Indo Pacific Region and Africa: an Economic Overview

Singapore, 21 February 2025

Agenda

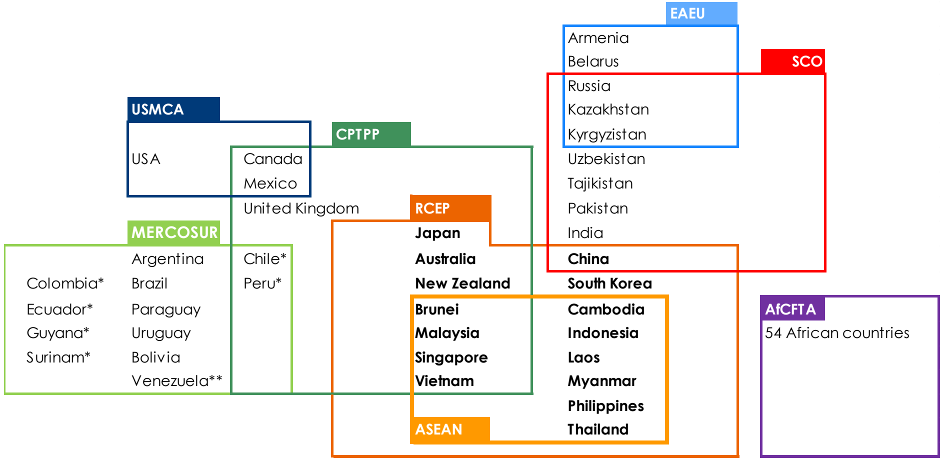
The Indo Pacific Region: a reinvented concept

- Historically including Asian and East African countries bordering the Indian Ocean and the Western Pacific …
- … it has been lately stretched to the even vaster and Eastern Pacific, because of its increasing economic and geopolitical importance.
- More and more countries have adopted an Indo-Pacific Strategy: USA, Canada, Australia, Britain, France (since 2018), Germany (since 2020), the Netherlands, India, Indonesia, Japan, Philippines, and Mongolia.
- In some broader definitions it could encompass up to 40-45 states, including Canada and the USA.

At the cross-road of trade and geopolitics

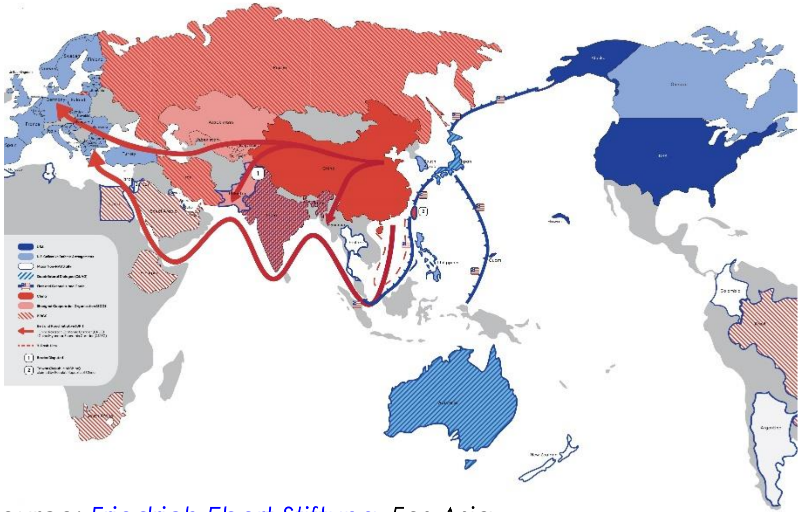
- The ASEAN Community is at the centre of the Indo-Pacific trade and Asia integration. With a population of 688 million people, it is the 5th economy by PPP GDP, after the EU (3rd), India (4th), and the 3rd Asian economy, after China and India.
- The shortest shipping route between East Asia and the Middle East and Europe passes through the Strait of Malacca, and accounts for 30% of global trade and two-thirds of China's trade.

Main regional trade agreements and alliances



Note: (*) Associated in MERCOSUR, (**) Suspended, § from 15.12.2024. Source: Intesa Sanpaolo chart

Geopolitical competition in the Indo-Pacific



Source: Friedrich Ebert Stiftung, Fes Asia

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Asia-Pacific: still resilient growth forecasts…

GDP growth forecasts

	2023	2024	2025	2026	2027	2028	2029
Australia	2.1	1.2	2.1	2.2	2.2	2.3	2.3
New Zealand	1.8	0.0	1.9	2.4	2.4	2.4	2.4
Japan	1.5	0.3	1.1	0.8	0.6	0.6	0.5
Korea	1.4	2.1	2.0	2.1	2.1	2.1	2.0
Hong Kong SAR	3.3	3.2	3.0	2.9	2.7	2.5	2.4
Taiwan, Province of China	1.1	4.3	2.7	2.6	2.5	2.5	2.1
China	5.4	5.0	4.6	4.5	3.6	3.4	3.3
India	7.0	8.2	6.5	6.5	6.5	6.5	6.5
Singapore	1.1	3.9	2.5	2.5	2.5	2.5	2.5
Vietnam	5.1	7.1	6.1	6.0	5.9	5.8	5.6
Indonesia	5.1	5.0	5.1	5.1	5.1	5.1	5.1
Malaysia	3.6	5.1	4.7	4.4	4.0	4.0	4.0
Thailand	1.9	2.8	2.9	2.6	2.7	2.7	2.7
Philippines	5.5	5.6	6.1	6.3	6.3	6.3	6.3
ASEAN-5	4.0	4.5	4.6	4.5	4.5	4.5	4.5
Emerging and developing Asia	5.7	5.2	5.1	5.1	4.6	4.5	4.5

Source: IMF WEO October 2024 and January 2025 Update where available

- In 2024 ASEAN manufacturing and trade sectors benefited from the global electronics upturn and shifts in global supply chains, with high-income tech exporters seeing gains from rising semiconductor sales.
- According to IMF, growth in emerging Asia should remain resilient a touch over 5% in 2025-2026 and higher than emerging economies average.
- Changes in US trade, fiscal and immigration policies are expected to weaken growth and potentially boost inflation in South-East Asia with most of the impact materialising from 2026.
- Countries that benefited from production delocalisation from China and trans-shipment faces major downward risks, most notably Vietnam.
- Long term growth could be supported by regional trade, infrastructure investment, GVCs participation and "China Plus One" strategy, but faces several challenges.

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…and contained inflation

Inflation forecasts

	2023	2024	2025	2026	2027	2028	2029
Australia	5.6	3.2	3.3	3.0	2.5	2.5	2.5
New Zealand	5.8	2.9	2.2	2.1	2.0	2.0	2.0
Japan	3.3	2.7	2.0	2.0	2.0	2.0	2.0
Korea	3.6	2.3	2.0	2.0	2.0	2.0	2.0
Hong Kong SAR	2.1	1.8	2.3	2.4	2.5	2.5	2.5
Taiwan, Province of China	2.5	2.2	1.7	1.6	1.6	1.6	1.5
China	0.2	0.2	1.7	2.0	2.0	2.0	2.0
India	5.7	5.0	4.4	4.1	4.0	4.0	4.0
Singapore	4.8	2.4	2.2	2.0	2.0	2.0	2.0
Vietnam	3.3	3.6	3.5	3.4	3.4	3.4	3.4
Indonesia	3.8	2.3	2.5	2.5	2.5	2.5	2.5
Malaysia	2.5	1.8	2.5	2.2	2.0	2.0	2.0
Thailand	1.3	0.4	1.2	1.5	2.0	2.0	2.0
Philippines	6.0	3.2	6.0	3.3	3.0	3.0	3.0
ASEAN-5	3.5	2.3	2.3	2.3	2.4	2.4	2.4
Emerging and developing Asia	2.4	2.1	2.7	2.8	2.7	2.8	2.8

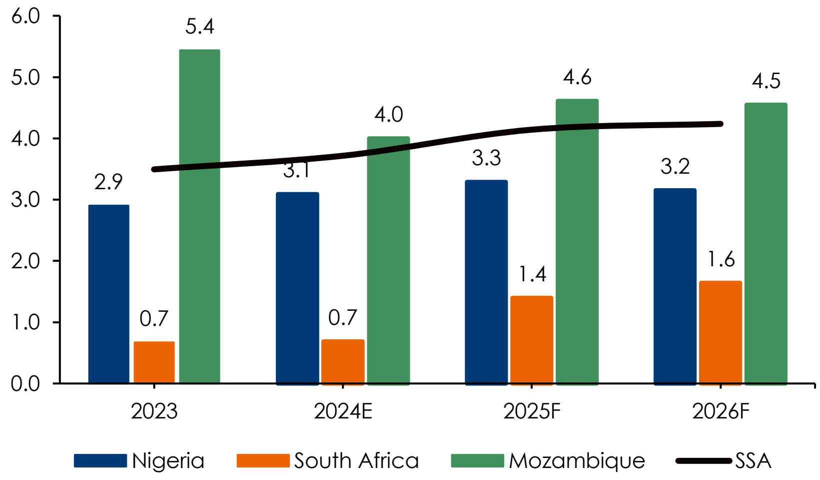
Source: IMF WEO October 2024 and January 2025 Update where available

- In 2024 inflationary pressures eased in emerging Asia as food and oil prices trended downwards, proving scope for monetary easing.
- Inflation is expected to remain around 2.7-2.8% in the next two years.
- Adverse weather events are the main upward risks to the forecasts.

Sub-Saharan Africa (SSA): growth pickup and waning inflation

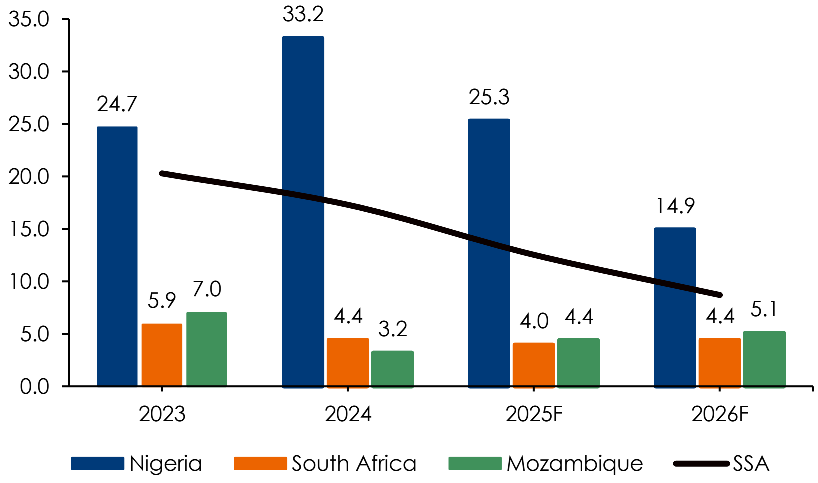
Growth in SSA is projected to accelerate to 4.1% in 2025 and 4.2% in 2026, driven by easing financial conditions and a further decline in inflation. A gradual easing of the policy interest rate should boost investments and private consumption in many SSA countries.

GDP (% change)



Note: E= estimate, F (forecasts). Source: LSEG Datastream, Intesa Sanpaolo Research Department's forecasts

CPI average (% change)



Note: F (forecasts). Source: LSEG Datastream, Intesa Sanpaolo Research Department's forecasts

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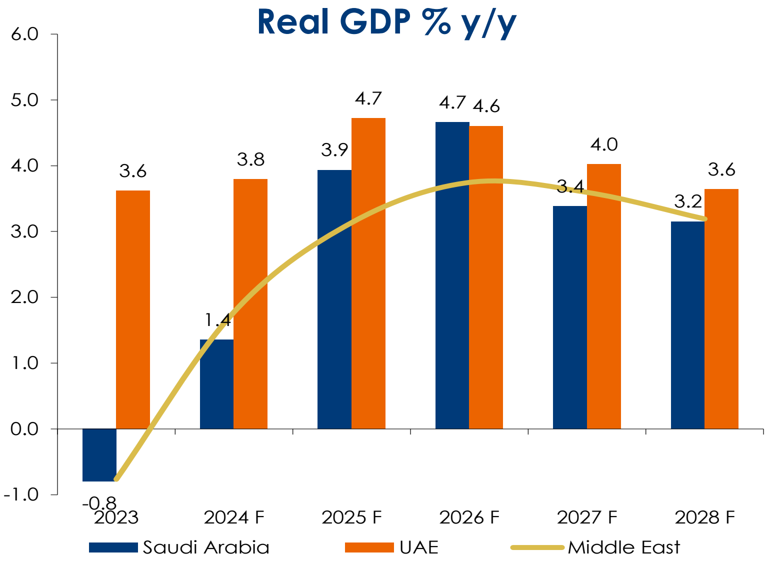
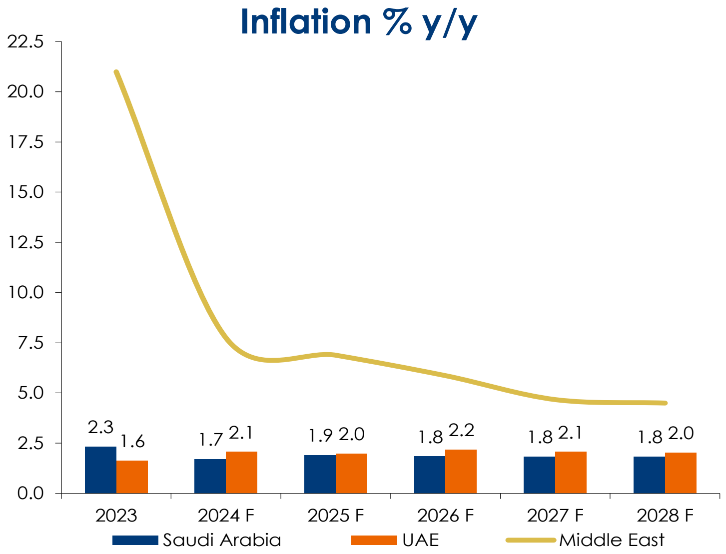
Middle East: heterogeneous growth

The Middle East is expected to grow by 1.8% in 2024 and 3.3% in 2025. The outlook remains uninspiring and reveals important disparities within the Region: faster growth in the Gulf Cooperation Council (GCC) countries – albeit at a slower pace than previously projected – a deceleration in middle-income countries and further economic contraction in countries plagued by some form of conflict or fragility. Uncertainty in the region is high and rising.





Source: Intesa Sanpaolo Research Department

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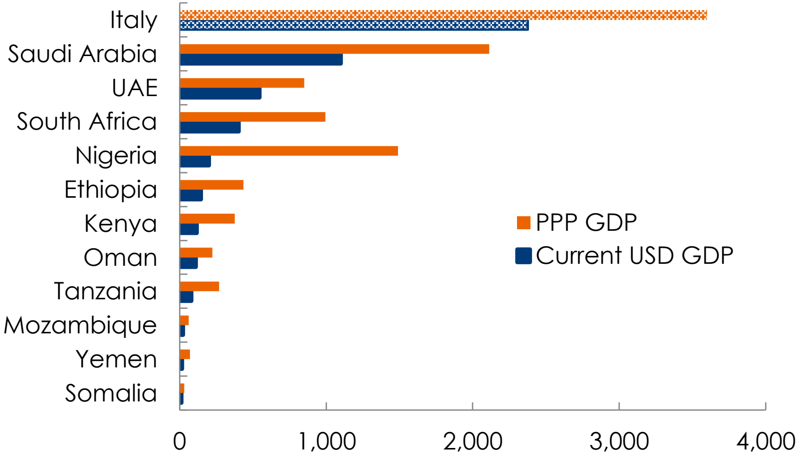
Large differences in terms of total GDP …

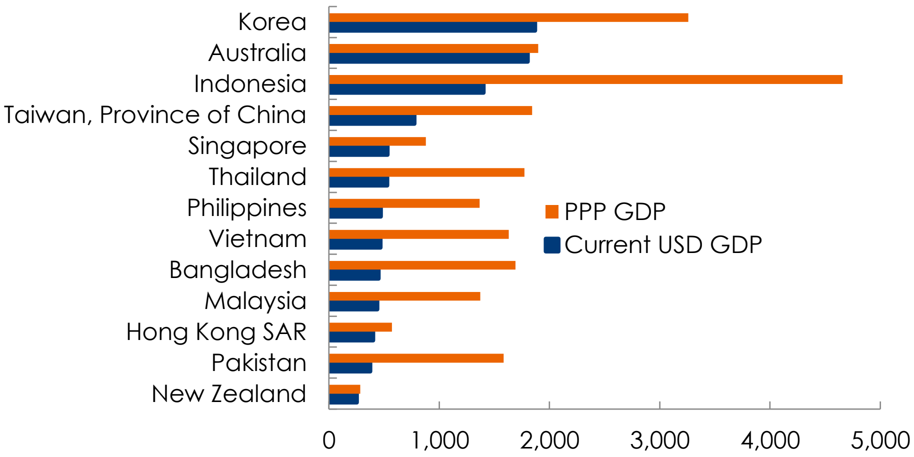
- China, India and Japan dwarf the other economies both in terms of current and PPP dollars GDP. Indian economy's size in terms of current USD is estimated at 3.9Tn (2024), just below Japan's and around a fifth of China's.
- The Region ecompasses advanced economies, like Australia and the NIEs, and mostly emerging and developing economies. Indonesia's economy, the largest in ASEAN, has a size of around 3.5 times South Africa in current USD, or 60% of Italy.

