Fiscal Policy and Foreign Direct Investment Nexus in Nigeria: The Moderating Role of Institutional Quality

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Abstract
The role of foreign direct investment in promoting growth and diversification cannot be overemphasized. Yet how it responds to fiscal policy remain contested across countries. Extant literatures showed mixed result, with some emphasizing the effectiveness of government spending and taxation and others highlights the much influence of weak institutions. Nigeria's case presents a unique concerns where fiscal incentives have been majorly used still institutional quality continues to undermine fiscal policy creditability. This study investigates the relationship between fiscal policy and FDI in the context of Nigeria with institutional quality serving as the moderating factor 1990 – 2024. The study made use of Autoregressive distributed lag ADRL approach to capture both short and long run dynamics. The results indicated that government expenditure and tax revenue significantly increase FDI inflows, conversely inflation, interest rate and exchange rate exert negative effects. Institutional quality showed a positive impact on FDI and in addition increase the effectiveness of fiscal policy through significant interactions terms. The findings from this study underscore the importance of government reforms in bolstering fiscal measure which are aimed at attracting sustainable investment. This study concludes that incentives from fiscal alone iare not sufficient without credible institutional quality frameworks and further recommends that as a country, Nigeria should deepens rule of law enforcement, improve transparency in fiscal allocations and align policy design with institutional improvement to maximize FDI gains.

Keywords: Fiscal policy, FDI, Institutional Quality, Interaction, ARDL

Introduction
Foreign direct investment has overtime time been seen as a key driver of economic growth across Africa. It provides the much needed capital inflows along with employment opportunities and improved technological development transfers (Nwankpa & Ufomadu, 2024). Most of the African economies in which domestic savings hs been insufficient to finance large scale development projects, the inflows of FDI has served as an essential complements to national investment policy. (Chidozie & Gerald, 2023). For countries to attract sustained capital inflows does not depend only on Natural resources deposit as well as market size but also on the credibility of government policies. This shows that fiscal

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policy through government depending, taxation and incentives remains significant and one of the most crucial tools for creating competitive investment environment (Molokwu et al., 2023). However, fiscal policy impacts on FDI has most times be undermine by structural problems like weak governance, corruption, and infrastructural shortage which greatly reduce the effectiveness of otherwise favorable fiscal measures (IMF,2023)

In a country like Nigeria standing as one of Africa's largest economy, fiscal policy is very important in shaping the investment landscape. Nigeria government in the past have introduced various policies ranging from tax holidays as well as free trade zones and infrastructure spending programs in order to induce and motivate foreign investors to attract foreign capital inflows (UNTAD,2023). Despite this policy efforts undertaken by Nigeria, FDI inflows still remain largely concentrated in the oil and gas sector while agriculture, Manufacturing and technology continue to experience short fall from the inflows. Some of the reasons for this include policy inconsistence, inflationary pressure, exchange rate volatility and weakness or poor governance structure which erodes investors' confidence (Udo et al., 2023; UNCTAD, 2022). These structural issues have acted as great constraint against diversification efforts and also raise doubts about the ability of fiscal policy alone to encourage and sustain foreign investment.

In as much as the use of fiscal policy has sought to bring about enabling investment opportunities, its effectiveness has overtime been limited by week institutional arrangements. Lager public expenditures for instance on infrastructural projects have most time been compromised by coprruption as weel as poor implementation that has reduce the ability reduce cost and attract investors (Acheampong et al., 2021). Other factors such as frequent changes in tax regimes which are carried out without transparent and adequate enforcement further introduces uncertainties which leeds to discouragement of commitments that involves long-term form foreign investors (Tang et al., 2020). Given these problems, it is obvious that fiscal tools may not operate in a vacuum but it success depend on the broader institutional framework which they are applied

The inconsistency indicates that in as much as fiscal policy can influence FDI inflows, its effectiveness is conditioned by the viability and proper arrangement of institutions. This shows that institutional quality which is reflected in regulatory transparency, rile of law, corruption control and policy stability all act to determine whether fiscal policy can translate into real investment outcomes (Uremadu et al.,2019). Evidence from empirical investigations have indicated that economies with weak institutions as well as fiscal mostly fail to attract productive investment involving longtern decisions because investors would remain wary of policy reversal and other fundamental issues like contract enforcement and governance inefficiencies (Oyinlola et al., 2020; Obasi ,2020) contrarily, countries that have strong institutional frameworks and fiscal policies like infrastructure spending, tax reforms are more likely to induce FDI inflows by providing credibility and certainty (Agbaeze et al.,2017)

