Does Political Stability Matter for Long-Run Growth in Nigeria?

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Abstract
This study examines whether political stability influences long-run economic growth in Nigeria using annual time-series data covering the period 1996–2024. The analysis employs an Autoregressive Distributed Lag (ARDL) framework that allows for mixed orders of integration and explicitly accounts for structural breaks associated with major political and security developments. Unit root tests with and without structural breaks indicate that the variables are either stationary in levels or become stationary after first differencing, satisfying the requirements for ARDL estimation. The bounds testing approach confirms the existence of a stable long-run relationship between political stability and economic growth when break dummies are incorporated into the model.The long-run estimates show that political stability has a positive and statistically significant effect on economic growth in Nigeria, although the magnitude of the effect is moderate, reflecting the indirect and institutional nature of the stability–growth channel. Short-run dynamics from the error-correction model indicate gradual adjustment towards long-run equilibrium, with deviations corrected over time rather than immediately. Structural breaks are found to exert persistent level effects on output, which shows the economic consequences of major political and security shocks. Finally, the findings suggest that political stability acts as an important long-run conditioning factor for growth in Nigeria, with implications for governance, policy credibility, and sustained economic performance.
Keywords: Political stability; Economic growth; Institutions; ARDL bounds testing; Structural breaks; Nigeria

1. Introduction

Long-run economic growth in developing economies is increasingly analysed through the interaction between economic policy and political conditions. A large body of studies in political economy shows that political instability raises uncertainty, weakens policy credibility, and discourages investment, with persistent consequences for growth performance (Alesina et al., 1996; Aisen & Veiga, 2013). These effects arise because political conditions influence how economic agents form expectations

about the future policy environment. In this view, predictable political arrangements create confidence about future policies, which makes it easier for households, firms, and governments to invest for the future rather than focus on short-term outcomes, with positive implications for capital formation and productivity (North, 1990; Persson & Tabellini, 2000).

These concerns are particularly relevant in Sub-Saharan Africa, where growth outcomes have varied widely across countries and over time. Although the region recorded average real GDP growth of around 3.5 per cent per year during the commodity-driven expansion of the 2000s, this aggregate performance concealed substantial differences linked to governance quality and political conditions (World Bank, 2023). Empirical studies for the region document that political instability and conflict generate lasting growth costs, even when macroeconomic indicators later stabilise, suggesting that political conditions operate as more than short-run disturbances (Bates et al., 2012; Dirks & Schmidt, 2024).

As Africa's largest economy, Nigeria provides an instructive case. Since the mid-1990s, economic performance has been volatile, reflecting oil dependence, exposure to external shocks, and recurrent political and security pressures. Between 1996 and 2024, periods of relatively strong growth alternated with sharp slowdowns, including the contraction that followed the 2014–2016 oil price collapse and subsequent security challenges (Alley et al., 2014; Adelegan et al., 2021). Over the same period, Nigeria's Political Stability and Absence of Violence/Terrorism Index, as reported by the World Governance Indicators, remained consistently below the global average, pointing to persistent political and security constraints (Kaufmann et al., 2011; World Bank, 2023).

Despite this background, evidence on the long-run growth implications of political stability in Nigeria remains limited. Much of the existing literature considers political factors indirectly, often through studies of oil price shocks, macroeconomic volatility, or broad governance measures (Alley et al., 2014; Adelegan et al., 2021). Fewer studies isolate political stability as a distinct institutional variable or distinguish between long-run equilibrium effects and short-run adjustments(Akinlo et al., 2022; Nomor et al., 2019). In addition, limited attention has been paid to the role of structural breaks associated with major political and security developments, which are a salient feature of Nigeria's recent history.

This paper examines whether political stability matters for long-run economic growth in Nigeria using annual data from 1996 to 2024. An Autoregressive Distributed Lag (ARDL) framework is employed to test for a long-run relationship while allowing for mixed orders of integration and discrete structural breaks. The analysis addresses three questions. First, it asks whether political stability and economic growth are linked by a stable long-run association. Second, it examines how quickly growth

adjusts following political shocks. Third, it assesses whether major political and security shifts alter growth outcomes without severing the long-run relationship. By providing updated country-specific time-series evidence, the study contributes to ongoing debates on institutions and growth in resource-dependent and politically volatile economies.

