Fundación MAPFRE

ECONOMIC AND INDUSTRY OUTLOOK 2019: THIRD QUARTER PERSPECTIVES

MAPFRE Economic Research

Economic and industry outlook 2019: third quarter perspectives

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Executive summary

Economic and industry outlook 2019: third quarter perspectives

In the second quarter of 2019, the main idea of our previous report was confirmed. In this sense, we are fully entering the change of cycle and growth will be softer moving forward, but manageable and not foreseeably recessive. Developments in the second quarter of the year confirm this and are setting the global macroeconomic agenda.

In the second quarter it was found that the previous quarter was indeed better than expected. However, this was essentially due to the anticipation of consumption and industrial resupply in the face of the now very likely tariff increase resulting from the trade conflict between China and the United States. Moreover, we are witnessing a decline in global long-term expectations for both economic activity levels and prices, especially among developed countries. This has favored a new shift toward monetary laxity in the US and the eurozone, which is postponing normalization and easing global financial conditions. This has had a significant impact on emerging market currencies, affording them greater stability despite the weakening of the current account position. This process is occurring at the same time as a new low is emerging in aversion to global risk that is putting off, for the time being, the advent of financial adjustment.

In this context, we have slightly improved our growth forecasts for developed countries (due, first, to the temporary upturn in the first quarter and, second, to the possible effect of the easing of monetary policy), but on the whole, our outlook for more moderate global growth from 2019 onward has not been altered, with similar contributions coming from developed and emerging markets. As a result, global growth is expected to be close to global potential, at around 3.3%.

The central scenario of this report now contemplates a gradual decrease in global trade and industrial production, which is, for the time being, where the only signs of recession can be seen. The sluggishness in the economic activity of developed countries ensures renewed low inflation, which allows their central banks to postpone monetary normalization to beyond 2020, thus tempering the strength of the dollar for the time being. Thus, the euro-dollar exchange rate will still be affected by the long-term interest rate spread between the eurozone and the United States. Emerging markets, for their part, will enjoy better financial conditions and less pressure on the financing of their current accounts and, having adjusted the exchange rate during 2018, would be seeing a neutral bias on their currencies against the dollar and the euro.

The risk assessment for the central scenario is trending downward on the whole. This is similar to what we presented in our previous report, with less emphasis on European governance (post-elections) and on nominal volatility (with the improvement of global financial conditions), but with an additional level of severity and probability owing to the possibility of a trade and industrial adjustment due to the tensions between the United States and China. In addition, according to the report's risk scenario, economic activity could fall at the end of this year, thus its effect on the 2019 forecast is minimal.

Insurance markets

The current economic situation confirms the slowdown in global demand, far from the robust and synchronized growth of 2017. This slowdown in economic growth will eventually be reflected in the dynamics of global insurance premiums. The more accommodative monetary policy measures toward which virtually all monetary authorities are heading may soften the impact on the economy and the insurance business, although they will negatively affect savings Life products and annuities as they materialize. Meanwhile, expectations of lower interest rates may be a stimulus to this business in the short-term.

In the eurozone, growth in its core economies continues to be weak, with the exception of the Spanish economy, which will eventually translate into growth in the insurance business, especially in the Non-Life and Life risk lines of business. Also, low inflation and weak economic growth have led the European Central Bank to adopt new non-conventional accommodative monetary policy measures. The risk-free yield curves show a new fall in interest rates throughout the curve, falling significantly below 2018 minimum levels, with negative values already affecting all terms on the curve of less than ten years. This sustained trend of low interest rates will continue to hamper the development of savings Life products and annuities.

Spain continues to be the most dynamic of the large eurozone economies. Despite the slight slowdown forecast, expectations continue to be positive for the development of the Non-Life and Life risk business lines in the insurance market, albeit with a tendency to decelerate. With regard to savings Life and traditional annuities insurance, the panorama of low interest rates that has been hampering this business still persists and will continue in line with the latest monetary policy messages from the European Central Bank.

Finally, major emerging economies are also facing a possible slowdown in the growth of their insurance business. These include Argentina and Turkey, where the economy remains in recession, and Brazil and Mexico, where weak levels of economic growth are expected.

1. Economic outlook

1.1 Global economic outlook

1.1.1 A closer look at the cycle

The second quarter of the year corroborated the insights set out in our report *Economic and Industry Outlook 2019: Second Quarter Perspectives*, published last April. Global activity is entering a deceleration phase that is already evident in almost all developed economies. Despite the upturn observed in the first quarter arising as a result of a global anticipation of purchases and investment, the vast majority of aggregate indicators of activity, output and expectations are in decline.

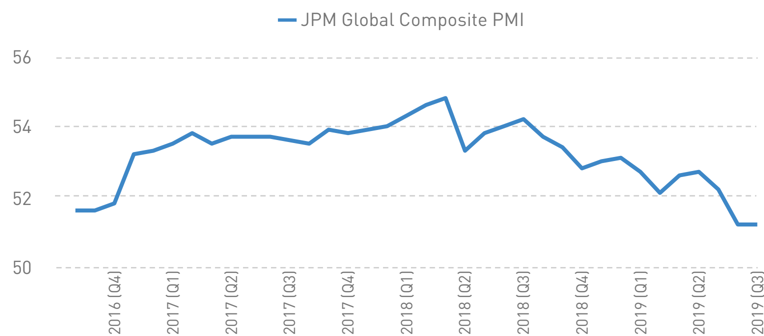
Global and historical data of the purchasing managers' index (see Chart 1.1.1-a) confirms that the cyclical peak was reached at the end of 2018, ushering in the new world economic cycle. This change in cycle, however, occurred earlier in the US economy than in the eurozone, although the late adjustment in the eurozone is proving to be considerably more severe (see Chart 1.1.1-b).

Therefore, it is likely (as anticipated in our previous reports) that growth in the coming years will not exceed our current global potential of around 3.3%, which is our average projection for global GDP in 2019–2020 (see Table A-1 in the Appendix of this report). It should be noted that both emerging and developed markets will contribute to this growth. Thus, the improvement in the outlook for some of the developed countries included in the macroeconomic information tables presented in Section 1.2 of this report is due solely to the incorporation of the best data for the first quarter of the year, as a result of the anticipation effect of purchases and investment mentioned above. This can be confirmed by observing that the decline in purchasing managers' indices (global PMIs) follows the sharp fall in global manufacturing PMIs, while services indices remain steady for the time being (see Chart 1.1.1-c).

Furthermore, we believe that the anticipated global sluggishness will tend to modulate in relation to the trade situation, with global trade and industrial production (industrial orders) being affected most, and with short-term implications for expectations and investment. In this regard, it is clear that, as shown in Chart 1.1.1-d, the sharp slowdown in global trade has been followed by an equivalent downturn in industrial production, from 5% and 3.5% YoY in January 2018, respectively, to virtually 0% on average between the first and second quarters of 2019.

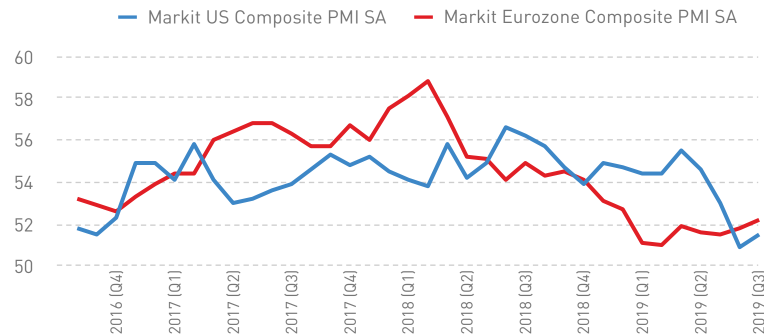
Thus, the trade and tariff tension that the United States has led against China has reached levels that were not expected three months ago as a result of the 5G controversy. China's economy has been most affected by the hardening rhetoric of the US administration (see Charts 1.1.1-e and 1.1.1-f).

Chart 1.1.1-a
Global: JPM Global Composite PMI, 2016–2019



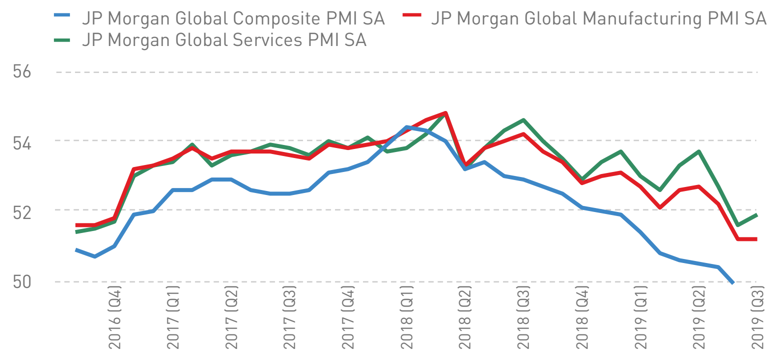
Source: MAPFRE Economic Research (based on JPM data)

Chart 1.1.1-b
United States and Eurozone: PMI Composite, 2016–2019



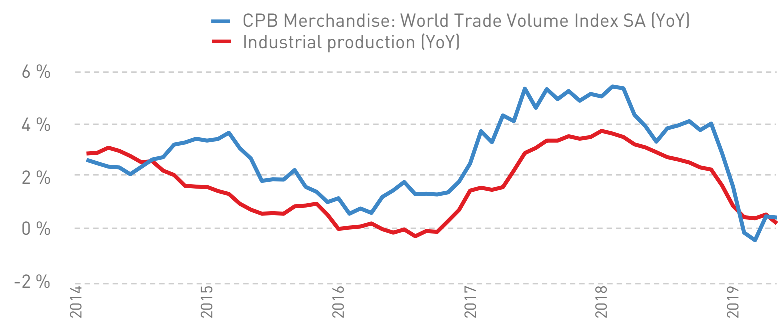
Source: MAPFRE Economic Research (based on Markit data)

Chart 1.1.1-c
Global: PMI Composite (components), 2016–2019

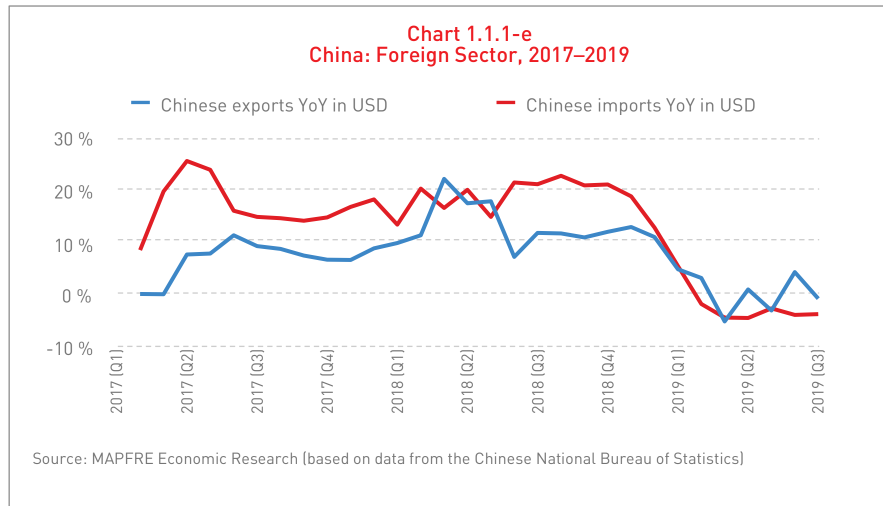


Source: MAPFRE Economic Research (based on JP Morgan data)

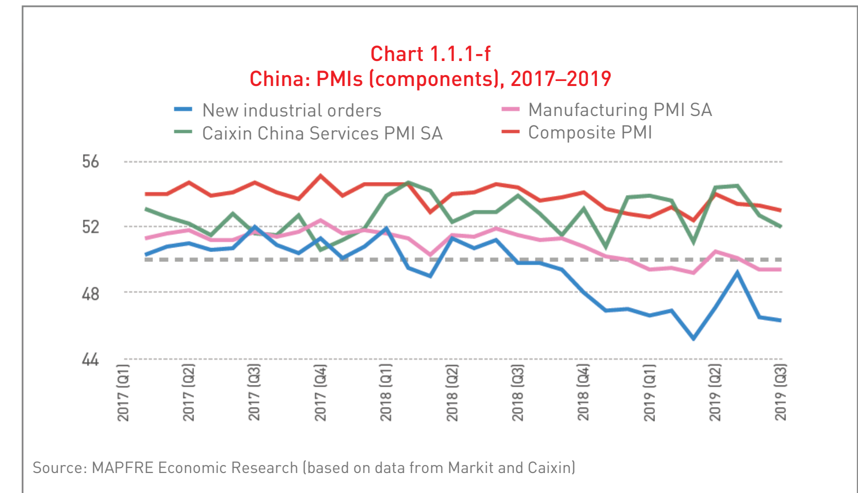
Chart 1.1.1-d
Global: Industrial production and foreign trade, 2014–2019



Source: MAPFRE Economic Research (based on data from World Trade Monitor CPB)



Source: MAPFRE Economic Research (based on data from the Chinese National Bureau of Statistics)



Source: MAPFRE Economic Research (based on data from Markit and Caixin)

The value of products that are part of Chinese exports to the United States and subject to increased tariffs enacted between June and July exceeds USD 200 billion (in addition to the previous USD 50 billion), while the value of US exports to China affected by equivalent tariffs amounts to barely one fourth of that. However, we believe that China will not give in to US demands, despite the fact that there are still some USD 300 billion in additional sanctions yet to be implemented.

1.1.2 New environment of financial conditions

The deterioration in economic activity levels and inflation in the developed world has had repercussions on the monetary policy stance of both the United States and the eurozone (see Box 1.1.2-a). The monetary stance went from discounting a gradual normalization of the extraordinary quantitative easing (QE) measures (in the United States and the eurozone) and rate increases toward its natural rate of interest at the end of 2019 (in the United States), to a new, clearly more lax monetary stance. Thus, we have gone from expecting increases in the US refi rate up to 3% in 2019, to considering an interest rate cut of 25 basis points in the remainder of the year and another in the following year.

As a result, global financial conditions once again became very favorable, with an impact on global markets through portfolio flows, the search for

Box 1.1.2-a

Monetary Policy Update

European Central Bank

At its meeting on June 6, the European Central Bank (ECB) maintained its monetary policy stance. First, it left official interest rates unchanged (0% loan and -0.4% deposit), extending the expectation that they will remain at current levels by six months (until the first half of 2020). Second, it communicated its intention to continue to reinvest the full principal amount of the securities acquired under the asset purchase program as they expire over a prolonged period, after the date on which ECB official interest rates begin to increase and, in any case, within the time necessary to maintain favorable liquidity conditions and extensive monetary accommodation. Third, with regard to the return on quarterly targeted longer-term refinancing operations (TLTRO III), it announced that the interest rate for each operation will be set 10 basis points (bp) above the average rate applied to the Eurosystem's main refinancing operations throughout the life of the operation and allowing a lower rate to be applied (as low as the average interest rate applicable to the deposit facility for the duration of the operation +10 bp, -0.3%) to companies exceeding their lending benchmark.

Given the situation of succession (Mario Draghi ends his term in October 2019), the uncertainty over who will chair the ECB seems to have been dispelled. After eight years as managing director of the International Monetary Fund, Christine Lagarde has been nominated to replace Draghi as president.

Macroeconomic forecasts experienced a slight upward revision for 2019, but continued to deteriorate over the longer term (see Table A). In this sense, the uncertainty surrounding Brexit, the global surge in protectionism and the intensification of geopolitical risks continue to weigh on global economic outlooks that are already in a slow-down phase.

Outlook

Despite the welcome arrival of better-than-expected first-quarter data, the economic slowdown in the eurozone and the deterioration of the external context are weighting increasingly more on the ECB's governing council, which has begun to consider the possibility of reactivating stimulus measures. In this sense, the President (M. Draghi) wanted to demonstrate the space remaining for non-conventional measures, avoiding impact on the dimension and significance of these, but keeping them as potentially usable in case of contingency.

Table A.
ECB: Macroeconomic forecasts, March vs. June 2019

	June 2019			
	2018	2019	2020	2021
GDP	1.8	1.2	1.4	1.4
HICP	1.8	1.3	1.4	1.6
	March 2019			
	2018	2019	2020	2021
GDP	1.9	1.1	1.6	1.5
HICP	1.7	1.2	1.5	1.6

Source: ECB

Box 1.1.2-a (continued)
Monetary policy update

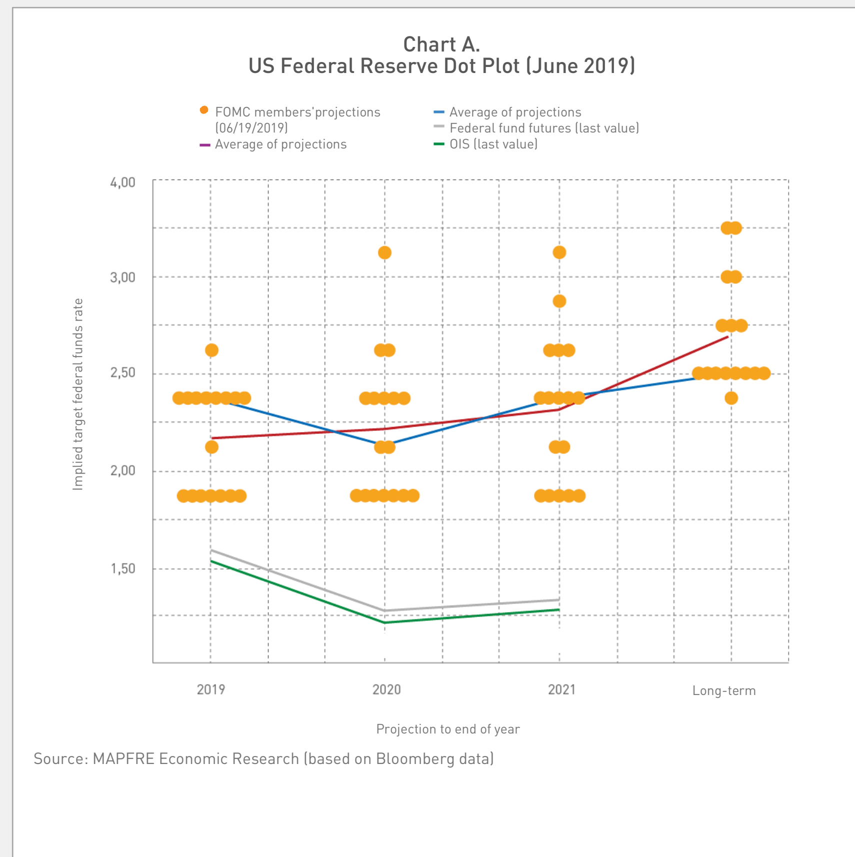
In the short-term, a new round of refinancing (TLTRO III) could serve to alleviate the traditionally cyclical sectors that suffer most from increased protectionism and the global slowdown. At the same time, this additional, albeit modest, monetary stimulus measure, accompanied by greater fiscal laxity, could soften the pace of deceleration, mitigate vulnerability to some of the external risks and generate more transitory growth rates in the long-term.

In the longer term, and given the broad spectrum of risk in the eurozone (trade and geopolitical frictions have been felt from Germany to Italy), the implementation of structural reforms (completion of the banking union or the establishment of a common budget) is seen as an urgent need to move toward the formation of a bloc that gives stronger macroeconomic responses.

The Federal Reserve

The US Federal Reserve held interest rates between 2.25–2.50%, as well as the projected balance reduction program. The Federal Open Market Committee (FOMC) thus safeguarded the independence of the agency (a fundamental pillar of monetary policy) against increasing political pressure from the White House, and distanced its stance from expectations of market cuts, yet opening the door to the possibility of them becoming effective (see Chart A).

Chart A.
US Federal Reserve Dot Plot (June 2019)



Source: MAPFRE Economic Research (based on Bloomberg data)

Box 1.1.2-a (continued)
Monetary policy update

At the macroeconomic level, the growth forecast remains stable, although it incorporates slight downward changes in its inflation outlook (see Table B). However, as was the case in the ECB meeting held at the beginning of June, prudent discussion and the possibility of reintroducing monetary stimulus prevail in an environment with increasing economic uncertainty and geopolitical tensions.

Outlook

The moderation of the most recent economic data (solid at the last meeting in March) adds to the current accumulation of global impairments and uncertainties that threaten the sustainability of the current cycle. In response, the US body is leaving its patient stance behind as it waits for more data to justify the need to act in case the situation does not improve.

In the short-term, and as recent published minutes show, the possibility of applying a cut in interest rates has emerged. However, and although the decision will remain linked to future data trends, a more preventive movement would ensure the prolongation of the dual objective of stability in growth and prices.

In the longer term, and if we still see risks and uncertainties or signs of economic decline that become recessionary, the margin accumulated by the Federal Reserve would serve to apply more pronounced cuts accompanied by a shift in the position of its balance sheet (currently in the reduction phase), recovering the purchases of assets in the form of new QE.

Table B.
Federal Reserve: Macroeconomic forecasts, March vs. June 2019

	June 2019		
	2019	2020	2021
GDP	2.1	2.0	1.8
PCE	1.5	1.9	2.0
	March 2019		
	2019	2020	2021
GDP	2.1	1.9	1.8
PCE	1.8	2.0	2.0

Source: Federal Reserve

Global Summary

Easing monetary policy in the main developed economies toward more flexible environments that accommodate economic growth toward weaker rates could fuel both the accumulation of imbalances and the expansion of structural reforms. In this sense, and although lower appreciations are expected on strong currencies, generating some relief for emerging market currencies, a greater aversion to the risk responding to the increase in uncertainties and the already high position in these countries should not lead to heavy flows in emerging economies.

secure assets and the expansion of the current account financing capacity of many economies with moderate deficits. The interest rate curves of developed countries lost slope again (a decline in their temporary premium) and the pressure of the US dollar (USD) was generally diluted, allowing for a degree of recovery among some emerging market currencies (see Box 1.1.2-b).

In emerging markets, not only did pressure on currencies moderate, but space was also gained to consistently adjust official interest rate forecasts, allowing, in general terms, a looser outlook without affecting their currencies. In contrast, it is striking that flows to emerging markets have not been greater despite the looser bias of US monetary policy. The consensus attributes this paradox to a stock effect, i.e. that everything that is affordable in fixed income and emerging equities is already in the portfolios of global savings exporters.

1.1.3 Balance of risks

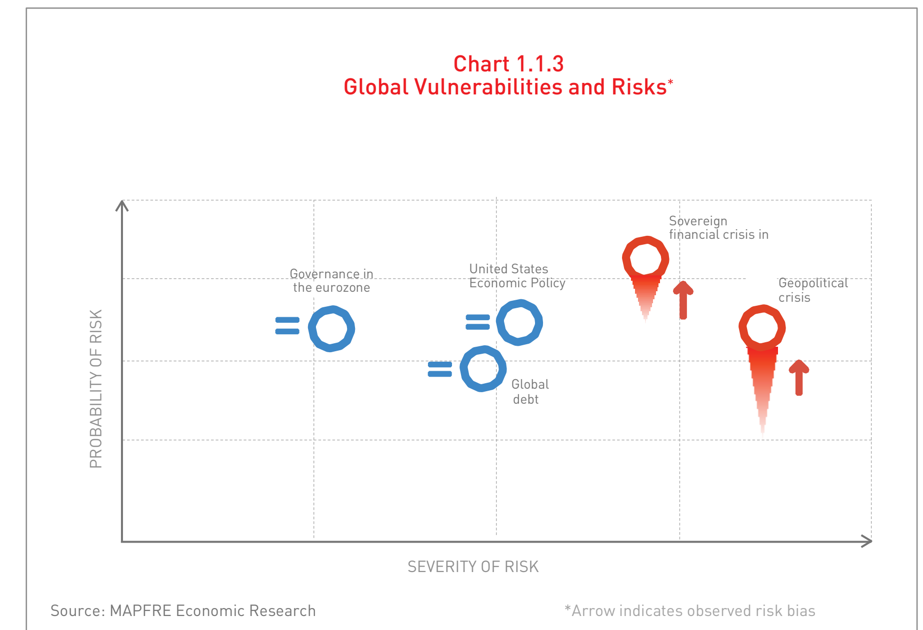
As in previous editions of this report, we review our scorecard of potential global risks, weighing their probability and severity. As illustrated in Chart 1.1.3, we highlight five global risks.

First, there is the governance of the eurozone (which maintains its expected probability and severity). The European elections yielded results in line with the political trend of recent years, according to which, at an aggregate level, the expected greater presence of populist parties was fulfilled, although they have low potential for cohesion. However, at the national level, governance risks are increasing due to the results of countries such as Italy (La Liga's show of strength, which translates into greater bargaining power), Greece (Tsipras' call for early elections), and the United Kingdom (which places greater pressure on the current fragile equilibrium around Brexit).

Second, we highlight the risk arising from economic policy in the United States (which also maintains its expected probability and severity). The moderation of the most recent economic data, rated as solid at the latest Federal Reserve meeting in March, adds to the current accumulation of global impairments and uncertainties that threaten the sustainability of the current economic cycle. In response, the Fed is leaving its patient stance behind as it waits for more data to justify the need to act, whether preventively or reactively.

Thirdly, there is the macro-financial adjustment in China (which increases in probability). Although the counter-cyclical measures established by

Chart 1.1.3
Global Vulnerabilities and Risks*



Source: MAPFRE Economic Research

*Arrow indicates observed risk bias

Box 1.1.2-b
Emerging country exchange rate volatility and balance of payments

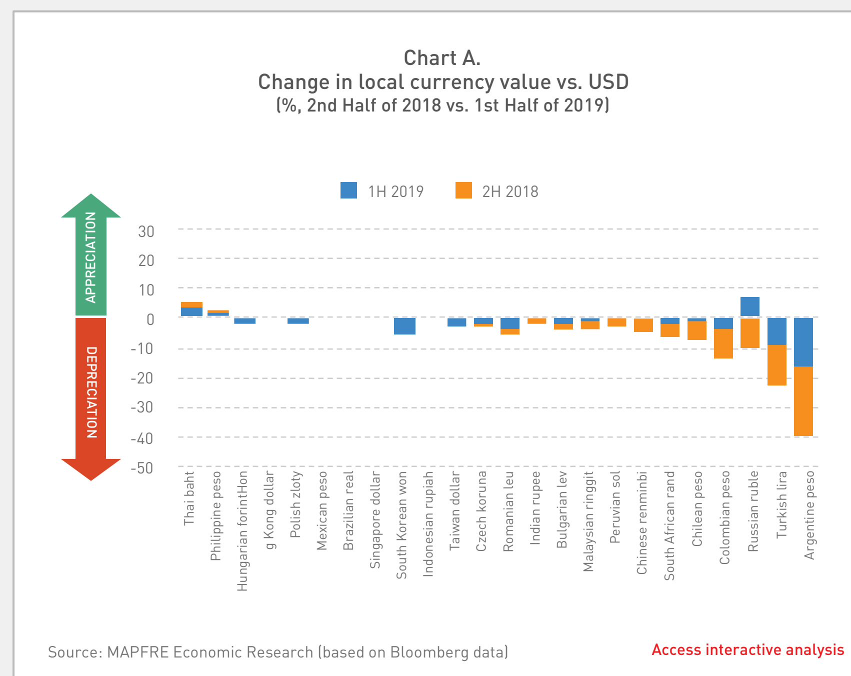
Update

Throughout the past year (between the second half of 2018 and the first half of 2019) there has been a dynamic exchange of emerging market currencies against the USD with some peculiar facts that distinguish the current phase from the previous one. The primary milestone has to do with the change in dynamics from the beginning of 2019, which has led to a notable moderation in the depreciation of emerging market currencies, especially many of those that suffered most during the past year.

