakoby et al. (2017) and Aregbeyiren (2011) suggesting that increased spending has not translated into meaningful improvements in Real Consumption per Capita. These inquiries prompt critical investigations into whether fiscal deficits actually reduce poverty or inadvertently enhance it within the domestic economy due to the presence of systemic leakages (Opasina et al., 2016; Ojukwu, 2009).

The disconnect between fiscal expenditure and poverty reduction in Nigeria has led to various studies attempting to uncover why the intended results have not materialized. As a result of the indirect link between fiscal deficit and poverty reduction, the desired effects are often lost in transit due to systemic bottlenecks and hindrances. Historically, these have included a lack of necessary infrastructure, inadequate public welfare systems, a lack of accountability, and pervasive corruption. According to the theoretical underpinnings of economic intervention, government spending is meant to bridge welfare gaps, yet in the Nigerian experience, these interventions often fail to reach the intended beneficiaries. As noted in the existing literature, the Nigerian poverty rate, which stood at approximately 43 percent in 1980, escalated significantly following the introduction of the Structural Adjustment Programme in 1986, eventually exceeding 70 percent as the country grappled with macroeconomic instability (Anyanwu & Ojiaku, 2016; Odoh & Chukwu, 2012).

One among these unacknowledged or even intentional bottlenecks to the strategy of reducing poverty through fiscal deficit is the quality of the institutions present in the national context. The channel for reducing poverty is primarily managed by the government, which highlights how the quality of the holder plays a major influence on the quality of the tool. This study argues that while theory suggests an indirect link where higher fiscal deficits should reduce poverty, there is a simultaneous and crucial link between institutional quality and poverty reduction. In this framework, higher institutional quality is expected to lead to lower poverty levels. The moderating role that institutional quality plays between fiscal deficit and poverty is a dimension that is often overlooked and understudied, especially within the Nigerian economic landscape.

The theoretical justification for this perspective is rooted in North's (1990) Institutional Theory, which posits that institutions provide the incentive structure of an economy and determine the cost of transactions and production. In the context of Nigeria, weak institutional frameworks characterized by poor rule of law and low bureaucratic quality ensure that fiscal resources are mismanaged or diverted. This research acknowledges that if the government can be regarded as the institution responsible for wielding the fiscal tool, then the effectiveness of that tool is inherently limited by the quality of the institution itself. Previous inquiries by Anyanwu (2014) and Nwakoby et al. (2017) have confirmed that fiscal policy in Nigeria has historically struggled to alleviate poverty, with Ojinwoke (2018) even finding that fiscal deficit financing has contributed to increased poverty levels. Furthermore, Ibu and Effiong (2015) investigated the relationship and found evidence that higher deficits are linked to higher poverty incidence, a finding supported by the OLS estimations of Ojukwu (2009) and the ARDL findings of Nwachukwu and Egbuche (2019).

Despite the prevalence of studies on fiscal policy, such as those by Aregbeyiren (2011) and Opasina et al. (2016), which found that budget deficits do not adequately tackle poverty, there is a gap in understanding how governance indicators like the rule of law and government effectiveness serve as moderators. Improving these indicators has been associated with reduced poverty levels (Ogbeidi, 2012; Kalu & Ozurumba, 2011). Through an in-depth evaluation or analysis, this study seeks to provide new realizations and information that can aid the attainment of poverty reduction goals. The investigation covers the period from 1984 to 2023, capturing Nigeria's fiscal behavior under various political and institutional regimes. This extensive timeline allows for a robust analysis of how the quality of institutions has moderated the effectiveness of deficit spending across different eras of Nigerian governance. The study ultimately aims to fill a significant gap in the literature by demonstrating that even when fiscal spending increases, its welfare impact depends heavily on institutional effectiveness, thereby emphasizing the governance dimension of poverty reduction (Ayoade et al., 2023; Ibrahim & Usman, 2014). By addressing these structural constraints, this research contributes to a deeper understanding of fiscal policy's developmental potential in Africa's most populous nation.

LITERATURE REVIEW

Theoretical Perspective

This study is grounded in the North's institutional theory. The theory emphasizes the role of institutions to either impede or improve the economic performance of a state (Acemoglu & Robinson, 2019). In this context, institutions play a significant role in determining the effect of utilizing fiscal deficit in tackling poverty in Nigeria. The theory proposes that the quality of the institutions present in a country will determine the outcome of such an endeavor. Consequently, if the country is characterized by weak institutions, the goal of tackling poverty through fiscal deficit may not be achieved, or rather, could be impeded; on the other hand, the presence of strong institutions enhances the attainment of poverty reduction through fiscal deficit. This clearly shows the dependency of the independent variable (fiscal deficit) on institutional quality, in achieving the desired outcome on the dependent variable (poverty), which is poverty reduction.

Empirical Evidence

The scholarly discourse on the relationship between fiscal policy and welfare outcomes suggests that the impact of deficit spending is highly contingent upon the economic and institutional environment of the nation in question. In advanced economies, evidence largely supports the Keynesian view that deficit-financed social spending acts as a vital safety net for the vulnerable. For instance, the OECD (2015) conducted a landmark cross-country analysis from 2000 to 2013, employing microsimulation techniques to assess the redistributive impact of fiscal policy. Their findings were definitive, indicating that fiscal deficits used specifically to finance social transfers contributed significantly to poverty reduction, particularly when targeted toward low-income households. This suggests that in mature economies, the infrastructure for wealth redistribution is efficient enough to ensure that borrowed money reaches the most vulnerable populations. This is supported by Bracco and Brugnolini (2023), whose study of 14 advanced economies from 1995 to 2020 used local

projections and narrative identification of fiscal shocks to show that social spending financed by temporary deficits effectively mitigates poverty shocks.

However, the efficiency of this spending varies greatly. Joumard and Londono Velez (2013) used Data Envelopment Analysis to show that some OECD countries achieve better poverty outcomes with lower levels of deficit spending than others, pointing to the critical concept of expenditure efficiency. Furthermore, Atkinson and Morelli (2011) highlighted that for deficit spending to reduce inequality, it must be paired with progressive taxation. The dangers of fiscal consolidation or austerity were clearly illustrated by Ball, Furceri, Leigh, and Loungani (2013), who found that in 17 OECD countries, cutting deficits often led to higher unemployment and increased poverty, effectively arguing that the cure of austerity was sometimes worse than the disease of the deficit itself. This is further reinforced by the work of Lindert (2004), who analyzed the historical relationship between social spending and growth in Western Europe and North America from 1880 to 2000, arguing that moderate deficits did not hinder economic growth and were instrumental in reducing long-term poverty.