2. Literature review

2.1 Conceptual Review

Economic growth, commonly defined as a sustained increase in real output over time, is increasingly examined through institutional perspectives rather than as an automatic consequence of factor accumulation. Institutions influence incentives, expectations, and the credibility of policy frameworks, thereby affecting long-run economic performance (North, 1990; Acemoglu et al., 2019). Within this perspective, political stability plays a central role by conditioning the predictability of political processes and the continuity of governance arrangements. Political stability is typically defined as the absence of politically motivated violence, abrupt regime changes, and persistent governance disruptions that generate uncertainty and weaken institutional continuity (Kaufmann et al., 2011). Stable political environments reduce uncertainty, limit the likelihood of policy reversals or expropriation, and support longer planning horizons, which are conducive to investment and productivity growth (Alesina, & Perotti,1996; Olson, 1993).

A key conceptual debate concerns the direction of causality between political stability and economic growth. One strand of the literature views political stability as a prerequisite for sustained growth, arguing that instability distorts incentives, shortens planning horizons, and diverts resources towards rent-seeking and security expenditure rather than productive investment (Alesina, & Perotti,1996; Jong-A-Pin, 2009). An alternative perspective suggests that economic growth itself can promote political stability by easing distributional conflicts, strengthening state capacity, and enhancing political legitimacy (Lipset, 1959; Przeworski et al., 2012). This debate draws attention to the possibility of feedback effects and cautions against assuming a uniform or unidirectional relationship between stability and growth across countries and institutional settings.

The relationship between political stability and growth is further complicated by the distinction between persistent institutional conditions and discrete political shocks. Political stability may evolve gradually within regimes but shift abruptly following elections, coups, constitutional reforms, or major security crises, altering economic expectations and output levels without necessarily changing the underlying growth

process (Rodrik, 1999). In resource-dependent economies, growth may also occur despite political instability when driven by exogenous rents rather than broad-based productivity gains (Auty, 2001). Nigeria's political history, characterised by regime transitions, security challenges, and policy discontinuities, makes these distinctions particularly relevant. Accordingly, this study conceptualises political stability as an institutional condition whose growth effects accumulate over time but remain sensitive to regime shifts, rather than as a purely short-lived political factor.

2.2 Empirical Review

Empirical evidence on the relationship between political stability and economic growth largely supports the view that political instability undermines long-run economic performance, although the magnitude and transmission mechanisms differ across countries and institutional contexts. Early cross-country studies establish that frequent government changes, political violence, and policy uncertainty reduce investment and productivity growth by weakening policy credibility and increasing risk premia (Alesina et al., 1996; Aisen & Veiga, 2013). More recent global evidence reinforces this conclusion by identifying political instability as a key channel through which uncertainty shocks translate into lower output growth, particularly in developing economies with weaker institutions. Using large panel datasets, Aisen and Veiga (2013) demonstrate that political instability depresses growth mainly through lower private investment and slower productivity growth rather than short-run demand fluctuations. Recent work reinforces this interpretation. Dirks and Schmidt (2024) find that shocks to political instability have persistent negative effects on output, while feedback from growth to stability is limited, suggesting that instability operates largely as an exogenous constraint on economic performance.

Evidence from developing and transition economies reinforces the conditional nature of the stability–growth nexus. Studies focusing on Sub-Saharan Africa highlight the role of governance quality and political continuity in shaping growth outcomes. Bates et al. (2012) document substantial variation in democratic performance across African countries and link political fragility to weak economic outcomes. In transition economies, Gurgul and Lach (2013) find that political instability significantly constrains growth during periods of structural adjustment, particularly where policy credibility is weak. Similarly, comparable country-level evidence from Turkey (Diken et al., 2018) and the BRICS economies (Mbukanma et al., 2019) confirms that political stability supports growth by reducing uncertainty and stabilising investment behaviour.

Further, country-level evidence for Nigeria remains relatively sparse but increasingly rigorous. Using an ARDL framework, Akinlo et al. (2022) find that political

instability exerts a statistically significant negative effect on economic growth in both the short and long run. Their results indicate that instability constrains long-term policy planning and redirects public expenditure towards security-related spending. Related Nigerian studies approach the issue indirectly by showing that external shocks, particularly oil price volatility, have strong and persistent effects on growth, implying that political stability conditions how such shocks are absorbed and managed (Alley et al., 2014; Adelegan et al., 2021). Evidence from Nomor et al. (2019) further suggests that political stability interacts with other institutional factors, although their analysis is limited to the post-1999 period and does not address long-run adjustment or structural breaks.

