Fundación MAPFRE

2022 ECONOMIC AND INDUSTRY OUTLOOK: THIRD-QUARTER PERSPECTIVES

MAPFRE Economics

2022 Economic and Industry Outlook: Third-Quarter Perspectives

This study has been produced by MAPFRE Economics.
Publication rights have been assigned to Fundación MAPFRE.

Partial reproduction of the information contained
in this study is permitted so long as the source is cited.

Cite as follows:
MAPFRE Economics (2022), *2021 Economic and Industry Outlook*:
Third-Quarter Perspectives, Madrid, Fundación MAPFRE.

© Cover image iStock

© Text:
MAPFRE Economics - mapfre.economics@mapfre.com
Spain: Carretera de Pozuelo, 52 - Edificio 1
28222 Majadahonda, Madrid

Mexico: Avenida Revolución, 507
Col. San Pedro de los Pinos
03800 Benito Juárez, Mexico City

© For this edition:
2022, Fundación MAPFRE
Paseo de Recoletos, 23. 28004 Madrid
www.fundacionmapfre.org

July, 2022.

MAPFRE Economics

Manuel Aguilera Verduzco
General Manager
avmanue@mapfre.com

Gonzalo de Cadenas Santiago
Director of Macroeconomics and Financial Analysis
gcaden1@mapfre.com

Ricardo González García
Director of Analysis, Sectorial Research and Regulation
ggricar@mapfre.com

José Brito Correia
jbrito@mapfre.com

Begoña González García
bgonza2@mapfre.com

Isabel Carrasco Carrascal
icarra@mapfre.com

Fernando Mateo Calle
macafee@mapfre.com

Rafael Izquierdo Carrasco
rafaizq@mapfre.com

Eduardo García Castro
gcedua1@mapfre.com

Johannes Ricardo Rojas Díaz
jrroja1@mapfre.com

Álvaro Guillén Marín
Giorgia Balsamo
Gadea Ibáñez Franco
Giovanni Di Plácido Montilla
Marta Seijas Cabezón

Contents

Executive summary 9

1. Economic outlook

1.1 The world economic outlook 11

1.1.1 Perspectives on a crosswind landing 11
1.1.2 Moving forward 29
1.1.3 Risk assessment 31

1.2 Forecasts and risk assessment in select economies 37

1.2.1 United States 37
1.2.2 Eurozone 39
1.2.3 Spain 42
1.2.4 Germany 44
1.2.5 Italy 48
1.2.6 United Kingdom 50
1.2.7 Japan 52
1.2.8 Turkey 54
1.2.9 Mexico. 56
1.2.10 Brazil 58
1.2.11 Argentina 60
1.2.12 China 62
1.2.13 Indonesia. 64
1.2.14 Philippines 66

2. Industry Outlook

2.1 The economic outlook and its impact on insurance demand 67

2.1.1 Global markets 67
2.1.2 Eurozone 68
2.1.3 Germany 69
2.1.4 Italy 69
2.1.5 Spain 70
2.1.6 United Kingdom 70
2.1.7 United States 71
2.1.8 Brazil 72
2.1.9 Mexico 73
2.1.10 Argentina 74
2.1.11 Turkey 74
2.1.12 China 75
2.1.13 Japan 76
2.1.14 Philippines 77

2.2 Regulatory and supervisory trends 77

Tables: macroeconomic forecast scenarios 89

Index of charts, tables and boxes 93

References 97

Executive summary

2022 Economic and industry outlook: Third-quarter perspectives

Economic outlook

Tension in the supply chains, the geopolitical factor that is deepening the food and energy crisis, and the tightening of central banks' monetary policies are, among other factors, responsible for the continued and marked deterioration of the global economy. This is taking place against a backdrop of stagflation as the possibility of a recession appears more likely.

The recirculation of COVID-19 and the slowdown of vaccination also continue to be global concerns. Concerning the epidemiological situation, China's role in both production and supply chains is generating some unease due to its risk of continuing to operate amid intermittent or seasonal stoppages, weighing down economic activity. Despite the growing integration of India and other countries in Southeast Asia into the supply chains, the supply side remains congested due to the complexity and high level of specialization of certain processes as well as the need for consolidated infrastructure. Consequently, supply may not evolve at a desirable pace to recover its balance with demand.

At the same time, fiscal policy is facing the challenge of maintaining sustainable fiscal paths while applying specific temporary relief measures. As for monetary policy, the main central banks are immersed in a monetary tightening process as they activate their adjustment levers, creating tougher financial conditions for economic agents and negatively affecting activity levels. Meanwhile, from a geopolitical perspective, the conflict between Russia and Ukraine rages on, putting an end to hopes that the war will be short-lived and aggravating the food and energy crisis around the world.

In this context, the forecast for the *baseline scenario* considered in this report has shifted towards declining global economic growth (+3.0% and +2.7% in 2022 and 2023, compared to +3.6% and +3.6% proposed in our previous report) and rising inflation. This involves a worldwide deterioration towards levels of economic stagnation, albeit with differences by region. In contrast, the probability and impact of the *stressed scenario* (of an alternative and more pessimistic nature) have increased,

with global economic growth forecast to reach 2.5% and 0.6% in 2022 and 2023, respectively.

Industry outlook

The war in Ukraine is maintaining pressure on the prices of energy, food and other raw materials, a situation that has been exacerbated by the severe mobility restrictions imposed by the Chinese government due to new coronavirus outbreaks. All these geopolitical factors have led to a revision of forecasts, with upward inflation and downward economic growth that continue to complicate the outlook for the insurance industry.

The most recent inflation data exceeded expectations, once again diverging sharply from the targets of the central banks and motivating a tightening of monetary policy in the world's largest economies, sometimes in an accelerated way (in the United States, for example). Meanwhile, most of the emerging markets started this process in 2021.

The tightening of monetary policy will slow down overall demand, weakening the economy in an environment of higher, longer-lasting inflation than expected. This in turn will erode household purchasing power and corporate margins, negatively impacting the insurance business' growth and profitability while putting pressure on the pricing of insurance products. However, there are emerging business opportunities in Life savings insurance and traditional life annuities with guaranteed interest rates, as well as in some lines of business, such as health insurance. These areas continue to perform well amid the continued saturation of most public healthcare systems and in view of the heightened sensitivity to risk stemming from the pandemic. At the same time, rising interest rates may also help to bolster insurance companies' financial profitability.

Regarding the outlook for Life insurance in which the policyholder assumes the investment risk, the setbacks and high volatility of the financial markets after the invasion of Ukraine and the announcement of the withdrawal of monetary stimuli by the Federal Reserve and ECB, among other central banks, are painting a more complex picture. Corrections in the bond market and in the major equity indexes, as well as the increased credit risk, may adversely affect the balance sheets and solvency position of those insurance companies that have not handled these risks adequately.

Some large economies face a greater risk of economic stagnation with high inflation rates, which would be especially harmful to all sectors of activity, including the insurance industry. For now, the labor markets in the United States and (to a lesser extent) in the Eurozone remain strong, and the savings accumulated by households during the worst phases of the pandemic are high. These circumstances may help to mitigate the impact of this situation on these markets, combined with the greater aversion to risk that is helping to stimulate insurance demand.

1. Economic outlook

1.1 The world economic outlook

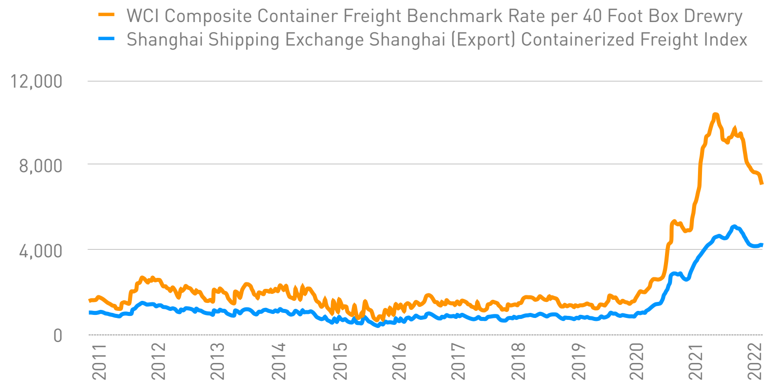
1.1.1 Perspectives on a crosswind landing

Throughout the second quarter of 2022, the global economy continued to move towards a scenario of deteriorating activity with a common pattern of higher inflation rates, fitting with the view in the previous edition of this report1 regarding the emergence of a stagflation-oriented climate amid growing signs of a possible recession. The triggers continue to be a confluence of events, such as: (I) tension in supply chains, mainly linked to China following the continuation of zero-tolerance policies to fight COVID-19; (ii) the subsequent contagion of the global value chain rendering the recovery of still-limited supply incomplete; (iii) the geopolitical component crystallizing and deepening the food and energy crisis; and (iv) central banks tightening their monetary policies in response to an inflationary backdrop with nobody really knowing how long it could last. The factors are starting to drip down into the expectations of agents, with a contraction in real revenue, and they serve as the basis for certain shortcomings forming part of a structurally higher regime of inflation.

Regarding the epidemiological factor, at a global level, both the recirculation of the virus (see the balance of risks in the next section of this report) and the slowdown of vaccination remain worrisome. However, despite the recent relaxation of restrictions, the dichotomy between the response of China and the rest of the world continues to be the main cause for concern. Given the country's role in production and supply chains, the risk of it continuing to operate with intermittent or seasonal stoppages in response to the epidemiological situation is a challenge that could weigh down the dynamics of economic activity in the future.

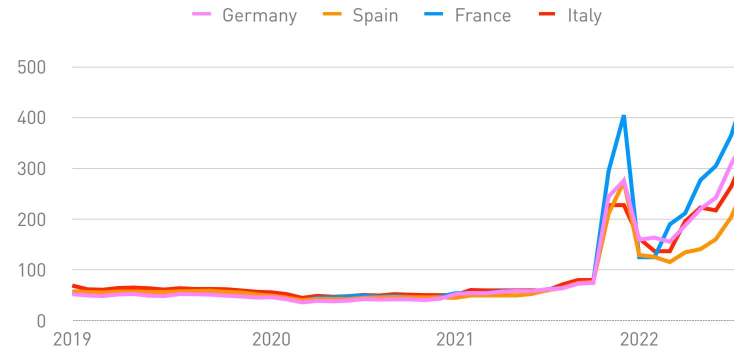
Consequently, despite the growing integration of India and other Southeast Asian countries into supply chains, the complexity of shifting the current gears, certain highly specialized processes and the need for consolidated infrastructure continue to penalize the supply side, which remains congested. For this reason, and although the pressures are forecast to continue easing, these changes alone may not take place fast enough to re-balance supply with demand and reduce the dynamism of consumption (see Charts 1.1.1- a to 1.1.1-d).

Chart 1.1.1-a
Global: supply chain trends



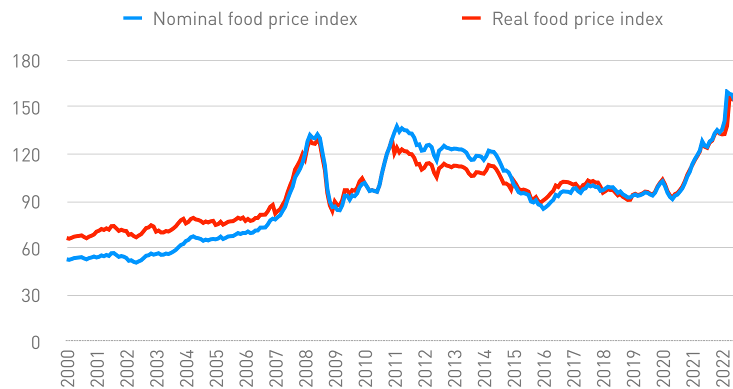
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.1-b
Global: daily futures of energy financial base



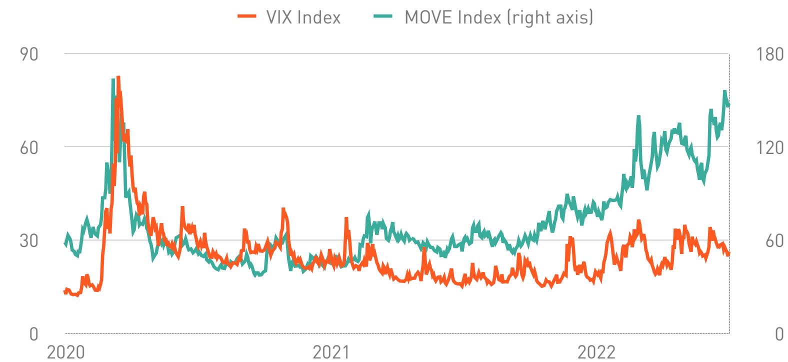
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.1-c
Global: food price index



Source: MAPFRE Economics (with FAO data)

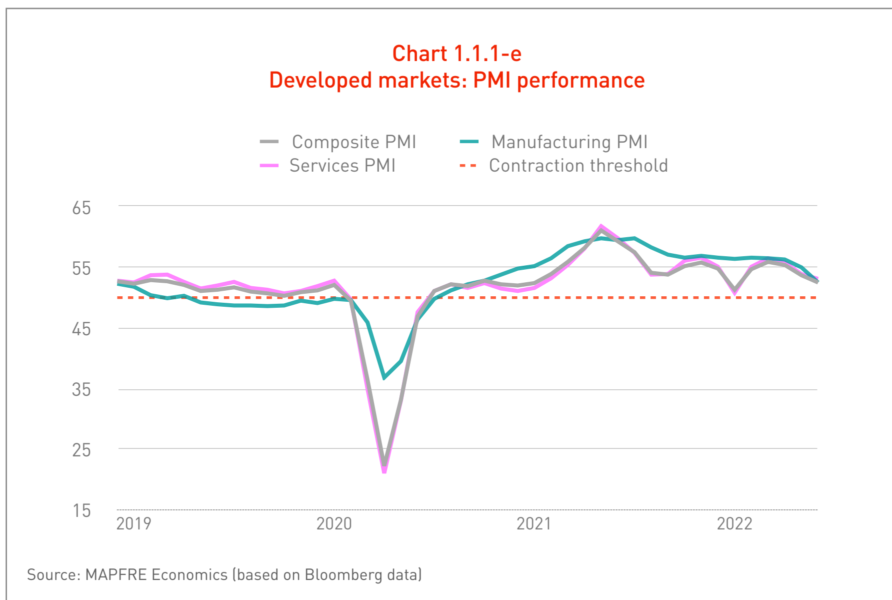
Chart 1.1.1-d
Global: volatility trends



Source: MAPFRE Economics (based on Bloomberg data)

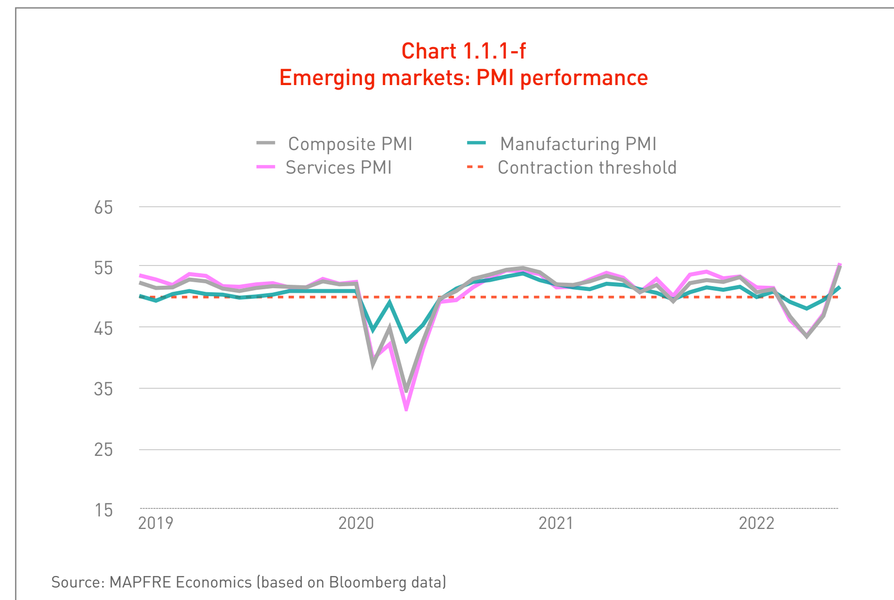
From a geopolitical perspective, Russia's ambitions in the war in Ukraine remain intact, while the strategy of the North Atlantic Treaty Organization (NATO), confirmed at its recent meeting in Madrid, aims to continue maintaining its zones of influence and bolstering defense spending. The gap between blocs is thus widening, with the hopes of a short-lived event fading and the foundations being laid for a central scenario of conflict based on attrition and its prolongation over time. Consequently, the food and energy crisis continues to rage around the world, with Europe grappling with oil and gas supply problems (see Box 1.1.1-a) stemming from lower Russian supply and with potential for further disruption, the United States draining the SPR (*Strategic Petroleum Reserve*) at an unsustainable rate and the Organization of Petroleum Exporting Countries (OPEC) with no prospect of increasing production.

