

Andrew Aondohemba Chenge  <https://orcid.org/0009-0002-5568-1694>

PhD, Department of Public Administration, Federal University Wukari, Nigeria, e-mail: drewchenge@gmail.com

DERISKING THE RISK: WAYS AND MEANS FINANCING VERSUS AUSTERITY MEASURES IN MANAGEMENT OF FISCAL IMBALANCES IN NIGERIA

ABSTRACT

The purpose of the article. The study analyses two prominent fiscal adjustment measures – Ways and Means financing, and austerity measures – to determine the most appropriate strategy for managing fiscal imbalances and economic crisis in Nigeria.

Methodology. Documentary research design was used as the methodology. Data was derived from reports and publications of government agencies. Data analysis was done using mixed methods content analysis.

Results of the research. Findings of the study highlighted that Ways and Means financing is justified since it provides the government with short-term funding to cover budgetary deficits. Nevertheless, if Ways and Means is applied without caution, it is likely to induce unchecked spending and money supply surges, resulting in inflation and currency devaluation. The study maintained that fiscal austerity, which advocates a policy of significant decrease in government deficits and stabilization of government debt through either tax hikes, spending cutbacks, or both, is a more effective measure in managing fiscal imbalances in Nigeria.

Keywords: austerity measures, fiscal deficits, fiscal imbalance, public debts, Ways and Means.

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Introduction

Beginning in the late 2000s, the economic crisis caused public deficit and debt to rise at an unprecedented rate, particularly in several European nations (Campoy-Munoz et al., 2022). Countries faced significant medium- and long-term fiscal concerns. Advanced economies' average national deficits increased from 3.9% of Gross Domestic Product (GDP) in 2008 to a peak of 8.3% in 2010. In industrialized economies, general government debt increased from 80% of GDP in 2008 to more than 107% in 2014 (International Monetary Fund [IMF], 2014). Twenty-five Organization for Economic Co-operation and Development (OECD) countries adopted plans to implement fiscal consolidation totalling about 6% of GDP from 2009 to 2013 as a result of these growing deficits and debt (Marcel, 2014; Posner, 2015).

The effects of the Great Recession on fiscal policy have been profound. Since budgeting is hampered by nearly unprecedented fiscal ambiguity, both pressures call for fiscal austerity and support growth and stimulus to boost stagnant economies. For democratic countries and their leaders, the upcoming decades will provide daunting difficulties. Most countries' deficits and debt have reached near-record levels, and even with the recovery from the crisis, there will be large budgetary gaps that need to be filled. In addition to the fiscal imbalances that result, countries will also have to deal with long-term fiscal constraints brought on by aging populations and growing health care costs. The return of robust growth, in contrast to past recessions, will pave the way for even more challenging and painful decisions rather than closing the fiscal gaps that these countries are currently facing. Eventually, a balance between short-term growth and long-term fiscal consolidation will be necessary for national economies to remain sustainable. It is currently being questioned if such measures are politically and economically viable (Posner, 2015).

To control budget deficits, numerous governments have been enacting significant fiscal reforms in the years since the global financial crisis. These actions were carried out in response to growing worries about either the public debt or solvency challenges in general. According to Reinhart et al. (2011) and Reinhart and Sbrancia (2015), policymakers may have had no other choice as sovereign yield spreads in several nations began to rise by 2010. However, many analysts began to doubt the rationality of these actions because financial market circumstances continued to worsen and growth performance in the ensuing years was poor (Born et al, 2014).

Governments usually implement fiscal reforms in reaction to economic crisis, which frequently necessitates the utilization of fiscal adjustment measures in the years that follow. The impact of fiscal adjustment measures on output has been the subject of extensive scholarly and policy debate (Alesina et al., 2019a; House et al., 2020). Although there have been recent discussions of the distributional effects of fiscal adjustment measures, the evidence is primarily

anecdotal (Varoufakis, 2016; Alpino et al., 2022). The study involves an analysis of two prominent fiscal adjustment measures – Ways and Means financing, and austerity measures – to determine the most appropriate strategy for managing fiscal imbalances and economic crisis in Nigeria. Specifically, the study aims to uncover the justification for adoption of Ways and Means financing in Nigeria’s public financial management. It also explores the dangers posed by Ways and Means financing in Nigeria. Lastly, the study examines austerity measures as alternative strategies in correcting the fiscal imbalances in Nigeria.

Conceptual Review

Ways and Means Financing

The term “Ways and Means financing” was first used by the British Parliament in the 17th century to describe the allocation of funds to satisfy the needs for national expenditures. Economists and financial specialists use the word to explain inflation and debt in Nigeria, but it gained popularity in government circles as a last-resort financing method. When the government borrows money from the central bank to pay for public expenditures, the fund is referred to as Ways and Means. According to Section 38 (1) of the Central Bank of Nigeria (CBN) Act, such borrowing must be short-term and should only take place “in respect of temporary deficiency of budget revenue.” Accordingly, the Federal Government can only receive loans from the CBN in the event of a temporary income shortage (Omorogbe, 2021; Anudu, 2023).

Austerity Measures

Austerity measures describe government initiatives meant to lower the debt of the public sector. In addition to increasing financial instability within a nation, unrestrained growth in public debt has the potential to trigger a national or even regional recession. In order to enhance its revenue, the government may decide to raise taxes when formulating economic austerity measures. The rate of indirect taxes (consumption tax) or direct taxes (income tax and wealth tax) may be raised by the government. It can then pay down its debt with the extra tax money. On the other hand, the government might cut back on spending. By cutting spending, the government’s debt can also be reduced (Glomm et al., 2018; Alesina et al., 2019; Corporate Finance Institute [CFI], 2023; Chenge, 2025).