It is important to point out that the change in dynamics shaped by the transition from 2018 to 2019 is occurring in the midst of three significant events:

- Better dynamics in the economic activity of emerging markets that export commodities, notably thanks to new demand stimulus from China, and coinciding with poorer relative performance of developed markets (widening the growth differential).
- A context of very low aversion to global risk, measured by a historically low VIX index that, paradoxically, coexists with the belief in an imminent and sudden upturn, as shown by the high number of short positions on it.
- A renewal of the ultra-accommodative bias of the monetary policy of central banks in developed countries (especially the European Central Bank and, increasingly, the Federal Reserve), in response to the loss of dynamism in activity and inflation.

Chart A.
Change in local currency value vs. USD
(%, 2nd Half of 2018 vs. 1st Half of 2019)



Source: MAPFRE Economic Research (based on Bloomberg data)

Access interactive analysis

This environment has produced a certain neutrality in the dynamics of most emerging market currencies and, in any case, a very selective depreciation limited to currencies with strong idiosyncratic shocks, or that go through the necessary correction due to sharp current imbalances.

Box 1.1.2-b (continued)
Emerging country exchange rate volatility and balance of payments

Characterization of the situation in emerging markets

When examining the relationship between the balance of payments and exchange rate dynamics, four groups stand out for analytical purposes: (i) the average of emerging markets; (ii) emerging markets with a current account surplus; (iii) emerging markets with a moderate and sustainable deficit; and (iv) emerging markets that are in an unsustainable deficit situation with a high probability of ending up in a balance of payments crisis.

An analysis of these groups confirms that countries with current account surpluses have further strengthened their external position thanks to the commodity cycle, and their currency has remained consistently robust. For their part, countries that had a tolerable current account deficit have seen it slightly worsen, but they have no problems in their financing; the financial account, net external position and liquidity remain comfortable, and their currencies with soft dynamics. Last, countries with strong imbalances in their current account, and in their financing and external debtor and liquidity positions have seen their position worsen further still, and this has been seen tangibly in the sharp and constant depreciation of their currencies, even today.

the Chinese government and their still wide margin (recently an additional stimulus has been approved reducing the banking reserve rate by 50 basis points) seem to have softened the pace of the economy's slowdown and eased the downturn in manufacturing indices, greater weakness of the renminbi (near the risk threshold known as "crack seven") as a mechanism to absorb the impact of tariffs in the face of growing tensions with the United States, added to the high levels of accumulated debt, could trigger a new stress event.

Fourth, we point to risk related to global leverage levels (which maintains its expected probability and severity). Although global debt levels remain historically high, the sign in recent weeks of greater monetary easing from the main central banks lends debt dynamics greater support and reduces the likelihood of this risk materializing. In contrast, however, concerns are increasing about fiscal stimulus and their effectiveness as a response to the global slowdown, pressures from the demographic challenge, and the composition and risk profile of debt. The prolonged environment of low interest rates, which has effectively reduced the returns that investors can expect to earn, along with the emergence of new participants in the capital markets (shadow banking), has led to greater risk-taking by the main players in the financial system, who have now found attractive returns in leveraged products at a favorable juncture in the economic cycle. However, in a scenario of deepening impairment of economic activity that could lead to a rebound in default rates, the potential impact of this type of product in terms of liquidity would increase and could eventually undermine the stability of the financial system.

Finally, we assess the risk associated with geopolitics (which increases in probability). The rise in the tone of the Trump administration and its stance on the positioning of the United States have led to an upsurge in geopolitical tensions in different regions. In Latin America, with the recent impositions on Mexico and the "Northern Triangle" in Central American on migration issues, and the insistent economic and diplomatic pressures on Venezuela. And across the Atlantic, with trade pressure on different economies in the eurozone and, more energetically, on China with a new tariff escalation that expands to other regions of Asia, thus dispelling the optimism from the beginning of the year (the global dispute for leadership in 5G, which is still in its initial phases of conflict, should crystallize in the coming months as the blocs become polarized). Another source of geopolitical instability revolves around the price of oil, driven by sanctions against Venezuela and Iran; the failure to reach an understanding between OPEC members, who could not even agree on the date of the next meeting; and, finally, the alarm going off in the Persian Gulf, where the escalation of tensions is rising by the minute.

1.2 Forecasts and risk assessment in selected economies

1.2.1 United States

Deceleration underway

Economic activity in the United States gave a robust signal in the first quarter of the year, with 3.2% year-on-year GDP growth mainly linked to domestic demand. Private consumption grew 2.8%, while investment grew around 2.9% (YoY), thus compensating for the worse performance of the external sector (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b). The figure, however, should be taken with a grain of salt, as much of the demand momentum had a lot to do with the anticipation of consumption and supply of inventories in the face of a (now more likely) trade imbalance vis-à-vis the rest of the world, while the fiscal stimulus (especially from tax exemptions) made its last contribution to activity levels.

- **Improvement that does not elude a foreseeable slowdown motivated by the trade crisis and by the economic cycle itself.**
- **The risk of recession exists, but it seems to be controlled.**
- **Predictable easing of monetary policy.**

For the remainder of 2019, economic activity will remain close to (but below) potential (2.5% vs. 2.9% in 2018), mainly supported by domestic demand thanks to wage gains (+3.4% in May) and better financial conditions. This better initial performance only accounts in part for the improvement in our outlook moving forward (revision of +0.2 percentage points to 2.5% YoY in 2019), since the fundamental factor is expected greater support on the monetary side in the face of a darker economic outlook beyond 2019.

For the remainder of 2019, the indicators confirm the view of MAPFRE Economic Research[1] that economic activity in the United States is entering a slowdown that remains manageable for the time being. The GDP items most sensitive to expectations are losing dynamism: consumption has increased by 1.3% (QoQ), while total investment has increased by 1% (QoQ), largely as a result of the contraction of capital goods investment (-1% QoQ). Another sign of cycle change has to do with job creation, which in May only amounted to seventy-five thousand new jobs compared to the two hundred thousand needed (and expected) to grow with a positive

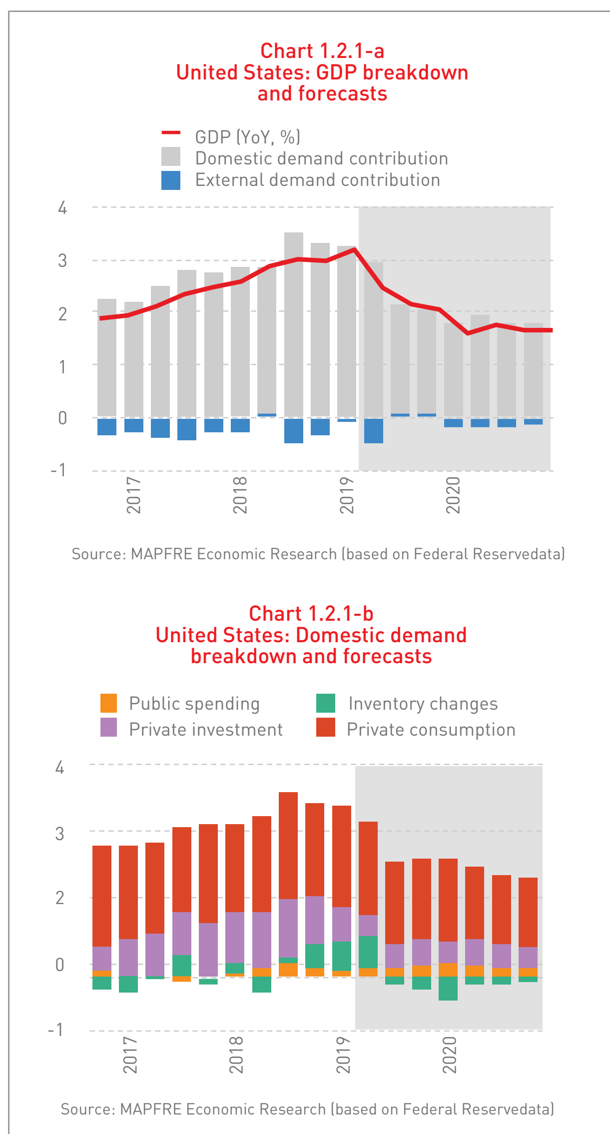


Table 1.2.1
United States: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	2.4	2.9	1.6	2.2	2.9	2.5	1.7
Domestic demand contribution	2.2	3.7	1.8	2.6	3.1	2.6	1.8
External demand contribution	0.2	-0.8	-0.3	-0.3	-0.3	-0.1	-0.2
Private consumption contribution	2.0	2.5	1.9	1.8	1.8	1.7	1.4
Private investment contribution	0.6	0.7	0.3	0.8	1.0	0.5	0.4
Public spending contribution	-0.1	0.2	0.2	-0.0	0.2	0.2	0.2
Domestic demand (% YoY, average)	2.6	3.6	1.7	2.5	3.0	2.5	1.8
Total consumption (% YoY, average)	2.3	3.4	2.5	2.1	2.4	2.3	1.9
Private investment (% YoY, average)	4.9	3.3	1.7	4.0	4.8	2.4	2.1
Exports (YoY in %)	4.3	0.6	-0.1	3.0	4.0	0.9	1.8
Imports (YoY in %)	5.1	5.5	1.9	4.6	4.6	1.0	2.6
Unemployment rate (%, last quarter)	5.7	5.0	4.8	4.1	3.8	3.5	3.5
Inflation (% YoY, last quarter)	1.2	0.4	1.8	2.1	2.2	2.0	1.8
Fiscal balance (% of GDP)	-5.2	-4.8	-5.3	-4.1	-6.5	-6.6	-6.7
Trade balance (% of GDP)	-4.4	-4.4	-4.2	-4.3	-4.4	-4.3	-4.3
Fiscal stimulus (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-2.1	-2.2	-2.3	-2.3	-2.4	-2.5	-2.6
Official interest rate (end of period)	0.25	0.50	0.75	1.50	2.50	2.25	2.00
Short-term rate (end of period)	0.26	0.61	1.00	1.69	2.81	2.42	2.42
Long-term rate (end of period)	2.17	2.27	2.45	2.40	2.69	2.00	2.13
Exchange Rate vs. USD (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Exchange rate vs euro (end of period)	1.21	1.09	1.05	1.20	1.15	1.15	1.18
Private lending (% YoY, average)	7.4	2.5	3.2	6.6	3.9	0.0	3.8
Household lending (% YoY, average)	1.7	1.8	2.2	3.5	3.5	3.7	5.6
P.S. non-financial lending (% YoY, average)	5.2	5.7	5.3	6.4	9.4	5.6	3.6
P.S. financial lending (% YoY, average)	2.7	2.1	4.3	2.9	2.2	1.5	1.1
Savings rate (%, average)	7.3	7.6	6.7	6.7	6.7	6.5	6.3

Source: MAPFRE Economic Research (based on Federal Reserve data)
Forecast end date: July 5, 2019.

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output gap. In addition, orders for durable goods saw the worst figure since 2016 (-3.3%), just before the start of the current administration's stimulus package. Actual data has converged in part with the worsening in expectations (PMIs) seen since late 2018.

In addition, the context of frictional unemployment at a rate (3.6%) has been a consistently excellent predictor of the last 10 recessions and the term premium is now negative (the 10y–3m yield curve spread is negative), which also acts as a predictor of a possible recession. Likewise, the recession probability indicator for the next 12 months as calculated by the Federal Reserve of New York stands above 30%.

Although it is logical to consider the possibility of a recession in the short-term, the indicators must be interpreted in the current setting: the NAIRU[2] (which depends on the structural conditions of the economy) does not necessarily have to be below the current unemployment rate, and unlike in the past, the US curve is now strongly influenced by non-market mechanisms. The recession probability indicator, at 30% in the next 12 months, will only increase in probability as time goes by. Thus, it is not the probability itself that matters, but the speed at which it increases, and this remains moderate for the time being.

Therefore, we reaffirm our conviction that the risk of a recession in the US economy is low for the 2019–2020 horizon. Indeed, consumer confidence indicators remain high, non-financial wealth remains robust (thanks to home equity), and both dynamic wage growth and systemic (known) financial risks are under control for the time being. This conviction stands even in the risk scenario prepared for the purposes of this report, which arises as a result of a deeper slowdown (due to the trade channel and expectations), but not because of a recession.

Also, inflation eased in May to 1.8%, with the core inflation at 2.0%, in a context in which expectations remain anchored, even in the face of a possible upturn due to trade problems. This gives the Federal Reserve room to act in support of growth if necessary, as in fact discussed in the central scenario of this report. At its meeting on June 19, the Federal Reserve kept rates in the range of 2.25–2.50%, contrary the pressures of the current administration and reaffirming its independence, which was welcomed by the markets. But despite this, the shift in bias toward a more accommodating monetary stance is evident (no board member voted to continue converging toward the path of its natural rate) to such an extent that it has been reflected in market expectations, which is discounting two cuts of 25 basis points by the end of the year and, in all likelihood, at least one more in 2020. In our view, the Federal Reserve will accommodate the slowdown in activity levels, especially in the transition to 2020. For that reason, we only expect an initial interest rate cut in the fourth quarter of the year, and at least one more in the first quarter of 2020.

The lower expectation of economic growth on the horizon, following the renewal of the accommodative monetary bias (see Box 1.2.1), has led to a compression of long-term interest rates. The 10-year interest rate stood at 2.0% at the end of June (against 3.2% in November 2018); a situation that would have supported a certain depreciation of the USD if the ECB had not emphasized the need to reactivate monetary stimulus. It is not expected, however, that the Federal Reserve will allow a further strengthening of the USD in the current setting and we believe that stimulus is forthcoming, although later than the ECB. We continue to expect the EUR/USD exchange to reach around 1.15 by the end of 2019.

As noted above, although no recession is forecast for the US economy, the risk balance for said economy is clearly down. The most evident is the one arising from the short-term trade tension with China and, indirectly, with third countries, as well as the spread of these tensions to certain European sectors. Similarly, non-approval of the recently agreed trade treaty between the United States, Mexico and Canada (USMCA) would have the same effect. It is estimated that this could reduce cumulative GDP growth by between 0.2 and 0.3 percentage points by the end of 2020. Other less obvious risks are the high leverage of certain sectors financed with minimally secured debt, and the financial situation of certain sectors previously masked by the second-order effects of QE over the last decade. Finally, it is striking to note that all of the S&P 500 and NASDAQ growth has been due to the repurchase of equity by companies, an incentive born of excess liquidity. In the longer term, the problems stemming from the current fiscal situation (debt, high deficit, etc.) persist, especially due to the effects of debt servicing costs in an environment of lower overall economic growth.

1.2.2 Eurozone

Sectoral slowdown and the ECB, again, to the rescue.

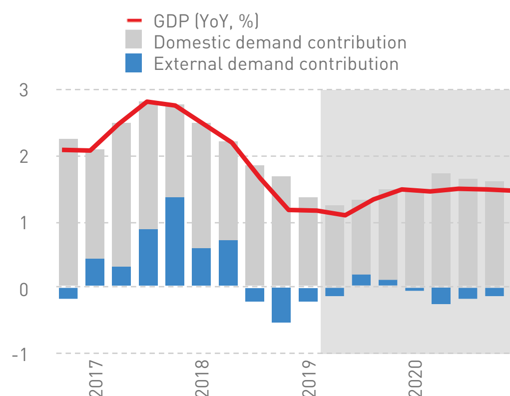
In the eurozone, growth of 1.2% YoY (0.4% QoQ) in the first quarter of 2019 was good news after two quarters of growth of around 0.2% QoQ. This was achieved through robust domestic demand, through both private consumption and investment. However, the latest data suggests that the second quarter will not be as strong as the previous quarter. Car sales are declining, the ZEW economic sentiment index has fallen sharply in June to -20.2 from -1.6 in May, and consumer confidence has been negative since mid-2018.

- **Rebound in the first quarter of 2019, temporary and non-resilient.**
- **The ECB again comes to the rescue in the face of a (industrial) slowdown.**
- **Institutional renewal: Commission, Council, European Parliament and European Central Bank.**

Thus, growth in the second quarter of the year is expected to have moderated to around 0.3% QoQ and to remain at these levels throughout the second half of the year, thanks to the support of the ECB's stimulus measures, in addition to the good employment situation (7.6% in April) and the growth in real wages (close to 2%), which favors the continuity of the current consumption trend. As a result, our growth forecast has been improved by one-tenth to 1.3% YoY in 2019 and one-tenth in 2020 to 1.5% (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b), partly compensating for the overreaction of the previous quarter and partly after incorporating two significant developments: the easing of uncertainty over European governance, and the expected monetary support from the ECB.

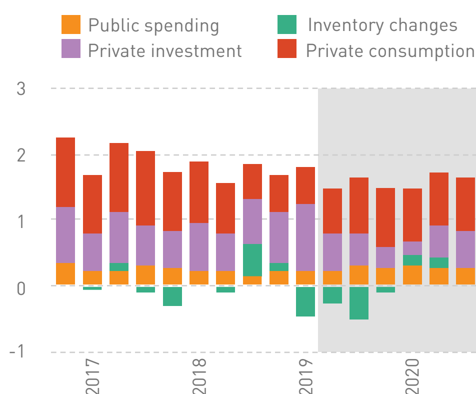
The current situation in the eurozone in recent months has been marked by the recessionary environment of some major trading partners that contracted their imports (Turkey and Italy, among others), and due to the consequences of "Dieselgate" in the context of the first signs of installed plant excess being seen. These two facts have, for the time being, had more effect on investment than can be attributed to trade tensions or Brexit, which, at this point in time, have led to a visible worsening in confidence indicators. If the bilateral trade tension between the United States and China is not resolved, Europe could benefit from redirected Chinese imports in response to US-imposed tariffs. However, if resolved, the next in line to face the United States would have to be

Chart 1.2.2-a
Eurozone: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on ECB data)

Chart 1.2.2-b
Eurozone: Domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on ECB data)

Table 1.2.2
Eurozone: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	1.4	2.0	1.9	2.5	1.9	1.3	1.5
Domestic demand contribution	0.8	2.2	2.3	1.8	1.7	1.3	1.6
External demand contribution	0.6	-0.2	-0.4	0.7	0.1	-0.0	-0.1
Private consumption contribution	0.5	1.0	1.0	1.0	0.7	0.8	0.8
Private investment contribution	0.1	0.9	0.8	0.6	0.7	0.6	0.5
Public spending contribution	0.2	0.3	0.4	0.3	0.2	0.3	0.3
Domestic demand (% YoY, average)	1.3	2.3	2.4	1.9	1.8	1.3	1.7
Total consumption (% YoY, average)	0.9	1.6	1.8	1.7	1.2	1.4	1.5
Private investment (% YoY, average)	1.7	4.6	4.0	3.0	3.3	2.8	2.1
Exports (YoY in %)	4.7	6.4	3.0	5.4	3.2	2.5	2.7
Imports (YoY in %)	4.8	7.5	4.2	4.1	3.2	2.7	3.2
Unemployment rate (%, last quarter)	11.4	10.5	9.7	8.7	7.9	7.6	7.4
Inflation (% YoY, last quarter)	0.2	0.3	0.7	1.4	1.9	1.2	1.3
Fiscal balance (% of GDP)	-2.5	-2.0	-1.5	-1.0	-0.5	-0.9	-0.9
Trade balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal stimulus (% of GDP)	0.1	0.3	0.6	1.0	1.3	1.6	1.4
Current account balance (% of GDP)	2.5	2.7	3.1	3.2	2.9	2.9	2.6
Official interest rate (end of period)	0.05	0.05	0.00	0.00	0.00	0.00	0.00
Short-term rate (end of period)	0.08	-0.13	-0.32	-0.33	-0.31	-0.33	-0.26
Long-term rate (end of period)	1.34	1.20	1.04	0.91	1.09	0.61	0.99
Exchange Rate vs. USD (end of period)	1.21	1.09	1.05	1.20	1.15	1.15	1.18
Exchange rate vs euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	-0.2	0.9	1.7	2.7	2.6	3.9	3.2
P.S. non-financial lending (% YoY, average)	2.0	8.6	1.8	1.3	2.0	0.6	1.3
P.S. financial lending (% YoY, average)	6.3	16.8	4.0	-0.5	0.2	1.4	2.0
Savings rate (%, average)	12.6	12.3	12.1	11.8	12.0	12.3	12.1

Source: MAPFRE Economic Research (based on ECB data)
Forecast end date: July 5, 2019.

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the eurozone (we should recall the threats made against the automotive sector).

In addition, inflation in the eurozone slowed again to 1.2% in June and, more seriously, the core inflation rate of 0.8% YoY, fueling fears of disinflation and pushing the ECB even further away from its monetary policy target (2%). Thus, at its meeting on June 6, the ECB reported that interest rates will remain unchanged until the first half of 2020, thereby pushing back normalization by one year (see Box 1.2.1), in line with what we had anticipated in our previous report[3]. In addition, the ECB announced details of a new series of quarterly longer-term refinancing operations with a specific target (TLTRO III), in which the interest rate for each operation will be set at 10 basis points above the average rate applied to the main refinancing operations of the Eurosystem throughout the life of the operations.

Going forward, the market still considers there to be additional margin to lower (deposit) rates and further incentivize the generation of liquidity. However, in its attempt to provide liquidity, the ECB may err on the side of being too punitive on the banking intermediation margin, while it cannot overlook the fact that the stability of the financial system's balance sheet faces the challenge arising from low long-term debt interest rates. The new capital requirements announced by the European Banking Authority (EBA) are an example of this.

With regard to the exchange rate, the ECB's messages in support of economic and price stability have been welcomed by the exchange markets, while a message and expectations of a turn toward accommodation in the United States have strengthened the euro, which has returned to levels of 1.13 USD/EUR. However, given the intensity and speed of adjustment by the Federal Reserve and the ECB, we expect a depreciation toward 1.15 USD/EUR by the end of the year.

In addition, the first half of July saw a complete renewal of high-level positions in European institutions, including the new President of the European Commission, Ursula von der Leyen (who has been confirmed by the European Parliament), and of the ECB, Christine Lagarde, among others. The outcome of this process is likely to have ambiguous consequences: on one hand, it may rein in some of the risks the European Union is facing but, at the same time, pose major challenges for the future (see Box 1.2.2).

The main risks for growth in the eurozone continue to be: (i) the potential imposition of tariffs on EU car exports to the United States; (ii) the lack of growth of destination markets for European exports; and (iii) a deepening of the manufacturing recession. In addition, at the end of the year, there will be the risk of a no-deal Brexit (although there is now a greater chance of a further postponement due to the delay in resuming negotiations), and the risk of an excessive deficit procedure in Italy that would entail economic sanctions, together with the resurgence of Euroskepticism in that country.

1.2.3 Spain

- **Tourism is still strong, while industry and construction are slowing down.**
- **Unemployment rate at lowest level in the past decade.**
- **Competitiveness faces challenges.**

Unemployment returns to 2008 levels, but there are signs of a slowdown. The Spanish economy grew 2.4% (YoY) in the first quarter of 2019, better than expected, bringing the unemployment rate to 2008 levels. This upturn in economic activity has mainly resulted from the expansion of public spending and, very especially, from the compression of financial costs in general, in particular those of the sovereign. However, there are indications that activity will slow down

Box 1.2.2
European Union: Institutional adjustments

European elections: the new normal

The result of the European elections and the subsequent negotiations to agree on the highest positions of European Union institutions (Commission, Parliament and European Council) revealed what will become the new normal for European politics: a struggle for social democrats, socialists and liberals to reach forced agreements, under the shadow of extreme right-wing and left-wing parties that not are not only gaining in power, but are also influencing the content and timing of the political agenda at both a national and EU level.

A result not as bad as expected

The ninth legislature of the European Parliament was officially constituted on July 2 and the new parliament is made up of seven political groups. The centrist European People's Party (EPP, 182 seats) and the Alliance of Socialists and Democrats (S&D, 154 seats) lost their collective majority for the first time, as the Renew Europe group (successor to the Alliance of Liberals and Democrats for Europe, ALDE), led by Emmanuel Macron's En Marche party, increased its seats from 69 to 108. Green, populist and liberal parties rose, while right-wing populists won elections in Italy, Poland, Hungary, France and the UK, but their performance was worse than expected across the bloc.

The divisions between parliamentary groups are not only political, but also geographical. The EPP has almost no members (MEPs) from France or Italy, but has large delegations from Germany and northern Europe. S&D receives much more support from the Iberian Peninsula and Italy, with relatively few MEPs from France and the Visegrad group (Czech Republic, Hungary, Poland, Slovakia). Liberals, for their part, have benefited enormously from Macron's work with En Marche.

On July 2, EU leaders proposed a list of candidates to cover the main functions of the bloc.

Who's who

The German Defense Minister, Ursula von der Leyen (EPP), was appointed President of the European Commission, and the acting Spanish Foreign Minister, Josep Borrell (S&D), was appointed High Representative of the Union for Foreign Affairs and Security Policy. If the European Parliament approves their candidacies on July 16, their five-year terms will begin in October. European Union leaders also elected the managing director of the International Monetary Fund (IMF), France's Christine Lagarde, to chair the European Central Bank (ECB). In addition, the acting Belgian Liberal Prime Minister Charles Michel was appointed the new President of the European Council. For its part, the European Parliament elected the Italian Socialist David-Maria Sassoli as its new President on July 3.

A transcendental change

Under pressure from France, the leaders did not apply the so-called *Spitzenkandidat* mechanism, under which the President of the Commission should be the main candidate of the largest party of the European Parliament, and which gave him the stability of being the candidate to whom all groups had to concede due to predetermined consensus, which

Box 1.2.2 (continued)
European Union: institutional adjustments

was what granted Jean-Claude Juncker a unified voice in the last legislature.

In addition, the four elected candidates are from Western Europe and three of the six founding countries of the European Union. The package favors the old guard parties, which is another reason for possible concern among MEPs, who might feel uncomfortable that the Council has not appointed any of the *Spitzenkandidaten*.

Benefits but not without costs

The election of von der Leyen was a decision that ruled out the candidacy of the German conservative Manfred Weber (EPP). Von der Leyen was a compromise solution between Paris and Berlin, which will give Germany the presidency of the Commission for the first time in sixty years. Von der Leyen supports the federalization of the European Union as well as the activation of a European army, but has often been criticized in her country for her handling of the German armed forces and her positions on many political issues are unknown.

As for Brexit, one of the Commission's most urgent challenges, von der Leyen has advocated seeking compromises with the United Kingdom; at this time, it remains to be seen whether the ability to negotiate remains, especially when the United Kingdom is about to elect Boris Johnson as Prime Minister, a clear supporter of a no-deal Brexit.

Christine Lagarde was the choice of President Macron. The lawyer and former finance minister is not a central banker, but she is likely to continue the policies of current ECB President Mario Draghi, which over the years have included unprecedented bond purchase programs and interest rates. In this sense, Lagarde is good news for the countries of southern Europe, which have benefited from Draghi's policies, and have opposed Germany's appropriation of the ECB. It remains to be seen, however, how her technical ability will hold up in a tense situation. Moreover, it should not be forgotten that the Vice President of the ECB is the Spaniard Luis de Guindos, and that José Manuel Campa is the President of the European Banking Authority (EBA), the supervisory institution of the European banking system.