Chart 1.1.1-e
Developed markets: PMI performance



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.1-f
Emerging markets: PMI performance



Source: MAPFRE Economics (based on Bloomberg data)

Lastly, and in terms of monetary policy, the main central banks are moving towards a process of monetary tightening (already mature in most emerging economies) by activating their adjustment levers, given the steady rise in inflation and the risk of de-anchoring expectations, at the cost of lower future growth based on reducing demand pressure on prices (see Box 1.1.1-b). In parallel, fiscal policy is facing the challenge of defining sustainable fiscal paths while applying specific temporary relief measures.

As a result, the range of forecasts in the baseline scenario points to a further deterioration globally towards levels of economic stagna-

Box 1.1.1-a
REPowerEU: more challenges than certainties

The European Commission's recently proposed energy strategy for the European Union (EU) signals a desire to close ranks among Member States and counteract the effects of the Russian invasion of Ukraine with a strong, coherent plan. However, the proposal may also run the risk of turning into a game of chicken.

In that game, the ideal result is that a player (Russia) yields to avoid the worst outcome if neither yields, out of pride or principle, not wanting to look like a "chicken." Unfortunately, this time the game might not work. REPowerEU is an attempt to reshape the EU energy transition based on the phasing out of Russian energy supply. However, there is no apparent indication that Russia will yield and avoid rationing or more disruptive scenarios. Therefore, the game is not over, and the economic costs may rise, with a supply shock in the Eurozone economy that could be longer lasting than previously thought.

Chicken or hawk?

"Chicken" has its origins in a game in which two drivers drive toward each other on a collision course. One must swerve, or both may die in the crash, but if one driver swerves and the other does not, the one who swerved will be called a "chicken." It has become a paradigm in game theory, in which the contenders can choose between conciliation or conflict.

In the energy issue between the EU and Russia, there are no signs for now that Putin intends to swerve and avoid the collision, while the EU is intensifying its efforts to forgo the supply of Russian fossil fuels permanently. This could be interpreted as an inevitable consequence of Putin's aggressive action on Ukraine. In economic terms, however, it runs the risk of leading to mutually assured destruction. Today's maneuvers and the likely, painful energy transition are casting a shadow over the EU's economic prospects. The EC's plans attempt to convince us that the shock will not necessarily lead to an economic disaster. There are alternatives, although "we must be brutally honest" about the fact that there will be short-term costs, according to the vice president of the European Commission, Frans Timmermans.

A mix of different strategies

REPowerEU is a "response to the hardships and global energy market disruption caused by Russia's invasion of Ukraine." It is a de facto modification of the EU's climate transition strategy to end the "EU's dependence on Russian fossil fuels, which are used as an economic and political weapon." The plan is a mix of energy savings, diversification of energy supplies, and accelerated roll-out of renewable energy.

Delivering REPowerEU will require an additional investment of €220 billion between now and 2027. This is considered a "down payment on our independence and security." The cost will be partly offset by potential savings of €100 billion per year on Russian fossil fuel imports. To fund the plan, the EC proposed specific modifications to the Regulation establishing the Recovery and Resilience Facility (RRF) in order to include REPowerEU strategies in the current national programs.

Box 1.1.1-a (continued)
REPowerEU: more challenges than certainties

Support through RRF funds

There are RRF resources that are not being used. Many countries decided not to borrow from the RRF, as they can finance themselves at the same rate or a lower cost than through the EC mechanism. Those funds amount to about €225 billion. Under NextGenerationEU, EU countries could borrow up to 6.8% of their gross national income in (de facto) subsidized loans, with Member States expected to apply for credit support no later than August 31, 2024. Therefore, the relevant legislation/regulation must be changed to allow the redirection of funds before that date. Additionally, Member States that are not planning to use the loans must explicitly indicate this so that the EC can use the resources.

Some countries have not yet applied for credit support but plan to do so. Others that have already reached the ceiling (Italy) may have the option of applying for additional loans. The regulation provides that "an increase will be possible in exceptional circumstances subject to available resources." In addition, the EC proposed adding €20 billion in grants from the auction of EU Emission Trading System (ETS) allowances. Finally, there is some additional flexibility for the reallocation of resources within the EU Budget (Multiannual Financial Framework, MFF). However, since all changes must be approved by the Council and, probably, all the EU parliaments, they are not likely to be implemented until the end of the year.

Some details

The EC has proposed strengthening long-term energy saving measures. This includes an ambitious increase of the EU's binding Energy Efficiency Target from 9% to 13% (the EC also published a separate document, the "EU Save Energy Communication," detailing the short-term behavioral changes that could cut oil and gas demand by 5% over time). In addition, member states are "encouraged to use fiscal measures to encourage energy savings, including reduced VAT rates on energy efficient heating systems, building insulation, and appliances and products."

Supply diversification plays an important role, notably through increased pipeline gas deliveries from other countries and liquefied natural gas imports. The EC's newly created "EU Energy Platform" will enable voluntary common purchases of gas, liquefied natural gas and hydrogen, "pooling demand, optimizing infrastructure use and coordinating outreach to suppliers." It has even proposed a "joint purchasing mechanism." However, as the private sector usually performs all these tasks, the way it would work is not entirely clear. Finally, foreign policy will be increasingly linked to energy through the Global Gateway, or the EU's version of the *Belt and Road* Initiative, with specific programs announced for Ukraine, Moldova and the Western Balkans.

From one dependency to another?

The accelerated deployment of renewable energies also plays an important role in the EU proposal. The EC proposed increasing the renewable energy headline target by 2030 from 40% to 45%. This includes doubling solar PV capacity by 2025 and installing 600 GW by 2030, introducing a legal obligation to install solar panels on new public, commercial and residential buildings, and doubling the deployment rate of heat pumps.

Box 1.1.1-a (continued)
REPowerEU: more challenges than certainties

It also intends to reduce the administrative burden for renewable project permits and has a plan to partly replace gas with renewable hydrogen and biomethane. The objective is to save up to 35 bcm of natural gas by 2030. Unfortunately, the transition from fossil fuels to renewable energy will shift the EU from one dependency (Russia) to another (China), as most of the metals, inert gases, and other raw materials needed for renewable energy production and deployment come from China. In this regard, the EC said it would intensify work on the supply of critical raw materials and prepare a legislative proposal. But this is a pending assignment, and China is a reliable partner for now.

Summary

REPowerEU is the document that European leaders requested from the EC, and the EC duly delivered it. However, it is only a framework plan (with limited detail). It contains many good ideas and positive changes, but there is a lot of hard work to be done. Replacing Russian fossil fuels will take several years, and any current plan is subject to significant uncertainties. Furthermore, it will not be an easy transition to manage from a social and political point of view, since it will involve costs that are hard to distribute equitably.

Europe is facing major structural challenges, from energy to rebuilding minimal security and military capabilities, which will require significant and mandatory public spending. It is encouraging that countries with budget constraints can count on the EU's extra budgetary layer, but even EU debt has to be repaid at some point. Indeed, it has enabled long-term investment spending at a time when this would not have been possible with national budgets alone. But we must remember that living on borrowed money at the EU level has its limits as well.

tion, albeit with divergences by region (see Charts 1.1.1-e and 1.1.1-f). For this central view, the forecasts have shifted towards a baseline scenario of slower global economic growth (+3.0% and +2.7% in 2022 compared to +3.6% and +3.6% previously) and rising inflation, with the likelihood and impact of a *stressed "forced landing" scenario* increasing.

The biggest downward revision involves the Eurozone, with expected growth of 2.7% and 1.8% in 2022 and 2023 (two and nine-tenths less than in our previous report) and higher inflation in the same years, of 6.7% and 2.6% on average (see Tables A-1 and A-2 in the Appendix to this report). Determining factors continue to be its high energy dependency and accessibility problems, price pressures

Box 1.1.1-b
Monetary policy update

European Central Bank

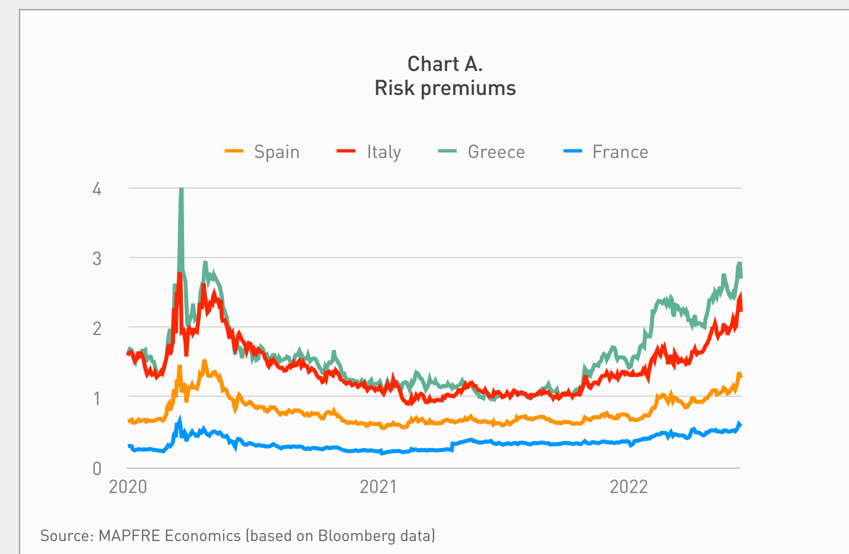
At its meeting on June 9, the European Central Bank (ECB) announced that interest rates would remain unchanged (0% for main refinancing operations and -0.5% for the deposit facility). However, it indicated the intention to raise the official interest rates of all ECB operations by 25 basis points (bps) in July. In that regard, and under the appropriate signal outlook, a series of increases are expected from this historic movement towards neutrality.

In regards to the stock purchase program, ECB set June as the last month for net bond purchase through the Asset Purchase Program (APP). Moreover, it affirms the intent to continue fully investing the principal payments of the maturing acquired securities under APP during a prolonged period, after the date that the official interest rates begin to rise and, in any event, during the time that it is necessary, emphasizing that, if fragmentation risk renews in the market, the Pandemic Emergency Purchase Programme (PEPP) may adjust more flexibly at any time according to the timing, asset classes and jurisdictions.

As for targeted longer-term refinancing operations (TLTROs), they remain on schedule in their third series and under examination, and the expiration is set for June 23, thus ending the "special terms" applicable under TLTRO III. Just as it may occur on the PEPP path sheet, a certain discretion is kept in the event it is necessary to reestablish operations under a fourth "green" series.

In the macroeconomic level, ECB's new projections foresee a 6.8% inflation rate in 2022, which would drop to 3.5% in 2023 and 2.1% in 2024 (contrary to 5.1%, 2.1%, and 1.9% path forecasted previously). As to the economic growth outlook, ECB has lowered the 2022 estimates to 2.8% (previously 3.7%), for 2023 to 2.1% (from 2.8%), and for 2024 to 2.1% (from 1.6%).

Chart A.
Risk premiums



Source: MAPFRE Economics (based on Bloomberg data)

Box 1.1.1-b (continued)
Monetary policy update

Emergency Meeting

In addition to the foregoing, the ECB Governing Council called an emergency meeting on June 15 in response to the vast collapse of the spreads, worsening recently (see Chart 1), in an effort to avoid fragmentation risk and obstacles in the correct transmission of their monetary policy position. At that meeting, the Governing Council decided to apply flexibility in the reinvestment of the matured redemptions of the PEPP portfolios, and mandated the relevant Eurosystem Committees with the ECB services to accelerate the design of the new anti-fragmentation instrument.

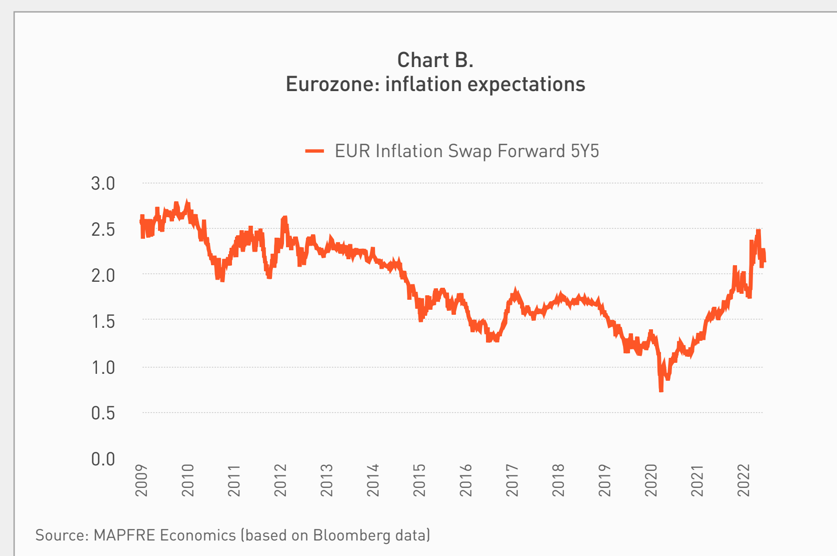
Assessment

The latest ECB meeting was marked by the confirmation of several relevant aspects. First, a notably higher inflation forecast and a significantly lower economic growth outlook, as anticipated in our previous report, and with rising stagflation risks for the Eurozone. Second, the first monetary normalization guidelines after a long period of low interest rate levels. Third, the looming fragmentation risk in the path towards monetary neutrality.

The inflation scenario, categorized as "undesirable" by President C. Lagarde (and what we expected as plausible, although underestimated in March), continues signaling to heighten because of the cost of energy far from yielding, the reflection of a challenging geopolitical panorama, penetrating the basket of a number of larger components (housing, transportation, and food, among others) and diluting the expected base effect. In this sense, and if the effects of the second wave on income remain relatively nonexistent, the persistence of these pressures on prices during this longer period fuels the risk of triggering wage raise negotiations and an eventual de-anchoring of long term inflation expectations (see Chart B).

In reference to the monetary normalization guidelines, the signal is extensively corrected to the expectations regarding the process; a gradual, progressive schedule is anticipated and under a fluid line of

Chart B.
Eurozone: inflation expectations



Source: MAPFRE Economics (based on Bloomberg data)

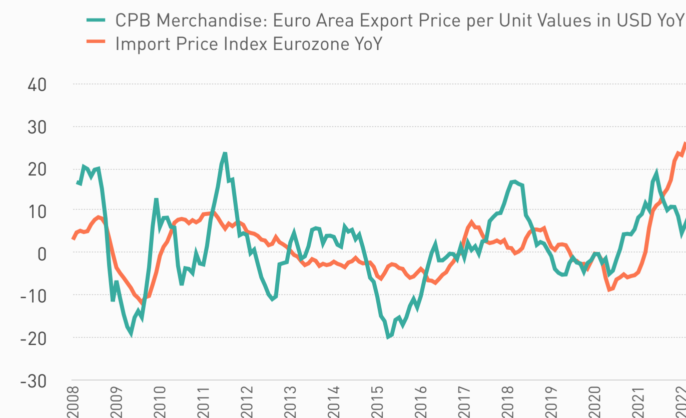
Box 1.1.1-b (continued)
Monetary policy update

communication. So, even if the balance tool remains under a less specified format targeted at preserving a certain margin to maneuver, in terms of interest rates, a series of progressive hikes of 25 bps are anticipated per meeting starting in July (which could reach 50 bps if inflation persists). This will mark the progression toward the objective of achieving a neutral interest rate. In turn, the details on how it is determined are not expected until the next meetings. From a secular focus, it could be estimated at somewhere around 1.5-1.75%.