Fiscal Imbalance

When a government’s expenditure (and consequent debt) exceeds its long-term capacity to generate income to pay for this expenditure and debt, fiscal imbalance typically occurs. This frequently happens when the government undertakes long-term spending commitments based

on unduly optimistic projections of the obligation's cost or the capacity or desire of taxpayers to pay for it. Vertical and horizontal fiscal imbalances are the two forms of imbalances that might affect a government's revenue and spending. When revenue and expenditure for various regions of the nation do not equal one another, this is referred to as a horizontal fiscal imbalance. Conversely, a vertical fiscal imbalance occurs when revenue and expenditure at various governmental levels do not equal one another (Matier et al., 2001; Bird & Tarasov, 2002; Sharma, 2007; 2012; Chenge & Oigbochie, 2023; Kenton, 2024).

Review of Related Literature

Fiscal Imbalance and Macroeconomic Stability

It is preferable to keep up a sound fiscal policy in order to achieve sustainable development and preserve macroeconomic stability. At any given time, fiscal imbalance can present significant challenges to the overall economy's management. In order to finance these fiscal imbalances, the government implements a number of initiatives. The banking system, which includes the central bank, deposit money banks, nonbank public, and privatization revenues, as well as domestic and foreign debt, can provide this type of funding (Effiong & Okijie, 2021).

When such imbalances are financed, more issues arise in the economy. While the Ricardians maintain that public debt has no negative effects on the economy, the Traditionalists contend that a growing budget deficit poses a significant threat to the economy. According to Nayab (2015), these issues include decreased economic growth, a current account deficit, rising inflation, and rising public debt in the economy. Boariu and Bilan (2007) asserted that inflation can also emerge as the result of debt financing of fiscal imbalance when it unintentionally causes the amount of money available in the economy to increase above what is necessary. From the aforementioned, fiscally dominant countries that experience ongoing budget deficits will need to create money, or seigniorage, to cover them, and this fuels inflation (Sargent & Wallace, 1981; Effiong & Okijie, 2021).

Previous research maintains that fiscal imbalance is a significant factor that contributes to inflation in an economy (Fisher, Sahay & Vegh, 2002; Ljunqvist & Sargent, 2000). The fiscal perspective also acknowledges that political unpredictability, diminished borrowing capacity, and ineffective tax collection pose a threat to lowering the relative cost of seigniorage and increasing reliance on the "inflation tax" (Calvo & Vegh, 1999; Catao & Terrones, 2003). The data rarely demonstrates a clear positive correlation between the magnitude of the budget deficit and the rate of inflation, as established by counterarguments to this claim (Blanchard & Fisher, 1989; Effiong & Okijie, 2021).

There are two ways to finance the fiscal imbalance: debt financing and monetary financing. Issuing fresh money to cover the excess of public spending that results in budget deficits is known as monetary financing (Boariu & Bilan, 2007). It has been proposed that governments should only use monetary financing to cover the budget deficit when they “force the issuing of money by putting into circulation more money that is normally necessary” (Filip, 2002). It is generally accepted that funding budget deficits through money issuance leads to inflation since governments mostly use it to pay wasteful spending. In order to finance the budget deficit, the government can also embark on debt financing which implies public borrowing. A public loan may have a variety of undesirable consequences. Boariu and Bilan (2007) and Effiong and Okijie (2021) aver that it leads to “the accumulation of public debt and to the increase in interest payments, which indicates an increase in the budgetary expenses that states have to cover.”

Since fiscal imbalance can lead to macroeconomic instability – which can include changes in output growth, price increases, stifling private investment, and perhaps a decline in employment – research has been conducted to determine the likelihood of such scenarios. The impact of fiscal imbalance on economic growth has been the subject of conflicting findings among scholars. To some research, fiscal imbalance has a positive impact on economic growth (Bose, 2007; Ahmad, 2013; Pelagidis & Desli, 2014); however, other studies, such as Augustt et al. (2015), Biza et al. (2015), Cebula (1995), Fatima et al. (2012), Ghura (1995), Hassan et al. (2014), Karras (1994), Tung (2018), and Van and Sudhipongpracha (2015) have found that fiscal imbalance has a negative impact on economic growth. Meanwhile, the research by Rahman (2012), and Velnampy and Achchuthan (2013) have indicated a neutral position regarding the impact of fiscal imbalance on economic growth.

The Role of Ways and Means Financing in Modern Economic Systems

The Bank of England was established in 1694 with a £1.2 million loan to the government to finance the Nine Years’ War with France, made possible by the first Ways and Means Act. Early in the 20th century, Ways and Means loans ceased to be the main source of funding because their use overflowed money markets with cash, which made it difficult for the Bank to control short-term interest rates. The facility, which has been retained for cash flow purposes, was crucial to the 2008 financial crisis, reaching £20 billion. A temporary extension of this facility has been announced by the Bank and the Treasury (Anudu, 2023; Papadopoulos, 2020).

Depending on different perspectives, Ways and Means financing may or may not be considered monetary financing. Spending newly created money is nearly always a part of budget deficits since selling government bonds to commercial banks generates bank deposits.

In the 1970s, this kind of monetary financing was common. Chancellor of the Exchequer, Denis Healey, credited the achievement “primarily to the far superior fiscal probity of the Labour Party” when the annual money supply growth dropped from 29% in 1973 to 11% in 1975. Since central bank purchases eliminate some market discipline, most economists favor a definition of monetary financing that includes purchases made using central bank funds as opposed to deposits in private banks. Although purchases are made on the secondary market, it is unclear whether quantitative easing qualifies as monetary financing (Papadopoulos, 2020; Adrian et al., 2024; Chadha, 2024; Corporate Finance Institute [CFI], n.d.).

When the government takes money out of the Ways and Means account, it is comparable to issuing a short-term bond directly to the central bank, albeit with a little more flexibility. The Treasury has been eager to downplay the possibility that it could be interpreted as monetary financing. The facility, it emphasized, is a short-term cash flow management tool, and it will continue to rely on markets as its main source of funding. The Treasury’s position attempts to uphold the postulation of the then governor of the Bank of England, Andrew Bailey, after he stated in the April 2020 Financial Times that the “Bank of England is not doing monetary financing” (Papadopoulos, 2020; Omorogbe, 2021).