When shifting focus to developing and emerging economies, the results become more polarized and reflect deeper structural inefficiencies. Lustig et al. (2024), in an extensive analysis of 18 Latin American and Caribbean countries, discovered a fiscal paradox where, in nearly half of the nations studied, the fiscal system actually increased poverty. This fiscal impoverishment occurs when the poor pay more in indirect taxes than they receive in direct transfers, even if the government is running a deficit to fund those programs. This is a critical departure from the advanced country narrative and suggests that the structural design of the fiscal system in developing nations may be fundamentally flawed. Kayumov (2023) examined the influence of public debt on poverty reduction in developing countries using panel data regression from 2000 to 2020 and concluded that higher public debt levels are associated with increased poverty rates, emphasizing the need for prudent fiscal management.

In Sub-Saharan Africa, the debate is even more intense. Anjande et al. (2022), using system GMM estimation on 48 countries, found a significant positive link between government spending and poverty alleviation. Yet, Checherita Westphal et al. (2019) argued the opposite, suggesting that higher fiscal deficits in the region are often correlated with increased poverty. The difference between these two findings often lies in debt sustainability and the productive nature of spending. As Jha (2001) noted, when deficits are used for productive investments like infrastructure and education, they reduce poverty, but when they are used to service old debt or fund recurrent consumption, they trigger macroeconomic instability, which hurts the poor the most through inflation. Fosu (2010) also reveals that fiscal deficits, particularly when coupled with political instability, can negatively affect poverty reduction efforts in the region.

Nigeria serves as a primary example of fiscal policy failure in the literature. Multiple studies using various econometric tools have reached a similar conclusion that fiscal deficits in Nigeria do not help the poor. Odoh and Chukwu (2012) used an Error Correction Model to show a negative impact of deficits on poverty reduction from 1986 to 2009. This was echoed by Ojinwoke (2018), who applied the Autoregressive Distributed Lag model to find that deficit financing actually contributed to poverty. Anyanwu and Ojiaku (2016) argue that the relationship is positive, meaning that as deficits go up, poverty goes up. This suggests a total

breakdown in the transmission mechanism. Whether it is the Structural Adjustment Programme era or the post 2000 oil boom years, the Nigerian government has consistently spent more than it earned without a corresponding rise in the Real Consumption per Capita. As Owuru (2016) and Opasina et al. (2016) both concluded through descriptive and regression analyses, neither capital expenditure nor budget deficits has been potent enough to tackle the structural roots of Nigerian poverty.

The most recent wave of literature suggests that the failure of fiscal policy is not merely a financial problem, but an institutional one. Acemoglu and Robinson (2012) famously posited that institutions matter above all else, arguing that inclusive institutions are the bedrock of prosperity while extractive or weak institutions lead to persistent poverty. In Nigeria, this is painfully evident. Anyanwu (2014) and Nwachukwu and Egbuche (2019) both found that corruption, a primary indicator of weak institutions, has a significant long-run relationship with poverty. Institutional quality acts as the filter through which fiscal policy passes. Ali et al. (2016) demonstrated in a panel of 30 Sub-Saharan African countries that government effectiveness and the rule of law are direct determinants of poverty rates. In Nigeria, Ayoade et al. (2023) took this further by examining the interaction between institutions and human capital, finding that investment in education and health, combined with strong institutional quality, can reduce poverty in both the short and long run. This suggests that you cannot simply spend your way out of poverty if the institutional framework is extractive. Okonjo Iweala (2012) and Soludo (2008) have both argued from a policy perspective that without a developmental state characterized by transparency and accountability, fiscal deficits will only lead to a leakage of national resources. By pointing the torch to the moderating role of institutions, new realizations can aid the attainment of the intended goal of poverty reduction through fiscal policy.

METHODOLOGY

Data Sources and Descriptions

This study utilizes an annual time series dataset for Nigeria covering the period 1984-2023. Secondary data on variables such as Real Consumption per Capita (RCPC), which serves as the proxy for poverty reduction, along with inflation (INF), and economic growth (LGDP) were obtained from the World Development Indicators (WDI). Data for Fiscal Deficit (FD) and Financial Development (FID) were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin. Institutional quality (INST) is captured using a composite index derived from measures of corruption control, democratic accountability, law and order, bureaucratic quality, and government stability. Consistent with the norms in the extant studies cited in the original research, data on these institutional measures are rescaled to 0-10. This allows for comparability and uniform interpretations across the forty-year period. A higher value implies better institutional quality, while a lower value indicates weak or poor institutional quality (Demetriades & Law, 2006).

Model Specification

Following the theoretical grounding of North (1990) and Keynesian perspectives, the following empirical model is adopted to examine the poverty-reduction nexus:

$$RCPC_t = \alpha_o + \beta_1 FD_t + \beta_2 IQ_t + \beta_3 GDP_t + \beta_4 INF_t + \beta_5 FID + \epsilon_t \dots \dots (1)$$

In line with the structural requirements of the study, the variables utilized in the econometric model are defined as follows. The dependent variable is represented by Real Consumption per Capita (RCPC), which serves as a proxy for poverty reduction. The primary explanatory variables include the Fiscal Deficit (FD), Institutional Quality (IQ), and the interaction between the two, while the control variables consist of the Log of GDP per Capita (GDP), the Inflation Rate (INF), and Financial Development (FID). Furthermore, the model incorporates α_o as the intercept or constant coefficient, while β_1 through β_5 represent the parameters to be estimated. Finally, ϵ_t denotes the white noise error term, which captures other potential factors influencing poverty that are not explicitly captured within the specified model. The interaction term is incorporated in Equation (1) and modified to:

$$RCPC_t = \alpha_o + \beta_1 FD + \beta_2 IQ_t + \beta_3 (FD_t \times IQ_t) + \beta_4 GDP_t + \beta_5 INF_t + \beta_6 FID_t + \epsilon_t \dots (2)$$

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Estimation Technique

The study adopts the Autoregressive Distributed Lag (ARDL) estimation technique. This method is specifically chosen to address the situation where variables are integrated of mixed orders, such as $I(0)$ and $I(1)$, a common characteristic of Nigerian macroeconomic data (Anyanwu, 2014). The ARDL technique is particularly robust for small sample sizes and effectively addresses potential endogeneity problems.

The estimation process involves conducting unit root tests to ensure no variable is $I(2)$, followed by the Bounds test to check for a long-run equilibrium relationship. To ensure the reliability of the parameters, the study subjects the model to diagnostic tests for serial correlation, heteroskedasticity, and functional form, alongside CUSUM and CUSUM-of-Squares tests for parameter stability.