Despite this body of work, important gaps remain. Few studies examine the political stability–growth relationship in Nigeria using time-series methods that explicitly distinguish long-run equilibrium effects from short-run dynamics. In addition, limited attention has been given to structural breaks associated with major political and security developments. This study addresses these gaps by applying an ARDL framework with structural break controls to assess whether political stability constitutes a binding long-run constraint on economic growth in Nigeria.

2.3 Theoretical Framework

The theoretical foundation of this study is rooted in institutional and political economy theories of growth, which emphasise that long-run economic performance depends not only on factor accumulation but also on the stability and credibility of political and institutional arrangements. Early institutional theory argues that institutions define the incentive structure of an economy by shaping property rights, contract enforcement, and policy predictability, thereby influencing investment decisions and productive activity over time (North, 1990). Within this framework, political stability is viewed as a core institutional condition that reduces uncertainty and supports intertemporal economic planning.

Political economy models further formalise the link between political stability and growth by focusing on uncertainty and policy credibility. In these models, political instability raises the probability of abrupt policy changes, expropriation, or redistribution, which increases risk premia and discourages long-term investment (Olson, 1993; Persson &Tabellini, 2000). When political authority is unstable, governments face incentives to prioritise short-term political survival over growth-enhancing policies, leading to inefficient public spending and weak commitment to reforms. As a result, instability distorts capital allocation and lowers steady-state output.

The framework also distinguishes between persistent institutional conditions and discrete political shocks. Endogenous growth models incorporating political conflict

suggest that regime changes, coups, or episodes of violence can shift the level of economic activity by altering expectations and resource allocation without necessarily changing long-run technological potential (Alesina& Perotti, 1996; Rodrik, 1999). In resource-dependent economies, these effects may be amplified, as political instability interacts with rent distribution and fiscal volatility, reinforcing growth fragility (Auty, 2001).

In summary, these theoretical perspectives imply that political stability affects economic growth primarily through institutional credibility, policy continuity, and investment incentives. The framework allows for dynamic adjustment and short-run disruptions while maintaining that sustained political stability is necessary for durable growth outcomes. In the Nigerian context, characterised by regime transitions and security challenges, political stability is therefore treated as a long-run institutional determinant of growth rather than as a transitory political condition.

3. Methodology

3.1 Data Sources and Variable Definition

This study employs annual time-series data for Nigeria covering the period 1996–2024. Real economic growth is measured using real gross domestic product, obtained from the Central Bank of Nigeria, while political stability is proxied by the Political Stability and Absence of Violence/Terrorism Index sourced from the World Bank's Worldwide Governance Indicators. The political stability index is treated as a continuous institutional variable, where higher values indicate greater political stability.Table 3.1 summarises the variables used in the analysis, including their acronyms, measurement, and data sources.

Table 3.1: Description and Measurement of Variables

Variable	Acronym	Measurement	Source
Real Gross Domestic Product	RGDP	Real GDP (constant prices)	Central Bank of Nigeria
Political Stability Index	POLS	Political Stability and Absence of Violence/Terrorism (index)	World Bank (WGI)

All variables are expressed in natural logarithms, except the political stability index, which retains its original scale due to its institutional interpretation.

3.2 Model Specification

To examine the long-run and short-run relationship between political stability and economic growth, the study adopts an Autoregressive Distributed Lag (ARDL) modelling framework. The baseline long-run relationship is specified as:

$$\ln(RGDP_t) = \alpha_0 + \alpha_1 POLS_t + \varepsilon_t$$

where $\ln(RGDP_t)$denotes the logarithm of real GDP, $POLS_t$represents political stability, $\alpha_0$is a constant term, and $\varepsilon_t$is the error term.

The ARDL(p, q) model corresponding to the above relationship is expressed as:

$$\ln(RGDP_t) = \beta_0 + \sum_{i=1}^{p} \beta_i \ln(RGDP_{t-i}) + \sum_{j=0}^{q} \gamma_j POLS_{t-j} + \delta D_t + u_t$$

where $p$and $q$are optimal lag lengths, $D_t$denotes a structural break dummy capturing major political or institutional shifts, and $u_t$is a white-noise disturbance term.

3.3 Unit Root Tests

To determine the order of integration of the variables, standard unit root tests without structural breaks and unit root tests allowing for endogenous structural breaks are employed.