The monetary authorities of the United Kingdom have a history of promoting the efficient operation of bond markets. In order to avoid unduly distorting relative bond prices, they were cautious during QE to buy bonds evenly along the yield curve. It makes sense that they would employ Ways and Means to prevent the primary market from being disrupted. Despite having the appearance of monetary financing, Ways and Means is presently too limited and short-term to be used in accordance with the conventional strategy of UK debt management policy. The facility, however, is clearly becoming a more permanent part of the national debt. According to the Bank and Treasury’s joint statement, “any drawings will be repaid as soon as possible before the end of the year.” But this, in certain instances, could easily be prolonged especially if the economy was having trouble recovering, and there were numerous financial obligations to meet before the year end. While asset purchases and zero interest rates have lasted longer than many economists initially anticipated, temporary policies have a little more permanency in times of crisis (McMahon & Macchiarelli, 2020; Papadopoulos, 2020; Smith, 2020).

Depending on how much and for how long, borrowing directly from the central bank may or may not induce inflation. The Bank of England estimates that the UK’s money supply is £2.2 trillion, and during the 2010s, it grew at a rate of about 4% annually. Although a change in the money supply rarely results in a corresponding shift in prices, it does provide a useful indication of the scale of changes. Less than 1% of the money supply is added when £20 billion

is borrowed for a month. For a year or two, borrowing £200 billion would increase the money supply by 10%, potentially contributing a few percentage points to inflation. Unless there is downward pressure on gilt prices, there won't be any incentive to issue bonds directly to the Bank or increase Ways and Means borrowing to such levels. Such steps would be counterproductive, given market borrowing remains inexpensive. However, the monetary financing discussion will become much more fascinating if market rates do begin to climb (McMahon & Macchiarelli, 2020; Papadopoulos, 2020; Hulsewig & Steinbach, 2021).

Austerity Measures and Economic Management

The Greek national debt crisis served as the impetus for austerity. The ability of other Eurozone nations, particularly Portugal, Ireland, Italy, and Spain, to control their deficits was called into question by worries about a potential Greek default. As a result, what started out as a private debt crisis turned into a European sovereign debt crisis. To try to calm the bond markets, the International Monetary Fund (IMF) and the European Central Bank (ECB) imposed strict austerity measures as a requirement for their support. This successfully transferred the crisis's burden from the private (financial) sector to the government (Goddard et al., 2009; Konzelmann, 2012; Beker, 2014).

Reducing a nation's deficit, or the gap between government spending and revenue, is the goal of economic austerity. Therefore, austerity policies involve a mix of higher taxes and decreased governmental spending. It is not as simple as it may seem at first glance, though, because public deficits need to be funded, and the funding strategy – borrowing as opposed to creating money – has its own set of economic, social, and political repercussions. As a result, it is impossible to effectively divorce the economics of austerity from its social and political setting (Posner, 2015; Campoy-Munoz et al., 2022; Biten et al., 2023).

The public debt linked to financial institution bailouts in the wake of the 2007–2008 financial crisis not only infuriated bond markets but also enraged voters, escalating the debate over whose interests should come first. In several of the “peripheral” Eurozone nations, social instability brought on by externally enforced austerity made this even more apparent. Democratically elected governments were replaced by “technocrats,” who were tasked with enforcing increasingly strict austerity measures, in addition to a drastic rollback of the welfare state (Posner & Blondal, 2012; Beker, 2014; European Federation of Public Service Unions [EPSU], n.d.). However, as Keynes (1936) cited in Konzelmann (2012) noted, financial markets are subject to irrational fluctuations, ranging from unchecked optimism to debilitating pessimism. Austerity will therefore undoubtedly face more criticism if it is unable to persuade

the financial markets that governments can control their deficits, particularly if it hinders economic growth. The basic question of what austerity is meant to achieve is thus brought up.

Politicians argue that austerity is necessary to “balance the budget,” and that it also serves to placate international financial markets, bond dealers, and organizations like the ECB and the IMF. Making public debt more “affordable” is the goal, regardless. However, a country’s ability to manage its debt is not solely dependent on its size. During prosperous times, fiscal debt is easier to control because it is based on the equilibrium between government spending and revenue. Keynes acknowledged this and contended that in order to keep the economy from overheating and producing inflation, austerity should be implemented at the peak of the business cycle. This viewpoint holds that when unemployment is the issue, austerity is the antithesis of stimulation, which is the recommended course of action during a downturn (Konzelmann, 2012; Fieldhouse et al., 2019).

However, calls for economic austerity have typically been linked to the bottom of the business cycle in the decades leading up to the 2007–2008 financial crisis because of the reluctance of many politicians to control the good times of a boom and the “overwhelming pessimism” that results from the collapse of successive boom-inflated bubbles. At these times, austerity measures have been framed by the indisputable reasoning that, after living beyond our means for too long, it is now time to practice restraint and prudence. They have been presented as both an economic necessity and a moral imperative. Some critics have even gone further to argue that austerity, in itself, can be expansionary (Konzelmann, 2012; Posner & Blondal, 2012; Alesina et al., 2019; EPSU, n.d.).

Theoretical Framework

The Vertical Fiscal Imbalance (VFI) theory of Ruggeri and Howard’s (2000) was used as the theoretical basis of the study. The idea behind VFI originated with previous research that looked at Canada’s fundamental budget imbalances. Ruggeri et al. (1993a) establish a stronger connection between structural imbalance and the concept of budgetary sustainability. For instance, structural balance implies a constant or reducing debt-to-GDP ratio with a limit of zero, according to Ruggeri et al. (1993a), given a number of assumptions. Then, using the foundational principles of VFI and the initial values for the budget balance and debt, Ruggeri et al. (1993a; 1993b) simulate future values of the budget balance and debt-to-GDP ratio for every level of government. Their simulations, between 1992/1993 and 2013/2014, reveal that the provincial debt-to-GDP ratio increased while the federal debt-to-GDP ratio decreased, thus illustrating VFI (Matier et al., 2001).

