

# SOUTHWEST ECONOMIC OUTLOOK

## PROSPECTS AND CHALLENGES FOR SUB-NATIONALS IN 2024

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*Presented by*

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# Introduction

- Analysing challenges and prospects is critical if an economy or a group of people must move forward
- Such an exercise serves as a projection of an economy's overall health and performance over a specified period.
- This is also very useful, not only at the national but also sub-national level.
- The sub-nationals ensure the provision of public services
  - since lower tiers of government have greater information about local conditions
  - and can, therefore, provide services that are better suited to the needs and preferences of the local population in an economy





# THE NIGERIAN ECONOMY

# Current Economic Environment

| Indicators                          | 2022      | 2023      | % Change |
|-------------------------------------|-----------|-----------|----------|
| GDP Growth (%) - Q3                 | 2.25      | 2.54      | 0.29     |
| Inflation Rate (%) - Dec            | 21.34     | 28.92     | 7.58     |
| Crude oil Price (\$/bn) - Dec       | 82.04     | 79.4      | (3.22)   |
| Official Exchange Rate (N/\$) – Dec | 448.08    | 899.39    | 100.72   |
| Parallel Exchange Rate (N/\$) – Dec | 737       | 1240.08   | 68.26    |
| External Reserves (\$'mil) – Dec    | 37,089.09 | 32,912.43 | (11.26)  |
| Petrol Price (N/Ltr) - Dec          | 202.48    | 648.93    | 220.49   |
| Total Public Debt (N'trn) – Q3      | 44.06     | 87.91     | 99.52    |

- Many economic indicators exhibited weaker performance last year.
- The effects of recent policy reforms are still lingering, as businesses face high production costs and forex.
- Naira has continued its downward spiral, trading at the parallel market at N1,240/\$ by the end of December 2023.
- As such, the focus should be on implementing effective monetary policies to curb inflation and strengthen the exchange rate.

# Challenges

- **Inflation Rate**

- In December 2023, the inflation rate reached 28.92%.

- **Increase in Energy Prices**

- PMS price for instance has increased by 220.5% in the last one year.
- Prices of solar and inverters have also increased significantly.

- **Increase in Debt.**

- At the end of 2023, Nigeria's total public debt increased to close to N90trn

- **Governance and Corruption**

- Nigeria scores low in the indicators of the World Governance Index.

- **Insecurity.**

- Several cases of armed banditry and kidnapping

- **Natural disasters and pandemics.**

- Oil spills, erosion, gas flaring etc

- **Effect of War and Coup on the Economy.**

- Distortion to global commodity value chains
- Increase in food prices

- **Capacity of Domestic Firms for Regional Competition**

- Infrastructure constraints
- High cost of capital
- Import dependence and volatility in exchange rate
- Impact of AfCFTA



# Nigeria's Prospects and Outlook

- IMF, in its October 2023 edition of the World Economic Outlook (WEO), is projecting a growth rate of 3.1% for Nigeria.
- This is lower than the 3.76% in the country's 2024–2026 Medium Term Expenditure Framework (MTEF).
- The 2024 budget is premised on the benchmarked crude oil price of \$77.96/barrel and the production rate of 1.78 million barrels/day.

- In addition, when the planned recapitalization of the banks is completed, Nigeria will have bigger and better banks that can effectively perform their primary role of financial intermediation and provide the necessary finance to boost productive activities in the country.

- Conversely, the President has announced the plan of his administration to achieve a GDP of US\$1 trillion economy before 2030.
- Therefore, for Nigeria to attain its new GDP target, it needs to grow beyond these numbers; and there are key prospects for doing so, beginning in 2024.

- Equally, expectations are high on the commencement of Dangote Refinery and others with the potential to reduce Nigeria's reliance on imported refined petroleum products and save the scarce foreign exchange.
- Progress and successful production from these local refineries will be expected to further contribute to the country's growth and ease some of its constraints.



# **THE NIGERIAN SUB-NATIONALS**

# - INDUSTRIALISATION AND BUSINESS COMPETITIVENESS -

The North West Zone has made strides in industrialisation, with the establishment of several small and medium-sized enterprises in various sectors such as agriculture, textiles, and construction. The government has implemented policies to support these industries, resulting in the growth of local businesses. Additionally, the zone's vast agricultural resources have attracted investments in the agricultural sector, leading to increased food production and processing.

The North East Zone has significant potential for industrialisation, particularly in the areas of agriculture, solid minerals, and renewable energy. The zone has also benefited from several business competitiveness programmes, from both local and foreign development institutions.

North Central has made significant progress in industrialisation, with the establishment of various industries such as steel, textile, and cement plants. The government has implemented policies to support small and medium-sized enterprises, resulting in the growth of various local businesses. Furthermore, the zone's strategic location at the centre of the country has made it a transportation and logistics hub, enhancing business competitiveness.