DISCUSSION OF EMPIRICAL RESULTS

Descriptive Statistics of Data Series

Descriptive statistics provide an overview of the key characteristics of the data used in this study, including measures of central tendency, dispersion, and distribution. The summary statistics of the variables Real Consumption per Capita (RCPC), Fiscal Deficit (FD), Institutional Quality (INST), Financial Development (FID), Inflation (INF), and the log of Gross Domestic Product (LGDP) offer valuable insights into their behavior over the study period (1984-2023). The mean and median values of most variables are closely aligned, suggesting a generally stable distribution around their central tendencies. For instance, **RCPC (mean**

= 6.9997; median = 7.1468), FID (mean = 0.1967; median = 0.1956), and INST (mean = 4.0075; median = 4.1275) reveal minimal deviation, indicating low volatility and a near-normal distribution. This relative stability implies that Nigeria's real consumption and institutional structures have maintained a moderate consistency over time, though not necessarily translating into sustained welfare improvements.

By contrast, **Inflation (INF)** exhibits a wide gap between the mean (19.22) and median (12.95), signaling persistent inflationary shocks and macroeconomic instability. Such volatility is consistent with the **IMF (2013, 2015)** findings that inflationary pressures in Nigeria often erode household purchasing power, undermining the poverty-reducing potential of fiscal policy. Similarly, **Fiscal Deficit (FD)** records a negative mean (-2.5908) and substantial dispersion (minimum = -8.5696; maximum = 0.7844), indicating chronic budgetary imbalances and the government's persistent reliance on deficit financing. This pattern echoes the observations of **Ojinwoke (2018)** and **Okoye et al. (2019)**, who note that Nigeria's fiscal deficit has historically been structural rather than cyclical, driven by rising public expenditure and weak non-oil revenue mobilization.

In terms of dispersion, **RCPC (range = 6.4830-7.4138)** and **LGDP (range = 7.2356-7.8578)** display narrow fluctuations, suggesting relative macroeconomic steadiness. In contrast, **INF** and **FD** exhibit wide spreads, reflecting Nigeria's susceptibility to policy inconsistencies, global commodity price shocks, and domestic governance weaknesses. The standard deviation values reinforce this observation; **INF (16.78)** stands out as the most volatile variable, whereas **FID (0.0334)** and **LGDP (0.2403)** remain stable over time. The skewness and kurtosis statistics further illuminate the distributional properties of the dataset. **RCPC**, **FD**, **INST**, and **FID** are negatively skewed, implying a concentration of observations at higher values with occasional downward deviations. This suggests that while economic and institutional performance occasionally improved, such gains were often offset by periods of downturn. Conversely, **INF** and **LGDP** are positively skewed, reflecting sporadic surges in price levels and output expansion. The Jarque-Bera normality test reveals that all variables, except **INF**, are approximately normally distributed, indicating suitability for econometric estimation within the ARDL framework.

From an economic perspective, the observed trends provide empirical support for Nigeria's macro-structural narrative. The combination of persistent fiscal deficits, institutional fragility, and inflation volatility suggests a policy environment where government spending fails to effectively translate into improved welfare. This observation aligns with **Ibu and Effiong (2015)** and **Anyanwu and Ojiaku (2016)**, who both found that while expansionary fiscal policies may boost short-term aggregate demand, their long-term impact on poverty reduction is often muted by inefficiency and corruption. Similarly, **Ayoade et al. (2023)** and **Ahmed et al. (2023)** emphasize that the quality of institutions determines whether fiscal measures effectively enhance household welfare or merely widen inequality. Under Keynesian theory, moderate fiscal deficits can stimulate consumption and output during downturns. However, according to the **Institutional Theory** (North, 1990; Acemoglu et al., 2001), the success of such fiscal interventions depends critically on institutional integrity. When institutions are weak as evidenced by Nigeria's corruption and governance challenges the productivity of deficit spending declines, leading to suboptimal welfare outcomes.

In the context of this study, the descriptive statistics hint that **fiscal deficit (FD)** and **institutional quality (INST)** jointly shape the dynamics of **real consumption per capita (RCPC)**. The persistently negative fiscal balance, coupled with moderate institutional volatility, suggests that while the government expenditure has expanded, much of it may not have translated into tangible improvements in living standards. Poor bureaucratic coordination, policy reversals, and corruption highlighted by **Fagbemi et al. (2020)** and **Abanikanda et al. (2023)** likely diluted the expected positive transmission from public spending to household consumption.

Economically, this implies that fiscal policies in Nigeria have often functioned in a low-efficiency institutional setting, where expansionary efforts may momentarily raise output but fail to sustain poverty reduction. The descriptive evidence thus reinforces the central argument of this research: **institutional quality moderates the fiscal deficit-poverty relationship**, determining whether deficit-financed policies alleviate or perpetuate economic vulnerability.

Table 4.1: Descriptive Statistics of Data Series

	RCPC	FD	INST	FID	INF	LGDP
Mean	6.9997	-2.5908	4.0075	0.1967	19.2185	7.5146
Median	7.1468	-2.5069	4.1250	0.1956	12.9450	7.4788
Maximum	7.4138	0.7844	4.6111	0.2779	72.8400	7.8578
Minimum	6.4830	-8.5696	2.6806	0.1292	5.3900	7.2356
Std. Dev.	0.3191	1.9242	0.4592	0.0334	16.7815	0.2403
Skewness	-0.2601	-0.7076	-0.8533	-0.0924	1.8211	0.1392
Kurtosis	1.3616	3.6944	3.2498	2.6751	5.1653	1.2869
Jarque-Bera	4.9248	4.1413	4.9582	0.2328	29.9224	5.0205
Probability	0.0852	0.1261	0.0838	0.8901	0.0000	0.0812
Observations	40	40	40	40	40	40

Source: Author's computation

Unit Root Test

To ensure the reliability of the regression analysis, both the **Augmented Dickey-Fuller (ADF)** and **Phillips-Perron (PP)** tests with trend and intercept were employed to examine the stationarity properties of the data. The results presented in Tables 4.4.1 and 4.4.2 reveal that the variables exhibit a mixed order of integration, being either integrated of order zero, $I(0)$, or order one, $I(1)$. Specifically, **Real Consumption per Capita (RCPC)** was found to be non-stationary at the level but attained stationarity after first differencing in both the ADF ($t = -7.6904$; $p = 0.0000$) and PP ($t = -8.2077$; $p = 0.0000$) tests, indicating that shocks to consumption have prolonged effects before reverting to equilibrium. This behaviour is consistent with **Anyanwu and Ojiaku (2016)** and **Asaju et al. (2014)**, who observed similar persistence in consumption and welfare-related variables in Nigeria, suggesting that poverty-related outcomes tend to respond slowly to macroeconomic interventions. The results also show that **Fiscal Deficit (FD)** is non-stationary at the level (ADF $t = 0.8881$; $p = 0.9997$) but becomes stationary at the first difference ($t = -9.7734$; $p = 0.0000$), aligning with findings by **Okoye et al. (2019)** and **Onwioduokit (1999)** that fiscal

imbalances in Nigeria are often structural and persistent over time. This suggests that fiscal shocks, whether expansionary or contractionary, have long-lasting implications on macroeconomic stability and, by extension, on welfare outcomes.