The Augmented Dickey–Fuller (ADF) test is specified as:

$$\Delta y_t = \alpha + \beta t + \gamma y_{t-1} + \sum_{i=1}^{k} \delta_i \Delta y_{t-i} + \varepsilon_t$$

where $y_t$denotes the variable under consideration, $t$is a deterministic time trend, $k$is the optimal lag length selected to ensure white-noise residuals, and $\varepsilon_t$is an error term.

The null hypothesis of a unit root is given by:

$$H_0: \gamma = 0$$

against the alternative hypothesis of stationarity:

$$H_1: \gamma < 0$$

To account for possible structural breaks in the series, the Zivot–Andrews (ZA) unit root test is applied. The intercept and trend break specification is expressed as:

$$\Delta y_t = \mu + \beta t + \theta DU_t + \gamma DT_t + \alpha y_{t-1} + \sum_{i=1}^{k} c_i \Delta y_{t-i} + \varepsilon_t$$

where $DU_t$is a dummy variable capturing a shift in the intercept and DT_tcaptures a change in the trend, defined as:

$$DU_t = \begin{cases} 1 & \text{if } t > TB \\ 0 & \text{otherwise} \end{cases} \quad DT_t = \begin{cases} t - TB & \text{if } t > TB \\ 0 & \text{otherwise} \end{cases}$$

with TBdenoting the unknown break date determined endogenously by minimising the t-statistic on α. The null hypothesis of the Zivot–Andrews test is:

$$H_0: \alpha = 0$$

against the alternative hypothesis of stationarity with a structural break:

$$H_1: \alpha < 0$$

3.4 ARDL Bounds Test for Cointegration

To examine the existence of a long-run relationship between political stability and economic growth, the Autoregressive Distributed Lag (ARDL) bounds testing approach is employed. The unrestricted error-correction representation of the ARDL(p, q) model is specified as:

$$\Delta \ln (RGDP_t) = \alpha_0 + \sum_{i=1}^{p-1} \alpha_i \, \Delta \ln (RGDP_{t-i}) + \sum_{j=0}^{q-1} \beta_j \, \Delta POLS_{t-j}$$

$$+\lambda_1 \ln (RGDP_{t-1}) + \lambda_2 POLS_{t-1} + \lambda_3 D_t + \varepsilon_t$$

where $D_t$is a structural break dummy, and $\varepsilon_t$is a white-noise error term.

The null hypothesis of no cointegration is:

$$H_0: \lambda_1 = \lambda_2 = 0$$

against the alternative hypothesis:

$$H_1: \lambda_1 \neq 0 \text{or} \lambda_2 \neq 0$$

The computed F-statistic is compared with the lower and upper bound critical values reported by Pesaran et al. (2001) and Narayan (2005).

3.5 Long-Run Estimation

Once cointegration is established, the long-run relationship is estimated from the selected ARDL(p, q) model:

$$\ln (RGDP_t) = \phi_0 + \sum_{i=1}^{p} \phi_i \ln (RGDP_{t-i}) + \sum_{j=0}^{q} \psi_j \, POLS_{t-j} + \delta D_t + u_t$$

The long-run coefficient of political stability is obtained as:

$$\theta = \frac{\sum_{j=0}^{q} \psi_j}{1 - \sum_{i=1}^{p} \phi_i}$$

where θmeasures the long-run elasticity of real GDP with respect to political stability.

3.6 Short-Run Dynamics and Error Correction Model

Short-run dynamics are captured through the error-correction model (ECM), expressed as:

$$\Delta \ln (RGDP_t) = \omega_0 + \sum_{i=1}^{p-1} \omega_i \, \Delta \ln (RGDP_{t-i}) + \sum_{j=0}^{q-1} \kappa_j \, \Delta POLS_{t-j}$$
$$+\rho ECT_{t-1} + \gamma D_t + \nu_t$$

where the error-correction term is defined as:

$$ECT_{t-1} = \ln (RGDP_{t-1}) - \theta POLS_{t-1}$$

and ρdenotes the speed of adjustment parameter, with $\rho < 0$required for long-run convergence.

4. Results and Discussion

This section presents the empirical results on the relationship between political stability and long-run economic growth in Nigeria over the period 1996–2024. The analysis begins with descriptive statistics and proceeds through unit root testing and lag length selection, forming the basis for subsequent ARDL estimation.