Lastly, regarding risk fragmentation, a stricter monetary policy line could prove the imbalance of the public accounts of the different member countries in terms of structural deficits and increased public debt, which can result in a fiscal dominance event as experienced in summer 2012. So, a transition towards more selective and stricter fiscal policies is expected that meet the new financial conditions, although under a temporary umbrella of ECB using the reinvestment mechanism mentioned.

With all these, the expectation in the short terms is that the outlook plan fit in with the synchrony of global monetary strengthening, and finding a type of temporary balance and proving a particular anchoring capacity of the euro in the currency market, although the risk to continue weakening its position before the dollar if the coverage or minor commitment of its path sheet and marked by a push for raw materials in an international context (see Chart C). So, with the medium-term outlook, and despite having a higher balance as a fragmentation risk safeguard, the possibility of a spread event to occur is significant, would expose a dilemma in reducing the inflation targets and combating the risk premiums in the implementation of new measures of the asymmetrical weight between the nucleic and marginal States.

Chart C.
Import vs export prices



Source: MAPFRE Economics (based on Bloomberg data)

Federal Reserve

The U.S. Federal Reserve, at its June meeting, continued the monetary normalization cycle by raising the benchmark interest rates by 75 basis points, the highest increase in 28 years, bringing the range to 1.50%-1.75%. The projections concerning the future path of raises, the dot plot of the Federal Open Market Committee (FOMC) shows a surge

Box 1.1.1-b (continued)
Monetary policy update

towards a higher increase trend that would place the interest rates at 3.4% in 2022, slightly higher in 2023 (capping at 3.8%) and a slight cut in the long term (see Chart D).

In regards to the balance tools, the Federal Reserve maintains the action outlook to reduce securities holdings over time in June at a planned rate of 47,5 billion dollars per month, through 30 billion dollars in Treasury Bonds and remainder in the maturity of Mortgage Backed Securities (MBS); an amount that would rise to 95 billion dollars a month in September.

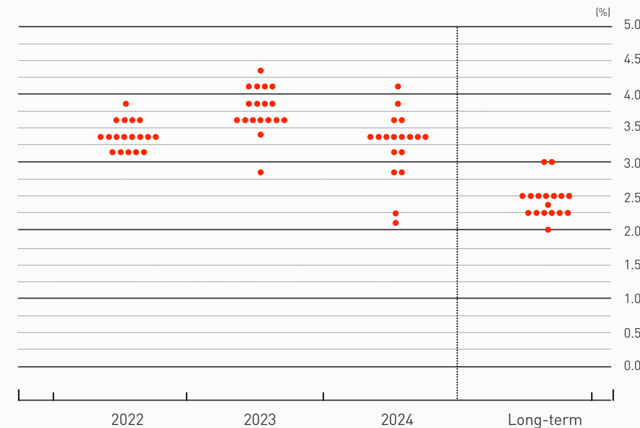
On the macroeconomic level, the Federal Reserve's estimates featured a downward outlook for economic activity, with GDP expanding by 1.7% in 2022 and 2023 (vs. 2.8% and 2.2% previously), while the inflation outlook was revised upward, with PCE expected at 5.2% and 2.6% in 2022 and 2023, respectively (vs. 4.3% and 2.7% previously), and core inflation in line with more persistent pressures.

The Federal Reserve narrative, as an impulse to combat inflation (highest in the last 40 years) and abandoning the speculation about moderating the adjustment rate, continued to toughen its message and state that it was "highly committed" to that purpose. In this way, and combined with a plan to reduce the current balance sheet, the outlook of previous consensus, according to which the organization would be closer to the status of their monetary policy towards neutral territory, thus placing the current expectations at a scenario that would deepen the restrictive area already in 2022 (see Chart E).

Assessment

While the Federal Reserve meeting was marked by a series of parallelisms regarding ECB (deceleration, inflation, and market pressures), the underlying reasons continue to show certain differences.

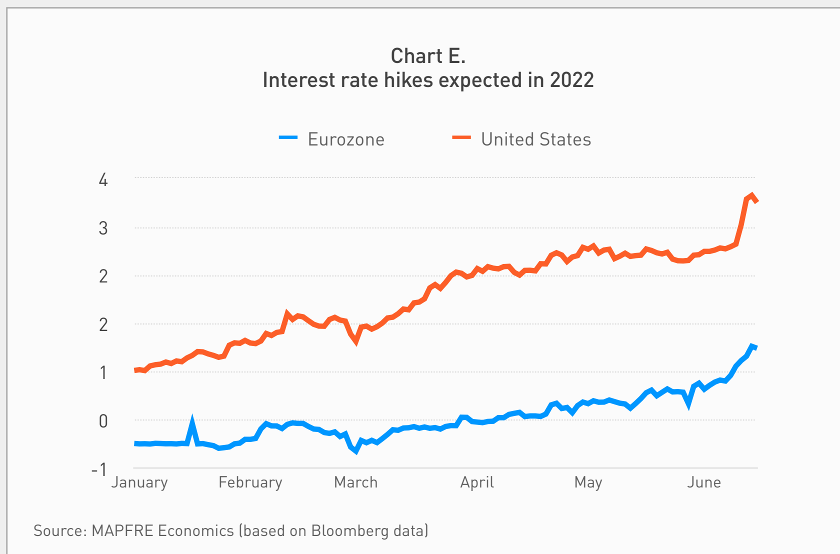
Chart D.
United States: Federal Reserve dot plot



Source: MAPFRE Economics (based on Federal Reserve data)

Box 1.1.1-b (continued)
Monetary policy update

Chart E.
Interest rate hikes expected in 2022

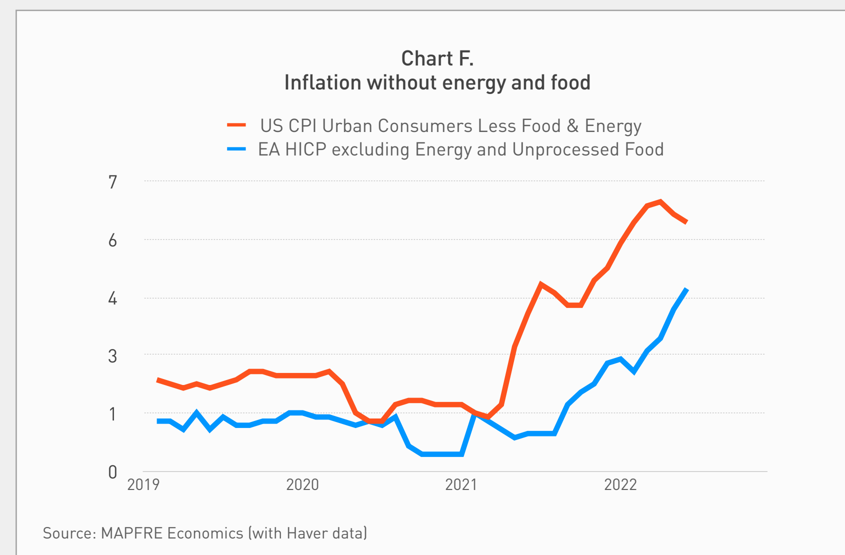


Source: MAPFRE Economics (based on Bloomberg data)

On the inflation side, the supply factor continues due to an unresolved problem, limited both by exogenous factors (negative impacts of the supply chains, recent lockdowns in China, and the Russia-Ukrainian war) and endogenous factors (disincentivation of the investment of sources closest to consumption, such as petroleum and gas, against a rapid bid for alternative sources, reconfigurations, customs, etc.) Consumption continues to show a solid trend, under labor market frictions and the wage-price spiral unwavering (see Chart F).

In regard to the monetary normalization and risk-off of the markets, despite the negative first quarter US GDP numbers of the year (negative contribution of the exports and inventory accumulation), the consumption contribution continued to throw a relevant expansion and caused pressures in the spikes of prices, forcing it to accelerate the changes towards an economic policy that, to a certain degree, helps cut spending plans.

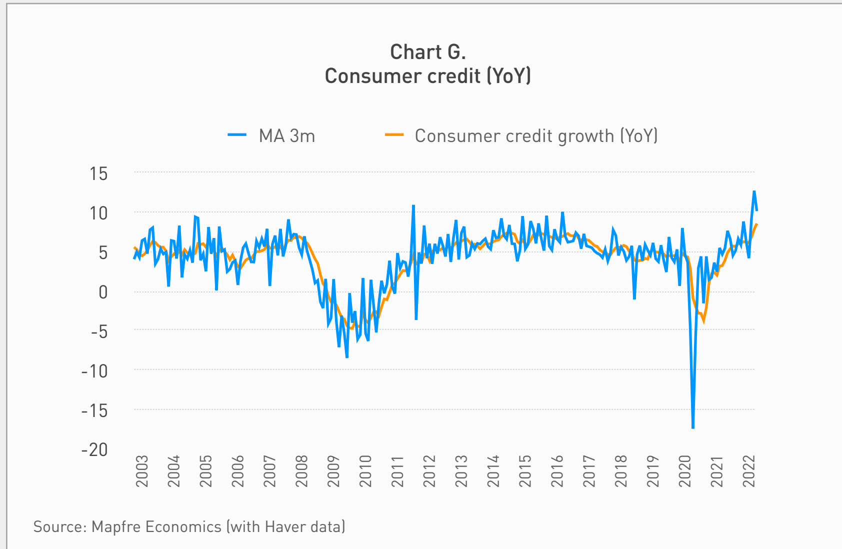
Chart F.
Inflation without energy and food



Source: MAPFRE Economics (with Haver data)

Box 1.1.1-b (continued)
Monetary policy update

Chart G.
Consumer credit (YoY)

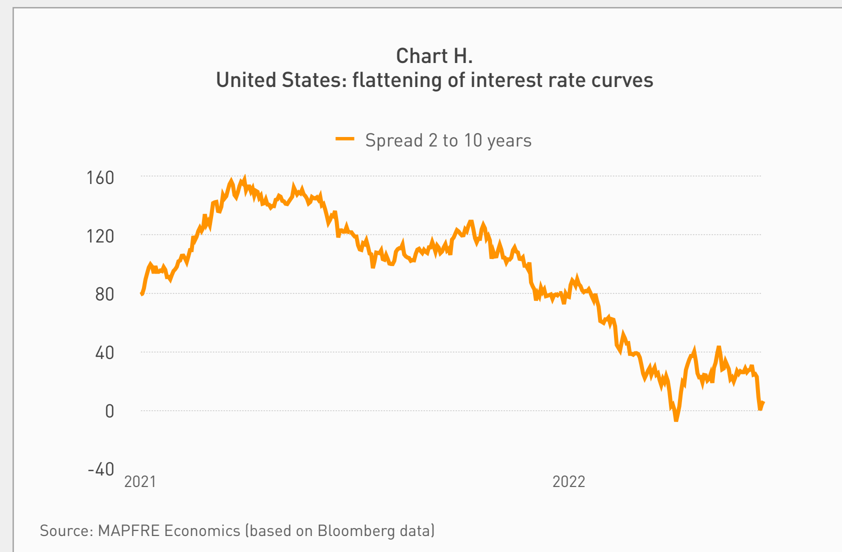


Source: Mapfre Economics (with Haver data)

Under this assumption, and as the Federal Reserve expects, it forecasts that the economy will move towards the so-called "soft landing," aligning the supply and demand imbalance that maintains the current prices toward a manageable environment. This process, as indicated in the latest savings data (highest since 2008), in addition to the rise in consumer credit (highest since 2002) and the toughening of credit access, will trigger a correction of demand, thus producing a relatively more benign panorama for the market (see Chart G).

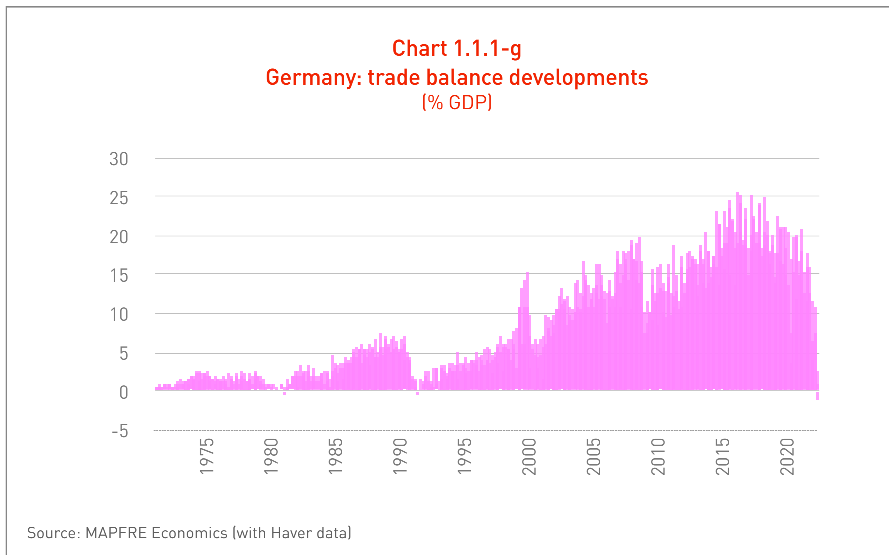
However, the probability of a "hard landing" en route to reconfiguring the supply and demand function is increasing as the tightening cycle speeds up and tail risks (both exogenous and endogenous) accumulate, expanding on the domestic and international scale (see Chart H). In fact, the last time the Federal Reserve raised interest rates by 75 bps, albeit in a different global context, the "Tequila Crisis" took place and the International Monetary Fund had to implement a rescue and macroeconomic adjustment plan for the Mexican economy.

Chart H.
United States: flattening of interest rate curves



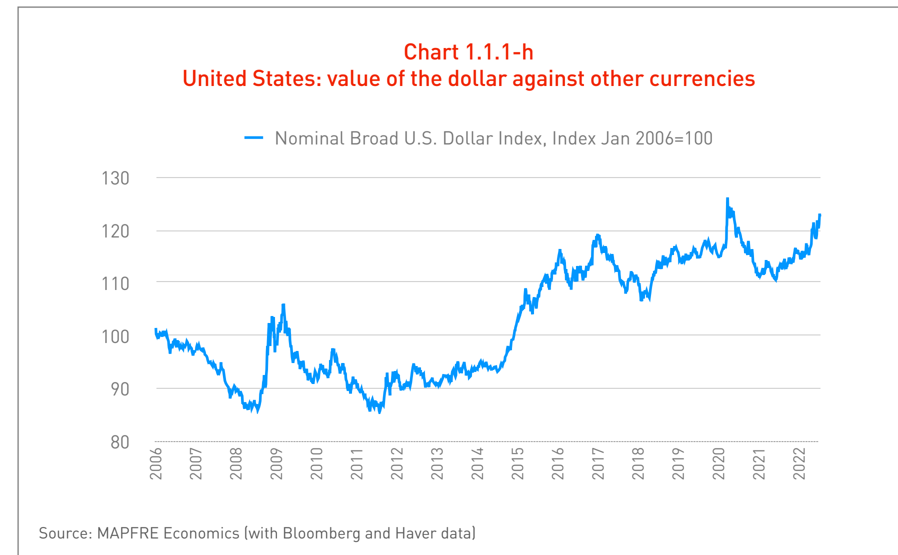
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.1-g
Germany: trade balance developments
(% GDP)



Source: MAPFRE Economics (with Haver data)

Chart 1.1.1-h
United States: value of the dollar against other currencies



Source: MAPFRE Economics (with Bloomberg and Haver data)

(which may ease in the second half as consumption slows and the base effect is computed compared to the previous year; this would remain high and driven by additional pressures from the service sector and a hint of second-round effects, such as salary claims in several regions and sectors), and an unfavorable monetary policy that rebalances aggregate demand and reactivates the risk of fragmentation. This would lead to a negative influence on public spending with asymmetries by country (see Charts 1.1.1-g and 1.1.1-h).