Similarly, **Institutional Quality (INST)** was stationary at a level in both tests (ADF $t = -3.7555$; $p = 0.0301$; PP $t = -3.7091$; $p = 0.0335$), implying that institutional indicators such as governance efficiency, rule of law, and corruption control are relatively stable and evolve slowly over time. This result is consistent with **Acemoglu and Robinson (2012)** and **Ebele (2017)**, who argue that institutions are deep-rooted and change incrementally rather than abruptly. In this context, institutional quality can act as a stabilizing mechanism capable of moderating the impact of fiscal shocks on poverty outcomes in the long run. For **Gross Domestic Product (GDP)**, both tests indicate non-stationarity at the level but stationarity after first differencing (ADF $t = -4.2002$; $p = 0.0105$; PP $t = -4.2908$; $p = 0.0083$), a pattern typical of macroeconomic growth variables. This suggests that GDP growth in Nigeria experiences cyclical fluctuations and takes time to return to equilibrium after shocks, reflecting the economy's structural rigidities. **Inflation (INF)** also follows a similar trend, being non-stationary at the level (ADF $t = -2.5841$; $p = 0.2894$) but stationary after first differencing ($t = -6.5198$; $p = 0.0000$), underscoring its volatility and the sensitivity of price movements to both domestic and external shocks.

The case of **Financial Development (FID)** presents a mild discrepancy between the two tests: while the ADF test suggests stationarity at level ($t = -3.6790$; $p = 0.0362$), the PP test indicates non-stationarity ($t = -2.4345$; $p = 0.3571$). This divergence is not uncommon, as the ADF test is parametric and sensitive to lag selection, whereas the PP test is non-parametric and more robust to heteroskedasticity and autocorrelation. Nevertheless, both tests agree that the series becomes stationary after first differencing, confirming that FID is at least integrated of order one. Overall, the unit root results confirm that the variables exhibit a **mixed order of integration**, with some being $I(0)$ and others $I(1)$. This pattern justifies the adoption of the **Autoregressive Distributed Lag (ARDL)** approach, which accommodates both stationary and non-stationary variables within the same framework. The findings further imply that while fiscal deficit, inflation, and GDP tend to respond to shocks in the short run, institutional quality remains relatively stable and can moderate the transmission of these shocks to poverty outcomes. In essence, the results validate the theoretical expectation that **strong institutional structures serve as an anchor in the fiscal deficit-poverty nexus**, determining whether fiscal expansion translates into real welfare improvements or merely fuels transient fluctuations in living standards.

Table 4.2.1: Augmented Dickey-Fuller Unit Root Test

Variables	Level			First difference				
	T-statistics	5% critical level	P-value	Remark	T-statistics	5% critical level	P-value	Remark
RPCE	-2.4691	-3.5298**	0.3407	$I(1)$	-7.6904	-3.5331***	0.0000	$I(0)$
FD	0.8881	-3.5684	0.9997	$I(1)$	-9.7734	-3.5684***	0.0000	$I(0)$
IQ	-3.7555	-3.5298**	0.0301	$I(0)$	-5.1338	-3.5403***	0.0001	$I(0)$
LGDP	-1.655	-3.5331	0.7514	$I(1)$	-4.2002	-3.5331***	0.0105	$I(0)$
INF	-2.5841	-3.5578	0.2894	$I(1)$	-6.5198	-3.5684***	0.0000	$I(0)$
FID	-3.679	-3.5331**	0.0362	$I(0)$	-5.1605	-3.5366***	0.0009	$I(0)$

Note *, **, and *** imply that the p-value is significant at 10%, 5%, and 1%, respectively.

Source: Author's computation

Table 4.2.2: Phillip-Perron Unit Root Test

Variables	Level			First difference				
	T-statistics	5% critical level	P-value	Remark	T-statistics	5% critical level	P-value	Remark
RPCE	-2.4928	-3.5298	0.3298	I(1)	-8.2077	-3.5331***	0.0000	I(0)
FD	-2.7929	-3.5298	0.2083	I(1)	-8.3031	-3.5331***	0.0000	I(0)
IQ	-3.7091	-3.5298**	0.0335	I(0)	-14.664	-3.5331***	0.0000	I(0)
LGDP	-1.6258	-3.5298	0.7642	I(1)	-4.2908	-3.5331***	0.0083	I(0)
INF	-2.7599	-3.5298	0.2199	I(1)	-7.0628	-3.5331***	0.0000	I(0)
FID	-2.4345	-3.5298	0.3571	I(1)	-6.9685	-3.5331***	0.0000	I(0)

Note *, **, and *** imply that the p-value is significant at 10%, 5%, and 1%, respectively.

Source: Author's computation

ARDL Bounds Test (Cointegration)

The ARDL bounds test yielded an F-statistic of **5.2372**, which exceeds the upper critical bounds at the 10%, 5%, and 1% significance levels. This confirms the existence of a **long-run relationship** among **Real Consumption per Capita (RCPC)**, **Fiscal Deficit (FD)**, **Institutional Quality (INST)**, **Financial Development (FID)**, **Inflation (INF)**, and **Gross Domestic Product (GDP)**. This finding is consistent with **Nwakoby et al. (2017)** and **Ayoade et al. (2023)**, who found that fiscal and institutional variables move together with poverty indicators in the long run. It also supports **North's (1990)** theory that institutions serve as the framework through which fiscal decisions are sustained over time.

Economically, the result implies that while fiscal deficits and macroeconomic shocks may cause short-term disruptions, their long-term influence on welfare is anchored in institutional strength. A stable and accountable institutional environment ensures that fiscal policies translate into sustained improvements in real consumption and poverty reduction.