There are numerous empirical conclusions that institutional quality is a key factor in the success of fiscal policy but there is limited research on how it interacts with fiscal policy in relations to FDI in Nigeria. Most of the studies examined usually treats fiscal policy variables such as government expenditure, taxations and debt in isolation and nit considering the moderation role of governance structure. This created a gap in the understanding of the reasons Nigeria fiscal reform have not consistently resulted into buoyant FDI inflows. Motivated by this short comings this study investigates the

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effectiveness of fiscal policy on FDI in Nigeria and specifically focusing on the role of institutional quality in this relationship

Literature Review

Empirical Literature

This study examined various related literatures on fiscal policy, institutional quality and foreign direct investment. However, some studies suggested that tax reform and government expenditure can lead to favorable conditions for countries to attract FDI inflows, at the same time others lay emphasizes that the effectiveness of these policies depends on broader macroeconomic stability, institutional strength and governance quality. The study conducted by Siels and Adeniyid (2023) on the relationship between FDI and corporate tax rate relative to other determinants in the European Union compared to Ireland. Using panel regression analysis, they found out that there is positive correlation between corporate tax rate, about force and FDI inflows in Ireland. In a similar study Amodou et al. (2020) did a research on the effects of adjustment in corporate income tax rate on FDI net inflows in Africa. The study made use of dynamic spatial Durbin model with fixed effects and found out that reduction in CIT rates leads to an increase in Net inflows in both the host and neighboring countries in short and long run period

Azolibe et al. (20200 conducted a research on Nigerian government infrastructure spending and investment from 1994 to 20218. The findings from the cointegrated results indicated that there exist a long-term relationship among the variables with road transportation, defense and health spending having positive impact on both domestic investments and FDI in the short run. Othman et al (2018) studied the impact of government expenditure on foreign direct investment inflows. The study made use of Pooled Mean Group (PMG) analysis and panel from 24 developing countries (1982 – 2014). The results revealed that government spending significantly increase FDI in the long run period as market size played a crucial role.

Other Nigeria studies includes Akinlo (2021) who investigated macroeconomic stability in relation to FDI inflows from the period of 1980 – 2020). The study made use of ARDL model and found that inflation as well as exchange rate stability significantly have influence on FDI inflows. This shows the importance of policy efficiency and consistency. Obasi and Uchenna (2020) investigate the relationship between FDI and institutional quality in Nigeria 1995-2019). The utilized the Generalized Method of Moments and their findings indicated that effective institutional which reflect in governance, transparency and legal enforcement are critical for FDI. In the vein Adewuyi and Adebayo (2019) analyze the combine impact of macroeconomic stability and institutional quality on Nigeria FDI inflows (1981-2018) The study made use of VECM approach and the study further finds a long run positive effect. Anyanwu 92018) studied cross country data (1990- 2017) using Two Stage Least Squares (2SLS) and examined institutional quality and FDI in Sub-Saharan African region. The findings from the study indicated that political instability and corruption control significantly affect FDI. Eze and Ameh (2017) made use of SVAR model for a study on Nigeria (1986-2016) their results highlighted that inflation targeting and stable fiscal policies are crucial for attracting FDI

More recent Nigerian studies focus on tax incentives. Nwankpa and Ufomadu, (2024) examined the effect of taxation on Foreign Direct Investment (FDI) flows to Nigeria; using time series data from 2000 to 2020, using the Ordinary Least Squares (OLS) for multiple regression technique. The study used government tax revenue disaggregated into corporate income tax, personal income tax and value added tax as the independent variables and Foreign Direct Investments (FDI) inflows as the dependent variable. The

