Fundación MAPFRE

2024 ECONOMIC AND INDUSTRY OUTLOOK: PERSPECTIVES FOR THE SECOND HALF

MAPFRE Economics

2024 Economic and Industry Outlook: Perspectives for the Second Half

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Executive summary

2024 Economic and Industry Outlook: Perspectives for the Second Half

Economic outlook

As expected, during the months elapsed in 2024, the world economy continued to slow down, with growth in economic activity still positive, but very gradually losing steam and abandoning the high levels of inflation of the past. This was the view of the world's main central banks, which, with varying degrees of haste, are showing a moderate drift towards less monetary tightening. Thus, the current outlook offers a more balanced macroeconomic vision, although this slowing phase continues to pose certain divergences in terms of economic activity, inflation, and monetary policies amid a challenging geopolitical scenario.

From the standpoint of economic activity, service dynamics are expected to remain positive, with manufacturing beginning to show signs of recovery. However, some caution is warranted due to underlying vulnerabilities and dynamics that do not allow for a complete turnaround, such as supply costs that remain under pressure from high raw material prices, labor markets that remain tight, volatile energy markets, and supply chains subject to a geopolitical risk premium that has yet to dissipate.

In Europe, factors such as energy independence, the increasingly direct trade war in higher value-added products, or defense capabilities, pose challenges in the political framework, making it difficult to maintain comprehensive planning in response to strategic objectives, symbolic of deficiencies in the institutional architecture (such as the lack of a capital market and fiscal union). The United States, in turn, is consolidating its global competitiveness by ensuring stable and reliable value chains, thanks to the agile strategic reorganization of these chains with its trading partners (*nearshoring/friendshoring*). Furthermore, both China and the Global South seek to compete in terms of both high added value manufacturing and the strategic raw and critical materials to produce them, promoting subsidies and transfers in a sort of industrial *dumping* that fuels tensions with Europe. On the other hand, the now consolidated new Sino-Western industrial policy and the trade inertia of the Global South exemplify the transition from a free market economy to global neo-mercantilism/protectionism.

This scenario shows an increasingly fragmented world, with an ecosystem of unsynchronized and fragile future economic cycles, asymmetric impacts, and with response mechanisms and capacities limited by local and regional idiosyncrasies. This could lead to a future with increasingly frequent volatility events and divergent potential growth between regions, in which the geopolitical factor takes center stage and impacts both private and sovereign risk premiums. That is, a world in which tail risks should not be obliterated.

As for fiscal policy, the short and medium-term forecast points to a moderation of fiscal stimuli, especially as the electoral cycle progresses around the world, which will not necessarily lead to an adjustment of fiscal dynamics, especially in the United States. Inflation is progressing in the right direction, but with very disparate levels of evolution. Obstacles such as pressure from services and wage increases, developments in commodity prices, as well as supply chains related to the Red Sea crisis, where port congestion and cost increases have yet to normalize, prevent it from reaching the central banks' target.

On the other hand, with regard to monetary policy, the search for a way out of the accumulated monetary tightening to date is gaining ground, with the G10 central banks joining the path initiated in 2023 by most of their emerging counterparts. The Federal Reserve has lost some leadership in the process, as it is still reluctant to abandon monetary orthodoxy and is therefore modulating expectations of normalization in the short term. Despite the predictable moderate and lagged adjustment of global interest rates, in the medium term, neutral monetary policy rates are expected to converge to levels above those of the last decade (in a range between 2% and 3%), given the evidence of higher background inflation and demographic and technological effects on productivity and trend growth. Hence, a future environment with less room for monetary easing emerges, coupled with the expected lower fiscal support to buffer cyclical fluctuations. The global monetary and fiscal outlook, regional cyclical divergences, and the granularity of geopolitics in terms of local risk premiums will also produce a context of limited synchrony in longer-term interest rates.

Meanwhile, regional dynamics remain nearly unchanged with respect to the vision set out in our previous report. In the Eurozone, the outlook is slightly improved thanks to the positive surprise of the first quarter and the anticipation of a better internal balance to come. The United States retains previous prospects of a soft landing for the economy, which remains a source of support for global growth. The emerging economies, on the other hand, demonstrate a momentum that remains capable of continuing to surprise on the upside, at least in certain regions of the world, while risks are contained at the domestic level. Our forecasts for Latin America propose a still-positive growth path, although below its potential, as a result of different dynamics between those that capitalize on productive proximity to the United States and those more subject to the commodity cycle and the growth of Chinese demand. Meanwhile, Asia is projected to continue to lead global growth, despite the ongoing conflicts, with developments expected to be slightly more positive as forecasts for countries such as India, Indonesia, and the Philippines are assessed upwards, although some caution remains regarding China's growth dynamics.

In the *baseline scenario* considered in this report, global growth records a 3.0% increase for 2024 and 2.9% for 2025, while, in terms of prices, average inflation of 4.5% and 3.5% is anticipated for these years, respectively. Meanwhile, the *stressed scenario* predicts an increase in GDP for 2024 of around 2.9%, with 4.5% inflation. On the other hand, forecasts for 2025 point to somewhat weaker growth in global economic activity, reaching 2.5%, with average inflation reaching 3.7%. The balance of global risks is slightly skewed to the downside, with geopolitical, governance, and economic policy risks as the main factors and the potential shift to a less favorable, though not recessionary, scenario.

Industry outlook

The economic context continues to surprise with milder-than-expected slowdowns, with financing conditions still tightening in most of the world's economies. This context will continue to have a positive impact on both the volume of insurance business and the profitability of its respective markets, with the help of more moderate inflation and higher financial income from high interest rates. Generally speaking, high interest rates, together with expectations of monetary easing in the coming quarters, may favor the development of Life savings insurance products and the strong performance of equities for Life insurance products in which the policyholder assumes the investment risk, which may also benefit from the high interest rates on fixed income for those policyholders with a more conservative profile. However, this insurance activity faces increased competition from other financial products, like bank deposits or investment funds, due to the strong attraction generated by the interest rate environment and the sound performance of the financial markets.

At the individual country level, the U.S. economy remains strong, though it is slowing down, painting a somewhat weaker outlook for insurance growth in the coming year. In the Eurozone, economic growth is expected to be weak at the aggregate level, although somewhat stronger in 2025, which may result in moderate growth in the insurance industry's more cyclical lines of business, with prospects of improvement towards next year. Within the Eurozone, the Spanish economy continues to perform better than expected, so the insurance business outlook is improving, aided by the shift towards an easing of the European Central Bank's monetary policy (still restrictive) and the reactivation of credit being observed in the surveys conducted by this body. Brazil and Mexico also have good prospects, although they are experiencing a moderate increase in inflation that, if it persists, could affect their profitability, which continues to benefit from high interest rates significantly above inflation in these markets.

1. Economic outlook

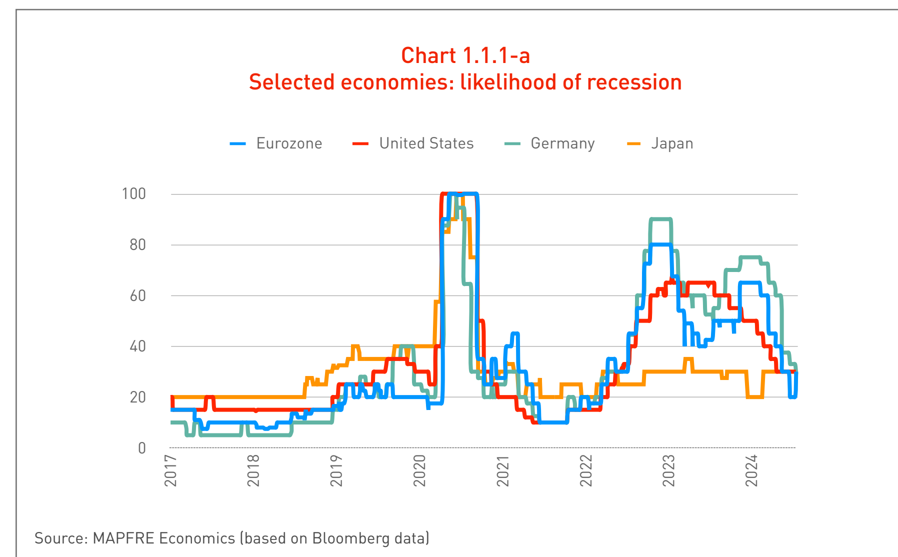
1.1 The global economic outlook

1.1.1 Too soon to regain altitude

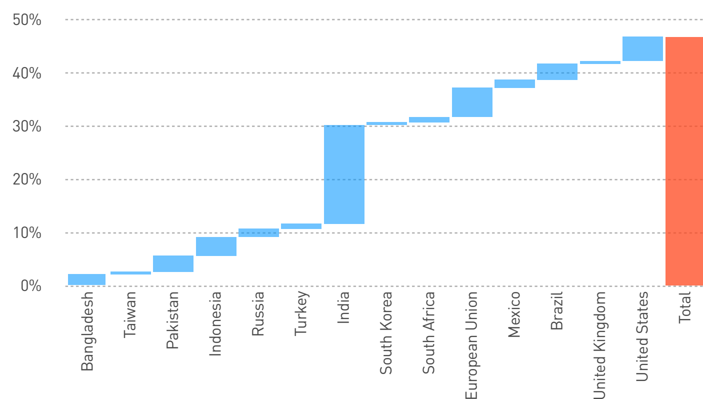
In the early stages of 2024, the global economy remained on the path of cyclical slowdown predicted at the beginning of the year, accumulating evidence that inflation rates are indeed trending downwards and generally following the script laid out by the main central banks, which, with varying degrees of speed, are starting to position themselves in a relative comfort zone from which they can move monetary levers towards less restrictive levels. On the surface, developments in this progression of cyclical forces offer a more balanced and, to some extent, "familiar" macroeconomic picture, as they point back to pre-pandemic normality. However, a closer look reveals that the current slowdown still poses a challenge in terms of diverging economic activity, inflation, and monetary policies, which, far from being synchronized, continue to widen the gap, while conditioned by a geopolitical scenario that remains complex and full of uncertainties.

On the economic activity side, the central view anticipates an economy which continues to show positive but slowing growth, with the mid-cycle adjustment as the baseline scenario, with the expansion's durability extending over time and overcoming both ongoing geopolitical challenges and a background narrative strongly influenced by the current election super-cycle (see Charts 1.1.1-a and 1.1.1-b). Thus, the mainstays for consumption will be less and less supported by savings and fiscal spending, which will continue to fade progressively. Instead, these forces carried over from the past are being replaced, in part, by the support of positive real wages that continue to grow and regain lost

Chart 1.1.1-a
Selected economies: likelihood of recession



Source: MAPFRE Economics (based on Bloomberg data)



ground, labor markets performing near full employment, and consumer confidence that appears to be leaving its low point behind.

Looking to the private sector, the momentum of the services sector is expected to maintain its excellent health and take the lead in the cyclical momentum. At the same time, manufacturing is starting to show signs of recovery, with some cyclical improvement that may be brewing in certain industries. Nevertheless, this ongoing expansionary movement should still be taken with some caution, due to vulnerabilities and underlying dynamics that make a full turnaround impossible. These constraints, some of them structural, include supply costs, which remain under pressure from persistently high raw material prices, volatile energy markets, surprisingly robust labor markets, and supply chains subject to a geopolitical risk premium that has yet to dissipate. Although this new trend would foster progress towards normal consumption patterns and a rebalancing of demand for goods and services (thus moderating inflation in services), it is a movement with multiple uncertainties subject to complex underlying dynamics.

In Europe, the political environment is facing renewed fragmentation, as well as difficulties articulating a common response to underpin a comprehensive strategy to address strategic objectives, such as defense capabilities (with an intra-European war now in its third year), energy independence, or an increasingly direct trade war in higher value-added products. In the United States, industrial subsidies and trade policies to favor "coming home" (such as the IRA and CHIPS laws) are accompanied by a strategic realignment of trading partners around the world (*nearshoring/friendshoring*), painting a picture of competitiveness under secure and reliable supply chains. And in China (and a growing number of countries of the emerging economies bloc), the position aims to capitalize on the positive external forces of these global dynamics, such as the energy transition or the electric vehicle, seeking to compete in terms of both high value-added manufacturing and strategic and necessary raw materials under patterns, with subsidies and transfers from the state on the rise.

This confluence of underlying dynamics, which during the secular phase of low inflation and low economic growth seemed to some extent innocuous, now suggests a more chronic pathology with visible effects on both growth and price formation. The aforementioned patterns drive the vision of an increasingly fragmented world, with an ecosystem of unsynchronized and fragile future economic cycles and asymmetric

impacts, with response mechanisms and capacities limited by local and regional idiosyncrasies. Consequently, volatility events can be expected to be more frequent in the future, and risk premiums should remain identifiable, with the geopolitical factor gaining prominence and becoming an increasingly relevant *shock* variable to price.

In the wake of all these events, the tools and direction of fiscal policy take on special relevance, with the short and medium-term forecast remaining within the framework of moderation, at an increasingly visible pace as the electoral super-cycle progresses around the world. Underpinning the return to greater fiscal rationality and responding to the threat of unsustainable debt, which is at historically high levels and subject to constraining interest rates, is still the underlying rationale. In addition, and although most of the structural fronts and challenges emanating from the core scenario require or will require fiscal leverage in the future, the fear of provoking a resurgence of inflation appears as a limiting factor; this phenomenon was absent until the last expansionary phase and exposes the negative external forces that could result from a new wave of fiscal pro-cyclicality.

As for inflation, this factor continues to move in the right direction, although it has not managed to complete the last mile targeted by central banks. On the demand side, obstacles to this include pressure from services and wage adjustments, while challenges remain on the supply side, especially in supply chains related to the Red Sea crisis, whose port congestion and cost increases have yet to normalize, as well as the evolution of raw material prices. These particularities, in turn, mean that the inflation outlook presents very different realities around the world and with markedly different stages of development.

In this context, central banks maintain monetary policy tightening, reminding us that bringing inflation rates back to their official targets is a historically complicated process. On the positive side, the search for a way out of the accumulated monetary tightening to date is starting to prevail, with the G10 central banks joining the path initiated in 2023 by most of their emerging counterparts (with certain exceptions). While this characterization shapes the most common stance among monetary policy actors, it also highlights a certain loss of leadership in the process on the part of the United States, with the Federal Reserve remaining on guard and leaning toward monetary orthodoxy in response to a cycle that has proven particularly resilient and immune to the decisions adopted (see Box 1.1.1).

With more regions now moving cautiously toward easing financial conditions, or at least into somewhat less restrictive territory, in response to more subdued growth (Canada and the Eurozone recently joined Switzerland), we can expect that dynamic to eventually surface in the United States as well, along with increasingly compelling inflation arguments for greater Fed synchrony. This would put an end to a strong dollar that is making it difficult for many emerging markets to continue advancing in their already well-entrenched downsizing cycles. In the medium term, however, the cycle is expected to evolve towards a new equilibrium in which neutral monetary policy rates settle at levels higher than those of the last decade (between 2% and 3%), as well as more limited *quantitative easing* options, in line with the idea of less support in the future from fiscal policy to dampen cyclical fluctuations.

In summary, the global economy will continue to show positive signs on the activity side, with a slowdown taking its final steps in exchange for fighting and abandoning the high inflation levels of the recent past. This

Box 1.1.1
Monetary policy update

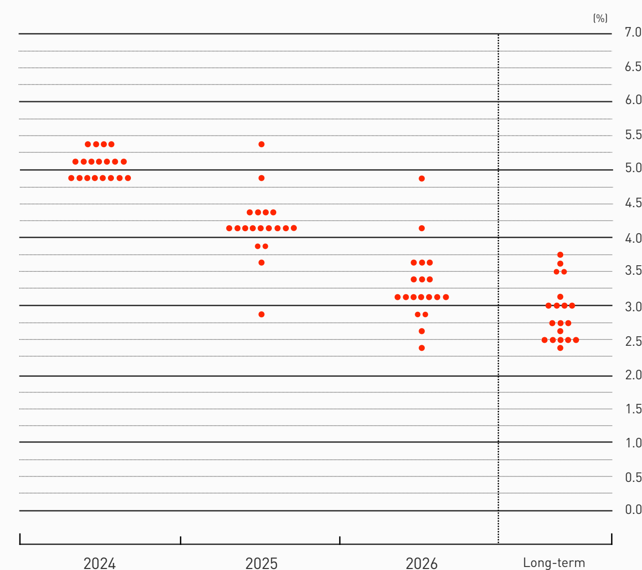
Federal Reserve

For the seventh time in a row, the Federal Reserve once again decided to hold its benchmark interest rate at a range of 5.25%-5.50%, in line with market expectations that changes were unlikely. Regarding the outlook for monetary policy, a dot plot (see Chart A) was presented that indicates that a single cut of 25 basis points (bps) will be made in 2024 (compared to the three previous cuts). For 2025 and 2026, average projections indicate 100 bps cuts each year, while, in the long term, the equilibrium or neutral interest rate increases by a tenth to 2.8%.

For the balance sheet, no changes were announced regarding the decreasing trajectory already proposed, which at this point has led to a figure 1.7 trillion dollars lower. Meanwhile, the macroeconomic picture has remained essentially unchanged. Predictions for the GDP growth rate have remained at 2.1% for this year, and at 2.0% for 2025–2026. There has been a slight upward revision in inflation (2 tenths in 2024, up to 2.6%, and 1 tenth in 2025, up to 2.3%), with the forecast of reaching the inflation target in 2026 remaining unchanged.

The statement released by the Federal Reserve can be interpreted as hawkish, coming out in tandem with a new table of economic projections that support a dampening of expectations regarding interest rate cuts. However, during his speech, Jerome Powell modulated the message, with the approval of an unexpectedly lower inflation figure just a few hours earlier, even offering a more moderate view of the confidence gained in the projections ("they are not a plan, and they can be adjusted").

Chart A.
United States: Federal Reserve Dot Plot



Source: MAPFRE Economics (based on Federal Reserve data)

Box 1.1.1 (continued)
Monetary policy update

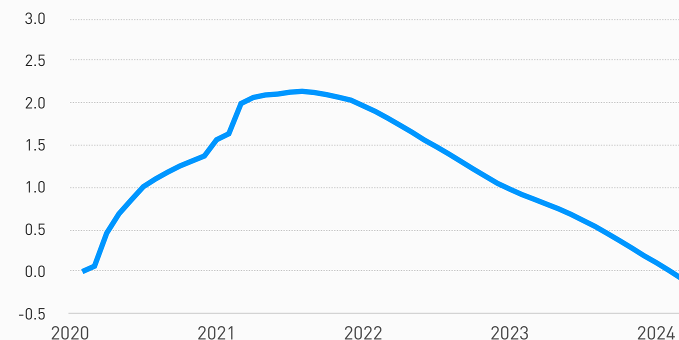
Assessment

In general terms, the underlying scenario presents itself as a challenge to the cautious stance pursued by the Fed. Slower economic growth, a more uncertain labor market, encouraging inflation data, and the echo of the first interest rate cuts already occurring in Europe and Canada have all fueled expectations of a less prudent approach. Nevertheless, those expectations have to conform to a reality where the Fed still sees a need for "more good data." On a positive note, the countdown that began at the start of the year seems to be starting to align with the countdown of the Federal Reserve itself, either because of a lack of numbers (correcting expectations from six cuts to two) or because of reasoning that is increasingly coming closer to the official line.

In terms of economic activity, the second revision of GDP data suggests a slight slowdown, mainly driven by a drop in consumer spending, a factor that could well be explained by excess savings during the pandemic having been depleted (see Chart B). However, the weakness seen in other sources of incoming data (ISM and PMIs) still appears to be insufficient to shake the underlying growth dynamic, which has allowed the American economy to systematically outperform those of other G7 countries.

As for inflation, after the dips seen in recent months, the data for May point in the right direction again (see Chart C). Specifically, the CPI held flat (0.0% MoM and 3.3% YoY), while the core CPI reading dropped to 3.4% YoY (0.2% MoM). However, when taking a closer look at the details, it can be seen that there were increases in practically all components (with the 0.4% MoM rise in housing costs standing out again), which were largely being offset by the energy figure (-2.0% MoM).

Chart B.
United States: excess savings generated during the pandemic
(billions of USD)

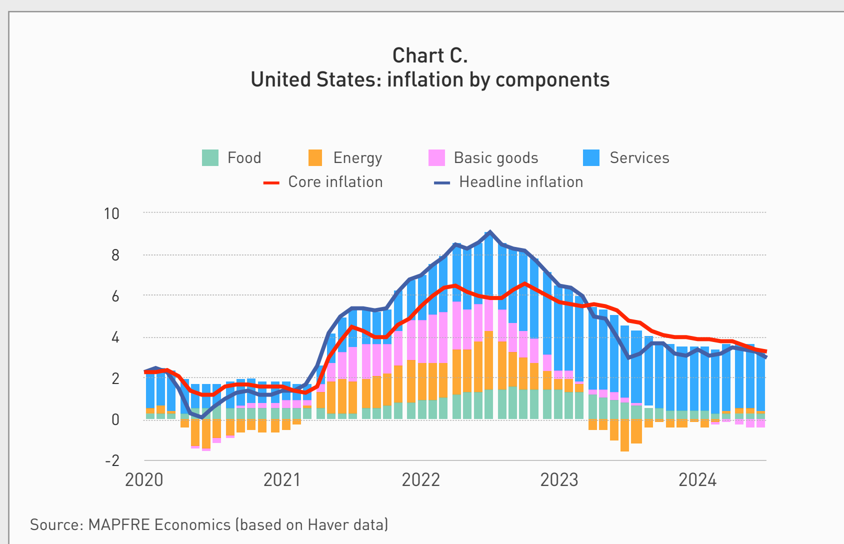


Source: MAPFRE Economics (based on BEA and FRBSF data)

Looking at changes in the labor market, it seems to be progressively moving towards its pre-pandemic equilibrium, although there is still some ground to cover in this regard. Employment offers have returned to target levels, while the drop seen in the pace of hiring can be partly attributed to a decrease in the number of people leaving their jobs. The increase in the unemployment rate to 4% does not seem to be fueling the likelihood of recession (as indicated by the Sahm rule, which predicts a recession when the three-month moving average of the national unemployment rate is 0.5 percentage points or more above its low over the previous twelve months), but rather seems to point toward a return to normality, in line with the Beveridge curve (see Charts D to F).

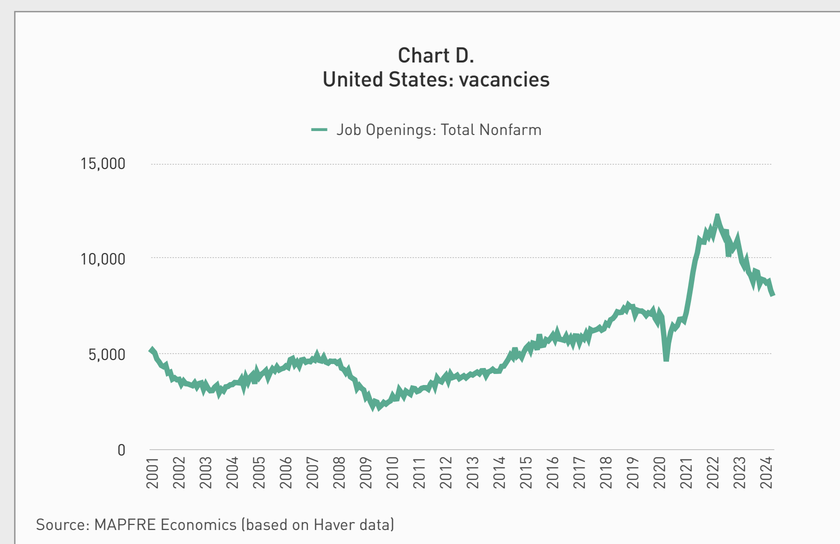
Box 1.1.1 (continued)
Actualización de política monetaria

Chart C.
United States: inflation by components



Source: MAPFRE Economics (based on Haver data)

Chart D.
United States: vacancies



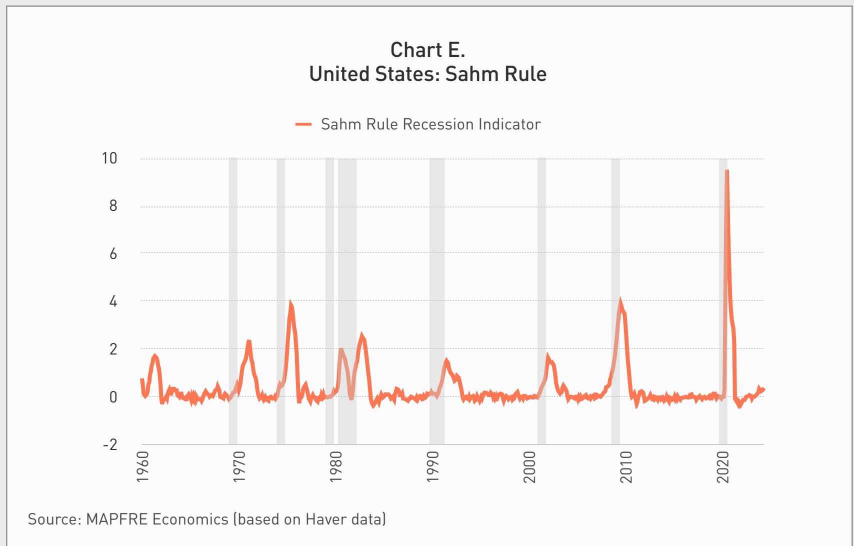
Source: MAPFRE Economics (based on Haver data)

In view of all of these figures, the Federal Reserve is still waiting for a more unequivocal body of evidence before it feels comfortable confirming its first interest rate cut. On the positive side, a more balanced macroeconomic outlook is beginning to clear the way for this. So, while activity and employment rates are taking on a healthier configuration, the latest inflation figures are supporting a more optimistic view. On the downside, however, the base effect is once again becoming a factor for inflation in the coming months, while the positive effect of energy prices is becoming less clear. In addition, changing salary levels are continuing to justify some price rigidity, which seems to reflect a labor market with some room for adjustment before finding its point of equilibrium.

In addition to the above, there is evidence that financial stability may be at risk. As extracted from the latest data published by the Federal Deposit Insurance Corporation (FDIC), in relation to the first quarter of the year and the unfavorable evolution of credit metrics (such as delinquency rates in certain segments), the possibility remains that more regional U.S. banks will go bankrupt (see Chart G). This is a factor that could help tip the scale

Box 1.1.1 (continued)
Monetary policy update

Chart E.
United States: Sahm Rule

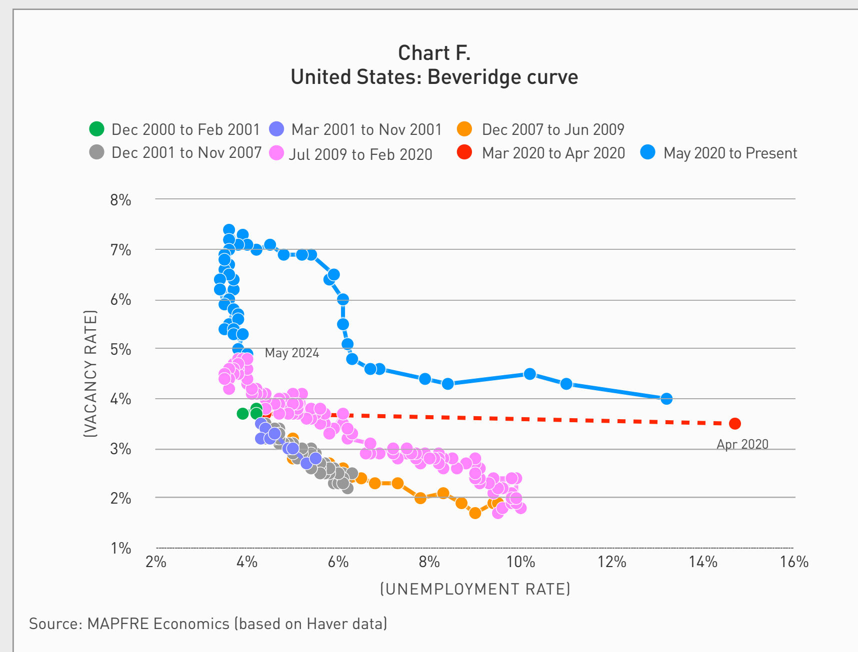


Source: MAPFRE Economics (based on Haver data)

towards preventive interest rate cuts, suggesting a high likelihood of a rate cut prior to the U.S. elections in November.

Therefore, it is foreseeable that during the second half of the year, the Fed's monetary policy will come into line both with its peers in developed economies (which have already started the cycle of monetary easing) and with the markets in general, whose expectations at the start of the year were far from the path proposed by the Federal Reserve, but which now appear more aligned with it (see Charts H and I).

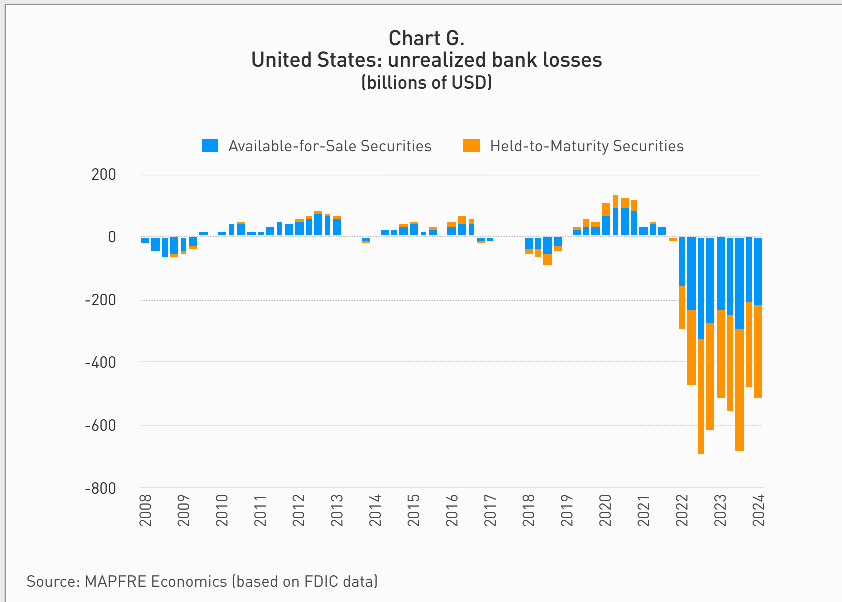
Chart F.
United States: Beveridge curve



Source: MAPFRE Economics (based on Haver data)

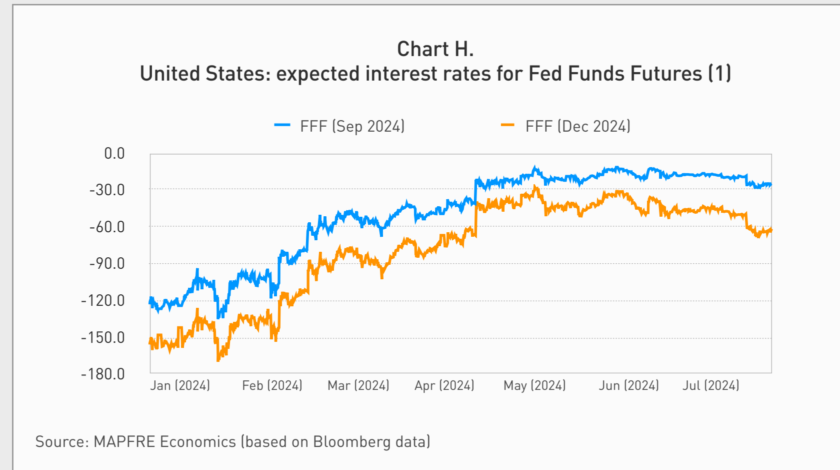
Box 1.1.1 (continued)
Monetary policy update

Chart G.
United States: unrealized bank losses
(billions of USD)



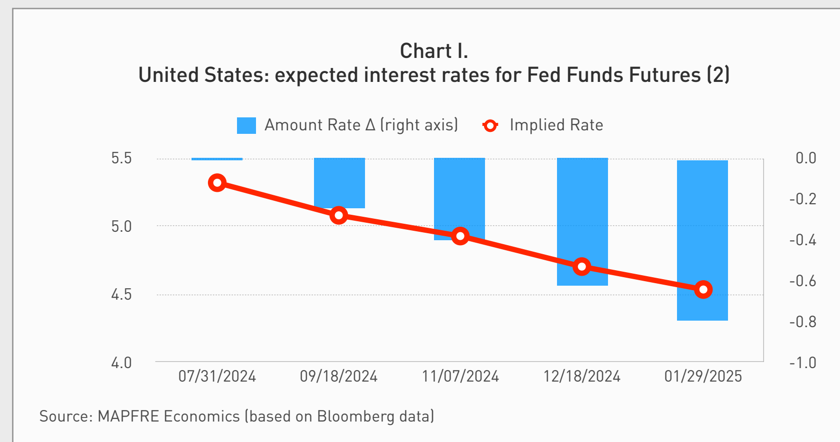
Source: MAPFRE Economics (based on FDIC data)

Chart H.
United States: expected interest rates for Fed Funds Futures (1)



Source: MAPFRE Economics (based on Bloomberg data)

Chart I.
United States: expected interest rates for Fed Funds Futures (2)



Source: MAPFRE Economics (based on Bloomberg data)

European Central Bank

At its June meeting, as expected, the European Central Bank (ECB) cut the three official interest rates by 25 bps, leaving the marginal lending rate at 4.50%, the rate on main refinancing operations at 4.25%, and the deposit facility at 3.75%, a range it decided to maintain one month later at its July meeting. On the balance sheet side, the decision was made to maintain the existing roadmap to continue reducing its size at a measured and predictable pace under the *Asset Purchase Program* (APP), as well as under the *Pandemic*

Box 1.1.1 (continued)
Monetary policy update

Emergency Purchase Program (PEPP), giving way to a break in reinvestments at the end of the year and a 7.5-billion-euro reduction process starting in the second half of the year.

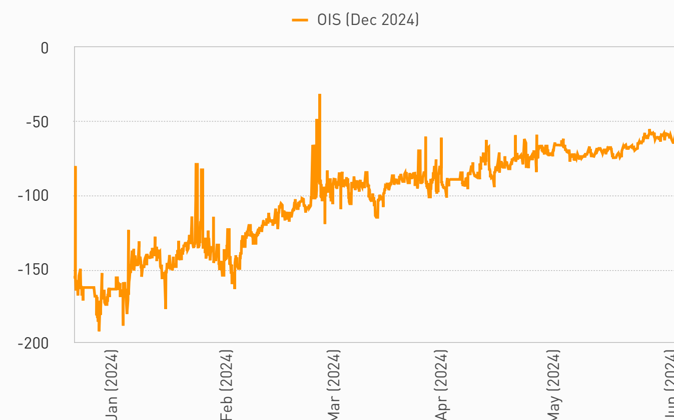
At a macroeconomic level, the ECB presented a new outlook containing a more balanced vision in terms of economic activity (3 tenths higher in 2024, to 0.9%) and prices, emphasizing the increase in expected inflation for 2024 and 2025 (2.5% and 2.2%, compared to 2.3% and 2.0% previously), thus pushing back its forecast for a return to the target rate until 2026 (having forecast 2025 at its previous meeting). In terms of future outlook, the institution doubled down on its data-based narrative without making any commitment or guarantee in relation to a future path (in fact, any explicit easing bias was ruled out).

Assessment

As anticipated, the ECB took its first step towards monetary accommodation, attributing the change to greater confidence in the perception that the path of inflation and future expectations "have notably improved." At the same time, and in light of the 25 bps cut to moderate the level of monetary restriction, the bar for future interest rate cuts was raised in the face of a risk map that remains moderately downward overall. This is in line with the market's expectations of interest rate cuts, which have continued to moderate (see Chart J) and reflecting the idea of a stoppage to cool a cycle of interest rate cuts that has just begun; in other words, this has dampened the narrative, to a certain extent, that successive cuts lie ahead in the coming months.

Looking at economic activity, the ECB's revision was slightly upward, reinforcing the increasingly clear evidence that activity is picking up, although the characteristics of this are more cyclical than structural. Based on GDP

Chart J.
Eurozone: evolution of EUR Swaps by the end of 2024

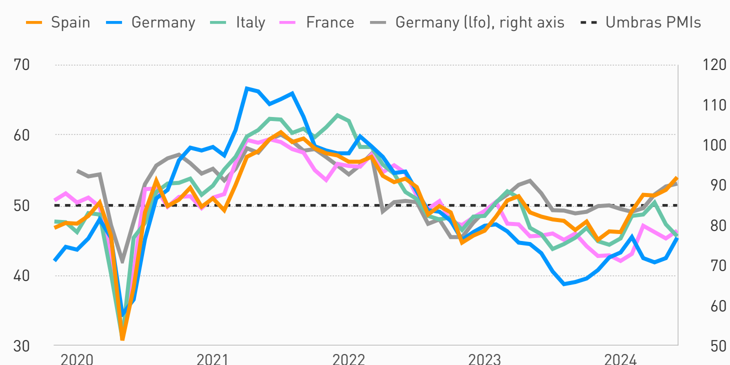


Source: MAPFRE Economics (based on Bloomberg data)

data for the first quarter of the year, the rebound that had previously been expected for the second half of 2024 appears to have come early (0.3% in the first quarter compared to 0.0% in the fourth quarter). Furthermore, from the more forward-looking perspective of the PMIs, the outlook clearly seems more expansive (up to 52.3 points compared to the previous 51.7); this is being led by the services sector, with support from a manufacturing sector that is far from the contraction threshold, at least as far as the less energy-

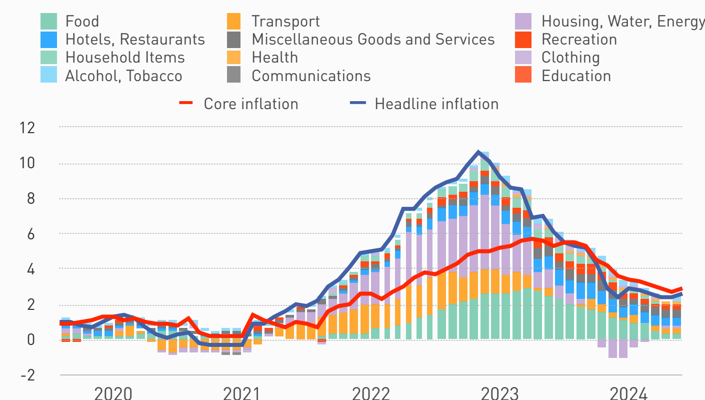
Box 1.1.1 (continued)
Monetary policy update

Chart K.
Eurozone: Manufacturers PMIs and German IFO



Source: MAPFRE Economics (based on Bloomberg data)

Chart L.
Eurozone: inflation by component



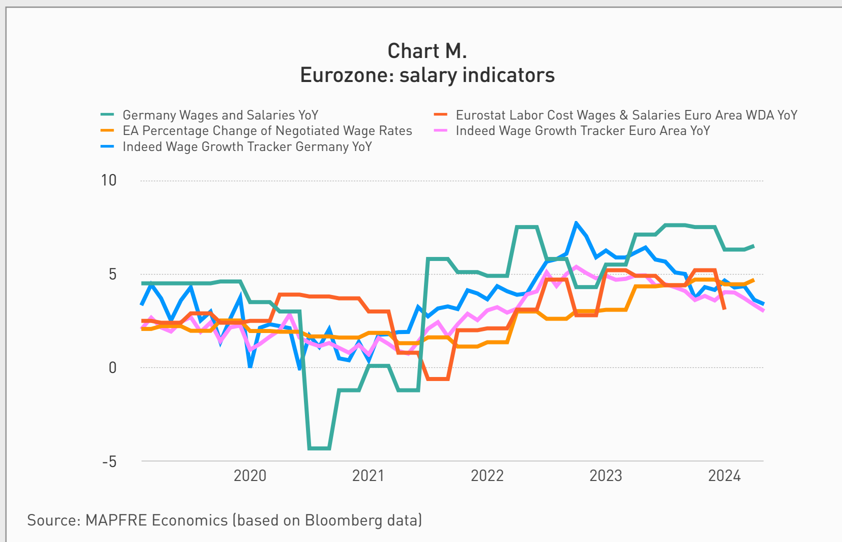
Source: MAPFRE Economics (based on Haver data)

intensive sectors are concerned, making the economic outlook increasingly strong for the Eurozone (see Chart K).

In contrast, inflation data underscores the need for more time and more convincing arguments to consider that the worst is now behind us in terms of controlling price growth. In May, the Eurozone CPI surprised on the upside, in terms of both the general reading (increasing from 2.4% to 2.6% YoY) and the core (from 2.7% to 2.9% YoY), driven once again by services, whose performance was again unrelenting, adding to the concern that energy and goods appear to be picking up steam (see Chart L). At the same time, and in relation to another of the key points mentioned by the members of the ECB's Governing Council (although this time contextualized), the underlying signals that could serve as a boost remain. In this regard, the latest salary cost data increased to 4.9% (from 3.4% in the fourth quarter of 2023), while the annual growth in employee remuneration increased to 5.6% in Germany, 6.4% in the Netherlands, and 3.7% in Italy, demonstrating that the expected wage moderation has not yet occurred (see Chart M).