Middle East and Sub-Sahara Africa
(selected economies, USD Bn)



Source: Intesa Sanpaolo chart based on IMF data

Asia-Pacific
(selected economies, USD Bn)

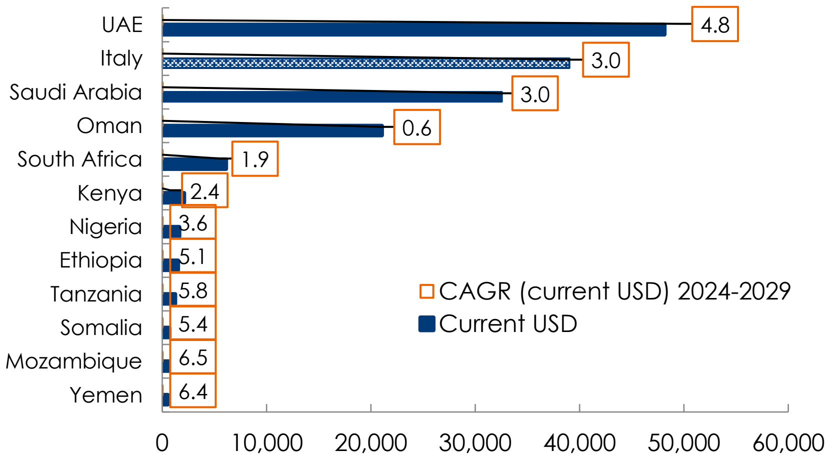


Source: Intesa Sanpaolo chart based on IMF data

… and per capita GDP

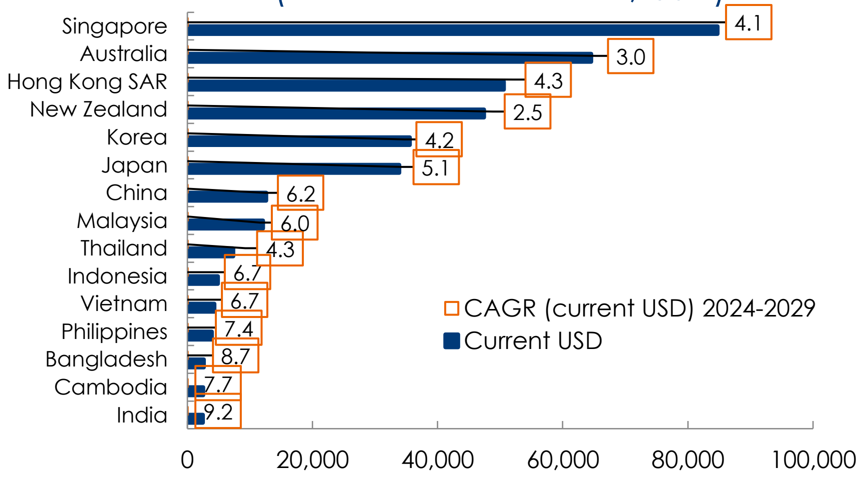
- In many South-East Asian developing economies per capita GDP is still lower than in China. India's per capita GDP in current USD is about 20% of that of China and 3% of that of the USA. GDP per capita has a large potential to grow.
- Despite the undeniable progress in poverty reduction, around 44% of population in India and c. 14% on average in ASEAN-5 lived with less than 3.65 USD daily in 2021, mainly concentrated in Indonesia (21.3% of population) and the Philippines (17.3%). Conflicts are the major drag to African countries growth and development.

Per capita GDP - Middle East and Sub-Sahara Africa
(selected economies, USD)



Source: Intesa Sanpaolo elaborations on IMF data

Per capita GDP – Asia-Pacific
(selected economies, USD)



Source: Intesa Sanpaolo elaborations on IMF data

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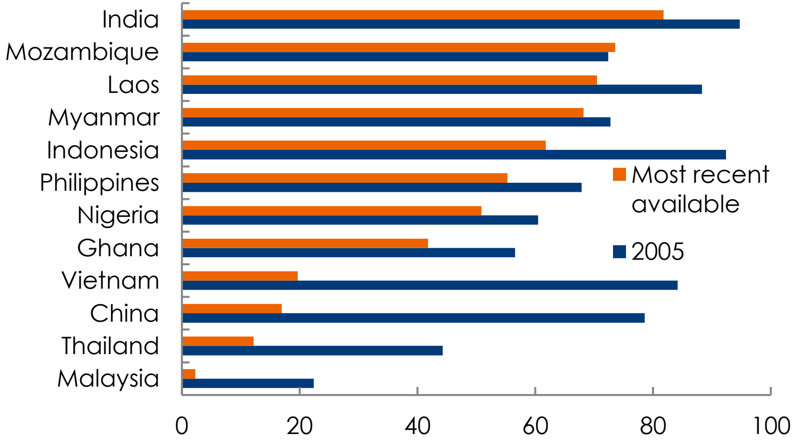
The middle and high-income classes are expanding

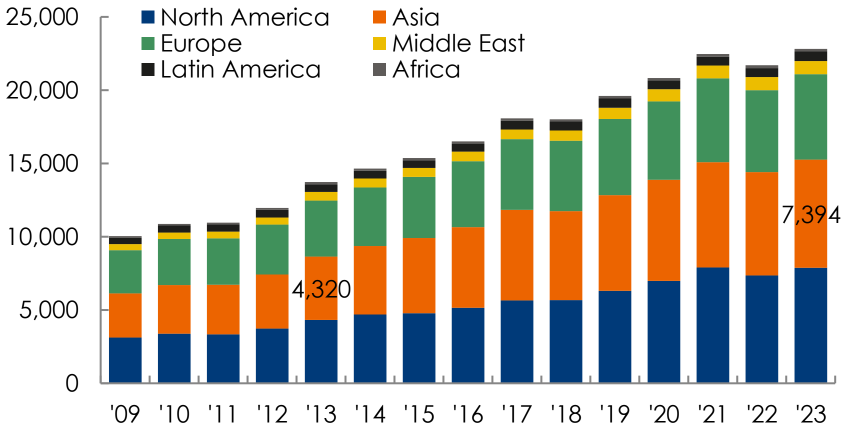
- In the Asia-Pacific region, China and Vietnam have made the most remarkable progress in reducing poverty over the last 20 years, while some large economies like India or Indonesia still have more than 50% of the population living with less than 6.85 USD a day. 45% of the people in the region have no social coverage at all.
- At the same time, the number of HNWIs increased by over 70% between 2013 and 2023, almost reaching that of North America, with an aggregate wealth estimated at around USD 26Tn.

% of population living with $6.85 a Day *



Note: (*): 2017 PPP, Poverty Headcount ratio.
Source: World Bank

Number of HNWIs*,1000



Note: (*) High Net Worth Individuals. Individuals who hold USD 1M or more in investable assets excluding primary residence, collectibles, consumables and consumer durables.
Source: Intesa Sanpaolo chart on CAPGEMINI data

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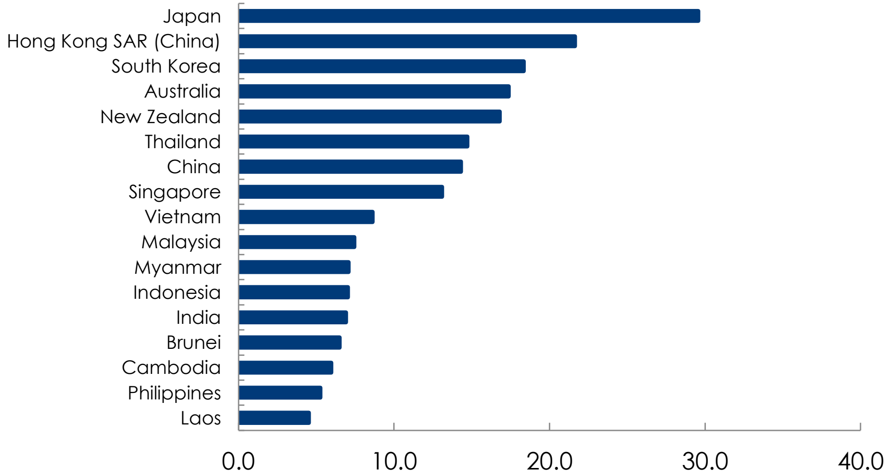
Demographic dividend and urbanisation rate

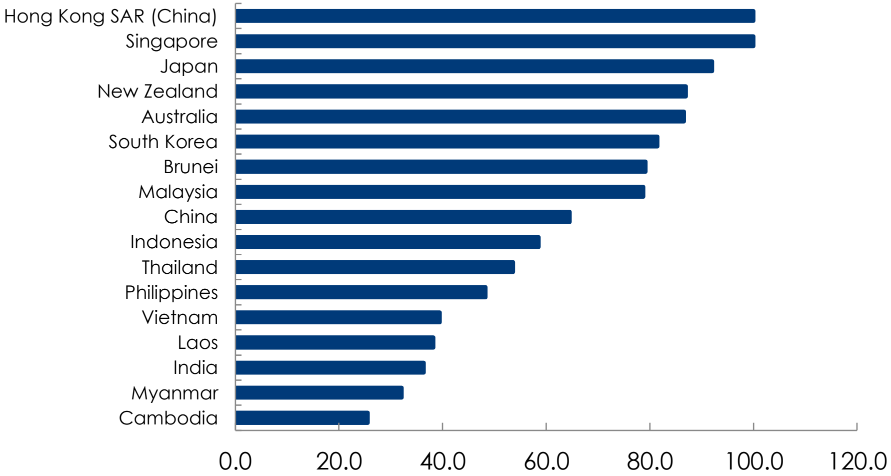
- Demographic dividend is still positive for India where about 69% of the population is of working age. The median age of 28.2 years (2023) is among the lowest of the G20 countries. On the contrary, China's population has been aging fast in the last 20 years and its working age population has been shrinking since 2017.
- The urbanisation rate has room to increase in many Asia-Pacific countries, offering support for growth and infrastructure investment.

% of population aged 65 and above



Source: World Bank

% of urban population

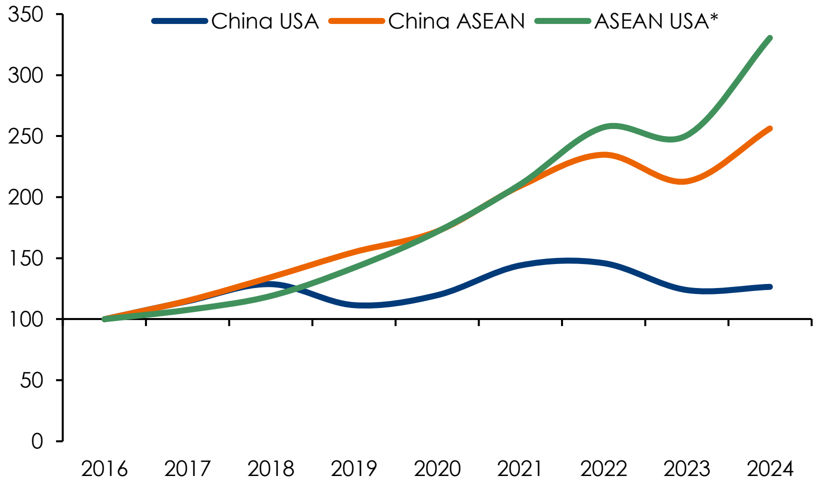


Source: World Bank

Despite diversion, trade is steadily increasing owing to…

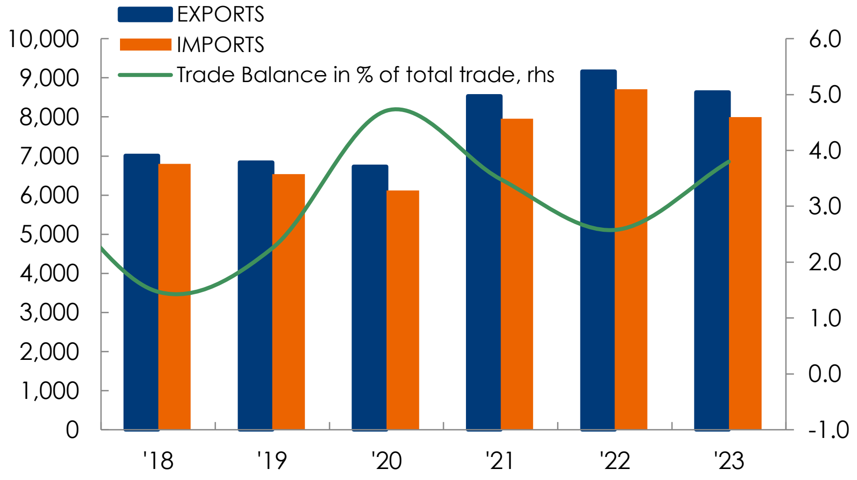
- Chinese machinery exports to the USA registered an increase limited to 26.5% in 2024 from 2016, but the value of Chinese machinery directed to ASEAN tripled (+156%) and ASEAN-5 (ID, MY, SG, TH, VN) machinery exported to the USA quadrupled (+230%).
- The trade surplus of Asia-Pacific countries was 3.8% of total trade in 2023 (it was 4.7% in 2020).

Machinery Export 2016=100



Note: (*): For 2024 ASEAN USA, ASEAN is limited to ASEAN-5, i.e. ID, MY, SG, TH, VN. Source: Intesa Sanpaolo chart based on ITC Comtrade data

Asia-Pacific* trade (USD Bn)



Note (*): East Asia, South-East Asia, South Asia and Oceania. Source: Intesa Sanpaolo chart based on UNCTAD data.

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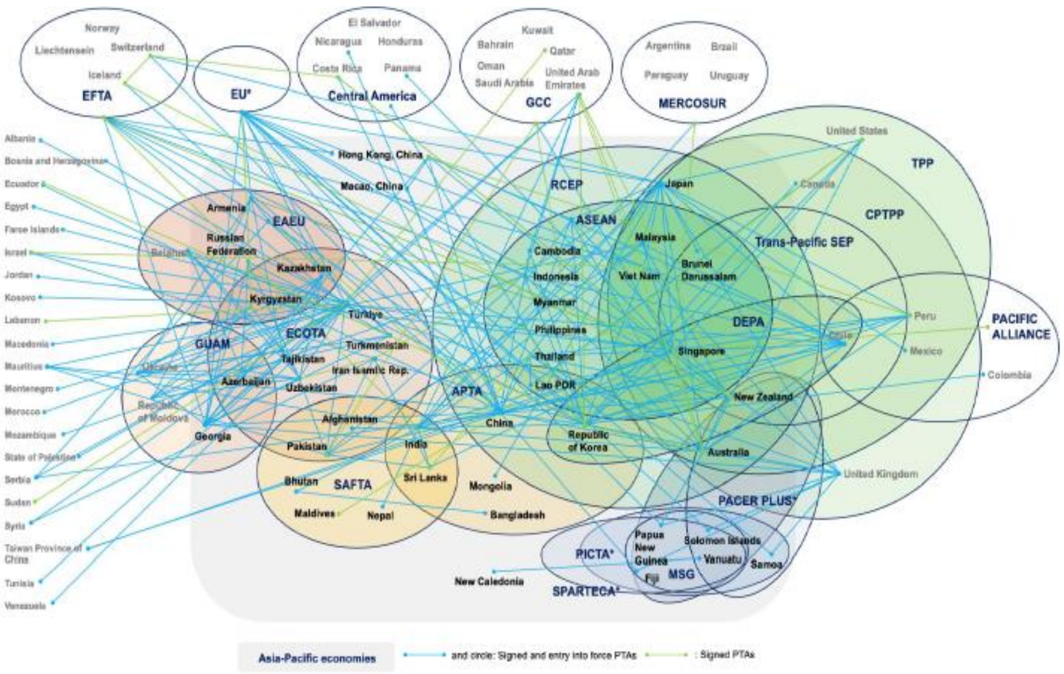
…a net of consolidated trade agreements in Asia…

Noodle bowl of Asia-Pacific PTAs, 1971-2024



Source: ESCAP – Preferential Trade Agreements, Asia-Pacific Trade and Investment Trends 2024/2025

- The Asia-Pacific region is the largest contributor to Preferential Trade Agreements (PTAs), and accounts for nearly 60% of all PTAs worldwide.
- Trade Agreements moved towards broadening their scope with most recent negotiations addressing sustainable development and the digital economy.
- The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) – are the main plurilateral agreements.
- The RCEP, signed by 15 economies, is considered the world's largest trading bloc, representing approximately 30% of world GDP.
- The United Kingdom, the first non-Pacific country, joined the CPTPP on 15 December 2024. China formally applied to join in the CPTPP in 2021.
- Alternative approaches to trade and economic cooperation, such as the Indo-Pacific Economic Framework for Prosperity (IPEF) and the BRICS, have also grown significantly.