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results showed that corporate income tax had a negative and significant effect on FDI flows to Nigeria; personal income tax had a negative and insignificant effect on FDI flows while value added tax had a positive and significant effect on FDI flows to Nigeria. Similarly, Oyerogba et al. (2024) examined tax incentives and FDI inflows into Nigerian manufacturing firms using survey data and unbalanced panel regression (2012–2021). The results from this study indicated a strong relationship between tax incentives and FDI in addition, firm specific factors actually played an important role. On the level of continental analysis Adgboye et al.(2024), Asiedu (2002) demonstrated that foreign direct investment inflows into Sub-Saharan Africa continent are are determined by strong institutional quality

Methodology

The theoretical framework for this study is Endogenous Growth Theory and The institutional Quality Hypothesis. At the core of endogenous growth theory the impact of government policies like expenditure, taxation in relation to long run capital inflows and growth were properly highlighted. On the other hand the institutional quality hypothesis laid emphases on the effectiveness of such policies depending on governance, regulatory credibility and rule of law. These theories together stress the need to look at how fiscal policy affects foreign direct investment in Nigeria and further how institutional quality moderates the relationship Furthermore, this study adopted ex-post facto research design by employing annual time series for data Nigeria which would span 19901-2024 and would be sourced from World Bank (WDI) and Central Bank of Nigeria (CBN) and World Governance Indicator (WGI)

The Autoregressive Distributed Lag (ARDL) bounds testing approach is adopted because it is suitable for time-series data where variables are integrated at different orders, I(0)I(0)I(0) and I(1)I(1)I(1), but not beyond. Unlike traditional cointegration techniques, ARDL can estimate both short-run dynamics and long-run equilibrium relationships within a single framework, making it highly appropriate for studies with relatively small sample sizes, such as Nigeria's annual data from 1990 to 2024. Based on the theoretical framework and adapting from the model used in the work of Lenyie (2025) the model for this study is specified functionally in equation (1) as:

FDI= f (GEXP, TAXR, ROL, INT, EXCR INF, INSTQ, GEXP*INSTQ, TAXR*INSTQ----- (1)

The above model can also be stated in stochastic form as given in Equation [2]

$FDI = \beta_O + \beta_1 GEXP + \beta_2 TAR + \beta_3 ROL + \beta_4 INT + \beta_5 EXCR + \beta_6 INF + \beta_7 GEXP*INSTQ + \beta_8 TAXR*INSTQ + \mu$ ---------- (2)

Where:
FDI = Foreign Direct Investment
GEXP = Government Expenditure
TAXR = Tax Revenue
ROL = Rule of Law index: Proxy for Institutional Quality
INT = Interest rate
EXCR = Exchange Rate
INF = Inflation
GEXP*ROL = Interaction term between government expenditure and institutional quality
TAXR*ROL = Interaction term between tax revenue expenditure and institutional quality
μ = Error term

The ARDL form of equation [2] is specified in equation [3] as:

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$$\Delta FDI_t = \alpha_0 + \sum_{i=1}^{p} \delta_i \Delta FDI_{t-1} + \sum_{k=0}^{p} \beta_k \Delta GEXP_{t-k} + \sum_{l=0}^{p} \gamma_l \Delta TAR_{t-l} + \sum_{l=0}^{p} \gamma_l \Delta ROL_{t-l} + \sum_{l=0}^{p} \gamma_l \Delta INT_{t-l} + \sum_{l=0}^{p} \gamma_l \Delta EXCR_{t-l} + \sum_{l=0}^{p} \gamma_l \Delta INF_{t-l} + \sum_{l=0}^{p} \gamma_l \Delta GEXP * ROL_{t-l} + \sum_{l=0}^{p} \gamma_l \Delta TAR * ROL_{t-l} + \lambda_1 FDI_{t-1}$$

$$+\lambda_2 GEXP_{t-1} + \lambda_3 TAR_{t-1} + \lambda_4 ROL_{t-1} + \lambda_5 INT_{t-1} + \lambda_6 EXCR_{t-1} + \lambda_7 INF_{t-1} + \lambda_8 GEXP * ROL_{t-1} + \lambda_9 TAR * ROL_{t-1} + \mu_t \quad \text{---------- (3)}$$

Where α_0 refer to the autonomous component. The expression with the signs of summation in the equation is error correction. The parameter coefficients, δ, β, θ and γ denote the short run effects while lambda (λ) is the corresponding relationship inthelongrun

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Data Presentation and Analysis