Ruggeri et al. (1993a) establish a linkage between structural imbalance and the stability of the debt-to-GDP ratio, which serves as a helpful foundation for conceptualizing VFI in a dynamic framework that is closely related to the idea of fiscal sustainability. One measure of VFI is the comparison of the size of (structural) budget balances across time across governmental levels (i.e., the method used in Ruggeri (2000) and Ruggeri & Howard (2000)). This strategy is not totally satisfactory, though, as it only considers the relative sizes of the budget balances. Simply put, the difference between budget balances at different levels of government at any given time is used to determine the amount of VFI (Matier et al., 2001; Bird & Tarasov, 2002; Sharma, 2007; 2012; Aldasoro & Seiferling, 2014).

A measure of VFI that is only dependent on the relative magnitude of the budget balances in a particular year runs the risk of creating a “fiscal illusion.” According to Auerbach et al. (1991), a government can theoretically implement any kind of fiscal policy while simultaneously recording a deficit or surplus of any magnitude. They maintain that, “unfortunately, from the perspective of economic theory, the deficit is an arbitrary accounting construct.” (Auerbach et al., 1991: p. 57). Given that economic theory does provide guidance for avoiding this possible issue, creating an indicator of VFI based on an arbitrary accounting construct does not appear to be totally sufficient (Matier et al., 2001).

In applying this theory, the study maintains that VFI can transiently be corrected by Ways and Means financing and austerity measures. Ways and Means financing offers quick liquidity but does not alter the fundamental structure, resulting in a continuous revenue-expenditure disparity. Relying on Ways and Means financing to cover a structural VFI would result in increased debt and consequent inflationary pressure, worsening rather than resolving the issue. Austerity measures, on the other hand, might temporarily reduce the amount of budget imbalance by lowering spending or raising revenue. However, if the VFI is caused by a mismatch in constitutional responsibilities (i.e., when spending obligations exceed revenue assignments), austerity may force the government to remove important services, potentially causing social or political problems, without addressing the underlying structural issue. Adoption of either policy is thus contingent on economic conditions, deficit severity, growth requirements, and long-term viability.

Methodology

The study used documentary research design. Therefore, secondary sources of data comprising published materials were used for data collection. Data was derived from reports of agencies like the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), Debt Management Office (DMO), and Ministry of Finance, Budget and National Planning

(FMFBNP). Data analysis was done using mixed methods content analysis which integrates both quantitative and qualitative analytical approaches.

Discussions and Findings

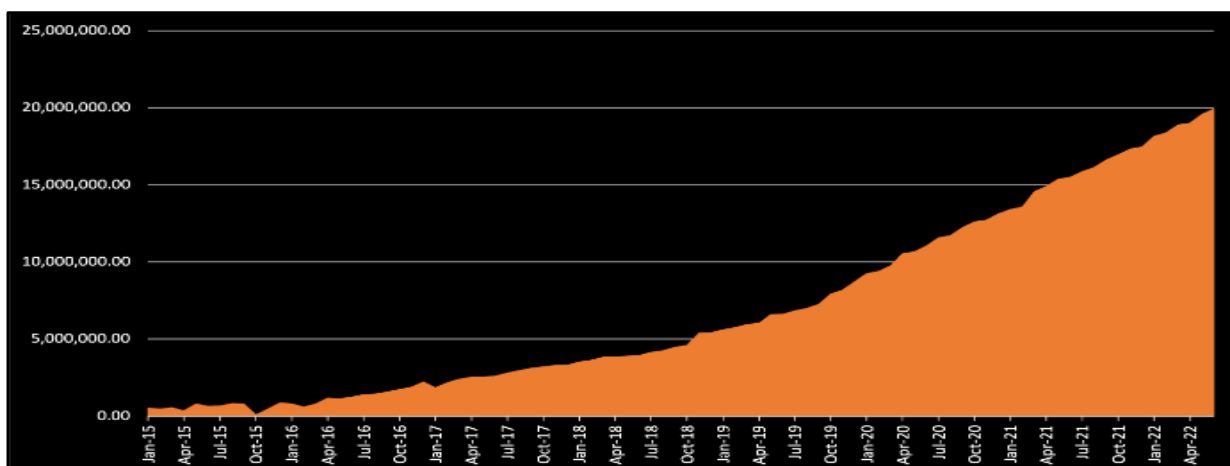
Justification of Ways and Means Financing in Nigeria's Public Financial Management

In a fiscal year, the government publishes its budget, and a fiscal imbalance occurs when spending exceeds revenue. Most of the money used to finance the fiscal deficit comes from asset sales, borrowing from both local and foreign markets, and receiving grants from multilateral organizations. In most cases, however, actual revenue is less than anticipated, and actual expenditures are higher than anticipated. This implies that there will be a greater fiscal deficit, which will allow the central bank to intervene using its own methods. Note that this circumstance is very common in developing nations, and it has been particularly evident in the Nigerian context (Kuranga, 2021).

The apex bank (central bank) may lend money to the government under the Ways and Means clause if it needs emergency or short-term funding to cover fiscal deficits that are projected to be delayed. The statute has provisions capping the amount of money used to finance fiscal deficits at 5% of the previous year's income. But ever since there was a noticeable decline in government revenue, the government has been largely dependent on the central bank to fund its spending plans through Ways and Means financing. The CBN reports that as of June 2022, the Ways and Means balance was ₦19.9 trillion, up from ₦17.4 trillion at the end of 2021 (Figure 1).

