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WAYS AND MEANS ADVANCES AND DEFICIT FINANCING IN NIGERIA

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Abstract
Large deficits emerged in Europe after the oil crisis in the mid-1970s and widened dramatically after 1980, mainly due to government overspending rather than meager tax receipts. In developing countries, fiscal deficits consistently tend to exceed those of developed economies. The global slowdown, structural fragility of public finances, and persistently high debt levels exacerbate fiscal deficits in developing countries. Ways and Means Advances have become a critical option in deficit financing particularly in developing countries around the world. The study aims to assess the impact of Ways and Means Advances on deficit financing in Nigeria. The Keynesian Economics theory is used as the theoretical framework. Documentary research design was adopted to carry out investigation. The study established that fiscal deficits have remained a predominant occurrence in Nigeria even during periods of economic booms. It also maintained that the Federal Government's repeated recourse to Ways and Means Advances highlights weaknesses in public finance management as sustained use of direct monetary financing could raise risks to macroeconomic stability. The study recommends constrained budgeting, regulated borrowing, fiscal prudence, increased Foreign Direct Investments, and formulation of a legal basis for Ways and Means Advances securitization, as strategies to remediate fiscal deficits and long-term Ways and Means Advances in Nigeria's fiscal management.

Keywords: Deficit financing, fiscal deficits, monetary policy, public debt, Ways and Means Advances.

Introduction

During the nineteenth and early twentieth centuries, fiscal deficits and surpluses were small in the major Western industrial countries (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States), and a chart of fiscal balances would show a fairly stable trend line. World War I (1914–1918) altered the picture radically, as its participants emptied national treasuries and borrowed against the future in a desperate struggle to survive. The interwar period saw a return to "normalcy" that brought the huge deficits contracted during the war down to manageable size in nearly all countries. World War II (1939–1945) and the immediate postwar years repeated the fiscal experience of World War I and the interwar period—immense deficits in all countries followed by surprisingly

satisfactory progress toward fiscal balance. Nevertheless, a disturbing trend began in the 1960s and gained seemingly irresistible momentum by the 1970s. The normal peacetime condition of near fiscal balance gave way in almost every Western industrial country to large and obdurate fiscal deficits (International Monetary Fund [IMF], 1996).

Unlike in Western industrial economies, governments in planned economies typically had a positive net position in their domestic banking system, tiny bond issues, and a foreign debt that was practically completely linked to productive sector liabilities. Historically, overall public debt has been small, despite the centralization of activity in the public sector. Deficits tended to be small in terms of GDP, and cyclical. However, after perestroika in the Soviet Union and the Velvet Revolution in Eastern Europe, fiscal deficits in planned economies become more prominent and enlarged. The beginning of the transition was signalled by the emergence of much higher deficits in 1989 and 1990. The strains of the shift to indirect instruments of demand management and of structural reform had typically widened budget gaps in economies in transition. Consequently, policymakers in these economies had to deal with the issue of financing their budget deficits (Cheasty, 1992).

Fiscal deficits in developing countries consistently tend to exceed those of developed economies. In response to the pandemic and lockdowns, governments boosted spending to support their economies, even as revenues declined. In 2019, half of developing countries had revenues below 18.3% of GDP, a figure that fell further to 17.7% in 2021. Meanwhile, their expenditures rose from 20.2% of GDP in 2019 to 22.5% in 2021. This growing imbalance pushed the typical fiscal deficit in to a peak of 3.3% of GDP in 2022, before improving modestly to 2.7% in 2023. The IMF projected a further decrease to 1.9% in 2024 and 1% in 2025. But even a 1% deficit, depending on how it is financed, can strain these economies, limiting their ability to invest in essential services and infrastructure and making it more difficult to achieve the Sustainable Development Goals (SDGs). This strain is exacerbated by the global slowdown's knock-on effects on the developing countries, the structural fragility of their public finances and their persistently high debt levels (United Nations Trade and Development [UNCTAD], 2024).

Ways and Means Advances have become a critical option in deficit financing particularly in developing countries around the world. It is a mechanism where a government borrows from the central bank to bridge the budget gaps, and is typically used to cover short-term cash flow issues rather than long-term financing needs (CBN Act, 2007). This study attempts to examine the application of Ways and Means Advances in Nigeria's fiscal management and the extent to which it has been able to douse fiscal stress in the economy. The study works with available data that covers the period 2015 to

2022, focusing on the reciprocity between fiscal deficits and Ways and Means Advances by considering results on the basis of macroeconomic performance.

Objectives of the study

The study aims to assess the impact of Ways and Means Advances on deficit financing in Nigeria. Specifically, the study aims to:

1. Analyze the trends of fiscal deficits and deficit financing in Nigeria.
2. Examine the legal provisions on Ways and Means Advances, their conditionalities and procedures in Nigeria's fiscal management.
3. Evaluate the functionality of Ways and Means Advances as mechanism of deficit financing in Nigeria's fiscal management.