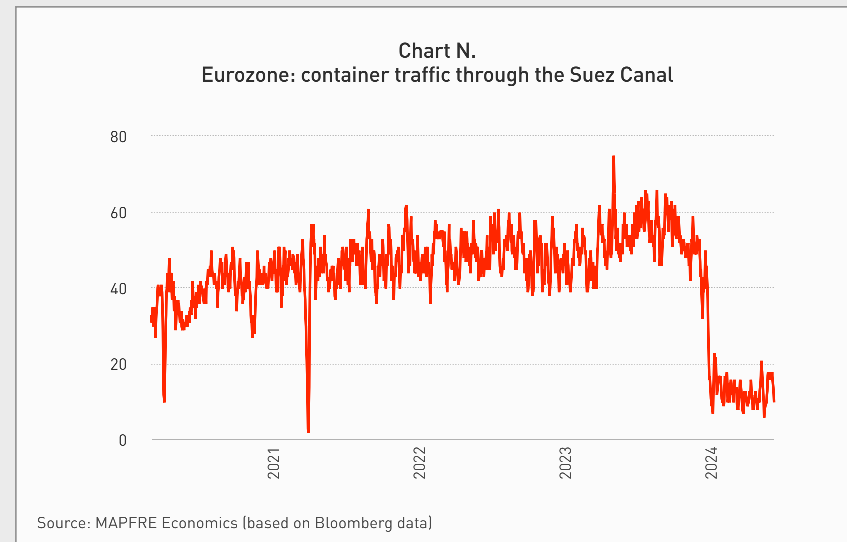
Box 1.1.1 (continued)
Monetary policy update

Chart M.
Eurozone: salary indicators



Source: MAPFRE Economics (based on Bloomberg data)

Chart N.
Eurozone: container traffic through the Suez Canal



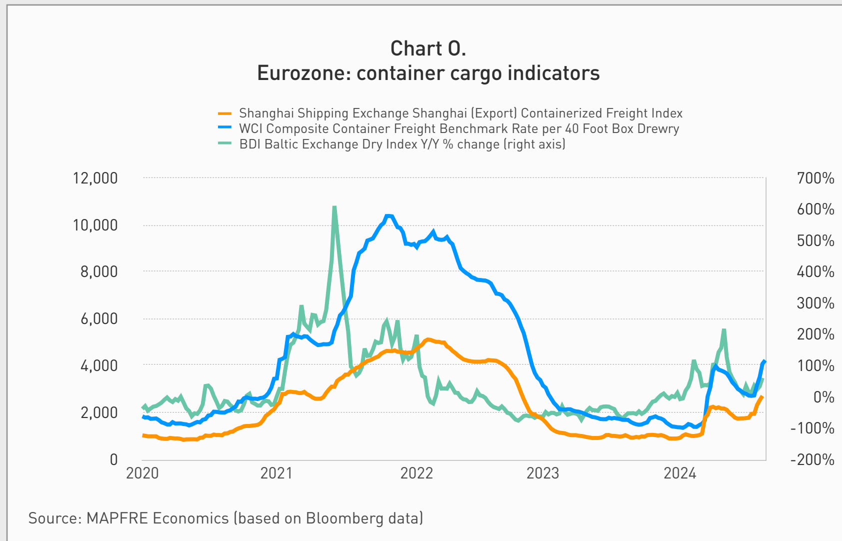
Source: MAPFRE Economics (based on Bloomberg data)

The evolution of economic activity and inflation are still conditioned by geopolitical developments. It now appears that the conflict in Ukraine will expand onto Russian soil with an escalation in the language of war, which could reflect the institutionalization of the conflict in Europe, deeper and longer-lasting sanctions, as well as more flows of financing towards strategic independence, with the defense sector increasingly accompanying the narrative of the energy transition.

There has been little change in the Middle East. Although talk of establishing a new truce remains, this would only be temporary and after Israel achieves certain strategic objectives, such as the capture of Rafah or securing Southern Lebanon (which could take weeks or months). All this would entail continued restrictions in the Red Sea that would be linked to frequent attacks (the most recent involving a U.S. aircraft carrier), which would sustain the volatility seen in cost figures, as well as uncertainties in a route that is strategic for Europe and vital for oil supplies (see Charts N and O). In turn, in relation to more "distant" geopolitics, and beyond the tensions between the

Box 1.1.1 (continued)
Monetary policy update

Chart O.
Eurozone: container cargo indicators

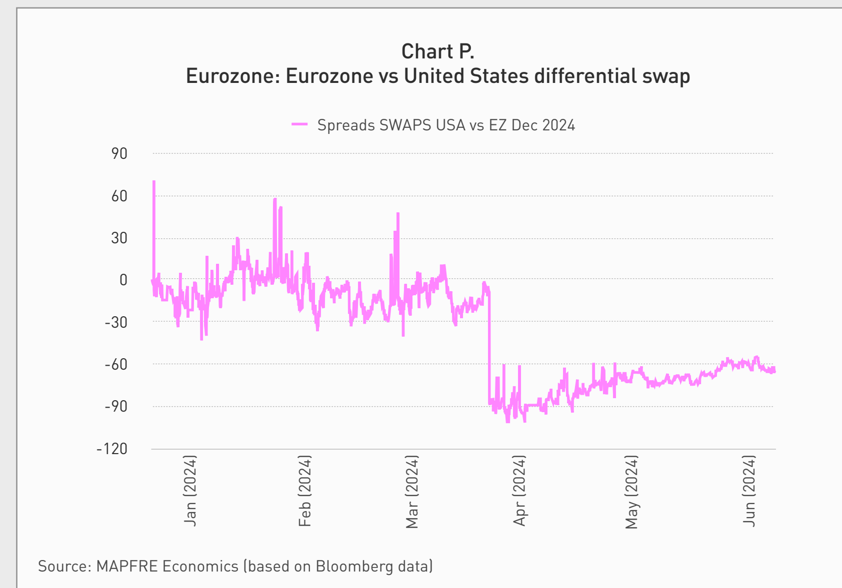


Source: MAPFRE Economics (based on Bloomberg data)

United States and China over Taiwan, it appears that the deflationary forces seen in China (thanks to the opportunities/threats offered by its excess capacity) will remain contained and repelled thanks to tariffs and protectionist policies.

In short, the ECB has delivered the promised interest rate cut. However, right now it seems difficult to justify further cuts in the near future. An equilibrium seems to point towards a less urgent need, leading to a trickle of cuts for the remainder of 2024. Furthermore, from an orthodox perspective, growth arguments have switched from landing mode to some attempt at a take-off. Moreover, the disinflation process is facing its first bumps, accompanied by inflationary geopolitics on the horizon. Therefore, the verdict on inflation and the path of interest rates remains open for interpretation and the margin for disappointment remains, with growing doubts as to whether the most prudent action would have been to hold off on interest rate cuts, or carve out a separate path compared to the one carved by its U.S. counterpart, the Fed (see Chart P).

Chart P.
Eurozone: Eurozone vs United States differential swap



Source: MAPFRE Economics (based on Bloomberg data)

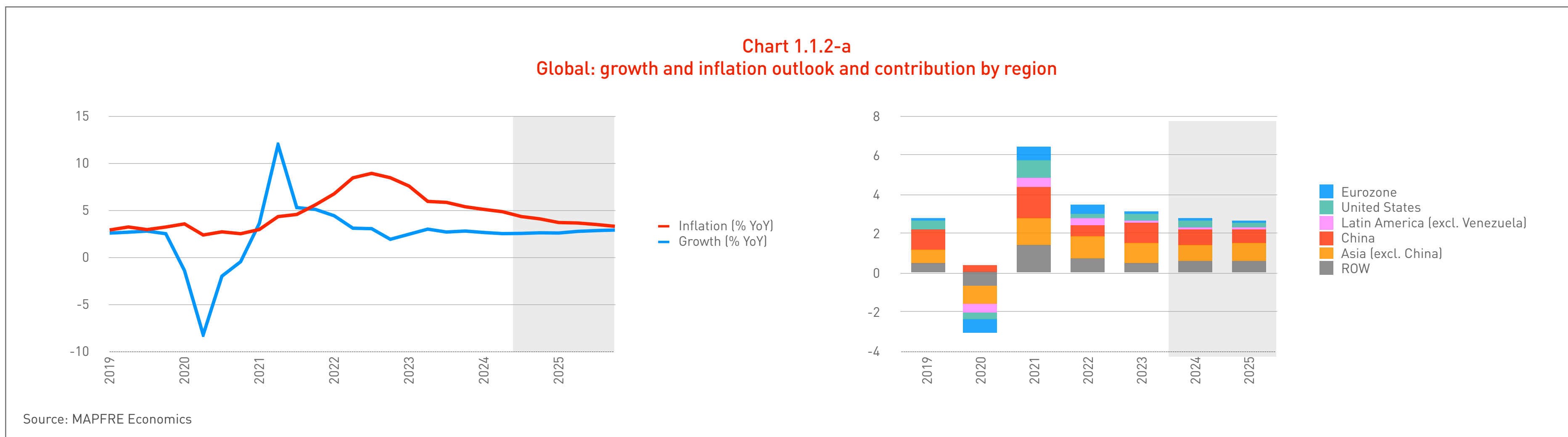
greater balance permits a certain tone of optimism to be maintained regarding the current cyclical slowdown manufactured by the central banks, which, as a logical conclusion to a greater sense of control, are beginning to recalculate the "fair amount" of monetary tightening. However, as the combination of monetary and fiscal exceptionalism that has characterized the current cycle disappears, the risk map continues to reflect a series of challenges that appeared to have been overcome and to show others of a geopolitical nature that oscillate between protectionism and mercantilism.

1.1.2 Regional dynamics

The outlook for the different regional dynamics remains virtually unchanged with respect to the outlook set out in our previous report,1 with the pace of global economic activity adjustment remaining asymmetrical and highly fragile. The sensitivity of the baseline scenario is still subject to a downward sloping risk map in terms of tail events or transition catalysts towards the risk scenario, but with a horizon that envisions a slightly less adverse and more balanced cyclical slowdown in the balance between economic activity and price dynamics (see Chart 1.1.2-a). However, this combination still does not allow us to change the direction of travel or to leave behind the stagflationary episode (which is improving but still faces risks), the ongoing geopolitical adjustment, or other structural forces that will continue to act as limiting factors. Consequently, these obstacles are also weighing on the roadmap of central banks, whose levels of monetary tightening do not yet match that of an economy returning to altitude.

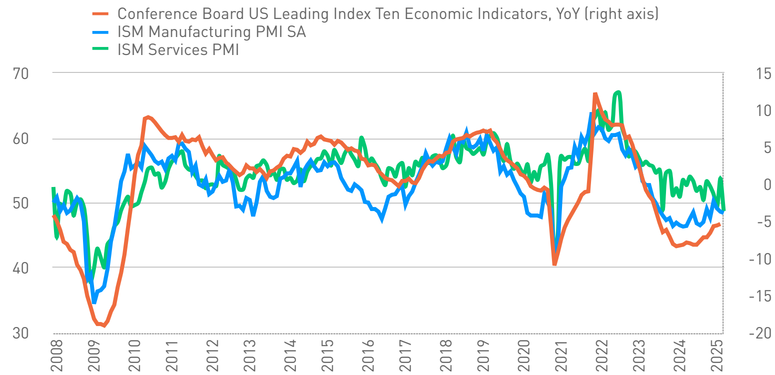
In the case of the United States, the most recent review is practically unchanged and therefore retains previous prospects of a soft landing for the economy, which remains a source of support for global growth. In terms of growth, despite the weakness of some of the most recent data, the signs still seem insufficient to cast doubt on the growth narrative (see Charts 1.1.2-b to 1.1.2-e). Although inflation earlier in the year seemed less willing to yield compared to other regions of the world, the latest data are becoming sufficient reason to maintain a less

Chart 1.1.2-a
Global: growth and inflation outlook and contribution by region



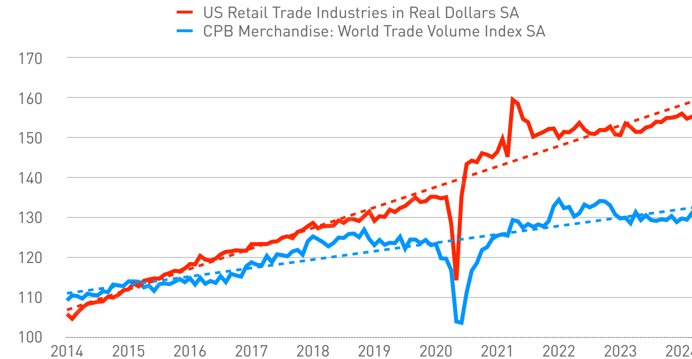
Source: MAPFRE Economics

Chart 1.1.2-b
United States: leading activity indicators



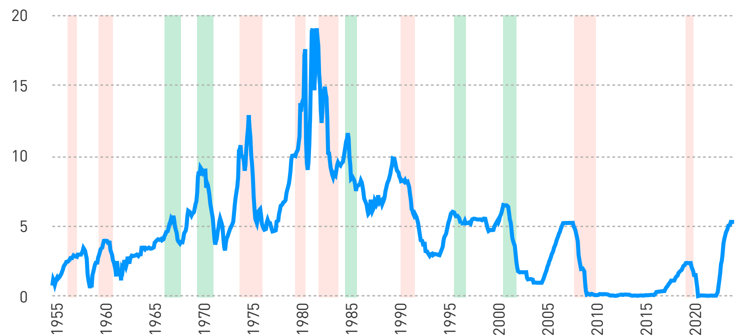
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-c
United States: trade indicators



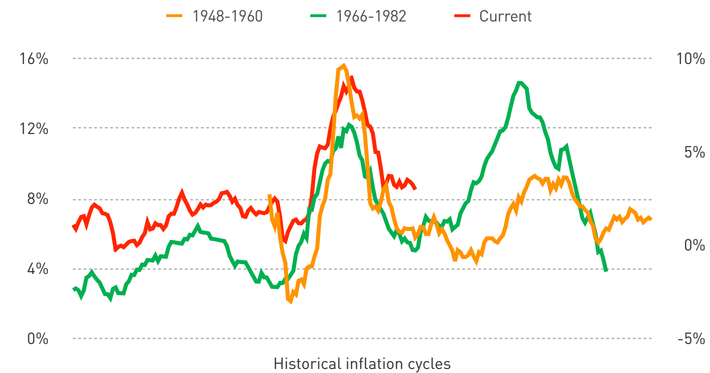
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-d
United States: landing of the economy (monetary policy interest rates)



Source: MAPFRE Economics (based on Haver data)

Chart 1.1.2-e
United States: inflation cycles



Source: MAPFRE Economics (based on Haver data)

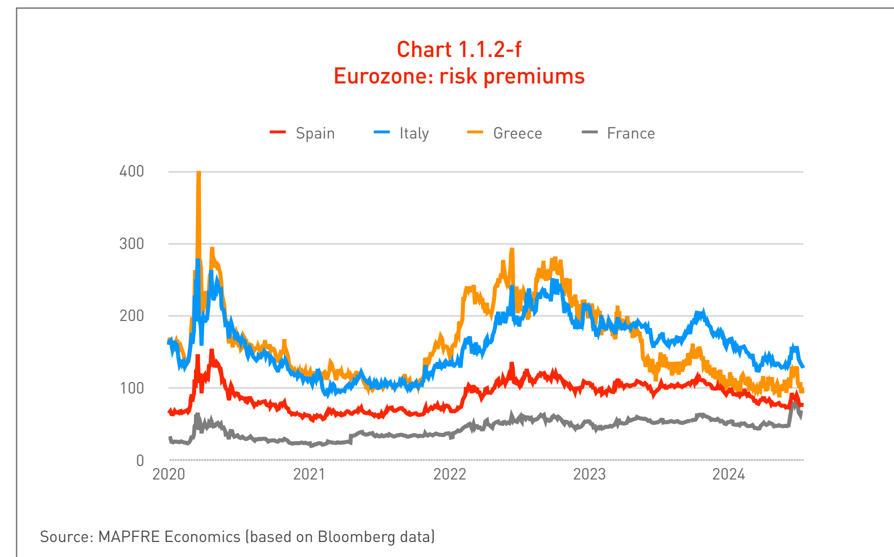
conservative stance compared to previous forecasts, also in terms of monetary policy, which could begin to ease in September. Conversely, the November election variable suggests that a change in fiscal policy course is unlikely in the short-term, and therefore keeps expectations of a Federal Reserve firmly committed to a clear roadmap on the downside.

In the Eurozone, the outlook is slightly improved thanks to the positive surprise of the first quarter and anticipation of a better internal balance to come (see Charts 1.1.2-f and 1.1.2-g). Our forecast revision in this region is mainly driven by an improved outlook in Germany, which continues to leave its trough behind, but also adds upward revisions in Spain and Portugal, which haven't lost their *momentum*. France and Italy, on the other hand, still look rather weak and are at risk of facing a probable excessive deficit procedure in the second half of the year.

In the aggregate, consumption is expected to recover moderately thanks to the wage space gained after the latest negotiations, enough to revive consumer confidence in the private sector, where there are also tentative signs of a cyclical recovery in the goods industry, although limited by the energy-intensive sectors that will remain an unknown or structural weakness to be resolved. Meanwhile, as fiscal policy becomes less relevant, it may be offset to some extent by the easing of monetary tightening. In fact, as confirmed as early as June, the European Central Bank will find it difficult to deepen its divergence from the Federal Reserve if it continues to defend monetary orthodoxy.

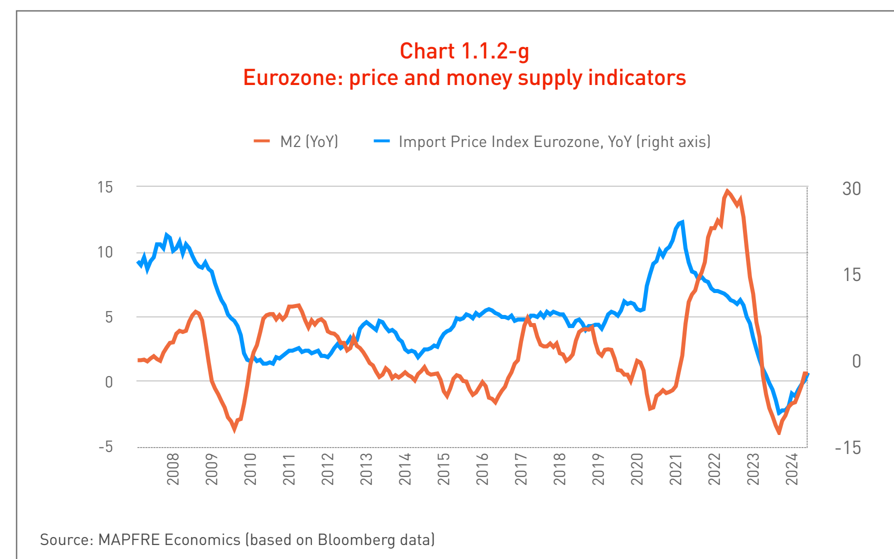
For the emerging economies, the argument continues to consolidate around demonstrating momentum that maintains the capacity for positive surprises, at least in certain regions of the world, while risks are contained at the domestic level (see Charts 1.1.2-h to 1.1.2-k). This view is supported by the proximity of the monetary cycle change in developed economies, inflation that is expected to stay contained, and an external situation that is beginning to gain strength. In addition, raw materials have been more durable throughout this cycle, avoiding abrupt boom and

Chart 1.1.2-f
Eurozone: risk premiums



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-g
Eurozone: price and money supply indicators



Source: MAPFRE Economics (based on Bloomberg data)

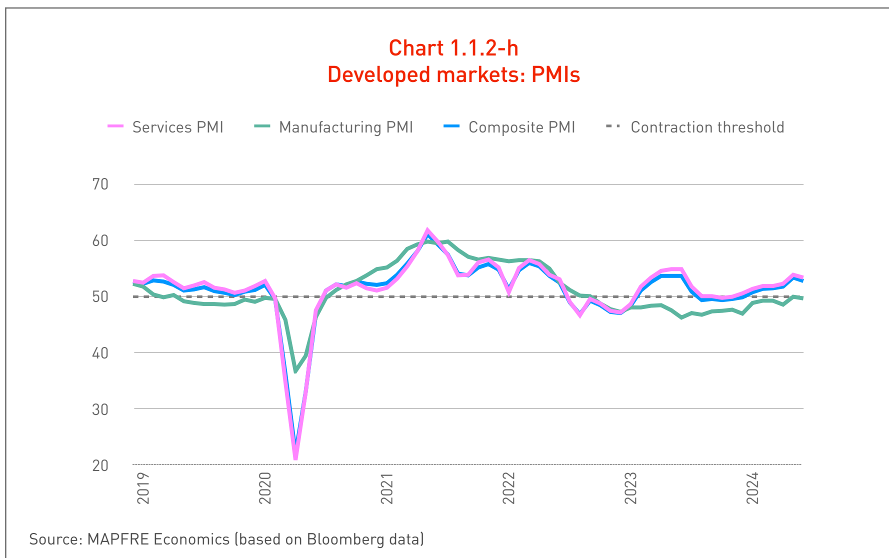
bust movements, hand in hand with global challenges such as the energy transition and the strengthening of supply chain links around the world. It also highlights the effective coordination of monetary and fiscal policies, with counter-cyclicality and orthodoxy being the most generalized policies and which, so far, have been transmitted smoothly, avoiding the challenges and stressed scenarios of the past, such as capital flight, exchange rate depreciation, or imbalances in the current payments account.

In the case of Latin America, our forecasts propose a growth path that remains positive, although below potential, as well as an expansionary cycle with the capacity to continue over time. Overall, the trend remains favorable and unchanged for Brazil and Mexico, which continue to lead the region's growth thanks to the nearshoring and friendshoring dynamics, but have been encountering slightly less favorable tailwinds from the combination of softer fiscal consolidation and somewhat tighter monetary policy, factors that weighed on growth at the beginning of the year and will continue to do so in the coming months. The forecasts for the economies of Chile and Colombia have improved, while Argentina's inflation has improved at the expense of weaker economic performance, whose return to the path of stability and the recovery of institutional confidence remains complicated and subject to considerable uncertainty.

Meanwhile, Asia is still expected to continue to lead global growth, despite the ongoing conflict episodes, with developments expected to be slightly more positive as forecasts for countries such as India, Indonesia, and the Philippines, among others, are reassessed upwards, although some caution remains regarding China's growth dynamics (see Charts 1.1.2-l and 1.1.2-m). Specifically, for the Chinese economy, the previous forecast figures prevail, albeit weighed down by medium- and long-term challenges that must be overcome, including the need to consolidate a more convincing recovery path in the manufacturing sector, restore investor confidence accompanied by capital inflows, and address the weaknesses of a real estate sector that, through the various transmission channels, continues to exert downward pressure on consumption and prices.

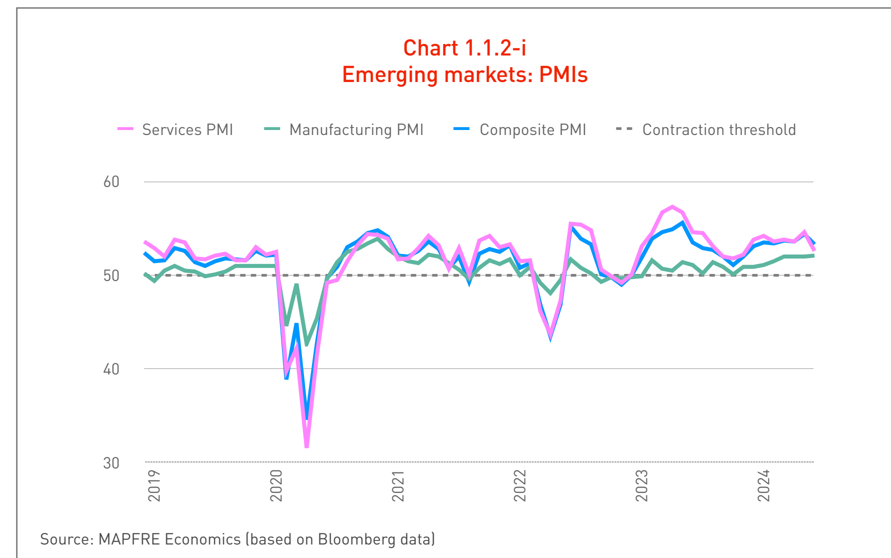
Added to this secular horizon are global forces of change that are less predictable than in the past, as this year's electoral experience is demonstrating, with a geopolitical reality marred by increasing armed conflicts and new cracks that indicate an ever clearer path towards a multipolar world order of blocs with very different ways of seeing the world. On the one hand, protectionism is taking shape in the bloc of developed economies, with a view to maintaining a status similar to that guaranteed by free trade. This position is established by reformulating trade relations towards regions with more aligned agendas, ensuring strategic pillars and supply lines that guarantee access to critical raw materials, as well as recovering tariffs as a measure to compensate for trade imbalances in terms of competition. On the other hand, questioning this leadership, a mercantilist vision is surfacing from the most populous bloc of emerging countries, encouraging the free market forces imposed thus far and calling for a greater role in the world (see Box 1.1.2).

Chart 1.1.2-h
Developed markets: PMIs



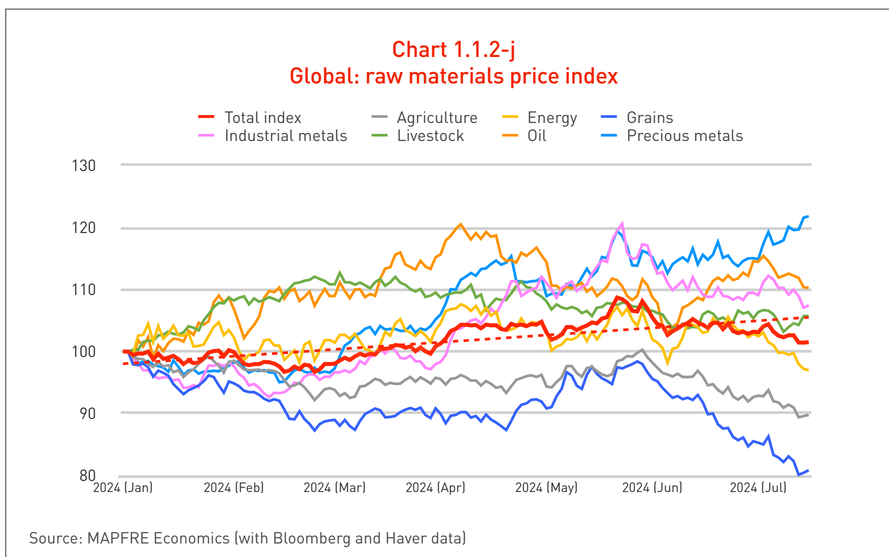
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-i
Emerging markets: PMIs



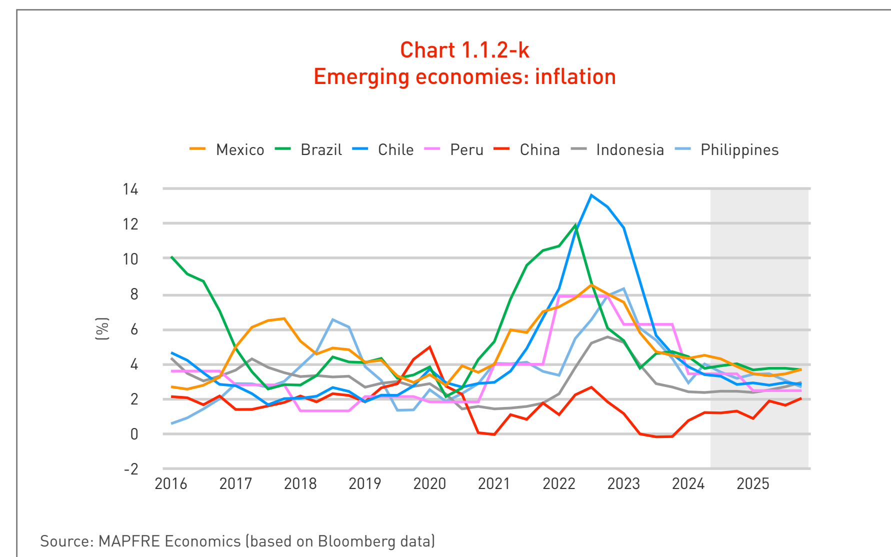
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-j
Global: raw materials price index



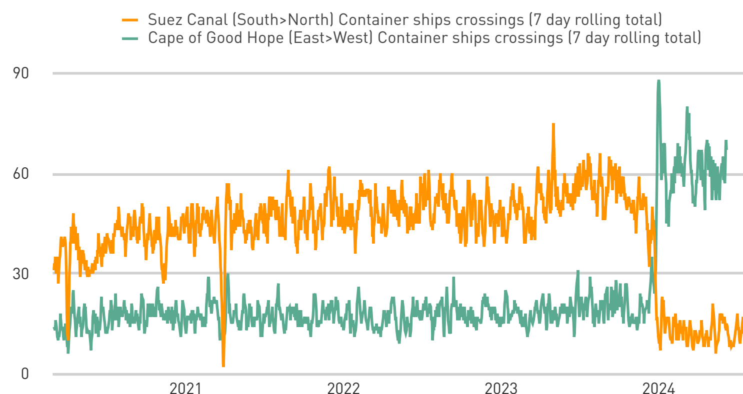
Source: MAPFRE Economics (with Bloomberg and Haver data)

Chart 1.1.2-k
Emerging economies: inflation



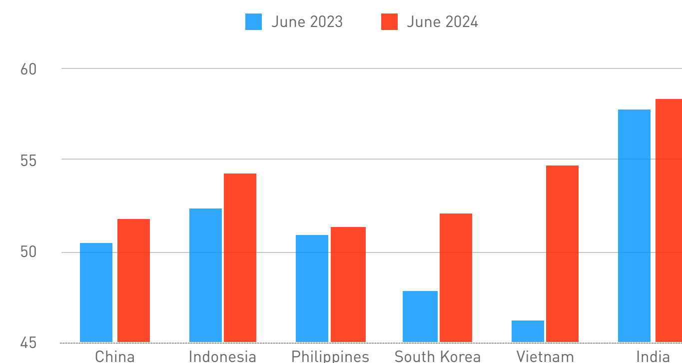
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-l
Global: transport of sea containers



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-m
Selected Asian countries: Manufacturing PMIs



Source: MAPFRE Economics (based on Bloomberg data)

1.1.3 Scenarios and forecasts

Baseline scenario

In the *baseline scenario* considered in this report, we see improved global growth prospects for 2024 and 2025, with growth rates of 3.0% and 2.9% for each of those years, confirming that the economy has not yet recovered its potential pace (see Table A-1 in the appendix of this report). This slight improvement in global activity levels is explained by marginally more positive contributions from certain developed economies, such as the Eurozone, although the main thrust is still provided by the expansion of emerging economies, more specifically in Asia, which maintains its leading contribution despite China's relative weakness. Inflation is expected to maintain its downward momentum in 2024, but will continue to exceed the proposed short-term targets, averaging 4.5%. Looking ahead to 2025, a more extended control horizon is anticipated, with 3.5%, which, together with the improved tone of economic activity, allows us to forecast a less stagflationary outlook than in the past (see Table A-2 in the appendix of this report).

Monetary policy is expected to move towards neutral policies in a majority and progressive manner, although somewhat less orderly than in the past, when synchronized cycles allowed for this and coordination was an obvious factor. Specifically, after a summer break, the Federal Reserve is expected to start cutting interest rates in September, followed by a second round of rate cuts in other developed economies, such as

Box 1.1.2
Protectionism, mercantilism, and neo-mercantilism

Recent times have been characterized by a growing proliferation of criticism of the current trade model that has, to a certain extent, promoted arguments and theories from the past regarding economic currents like protectionism and mercantilism. Despite arising at different times and under different contexts, these policies share the common goal of trying to strengthen the national economy through the intervention of state powers in market operations.

Protectionism has its origins in the mercantilist practices of the 16th to 18th centuries, predominant at that time in post-colonial Europe, which were based on state control, active regulation to favor the accumulation of precious metals, and policies to maintain a favorable trade balance by promoting exports and limiting imports, benefiting local production and providing some form of protection against foreign competition. Critics of these practices include David Ricardo in *Principles of Political Economy and Taxation* (1817), whose theory of comparative advantage argued that countries that specialize in the production of goods in which they have a relative advantage, while trading with other countries to obtain products they cannot produce efficiently, use their resources more efficiently and thus increase overall welfare. David Hume and Adam Smith also raised criticism in their works *Of the Balance of Trade* (1752) and *The Wealth of Nations* (1776), pointing out inefficiencies such as price distortion, misallocation of resources, or the proliferation of monopolistic practices, arising from the granting of certain privileges to certain interest groups and national industries.

Despite this, taking the trade war between China and the United States launched in 2018 as a point of reference, the world is beginning to witness the establishment and foundation of a new current, *neo-mercantilism*, with theoretical threads partly inherited from these interventionist models and, moreover, with the coining of new signs of identity under a renewed format. Thus, this contemporary competitive strategy combines elements of both systems, but adapted to the complexities and realities of the 21st century global economy. Terms such as *tariffs, strategic sectors, trade alliances, and competition for raw materials,* have emerged again to challenge the *status quo,* either to secure current positions in the global scenario or with the intention of changing it, but with the common response that the challenges justify and should be addressed from a standpoint of greater government intervention.

One conclusion from history regarding control mechanisms is that policies to maximize exports and minimize imports, controlling external inflation and maintaining equilibrium interest rates based on domestic factors, are practices that lead to domestic inflation. This is due to a pro-cyclicality arising from the combination of artificially low interest rates and demand stimuli linked to government spending, dynamics that deepen the problem the larger the deficit and/or the greater the involvement of the central bank. Nor do exchange rate management or price controls offer demonstrable efficiencies *per se,* since the incentive to implement these measures disappears not only because of a lack of innovation due to lack of competition, but also because they can lead to more abrupt distortions in times of economic instability. This is because in both overproduction and underproduction cycles, even in situations of *sub-par* consumption, internal fragilities are exposed in relevant sectors such as food and energy, where price volatility can play a significant role, and the extent of the damage is usually structural.

Box 1.1.2 (continued)
Protectionism, mercantilism, and neo-mercantilism

Finally, in addition to the lessons of the past, the current high levels of globalization, generalized advance of free trade, and interconnections/interdependencies of supply chains are key elements for the future. This is because they trigger the risk that the implementation of certain measures could unleash undesired domino effects, or lead the global economy to develop in an environment of totally unsynchronized economic cycles based on supply-side dynamics and laws, as well as demand-side responses that favor only the parties involved.

In this sense, and in the words of Franklin D. Roosevelt (the U.S. president who began by adopting protectionist measures during his first years in office, such as the passing of the Smoot-Hawley Tariff Act in 1930, and who only a few years later, in 1934, decided to promote opposing theories based on Keynes' doctrines, such as the Reciprocal Trade Agreements Act, which advocated the establishment of bilateral trade agreements and laid the foundations for free trade), "We must lay hold of the fact that economic laws are not made by nature. They are made by human beings."

Europe and Canada, finally enabling emerging economies where, despite taking the lead in the monetary cycle, the last mile of inflation developments have proven not to be as promising as expected by the central banks themselves.

In summary, the forecast of a global economic slowdown remains in the short term, but contains slightly upward revisions, and medium-term expectations are for a return to figures closer to potential, but the arguments are not yet sufficient. Inflation still needs to be further moderated in order to justify neutral and less accommodative monetary policies. Structural challenges continue to skew the risk map to the downside, and geopolitical risk clearly remains the most likely catalyst for the stressed scenario.

Stressed scenario

The *stressed scenario* is still dominated by geopolitical risk premiums, an effect that is passed through the various channels to inflation. The source of the *shock* remains in energy commodities, with the oil price in shares of 100 U.S. dollars/barrel, for two consecutive quarters and stable in the 90 U.S. dollars/barrel range throughout 2025. We estimate an overall price effect rising by almost half a point over all of 2024 and 2025, while activity erosion would be more limited in 2024, with 0.1 percentage point less growth; 2025 would present an aggregate worsening of half a point in global terms, carrying over part of the lagged effects of a tighter monetary policy (see Tables A-1 and A-2 in the appendix of this report).

Specifically, while not a scenario whose consequences could derail its direction, easing measures by central banks would be shifted to the end of the year, once the peaks of the *shock* are behind us, and would see limited options for further easing throughout 2025, shifting their targets towards ensuring price stability in exchange for sacrificing some future growth.

Financial conditions contain increased stress limited to 1.5 standard deviations and a response from risk assets similar to previous years, with an average correction of 15% for global equities and a widening of spreads by 150 basis points, triggering a *flight to quality* that favors safer and more stable assets.

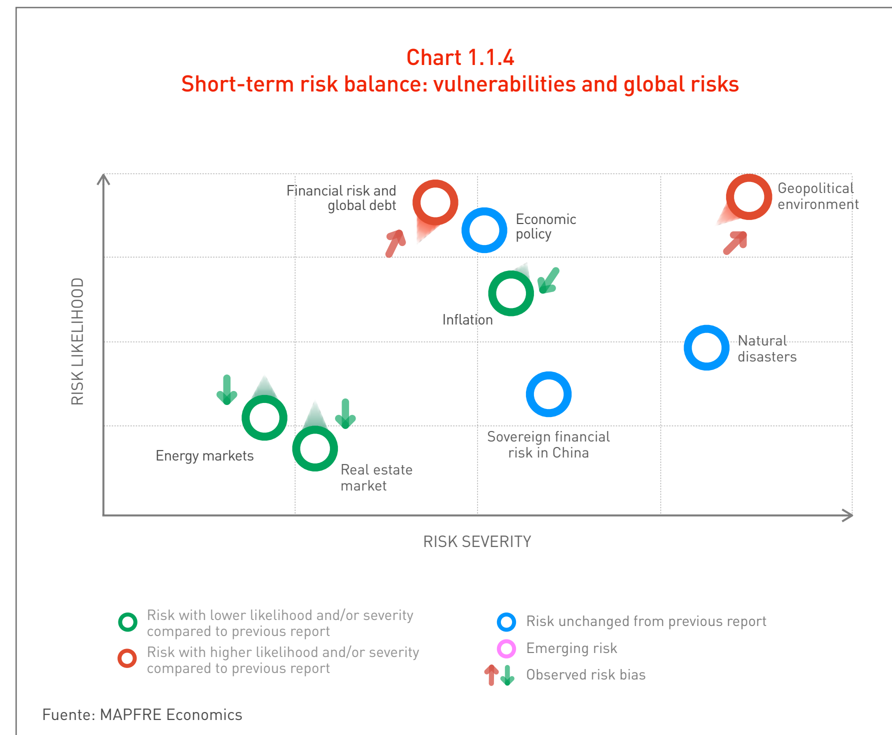
1.1.4 Risk assessment

With regard to the balance of short-term risks, the following aspects could affect the performance of the global economy for the rest of 2024, as illustrated in the risk map shown in Chart 1.1.4.

Financial risk and global debt

The high debt and deficit levels of many countries are among the main medium-term risks for the stability of the financial system. Both the financial system and the real economy appear to be affected by public and private leveraging to sustain momentum. In the United States, for example, a fiscal deficit of about 7% is expected this year, in a context of economic growth estimated at around 2.1%; in this environment, the government should be making efforts to manage public accounts and reduce a federal debt that represents 122% of GDP (the total debt, including federal, state, and local, is equivalent to 135% of GDP). The Congressional Budget Office estimates that the debt is on an unsustainable path, and the effort to pay interest may be unmanageable if interest rates remain high. In August 2023, Moody's Ratings removed the United States' AAA rating, placing it at AA+. In short, even in a scenario where the Federal Reserve cuts interest rates, markets may continue to demand high rates to buy U.S. debt if doubts persist about the trajectory of the latter. Alternatively, the Fed could embark on further rounds of quantitative easing (QE) to keep interest rates on federal debt at bearable levels, even at the risk of falling into *fiscal dominance*.

Chart 1.1.4
Short-term risk balance: vulnerabilities and global risks



Fuente: MAPFRE Economics

Meanwhile, in Europe, a decision has been made to end the post-pandemic exceptions and to reactivate the fiscal rules that had been temporarily suspended. Thus, at the end of June, the European Commission opened an Excessive Deficit Procedure for 7 European countries, including France and Italy. Therefore, in terms of risks, countries can either rationalize their deficits, implying lower growth and other austerity effects, or markets could start to put pressure on sovereign debt and, due to trigger effects, private corporate debt. This is also occurring in a context in which the most relevant central banks are in the process of reducing their balance sheets, and therefore selling global sovereign and corporate assets, thereby adding further upward pressure to the returns expected by the market for such debt.

Although there is no comparable sovereign stress, in emerging markets there are risks related to their debt issued in hard currencies (e.g. Turkey and Argentina), which, in a context of financial tightening, may make it difficult to roll over and repay their debt.

Sovereign financial risk in China

The real estate market in China continues to face difficulties. Home sales dropped 27% YoY in June, and new building starts fell 24% on offices and 25% on residential buildings. Prices dropped 4.5% YoY in June, marking 13 consecutive months of decline despite the support measures announced by the authorities. The maintenance of state-owned development companies has repercussions, manageable for the time being, on the debt of local institutions, which will lead to adjustment plans that impact on domestic economic activity and raw material imports. The recent publication of China's GDP showed 4.7% growth YoY in the second quarter of the year, less than the estimated 5.1% and the 5.3% from the first quarter, pointing to a slowdown in economic activity, especially that linked to industrial exports.

Geopolitical environment

Hungarian Prime Minister Viktor Orbán's visit to Moscow in July has created significant controversy within the European Union and NATO. Orbán's discussions with Russian President Vladimir Putin focused on seeking possible avenues for peace in Ukraine, but Putin was adamant in his demand that Ukraine withdraw its troops from the annexed regions, a condition rejected by Ukraine and its allies. This visit has been seen by many as a weakening of European unity and an indirect legitimization of Russia's actions, complicating the tense geopolitical landscape.

Moreover, the recent French legislative elections of July 7, 2024, resulted in a parliament without a majority. The leftist New Popular Front alliance emerged as the largest bloc with 188 seats, followed by President Emmanuel Macron's centrist alliance with 161 seats, and the far-right National Rally with 142 seats. This result is expected to add a certain degree of complexity in political governance, as no group obtained a majority.

In the European Union, the recent European Parliament elections saw gains for both pro-EU and nationalist parties, leading to a fragmented parliament. This polarization could lead to a redrawing of European policies, particularly in foreign affairs and internal reforms. The elections also reflect the growing divisions of opinion within Europe, posing challenges for future governance and stability. Meanwhile, the recent ratification of Ursula von der Leyen as head of the European Commission tilts the balance more towards continuity.

In the Middle East, there is still no solution on the horizon for the war in Gaza. Ongoing negotiations seek to reduce tensions and promote peace. The resolution of this conflict is crucial to molding the region's geopolitical landscape, with significant complications for global energy security and political stability.

In the United States, the coming presidential elections are crucial, with significant implications for both national and international policies. The current administration faces challenges both internally and with the opposition, with critical questions that include economic management, foreign policy, and regulating technology. The results of the election could remodel U.S.-China relations, as well as the global geopolitical dynamics in general, making it a critical event to watch. The rivalry between the U.S. and China continues to intensify, particularly in the areas of trade and technology. The United States recently imposed new tariffs on Chinese steel exports and is considering more sanctions due to China's support of Russia in the Ukraine conflict. In reprisal, China sanctioned U.S. defense companies involved in weapons sales to Taiwan, prohibiting investments and transactions in China. These actions underscore the increasing strategic competition and the complex interdependence between the two major global economies.