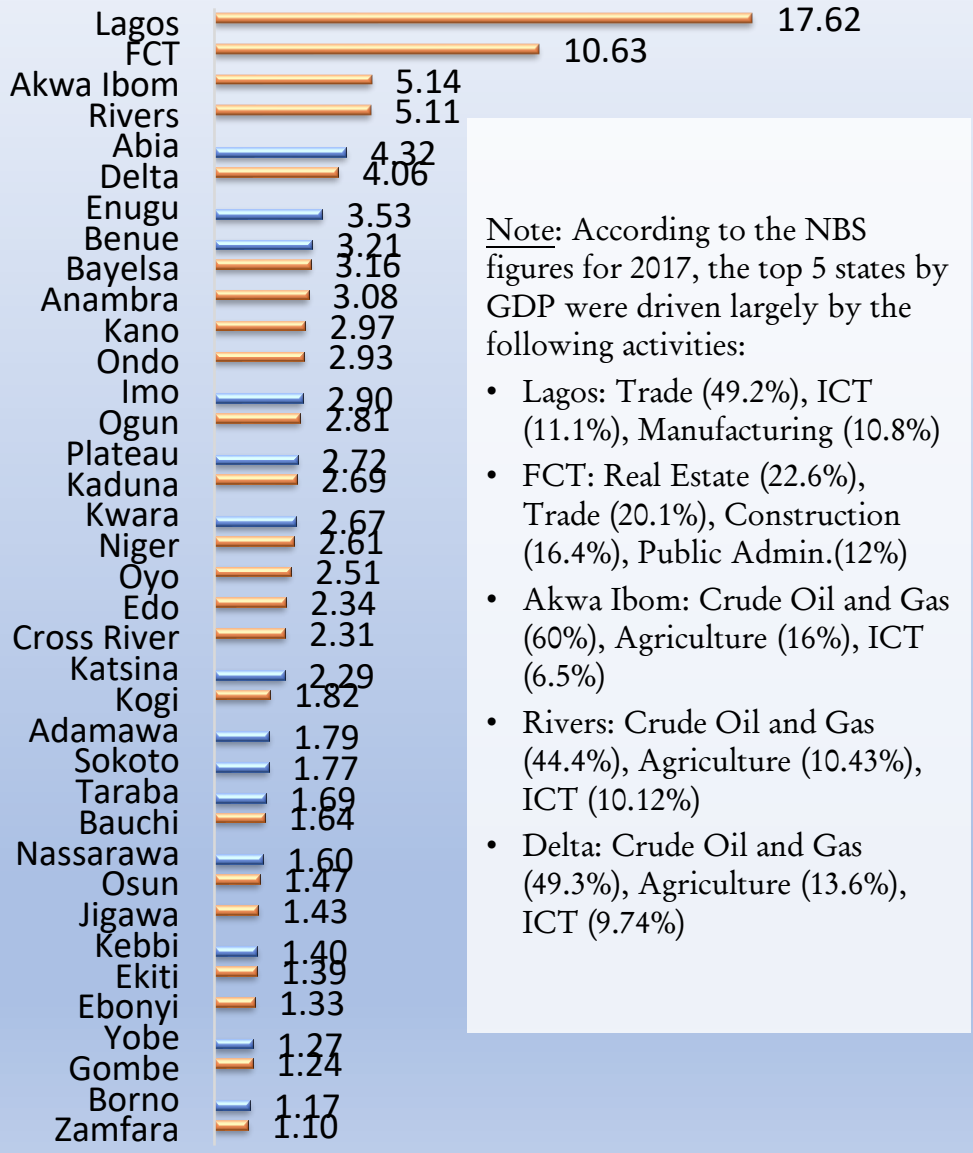
The South East Zone is known for its entrepreneurial spirit and has a significant number of small and medium-sized enterprises (SMEs). The zone has also benefited from several business competitiveness programmes, such as the Nigerian Youth Investment Fund (NYIF) and the Bank of Industry's SME Cluster Development programmes.

The South West Zone is home to several thriving industries, such as manufacturing, finance, and entertainment. The zone has also benefited from several business competitiveness programmes, such as the Nigerian Youth Investment Fund (NYIF) and the Bank of Industry's SME Cluster Development programmes.