The GDP growth forecast has also been reduced in the United States, but not as markedly as in the Eurozone, with anticipated growth of 2.5% and 1.4% in 2022 and 2023 (compared to +3.2 % and +1.7% in our previous report) and higher inflation (7.6% and 2.9% on average). This is due, on the one hand, to the confirmation of a negative activity rate in the first quarter (driven by the negative contribution of exports and stock accumulation) and, on the other hand—and despite its lower energy dependence and a pre-existing favorable margin in the labor market—the inflation stage is more extended and sustained by upward pressures on salaries. Consequently, the monetary policy response is expected to be more aggressive, and the impetus against inflation would reach restrictive levels (compared to the perspectives of neutrality in the previous report). The reduction in aggregate demand is therefore expected to be more marked and the unemployment rate more sensitive to the process (see Charts 1.1.1-i and 1.1.1-j).

As for emerging markets, China and the countries in Southeast Asian are expected to provide a certain cushion for global growth, although to a lesser extent than during the process of reopening

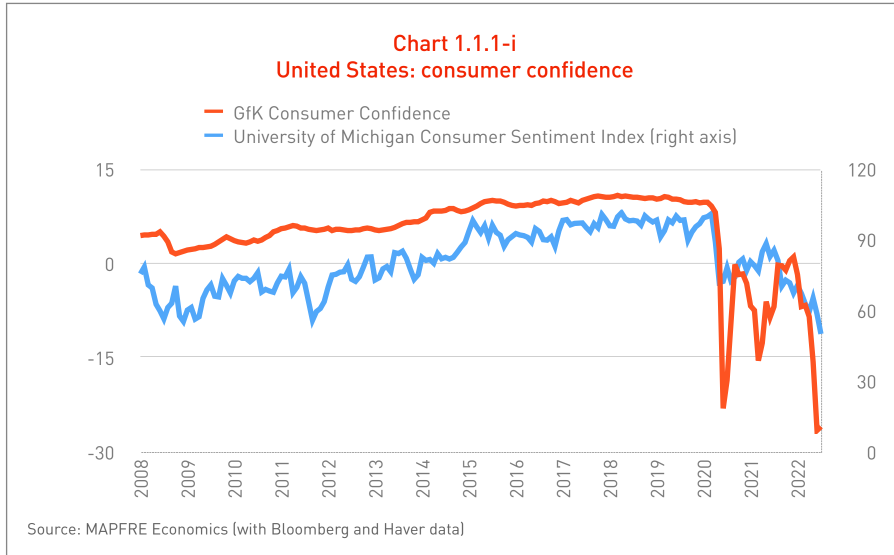


Chart 1.1.1-i
United States: consumer confidence
GfK Consumer Confidence
University of Michigan Consumer Sentiment Index (right axis)
15
0
-15
-30
120
90
60
30
0
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
Source: MAPFRE Economics (with Bloomberg and Haver data)

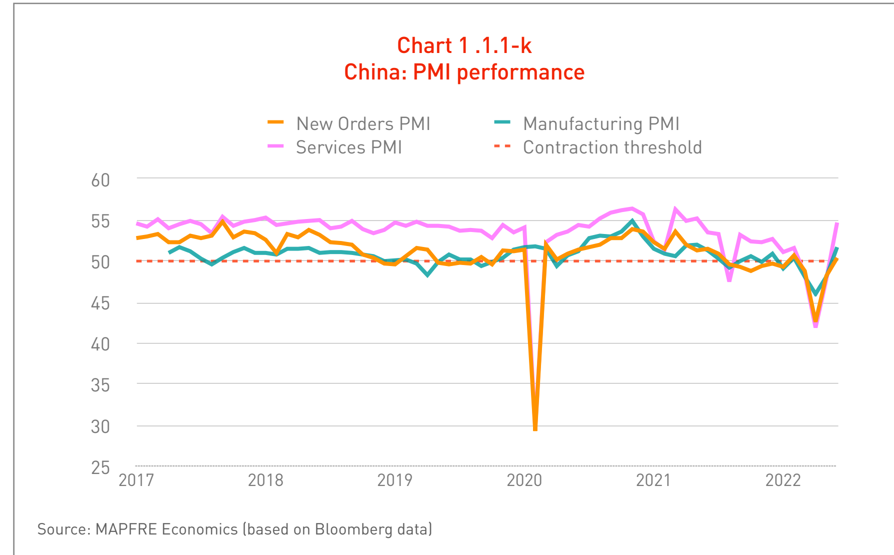


Chart 1 .1.1-k
China: PMI performance
New Orders PMI
Manufacturing PMI
Services PMI
Contraction threshold
60
55
50
45
40
35
30
25
2017
2018
2019
2020
2021
2022
Source: MAPFRE Economics (based on Bloomberg data)

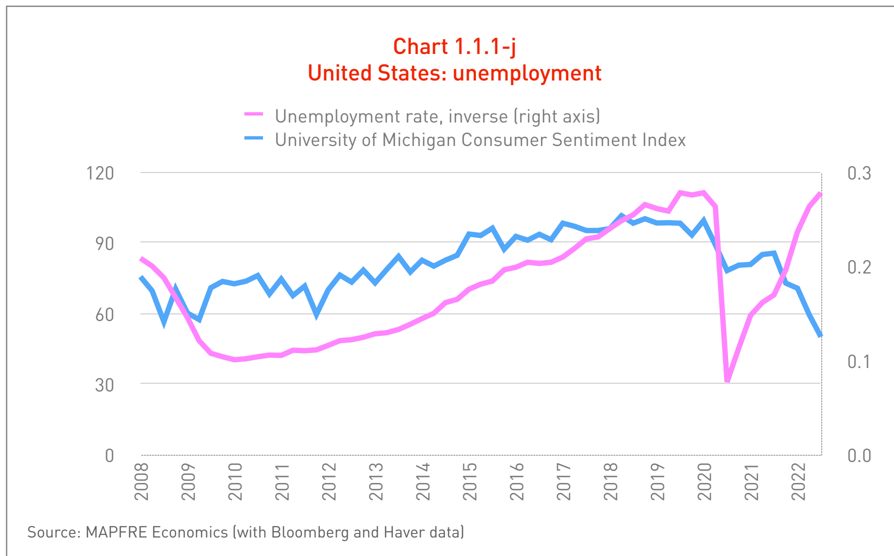


Chart 1.1.1-j
United States: unemployment
Unemployment rate, inverse (right axis)
University of Michigan Consumer Sentiment Index
120
90
60
30
0
0.3
0.2
0.1
0.0
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
Source: MAPFRE Economics (with Bloomberg and Haver data)

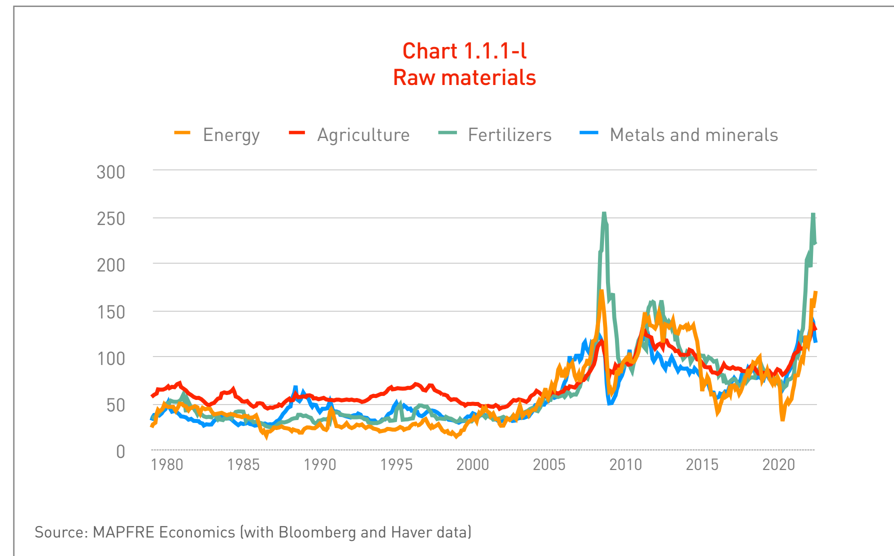


Chart 1.1.1-l
Raw materials
Energy
Agriculture
Fertilizers
Metals and minerals
300
250
200
150
100
50
0
1980
1985
1990
1995
2000
2005
2010
2015
2020
Source: MAPFRE Economics (with Bloomberg and Haver data)

Box 1.1.1-c
Emerging exchange rate volatility

Exchange rate volatility

Economic activity in emerging countries remained positive during the second half of 2021 and the first part of 2022. Economic recovery remained stable, albeit with limited intensity, and was driven by higher raw material prices and the growth of the manufacturing sector, in line with increased global consumption and the late yet progressive reactivation of the services sector. Global financing conditions remained favorable as the central banks of the developed markets continued with the stimulus phase in a context of transitory inflation. Against this backdrop, risk aversion continued to subside, the return of capital flows normalized, and, despite remaining well below their pre-pandemic levels, there was a positive outlook even in economies with more evident structural vulnerabilities with the potential to become the focus of more abrupt and selective risk-off events.

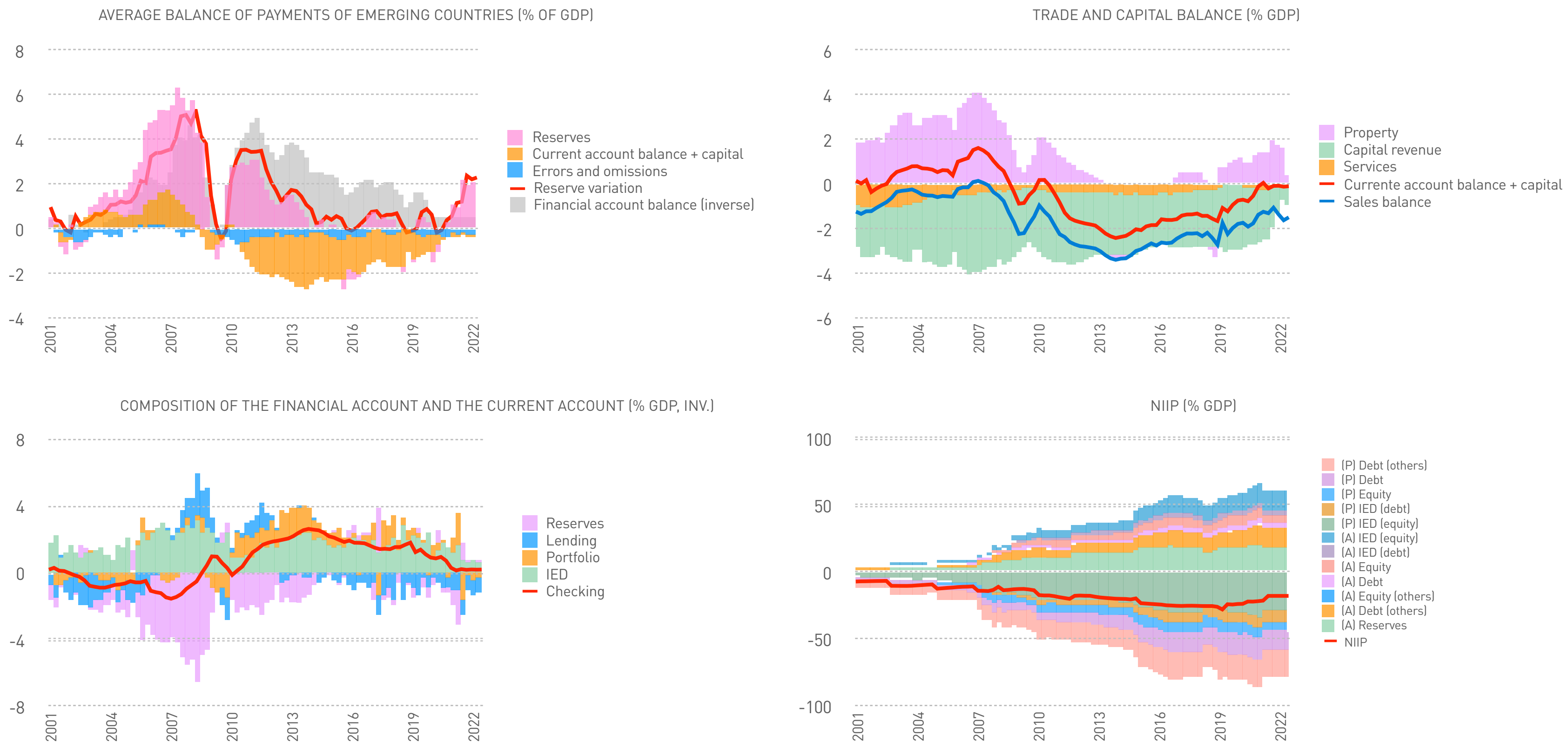
In the currency markets, exchange rates maintained a more stable position in nominal terms than those observed previously (in the pandemic phase), although it was asymmetric, due partly to: (i) the starting point of broadly depreciated currencies against their trend; (ii) balances of payments favored by the context of greater international dynamism that had yet to show imbalances (see Chart A), and (iii) the general boom in raw material prices. In this regard, and given their greater proximity to the initial stages of reactivation (raw materials and manufacture of first-order goods), the net exporting countries were helped by this positive and earlier stage, consequently triggering higher inflationary pressures and a more immediate monetary response compared to the trend observed in other emerging economies and developed markets.

However, the Russia-Ukraine conflict and the new measures related to the pandemic in China have posed an additional challenge to the global economy, causing new rounds of supply-chain disruptions and renewed fears over shortages of materials and some basic supplies. At the same time, and as a consequence of the direct transfer of the shock to prices, monetary policy in developed countries has been speeding up the normalization process, fueled by fears of more persistent inflationary effects that would end up influencing long-term inflation expectations through second-round effects. This would lead to faster-than-expected tightening while heightening fears of a new taper tantrum. In this regard, compounded by the latest concerns about the risk of a global recession, abrupt capital outflows were observed in the second quarter of the year, particularly in emerging Europe and Asia (see Chart B).

The main emerging currencies have thus been negatively impacted to the detriment of the U.S. dollar, given its role as a safe-haven asset. Therefore, and as indicated on the side of the flows, Graph C shows the greater pressure on the currencies of emerging Europe and Asia, a result of both their greater direct link (business and financial) with the area of geopolitical conflict in Europe and the negative effects of China's radical anti-COVID-19 policy, given their proximity to the Asian giant's supply chains.