Figure 1

CBN Ways and Means Financing Statistics in Nigeria



Source: CBN, 2022.

The federal government's inability to meet its revenue expectations has resulted in an increase in CBN Ways and Means financing. For instance, the government only got ₦3.4 trillion in allotted revenue in the first nine months of 2021, as opposed to the ₦4.9 trillion it had projected. A prorated revenue of ₦3.3 trillion was also budgeted by the federal government for the first four months of the year (2022), but only ₦1.6 trillion, or 49% of the target, was received. ₦1.9 trillion, or 119% of the total amount of money collected, was used to pay down the debt, of the ₦4.7 trillion in expenses. Perhaps this explains why CBN Ways and Means financing increased tremendously in the first half of 2022 (Nairametrics, 2022; Olowo, 2024).

In keeping with a credit extension from 2021, the CBN extended a total of ₦2.45 trillion in the first half of 2022. This amounts to over ₦5 trillion annually. The Covid-19 outbreak and its impact on oil earnings caused government revenues to plummet, therefore the CBN lent the government a total of ₦4.38 trillion in 2020 and ₦4.34 trillion in 2021. The Buhari administration, which oversaw a period of record low oil prices, high oil theft, and oil supply caps, mainly relied on Ways and Means financing to fund its budget deficits. When the government took office at the end of May 2015, Nigeria's Ways and Means balance was approximately ₦789.6 billion. However, the debt owed to the CBN, which was ₦20 trillion as at June 2022, was 25 times greater than it was in 2015, indicating an unprecedented use of the Ways and Means provisions (Anudu, 2023).

The CBN credit policy for 2020 stipulates that the federal government will continue to have access to Ways and Means Advances to finance deficits in its budgetary operations. It also states that these advances must be liquidated expeditiously and paid back before the end of the year in which they were made (Adegboyega, 2024). The increase in Ways and Means balances, nonetheless, suggests that reimbursement is not occurring as planned. It is unlikely that this money will ever be recovered unless it is through federal government bonds, and it may take a period of five to ten years. The CBN and the finance minister, Dr. Zainab Ahmed, announced intentions in January 2019 to turn the apex bank's loans into tradeable securities. The Director General of the Debt Management Office, Ms. Patience Oniha, reaffirmed this stance in February 2019, stating that the government's borrowing through Ways and Means financing was no longer viable, which prompted the decision to convert the loans into bonds (Nairametrics, 2022; Omogbolagun & Adaji, 2024).

Dangers of Ways and Means Financing in Nigeria

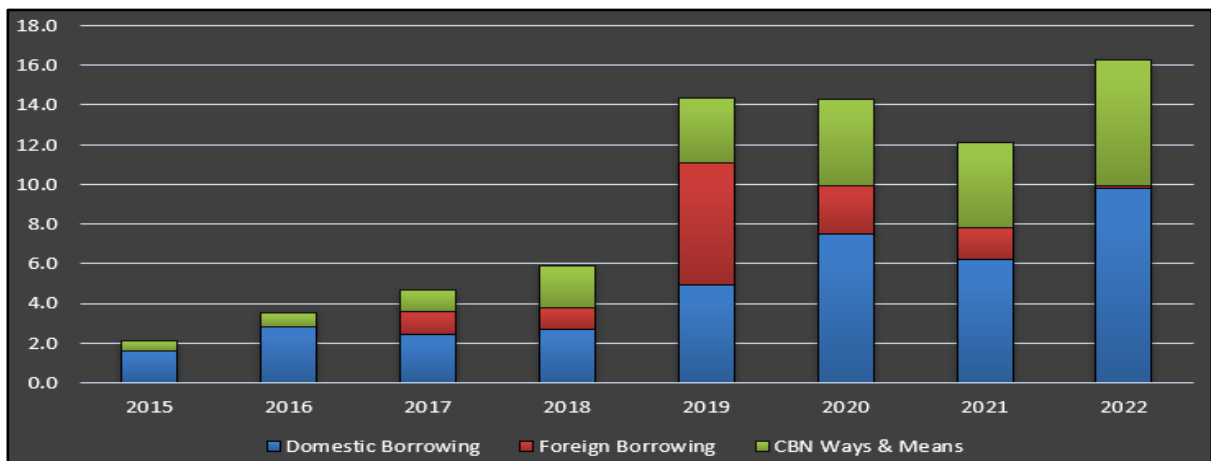
Initially, CBN Ways and Means financing – particularly in 2020 – was not viewed as a problem because there was a pandemic which greatly affected the economy, creating a recession. In order to spend its way out of the recession, government operations crippled revenue.

Consequently, the federal government issued bonds to the CBN, which in turn assisted in printing money for the federal government. This is also true for industrialized economies, where monetary and fiscal stimulus plans were commonplace. In actuality, 2020 saw the printing of around 25% of all US dollars ever created (Kuranga, 2021).

However, it appears that the use of CBN Ways and Means in deficit financing is a structural rather than an isolated incident. This is due to historical evidence that, even in the absence of an economic crisis, the CBN has been funding a significant portion of the federal government's deficits. For instance, the CBN supported 52.2% of the ₦3.64 trillion fiscal deficit in 2018. The CBN also financed 78.3%, or ₦3.31 trillion, of the ₦4.23 trillion total fiscal deficit in 2019 (Figure 2). Since there was no recession during those times, the CBN's decision to print money in order to cover a sizable portion of the federal government's fiscal deficit defies economic theory.