Conceptual review

Fiscal management

Fiscal management is a crucial aspect of financial planning and decision-making. It involves the effective and efficient management of public funds, ensuring that resources are allocated and utilized in a responsible and sustainable manner. The importance of fiscal management lies in its ability to promote economic stability, fiscal discipline, and accountability (Ayozie, 2024). From an economic perspective, fiscal management plays a vital role in maintaining a stable macroeconomic environment. By carefully managing government revenues and expenditures, fiscal policies can help control inflation, stabilize exchange rates, and promote sustainable economic growth. It allows governments to balance their budgets, avoid excessive borrowing, and reduce the risk of fiscal crises (Brixi, 2005; Kharas & Mishra, 2005). From a public financial management standpoint, fiscal management ensures that public funds are used efficiently and effectively to meet the needs of the population. It involves budgeting, revenue collection, expenditure control, and financial reporting. By implementing sound fiscal management practices, governments can enhance transparency, accountability, and public trust in the management of public resources (Maret et al., 2023).

Deficit financing

Deficit financing refers to the array of methods employed by governments to cover a budget shortfall—the gap between government income and public expenditure—when expenditures exceed revenues. Rather than reducing spending to match existing income levels, authorities opt to inject funds into the economy from alternative sources, thereby ensuring the continuation of vital public services and development projects. While deficit financing can stimulate economic growth in certain contexts, it also carries risks tied to inflation, heightened public debt, and potential strain on future tax

revenues (Haque, 2019; Kim & Lee, 2023). A common approach to deficit financing is government borrowing, typically executed through the issuance of sovereign bonds or similar financial instruments. While borrowing can provide immediate relief for budget shortfalls, it also raises the nation's public debt, necessitating future repayment of both principal and accumulated interest (Adedokun, 2014; Zubair, 2019).

Ways and Means Advances

Ways and Means Advances is a provision under Section 38 of the Central Bank of Nigeria (CBN) Act that allows the CBN to grant temporary advances to the Federal Government in respect of temporary deficiency of budget revenue at an interest. Thus, it is an advance – money loaned to the Federal Government by the CBN. Normally, Ways and Means Advances should be five per cent of the government's revenue within the preceding year (CBN Act, 2007). This particular loan must be repaid to the CBN within the fiscal year it is borrowed. It is like an overdraft that a customer takes from the bank and pays back immediately when his account is funded. What makes Ways and Means Advances unique is that it has no oversight regulation from the legislature (i.e. the National Assembly). The National Assembly does not regulate it, and that allows the Federal Government to request a loan from the CBN without approval. This has been one of the criticisms against Ways and Means Advances. The National Assembly and citizens might not know when the money was received and for what purpose it was obtained. For this reason, it is always shrouded in secrecy.

Review of related literature

The mechanics of deficit financing for economic development

One of the economic issues confronting both developed and developing countries/economies is deficit finance. Since the late 1970s, Sub-Saharan Africa has experienced huge government deficits, which has sparked debate among policymakers and economists (Keho, 2016; Olulu-Briggs & Timise, 2023). Deficit finance is concerned with the means of raising funds to meet the deficits caused by spending that exceed revenue. These shortfalls are plugged by borrowing from the public through bond sales, printing fresh money, or borrowing from outside sources. This means that deficit finance is a powerful weapon for promoting economic growth and development in countries around the world, particularly in growing economies in Africa, Latin America and Asia (Onuorah & Ogbonna, 2014). Clearly, deficit financing has aided in the correction of these countries' budget imbalances over the years. Indeed, if a borrowing country uses deficit financing well, it will raise domestic savings and, in turn, economic development (Olulu-Briggs & Timise, 2023).

Deficit financing in any economy has consequences which could be advantageous or disadvantageous depending on its impact on economic activities. For instance, how fiscal policy prompts macroeconomic management was explained by the neo classical, Keynesian, and Ricardian schools of thought (Mashakada, 2013; Onwe, 2014). The classical school of thought, in particular, contends that government intervention in the open market is unnecessary because the economy will eventually adjust to a new equilibrium level after some volatile periods. It also contends that by increasing real rates of interest; along with driving away private investment, fiscal deficits tends to be insignificant to rate of growth of an economy (Olulu-Briggs & Timise, 2023; Onwe, 2014).

The Keynesian school of thinking, on the other hand, acknowledges the necessity for government intervention to correct any possible economic instability that the market system is unable to address. The adoption of fiscal policy measures to attain full employment, which is the ultimate objective of macroeconomic policy, was sparked by the adoption of this ideology, particularly in the post-depression years. This has formed a new face in economic reasoning and policies (Nwaeke & Korgbeelo, 2016; Eze & Nwambeke, 2015; Onwe, 2014). According to the Ricardian equivalence perspective, deficit financing does not pose any direct significance on economic activities. Barro (1989) asserts that, since higher public consumption necessitates higher taxes, any decrease in current-year taxes must be offset by an increase in the present value of future taxes, leaving both public consumption and interest rates unchanged.