In the geopolitical environment, the strengthening of the BRIC alliance is also noteworthy. This group, in addition to increasing the number of member countries, intends to expand trade relations among themselves and reduce dollar-denominated transactions in bilateral trade relations.

Finally, cybersecurity remains a critical issue globally, with increasingly frequent and sophisticated attacks targeting critical infrastructure. The use of cyber-attacks as tools of state policy continues to pose a significant threat to the security and economic stability of nations.

Energy markets

At its June meeting, the Organization of the Petroleum Exporting Countries (OPEC) agreed to maintain voluntary production cuts of 1.65 million barrels and extend them through December 2025. However, there was no consensus at the last meeting. Therefore, the cuts are voluntary. The goal is to maintain price stability and market balance. Meanwhile, Europe is expanding the list of sanctions against Russia (affecting both gas and oil), and limiting the indirect supply sources that have so far been finding their way to the European market.

Inflation

Although the downward moderation of headline inflation data continues, it is encountering more resistance along the way as a result of some supply constraints, especially on the service side. Thus, the rapid attainment in the short term of the central banks' general goal of price growth close to 2% is considered difficult to achieve.

The most widely accepted reasons for such "last mile" inflation are that: (i) the services sector has failed to slow the pace of margin shifting; (ii) wage developments still suggest caution; (iii) geopolitical risk developments remain uncertain; (iv) raw materials have responded to the improved global performance; and (v) supply chains are once again at high risk of becoming congested.

Meanwhile, we must not forget that there remains a certain risk of a rebound in energy prices, due both to ongoing military conflicts and to the sanctions imposed by Western countries. Furthermore, the tension in the Red Sea revives fears of supply chain disruptions and delays, which would affect supply volumes and thus price developments, as was experienced in 2022. And finally, expansionary fiscal policies to stimulate the economy have the effect of continuing to expand the money supply.

On the other hand, we are starting to see some easing of financial conditions, which can still be considered modest given central banks' rhetoric about being sure that inflation expectations have moderated before implementing more aggressive interest rate cuts. However, a convergence towards disinflation is still expected sooner rather than later, especially in light of the first signs of sluggishness in some major economies.

Economic policy

The central banks of the G7 countries have begun to reduce interest rates, given the progress made in moderating inflation. In Europe, they were already lowered in June, and in the United States the first drop is expected in September. However, the pace of declines will be contingent on recording moderate inflation data. Some tightness in service inflation may cause central banks to slow down their planned easing. Moreover, higher inflation for longer would result in higher debt rollovers at higher rates for both public and private entities, increasing the risks of instability in the markets and in the financial sector.

In the United States, the mid-sized bank crisis in 2023 may have been saved by emergency liquidity lines and the absorption of mid-sized banks by larger ones. However, the FDIC (Federal Deposit Insurance Corporation) warns that regional banks, and specifically their bond holdings, are in the red, a problem that has not been solved and the risks of insolvencies may rise again. Likewise, in Japan, certain banks are beginning to sound the alarm for unrealized losses. Interest rate hikes around the world, and those expected for Japan in particular, may put banks and insurance companies' bond portfolios at a loss. In Europe, for now, the risk appears to be more contained.

Real estate market

The sensitivity of real estate prices to short-term financial tightening has proven to be low, although it varies across countries and assets. The residential sector, which has a more captive use, is less sensitive, while the office sector, especially due to the emergence of telecommuting, is starting to see an increase in vacancy rates. This problem is particularly visible in the United States, where many office and commercial establishment owners resort to high levels of leverage. Persistent high interest rates, coupled with high vacancy rates, can create problems for many homeowners and can be passed on to their financing providers. In the United States, residential real estate prices continue to rise at about

5% per year, while in Europe the north and south differ (in Germany they are down 6% and in France 5%, while in Spain they are up 6.4%, in Italy 1.7%, and in Portugal 7%).

The supply problem does not seem to be resolved, while demand already seems to be reactivating with the prospect of interest rate cuts, deepening the imbalance. The risk of a mismatch between prices and fundamentals to a certain extent creates potential financial vulnerability due to behavior that is more akin to that of a financial asset than that of a real asset.

Natural disasters

The main events driving insured losses from natural disasters to 108 billion dollars in 2023 included a devastating earthquake in Turkey and Syria, severe thunderstorms, and large-scale urban flooding, reaffirming the YoY growth trend of 5-7% in global insured losses from natural disasters since 1994. Insured losses could double over the next ten years as temperatures rise and extreme weather events become more frequent and intense.2 Therefore, mitigation and adaptation measures are essential to reduce the risk of natural disasters.

Crop problems, such as those experienced in 2024 with coffee and cocoa in some key producing countries, show that an imbalance between supply and demand can also have a severe effect on prices and quantities supplied. Coffee has risen 31% and cocoa 85% so far in 2024. Meanwhile, the energy transition, while ongoing, seems to have lost some momentum based on the perceived cost compared to traditional sources. However, Western governments remain firmly committed to continue moving forward in this area.

1.2 Forecasts and risk assessment in selected economies

1.2.1 United States

Pushed by fiscal stimulus, but with signs of weakness in the labor market.

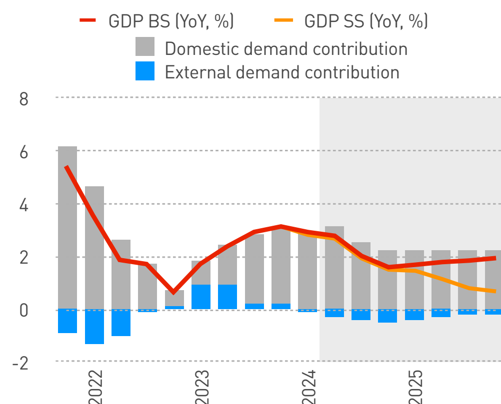
The United States economy grew by 2.9% in the first quarter of 2024, a pace of 1.4% QoQ, annualized. Household consumption is slowing (2.2%), while government spending and investment continue to support economic activity. Looking ahead to 2024 as a whole, 2.1% growth is forecast, a rate maintained by successive tax incentives, which would result in a fiscal deficit estimated at around -7.3% (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b).

United States

- The United States economy is maintaining momentum in this election year, accumulating a fiscal deficit of 7% of GDP.
- The Fed is expected to announce two interest rate cuts by the end of 2024.
- The main challenges for the coming years are correcting the fiscal deficit and the trajectory of public debt.
- The growth forecast for GDP stands at 2.1%.

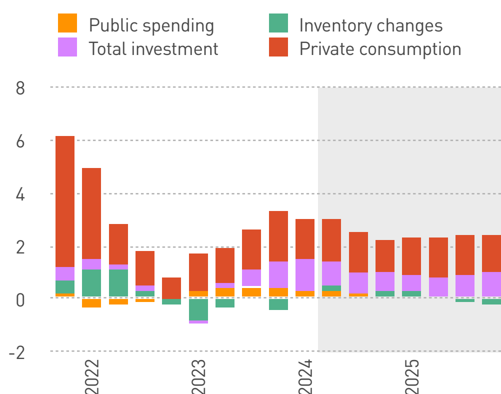
Meanwhile, the labor market is starting to show signs of weakness, with the unemployment rate rising to 4.1% in June from 3.8% in March. The *Conference Board's* leading indicators are negative (-5.5), showing a downturn in the labor market, construction, and manufacturing. PMIs for June remained strong and improved over May, with the composite at 54.8, manufacturing at 51.6, and services at 55.3 points.

Chart 1.2.1-a
United States: GDP breakdown and forecasts



Source: MAPFRE Economics (based on Federal Reserve data)

Chart 1.2.1-b
United States: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on Federal Reserve data)

Table 1.2.1
United States: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	2.5	-2.2	5.8	1.9	2.5	2.1	1.8	2.0	1.0
Domestic demand contribution	2.6	-2.0	7.1	2.4	2.0	2.4	2.2	2.4	1.3
External demand contribution	-0.1	-0.2	-1.3	-0.5	0.6	-0.3	-0.3	-0.4	-0.3
Private consumption contribution	1.4	-1.7	5.6	1.7	1.5	1.3	1.4	1.3	0.8
Total investment contribution	0.6	-0.2	1.2	0.2	0.4	0.9	0.8	0.9	0.5
Public spending contribution	0.5	0.4	0.0	-0.1	0.4	0.2	0.1	0.2	0.1
Private consumption (% YoY)	2.0	-2.5	8.4	2.5	2.2	2.1	2.1	2.2	1.2
Public spending (% YoY)	3.9	2.9	0.3	-0.9	2.7	1.5	0.7	1.5	0.7
Total investment (% YoY)	2.9	-1.0	5.3	0.9	2.1	4.2	3.5	4.2	2.4
Exports (% YoY)	0.5	-13.1	6.3	7.0	2.6	2.2	3.0	2.1	2.3
Imports (% YoY)	1.2	-9.0	14.5	8.6	-1.7	3.7	3.8	3.7	2.4
Unemployment rate (%, last quarter)	3.6	6.7	4.2	3.6	3.7	4.1	4.2	4.1	4.5
Inflation (% YoY, average)	1.8	1.2	4.7	8.0	4.1	3.0	2.4	3.2	2.8
Inflation (% YoY, last quarter)	2.0	1.2	6.8	7.1	3.2	3.1	2.1	3.3	2.3
Fiscal balance (% of GDP)	-6.6	-14.7	-11.4	-4.3	-7.9	-7.3	-7.9	-7.3	-8.3
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-2.1	-2.8	-3.7	-3.9	-3.3	-3.2	-3.3	-3.1	-2.9
Official interest rate (end of period)	1.75	0.25	0.25	4.50	5.50	5.00	4.00	5.25	4.25
3-month interest rate (end of period)	1.91	0.24	0.21	4.77	5.59	5.26	4.20	5.57	4.70
10-year interest rate (end of period)	1.92	0.93	1.52	3.88	3.88	4.21	3.97	4.72	4.47
Exchange rate vs. USD (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate vs. EUR (end of period)	1.12	1.23	1.13	1.07	1.11	1.07	1.09	1.07	1.08
Private lending (% YoY, average)	5.6	6.4	15.5	-1.7	5.4	4.9	5.3	4.8	3.9
Household lending (% YoY, average)	3.4	3.4	8.0	7.5	3.7	3.0	4.6	2.9	4.1
P.S. non-financial lending (% YoY, average)	5.7	8.5	4.3	10.7	3.1	3.3	4.2	3.3	4.1
P.S. financial lending (% YoY, average)	2.4	6.7	4.9	9.8	5.6	-0.4	1.3	-0.4	1.5
Savings rate (% pers. disp. income, avg.)	7.4	15.2	11.2	3.3	4.5	4.3	5.1	4.3	5.6

Source: MAPFRE Economics (based on Federal Reserve data)
Forecast end date: July 23, 2024.

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Inflation (CPI) stood at 3.0% in June, down 0.1% from May (a better figure than markets expected), while core inflation stood at 3.3%. At its June meeting, the Federal Reserve left interest rates untouched at 5.25%-5.50%. The *dot plot*, constructed based on Fed officials' votes, points to between one and two 25-basis-point (bps) downgrades this year and four more downgrades in 2025. In line with market expectations, we expect two downgrades, bringing interest rates to the 4.75%-5.00% range by the end of the year. It should be noted that the Federal Open Market Committee (FOMC) only deems it appropriate to proceed with interest rate cuts if it has more confidence that inflation is moving steadily toward the 2.0% target.

There are various risks to the performance of the U.S. economy. Mainly, the high level of public debt and deficit, especially at a time when, with healthy growth, the government should no longer be incurring a deficit which, in 2024, could reach 6.7% of GDP. The current lack of fiscal discipline means that the trajectory will need to be corrected later and more aggressively. Likewise, the economy has benefited in recent years from the influx of labor from immigration; should these migratory flows be reduced, growth could be affected. Finally, it should be noted that the interest rate curve is still inverted, therefore, the economy is still not free from the possibility of a recession, although the probabilities have dropped from 60% a year ago to 30% now.

1.2.2 Eurozone

The Eurozone reflects the sluggishness of its major economies.

The Eurozone economy grew by 0.4% YoY and 0.3% QoQ in the year's first quarter, a low figure, but trending upward. Tightening of financial conditions as a means to control inflation has been vigorously pursued, and its effect would have been even greater were it not for the expansionary fiscal policy and the Recovery and Resilience Plans. Looking ahead to the coming quarters, forces are expected to reverse; i.e. monetary policy easing and fiscal policies tightening, with the reactivation of the European Union's fiscal rules. Against this backdrop, we expect a forecast for GDP growth in the region around 0.8% in 2024 and 1.7% in 2025 (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b). The June PMIs show optimism in services (52.8), but continued stagnation in the manufacturing sector (45.8) and especially construction (41.8). The leading indicators (*Conference Board*) suggest that confidence in the service sector has stabilized, although the global landscape has not yet improved.

Eurozone

- The transmission of restrictive financial conditions has been strong and has dampened demand.
- The Recovery and Resilience Plan has been key to avoiding further deterioration of economic activity in the Eurozone, which is forecast to grow 0.8% in 2024.
- Inflation has moderated, but there is still the final stretch to the 2% target.

On the other hand, inflation has moderated significantly over the last year and a half, but is struggling to approach the 2.0% target (2.5% in

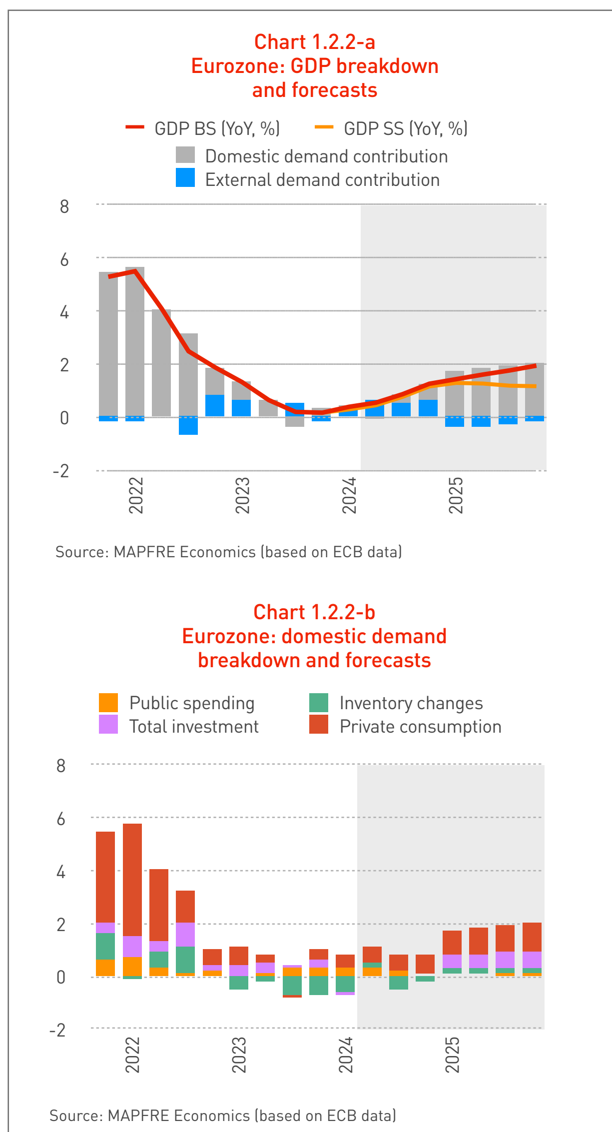

Table 1.2.2
Eurozone: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	1.6	-6.2	5.9	3.5	0.6	0.8	1.7	0.7	1.2
Domestic demand contribution	2.3	-5.6	4.5	3.5	0.3	0.2	1.9	0.2	1.6
External demand contribution	-0.7	-0.6	1.4	0.0	0.3	0.5	-0.3	0.4	-0.3
Private consumption contribution	0.7	-4.2	2.3	2.2	0.3	0.6	1.0	0.6	0.8
Total investment contribution	1.4	-1.3	0.8	0.6	0.3	0.0	0.6	0.0	0.5
Public spending contribution	0.4	0.2	0.9	0.3	0.2	0.2	0.1	0.2	0.1
Private consumption (% YoY)	1.4	-7.8	4.4	4.2	0.6	1.1	1.9	1.1	1.6
Public spending (% YoY)	1.8	1.0	4.2	1.6	1.0	1.0	0.5	1.0	0.5
Total investment (% YoY)	6.6	-6.2	3.7	2.6	1.5	-0.1	2.8	-0.1	2.1
Exports (% YoY)	3.3	-9.4	11.4	7.4	-0.6	1.4	3.1	1.4	2.6
Imports (% YoY)	5.0	-8.8	9.2	8.1	-1.2	0.4	4.0	0.4	3.6
Unemployment rate (%, last quarter)	7.5	8.3	7.1	6.7	6.5	6.5	6.4	6.5	6.6
Inflation (% YoY, average)	1.2	0.3	2.6	8.4	5.4	2.3	2.0	2.4	1.8
Inflation (% YoY, last quarter)	1.0	-0.3	4.6	10.0	2.7	2.1	2.0	2.2	1.7
Fiscal balance (% of GDP)	-0.5	-7.0	-5.3	-3.7	-3.6	-3.2	-2.7	-3.2	-2.9
Primary fiscal balance (% of GDP)	1.1	-5.5	-3.8	-2.0	-1.9	-1.3	-0.7	-1.3	-0.8
Current account balance (% of GDP)	2.5	1.7	2.7	-0.6	1.6	2.3	1.9	2.3	1.7
Official interest rate (end of period)	0.00	0.00	0.00	2.50	4.50	3.50	2.25	4.50	2.50
3-month interest rate (end of period)	-0.38	-0.55	-0.57	2.13	3.91	2.97	1.76	2.97	1.48
10-year interest rate (end of period)	0.32	-0.19	0.32	3.39	2.79	3.05	3.01	3.73	3.73
Exchange rate vs. USD (end of period)	1.12	1.23	1.13	1.07	1.11	1.07	1.09	1.07	1.08
Exchange rate vs. EUR (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	3.3	2.9	3.9	4.2	1.4	2.0	4.3	2.0	4.2
P.S. non-financial lending (% YoY, average)	1.0	3.0	2.9	5.3	0.5	2.6	4.6	2.6	4.4
P.S. financial lending (% YoY, average)	3.4	0.2	1.5	9.0	0.9	-0.4	1.4	-0.3	1.6
Savings rate (% pers. disp. income, avg.)	13.1	19.7	17.7	13.7	14.4	15.4	14.7	15.4	14.7

Source: MAPFRE Economics (based on ECB data)
Forecast end date: July 23, 2024.

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June). The European Central Bank (ECB) left interest rates unchanged at its July meeting, after lowering them by 25 bps in June to 4.25% on the main refinancing operations and 3.75% on the deposit facility, pending further evidence of progress in the disinflationary process. In this regard, an additional 25 bps reduction is expected in September and another one in December; gradual reductions are expected depending on the behavior of inflation.

The short-term performance of the European economy will depend to a large extent on the interplay between anticipated monetary easing and its impact on inflation, as well as the reintroduction of fiscal rules, i.e. fiscal tightening. In the medium term, the credibility of government solvency, and consequently of public financing costs that affect those of private ones, will be a determining factor. Watching the "*tapering*" (reduction of market intervention) by the ECB, and how it will impact public and private financing costs, will be key. The outcome of the war in Ukraine, tensions in the energy markets, as well as the U.S. elections and their influence on global geopolitics will be other factors to watch.

1.2.3 Spain

The Spanish economy has been resilient amid tightening financial conditions.

The Spanish economy has been resilient amid the tightening financial conditions of the last two years. In the first quarter of the year, GDP grew 2.5% YoY (0.8% QoQ), with household consumption rising 2.5% and government spending 5.2%. Meanwhile, exports decreased slightly, with goods down 4.4% and services up 9.0%. Likewise, the current account balance has been in positive territory for 12 years. Consumption is expected to slow as a result of inflation, but investment will tend to recover as financial conditions become more favorable. Exports are another positive factor in the computation, as they are growing more than imports, although the trade balance is negative.

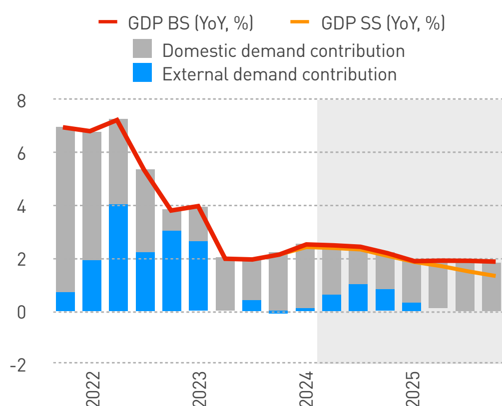
Spain

- **The prospect of further interest rate cuts by the European Central Bank seems to offer support for the Spanish economy in 2024 and 2025.**
- **The granting of mortgages is beginning to recover.**
- **The Spanish economy is projected to grow around 2.4% in 2024.**
- **Inflation is showing some reluctance to come down further.**

The purchasing managers' indexes (PMIs) point to continued strengthening, with the composite at 55.8, manufacturing at 52.3, and services at 56.8 points. The consumer confidence index, on the other hand, remained negative (-14.1), reflecting a lower propensity to consume due to higher prices. Leading indicators, variables that move before macroeconomic indicators, agree that the economy should remain resilient in the coming quarters.

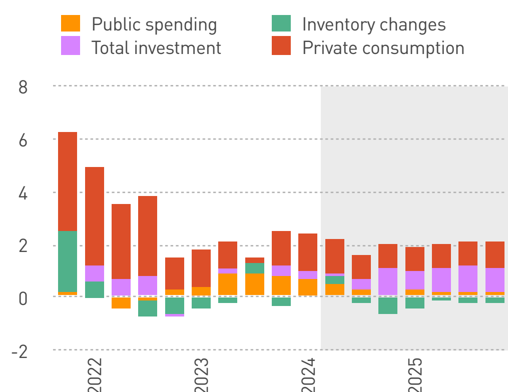
Against this backdrop, our revised forecasts point to GDP growth to 2.4% in 2024 and 1.9% in 2025 (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b). Meanwhile, June inflation stood at 3.4%, showing that the final leg of the downward trend will require additional efforts, while wage revisions extend the life of the inflationary cycle. Harmonized inflation rose by 3.5% and core inflation by 3.0%.

Chart 1.2.3-a
Spain: GDP breakdown and forecasts



Source: MAPFRE Economics (based on INE data)

Chart 1.2.3-b
Spain: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on INE data)

Table 1.2.3
Spain: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	2.0	-11.2	6.4	5.8	2.5	2.4	1.9	2.3	1.6
Domestic demand contribution	1.6	-8.9	6.7	3.0	1.8	1.7	1.8	1.7	1.5
External demand contribution	0.4	-2.3	-0.3	2.8	0.7	0.7	0.1	0.6	0.1
Private consumption contribution	0.6	-7.0	4.0	2.7	1.0	1.1	0.9	1.1	0.8
Total investment contribution	0.9	-1.8	0.6	0.5	0.1	0.5	0.9	0.5	0.8
Public spending contribution	0.4	0.7	0.7	0.0	0.8	0.4	0.2	0.4	0.2
Private consumption (% YoY)	1.1	-12.3	7.1	4.7	1.8	2.0	1.7	2.0	1.4
Public spending (% YoY)	1.9	3.6	3.4	-0.2	3.8	2.0	1.0	2.0	1.0
Total investment (% YoY)	4.5	-9.0	2.8	2.4	0.8	2.6	4.8	2.5	4.1
Exports (% YoY)	2.2	-20.1	13.5	15.2	2.3	3.7	2.4	3.7	2.0
Imports (% YoY)	1.3	-15.0	14.9	7.0	0.3	2.2	2.3	2.2	1.9
Unemployment rate (%, last quarter)	13.8	16.1	13.4	13.0	11.8	11.5	11.1	11.5	11.3
Inflation (% YoY, average)	0.7	-0.3	3.1	8.4	3.5	3.3	2.5	3.4	2.6
Inflation (% YoY, last quarter)	0.4	-0.7	5.8	6.6	3.3	3.3	2.2	3.4	2.2
Fiscal balance (% of GDP)	-3.1	-10.1	-6.7	-4.7	-3.6	-3.2	-2.8	-3.2	-3.0
Primary fiscal balance (% of GDP)	-0.8	-7.8	-4.5	-2.3	-1.1	-0.7	-0.4	-0.7	-0.5
Current account balance (% of GDP)	2.1	0.6	0.8	0.6	2.6	3.1	3.3	3.1	3.2
Official interest rate (end of period)	0.00	0.00	0.00	2.50	4.50	3.50	2.25	4.50	2.50
3-month interest rate (end of period)	-0.38	-0.55	-0.57	2.13	3.91	2.97	1.76	2.97	1.48
10-year interest rate (end of period)	0.47	0.06	0.60	3.66	3.00	3.35	3.40	4.14	4.24
Exchange rate vs. USD (end of period)	1.12	1.23	1.13	1.07	1.11	1.07	1.09	1.07	1.08
Exchange rate vs. EUR (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	-0.2	-1.0	0.1	0.6	-2.1	-0.1	4.5	-0.1	4.5
P.S. non-financial lending (% YoY, average)	-0.1	1.8	3.9	1.9	-3.4	2.2	4.2	2.2	3.4
P.S. financial lending (% YoY, average)	7.6	11.0	-0.1	-11.9	-4.0	-2.2	2.5	-2.1	3.2
Savings rate (% pers. disp. income, avg.)	8.2	17.7	13.8	7.6	11.7	13.0	11.5	13.0	11.5

Source: MAPFRE Economics (based on INE data)
Forecast end date: July 23, 2024.

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To summarize, the tighter financial conditions of the last two years seem to have been reasonably supported by consumption and have impacted investment to some extent, mainly in mortgage lending, but less so in construction as licensing and building cycles move over longer periods. The fiscal deficit, at around 3.6% in 2024 and 3.1% anticipated for 2025, seems to have passed the European Commission's cutoff line, and Spain has avoided being included in the excessive deficit procedure, which has included France and Italy.

1.2.4 Germany

Economic activity remains weak, while GDP contracted again in the first quarter of the year.

Germany's GDP contracted again in the first quarter of the year by 0.2% YoY, for the second consecutive quarter. Private consumption is stagnant, and government consumption is up 1.5%. Exports continued to decline (-2.8%), and imports contracted even more (-3.8%), both contracting for the fourth quarter in a row, thus confirming the recessionary context.

Germany

- Industrial production remains in a sustained contraction.
- The tariff war with China could bounce back and generate new effects on German industry.
- Political tensions may continue to affect investment expectations.
- GDP is forecast to stand at about 0.2% in 2024.

Both the composite and services PMIs are expected to improve, at 50.4 and 53.1 points, respectively, while the services and construction PMIs are in the contraction zone, at 43.5 and 39.7 points each. Industrial production continues to decline (-6.7% in May), reflecting a five-year downturn driven by higher energy costs and environmental constraints. The Ifo business climate index is in negative territory, with drops in new orders, production expectations, exports, and jobs.

Thus, stagnation is still expected for the coming quarters of 2024 with a gradual recovery by 2025, as financial conditions and, eventually, energy prices ease. Thus, growth of 0.2% is forecast for 2024 and 1.2% for 2025 (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b). June inflation stood at 2.2% YoY, with monthly values already under control (0.1% MoM); however, core inflation remained at 2.7% YoY.

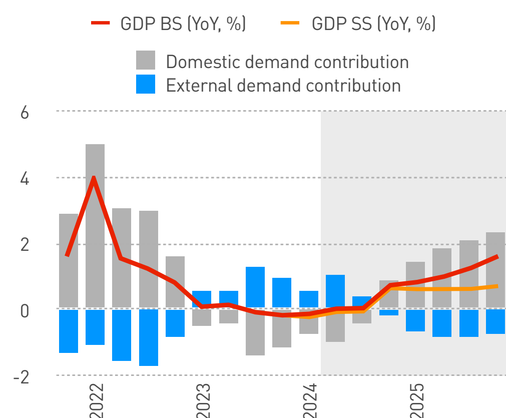
At the risk level, the tariff war unleashed against Chinese electric cars may lead to retaliation from China, and this would affect a German industry that is highly dependent on machinery and automobile exports. Meanwhile, collective wage bargaining has resulted in upward revisions that, together with accumulated savings that have not yet been exhausted, may feed back into inflation.

1.2.5 Italy

Economic activity in Italy is weak, despite the positive effect of funds from the European Union.

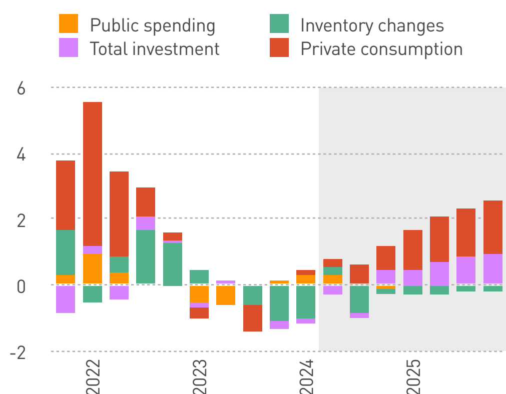
The Italian economy grew by 0.7% YoY (0.3% QoQ) in the first quarter of the year, with consumption recovering somewhat from the previous quarter, but stagnating YoY. Investment has performed the best, aided by the inflow of European Union recovery and resilience funds. Meanwhile, imports fell by 3.4%, consistent with the financial tightening aimed at cooling inflation.

Chart 1.2.4-a
Germany: GDP breakdown and forecasts



Source: MAPFRE Economics (based on DESTATIS data)

Chart 1.2.4-b
Germany: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on DESTATIS data)

Table 1.2.4
Germany: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	1.1	-4.2	3.1	1.9	0.0	0.2	1.2	0.1	0.6
Domestic demand contribution	1.4	-3.1	2.3	3.1	-0.9	-0.3	1.9	-0.3	1.7
External demand contribution	-0.3	-1.1	0.8	-1.3	0.9	0.5	-0.8	0.4	-1.0
Private consumption contribution	0.9	-3.2	0.8	2.0	-0.3	0.4	1.4	0.4	1.3
Total investment contribution	0.4	-0.7	-0.1	0.1	-0.1	0.0	0.7	0.0	0.6
Public spending contribution	0.5	0.8	0.7	0.3	-0.2	0.2	0.0	0.2	0.0
Private consumption (% YoY)	1.6	-6.1	1.5	3.9	-0.6	0.8	2.7	0.8	2.6
Public spending (% YoY)	2.6	4.1	3.1	1.6	-1.0	0.7	0.1	0.7	0.1
Total investment (% YoY)	1.8	-3.2	-0.3	0.2	-0.2	-0.1	3.5	-0.1	2.9
Exports (% YoY)	2.3	-10.0	9.5	3.4	-0.2	0.5	2.0	0.5	1.5
Imports (% YoY)	3.4	-8.9	8.8	6.8	-2.1	-0.3	4.4	-0.3	4.0
Unemployment rate (%, last quarter)	5.0	6.1	5.2	5.5	5.8	5.9	5.6	5.9	5.8
Inflation (% YoY, average)	1.4	0.5	3.1	6.9	5.9	2.1	1.9	2.5	0.9
Inflation (% YoY, last quarter)	1.2	-0.1	4.7	8.6	3.5	1.6	1.7	1.7	1.9
Fiscal balance (% of GDP)	1.5	-4.3	-3.6	-2.5	-2.4	-2.3	-1.3	-2.3	-1.4
Primary fiscal balance (% of GDP)	2.3	-3.7	-3.0	-1.8	-1.6	-1.3	-0.2	-1.3	-0.3
Current account balance (% of GDP)	8.3	6.5	7.4	4.2	6.1	6.8	6.0	6.8	5.9
Official interest rate (end of period)	0.00	0.00	0.00	2.50	4.50	3.50	2.25	4.50	2.50
3-month interest rate (end of period)	-0.38	-0.55	-0.57	2.13	3.91	2.97	1.76	2.97	1.48
10-year interest rate (end of period)	-0.19	-0.58	-0.18	2.57	2.03	2.45	2.33	2.95	2.83
Exchange rate vs. USD (end of period)	1.12	1.23	1.13	1.07	1.11	1.07	1.09	1.07	1.08
Exchange rate vs. EUR (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	4.6	4.3	5.1	5.0	1.9	2.7	5.3	2.7	5.3
P.S. non-financial lending (% YoY, average)	4.7	4.8	3.9	7.7	3.9	3.1	4.2	3.1	4.2
P.S. financial lending (% YoY, average)	10.3	9.9	8.8	10.7	5.9	1.9	0.8	1.9	1.1
Savings rate (% pers. disp. income, avg.)	10.8	16.6	15.0	11.2	11.3	11.7	10.9	11.7	10.9

Source: MAPFRE Economics (based on DESTATIS data)
Forecast end date: July 23, 2024.

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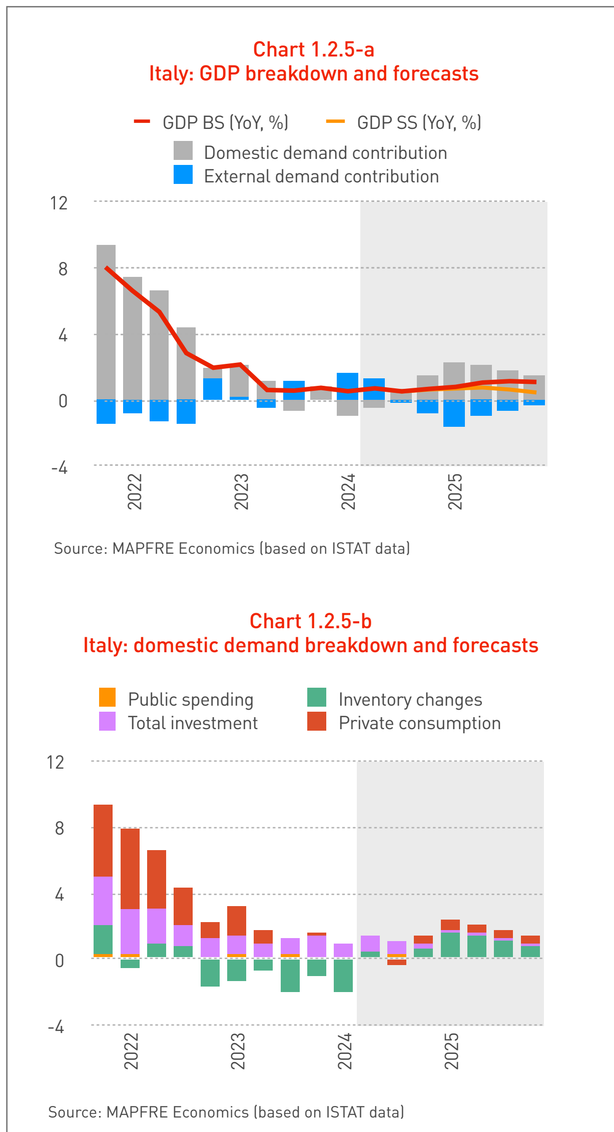

Chart 1.2.5-a
Italy: GDP breakdown and forecasts

Source: MAPFRE Economics (based on ISTAT data)

Chart 1.2.5-b
Italy: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on ISTAT data)

Table 1.2.5
Italy: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2019	2020	2021	2022	2023(e)	2024(f)	2025(f)	2024(f)	2025(f)
GDP (% YoY)	0.5	-9.0	8.3	4.1	1.0	0.6	1.0	0.6	0.6
Domestic demand contribution	-0.3	-8.2	8.4	4.7	0.8	0.2	1.9	0.2	1.5
External demand contribution	0.7	-0.9	-0.1	-0.5	0.2	0.4	-0.9	0.4	-0.8
Private consumption contribution	0.1	-6.3	3.3	2.8	0.7	0.1	0.5	0.1	0.2
Total investment contribution	0.2	-1.5	3.7	1.8	1.0	0.7	0.1	0.7	0.0
Public spending contribution	-0.1	0.0	0.3	0.2	0.2	0.1	0.1	0.1	0.1
Private consumption (% YoY)	0.2	-10.4	5.5	4.9	1.2	0.2	0.8	0.1	0.4
Public spending (% YoY)	-0.6	0.1	1.4	1.0	1.2	0.8	0.6	0.8	0.6
Total investment (% YoY)	1.2	-8.0	20.3	8.9	4.9	3.2	0.7	3.2	0.0
Exports (% YoY)	1.8	-14.3	14.1	11.0	0.5	2.1	2.7	2.2	2.2
Imports (% YoY)	-0.5	-12.7	15.6	13.5	-0.2	0.2	5.6	0.2	5.0
Unemployment rate (%, last quarter)	9.7	9.8	9.0	7.9	7.4	7.2	7.5	7.3	7.6
Inflation (% YoY, average)	0.6	-0.1	1.9	8.2	5.6	1.2	1.8	1.9	1.6
Inflation (% YoY, last quarter)	0.3	-0.2	3.5	11.7	1.0	1.7	1.7	1.7	1.9
Fiscal balance (% of GDP)	-1.5	-9.4	-8.7	-8.6	-7.2	-4.5	-3.8	-4.5	-4.0
Primary fiscal balance (% of GDP)	1.9	-5.9	-5.2	-4.4	-3.6	-0.5	0.3	-0.5	0.2
Current account balance (% of GDP)	3.4	3.9	2.4	-1.5	0.5	1.6	1.0	1.6	0.9
Official interest rate (end of period)	0.00	0.00	0.00	2.50	4.50	3.50	2.25	4.50	2.50
3-month interest rate (end of period)	-0.38	-0.55	-0.57	2.13	3.91	2.97	1.76	2.97	1.48
10-year interest rate (end of period)	1.43	0.52	1.19	4.72	3.69	3.99	4.28	5.04	5.42
Exchange rate vs. USD (end of period)	1.12	1.23	1.13	1.07	1.11	1.07	1.09	1.07	1.08
Exchange rate vs. EUR (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	2.2	1.2	3.0	3.5	0.2	0.9	3.3	0.8	2.7
P.S. non-financial lending (% YoY, average)	-0.6	3.7	1.0	2.8	-1.7	-1.0	2.9	-1.0	2.0
P.S. financial lending (% YoY, average)	-5.8	-10.3	22.7	20.4	-0.8	0.3	2.3	0.3	1.9
Savings rate (% pers. disp. income, avg.)	9.5	17.0	15.0	9.3	7.7	10.7	9.9	10.7	10.1

Source: MAPFRE Economics (based on ISTAT data)
Forecast end date: July 23, 2024.

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Italy

- **Weak economic activity is observed in consumption and imports.**
- **Low inflation is also a symptom of lower demand-side pressures.**
- **The Italian economy is projected to grow around 0.6% in 2024.**

In terms of indicators that provide a glimpse into activity for the coming quarters, the PMIs are mixed: services show an improvement (53.7) ahead of the tourist season, while manufacturing (45.7) and construction (46.0) worsen, again consistent with the tightening of financial conditions. Against this backdrop, Italian GDP growth is expected to be around 0.6% in 2024 and 1.0% in 2025 (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b).

Meanwhile, inflation has been low since the end of 2023; 0.8% YoY in June, with core inflation at 2.0%. Likewise, producer prices have been negative for more than a year, but this should be read as a normalization following the rebound in 2021 and 2022, when there were problems in the supply chains. Some recovery in price growth is expected for the coming quarters, although still below the 2% target for the Eurozone.

Italy is lagging in the pace of investment under the Recovery and Resilience Plan, with an investment of 43 billion euros through the end of last year, compared to the 194 billion euros of the total plan. In other words, if it is able to increase the pace at which funds are applied, it could mean a potential upward revision to GDP by 2025 and 2026. On the other hand, downside risks include the interest rates demanded on government bonds, which are close to 3.95%, and which, if they remain high, will greatly impact the fiscal deficit in the coming years. An Excessive Deficit Procedure that the European Union has launched for Italy and eight other countries, after ending the four-year suspension of fiscal rules, is a wake-up call for the government to step up its efforts to rectify its public accounts and preserve the credibility of its solvency.

1.2.6 France

French GDP grows moderately, and public spending must be controlled.

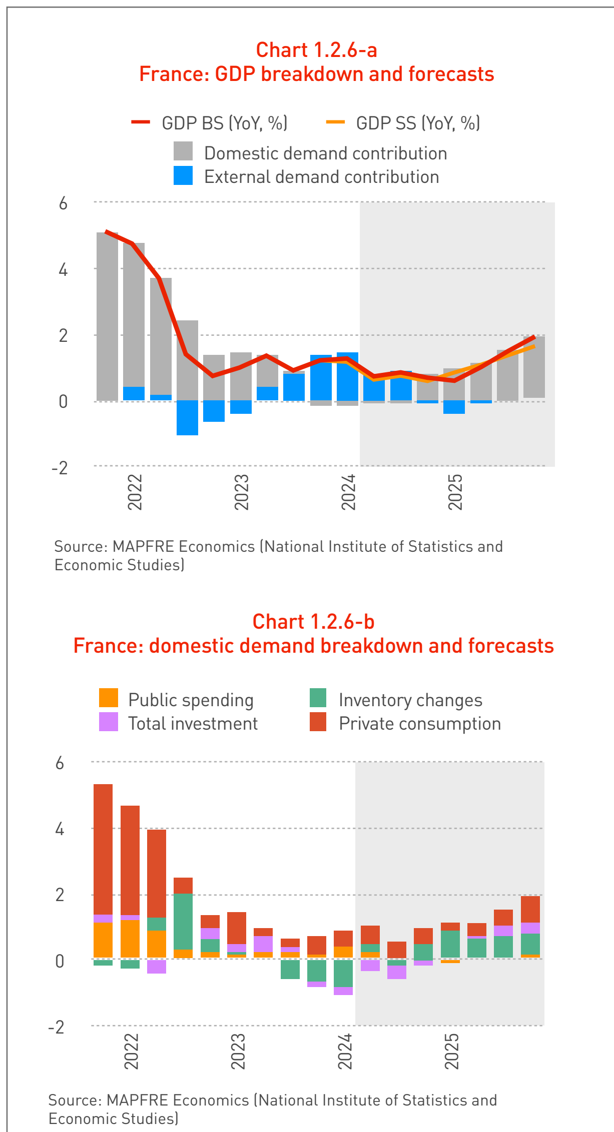
France

- **Rising bond yields indicate concern with the long-term performance of the economy.**
- **The European Commission has opened an Excessive Deficit Procedure for France.**
- **The French GDP growth forecast stands at 0.9% for 2024 and 1.3% for 2025.**

The French GDP grew at a modest pace during the first quarter of the year (1.3% YoY and 0.2% QoQ), with household consumption weak (0.9% YoY) and government spending higher (1.6% YoY), at a time when its annual fiscal deficit exceeds 5.5% of GDP and the European Commission has initiated an Excessive Deficit Procedure. Investments are declining (-1.0%), as are imports (-0.3%), a symptom that the current situation and outlook reveal a still complex economic outlook.