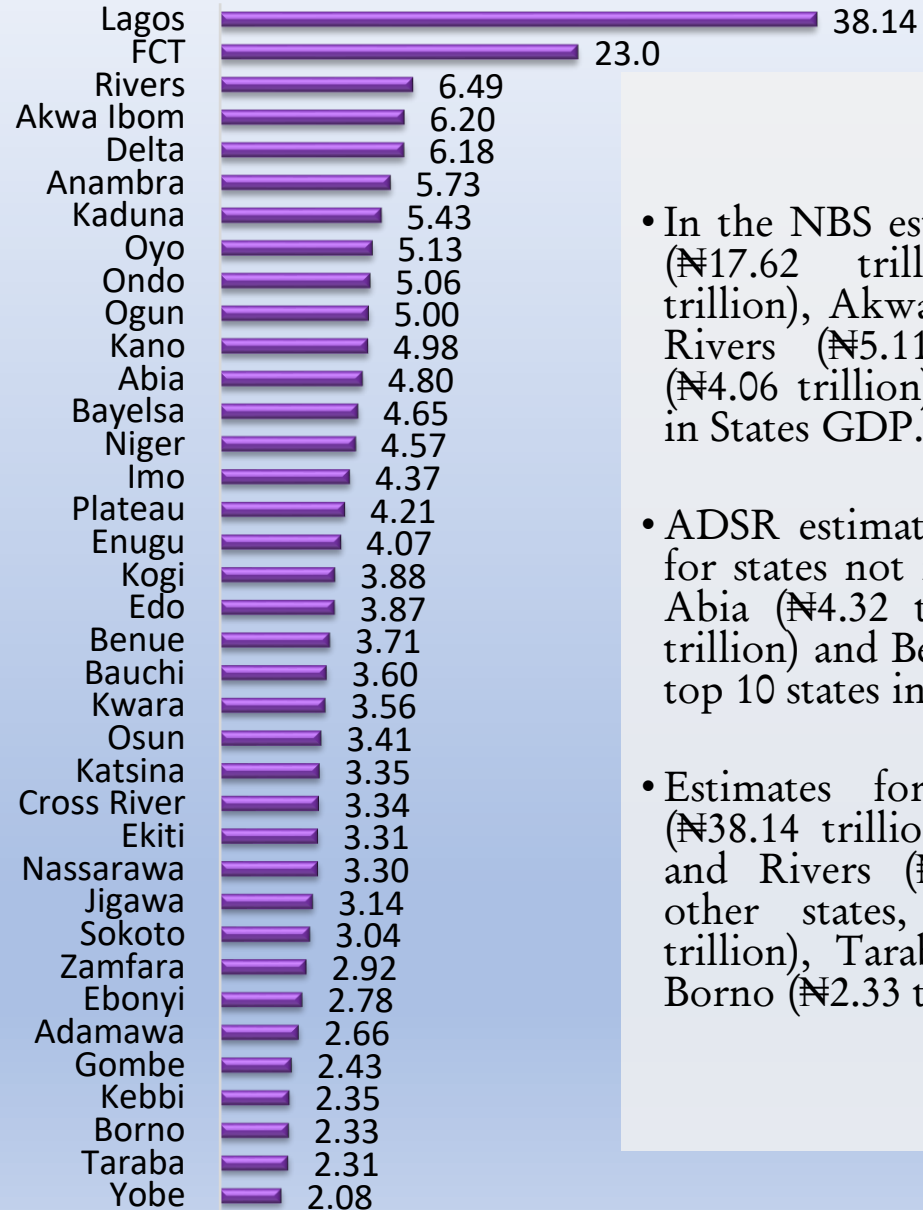
The South South Zone has a long-standing history of industrialisation, with the presence of several oil and gas companies. However, the zone has made efforts to diversify its economy by investing in other sectors such as agriculture, manufacturing, and tourism. The government has implemented policies to attract foreign investors and support local businesses, resulting in the growth of various industries. Additionally, the zone's strategic location near the coast has made it a hub for export and import businesses, enhancing business competitiveness.