Considering what has been said thus far, it appears that different viewpoints have been expressed in the literature regarding the macroeconomic effects of deficit financing. This is because the existing nexus connecting macroeconomic variables like growth, unemployment, exchange rates, and inflation and budget deficits, may or may not necessarily be negative. Debt crisis is a result of the uncontrollable accumulation of a lot of debt, which makes repayment difficult or impossible and leads to imbalances in the domestic and global political economy (Matuka & Asafo, 2018). There is ongoing discussion about the effects of foreign debt and investment on growth as a result of many sub-Saharan African nations' continued reliance on foreign debt to pay for their fiscal deficits (Adesuyi & Falowo, 2013). As a result, the sub-region is currently facing an urgent financial issue. Taking total external equity as an example, it climbed from $213.4 billion in 2010 to $367.5 billion in 2013. The overall government debt (as a percentage of GDP) increased from 23% in 2013 to 62% in 2016 (Ali et al., 2018; IMF, 2017; Olulu-Briggs & Timise, 2023).

Ways and Means Advances as public debt mechanism

Central bank financing of fiscal deficits (also termed Ways and Means Advances) is not a new phenomenon in both developing and advanced economies, however, it has assumed importance particularly in the aftermath of the recent global financial crisis. This is more pronounced on the back of increasing government debts and reduced tax revenues. Generally, financing budget deficit can take a number of forms: reduction in expenditures, increasing fiscal revenues, printing money or by borrowing from domestic and external sources. Each of these mechanisms carry different trade offs that policy makers have to always bear in mind (Alagidede, 2016).

Considering the risks associated with deficit financing, there are provisions governing the amount which central banks channel into such financing. A brief review of the experiences of developing countries with central bank financing of deficits is varied. For instance, in Costa Rica, central bank finances 5% of government expenditure and 25% of the national budget. In Bahrain, the maximum amount that can be borrowed is left open to negotiations between the central bank and the Minister of Finance. In other countries such as Korea, central bank financing is subject to congressional approval (Jacome et al., 2012). For a number of developed countries, central banks do not finance deficits at all. This is true for countries such as Australia, UK and New Zealand. Provisions in the Maastricht Treaty prohibit governments of the European
Economic and Monetary Union (EMU) from borrowing from their national central banks, and there are debt limits within the EMU, which foster debt sustainability, and reinforce the separation of debt management from monetary policy.

In contrast, provisions of the ECOWAS primary convergence criteria for central bank financing are 10% of previous year's revenue for all member countries. In some cases, legal provisions limit the amount of central bank financing of fiscal imbalances. However, Jacome et al. (2012) find that, the legal provisions on central bank financing of the government deficits seem to be inversely related to a country’s level of development. The implication is that where countries have lax laws, central banks are allowed to provide advances to the government and this is a common feature in many developing countries, especially those with shallow tax base and undeveloped financial systems.

The varied experience of developing and developed countries with central bank financing of deficits reflects the different economic and historical experiences. It equally highlights the important role of deficit financing since large and persistent budget deficits may jeopardize macroeconomic stabilization as they by far determine most of the macroeconomic indicators including but not limited to growth, inflation and interest rates. Continual financing of fiscal deficits by central banks may thus undermine their operational autonomy (Alagidele, 2016).

Theoretical framework

The theory of Keynesian Economics is used as the theoretical framework for the study. The central tenet of this school of thought is that government intervention can stabilize the economy. During the great depression of the 1930s, existing economic theory was unable either to explain the causes of the severe worldwide economic collapse or to provide an adequate public policy solution to jump-start production and employment. British economist John Maynard Keynes (1883–1946) spearheaded a revolution in economic thinking that overturned the then-prevailing idea that free markets would automatically provide solutions to conditions created by economic recessions. The main plank of Keynes's theory is the assertion that aggregate demand—measured as the sum of spending by households, businesses, and the government—is the most important driving force in an economy (Jahan et al., 2014).

Keynes further asserted that free markets have no self-balancing mechanisms that lead to economic upturns/ recovery. Keynesian economists justify government intervention through public policies that aim to achieve full employment and price stability. Keynes argued that inadequate overall demand could lead to prolonged periods of high unemployment. An economy's output of goods and services is the sum of four components: consumption, investment, government purchases, and net exports (the difference between what a country sells to and buys from foreign countries). Any increase in demand has to come from one of these four components (Jahan et al., 2014).

But during a recession, strong forces often dampen demand as spending goes down. For example, during economic downturns uncertainty often erodes consumer confidence, causing them to reduce their spending, especially on discretionary purchases. This reduction in spending by consumers can result in less investment spending by businesses, as firms respond to weakened demand for their products. This puts the task of increasing output on the shoulders of the government. According to Keynesian economics, state intervention is necessary to moderate the booms and busts in economic activity, otherwise known as the business cycle (Jahan et al., 2014).

In applying the theory, the study maintains that government intervention to stabilize the economy via monetary financing (Ways and Means Advances) is a necessary measure to stimulate aggregate demand and combat severe economic downturns, especially when fiscal policy and standard monetary policy loses effectiveness. The core justification lies in the failure of free markets to automatically self-correct the economy. Monetary financing works by injecting new purchasing power directly into the economy, bypassing potentially frozen private credit markets. Thus, increased

government spending on projects, such as infrastructure, provides income to workers and firms, who in turn spend more, further stimulating the economy through the multiplier effect.