In terms of surveys and outlook indicators, the purchasing managers' indexes (PMIs) point to a contraction scenario, with all below the contraction threshold of 50 points: the composite at 48.8, manufacturing

Chart 1.2.6-a
France: GDP breakdown and forecasts



Source: MAPFRE Economics (National Institute of Statistics and Economic Studies)

Chart 1.2.6-b
France: domestic demand breakdown and forecasts

Source: MAPFRE Economics (National Institute of Statistics and Economic Studies)

Table 1.2.6
France: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	2.1	-7.6	6.8	2.6	1.1	0.9	1.3	0.8	1.2
Domestic demand contribution	2.0	-6.3	6.1	2.9	0.6	0.1	1.4	0.1	1.4
External demand contribution	0.0	-1.3	0.7	-0.3	0.5	0.8	-0.1	0.7	-0.1
Private consumption contribution	0.9	-3.5	2.8	1.7	0.5	0.5	0.5	0.5	0.7
Total investment contribution	0.9	-1.4	2.2	0.0	0.2	-0.3	0.2	-0.3	0.1
Public spending contribution	0.3	-1.1	1.7	0.7	0.2	0.2	0.0	0.2	0.0
Private consumption (% YoY)	1.7	-6.5	5.3	3.2	0.9	0.9	1.5	0.9	1.2
Public spending (% YoY)	1.0	-4.4	6.6	2.6	0.8	0.7	0.1	0.7	0.1
Total investment (% YoY)	4.2	-6.2	9.6	0.1	0.7	-1.3	0.8	-1.3	0.3
Exports (% YoY)	2.2	-16.8	11.1	8.3	2.5	3.0	3.1	3.0	2.7
Imports (% YoY)	2.1	-12.6	8.0	9.1	0.7	0.6	3.5	0.5	3.1
Unemployment rate (%, last quarter)	7.9	7.8	7.2	6.9	7.3	7.2	7.1	7.2	7.3
Inflation (% YoY, average)	1.1	0.5	1.6	5.2	4.9	2.4	1.9	2.5	2.1
Inflation (% YoY, last quarter)	1.1	0.1	2.7	6.1	3.7	2.3	1.9	2.4	1.9
Fiscal balance (% of GDP)	-2.4	-8.9	-6.6	-4.7	-5.5	-5.2	-4.8	-5.2	-4.9
Primary fiscal balance (% of GDP)	-0.8	-7.7	-5.2	-2.8	-3.6	-3.2	-2.6	-3.2	-2.7
Current account balance (% of GDP)	0.6	-1.6	0.4	-2.0	-0.8	-0.3	-0.4	-0.3	-0.5
Official interest rate (end of period)	0.00	0.00	0.00	2.50	4.50	3.50	2.25	4.50	2.50
3-month interest rate (end of period)	-0.38	-0.55	-0.57	2.13	3.91	2.97	1.76	2.97	1.48
10-year interest rate (end of period)	0.09	-0.33	0.10	3.02	2.54	3.15	2.99	3.77	3.69
Exchange rate vs. USD (end of period)	1.12	1.23	1.13	1.07	1.11	1.07	1.09	1.07	1.08
Exchange rate vs. EUR (end of period)	6.56	6.56	6.56	6.56	6.56	6.56	6.56	6.56	6.56
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	5.8	4.9	5.4	5.5	2.6	1.0	2.9	1.0	2.9
P.S. non-financial lending (% YoY, average)	6.4	7.1	3.3	5.3	2.0	4.7	7.6	4.7	7.6
P.S. financial lending (% YoY, average)	-14.8	9.0	17.0	16.7	2.9	4.4	2.3	4.4	2.8
Savings rate (% pers. disp. income, avg.)	10.8	16.7	15.2	12.8	12.8	13.6	13.3	13.6	13.3

Source: MAPFRE Economics (based on National Institute of Statistics and Economic Studies data)
Forecast end date: July 23, 2024.

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at 45.4, services at 49.6, and construction at 41.0, exhibiting a declining trend over the past two years. The economic sentiment indicator for the European Union has also been depressed for the past two years. In contrast, employment is holding up relatively well, with the unemployment rate at 7.5%, up 0.4 pp from the 2023 lows. Thus, the estimate for GDP growth for 2024 stands at 0.9%, while it would settle at 1.3% in 2025 (see Table 1.2.6 and Charts 1.2.6-a and 1.2.6-b).

Meanwhile, inflation in France has practically converged to the target, standing at 2.1% YoY in June, although core inflation stood at 2.4% and harmonized inflation (comparable in the Eurozone) at 2.5%. The coming quarters will show whether this convergence to the target is lasting, once the baseline effects no longer support the comparison. This will depend, to a large extent, on the performance of energy costs and wages.

The recent election results seem to have been well received by the markets. The main challenges for the next government will be to rectify the public accounts, in the context of excessive spending and the excessive deficit procedure initiated by Brussels, and to regain the confidence of investors and businesses so that the investment component of the economy stops contracting. To this end, controlling inflation and public spending and generating a favorable environment for investment are critical. The rise in French government bond yields shows that markets are starting to worry about the long-term solvency of public finances.

1.2.7 United Kingdom

The economy is growing with little momentum due to a still-restrictive monetary policy.

Economic activity in the U.K. recovered slightly in the first quarter of the year (0.6% QoQ), although it registered modest YoY growth of 0.3%. All in all, the economy has arguably performed better than expected. Consumption (-0.4% YoY) and investment (-0.3% YoY) contracted, reflecting a generalized slowdown. Likewise, changes in mortgage interest rates are affecting household disposable income, with a notable increase in the last two years, which has weighed on consumption and investment.

United Kingdom

- **Retail sales are contracting, reflecting the rising cost of living.**
- **The Bank of England kept interest rates high at 5.25%.**
- **Controlling inflation is key to getting the economy back on track.**
- **The economic growth estimate for 2024 stands at 0.9%.**

Leading activity indicators reveal improved prospects, although not all difficulties have been overcome. Thus, the PMIs place the composite at 53.0 points, services at 52.9, and manufacturing at 51.2. Despite the low level of unemployment (4.4%), retail sales are barely growing after two years, with poor performance indicating consumer hardship. Thus, growth of 0.9% is expected in 2024 and 1.9% in 2025 (see Table 1.2.7 and Charts 1.2.7-a and 1.2.7-b).

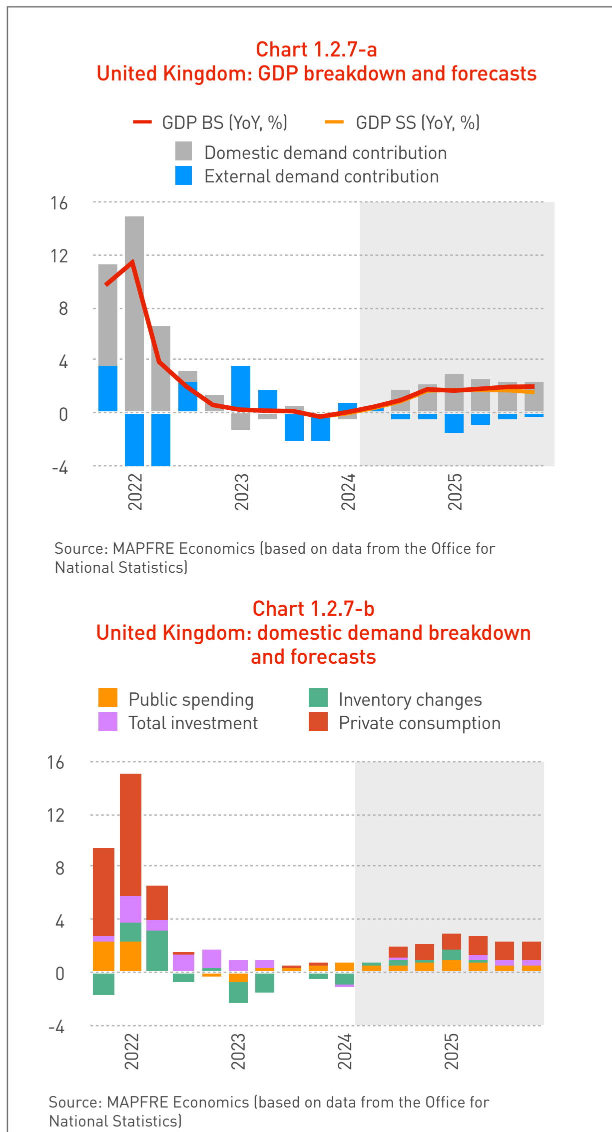

Chart 1.2.7-a
United Kingdom: GDP breakdown and forecasts

Source: MAPFRE Economics (based on data from the Office for National Statistics)

Chart 1.2.7-b
United Kingdom: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on data from the Office for National Statistics)

Table 1.2.7
United Kingdom: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	1.6	-10.4	8.7	4.3	0.1	0.9	1.9	0.8	1.7
Domestic demand contribution	1.8	-11.4	8.5	5.7	-0.2	0.8	2.6	0.8	2.3
External demand contribution	-0.3	1.7	-0.4	-1.7	0.3	0.1	-0.7	0.0	-0.6
Private consumption contribution	0.7	-8.0	4.5	2.8	0.1	0.4	1.4	0.4	1.3
Total investment contribution	0.4	-2.0	1.3	1.4	0.4	0.0	0.2	0.0	0.1
Public spending contribution	0.7	-1.5	2.9	0.5	0.1	0.6	0.7	0.6	0.7
Private consumption (% YoY)	1.1	-13.0	7.5	4.8	0.2	0.8	2.4	0.7	2.1
Public spending (% YoY)	4.0	-7.9	14.9	2.3	0.5	2.9	3.2	2.9	3.2
Total investment (% YoY)	2.2	-10.8	7.4	8.0	2.2	-0.1	1.3	-0.1	0.7
Exports (% YoY)	2.0	-11.5	4.9	9.0	-0.5	-1.2	2.5	-1.2	2.1
Imports (% YoY)	2.7	-16.0	6.1	14.6	-1.5	-0.3	4.6	-0.3	4.3
Unemployment rate (%, last quarter)	3.9	5.3	4.2	3.9	3.8	4.4	3.9	4.4	4.1
Inflation (% YoY, average)	1.8	0.9	2.6	9.1	7.3	2.5	2.3	2.6	2.8
Inflation (% YoY, last quarter)	1.4	0.6	4.9	10.8	4.2	2.5	2.5	2.6	2.7
Fiscal balance (% of GDP)	-2.5	-13.0	-7.9	-4.6	-5.9	-4.6	-3.9	-4.6	-4.0
Primary fiscal balance (% of GDP)	0.0	-10.9	-5.0	0.3	-1.3	-0.4	0.4	-0.4	0.4
Current account balance (% of GDP)	-2.7	-2.9	-0.5	-3.2	-3.3	-3.3	-3.4	-3.3	-3.5
Official interest rate (end of period)	0.75	0.00	0.25	3.50	5.25	4.75	3.50	5.00	4.00
3-month interest rate (end of period)	0.79	0.03	0.26	3.87	5.32	4.74	3.80	4.74	3.82
10-year interest rate (end of period)	0.83	0.20	0.97	3.67	3.54	4.00	3.68	4.53	4.15
Exchange rate vs. USD (end of period)	1.32	1.36	1.35	1.20	1.27	1.26	1.28	1.26	1.27
Exchange rate vs. EUR (end of period)	1.18	1.11	1.19	1.13	1.15	1.18	1.18	1.18	1.18
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	2.2	2.5	3.3	3.1	2.2	2.2	3.9	2.2	3.9
P.S. non-financial lending (% YoY, average)	1.2	10.2	0.5	1.1	2.8	1.4	3.9	1.4	3.9
P.S. financial lending (% YoY, average)	1.9	11.8	-1.5	10.9	3.2	6.8	3.8	6.8	4.3
Savings rate (% pers. disp. income, avg.)	5.5	16.8	12.5	8.4	9.7	10.7	9.5	10.7	9.5

Source: MAPFRE Economics (based on data from the Office for National Statistics)
Forecast end date: July 23, 2024.

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Inflation stood at 2.0% in May, with core inflation at 3.5% and service inflation at 5.7%. The Bank of England is holding interest rates at 5.25%. Its restrictive monetary policy stance is weighing on activity in the real economy, resulting in a looser labor market while dampening inflationary pressures. The main indicators of persistent inflation have continued to moderate, although they remain high.

Inflation and high interest rates are still the main short-term risks to the economy, preventing a more robust reactivation of activity. Moreover, there is still a risk that the labor market will remain tight, and wage increases will not slow down, which would keep inflation strained. Oil, for now, is relatively contained, but the cost of maritime freight has risen due to the conflict in the Middle East.

1.2.8 Japan

Japan starts the year with a significant contraction in its GDP.

In the first quarter of 2024, the Japanese economy declined by a seasonally adjusted annualized rate of 2.9%, after being revised from a previously estimated annualized decline of 1.8%. The main culprit for the revision was public investment, which contracted by 1.9%. In addition, the weak yen has made it more expensive to import raw materials, especially oil and gas. However, the purchasing managers' index (PMI) for May showed a certain strength, with the composite index at 52.6 points, manufacturing at 50.4, and services at 53.8. The Tankan business conditions index is positive, but trending toward stagnation (12). Therefore, our growth projections for GDP for 2024 and 2025 are 0.4% and 1.1%, respectively (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b).

Japan

- **The weak yen has affected energy imports.**
- **Inflation is rising again and is expected to trend upwards due to the weak currency.**
- **The Japanese economy is expected to grow by around 0.4% in 2024 and 1.1% in 2025.**

Inflation rose to 2.8% in May (2.3% in June in Tokyo), with core inflation at 2.4%. Motor fuels rose by 4.4%, food by 4.3%, and fresh food by 9.1%. Accordingly, the Bank of Japan kept interest rates in the 0.0–0.10% range and will continue to purchase bonds to control the yield curve in line with the March committee decisions. The central bank plans to gather feedback from market participants before the next committee meeting to design bond purchase policies for the next two years.

From the standpoint of short-term risks to the Japanese economy, the weakness of the yen seems to be the most worrisome issue. The Ministry of Finance had to spend 9.8 billion yen between the end of April and May to intervene in the foreign exchange market and defend the yen. Despite some advantages for exporters and tourist inflows, the weak currency affects import capacity and energy costs, which have both consumers and businesses concerned. In addition, excessive exchange rate variability may deteriorate the yen's credibility.

1.2.9 Turkey

Economic activity remains dynamic despite high inflation and a weak currency.

Turkey experienced robust economic growth of 5.8% in the first quarter of the year. Consumption grew 7.3%, government spending was up 3.9%, and investment grew 10.3%, while exports performed well with 4.0% growth and imports dropped 3.1%. In terms of leading activity indicators, the manufacturing PMI stands at 47.9 points, down from February (50.2).

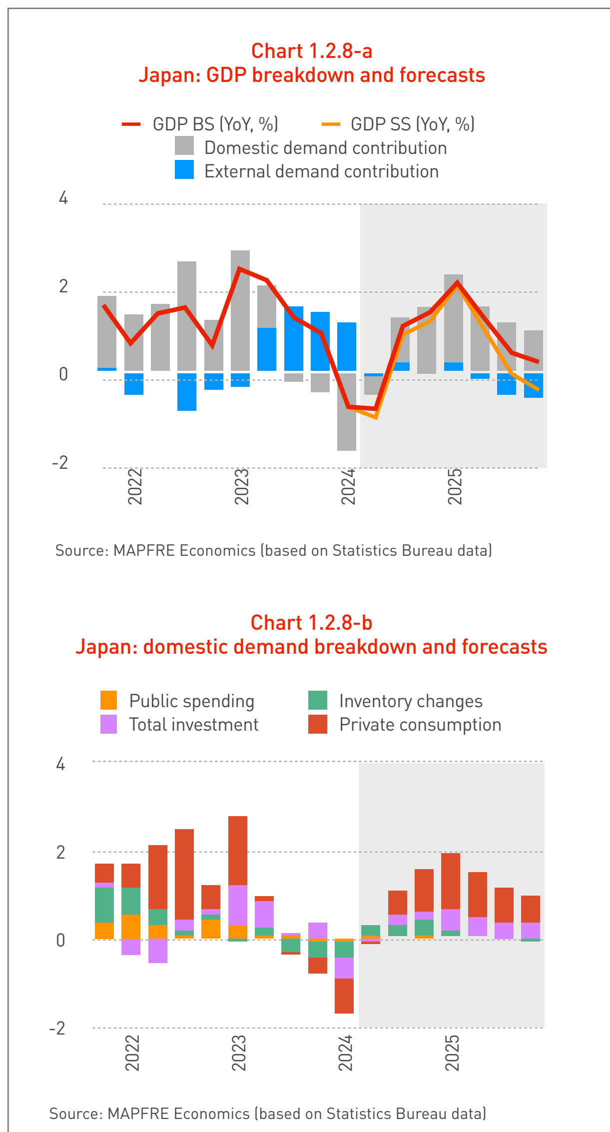

Table 1.2.8
Japan: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	-0.4	-4.2	2.8	1.2	1.8	0.4	1.1	0.2	0.8
Domestic demand contribution	0.1	-3.4	1.8	1.7	0.8	0.1	1.4	-0.1	1.0
External demand contribution	-0.5	-0.9	1.1	-0.4	0.9	0.3	-0.2	0.3	-0.2
Private consumption contribution	-0.3	-2.4	0.4	1.1	0.3	0.1	0.9	-0.2	0.8
Total investment contribution	0.1	-1.0	0.1	-0.1	0.5	0.0	0.4	0.0	0.2
Public spending contribution	0.4	0.5	0.7	0.4	0.1	0.0	0.0	0.0	0.0
Private consumption (% YoY)	-0.6	-4.5	0.8	2.1	0.6	-0.3	1.7	-0.3	1.5
Public spending (% YoY)	1.9	2.4	3.4	1.7	0.5	0.2	0.2	0.2	0.2
Total investment (% YoY)	0.5	-3.8	0.5	-0.6	1.9	-0.1	1.6	-0.1	1.0
Exports (% YoY)	-1.5	-11.7	12.0	5.5	3.2	0.3	2.0	0.3	1.4
Imports (% YoY)	1.1	-6.8	5.1	7.9	-1.4	-1.3	3.3	-1.3	2.8
Unemployment rate (%, last quarter)	2.3	3.1	2.7	2.5	2.5	2.3	2.2	2.3	2.3
Inflation (% YoY, average)	0.5	0.0	-0.2	2.5	3.3	2.3	1.7	2.4	1.8
Inflation (% YoY, last quarter)	0.5	-0.9	0.5	3.9	2.9	1.9	1.6	2.0	1.6
Fiscal balance (% of GDP)	-3.0	-9.1	-6.1	-4.2	-4.0	-3.7	-3.5	-3.7	-3.6
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	3.4	2.9	3.8	1.9	3.6	4.5	4.1	4.4	4.0
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	0.25	0.50	0.25	0.60
3-month interest rate (end of period)	0.07	0.08	0.07	0.06	0.08	0.41	0.60	0.41	0.19
10-year interest rate (end of period)	-0.02	0.04	0.09	0.45	0.65	1.07	1.21	1.63	1.63
Exchange rate vs. USD (end of period)	109.12	103.54	115.00	132.65	141.91	158.40	147.23	159.37	149.36
Exchange rate vs. EUR (end of period)	122.59	127.05	130.25	141.48	156.81	170.23	160.26	170.23	160.63
Private lending (% YoY, average)	1.9	5.2	3.2	2.8	4.8	3.2	0.3	3.2	0.1
Household lending (% YoY, average)	2.1	3.1	3.7	1.8	2.1	1.5	-0.7	1.5	-0.6
P.S. non-financial lending (% YoY, average)	3.8	8.2	3.6	2.8	3.4	-3.8	-3.1	-3.8	-3.1
P.S. financial lending (% YoY, average)	2.5	16.7	7.1	7.7	5.2	0.8	-1.5	0.8	-1.2
Savings rate (% pers. disp. income, avg.)	3.3	11.3	7.2	4.0	2.2	2.0	1.5	2.0	1.6

Source: MAPFRE Economics (based on Statistics Bureau data)
Forecast end date: July 23, 2024.

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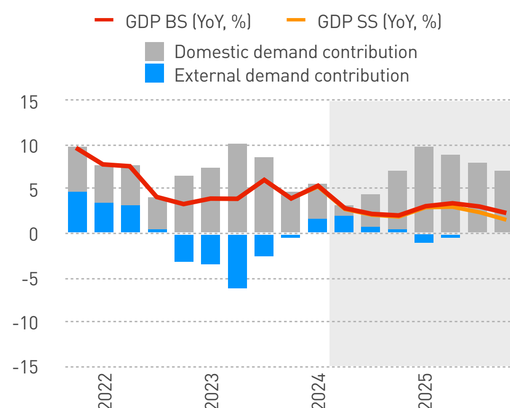
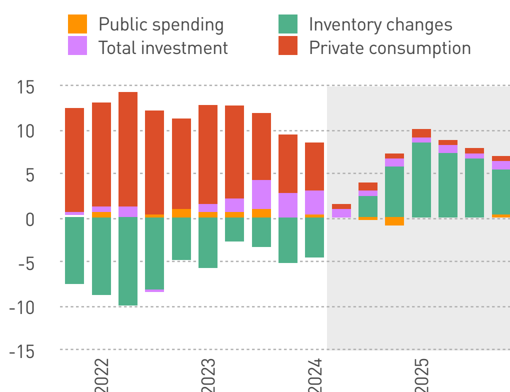
Chart 1 1.2.9-a
Turkey: GDP breakdown and forecasts



Source: MAPFRE Economics (based on TURKSTAT data)

Chart 1.2.9-b
Turkey: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on TURKSTAT data)

Table 1.2.9
Turkey: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	0.8	1.9	11.4	5.5	4.5	3.1	3.0	3.0	2.4
Domestic demand contribution	-1.6	7.0	6.4	4.8	7.6	2.2	3.0	2.2	2.3
External demand contribution	2.4	-5.2	5.0	0.7	-3.1	0.9	0.0	1.2	-0.4
Private consumption contribution	0.9	1.9	9.2	11.7	8.9	1.8	0.7	0.0	-4.6
Total investment contribution	-3.6	1.8	1.9	0.3	2.2	0.9	0.3	0.8	0.0
Public spending contribution	0.5	0.3	0.4	0.6	0.7	0.1	0.1	0.1	0.1
Private consumption (% YoY)	1.5	3.2	15.4	18.9	12.8	2.4	1.0	0.0	-6.3
Public spending (% YoY)	3.9	2.2	3.0	4.2	5.2	0.5	0.8	0.5	0.8
Total investment (% YoY)	-12.5	7.3	7.2	1.3	8.9	3.4	1.1	3.3	-0.1
Exports (% YoY)	5.3	-14.6	25.1	9.9	-2.7	3.4	2.5	3.4	2.3
Imports (% YoY)	-5.0	6.8	1.7	8.6	11.7	-1.6	5.3	-1.6	4.4
Unemployment rate (%, last quarter)	13.3	12.9	11.0	10.1	8.6	9.6	9.7	9.6	9.9
Inflation (% YoY, average)	15.2	12.3	19.6	72.3	53.9	57.8	26.4	57.9	27.1
Inflation (% YoY, last quarter)	10.3	13.5	25.8	77.4	62.7	44.6	21.5	44.7	22.2
Fiscal balance (% of GDP)	-2.9	-3.5	-2.8	-0.9	-5.3	-4.0	-1.9	-4.0	-1.9
Primary fiscal balance (% of GDP)	-0.6	-0.9	-0.3	1.1	-2.7	-1.8	-0.4	-1.8	-0.4
Current account balance (% of GDP)	2.0	-4.3	-0.8	-5.1	-4.1	-2.0	-2.5	-2.0	-2.4
Official interest rate (end of period)	11.50	17.00	14.00	9.00	42.50	50.00	27.50	52.00	30.00
3-month interest rate (end of period)	10.35	17.25	16.32	10.35	44.97	51.51	30.91	51.55	30.70
10-year interest rate (end of period)	11.95	12.51	22.99	9.50	23.65	23.60	18.76	25.44	20.25
Exchange rate vs. USD (end of period)	5.95	7.44	13.32	18.69	29.48	35.48	37.48	35.68	38.41
Exchange rate vs. EUR (end of period)	6.68	9.11	15.23	19.96	32.65	38.13	40.79	38.12	41.32
Private lending (% YoY, average)	8.4	30.1	23.9	54.8	57.6	38.9	14.1	38.9	14.1
Household lending (% YoY, average)	3.3	41.8	20.3	28.8	50.1	18.7	10.8	18.7	10.7
P.S. non-financial lending (% YoY, average)	5.5	29.0	23.2	56.3	55.6	163.6	62.2	163.6	61.1
P.S. financial lending (% YoY, average)	18.3	21.1	31.6	105.5	75.2	67.4	22.5	67.4	22.2
Savings rate (% pers. disp. income, avg.)	30.0	20.6	22.2	10.0	21.4	28.1	22.9	28.1	22.9

Source: MAPFRE Economics (based on TURKSTAT data)
Forecast end date: July 23, 2024.

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Turkey

- **The economy remains strong due to growth in consumption and investment.**
- **Inflation remains above 70%.**
- **The central bank held policy rates at 50.0%, leaving real rates negative by 22 percentage points.**
- **The Turkish economy is projected to grow around 3.1% in 2024.**

Consumer confidence also declined 2 points to 78.3. Auto sales remain at record highs, and retail sales are growing by close to 20%, all showing that consumer spending remains strong. Against this backdrop, we estimate GDP growth of 3.1% in 2024 and 3.0% in 2025 (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

In addition, inflation stood at 71.6% in June, with core inflation at 71.4%. Inflation expectations remain high and may encounter some resistance in coming down to around 30%. The Central Bank of Turkey has put forward an optimistic estimate that it will reach 38% by the end of the year. In June, the central bank kept interest rates (1-week Repo rate) at 50.0%, much tighter than last year and more in line with inflation levels, although this implies that real interest rates are still negative by 22 percentage points. The central bank is expected to maintain a tight monetary policy until a significant decline in inflation expectations is observed, which the central bank expects to occur in the second half of this year.

Uncontrolled inflation remains the main near-term risk to the Turkish economy. High inflation expectations continue to drive pricing behavior. The financing environment improved significantly, with higher portfolio inflows and the central bank accumulating reserves. As such, the risk of Turkey facing financing problems in the short term appears to have been reduced. The current account deficit improved to -2.8% of GDP, thanks to lower energy and gold imports.

1.2.10 Mexico

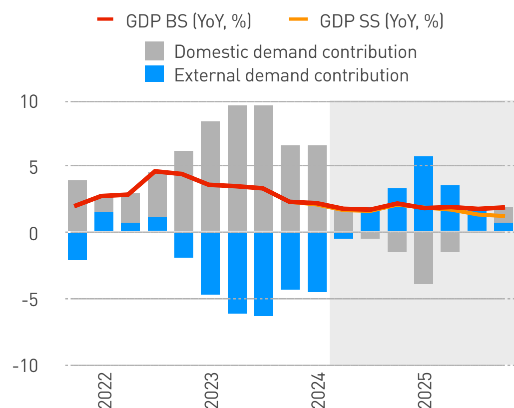
Economic growth starts to show signs of weakness.

Mexico

- **The GDP grew by 1.97%, with a downward trend starting in the third quarter of 2022.**
- **The Bank of Mexico maintains a restrictive monetary policy and will not be able to deviate much from the Federal Reserve in order to avoid affecting the exchange rate.**
- **The forecast for Mexican economic growth remains unchanged at around 2.0% for 2024.**

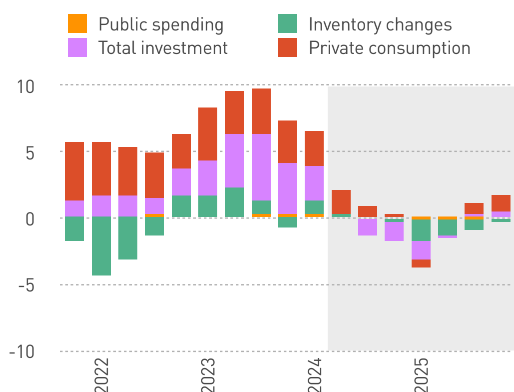
The Mexican economy grew by 1.6% YoY in the first quarter and has been losing momentum since early 2023. Private consumption increased by 5.7% YoY and investment by 8.3%, driven by the relocation of production chains (*nearshoring*), but exports have been in decline for more than a year (-6.7% YoY). The manufacturing PMI in June stood at 51.1 points, still in expansion territory. Business expectations and confidence are generally positive, and consumer confidence stands at 46.7 points. Against this backdrop, the GDP growth forecast remains at 2.0% in 2024 and 1.9% in 2025 (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b).

Chart 1.2.10-a
Mexico: GDP breakdown and forecasts



Source: MAPFRE Economics (based on INEGI data)

Chart 1.2.10-b
Mexico: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on INEGI data)

Table 1.2.10
Mexico: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	-0.4	-8.5	6.3	3.7	3.2	2.0	1.9	1.9	1.6
Domestic demand contribution	-1.3	-10.7	9.7	3.3	8.6	1.6	-0.9	1.6	-1.4
External demand contribution	0.9	2.2	-3.4	0.4	-5.4	0.4	2.9	0.3	2.9
Private consumption contribution	0.6	-6.8	5.8	3.4	3.5	1.3	0.3	1.3	0.2
Total investment contribution	-1.0	-3.8	2.1	1.6	3.9	0.0	-0.2	0.0	-0.4
Public spending contribution	-0.2	-0.1	-0.1	0.2	0.2	0.1	-0.1	0.1	-0.1
Private consumption (% YoY)	0.9	-10.0	8.6	4.9	5.0	1.9	0.5	1.9	0.2
Public spending (% YoY)	-1.8	-0.7	-0.5	1.7	2.1	0.5	-0.9	0.5	-0.9
Total investment (% YoY)	-4.4	-17.2	10.5	7.5	17.9	0.0	-0.8	0.0	-1.6
Exports (% YoY)	1.3	-7.2	7.3	9.0	-7.3	3.6	8.7	3.6	7.5
Imports (% YoY)	-1.0	-12.3	16.2	7.6	5.0	2.9	1.0	2.9	0.0
Unemployment rate (%, last quarter)	3.4	4.5	3.7	3.0	2.7	3.3	3.8	3.3	3.9
Inflation (% YoY, average)	3.6	3.4	5.7	7.9	5.5	4.4	3.6	4.5	3.8
Inflation (% YoY, last quarter)	2.9	3.5	7.0	8.0	4.4	4.1	3.6	4.2	3.8
Fiscal balance (% of GDP)	-1.6	-2.7	-2.9	-3.2	-3.4	-4.4	-2.7	-4.4	-2.8
Primary fiscal balance (% of GDP)	1.1	0.1	-0.3	-0.4	-0.1	-1.1	0.6	-1.1	0.6
Current account balance (% of GDP)	-0.3	2.4	-0.3	-1.2	-0.3	-0.2	0.1	-0.2	0.3
Official interest rate (end of period)	7.25	4.25	5.50	10.50	11.25	10.50	8.00	10.75	8.25
3-month interest rate (end of period)	7.45	4.47	5.86	10.97	11.48	10.75	8.00	10.50	7.04
10-year interest rate (end of period)	6.84	5.23	7.57	9.02	8.99	9.09	8.25	9.47	8.18
Exchange rate vs. USD (end of period)	18.93	19.88	20.50	19.49	16.97	18.75	19.82	18.86	20.16
Exchange rate vs. EUR (end of period)	21.26	24.40	23.22	20.79	18.75	20.15	21.58	20.14	21.68
Private lending (% YoY, average)	8.9	5.1	-1.3	7.5	5.8	4.9	5.1	4.9	4.5
Household lending (% YoY, average)	6.2	1.6	4.4	9.2	10.1	7.6	5.3	7.6	5.3
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	6.2	3.7	18.3	8.7	-2.6	14.6	14.0	14.6	13.9
Savings rate (% pers. disp. income, avg.)	12.1	17.1	18.2	18.7	23.6	23.1	22.4	23.1	22.4

Source: MAPFRE Economics (based on INEGI data)
Forecast end date: July 23, 2024.

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Inflation stood at 4.98% in June (5.61% in the first two weeks of July), marking four months of upward movement, with core inflation trending better at 4.13% (4.02% in the first two weeks of July). The moderation in price growth is expected to continue, although upcoming readings will suffer as the beneficial baseline effects fade. The Bank of Mexico lowered interest rates by 25 bps in March to 11.0% and has not changed them since. In addition, the Federal Reserve's delay in lowering interest rates is a factor that, to some extent, will make it difficult for Mexico to deviate much in terms of monetary policy.

Short-term risks for the Mexican economy are focused on the uncertainty surrounding the policies to be implemented by the next government that will take office in October, which could affect institutional stability and investor confidence. Likewise, the November elections in the United States, Mexico's main trading partner, may alter the status of bilateral relations. On the other hand, a more market-friendly government attitude and the continuation of the *nearshoring* process could be positive aspects for Mexico's economic momentum.

1.2.11 Brazil

Economy in slowdown, but benefiting from the easing of monetary policy.

The Brazilian economy grew by 2.5% in the first quarter of the year (0.8% QoQ), accelerating from previous quarters, possibly supported by the interest rate cut. Private consumption grew by 4.4% and investment increased by 2.7% YoY. Exports also recorded solid growth of 6.5%. From the perspective of leading activity indicators, June PMIs were up, with the composite at 54.1, services at 54.8, and manufacturing at 52.5 points. Similarly, consumer confidence has recovered over the last four years, now standing at 91.1, while retail sales point to some depletion. Against this backdrop, the forecast for economic growth in Brazil stands at 1.9% for 2024 and 2.2% for 2025 (see Table 1.2.11 and Charts 1.2.11-a and 1.2.11-b).

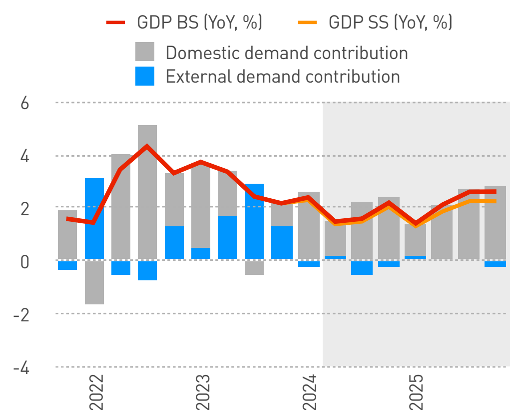
Brazil

- **Last year's tax reform and the favorable economic performance reduce risks on the tax front.**
- **The economy will grow less than last year, but is resilient.**
- **is projected to grow 1.9% in 2024 and 2.2% in 2025.**

Inflation, meanwhile, stood at 4.2% in June. Food increased (4.7% YoY), and pressures persisted in transportation (4.6%) and health (6.1%), while fuels rebounded again (10.0%). At its June meeting, the Central Bank of Brazil held SELIC rates at 10.50%. The central bank is in a rate cycle ahead of the Federal Reserve or the European Central Bank, in that it began lowering interest rates a year ago, from 13.75% in July of last year to the current 10.50%. The committee highlights two-way risks to inflation; upside risks include persistent global inflationary pressures and inflationary drag in the services sector. The committee now calls for calmness in steering monetary policy, which will be a function of the decoupling of inflation expectations, and therefore of the ongoing disinflationary process.

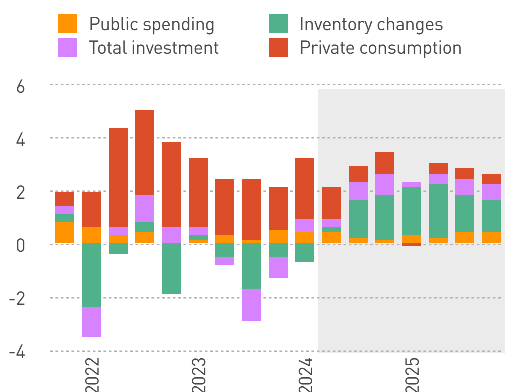
In the short term, risks of higher fiscal deficits persist due to the government's inclination to expand social spending. Thus, the challenge

Chart 1.2.11-a
Brazil: GDP breakdown and forecasts



Source: MAPFRE Economics (based on data from the Instituto Brasileiro de Geografia e Estatística, IBGE)

Chart 1.2.11-b
Brazil: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on data from the Instituto Brasileiro de Geografia e Estatística, IBGE)

Table 1.2.11
Brazil: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2019	2020	2021	2022	2023(e)	2024(f)	2025(f)	2024(f)	2025(f)
GDP (% YoY)	1.2	-3.6	5.1	3.1	2.9	1.9	2.2	1.8	1.9
Domestic demand contribution	1.8	-4.9	6.7	2.4	1.3	2.1	2.2	2.1	1.8
External demand contribution	-0.6	1.3	-1.6	0.8	1.6	-0.2	0.0	-0.3	0.1
Private consumption contribution	1.8	-3.4	2.3	2.8	2.2	1.2	0.3	0.7	-0.5
Total investment contribution	0.7	-0.3	2.3	0.2	-0.5	0.6	0.5	0.6	0.3
Public spending contribution	-0.1	-0.6	0.7	0.4	0.3	0.3	0.4	0.3	0.4
Private consumption (% YoY)	2.6	-4.9	3.3	4.2	3.1	1.7	0.4	1.0	-0.8
Public spending (% YoY)	-0.5	-3.7	4.2	2.1	1.7	1.8	2.1	1.8	2.1
Total investment (% YoY)	4.0	-1.7	13.0	1.0	-3.0	3.6	2.8	3.5	1.9
Exports (% YoY)	-2.5	-2.7	4.9	6.1	9.1	1.2	-2.6	1.2	-3.0
Imports (% YoY)	1.3	-9.4	13.8	0.8	-1.1	6.4	-2.3	6.3	-3.4
Unemployment rate (%, last quarter)	11.7	14.9	11.7	8.3	7.8	7.9	8.6	7.9	8.8
Inflation (% YoY, average)	3.7	3.2	8.3	9.3	4.6	4.1	3.7	4.1	4.2
Inflation (% YoY, last quarter)	3.4	4.3	10.5	6.1	4.7	4.1	3.6	4.2	4.3
Fiscal balance (% of GDP)	-6.1	-13.5	-4.1	-4.4	-8.2	-7.3	-7.2	-7.3	-7.3
Primary fiscal balance (% of GDP)	-1.0	-9.3	0.7	1.2	-2.3	-0.9	-0.6	-0.9	-0.6
Current account balance (% of GDP)	-3.6	-1.9	-2.8	-2.5	-1.4	-2.1	-1.8	-2.1	-1.8
Official interest rate (end of period)	4.50	2.00	9.25	13.75	11.75	10.25	9.25	10.50	9.75
3-month interest rate (end of period)	4.40	1.90	9.15	13.65	11.65	10.41	9.81	10.42	10.13
10-year interest rate (end of period)	6.81	6.98	10.31	12.76	10.35	11.87	10.40	13.14	11.67
Exchange rate vs. USD (end of period)	4.03	5.20	5.58	5.22	4.84	5.40	5.35	5.43	5.64
Exchange rate vs. EUR (end of period)	4.53	6.38	6.32	5.56	5.35	5.81	5.83	5.80	6.06
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	10.8	10.1	17.7	20.3	13.2	8.8	8.1	8.8	8.0
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	15.9	19.1	21.9	20.0	19.6	20.9	22.2	20.9	22.2

Source: MAPFRE Economics (based on data from the Instituto Brasileiro de Geografia e Estatística, IBGE)
Forecast end date: July 23, 2024.

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for the government is to achieve its own goal of 0% primary fiscal deficit. On the positive side, the fiscal measures taken in 2023 could lead to improved government revenues, which will also benefit from the resilience shown by economic activity.

1.2.12 Argentina

The government's priority is financial, fiscal, and exchange rate stabilization.

> **Argentina**
>
> - The proposed fiscal adjustment will bring austerity in the short term.
> - Inflation has reached 276% and seems to have peaked.
> - The currency continues to lose ground, even after the devaluation.
> - The economy is suffering and is expected to shrink by around 3.9% in 2024.

The Argentinean economy had a difficult first quarter, with 5.1% contraction in GDP. The drought affected agricultural production, and although industry and automobile production showed some stability, retail sales began to weaken. The government's priority is to stabilize inflation and the currency, which will require balancing public accounts and moving away from monetizing government financing. However, this path presents challenges, as much of the spending is on pensions and benefits, and parliamentary majorities will be needed to implement the reforms. In this complex context, an economic contraction of 3.9% in 2024 and a moderate recovery of 1.5% in 2025 is forecast (see Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

On the other hand, inflation remains very high, at 272% in June, although its growth is slowing, with core inflation at 267%. The money supply (M2) continues to grow at an annual rate of 191%. The government decreed a 54.2% devaluation in December 2023, bringing the official exchange rate from 366.5 to 800 Argentine pesos per dollar. Despite this, the currency continues to lose value, ending June at 911 Argentine pesos per dollar. With respect to interest rates, the 28-day LELIQ rate (central bank liquidity bills) stood at 40% as of mid-May, while the BADLAR rate (rate for deposits over 1 million pesos in private banks) stood close to 34% at the end of June.

The new government has stated that it wishes to change the previous interventionist model. However, this entails balancing public accounts, carrying out privatizations, reducing public debt, and ceasing to monetize government financing. This process, which also includes controlling the money supply and inflation, will be difficult and will require the support of the population, economic sectors, and labor unions.