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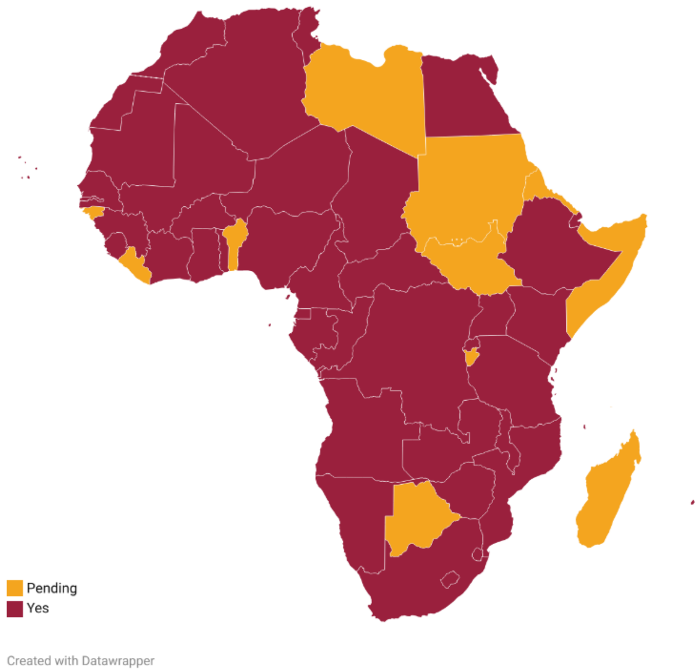
…and increasing trade potential in Africa…

AfCFTA State Parties



Source: https://au-afcfta.org/state-parties/

- The AfCFTA started trading on 1January 2021 and is the world's largest free trade area measured by the number of countries participating. It brings together the 55 countries of the African Union (AU) and eight (8) Regional Economic Communities (RECs).
- The agreement will reduce tariffs among member countries and cover policy areas such as trade facilitation and services, as well as regulatory measures such as sanitary standards and technical barriers to trade or investment, and intellectual property rights protection.
- The World Bank expects AfCFTA to increase Africa's exports by USD 560Bn, mostly in manufacturing, and boost Africa's income by USD 450Bn by 2035 (a gain of 7%), while adding USD 76Bn to the income of the rest of the world when fully implemented.
- Of the USD 450Bn in income gains, USD 292Bn would come from stronger trade facilitation – measures to reduce red tape and simplify customs procedures.

Source: https://au-afcfta.org, https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area

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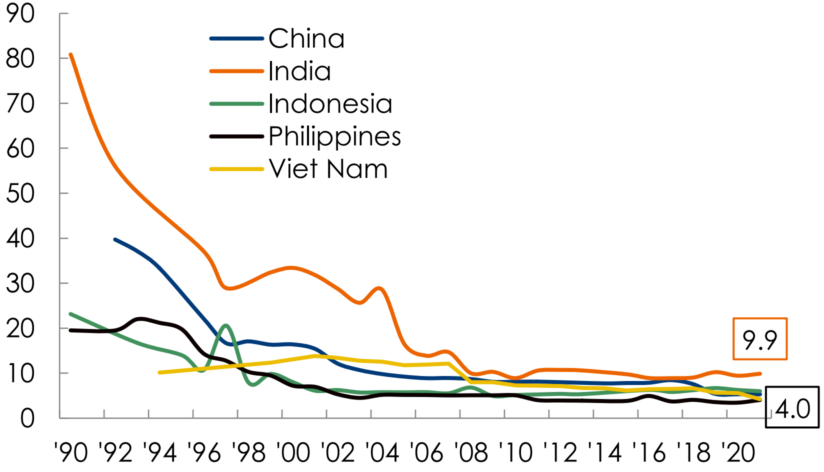
…that could bring several benefits

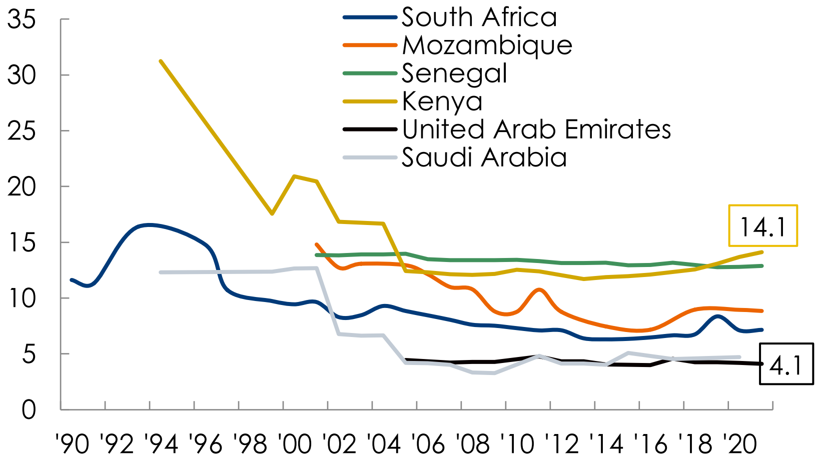
- While average tariffs rates for trading among ASEAN countries and China were already close to zero, countries that did not previously have and FTA (CN, JP, KO) have benefited most from joining RCEP. Flexibility of the rule of origin and regulation harmonisation are the main positives.
- In terms of AfCFTA, gains from lower tariff rates are larger since average tariff rates are much higher for African States. Trade facilitation measures will be the main income gain booster. Agriculture and agro-processing, transport and logistics, automotive and pharmaceuticals are the sectors that are expected to offer the greatest opportunities for the private sector according to WEF.

Average tariff rate (%) –
selected Asian countries



Source: World Bank

Average tariff rate (%) –
Selected African and Middle East countries

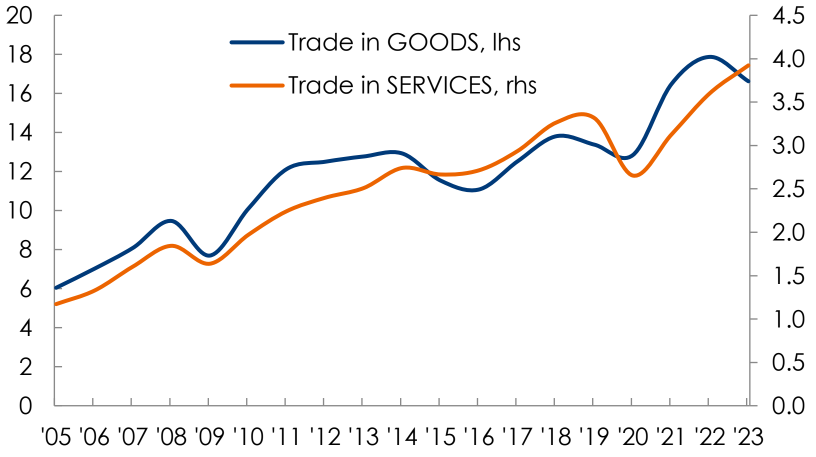


Source: World Bank

Increasing importance of the service sector in Asia…

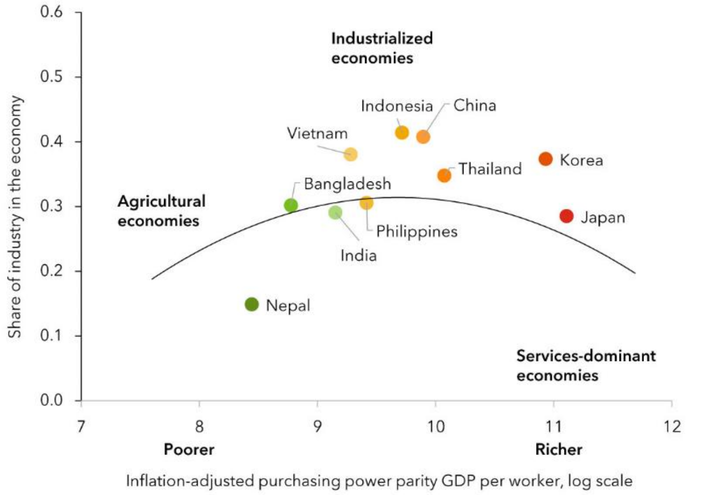
- The Asia-Pacific region prospered by becoming the source of more than half of global factory output, but a transition to higher-productivity services has the potential to further support growth.
- Commercial services trade in Asia-Pacific increased by 8.9% in 2023 and, according to ESCAP estimates, continued its recovery in 2024 with exports and imports rising by 8.6 per cent and 6.2 per cent, respectively, outpacing global averages.

Nominal goods and service trade in Asia-Pacific* (USD Tn)



Note (*): East Asia, South-East Asia, South Asia and Oceania; trade=import+export. Source: UNCTAD

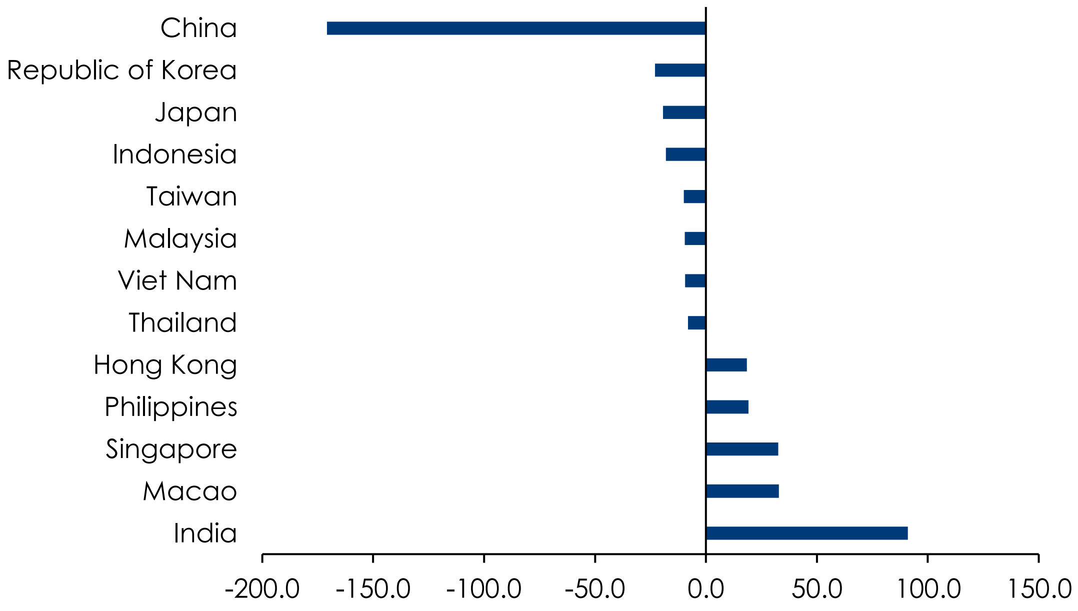
Industry share of value added versus income level



Note: the curve represents global averages estimated with 2018 data. Source: IMF, see «[Asia's Economies Can Embrace Services to Boost Growth and Productivity](#)", IMF Blog 31 October 2024

…helps the current account balance

Services balance for selected countries 2023 (USD Tn)



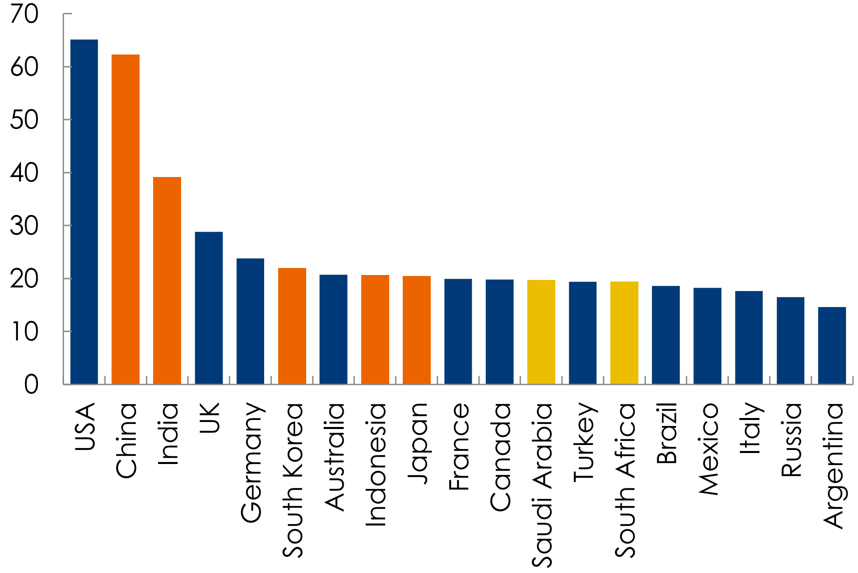
- The post-pandemic expansion of service trade in Asia-Pacific was primarily driven by the recovery of travel services, accounting for 20.5 per cent of the region's exports according to ESCAP estimates. The development of Global Capability Centres (GCCs)* has been an important structural driver. China is the largest importer because of its outbound tourists, while India is the main exporter.
- According to ANSR India accounts for more than 50% of the global GCC market with more than 1,600 GCCs, followed by Vietnam, Malaysia, Singapore, and the Philippines.

Note: (*): i.e. off-shore units of multinational companies initially set up as back offices for 'outsourcing' activities. Source: UNCTAD

Asia at the forefront of digitisation

- India alone has 1.15 billion mobile phone subscriptions, 530 million broadband subscriptions, and 98% of the population with access to at least 4G. 99 % of China's population has access to 4G. China also has 1.002 billion 5G mobile subscribers, accounting for 56% of the total number of mobile users.

CHIPS* aggregate level of digitisation



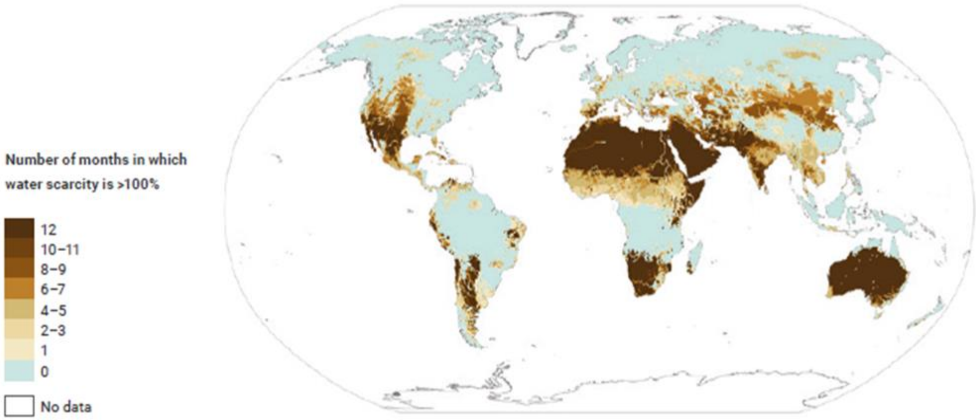
- According to ADB, 98.57% of the population in developing Asia is covered by a mobile network and/or ICT.
- An increasing number of PTAs agreements include digital trade (e-commerce) provisions.
- Memberships in the Digital Economy Partnership Agreement (DEPA), established by Chile, New Zealand and Singapore, is expanding.
- ASEAN member states are negotiating the Digital Economy Framework Agreement (DEFA), aiming to establish the first comprehensive digital economy agreement within the ASEAN region.