# Sub-National Economies Size (estimate)

C1.1. States GDP Estimates (N'trn), 2017



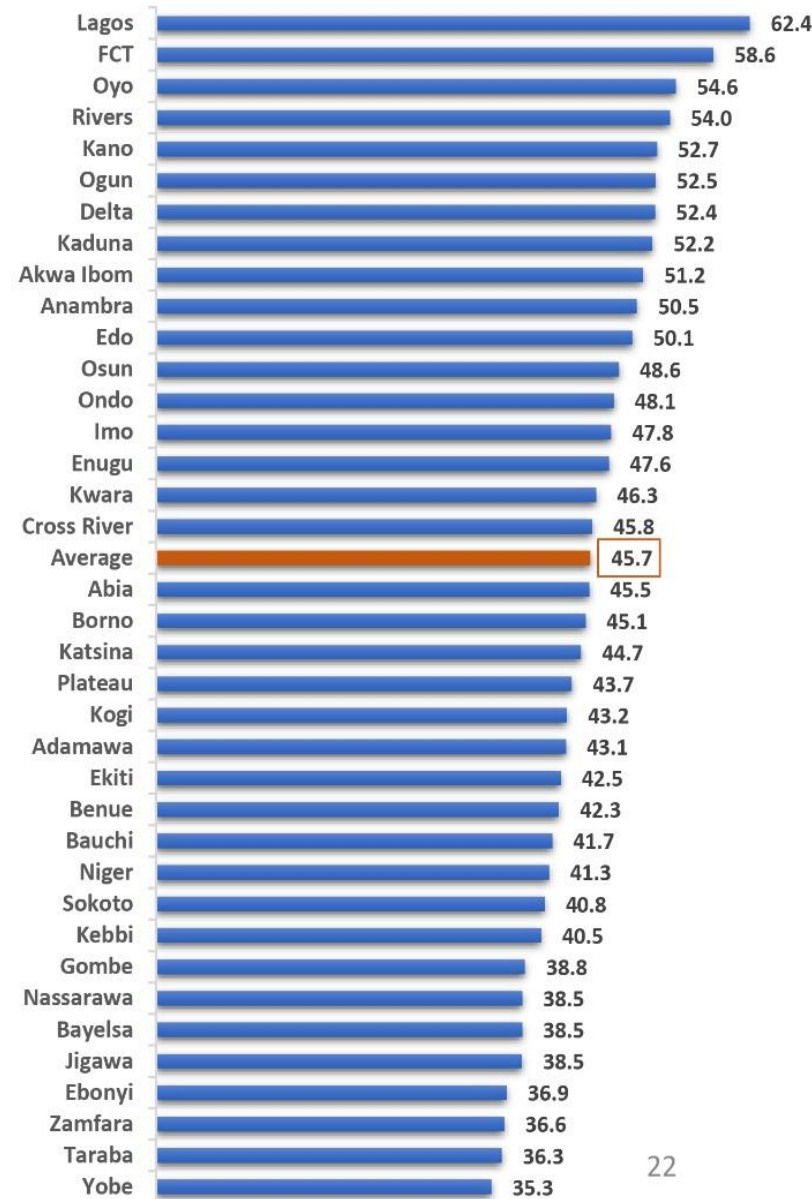
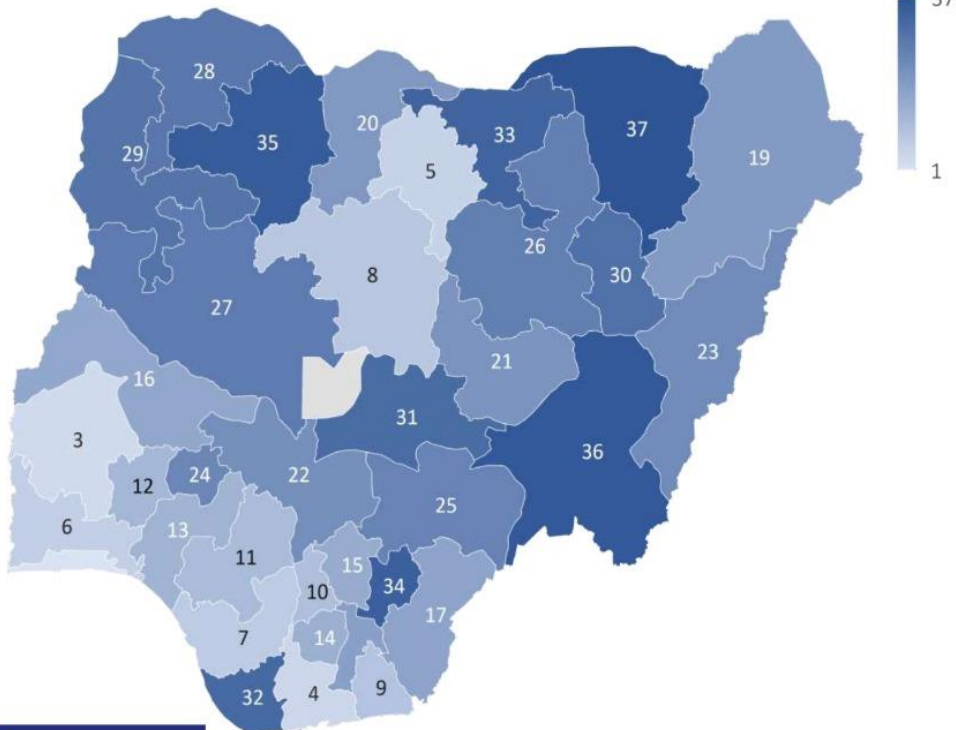
C1.2. States GDP Estimate (N'trn), 2022



- In the NBS estimates for 2017, Lagos (N17.62 trillion), FCT (N10.63 trillion), Akwa Ibom (N5.14 trillion), Rivers (N5.11 trillion) and Delta (N4.06 trillion) were the top 5 states in States GDP.
- ADSR estimates to fill in the blanks for states not included by NBS show Abia (N4.32 trillion), Enugu (N3.53 trillion) and Benue (N3.21) among the top 10 states in Nigeria by GDP.
- Estimates for 2022 shows Lagos (N38.14 trillion), FCT (N23 trillion) and Rivers (N6.49 trillion) leading other states, while Yobe (N2.08 trillion), Taraba (N2.31 trillion) and Borno (N2.33 trillion) as the least.