1.2.13 Colombia

The economy is sluggish, with weak consumption reflected in imports.

> **Colombia**
>
> - Inflation has been declining, but remains high (7.2%).
> - Industrial production is recovering somewhat after a year of continued decline.
> - The 5% fiscal deficit is one of the main risks going forward.
> - The Colombian GDP growth forecast is 1.8% for 2024.

The first quarter of 2024 began with a slight improvement in Colombian GDP (0.9% YoY), although there was still some sluggishness in both private and public spending. Imports fell by 12.9%, completing a year-long downward trend, a symptom of certain economic difficulties. From the standpoint of leading activity indicators, the composite PMI stands at 49.8 points,

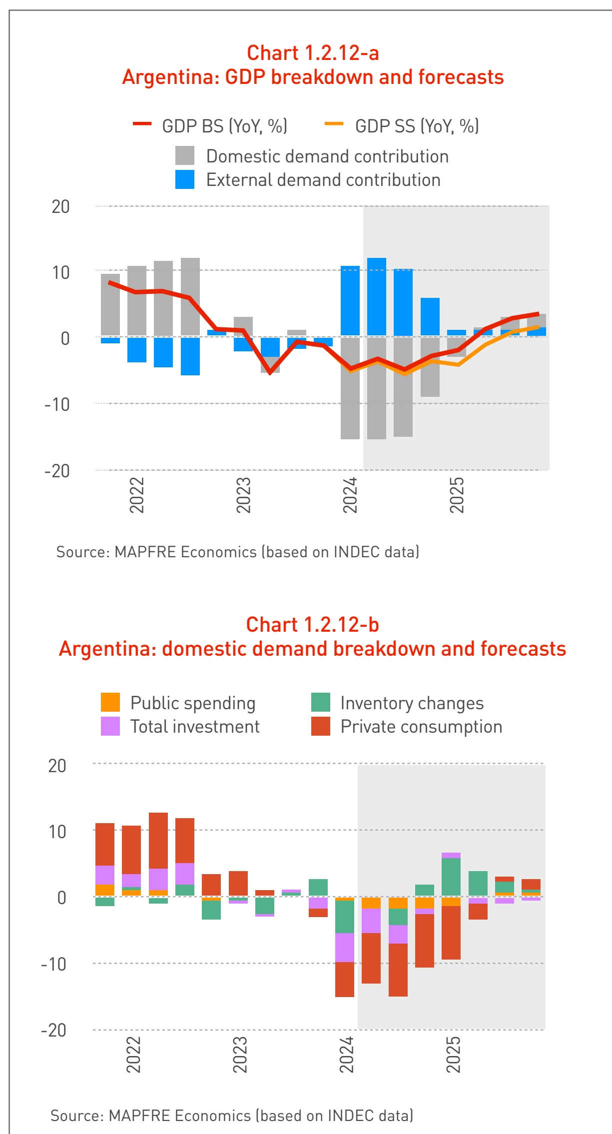

Table 1.2.12
Argentina: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	-2.0	-9.9	10.4	5.3	-1.6	-3.9	1.5	-4.5	-0.7
Domestic demand contribution	-9.5	-10.0	12.8	8.6	0.4	-13.7	0.3	-13.9	-2.1
External demand contribution	7.5	0.1	-2.3	-3.3	-2.0	9.8	1.2	9.5	1.4
Private consumption contribution	-4.6	-8.7	6.6	6.4	0.7	-7.2	-2.0	-7.4	-4.1
Total investment contribution	-3.2	-2.2	5.6	2.2	-0.4	-3.1	-0.7	-3.1	-0.9
Public spending contribution	-0.9	-0.3	1.0	0.4	0.2	-1.5	0.0	-1.5	0.0
Private consumption (% YoY)	-6.1	-12.2	9.5	9.4	1.0	-9.8	-5.2	-10.1	-5.9
Public spending (% YoY)	-6.4	-2.0	7.1	3.0	1.5	-10.9	0.0	-10.9	0.0
Total investment (% YoY)	-16.0	-13.1	34.0	11.2	-2.0	-14.4	-3.6	-14.7	-4.9
Exports (% YoY)	9.8	-17.4	8.5	4.6	-7.5	19.5	-1.5	19.5	-2.1
Imports (% YoY)	-18.7	-17.2	18.6	17.8	1.7	-20.3	-7.0	-20.5	-8.4
Unemployment rate (%, last quarter)	8.9	11.0	7.0	6.3	5.7	7.9	7.4	8.0	7.6
Inflation (% YoY, average)	53.5	42.0	48.4	72.4	133.5	255.0	105.0	270.0	120.0
Inflation (% YoY, last quarter)	52.2	36.4	51.4	91.8	172.8	199.3	80.6	214.4	95.3
Fiscal balance (% of GDP)	-3.8	-8.4	-3.6	-3.8	-5.9	-1.2	0.2	-1.2	0.0
Primary fiscal balance (% of GDP)	-0.4	-6.4	-2.1	-2.0	-2.7	1.4	1.6	1.3	1.5
Current account balance (% of GDP)	-0.8	0.7	1.4	-0.6	-3.1	1.3	2.7	1.3	2.9
Official interest rate (end of period)	55.00	38.00	38.00	75.00	100.00	40.00	39.50	50.00	40.00
3-month interest rate (end of period)	45.13	29.55	31.49	67.61	93.72	27.92	27.62	27.88	27.45
10-year interest rate (end of period)	19.64	14.74	18.65	26.69	23.69	22.89	21.36	26.80	25.37
Exchange rate vs. USD (end of period)	60	84	103	177	808	1,179	2,023	1,187	2,067
Exchange rate vs. EUR (end of period)	67	103	116	189	893	1,267	2,202	1,268	2,223
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	15.3	22.9	34.6	60.4	72.3	87.8	176.5	85.7	169.6
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: MAPFRE Economics (based on INDEC data)
Forecast end date: July 23, 2024.

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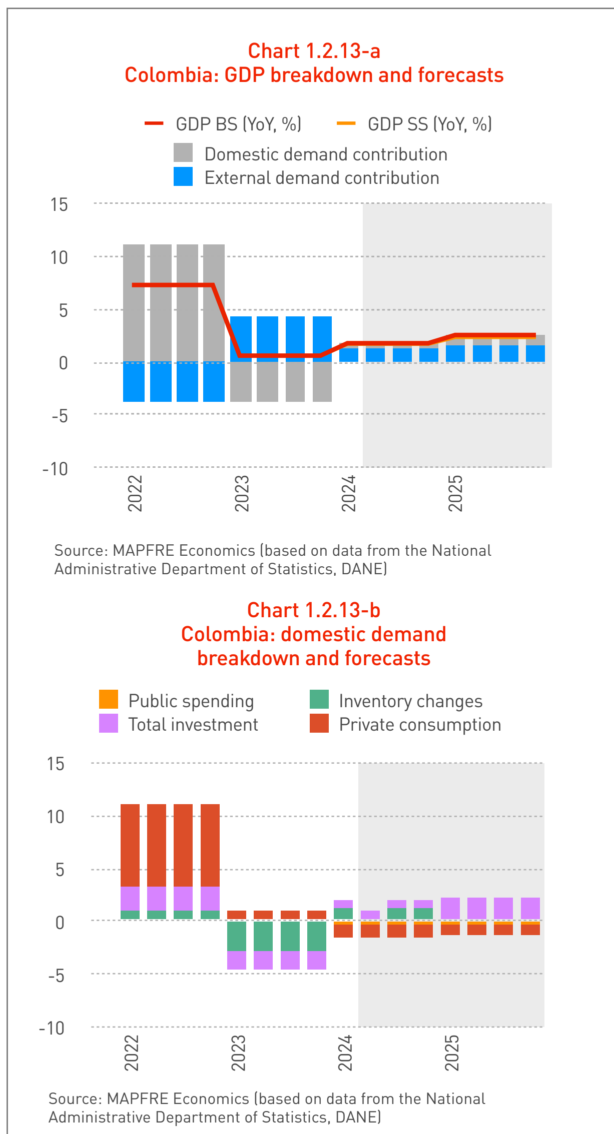

Table 1.2.13
Colombia: main macroeconomic aggregates

	2019	2020	2021	2022	2023 (e)	Baseline (BS) 2024 (f)	Baseline (BS) 2025 (f)	Stressed (SS) 2024 (f)	Stressed (SS) 2025 (f)
GDP (% YoY)	3.2	-7.2	10.8	7.3	0.6	1.8	2.6	1.7	2.4
Domestic demand contribution	4.3	-8.4	14.2	11.0	-3.8	0.5	1.1	0.4	1.2
External demand contribution	-1.2	1.2	-3.4	-3.7	4.4	1.3	1.5	1.3	1.1
Private consumption contribution	2.8	-3.5	10.5	7.9	0.6	-1.1	-1.0	-1.2	-0.9
Total investment contribution	0.5	-5.2	3.0	2.2	-1.9	0.8	2.0	0.7	2.0
Public spending contribution	0.8	-0.1	1.7	0.1	0.3	-0.3	-0.2	-0.3	-0.1
Private consumption (% YoY)	4.1	-5.0	14.7	10.7	0.8	-1.5	-1.4	-1.6	-1.3
Public spending (% YoY)	5.3	-0.8	9.8	0.8	1.6	-2.0	-1.0	-2.0	-0.7
Total investment (% YoY)	2.2	-23.6	16.7	11.5	-9.5	4.4	11.1	4.2	10.9
Exports (% YoY)	3.1	-22.5	14.6	12.3	3.4	3.4	7.7	3.4	7.0
Imports (% YoY)	7.3	-20.1	26.7	23.6	-15.0	-4.3	-0.6	-4.4	-0.6
Unemployment rate (%, last quarter)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inflation (% YoY, average)	3.5	2.5	3.5	10.2	11.7	6.7	3.9	6.8	3.7
Inflation (% YoY, last quarter)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal balance (% of GDP)	-2.2	-8.1	-6.9	-4.1	-3.3	-5.6	-5.0	-5.6	-4.8
Primary fiscal balance (% of GDP)	0.4	-5.4	-4.0	-1.0	-0.3	-1.8	-1.7	-1.7	-1.4
Current account balance (% of GDP)	-4.6	-3.4	-5.6	-6.1	-2.5	-2.6	-2.7	-2.6	-2.2
Official interest rate (end of period)	4.25	1.75	3.00	12.00	13.00	9.50	7.75	10.50	8.25
3-month interest rate (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10-year interest rate (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate vs. USD (end of period)	3,277	3,433	3,981	4,810	3,822	4,076	4,164	4,098	4,158
Exchange rate vs. EUR (end of period)	3,682	4,212	4,509	5,131	4,223	4,381	4,532	4,377	4,472
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: MAPFRE Economics (based on data from the National Administrative Department of Statistics, DANE)
Forecast end date: July 23, 2024.

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reflecting an improvement over previous quarters, although still below the theoretical contraction threshold (50 points). Consumer confidence stands at -14.1 and remains bleak. Retail sales fell (-1.6% in April), consolidating more than a year in decline, which is consistent with the drop in imports. Despite this, industrial production recovered (4.1% YoY in April), aided by the baseline effect (-6.4% in the same period of the previous year). Thus, the forecast for GDP growth in 2024 stands at 1.8% and would be 2.6% for 2025 (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

Inflation stood at 7.2% in June and continued its downward trend, with higher growth in the prices of transportation (9%), education (11.4%), and food (4.4%). In April, the Bank of the Republic lowered interest rates to 11.75% (-50 bps), the latest of four such cuts since November. The Colombian peso depreciated nearly 7% against the dollar in June.

Short-term risks include the fiscal deficit (projected at -5.6% of GDP in 2024), which will remain high in 2025. The pension system has been reformed after 30 years. Broadly speaking, the pension reform broadens coverage and modifies the distribution of resources by transferring a large part to a public fund and reducing the weight of private funds.

1.2.14 Chile

Economic activity is rebounding, and monetary restriction is moderating.

The first quarter of 2024 started with a clear acceleration of economic activity in Chile, with GDP growth of 2.0% (1.9% QoQ). The strength came mainly from exports of goods, favored by the sharp rise in copper prices, but services exports were also strong. Government consumption also supported the growth in activity, while household consumption was more stagnant, despite the fact that nominal wages were up nearly 6.0% (2.4% real). Industrial production rose 2.3%, with mining being the main contributor (7.0%). Likewise, consumer confidence peaked in February, although it is declining again. Retail sales are recovering, up 14.3% in May; however, vehicle sales remain low. Against this backdrop, Chilean GDP is expected to grow around 2.6% in 2024 and 2.9% in 2025 (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

Chile

- **Inflation has moderated, but remains stagnant at around 4.1% year-on-year.**
- **Interest rates have fallen from 11.25% in 2022 to the current 5.75%.**
- **The Chilean economy rebounded in the first quarter of the year, with growth of 2.0%, and the forecast for all of 2024 stands at 2.6%.**

Inflation stood at 4.2% YoY in June, although it continues to moderate month-over-month (0.3%). The central bank's interest rates stood at 5.75%, with a 25 bps cut in June. Chile has been in a complicated situation since 2021 (up to and including 2023), nearing 14% inflation and high official interest rates, which reached 11.25% in 2022.

At the short-term risk level, the possibility of trying to change the constitution again is now lower. There will be local elections in October, which will serve as a barometer for the 2025 parliamentary elections. Meanwhile, the proposed tax changes are not moving forward in the congress, without which the government has no room to increase social

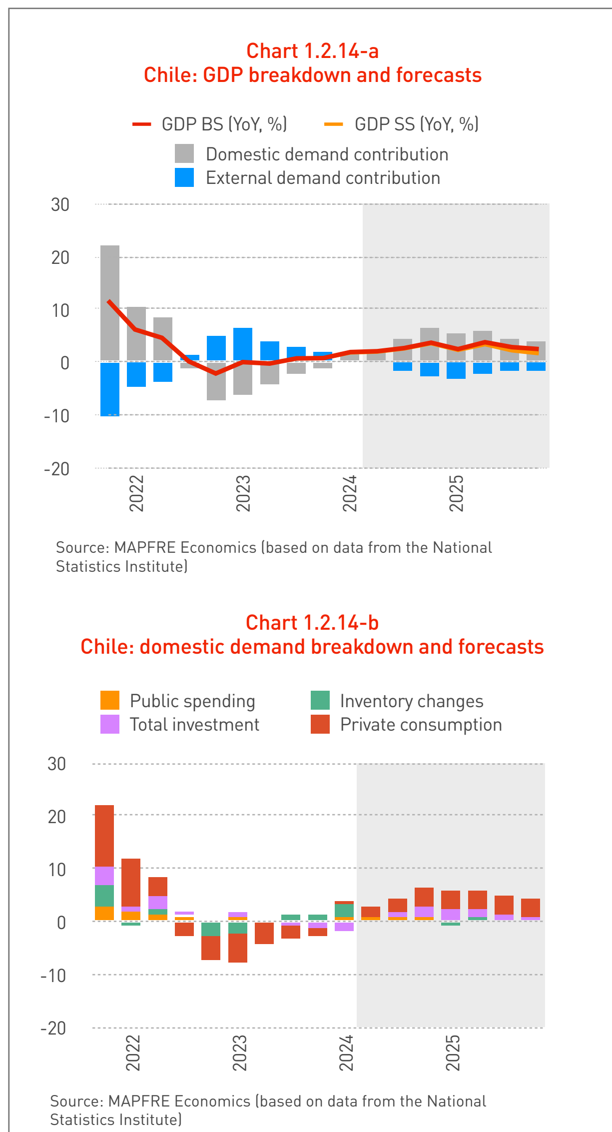

Chart 1.2.14-a
Chile: GDP breakdown and forecasts

Source: MAPFRE Economics (based on data from the National Statistics Institute)

Chart 1.2.14-b
Chile: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on data from the National Statistics Institute)

Table 1.2.14
Chile: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	0.5	-6.4	11.6	2.1	0.3	2.6	2.9	2.5	2.4
Domestic demand contribution	0.7	-9.7	20.5	2.5	-3.4	3.7	5.0	3.7	4.1
External demand contribution	-0.2	3.3	-9.0	-0.4	3.7	-1.1	-2.1	-1.2	-1.7
Private consumption contribution	0.4	-4.7	13.0	1.1	-3.4	2.1	3.5	2.1	2.9
Total investment contribution	1.0	-2.7	3.6	1.0	-0.2	0.3	1.4	0.3	1.1
Public spending contribution	0.1	-0.5	2.1	1.1	0.3	0.6	0.0	0.6	0.0
Private consumption (% YoY)	0.7	-7.6	21.2	1.6	-5.2	3.3	5.6	3.3	4.6
Public spending (% YoY)	0.9	-3.5	13.6	6.8	1.9	3.6	0.0	3.6	0.0
Total investment (% YoY)	4.4	-11.1	15.9	4.1	-0.7	1.2	6.0	1.2	4.8
Exports (% YoY)	-2.7	-1.3	-1.4	1.0	0.1	2.8	2.7	2.8	2.2
Imports (% YoY)	-1.9	-12.6	31.6	2.0	-11.7	6.1	9.6	6.1	7.8
Unemployment rate (%, last quarter)	7.5	10.9	7.6	8.3	8.9	7.1	6.6	7.1	6.9
Inflation (% YoY, average)	2.3	3.0	4.5	11.6	7.3	3.8	3.5	3.9	4.4
Inflation (% YoY, last quarter)	2.7	2.9	6.6	13.0	4.0	4.2	2.9	4.4	4.0
Fiscal balance (% of GDP)	-2.9	-7.3	-7.7	1.1	-2.4	-1.8	-1.1	-1.8	-1.2
Primary fiscal balance (% of GDP)	-1.9	-6.3	-6.9	2.1	-1.3	-0.6	0.1	-0.5	0.0
Current account balance (% of GDP)	-5.2	-1.9	-7.3	-8.6	-3.5	-1.8	-3.8	-1.9	-5.7
Official interest rate (end of period)	1.75	0.50	4.00	11.25	8.25	5.00	4.25	5.50	4.75
3-month interest rate (end of period)	0.65	-0.32	4.04	9.54	7.99	5.71	4.06	5.75	4.72
10-year interest rate (end of period)	3.14	2.65	5.65	5.32	5.30	5.62	5.24	6.26	5.92
Exchange rate vs. USD (end of period)	745	711	850	860	885	894	876	900	949
Exchange rate vs. EUR (end of period)	837	873	963	917	977	961	953	961	1,021
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	9.4	4.9	6.3	13.2	9.1	4.7	1.6	4.7	1.3
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	20.0	20.0	20.0	20.0	20.0	20.1	20.1	20.1	20.0

Source: MAPFRE Economics (based on data from the National Statistics Institute)
Forecast end date: July 23, 2024.

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spending, a proposal that remains at the core of the current government's objectives.

1.2.15 Peru

The economy continues to recover as inflation moderates.

The Peruvian GDP grew 1.4% YoY in the first quarter of the year, with private consumption rising 1.2% and public spending up 5.0%. Exports grew 2.9%, while imports rose even more, by 5.7%. Industrial production grew by 5.2% in April, and the situation surveys predict an improvement in demand for the coming months, a boost for industry, but a worsening of the overall economic situation. In this regard, we estimate growth for the Peruvian economy would stand at 2.4% for 2024 and 2.9% for 2025 (see Table 1.2.15 and Charts 1.2.15-a and 1.2.15-b).

Peru

- Inflation remains at controlled levels close to 2.3%.
- Strong gold and copper prices are benefiting exports.
- The Peruvian GDP increased by 1.4% in the first quarter and is expected to grow by 2.4% for the year as a whole.

On the other hand, consumer prices rebounded slightly to 2.3% YoY in June; however, this is still a good reading. In a country heavily dependent on copper mining and agriculture, any movement in prices or demand for these products generates high fluctuations. In this framework, in June, the central bank maintained interest rates at 5.75%, accumulating a decrease of 200 bps since August 2023.

With respect to short-term risks, the rise in copper and gold prices, two of the country's main exports, promises a continuation of the strong export performance. The current account balance is positive, although the situation may be reversed as imports are growing more than exports.

1.2.16 China

International tension due to tariffs and a continued need for internal support, especially in the construction sector.

China's economy grew 4.7% in the second quarter of 2024, below expectations. The construction sector is still showing weak momentum, with the number of new office buildings falling by 24% and residential construction by 25%, while construction in progress fell by 12% in the residential segment and by 9% in the office segment. Home sales have dropped by 27%, and there has been a sharp decline in the price of land sold (-61%), data as of May. New construction starts fell by more than 24.6% and financing to developers by 24.9%.

China

- The tariffs imposed by the United States and Europe on automobiles and other sectors could affect export performance.
- China has left deflation behind due to strong consumption and baseline effects.
- The government must continue to provide support to certain critical sectors of the economy.
- The growth forecast for the Chinese GDP stands at 4.6% 2024.

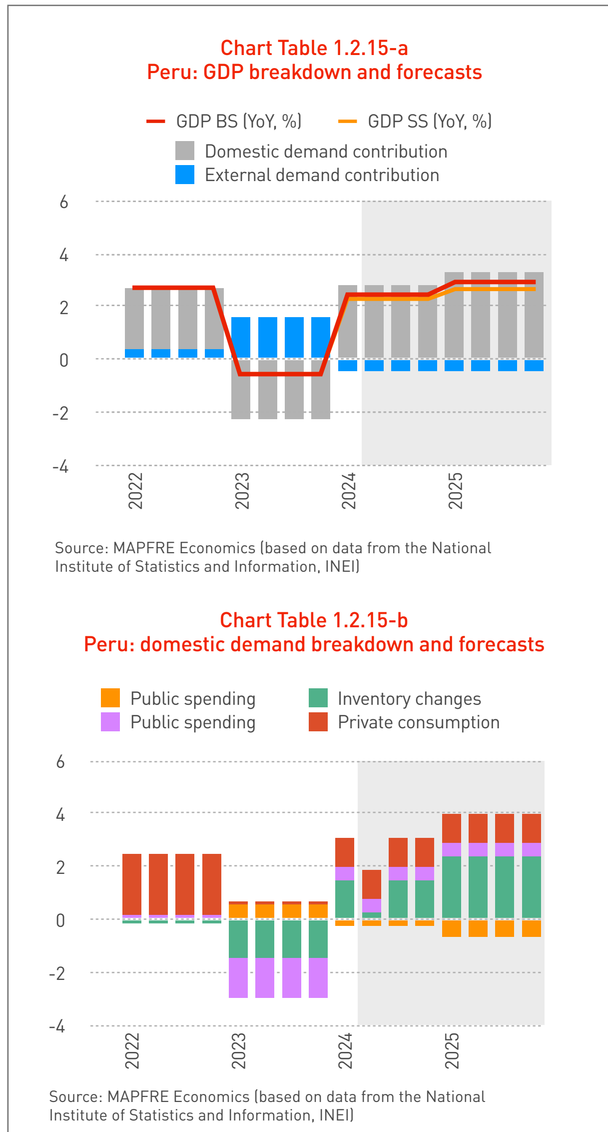

Chart Table 1.2.15-a
Peru: GDP breakdown and forecasts

Source: MAPFRE Economics (based on data from the National Institute of Statistics and Information, INEI)

Chart Table 1.2.15-b
Peru: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on data from the National Institute of Statistics and Information, INEI)

Table 1.2.15
Peru: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	2.3	-10.9	13.5	2.7	-0.6	2.4	2.9	2.3	2.7
Domestic demand contribution	2.3	-9.9	15.0	2.4	-2.3	2.8	3.3	2.7	3.5
External demand contribution	0.1	-1.6	-0.9	0.4	1.6	-0.4	-0.4	-0.4	-0.8
Private consumption contribution	2.1	-6.3	8.1	2.3	0.1	1.1	1.1	1.1	1.3
Total investment contribution	0.8	-4.2	8.1	0.1	-1.5	0.5	0.5	0.5	0.4
Public spending contribution	0.5	0.9	0.8	0.0	0.6	-0.3	-0.6	-0.3	-0.6
Private consumption (% YoY)	3.3	-9.7	12.3	3.6	0.1	1.7	2.3	1.6	2.0
Public spending (% YoY)	4.3	7.2	5.4	-0.1	4.3	-2.0	-4.6	-2.0	-4.6
Total investment (% YoY)	3.6	-18.2	38.3	0.6	-5.9	2.2	2.0	2.0	1.8
Exports (% YoY)	1.2	-20.0	13.8	5.4	5.0	1.7	5.4	1.8	4.9
Imports (% YoY)	1.0	-15.4	18.0	3.9	-1.5	3.5	7.3	3.4	6.9
Unemployment rate (%, last quarter)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inflation (% YoY, average)	2.1	1.8	4.0	7.9	6.3	2.7	2.4	2.8	3.0
Inflation (% YoY, last quarter)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal balance (% of GDP)	-1.6	-8.9	-2.5	-1.7	-2.8	-2.5	-1.6	-2.4	-1.8
Primary fiscal balance (% of GDP)	-0.2	-7.3	-1.0	-0.1	-1.1	-0.7	0.1	-0.6	0.1
Current account balance (% of GDP)	-0.6	0.9	-2.1	-4.0	0.8	-0.2	-0.8	-0.1	-2.2
Official interest rate (end of period)	2.25	0.25	2.50	7.50	6.75	5.00	4.00	5.25	4.00
3-month interest rate (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10-year interest rate (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate vs. USD (end of period)	3.31	3.62	3.99	3.81	3.71	3.73	3.78	3.75	3.86
Exchange rate vs. EUR (end of period)	3.72	4.44	4.52	4.07	4.10	4.01	4.11	4.01	4.16
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: MAPFRE Economics (based on data from the National Institute of Statistics and Information, INEI)
Forecast end date: July 23, 2024.

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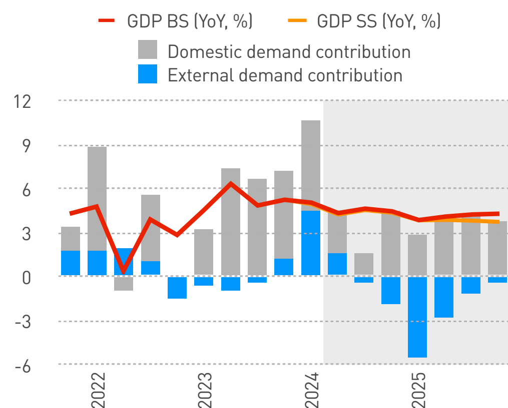
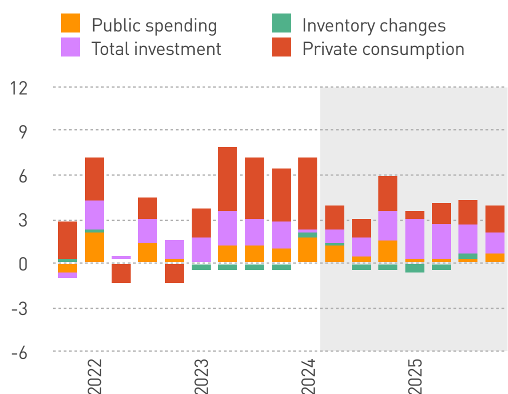
Chart 1.2.16-a
China: GDP breakdown and forecasts



Source: MAPFRE Economics (based on BoPRC data)

Chart 1.2.16-b
China: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on BoPRC data)

Table 1.2.16
China: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(f)	Baseline (BS) 2025(f)	Stressed (SS) 2024(f)	Stressed (SS) 2025(f)
GDP (% YoY)	6.0	2.2	8.5	3.0	5.2	4.6	4.1	4.5	3.8
Domestic demand contribution	5.3	1.6	6.6	2.6	5.9	3.8	3.7	4.7	3.4
External demand contribution	0.6	0.7	2.3	0.7	-0.1	0.8	-2.3	0.5	-2.3
Private consumption contribution	2.5	-1.0	4.6	0.3	3.5	2.4	1.4	2.4	1.3
Total investment contribution	2.2	1.3	1.3	1.3	1.9	1.2	2.1	1.2	1.9
Public spending contribution	1.1	0.8	0.3	0.9	0.9	1.2	0.4	1.2	0.4
Private consumption (% YoY)	6.3	-2.4	12.1	0.9	9.2	6.1	3.3	6.1	3.1
Public spending (% YoY)	6.6	4.6	1.6	5.6	5.4	7.4	2.2	7.4	2.2
Total investment (% YoY)	5.1	3.1	3.2	3.1	4.7	2.9	5.3	2.9	4.8
Exports (% YoY)	2.3	1.8	19.1	-0.4	4.1	9.3	-4.3	9.4	-4.9
Imports (% YoY)	-0.7	-2.0	7.9	-5.0	6.1	7.1	9.1	7.1	8.4
Unemployment rate (%, last quarter)	3.1	3.5	3.2	3.5	3.4	3.4	3.4	3.4	3.5
Inflation (% YoY, average)	2.9	2.5	0.9	2.0	0.2	0.5	1.5	0.6	1.8
Inflation (% YoY, last quarter)	4.3	0.1	1.8	1.8	-0.3	0.8	1.9	1.0	2.1
Fiscal balance (% of GDP)	-5.6	-7.6	-5.1	-7.4	-7.9	-8.6	-7.0	-8.6	-7.1
Primary fiscal balance (% of GDP)	-2.2	-3.7	-1.5	-3.7	-4.1	-4.9	-3.4	-4.9	-3.4
Current account balance (% of GDP)	0.7	1.7	2.0	2.5	1.4	1.6	0.4	1.6	0.4
Official interest rate (end of period)	3.25	3.00	3.00	2.75	2.50	2.50	2.25	2.50	2.25
3-month interest rate (end of period)	3.02	2.76	2.50	2.42	2.53	1.92	2.12	1.92	2.01
10-year interest rate (end of period)	3.14	3.14	2.78	2.84	2.56	2.35	2.41	2.85	2.74
Exchange rate vs. USD (end of period)	6.99	6.52	6.35	6.90	7.10	7.28	7.21	7.32	7.27
Exchange rate vs. EUR (end of period)	7.85	8.00	7.19	7.36	7.84	7.82	7.84	7.82	7.82
Private lending (% YoY, average)	13.1	13.1	12.3	11.1	11.4	8.9	7.8	8.3	5.6
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	29.0	32.9	30.2	31.4	28.5	28.7	30.4	28.7	30.4

Source: MAPFRE Economics (based on BoPRC data)
Forecast end date: July 23, 2024.

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The PMIs have improved, with the composite index at 52.8, services at 51.2, and manufacturing at 51.8 points. Retail sales are also recovering, up 3.7%. Consumer confidence is stable, but at depressed levels (88.2) with respect to 2019–2020. The government has an official growth target for the economy of around 5%. We forecast 4.6% growth in 2024 and 4.1% in 2025, a slowdown related to real estate investment and possible loss of momentum in exports (see Table 1.2.16 and Charts 1.2.16-a and 1.2.16-b).

In terms of prices, the Chinese economy has left deflation behind, and prices are now growing by 0.2% YoY (June) and core at 0.6%. Food dropped 2.1%, and the price of fuel went up 5.6%. Producer prices still fell 0.8% in June, but are recovering and, with the base effect, are likely to turn positive in the coming months. In terms of monetary policy, the reserve ratio for banks has remained at 10% since January. As the economy recently emerged from deflation, the situation is improving slightly. The deposit interest rate stands at 1.50% and the 7-day reverse repo rate is 2.12%.

In terms of short-term risks, tariffs imposed by the United States and Europe on automobiles and other sectors could affect export performance. The problem of the real estate sector also persists, with declines in both the volume of new construction and prices, the latter having a pernicious effect by encouraging the delay of purchases. Meanwhile, with the financial, real estate, and regional finance sectors in a delicate situation, the government would at least like its exports to be a growth factor, but with the new tariffs on electric car exports, this will not be easy. However, the interconnection of Western economies with China is so great that changes are a long-term issue. On several occasions, the government has announced its intentions to continue supporting certain critical sectors in order to maintain high levels of economic growth.

1.2.17 Indonesia

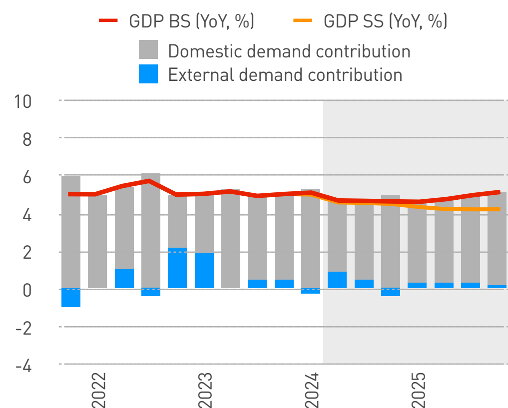
The economy continues to grow strongly, supported by increased credit.

The Indonesian economy grew by 5.1% in the first quarter of 2024, with private consumption increasing by 4.9%, investment slowing by 3.8%, and a significant increase of 19.9% in government spending. Exports increased 0.5%, and imports were up 1.8%. Credit to both industry and consumers is also growing at a strong pace, which is an indicator that economic activity will remain strong. The June manufacturing PMI improved to 54.3, and retail sales accelerated 4.7% in May. Industrial production contracted slightly in March by 1.3% YoY, although it improved by 6.7% compared to the previous month. Thus, the Indonesian GDP is expected to grow 4.8% in 2024 and 4.9% in 2025 (see Table 1.2.17 and Charts 1.2.17-a and 1.2.17-b).

Indonesia

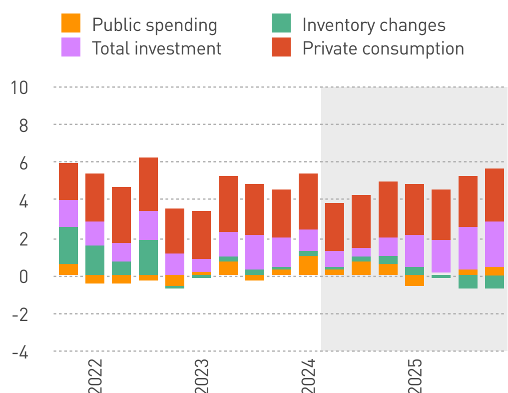
- Inflation of 2.8% is within the central bank's target.
- There was a significant 19.9% increase in public spending recorded in the first quarter of the year.
- The Indonesian economy accelerated 5.1% in the first quarter of 2024, bringing the GDP growth forecast for the year as a whole to 4.8%.

Chart 1.2.17-a
Indonesia: GDP breakdown and forecasts



Source: MAPFRE Economics (based on BPS data)

Chart 1.2.17-b
Indonesia: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on BPS data)

Table 1.2.17
Indonesia: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2019	2020	2021	2022	2023(e)	2024(f)	2025(f)	2024(f)	2025(f)
GDP (% YoY)	5.0	-2.1	3.7	5.3	5.0	4.8	4.9	4.7	4.3
Domestic demand contribution	3.6	-3.6	4.1	4.6	4.4	4.6	4.6	4.6	4.1
External demand contribution	1.4	1.5	-0.4	0.8	0.7	0.2	0.3	0.1	0.1
Private consumption contribution	2.9	-1.5	1.1	2.7	2.7	2.8	2.7	2.8	2.5
Total investment contribution	1.5	-1.6	1.2	1.2	1.4	0.9	2.0	0.9	1.8
Public spending contribution	0.3	0.2	0.3	-0.4	0.2	0.7	0.1	0.7	0.1
Private consumption (% YoY)	5.2	-2.7	2.0	5.0	4.9	5.2	5.0	5.2	4.6
Public spending (% YoY)	3.3	2.1	4.3	-4.5	2.9	9.1	1.3	9.1	1.5
Total investment (% YoY)	4.5	-5.0	3.8	3.9	4.4	2.8	6.6	2.7	5.8
Exports (% YoY)	-0.5	-8.4	18.0	16.2	1.3	4.4	5.7	4.4	5.2
Imports (% YoY)	-7.1	-17.6	24.9	15.0	-1.6	4.3	6.4	4.3	5.6
Unemployment rate (%, last quarter)	5.1	6.7	6.2	5.7	5.1	5.1	4.9	5.1	5.1
Inflation (% YoY, average)	2.8	2.0	1.6	4.1	3.7	2.7	2.4	2.8	2.6
Inflation (% YoY, last quarter)	2.7	1.6	1.8	5.5	2.8	2.5	2.5	2.6	2.7
Fiscal balance (% of GDP)	-2.2	-6.2	-4.6	-2.4	-1.7	-2.5	-1.7	-2.5	-1.7
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.4	-0.5	-0.4	-0.7
Official interest rate (end of period)	5.00	3.75	3.50	5.50	6.00	5.75	5.00	6.25	4.75
3-month interest rate (end of period)	5.51	4.06	3.75	6.62	6.95	6.93	5.97	6.95	5.91
10-year interest rate (end of period)	7.10	6.10	6.38	6.93	6.49	6.66	6.55	7.48	7.21
Exchange rate vs. USD (end of period)	13,883	14,050	14,253	15,568	15,389	16,502	16,674	16,606	17,080
Exchange rate vs. EUR (end of period)	15,596	17,241	16,143	16,605	17,005	17,734	18,149	17,738	18,369
Private lending (% YoY, average)	8.8	1.4	1.0	9.6	9.2	9.1	7.4	9.1	7.7
Household lending (% YoY, average)	7.9	2.1	2.2	7.8	9.1	8.3	5.2	8.3	5.1
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	0.3	-9.0	-12.6	15.3	29.8	15.6	7.7	15.6	7.2
Savings rate (% pers. disp. income, avg.)	22.8	21.4	25.7	29.2	27.4	24.8	24.2	24.8	24.3

Source: MAPFRE Economics (based on BPS data)
Forecast end date: July 23, 2024.

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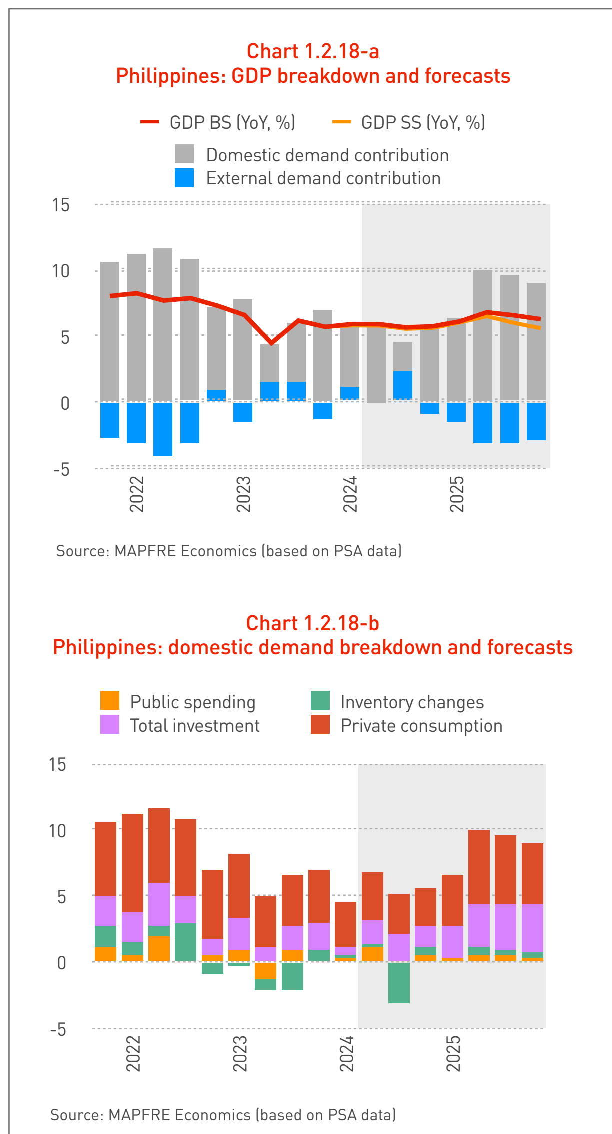

Chart 1.2.18-a
Philippines: GDP breakdown and forecasts

Source: MAPFRE Economics (based on PSA data)

Chart 1.2.18-b
Philippines: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on PSA data)

Table 1.2.18
Philippines: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2019	2020	2021	2022	2023(e)	2024(f)	2025(f)	2024(f)	2025(f)
GDP (% YoY)	6.1	-9.5	5.7	7.6	5.5	5.6	6.3	5.5	5.9
Domestic demand contribution	6.3	-13.5	8.0	9.8	5.5	4.5	8.8	4.5	8.2
External demand contribution	-0.2	4.0	-2.3	-2.2	0.0	0.6	-2.7	0.5	-2.6
Private consumption contribution	4.3	-5.8	3.1	6.0	4.1	3.2	4.9	3.2	4.5
Total investment contribution	1.1	-7.3	2.1	2.2	1.9	1.5	3.2	1.5	3.0
Public spending contribution	1.1	1.3	1.1	0.8	0.1	0.5	0.4	0.5	0.4
Private consumption (% YoY)	5.9	-8.0	4.2	8.3	5.6	4.4	6.7	4.4	6.2
Public spending (% YoY)	9.1	10.5	7.2	5.1	0.6	3.6	2.9	3.6	2.9
Total investment (% YoY)	3.9	-27.3	9.8	9.8	8.2	6.3	13.5	6.3	12.8
Exports (% YoY)	2.6	-16.1	8.0	11.0	1.4	8.8	2.7	8.8	2.3
Imports (% YoY)	2.3	-21.6	12.8	14.0	1.0	4.8	9.2	4.8	8.6
Unemployment rate (%, last quarter)	4.6	8.7	6.8	4.3	3.6	4.1	3.9	4.1	4.1
Inflation (% YoY, average)	2.4	2.4	3.9	5.8	6.0	3.4	3.2	3.4	3.6
Inflation (% YoY, last quarter)	1.4	2.9	3.6	7.9	4.3	3.2	2.8	3.3	3.1
Fiscal balance (% of GDP)	-3.4	-7.6	-8.6	-7.3	-6.2	-5.2	-3.8	-5.2	-3.9
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-0.8	3.2	-1.5	-4.5	-2.6	-1.4	-3.5	-1.4	-3.5
Official interest rate (end of period)	4.00	2.00	2.00	5.50	6.50	6.00	5.25	6.25	5.50
3-month interest rate (end of period)	3.97	2.00	1.81	5.50	6.41	6.00	5.23	6.01	5.32
10-year interest rate (end of period)	4.44	2.97	4.72	6.91	6.02	6.48	5.94	7.30	6.53
Exchange rate vs. USD (end of period)	50.74	48.04	50.27	56.12	55.57	58.21	57.84	58.56	59.09
Exchange rate vs. EUR (end of period)	57.01	58.94	56.93	59.86	61.40	62.56	62.95	62.56	63.55
Private lending (% YoY, average)	9.5	4.0	0.9	8.3	8.2	7.7	7.4	7.7	7.7
Household lending (% YoY, average)	12.8	11.2	-2.1	7.9	15.9	15.6	12.8	15.6	12.6
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	6.9	-7.9	8.2	13.5	10.5	9.9	10.2	9.9	9.8
Savings rate (% pers. disp. income, avg.)	5.0	3.4	-0.4	-1.0	4.8	10.4	9.8	10.4	9.9

Source: MAPFRE Economics (based on PSA data)
Forecast end date: July 23, 2024.