Methodology

The study adopted a documentary research design to carry out investigation. Documentary research, serving as both a complement to and extension of biographical inquiry, takes on different meanings in the field of education. In one sense, documentary research becomes synonymous with archival research and addresses issues related to the role and use of documents and public and private records. In another sense, documentary research produces artifacts and material culture through artistic representation, moving and still imagery, and sound recordings. The former category of documentary research is applicable to this study. The emphasis is upon generating data through the use of extant documents from the past and present. Thus, documentary sources such as official publications of government agencies like the Central Bank of Nigeria (CBN), Debt Management Office (DMO), and National Bureau of Statistics (NBS) were used for data collection. The study relied on data contained in statistical tables and charts of these agencies. Data obtained reflected data on actual federal government revenue, fiscal imbalance/deficits, total debt stock, Legal provisions on Ways and Means Advances, Ways and Means Advances receipts by government, and Ways and Means Advances receipts as a percentage of previous year's revenue (detailed illustration in Table 1).

Table 1: Official publications/ documents of government agencies and data collected

S/N	Government agencies	Publications/Documents used	Data obtained
1	Central Bank of Nigeria (CBN)	a. CBN Annual Statistical Bulletin [2023] b. CBN Annual Statistical Bulletin [2022] c. CBN Annual Economic Report [2022] d. Conduct of Fiscal Policy Report [2010-2022] e. CBN Act 2007	1. Fiscal deficits in Nigeria (2015-2022) [From publications/Documents a, b, c, d] 2. Total debt stock in Nigeria (2012-2022) [From publications/Documents a, b, c] 3. Ways and Means Advances Legal Provisions in the CBN Act 2007 [From publication/Document e] (Sections 38[1], 38[2], 38[3] & 34[d]) 4. Ways and Means Advances in Nigeria (2012-2022) [From publications/Documents a, b] 5. Ways and Means Advances (% of previous year's revenue)

			[From publications/Documents a, b]
2	Debt Management Office (DMO)	a. DMO Annual Report and Statement of Accounts [2022] b. Nigeria's Debt Management Strategy Report [2012-2015] c. Nigeria's Debt Management Strategy Report [2016-2019] d. Nigeria's Debt Management Strategy Report [2020-2023]	1. Fiscal deficits in Nigeria (2015-2022) [From publication/Document a] 2. Total debt stock in Nigeria (2012-2022) [From publications/Documents a, b, c, d]
3	National Bureau of Statistics (NBS)	a. Nigeria's Domestic and Foreign Debt Report [2022] b. Nigeria's Domestic and Foreign Debt Report [2023]	1. Federal Government of Nigeria's Actual Revenue (2015-2022) [From publications/Documents a, b] 2. Total debt stock in Nigeria (2012-2022) [From publications/Documents a, b]

Source: Author's compilation, 2025

Data analysis was done using quantitative and qualitative content analytical approaches that involve the examination and evaluation of data in official publications of the aforementioned agencies to establish findings that address the study's objectives. In this study, quantitative content analysis involves visualizing frequencies, trends and relationships (in tables and charts) to make complex numerical findings understandable and insightful. Qualitative content analysis on the other hand involves classifying and organizing the content of communications systematically into categories that describe the topics, themes and context of the message. It is mainly an interpretative approach that allows a researcher to describe the topics and themes that are most meaningful to the research objectives.

In carrying out the quantitative content analysis, descriptive statistics on annual trends of fiscal deficits from 2015 to 2022 were presented and analyzed using Microsoft Excel. This was done to identify the gaps between actual government revenue and expenditure and the need for Ways and Means Advances. Descriptive statistics on Ways and Means Advances and total debt stock from 2015 to 2022 were also examined. This involved using Microsoft Excel spreadsheet and chart to do a comparative analysis of both instruments (i.e. Ways and Means Advances as loans from the CBN, and total debt stock as the cumulative of domestic and foreign debts), in order to understand the increasing use of Ways and Means Advances in Nigeria's public financial management. Lastly, a trend analysis