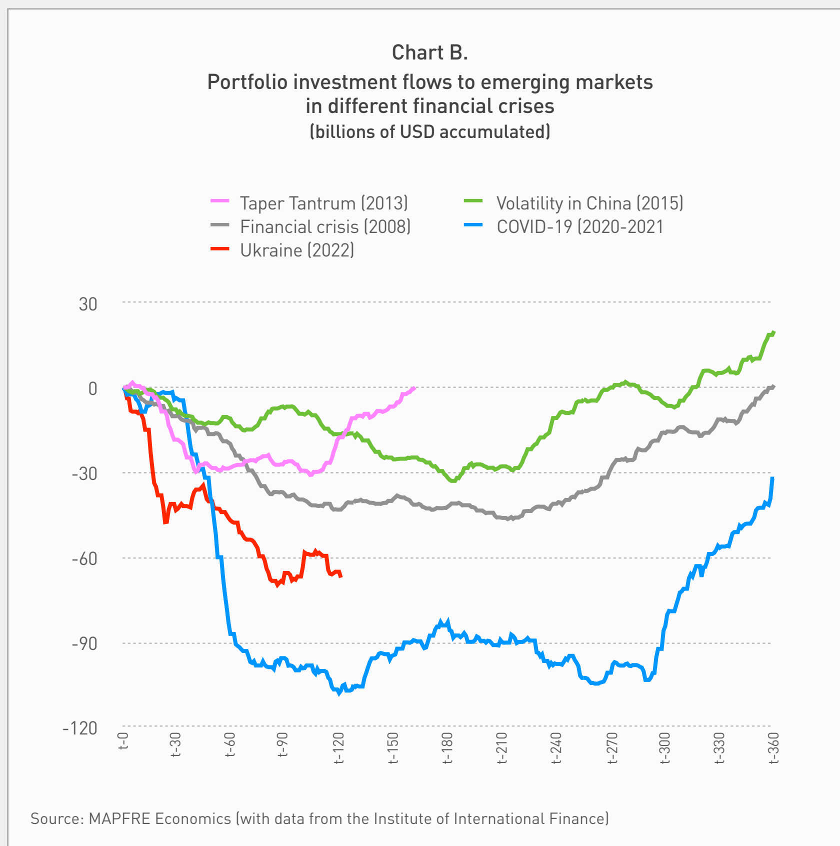
Box 1.1.1-c (continued)
Emerging exchange rate volatility

Chart A.
Emerging market average: balance of payments structure indicators



Source: MAPFRE Economics (with Haver data)

Box 1.1.1-c (continued)
Emerging exchange rate volatility



Source: MAPFRE Economics (with data from the Institute of International Finance)

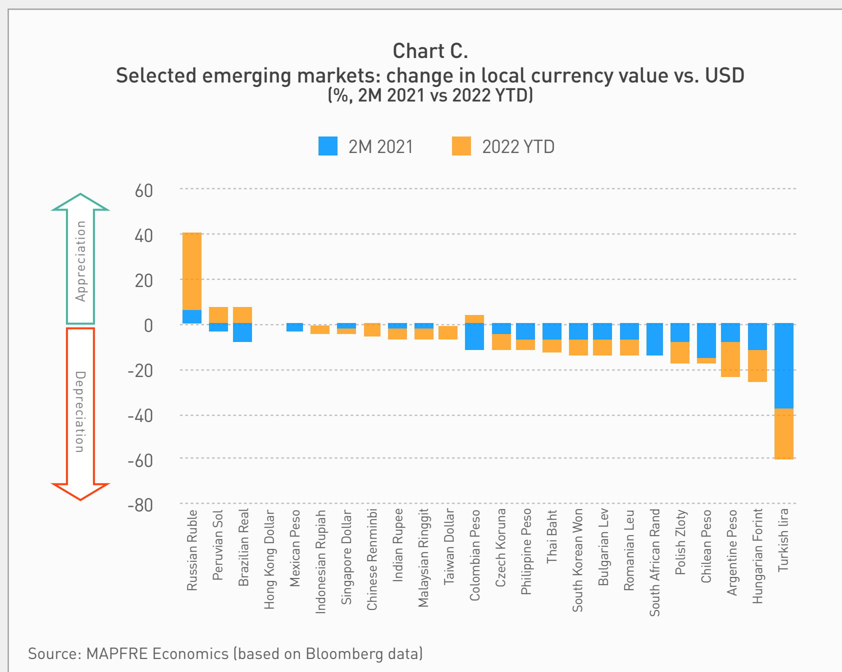
Also noteworthy is the considerable depreciation in Turkey and Argentina, whose differential and idiosyncratic determinants recurrently weigh down the behavior of their currencies with respect to their peers. In Turkey's case, this is aggravated by: (i) its proximity to the European demand channel; (ii) its role as a net importer of raw materials through current account deficits; (iii) its high levels of external debt in dollars, and (iv) an acyclical monetary policy that could pose an additional challenge to the need to finance said deficits. In contrast, Latin American economies such as Brazil, Mexico, Peru, and Colombia are widely benefiting from their role as exporters.

Lastly, the peculiarities of Russia stand out. Despite the international sanctions and the consequent slowdown of imports, the high energy prices combined with a reorientation of its exports towards destinations in Asia are reflected in its current account with a strong surplus. Although data on capital inflows and outflows is not available, being withheld by the central bank under the current circumstances, the rapid monetary response (1,050 basis points in an unscheduled meeting three days after the invasion of Ukraine) and capital controls seem to have prevented a capital flight like the one observed in 2014; these factors have caused the Russian ruble to stabilize and even appreciate in the course of 2022.

Certain emerging economies are therefore expected to continue leveraging the current cycle for raw materials cycle and upward surprises in inflation, benefiting from better terms of trade, to the detriment of economies with high disruptions in supply chains (Emerging Europe and the still reactivating Asian region), of economies with an import bias and of those with weaker fundamentals and latent structural vulnerabilities. In the medium and long term, while their activity figures remain positive, they

Box 1.1.1-c (continued)
Emerging exchange rate volatility

Chart C.
Selected emerging markets: change in local currency value vs. USD
(%, 2M 2021 vs 2022 YTD)



Source: MAPFRE Economics (based on Bloomberg data)

face risks from monetary policies that are generally less favorable (both local and external). These are expected to pass through to demand with a certain lag, fueling the risk of increasingly evident lower growth (mainly in developed markets) and even certain isolated probabilities of recession which are becoming more likely, which would weaken future production and subsequently basic supplies and the current cycle.

following the COVID-19 crisis (see Charts 1.1.1-k and 1.1.1-l). Emerging Europe would continue to show the worst performance, given the proximity of its value chains to the geopolitical conflict. Meanwhile, in general terms, positive performance is expected in Latin America, albeit with clear differences between exporting countries—favored by the current context for raw materials—and both importing countries and those with tacit vulnerabilities, which could face problems in financing the balance of payments of their current accounts (see Box 1.1.1-c).

1.1.2 Moving forward

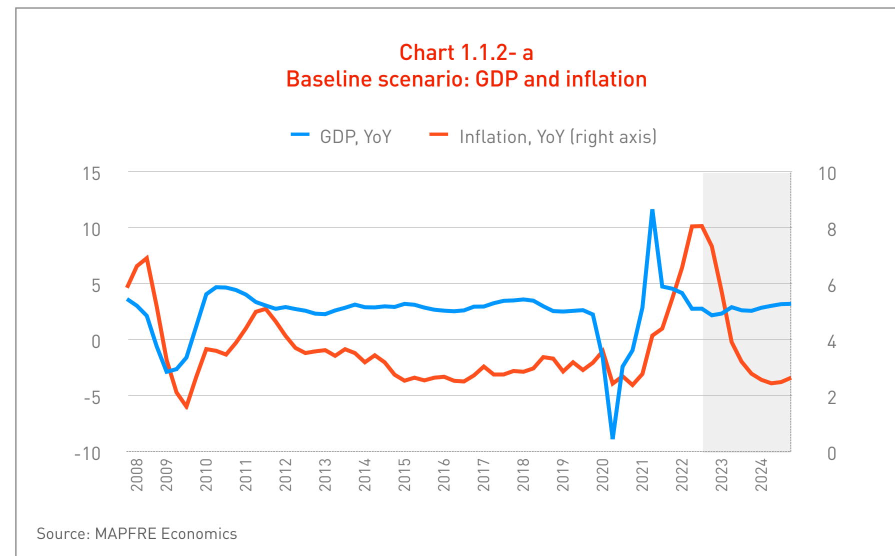
Amid this dynamic, and given the many crosswinds for the global economic outlook, the uncertainty of these factors is channeled through two scenarios. In line with previous reports, the central view contemplates a baseline scenario with a broad base of probabilities. In contrast, the stressed scenario presents a stress focus leveraged on the growing possibility of certain cumulative tail risks materializing with enough potential to lead to a global recession.

Baseline scenario

For the purposes of this report, the baseline scenario continues to reflect the negligible impact of the epidemiological factor on activity, with new widespread restrictions being unlikely. As for the geopolitical factor, downside risks are balanced in terms of duration and impact, with the Ukraine conflict lasting until the end of 2022 and sanctions packages increasing the economic impact, given the escalation of the latter and the polarization of blocks. In line with this assumption, an eventual ceasefire would not be accompanied by an equivalent reduction in sanctions, creating permanent damage to trade, supply chains, and raw materials (both energy and non-energy).

Under this assumption, oil prices remain above USD100/b throughout 2022, stabilizing around USD90/b by the end of 2023 and converging towards structurally higher prices. Gas follows a similar path, with Henry Hub prices above 7 dollars and a long-term convergence towards around 4.5 dollars. The broader commodity aggregate maintains its forecast of normalization, with prices

Chart 1.1.2- a
Baseline scenario: GDP and inflation



Source: MAPFRE Economics

approaching the previous trend and influenced by major volatility events.

Consequently, inflation remains high throughout the year and gradually subsides in late 2022 and early 2023, partly justified by the base effect and the deterioration in aggregate demand. In this scenario, the central banks in the developed markets maintain the current course of monetary normalization until well into 2023, in line with rising prices, increasing the range of interest rates until they converge with the inflation rate, which could be located above neutrality. Meanwhile, in emerging markets, this more advanced process would result in a deepening of restrictive monetary policies.

Economic performance would continue to decline with growth below potential in terms of activity, albeit without triggering a

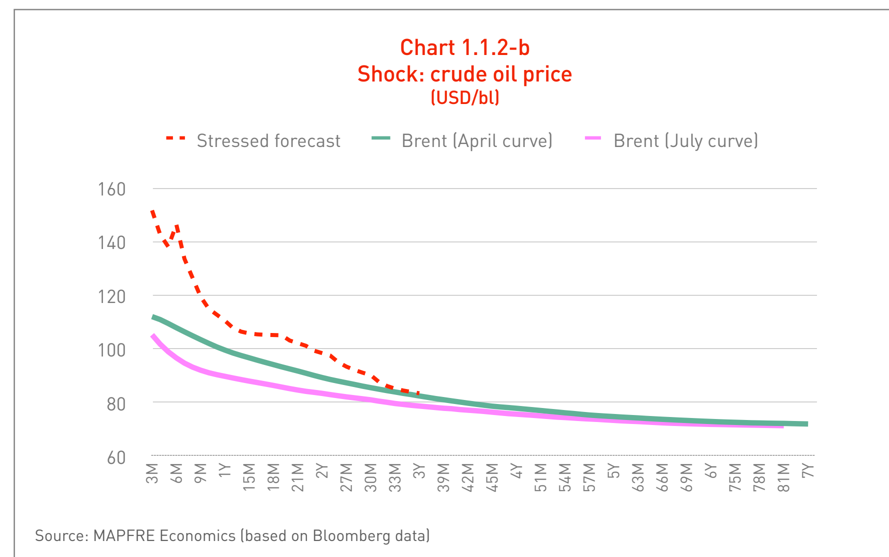
technical recession in either the Eurozone or the United States (in NBER terms). At the same time, employment would slow down with practically no additional gains, a dynamic that would become more marked as the effect of interest rates impacted consumption and household and corporate investments (see Chart 1.1.2-a).

Stressed scenario

In line with previous reports, an alternative and more pessimistic scenario (*stressed scenario*) is considered whose likelihood is increasing considerably and with a slightly greater impact than anticipated. This scenario continues to be defined by two main themes: (i) a conflict that crystallizes, extending beyond 2022, but that does not foresee the confrontation of more international actors (NATO and/or China); and in turn, carries the risk of further sanctions, including specific measures concerning gas and oil on the Western side (new sanctions or embargoes), or severe supply cuts on the Russian front side, and (ii) more persistent inflation rates with a more forceful restrictive monetary response.

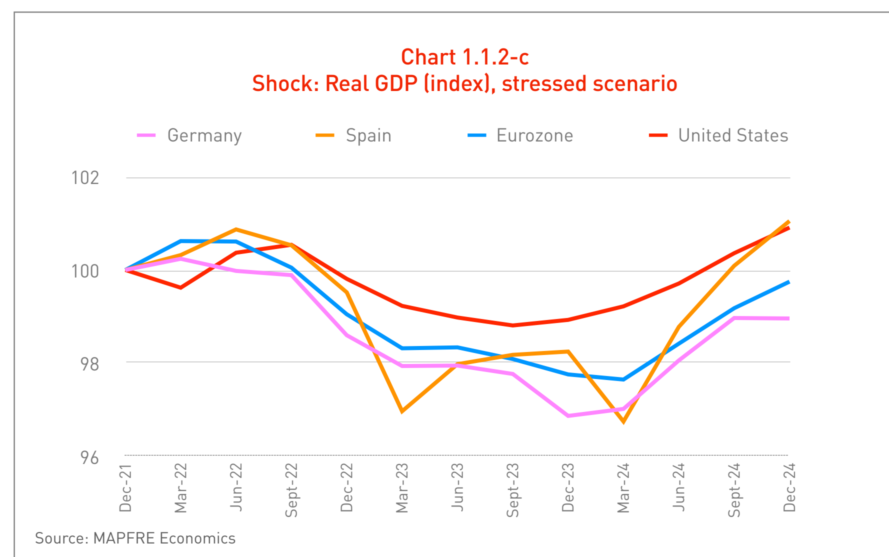
In this scenario being analyzed, the different Eurozone economies would sustain the most immediate impact, materialized in a recession, during the second half of 2022. This is due to the productive implications of an energy shock on economies with intense industrial and manufacturing activity; such impact would later be transferred by contagion to economies oriented to the services sector, resulting in the widespread deterioration of consumer confidence, and with it, a sharp decline in consumption. Monetary and fiscal policies would respond forcefully and agilely, aggravating the pre-existing imbalance to put demand on sound footing and exacerbate the risks of fiscal dominance. This would later give way to a relaxation of financial conditions, moving towards

Chart 1.1.2-b
Shock: crude oil price
(USD/bl)

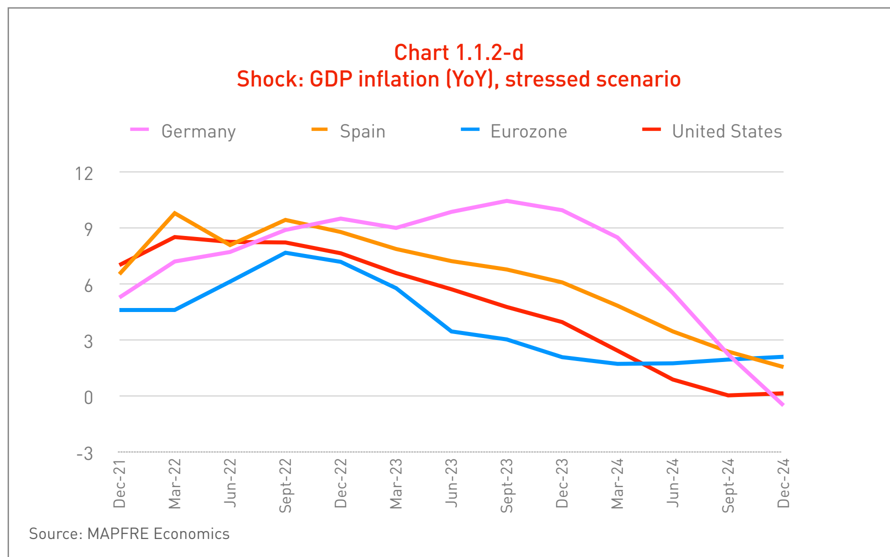


Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-c
Shock: Real GDP (index), stressed scenario



Source: MAPFRE Economics



a new accommodative cycle to rebuild the productive pillars. The shock effect would be reduced in the United States and other less dependent economies due to their looser link with the warring countries. However, they would suffer in activity, while inflation rates would continue to surprise on the upside due to more extensive supply problems. The central banks' response to lessen the pressure of demand would thus be reflected in consumption that declines until it causes GDP to contract.