Figure 2

Borrowing versus CBN Ways and Means Financing (₦'trn)

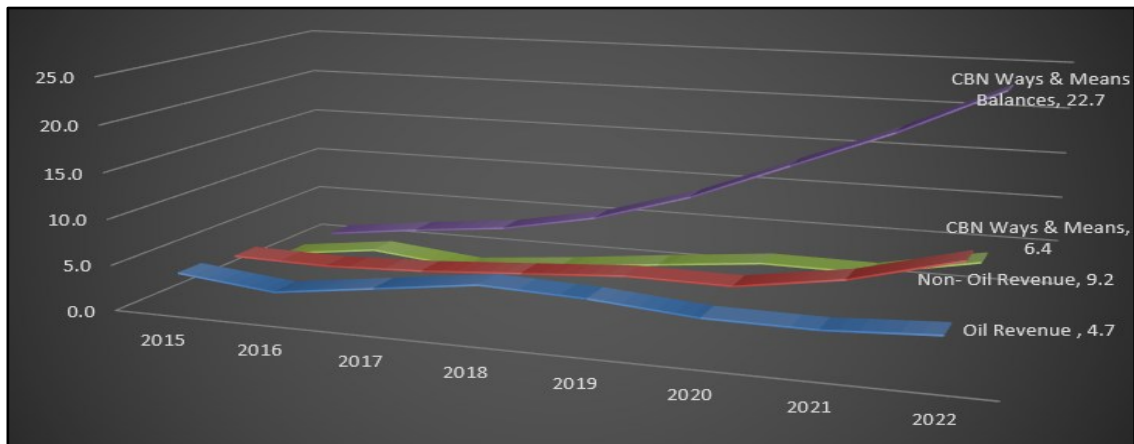


Source: CBN, 2022; 2023; DMO, 2023; NBS, 2023.

The problem is exacerbated when you compare CBN Ways and Means financing with oil and non-oil earnings. From available facts and figures, it is evident that Ways and Means financing has increased more than both oil and non-oil revenues since 2015. For instance, Ways and Means financing was ₦3.3 trillion in 2019 (with Ways and Means balances at ₦8.7 trillion), while oil revenue was ₦5.1 trillion. In 2022, the situation worsened as oil and non-oil revenue totalled ₦13.9 trillion, while Ways and Means financing was ₦6.4 trillion (with Ways and Means balances at ₦22.7 trillion – i.e., greater than the sum of oil and non-oil revenue) (Figure 3).

Figure 3

Oil & Non-Oil Revenue versus CBN Ways and Means Financing (₦'trn)

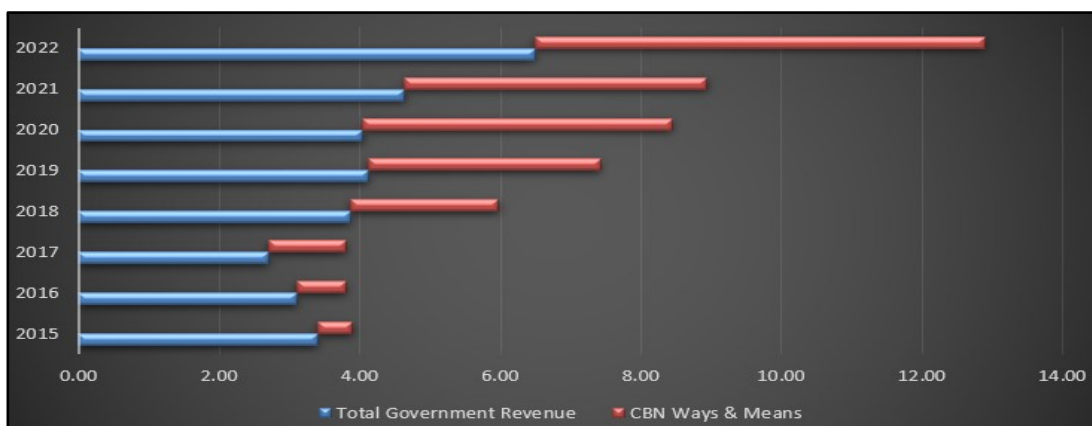


Source: CBN, 2022; 2023; DMO, 2023; NBS, 2023.

According to policy experts, the Buhari administration should not have requested more than ₦135 billion, or 5% of ₦2.7 trillion in revenue that was realized in 2017. Nevertheless, Ways and Means financing that constituted 77.8% of revenue from the previous year, was taken by the government. While Ways and Means financing was ₦3.3 trillion in 2019, representing 85.27% of 2018 revenue, actual revenue (i.e., federal government retained revenue) was ₦4.12 trillion. The government borrowed 7% more from the CBN in 2020 than it did in 2019, as there was ₦4.04 trillion in actual revenue and ₦4.4 trillion in Ways and Means financing, which accounted for 107% of the revenue in 2020. In 2021, Ways and Means financing was ₦4.3 trillion, or 106.4% of total revenue, whereas actual revenue was ₦4.64 trillion. Ways and Means financing was ₦6.4 trillion, or 138% of 2021 revenue (in 2022), while actual revenue in 2022 was ₦6.49 trillion (Figure 4).

Figure 4

Federal Government Retained Revenue versus CBN Ways and Means Financing (₦'trn)



Source: CBN, 2023; FMFBNP, 2023.

The government's increased reliance on CBN Ways and Means financing has a number of ramifications. First of all, it is against the CBN Act (2007) which stipulates that it is an emergency fund that should be short-term and not exceed the set limit. Repeated recourse to Ways and Means financing therefore signals that any president in office or the federal government can break the law without any consequences. By increasing money or capital market liquidity, Ways and Means financing also contributes to inflation. Money market is a market where short-term instruments are traded. Treasury bills and mutual funds are two examples of such financial products. The capital market, on the other hand, refers to a market where long-term securities like stocks and bonds are exchanged. An increase in the economy's inflation rate is largely caused by excess liquidity in the system that is not supported by productivity. To put it another way, if the pace of money printing increases more quickly than economic output, money loses value and eventually leads to inflation. This causes hyperinflation over time and would seriously harm the economy. Furthermore, due to the extra liquidity that has been pushed into the economy, the exchange rate is also negatively impacted. All these factors suggest that the system's excess liquidity can cause macroeconomic instability.