Note: CHIPS, Connect, Harness, Innovate, Protect and Sustain.
Source: CRIER, State of India Digital Economy 2024

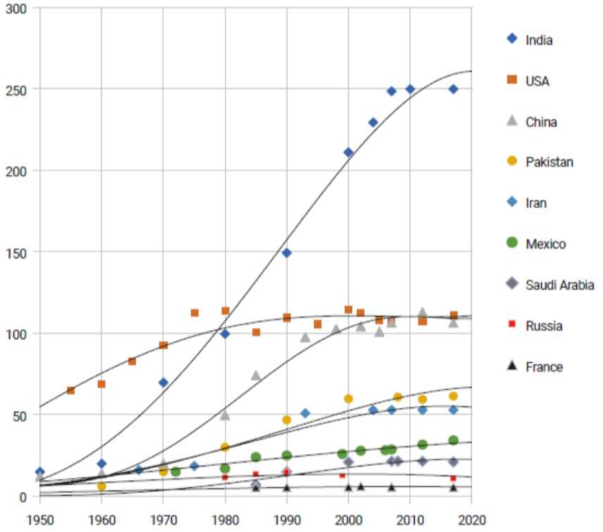
Climate change and water resources...

Many parts of the Indo-Pacific region suffer from water scarcity for six to ten months of the year. India, the most relevant, has large reserves of groundwater, but also the highest withdrawal rates in the world.

Geographical distribution of severe water scarcity*



Groundwater extraction
(km^3 per year)



Note (*): water demand over availability >1.0; number of months per year. Source: Caretta et al. (2022) in The United Nations World Water Development Report 2024, p. 12

Source: The United Nations World Water Development Report 2022, p. 30

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... do not only affect agriculture

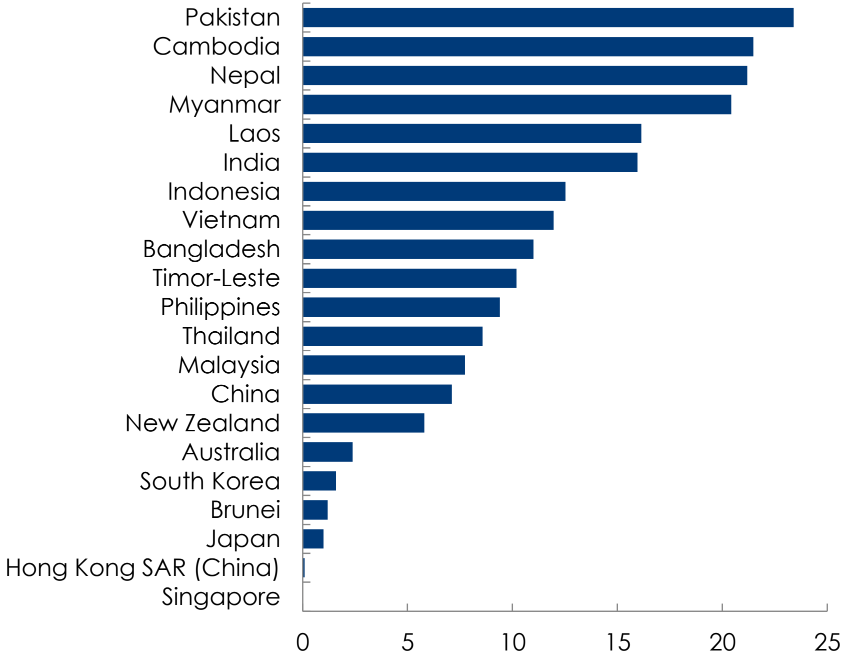
The increase in demand for energy and water does not only affect the agricultural sector, but also industry, digitisation and the spread of Artificial Intelligence.

Energy and digital indicators worldwide, 2015-22

	2015	2022	Variation
Internet users	3 billion	5.3 billion	+78%
Internet traffic	0.6 ZB	4.4 ZB	+600%
Data centre workloads	180 million	800 million	+340%
Data centre energy utilisation (excluding encryption)	200 TWh	240-340 TWh	+20-70%
Using energy for cryptocurrency mining	4 TWh	100-150 TWh	+2300-3500%
Energy consumption of the data transmission network	220 TWh	260-360 TWh	+18-64%

Source: IEA, Tracking Data Centres and Data Transmission Networks

Agriculture as % of GDP



Source: CEIC from World Bank

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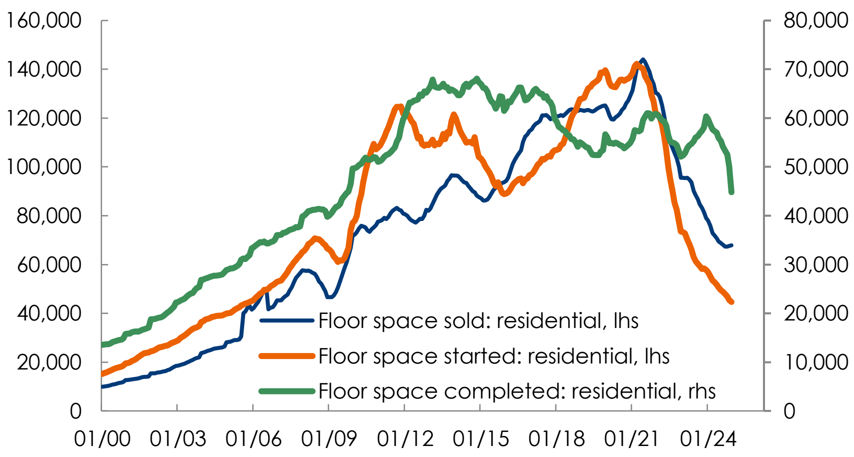
China: net exports helped to reach the growth target…

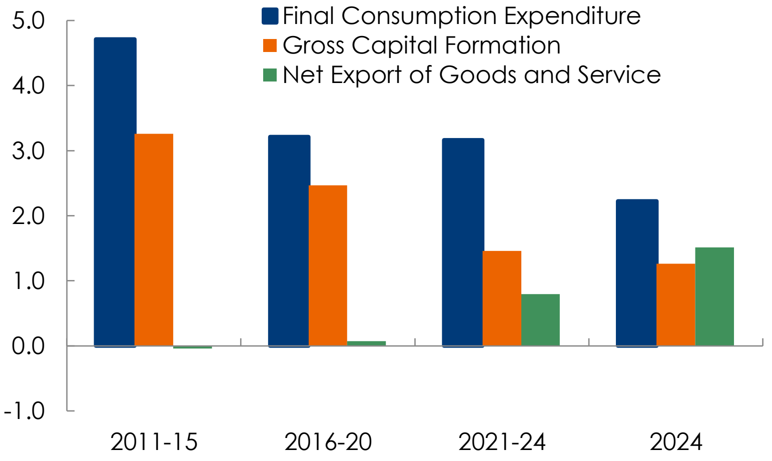
- Despite policy support, residential floor space sold and started dropped by 14.1% and 23.0%, respectively, in 2024, after falling by 39% and 53% in the previous two years, with a negative impact on investment, government revenues and private consumption.
- Net exports contribution was crucial, along with policy easing, to reach the growth target of 5% in 2024.

Floor space
(sq m 1000)



Source: NBS from CEIC

Contribution to annual growth
(percentage points)



Source: NBS from CEIC

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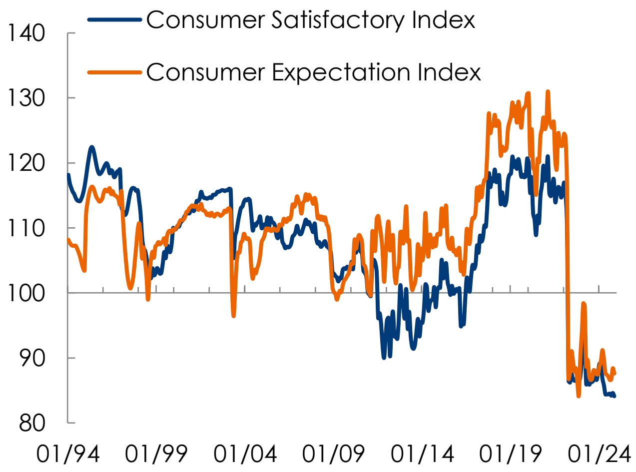
…but more policy support is needed in 2025

- The resilience of economic growth will not be able to continue in 2025 in the absence of a solid recovery in consumer confidence, all the more so in an increasigly challenging and volatile international context.
- The housing crisis, local governments financial difficulties and US tariffs are the biggest downside risks to the scenario.

Consumer confidence



Source: NBS from CEIC

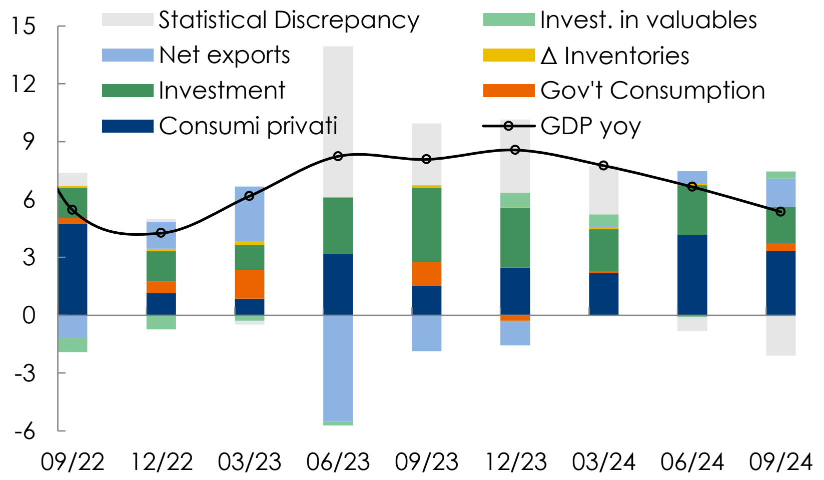
Scenario

- China will make extensive use of its various legal instruments, further open up its market, and seek trade agreements with third countries to counter US protectionism.
- In a central scenario of selected but rising tariffs, the **slowdown in 2025** is forecasted to be **modest at 4.6%** owing to the recent **clear shift in economic policies,** expected to be more expansionary and focused on supporting consumption and stabilising the real estate market.
- **Tariffs negative effects** are expected to be **more visible in 2026**, due to increased uncertainty and the resulting dampening impact on investment. Different institutions (IMF, LSE, PIIE) estimate a drop in growth compared to a central scenario without tariffs of between 0.5% and 1.6%, in 2026, depending on the severity of the assumptions and the response of the Chinese authorities, with a negative impact extending to subsequent years.
- The continuing imbalance between feeble demand and surplus supply will still be reflected in the weak dynamics of **consumer price inflation**, which is expected to remain **well below 1% also in 2025**.
- Projects to **reform** SOEs and unify the internal market, the Hukou reform, increased public spending on health and welfare, further urbanisation and a focus on innovation will mitigate the expected structural slowdown in the medium to long-term.

India: cyclical slowdown …

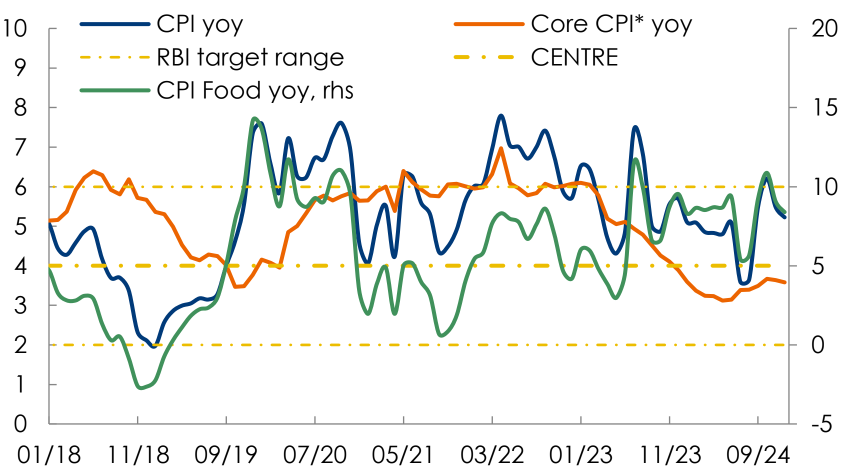
- A deceleration of domestic demand and lower-than-expected industrial value added in Q3 coupled with weaker high frequency data in 4Q drove a downward revision to GDP growth forecasts in 2024 to 6.3% (5.8% in FY2024-25).
- A surge in food prices hindered the disinflation process in 2024 forcing the RBI to keep policy rates on hold.

GDP yoy and contribution to growth



Source: CEIC

Inflation

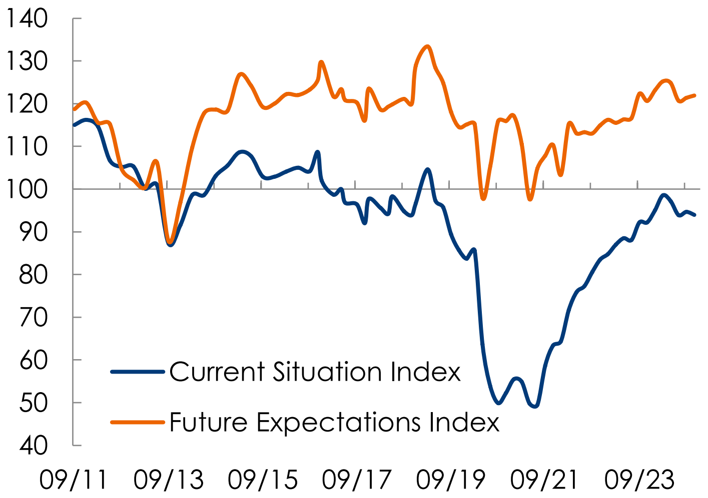


Note: (*): Intesa Sanpaolo estimate.
Source: CEIC

… set to continue, but foundamentals still solid

- Compressed real incomes, the still uncertain labour market outlook, high real interest rates, and negative credit pressure will continue to moderate consumption and investment dynamics in the short term.
- A moderately accelerating path, fuelled by both public investment support and monetary easing, is expected to materialise in the second half of 2025.

Consumer Confidence

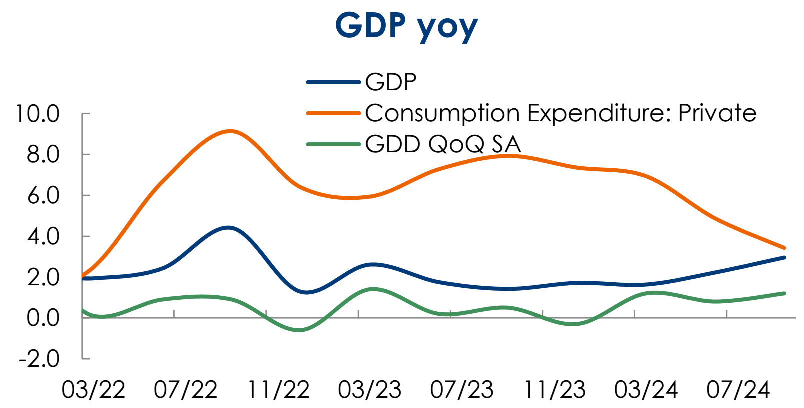


Source: CEIC

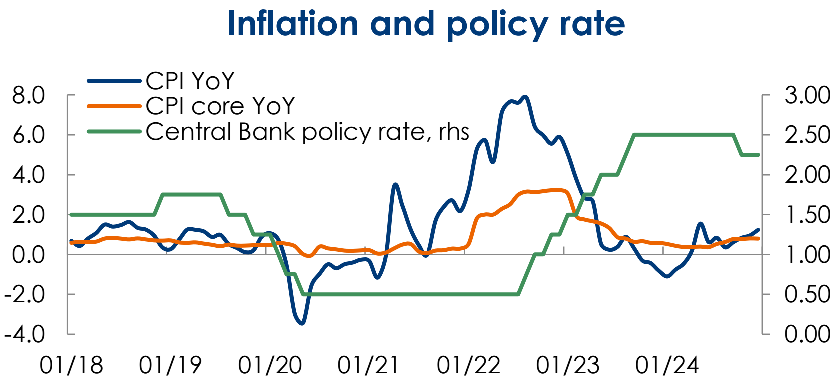
Scenario

- The **recovery of private investments** is **still slow** to materialise, slowing the dynamics of total investments.
- Indian exports should **not** be **a major target of US tariffs**: the trade surplus with the US is little more than a tenth of that of China and about a seventh of that of Mexico. The type of goods the US imports from India is mainly textiles, which are politically less sensitive than cars and metals.
- We forecast a slight GDP growth deceleration to 6.2% in 2025, with a rebound to 6.6% in 2026. Growth should be supported by higher agricultural output, a **resilient service sector** and lower-than-expected crude oil prices.
- The **disinflation process,** resumed at the end of 2024, should continue in 2025 driven by receding food prices, bringing annual inflation to 4.4%. The RBI is expected to bring the repo rate at 5.50% by year end.
- **Geopolitical threats** to supply chains and **adverse weather conditions** are the main downward risks to the scenario.