On the fiscal policy side, in this scenario, the anticipated response would become expansionary to cushion the shock, albeit more selectively and with less capacity to act, draining public accounts and resulting in a cycle of greater adjustment at a later stage, more prolonged over time and of consolidation and even austerity in certain regions.

In this scenario of greater stress, oil and gas prices would surge at the time of the shock, reaching 150 USD/b in 2023; this, however, would return to an equilibrium price of 60 USD/b as the recessionary cycle affects employment, causing a reduction in demand, and access to credit tightens. Financial variables show a generalized aversion to risk, in line with the median of other recessions, with a two-sigma impact on risk assets (bonds and stocks) and a widespread deterioration of agents' balance sheets (see Charts 1.1. 2-b to 1.1.2-d).

In emerging markets, the shock is less intense, yet noticeable for raw material exporters once the decrease in demand and drop in the price of inputs is confirmed. Meanwhile, in markets with elevated levels of external debt and deficiencies in the financing of current accounts due to high dependence on foreign inflows, the shock becomes more impending and immediate due to financial contagion.

1.1.3 Risk assessment

Several possible additional triggers could result in an event similar to a recessionary shock. Chart 1.1.3 illustrates the updated risk map for the global economy as we look ahead to the third quarter.

Global governance and geopolitical crisis

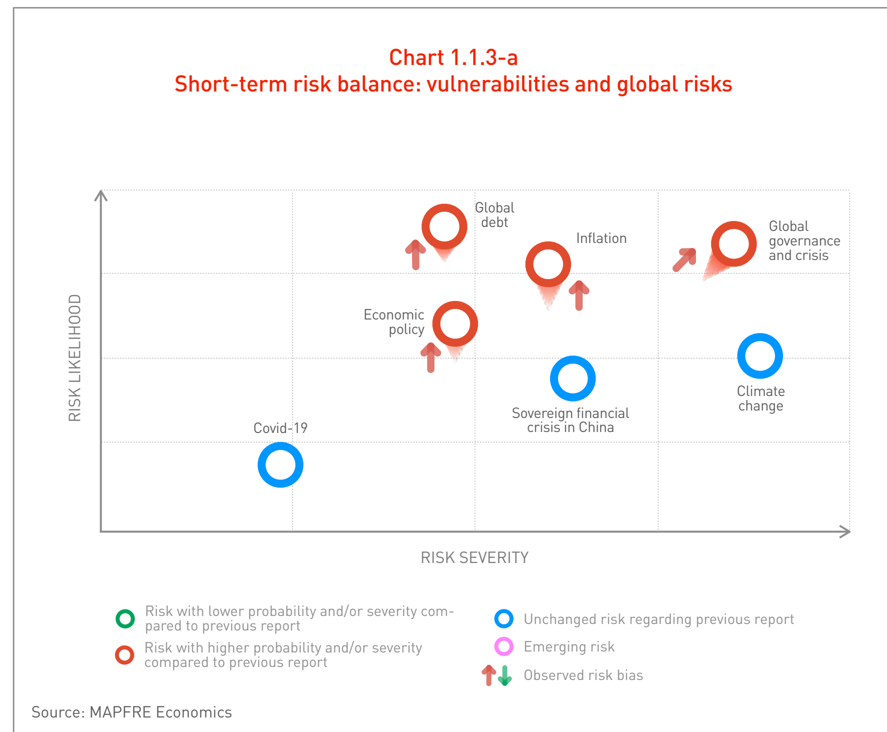
Global geopolitical tensions have entered a new stage marked by the deepening of the conflict inside and outside Ukraine. The NATO summit in Madrid served to unite positions and draw new boundaries in the East-West fragmentation (incorporation of Sweden and Finland), while the Atlanticist discourse made China uncomfortable,

as it was labeled a structural threat. These circumstances could reduce the official equidistance of the country's position on the Russian invasion of Ukraine. It will assess its strengths; however, given its fragile financial, economic, and health situation, it has launched an extensive stimulus program to mitigate the growing social discontent. In Europe, the most central parties' political weakness is again gaining prominence in Italy and France, debilitating common positions on strategic and structural matters such as energy reform, relations with Russia, and anti-fragmentation mechanisms, among others. Furthermore, the ECB cannot use dialectics to control moods this time as Mario Draghi did years ago. Sovereign stress and the headlong rush towards monetary tightening bear witness to this. In the United States, inflation, growing economic lethargy, and insecurity are taking their toll on President Biden's popularity, perhaps paving the way for a future president who is less conciliatory with Europe. This would be a major blow to the current strategic shift that would encourage the pursuit of autonomy in the region's security. In Latin America, the political cycle demanding popular measures has gained momentum with the election of Gustavo Petro, the resignation of the Argentine economy minister, the constitutional issues in Chile, and others that abound in the region's institutions, preparing fertile ground for new alliances. Along the southern border of Europe, there are growing fears of a new Arab spring fueled by the effect of food prices and a breakdown in international relations, which continue to deteriorate in countries such as India and Indonesia, which are already limiting their exports, as well as much of Africa, at extreme risk of widespread famine.

Global debt

During the first quarter of 2022, global debt increased by 3.3 billion dollars, reaching a new record high of 305 trillion, although its ratio to GDP fell again to 348.4% (around 15 pp below its 2021 high). In developed markets, this ratio performed better over the year, declining by 20 pp from its highest levels. Leading the deleveraging were financial corporations and the public sector, followed by households and, to a lesser extent, non-financial corporations. In contrast, emerging markets reduced the ratio from its highs by only 6 pp; this slower pace was mainly due to China (whose government debt continued to increase) and a context of higher interest rates in the face of gradual monetary tightening in the developed world.

Chart 1.1.3-a
Short-term risk balance: vulnerabilities and global risks



Source: MAPFRE Economics

The previous context of the pandemic suggested a continuation of economic recovery, a moderation in budget deficits, and the additional support of high inflation rates as positive catalysts to dilute the accumulated burden. However, with the arrival of the conflict in Ukraine, inflation became more persistent than anticipated, with greater impacts than expected and stronger repercussions on economic activity. As a result, and as monetary policy changes direction (albeit with real interest rates remaining negative in developed markets), the impact could also be worse than initially expected due to a higher cost of debt and a cumulative total far more sensitive to tightening dynamics. In turn, this process could be limiting in terms of fiscal policy, given the need to establish future sustainability and limit governments' ability to respond to the consequences of the war. This would result in asymmetric expansionary fiscal policies (in economies with scope for action) and an austerity trend (in those limited by pre-existing conditions) to avoid falling into a debt trap. Although a general consolidation dynamic is anticipated, the imbalances could be exacerbated by the risk of further expansions in response to the inflationary shock against a backdrop of tightening financial conditions, leading to market stress. This would particularly affect emerging markets with exposure to foreign currency and countries with certain structural vulnerabilities that were not corrected during the economic recovery.

Economic policy

As the inflationary impulse gains ground, amid the continued geopolitical context and with the supply side still restricted, agents' expectations are positioned towards higher salary demands to mitigate the impact of the loss of purchasing power. With this, the main central banks are reinforcing their restrictive monetary policy stances to fulfill their respective mandates due to either a single mandate or the prevalence of the price stability factor.

In this context, and as the effect of these movements begins to spread beyond mortgage rates, the slowdown in consumption should be more marked, while companies will face greater obstacles to hiring, in line with the soft landing anticipated by central planners. Although this is the central scenario, the risk of crossing the threshold of neutrality and into restriction could exacerbate the process, leading to a hard landing that would prematurely end the adjustment cycle. Under both scenarios, the monetary and fiscal response in many economies could be more limited than in the past, given the high levels of debt accumulated on the central banks' balance sheets in recent years and the settlement of deficits with a large integrated structural component.

Sovereign financial crisis in China

As China's reopening gains momentum, its activity indicators are improving and represent a buffer for the recovery of both activity and global supply chains, albeit with nuances. On the one hand, the high-frequency indicators suggest an intense reactivation, although the country could take a bit longer to reach full capacity than initially expected. On the other hand, in terms of policies against COVID-19, there are lingering concerns due to the uncertainty of future lockdowns in response to new outbreaks, in line with those introduced recently by the government. Supply chains are therefore continuing to shift towards Southeast Asia in search of greater stability, which, despite its potential to alleviate supply problems in the short term, needs time to prosper and become consolidated and integrated into the global mechanism.

At the same time, the dynamic in the real estate sector remains ominous. Although the Chinese central bank continues to provide the economy with more lax financial conditions and the government is striving to boost investments in the sector, sales of new homes in the main cities continue to fall year-over-year, and the problems for developers keep growing (Shimao joined the list of defaults in July).

In the geopolitical field, regarding its ambiguous geopolitical position on the conflict in Russia and claims over Taiwan, there is some internal alarmism as the ties between NATO and the Asia-Pacific countries become closer. With the development of these multilateral networks, the conflict of interest between China and countries such as Japan, South Korea, Australia, and New Zealand may pose an additional risk on the already complicated geopolitical chessboard. On the positive side, and to invigorate the available supply, certain sanctions introduced by the Biden administration could be relaxed; these were inherited from the previous stage, and their relaxation could provide an additional boost to global trade.

All in all, and despite efforts to address financial vulnerabilities, shore up fragile growth, and resolve structural problems, the risk of triggering a debt crisis with systemic potential for sovereign-financial spread remains real.

Climate change

The crisis in Ukraine has highlighted the dichotomy between energy security and orderly transition. In the current context, short-term dependence on fossil fuels (from Russia and otherwise) represents an energy challenge worldwide, particularly for Europe. This is so despite the fact that this geopolitical event will boost investments in clean energy and reduce dependence on traditional sources in the pursuit of greater energy security. However, in the short term, reorganizing the production sources of these energies to meet the most immediate needs is a strategic imperative. The risk of supply shortages is growing, and the risk of economic paralysis is setting off alarms in several countries, accelerating the implementation of contingency and intervention plans.

Inflation

The recent acceleration of inflation rates continues to surprise both financial markets and monetary policymakers as they strive to control expectations under the targets of their mandates. With this, the risk of de-anchoring is growing, and the central banks appear more willing to act. In this sense, and according to the data on inflation swaps, market participants still believe that the central banks are capable of controlling high inflation rates, despite the fact that price increases are more persistent than initially expected. However, using the United States as a point of reference, additional indicators such as the University of Michigan surveys have begun to point to an upward trend in expectations. This would lead central banks to continue orienting their decisions towards a restrictive policy to mitigate expectations, to the detriment of activity and employment data, and despite the recent accumulation of poor macroeconomic data.

A second view of this de-anchoring of upward expectations is becoming evident in salary negotiations as price pressures intensify and last over time. The most recent dynamics, far more advanced in the United States, are leading to increasingly widespread negotiations for salary increases in several countries (Germany, France, the Netherlands), albeit not in southern Europe, where a wider range of industry-led sectors prevail. The situation has been slow to impact final sales prices, being contained in business margins given the circumstances of the pandemic and amid

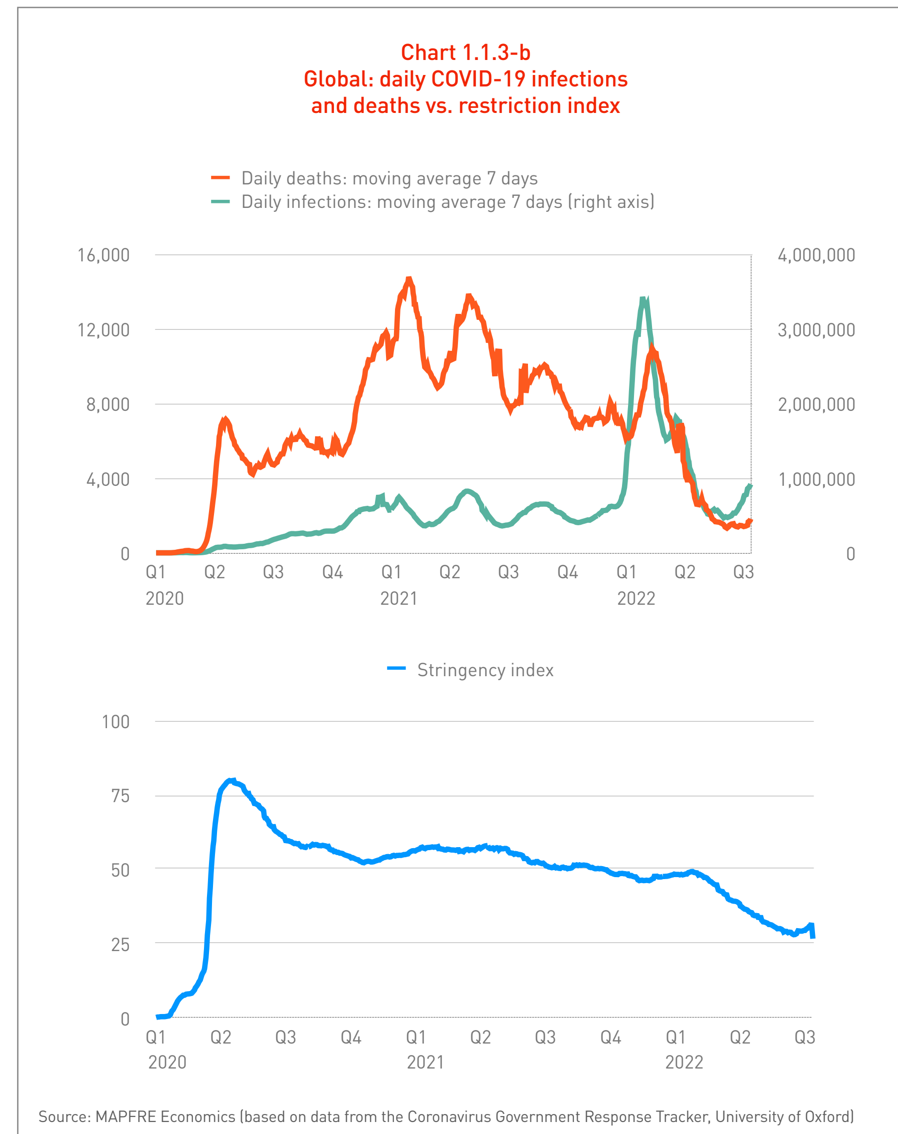
prospects for a transitory duration. However, the current pricing process should already include the shift in expectations, with releases of margins towards the final consumer that, in the most recent stage, have started to influence salary demands. Consequently, the central banks' reaction function is becoming tougher, leading first to the need for orthodox policies towards monetary neutrality and then, at a later stage than expected, into the restrictive realm with the aim of reducing consumption.

COVID-19

According to the most recent report from the World Health Organization (WHO), after trending downward since the last peak in March 2022, the number of weekly infections has grown globally for the third week. More than 4.6 million new cases were reported from June 27 to July 3, 2022, a similar number to the previous week. With more than 8,100 reported deaths, the number of new weekly deaths decreased by 12%, although the risk of them increasing is gradually rising (see Charts 1.1.3-b, 1.1.3-c, and 1.1.3-d).

Regionally, the number of new weekly cases increased in the Eastern Mediterranean (+29%), Southeast Asia (+20%), Europe (+15%), and the Western Pacific (+4%), while it decreased in the regions of Africa (-33%) and the Americas (-4%). The number of new weekly deaths rose in the Eastern Mediterranean (+34%) and Southeast Asia (+16%) and fell in the regions of Africa (-50%), the Americas (-13%), Europe (-12%), and the Western Pacific (-12%). As of early July, more than 546 million confirmed cases and 6.3 million deaths had been reported worldwide. As many nations have been gradually modifying their COVID-19 testing techniques, fewer tests have been performed overall, and consequently, fewer cases have been identified, so caution should be exercised when interpreting these trends.