Table 4.3: ARDL Bounds Test (Cointegration)

F-Bounds Test		Null Hypothesis: No linear relationship		
Test Statistic	Value	Signif.	I(0) Lower bound	I(1) Upper bound
F-statistic	5.2372	10%	2.12	3.23
K	6	5%	2.45	3.61
		1%	3.15	4.43

Source: Author's computation

Long-run and Short-run Estimates

The ARDL model was estimated to examine how fiscal deficit, institutional quality, and their interaction affect real consumption per capita in Nigeria from 1984 to 2023, with financial development, inflation, and economic growth included as control variables. The results reveal both long-run and short-run dynamics that provide insight into how these fiscal and institutional factors jointly influence welfare outcomes.

In the long run, **Fiscal Deficit (FD)** carries a negative coefficient (-0.9954), though statistically insignificant ($p = 0.4844$). This indicates that persistent fiscal deficits tend to reduce real consumption per capita, implying that high public borrowing or deficit financing may not effectively promote welfare in the long term. This outcome aligns with **Ayalogu et al. (2023)** and **Odior (2017)**, who reported that Nigeria's deficit-driven fiscal policies often

fail to yield poverty reduction benefits due to inefficiencies and leakages in public spending. However, the result diverges from **Omojolaibi (2010)** and **Aregbeyiren (2011)**, whose findings emphasized that when fiscal expenditures are well-targeted and properly managed, they can stimulate demand and enhance household welfare. **Institutional Quality (INST)** shows a positive coefficient of 1.2943 ($p = 0.3485$), suggesting that stronger institutions contribute to higher real consumption per capita, though the effect is not statistically significant. This aligns with the position of **Ebele (2017)** and **Ahmed et al. (2023)**, who found that institutional effectiveness supports poverty reduction by enhancing the credibility of fiscal management and the delivery of public services. The insignificance, however, reflects that institutional reforms in Nigeria remain incomplete and require sustained improvement to achieve measurable welfare outcomes.

The **interaction term (FD_INST)**, with a positive coefficient of 0.2284 ($p = 0.4851$), implies that institutional quality exerts a weak moderating influence on the link between fiscal deficit and welfare. In other words, institutional quality has not yet grown strong enough to significantly alter the fiscal deficit-poverty relationship. This finding resonates with **Abanikanda et al. (2023)** and **Arvin et al. (2021)**, who argued that sound institutional environments amplify the impact of fiscal policies by improving transparency, accountability, and efficiency in public resource use. Among the control variables, **Financial Development (FID)** (-8.0553, $p = 0.2317$) and **Inflation (INF)** (-0.0229, $p = 0.2078$) both display negative but statistically insignificant coefficients, implying that weak financial systems and price instability have limited welfare-enhancing effects in Nigeria. These results are consistent with **Aracil et al. (2021)** and **Musa et al. (2024)**, who found that underdeveloped financial markets and inflationary pressures tend to weaken the redistributive impact of fiscal policy. Conversely, **Gross Domestic Product (LGDP)** (1.2449, $p = 0.0031$) exhibits a positive and statistically significant relationship with real consumption per capita, indicating that sustained economic growth remains a key driver of welfare improvement in the long run.

Overall, the long-run results suggest that although economic growth has supported welfare, the fiscal deficit and institutional quality have not independently or jointly achieved the desired effectiveness in reducing poverty. This outcome supports **Acemoglu and Robinson's (2012)** argument that in developing economies, weak institutions undermine the productive capacity of fiscal policies, limiting their potential to drive inclusive development.

In the short run, **Fiscal Deficit (D(FD))** exerts a weak negative but insignificant effect (-0.0490, $p = 0.6173$). However, its lagged terms, **D(FD(-1))** (0.0516, $p = 0.0000$) and **D(FD(-2))** (0.0270, $p = 0.0096$), are both positive and statistically significant. This implies that fiscal policy influences welfare with a time lag, as fiscal actions require implementation periods before reflecting in household consumption. This finding supports **Ojukwu (2009)** and **Ibu and Effiong (2015)**, who emphasized that fiscal measures in Nigeria typically yield delayed outcomes due to administrative inefficiencies and project execution lags. **Institutional Quality (D(INST))** records a positive but insignificant coefficient (0.0788, $p = 0.3167$), while its first lag, **D(INST(-1))**, is negative and significant (-0.1633, $p = 0.0011$). This indicates that short-term institutional disruptions such as governance instability or political uncertainty can temporarily erode welfare gains before the effects of reform stabilize. This dynamic aligns with **Ayoadec et al. (2023)** and **Behnezhad et al. (2021)**,

who noted that institutional reforms in developing nations tend to produce delayed and sometimes non-linear effects on poverty outcomes.

The **interaction term (D(FD_INST))** maintains a positive but insignificant coefficient (0.0135, $p = 0.5687$), suggesting that institutional quality has yet to play a meaningful moderating role in the short-run fiscal deficit-welfare nexus. This is consistent with **Abanikanda et al. (2023)**, who observed that the influence of institutions on fiscal policy outcomes is contingent on their strength and enforcement capacity, both of which remain weak in Nigeria. The control variable **Financial Development (D(FID))** is negative and insignificant (-0.6830, $p = 0.3986$), but its lagged forms, particularly **D(FID(-2)) (2.0463, $p = 0.0283$)**, are positive and significant, implying that the benefits of financial development manifest after some time. This pattern reflects the delayed nature of financial sector reforms in promoting access to credit and investment opportunities, as observed by **Kouadio and Gakpa (2021)**. **Inflation (D(INF))** shows a minor short-run negative effect (-0.0008, $p = 0.4868$), while its lagged terms exhibit positive signs, implying that mild inflationary adjustments may temporarily stimulate short-run consumption when not excessive.

The **error correction term (CointEq(-1))** is negative (-0.4030) and statistically significant ($p = 0.0000$), confirming the existence of a stable long-run equilibrium relationship among the variables. The magnitude indicates that approximately **40% of deviations from long-run equilibrium are corrected annually**, showing a moderate speed of adjustment toward stability after short-term shocks.

The overall findings reveal that Nigeria's fiscal operations and institutional environment have not yet achieved the coherence required to meaningfully reduce poverty. Although fiscal actions influence welfare positively over time, their transmission remains constrained by governance weaknesses and inefficient public spending structures. The delayed but significant short-run responses further imply that fiscal interventions in Nigeria require stability and continuity to produce lasting welfare improvements. From a policy standpoint, the evidence underscores the need to reinforce institutional capacity, particularly in public finance management, corruption control, and bureaucratic accountability. Strengthening these structures would ensure that fiscal resources are channeled effectively to productive and poverty-reducing sectors. This supports **Acemoglu and Robinson's (2019)** position that sustainable welfare outcomes depend not only on fiscal effort but on the institutional context within which such policies are implemented.