# OVERALL SCORE AND RANK

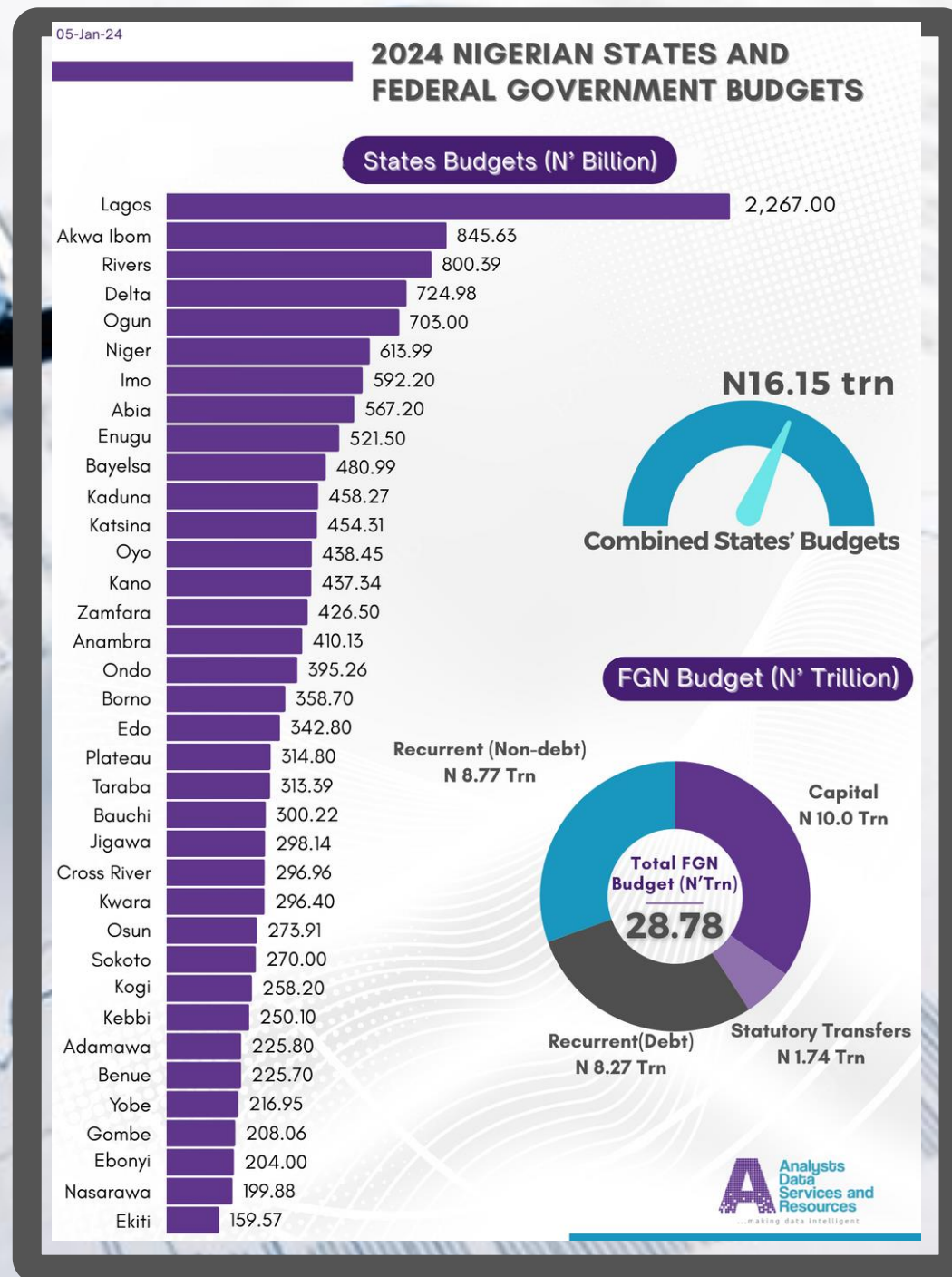
**AVERAGE  
SCORE (%)**



- ADSR recently did a work on the socio-economic scorecard of Nigerian states
- Many indicators were used, but the overall results is presented here
- It shows that some South-west states are doing well, while others are not as well
- Lagos, FCT, and Oyo state ranks as the top three states at 62.4%, 58.6% and 54.6% respectively. Ogun state is number 6

# 2024 Nigerian Budget

- The total Federal Government budget for 2024 is passed at N28.78 trillion.
- Also, all the State Governments have proposed and/or passed a total budget of N16.15 trillion for 2024, which is 5.5% of Nigeria's GDP.
- These values vary widely across states.
- For instance, In the South-West region, Ogun, Oyo, Osun and Ekiti budgets are N703.00 billion, N438.45 billion, N273.91 billion, and N159.57 billion, respectively.
- Lagos State has a whopping N2.267 trillion budget for 2024.
- However, these variations show that states with relatively high budgets may rank lower when the number of citizens, state GDP, and changes in price level are considered.