Chart 1.1.3-b
Global: daily COVID-19 infections and deaths vs. restriction index



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford)

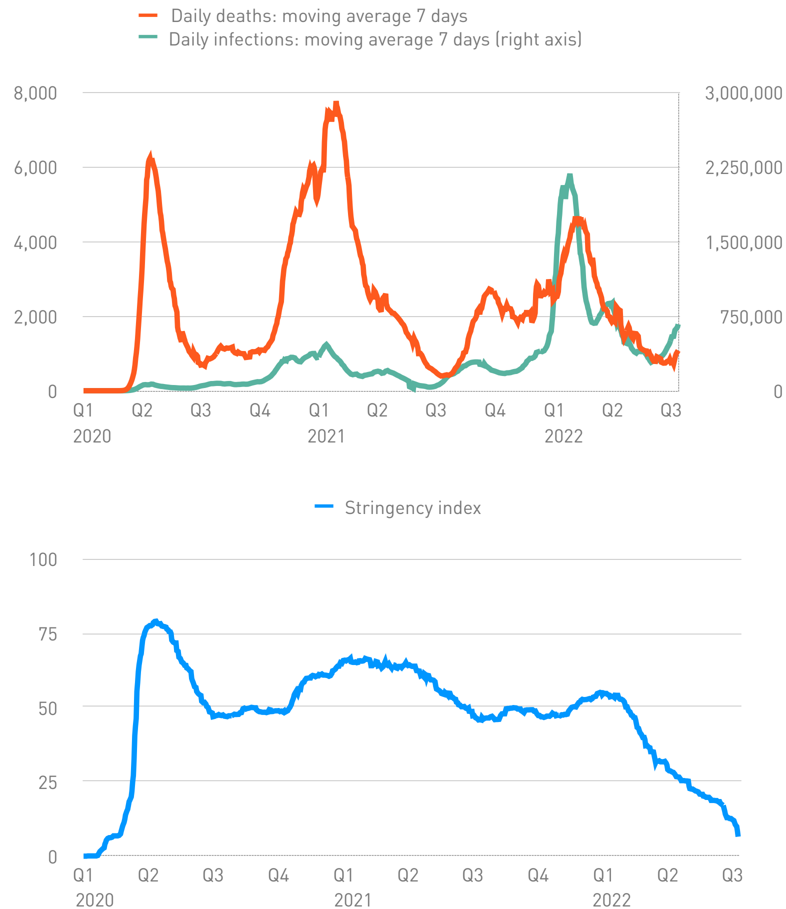


Chart 1.1.3-c
Developed countries: daily COVID-19 infections and deaths vs. stringency index
Daily deaths: moving average 7 days
Daily infections: moving average 7 days (right axis)
8,000
6,000
4,000
2,000
0
3,000,000
2,250,000
1,500,000
750,000
0
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3
2020 2021 2022
Stringency index
100
75
50
25
0
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3
2020 2021 2022
Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford)

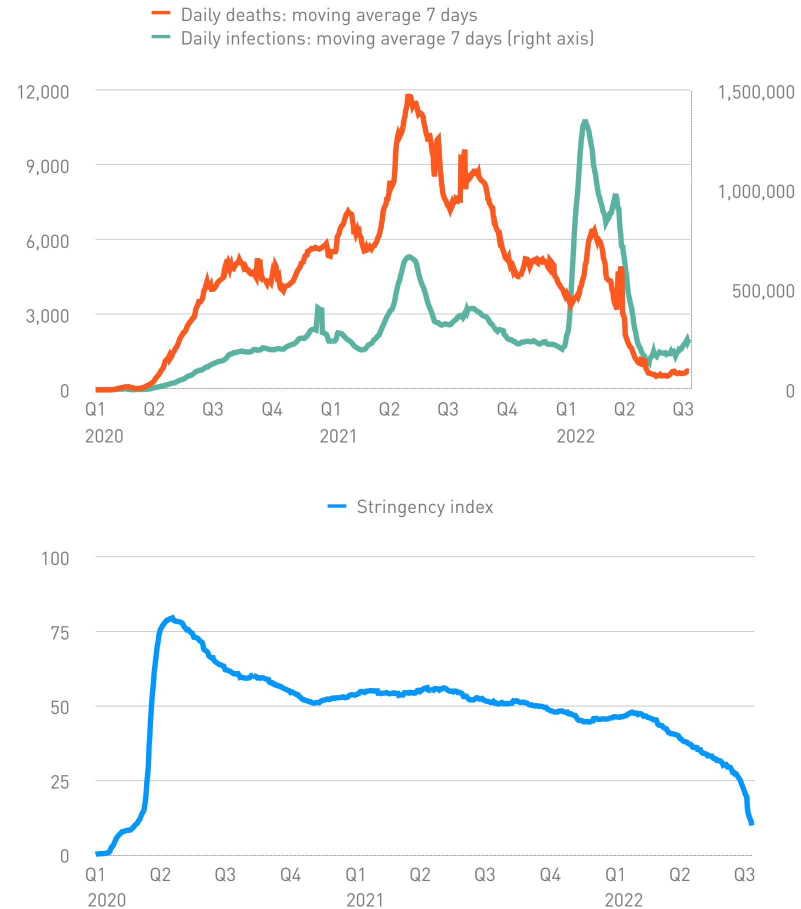


Chart 1.1.3-d
Emerging countries: daily COVID-19 infections and deaths vs. stringency index
Daily deaths: moving average 7 days
Daily infections: moving average 7 days (right axis)
12,000
9,000
6,000
3,000
0
1,500,000
1,000,000
500,000
0
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3
2020 2021 2022
Stringency index
100
75
50
25
0
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3
2020 2021 2022
Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford)

Secondary Omicron peaks are now underway in many parts of Latin America, sub-Saharan Africa, several U.S. states, Portugal, and parts of India, while globally reported cases and deaths continue to decline. Based on previous experience in Europe and the northeastern United States, these secondary Omicron waves, caused by behavioral relaxation, reduced mask-wearing, and subvariants of Omicron, are expected to last for a few more weeks. On the other hand, through strict lockdowns, China has effectively implemented a zero COVID-19 strategy, which is expected to continue until at least October 1. Moreover, the increase in cases related to the BA.5 variant in Portugal and some regions of Spain should be closely monitored; the increase has been far more marked than that observed with other secondary Omicron waves in Europe, and it has also been associated with a higher death toll.

1.2 Forecasts and risk assessment in select economies

1.2.1 United States

The difficult balance between inflation and recession.

- Inflation had been generating pressure since the start of the tension with Russia in the summer of 2021, before the war broke out.
- Energy costs will not drop until a solution to the war in Ukraine is reached.
- The Federal Reserve is accelerating interest rate hikes with its sights set on their impact on the inevitable slowdown in activity.
- The economy is expected to grow 2.5% in 2022 and 1.4% in 2023.

The United States economy unexpectedly contracted by 1.6% QoQ in the first quarter of the year (+3.5% YoY) as a result of a drop in exports of 4.5% QoQ annualized, while imports grew by 18.9% QoQ annualized. Private consumption grew by only 1.8% QoQ annualized, investment slowed despite continuing to perform well (+5% QoQ annualized), while government consumption is already clearly falling (-2.9% QoQ annualized) as the stimuli for the pandemic have come to an end.

As for the leading activity indicators, the activity and industry surveys from the different Federal Reserve headquarters (Richmond, Dallas, Chicago, Philadelphia) suggest slower growth in May and declines in June. The economic slowdown is therefore expected to continue in the second half of the year. The second quarter may still end on a positive note, avoiding for the moment a recession scenario by the NBER[2] definition. On the other hand, the purchasing managers' indexes (PMIs) fell in June: the composite to 51.2 points, manufacturing to 52.7, and services to 51.6, albeit remaining in expansionary territory. The personal spending figure for May was negative in real terms, once again raising fears of a recession.

The U.S. economy is at a point of equilibrium between the effects of accumulated savings and the fiscal stimuli from 2021, which persist, and the loss of purchasing power due to inflation and energy costs. The tightening of financial conditions has caused stock markets to fall 20%, while the Treasury bond yield has doubled from 1.50% in January to 3.00% at the end of June. This environment, anticipated in our previous stress scenario, is materializing. Added to this are the multiple supply bottlenecks that have been aggravated again in the industrial sector by the recent lockdowns in Shanghai, a heavily industrial area of China. Within this context, we forecast the U.S. economy to grow 2.5% in 2022 and 1.4% in 2023 (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b).

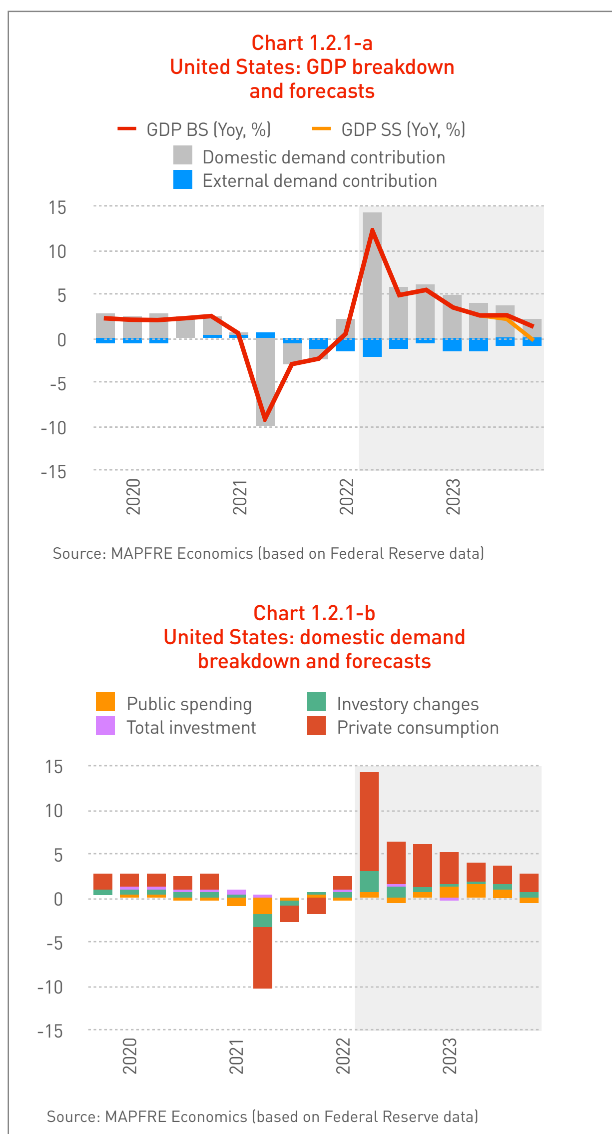


Table 1.2.1
United States: main macroeconomic aggregates

	2017	2018	2019	2020	2021 (e)	Baseline (BS) 2022 (p)	Baseline (BS) 2023 (f)	Stressed (SS) 2022 (f)	Stressed (SS) 2023 (f)
GDP (% YoY)	2.3	2.9	2.3	-3.4	5.7	2.5	1.4	2.0	-1.1
Domestic demand contribution	2.5	3.3	2.5	-3.3	7.0	3.7	1.2	3.1	-1.4
External demand contribution	-0.2	-0.3	-0.2	-0.1	-1.3	-1.1	0.2	-1.0	0.3
Private consumption contribution	1.7	2.0	1.5	-2.6	5.5	2.5	1.2	1.9	-0.3
Total investment contribution	0.8	0.9	0.7	-0.3	1.3	0.5	0.2	0.4	-0.6
Public spending contribution	0.0	0.2	0.3	0.3	0.1	-0.1	0.1	-0.1	0.1
Private consumption (% YoY)	2.4	2.9	2.2	-3.8	7.9	3.5	1.7	2.8	-0.4
Public spending (% YoY)	0.0	1.2	2.0	2.0	1.0	-0.7	0.7	-0.7	0.7
Total investment (% YoY)	3.8	4.4	3.1	-1.5	6.1	2.1	1.1	2.0	-2.8
Exports (% YoY)	4.1	2.8	-0.1	-13.6	4.5	5.9	6.0	5.4	5.2
Imports (% YoY)	4.4	4.1	1.1	-8.9	14.0	10.9	1.6	10.2	0.4
Unemployment rate (%, last quarter)	4.2	3.8	3.6	6.8	4.2	3.5	3.7	3.7	4.4
Inflation (% YoY, average)	2.1	2.4	1.8	1.2	4.7	7.6	2.9	8.1	5.3
Inflation (% YoY, last quarter)	2.1	1.9	2.3	1.4	7.0	6.6	1.9	7.7	4.0
Fiscal balance (% GDP)	-4.2	-6.1	-6.3	-15.3	-11.7	-4.6	-5.3	-4.8	-6.3
Primary fiscal balance (% GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% GDP)	-1.9	-2.1	-2.2	-2.9	-3.6	-4.6	-4.2	-4.5	-4.1
Official interest rate (end of period)	1.50	2.50	1.75	0.25	0.25	3.00	2.25	3.50	4.00
3-month interest rate (end of period)	1.69	2.81	1.91	0.24	0.21	2.94	2.40	3.68	4.18
10-year interest rate (end of period)	2.40	2.69	1.92	0.93	1.52	3.20	2.88	3.53	3.98
Exchange rate vs. U.S. dollar (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate vs. euro (end of period)	1.20	1.15	1.12	1.23	1.13	1.05	1.07	1.02	1.01
Private lending (% YoY, average)	7.2	4.7	5.1	6.0	14.3	5.5	-0.2	4.8	-0.9
Household lending (% YoY, average)	3.4	3.5	3.0	3.4	6.5	8.6	7.4	8.5	7.0
P.S. non-financial lending (% YoY, average)	6.1	9.1	6.6	8.7	3.0	9.2	4.8	9.2	4.8
P.S. financial lending (% YoY, average)	3.0	2.2	2.1	6.3	4.7	3.3	1.9	3.2	1.7
Savings rate (% pers. disp. income, avg.)	7.3	7.6	7.6	16.4	12.2	4.3	4.7	4.7	4.8

Source: MAPFRE Economics (based on Federal Reserve data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

As for the pressure on energy prices, there are no signs of this being solved in the short term for multiple reasons that have converged simultaneously. Specifically in the United States, the Keystone pipeline project was closed by President Biden's executive order. At the global level, the demonization of fossil fuels is one of the factors causing the oil industry to refrain from investing, at least in Western countries. This has been compounded by the self-imposed sanctions that have cut off Russian imports. Meanwhile, Russia has found new destination countries for its oil that pay it in rubles using its new SPFS international payment system, an alternative to the SWIFT system. Regarding gas, the United States is a net exporter, but the tension in that market, especially with the new increase in European demand, will undoubtedly push prices higher worldwide and domestically.

CPI inflation stood at 9.1% in June, with household food rising 12.2% and energy more than 60%. Core inflation stood at 5.9%, showing signs that it is already spreading to all products. Against this backdrop, at its June meeting, the Federal Reserve raised interest rates by 75 basis points (bps) to 1.75% (high range) and warned of further increases to curb inflation. However, the Federal Reserve is facing a situation that is hard to balance. On the one hand, it is already late because inflation is clearly rising, including core inflation, which has reached 6%. On the other hand, this inflation has a significant component generated by supply restrictions and the energy shock, so tightening the financial conditions does not tackle the problem as efficiently as desired. It should be noted that a significant part of the current pressure on prices comes from the quantitative easing of the Federal Reserve's balance sheet and the government's fiscal stimulus measures. So, at a time when the rise in the cost of living will take its toll on activity, monetary tightening risks exacerbating the slowdown, to the point where the horizon for 2023 is beginning to look more complex. The market has started trying to predict where interest rates will peak and when the Federal Reserve will begin to lower them again. Thus, the Federal Reserve is caught between a rock and a hard place; between containing inflation and avoiding recession.

In terms of risks for the U.S. economy, it is feared that the consumer will potentially reduce spending due to the higher cost of living, which would impact activity levels, or the opposite (less likely due to the decline in wealth and the greater uncertainty), that they will continue to increase spending, using their savings to keep consuming, which will limit the demand adjustment necessary to moderate inflation. At the geopolitical level, there is every indication that the economic war with Russia will continue, affecting the price of energy products.