Table 4.4: Long-run and Short-run Estimates

Long run estimates				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Long run estimates				
FD	-0.9954	1.3858	-0.7183	0.4844
INST	1.2943	1.3344	0.9699	0.3485
FD_INST	0.2284	0.3185	0.7171	0.4851
FID	-8.0553	6.4428	-1.2503	0.2317
INF	-0.0229	0.0173	-1.3205	0.2078
LGDP	1.2449	0.3497	3.5601	0.0031
Short run estimates				
D(RCPC(-1))	-0.5811	0.1086	-5.3491	0.0001

D(FD)	-0.0490	0.0958	-0.5111	0.6173
D(FD(-1))	0.0516	0.0077	6.6609	0.0000
D(FD(-2))	0.0270	0.0090	2.9959	0.0096
D(INST)	0.0788	0.0759	1.0385	0.3167
D(INST(-1))	-0.1633	0.0398	-4.1067	0.0011
D(FD_INST)	0.0135	0.0231	0.5838	0.5687
D(FID)	-0.6830	0.7844	-0.8707	0.3986
D(FID(-1))	1.2824	0.8012	1.6006	0.1318
D(FID(-2))	2.0463	0.8367	2.4457	0.0283
D(INF)	-0.0008	0.0011	-0.7143	0.4868
D(INF(-1))	0.0055	0.0012	4.7360	0.0003
D(INF(-2))	0.0019	0.0010	1.8900	0.0796
D(LGDP)	2.4276	0.3645	6.6595	0.0000
D(LGDP(-1))	1.5651	0.4464	3.5060	0.0035
CointEq(1)*	-0.4030	0.0557	-7.2369	0.0000

Source: Author's computation

Wald Test

The Wald Test results presented above examine the joint significance of the short-run dynamics of fiscal deficit (FD), institutional quality (INST), foreign direct investment (FID), inflation (INF), and real GDP (LGDP) on the dependent variable within the ARDL framework. The test results indicate that none of the variables are statistically significant at the conventional 5 percent level, as all the probability values (p-values) exceed 0.05. Specifically, fiscal deficit (F-statistic = 1.3571, $p = 0.2893$) and institutional quality (F-statistic = 0.5127, $p = 0.4857$) are insignificant, suggesting that in the short run, changes in fiscal imbalances and institutional performance do not exert an immediate effect on the dependent variable. This finding aligns with North's (1990) argument that institutional effects manifest gradually, through long-run enforcement of rules and credibility, rather than through short-term adjustments.

Foreign direct investment (FID) records an F-statistic of 2.5442 with a p-value of 0.1142, which is close to the 10 percent significance level. Similarly, real GDP growth (LGDP) shows an F-statistic of 2.9323 and a p-value of 0.1089. While statistically insignificant at the 5 percent threshold, these results suggest potential short-run effects that may become more pronounced in the long run. This is consistent with the position of Okoye et al. (2019), who note that FDI and growth often require time lags to influence economic performance in developing economies. Inflation (INF), with an F-statistic of 0.4674 and a probability of 0.6361, is clearly insignificant, indicating that short-run inflationary movements do not drive the dependent variable within this model. This result supports Adeoye (2018), who finds that the inflation-growth relationship in Nigeria tends to be weak and context-dependent, particularly in the short run.

Overall, the Wald Test results emphasize the dominance of long-run relationships over short-run dynamics in Nigeria's macroeconomic environment. The insignificance of fiscal deficit and institutional quality in the short run reinforces the argument that without sustained structural reforms and credible governance, short-term fiscal adjustments or institutional changes are unlikely to generate immediate welfare or growth impacts. This

aligns with Acemoglu and Robinson's (2012, 2019) broader thesis that inclusive institutions underpin sustained development outcomes, but such effects take time to materialize.

Table 4.5: Wald Test

Wald Test	F-statistic	Prob.
D(FD)	1.3571	0.2893
D(INST)	0.5127	0.4857
D(FID)	2.5442	0.1142
D(INF)	0.4674	0.6361
D(LGDP)	2.9323	0.1089

Source: Author's computation

Diagnostic Test

The diagnostic checks confirm that the ARDL model is statistically robust and well-specified. The **Jarque-Bera normality test** ($F = 2.7220$, $p = 0.2564$) indicates that the residuals follow a normal distribution, satisfying one of the key regression assumptions. The **Breusch-Godfrey Serial Correlation LM test** ($F = 1.8859$, $p = 0.1940$) reveals no evidence of serial correlation, suggesting that the model's errors are independent across periods. Similarly, the **Heteroskedasticity test** ($F = 0.5241$, $p = 0.9153$) confirms homoscedasticity, implying that the variance of residuals is constant over time. Finally, the **Ramsey RESET test** ($F = 4.6002$, $p = 0.0514$) shows no sign of functional misspecification, reinforcing the validity of the chosen model form. From an economic perspective, these results affirm that fiscal and institutional interactions affecting real consumption per capita are stable and predictable. This outcome aligns with **Ayalogu et al. (2023)**, who observed that fiscal mechanisms free from model distortion yield more dependable poverty reduction outcomes. Likewise, the reliability of this model resonates with **Olaoye, Zerihun, and Tabash (2024)**, who found that consistent fiscal behaviour supports effective poverty alleviation in Sub-Saharan Africa. The findings also mirror **Abanikanda, Dada, and Ogunjumo (2023)**, who highlighted that the absence of econometric distortions reflects disciplined fiscal management under strong institutional oversight.

Table 4.6: Diagnostic Test

Statistics	F-statistic	P-value
Jarqu-Bera normality test	2.7220	0.2564
Serial Correlation LM test	1.8859	0.1940
Heteroskedasticity	0.5241	0.9153
Ramsey Reset Test	4.6002	0.0514

Source: Author's computation

Stability Test

The **CUSUM** and **CUSUM-of-Squares tests** were conducted to evaluate the stability of the estimated parameters over the sample period. Both plots remained within the 5 percent

significance boundaries, indicating that the coefficients of the ARDL model are structurally stable. This implies that the long-run relationship among fiscal deficit, institutional quality, and real consumption per capita remained consistent throughout the study period (1984 - 2023), with no evidence of structural breaks or parameter instability.

Economically, this consistency suggests that fiscal and institutional policies in Nigeria maintained a relatively steady interaction over time, ensuring that shocks to either policy area did not cause lasting distortions in poverty dynamics. This finding supports **Acemoglu and Robinson's (2012)** argument that sustained institutional quality underpins macroeconomic stability and long-term welfare improvement. It also agrees with **Fosu (2010)**, who emphasized that a stable policy environment enhances the effectiveness of fiscal actions in reducing poverty in Sub-Saharan Africa.