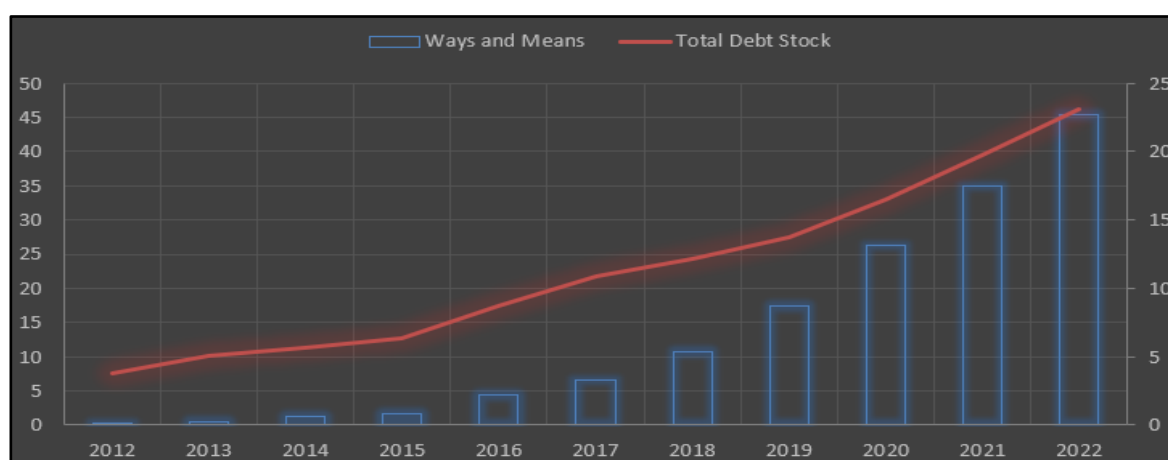
Additionally, experts contend that Nigeria's inflation is impacted by the government's current attempt to securitize Ways and Means loans. Rather than repaying the CBN, the federal government just overinvests in the money or capital market by securitizing Ways and Means loans. When you market a bond worth ₦11 trillion, for example, investors will trade and pay for it. This automatically makes the economy more liquid – i.e., increases the amount of money that is available to the economy – consequently driving up inflation. This stance has also been emphasized by the World Bank (cited in Anudu, 2023), which notes that “between 2020 and 2021, inflation left about eight million more Nigerians below the poverty line by increasing the total number of poor people to about 90 million.” Stated differently, the CBN is party to government decisions and policies that have contributed to Nigeria's rising inflation over the past six years. The high cost-of-living is one way that growing inflation rate hurts the average Nigerian (Chenge, 2026).

Furthermore, because all loans must be paid back with interest, no matter how small, Ways and Means financing saddles Nigeria with the burden of debt servicing (Figure 5). After the debt repayment, there are insufficient resources left over for development initiatives and infrastructural advancement to satisfy the socioeconomic needs of the average person. Also, it limits Nigeria's ability to innovate. Considering that the federal government has the CBN to generate money for needed operations, it appears to have no interest in increasing revenue.

Increased reliance on Ways and Means financing – without repayment – destroys the ability to leverage revenue avenues, making it difficult for the government to fund programs that can improve livelihoods. Anudu (2023) and Kuranga (2021) maintain that if the CBN becomes incapable of funding government operations, the federal government will collapse because it will lack the means to finance its operations, creating internal imbalance and sending a signal to the external sector.

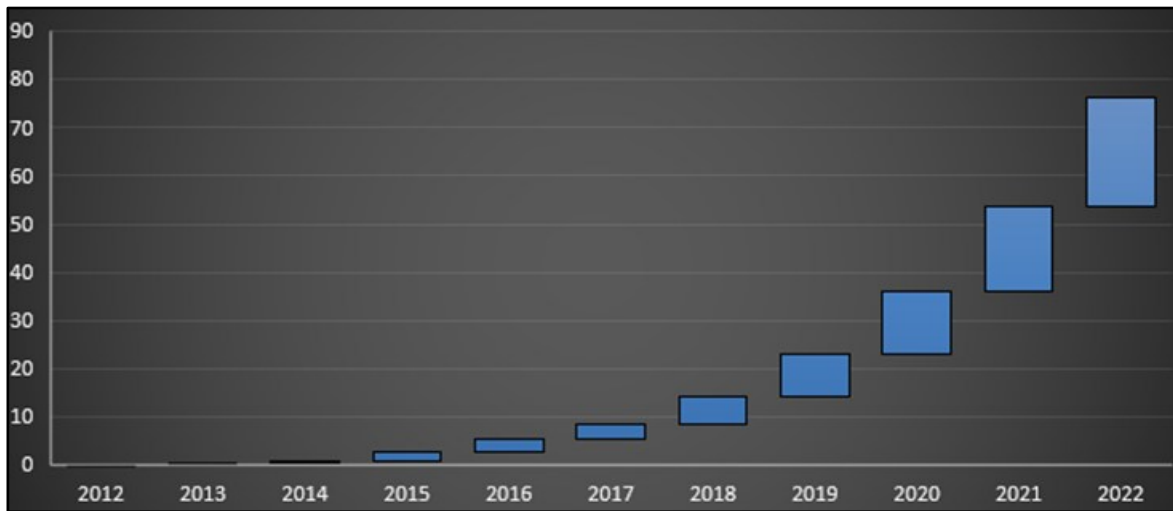
Figure 5

Total Debt Stock versus CBN Ways and Means Financing (₦'trn)



Source: CBN, 2022; 2023; DMO, 2023; NBS, 2023.