# Challenges



- The financing of the high deficits accompanying these huge budgets is expected to raise interest rates
- This can have implications for borrowing and investment at the sub-national level.
- Higher interest rates can lead to increased borrowing costs, potentially slowing down investments in infrastructure and other projects at the sub-national level.

- During periods of high inflation, sub-nationals may have difficulty in financing capital projects and managing their finances
- Furthermore, Nigeria relies heavily on imports for various goods and services.
- Depreciation of the national currency leads to higher costs for imported goods, affecting businesses and consumers at the sub-national level.

- Higher borrowing costs can limit the ability of sub-national entities to fund budget deficits, affecting public spending and services
- Sub-national governments may also face challenges in implementing fiscal policies when interest rates are high

- Sub-national governments that have borrowed in foreign currencies may face increased costs for servicing their debt due to the depreciation of the naira.
- Also, sub-national businesses engaged in international trade or with foreign currency exposure may face challenges in forecasting and managing risks.

# Prospects and Outlook



- Sub-national regions with strong GDP growth in 2024 may be more likely to attract domestic and foreign investments, fostering additional economic development.
- Also, economic growth can boost tax revenues for sub-national governments.
- As such, sub-national regions with robust GDP growth may see increased exports, creating new economic opportunities and enhancing their global competitiveness.
- One key sector that offers great potential in improving other sources of revenue is the solid mineral sector.
- The South Western region has bitumen, clay, lithium limestone, gold, granite, amongst others.
  - *recently, there has been an increasing demand for lithium, from high-end smartphones to electric car batteries*
- For instance, Oyo State has one of the largest lithium deposits in Nigeria, and there are a number of granite quarries operational in the state.
- FAAC distribution has always been central in financing government operations both at the national and sub-national levels.
- The total Federation Account revenue is projected to increase to ₦24.54 trillion in 2024.
- If this can be achieved sustainably, it will lead to more revenue to the sub-nationals.
- FAAC distribution is increasing in recent times, and likely to continue so.
- As such, sub-nationals can leverage their mineral resource to generate more revenue.
- The execution of capital expenditures by sub-nationals is expected to generate employment opportunities for the citizens and boost the level of economic activities, thereby reducing poverty.
- A well-coordinated policy environment, especially among fiscal, monetary, and trade policies is also expected for national and sub-nationals to achieve their potential.

# THE SOUTHWEST STATES

# EKITI



## OUTPUT

One of the major producers of cocoa in Nigeria, also known for its production of timber and wood products, agricultural products such as yam, cassava, cocoa, and palm oil.

## TRANSPORT

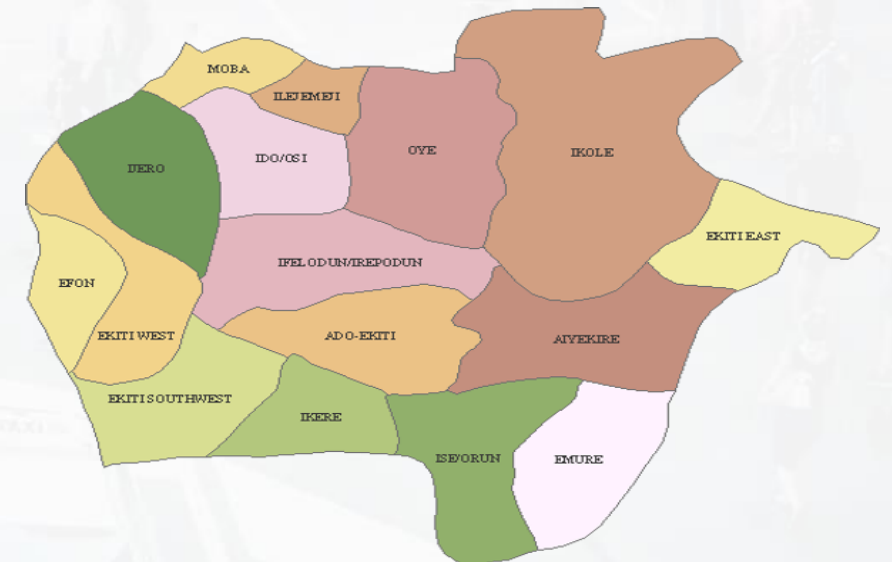
Has a network of roads and highways, with the major ones being the Ado-Ekiti-Akure Road, the Ado-Ekiti-Ikare Road, and the Ado-Ekiti-Ijero Road. The state has a newly constructed airport –the Ekiti Cargo Airport.