Thailand



Source: CEIC, Bloomberg

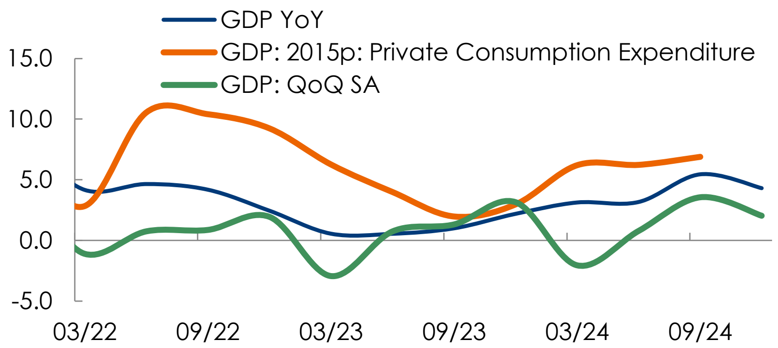


Source: CEIC, Bloomberg

- The number of tourist arrivals has improved and reached 35.5 million in 2024, but it is still 11% below the 2019 level.
- In 2024, growth momentum accelerated owing to a pickup in tourism and exports, the latter boosted by US order frontloading. Private consumption has been more robust in H1 2024, but faded afterwards. It should recover in 2025, helped by a Government cash handout programme and low inflation.
- Growth is expected to slow from just below 3% in 2025 to 2.6% in 2026 (IMF) due to intensified geopolitical tensions and structural problems (manufacturing concentrated in low-technology products, aging, rising production costs). Concern about debt servicing by low-income households and SMEs is a key domestic risk.
- Inflation should remain around the lower end of the central bank 1-3% target range through 2025, with upward risks. BoT is expected to lower policy rates by 25bps in 2025 to lift subdued private investment.

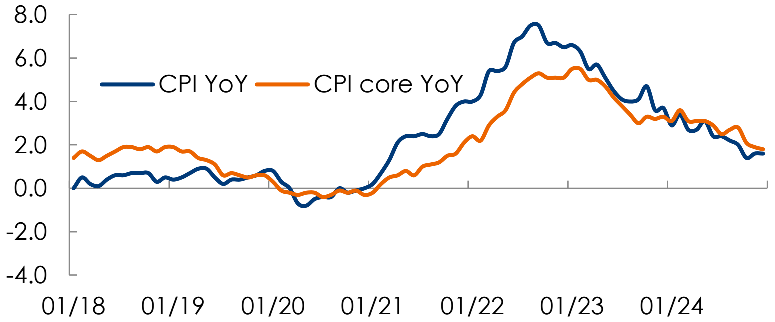
Singapore

GDP yoy



Source: CEIC

Inflation



Source: CEIC

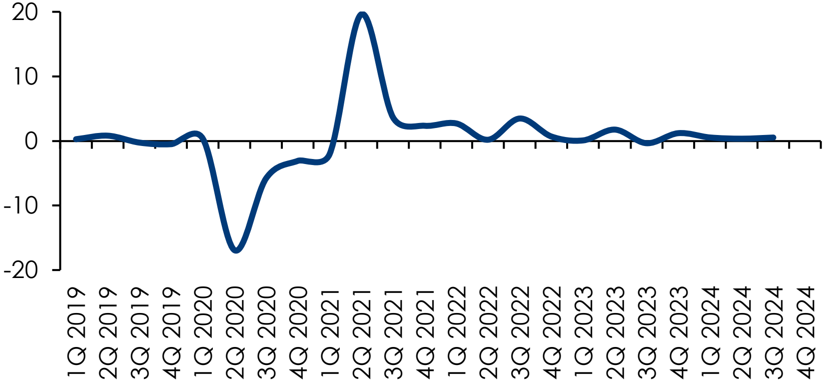
- Advance Q4 2024 estimates suggest the economy stagnated after a strong Q3. GDP growth should reach 3.0% in 2024 and is expected to decelerate to 2.5% in both 2025 and 2026 (IMF estimates).
- Singapore is unlikely to be a main target of US tariffs given the US has a trade surplus with it. But its exports' reliance makes it vulnerable to higher global trade barriers.
- Singapore, inflation eased in 2024 on moderating import prices and reduced domestic cost pressure and is expected to remain muted at 2.2% in 2025 and 2.0% in 2026 by the IMF. Low inflation gives the MAS space to further policy easing also in 2025.

South Africa

Improved electricity supply and easing inflation, but structural constraints persist

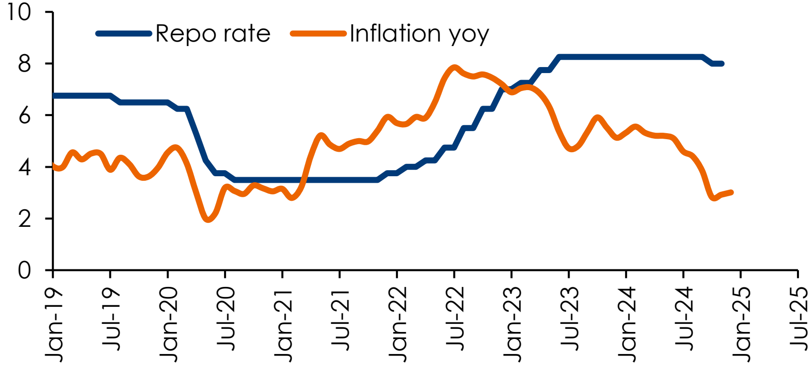
- South Africa's economic recovery suffered a setback in Q3 2024, due to a collapse in agricultural production. We expect **GDP** dynamics to recover over the next two years (1.4% in 2025 and 1.6% in 2026) driven by continued monetary easing and moderate inflation. Positive is the absence of power outages since March 2024.
- On average, in 2024, **inflation** was +4.4%, down from 6.0% in 2023, the lowest level in four years. With CPI slowing, the SARB cut the **repo rate** by 25bp to 7.75% in November, continuing the monetary easing cycle started in September (-25bp).

GDP (% change yoy)



Source: LSEG Datastream

Inflation and policy rate



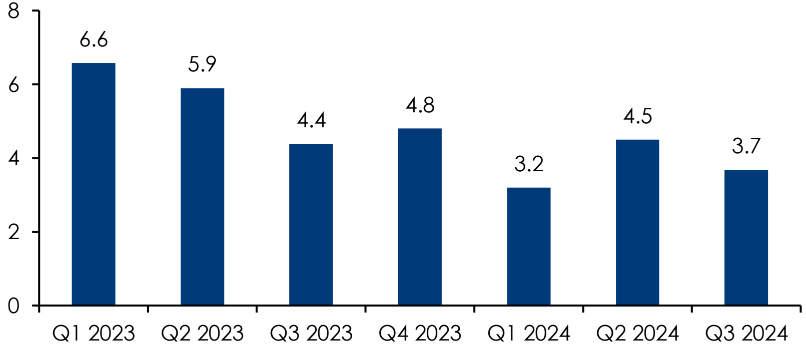
Source: LSEG Datastream

Mozambique

Economic activity supported by the extractive sector, in a context of post-election instability

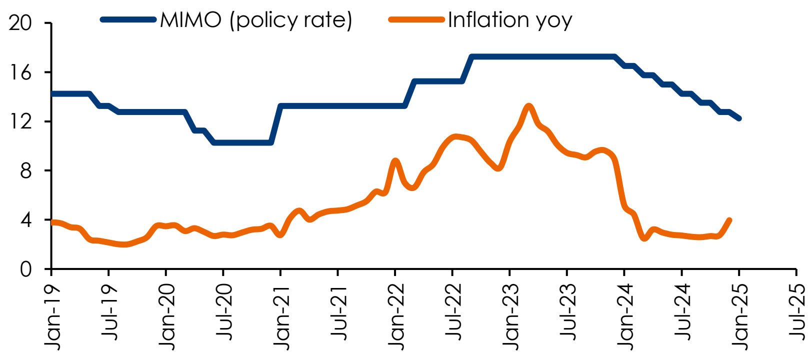
- Growth in Mozambique is projected to strengthen to an average of 4.5% in 2025-2026, mainly driven by developments in the gas sector. **Economic growth** will be buoyed by gross fixed investments and real exports as mining (coal and aluminium) and liquefied natural gas output from the Coral South floating terminal increase.
- Mozambique's central bank cut its **main policy rate** by 25bp in January to 12.25%, as prospects of inflation remaining in a single-digit over the medium term, despite the increase in risks arising from post-election tension, fiscal policy and climate shocks.

GDP (% change yoy)



Note: GDP constant price, not seasonally adjusted.
Source: LSEG Datastream

Inflation and policy rate



Source: LSEG Datastream

United Arab Emirates (UAE) 1/3

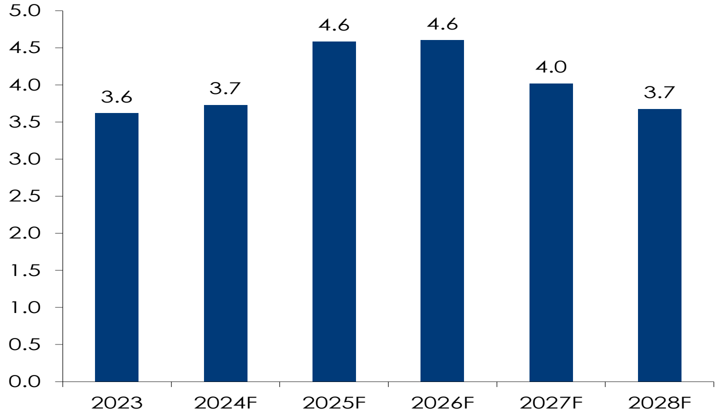
Good economic prospects and solid growth with high fiscal surpluses

- The United Arab Emirates maintain their status as a **key regional hub for trade**, finance, and tourism, owing to significant progress in economic diversification and reduced dependence on hydrocarbon revenues. The economic outlook remains robust, **supported by non-hydrocarbon domestic activity, continued reforms and related government spending, as well as a rapid expansion of hydrocarbon production**, led by the UAE's OPEC+ quota increase as of 2025.
- Overall GDP is expected to grow by 3.7 % in 2024 and 4.6 % in 2025. Fiscal and external surpluses should remain large due to relatively high oil prices. Fiscal policy reforms will support the fiscal surplus in the medium term, while the current account surplus is expected to narrow slightly in response to reform-induced import increases and stabilising oil prices.

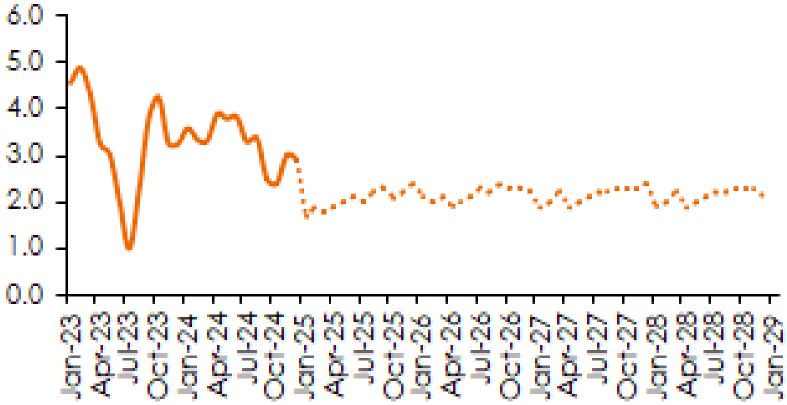
UAE 2/3

- **GDP** is expected to grow by 3.8% in 2024 and 4.7% in 2025. Fiscal and external surpluses should remain largely due to relatively high oil prices. Fiscal policy reforms will support the fiscal surplus in the medium term, while the current account surplus is expected to narrow slightly in response to reform-induced import increases and stabilising oil prices.
- Our **inflation** projections point to a +3.1% increase in 2024, up from +1.6% in 2023. However, we expect the figure to stabilise at around 2% after the 2024 rise, due to the decline and subsequent consolidation of international non-oil commodity prices, and to the slowdown of the housing market boom.

Real GDP % y/y



Inflation % y/y

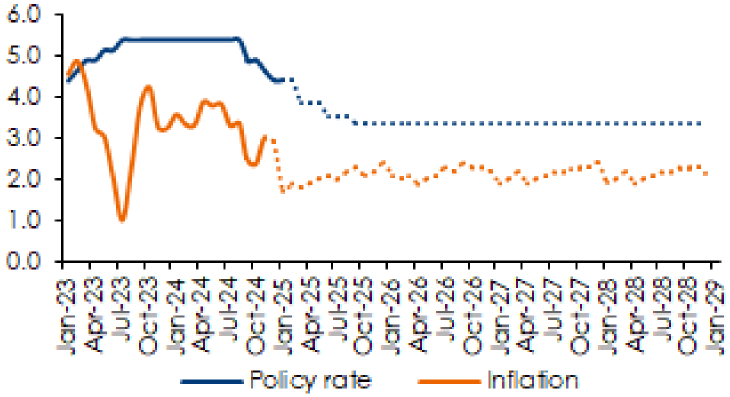


Source: Intesa Sanpaolo Research Department

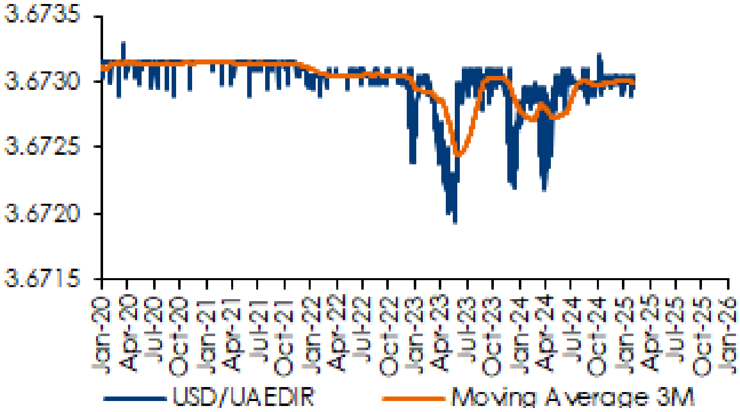
UAE 3/3

- On 29 January, the central bank decided to maintain the Base Rate applicable to the Overnight Deposit Facility (ODF) at 4.40%. This decision was taken following the US Federal Reserve's announcement today to keep the Interest Rate on Reserve Balances (IORB) unchanged. The CBUAE has also decided to maintain the interest rate applicable to borrowing short term liquidity from the CBUAE at 50 basis points above the Base Rate for all standing credit facilities. The Base Rate, which is anchored to the US Federal Reserve's IORB, signals the general stance of monetary policy and provides an effective floor for overnight money market interest rates in the UAE.
- The **diharm's peg** to the US dollar is USD/AED 3.67. Our estimates point to exchange rate stability until at least 2028. The PEG has provided stability for several decades and, despite the lack of monetary flexibility it entails, the authorities are committed not to change it.