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Meanwhile, inflation remained close to target at 2.8% in May, down from a peak of nearly 6.0% in September 2022. Thus, the Central Bank of Indonesia held interest rates in June at 6.25% to keep inflation close to the 3% target.

Short-term risks for the Indonesian economy may arise from a surge in inflation, or a price drop in the main exports, such as palm oil and coal. A delay by the Federal Reserve in lowering interest rates would make it more difficult for the Bank of Indonesia move forward in reducing monetary tightening. The current account balance is slightly negative (-0.5% of GDP), and the exchange rate stabilized around 16,400 Indonesian rupiahs/U.S. dollar.

1.2.18 Philippines

The Philippine economy maintains dynamic growth with inflation moderating.

The Philippine economy accelerated in the first quarter of 2024, growing 5.7% (1.3% QoQ), with private consumption (8.2% nominal), exports (8.7% nominal), and imports (2.0% nominal) showing strength. Meanwhile, leading activity indicators remained equally strong, with the manufacturing PMI at 51.3 points in June. Likewise, industrial production was up 6.69% in April, after a sharp drop in March. The chemical industry rebounded, growing by 18.8%, and automobile production increased by 5.1% after starting the quarter in negative territory. Consumer confidence worsened, registering -20.5% the second quarter, and for the upcoming 12 months also dropped to 13.5 However, for the coming quarters, consumption is expected to remain strong, at around 4%, and improvements in exports are also expected. Against this backdrop, the forecast for economic growth in the Philippines stands at 5.6% for 2024 and 6.3% for 2025 (see Table 1.2.18 and Charts 1.2.18-a and 1.2.18-b).

Philippines

- **Household consumption and exports remain strong.**
- **Inflation is moderating, but remains at risk of rebounding due to the momentum of food, electricity, and oil prices in international markets.**
- **The central bank is unlikely to lower interest rates before the Federal Reserve.**
- **The Philippine economy is projected to grow around 5.6% in 2024.**

Year-on-year inflation continued to moderate to 3.7% in June, while core inflation fell to 3.1%. By categories, food rose 6.1%, and housing and household supplies by 0.1%, while the cost of transportation dropped 3.1%. At its June meeting, the central bank decided to hold interest rates at 6.50% (Target Reverse Repo), the deposit facility at 6.0%, and the lending rate at 7.0%. Risks to inflation remain tilted to the upside due to possible pressures in transportation, food, electricity tariffs, and global oil prices. The central bank's inflation forecast for 2024 was lowered to 3.8% (from 4.0%), placing it within the 2.0-4.0% target band, while the forecast for 2025 has risen to 3.7% (from 3.5%). The central bank deems it appropriate to maintain a sufficiently restrictive monetary policy until inflation is firmly within the target range. The Monetary Board also reiterates its support for the non-monetary measures taken by the government to address persistent supply pressures on food prices and thereby avoid further spillover effects.

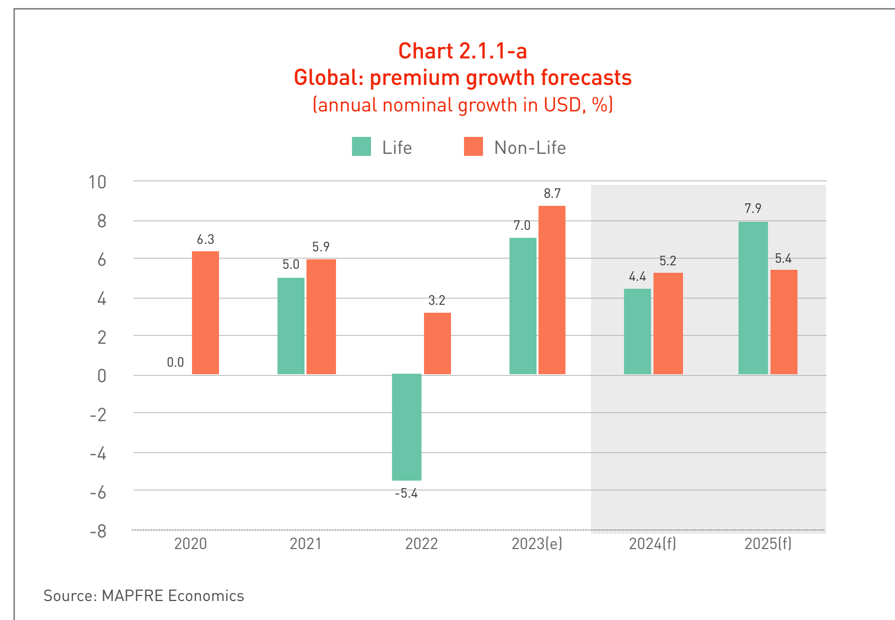
2. Industry outlook

2.1 The economic environment and its impact on insurance demand

2.1.1 Global markets

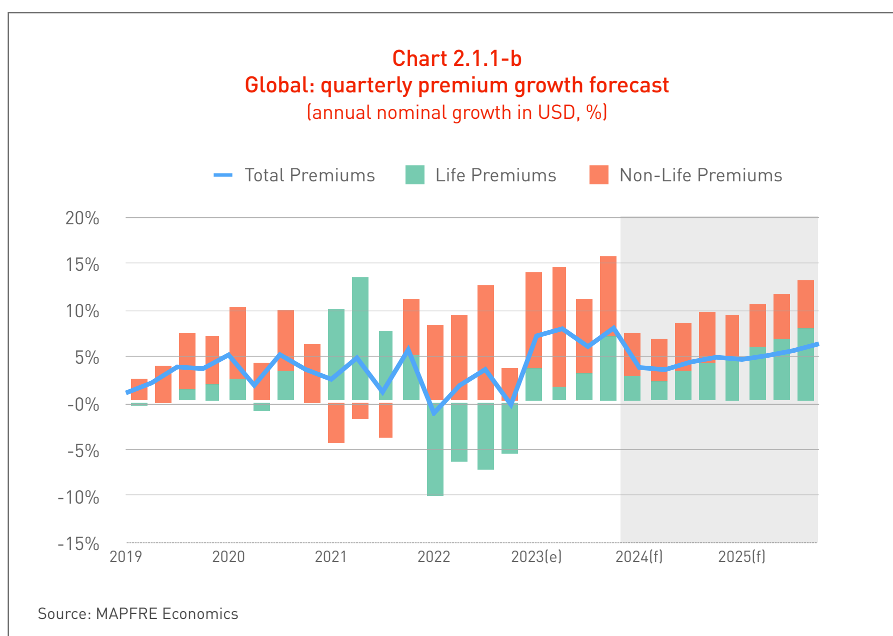
The macroeconomic indicators considered in the baseline scenario of this report project a slight slowdown for 2024 compared to 2023, with global GDP growth in the vicinity of 3.0% in 2024 and 2.9% for 2025. These data, by extension, favor global aggregate insurance demand performance forecasts for this year and the next. Thus, the pressure exerted on the insurance industry in previous periods seems to have reached its peak. High inflation was one of the reasons for this effect, which inevitably led to a rise in rates, especially in those lines of business where the loss ratio had to be adjusted in order to achieve sustainable profitability. Conversely, interest rates have tended to fall, but remain high for the time being, pending market developments. This latter factor has particularly favored the performance of Life insurance lines, savings products, and annuities, which will continue to benefit from high interest rates. Meanwhile, the Non-Life line (involved in sectors with a greater link to the economic cycle, such as Motors, Home, and Life Protection, among others) will see its business increase in line with the economic activity generated in each country.

Chart 2.1.1-a (see also Table B-1 in the Appendix of this report) shows how the aggregate outlook for the global insurance market for 2024 is positive and, although lower than in 2023, the Life insurance segment is expected to grow by 4.4% and Non-Life by 5.2%; this performance is consistent with the behavior of the global economy throughout this year. For 2025, the



situation may even improve, as more controlled inflation, less restrictive financial conditions that could support both consumption and investment, would result in relatively more favorable projections for Non-Life premiums, with expected growth of 5.4%, as well as in the Life segment, with an anticipated growth of around 7.9%.

With regard to the development of the global insurance market by quarters (see Chart 2.1.1-b and Table B-1 in the Appendix to this report), during 2021 the Life insurance line showed positive growth, contrary to the Non-Life line, which showed a negative performance during the first three quarters. In 2022, on the other hand, the opposite occurred: Life premiums showed negative growth throughout the year, while Non-Life premiums

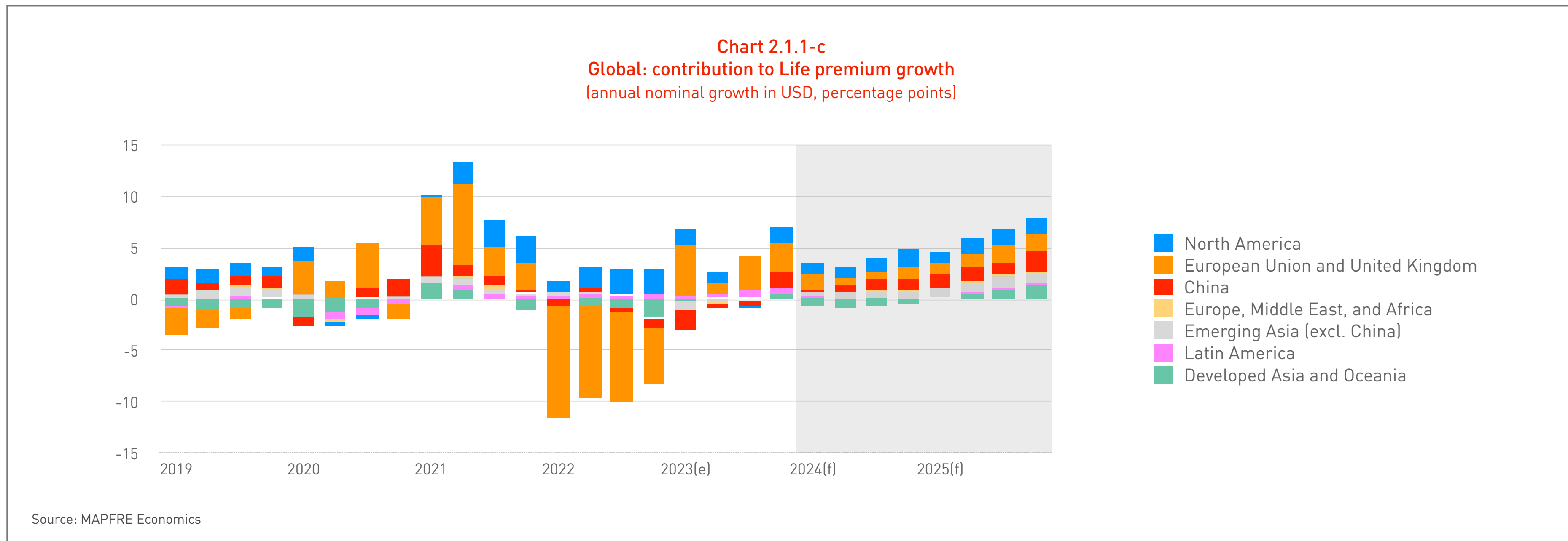


showed an average growth rate of over 8%. As of 2023, both lines have contributed positively, with an average rate of 3.9% for the Life segment and 9.9% for Non-Life. Thus, according to the baseline economic scenario projected for 2024-2025, a positive contribution is expected from both insurance sectors, with an average growth rate of around 4.8% for the Life segment and 4.9% for the Non-Life segment. Therefore, total premiums in the global aggregate would grow steadily until reaching an average growth rate of around 4.8% at the end of the period.

However, when analyzing contributions to the growth of the insurance industry by economic regions and segments, we see that, in the case of Life insurance (see Chart 2.1.1-c and Table B-1 in the Appendix to this report), North America with 1.4 percentage points (pp), the European Union and United Kingdom with another 1.2 pp, and lastly, China with 1.1 pp, would be the regions contributing the most on average to global growth in 2024-2025. These would be followed by: emerging Asia (excluding China) with 0.7 pp, Europe, the Middle East and Africa, and Latin America, which would contribute 0.2 pp each, and finally, developed Asia and Oceania, which would contribute 0.1 pp.

With regard to the Non-Life insurance segment (see Chart 2.1.1-d and Table B-1 in the Appendix to this report), the average nominal growth expected over the forecast horizon (2024-2025) is around 5.2%. The North American region would be the largest contributor to global growth, with an average of 3.4 pp by the end of the next few years, gradually losing its leading role in this segment by the end of 2025. Trailing behind would be the EU region and the UK, with an average contribution, in each case, of 0.8 pp and 0.6 pp, and China rising from 0.5 pp in the first quarter of 2024 to 1.3 pp by the end of 2025. The contribution of other regions to premium growth in the Non-Life segment would be rather limited: At the end of the period, developed Asia and Oceania would reach a contribution of 0.5 pp,

Chart 2.1.1-c
Global: contribution to Life premium growth
(annual nominal growth in USD, percentage points)



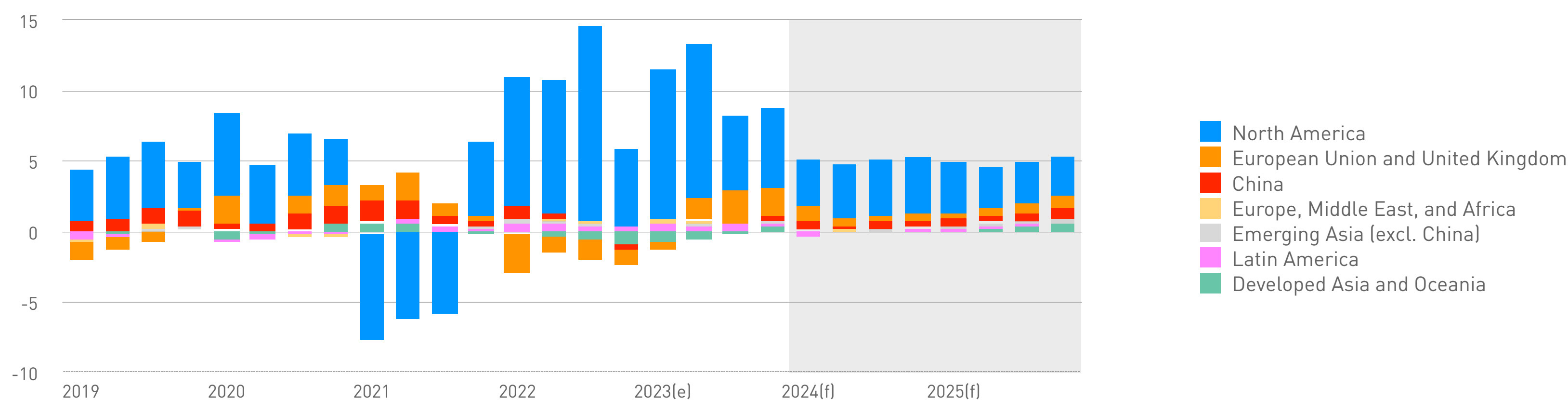
Source: MAPFRE Economics

while the remaining regions would have a contribution not exceeding 0.2 pp each, and particularly in the case of the Europe (non-EU), Middle East and Africa region, which would together contribute just 0.1 pp to the growth of global insurance demand.

2.1.2 Eurozone

In the Eurozone, weak economic growth at the aggregate level is estimated at 0.8% in 2024 (0.6% in 2023), a slightly upward revision from the previous forecast, with a higher economic growth outlook in 2025 of 1.7%. Three of its main economies (Germany, France, and Italy) continue to show weak economic growth, which may result in moderate growth in the insurance industry's more cyclical lines of business, although with prospects of improvement towards next year. However, other economies, particularly Spain, continue to perform better than expected, so the insurance business outlook for these lines of business is improving, aided by the shift towards an easing of the European Central Bank's (ECB) monetary policy (still restrictive) and the reactivation of credit being observed in the surveys conducted by this body. Thus, the current interest rates and expectations that they could keep dropping will continue to create a favorable environment for savings-linked Life insurance and annuities. Meanwhile, the improvement in the financial performance of investment

Chart 2.1.1-d
Global: contribution to Non-Life premium growth
(annual nominal growth in USD, percentage points)



Source: MAPFRE Economics

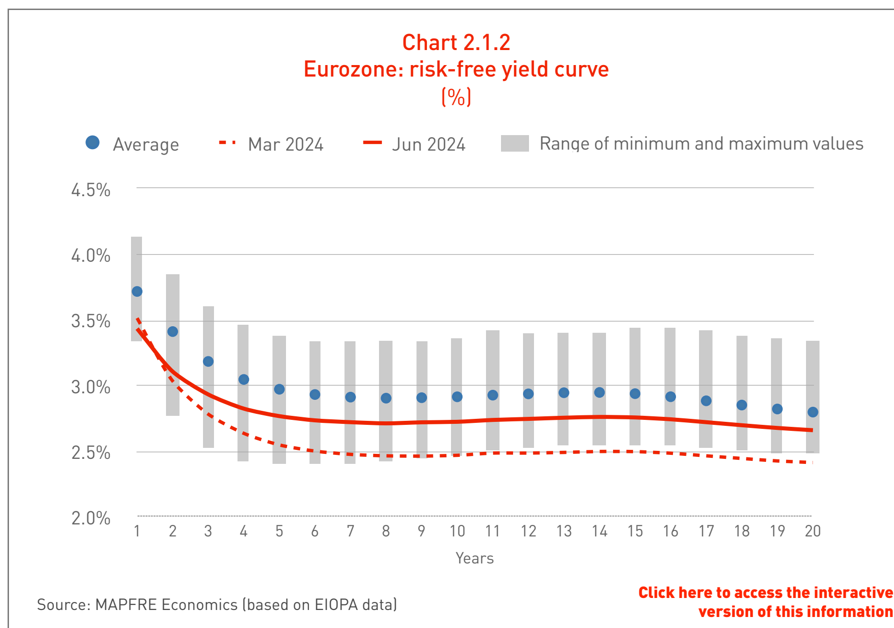
portfolios, falling inflation, and the revision of insurance premiums to adapt them to inflation improves profitability forecasts for the insurance industry.

At its July meeting, the ECB maintained interest rates, following the previous month's important decision, which marked a turning point in the monetary policy applied by this institution in the previous two years (since July 2022), reducing interest rates by 25 basis points (bps), which left interest rates at 4.25% for the main refinancing operations and 3.75% for the deposit facility. This was an important first step in shifting monetary policy towards less restrictive levels, after maintaining the highest levels in more than two decades since October 2023. In addition, the ECB decided to continue on its path of gradually reducing the size of its balance sheet.

Inflation continues to show signs of moderation, standing at 2.5% in June (2.6% in May), far from the average inflation for 2023 of 5.4% (8.4% in 2022), but still above the ECB's 2% target for the Eurozone as a whole. Meanwhile, the progressive reduction in the size of its balance sheet continues as expected, without significantly affecting the risk premiums of countries with the highest levels of indebtedness, which have, however, corrected the upturn seen in previous quarters.

Movements in the June month-end risk-free yield curves produced by the European Insurance and Occupational Pensions Authority (EIOPA) reflect somewhat more erratic behavior in the first half of the year, with a significant drop in all tranches at the end of March (as downward inflation data were released) and an upward recovery in the second quarter, moving

Chart 2.1.2
Eurozone: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

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away from the previous year's lows (reached at year end). The curve continues to present a negative slope in maturities up to eight years, in a scenario in which the risk-free market rates assume that interest rates could continue to fall in the coming quarters, albeit at a slower pace than expected at midyear (see Chart 2.1.2).[3]

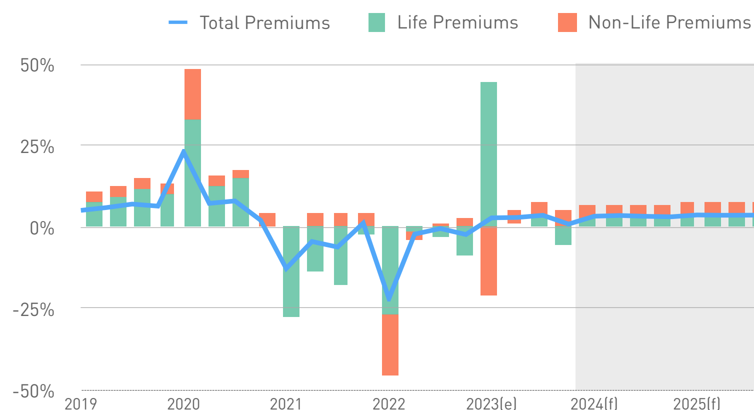
This environment is still adequate for the marketing of Life savings insurance products with guaranteed rates for short durations and rate reviews at each renewal, but also of products with interest rate guarantees for longer durations, in view of expectations that the ECB may continue to lower interest rates in the coming quarters. Meanwhile, the EURO STOXX performed well in the first half with a revaluation on the year of 8.4% (after 23.8% in 2023), favoring the development of Life insurance products in which the policyholder assumes the investment risk, which may also benefit from the high interest rates in fixed income and the expectation of new drops in the second half of the year.

2.1.3 Germany

Macroeconomic forecasts for Germany point to weak economic growth of 0.2% in 2024 (0% in 2023), a situation that could improve in 2025, when GDP growth close to 1.2% is expected. Weak demand continues to affect mainly investment, while inflation continues to moderate (2.4% and 2.2% in May and June), compared to an average 2023 inflation of 5.9% (6.9% in 2022). This environment poses a scenario of low growth for insurance activity, although its profitability outlook continues to improve due to the moderation of inflation and the effect of higher interest rates on the financial profitability of investments. Thus, Non-Life premium growth in the insurance industry in 2024 could be around 2.9%, accelerating in 2025, as the economic outlook improves, to 3.3% (see Chart 2.1.3).

In terms of Life insurance activity, German sovereign bond yields were volatile in the last quarter, with a significant drop due to the uncertainty generated by the French elections, which tightened risk premiums in France and throughout the Eurozone, putting downward pressure on the German sovereign bond yield curve at its various maturities, although the situation had normalized by the beginning of the second half of the year. This interest rate situation complicates the outlook for the Life Savings business, but it is still a favorable environment, as it is able to offer

Chart 2.1.3
Germany: quarterly premium growth forecasts
(nominal annual growth in local currency, %)



Source: MAPFRE Economics

returns above the latest inflation data, especially in the shorter parts of the curve. Thus, the growth of Life Insurance industry premiums in 2024 could be around 3.5% and could accelerate to 4.3% in 2025, given the improved economic outlook.

On the other hand, the main global indexes continued to experience notable growth during the first half of 2024. Particularly, the German DAX went up 8.2% (19.7% in 2023), favoring the development of Life insurance products in which the policyholder assumes the investment risk, which can also take advantage of the higher-than-usual interest rate environment in this market, broadening the composition of reference assets towards a greater weight of fixed income for more risk-adverse policyholders. This is also based on the fact that the main equity indexes, particularly those of the United States and the DAX, continue near all-time highs and the forecasts that the ECB will continue to gradually lower interest rates in the coming months.

2.1.4 Italy

The Italian economy remains mired in a situation of weak economic growth, with a growth forecast of 0.6% in 2024 (1.0% in 2023), a situation that could improve in 2025, as the effects of progressive interest rate cuts by the ECB are passed on to the economy, expecting growth of 1.0% next year. In this context, Non-Life insurance premiums are expected to suffer a slowdown in growth in 2024, to 3.0% (8.0% in 2023), recovering to 4.3% in 2025 (see Chart 2.1.4). Inflation has also continued to drop substantially, standing at 0.8% in May and June (compared to an average inflation rate of 5.6% in 2023), which will have a positive impact on the profitability of the insurance industry.

Meanwhile, in terms of the interest rate environment for Life insurance, the yield on the ten-year Italian sovereign bond was strongly affected by the uncertainty generated by the French elections. This tightened risk premiums not only in France, but also in other Eurozone countries like Italy; it has been recovering from this influence in recent weeks, far from the 4.1% seen at the end of the first half, with a sovereign debt curve that remains inverted in its first tranche with maturities up to three years, and a positive slope in the longer tranches that allows yields on long-term products to be slightly higher than short-term rates (positive term premium). This all continues to paint a favorable picture for traditional Life

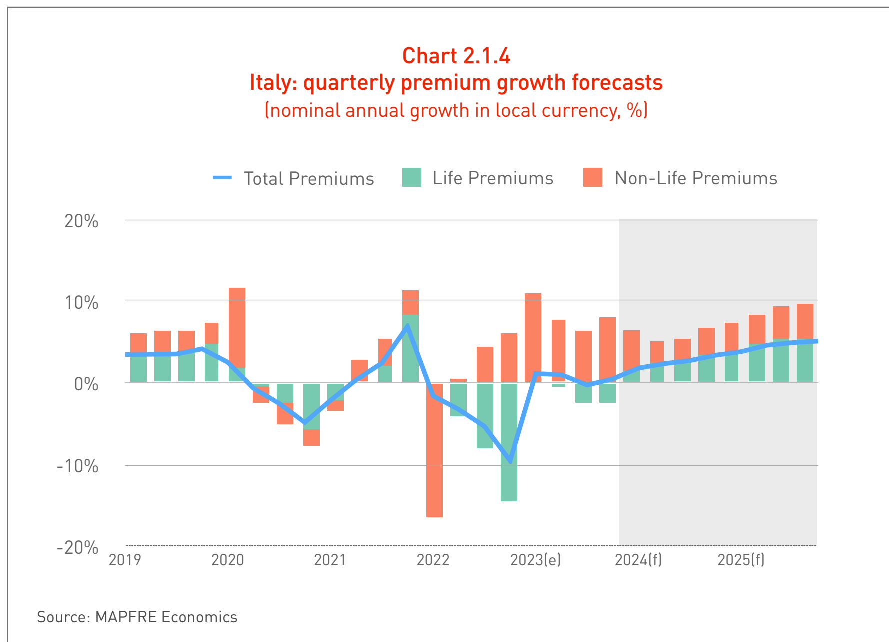


Chart 2.1.4
Italy: quarterly premium growth forecasts
(nominal annual growth in local currency, %)

Source: MAPFRE Economics

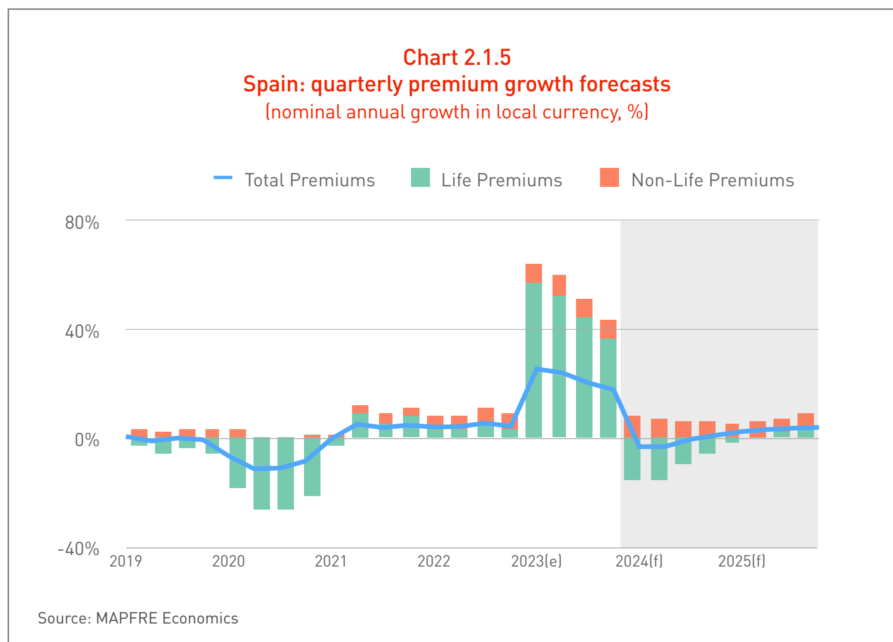
savings and annuity products, including products with guaranteed rates over shorter terms and periodic revisions of the guaranteed rate, taking advantage of the inversion of the first tranches of the yield curve. Meanwhile, the main Italian equity index (FTSE MIB) performed well during the first half of the year with a revaluation on the year of 8.6% (after growing 27.2% in 2023). The performance of equities, together with the high yields offered by fixed income, continues to support the development of Life insurance products in which the policyholder assumes the investment risk, which are widespread in the Italian market. In this context, Life Insurance premiums could grow by around 3.6% in 2024, once the redemption problems generated in the Italian market following the interest rate hikes in products marketed with low guaranteed rates have been overcome, while in 2025, the growth forecast for this segment of the Italian insurance market would reach 5.5%.

2.1.5 Spain

Economic growth estimates for Spain continue to improve upwards to 2.4% in 2024 (2.5% in 2023); for 2025, however, a slight slowdown is expected with GDP growth of 1.9%. After January's encouraging inflation figure of 2.8%, inflation has experienced some moderate upturns in subsequent months (3.6% and 3.4% in May and June, respectively). For the time being, the Spanish economy's strong performance is passing through to the Non-Life insurance lines, the most cyclical in the insurance industry, which are experiencing significant growth so far this year (significantly higher than inflation), and are expected to continue to do so, with growth estimates that could reach 6.2% in 2024, and a slight slowdown in 2025 to 4.7% in the Non-Life business (see Chart 2.1.5).

On the other hand, despite the recent upturns in inflation, its stronger performance compared to the high levels reached in previous years, together with the improved profitability of investment portfolios, are having a positive impact on the sector's profitability, which improved by 1.4 pp in year-on-year terms to 9.6% of the sector's premiums through March.[4]

In terms of the interest rate environment, as noted above, at its July meeting the ECB kept rates at 4.25% for the main refinancing operations and 3.75% for the deposit facility (following the 25 bps cut in June) and could progressively reduce interest rates again after the summer



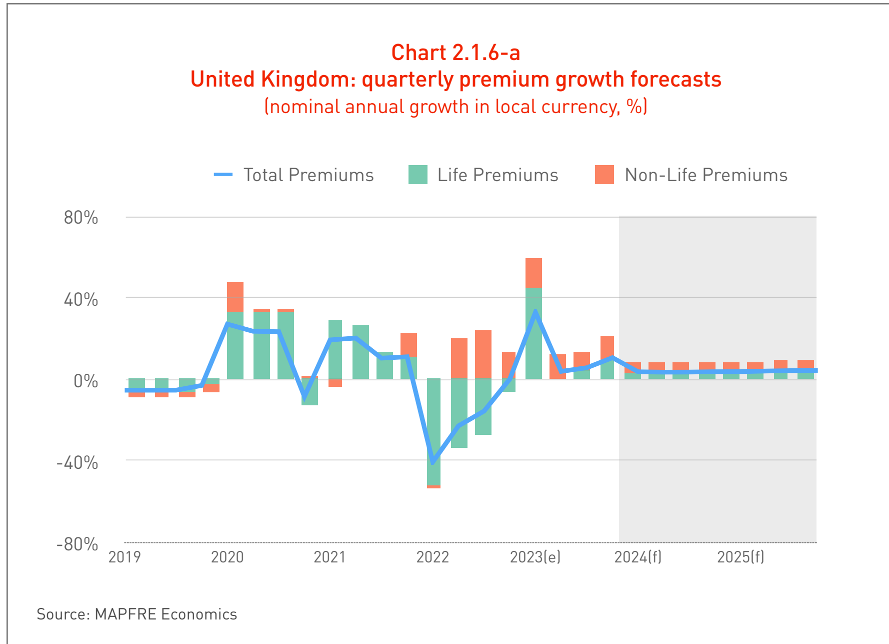
depending on inflation data. However, for the time being it maintains a restrictive monetary policy, allowing insurance companies in Spain to offer guaranteed rates close to the latest inflation data. Meanwhile, the Spanish sovereign debt yield curve remains inverted in its first tranche with maturities up to four years, and presents a positive slope in the longer tranches, although it still does not allow yields on long-term products to be higher than short-term rates.

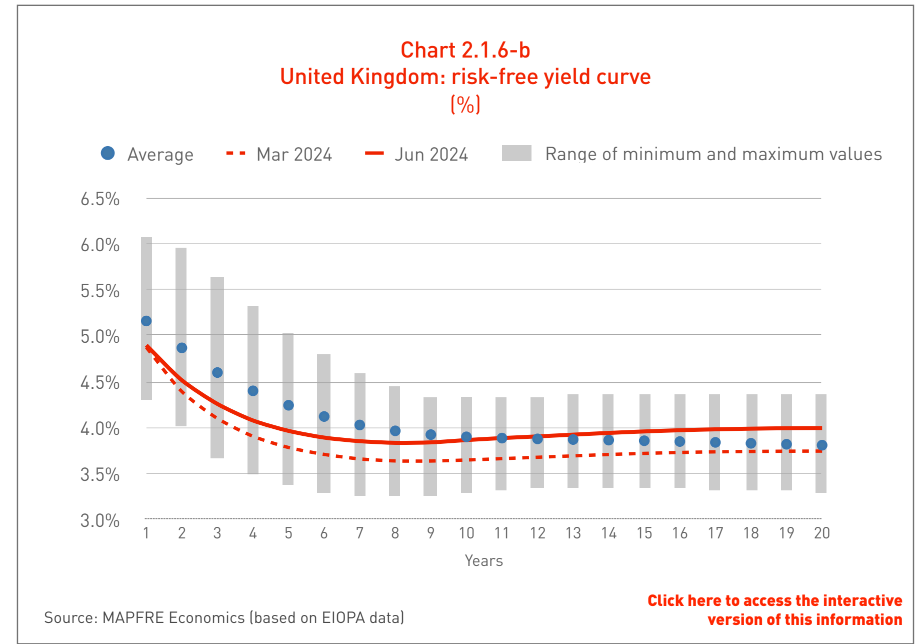
This interest rate environment is suitable for products with shorter-term interest rate guarantees and periodic renewals, while somewhat more complex for products with longer-term guarantees, although expectations that interest rates may continue to fall may also favor these types of products. However, the insurance industry faces fierce competition in this business from other financial institutions that can compete with other savings management products, such as bank deposits and mutual funds. This, together with the strong baseline effect of the significant growth experienced in 2023, has led to a downward revision of the growth forecast for Life premiums in the Spanish insurance industry in 2024, which could even fall by around 5.0% before returning to 3.4% growth in 2025. However, in terms of managed savings, the figures at the end of the first half of 2024 do reflect this favorable interest rate environment for Life insurance activity in Spain, with year-on-year growth of 3.9%, reaching 208 billion euros.[5]

2.1.6 United Kingdom

Macroeconomic forecasts for the United Kingdom have improved, with GDP growth estimated at 0.9% in 2024 (0.1% in 2023); a situation of weak growth that could improve by 2025, when GDP growth is expected to be 1.9%. Meanwhile, inflation continues to show clear signs of improvement (2.0% YoY in May and June, respectively, compared to an average inflation of 7.3% in 2023). This should translate into lower premium growth in the Non-Life segment of 3.9% in 2024 (11.7% in 2023), with the situation improving in 2025 when this business segment is expected to grow by 4.8%, in line with the higher economic growth (see Chart 2.1-6-a). Likewise, moderating inflation and higher interest rate levels could result in a recovery of profit margins.

In terms of the interest rate environment for savings-linked Life Insurance and traditional annuities, the Bank of England decided to maintain monetary policy interest rates at 5.25% at its June meeting, a level it has maintained since August of the previous year, and which is meeting its inflation control objective. The EIOPA risk-free yield curve at the end of June (see Chart 2.1.6-b) exhibits a certain stability with a slight rise, anticipating more moderate cuts by this institution than expected in previous quarters, continuing with a negative slope in maturities up to eight years. In equities, the FTSE 100 experienced moderate growth in the first half of 5.6% (3.8% in 2023), below the major international indexes.



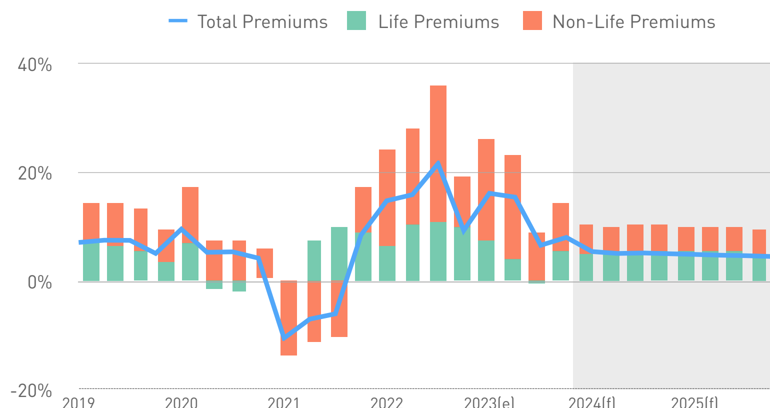


The high interest rates in the shorter sections of the curve and the inversion of the yield curve generate a favorable, albeit complex, environment for savings-linked Life products with guaranteed rates, with premium growth in this segment expected to slow down in 2024 to around 3.8% (10.2% in 2023), also due to the baseline effect, after the strong performance of the previous year. However, expectations that interest rates may begin to fall in the coming months will continue to favor the environment for marketing this type of product, whose growth could accelerate in 2025 to 4.3% (see Chart 2.1.6-a).

2.1.7 United States

The United States economy maintains forecasts for economic growth of 2.1% in 2024 (2.5% in 2023), with growth in 2025 expected to be 1.8%. Inflation, which had picked up in the first quarter of the year, showed signs of easing again in the second quarter (3.3% and 3.0% YoY in May and June, compared to an average inflation rate of 4.1% in 2023). The strong performance of the U.S. economy paints a picture of growth for insurance

Chart 2.1.7-a
United States: quarterly premium growth forecasts
(nominal annual growth in local currency, %)



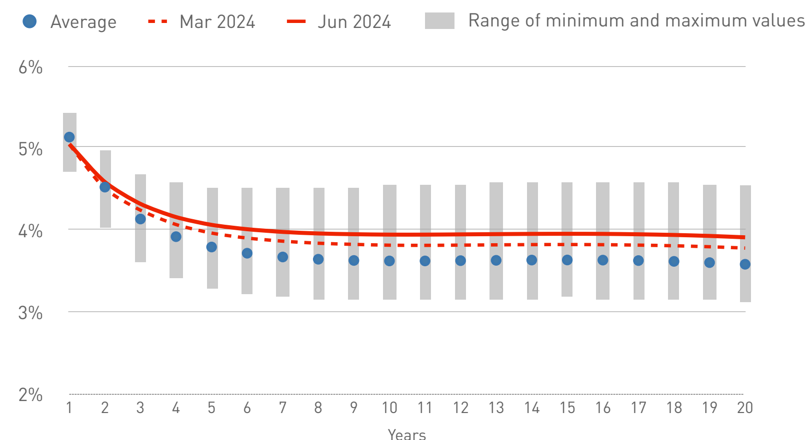
Source: MAPFRE Economics

activity, estimated at 4.9% in 2024 for the Non-Life business and slowing slightly to 4.3% in 2025 (see Chart 2.1.7-a). Its profitability is expected to improve due to stronger inflation, with the help of repricing of insurance policies and higher financial income due to the high interest rate environment.

In terms of the interest rate environment, at its June meeting, the Federal Reserve held monetary policy rates at a range between 5.25% and 5.5%. The December risk-free market rate curve produced by EIOPA (see Chart 2.1.7-b) presents stabilization in the levels of all the tranches of the curve, which continues to show a negative slope, more pronounced in the first tranches in maturities up to eight years, reflecting the expectation that the Federal Reserve could begin to reduce interest rates progressively in the coming quarters if inflation data continue their improving trend. Nominal rates continue to outpace inflation, offering positive real interest rates, in all, but especially in the shorter parts of the curve.

This environment is still favorable for the marketing of Life savings insurance products with guaranteed rates for short durations and rate reviews at each renewal, with products with interest rate guarantees for longer durations also becoming more attractive, in view of expectations that the Federal Reserve may initiate a cycle of monetary easing in the

Chart 2.1.7-b
United States: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

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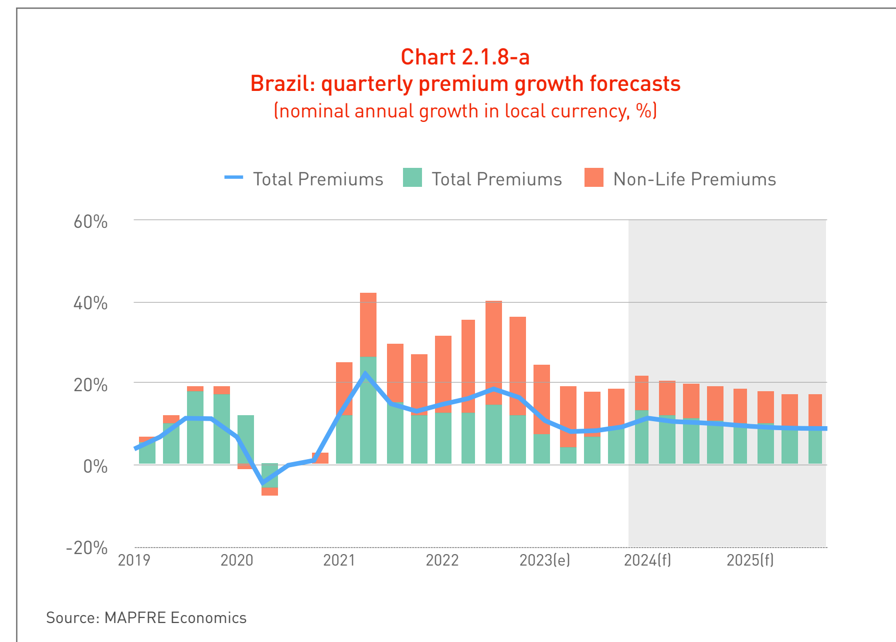
coming quarters. Meanwhile, the Nasdaq Composite index continued its strong performance in the first half of 2024 with an appreciation of 19.2% (42.1% in 2023), hitting all-time highs. The S&P 500 performed similarly, although with a lower growth rate than the Nasdaq of 15.1% in 2023 (23.8% in 2023), which may favor the development of Life insurance products in which the policyholder assumes the investment risk. These products may also benefit from the high interest rates in fixed income, making them suitable for policyholders with a more conservative profile, considering the expected interest rate cuts and that stock market indexes are reaching record highs. Against this backdrop, Life Insurance premiums in the United States are expected to grow by 5.3% and 5.1% in 2024 and 2025, respectively (see Chart 2.1.7-a).