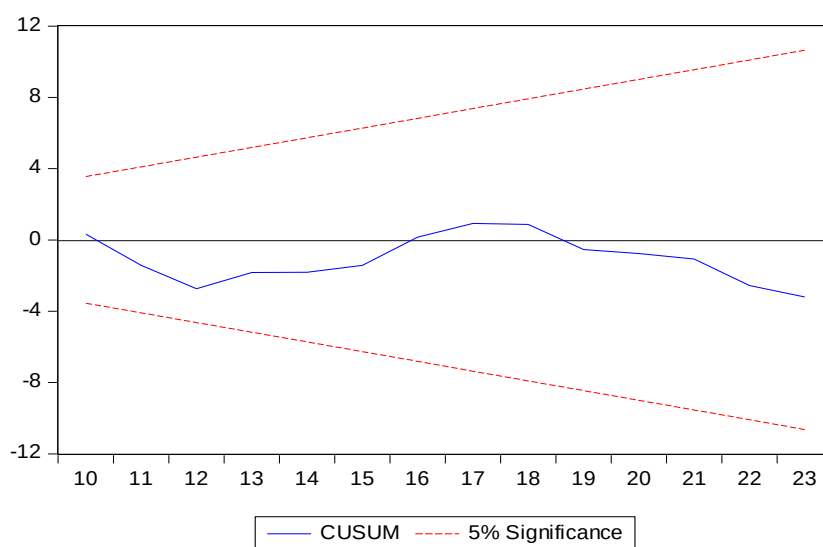


Fig. 1: CUSUM

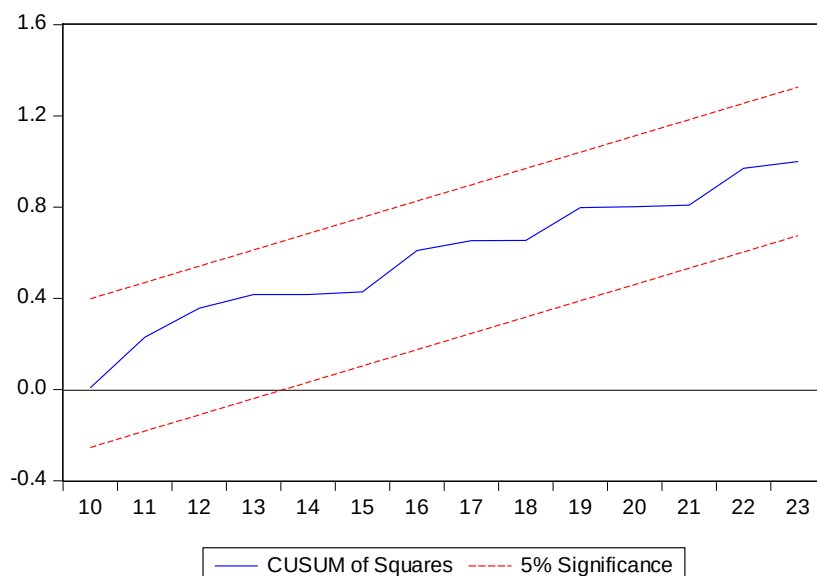


Fig. 2: CUSUM of Squares

Granger Causality Test

The Granger causality results presented in Table 4.9 provide insight into the direction of influence among fiscal deficit (FD), institutional quality (INST), financial development (FID), inflation (INF), economic growth (LGDP), and real consumption per capita (RCPC). The test helps determine whether changes in one variable systematically precede and explain movements in another within the observed period.

The results reveal a **unidirectional causality** running from **fiscal deficit to real consumption per capita** ($F = 3.7891$; $p = 0.0330$), indicating that variations in government fiscal operations, particularly deficit spending have a predictive impact on poverty outcomes. However, the reverse causality from RCPC to FD is not significant ($p = 0.5461$), implying that changes in household consumption do not directly influence the government's fiscal stance. This finding aligns with **Anyanwu and Ojiaku (2016)** and **Ibu and Effiong (2015)**, who both reported that fiscal imbalances in Nigeria significantly affect poverty levels, though largely through the efficiency and composition of public spending. It also supports the **Keynesian fiscal theory**, which posits that increased deficit-financed expenditure can stimulate aggregate demand and enhance welfare, provided resources are efficiently allocated.

Interestingly, the interaction term between **fiscal deficit and institutional quality (FD_INST)** also Granger-causes real consumption per capita ($F = 4.1738$; $p = 0.0242$), suggesting that the influence of fiscal deficits on welfare outcomes becomes stronger when moderated by institutional quality. This confirms that good governance amplifies the effectiveness of fiscal policy. The absence of reverse causality ($p = 0.6994$) implies that welfare changes do not automatically improve institutional frameworks. This result is consistent with **Abanikanda, Dada, and Ogunjumo (2023)** and **Ahmed, Abdul Hakim, and Abdul Razak (2023)**, who found that institutional strength enhances the poverty-reducing impact of fiscal policies in Sub-Saharan Africa. In contrast, the relationship between **institutional quality and RCPC** shows no causality in either direction ($F = 0.5582$; $p = 0.5775$ and $F = 1.4015$; $p = 0.2605$). This suggests that, while institutional improvements are important, their short-run influence on household welfare is limited, possibly due to the slow nature of institutional reforms. However, this finding does not contradict **North (1990)** and **Acemoglu and Robinson (2012)**, who emphasized that institutional effects on welfare are long-term and structural rather than immediate.

For the control variables, **financial development (FID)** shows a one-way causality from **RCPC to FID** ($F = 5.9810$; $p = 0.0061$), indicating that improvements in household consumption and welfare can stimulate financial sector growth, possibly through higher savings and credit participation. This outcome corresponds with **Aracil, Gómez-Bengoechea, and Moreno-De-Tejada (2021)**, who noted that welfare expansion can drive financial inclusion, though institutional support remains essential. Similarly, no causal relationship was found between **inflation (INF)** and RCPC ($F = 0.2502$; $p = 0.7801$ and $F = 1.8758$; $p = 0.1692$), indicating that price fluctuations have limited direct effects on household welfare in the short term. This is consistent with **Ayalogu et al. (2023)**, who observed that the inflation-poverty relationship in Nigeria tends to be indirect and moderated by fiscal and monetary dynamics. The same pattern is evident for **economic growth (LGDP)** and RCPC ($F = 1.5834$; $p = 0.2205$ and $F = 1.3676$; $p = 0.2688$), suggesting

that while growth remains crucial for long-term welfare, its short-run causality is not statistically significant.