In this context, European Union leaders will now begin discussions on the priorities of the new Commission and the allocation of portfolios among countries. Italy and the members of the Visegrad Group are expected to exert pressure aimed at gaining positions with weight, threatening to split the bloc in two if their concerns about the federalist direction of the new appointments are not taken into account. The final outcome will depend on the ability of the Paris-Berlin axis to overcome its difficulties and regain the confidence of European citizens in an ever-closer Union, and on the ability of southern European governments to support French and German leaders.

Overall assessment

- It seems positive that there has been a strengthening of the European Union axis represented politically and nationally by its founders (France, Luxembourg and Germany) and that the most fractious partners (Visegrad and Italy) have been neutralized. In this regard, the foreseeable election of Ursula von der Leyen as President of the Commission, Charles Michel as President of the European Council and Christine Lagarde as President of the ECB will ensure a Europeanist approach.

Box 1.2.2 (continued)
European Union: institutional adjustments

- Although the proportion representing Euroskeptics and groups with radical views has increased, it is lower than expected, while that of European liberals and conservatives is higher, partly compensating for the sharp fall in social democratic representation (led by Spain with José Borrell in the foreign affairs portfolio and David Sassoli in the European Parliament).

- A trend is being consolidated to rely on communicators (Sassoli, Lagarde) to shore up harmony at an institutional level and of institutions to the European Union in general. The Lagarde case also strengthens the mechanism for managing expectations on monetary policy.

- France has clearly gained strength, while Germany, with the election of von der Leyen and which has generated tensions within the party and with its SPD political partners, has run the risk of eroding its influence in the European Commission.

- A valuable asset of European politics, which had given rise to the political and institutional strength of the Commission with Jean-Claude Juncker, has been the system of the "Spitzenkandidat" or the most valued candidate; a system of open election sanctioned by all groups, under which the chosen candidate was unanimously supported by all. The election of von der Leyen could have perverted this process, but, aware of its importance for institutional credibility, the president has decided to introduce it in the next elections.

- The election of von der Leyen had been relatively controversial, having led to the withdrawal of Frans Timmermans of the Netherlands and Manfred Webber of Germany, but the election of the former as Vice President of the European Commission seems to have eliminated tensions within Parliament.

- For its part, the election of Christine Lagarde also represents a turning point in European policy, as no one being promoted from the ECB's executive committee was to be expected, nor does she have the profile of a central banker, which could lead to issues of legitimacy.

- In the absence of a renewal of the ECB's Executive Board, the current fear is that the planned departure of the existing board members will leave no high-level technical profiles who fully understand the market. *In extremis*, if the departure of Benoît Coeuré is not made up for by another major technical profile, the market expects this responsibility to fall on the current chief economist, Phillip Lane. This could be crucial in a context such as the current one in which the margin for monetary policy is running out and we are entering a new cycle (of deceleration).

- The balance between strong and weak points will have its first test in the ability of the new institutions to deal with what remains of Brexit, the imminent trade negotiations with the Trump administration, advances toward the (fiscal) integration of the European Union, and foreign policy in the current geopolitical climate.

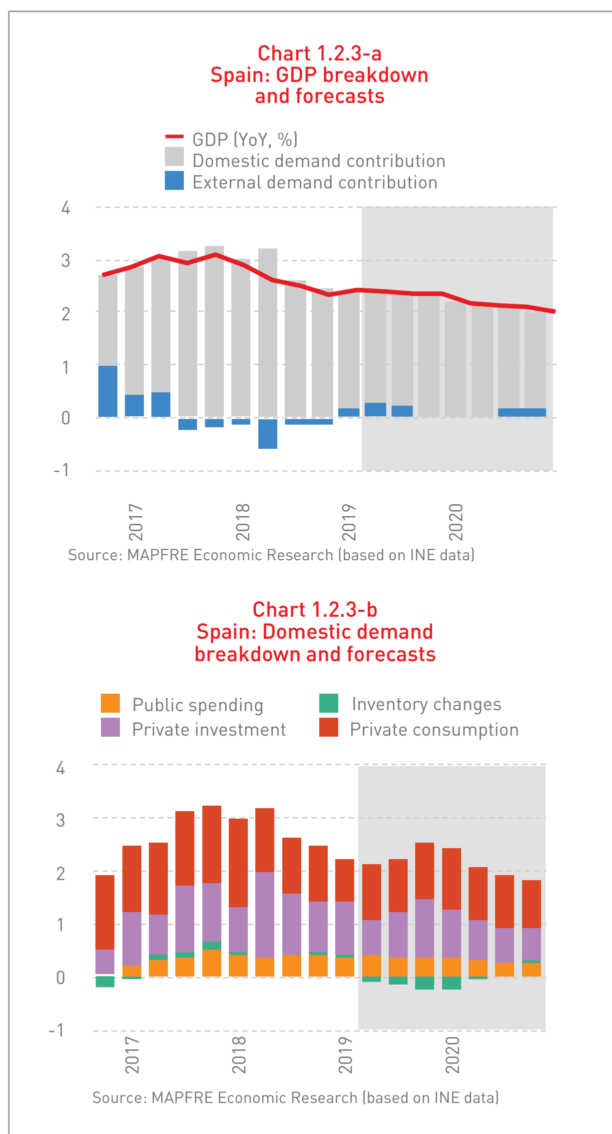

Table 1.2.3
Spain: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	1.4	3.6	3.2	3.0	2.6	2.4	2.1
Domestic demand contribution	1.3	3.8	2.3	2.8	2.8	2.2	2.0
External demand contribution	0.1	-0.2	0.8	0.1	-0.2	0.2	0.1
Private consumption contribution	0.8	1.7	1.6	1.4	1.3	1.0	1.0
Private investment contribution	0.5	1.4	0.6	1.0	1.1	0.9	0.7
Public spending contribution	-0.1	0.4	0.2	0.4	0.4	0.4	0.3
Total consumption (% YoY, average)	1.0	2.8	2.4	2.4	2.3	1.9	1.8
Private investment (% YoY, average)	4.7	6.7	2.9	4.8	5.3	4.1	3.3
Exports (YoY in %)	4.3	4.2	5.2	5.2	2.3	1.5	3.3
Imports (YoY in %)	6.6	5.4	2.9	5.6	3.5	1.0	3.5
Unemployment rate (%, last quarter)	23.7	20.9	18.6	16.6	14.5	13.4	12.6
Inflation (% YoY, last quarter)	-0.5	-0.3	1.0	1.4	1.7	1.2	1.1
Fiscal balance (% of GDP)	-6.0	-5.3	-4.5	-3.1	-2.5	-2.3	-1.8
Trade balance (% of GDP)	-2.2	-2.0	-1.4	-1.9	-2.6	-2.1	-1.7
Fiscal stimulus (% of GDP)	-2.5	-2.2	-1.7	-0.5	-0.0	0.1	0.5
Current account balance (% of GDP)	1.0	1.1	2.3	1.9	0.9	0.6	0.6
Official interest rate (end of period)	0.05	0.05	0.00	0.00	0.00	0.00	0.00
Short-term rate (end of period)	0.08	-0.13	-0.32	-0.33	-0.31	-0.33	-0.26
Long-term rate (end of period)	1.61	1.77	1.35	1.51	1.41	0.47	0.83
Exchange Rate vs. USD (end of period)	1.21	1.09	1.05	1.20	1.15	1.15	1.18
Exchange rate vs euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	-4.9	-3.6	-2.2	-1.5	-0.3	1.1	3.0
P.S. non-financial lending (% YoY, average)	-4.6	-2.7	-2.5	-0.6	-2.5	2.0	2.5
P.S. financial lending (% YoY, average)	-1.4	-6.4	-25.9	-11.1	-0.3	-0.5	4.8
Savings rate (%, average)	9.3	8.8	8.0	5.7	5.0	5.2	5.0

Source: MAPFRE Economic Research (based on INE data)
Forecast end date: July 5, 2019.

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in subsequent quarters. Vehicle sales were down 7% in May and retail sales slowed to 0.9%. Private consumption (+1.5% YoY in the first quarter of 2019, +0.3% QoQ) is supported by employment gains, but is running out of steam.

Exports are cooling (-0.5% in the first quarter) as a result of trade tensions and the slowdown in the level of activity experienced by several of the country's trading partners. Thus the strength of GDP in the first quarter of 2019 may be circumstantial. Accordingly, we expect growth of 2.4% in 2019 and 2.1% in 2020 (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b).

Concerning confidence indices, the June PMIs have visibly worsened despite being on expansive terrain. In the short-term, Spain is expected to continue to outgrow the eurozone, although both will see a slowdown. Growth will be supported by domestic demand and by consumption especially. This will be helped by job creation and real wage income growth, albeit in a context of low productivity growth, which foreshadows a loss of competitiveness in the medium-term (which, ultimately, was what enabled the Spanish economy to recover).

In this context, both fiscal expansion and the use of savings and income will reach their limits in 2020: the current primary deficit appears to be unsustainable, the unemployment rate will be in a frictional zone (although high), and the savings rate will be the lowest since 2008, although real estate wealth will be lower (normally acting as a buffer).

Investment will grow in the baseline scenario of this report (in the absence of serious sales disruptions) supported by credit flows to certain corporate and residential segments, as well as by foreign demand for industrial goods. The tourism sector continues to be one of the strengths of the Spanish economy, growing by 5.7% up to April. In contrast, construction is showing signs of deceleration according to the latest survey by the Ministry of Industry.

In addition, year-on-year inflation in May fell to 0.8% (from 1.6% in April), helped by the fall in electricity and fuel.

After the elections (general, regional, local and European), Spain faces the challenge of forming regional governments and the central government, all of them subject to a complex arithmetic of pacts that has not yet taken clear shape. The fluidity of the events means that, at present, the formation of a government with parliamentary backing seems just as likely as the holding of new elections in the next fall.

1.2.4 Germany

Lower expectations of economic growth.

- **Cooling of growth prospects is verified in industry and new orders.**
- **Domestic demand shows resistance, but employment shows its first sign of wavering in 6 years.**

Although Germany's economy had a better-than-expected first quarter, growing by 0.4% QoQ and 0.7% YoY, it is anticipated that the upturn will be temporary and due to adjustment factors with respect to the previous quarter. Thus, 2019 is expected to close with growth of 1.0%, and regain a better pace in 2020 of up to 1.5% (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b).

For now, trade and production tensions, far from having been resolved, are affecting the German manufacturing sector. In April, industrial

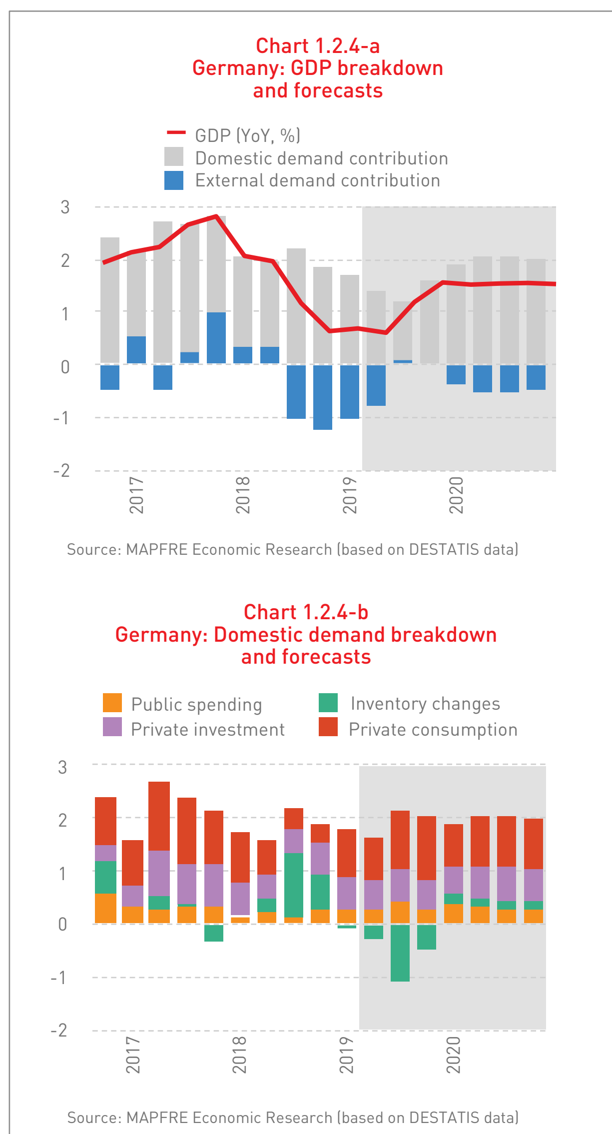

Table 1.2.4
Germany: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	2.2	1.5	2.2	2.5	1.5	1.0	1.5
Domestic demand contribution	1.0	1.3	2.8	2.1	1.8	1.4	2.0
External demand contribution	1.2	0.2	-0.6	0.3	-0.4	-0.4	-0.5
Private consumption contribution	0.6	0.9	1.0	1.1	0.6	1.0	0.9
Private investment contribution	0.4	0.2	0.7	0.7	0.5	0.6	0.6
Public spending contribution	0.3	0.5	0.8	0.3	0.2	0.3	0.3
Domestic demand (% YoY, average)	1.6	1.4	3.0	2.3	2.0	1.5	2.1
Total consumption (% YoY, average)	1.2	1.9	2.4	1.9	1.0	1.8	1.7
Private investment (% YoY, average)	3.9	1.0	3.4	3.6	2.7	2.8	2.8
Exports (YoY in %)	4.6	4.8	2.1	5.3	2.2	1.6	2.5
Imports (YoY in %)	3.6	5.2	4.0	5.3	3.5	2.9	3.9
Unemployment rate (%, last quarter)	6.6	6.3	6.0	5.5	5.0	4.8	4.7
Inflation (% YoY, last quarter)	0.2	0.2	1.5	1.4	1.6	1.2	1.6
Fiscal balance (% of GDP)	0.6	0.8	0.9	1.0	1.7	1.4	0.6
Trade balance (% of GDP)	7.5	8.1	7.9	7.8	6.6	6.8	6.4
Fiscal stimulus (% of GDP)	2.2	2.2	2.0	2.0	2.6	2.3	1.6
Current account balance (% of GDP)	7.2	8.6	8.4	8.0	7.4	7.2	6.6
Official interest rate (end of period)	0.05	0.05	0.00	0.00	0.00	0.00	0.00
Short-term rate (end of period)	0.08	-0.13	-0.32	-0.33	-0.31	-0.33	-0.26
Long-term rate (end of period)	0.54	0.63	0.11	0.42	0.17	-0.18	0.12
Exchange Rate vs. USD (end of period)	1.21	1.09	1.05	1.20	1.15	1.15	1.18
Exchange rate vs euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	1.1	1.9	2.8	3.2	3.6	7.9	5.0
P.S. non-financial lending (% YoY, average)	2.9	2.9	3.0	4.7	7.6	3.8	3.3
P.S. financial lending (% YoY, average)	-7.9	5.0	0.5	-1.2	4.1	3.0	3.2
Savings rate (%, average)	9.4	9.7	10.0	9.8	10.4	10.2	10.0

Source: MAPFRE Economic Research (based on DESTATIS data)
Forecast end date: July 5, 2019.

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production contracted again -1.8% YoY and factory orders -5.3% YoY. In the same month, it was confirmed that used capacity fell to 85.3% (below the historical average) as a result of an expected lower external demand. The perception that the foreign sector is weakening has become even clearer since the end of last year. In this sense, the composite PMI has since decreased by more than six points to the current 52.6 in June, a slippage that seems to be slowly heading toward contraction territory, although the PMI remains positive for now. The ZEW indicator, which more closely reflects the expectations of more internationally oriented actors, has fallen to -21.1 points.

Given the smaller contribution from the foreign sector, it is likely that the drivers of the German economy will lie, for now, in domestic demand, specifically in investment and consumption thanks to the strength of the labor market, virtually in full employment and with growing pressure on real wages (+3.7% YoY in the first quarter of the year). However, doubts remain as to how long their contribution will last, given the employment figures from May as well as the sharp impairment in both the current valuation and consumer expectations as reflected in the June GfK indicator.

Thus, lower consumer inertia is cooling inflation as in the rest of the eurozone. In May, headline inflation stood at 1.4%, while core inflation was 1.3%.

1.2.5 Italy

The inescapable excessive deficit procedure.

The Italian economy, except for occasional corrections, is stagnant, if not in recessive terrain. Annual growth in the first quarter of the year was -0.1% YoY, which leaves little room for reaching a positive figure for the year as a whole. Growth is expected to be 0% in 2019, and only 0.4% in 2020 (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b).

- **Stagnation of growth and inflation.**
- **Uncertainty about the fiscal trajectory following the European elections.**
- **The European Commission threatens an excessive deficit procedure due to a lack of debt adjustment.**

Again, the battery of indicators that abound in this description is noteworthy: industrial production continues to disappoint, with a fall of -1.5% in April; consumer confidence (ISTAT) worsens (-23.7 in May); and in purchasing manager surveys (PMI composite) the country is already in recessive territory (49.9 in May).

Italy's country risk resurfaced virulently to close to 280 basis points during the election period, and although it has eased slightly given the ECB's proactive role in maintaining liquidity and negative financial costs, it continues to alert to the country's structural problems. High debt and low productivity remain outstanding issues. Italian Prime Minister Giuseppe Conte eluded a near-term adjustment by the European Commission by promising reforms, but the excessive deficit procedure is inexorably looming even before the end of the year, to be devised by the outgoing European government.

1.2.6 United Kingdom

Uncertainties pile up.

The UK economy grew 1.8% YoY in the first quarter of 2019 (0.5% QoQ), rebounding by four-tenths of a percentage point in the annual rate thanks to the upturn in private consumption and investment. The start date of

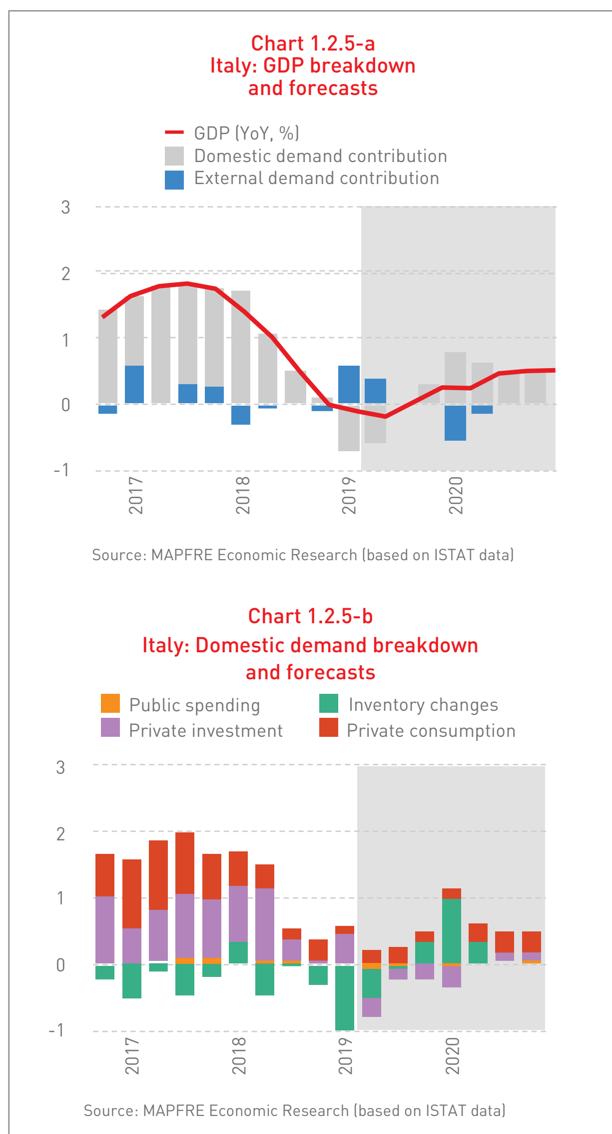

Table 1.2.5
Italy: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	0.2	0.8	1.2	1.8	0.7	0.0	0.4
Domestic demand contribution	-0.1	1.3	1.6	1.5	0.8	-0.2	0.6
External demand contribution	0.3	-0.5	-0.4	0.3	-0.1	0.2	-0.2
Private consumption contribution	0.1	1.1	0.8	0.9	0.3	0.2	0.3
Private investment contribution	-0.4	0.3	0.6	0.8	0.6	-0.1	-0.0
Public spending contribution	-0.1	-0.1	0.0	0.1	0.0	-0.0	0.0
Domestic demand (% YoY, average)	0.3	1.4	1.7	1.5	0.9	-0.2	0.6
Total consumption (% YoY, average)	-0.0	1.3	1.0	1.2	0.5	0.2	0.4
Private investment (% YoY, average)	-2.1	1.9	3.7	4.5	3.2	-0.3	-0.1
Exports (YoY in %)	2.4	4.2	2.3	6.4	1.4	2.2	2.4
Imports (YoY in %)	3.0	6.7	3.8	5.8	1.8	1.5	3.1
Unemployment rate (%, last quarter)	12.7	11.5	11.8	11.0	10.6	10.6	10.3
Inflation (% YoY, last quarter)	0.1	0.2	0.1	0.9	1.4	0.7	0.8
Fiscal balance (% of GDP)	-3.0	-2.6	-2.5	-2.4	-2.1	-2.6	-2.7
Trade balance (% of GDP)	2.6	2.5	2.9	2.8	2.2	2.6	2.6
Fiscal stimulus (% of GDP)	1.6	1.5	1.4	1.4	1.6	1.1	0.9
Current account balance (% of GDP)	1.9	1.3	2.5	2.6	2.5	2.8	2.7
Official interest rate (end of period)	0.05	0.05	0.00	0.00	0.00	0.00	0.00
Short-term rate (end of period)	0.08	-0.13	-0.32	-0.33	-0.31	-0.33	-0.26
Long-term rate (end of period)	1.88	1.61	1.82	2.00	2.77	2.51	3.14
Exchange Rate vs. USD (end of period)	1.21	1.09	1.05	1.20	1.15	1.15	1.18
Exchange rate vs euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	-1.0	-0.3	0.4	1.3	2.0	3.9	4.2
P.S. non-financial lending (% YoY, average)	-2.5	-1.9	-2.1	-2.6	-1.0	-0.6	0.2
P.S. financial lending (% YoY, average)	-30.2	-1.4	-0.9	-8.8	-7.3	2.4	6.3
Savings rate (%, average)	11.0	10.3	10.1	9.3	9.4	10.0	9.9

Source: MAPFRE Economic Research (based on ISTAT data)
Forecast end date: July 5, 2019.

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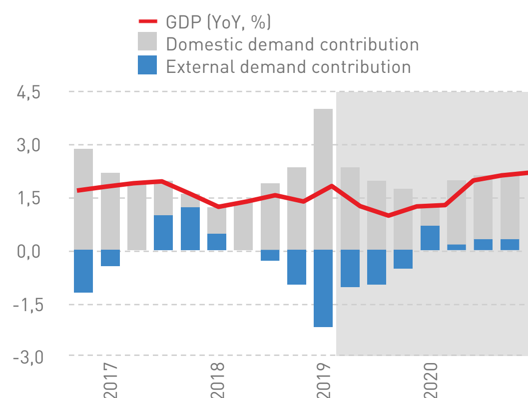
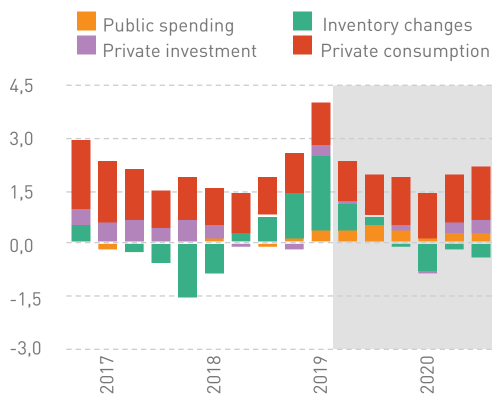
Chart 1.2.6-a
United Kingdom: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the Office for NationalStatistics)

Chart 1.2.6-b
United Kingdom: Domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the Office for NationalStatistics)

Table 1.2.6
United Kingdom: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	2.9	2.4	1.8	1.8	1.4	1.3	1.9
Domestic demand contribution	2.6	2.3	2.4	1.4	1.6	2.5	1.5
External demand contribution	0.3	0.0	-0.6	0.5	-0.2	-1.2	0.4
Private consumption contribution	1.3	1.7	2.0	1.4	1.1	1.2	1.4
Private investment contribution	0.7	0.6	0.4	0.6	0.0	0.2	0.3
Public spending contribution	0.4	0.3	0.1	-0.0	0.1	0.4	0.3
Domestic demand (% YoY, average)	3.6	2.4	2.4	1.4	1.6	2.6	1.5
Total consumption (% YoY, average)	2.1	2.4	2.7	1.6	1.5	2.0	2.1
Private investment (% YoY, average)	7.3	3.4	2.3	3.5	0.2	1.0	1.6
Exports (YoY in %)	2.3	4.5	1.0	5.7	0.1	2.4	2.8
Imports (YoY in %)	3.8	5.5	3.3	3.5	0.7	7.3	0.6
Unemployment rate (%, last quarter)	5.7	5.1	4.7	4.4	4.0	3.8	3.6
Inflation (% YoY, last quarter)	0.9	0.1	1.2	3.0	2.3	1.8	1.8
Fiscal balance (% of GDP)	-5.4	-4.2	-2.9	-1.8	-1.6	-1.3	-0.9
Trade balance (% of GDP)	-6.6	-6.2	-6.7	-6.7	-6.5	-7.5	-6.9
Fiscal stimulus (% of GDP)	-2.7	-2.0	-0.5	0.8	0.8	0.8	1.4
Current account balance (% of GDP)	-4.9	-4.9	-5.2	-3.3	-3.8	-4.5	-3.5
Official interest rate (end of period)	0.50	0.50	0.25	0.50	0.75	1.00	1.50
Short-term rate (end of period)	0.56	0.59	0.37	0.52	0.91	0.87	1.49
Long-term rate (end of period)	1.82	2.02	1.28	1.25	1.33	0.89	1.31
Exchange Rate vs. USD (end of period)	1.56	1.48	1.23	1.35	1.28	1.31	1.38
Exchange rate vs euro (end of period)	1.28	1.36	1.17	1.13	1.11	1.13	1.17
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	2.1	3.3	4.4	4.6	3.9	3.6	2.9
P.S. non-financial lending (% YoY, average)	-3.3	-1.9	6.2	9.4	5.9	2.7	2.2
P.S. financial lending (% YoY, average)	-9.1	-13.6	7.4	10.5	4.2	4.9	4.7
Savings rate (%, average)	8.6	9.4	6.8	4.2	4.5	4.7	4.6

Source: MAPFRE Economic Research (based on data from the Office for National Statistics)
Forecast end date: July 5, 2019.

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- **Boris Johnson in the lead to replace Theresa May.**
- **The first quarter of the year does not yet reflect the slowdown to come.**
- **The Bank of England foresees zero growth in the second quarter of the year.**

Brexit of March 29 will have contributed to the bringing forward of purchases by all economic actors. However, growth in the second quarter, according to the Bank of England, should be zero, reversing the effect of companies building up stocks ahead of the initial date for the exit from the European Union. In this setting, growth of 1.3% is estimated for 2019 (see Table 1.2.6, and Charts 1.2.6-a and 1.2.6-b), supported by domestic consumption (+2.0% YoY) and exports that will grow (+2.4%); investment, for its part, will remain sluggish (+1.0%).