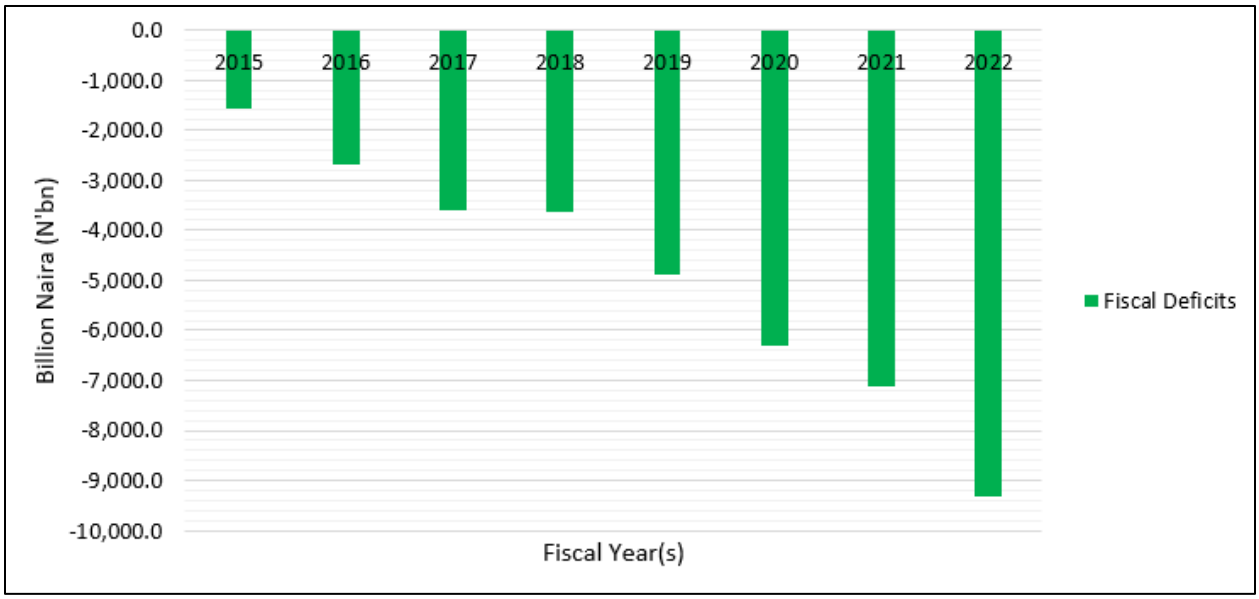
of government revenue, Ways and Means Advance (in monetary values) and Ways and Means Advances (as percentage of previous year revenue) was done using Microsoft Excel spreadsheet and chart to identify the revenue status of the government vis-à-vis its borrowing from the CBN and to determine its future revenue prospects (since debt affects future revenues). Qualitative content analysis on the other hand was done by presenting provisions in the CBN Act 2007 that define the use of Ways and Means Advances (Specifically Sections 38[1], 38[2], 38[3] & 34[d]) and how the government and CBN have complied with those provisions. Issues of regulatory breaches were identified and interpreted from textual content.

Discussions and findings

Trend analysis of fiscal deficits and deficit financing in Nigeria

During a fiscal year, the Government presents its budget and when expenditure is greater than revenue, there is a fiscal deficit. In Nigeria, fiscal deficit has remained a predominant occurrence at both the federal and state government levels, even during economic booms, and this is becoming a source of concern for economic managers (Ekeocha & Ikenna-Onanugbo, 2017). Over the past two decades, the combined overall fiscal balance of all tiers of government has, more often than not resulted in deficits. The Federal Government has consistently been in deficit for more than six years. The fiscal deficits of the Federal Government averaged ₦3,268.3 billion during the period 2015 and 2019. It increased from ₦4,872.2 billion in 2019 to ₦6,293.9 billion in 2020, then to ₦7,119.2 billion in 2021, and thereafter rose to ₦9,319.6 billion in 2022. This continuous rise was due to the drastic drop in international crude oil prices, which affected the share from the Federation account (Figure 1 and Table 2).

Figure 1: Trend analysis of fiscal deficits in Nigeria (₦'Billion) [2015-2022]



Source: CBN Annual Statistical Bulletin, 2022; 2023; CBN Annual Economic Report, 2022

Table 2: Fiscal deficits in Nigeria

	2015	2016	2017	2018	2019	2020	2021	2022
Fiscal Deficits (₦'Billion)	-1,557.8	-2,673.8	-3,609.4	-3,628.1	-4,872.2	-6,293.9	-7,119.2	-9,319.6

Source: CBN Annual Statistical Bulletin, 2022; 2023; CBN Annual Economic Report, 2022

The fiscal deficit is majorly financed from selling assets, borrowing from the domestic and international market, getting grants from multilateral institutions. Domestic and international borrowing have constituted the dominant source of deficit financing over the years. The country's public total debts have risen sharply over the last decade, up from ₦12.60trn in 2015 to ₦46.25trn in 2022. The ballooning debt has been a cover for the country's wide budget deficits, thereby swallowing a large portion of the country's revenue as debt servicing spiraled, with the debt-to-revenue rising to 81% as of 2022. From 2015 to 2022, domestic debt servicing totaled ₦13.68trn while external debt servicing amounted to US$2.41bn (CBN, 2023; DMO, 2022; NBS, 2022; 2023).

In financing fiscal deficit, actual revenue for most of the time comes in lower than expected, and actual expenditure comes in greater than expected. This means that the fiscal deficit will be wider, thus paving the way for the CBN to come in through its Ways and Means Advances. Note that this situation is most peculiar to developing countries, and it has been very obvious in the Nigerian scenario as it happens most of the time.