4.1 Descriptive Statistics

Table 4.1 reports the descriptive statistics for real GDP and the political stability index from 1996 to 2024. Real GDP recorded a mean value of 301.13 (in constant prices), reflecting Nigeria's long-run expansion over the sample period. However, the standard deviation of 111.4 indicates substantial output volatility. The minimum value of 101.3 corresponds to the late 1990s, a period marked by macroeconomic imbalance, external debt accumulation, and declining oil revenues, while the maximum value of 512.9 reflects the post-rebasing period and the recovery following the mid-2010s recession. The wide range between the minimum and maximum values underlines the uneven nature of Nigeria's growth process, shaped by oil price cycles, adjustment programmes, and policy uncertainty.

Table 4.1: Descriptive Statistics of Real GDP and Political Stability

Variable	Mean	Std. Dev.	Min	Max
Real GDP	301.13	111.4	101.3	512.9
Political Stability Index	−1.07	0.41	−1.88	−0.19

Sources: Author's computation using Stata 17

The political stability index exhibits a low average value of −1.07, indicating persistently weak political stability over the period. The standard deviation of 0.41 suggests frequent shifts in the political environment rather than gradual institutional change. The minimum value of −1.88 corresponds to periods of heightened instability, including prolonged military rule and intense internal security challenges, while the maximum value of −0.19 reflects relative improvements during episodes of democratic consolidation. Despite these improvements, the index remains negative

throughout the sample, highlighting the absence of sustained political calm. The combined descriptive evidence suggests that Nigeria's growth experience has unfolded alongside persistent political fragility, which provided a strong motivation for examining their long-run relationship.

4.2 Unit Root Tests without Structural Breaks

To avoid spurious regression, the stationarity properties of the variables are examined using Augmented Dickey–Fuller and Phillips–Perron tests. The results are reported in Table 4.2. Real GDP is non-stationary in levels but becomes stationary after first differencing, indicating integration of order one. This result is consistent with the behaviour of macroeconomic aggregates in Nigeria, where growth responds persistently to external and domestic shocks.

Table 4.2: ADF and PP Unit Root Tests Without Structural Breaks

Variable	ADF Level	PP Level	ADF 1st Diff	PP 1st Diff	Order
lnGDP	−2.11	−2.05	−4.87***	−5.02***	I(1)
POLSTAB	−2.34	−2.29	−4.71***	−4.65***	I(1)

The political stability index is also found to be non-stationary in levels under both tests, but stationary at first difference. From an econometric perspective, this suggests persistence in political stability when structural changes are ignored. Substantively, this outcome is plausible in Nigeria, where political stability does not evolve smoothly but is shaped by discrete regime changes and security shocks. Standard unit root tests, which assume stable data-generating processes, therefore tend to overstate persistence in institutional indicators.

4.3 Unit Root Tests with Structural Breaks

Given Nigeria's history of political shifts and institutional change, unit root tests that ignore structural breaks may yield misleading inferences. The Zivot–Andrews test is therefore applied, allowing for an endogenous single break in the intercept and trend.

Table 4.3: Zivot–Andrews Unit Root Test With Structural Break

Variable	Intercept Model t-stat (lag) [Break Year]	Trend & Intercept t-stat (lag) [Break Year]	Conclusion
lnGDP	−3.86 (1) [1999]	−4.22 (1) [1999]	Unit root with break, I(1)
POLSTAB	−5.08 (0) [2015]**	−5.36 (0) [2015]**	Break-stationary, I(0)

The results in Table 4.3 show that real GDP remains non-stationary at levels even after accounting for a structural break, with the estimated break occurring in 1999. This date coincides with Nigeria's transition from military rule to civilian governance,

a shift that altered economic management and policy priorities but did not eliminate the persistence of output shocks. Economic growth continued to respond strongly to oil price movements and macroeconomic disturbances, justifying the classification of real GDP as an I(1) process.

In contrast, political stability becomes stationary at levels once a structural break is allowed, with the break identified in 2015. This year was marked by a closely contested general election, a change in political leadership, and intensified security challenges, particularly related to insurgency and internal conflict. These events represented a discrete shift in Nigeria's political environment rather than a continuation of existing trends. Within such regimes, political stability tends to settle around a given level, but major political or security events reset this level. Thus, ignoring these regime shifts therefore exaggerates persistence in political stability.The implication is that political stability in Nigeria is best viewed as stationary around regime-specific means, while economic output remains non-stationary. This mixed order of integration satisfies the requirements for applying the ARDL bounds testing approach.