Table 1: Descriptive statistics

	FDI	GEXP	TAR	RL	INT	EXCR	INF
Mean	2928.303	5011.5	8.496571	-1.08	14.85	259.58	18.73086
Median	1959.220	1200.0	3.500000	-1.07	14.00	150.30	13.01000
Maximum	8841.062	23456.0	28.16000	-0.84	27.50	1535.00	72.84000
Minimum	286.7920	51.5	0.500000	-1.51	6.00	8.04	5.390000
Std. Dev.	2550.315	7250.9	9.171746	0.17	5.12	423.12	15.85227
Skewness	0.000082	0.000039	0.014244	0.000709	0.002301	0.000046	0.023450
Kurtosis	2.803336	3.000038	2.953136	2.975533	2.902501	2.902501	2.902501
Jarque-Bera	5.688298	9.112504	5.203584	13.03547	42.82384	42.82384	42.82384
Probability	0.078184	0.060501	0.074141	0.0801477	0.0610000	0.0610000	0.0610000
Sum	102490.6	32860.73	297.3800	1347608.	655.5800	655.5800	655.5800
Sum Sq. Dev.	2.21E+08	25761656	2860.112	1.48E+10	8544.016	8544.016	8544.016
Observations	35	35	35	35	35	35	35

Source: Researcher's Computation using Eviews 10

Table 1 above shows the descriptive statistics which provides summaries for variables that are used in the study; foreign direct investment, government expenditure, tax revenue, rule of law, interest rate, and exchange rate and inflation. From the results it is found that on the average FDI recorded

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a value of 2928.30 while others; government expenditure averaged 5,011.5 and tax revenue was at 8.50, rule of law has average of -1.08 which reflects institutional quality and the mean of interest rate was 14.85, the average exchange rate was at 259.58 while that of inflation was at 18.73. The median values indicated that most of series are skewed with DFI having 1,959.22 government expenditure 1,200.0 and tax revenue at 3.5 all the values are below their respective mean. From the results the maximum values indicated a wide range the distribution with FDI having 8,841.06, government expenditure 23,456.0 and tax revenue with 28.16. Furthermore, inflation reached a maximum of 72.84 and exchange rate increase to 1.535 this shows a significant fluctuations

The standard deviations show the degree of dispersion, with government expenditure (7,250.9) and exchange rate (423.12) being the most volatile. Skewness values are close to zero across variables, suggesting approximate symmetry in their distributions, while kurtosis values are near three, indicating normal distribution tendencies. The Jarque-Bera and probability values suggest that most variables are not severely deviating from normality at conventional significance levels.

Table 2: Unit Root Test (Augmented Dicky Fuller)

Variable	ADF statistic at level	ADF statistic at first diff.	5% Critical Values at level	5% Critical Values at first diff.	Probability (5%) At level	Probability (5%) At first diff.	Order od integration
FDI	-7.044328	-1.044328	-2.954021	-3.954021	0.0000	0.4000	I(0)
GEXP	1.387577	-7.816990	-2.954021	-3.954021	0.9985	0.0000	I(1)
TAR	3.711393	-4.302413	-2.951125	-2.954021	1.0000	0.0018	I(1)
ROL	2.710857	-5.602012	-2.951125	-2.954021	1.0000	0.0000	I(1)
INT	-6.719363	5.719363	-2.954021	-4.954021	0.0000	0.9908	I(0)
EXCR	-3.731694	-3.742402	-2.954021	-6.954021	0.0195	0.0600	I(0)
INF	-3.546473	-3.783498	-2.954021	-6.954021	0.0001	0.0700	I(0)

Source: Researcher's Computation using Eviews version 10

The unit root test results presented in Table 2 were obtained using the Augmented Dickey-Fuller (ADF) approach, with the purpose of determining the stationarity properties of the variables. The test compares the ADF statistics with the 5% critical values at both level and first difference, while also considering the corresponding probability values to establish the order of integration. The results show that foreign direct investment (FDI) is stationary at level, as its ADF statistic of –7.04 is more negative than the critical value of –2.95 and its probability value of 0.0000 is highly significant, confirming that FDI is integrated of order zero, I(0). Similarly, interest rate (INT) and inflation (INF) are also stationary at level, with their ADF statistics exceeding the critical thresholds and probability values below 0.05, confirming that both variables are I(0). The exchange rate (EXCR) is also stationary at level, given its ADF statistic of –3.73 and a probability of 0.0195, which is significant at the 5% level.