Functionality of Ways and Means Advances as mechanism of deficit financing in Nigeria

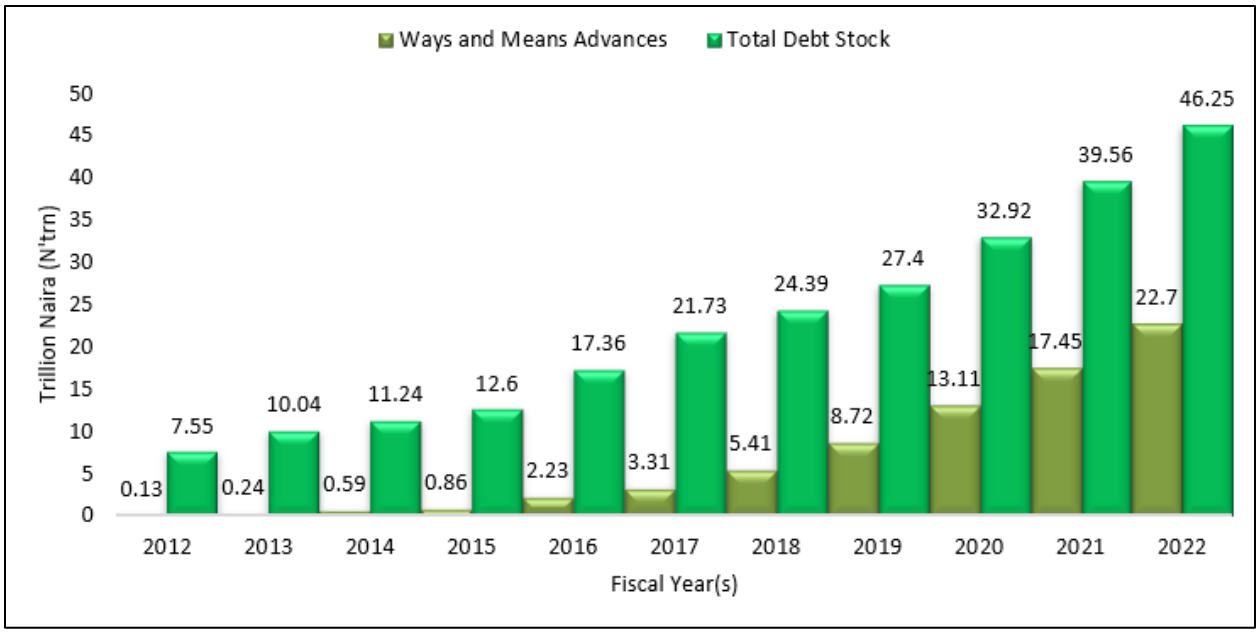
The essence of Ways and Means Advances is to bridge the gap in the receipts and payment of government. However, this must be for a short term and is usually fully defrayed within the fiscal

calendar. Section 38 of Central Bank of Nigeria (CBN) Act 2007 allows the apex bank to grant short-term loans to Federal Government through Ways and Means Advances. There is an obvious difference between borrowing through Ways and Means Advances and quantitative easing. However, the difference thins out when government borrows through Ways and Means Advances but refuses to pay back at stipulated times thus increasing money in circulation without a corresponding increase in productivity.

The direct consequence of Central Banks financing of deficits are distortions and surges in monetary base leading to adverse effect on domestic prices and exchange rates i.e. macroeconomic instability because of excess liquidity that has been injected into the economy. For third rated economies like Nigeria, simply increasing money in circulation without a commensurate increase in economic output simply raise inflation rate. Consumers are able to demand more goods but since production of goods and services remain at the same level, producers usually respond by increasing prices. In essence, doubling money supply without increasing output, leads to a doubling in prices and a doubling in inflation rate.

A look at the country's Ways and Means Advances spending between 2013 and 2022 shows a spike in annual cash advances to the federal government, particularly from 2018 and 2019. Before this, the government was equally in breach of the 5% revenue ceiling contained in the CBN Act, but spending and borrowing overruns were largely single digits except for an exceptional spike in 2017. In 2018, government advances were 127.3% of the previous year's revenue on average. In 2019, that figure was 177.5%. In 2016 and 2017, the other years under the President Buhari's administration, the averages were 56.4% and 7.1%, respectively (Figure 2 and Table 3). Thus, it can be extrapolated from the above data that the rise in extra-budgetary spending predates COVID-19 which debunks the arguments of the Federal Government's fiscal conduct that was justified by economic conditions created by pandemic.

Figure 2: Ways and Means Advances and total debt stock [2015-2022]



Source: CBN Annual Statistical Bulletin, 2022; 2023; DMO Annual Report, 2022; DMO Strategy Reports, 2012-2015; 2016-2019; 2020-2023

Table 3: Ways and Means Advances and total debt stock

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Ways and Means Advances	0.13	0.24	0.59	0.86	2.23	3.31	5.41	8.72	13.11	17.45	22.7
Total Debt Stock	7.55	10.04	11.24	12.6	17.36	21.73	24.39	27.4	32.92	39.56	46.25

Source: CBN Annual Statistical Bulletin, 2022; 2023; DMO Annual Report, 2022; DMO Strategy Reports, 2012-2015; 2016-2019; 2020-2023

The then Director General of the Federal Debt Management Office (DMO), Patience Oniha, pointed out that Nigeria found it difficult to get external loans because of the adverse impact of the Ukraine War, and the high-interest rate environment in the international capital market. External borrowing was an unlikely proposition as the Federal Government had raked up an unbudgeted ₦1.2 trillion in interest expense on loans from the Central Bank of Nigeria (CBN) (CBN, 2022a; 2022b; 2023). The concern was that increasing the country's debt commitments by a third (which was what the Ways and Means Advances conversion had done) would crowd out private sector borrowers in the domestic financial markets preventing them from accessing credit needed to jumpstart the economy.