In response to the increasing Ways and Means balances (Figures 3, 4 & 5), the finance minister disclosed that discussions were underway to codify CBN financing in order to increase accountability for the loans acquired. As a result, the CBN will consider offering the loans to the general public in the form of bonds, and the public will provide the funds. This implies that the federal government would be held accountable to the public for repayment, relieving the CBN of some of its load. This is expected to be a better approach since the government will take revenue mobilization and waste reduction seriously if it does not want to fall behind on paying its citizens (Kuranga, 2021). From the CBN monetary account record, as of December 2021, the bank's outstanding sum from its overdraft to the federal government was ₦17.45 trillion. By the end of 2022, the total outstanding overdraft was approximately ₦23 trillion (i.e., if ₦17.45 trillion Ways and Means balance of 2021 is added to the ₦6.4 trillion Ways and Means annual receipt of 2022) (Figure 6). Thus, it will take roughly six to ten years for the federal government to securitize the entire outstanding overdraft assuming the entire bond allotment of 2022 is used for computation.

Figure 6*Outstanding Overdraft to the Federal Government (₦'trn)*

Source: CBN, 2022; 2023; DMO, 2023.

Given that the federal government is providing bonds to fund its budget, it will take a number of years to formally approve the loans, particularly since it does not want to give up the low-interest environment anytime soon. If the federal government, then chooses to securitize aggressively, rates will probably rise sharply and aggressive securitization would push out private sector borrowing, which will likely limit growth.

Austerity Measures as Alternative Strategies in Correcting Fiscal Imbalances in Nigeria

The National Assembly's decision to approve the securitization of CBN Ways and Means loans to the federal government, estimated at ₦22.7 trillion (in 2022), caused a stir in the Nigerian polity. The arrangement put the loans on a 40-year tenor with a three-year principal repayment moratorium and an annual interest rate of 9%. As previously mentioned, Ways and Means financing refers to the process by which a government borrows money from the nation's central bank in order to manage immediate cash flow mismatches. Concerns have been raised regarding the practice, particularly in nations where the central bank lacks the independence to reject a request if it is deemed unnecessary or detrimental to the economy. When used without caution, Ways and Means financing can lead to unchecked spending and money supply surges that are not accompanied by productive activity, resulting in inflation and currency devaluation (Omorogbe, 2021).

Fiscal austerity is perceived as a more effective way to control fiscal imbalances. It denotes a program of stabilizing government debt and reducing deficits by a significant amount, either through tax hikes, spending cutbacks, or both. Austerity measures usually take the form of multi-

year programs, which are disclosed beforehand and occasionally modified in the middle of the process. When a government decides to start a fiscal consolidation program, choosing which taxes to raise or which spending items to cutback usually comes after much debate. The first decision is usually how much the deficit should be reduced. Therefore, tax hikes and spending cutbacks are not independent of one another if the objective is to reduce the deficit by a specific amount because they must add up to a predetermined number (Alesina et al., 2019).

Spending cutbacks are all too frequently portrayed as harsh austerity measures that impede the economy – an unavoidable evil. This is a spurious claim because recent economic research has shown that reducing spending and stabilizing government debt can spur economic expansion. From optimistic projections, the United States Federal Government public debt, which already stands at an astounding \$28.8 trillion, or equal to the country's yearly economic output, is expected to soar to 166% of GDP by 2054. The rise in interest rates and a small number of entitlement programs, such as Medicare, Social Security, and Medicaid, are the main causes of this skyrocketing debt. Economic growth is already being slowed by excessive debt levels, which are also raising inflation and interest rates. This makes borrowing and investing more difficult for both families and corporations. Another implication is that interest rates rise when the federal government takes on a lot of debt because it is competing with the private sector for scarce financial resources (i.e., the crowding-out effect). Lower wages, a less competitive economy, and less productivity are the outcomes. Spending reductions lessen this crowding-out impact by releasing funds for private sector investment, job creation, and income growth (Boccia & Lett, 2025).

To raise more money, governments may also increase taxes on people, families, or businesses. In fiscal austerity, taxation frequently entails tax increases to pay for government expenditures or deficit reduction. Raising tax rates, expanding the tax base, doing away with tax breaks or deductions, or enacting new taxes are some ways to do this. Tax increments or hikes are the most popular austerity measures used to mobilize revenue and reduce government spending by putting an additional burden on taxpayers. Raising income tax rates or enacting additional taxes are examples of tax increments that directly raise the amount that people and businesses must pay, which raises government tax revenues (CFI, 2023; Kahongeh, 2024). However, because they limit the amount of money available for both individual and company spending and investment, tax hikes may have a dampening effect on economic activity.

Summary of Findings

1. Ways and Means financing enables the government to borrow from the central bank in the event that it needs short-term or emergency funds to finance fiscal deficits.

2. There is a significant risk associated with Ways and Means financing, particularly in nations where the central bank lacks the independence to reject demands for the advances if it deems it superfluous or detrimental to the economy. Unmeasured use of Ways and Means financing can stimulate unchecked spending and increased money supply that do not correspond with productive activity, leading to inflation and currency devaluation.
3. Fiscal austerity is perceived as a more effective way of managing fiscal imbalances. It denotes a strategy of stabilizing government debt and significantly reducing deficits by using either tax hikes, spending cutbacks, or both.

Conclusion

Fiscal austerity offers a better solution to management of fiscal imbalances than Ways and Means financing. Fiscal austerity is based on the idea that budget deficits can be decreased and the growth of public debt halted or even reversed by cutting government expenditures and/or raising taxes. Proponents of austerity measures contend that they can boost economic stability, rebuild public trust in the economy, and lay the groundwork for long-term sustainable growth. Critics counter that austerity measures can worsen the effects of economic downturns by decreasing aggregate demand, which lowers economic activity, increases unemployment, and slows growth. They contend that governments ought to give priority to stimulus plans in these situations in order to increase economic activity and create jobs. The study concludes that a number of variables, such as the economic environment, the scope and timing of the measures, and the particular structural features of the economy, determine the effectiveness of fiscal austerity.

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