## INDUSTRIALIZATION

The state has prioritized the development of key sectors such as agriculture, mining, and tourism. The state has also attracted investment in the manufacturing sector, particularly in the production of consumer goods such as textiles and ceramics.

## CITIZENS WELFARE

The State, known for its fertile land, has made it a hub for agricultural production which has improved the livelihood of its citizens.



# LAGOS



## OUTPUT

The state is a major hub for trade and commerce with a diverse range of industries, including manufacturing, banking and finance, telecommunications, and entertainment. It also has the largest seaport and airport in the country

## INDUSTRIALIZATION

The State is Nigeria's commercial and economic hub, with a thriving business environment, largely due to its strategic location and favourable business policies. Lagos is also home to the largest seaport in Nigeria, which makes it a major trading hub for goods and services.

## CITIZENS WELFARE

The state government has implemented various policies and initiatives to improve the livelihood and welfare of its citizens, including the provision of infrastructure, security and an improved business environment.

## TRANSPORT

Has a well-developed transportation infrastructure, with a network of roads, highways, and bridges. Some of the major roads in Lagos include the Lagos-Ibadan Expressway, the Lagos-Abeokuta Expressway, and the Lagos-Badagry Expressway. The state also has two airports, the Murtala Muhammed International Airport and the Lagos-Ikeja Airport.



# OGUN



## OUTPUT

The state is a major producer of industrial minerals such as limestone and kaolin; it is also a hub for manufacturing in Nigeria with several industries.

## TRANSPORT

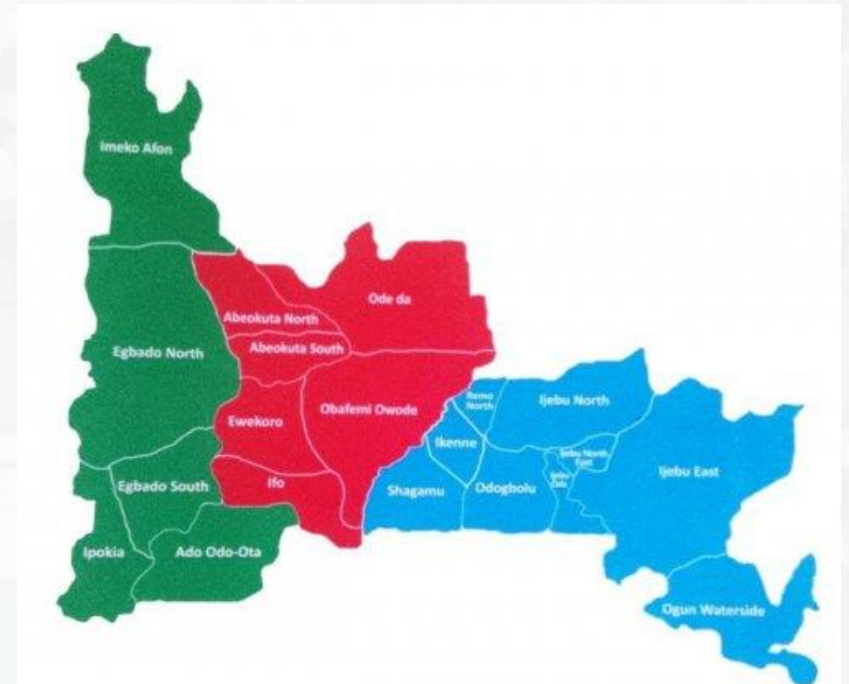
Has a network of roads and highways, with the major ones being the Lagos-Ibadan Expressway, the Sagamu-Benin Expressway, and the Abeokuta-Oyo Road. The state has a newly constructed Gateway Agro Cargo Airport.

## INDUSTRIALIZATION

The state is known for its industrialisation, largely due to its proximity to Lagos and the favourable business policies of the state government. It serves as home to a thriving manufacturing sector, with industries in food processing, construction materials, and textiles. It also has a well-developed infrastructure, which makes it an attractive destination for business.

## CITIZENS WELFARE

The state is home to many industrial estates, including the Ota Industrial Estate and the Agbara Industrial Estate, which provide job opportunities for its citizens.



# ONDO



## OUTPUT

This is one of the major producers of timber and wood products and has significant potential for mining and mineral resources such as bitumen, limestone, and kaolin.