4.4ARDL Bounds Test for Cointegration (With Structural Break Dummy)

The results of the ARDL bounds test with a structural break dummy are reported in Table 4.4. The computed F-statistic of 5.21 exceeds the upper bound critical values at the 5 per cent level under both the Pesaran et al. (2001) and Narayan (2005) critical value sets. This leads to a rejection of the null hypothesis of no level relationship, confirming the existence of a long-run cointegrating relationship between political stability and real GDP in Nigeria when the 2015 structural break is explicitly accounted for.

Table 4.4: ARDL Bounds Test for Cointegration with Structural Break Dummy

Model	**Lag**	**Break year**	**F-statistic**	**χ^2 Serial**	**χ^2 Normal**	**χ^2 ARCH**	**χ^2 RESET**
$F(\ln GDP_t \mid POLSTAB_t, D2015_t)$	(2,1)	2015	5.21*	0.74	1.18	0.63	0.91
Asymptotic critical values							
	Pesaran et al. (2001)			**Narayan (2005)**			
Significance	**LB I(0)**	**UB I(1)**	**Significance**	**LB I(0)**	**UB I(1)**		
1%	4.13	5	1%	4.43	5.36		
5%	3.1	3.87	5%	3.28	4.11		
10%	2.63	3.35	10%	2.76	3.62		

Notes: The ARDL bounds test is estimated with an unrestricted intercept and no deterministic trend. D2015t is a structural break dummy capturing the 2015 shift. Lag order

*is selected using AIC. *** denotes rejection of the null of no level relationship at the 1% level because the F-statistic exceeds the upper bound critical values under both Pesaran et al. (2001) and Narayan (2005). χ^2 Serial refers to the Breusch–Godfrey LM test; χ^2 ARCH refers to an ARCH heteroskedasticity test; χ^2 RESET is the Ramsey RESET specification test.*

The inclusion of the 2015 break dummy in the unrestricted error-correction specification is important for inference. Nigeria experienced heightened political uncertainty and security challenges during the mid-2010s, and failing to control for this shift could bias the bounds test towards non-rejection of cointegration. The results indicate that, once this regime shift is incorporated, political stability and economic growth exhibit a stable long-run association rather than a purely transitory correlation.

The lag structure selected by the Akaike Information Criterion, ARDL(2,1), suggests that output dynamics respond with delay to changes in political stability, which is consistent with the slow transmission of institutional conditions to real economic activity in Nigeria. Political stability affects growth through expectations, investment planning, and policy credibility, channels that typically operate over multiple periods rather than contemporaneously.

The diagnostic statistics reported alongside the bounds test further support the adequacy of the estimated model. The Breusch–Godfrey LM statistic indicates no evidence of serial correlation in the residuals, while the normality and ARCH tests fail to reject the null hypotheses of normally distributed and homoskedastic errors, respectively. The Ramsey RESET test also suggests that the functional form of the model is correctly specified. Together, these results indicate that the rejection of the no-cointegration null is not driven by model misspecification or residual pathologies.

In summary, the bounds test results provide robust evidence that political stability and economic growth in Nigeria are linked by a long-run equilibrium relationship once structural breaks associated with major political shifts are taken into account. This finding justifies proceeding to long-run and short-run ARDL estimation and supports the interpretation of political stability as a persistent institutional factor influencing Nigeria's growth trajectory rather than as a purely short-term political disturbance.

4.5 Long-Run ARDL Estimates

Since cointegration is established, the long-run relationship is estimated from the selected ARDL$(2, 1)$ specification, which includes two lags of real output and one lag of political stability, alongside the 2015 break dummy. Table 4.5a reports the estimated levels form of the ARDL model. The coefficient on current political stability is positive and statistically significant, while the lagged political stability term is also positive, indicating that political conditions influence long-run output through contemporaneous and delayed channels rather than through an immediate one-period response. The lagged dependent variable terms are strongly significant,

consistent with persistence in annual macroeconomic series, and their combined magnitude implies stable adjustment dynamics.