Industrial production fell by 3.9% QoQ in April, partly due to the aforementioned effect of the stock buildup prior to March, but also due to manufacturing weakness brought on by the outlooks of a global slowdown. The composite PMI (Purchasing Managers' Index) stabilized in May, but manufacturing declined by nearly four points, thus anticipating a worsening of the industrial sector. Consumer confidence (GfK) recovered to -10, but it has been negative since 2016.

In addition, inflation stood at 2.0% in May, with a downward trend since the beginning of 2018. The Bank of England, at its meeting on June 20, held interest rates at 0.75% and warned that a combination of concerns about Brexit and global trade tensions are affecting growth. The most affected item is investment, as companies and investors prefer to put off their investment decisions until the implications of Brexit become clear. For now, the exit has been postponed to October 31 and the process has made no progress in the last month due to the departure of Theresa May. Boris Johnson, the most likely candidate for Prime Minister, has indicated that he would be in favor of leaving on the scheduled date, with or without an agreement.

The British pound in May and June lost ground against the euro down to 1.12 from 1.16 where it closed in March, and down to 1.27 from 1.30 against the USD.

1.2.7 Japan

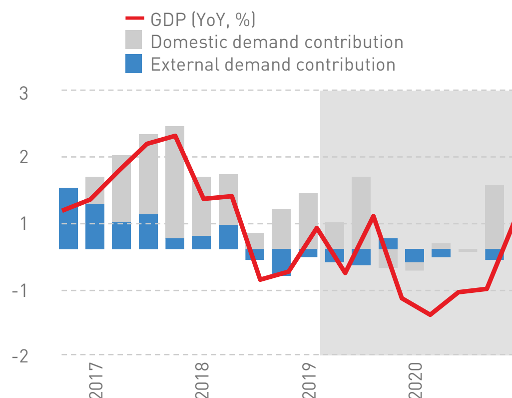
Growth continues to run out of steam with the global slowdown.

- **Sluggishness in exports and industrial production.**
- **Expectations reflected in consumer confidence point to the perpetuation of the current economic moment.**

The Japanese economy grew 0.9% (YoY) in the first quarter of the year, up from 0.3% in the previous quarter. This slight improvement was momentary and is not expected to continue into the second quarter. Subsequent data shows continuation of worsening exports (-7.8% in May) and industrial production (-1.8% in May).

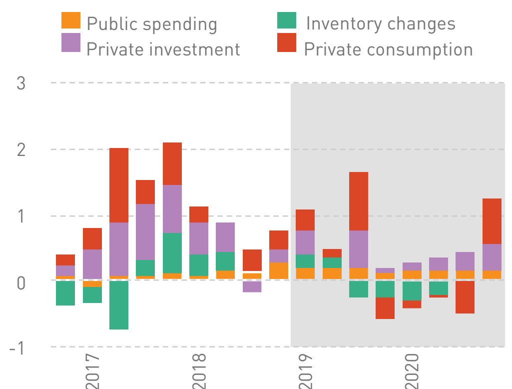
The fall in exports confirms the difficult external context of deceleration in the destination countries of Japanese exports and the climate of greater protectionism. Both the consumer confidence index (39.4 in May) and the Tankan Short-Term Economic Survey of Enterprises have been worsening since mid-2018, reflecting a drying up of the growth momentum. The PMI indices, for their part, anticipate a decline mainly centered on industry (49.8 in May), while that of services, although weakening, remains in positive territory (51.7).

Chart 1.2.7-a
Japan: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on Statistics Bureau data)

Chart 1.2.7-b
Japan: Domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on Statistics Bureau data)

Table 1.2.7
Japan: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	0.3	1.3	0.6	1.9	0.8	0.5	0.2
Domestic demand contribution	-0.3	0.9	0.0	1.4	0.8	0.7	0.3
External demand contribution	0.6	0.4	0.6	0.6	0.0	-0.1	-0.1
Private consumption contribution	-0.5	-0.1	-0.1	0.6	0.2	0.2	0.0
Private investment contribution	0.4	0.4	-0.1	0.7	0.3	0.3	0.2
Public spending contribution	0.1	0.3	0.3	0.1	0.2	0.2	0.2
Domestic demand (% YoY, average)	0.3	0.9	0.0	1.3	0.8	0.7	0.3
Total consumption (% YoY, average)	-0.6	0.3	0.3	0.9	0.5	0.6	0.2
Private investment (% YoY, average)	3.0	1.7	-0.3	3.0	1.1	1.1	1.0
Exports (YoY in %)	9.3	3.0	1.7	6.8	3.4	-2.1	3.1
Imports (YoY in %)	8.4	0.7	-1.6	3.5	3.4	-1.6	3.6
Unemployment rate (%, last quarter)	3.5	3.3	3.0	2.7	2.4	2.4	2.4
Inflation (% YoY, last quarter)	2.5	0.2	0.3	0.6	0.9	1.4	0.5
Fiscal balance (% of GDP)	-5.4	-3.6	-3.5	-3.0	-2.5	-2.8	-3.2
Trade balance (% of GDP)	-2.0	-0.2	1.0	0.9	0.2	-0.1	-0.2
Fiscal stimulus (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	0.8	3.1	3.9	4.2	3.5	3.2	3.0
Official interest rate (end of period)	0.07	0.04	-0.06	-0.06	-0.06	-0.06	-0.06
Short-term rate (end of period)	0.11	0.08	-0.05	-0.02	-0.07	-0.07	-0.06
Long-term rate (end of period)	0.33	0.27	0.04	0.05	0.01	-0.13	-0.03
Exchange Rate vs. USD (end of period)	119.85	120.27	116.78	112.69	109.70	108.52	108.71
Exchange rate vs euro (end of period)	145.51	130.94	123.10	135.15	125.61	125.21	128.41
Private lending (% YoY, average)	2.2	2.1	2.2	4.6	3.0	2.1	1.8
Household lending (% YoY, average)	0.8	1.2	1.3	1.8	2.5	1.2	0.2
P.S. non-financial lending (% YoY, average)	0.4	0.5	2.1	2.6	2.2	2.3	1.7
P.S. financial lending (% YoY, average)	8.5	7.7	-0.3	7.9	5.7	1.9	1.7
Savings rate (%, average)	-0.2	1.2	2.9	2.5	4.3	4.3	4.8

Source: MAPFRE Economic Research (based on Statistics Bureau data)
Forecast end date: July 5, 2019.

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Accordingly, we expect growth of 0.5% in 2019 and 0.2% in 2020 (see Table 1.2.7 and Charts 1.2.7-a and 1.2.7-b). The planned increase in value-added tax from 8% to 10% in October will dampen private consumption in subsequent quarters. Only a reduction in trade tensions and an economic recovery in the destination countries of Japanese exports can change the current scenario. The now-expected reactions of the central banks of the main regions (Federal Reserve and ECB) with monetary stimulus is the only thing that can soften a global cycle that is entering a phase of deceleration.

In addition, inflation in May fell to 0.7%, with core inflation at 0.3%; these low values are also a sign of cooling. As a result, our inflation expectations for 2019 have been reduced by one-tenth to 1.4%. Unemployment is also very low, at 2.4%, and we believe that it has already reached its minimum in this cycle.

The Bank of Japan kept the official interest rates unchanged at -0.10% in the last meeting on June 20, taking the view that the policy is already sufficiently accommodative and, for the time being, wants to reserve a degree of capacity to react and not feel pressured by the accommodative turn in the United States and the eurozone. Precisely due to the accommodative turn of the Federal Reserve and the ECB, we have witnessed an appreciation of the yen over the last two months to 107.85 JPY/USD.

Finally, in July there will be elections to the upper house (Advisers), and there is some likelihood that Prime Minister Shinzō Abe will decide to bring forward the elections to the lower house to make them coincide.

1.2.8 Turkey

**The recession persists,
but there's a glimpse of an exit for the last quarter.**

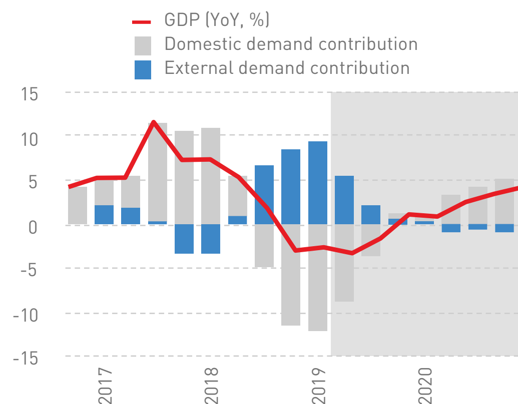
- **Negative growth with continuing demand adjustment.**
- **The contraction of imports is a reflection of the hardness of the adjustment.**
- **The governor's exit and risks of loss of independence from the Central Bank.**

The first quarter 2019 GDP of -2.6% (unadjusted) reveals that the Turkish economy remains in recession. Domestic demand contracted by -4.7% YoY, while private investment did so at -13.0%. The contraction of imports is what gives an idea of the harshness of the adjustment, having plunged by -28.8%. Exports, in contrast, were helped by a weaker currency and grew 9.5%.

The physical retail sector continues to show signs of slowing down, with the main indicators of activity showing contractions in April. Industrial production (-1.4% YoY), car sales (-46% in April), PMI manufacturing (45.3 in May) and consumer confidence (55.5) show that the environment remains recessive. Similarly, the labor market is being affected, and the unemployment rate stood at 14.1% in March, compared to 9.6% one year ago.

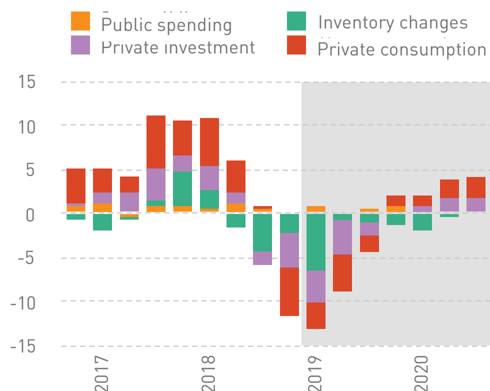
Our forecasts point to an exit from recession only for the last quarter of 2019, making the GDP growth estimate for 2019 as a whole -1.6%, which is one-tenth less than our previous forecast (see Table 1.2.8, and Charts 1.2.8-a and 1.2.8-b).

Chart 1.2.8-a
Turkey: GDP breakdownand forecasts



Source: MAPFRE Economic Research (based on TurkStat data)

Chart 1.2.8-b
Turkey: Domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on TurkStat data)

Table 1.2.8
Turkey: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	5.3	6.0	3.3	7.4	2.9	-1.6	2.8
Domestic demand contribution	3.4	5.5	4.6	7.1	-0.3	-5.9	3.2
External demand contribution	1.9	0.5	-1.3	0.3	3.1	4.3	-0.5
Private consumption contribution	1.9	3.4	2.2	3.7	1.0	-2.0	2.1
Private investment contribution	1.3	2.7	0.7	2.3	-0.3	-2.3	1.1
Public spending contribution	0.4	0.5	1.3	0.7	0.5	0.6	0.4
Domestic demand (% YoY, average)	3.2	5.4	4.5	7.0	-0.1	-5.9	3.4
Total consumption (% YoY, average)	3.0	5.1	4.7	5.9	2.1	-1.8	3.5
Private investment (% YoY, average)	5.5	9.1	2.4	7.7	-1.0	-7.8	4.3
Exports (YoY in %)	8.3	4.3	-1.7	12.0	7.3	3.4	4.8
Imports (YoY in %)	-0.3	1.8	3.7	10.2	-6.4	-15.4	9.0
Unemployment rate (%, last quarter)	10.7	10.5	12.1	10.3	12.3	12.9	11.8
Inflation (% YoY, last quarter)	8.8	8.2	7.6	12.3	22.4	14.5	10.2
Fiscal balance (% of GDP)	-1.1	-1.1	-1.3	-1.6	-1.9	-2.4	-2.2
Trade balance (% of GDP)	-6.8	-5.6	-4.7	-6.9	-5.4	-3.5	-3.7
Fiscal stimulus (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-4.7	-3.7	-3.8	-5.6	-3.5	-1.3	-1.4
Official interest rate (end of period)	8.51	8.81	8.31	12.75	24.06	22.99	17.08
Short-term rate (end of period)	9.79	11.47	9.90	14.61	24.07	23.13	19.33
Long-term rate (end of period)	7.96	10.74	11.40	11.72	16.53	16.22	14.11
Exchange Rate vs. USD (end of period)	2.33	2.92	3.52	3.79	5.29	5.81	5.63
Exchange rate vs euro (end of period)	2.83	3.18	3.71	4.55	6.06	6.70	6.65
Private lending (% YoY, average)	23.2	23.0	12.8	20.6	18.3	9.4	9.0
Household lending (% YoY, average)	16.3	12.5	7.1	17.5	9.8	6.1	18.6
P.S. non-financial lending (% YoY, average)	30.1	29.9	14.7	24.3	20.9	2.8	12.1
P.S. financial lending (% YoY, average)	22.4	26.4	9.0	27.2	25.1	41.0	15.7
Savings rate (%, average)	26.2	28.3	32.8	31.0	29.4	26.6	23.9

Source: MAPFRE Economic Research (based on TurkStat data)
Forecast end date: July 5, 2019.

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In contrast, inflation reached 18.7% in May and we expect it to ease to 14.5% by the end of the year, helped by the decrease in the price of Brent and a global disinflationary trend caused by the economic slowdown. The Central Bank of Turkey left interest rates unchanged at 24% (1 week repo) at the last meeting on June 12, with the objective of reining in inflation. If inflation were to show signs of moderating in the coming months, and helped by a more accommodative stance of the central banks of the advanced economies, the monetary policy committee could change its own stance. In this regard, we estimate a decrease of 100 basis points in the fourth quarter of the year and further decreases in 2020 to 17% by the end of the year, if inflation and currency trends allow.

By June, the Turkish lira had recovered slightly to 5.6 TRY/USD, down from 6.0 in May (supported by a shift in monetary policy bias in several world economies). However, the recent departure of the governor and his replacement by the vice governor, Murat Uysal, has called into question the independence of the Central Bank, which is under heavy pressure to cut rates aggressively in the short-term. In addition, these rate cuts, along with government pressure, may further erode the currency.

Lastly, in June Turkey re-held the Istanbul mayoral elections, confirming a majority for the moderate candidate, Ekrem Imamoglu. Some international analysts see this as a possible focal point of change with the potential to spread to the rest of the country.

1.2.9 Mexico

The economy is slowing down and facing fiscal challenges.

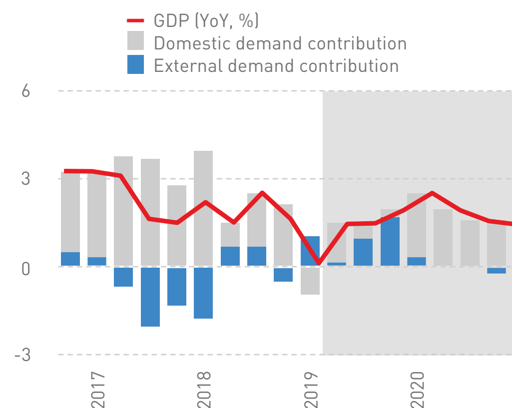
In the first quarter of 2019, the Mexican economy also echoed the change in the global cycle and the manufacturing slowdown discussed earlier in this report. Thus, GDP grew 1.2% year-on-year, showing signs of deceleration equivalent to that of the rest of the world. The contribution of the external sector decreased despite the fact that the decrease in domestic demand had significantly limited imports. Investment contracted in quarterly terms, in line with worsening expectations. The contribution of the public sector in the form of transfers also decreased, while the receipt of remittances did not help.

- **Internal and external uncertainties reduce the prospects of the Mexican economy.**
- **A migration agreement with the United States saves the imposition of tariffs.**

In the current climate of uncertainty (and the coming one in so far as President D. Trump is getting better positioned for the 2020 elections), investment is not being brought forward to replenish stock or expand installed plant over the next few months, so it is likely that the sluggishness in the levels of economic activity will continue. The external sector will also have a moderate contribution, since it is subject to sharp tensions, with the trade treaty between the United States, Mexico and Canada (USMCA) pending ratification by the United States congress (it has already been ratified by the Mexican Congress) and the conditionalities on tariff hikes set by the Trump administration. Also, the fiscal room for maneuver to produce new stimulus also appears to be disappearing and no major contribution of public spending to growth is expected. In this context, we attribute the scant GDP growth for 2019 exclusively to consumption and the external sector, maintaining our GDP growth forecast for 2019 at 1.3% (see Table 1.2.9, and Tables 1.2.9-a and 1.2.9-b).

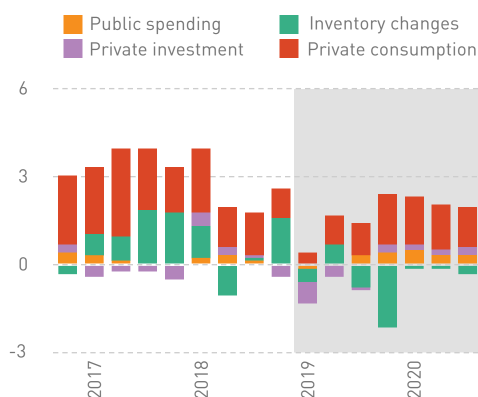
The risks to the Mexican economy are decreasing. Mexico is no stranger to the global manufacturing slowdown (industrial production -2.9% in April) and the sensitivity to the US economic cycle is very significant. At the same time, an increase in (global) trade protectionism could hurt its performance even more.

Chart 1.2.9-a
Mexico: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on INEGI data)

Chart 1.2.9-b
Mexico: Domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on INEGI data)

Table 1.2.9
Mexico: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	2.8	3.3	2.6	2.4	2.0	1.3	1.9
Domestic demand contribution	2.0	2.5	2.2	3.3	2.2	0.3	1.8
External demand contribution	0.8	0.8	0.4	-0.9	-0.2	1.0	0.0
Private consumption contribution	1.4	1.8	2.3	2.2	1.5	1.0	1.5
Private investment contribution	0.3	1.1	0.2	-0.3	0.1	-0.2	0.2
Public spending contribution	0.3	0.2	0.3	0.1	0.2	0.1	0.4
Domestic demand (% YoY, average)	2.5	2.5	2.2	3.3	2.2	0.3	1.8
Total consumption (% YoY, average)	2.2	2.6	3.4	3.0	2.1	1.5	2.3
Private investment (% YoY, average)	3.0	5.1	1.1	-1.5	0.6	-1.0	1.2
Exports (YoY in %)	6.9	8.6	3.7	4.0	5.7	3.3	1.9
Imports (YoY in %)	5.9	6.0	2.4	6.7	6.2	0.6	1.8
Unemployment rate (%, last quarter)	4.4	4.2	3.5	3.3	3.3	3.7	3.9
Inflation (% YoY, last quarter)	4.2	2.3	3.2	6.6	4.8	3.7	3.6
Fiscal balance (% of GDP)	-3.1	-3.4	-2.5	-1.1	-2.0	-2.2	-2.3
Trade balance (% of GDP)	-0.2	-1.2	-1.2	-0.9	-1.1	-1.5	-1.5
Fiscal stimulus (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-1.9	-2.6	-2.3	-1.7	-1.8	-1.7	-1.6
Official interest rate (end of period)	3.00	3.25	5.75	7.25	8.25	8.00	7.50
Short-term rate (end of period)	3.31	3.50	6.02	7.56	8.50	8.40	6.87
Long-term rate (end of period)	5.79	6.28	7.42	7.66	8.70	7.70	7.74
Exchange Rate vs. USD (end of period)	14.74	17.20	20.74	19.67	19.65	19.00	19.07
Exchange rate vs euro (end of period)	17.90	18.73	21.86	23.59	22.50	21.92	22.53
Private lending (% YoY, average)	10.8	13.6	16.3	12.1	10.4	0.2	5.6
Household lending (% YoY, average)	8.1	8.4	12.8	10.0	8.3	4.8	4.6
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	9.8	-11.4	3.5	1.7	-0.8	15.5	14.9
Savings rate (%, average)	13.8	14.6	12.8	10.7	12.5	11.8	10.7

Source: MAPFRE Economic Research (based on INEGI data)
Forecast end date: July 5, 2019.

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Oil tax revenue has been falling for years. The fiscal reform of 2014 allowed for compensating for the fall in tax revenues from oil, but, even so, looking ahead, and with a slowing economy and pension spending on the rise, the Mexican government will face significant tax revenue challenges. In June, the rating agency Moody's (which rated the country's sovereign debt at A3) worsened its outlook to negative, while Fitch downgraded the country from BBB+ to BBB; both rating agencies are emphasizing the risks for public accounts arising from the credit profile of Petróleos Mexicanos (PEMEX), once President López Obrador's administration committed to supporting the company with aid of up to USD 3.8 billion.

In addition, year-on-year inflation in June stood at 3.95% (4.28% in May), the lowest level in the last four months and now within the target range of the Bank of Mexico, which has intensified debate as to whether there is room to start lowering interest rates and boost activity levels in the economy. Even so, given the central bank's concern for financial stability and inflation expectations, the restrictive tone might be expected to continue for several quarters. However, by the end of 2019 and by 2020, a more accommodative stance by the US Federal Reserve could give the Bank of Mexico more room for maneuver to relax its stance in the direction of monetary neutrality. The exchange rate has remained in a state of flux around 19 MXN/USD, echoing the different issues that relate to the United States (tariffs and UMSCA negotiation).

The resignation of the Secretary of Finance and Public Credit, Carlos Urzúa, who was perceived by the markets as moderate and supportive of the need to maintain fiscal discipline, generated a degree of uncertainty that was reflected in intraday volatility in the exchange rate and stock prices. Part of that uncertainty was dispelled by the appointment of Arturo Herrera as the new Head of Public Finance, although the markets will surely be watching for any sign that might point to a change in the strategy for managing public finances in Mexico.

1.2.10 Brazil

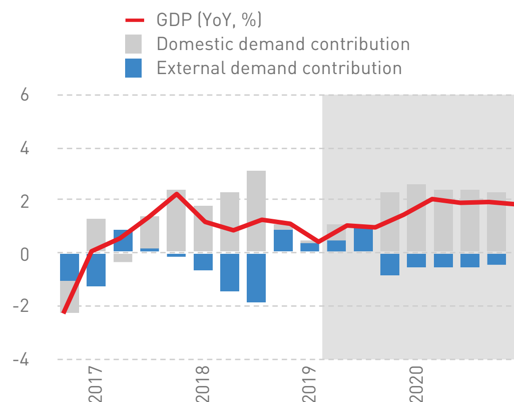
Expectations revised downward again.

- **Slump in exports and investment.**
- **The depth of pension reform is key in restoring investment confidence in Brazil.**

The Brazilian economy grew 0.5% YoY (-0.2% QoQ) in the first quarter of 2019, a slowdown caused not only by a deteriorating external context, but also by domestic weaknesses. All GDP components are losing steam, with both exports (from 12% to 1%) and investment (from 3% to 0.9%) hitting a wall. In addition, industrial production fell by -3.9% YoY through April, and the Purchasing Managers' Index (PMI) dropped to 48.4 in May, pointing to a continued slowdown. Consumer confidence, which had been dropping since January, stood at 88.5 in June.

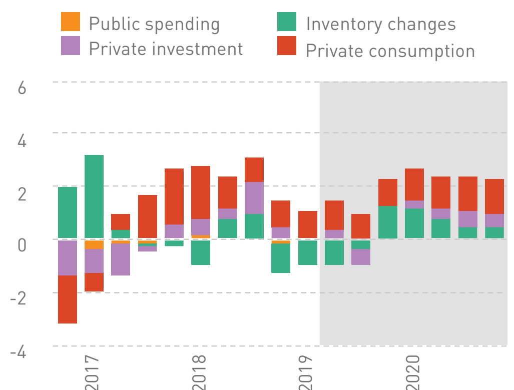
Given the slowdown in activity levels, we have adapted our expectations by lowering the growth projection to 1.0% in 2019 from the previous 1.7%, and to 1.9% for 2020 (see Table 1.2.10, and Charts 1.2.10-a and 1.2.10-b). Private consumption (+1.3% in the first quarter of the year) and a recovery of exports (+1.0%) appear to be the pillars on which the Brazilian economy will have to rely, given the current streamlining of the public sector and the fall in investment.

Chart 1.2.10-a
Brazil: GDP breakdownand forecasts



Source: MAPFRE Economic Research (based on data from the Brazilian Institute of Geography and Statistics, IBGE)

Chart 1.2.10-b
Brazil: Domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the Brazilian Institute of Geography and Statistics, IBGE)

Table 1.2.10
Brazil: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	0.5	-3.6	-3.3	1.1	1.1	1.0	1.9
Domestic demand contribution	0.5	-7.1	-5.1	1.1	1.9	0.7	2.4
External demand contribution	0.0	3.6	1.9	-0.1	-0.8	0.3	-0.5
Private consumption contribution	1.5	-2.2	-2.7	0.9	1.3	1.0	1.3
Private investment contribution	-0.8	-2.9	-2.3	-0.4	0.7	-0.1	0.5
Public spending contribution	0.1	-0.2	0.0	-0.2	0.0	0.0	-0.0
Domestic demand (% YoY, average)	0.2	-6.7	-4.9	1.1	1.8	0.7	2.4
Total consumption (% YoY, average)	2.0	-2.8	-3.0	0.9	1.5	1.2	1.4
Private investment (% YoY, average)	-4.1	-14.0	-12.0	-2.5	4.1	-0.4	2.8
Exports (YoY in %)	-1.3	6.8	0.8	5.8	3.5	3.6	3.0
Imports (YoY in %)	-2.3	-14.1	-9.7	5.6	7.7	1.6	5.5
Unemployment rate (%, last quarter)	6.5	8.9	12.0	11.8	11.6	11.2	10.2
Inflation (% YoY, last quarter)	6.5	10.4	7.0	2.8	4.1	3.9	4.1
Fiscal balance (% of GDP)	-6.0	-10.2	-9.0	-7.8	-7.1	-6.8	-6.3
Trade balance (% of GDP)	-0.3	1.0	2.5	3.1	2.9	2.9	2.5
Fiscal stimulus (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-4.1	-3.0	-1.3	-0.4	-0.8	-1.0	-1.1
Official interest rate (end of period)	11.75	14.25	13.75	7.00	6.50	6.00	6.00
Short-term rate (end of period)	11.65	14.15	13.65	6.90	6.40	5.91	5.87
Long-term rate (end of period)	12.25	16.10	11.36	10.24	9.28	7.58	7.65
Exchange Rate vs. USD (end of period)	2.66	3.90	3.26	3.31	3.87	3.92	3.89
Exchange rate vs euro (end of period)	3.22	4.25	3.43	3.97	4.44	4.52	4.59
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	14.1	10.1	4.3	4.6	6.8	11.1	14.4
P.S. non-financial lending (% YoY, average)	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
Savings rate (%, average)	20.3	18.2	17.3	18.3	18.5	17.5	17.2

Source: MAPFRE Economic Research (based on data from the Brazilian Institute of Geography and Statistics, IBGE)
Forecast end date: July 5, 2019.