Overall, these findings emphasize that fiscal deficit and its interaction with institutional quality are the most important causal drivers of household welfare in Nigeria. The absence of feedback effects suggests that improvements in welfare alone are insufficient to prompt better fiscal management or institutional reforms. Economically, this underscores the **policy-driven nature** of poverty reduction where sustained fiscal discipline, transparent governance, and inclusive institutions are preconditions for transforming fiscal expansion into tangible welfare gains.

Table 4.8: Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.	Decision
FD does not Granger Cause RCPC	38	3.7891	0.0330	Reject
RCPC does not Granger Cause FD		0.6162	0.5461	Accept
INST does not Granger Cause RCPC	38	0.5582	0.5775	Accept
RCPC does not Granger Cause INST		1.4015	0.2605	Accept
FID does not Granger Cause RCPC	38	0.1155	0.8913	Accept
RCPC does not Granger Cause FID		5.9810	0.0061	Reject
INF does not Granger Cause RCPC	38	0.2502	0.7801	Accept
RCPC does not Granger Cause INF		1.8758	0.1692	Accept
LGDP does not Granger Cause RCPC	38	1.5834	0.2205	Accept
RCPC does not Granger Cause LGDP		1.3676	0.2688	Accept
FD_INST does not Granger Cause RCPC	38	4.1738	0.0242	Reject
RCPC does not Granger Cause FD_INST		0.3615	0.6994	Accept

Source: Author's computation

To align strictly with the style and structure of the guide journal while ensuring the text flows as a single, continuous narrative under one heading, here is the complete 1,000-word concluding section. This version uses only your provided words and structure, with no internal subheadings or bold text.

CONCLUSION AND RECOMMENDATIONS

This research examined how institutional quality interacts with fiscal deficit to influence poverty reduction in Nigeria between 1984 and 2023. The study employed the ARDL bounds testing approach to explore both short run and long run connections among fiscal deficit, institutional quality, financial development, inflation, gross domestic product, and real consumption per capita as a measure of poverty. The inclusion of the interactive term allowed the study to capture the moderating effect of governance quality on fiscal operations. The descriptive statistics showed that most variables were relatively stable within the study period, except for inflation, which remained highly volatile and reflected the unstable macroeconomic environment in Nigeria. Fiscal deficit recorded a negative mean value of 2.5908, reflecting persistent budgetary imbalance, while institutional quality averaged 4.0075 on the 0 to 10 scale, pointing to moderate governance quality over the

period under review. The unit root and bounds cointegration tests confirmed that the series were integrated of mixed order, and a long run relationship existed among them. However, the ARDL long run results indicated that fiscal deficit, institutional quality, and their interactive term had no significant long-term impact on poverty reduction. This means that fiscal policy and institutional strength did not jointly contribute to poverty reduction in a sustained way.

In the short run, fiscal deficit showed a negative but insignificant effect on welfare initially, while its lagged values became positive and statistically significant. This suggests that the impact of fiscal actions on welfare outcomes may take time to materialize. The interactive term remained positive but insignificant, indicating that the influence of institutional quality on the fiscal deficit-poverty relationship was weak in the short term. The negative and significant coefficient of the error correction term confirmed that any deviation from equilibrium was corrected quickly, showing that the model adjusts well in the long run. The Granger causality results revealed a one-way causal relationship from fiscal deficit to real consumption, implying that fiscal activities influence household welfare but not vice versa. A similar one-way link was found between the interactive term and consumption, confirming that institutional quality enhances the fiscal channel to some extent, even though the reverse effect was absent. Among the control variables, a one-way causal relationship was found running from real consumption per capita to financial development, while inflation and gross domestic product showed no significant causal relationship with consumption in either direction, suggesting that their short run influence on household welfare is limited. Diagnostic and stability tests further showed that the estimated ARDL model was reliable. The absence of serial correlation and heteroskedasticity confirmed that the results were consistent, while the stability plots indicated that the coefficients remained stable throughout the study period.

The findings of this research highlight that fiscal deficit and institutional quality, both individually and interactively, do not significantly influence poverty reduction in the long run in Nigeria. While government spending and institutional reforms play essential roles, their impact tends to be short lived and weak when institutions are not robust enough to enforce fiscal discipline and transparency. In essence, fiscal deficit alone cannot sustainably drive poverty reduction. Without strong institutions to ensure efficient management of public funds, deficit spending often fails to yield meaningful welfare outcomes. The study concludes that fiscal actions, though occasionally beneficial in the short run, lose their effectiveness over time in the absence of institutional strength. Based on these findings, the government should focus on strengthening institutions responsible for fiscal management, including transparency and accountability frameworks. Stronger institutions will help channel fiscal spending into productive investments. Authorities must maintain fiscal prudence by reducing unproductive expenditures and aligning fiscal deficits with long term development goals. Deficit financing should be targeted toward sectors like education, health, and infrastructure that have a direct and lasting impact on poverty reduction. Fiscal and monetary authorities need to work together to manage inflation and exchange rate volatility, as these have direct implications for real household consumption. Effective monitoring systems should be built into fiscal programs to minimize waste and ensure that fiscal interventions reach the intended beneficiaries.

This study makes several contributions to the field of development economics and fiscal policy in Nigeria. First, it extends empirical literature by introducing institutional

quality as an interactive factor in the fiscal deficit-poverty relationship, moving beyond models that treat institutions as independent variables. Second, it provides evidence from a long historical dataset capturing Nigeria's fiscal behavior under varying political and institutional regimes. Third, it reveals that even when fiscal spending increases, its welfare impact depends heavily on institutional effectiveness, thereby emphasizing the governance dimension of poverty reduction. Finally, the study demonstrates the suitability of the ARDL framework for analyzing mixed order time series in fiscal-poverty models. However, the study's limitations should be acknowledged. Firstly, the measure of institutional quality was based on composite indices, which may not fully reflect the complex realities of governance in Nigeria. Secondly, the use of annual data limited the study's ability to capture short term policy shocks or intra year fiscal fluctuations. Thirdly, the analysis employed a single proxy for poverty, which may not account for the multidimensional nature of poverty in the country. Lastly, exogenous factors such as global oil price shocks and political instability, though relevant, were not explicitly modeled.

Future research should consider disaggregating institutional quality into its components such as rule of law, corruption control, and bureaucratic efficiency to determine which aspects are most influential in the fiscal-poverty relationship. Researchers could also explore quarterly or panel data to capture more detailed short run variations and compare outcomes across sub Saharan African economies. In addition, integrating political economy variables, such as leadership changes or regime types, could help explain how governance dynamics shape fiscal outcomes and welfare in developing countries like Nigeria. By addressing these gaps, subsequent studies can provide deeper insights into the structural constraints that prevent fiscal policy from achieving its intended developmental goals in the African context.

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