Policy rate



USD/UAEDIR



Source: Intesa Sanpaolo Research Department

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Saudi Arabia 1/3

Economic transformation underway, solid domestic demand, subdued inflation and narrowing current account surplus

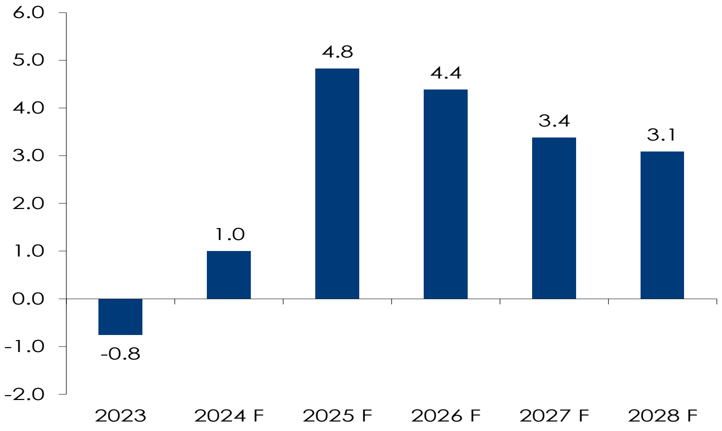
- Saudi Arabia’s unprecedented economic transformation is progressing well. Strong domestic demand is keeping non-oil growth solid, while unemployment is at an all-time low. **Inflation is contained and the current account surplus is shrinking rapidly.** Recalibrating the authorities' investment plans would help reduce the risks of overheating the economy and pressures on fiscal and external accounts.

- Our estimates are for GDP recovery at 1.0% in 2024 and 4.8% in 2025. **Non-oil GDP growth momentum is expected to remain strong.** Investment-led imports will worsen the current account balance, while foreign reserves remain abundant. Risks to the outlook are broadly balanced against a backdrop of high uncertainty.

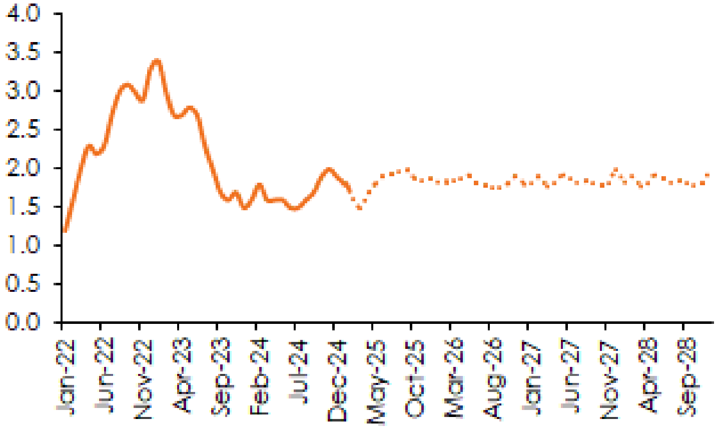
Saudi Arabia 2/3

- Our estimates are for **GDP** recovery at 4.4% in 2025 and 4.3% in 2026. Non-oil GDP growth momentum is expected to remain strong. Investment-led imports will worsen the current account balance, while foreign reserves remain abundant. Risks to the outlook are broadly balanced against a backdrop of high uncertainty.
- In relation to **inflation**, we expect that, after 2.3% in 2023, the figure will stay just below 2% for the next three years, supported by a credible peg to the US dollar and domestic policies to control prices.

Real GDP % y/y



Inflation % y/y

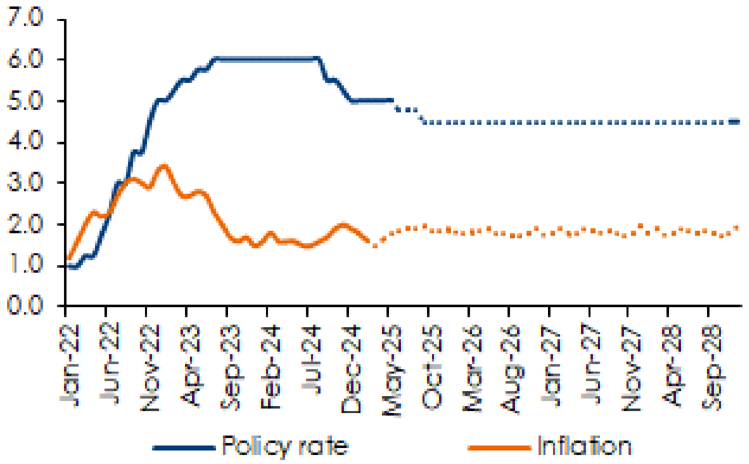


Source: Intesa Sanpaolo Research Department

Saudi Arabia 3/3

Good economic prospects and solid growth with high fiscal surpluses

Policy rate and inflation



Source: Intesa Sanpaolo Research Department

- With regard to **monetary policy**, the Saudi central bank decided on 18 December 2024 to reduce the Repurchase Agreement (Repo) rate by 25 basis points to 5.05%, and the Reverse Repurchase Agreement (Reverse Repo) rate by 25 basis points to 4.5%. This decision is in line with SAMA's mandate of preserving monetary stability in the context of global developments.
- The **peg of the riyal** to the US dollar is 3.75 riyals to 1 dollar and has been in place since 1986. We expect this policy to continue for at least the next three years, given the authorities' desire to strengthen security with the peg to the US currency and to avoid any action that could undermine macroeconomic stability.

Agenda

Italian FDI in selected countries

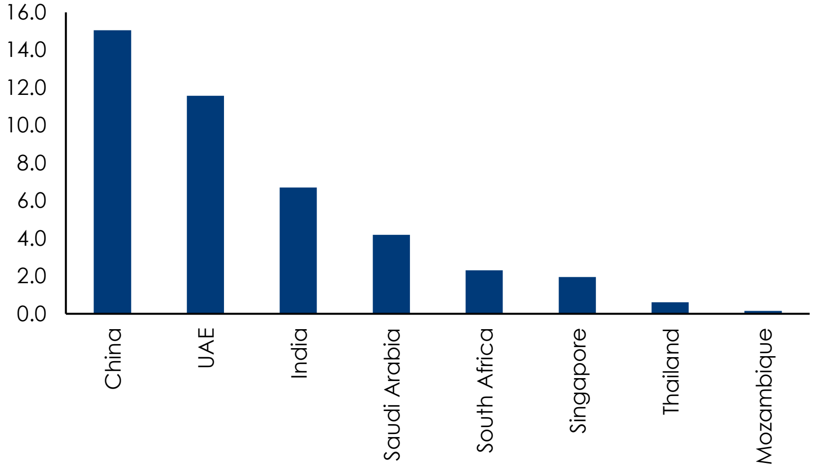
Italian FDI inward flows in the main countries reached EUR 42.5Bn in 2023.
FDI stock in China was more than EUR 15Bn, followed by UAE with EUR 11.6Bn.
Italian FDI flows generally increased until 2022, but in 2023 declined in all countries

Italian FDI Flows inward – EUR M

	2017	2018	2019	2020	2021	2022	2023
UAE	329	856	888	146	-922	172	87
Singapore	97	413	7	258	103	294	84
South Africa	158	75	-187	-81	62	349	76
Thailand	92	74	57	20	43	35	27
Mozambique	7	-2	16	26	35	0	-4
China	1118	1221	691	1221	1176	1633	-26
Saudi Arabia	-416	-353	134	-341	-582	67	-187
India	250	191	-396	122	-55	441	-201

Source: MAECI

Italian FDI Stock inward 2023 – EUR Bn

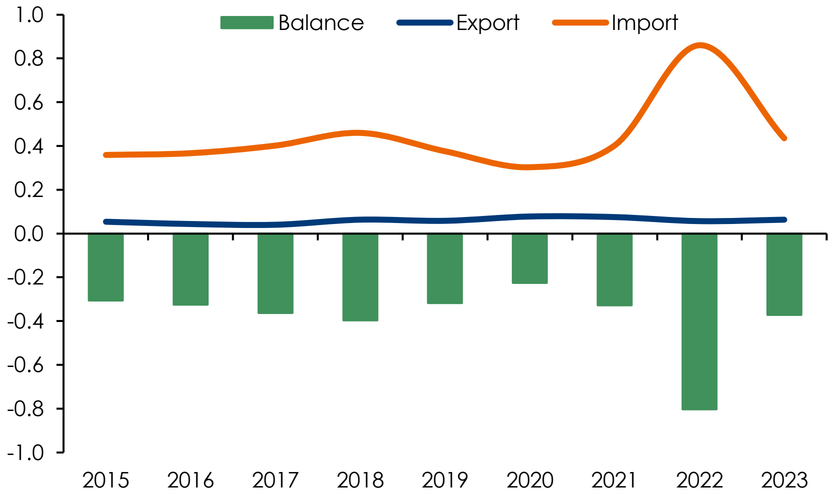


Source: MAECI

Mozambique

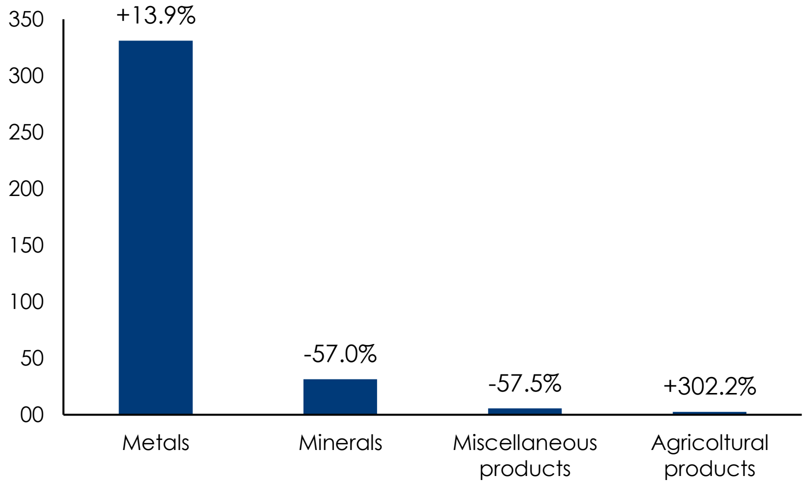
Italian trade with Mozambique is limited to EUR 437M in the first 10 months of 2024: EUR 375M for italian imports and EUR 62M in exports. Imports are mainly composed of metals (88% of total), specifically aluminium.

Italian trade – EUR Bn



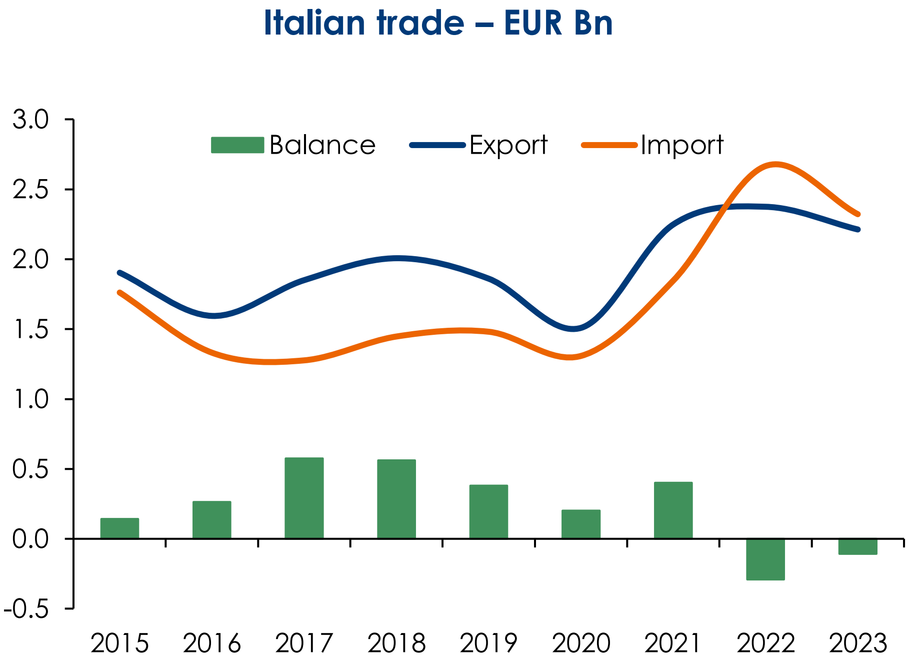
Source: Istat

Italian import details – EUR M



Source: Istat

South Africa



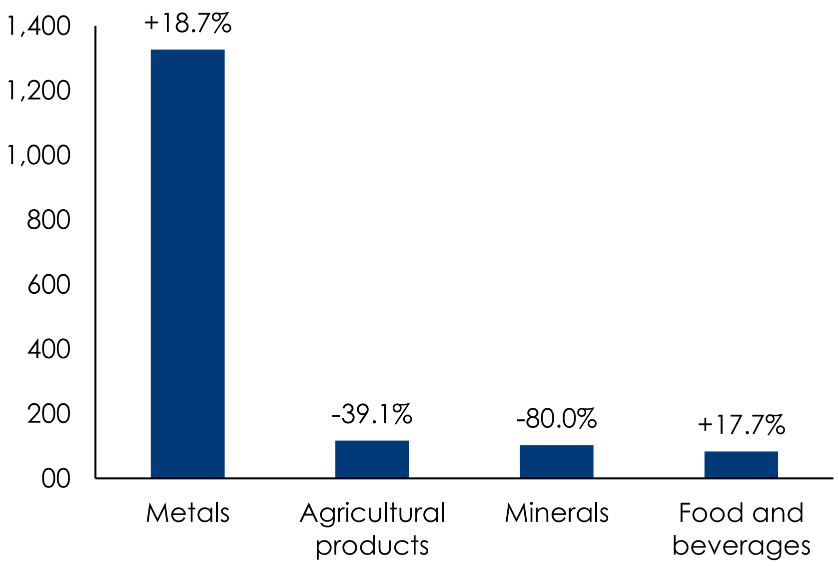
Source: Istat

Italian trade with South Africa reached EUR 4.5Bn in the first 10 months of 2024: EUR 2.2Bn in Italian imports and EUR 2.3Bn in exports. The balance, historically positive for Italy, from 2022 turned negative: the deficit was close to EUR 100M in 2023.

South Africa

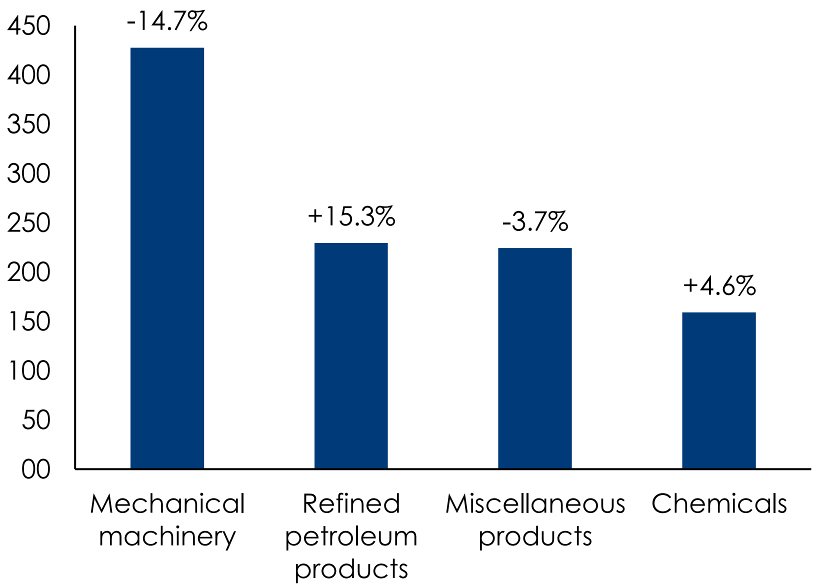
Italian imports mainly comprise metals (74% of the total in the first 10 months of 2024), specifically precious metals, agricultural products, minerals and food and beverages. Exports are represented by mechanical machinery, refined petroleum produtcs, miscellaneous products and chemicals.