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Social security reform remains a priority for restoring investor confidence. The debate on reform has given rise to market volatility and concerns about future growth and inflation, leading companies to postpone investment decisions. The list of necessary reforms is long (taxation, privatizations, liberalization and opening of the economy); the main doubt relates to the depth of these reforms.

Inflation in May was 4.7%, which allowed the Central Bank to keep the Selic rates stable at 6.5% at its June 19 meeting. In view of the context, we believe that interest rates will remain unchanged in 2019, given the absence of inflationary pressures and the need to keep the currency stable. Within this framework, we expect the Brazilian real to move in a range of 3.80–3.90 USD/BRL over the next few months.

1.2.11 Argentina

The adjustment hits bottom, but the economy will remain in recession in 2019.

- **The contraction of GDP stems from widespread macroeconomic adjustments.**
- **Elections in the end of 2019 with adjusted electoral campaign.**

In the first quarter of 2019, the Argentine economy contracted by -5.8% YoY as a result of a sharp correction of domestic demand that only finds parallels in 2009. Private consumption fell by -10.5%, imports by -24.6%, and gross fixed investment by -24.6%. The unemployment rate reached 10.1% at the end of the first quarter. Much of this is the result of fiscal adjustment pursuant to agreements with the International Monetary Fund (IMF).

Although we believe that this figure represents a bottoming out of the recession and we anticipate a somewhat better performance in the second quarter of the year, especially for the agricultural sector, we do not believe that activity will enter positive territory until the 2019–2020 transition. Thus, our forecast for 2019 as a whole is for a contraction of -1.5% and a return to growth in 2020, with a GDP increase of 2.6% (see Table 1.2.11, and Charts 1.2.11-a and 1.2.11-b).

Inflation, in any event, shows no signs of moderating. It stood at 57.3% year-on-year in May and, consequently, the central bank's benchmark interest rate, the 7-day LELIQ, stood at 62.7% at the end of the quarter. In these conditions, monetary policy needs to maintain its restrictive tone.

In June, the Argentine peso recovered some ground to 42.5 ARS/USD, but we continue to project an exchange rate of 48.0 ARS/USD by the end of 2019 and 59.0 by the end of 2020. A more accommodative environment for the US Federal Reserve may ease some of the pressure on the currencies of countries that are heavily indebted in dollars.

Elections will take place on October 27, with a potential runoff on November 24. President M. Macri continues to be the favorite, although he is suffering from the expected attrition. The choice of a Peronist running mate has led to major gains, while his image has recently improved. According to polls, he now has a 40% favorable opinion rating, a figure that is up thanks to the increase in real wages and the launch of significant public works. Cristina Fernández de Kirchner is running as a vice presidential candidate alongside Alberto Fernandez (former cabinet chief of Nestor Kirchner), a strategic move that has brought together several currents of Peronism. The risk to his candidacy now lies not so much in the success of his decisions (the general public is aware that the incoming government must maintain macroeconomic adjustment and commit to further reforms), but in the impetus that the alternative to his policy may have.

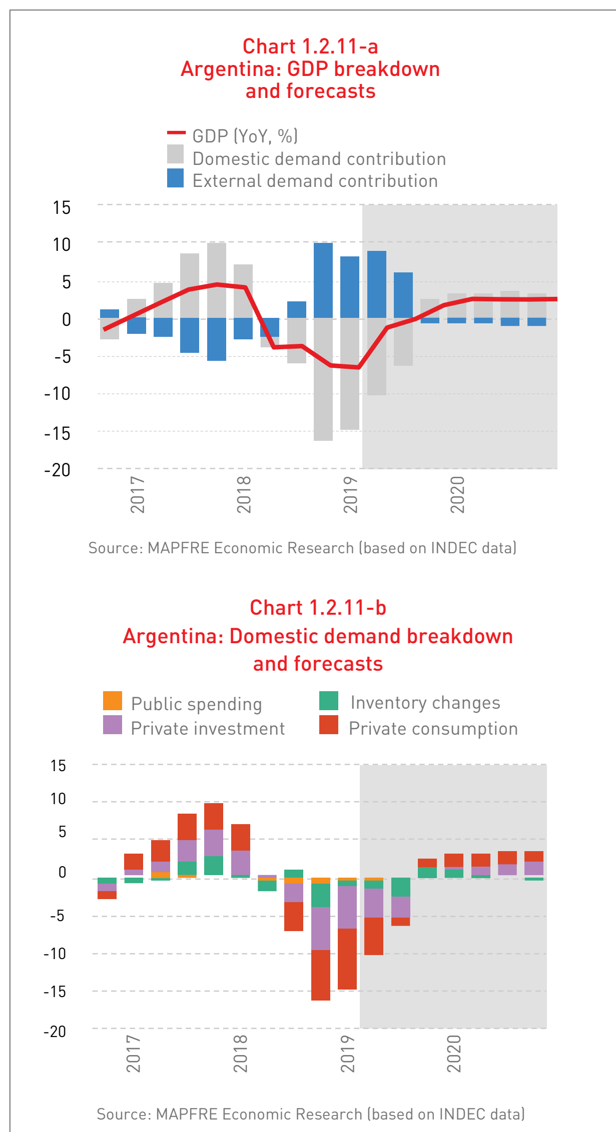

Table 1.2.11
Argentina: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	-2.5	2.7	-2.0	2.7	-2.4	-1.5	2.6
Domestic demand contribution	-4.0	4.0	-2.1	6.3	-4.1	-7.1	3.4
External demand contribution	1.5	-1.3	0.1	-3.7	1.7	5.7	-0.8
Private consumption contribution	-3.1	2.5	-0.5	2.9	-1.7	-3.3	1.8
Private investment contribution	-1.2	0.7	-1.1	2.3	-1.2	-3.0	1.2
Public spending contribution	0.4	0.9	-0.1	0.4	-0.4	-0.1	0.2
Domestic demand (% YoY, average)	-3.6	3.8	-2.0	6.0	-3.7	-6.4	3.3
Total consumption (% YoY, average)	-3.2	4.1	-0.7	3.8	-2.6	-3.6	2.3
Private investment (% YoY, average)	-6.6	3.4	-5.7	12.0	-4.6	-14.8	6.7
Exports (YoY in %)	-6.2	-2.3	7.2	1.0	-0.4	8.9	4.1
Imports (YoY in %)	-9.7	3.6	5.1	14.7	-5.4	-12.8	7.1
Unemployment rate (%, last quarter)	6.9	7.0	7.6	7.2	9.1	8.9	8.5
Inflation (% YoY, last quarter)	44.2	26.0	37.5	23.3	47.4	37.5	25.1
Fiscal balance (% of GDP)	-4.8	-5.9	-5.8	-5.9	-5.0	-3.4	-3.2
Trade balance (% of GDP)	1.0	-0.1	0.8	-0.9	-0.2	3.3	2.9
Fiscal stimulus (% of GDP)	-3.2	-3.9	-4.1	-3.7	-2.2	-0.1	0.8
Current account balance (% of GDP)	-1.6	-2.7	-2.7	-4.9	-5.2	-2.2	-2.1
Official interest rate (end of period)	25.33	33.00	24.75	28.75	59.25	50.00	26.00
Short-term rate (end of period)	27.27	23.50	26.23	27.44	56.76	45.29	23.62
Long-term rate (end of period)	9.36	6.65	7.00	5.91	10.86	9.07	8.27
Exchange Rate vs. USD (end of period)	8.55	13.04	15.89	18.65	37.70	48.02	58.79
Exchange rate vs euro (end of period)	10.38	14.20	16.75	22.37	43.17	55.41	69.45
Private lending (% YoY, average)	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
P.S. non-financial lending (% YoY, average)	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
Savings rate (%, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: MAPFRE Economic Research (based on INDEC data)
Forecast end date: July 5, 2019.

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1.2.12 China

Trade agreement fails to materialize and the United States presses for more tariffs.

- **The United States is escalating tariffs.**
- **Low hopes for a short-term resolution of the trade conflict.**
- **The Chinese government's stimulus policies maintain growth for now.**

China grew 6.4% in the first quarter of 2019, keeping up the pace of the previous quarter. The government's stimulus program is working, which consists of tax cuts and credit to the private sector to energize domestic demand and counter a slowdown in the external sector due to the trade war. Nevertheless, damage to foreign trade seems inevitable and, in this context, we have lower our growth estimate for 2019 by one-tenth to 6.1% (see Table 1.2.12, and Charts 1.2.12-a and 1.2.12-b).

The purchasing managers' index for the industry (PMI manufacturing) shows a contraction, reaching 49.4 in June, which is consistent with the escalation of tariffs. The Chinese government is committed to not letting the economy slow down, so they should be expected to continue to boost domestic demand through fiscal stimulus and credit to the private sector.

In addition, with inflation stable at around 2.7% (May data), it does not appear that the government will need to curb the stimulus, nor that the central bank will change its current view. Monetary policy is geared toward neutrality, following a 2018 marked by monetary tightening through reserve requirements and intervention rates.

In May, with tariffs rising from 10% to 25% for a USD 200 billion impact, the yuan (CNY) depreciated from 6.7 to 6.9 CNY/USD. With the trade war continuing, further depreciation cannot be ruled out, although in the central scenario of this report the yuan would end the year at around 6.9 CNY/USD.

It should be noted that the risks of deviation of our forecasts from Chinese economic activity levels are balanced, in the sense that we assign the same probability to deviations toward higher or lower growth around the forecast of 6.1%. At the G20 meeting in Osaka in June, the United States and China agreed to a truce, consisting of not raising any more tariffs while the agreement continues to be negotiated, news that was received with rallies in world stock markets.

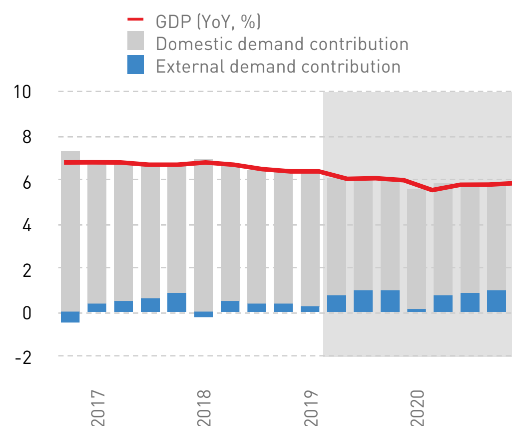
1.2.13 Indonesia

Reformist continuity.

- **Central Bank with accommodative monetary stance taking advantage of global trends.**
- **Currency stability is a priority.**
- **The policy would continue with the economic decisions of the previous mandate.**

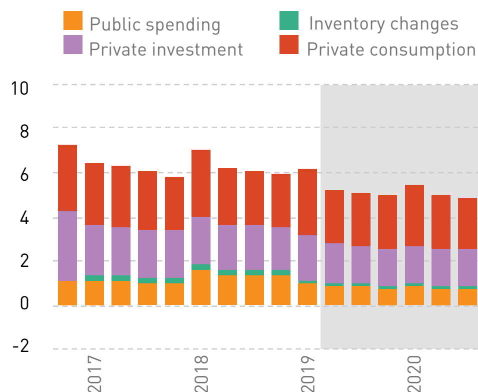
The Indonesian economy grew at a rate of 5.1% in the first quarter of 2019, in line with our expectation, down from the fourth quarter of 2018, given the cooling of the external environment. This growth is supported by strong consumption and investment (5.0% in both cases), but with exports and imports cooling (-2.1% and -7.8%, respectively). This weakness in the external sector continued into the start of the second quarter, with -13.1% and -6.6%,

Chart 1.2.12-a
China: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on BoPRC data)

Chart 1.2.12-b
China: Domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on BoPRC data)

Table 1.2.12
China: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	7.3	6.9	6.7	6.8	6.6	6.1	5.8
Domestic demand contribution	5.7	6.9	7.3	6.1	6.3	5.4	5.0
External demand contribution	1.6	0.0	-0.6	0.6	0.3	0.8	0.7
Private consumption contribution	3.1	3.1	3.1	2.6	2.6	2.6	2.5
Private investment contribution	2.2	3.3	3.1	2.2	2.0	1.8	1.7
Public spending contribution	0.4	0.9	1.1	1.1	1.4	0.9	0.8
Domestic demand (% YoY, average)	7.1	7.1	7.5	6.2	6.5	5.5	5.2
Total consumption (% YoY, average)	7.1	8.0	8.5	7.2	7.8	6.6	6.2
Private investment (% YoY, average)	6.9	7.3	6.7	4.8	4.4	4.1	3.9
Exports (YoY in %)	5.4	0.4	1.9	6.9	4.4	1.4	3.7
Imports (YoY in %)	7.7	0.5	3.2	8.2	6.6	1.6	4.7
Unemployment rate (%, last quarter)	4.1	4.1	4.0	3.9	3.8	3.7	3.7
Inflation (% YoY, last quarter)	1.5	1.5	2.2	1.8	2.2	2.5	2.5
Fiscal balance (% of GDP)	-1.8	-3.4	-3.8	-3.7	-4.2	-4.3	-4.3
Trade balance (% of GDP)	4.2	5.3	4.4	3.9	2.9	2.7	2.6
Fiscal stimulus (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	2.3	2.8	1.8	1.6	0.4	0.3	0.3
Official interest rate (end of period)	4.96	2.32	2.59	3.09	3.07	2.61	2.92
Short-term rate (end of period)	5.75	3.05	4.25	5.53	3.70	2.96	3.31
Long-term rate (end of period)	3.63	2.82	3.05	3.91	3.26	3.07	3.22
Exchange Rate vs. USD (end of period)	6.20	6.49	6.94	6.51	6.88	6.87	7.00
Exchange rate vs euro (end of period)	7.53	7.07	7.32	7.80	7.87	7.93	8.27
Private lending (% YoY, average)	13.4	14.8	13.3	10.5	12.0	13.0	9.9
Household lending (% YoY, average)	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
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (%, average)	39.7	39.3	38.3	38.6	38.5	38.3	38.0

Source: MAPFRE Economic Research (based on BoPRC data)
Forecast end date: July 5, 2019.

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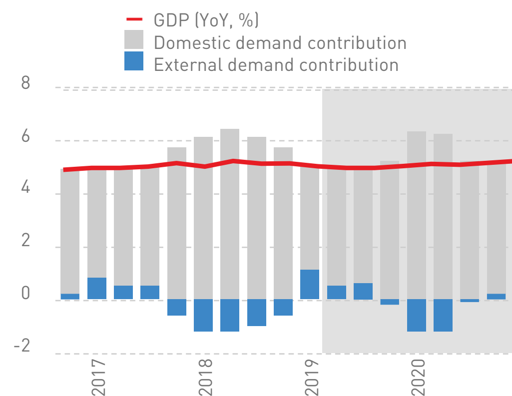
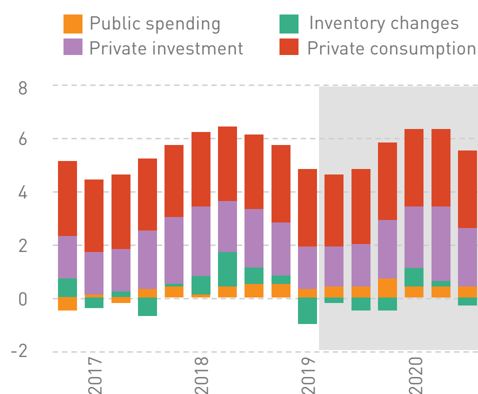
Chart 1.2.13-a
Indonesia: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on BPS data)

Chart 1.2.13-b
Indonesia: Domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on BPS data)

Table 1.2.13
Indonesia: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	5.0	4.9	5.0	5.1	5.2	5.0	5.2
Domestic demand contribution	4.6	3.9	4.9	4.8	6.2	4.5	5.7
External demand contribution	0.4	0.9	0.1	0.3	-1.0	0.5	-0.6
Private consumption contribution	2.9	2.7	2.8	2.8	2.8	2.9	2.9
Private investment contribution	1.0	1.6	1.5	2.0	2.2	1.8	2.4
Public spending contribution	0.1	0.5	-0.0	0.2	0.4	0.5	0.5
Domestic demand (% YoY, average)	5.3	4.0	5.0	4.8	6.3	4.6	5.8
Total consumption (% YoY, average)	4.7	4.9	4.4	4.6	5.1	5.2	5.4
Private investment (% YoY, average)	4.5	5.0	4.5	6.1	6.7	5.3	7.3
Exports (YoY in %)	1.3	-2.1	-1.6	9.0	6.5	-0.5	7.9
Imports (YoY in %)	2.2	-6.2	-2.4	8.1	12.2	-3.0	11.6
Unemployment rate (%, last quarter)	5.9	5.8	5.5	5.3	5.2	4.8	4.5
Inflation (% YoY, last quarter)	6.5	4.8	3.3	3.5	3.2	3.7	3.4
Fiscal balance (% of GDP)	-2.2	-2.6	-2.5	-2.6	-1.7	-1.7	-2.0
Trade balance (% of GDP)	0.8	1.6	1.6	1.9	-0.0	0.2	0.7
Fiscal stimulus (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-3.1	-2.0	-1.8	-1.6	-3.0	-2.75	-2.40
Official interest rate (end of period)	6.50	6.25	4.75	4.25	6.00	6.00	6.00
Short-term rate (end of period)	7.17	8.86	7.46	5.48	7.70	7.19	7.10
Long-term rate (end of period)	7.86	8.81	7.85	6.30	7.90	7.79	7.74
Exchange Rate vs. USD (end of period)	12,427	13,836	13,525	13,484	14,380	14,229	13,857
Exchange rate vs euro (end of period)	15,088	15,063	14,257	16,171	16,465	16,417	16,369
Private lending (% YoY, average)	15.2	10.6	7.8	8.2	10.8	11.2	10.0
Household lending (% YoY, average)	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
P.S. financial lending (% YoY, average)	4.4	32.0	10.1	15.1	5.6	1.3	9.5
Savings rate (%, average)	17.0	17.0	17.0	17.0	17.1	17.4	17.5

Source: MAPFRE Economic Research (based on BPS data)
Forecast end date: July 5, 2019.

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respectively, in April and May. In 2019, the economy is expected to grow 5.0%, and to accelerate to 5.2% in 2020 (see Table 1.2.13, and Charts 1.2.13-a and 1.2.13-b).

Inflation in April was 2.8%, with the money supply growing at 6.2%, but slowing since 2017. Although a slight increase in inflation is expected in 2019 as a result of the elimination of certain subsidies, it should remain in the target range of 2.5–4.5%. At its May 16 meeting, the central bank kept interest rates unchanged at 6.0%, as expected. The central bank is keeping its focus on financial stability, signaling that it intends to maintain an accommodative stance with the aim of preventing further deceleration, but keeping rates stable. However, while a cut in interest rates is not entirely outside the realm of possibilities, the stability of the currency appears to be the priority.

The last presidential election was won by the current incumbent, Joko Widodo (Jokowi). His election campaign messages suggest that he will continue with his first-term policies, focused on industrialization, infrastructure development, and institutional and fiscal reforms. With the commodity cycle already slowing down, the country will have to reorient its exports toward manufactured goods in order to avoid a worsening of its current account.

1.2.14 Philippines

The economy disappoints in the first quarter.

The Philippine economy saw growth decelerate to 5.6% YoY in the first quarter of the year, a surprise in view of the still bullish outlook of the country, but the lower growth did not spread as there was no fall in the components that contributed to the activity. Investment in capital goods, and especially in residential goods, slowed down as a result of higher financial costs (higher interest rates), and the external sector saw exports and remittances take a more moderate path.

- **Weaker external demand and postponement of public spending.**
- **The Central Bank holds interest rates at 4.5%, in a cautious pause until it sees the effect of reserves requirements.**
- **The reserve ratio required of banks will fall in three phases between May and July.**

Consumption continued to drive GDP growth, accelerating to 6.3% and partly offsetting public consumption, which slowed to 7.4% (from 12.6%), due to an election-motivated postponement of public spending. Consumer and business confidence recovered visibly in the first quarter of the year, suggesting that the strong underlying growth trend will prevail over the weakness of the first quarter. Thus, we expect the Philippine economy to grow at around 5.9% this year and the following year, fundamentally supported by domestic demand with financial conditions that will act as support (see Table 1.2.14, and Charts 1.2.14-a and 1.2.14-b).

The trade deficit improved slightly in the last two quarters, thanks to lower oil imports and postponement of imports of capital goods related to the temporary freeze on public spending, but it is on a downward trend, with imports increasing more than exports owing to a strong domestic market and weakening external demand.

Inflation, for its part, has been slackening since October, standing at 3.0% in April thanks to lower pressure on food and fuel. The Central Bank has revised its own inflation estimate to 2.9% and 3.0% for 2019 and 2020, respectively. Our central scenario sets out an inflation forecast of 3.4% and 3.0% for those years.

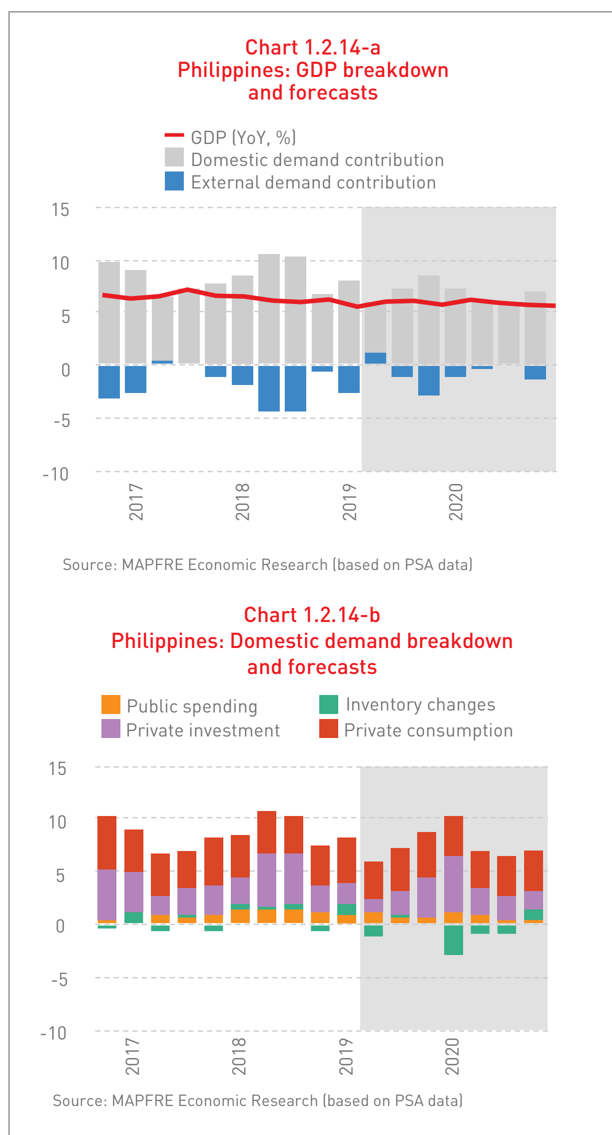

Table 1.2.14
Philippines: Main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	6.1	6.0	6.9	6.7	6.2	5.9	5.9
Domestic demand contribution	4.8	9.1	11.9	7.4	9.0	7.2	6.5
External demand contribution	1.3	-3.0	-5.0	-0.7	-2.8	-1.3	-0.6
Private consumption contribution	3.9	4.4	4.9	4.1	3.8	4.1	3.7
Private investment contribution	1.1	3.6	6.2	2.7	3.7	2.2	3.0
Public spending contribution	0.3	0.8	0.9	0.6	1.4	0.8	0.7
Domestic demand (% YoY, average)	5.0	9.0	11.5	6.8	8.4	6.5	5.8
Total consumption (% YoY, average)	5.2	6.5	7.4	5.9	6.6	6.2	5.5
Private investment (% YoY, average)	7.2	16.6	26.6	9.4	13.2	7.3	9.7
Exports (YoY in %)	12.6	8.7	11.7	19.7	13.4	5.6	8.7
Imports (YoY in %)	10.1	14.6	20.5	18.2	16.0	6.7	8.3
Unemployment rate (%, last quarter)	6.0	5.6	4.7	5.0	5.1	4.8	4.5
Inflation (% YoY, last quarter)	2.9	0.3	2.0	3.0	5.9	3.4	3.0
Fiscal balance (% of GDP)	-0.6	-0.9	-2.4	-2.2	-3.2	-3.1	-2.9
Trade balance (% of GDP)	-6.1	-8.0	-11.7	-12.8	-14.8	-14.6	-14.6
Fiscal stimulus (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	3.8	2.5	-0.4	-0.7	-2.4	-2.3	-2.4
Official interest rate (end of period)	4.00	4.00	3.00	3.00	4.75	4.25	4.25
Short-term rate (end of period)	3.09	3.03	2.50	3.22	5.03	4.64	4.62
Long-term rate (end of period)	4.37	4.10	4.63	5.70	7.05	5.47	5.85
Exchange Rate vs. USD (end of period)	44.62	47.17	49.81	49.92	52.72	51.95	51.12
Exchange rate vs euro (end of period)	54.17	51.35	52.51	59.87	60.37	59.94	60.39
Private lending (% YoY, average)	18.0	13.2	15.3	18.0	17.0	12.5	13.5
Household lending (% YoY, average)	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
P.S. financial lending (% YoY, average)	8.8	2.6	8.7	9.2	10.2	9.5	10.7
Savings rate (%, average)	9.3	7.7	7.8	8.1	7.7	7.5	8.6

Source: MAPFRE Economic Research (based on PSA data)
Forecast end date: July 5, 2019.

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At the May 9 meeting, the Central Bank kept its overnight lending rate at 4.50%, in what it called a cautious pause, until it saw the effect of the three reductions in the reserves banks are required to hold. At its May 16 meeting, the Central Bank decided to reduce banks' required reserve ratio (RRR) by 200 basis points in three phases: 100 basis points on May 31, 50 basis points on June 28, and a further 50 basis points on July 26, with the aim of stimulating the growth of credit, which has been on a downward trend for months (from 20% to 11%). Money supply growth has also been slowing down since 2017. This relaxation of reserve requirements, if it works in terms of credit stimulation, will have an impact on the pace of cuts in interest rates. Against this backdrop, we expect a cut in the third quarter of the year to 4.25%.

2. Industry outlook

2.1 The economic environment and its impact on demand for insurance: update

2.1.1 Global markets

The current economic situation points to world growth of around 3.3% in 2019 (3.6% in 2018), confirming the slowdown in global demand, in contrast to the robust and synchronized growth of 2017 (3.8%). This slowdown in economic growth will eventually translate into growth in world insurance premiums, especially in the Non-Life and Life risk segments. The more accommodative monetary policy measures toward which virtually all monetary authorities appear to be headed may soften the impact on the economy and the performance of these lines of business, although they will negatively affect the development of the savings Life and annuities insurance business, as they materialize. Meanwhile, expectations of lower interest rates may be a stimulus to this business in the short-term.

2.1.2 Eurozone

We estimate real GDP growth in the eurozone by 2019 at around 1.3%, a slowdown from the growth in 2018 (1.9%), in line with the trend started in 2017 (2.5%). Growth in the first quarter of 2019 was better than expected, supported by private consumption and investment. Confidence indicators have improved in recent months, the unemployment rate declined slightly and wages grew around 2%. Despite this slight improvement, growth in the main economies of the eurozone continues to be weak, which will eventually affect growth in the insurance business, especially regarding the Non-Life and Life risk lines of business.