## TRANSPORT

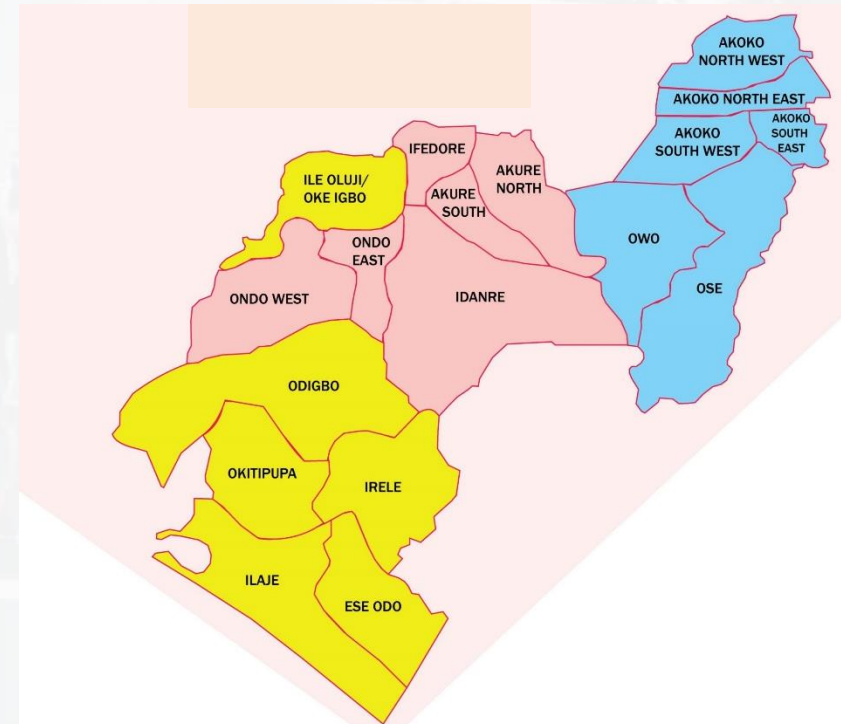
Has a network of roads and highways, with the major ones being the Akure-Owo Road, the Akure-Ilesa Road, and the Akure-Ondo Road. The state also has an airport, the Akure Airport.

## INDUSTRIALIZATION

The State has prioritised the development of the agriculture and mining sectors to boost the state's economy. It has a significant deposit of bitumen and is also known for its production of cocoa, palm oil, and cassava.

## CITIZENS WELFARE

The state focuses on the development of its agricultural and industrial sectors to improve the livelihoods and welfare of its citizens. The state has invested in the development of infrastructure, such as roads and power, to support economic growth and development.



# OSUN



## OUTPUT

Is one of the major producers of solid minerals such as gold, tantalite and granite. It is also known for its agricultural products such as cocoa, palm oil, yam and cassava.

## TRANSPORT

The state has a network of roads and highways, the major ones being the Ife-Ibadan Expressway, the Ife-Ondo Road, and the Osogbo-Ilesha Road. There are plans underway to build an airport - the MKO Abiola international airport in the state.

## INDUSTRIALIZATION

The state is known for its mining and tourism industries and has significant deposits of gold and other minerals. The state government has also implemented policies to improve the business environment and attract investment in these sectors.

## CITIZENS WELFARE

Several programmes aimed at improving infrastructure, promoting entrepreneurship, and creating job opportunities have helped to improve the livelihoods of citizens



# OYO



## OUTPUT

The state is known for its agricultural products such as cocoa, cassava, yam, and maize. It is also a major producer of livestock such as cattle, sheep, and goats and a hub for commerce and industry in Nigeria.

## TRANSPORT

Has a network of roads and highways, with the major ones being the Lagos-Ibadan Expressway, the Ibadan-Oyo Road, and the Ibadan-Ogbomoso Road. The state also has an airport, the Ibadan Airport, which serves as the main airport for the state.

## INDUSTRIALIZATION

Agriculture is a major contributor to the state's economy, the state also has several mineral resources, including marble, clay, and kaolin, which provide opportunities for investment in the mining sector. Oyo State also has a thriving service sector, including tourism and hospitality, healthcare, education, and financial services.

## CITIZENS WELFARE

Education is a priority with the government investing in the construction of schools and the training of teachers. Also, the provision of primary healthcare services and investment in the construction of hospitals and health centres and programmes improve access to clean water and sanitation facilities in rural areas.



# Recommendations

- As contributions to mitigate the effects of exchange rate volatility, sub-national governments can implement policies that promote economic stability, attract foreign investment, and manage fiscal discipline.

- Additionally, having a diversified economy and reducing dependence on a few key sectors can help enhance resilience to external shocks related to exchange rate movements.

- For the solid mineral sector, the issue of resource control and illegal mining activities needs to be properly addressed.
  - Many quarrying and mining activities are done without remittance of due revenue.
- Thus, there is a need for policy and institutional reforms.
- But analysis and calls for resource control should be more empirical-driven and objective to consider the cost and benefits of the various options

- The response of sub-national governments to inflation is crucial, especially how they help cushion the effects on their citizens.
- Effective policies, such as fiscal and monetary measures, are critical and sub-nationals needs to lend their voice to such practice

# Thank You



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