Italian import details – EUR M



Source: Istat

Italian export details – EUR M



Source: Istat

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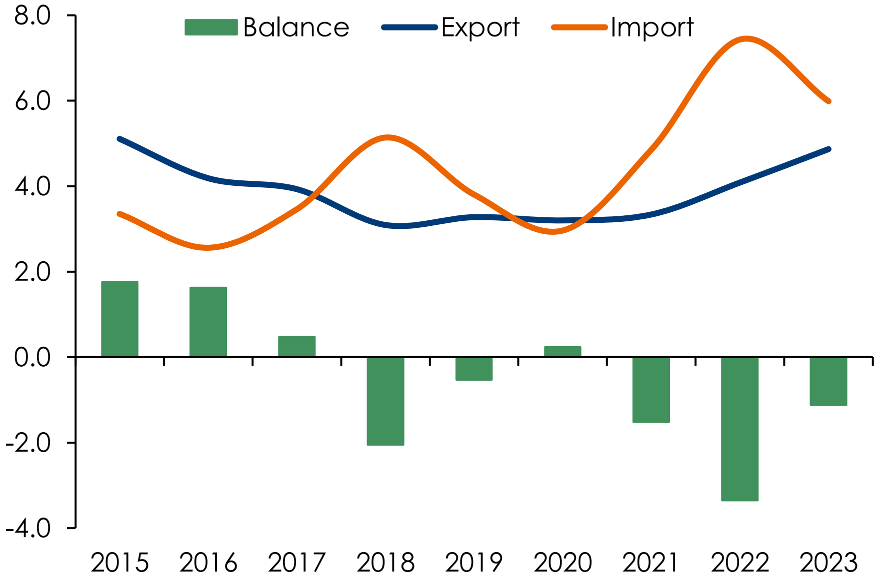
Saudi Arabia

Italian trade – EUR Bn



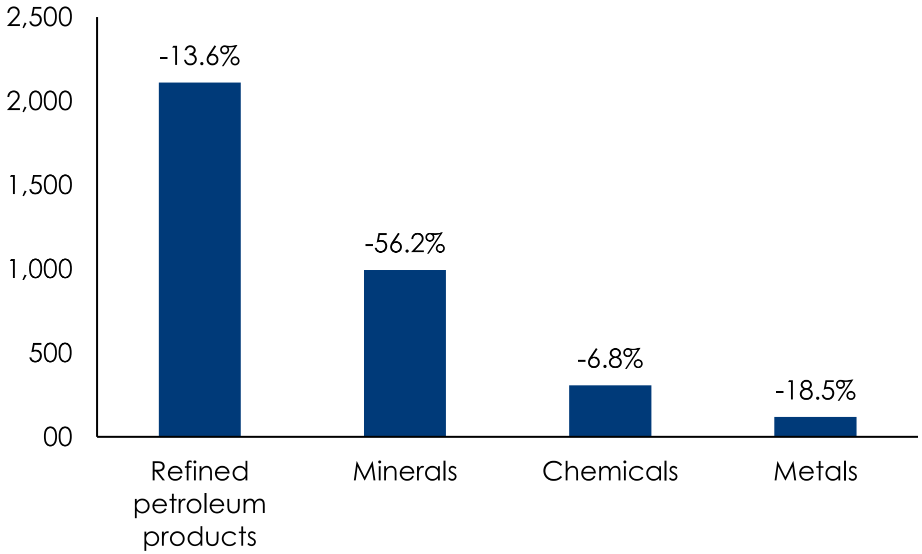
Source: Istat

Italian trade with Saudi Arabia reached EUR 8.5Bn in the first 10 months of 2024: EUR 3.6Bn in italian imports and EUR 4.9Bn in exports. The balance was historically negative for Italy: the deficit was near to EUR 1.1Bn in 2023, but turned positive last year to EUR 1.2Bn.

Saudi Arabia

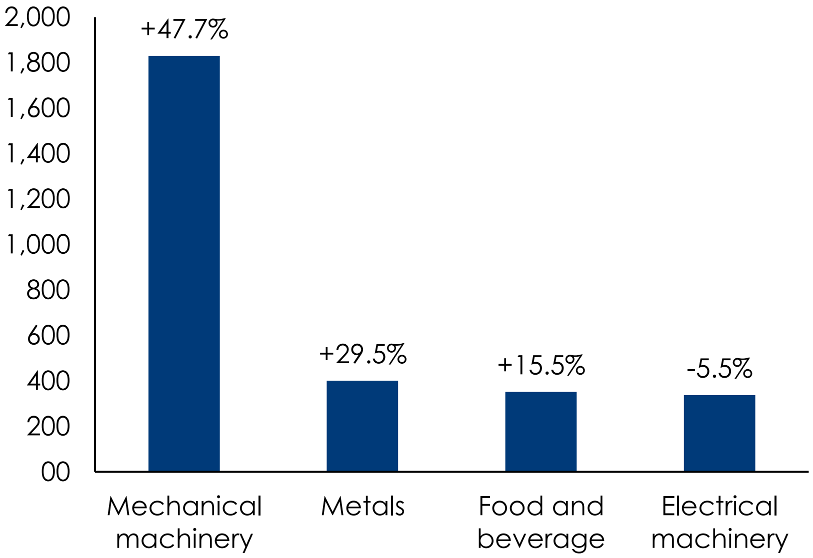
Italian imports mainly comprise refined petroleum products (58% of the total in the first 10 months of 2024), minerals, chemicals and metals. Exports are represented by mechanical machinery, metals, food and beverages, electrical machinery.

Italian import details – EUR M



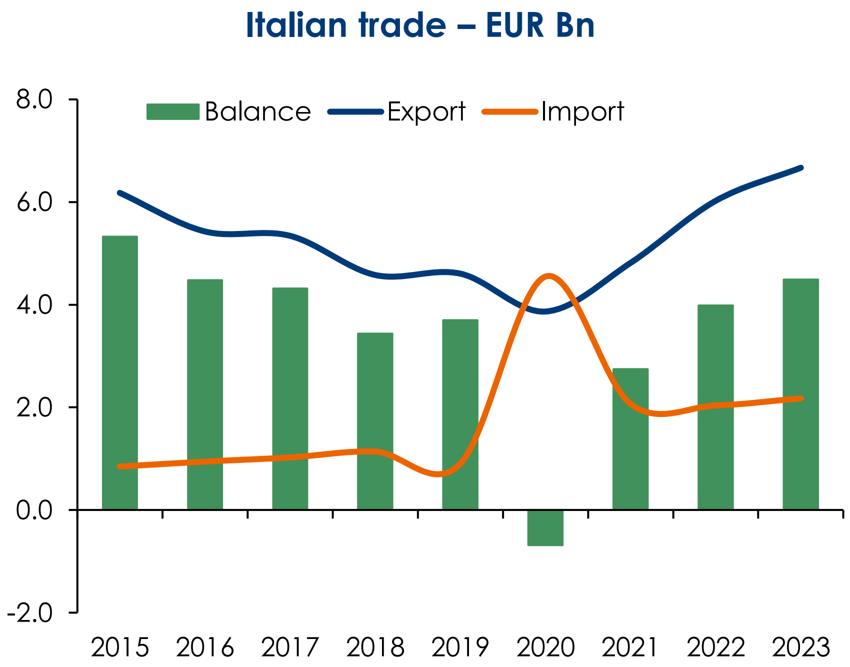
Source: Istat

Italian export details – EUR M



Source: Istat

UAE



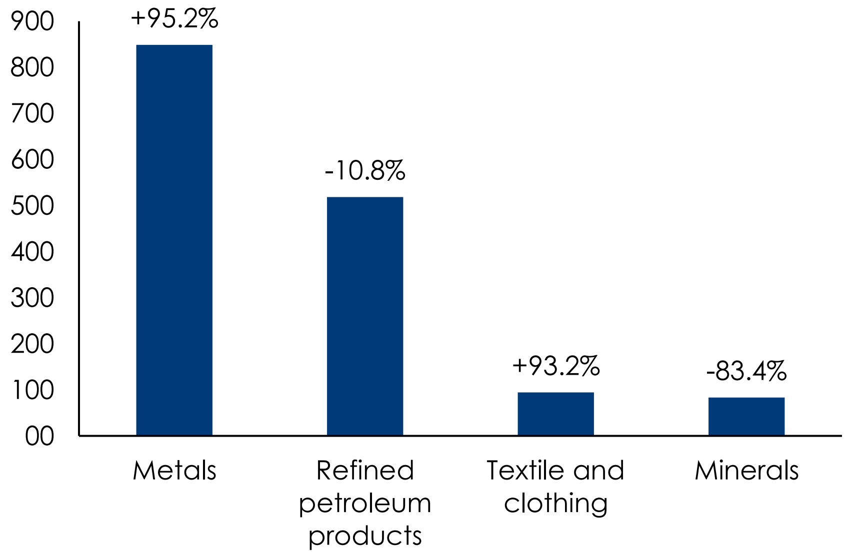
Source: Istat

Italian trade with the UAE reached EUR 8.2Bn in the first 10 months of 2024: EUR 1.7Bn in italian imports and EUR 6.45Bn in exports. The balance was historically positive for Italy: the surplus was near to EUR 4.5Bn in 2023, but reached EUR 4.7Bn last year.

UAE

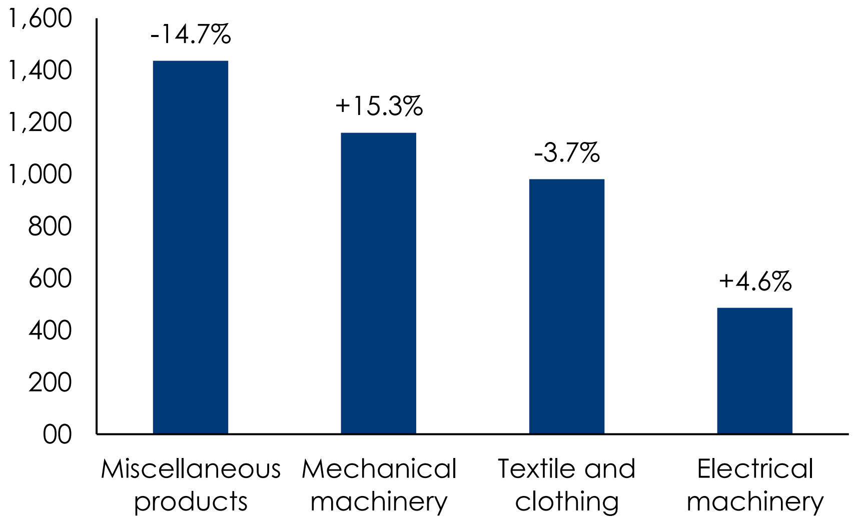
Italian imports mainly comprise metals (50% of total in the first 10 months of 2024), refined petroleum products, textile and clothing, and minerals. Exports are represented by miscellaneous products (jewellery), mechanical machinery, textile and clothing, and electrical machinery.

Italian import details – EUR M



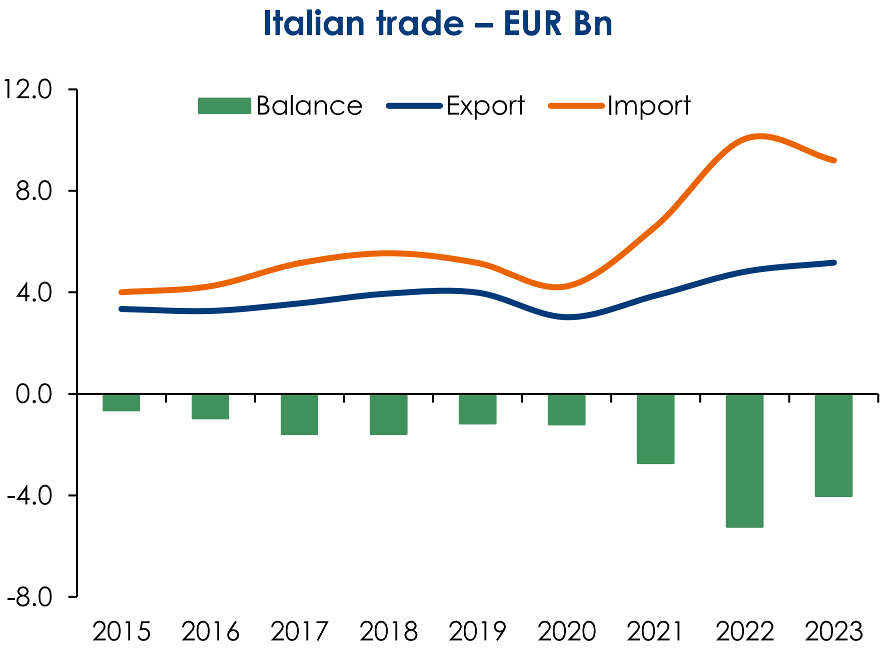
Source: Istat

Italian export details – EUR M



Source: Istat

India



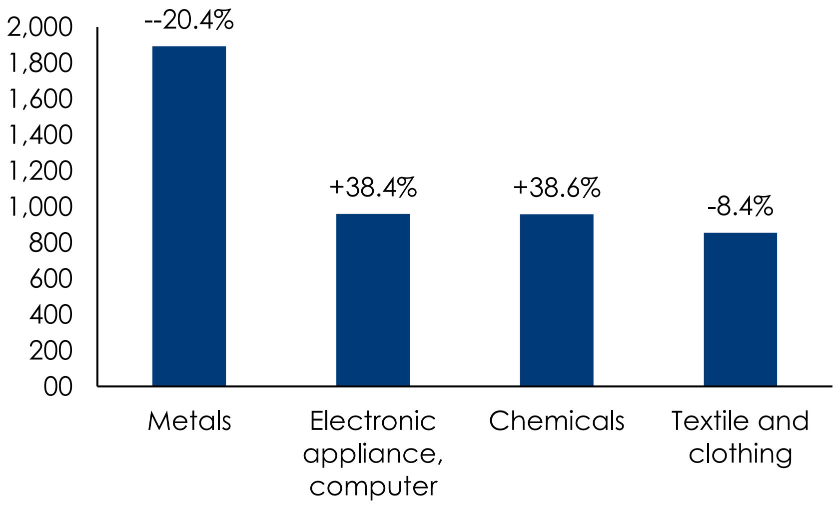
Source: Istat

Italian trade with India reached EUR 12Bn in the first 10 months of 2024: EUR 7.7Bn in italian imports and EUR 4.3Bn in exports. The balance has historically been negative for Italy: the deficit was near to EUR 4.0Bn in 2023, but reached last year EUR 3.4Bn.

India

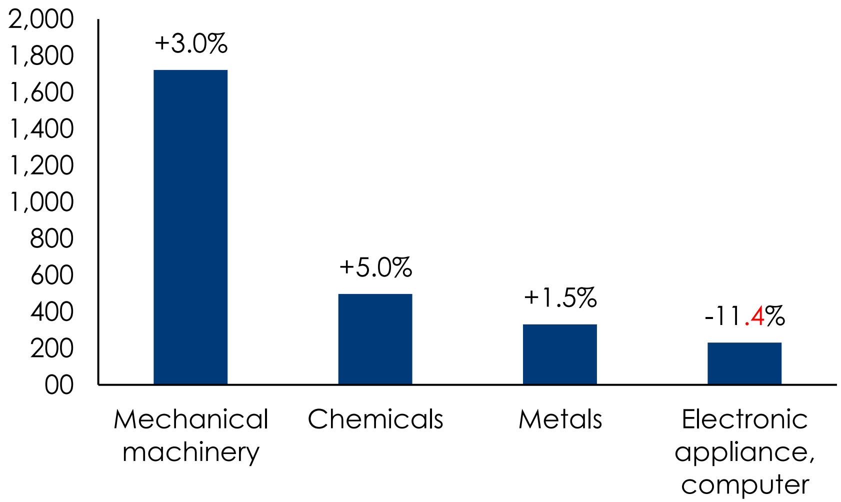
Italian imports mainly comprise metals (25% of total in the first 10 months of 2024), electronic appliances, computers, chemicals, textile and clothing. Exports are represented by mechanical machinery, chemicals, metals, electronic appliances, and computers.