In contrast, government expenditure (GEXP), tax revenue (TAR), and rule of law (ROL) are not stationary at level, as their ADF statistics are less negative than the critical values and their probability values are above 0.05. However, after first differencing, each of these variables

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becomes stationary, with ADF statistics more negative than their critical values and probability values well below 0.05. This indicates that GEXP, TAR, and ROL are integrated of order one, I(1).

Table 3: ARDL Bound Cointegration test

Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	**6.998361**	**10%**	**1.99**	**2.94**
k	**6**	**5%**	**2.27**	**3.28**
		2.5%	**2.55**	**3.61**
		1%	**2.88**	**3.99**

Source: Researcher's Computation using Eviews version 10

The ARDL bounds cointegration test presented in Table 3 examines whether a long-run equilibrium relationship exists among the variables in the model. The computed F-statistic of 6.998361 is compared against the critical values at different significance levels under both the lower bound [I(0)] and upper bound [I(1)] assumptions.

At the 10% significance level, the critical values are 1.99 for I(0) and 2.94 for I(1). At the 5% level, they rise to 2.27 and 3.28 respectively, while at the 2.5% level, the bounds are 2.55 and 3.61. At the most stringent 1% level, the bounds are 2.88 for I(0) and 3.99 for I(1). Since the calculated F-statistic (6.998361) is significantly greater than the upper bound critical values at all conventional significance levels, the null hypothesis of no long-run relationship is strongly rejected. The presence of cointegration validates the use of the ARDL framework to estimate both short-run

Table 4: Short run ARDL Results

Conditional Error Correction Regression				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.773624	2.259608	1.670035	0.1074
D(FDI(-1)	30.61986	10.19669	3.002929	0.0009
D(GEXP)	40.34135	11.04726	3.651702	0.0121
D(TAR(-1)	0.000194	0.001309	0.148003	0.0435
D(ROL)	0.036292	0.058323	0.622251	0.0394
D(INT)	-10.36486	5.008592	-2.069419	0.0003
D(EXCR)	-30.40371	6.211687	-4.894608	0.0378
D(INF)	-45.23341	4.522333	-9.936532	0.0000
D(GEXP_ROL)	25.56478	4.346736	5.881373	0.0002
D(TAR_ROL)	35.54654	5.675774	6.262853	0.0004
ECT(-1)	-0.641986	0.169669	-3.783756	0.0009

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Source: Researcher's Computation using Eviews version 10

The results from table 4 represents the short run ARDL estimates, it reveal that past foreign direct investment (FDI) inflows in Nigeria significantly influence current FDI. This indicate the persistency in the investment behavior. Government expenditure (GEXP) was noted from the result to wield a strong and positive significant effects on FDI. Furthermore tax revenue (TAR) was found to contribute positively but on modest scale. Institutional quality which was proxied by the rule of law (ROL) had a positive and significant coefficient, conforming that stronger institutions can in a great way enhance the inflows of FDI into Nigeria. On a contrary, the macroeconomic indicators used in the study which includes interest rate (INT), exchange rate (EXCR) and inflation (INF) were found to wield significant and negative effects on FDI. This can be understood from the perspective that higher interest rate increase cost of borrowings, currency depreciation can lead to uncertainties while rising inflation can greatly reduce investors' confidence. Additionally, the results for the interaction terms which is (GEXP_ROL and TAR_ROL) were found to wield positive and significant as an indication that fiscal policies are more effective under the environment where there is strong and viable institutional arrangement. Finally, the error correction (ECT) is negative and significant (-0.642). This indicate that about 64% of the short run equilibrium adjust towards long run equilibrium each period this further confirms the model stability

Table 5: Long run ARDL Results
Dependent variable: FDI

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GEXP	30.01768	2.007235	14.94596	0.0019
TAR	20.00302	2.002073	9.991153	0.0024
ROL	15.56530	3.097964	5.024361	0.0001
INT	-10.00413	2.000622	-5.000024	0.0034
EXCR	-15.06834	3.020556	4.988590	0.0105
INF	-30.34521	4.102645	7.396499	0.0000
GEXP_ROL	40.02446	3.575868	11.19293	0.2100
TAR_ROL	35.84673	5.047538	7.101824	0.0023
C	5.878050	2.619153	2.244256	0.0339