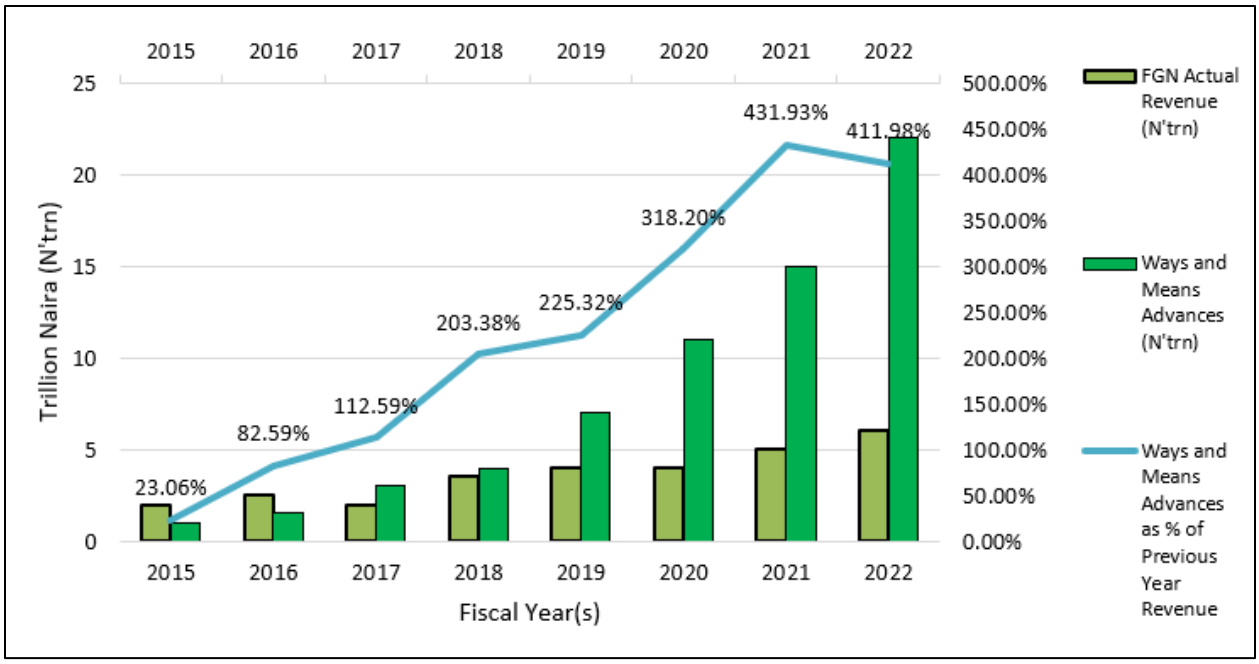
The fancy-free borrowing by the Federal Government from 2015 to 2022 (see statistics in CBN, 2022c; 2023; DMO, 2022) had thrown a prisoner's shiv into the side of the domestic economy. Not only had the borrowing eviscerated Nigeria's fiscal balance and sustainability, it also ripped into the rules guiding public borrowing. The CBN in obvious violation of its Act (see CBN Act, 2007), lent money to the fiscal authorities without regard to its principles of monetary policy stability and fiscal

responsibility. Some economists have noted that the Ways and Means Advances of the federal government are governed by regulations that have been repeatedly violated by both the money market regulator and the federal fiscal authorities. They note that the CBN is required by law to be a transitory funding mechanism for the federal government with an amount not exceeding 5% of the previous year's federal revenue. However, over the last half-decade, the CBN and the Federal Government have breached the three main provisions of the CBN Act 2007. Both parties have violated the temporary financing provisions of the Act, particularly the maximum allowable lending limit, and the non-securitization of the loans.

According to section 38(1) of the CBN Act 2007, *"*Notwithstanding the provisions of section 34(d) of this Act, the Bank (CBN) may grant temporary advances to the Federal Government in respect of temporary deficiency of budget revenue at such rate as the Bank may determine.*"* However, data from the CBN shows the Apex Bank has consistently advanced the Ways and Means Advances to the federal government without recourse to the transitory clause. The FGN overdraft rose from ₦130bn in 2012 to ₦22.70trn as of December 2022 (Figure 2). The implication of this financing is that the country's monetary base is distorted, resulting in macroeconomic instability as excess liquidity is injected into the economy.