Table 4.5a: Estimated ARDL(2,1) Levels Model (Dependent Variable: ln GDPt)

Variable	Coefficient	Std. Error	t-Statistic	p-value
$\ln GDP_{t-1}$	0.62	0.092	6.74	0
$\ln GDP_{t-2}$	0.18	0.079	2.28	0.028
$POLSTAB_t$	0.04	0.0152	2.63	0.012
$POLSTAB_{t-1}$	0.0174	0.013	1.34	0.187
$D2015_t$	−0.0166	0.0062	−2.68	0.011
Constant	1.043	0.382	2.73	0.009

Table 4.5b: Implied Long-Run Coefficients from ARDL(2,1) (Dependent Variable: ln GDPt)

Variable	Long-run coefficient	Std. Error	t-Statistic	p-value
POLSTAB	0.287	0.094	3.05	0.004
D2015	−0.083	0.031	−2.68	0.011

Notes: The long-run coefficient on $POLSTAB$is computed as $(\beta_0 + \beta_1)/(1 - \alpha_1 - \alpha_2)$, where $\alpha_1$and $\alpha_2$are the coefficients on $\ln GDP_{t-1}$and $\ln GDP_{t-2}$, and $\beta_0$and $\beta_1$are the coefficients on $POLSTAB_t$and $POLSTAB_{t-1}$. The break dummy long-run effect is computed analogously.

To interpret long-run effects, the long-run coefficient on political stability is derived as the sum of the political stability coefficients divided by one minus the sum of the lagged dependent variable coefficients. The resulting long-run coefficient is positive and statistically significant, indicating that improvements in political stability are associated with higher long-run output in Nigeria. The estimated break dummy remains negative and significant, capturing a discrete downward shift in the long-run output level associated with the political and security tensions of the mid-2010s. This pattern is consistent with Nigerian evidence that institutional stability supports long-run performance, while instability episodes impose persistent costs on output (Akinlo et al., 2022; Nomor et al, 2019). The moderate magnitude of the stability effect is also consistent with the view that WGI indicators operate as conditioning institutional variables shaping incentives and expectations over time (Kaufmann et al., 2011; World Bank, 2024).

4.6 Short-Run Dynamics and Error Correction Model

With cointegration established, short-run dynamics are estimated using the error-correction representation of the selected ARDL(2,1) model. The error-correction term is constructed from the lagged long-run relationship and measures the extent to which

output deviates from its long-run equilibrium level in the previous period. A negative and statistically significant error-correction coefficient is therefore required for convergence, indicating that output adjusts back towards its long-run path after short-run disturbances.

Table 4.6 reports the estimated error-correction model. The error-correction term is negative and statistically significant, with a coefficient of −0.23, implying that approximately 23 per cent of the previous year's deviation from long-run equilibrium is corrected within a year. This adjustment speed is plausible for Nigeria, where institutional improvements and political risk conditions typically affect real activity through gradual investment responses, policy implementation lags, and slow changes in private sector expectations. In the short run, changes in political stability exert a positive effect on growth, although the magnitude is smaller than the implied long-run effect. This pattern is consistent with the view that political stability matters most through longer-horizon channels such as credibility, risk pricing, and sustained investment rather than immediate output movements.

The 2015 break dummy remains negative and statistically significant in the short-run specification, indicating that the mid-2010s political and security tensions were associated with a direct short-run output loss, in addition to the long-run level shift captured in the long-run estimates. The inclusion and significance of the break term in the ECM reinforces the earlier structural break evidence and confirms that the shock altered the growth environment rather than merely generating short-lived volatility.

Table 4.6: Error Correction Model Estimates (Dependent Variable: ΔlnGDP)

Variable	Coefficient	Std. Error	t-Statistic	p-value
ECT_{t-1}	−0.230	0.062	−3.71	0.001
ΔlnGDPt−1	0.214	0.089	2.4	0.021
ΔPOLSTABt	0.019	0.008	2.38	0.022
ΔPOLSTABt−1	0.009	0.007	1.29	0.205
ΔD2015t_t	−0.018	0.007	−2.57	0.014
Constant	0.012	0.005	2.4	0.021

Notes: ECT_{t-1} is the lagged error-correction term derived from the estimated long-run relationship. Δ denotes first differences. The break dummy is retained in the short-run specification to capture the immediate impact of the 2015 shift.

In substantive terms, the ECM results suggest that political stability influences Nigeria's growth most reliably through long-run channels, while short-run improvements in stability are associated with smaller contemporaneous gains. The estimated speed of adjustment indicates gradual convergence rather than rapid correction, which is consistent with an economy where political risk affects growth through investment timing, policy credibility, and the responsiveness of domestic and foreign capital to institutional conditions.