2.1.8 Brazil

Forecasts for Brazil's economy point to a slowing GDP environment in 2024 to 1.9% (2.9% in 2023), with borrowing conditions still tightening, despite the Brazilian central bank's shift in monetary policy towards easing, improving estimates in 2025 to 2.2%. In any case, this economic growth will continue to favor insurance activity, for which respective growth in Non-Life premiums in 2024 is forecast at 8.4% (9.6% in 2023), and 8.2% in 2025, significantly above inflation forecasts (see Chart 2.1.8-a). Meanwhile, increased financial income due to high interest rates will have a positive impact on profitability, although inflation has rebounded slightly after falling through April (when it reached a low of 3.69%), rising to 3.93% and 4.23% in May and June, respectively, which could have a negative impact if the situation persists.

Chart 2.1.8-a
Brazil: quarterly premium growth forecasts
(nominal annual growth in local currency, %)

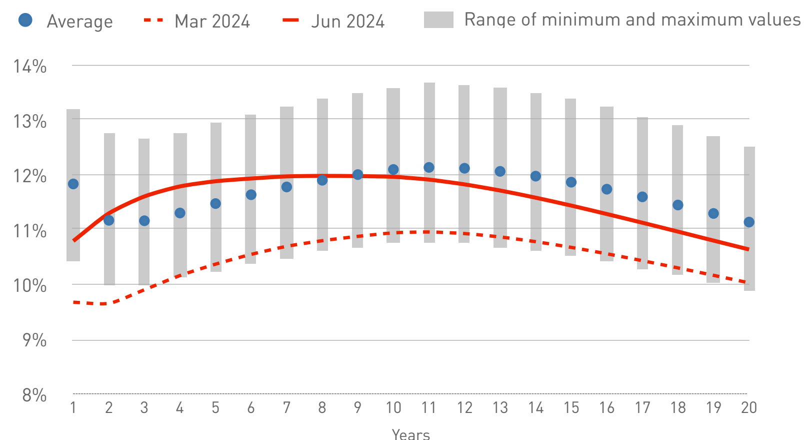


Source: MAPFRE Economics

In this context, at its June meeting, the Central Bank of Brazil decided to keep monetary policy interest rates unchanged at 10.5%, following seven consecutive prior rate cuts. On the risk-free yield curves produced by EIOPA for the end of June (see Chart 2.1.8-b), we see a rise in all sections of the risk-free market rate curve, with a term premium for maturities up to nine years and positive real interest rates well above inflation.

This economic and interest rate environment continues to support the development of Life savings products (VGBL and PGBL) and annuities, which can continue to offer returns significantly above the latest inflation data. Against this backdrop, Life Insurance premiums are expected to

Chart 2.1.8-b
Brazil: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

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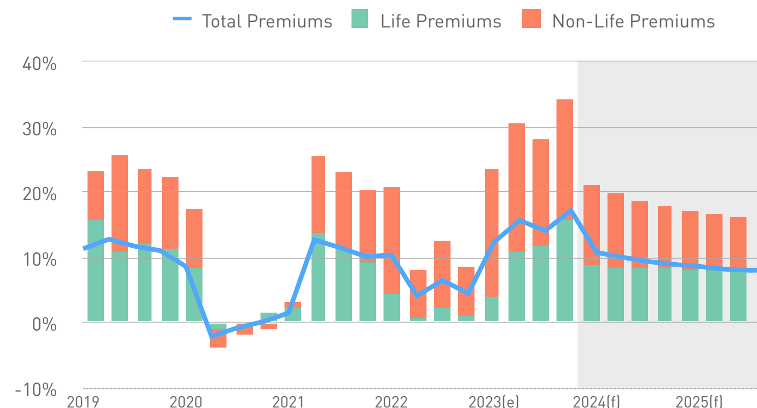
grow by 11.0% in 2024 (9.2% in 2023); in 2025, the expected growth would reach 9.4% (see Chart 2.1.8-a).

2.1.9 Mexico

In Mexico, economic growth forecasts remain at 2.0% in 2024 (3.2% in 2023), and 1.9% in 2025, with an inflation rate that has rebounded in recent months since February (4.69% and 4.98% YoY in May and June, respectively, and 5.61% in the first half of July), approaching the 2023 average inflation of 5.5%, above the upper threshold of the central bank's target range (between 2% and 4%). However, despite the expected economic slowdown, the Mexican economy is resisting the effect of tighter financing conditions, so the outlook for the insurance industry remains positive, with Non-Life premium growth forecast at 9.6% in 2024 (12.9% in 2023), above the average inflation of 4.4% forecast for this year (see Chart 2.1.9-a). Meanwhile, financial income from the high interest rate environment is expected to have a positive impact on the profitability of the insurance industry, although if the latest upturn in inflation persists, it could have the opposite effect.

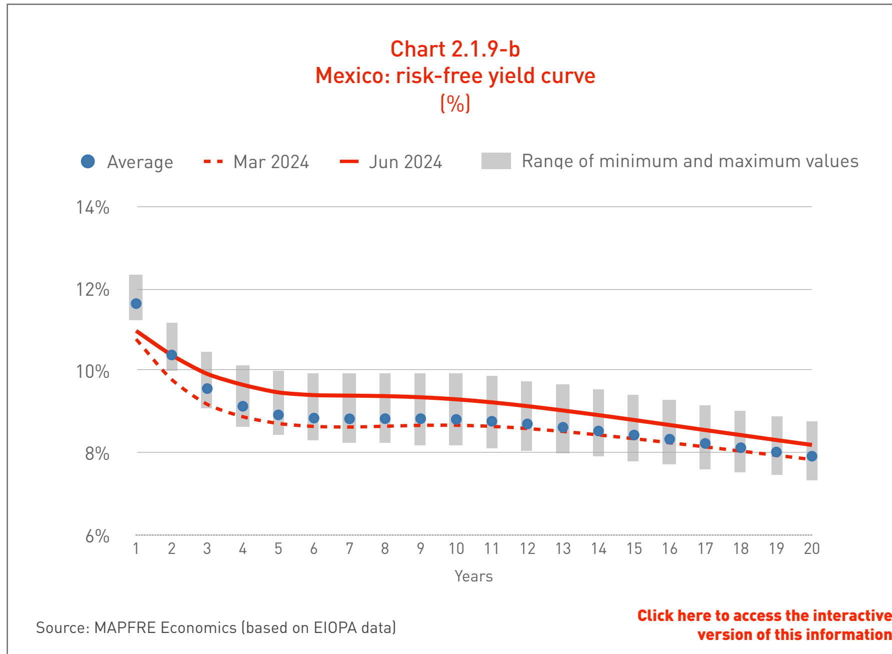
In terms of the interest rate environment for savings-linked Life insurance, the Bank of Mexico has held the benchmark monetary policy interest rate at 11.0% since June, for the second consecutive month since the 25 bps decrease in March. The risk-free market yield curves produced by EIOPA (see Chart 2.1.9-b) show a slight rise in all tranches. The yield curve remains inverted, to a greater extent in the tranches up to five years, and real interest rates remain in clearly positive territory. As a result,

Chart 2.1.9-a
Mexico: quarterly premium growth forecasts
(nominal annual growth in local currency, %)



Source: MAPFRE Economics

Chart 2.1.9-b
Mexico: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

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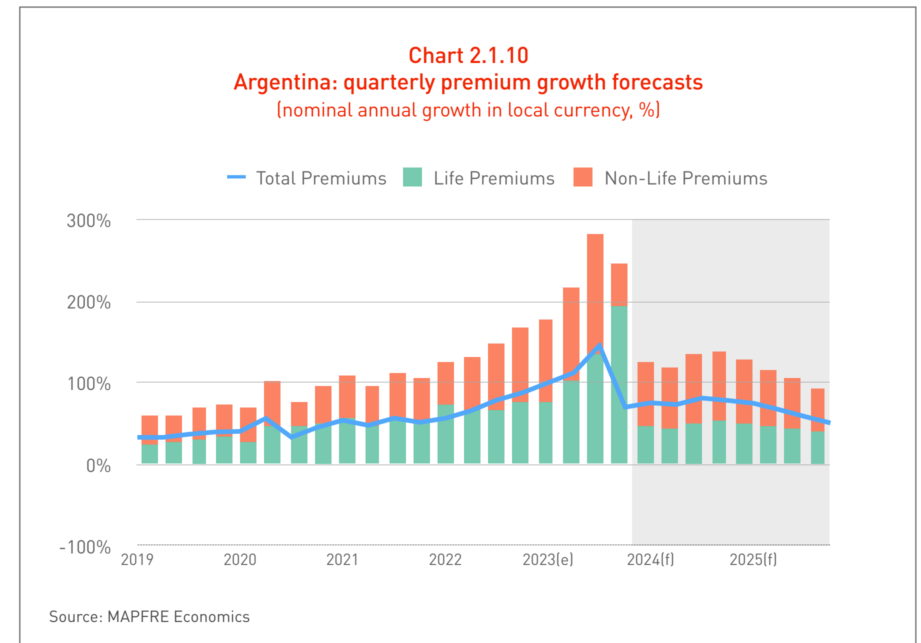
savings-linked Life Insurance and annuity products may continue to outperform the latest inflation data, especially in the shorter tranches.

The environment, therefore, remains favorable for the launch of savings products with shorter-term rate guarantees and periodic revisions of guaranteed rates, and also, although to a lesser extent, for products with longer-term guarantees and annuities. Against this backdrop, Life insurance premiums in Mexico are expected to grow by 8.4% in 2024 (10.9% in 2023) and 8.2% in 2025 (see the cited Chart 2.1.9-a).

2.1.10 Argentina

Forecasts for the Argentine economy continue to depict a recessionary environment with a GDP variation expected to be around -3.9% in 2024 (-1.6% in 2023) and high inflation rates that reached 292.2% and 276.4% YoY in April and May (compared to an average annual inflation rate of 133.5% in 2023). However, the economic situation and inflation are

Chart 2.1.10
Argentina: quarterly premium growth forecasts
(nominal annual growth in local currency, %)



Source: MAPFRE Economics

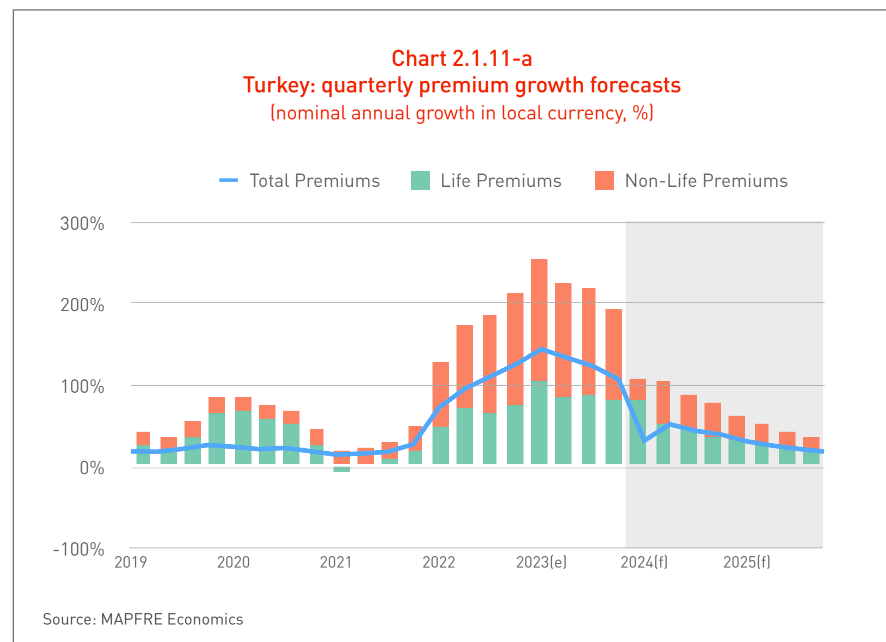
expected to improve in 2025, when GDP growth is expected to be 1.5% and average annual inflation could be around 105%. Against this backdrop, Non-Life insurance business is forecast to grow by 259.4% in 2024, reducing its growth in 2025 to 113.9% in nominal terms, in line with inflation that is estimated to be on a downward path (see Chart 2.1.10).

Meanwhile, the Central Bank of Argentina, which changed its benchmark interest rate for its overnight repurchase agreement transactions in order to support demand for longer-term government bonds (previously the Leliq rate for four-week liquidity bill auctions), has lowered the new benchmark rate six times since December ending at 40%. For now, real interest rates are still negative, complicating the outlook for savings-linked Life insurance, which cannot offer returns to compensate for high inflation. Thus, the nominal growth of Life insurance premiums in 2024 could be around 238.2%, with growth slowing in 2025 to 104.6% (see the cited Chart 2.1.10).

2.1.11 Turkey

In Turkey, economic growth forecasts have been upgraded to 3.1% in 2024, implying a slower-than-expected deceleration of the economy (4.5% in 2023) and estimated growth in 2025 of 3.0%. Inflation, meanwhile, continued to pick up throughout the first half of the year, with the exception of the June reading, in which it fell back to 71.6%, a high level in any case compared to the average inflation in 2023 of 53.9%. In response to this rally, the Turkish central bank has been tightening monetary policy since March, raising its benchmark interest rate to 50.0% and leaving it at that level at its subsequent monetary policy meetings through June. In the insurance industry, this economic environment points to estimated growth of 63.6% and 29.1% for the Non-Life business, in 2024 and 2025, respectively, which could imply moderate growth in real terms,

Chart 2.1.11-a
Turkey: quarterly premium growth forecasts
(nominal annual growth in local currency, %)

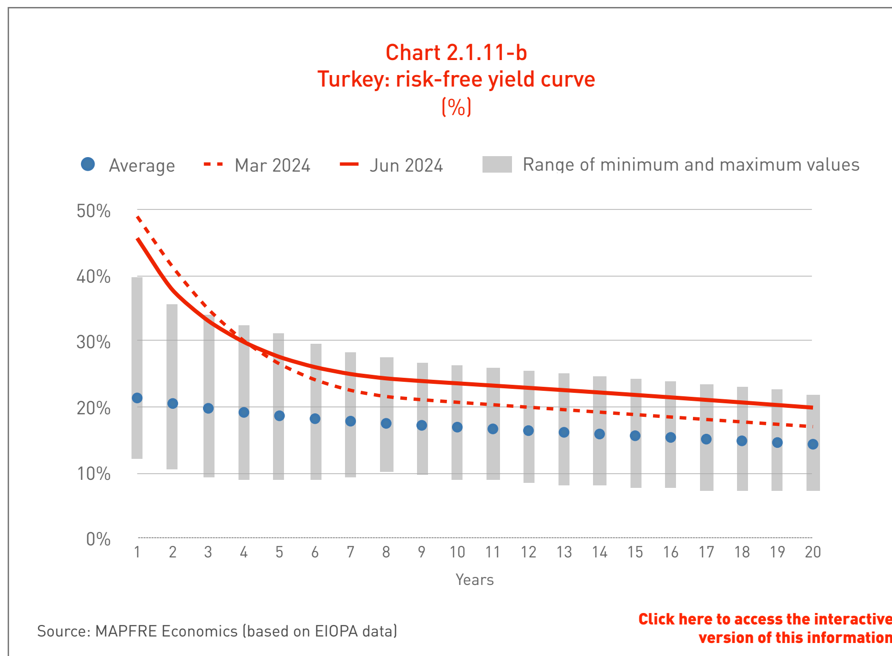


Source: MAPFRE Economics

considering the inflation forecast that will continue to pose significant challenges in terms of profitability (see Chart 2.1.11-a).

Meanwhile, in terms of the environment for savings-linked Life products, the EIOPA curves show a stabilization in risk-free interest rates, which are still not enough to push real interest rates into positive territory with a slope that remains sharply negative (see Chart 2.1.11-b). Thus, while improving, the interest rate environment remains complex for the development of Life savings insurance in the Turkish market, which is more suitable for products offering guaranteed interest at short-term maturities and the revision of the guaranteed rate at each maturity. In this

Chart 2.1.11-b
Turkey: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

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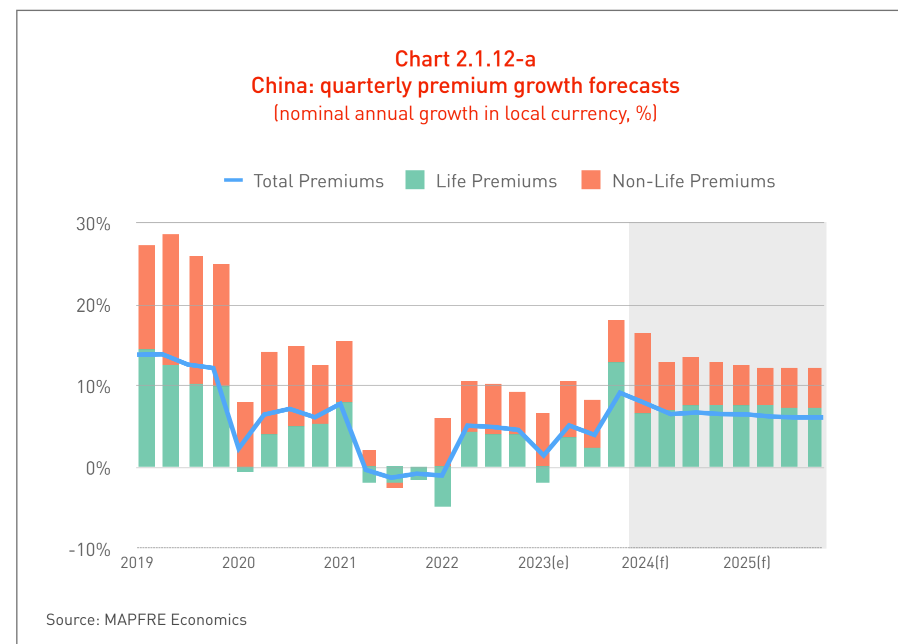
context, also taking into account the possible development of Life Protection insurance, nominal Life insurance premiums in Turkey are expected to grow by around 67.1% and 30.7% in 2024 and 2025, respectively.

2.1.12 China

Forecasts continue to point to a slowdown in China's economy in 2024 to 4.6% (5.2% in 2023), which would carry over to 2025, with estimated growth of 4.1%. These are significant growth rates, but weaker than usual for China's economy, which led its central bank to implement a slight interest rate cut in July in order to stimulate it. In any case, this economic growth is driven by resilient domestic consumption, which continues to create an appropriate environment for the development of the insurance business, with estimated growth in Non-Life insurance premiums of 5.1% and 4.9% in 2024 and 2025, respectively (see Chart 2.1.12-a).

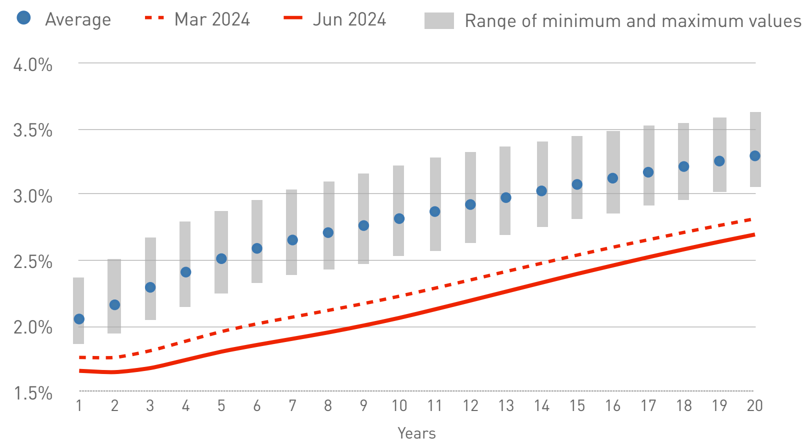
Meanwhile, inflation in China has moved out of the negative territory of the last months of the previous year and January 2024, but remains weak at 0.2% in June, the average observed in 2023. Against this backdrop, at its July meeting, the central bank decided to cut the monetary policy rate to 3.35%, adding to the accommodative measures through medium-term

Chart 2.1.12-a
China: quarterly premium growth forecasts
(nominal annual growth in local currency, %)



Source: MAPFRE Economics

Chart 2.1.12-b
China: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

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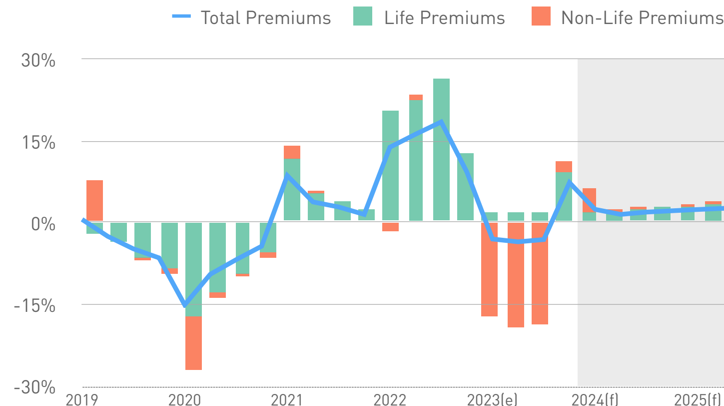
liquidity injections it had been applying in recent quarters. Thus, the EIOPA curves (see Chart 2.1.12-b) show that market risk-free interest rates in June fell again, moving even further away from the lowest figures reached in 2023, thus reflecting the expectation of support measures through monetary stimulus.

Long-term rates levels remain significantly higher than short-term rates, offering a positive term premium and a return above inflation rates. This remains a suitable environment for the Life savings and annuity business, although the slowing economic environment and lower interest rates could cool down this business, with Life insurance premiums expected to grow by 7.7% in 2024 (12.8% in 2023) and 7.1% in 2025 (see the cited Chart 2.1.12-a).

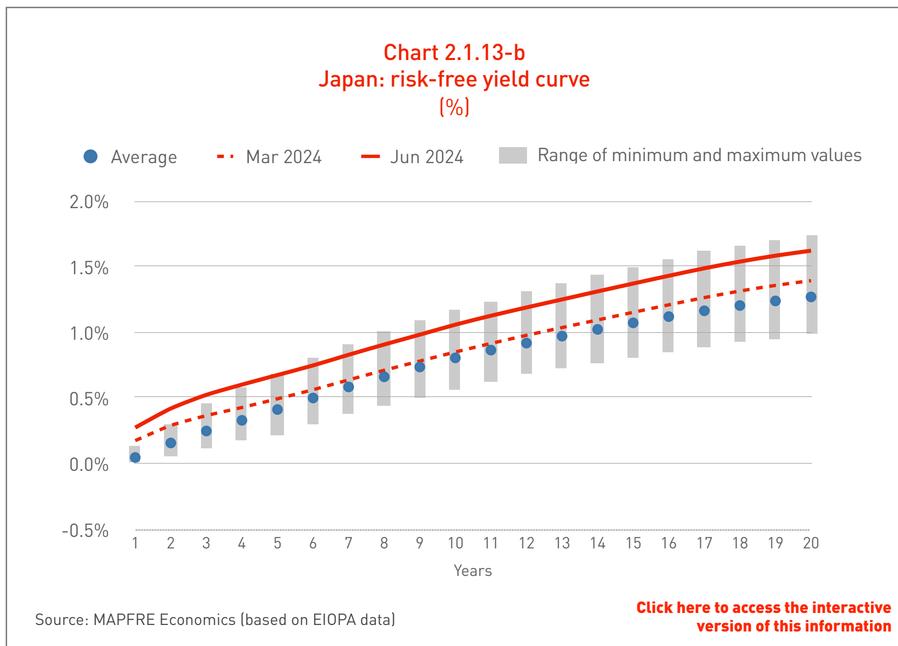
2.1.13 Japan

Economic growth expectations for Japan in 2024 have been reduced to 0.4% (1.8% in 2023), which would improve in 2025, with the growth forecast remaining at 1.1%. Inflation, which seemed to be starting to moderate, picked up again to 2.8% in June, a high rate for the Japanese economy, compared to the average inflation rate of 3.3% in 2023. In this

Chart 2.1.13-a
Japan: quarterly premium growth forecasts
(nominal annual growth in local currency, %)



Source: MAPFRE Economics



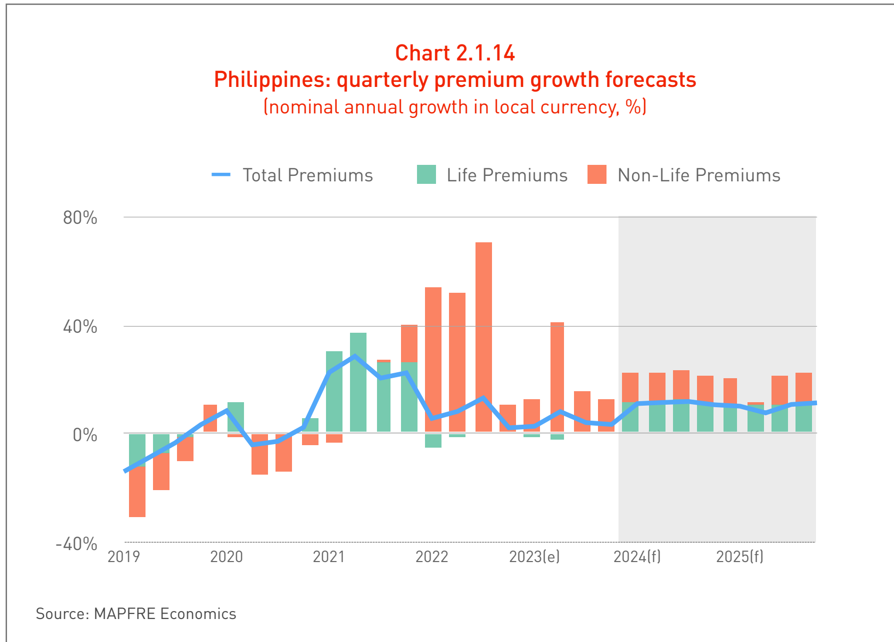
environment of economic slowdown, lower Non-Life insurance premium growth momentum of 0.3% is also forecast for 2024 (2.0% in 2023), with somewhat higher growth in 2025 of 0.5% (see Chart 2.1.13-a). Meanwhile, the profitability of insurance companies may suffer as a result of the new upturn in inflation, although this indicator is expected to continue its trend of moderate improvement over the next two years.

In terms of the interest rate environment for the Life insurance segment, as a result of the upturn in inflation, in March the Bank of Japan decided to implement the first interest rate hike since 2007, raising short-term interest rates to between 0% and 0.1% (from -0.1%) and ending control of the ten-year sovereign bond yield. They have remained unchanged since then, and through its last meeting in June. In the risk-free yield curves produced by EIOPA at the close of June 2024 (see Chart 2.1.13-b), an increase is observed in all market curve tranches, with positive figures in all tranches. The yield curve makes it possible to offer a positive term premium, which presents a suitable environment for the development of Life savings insurance and annuities. However, the outlook for economic slowdown and the high growth in this activity last year (baseline effect) suggest that Life insurance premium growth could slow to 2.8% in 2024 (9.1% in 2023), increasing to 3.5% in 2025, in line with stronger economic growth (see the cited Chart 2.1.13-a).

2.1.14 Philippines

Economic growth prospects remain good for the Philippines, maintaining forecasts of 5.6% in 2024 (5.5% in 2023) and 6.3% in 2025. Inflation stood at 3.9% and 3.7% in May and June 2024, respectively, lower than the 2023 average of 6.0%, so the outlook for growth and profitability in the insurance industry remains favorable, with estimated growth in Non-Life insurance of 10.1% in 2024 (12.9% in 2023) and 10.9% in 2025 (see Chart 2.1.14).

In terms of the interest rate environment for savings-linked Life business, the Central Bank of the Philippines, which has been pursuing a restrictive monetary policy in its fight against inflation, decided at its June meeting to maintain the benchmark rate at 6.5%. The yield on the two-year sovereign bond remains at levels close to 6.0%, and the 10-year sovereign bond yield, which had rebounded in recent months, also dropped slightly to around 6.3%. This makes the interest rate environment still appropriate for the marketing of traditional Life savings and annuity products, with real interest rates in positive territory, a positively sloping yield curve, and high



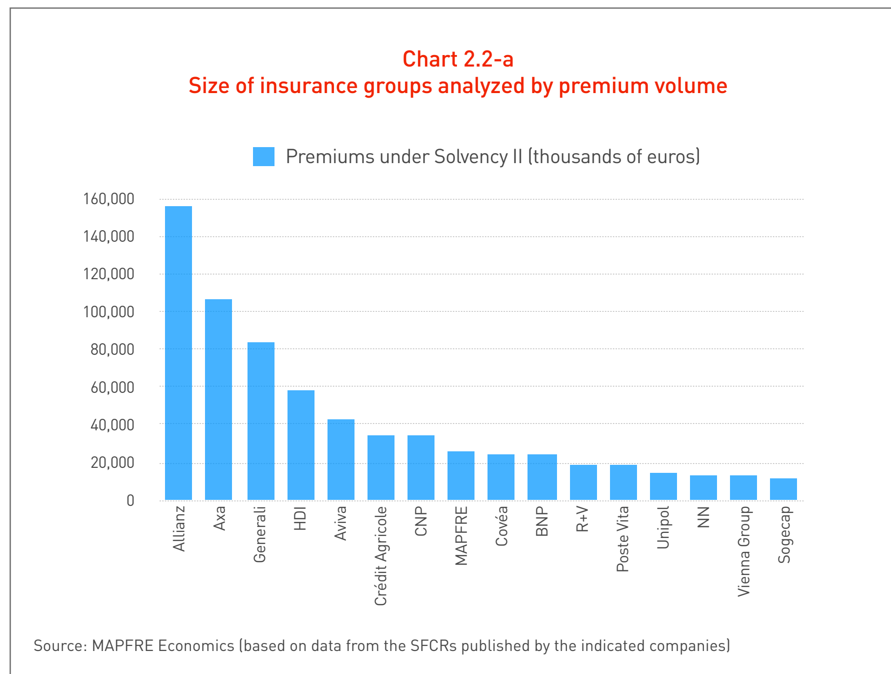
levels in an inflation environment that has stabilized after a previous substantial improvement. Against this backdrop, in which a guaranteed return can be offered above the latest inflation data, Life insurance premiums are expected to grow by 10.9% and 11.6% in 2024 and 2025, respectively.

2.2 Regulatory and supervisory trends

SFCR of the leading insurance groups in the European Union

During the second quarter of 2024, the leading insurance groups in the European Union (EU) published the *Solvency and Financial Condition Report* (SFCR) for fiscal year 2023. It was the eighth such report since the risk-based solvency regulatory framework (Solvency II) entered into force in the EU. Based on this information,[6] a sample of 16 of the main European insurance companies was selected for this analysis; their details and size, measured in terms of premium volume, are shown in Chart 2.2-a.

We must recall that before Solvency II entered into force, the only obligation was the calculation of regulatory capital at the individual level by insurance companies, with prudential control exercised by national supervisory authorities on this basis. However, one of the main changes introduced by this new solvency regulation was the mandatory calculation of an insurance group-level *Solvency Capital Requirement* (SCR), which



applies to groups of insurance companies located in the EU. In addition to the group SCR calculation, a supplementary control for the supervision of insurance groups was formulated, focusing on detecting intra-group operations that may result in the double calculation of capital in various companies of the same group, or the existence of additional risks that are not discernible at the individual level.

The new regulatory framework, based on three pillars, seeks to create incentives so that insurance companies are properly administered not only at the individual level, but also at the level of the insurance groups of which they are a part. Within the scheme, Pillar 1 is aimed at determining the quantitative aspects that preserve the group's solvency position, defined under the regulations themselves, and which therefore may differ from the accounting consolidation perimeter. Pillar 2, for its part, aims to maintain adequate governance and supervision of insurance groups as an additional element that underpins their performance and solvency position. And finally, the purpose of Pillar 3 is to ensure transparency and the disclosure of these groups' information to the market.

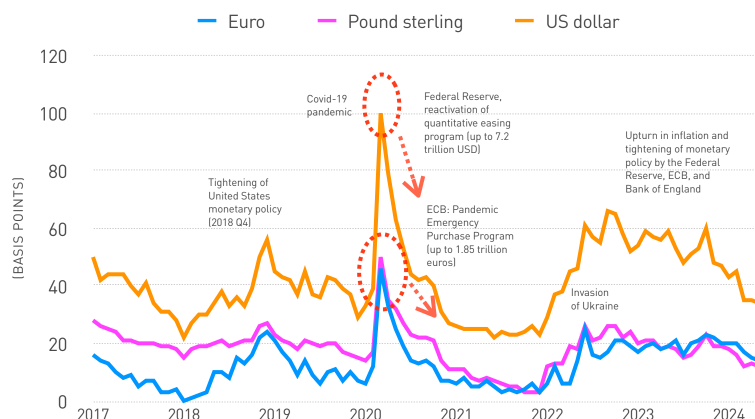
In this situation, pursuant to the specific applicable regulatory framework under Pillar 3, groups of insurance companies must publish information on their financial position and solvency on an annual basis, providing clear, comparable, and high-quality information to the market by releasing the group's SFCR. Through this transparency requirement, the Solvency II regulation seeks to provide interested economic operators with access to information that allows them to understand the implicit risk at the level of the different insurance groups, so that they can assess, from an aggregate perspective, the characteristics of their risk assessment and management processes, the sufficiency of their technical provisions and own funds, and therefore their solvency position.

In an analysis of the macroeconomic and financial environment, which has the capacity to affect the solvency of insurance companies, this was more favorable in 2023 than the previous year, helping to improve solvency ratios, mainly of insurance companies operating in the Life line, through an environment that allowed a more adequate asset-liability management (ALM). Risk-free interest rates continued to rise through October 2023 and remained unchanged thereafter, marking a turning point in monetary policy since then by both the European Central Bank (ECB) and the Federal Reserve. This situation resulted in a relaxation of the yield curve across all maturities, from the highs reached at the beginning of the last quarter of the year, partially alleviating the downward pressure on fixed income valuations experienced since the middle of last year. However, this increased the valuation of technical provisions, which had been favored until then by the sustained increase in risk-free interest rates since mid-2022. Meanwhile, equity had excellent performance in 2023.

However, economic uncertainty remained high despite the decline in inflation, especially due to the effect of ongoing geopolitical conflicts, such as the war in Ukraine and, as of October 2023, in Israel. This environment meant that volatility adjustments for the calculation of technical provisions for investment portfolios in the main currencies remained relatively high, following the upturn experienced the previous year. Thus far in 2024, as illustrated in Chart 2.2-b, these adjustments have been gradually relaxed.

Thus, in accordance with their regulatory design, the volatility adjustments in 2023 acted to partially offset the negative effect of volatility spikes on the solvency position of the insurance companies and their groups, taking into account their nature as medium- and long-term institutional investors. This highlights the importance of this mechanism introduced in the Solvency II regulations, which will be reinforced by the reform approved by the European Council and Parliament once it takes effect (expected towards the end of 2026).

Chart 2.2-b
Major currencies: trends in volatility adjustment, 2017-2024



Source: MAPFRE Economics (based on EIOPA, ECB, and Federal Reserve data)

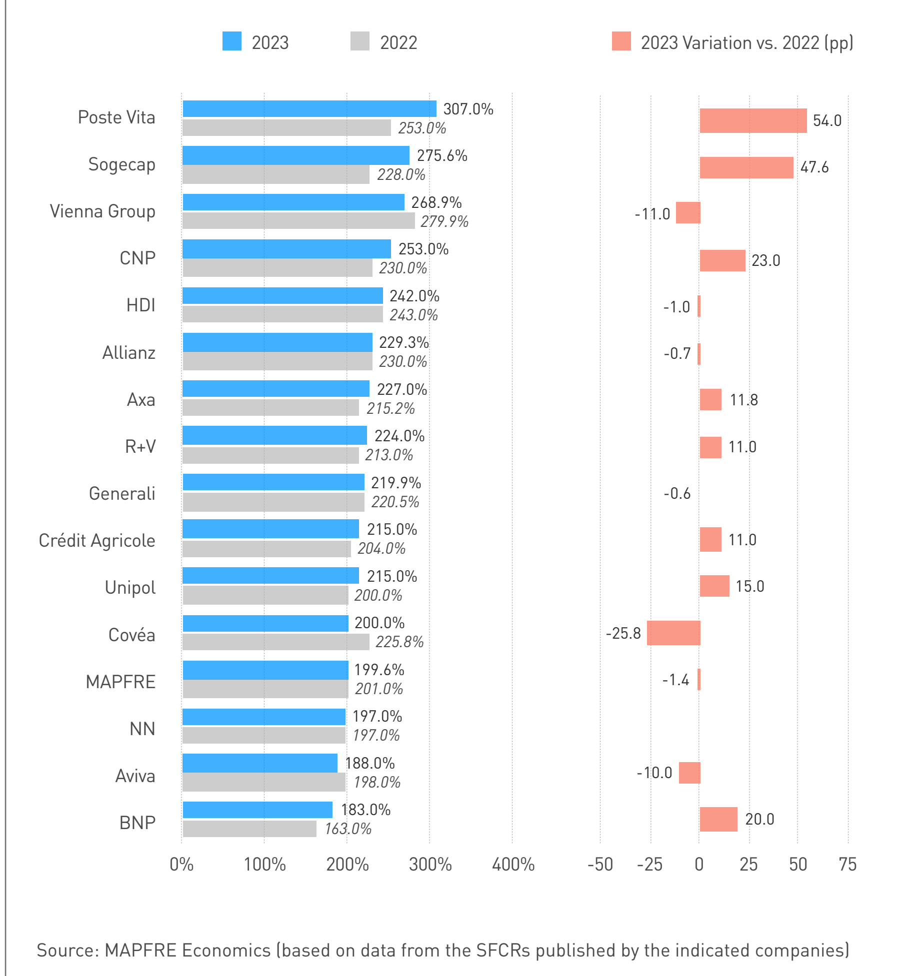
Solvency ratios

The solvency ratios published by the main EU insurance companies for the 2023 fiscal year, as well as their comparison with the previous year's figures, are shown in Chart 2.2-c. According to these data, Poste Vita improves its solvency ratio by 54 percentage points (pp) in 2023, to 307%, maintaining its first place ranking held since the previous year.[7] Meanwhile, Sogecap saw its solvency ratio improve by 47.6 pp over the previous year and moved into second place, ahead of HDI, whose solvency ratio worsened slightly in 2023 (-1 pp), moving into fifth place. In general terms, eight of the insurance companies in the sample analyzed showed substantial improvements in their solvency ratio compared to the previous year, while the rest showed only slight decreases, with the exception of Covéa (-25.8 pp), Vienna Group, VIG (-11 pp), and Aviva (-10 pp).

Table 2.2-a complements the analysis, presenting the main financial and solvency figures for fiscal year 2023 reported by the insurance groups in their respective SFCRs. According to this data, the total premiums in that year for all the EU insurance groups included in the sample that served as a basis for this analysis amounted to 682.1 billion euros (646.6 billion euros in 2022), while technical provisions stood at 3.4 trillion euros (3.2 trillion euros in 2022). The increase in the valuation of technical provisions for all groups analyzed (5.5%) was influenced by the turning point in the monetary policy applied since October 2023 by the ECB, which led the risk-free market interest rate curve to start to ease in all its maturities from the highs reached at the beginning of the last quarter of the year. This situation has influenced the valuation of technical provisions for solvency purposes, which have increased as the projected liability flows have been discounted at slightly lower discount rates, depending, in each case, on the duration of the particular insurance obligations of each group.

Despite the negative effect of the interest rate hikes on the valuation of technical provisions, they had a positive impact on the valuation of insurance companies' investment portfolios, with a positive net effect of both factors on the shareholders' equity of the groups analyzed at the aggregate level. Thus, together with other possible factors that could have

Chart 2.2-c
Solvency ratios, 2022–2023



Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

affected the solvency level of each individual group (depending on its circumstances and risk profile), the total aggregate own funds of the sample amounted to 454.8 billion euros (435.3 billion euros in 2022), while the aggregate SCR totaled 203.1 billion euros (199.0 billion euros in 2022). This resulted in an improvement in the aggregate solvency ratio of the sample, which stood at 223.9% (compared to 218.7% in 2022), an improvement over the previous year and more than twice the minimum capital requirements demanded by the regulations.

SCR calculation methods

Table 2.2-b presents information on the method used by insurance companies considered in this report for the purpose of calculating the SCR in 2023. As this information shows, of the 16 groups analyzed, seven (CNP, Crédit Agricole, BNP, Sogecap, Poste Vita, Covéa, and R+V) used the standard formula to calculate their capital requirement. The other nine insurance companies (Allianz, Axa, Generali, Aviva, HDI, Vienna Group, MAPFRE, Nationale Nederlanden, and Unipol) used different types of internal models (for market, credit, underwriting, operational, and other risks).

It should be noted that, in general, the groups that carry out some form of internal modeling chose to apply partial internal models, combining the calculation of the standard formula for certain modules with internal models for certain risk categories, with the exception of HDI, which says it uses a comprehensive internal model. Similarly, most of the internal

Table 2.2-a
Main financial and solvency figures*, 2023
(millions of euros)

	Premiums	Technical provisions	Eligible own funds	SCR required	Solvency ratio
Allianz	155,939	588,006	99,724	43,485	229.3%
Axa	105,967	456,609	57,444	25,282	227.2%
Generali	83,947	370,513	49,041	22,304	219.9%
HDI	58,271	123,836	28,712	11,849	242.3%
Aviva	43,156	306,651	21,714	11,548	188.0%
Crédit Agricole	34,871	311,338	28,307	13,193	214.6%
CNP	33,912	339,130	38,149	15,061	253.3%
MAPFRE	26,085	29,250	9,340	4,680	199.6%
Covéa	24,755	86,058	28,862	14,396	200.5%
BNP	24,450	205,305	14,900	8,122	183.5%
R+V	19,201	93,303	17,642	7,871	224.1%
Poste Vita	18,577	145,742	14,099	4,592	307.1%
Unipol	15,139	59,443	10,064	4,688	214.7%
Nationale Nederlanden	13,662	138,042	17,691	8,990	196.8%
Vienna Group	12,671	31,777	10,345	3,847	268.9%
Sogecap	11,461	110,405	8,772	3,183	275.6%
Total	**682,063**	**3,395,407**	**454,805**	**203,091**	**223.9%**

Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)
*Taken from figures on premium, loss ratio, and expense tables.