Similarly, Section 38(2) of the CBN Act states that "The total amount of such advances outstanding shall not at any time exceed 5% of the previous year's actual revenue of the Federal Government." On the contrary, over the last eight years, Ways and Means Advances as a proportion of the previous year's revenue has grown from 23.06% in 2015 to a whopping 411.98% in 2022 (Figure 3 and Table 4). This suggests that the CBN and the FGN have consistently breached the maximum allowable limit in the Ways and Means Advances.

Figure 3: Trend analysis of Ways and Means Advances in Nigeria [2015-2022]



Source: CBN Annual Statistical Bulletin, 2022; 2023; CBN Fiscal Policy Report, 2022; DMO Annual Report, 2022; NBS, 2022; 2023

Table 4: Trend analysis of Ways and Means Advances in Nigeria (% of Previous Year Revenue)

	2015	2016	2017	2018	2019	2020	2021	2022
Ways and Means Advances as % of Previous Year Revenue	23.06%	82.59%	112.59 %	203.38 %	225.32 %	318.20 %	431.93 %	411.98 %

Source: CBN Annual Statistical Bulletin, 2022; 2023; CBN Fiscal Policy Report, 2022; DMO Annual Report, 2022; NBS, 2022; 2023

Also, Section 38(3) of the CBN Act states that, "All Advances made pursuant to this section shall be repaid, (a) as soon as possible and shall, in any event, be repayable by the end of the Federal Government financial year in which they are granted and if such advances remain unpaid at the end of the year, the power of the Bank to grant such further advances in any subsequent year shall not be exercisable, unless the outstanding advances have been repaid: and (b) in such form as the Bank may determine provided that no repayment shall take the form of a promissory note or such other promise to pay at a future date or securitization by way of issuance of treasury bills, bonds, certificates, or other forms of security which is required to be underwritten by the Bank". Besides violating the provision of not advancing new loans when the outstanding has not been cleared, the Act forbids securitizing the loans regardless of whether they are issued to the market or not. But the Federal Government has recently initiated processes for securitization and justified its actions as a necessary condition to

manage the prevailing fiscal stress in the economy. The move to securitize these loans can be considered to be a blatant, and dangerous disregard of the law.

Summary of findings

1. Over the past two decades, the combined overall fiscal balance of the Federal Government of Nigeria has more often than not resulted in deficits. These fiscal deficits have remained a predominant occurrence in Nigeria even during periods of economic booms.
2. The Ways and Means Advances provisions, captured in the CBN Act 2007, allow the government to borrow from the Apex Bank if it needs short-term or emergency finance to fund delayed government expected cash receipts of fiscal deficits. Provisions in the Act cap monetary financing of fiscal deficits at 5% of the prior year's revenues.
3. The Federal Government's repeated recourse to Ways and Means Advances highlights weaknesses in public finance management as sustained use of direct monetary financing could raise risks to macroeconomic stability – given the current weak institutional safeguards.

Conclusion

In Nigeria, fiscal deficit has remained a predominant occurrence at both the Federal and state government levels, even during economic boom, and this is becoming a source of concern for public sector managers. Maintaining a sound policy action is desirable for achieving sustainable fiscal management and maintaining macroeconomic stability. Ways and Means Advances serve as short-term instruments of government for remediation of fiscal deficits. However, Ways and Means Advances are not repaid by the end of the fiscal year in which they were granted, violating the principle of short-term borrowing. The sharp rise recorded due to accumulated advances over time and laxity in repayment, both constitute a breach of the legal provisions, that have consequently fueled inflationary pressures and exacerbated Nigeria's debt burden.

Recommendations

In straightening out Nigeria's fiscal deficits, the federal authorities may need to realign the domestic investment environment and make it 'fit-for-purpose'. Events of the recent past suggest that the country cannot rely on borrowing to sustain an economic growth rate of at least 5% per annum. In this regard, the study presents the following recommendations:

1. First, the federal government needs to regulate its borrowing by making realistic assumptions of its revenue and expenditure projections. If there is less deficit, there would be a lower urge to borrow. The Federal Government should work its budget around its revenue and leave little or no room for deficits.

2. Nigeria's fiscal gap should increasingly be about national balance sheet management rather than income statement complaints about debt and revenue. Debt is not a death sentence, but fiscal imprudence can cause pain. To avoid fiscal pain, national assets need to be used in the best ways possible. Alternative solutions are less reliable and less attainable.
3. Investment has become the consummate economic elixir of fast-growing emerging countries. Nations aspiring to improve revenues and spread the benefits of growth to their citizens must see foreign direct investment as a tool of macroeconomic necessity rather than political convenience. As the fiscal authorities worry over budget deficits and deficit financing, they must equally think over FDIs which have the capacity to significantly correct fiscal deficits.
4. Lastly, the securitization of Ways and Means Advances has raised a few uncomfortable questions requiring clever legal fixes. Public policy economists have suggested that the National Assembly should amend the CBN Act to create a legal basis for Ways and Means Advances securitization rather than leave it under a vague 'doctrine of necessity'.

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