Italian import details – EUR M



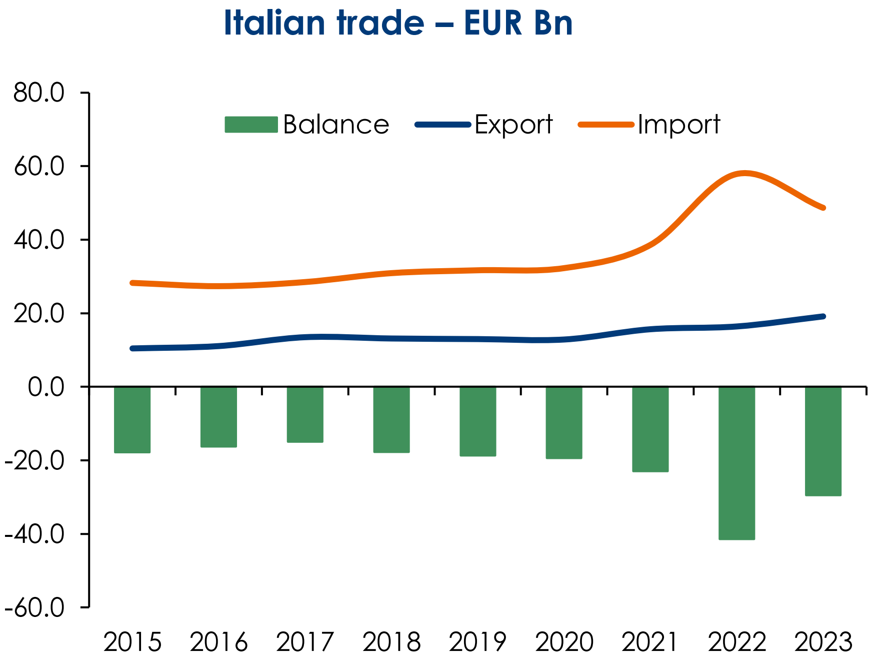
Source: Istat

Italian export details – EUR M



Source: Istat

China



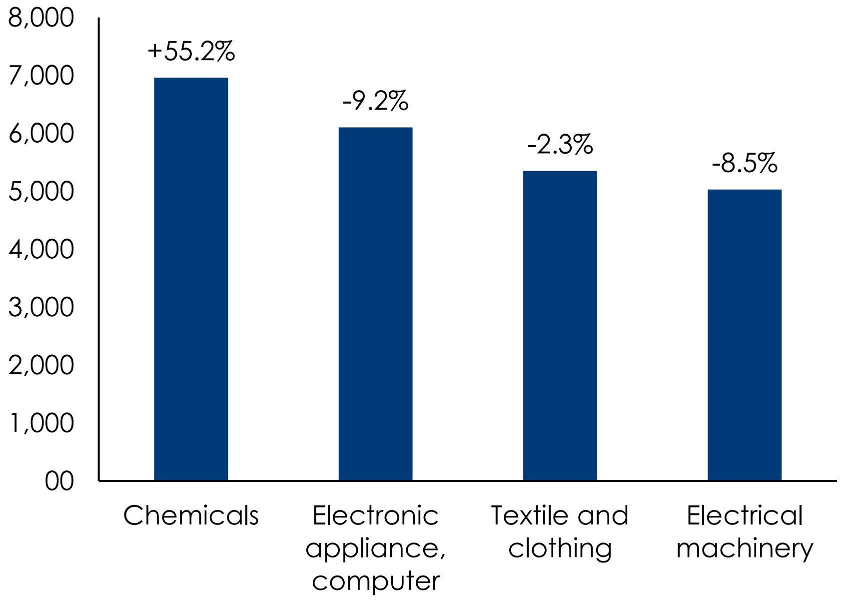
Source: Istat

Italian trade with China reached EUR 54.6Bn in the first 10 months of 2024: EUR 41.8Bn in italian imports and EUR 12.8Bn in exports. The balance has historically been negative for Italy: the deficit was near to EUR 29.5Bn in 2023, but last year reached EUR 29Bn.

China

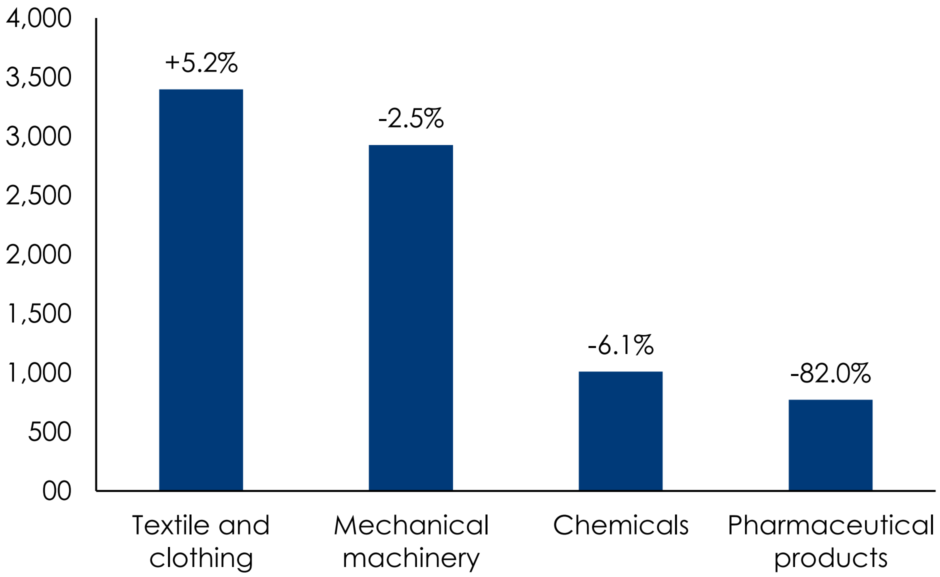
Italian imports mainly comprise chemicals (17% of the total in the 10 months of 2024), electronic appliances, computers, textiles and clothing, and electrical machinery. Exports are represented by textiles and clothing, mechanical machinery, chemicals, and pharmaceutical products.

Italian import details – EUR M



Source: Istat

Italian export details – EUR M



Source: Istat

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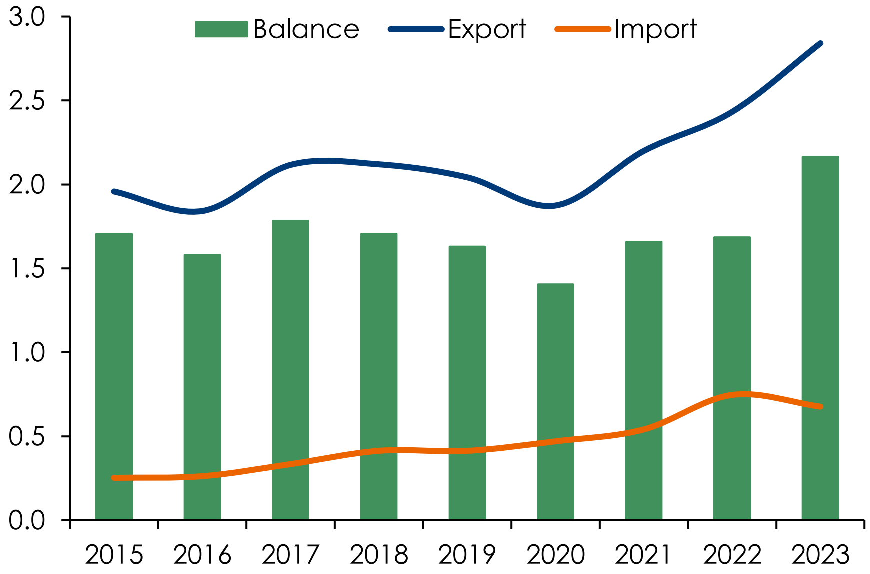
Singapore

Italian trade – EUR Bn



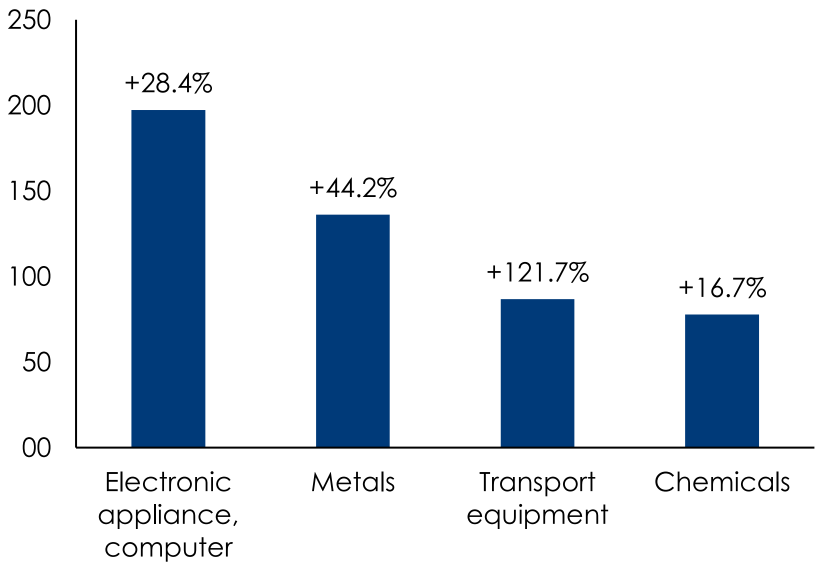
Source: Istat

Italian trade with Singapore reached EUR 3.2Bn in the first 10 months of 2024: EUR 0.7Bn in italian imports and EUR 2.5Bn in exports. The balance was historically positive for Italy: the surplus was near to EUR 2.2Bn in 2023, but last year reached EUR 1.8Bn.

Singapore

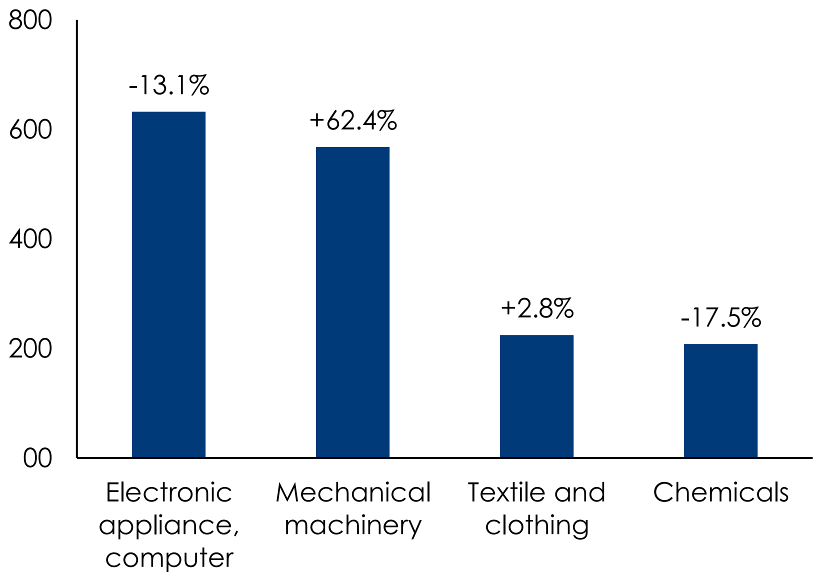
Italian imports mainly comprise electronic appliances, computers (30% of total in the 10 months of 2024), metals, transport equipment, chemicals. Exports are represented by electronic appliances, computers, mechanical machinery, textiles and clothing, and chemicals.

Italian import details – EUR M



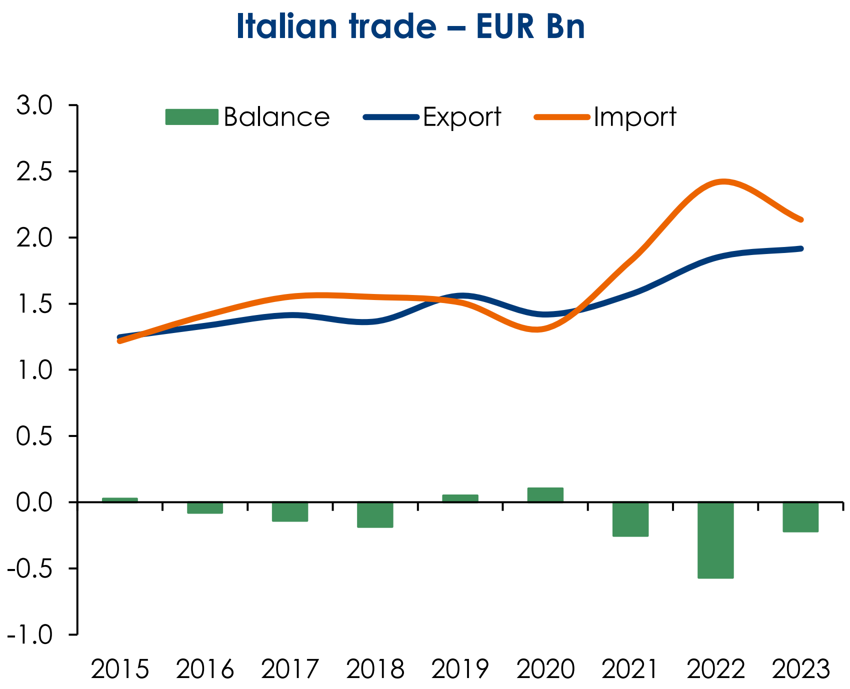
Source: Istat

Italian export details – EUR M



Source: Istat

Thailand



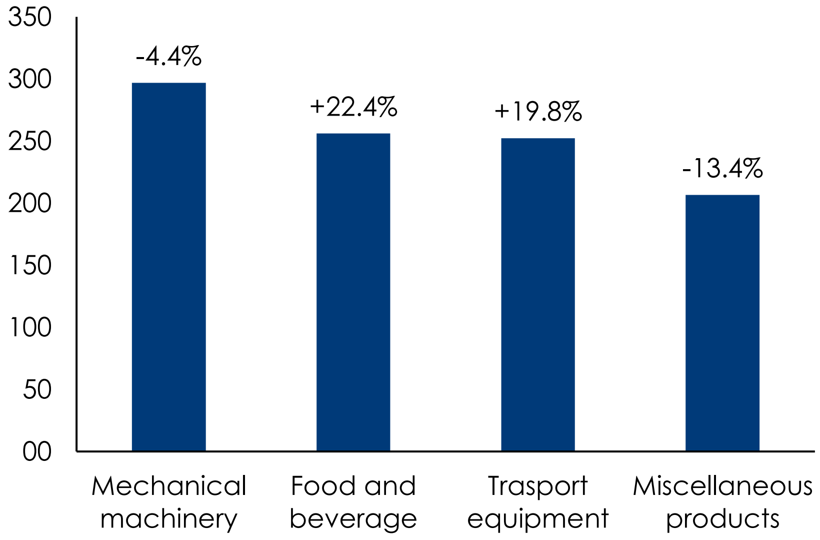
Source: Istat

Italian trade with Thailand reached EUR 3.3Bn in the first 10 months of 2024: EUR 1.7Bn in Italian imports and EUR 1.6Bn in exports. The balance was mainly negative for Italy: the deficit was near to EUR 200M in 2023, but last year reached EUR 130M.

Thailand

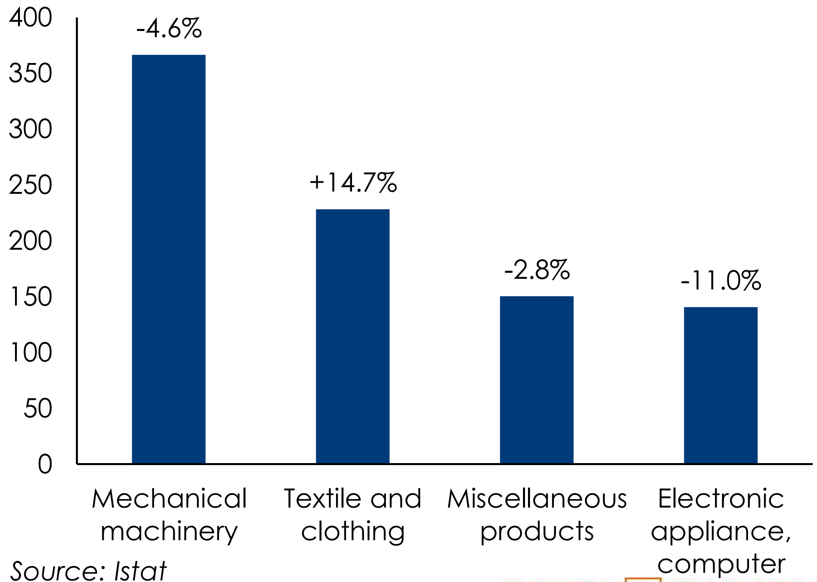
Italian imports mainly comprise mechanical machinery (17% of the total in the first 10 months of 2024), food and beverage, transport equipment, miscellaneous products. Exports are represented by mechanical machinery, textiles and clothing, miscellaneous products, electronic appliance and computers.

Italian import details – EUR M



Source: Istat

Italian export details – EUR M



Source: Istat

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Appendix

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