Furthermore, low inflation and weak economic growth have led the ECB to adopt new unconventional monetary policy measures, with a two-year liquidity program for banks at an interest rate 10 basis points above the average rate applied to the main refinancing operations (TLTRO III). Monetary policy interest rates will remain at their current levels (0.0% refinancing rate and -0.40% deposit rate) until the first half of 2020. The risk-free yield curves produced by the European Insurance and Occupational Pensions Authority (EIOPA) show a further fall in interest rates along the curve, to levels significantly below the 2018 minimum levels (see Chart 2.1.2). The short and medium stretches of the curve have negative values, which are already affecting all terms on the curve of less than ten years. The curve continues to show a positive inclination, with higher rates at higher maturities, which could be a stimulus for the development of savings Life and annuities products, but the ever-lower

rates make it difficult to market them. This sustained context of low interest rates continues to be detrimental to the development of the specified lines of business.

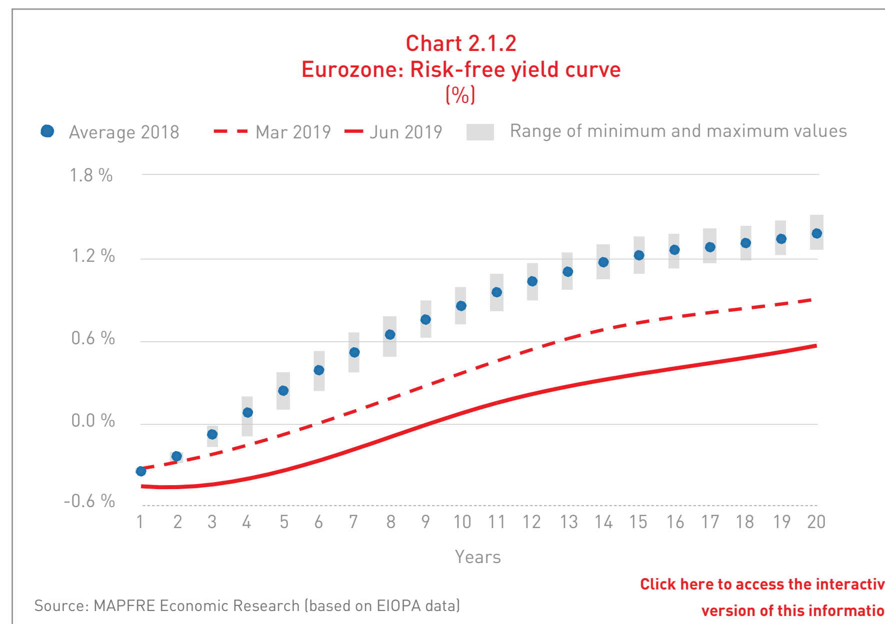
2.1.3 Germany

In Germany, real GDP growth is expected to be around 1% in 2019. First quarter growth data was somewhat better than expected, especially for domestic demand. However, the economic slowdown that took hold in the second half of last year, and which comes from the industrial sector, continues. The slowdown could end up negatively affecting the growth of the Non-Life and Life risk business lines in the German insurance market. However, the strength of the labor market, with a harmonized unemployment rate of 3.1%, robust wage growth, and a slowdown that is affecting the industrial and manufacturing sector more than domestic consumption, could soften the impact on the growth of the insurance business.

As for traditional savings Life and annuity insurance, the low interest rate outlook persists and will continue to weigh on this business. This effect may be felt in Germany in particular, whose sovereign debt has the lowest interest rates in the entire eurozone (close to -40 basis points) and negative values even for the 10-year bond.

2.1.4 Italy

The estimated real growth of the Italian economy in 2019 is around 0% (0.7% in 2018). The slight growth experienced by the economy in the first quarter has taken it out of a situation of technical recession, and into a situation of practically zero growth. Italy's high level of public debt continues to be its main vulnerability, along with a political climate that



hinders the necessary reforms to make its economy more dynamic and competitive. This environment of little or no economic growth is detrimental to the development of the Italian insurance market's Non-Life and Life risk lines of business, which are closely linked to economic growth.

With regard to traditional savings Life and annuity insurance, the high ratio of public debt to GDP and the political situation are keeping the risk premium of Italian sovereign debt above the rest of the large economies of the eurozone, with a 10-year bond with yields that stood at around 2.5% in the first quarter of 2019. This situation constitutes a stimulus for products with medium- and long-term guarantees, without prejudice to the

vulnerabilities that may accumulate in the balance sheets of the insurance companies that take advantage of upswings in the risk premium to reissue these types of products. The European Commission's recent decision to not lodge a formal request to open an excessive deficit procedure based on debt criterion has once again eased the spread of the 10-year Italian sovereign bond, which is now below 2%.

2.1.5 Spain

Spain continues to be the most dynamic of the large economies in the eurozone, although its mild slowdown continues. After higher-than-expected growth in the first quarter of 2019, real GDP growth in 2019 is expected to be around 2.4% (2.6% in 2018). Despite the slight slowdown forecast, expectations continue to be positive for the development of the Non-Life and Life risk business lines in the insurance market, albeit with a tendency to decelerate. The growth in domestic demand forecast for 2019 is based on the healthy performance of the labor market, with unemployment continuing to fall, but also on the use of credit by families and companies and a savings rate at the lowest levels in the last decade, which makes it more vulnerable.

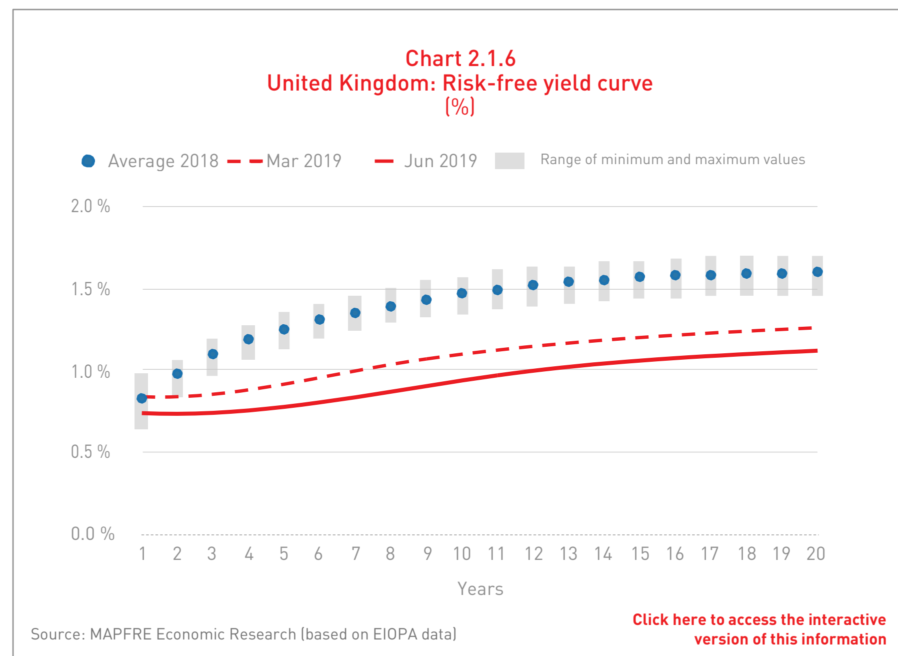
With regard to traditional savings Life and annuity insurance, the outlook of low interest rates that has been hampering this business still persists and will continue in line with the latest monetary policy messages from the ECB.

2.1.6 United Kingdom

The uncertainty generated by the exit from the European Union and international trade tensions continue to affect the level of economic activity in the United Kingdom. The real growth forecast for 2019 could be around 1.3% (1.4% in 2018), far from the growth experienced in the years prior to the referendum on Brexit which, for the time being, has been put off until October 31 of this year. However, unemployment remains low (around 3.8%) and growth can be observed in real wages. This environment will influence the development of the insurance business, which can withstand the economic slowdown, although uncertainty about its growth remains high.

As for traditional savings Life and annuity insurance, the low interest rate outlook persists in the UK as well, and this will continue to weigh on the business. At its last meeting, the Bank of England decided to keep interest rates at their current level, but on the EIOPA's risk-free yield curves (see

Chart 2.1.6
United Kingdom: Risk-free yield curve
(%)



Source: MAPFRE Economic Research (based on EIOPA data)

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Chart 2.1.6) show a general fall in the level of rates in all sections of the curve compared to the previous quarter, deepening their fall below the 2018 lows, except for short-term rates. The curve has a slight positive slope, although the term premium continues to be low and the levels are at a minimum, so the environment continues to be unfavorable for the development of these types of products.

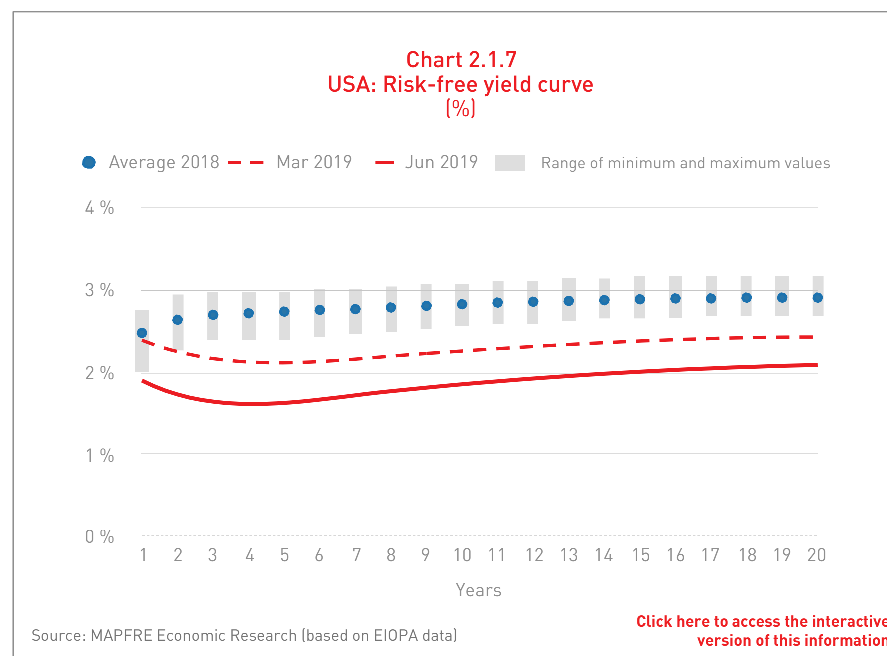
In addition, the recovery of the stock markets, after the fall suffered at the end of 2018, may favor the development of insurance products in which the policyholder assumes the risk of investment (unit-linked), which is widespread in this market. However, some caution may persist, stemming mainly from the weakness of the macroeconomic environment and the uncertainties generated by the UK's exit from the European Union.

2.1.7 United States

The US economy experienced growth again in the first quarter of 2019, supported by the good performance of private consumption and investment, with an unemployment rate that continues at minimum levels and real wage growth of around 3.4%, which continues to support disposable income and private consumption. However, some indicators, such as investment in capital goods, leading business confidence indicators and the reversal of the yield curve in the short and medium sections, point to a slowdown in the economy, with growth estimated at around 2.5% for 2019 (compared with 2.9% in 2018). The environment therefore continues to be favorable for the Non-Life and Life risk businesses of the insurance industry, although the gradual slowdown expected throughout this year could translate into lower growth in these lines of business.

With regard to savings Life and annuity products, the favorable effect of economic growth could be reinforced by trends in interest rates. The Federal Reserve has slowed the process of monetary normalization and a possible lowering of interest rates is expected for the second half of 2019. The latest EIOPA risk-free yield curves (see Chart 2.1.7) show a significant fall in all of the curve's sections compared to their level at the end of the previous quarter, falling below the 2018 lows in all sections. The curve continues to have a negative slope at terms of less than five years. Expectations of further rate cuts, which could negatively affect the savings Life business, may, however, stimulate short-term demand for savings

Chart 2.1.7
USA: Risk-free yield curve
(%)



Source: MAPFRE Economic Research (based on EIOPA data)

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products, especially those offering medium- and long-term interest rate guarantees.

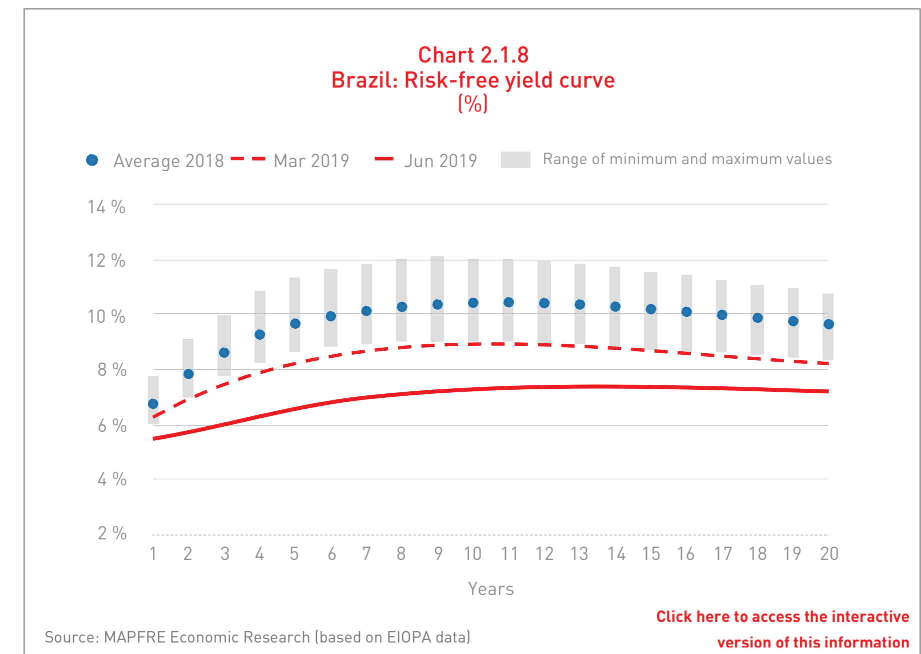
In addition, stock markets have recovered from the falls suffered at the end of 2018, which is good news for the development of insurance products in which the policyholder assumes the investment risk. Despite this, the high levels they present mean that there may be some caution when investing in this type of product, taking into account the historical highs of the main stock market indices in the United States, in an environment in which forecasts seem to confirm a slowdown at a macroeconomic level.

2.1.8 Brazil

All indicators point to a slowdown in the activity levels of the Brazilian economy, which has led us to lower our initial expectations of real GDP growth in 2019 to 1% (1.1% in 2018). Expectations of a global slowdown are materializing, combined with the persistence of the strong imbalance in public accounts and the difficulties faced by the government in undertaking the necessary structural reforms to balance them, especially in the pension system.

The main contribution to growth comes from private consumption, as the foreign sector and investment are slowing down more than expected. The downward revision of the economic growth forecasts also worsens the growth prospects for the Non-Life and Life risk businesses of the insurance industry. Inflation, in any case, seems to have been reined in and exchange rates are expected to remain stable, which is positive for the performance of these lines of business.

Also, the central bank is not expected to further reduce the benchmark interest rate of monetary policy. The risk-free yield curves produced by EIOPA (see Chart 2.1.8) show that rates have fallen again, when they appeared to have stabilized in the previous quarter, compared with the significant fall in 2018. The curve maintains a positive slope, which favors the development of the savings Life and annuity insurance business, but interest rates on all maturities are at relatively low levels compared to those reached in previous years, which may make it difficult to market new products for these business segments.

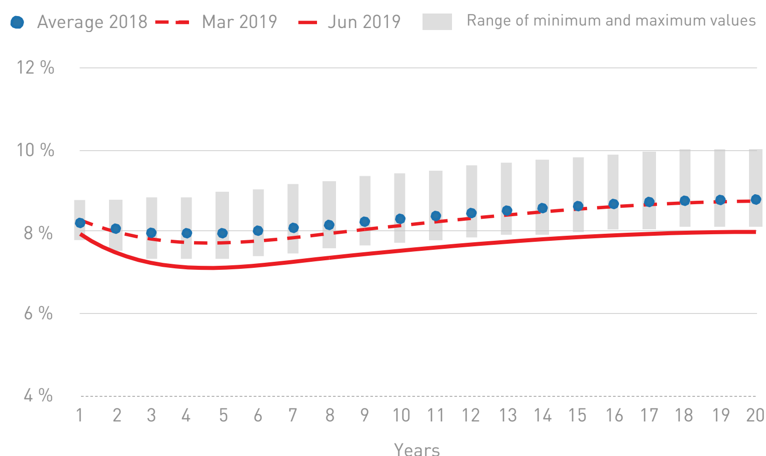


2.1.9 Mexico

After the slowdown in the last quarter, we estimate real growth for the Mexican economy in 2019 at around 1.3% (2% in 2018), which means that the country's growth prospects are narrowing. The restrictive monetary policy, with the aim of curbing inflation and, collaterally, currency depreciation, has brought with it an economic slowdown that has been fed by the fall of public spending, investment and the deceleration of the external sector, to which must be added the increase in investment uncertainty.

This economic slowdown could end up spreading to the insurance market, especially to the Non-Life and Life risk business segments given their close link with economic performance. However, inflation is moderating and the currency seems to have stabilized, which is good news for the profitability performance of the Non-Life business lines (which were negatively affected by the upturn in previous months), the positive effect on claims expenses and the cost of reinsurance coverage.

Chart 2.1.9
Mexico: Risk-free yield curve
(%)



Source: MAPFRE Economic Research (based on EIOPA data)

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The EIOPA risk-free yield curves (see Chart 2.1.9) show a fall in all sections of the curve at the end of June 2019 from the levels in March, dropping below the minimum levels of 2018, except for one-year maturities, in which it is slightly above the 2018 minimum. The curve presents a slightly negative slope in maturities of less than five years. This environment continues to be favorable for savings Life and annuity products, making the most of the long-term rate levels, as well as temporary savings Life products renewable for periods of less than a year, which allow for the guaranteed rate to be reviewed at each renewal. Expectations that interest rates may continue to fall can help the marketing of these types of products.

2.1.10 Argentina

The forecast for the Argentine economy in 2019 is a GDP drop in real terms of around -1.5% (-2.4% in 2018). However, growth is expected to return in 2020 (2.6%). For the time being, the implementation of the restrictive fiscal and monetary policy measures agreed under the financial assistance program with the IMF make it difficult in the short-term to exit the recessionary environment in which the economy finds itself, but they do signal an improvement in the medium-term outlook.

This recessive environment negatively affects the development of the insurance business, especially the Non-Life and Life risk lines of business.

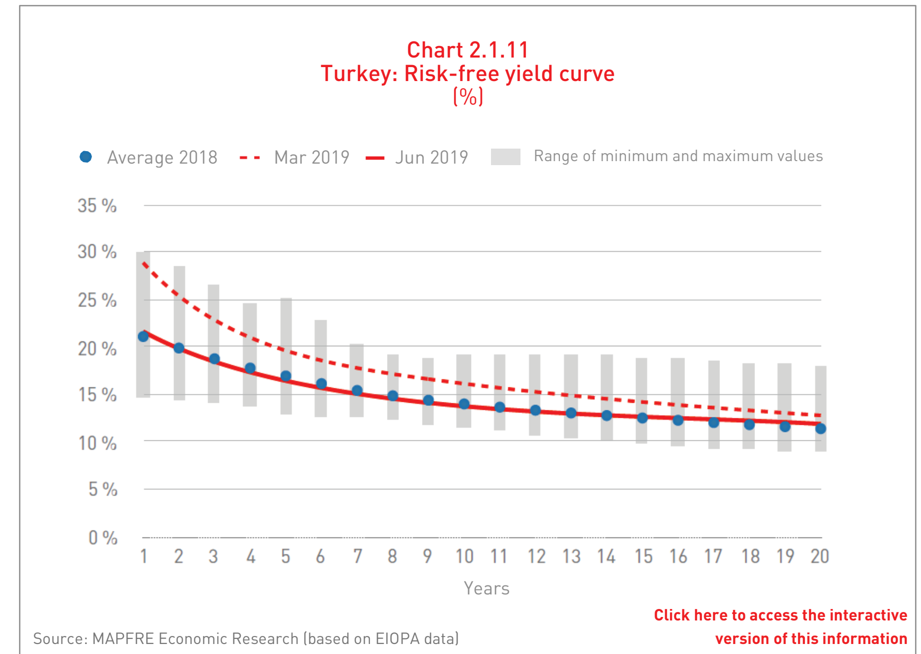
Difficulties in curbing inflation, which shows no signs of easing (57.3% year-on-year in May), will have a negative impact on the claims costs of insurance companies that are unable to take full advantage of the high interest rates of monetary policy to shore up the financial profitability of these lines of business. This is due to the regulatory limits imposed on insurance companies for investments in short-term public debt instruments. This interest rate environment could also be an opportunity to market annual savings Life insurance products that are temporary and renewable with short maturity terms and renegotiation of the guaranteed rate for each maturity term, however the aforementioned regulatory limitations also hinder the development of this kind of product.

2.1.11 Turkey

Turkey is still in the recessive environment the economy entered in the second half of last year, and GDP is expected to fall in real terms by -1.6% in 2019 for the year as a whole (compared to a growth of 2.9% in 2018). The recessive environment and the imbalance in its balance of payments mean that the strain on the lira is not easing. However, the tightening of monetary policy and the three-year economic plan to attempt to bring the situation under control are having an effect, and it is estimated that the Turkish economy could exit the recession by the end of the year.

This environment will negatively affect the development of the Non-Life and Life risk business lines of the insurance industry, which was also affected by the price control system in mandatory third-party liability automobile insurance. The inflation rate continues to be high but seems to be moderating, and the currency has performed better due to the restrictive monetary policy measures being taken, thus moderating the insurance companies' claims costs. Also, high interest rates of monetary policy can help offset these adverse effects by shoring up the financial

Chart 2.1.11
Turkey: Risk-free yield curve
(%)



Source: MAPFRE Economic Research (based on EIOPA data)

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profitability of these lines of business. However, the risk of currency volatility remains high, although it is beginning to moderate.

As can be seen in the Risk-free yield curves produced by EIOPA, the interest rate volatility continued to be high with a curve that continues to be markedly inverted, but which has been remarkably normalized in the last quarter compared with the situation at the end of March (see Chart 2.1.11). This environment of high volatility and investment in the yield curve is detrimental to the development of products with long-term guarantees for the savings Life and annuities businesses. However, the

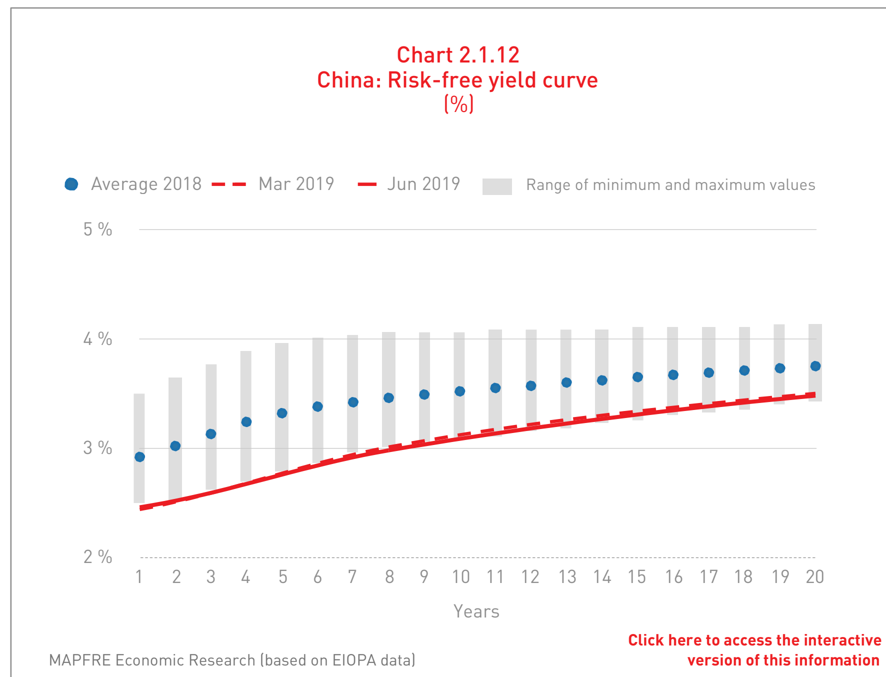
high levels of short-term interest rates present a business opportunity for the marketing of renewable temporary savings Life products in short terms, which allow for the guaranteed rate to be reviewed at each renewal.

2.1.12 China

The forecast for the Chinese economy is for GDP growth of around 6.1% in 2019, in real terms (6.6% in 2018). Investment and consumption continue to be the drivers of growth. The trade tensions with the United States and the expected slowdown in global growth point to a fall in the real growth of its economy, which is expected to worsen in 2020 (5.8%). However, the government's fiscal support program to stimulate domestic demand and counter a slowdown in the external sector is working, and the slowdown may be less pronounced than initially anticipated. In any case, the strength of domestic demand and growth forecasts continue to be positive for the prospects of the Non-Life and Life risk insurance business in China, which is one of the drivers of growth in the insurance sector worldwide, with the help of the still low penetration rate of insurance that is typical of emerging economies, demanding greater flexibility in premium growth in view of GDP growth. The Chinese government, as noted in previous reports, has among its express objectives increasing the degree of penetration of insurance activity. The moderate inflation outlook (2.5%) and the stability of China's currency are also conducive to the development of this business.

With regard to the savings Life and annuities businesses, the EIOPA risk-free yield curves (see Chart 2.1.12) show that rates have been stabilized for two quarters now, following a significant fall in 2018 due to the monetary stimulus applied to prevent an excessive slowdown of the economy. The curve maintains a positive slope, although interest rates on

Chart 2.1.12
China: Risk-free yield curve
(%)



MAPFRE Economic Research (based on EIOPA data)

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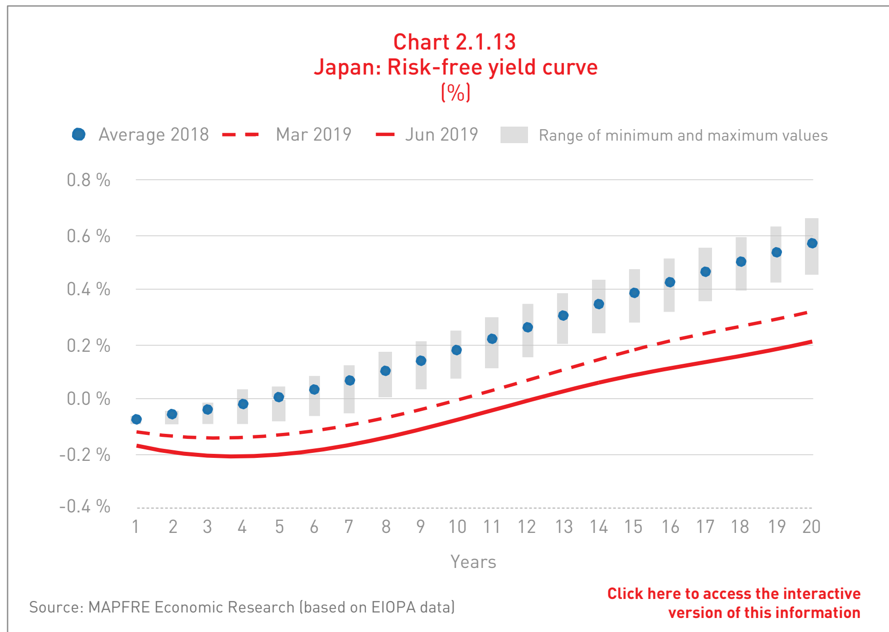
all maturities are at low levels compared to 2018, which may make it difficult to market new products for these business segments.