4.7 Diagnostic Tests

To ensure the reliability of the estimated ARDL–ECM results, a set of post-estimation diagnostic tests is conducted. These tests examine whether the underlying assumptions of the model are satisfied and whether the estimated relationships are free from residual pathologies that could bias inference.

Table 4.7: Diagnostic Tests for the ARDL–ECM Model

Test	Null Hypothesis	Test Statistic [p-value]	Inference
χ^2 Serial Correlation (2)	No serial correlation	0.281 [0.755]	Do not reject H_0
χ^2 Normality (JB)	Normal distribution of residuals	1.684 [0.431]	Do not reject H_0
χ^2 ARCH (1)	Homoskedasticity	0.072 [0.789]	Do not reject H_0
χ^2 RESET (1)	Correct functional form	0.498 [0.483]	Do not reject H_0

Table 4.7 reports the results of the diagnostic tests. The Breusch–Godfrey LM test fails to reject the null hypothesis of no serial correlation, indicating that the dynamic specification adequately captures the temporal dependence in output growth. The Jarque–Bera normality test suggests that the residuals are approximately normally distributed, supporting the validity of standard inference. The ARCH test does not reject the null of homoskedasticity, implying that the variance of the error term is stable over time. Finally, the Ramsey RESET test fails to detect functional form misspecification, indicating that the model is correctly specified.

In summary, these results suggest that the ARDL–ECM model is well specified and that the estimated long-run and short-run coefficients can be interpreted with confidence. The absence of residual autocorrelation, heteroskedasticity, and functional form errors reinforces the robustness of the evidence on the long-run role of political stability in Nigeria's growth process.

5. Conclusion and Recommendations

This study set out to examine whether political stability matters for long-run economic growth in Nigeria using annual data spanning 1996–2024 and an ARDL modelling framework that explicitly accounts for structural breaks. The empirical analysis was motivated by Nigeria's history of political transitions, security challenges, and policy discontinuities, and by the need to understand whether political conditions act as a persistent constraint on growth rather than as a transitory disturbance. By combining unit root tests with and without structural breaks, ARDL

bounds testing, and an error-correction representation, the study provides a coherent assessment of both long-run dependence and short-run adjustment dynamics.

The results indicate the existence of a stable long-run relationship between political stability and economic growth in Nigeria. Political stability enters the long-run growth equation with a positive and statistically significant coefficient, suggesting that improvements in the stability environment are associated with higher levels of output over time. At the same time, the estimated magnitude implies that the growth effects of political stability are gradual rather than immediate. Structural break analysis highlights the importance of discrete political and security shocks, particularly around the mid-2010s, which produced lasting level effects on economic activity without eliminating the underlying long-run relationship. In the short run, the error-correction mechanism confirms that deviations from equilibrium are corrected slowly, reflecting the lagged transmission of political and institutional changes to investment, production, and broader economic outcomes.

Overall, the findings support the view that political stability constitutes an important long-run conditioning factor for growth in Nigeria. However, the results do not suggest that political stability alone is sufficient to generate rapid growth. Instead, stability appears to operate by shaping expectations, reducing uncertainty, and enabling other growth-enhancing factors to function more effectively. This interpretation is consistent with Nigeria's experience, where periods of relative political calm have facilitated economic recovery, while instability has tended to amplify existing structural weaknesses.

From a policy perspective, the results underline the importance of viewing political stability as an economic asset rather than solely as a governance objective. First, policies that strengthen electoral credibility, reduce political uncertainty, and manage post-election tensions can yield economic benefits by improving investor confidence and policy predictability. Second, addressing security challenges in a sustained and coordinated manner is crucial, as persistent insecurity undermines the growth-enhancing role of political stability and imposes long-lasting costs on economic activity. Third, institutional continuity in macroeconomic and structural policies matters, as frequent policy reversals weaken the transmission of political improvements to real economic outcomes. Finally, the slow speed of adjustment identified in the error-correction model suggests that short-term stabilisation efforts should be complemented by long-term institutional reforms aimed at strengthening governance capacity and policy implementation.

In conclusion, the evidence indicates that political stability matters for long-run growth in Nigeria, but its impact is cumulative and contingent on broader institutional conditions. Sustained improvements in political stability, combined with credible and consistent economic policies, are likely to be more effective in supporting long-term growth than episodic or short-lived stabilisation efforts.

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