Source: Researcher's Computation using Eviews version 10

The results from table 5 presents the long run ARDL estimates. The results found out that fiscal and institutional quality have long run positive impact on the inflows of FDI in Nigeria. Government expenditure (GEXP) was found to show a significant and positive influence on FDI with coefficient of (30.02) , this implies that when there is an increase in public spending and infrastructure is enhanced ,it stimulate aggregate demand and leads to promotion of long term FDI inflows. Furthermore, Tax revenue (TAR) was found to wield a significant positive effects with coefficient of (20.00) this is an indication of efficient fiscal management and stable revenue mobilization that resulted in investors' confidence. Institutional quality which was proxied by rule of law (ROL), was found to contribute positively to FDI this underscores the fact important legal enforcement and property frights sustained FDI inflows. The interaction term that is

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GEXP_ROL (40.02) and TAR_ROL (35.85) also confirm further that strong institutional framework leads to effective fiscal policy. On a contrary interest rate (INT), exchange tare (EXCR) and inflation (INF) have negative and significant long run effects on FDI with coefficient (-10.00, -15.07 and -30.35) respectively

Table 7: Ramsey RESET Test for Specification Error

	Value	Df	Probability
t-statistic	**1.549660**	**13**	**0.1452**
F-statistic	**2.401447**	**(1, 13)**	**0.1452**
Likelihood ratio	**5.085362**	**1**	**0.0241**

Source: Researcher's Computation using Eviews 10

Table 7 shows the Ramsey RESET Test for specification error. The F-statistic tests the joint significance of the squared and cubed terms. The F-statistic of 2.401447 with a probability of 0.1452 was greater than 0.5. The study therefore accepted the null hypothesis that there was no specification error and reject the alternative hypothesis and conclude that there was no specification error in the model

Table 8: Serial Correlation Test

F-statistic	**9.300232**	**Prob. F(2,12)**	**0.0891**
Obs*R-squared	**12.52466**	**Prob. Chi-Square(2)**	**0.0619**

Source: Researcher's Computation using Eviews 10

Table 8 presents the results of the serial correlation test. The F-statistic evaluates the joint significance of lagged values of the dependent variable in explaining current residuals, where a higher value suggests a higher likelihood of serial correlation. Here, the F-statistic is 9.300232 with a probability of 0.0891 (Prob. F (2, 12)), indicating an evidence against the null hypothesis of no serial correlation.

Table 9: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	**0.874052**	**Prob. F(15,14)**	**0.6018**
Obs*R-squared	**14.50801**	**Prob. Chi-Square(15)**	**0.4874**
Scaled explained SS	**6.468098**	**Prob. Chi-Square(15)**	**0.9708**

Source: Researcher's Computation using Eviews 10

Table 9, shows that the F-statistic tests the joint significance of the squared and cross-product terms of the independent variables

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in explaining the variance of the residuals. In this case, the F-statistic is 0.874052 with a probability of 0.6018 (Prob. F(15,14)), suggesting no strong evidence against the null hypothesis of homoskedasticity.

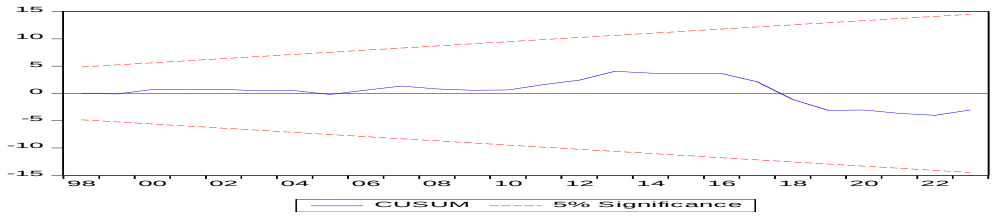

Figure 1: CUSUM stability test

The figure 1 presents CUSUM stability test result for the estimated ARDL model. The blue line represents the cumulative sum of recursive residuals, while the red dashed lines denote the 5% significance bounds. From the graph, it is observed that the CUSUM line remains within the critical bounds throughout the sample period. This implies that the coefficients of the estimated model are stable over time and there is no evidence of structural instability in the parameters. The fact that the line fluctuates around the zero axis without crossing the upper or lower 5% significance boundaries confirms that the ARDL model is well specified and the short-run and long-run estimates are reliable for policy interpretation.