Table 2.2-b
SCR calculation methods, 2023

	Standard formula	Partial internal models				
		Market	Credit	Underwriting	Operational	Others
Allianz	✓	✓	✓	✓	✓	✓
Axa	✓	✓	✓	✓	✓	✓
Generali	✓	✓	✓	✓	✓	
Aviva	✓	✓	✓	✓	✓	✓
HDI		✓	✓	✓	✓	✓
Crédit Agricole	✓					
CNP	✓					
BNP	✓					
Vienna Group	✓	✓		✓		
MAPFRE	✓			✓		
R+V	✓					
Covéa	✓					
Sogecap	✓					
Nationale Nederlanden	✓	✓	✓	✓	✓	✓
Unipol	✓	✓	✓	✓		
Poste Vita	✓					

Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Table 2.2-c
Quality of eligible own funds, 2023

	Eligible own funds	Tier 1		Tier 1r		Tier 2		Tier 3	
		thousands of euros	(%)	thousands of euros	(%)	thousands of euros	(%)	thousands of euros	(%)
Allianz	99,724,143	81,912,697	82.1%	5,758,486	5.8%	10,434,091	10.5%	1,618,869	1.6%
Axa	57,443,727	40,997,183	71.4%	5,515,654	9.6%	10,149,825	17.7%	781,054	1.4%
Generali	49,040,903	40,593,134	82.8%	1,404,447	2.9%	6,832,004	13.9%	211,318	0.4%
CNP	38,149,048	30,919,467	81.0%	2,629,538	6.9%	4,302,009	11.3%	298,034	0.8%
Covéa	28,862,400	28,014,085	97.1%	166,384	0.6%	438,201	1.5%	243,730	0.8%
HDI	28,711,561	25,193,284	87.7%	352,458	1.2%	2,911,926	10.1%	253,893	0.9%
Crédit Agricole	28,307,488	22,610,434	79.9%	1,245,386	4.4%	4,446,610	15.7%	5,058	0.0%
Aviva	21,713,793	15,202,651	70.0%	1,091,211	5.0%	5,220,799	24.0%	199,132	0.9%
Nationale Nederlanden	17,690,611	12,416,958	70.2%	1,413,786	8.0%	2,715,574	15.4%	1,144,293	6.5%
R+V	17,642,235	17,091,300	96.9%	533	0.0%	550,403	3.1%	-	-
BNP	14,899,547	9,596,409	64.4%	1,443,101	9.7%	2,798,774	18.8%	1,061,263	7.1%
Poste Vita	14,098,823	11,314,423	80.3%	765,326	5.4%	2,019,074	14.3%	-	-
Vienna Group	10,344,756	8,720,653	84.3%	373,626	3.6%	1,142,782	11.0%	107,696	1.0%
Unipol	10,064,028	8,517,011	84.6%	1,082,624	10.8%	440,428	4.4%	23,965	0.2%
MAPFRE	9,340,280	7,699,510	82.4%	-	-	1,067,750	11.4%	573,020	6.1%
Sogecap	8,771,958	6,499,075	74.1%	820,063	9.3%	1,452,819	16.6%	-	-
Total	**454,805,301**	**367,298,274**	**80.8%**	**24,062,624**	**5.3%**	**56,923,069**	**12.5%**	**6,521,325**	**1.4%**

Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

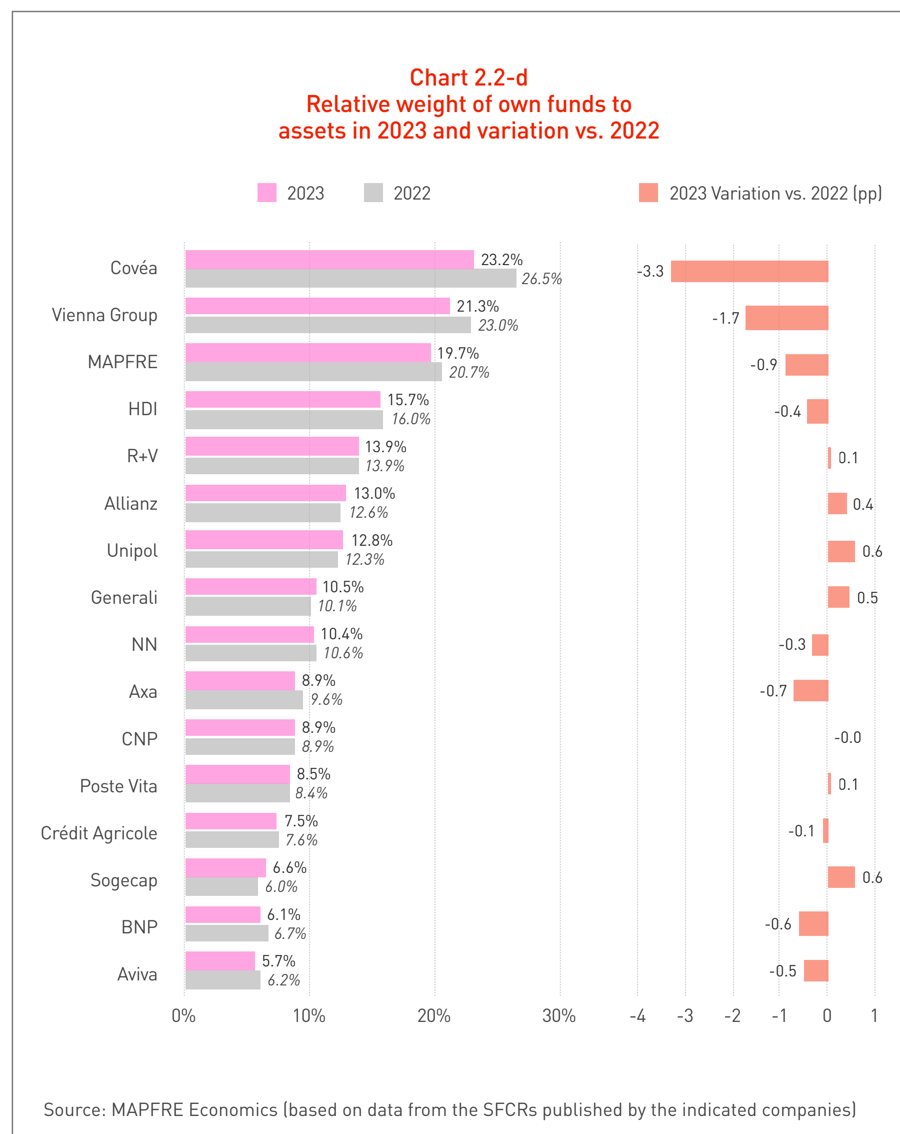
models used focus on financial (market and credit) and underwriting risks, and four of them say they used a dynamic volatility adjustment in their respective models (Axa, Allianz, HDI Aviva).

Eligible own funds

The information on the quality of the eligible own funds available to the different insurance companies considered in this analysis to cover their capital requirements is presented in Table 2.2-c. As this information shows, at the aggregate level, 86.1% of the eligible own funds were of the highest quality or Tier 1, while 12.5% were classified as Tier 2, and the remaining 1.4% corresponded to Tier 3. It should be noted that there were hardly any variations with respect to the quality structure observed the previous year. Meanwhile, based on this analysis, the R+V and Covéa groups stand out, for which the highest-quality (Tier 1) eligible own funds were 97.7% and 96.9%, respectively, the highest of the sample considered.

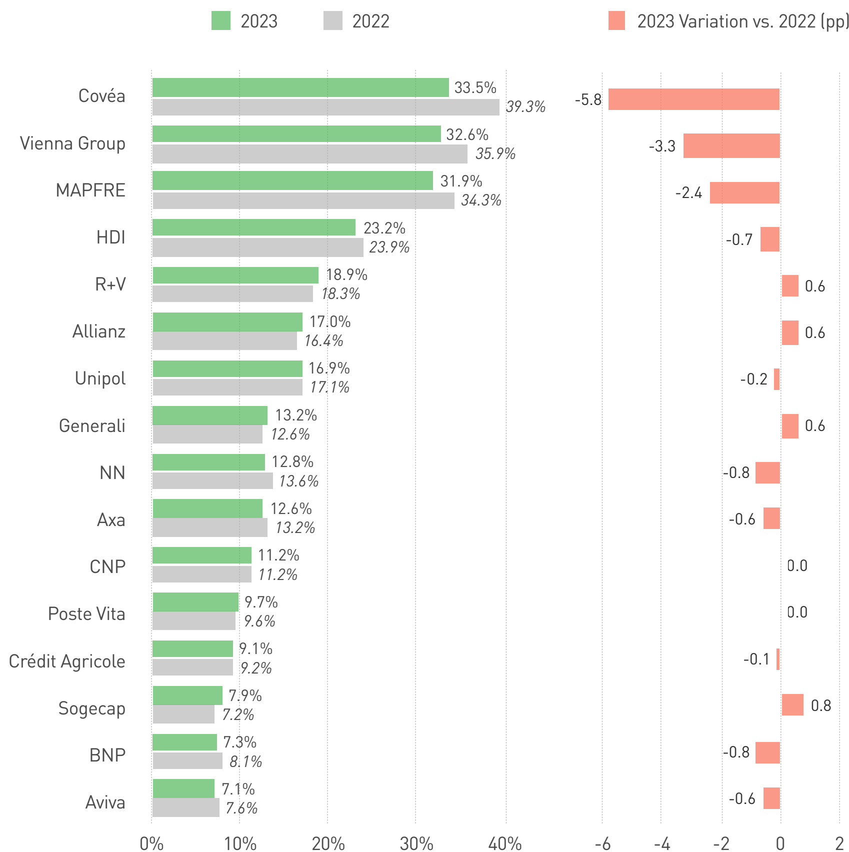
To complement this information, Charts 2.2-d, 2.2-e, and 2.2-f offer a comparison of the amount of eligible own funds of the different insurance groups included in the analysis, in relation to some main figures of the balance sheet and the business, such as assets, technical provisions, and premium volume, as well as the changes recorded in these relative references compared to 2022. Regarding the comparison between own funds and assets (Chart 2.2-d), the cases of Covéa, Vienna Group, and MAPFRE stand out, with a proportion of 23.2%, 21.3%, and 19.7%, respectively. In the relationship between own funds and technical provisions (Chart 2.2-e), the first three positions are also held by Covéa, Vienna Group, and MAPFRE, with a proportion of 33.5%, 32.6%, and 31.9% in each case. Finally, in the relationship between own funds and premiums (Chart 2.2-f), Nationale Nederlanden, CNP, and Covéa stand out, with coefficients of 129.5%, 112.5%, and 107.9%, respectively.

Chart 2.2-d
Relative weight of own funds to assets in 2023 and variation vs. 2022



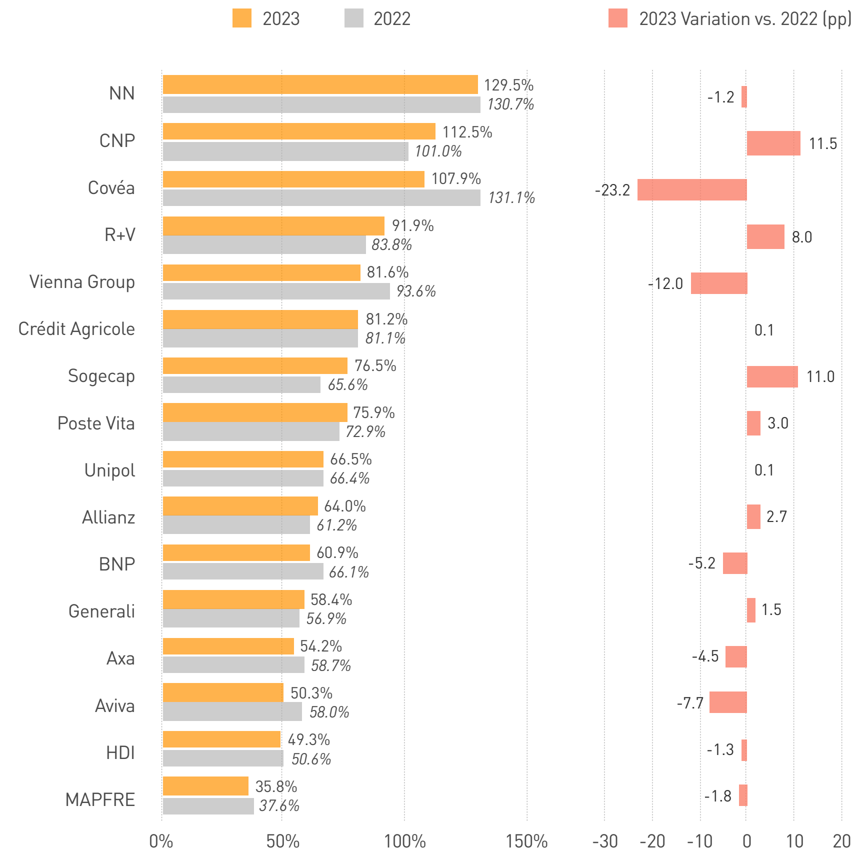
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-e
Relative weight of own funds to technical provisions in 2023 and variation vs. 2022



Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-f
Relative weight of own funds compared to premiums in 2023 and variation vs. 2022



Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Transitional and adjustment measures

An important aspect when analyzing the solvency ratios of the insurance groups considered in the sample is the effect of the transitional and adjustment measures that were introduced by Solvency II in order to alleviate potential harm to the business arising from the existence of product portfolios with long-term guarantees. It should be noted that this group of measures established a transitional regime, which considers the nature of long-term institutional investors in insurance companies and their groups, enabling them to contend with volatility of financial markets with market spread increments, without requiring forced sales to be made (volatility adjustment), and the satisfactory management of asset-liability risks (matching adjustment).

These transitional measures were, first, the *transitional measure on technical provisions*, which allows the difference between the technical provision estimated under the parameters of Solvency II and the one calculated in line with the previous standards under Solvency I to be phased in gradually over an initial 16-year period, until January 1, 2032 (eight years having now elapsed)[8]. This transitional regime allows for a smooth transition to the requirements of the new regulatory system for those who decide to make use of it. Thus, in 2023, the insurance groups Allianz, Aviva, Generali, R+V, HDI, and Vienna Group applied this transitional measure in calculating their group solvency ratio[9]. Secondly, the *volatility adjustment measure* allows for correcting the discount interest rate for the technical provisions to mitigate the effects of isolated volatilities on credit spreads in investment portfolios. And finally, the *asset and liability matching adjustment measure*, a measure which, if certain requirements are met, allows for the adjustment of the discount curve on technical provisions for companies holding fixed income assets to maturity with a duration that is similar to their liabilities, and which are therefore not exposed to market volatility in credit spreads.

The aforementioned transitional and adjustment measures have a different effect on the level of eligible own funds and the SCR, and therefore on the solvency ratio of the insurance groups. The extent of this impact in each case is determined by, among other factors, the structure of the risk portfolio of each insurance group as well as by the characteristics of their risk management process. These effects were disclosed by each of them in the respective SFCR publication, and are presented in Tables 2.2-d and 2.2-e. Furthermore, these impacts are illustrated, along with their variation compared to 2022, in Charts 2.2-g and 2.2-h.

Relative weight of SCR components

Finally, Charts 2.2-i and 2.2-j illustrate the aggregate composition of the different modules and other components of the SCR in 2023 for the insurance companies analyzed. These charts distinguish between those that calculate the SCR basically using the standard formula (Chart 2.2-i) and those that use different types of internal models for this purpose (Chart 2.2-j). In the case of insurance groups that calculate SCR using the standard formula (Chart 2.5-a), a reduction in the relative weight of the underwriting risk module (-1.1 pp) and a corresponding increase in market risk modules (+0.8 pp) and credit risk (+0.3 pp) modules was observed between 2022 and 2023. Likewise, for this subset of insurance groups, a less positive effect of diversification (-0.6 pp) related to what was observed in the previous year was recorded. Finally, compared to 2022, a slight improvement in relative profit derived from the adjustments for the loss absorbing capacity of the technical provisions and deferred taxes, which represent a 61.8% reduction of the aggregate BSCR (+1.4 pp),[10] is observed.

Table 2.2-d
Effect of transitional and adjustment measures on own funds, 2023
(thousands of euros)

	Eligible own funds	Effect of transitional adjustment TP on own funds	Effect of volatility adjustment on own funds	Effect of matching adjustment on own funds
Allianz	99,724,143	-10,166,023	939,569	
Axa	57,443,727		-1,466,167	
Generali	49,040,903	-82,745	-1,221,023	
CNP	38,149,048		-513,720	
Covéa	28,862,400		-231,928	
HDI	28,711,561	-2,898,104	-231,108	
Crédit Agricole	28,307,488		-427,380	
Aviva	21,713,793	-1,261,975	-156,020	-6,842,097
NN	17,690,611		-1,507,945	
R+V	17,642,235	-4,170,313	26,964	
BNP	14,899,547		-289,950	
Poste Vita	14,098,823		-393,674	
Vienna Group	10,344,756	-974,453	-168,004	
Unipol	10,064,028		-180,286	
MAPFRE	9,340,280		-42,840	-233,860
Sogecap	8,771,958		-309,393	

Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

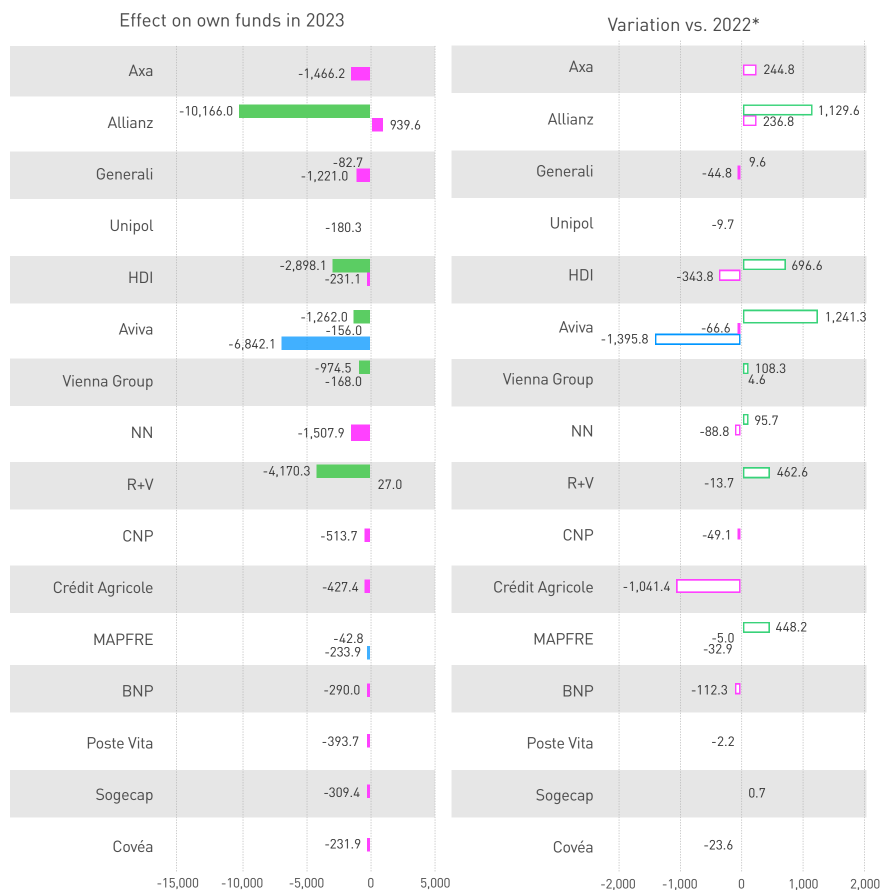
Table 2.2-e
Effect of transitional and adjustment measures on SCR, 2023
(thousands of euros)

	SCR required	Effect of transitional adjustment TP on own funds	Effect of volatility adjustment on own funds	Effect of matching adjustment on own funds
Allianz	43,484,650		3,469,786	
Axa	25,281,733		3,792,898	
Generali	22,304,467	21,906	5,861,301	
CNP	15,060,535		341,720	
Covéa	14,396,172		101,882	
Crédit Agricole	13,193,455		162,672	
HDI	11,849,365	176,929	1,510,082	
Aviva	11,547,728	274,140	186,321	6,273,754
NN	8,990,444		7,554,595	
BNP	8,121,777		-234,586	
R+V	7,871,302	137,973	27,662	
Unipol	4,687,566		56.330	
MAPFRE	4,680,090		-1,170	-33,840
Poste Vita	4,591,654		54,581	
Vienna Group	3,847,135	9,839	85,881	
Sogecap	3,183,405		-13,800	

Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-g
Effect of transitional and adjustment measures on own funds, 2023
(millions of euros)

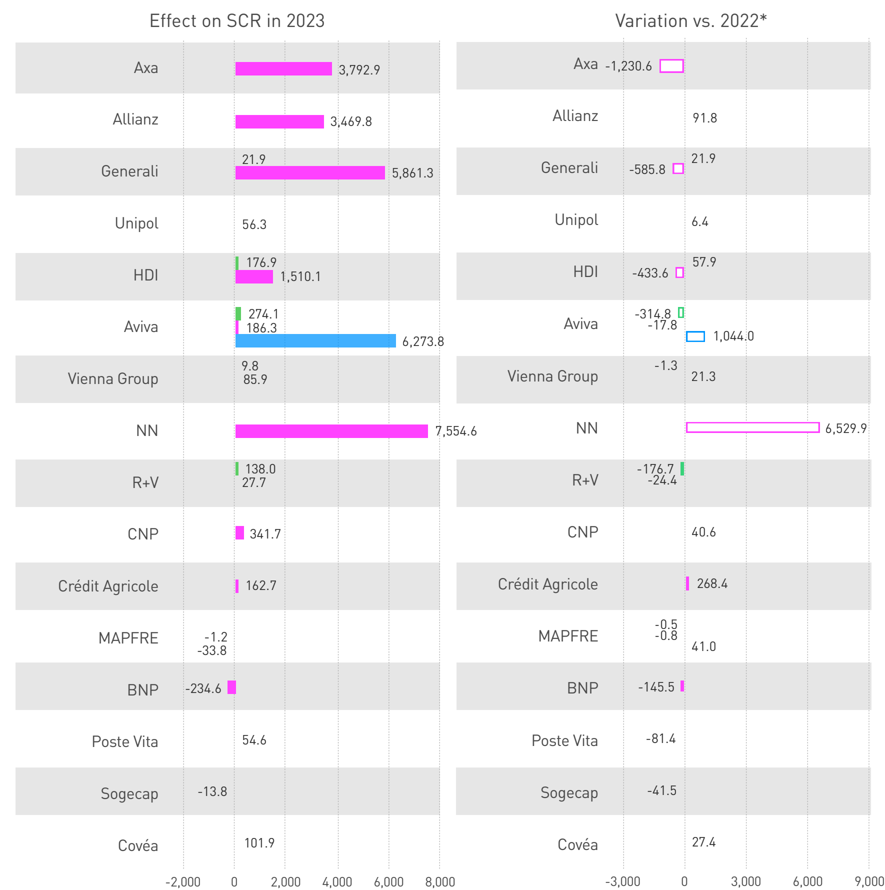
TP transitional adjustment | Volatility adjustment | Matching adjustment



Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)
*Negative variation implies increased impact of adjustment.

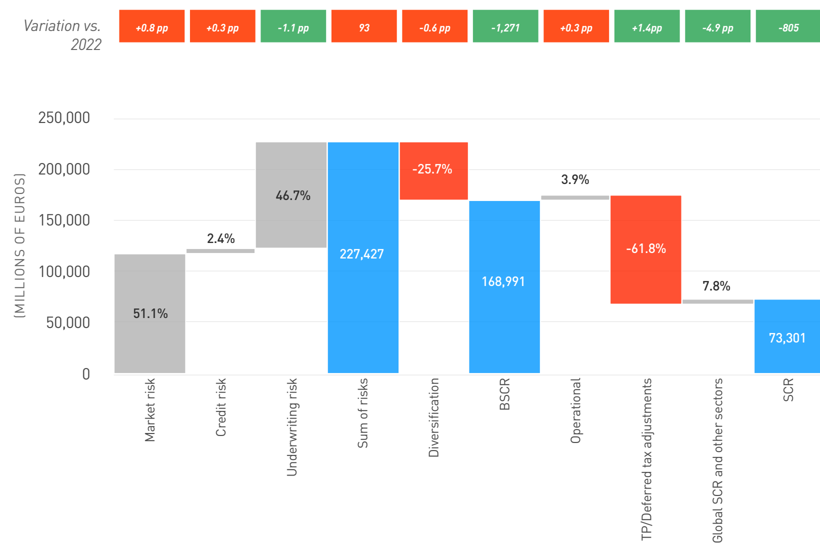
Chart 2.2-h
Effect of transitional and adjustment measures on SCR, 2023
(millions of euros)

TP transitional adjustment | Volatility adjustment | Matching adjustment



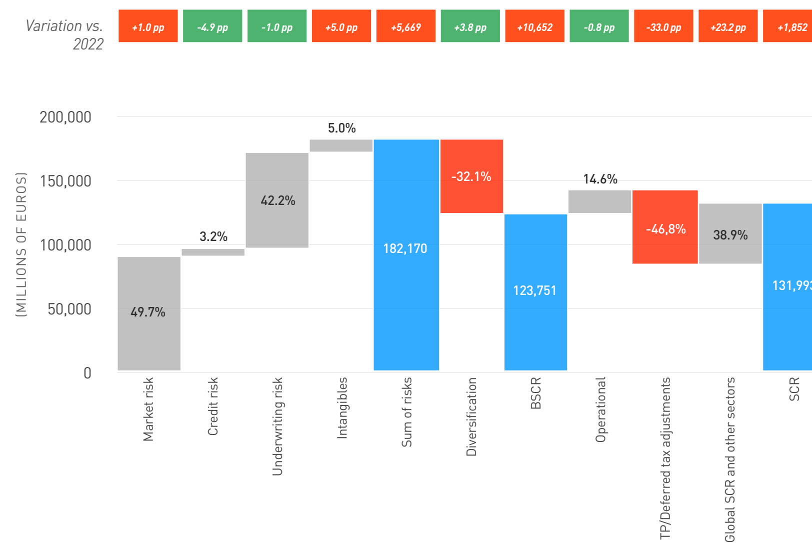
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)
*Negative variation implies increased impact of adjustment.

Chart 2.2-i
Relative weight of the different components of the SCR
for groups that use the standard formula in 2023 and variation vs. 2022
(millions of euros and percentages)



Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-j
Relative weight of the different components of the SCR
for groups that use partial internal models in 2023 and variation vs. 2022
(millions of euros and percentages)



Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

With regard to the subset made up of insurance groups that use different forms of internal models (Chart 2.5-b), between 2022 and 2023, there was a slight increase in the relative weight of the market risk component (+1.0 pp) and a significant reduction in the weight of credit risk (-4.9 pp), while the underwriting risk component showed a reduction compared to the previous year (-1.0 pp). Additionally, in this subset, in 2023, a reduction in the benefits derived from diversification was registered (3.8 pp, implying a minor reduction in the capital requirement), along with a decrease in the weight of operational risk (-0.8 pp). Finally, regarding the effect of the adjustments on the loss absorption capacity of the technical provisions and deferred taxes, it is correct to note that, in the case of insurance groups that used internal models, this metric is indicating solely the effect of the adjustments that had been modeled but not incorporated in the other components of the SCR.

Appendix A:

Macroeconomic forecasts

Table A-1
Baseline and stressed scenarios: gross domestic product
(annual growth, %)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2020	2021	2022	2023(e)	2024(e)	2025(e)	2020	2021	2022	2023(e)	2024(f)	2025(f)
United States	-2.2	5.8	1.9	2.5	2.1	1.8	-2.2	5.8	1.9	2.5	2.0	1.0
Eurozone	-6.2	5.9	3.5	0.6	0.8	1.7	-6.2	5.9	3.5	0.6	0.7	1.2
Germany	-4.2	3.1	1.9	0.0	0.2	1.2	-4.2	3.1	1.9	0.0	0.1	0.6
France	-7.6	6.8	2.6	1.1	0.9	1.3	-7.6	6.8	2.6	1.1	0.8	1.2
Italy	-9.0	8.3	4.1	1.0	0.6	1.0	-9.0	8.3	4.1	1.0	0.6	0.6
Spain	-11.2	6.4	5.8	2.5	2.4	1.9	-11.2	6.4	5.8	2.5	2.3	1.6
United Kingdom	-10.4	8.7	4.3	0.1	0.9	1.9	-10.4	8.7	4.3	0.1	0.8	1.7
Japan	-4.2	2.8	1.2	1.8	0.4	1.1	-4.2	2.8	1.2	1.8	0.2	0.8
Emerging markets	-1.8	7.0	4.1	4.5	3.9	3.8	-1.8	7.0	4.1	4.5	3.8	3.4
Latin America	-7.0	7.3	4.2	1.9	1.3	2.1	-7.0	7.3	4.2	1.9	1.2	1.6
Mexico	-8.5	6.3	3.7	3.2	2.0	1.9	-8.5	6.3	3.7	3.2	1.9	1.6
Brazil	-3.6	5.1	3.1	2.9	1.9	2.2	-3.6	5.1	3.1	2.9	1.8	1.9
Argentina	-9.9	10.4	5.3	-1.6	-3.9	1.5	-9.9	10.4	5.3	-1.6	-4.5	-0.7
Colombia	-7.2	10.8	7.3	0.6	1.8	2.6	-7.2	10.8	7.3	0.6	1.7	2.4
Chile	-6.4	11.6	2.1	0.3	2.6	2.9	-6.4	11.6	2.1	0.3	2.5	2.4
Peru	-10.9	13.5	2.7	-0.6	2.4	2.9	-10.9	13.5	2.7	-0.6	2.3	2.7
Emerging markets, Europe[1]	-1.6	7.5	1.2	3.2	3.1	2.8	-1.6	7.5	1.2	3.2	3.1	2.8
Turkey	1.9	11.4	5.5	4.5	3.1	3.0	1.9	11.4	5.5	4.5	3.0	2.4
Asia Pacific	-0.5	7.7	4.4	5.2	4.7	4.3	-0.5	7.7	4.4	5.2	4.6	3.9
China	2.2	8.5	3.0	5.2	4.6	4.1	2.2	8.5	3.0	5.2	4.5	3.8
Indonesia	-2.1	3.7	5.3	5.0	4.8	4.9	-2.1	3.7	5.3	5.0	4.7	4.3
Philippines	-9.5	5.7	7.6	5.5	5.6	6.3	-9.5	5.7	7.6	5.5	5.5	5.9
Global	-2.7	6.5	3.5	3.3	3.0	2.9	-2.7	6.5	3.5	3.3	2.9	2.5

Source: MAPFRE Economics

[1]Eastern Europe
Forecast end date: July 23, 2024.

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Table A-2
Baseline and stressed scenarios: inflation
(% YoY, average)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2020	2021	2022	2023(e)	2024(f)	2025(f)	2020	2021	2022	2023(e)	2024(f)	2025(f)
United States	1.2	4.7	8.0	4.1	3.0	2.4	1.2	4.7	8.0	4.1	3.2	2.8
Eurozone	0.3	2.6	8.4	5.4	2.3	2.0	0.3	2.6	8.4	5.4	2.4	1.8
Germany	0.5	3.1	6.9	5.9	2.1	1.9	0.5	3.1	6.9	5.9	2.5	0.9
France	0.5	1.6	5.2	4.9	2.4	1.9	0.5	1.6	5.2	4.9	2.5	2.1
Italy	-0.1	1.9	8.2	5.6	1.2	1.8	-0.1	1.9	8.2	5.6	1.9	1.6
Spain	-0.3	3.1	8.4	3.5	3.3	2.5	-0.3	3.1	8.4	3.5	3.4	2.6
United Kingdom	0.9	2.6	9.1	7.3	2.5	2.3	0.9	2.6	9.1	7.3	2.6	2.8
Japan	0.0	-0.2	2.5	3.3	2.3	1.7	0.0	-0.2	2.5	3.3	2.4	1.8
Emerging markets	5.2	5.9	9.8	6.4	6.3	4.6	5.2	5.9	9.8	6.4	6.4	4.8
Latin America	6.4	9.8	14.0	10.1	8.5	7.6	6.4	9.8	14.0	10.1	8.6	7.9
Mexico	3.4	5.7	7.9	5.5	4.4	3.6	3.4	5.7	7.9	5.5	4.5	3.8
Brazil	3.2	8.3	9.3	4.6	4.1	3.7	3.2	8.3	9.3	4.6	4.1	4.2
Argentina	42.0	48.4	72.4	133.5	255.0	105.0	42.0	48.4	72.4	133.5	270.0	120.0
Colombia	2.5	3.5	10.2	11.7	6.7	3.9	2.5	3.5	10.2	11.7	6.8	3.7
Chile	3.0	4.5	11.6	7.3	3.8	3.5	3.0	4.5	11.6	7.3	3.9	4.4
Peru	1.8	4.0	7.9	6.3	2.7	2.4	1.8	4.0	7.9	6.3	2.8	3.0
Emerging markets, Europe[1]	5.4	9.6	27.8	19.4	18.8	13.1	5.4	9.6	27.8	19.4	18.8	13.1
Turkey	12.3	19.6	72.3	53.9	57.8	26.4	12.3	19.6	72.3	53.9	57.9	27.1
Asia Pacific	3.2	2.3	3.9	0.8	0.9	1.7	3.2	2.3	3.9	0.8	1.0	1.9
China	2.5	0.9	2.0	0.2	0.5	1.5	2.5	0.9	2.0	0.2	0.6	1.8
Indonesia	2.0	1.6	4.1	3.7	2.7	2.4	2.0	1.6	4.1	3.7	2.8	2.6
Philippines	2.4	3.9	5.8	6.0	3.4	3.2	2.4	3.9	5.8	6.0	3.4	3.6
Global	3.2	4.7	8.7	5.5	4.5	3.5	3.2	4.7	8.7	5.5	4.5	3.7

Source: MAPFRE Economics

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[1]Eastern Europe
Forecast end date: July 23, 2024.

Table A-3
Baseline and stressed scenarios: 10-year government bond yield
(end of period, %)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2020	2021	2022	2023(e)	2024(f)	2025(f)	2020	2021	2022	2023(e)	2024(f)	2025(f)
United States	0.93	1.52	3.88	3.88	4.21	3.97	0.93	1.52	3.88	3.88	4.72	4.47
Eurozone	-0.19	0.32	3.39	2.79	3.05	3.01	-0.19	0.32	3.39	2.79	3.73	3.73

Source: MAPFRE Economics
Forecast end date: July 23, 2024.

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Table A-4
Baseline and stressed scenarios: exchange rates
(end of period, %)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2020	2021	2022	2023(e)	2024(f)	2025(f)	2020	2021	2022	2023(e)	2024(f)	2025(f)
USD-EUR	0.81	0.88	0.94	0.90	0.93	0.92	0.81	0.88	0.94	0.90	0.94	0.93
EUR-USD	1.23	1.13	1.07	1.11	1.07	1.09	1.23	1.13	1.07	1.11	1.07	1.08
GBP-USD	1.36	1.35	1.20	1.27	1.26	1.28	1.36	1.35	1.20	1.27	1.26	1.27
USD-JPY	103.54	115.00	132.65	141.91	158.40	147.23	103.54	115.00	132.65	141.91	159.37	149.36
USD-CNY	6.52	6.35	6.90	7.10	7.28	7.21	6.52	6.35	6.90	7.10	7.32	7.27

Source: MAPFRE Economics
Forecast end date: July 23, 2024.

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Table A-5
Baseline and stressed scenarios: official benchmark interest rate
(end of period, %)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2020	2021	2022	2023(e)	2024(f)	2025(f)	2020	2021	2022	2023(e)	2024(f)	2025(f)
United States	0.25	0.25	4.50	5.50	5.00	4.00	0.25	0.25	4.50	5.50	5.25	4.25
Eurozone	0.00	0.00	2.50	4.50	3.50	2.25	0.00	0.00	2.50	4.50	4.50	2.50
China	3.00	3.00	2.75	2.50	2.50	2.25	3.00	3.00	2.75	2.50	2.50	2.25

Source: MAPFRE Economics
Forecast end date: July 23, 2024.

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Appendix B:
Premium growth forecasts

Table B-1
Baseline scenarios: growth of insurance premiums
(nominal annual growth in local currency, %)

	Non-Life						Life					
	2020	2021	2022	2023(e)	2024(f)	2025(f)	2020	2021	2022	2023(e)	2024(f)	2025(f)
United States	5.3	8.4	9.1	8.7	4.9	4.3	0.4	8.6	9.9	5.6	5.3	5.1
Eurozone												
Germany	3.5	4.1	2.9	5.1	2.9	3.3	0.5	-2.3	-9.0	-5.2	3.5	4.3
France	2.1	5.3	4.0	7.0	3.6	3.4	-19.6	27.6	-3.5	6.0	3.5	5.4
Italy	-1.8	2.9	6.1	8.0	3.1	4.3	-5.8	8.3	-14.5	-2.5	3.5	5.5
Spain	1.1	3.3	5.1	6.9	6.2	4.7	-20.7	7.9	3.7	36.5	-5.0	3.4
United Kingdom	2.2	10.6	14.1	11.7	3.9	4.8	-12.6	11.5	-6.3	10.2	3.9	4.3
Latin America												
Mexico	-0.8	10.9	7.7	18.5	9.6	8.2	1.4	9.4	1.0	15.8	8.4	8.2
Brazil	2.5	14.9	24.3	9.6	8.4	9.2	0.4	12.2	12.2	9.2	8.1	9.4
Argentina	44.3	51.1	89.4	199.2	259.4	113.9	50.5	53.9	77.4	194.2	238.2	104.6
Colombia	2.5	15.9	19.4	14.5	11.0	9.2	-1.2	16.1	67.0	-5.0	11.1	8.5
Chile	5.5	14.2	23.3	9.7	11.0	8.6	-25.6	7.8	39.3	23.9	9.1	9.0
Peru	2.1	15.3	7.6	5.9	7.7	8.7	-4.0	40.4	4.2	7.2	9.8	9.9
Emerging markets, Europe[1]												
Turkey	17.3	29.4	137.0	111.5	63.6	29.1	27.1	20.3	75.4	80.5	67.1	30.7
Asia-Pacific emerging markets												
China	7.0	0.2	5.2	5.2	5.1	4.9	5.4	-1.7	4.0	12.8	7.7	7.1
Indonesia	-8.7	8.5	15.4	16.4	4.3	4.4	-4.9	10.1	-9.4	-7.4	3.4	3.5
Philippines	-4.6	13.4	10.1	12.9	10.1	10.9	5.6	26.2	-0.7	-0.5	11.0	11.7
Japan	-0.8	-0.3	0.1	2.0	0.3	0.5	-5.6	2.2	12.7	9.1	2.8	3.4
Global	6.3	5.9	3.2	8.7	5.2	5.4	0.0	5.0	-5.4	7.0	4.4	7.9

Source: MAPFRE Economics

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[1]Annual nominal growth forecasts in USD
Forecast end date: July 23, 2024.

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1/ See: MAPFRE Economics (2023), *2024 Economic and Industry Outlook*, Madrid, Fundación MAPFRE.

2/ See: Swiss Re, "Natural catastrophes in 2023: gearing up for today's and tomorrow's weather risks," *Sigma* no. 1/2024 (FT Markets).

3/ Chart 2.1.2-a and other similar charts presented in this section show the minimum, average, and maximum levels reached in 2023, along with the level of the latest curves published by EIOPA for March and June 2024. You can also see other months and currencies on the interactive chart you can access from the link in the lower right corner of each of them.

4/ ICEA Insurance Industry Economic Report for March 2024

5/ According to ICEA data.

6/ The Solvency and Financial Condition Reports (SFCR) for 2023 that are used as the basis for the preparation of this report were consulted as required at the following links:

Allianz: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/investor-relations/en/results-reports/sfcr/2024/en-Allianz-Group-SFCR-2023.pdf

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Poste Vita: https://www.poste.it/files/1476613640747/RelazioneUnicaSolvibilita_CondizioneFinanziaria_31122023.pdf

Sogecap: https://www.assurances.societegenerale.com/uploads/tx_bisgnews/sogecap_groupe_rssf_2023_FR.pdf

HDI: https://www.talanx.com/media/Files/investor-relations/pdf/geschaeftsberichte/risikoberichte/2023/2023-sfcr-hdi-gruppe-en.pdf

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MAPFRE: https://www.mapfre.com/media/accionistas/2023/2023-sfcr-grupo-mapfre.pdf

VIG: https://group.vig/media/bnrjctkg/2023-vig-holding-sfcr.pdf

And those relating to 2022, against which the data is compared, were consulted at the following links:

Allianz: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/investor-relations/en/results-reports/sfcr/2023/en-Allianz-Group-SFCR-2022.pdf

Axa: https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/08a76734-1071-4a91-8bd4-2aabd901549a_AXA_SA_SFCR_FY22_VA.pdf

CNP: https://www.cnp.fr/en/cnp/content/download/10950/file/SFCR-CNP-Assurances-Groupe-20230405-EN.pdf

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7/ See: *2023 Economic and Industry Outlook: Third Quarter Perspectives*, Madrid, Fundación MAPFRE, pp. 79-90.

8/ It should be noted that the transitional measure on technical provisions is only applicable to portfolios that existed at the time the new Solvency II system came into force, on January 1, 2016.

9/ Nationale Nederlanden and Grupo MAPFRE, which had been applying the measure the year before, stopped applying it in 2023.

10/ Considering the change in the composition of the groups considered in the sample, in both 2023 and 2022.

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