2.1.13 Japan

The real GDP growth forecast for the Japanese economy is around 0.5% in 2019 (0.8% in 2018). In the first quarter, the economy continued to recover from the sharp slowdown of the second half of 2018, triggered by natural disasters and the weaker foreign trade environment. However, exports

Chart 2.1.13
Japan: Risk-free yield curve
(%)



Source: MAPFRE Economic Research (based on EIOPA data)

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and industrial production continue to deteriorate and the forecast is that growth will continue to weaken in the next two years, which means that the growth performance of the Non-Life and Life risk insurance business is also expected to be weak.

The risk-free yield curves produced by EIOPA (see Chart 2.1.13) show that the fall in interest rates along the curve deepened in June with respect to the levels of March 2019, falling below the 2018 minimum levels in all sections. The curve is showing negative values for maturities of up to twelve years and the term premium from those maturities continues to be depressed, which makes it very difficult to market savings Life and annuity products. This sustained context of low interest rates continues to be detrimental to the development of the specified lines of business.

2.1.14 Philippines

The forecast for the Philippine economy in 2019 is GDP growth in real terms of around 5.9% (6.2% in 2018). In any case, this is robust growth in a global context of deceleration. The slight downward revision of growth is due to a slightly worse-than-expected performance of the economy in the first quarter of 2019. The driver of growth comes from domestic demand, mainly private consumption, but also investment, although the latter has slowed more than expected. This led to an initial decision by the central bank to relax its restrictive monetary policy. The trade deficit continues to show a tendency to worsen throughout the year.

In any event, the economic growth outlook is favorable for the prospects of the Non-Life and Life risk insurance business, with the help of the still low insurance penetration rate in the Philippines Inflation continues to moderate and stood at 3.4% in the first quarter of the year, which contrasts with the high inflation rates recorded in the previous quarter (5.9%). This environment of inflationary control is good news for the profitability of these lines of Non-Life insurance business, as the growth in insurance companies' claims costs has moderated.

In addition, the easing of the restrictive monetary policy applied by the Central Bank has entailed a cut in the monetary policy benchmark rate to 4.5% (from 4.75%) and the yield on the ten-year sovereign bond, which stood at 7% in December 2018, is estimated to decline to levels around 5.5% at the end of 2019. This interest rate environment, with a still positive term premium and downward expectations, together with the economic growth situation, may stimulate the growth of the savings Life and

annuities business lines in the short-term, but interest rate cuts, once they materialize, and their volatility, are detrimental to the development of these business lines. In any case, we do not expect a major negative impact, as the interest rate levels at the end of 2018 were exceptionally high when viewed in the context of past levels.

2.2 Regulatory trends

2.2.1 SFCR of the leading insurance groups in the European Union

Solvency II and the Solvency and Financial Condition Report

In May and June 2019, the leading insurance groups in the European Union published the Solvency and Financial Condition Report (SFCR) for fiscal year 2018. It was the third such report released by the above companies since the new regulatory framework introduced under Solvency II entered into force.

One of the main changes introduced by the new European Solvency Regulation was the mandatory calculation of a group-level Solvency Capital Requirement (SCR), which applies to groups of insurance entities located in the European Union. Up until Solvency II entered into force, the only obligation for insurance companies was the calculation of individual-level regulatory capital, with prudential control exercised by national supervisory authorities on this basis. In addition, supplementary control for the supervision of insurance groups was formulated, focusing basically on following intra-group transactions that may result in double calculation of capital across various entities of the same group, or the existence of additional risk that is not visible at the individual level.

Under the new solvency regime applicable to insurance groups, a regulatory scheme is reproduced based on three pillars. It seeks to create incentives not just so that insurance companies are properly administered individually, but also at the level of the insurance groups to which they belong. The aim is to strengthen the regulatory scheme in charge of protecting the interests of those insured while ensuring that the insurance industry contributes to good economic performance and, accordingly, to the stability of the financial system.

Therefore, under the Solvency II scheme applicable to insurance groups, Pillar 1 focuses on determining quantitative aspects that preserve the group's solvency position as defined under the solvency regulation itself, and that consequently may differ from the scope of accounting consolidation; Pillar 2 seeks to maintain satisfactory governance of the insurance groups as an additional element to boost their performance, and specifically their solvency; and finally, the objective of Pillar 3 is to increase the requirements of these groups with respect to transparency and disclosure of information to the market.

In this situation, pursuant to the specific applicable regulatory framework under Pillar 3, the insurance groups must publish information on their financial position and solvency on an annual basis, providing clear, comparable and high-quality information to the market via the release of the group SFCR. Through such transparency, the regulation seeks to ensure that interested economic operators will have the information to best understand the implicit risk of insurance groups and assessing, from

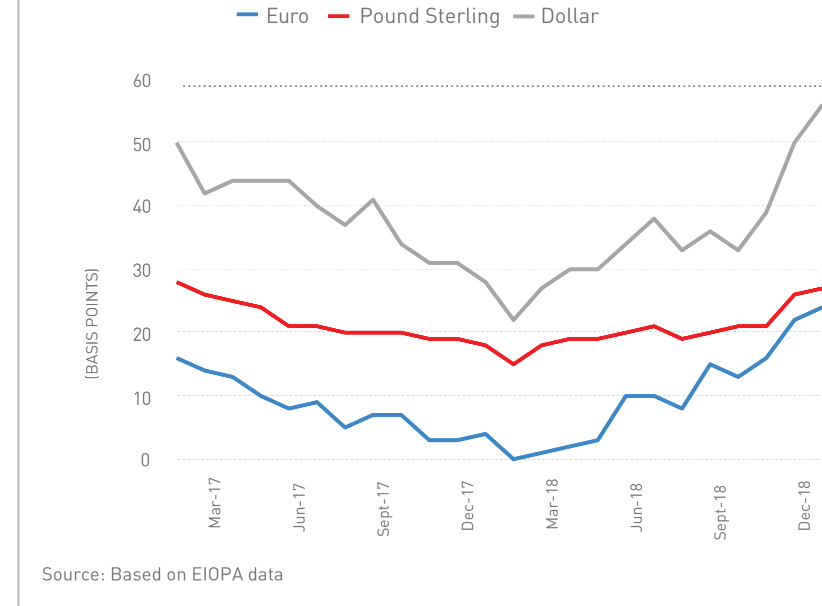
an aggregate perspective, the characteristics of their risk assessment and management processes, the sufficiency of their technical provisions and own funds and, accordingly, of their solvency position.

Similar to what was done in 2017, this report presents an analysis of the performance of the solvency ratios of the leading insurance groups in the EU for 2018, including comparisons of the evolution of their main components with respect to 2017, which was the second year that the Solvency II regulatory scheme was in effect.

With respect to 2018, it is worth highlighting the benefit of the application of adjustment measures for volatility and matching, which allowed European insurance groups to compensate for the increase in volatility experienced by the financial markets, especially in the second half of the year. This effect has been notable for investments in dollars and euros and, to a lesser extent, for investments in pounds sterling, for which the increase in volatility at the end of 2018 was significantly lower with respect to what was observed at the close of 2017. This performance can be observed in Chart 2.2.1-a, which shows the volatility adjustment calculated by the European Insurance and Occupational Pensions Authority (EIOPA) for a representative portfolio of insurance companies' investments in different currencies during 2017 and 2018.

The increase in volatility in dollar and euro investments led to an increase in the volatility and matching adjustments applied for the calculation of technical provisions and SCR when determining the solvency ratio at group level under the new prudential regulation, as can be confirmed in the analysis presented in the following sections of this report.

Chart 2.2.1-a
Main currencies: Volatility adjustment, 2017–2018



Source: Based on EIOPA data

This fact highlights the importance of these transitional and adjustment measures incorporated since Solvency II entered into force. They act noncyclically when there are high occasional volatilities in market valuations, bearing in mind that, due to their business model, insurance companies are not directly exposed to the aforementioned volatilities as they are investors who, when properly managing their risks, invest normally at maturity.

Solvency ratios

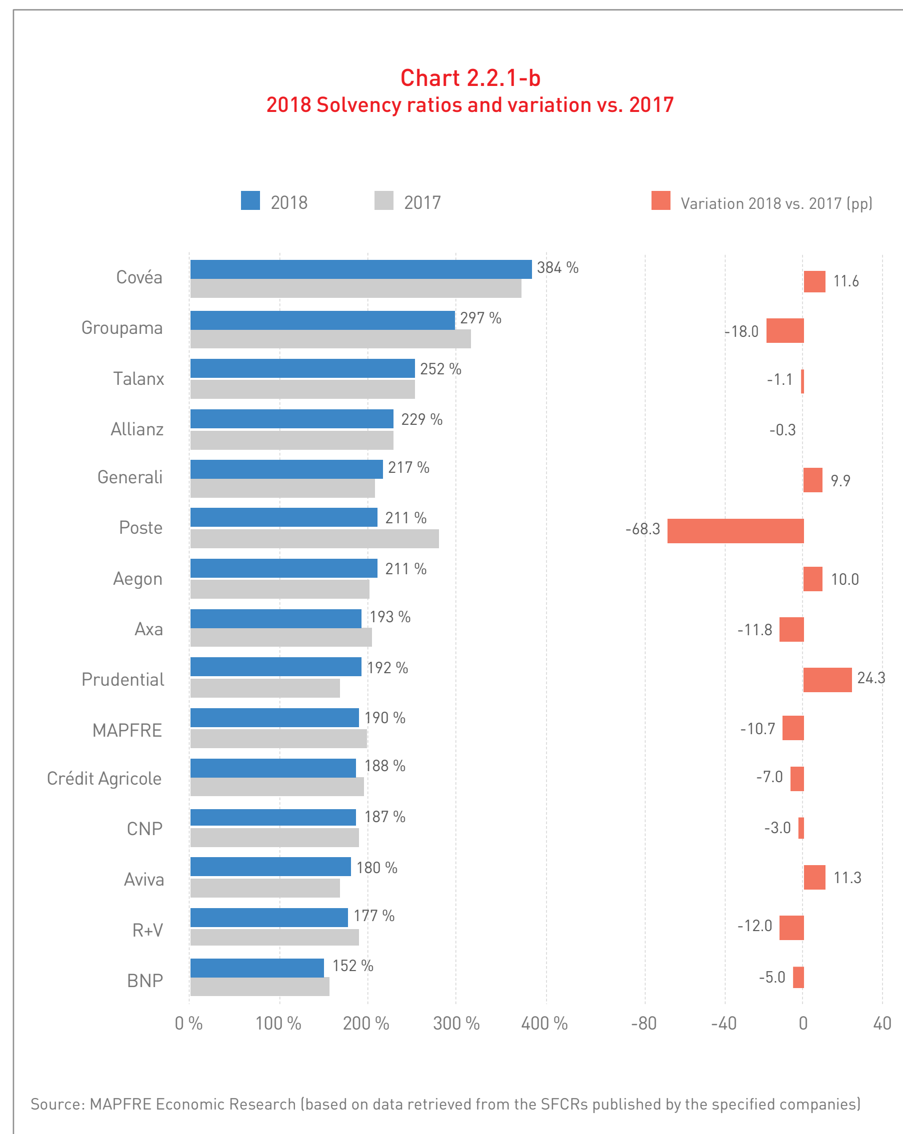
Chart 2.1 shows the solvency ratios for fiscal year 2018 published in the 2019 SFCRs presented by the leading insurance groups in the European Union[4]. These ratios are compared with those published at the time with respect to fiscal year 2017, as well as the variation between the two years.

The information shows that Covéa's 384% solvency ratio in 2018 was the highest of all the groups analyzed. Likewise, the groups that saw the greatest increases in their solvency ratios during 2017–2018 were Prudential, Covéa and Aviva, increasing by 24.3, 11.6 and 11.3 percentage points (pp), respectively.

In contrast, the insurance groups Poste and Groupama had the largest falls in their respective solvency ratios with respect to 2017, falling by 68.3 and 18 pp, respectively. Despite this, both groups have a healthy solvency position, although Poste continues to decline in the ranking of the groups analyzed, dropping to sixth position behind Generali. The MAPFRE group, for its part, fell one position with respect to 2017, seeing its solvency ratio reduced by 10.7 pp, lagging behind Prudential, which has risen four positions in the solvency ranking between 2017 and 2018.

In addition, Table 2.2.1-a shows the main financial and solvency figures for fiscal year 2018 reported by the insurance groups in their respective SFCRs. This information shows that the total premiums in that year for the leading EU insurance groups amounted to 631 billion euros (2017: 615 billion), while technical provisions stood at 3.6 trillion euros, similar to the previous year. Also, total own funds were 413.5 billion euros

Chart 2.2.1-b
2018 Solvency ratios and variation vs. 2017



Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

Table 2.2.1-a
Main financial and solvency figures, 2018
(millions of euros)

	Premiums	Technical provisions	Eligible own funds	SCR required	Solvency Ratio
Allianz	129,926	561,643	76,807	33,487	229 %
Axa	96,369	456,358	58,188	30,165	193 %
Generali	71,091	408,929	44,191	20,407	217 %
Prudential	55,028	259,842	40,425	21,023	192 %
Aviva	44,807	366,297	31,192	17,345	180 %
Talanx	33,880	104,742	20,970	8,324	252 %
Crédit Agricole	33,761	317,905	23,064	12,248	188 %
CNP	33,497	354,302	25,068	13,374	187 %
BNP	23,789	205,536	11,418	7,506	152 %
MAPFRE	22,537	35,938	8,819	4,653	190 %
Aegon	22,143	138,147	17,602	8,349	211 %
Covéa	17,011	84,629	23,933	6,239	384 %
Poste	16,797	120,143	8,259	3,901	212 %
R+V	16,247	87,632	10,732	6,054	177 %
Groupama	14,094	72,252	12,868	4,326	297 %
Total	**630,977**	**3,574,294**	**413,536**	**197,401**	**209 %**

Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

(414.2 billion in 2017) while the aggregate SCR was 197.4 billion euros (199.2 billion in 2017), yielding an aggregate solvency ratio for the sample of 209% (208% in 2017).

SCR calculation methods

Table 2.2.1-b presents the information related to the method used by the insurance groups covered in this report for the purpose of calculating the SCR in 2018. As can be seen, there are no variations with respect to the previous year. Thus, of the 15 groups analyzed, 7 (CNP, Crédit Agricole, MAPFRE, BNP, Poste, Covéa and R+V) continued to use the standard formula, while the remaining 8 (Allianz, Axa, Generali, Prudential, Aviva,

Table 2.2.1-b
SCR calculation methods, 2018

	Standard formula	Partial Internal Models				
		Market	Credit	Underwriting	Operations	Other
Allianz		✓	✓	✓	✓	✓
Axa		✓	✓	✓	✓	✓
Generali		✓	✓	✓		
Prudential		✓	✓	✓	✓	✓
Aviva		✓	✓	✓	✓	✓
Talanx		✓	✓	✓		
Crédit Agricole	✓					
CNP	✓					
BNP	✓					
MAPFRE	✓					
Aegon		✓	✓	✓		✓
Covéa	✓					
Poste	✓					
R+V	✓					
Groupama				✓		

Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

Talanx, Aegon and Groupama) used different forms of internal models.

None of the groups analyzed is using a purely internal model for SCR calculation. Groups that perform some type of internal modeling have opted to apply partial internal models, combining the calculation of the standard formula for certain modules with internal models for certain risk categories.

Eligible own funds

Table 2.2.1-c illustrates the quality of eligible own funds available to the different insurance groups included in this analysis to cover their capital requirements. According to this information, at aggregate level, 84% of eligible own funds were of the highest quality or Tier 1 (86% in 2017), 15% were Tier 2 (13% in 2017), and only 1% corresponded to Tier 3, the same percentage as in the previous year. There has therefore been a decrease of 2 pp in Tier 1 own funds with a correlative increase in Tier 2 own funds. The cases of Covéa and R+V stand out, for which admissible Tier 1 own funds are close to 100%.

Charts 2.2.1-c, 2.2.1-d and 2.2.1-e illustrate a comparison of the amount of eligible own funds in relation to some figures relevant to the balance sheet and business (assets, technical provisions and premiums) of the various insurance groups included in the analysis, as well as variations recorded in these relative references with regard to 2017. In the ratio between own funds and assets, the cases of Covéa, MAPFRE and Talanx stand out, with a ratio of 20.5%, 16.2% and 14%, respectively; in the ratio between own funds and technical provisions, the first three positions are also occupied by Covéa, MAPFRE and Talanx, with a ratio of 28.3%, 24.5% and 20% in each case; and finally, in the ration between own funds and premiums, Covéa, Groupama and Aegon were in the lead with 140.7%, 91.3% and 79.5%, respectively.

Transitional and adjustment measures

A significant aspect of analyzing the level of solvency ratios of the groups included in this report has to do with the effect of the transitional and adjustment measures introduced in the Solvency II Directive to alleviate the potential harm to the business arising from the existence of product portfolios with long-term guarantees.

These measures establish an ample transitional regime for the full entry into force of the new system, and also consider to some extent the characteristics of long-term institutional investors that hold these types of companies and their groups, which may have to contend with considerable 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). In this way, the transitional regime allows for a smooth transition to the requirements of the new system for those who decide to make use of it.

The measures adopted by the Directive in this regard were as follows:

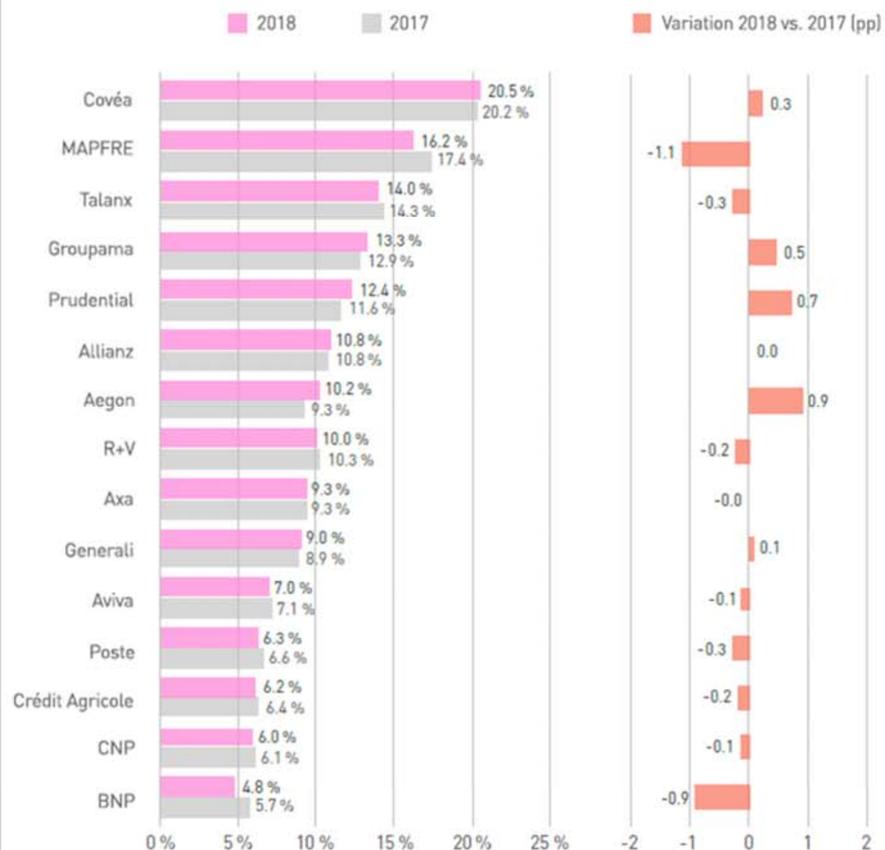
- Transitional measure of technical provisions: This measure allows the difference between the technical provision estimated under the parameters of Solvency II and the one calculated in lie with the previous standards under Solvency I to be phased in gradually over an initial 16-year period, until January 1, 2032 (three years having now elapsed). This applies only to portfolios existing at the time that the new system entered into force on January 1, 2016.

Table 2.2.1-c
Quality of eligible own funds, 2018
(thousands of euros and percentages)

	Eligible own funds	Tier 1		Tier 1r		Tier 2		Tier 3	
		(Amount)	(%)	(Amount)	(%)	(Amount)	(%)	(Amount)	(%)
Allianz	76,807,208	62,374,327	81.2 %	3,230,095	4.2 %	10,465,077	13.6 %	737,709	1.0 %
Axa	58,187,946	38,508,430	66.2 %	6,915,623	11.9 %	11,935,613	20.5 %	828,280	1.4 %
Generali	44,191,384	35,505,067	80.3 %	3,275,602	7.4 %	5,349,418	12.1 %	61,297	0.1 %
Prudential	40,425,143	32,178,512	79.6 %	490,372	1.2 %	7,650,199	18.9 %	106,060	0.3 %
Aviva	31,191,593	21,860,710	70.1 %	2,369,017	7.6 %	6,568,508	21.1 %	393,358	1.3 %
CNP	25,067,917	17,471,432	69.7 %	2,744,198	11.0 %	3,850,449	15.4 %	1,001,837	4.0 %
Covéa	23,932,710	23,883,175	99.8 %	41,535	0.2 %	8,000	0.0 %		
Crédit Agricole	23,063,795	16,680,891	72.3 %	1,948,010	8.5 %	4,406,145	19.1 %	28,748	0.1 %
Talanx	20,970,337	18,363,450	87.6 %	382,794	1.8 %	1,910,394	9.1 %	313,700	1.5 %
Aegon	17,602,238	12,204,846	69.3 %	2,889,889	16.4 %	2,003,579	11.4 %	503,923	2.9 %
Groupama	12,867,792	9,985,436	77.6 %	1,172,098	9.1 %	1,679,271	13.1 %	30,987	0.2 %
BNP	11,417,726	6,834,115	59.9 %	1,007,823	8.8 %	2,642,651	23.2 %	933,137	8.2 %
R+V	10,732,211	10,716,511	99.9 %			15,700	0.2 %		
MAPFRE	8,818,860	7,700,280	87.3 %			1,118,580	12.7 %		
Poste	8,259,119	7,259,799	87.9 %			999,320	12.1 %		
TOTAL	**413,535,979**	**321,526,981**	**77.8 %**	**26,467,055**	**6.4 %**	**60,602,904**	**14.7 %**	**4,939,035**	**1.2 %**

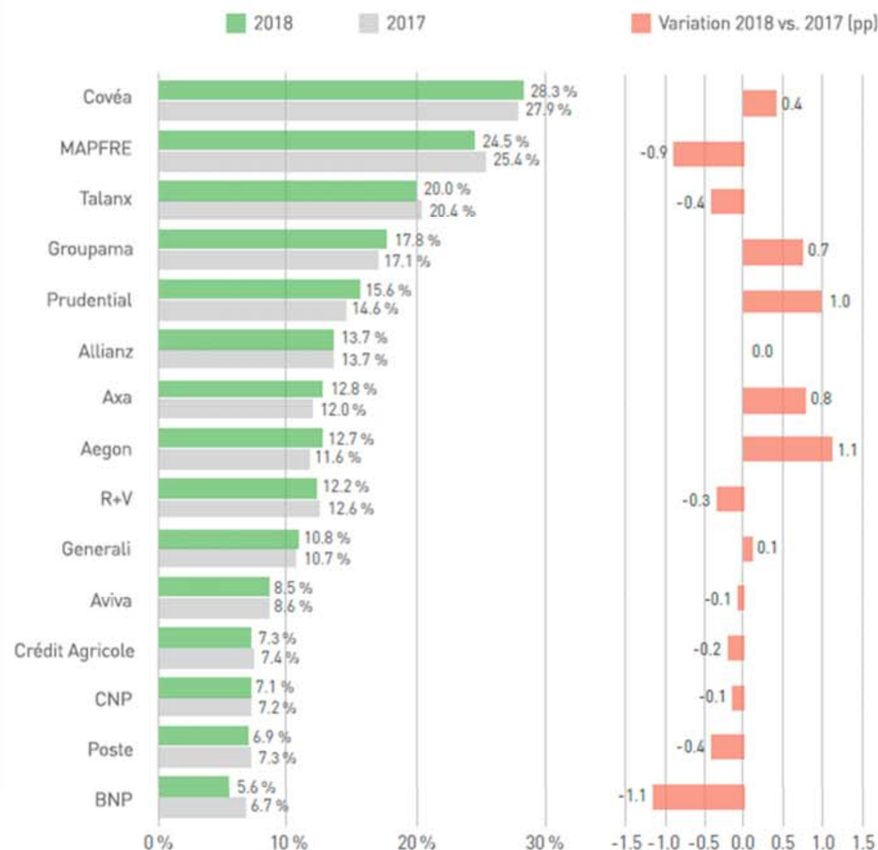
Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

Chart 2.2.1-c
Relative weight of own funds compared to assets in 2018 and variation vs. 2017



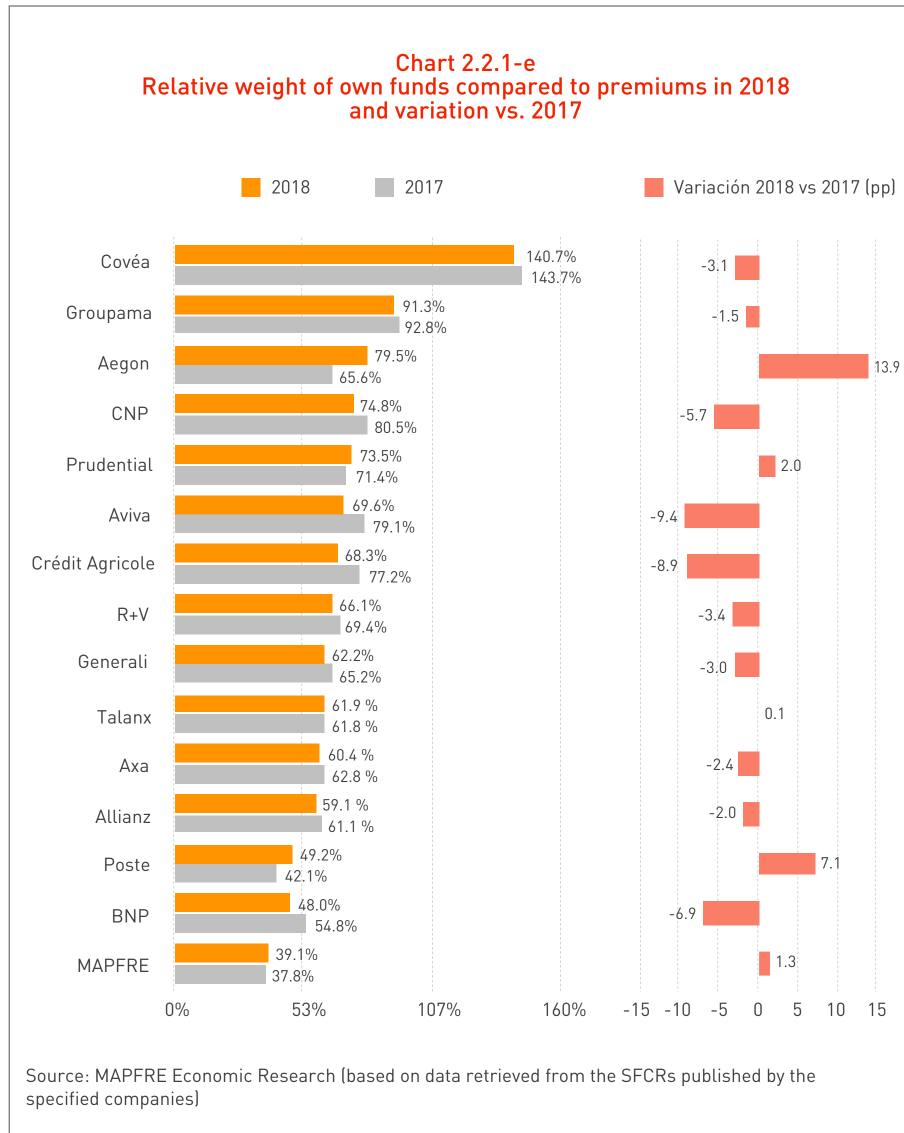
Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

Chart 2.2.1-d
Relative weight of own funds compared to technical provisions in 2018 and variation vs. 2017



Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

Chart 2.2.1-e
Relative weight of own funds compared to premiums in 2018 and variation vs. 2017



Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

- Volatility adjustment measure. The adjustment allows for correcting the discount interest rate for technical provisions to mitigate the effects of momentary increases in credit spreads in investment portfolios.