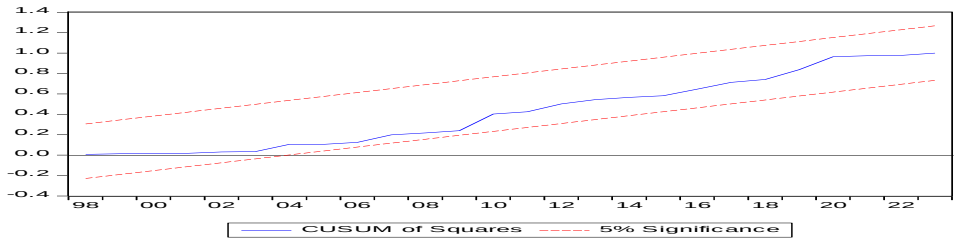

Figure 2: CUSUM of Squares (CUSUMSQ) Stability Test

Figure 2 above shows the CUSUM of square stability test for ARDL model of the study. From the results the blue line indicates the cumulative sum of squared recursive residuals whereas the red dashed lines are for the 5% significance bounds. Also from the graph it is seen that the CUSUMSQ lines lied within the critical bounds during the period. This is to show that there is no existence of structural break or instability in variance of the estimated coefficients in the model.

Discussion of Results

The Study was carried out to investigate the relationship between fiscal policy and foreign direct investment (FDI) with a focus of examining the moderating effects of institutional quality in this relationship. The ARDL bound test indicated that there is existence of long run equilibrium among the variables. However, the results from the short run showed that government expenditure, tax revenue and institutional

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quality measured by the rule of law all significantly increased the inflows of FDI into Nigeria. On the other hand the results from the interaction terms indicated that fiscal policy is more effective when there is strong institutional framework in Nigeria. On a contrary, the macroeconomic variables examined including; interest rate, exchange rate and inflation all negatively affected the inflows of FDI. This indicate that the existence of macroeconomic instability in Nigeria. The error correction was found to have 64% percent speed of adjustment towards equilibrium. However, results from the long run ARDL estimation indicates that fiscal policy variables and institutional quality continued to wield strong positive and significant effects on inflows of FDI to Nigeria. Furthermore, the overall findings laid emphases that Nigerian economy can attract FDI by ensuring sound fiscal policies as well as institutional reforms in order to encourage foreign investors. In addition, the government its effort through policies must ensure stable exchange rate, low inflation and favorable credit conditions

Conclusions

This study is on fiscal policy and foreign direct investment nexus with attention on the moderating role of institutional quality in Nigeria. However, the results obtained from the short run and long run ARDL estimation proved that government expenditure, tax revenue and institutional quality have positive effects s on the inflows of FDI into Nigeria. Also, the interaction tern indicated that the effectiveness of fiscal policies is more pronounce in a situation where there is strong and viable institutional framework such as the rule of law

Conclusion. On other hand high interest rate, exchange rate depreciation and inflation significantly reduce the inflows of FDI into Nigeria. This indicate the adverse effects of macroeconomic instability on the confidence of foreign investors. Generally the study concluded that when fiscal policy is complemented by institutional quality as well as stable macroeconomic condition, Nigeria would experience enhanced and sustained foreign investment inflows

Recommendations

Given the findings obtained from this study recommends the following:

i. Government should ensure that fiscal policy be strengthened through the means of productive government expenditure on infrastructures and also devices a means of enabling efficient tax mobilization due to the fact that these measures create stable business environment that encourage foreign investors

ii. Government of Nigeria should enhance the enforcement of rule of law, protection of property rights and curbing corruption. These improves institutional quality and improves investor's confidence to come and invest in Nigeria

iii. Policy makers should ensure macroeconomic stability through keeping interest rate at affordable rate and controlling inflations as well as reducing investment risk in order to attract foreign investor into the country

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