- Matching adjustment measure between assets and liabilities. If certain requirements are met, the measure allows companies to adjust the discount curve on technical provisions in line with institutions 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.

Impact of transitional and adjustment measures

The abovementioned transitional and adjustment measures, due to their nature, have an effect on the level of eligible own funds and the SCR and, therefore, on the solvency ratio. The size of this impact depends, among other factors, on the structure of the risk portfolio of each insurance group and the characteristics of its risk management process, and were disclosed by each of them in the publication of the respective SFCR. This effect is presented in Tables 2.2.1-d and 2.2.1-e, and illustrated (together with the variation compared to 2017) in Charts 2.2.1-f and 2.2.1-g.

This information shows that these measures were used most in 2018, in terms of their impact on the solvency ratio, by Aviva (through the application of adjustment measures for volatility and transitional technical provisions) and by Groupama (through the application of the transitional measure of technical provisions); this insurance group is immediately followed by Talanx, Generali and Prudential.

Table 2.2.1-d
Effect of transitional and adjustment measures on own funds, 2018
(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	76,807,208		176,526	
Axa	58,187,946		-2,781,844	
Generali	44,191,384		-2,116,056	
Prudential	40,425,143	-1,494,949	-775,902	-2,409,746
Aviva	31,191,593	-4,430,259	-614,154	-8,277,084
CNP	25,067,917		-1,271,381	
Covéa	23,932,710			
Crédit Agricole	23,063,795		-1,278,993	
Talanx	20,970,337	-3,563,194	-292,545	
Aegon	17,602,238	-82,193	-1,283,769	-32,036
Groupama	12,867,792	-3,499,052	-440,803	
BNP	11,417,726		-669,071	
R+V	10,732,211			
MAPFRE	8,818,860	-711,710	-106,630	-545,420
Poste	8,259,119		-1,059,958	

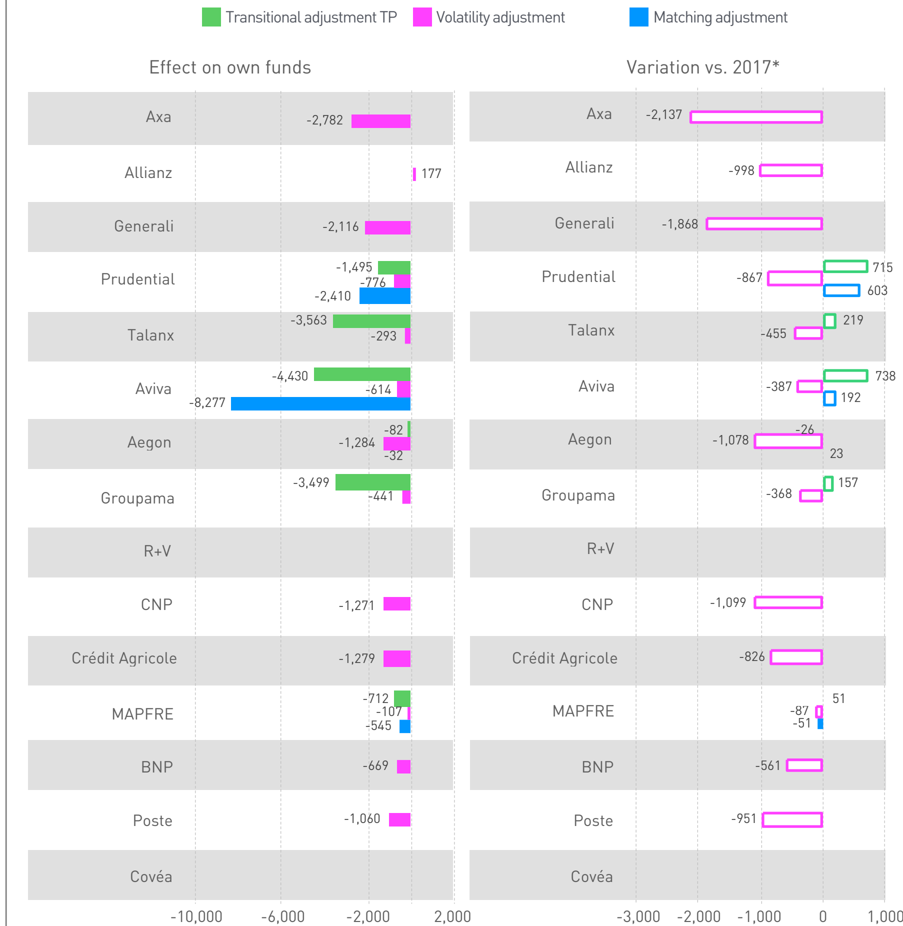
Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

Table 2.2.1-e
Effect of transitional and adjustment measures on SCR, 2018
(thousands of euros)

	SRC required	Effect of transitional adjustment TP on own funds	Effect of volatility adjustment on own funds	Effect of matching adjustment on own funds
Allianz	33,486,614		4,690,807	
Axa	30,164,744		6,055,646	
Prudential	21,023,429	282,381	523,864	3,643,432
Generali	20,406,950		7,504,730	
Aviva	17,345,063	636,183	1,083,552	6,055,383
CNP	13,373,931		959,551	
Crédit Agricole	12,248,066		409,439	
Aegon	8,348,537	-2,943	93,049	45,871
Talanx	8,324,178	20,717	1,189,157	
BNP	7,505,632		463,205	
Covéa	6,238,990			
R+V	6,054,303			
MAPFRE	4,653,260	1,970	6,160	-212,710
Groupama	4,326,374	1,264,204	450,423	
Poste	3,901,043		-73,388	

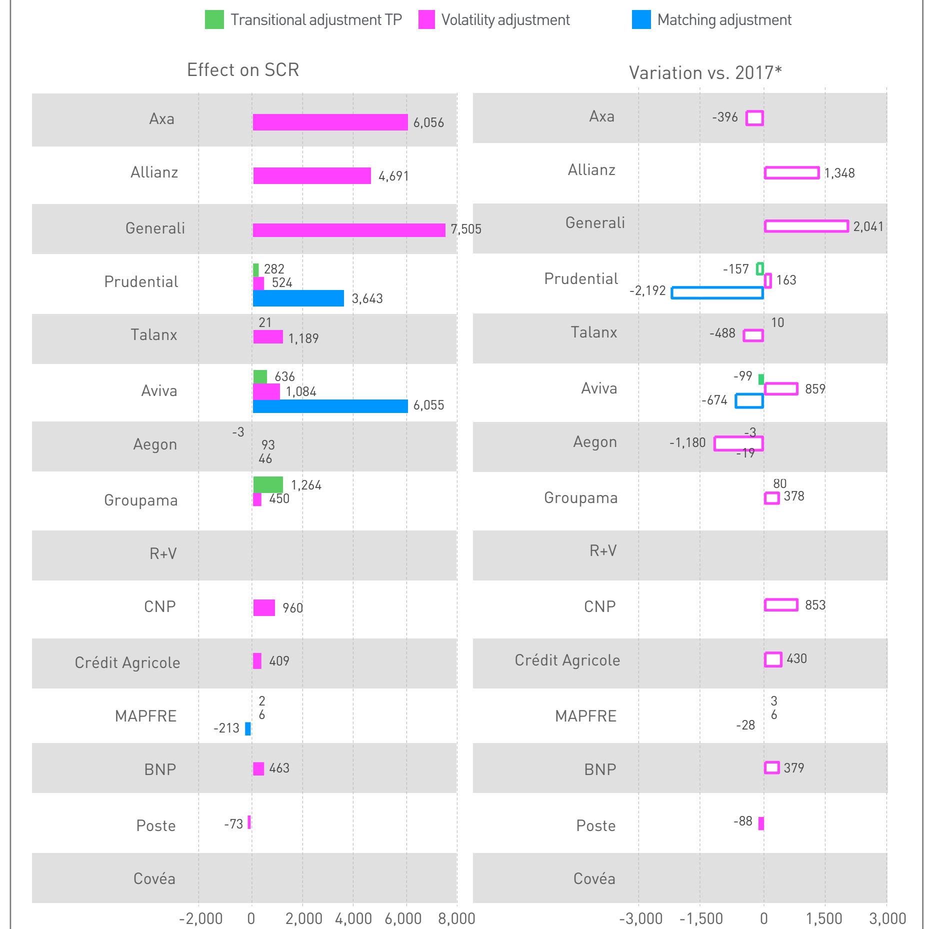
Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

Chart 2.2.1-f
Effect of transitional and adjustment measures on own funds, 2018
(millions of euros)



Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)
* Negative variation implies increased impact of adjustment.

Chart 2.2.1-g
Effect of transitional and adjustment measures on SCR, 2018
(millions of euros)



Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)
* Negative variation implies increased impact of adjustment.

Relative weight of SCR components

Charts 2.2.1-h and 2.2.1-i illustrate the aggregate composition of the different modules and other components of the SCR in 2018 for the insurance groups analyzed in this report, distinguishing between those that calculate the SCR from the use of the standard formula and those that use different forms of internal models for that purpose.

On one hand, for insurance groups that calculate SCR using the standard formula (Chart 2.2.1-h), a decrease in the relative weight of the market risk module (-3.5 pp) to the detriment of underwriting risk (+3.2 pp) was observed between 2017 and 2018. Likewise, for this subset of insurance groups analyzed, a decrease in the positive effect of diversification (-1.5 pp) related to what was observed in the previous year was seen. Finally, compared to 2017, a decrease in the weight of the operational risk component (+0.3 pp) and a larger profit derived from the capacity to absorb losses from technical provisions and deferred taxes (+1.2 pp) was noted.

In the latter case, the subset made up of insurance groups using different types of internal models (Chart 2.1.1-i) shows a decrease between 2018 and 2017 in the relative weight of the credit risk component (-0.5 pp), while the market risk component shows an increase compared to the previous year (+0.6 pp). Unlike what happened with groups that used the standard formula, in this subset, an increase was noted in 2018 in the profits derived from diversification (+0.9 pp) and a noticeably lower reduction from adjustments for loss absorption capacity of the technical provisions and deferred taxes (+0.6 pp).

Finally, regarding the effect of the adjustments on the absorption capacity of the technical provisions and deferred taxes, it is useful to point out that, in the case of groups that used internal models, this metric is only showing the effect of adjustments that had been modeled but not incorporated in the other components of the SCR.

2.2.2 European Union

2019 Reform of the Solvency II Delegated Regulation (EU) 2015/35

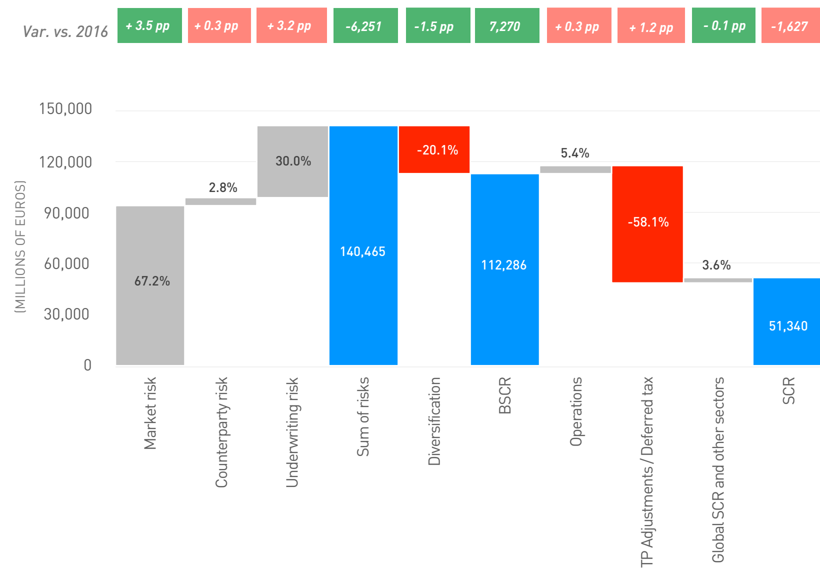
On June 18, 2019, the amendment to the Solvency II Delegated Regulation (EU) 2015/35 affecting certain elements of the calculation of the Solvency Capital Requirement under the standard formula was published in the Official Journal of the European Union[5].

The main changes it envisions affect the capital risk weights of the standard formula for unrated debt and for unlisted shares in which insurance undertakings invest, which are reduced under certain eligibility requirements. A special regime is established for certain investments with limited long-term availability in shares, which will benefit from the same lower capital risk weights as strategic interests in associated undertakings, provided they meet certain requirements in terms of risk management of asset-liability and of investments themselves.

Exclusions to the mandatory application of the transparency approach to mutual funds and exceptions to the use of external credit ratings are introduced as proportionality measures. Along the same lines, the risk sub-module for man-made disasters is simplified.

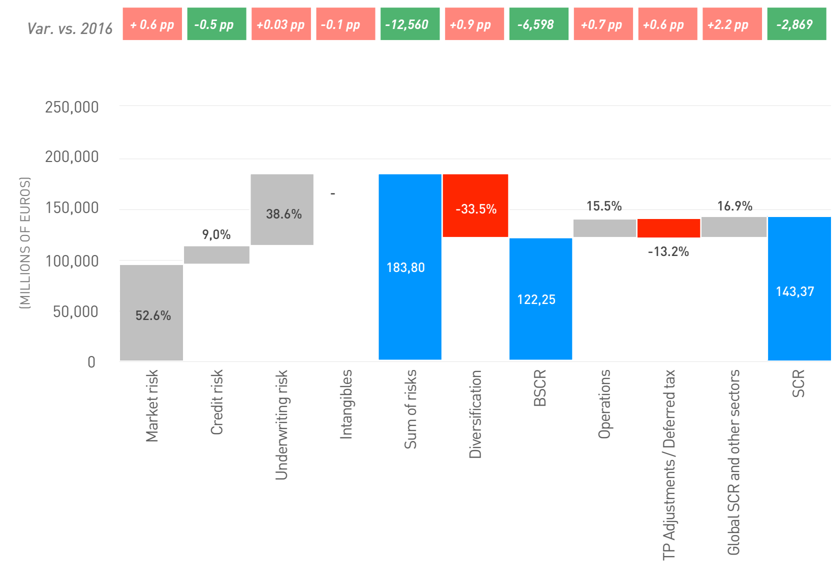
In addition, some inconsistencies with banking regulations are eliminated as their alignment is considered proportionate to the differences in the

Chart 2.2.1-h
Relative weight of different SCR components for groups using the standard formula in 2018 and variation vs. 2017
(millions of euros and percentages)



Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

Chart 2.2.1-i
Relative weight of different SCR components for groups using partial internal models in 2018 and variations vs. 2017
(millions of euros and percentages)



Source: MAPFRE Economic Research (based on data retrieved from the SFCRs published by the specified companies)

business model of both types of entities. These affect the classification of own funds, the treatment of risk in exposures to central counterparties and exposures to regional administrations and local authorities. They also affect the treatment of derivatives, which is adjusted after the adoption of the market infrastructure regulation (EMIR).

Finally, it should be noted that certain parameters are updated on the basis of additional data available since the last calibration, including the risks of Non-Life premiums, reserves and catastrophes and health risks, and a number of additional principles are introduced that affect the supervisory process in order to ensure a level playing field among Member States in the recognition of the capacity to absorb losses from deferred taxes, which cannot be justified on the basis of different tax regimes.

Tables: macroeconomic forecast scenarios

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

	Base Scenario						Risk Scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
United States	2.9	1.6	2.2	2.9	2.5	1.7	2.9	1.6	2.2	2.9	2.4	1.3
Eurozone	2.0	1.9	2.5	1.9	1.3	1.5	2.0	1.9	2.5	1.9	1.3	1.4
Germany	1.5	2.2	2.5	1.5	1.0	1.5	1.5	2.2	2.5	1.5	1.0	1.5
France	1.1	1.2	2.2	1.5	1.3	1.4	1.1	1.2	2.2	1.5	1.2	1.2
Italy	0.8	1.2	1.8	0.7	0.0	0.4	0.8	1.2	1.8	0.7	0.0	0.4
Spain	3.6	3.2	3.0	2.6	2.4	2.1	3.6	3.2	3.0	2.6	2.4	2.1
United Kingdom	2.4	1.8	1.8	1.4	1.3	1.9	2.4	1.8	1.8	1.4	1.3	1.8
Japan	1.3	0.6	1.9	0.8	0.5	0.2	1.3	0.6	1.9	0.8	0.5	0.1
Emerging markets	4.3	4.6	4.8	4.5	4.3	4.6	4.3	4.6	4.8	4.5	4.3	4.6
Latin America[1]	0.3	-0.6	1.2	1.0	1.4	2.4	0.3	-0.6	1.2	1.0	1.3	2.3
Mexico	3.3	2.6	2.4	2.0	1.3	1.9	3.3	2.6	2.4	2.0	1.2	1.5
Brazil	-3.6	-3.3	1.1	1.1	1.0	1.9	-3.6	-3.3	1.1	1.1	1.0	1.9
Argentina	2.7	-2.0	2.7	-2.4	-1.5	2.6	2.7	-2.0	2.7	-2.4	-1.5	2.5
Emerging Europe[2]	4.8	3.3	6.0	3.6	0.8	2.8	4.8	3.3	6.0	3.6	0.8	2.6
Turkey	6.0	3.3	7.4	2.9	-1.6	2.8	6.0	3.3	7.4	2.9	-1.6	2.7
Asia Pacific[3]	5.9	6.2	6.2	6.0	5.7	5.6	5.9	6.2	6.2	6.0	5.7	5.5
China	6.9	6.7	6.8	6.6	6.1	5.8	6.9	6.7	6.8	6.6	6.1	5.7
Indonesia	4.9	5.0	5.1	5.2	5.0	5.2	4.9	5.0	5.1	5.2	5.0	5.1
Philippines	6.0	6.9	6.7	6.2	5.9	5.9	6.0	6.9	6.7	6.2	5.9	5.8
World	3.4	3.4	3.8	3.6	3.3	3.3	3.4	3.4	3.8	3.6	3.2	3.1

Source: MAPFRE Economic Research

[1]Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN) Forecast end date: July 5, 2019.

Table A-2
Baseline and risk scenarios: Inflation
(end of period, %)

	Base Scenario						Risk Scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
United States	0.4	1.8	2.1	2.2	2.0	1.8	0.4	1.8	2.1	2.2	2.0	1.8
Eurozone	0.3	0.7	1.4	1.9	1.2	1.3	0.3	0.7	1.4	1.9	1.2	1.2
Germany	0.2	1.5	1.4	1.6	1.2	1.6	0.2	1.5	1.4	1.6	1.2	1.5
France	0.1	0.3	1.2	2.1	1.3	1.5	0.1	0.3	1.2	2.1	1.2	1.4
Italy	0.2	0.1	0.9	1.4	0.7	0.8	0.2	0.1	0.9	1.4	0.7	0.7
Spain	-0.3	1.0	1.4	1.7	1.2	1.1	-0.3	1.0	1.4	1.7	1.2	1.0
United Kingdom	0.1	1.2	3.0	2.3	1.8	1.8	0.1	1.2	3.0	2.3	1.7	1.7
Japan	0.2	0.3	0.6	0.9	1.4	0.5	0.2	0.3	0.6	0.9	1.4	0.4
Emerging markets	4.6	4.2	4.5	5.0	4.7	4.6	4.6	4.2	4.5	5.0	4.6	4.5
Latin America[1]	6.2	4.6	5.9	7.1	5.6	4.9	6.2	4.6	5.9	7.1	5.4	4.6
Mexico	2.3	3.2	6.6	4.8	3.7	3.6	2.3	3.2	6.6	4.8	3.7	3.5
Brazil	10.4	7.0	2.8	4.1	3.9	4.1	10.4	7.0	2.8	4.1	3.9	4.0
Argentina	26.0	37.5	23.3	47.4	37.5	25.1	26.0	37.5	23.3	47.4	37.5	24.9
Emerging Europe[2]	3.9	4.2	6.8	10.2	8.3	7.4	3.9	4.2	6.8	10.2	8.1	7.2
Turkey	8.2	7.6	12.3	22.4	14.5	10.2	8.2	7.6	12.3	22.4	14.5	10.0
Asia Pacific[3]	2.2	2.5	2.8	3.8	3.2	3.0	2.2	2.5	2.8	3.8	3.1	3.1
China	1.5	2.2	1.8	2.2	2.5	2.5	1.5	2.2	1.8	2.2	2.5	2.4
Indonesia	4.8	3.3	3.5	3.2	3.7	3.4	4.8	3.3	3.5	3.2	3.7	3.3
Philippines	0.3	2.0	3.0	5.9	3.4	3.0	0.3	2.0	3.0	5.9	3.4	2.8
World	2.8	3.0	3.3	3.7	3.4	3.2	2.8	3.0	3.3	3.7	3.4	3.2

Source: MAPFRE Economic Research

[1]Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: July 5, 2019.

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

	Base Scenario						Risk Scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
United States	2.27	2.45	2.40	2.69	2.00	2.13	2.27	2.45	2.40	2.69	1.98	1.83
Eurozone	1.20	1.04	0.91	1.09	0.61	0.99	1.20	1.04	0.91	1.09	0.61	0.86

Source: MAPFRE Economic Research
Forecast end date: July 5, 2019.

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

	Base Scenario						Risk Scenario					
	2015	2016	2017	2018	2019	2020	2015	2015	2015	2015	2015	2015
USD-EUR	0.92	0.95	0.83	0.87	0.87	0.85	0.92	0.95	0.83	0.87	0.87	0.84
EUR-USD	1.09	1.05	1.20	1.15	1.15	1.18	1.09	1.05	1.20	1.15	1.15	1.18
GBP-USD	1.48	1.23	1.35	1.28	1.31	1.38	1.48	1.23	1.35	1.28	1.31	1.38
USD-JPY	120.27	116.78	112.69	109.70	108.52	108.71	120.27	116.78	112.69	109.70	108.46	108.26
USD-CNY	6.49	6.94	6.51	6.88	6.87	7.00	6.49	6.94	6.51	6.88	6.87	6.98

Source: MAPFRE Economic Research
Forecast end date: July 5, 2019.

Table A-5
Baseline and risk scenarios: Benchmark interest rate
(end of period, %)

	Base Scenario						Risk Scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
United States	0.50	0.75	1.50	2.50	2.25	2.00	0.50	0.75	1.50	2.50	2.00	1.50
Eurozone	0.05	0.00	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.00	-0.06
China	2.30	2.50	2.40	3.20	2.61	2.92	2.30	2.50	2.40	3.20	2.60	2.77

Source: MAPFRE Economic Research
Forecast end date: July 5, 2019.

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References

1/ See: MAPFRE Economic Research (2019), *Economic and Industry Outlook 2019: second quarter perspectives*, Madrid, Fundación MAPFRE.

2/ It is useful to point out that the NAIRU *(Non-Accelerating Inflation Rate of Unemployment*) changes secularly with the transformation of the economy, as does potential growth, so extrapolations must be made with caution.

3/ See: MAPFRE Economic Research (2019), *Economic and Industry Outlook 2019: second quarter perspectives*, Madrid, Fundación MAPFRE.

4/ The Solvency and Financial Condition Reports for 2018 that are used as the basis for the preparation of this report were consulted as required at the following links:

Axa: https://www.axa.com/en/investor/earnings-presentation

Allianz: https://www.allianz.com/en/investor_relations/results-reports/SFCR/

Generali: https://www.generali.com/investors/reports-and-presentations/report-archive#2018

Prudential: https://www.prudential.co.uk/investors/reports/reports/2018

Talanx: http://www.talanx.com/investor-relations/berichte-risikomanagement/group.aspx?sc_lang=en

Aegon: https://www.aegon.com/en/Home/Investors/Annual-Reports/?of.section=%2fnewsroom%2fannual-reports%2fsfrc%2f

Aviva: https://www.aviva.com/investors/regulatory-returns/

Groupama: http://www.groupama.com/fr/investisseur/publications-financieres/information-reglementee-2018/

CNP: http://www.cnp.fr/en/Investor-Analyst

Crédit Agricole: https://www.ca-assurances.com/en/investors/solvency-2-narrative-reports

MAPFRE: https://www.mapfre.com/corporativo-es/accionistas-inversores/informacion-financiera/solvencia/

BNP: https://www.bnpparibascardif.com/es/rapports-de-solvabilite

Poste: https://postevita.poste.it/compagnia/dati-di-bilancio-poste-vita.html

Covéa: https://www.Covéa.eu/nos-activites/nos-publications/

R+V: https://www.ruv.de/ueber-uns/unternehmen/geschaeftsberichte

And for the 2017 Financial Condition and Solvency Reports, which were used for comparison purposes, the links consulted at the time were as follows:

Axa: https://www.axa.com/en/investor/earnings-presentation#year=2017

Allianz: https://www.allianz.com/en/investor_relations/results-reports/SFCR/

Generali: https://www.generali.com/investors/reports-and-presentations/report-archive#2017

Prudential: http://www.prudential.co.uk/investors/reports/reports/2017

Talanx: http://www.talanx.com/investor-relations/berichte-risikomanagement/group.aspx?sc_lang=en

Aviva: https://www.aviva.com/investors/regulatory-returns/

Aegon: https://www.aegon.com/en/Home/Investors/Annual-Reports/?of.section=%2fnewsroom%2fannual-reports%2fsfrc%2f

Groupama: http://www.groupama.com/fr/investisseur/publications-financieres/informations-reglementee-2017/

CNP: http://www.cnp.fr/en/Investor-Analyst

Crédit Agricole: https://www.ca-assurances.com/en/investors/solvency-2-narrative-reports

MAPFRE: https://www.mapfre.com/corporativo-es/accionistas-inversores/informacion-financiera/solvencia/

BNP: https://www.bnpparibascardif.com/es/rapports-de-solvabilite

Poste: https://postevita.poste.it/compagnia/dati-di-bilancio-poste-vita.html

Covéa: https://www.Covéa.eu/nos-activites/nos-publications/

R+V: https://www.ruv.de/ueber-uns/unternehmen/geschaeftsberichte

5/ https://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:32019R0981&from=ES

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