1.2.2 Eurozone

Energy costs, inflation, and decline in economic activity.

- **Since the monetary effect has little to do with inflation, it will be difficult to control without demand destruction.**
- **The main problem right now is the energy crisis, which seems unlikely to be resolved quickly.**
- **The European Central Bank is trying to simultaneously control inflation by raising interest rates while moderating the financial tightening in Southern Europe.**
- **The growth forecast has been adjusted to 2.7% in 2022 and 1.8% in 2023.**

The Eurozone grew by 0.6% QoQ in the first quarter of the year (+5.4% YoY, affected by 2021 base effects),

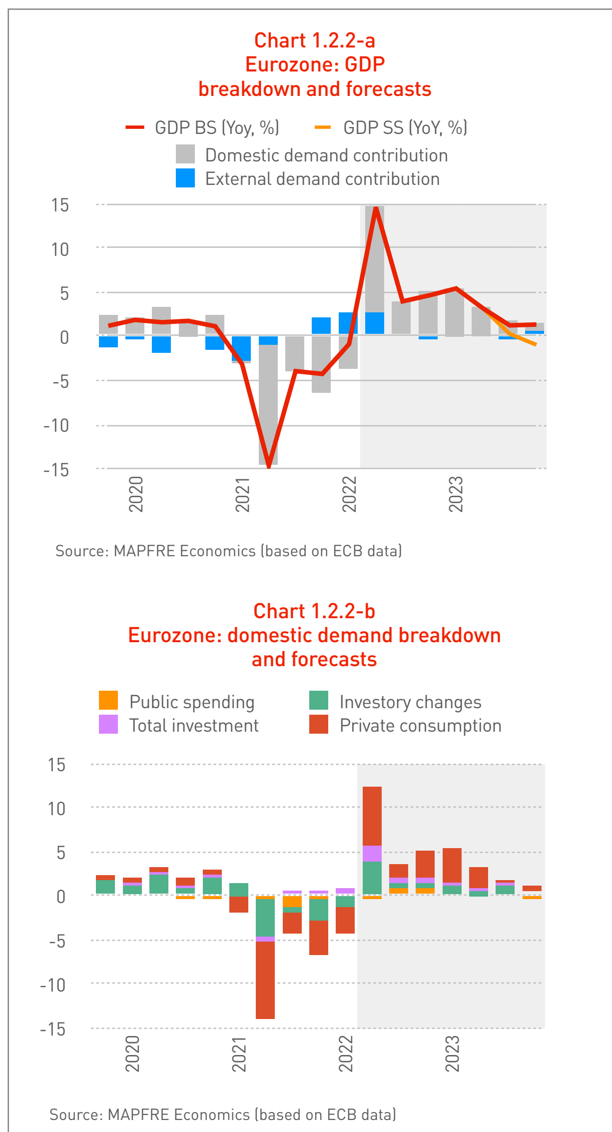


Chart 1.2.2-a
Eurozone: GDP breakdown and forecasts

Source: MAPFRE Economics (based on ECB data)

Chart 1.2.2-b
Eurozone: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on ECB data)

Table 1.2.2
Eurozone: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	2.8	1.8	1.6	-6.5	5.3	2.7	1.8	2.0	-2.0
Domestic demand contribution	2.3	1.7	2.4	-6.1	4.0	2.6	1.5	2.0	-2.5
External demand contribution	0.5	0.1	-0.8	-0.4	1.3	0.1	0.3	0.0	0.6
Private consumption contribution	1.0	0.8	0.7	-4.2	1.9	1.7	1.2	1.2	-0.5
Total investment contribution	0.9	0.6	1.5	-1.6	0.9	0.7	0.6	0.5	-1.2
Public spending contribution	0.2	0.2	0.4	0.2	0.9	0.3	0.2	0.3	0.2
Private consumption (% YoY)	1.9	1.5	1.4	-7.9	3.6	3.1	2.2	2.3	-1.0
Public spending (% YoY)	1.1	1.1	1.9	0.9	3.9	1.3	1.0	1.3	1.0
Total investment (% YoY)	4.2	3.1	6.8	-7.2	4.1	3.1	2.6	2.1	-6.1
Exports (% YoY)	6.0	3.6	2.7	-9.5	10.8	4.7	2.8	4.0	0.8
Imports (% YoY)	5.4	3.7	4.8	-9.4	8.7	5.0	2.5	4.4	-0.4
Unemployment rate (%, last quarter)	8.7	8.0	7.5	8.3	7.1	7.2	7.4	7.4	9.1
Inflation (% YoY, average)	1.5	1.8	1.2	0.3	2.6	6.7	2.6	6.9	3.4
Inflation (% YoY, last quarter)	1.4	1.9	1.0	-0.3	4.6	5.8	1.7	6.4	2.4
Fiscal balance (% of GDP)	-0.9	-0.4	-0.7	-7.1	-5.1	-3.5	-3.2	-3.9	-5.5
Primary fiscal balance (% of GDP)	1.0	1.4	1.0	-5.6	-3.2	-1.7	-1.5	-2.1	-3.7
Current account balance (% of GDP)	3.2	3.0	2.4	1.9	2.3	0.9	1.2	0.0	-2.7
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	1.00	1.00	1.50	1.75
3-month interest rate (end of period)	-0.33	-0.31	-0.38	-0.55	-0.57	0.84	0.88	1.32	1.35
10-year interest rate (end of period)	1.13	1.17	0.32	-0.19	0.32	1.91	2.02	2.57	3.40
Exchange rate vs. U.S. dollar (end of period)	1.20	1.15	1.12	1.23	1.13	1.05	1.07	1.02	1.01
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	2.3	2.4	3.4	3.0	3.9	4.2	4.7	4.0	2.6
P.S. non-financial lending (% YoY, average)	1.2	2.2	2.4	2.7	3.7	4.7	3.3	4.3	0.5
P.S. financial lending (% YoY, average)	1.5	-0.5	1.1	-2.6	0.2	1.2	2.1	1.1	2.1
Savings rate (% pers. disp. income,	12.3	12.4	13.0	19.5	17.4	13.6	13.0	13.6	11.2

Source: MAPFRE Economics (based on ECB data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

and the slowdown in economic activity could already be observed. Consumption fell 0.7% QoQ in the private sector and 0.3% in the public sector; imports also dropped (-0.6% QoQ), while exports slowed down to 0.4% QoQ.

Uncertainty is at peak levels, so it is difficult to determine whether the forces of stimulus and recovery or the forces of adversity will prevail in the immediate future. The former encompass the household savings accumulated during lockdowns and the desire to spend them, mainly on tourism, in the so-called "rotation" from goods to services, as well as the stimulus programs of the "Recovery and Resilience Facility" (RRF) and the REPowerEU plan announced in May to promote investment and transition of the energy mix.

It should be noted that REPowerEU is a plan to save energy, produce clean energy and diversify energy sources in the European Union. The plan aims to increase the mix of renewables from the current 40% to 45% by 2030. Additionally, it intends to transform the industry to use less energy from fossil sources while encouraging households to save energy. The plan, which is actually a sort of emergency measure to reduce energy dependence on Russia, comes at a cost for Europe, which will be forced to invest 210 billion euros in the next five years. Of this amount, more than half will go towards renewable energies (86 billion euros) and critical infrastructure for hydrogen (27 billion euros) by 2030. As for new funds, there will only be 20 billion euros generated through the auction of emission rights. The rest will have to be incurred by each country in the form of a loan from the remaining 225 billion of the RRF[3].

Regarding adverse forces, the loss of household purchasing power is significant, although its impact will not be immediate due to accumulated savings and purchases being made early in anticipation of inflation. Other key factors include the accelerated producer inflation derived from high energy costs, which will surely cause a drop in industrial production and a rise in final product prices, and the tightening of financial conditions via an increase in sovereign bond yields, which simultaneously affects financing costs in the private sector. Furthermore, we must not overlook the fact that the tension in the supply chains has not normalized (due to China and the problems of maritime and road transport). Raw material prices are thus decreasing somewhat in anticipation of lower growth but have not returned to the previous levels. The agricultural sector is also facing persistent and growing problems, including the availability of grain from Ukraine and Russia and the availability and price of fertilizers due to the price of gas. For these reasons, there is a high level of uncertainty surrounding the forecasts for the coming quarters, especially against the backdrop of the full "sanctions war," with a high risk of energy rationing ahead of next autumn-winter.

Along with the above, consumer confidence continued to fall in June (-23.6) and does not seem set to increase until the sanctions issue is resolved. Inflation is unlikely to disappear without peace with Russia. The purchasing managers' indexes for June (PMIs) fell only marginally due to the continued presence of pent-up demand and some post-pandemic reactivation effects. The composite stands at 52.0 points, manufacturing at 52.1, and services at 53.0. Meanwhile, retail sales are beginning to decline month-on-month, although they are still growing year-on-year. The decline in industrial production is starting to accelerate, which can be

attributed to high energy costs. As for new car registrations, they continue to fall (-12% YoY in May), following the downward trend observed since 2017, so this is not only due to supply chains or energy. In this context, we have adjusted our 2022 growth forecast to 2.7%, down substantially from the 5.0% we forecast six months ago. For 2023, we have also reduced our forecast to 1.8% growth due to tightening financial conditions (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b).

As for inflation, it reached 8.1% in May (+0.8% MoM), with core inflation at 3.8%, and is expected to continue rising for a few more months. It should be noted that the price increases are starting to spread to other sectors since businesses cannot withstand sustained increases in energy prices without passing them on to their products. Food is up 8.9%, electricity 32%, gas 53%, and liquid fuel 77%. At its meeting on June 9, the European Central Bank (ECB) announced that interest rates would remain unchanged (0% for main refinancing operations and -0.5% for the deposit facility). However, it indicated its intention to raise the official interest rates of all ECB operations by 25 bps in July. In this sense, two increases of 25 bps are expected in 2022, followed by another two in 2023.

In general, when the markets are also tightening financial conditions, it is feared that such inflation control will impact growth and jobs, so central banks may have to stop the increases. Given the rise in sovereign bond yields, especially those in southern European countries, on June 15, the Governing Council of the ECB called an emergency meeting on June 15 to announce that it would design an anti-fragmentation instrument (to avoid very different interest rates on public debt in the Eurozone). There are high expectations surrounding this solution because although the ECB wanted to reduce bond purchases, it will have to increase flexibility so that monetary policy can be deployed more homogeneously across all countries.

The Eurozone is facing significant risks at this time, and together, they could lead to a scenario of stagflation or even recession, depending on the evolution of events. The permanence of sanctions will have a high economic cost, and if the tension with Russia continues, it could lead to rationing or even a gas shortage in northern Europe, as the German energy regulator recognizes. The risk also concerns inflation, which may become more permanent if energy costs remain flat and salaries start to go up along with the increases. Producer prices are skyrocketing, which will eventually be reflected in retail prices. On the positive side for growth, we find all the aid plans that have been activated to counteract the adverse forces, although these will continue to feed the countries' deficit and debt. We are therefore at a challenging moment of calibration of macroeconomic policies.

1.2.3 Spain

The balance of stimulus forces versus adversity points to a slight deterioration in forecasts.

Spain's GDP rose by just 0.2% QoQ in the first quarter of 2022 (+6.3% YoY). Private consumption grew by 4.9% YoY and, despite the fact that imports (which decrease GDP) rose by 11.7% due to higher energy costs, exports performed well, growing 18.1%. Investment is also performing positively, possibly as a result of the entry or forecast entry of funds from the European Union.

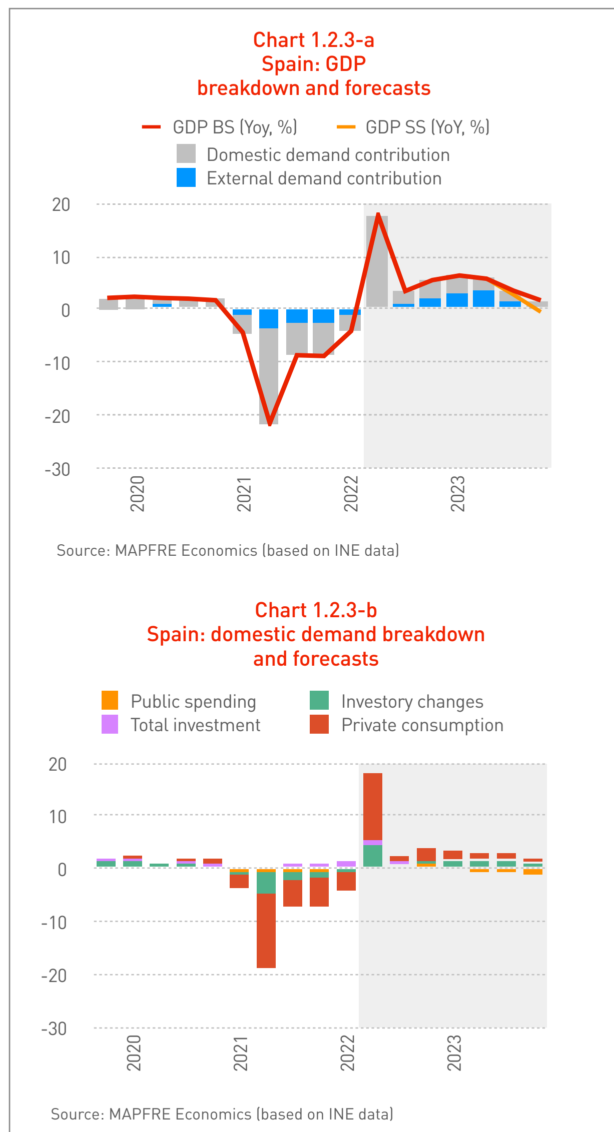


Chart 1.2.3-a
Spain: GDP breakdown and forecasts

Source: MAPFRE Economics (based on INE data)

Chart 1.2.3-b
Spain: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on INE data)

Table 1.2.3
Spain: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	3.0	2.3	2.1	-10.8	5.1	4.1	2.4	3.6	-2.5
Domestic demand contribution	3.2	2.9	1.6	-8.8	4.7	2.1	1.3	1.5	-4.1
External demand contribution	-0.2	-0.7	0.5	-2.1	0.4	2.0	1.1	2.1	1.7
Private consumption contribution	1.8	1.0	0.6	-6.8	2.6	1.1	1.0	0.6	-1.2
Total investment contribution	1.3	1.2	0.9	-1.9	0.9	1.5	0.5	1.3	-1.7
Public spending contribution	0.2	0.4	0.4	0.7	0.7	0.2	0.2	0.2	0.2
Private consumption (% YoY)	3.0	1.7	1.0	-12.0	4.6	1.9	2.0	1.0	-2.1
Public spending (% YoY)	1.0	2.3	2.0	3.3	3.1	0.9	0.9	0.9	0.9
Total investment (% YoY)	6.8	6.3	4.5	-9.5	4.3	6.2	2.4	6.3	-8.7
Exports (% YoY)	5.5	1.7	2.5	-20.2	14.7	11.1	1.8	11.5	0.4
Imports (% YoY)	6.8	3.9	1.2	-15.2	13.9	6.4	-0.8	5.8	-4.7
Unemployment rate (%, last quarter)	16.6	14.5	13.8	16.1	13.3	13.4	13.8	14.1	17.2
Inflation (% YoY, average)	2.0	1.7	0.7	-0.3	3.1	8.2	3.6	8.8	7.0
Inflation (% YoY, last quarter)	1.1	1.2	0.8	-0.5	6.5	7.2	2.9	8.8	6.1
Fiscal balance (% of GDP)	-3.1	-2.6	-3.1	-10.3	-6.9	-4.7	-5.3	-5.2	-8.2
Primary fiscal balance (% of GDP)	-0.6	-0.2	-0.8	-8.0	-4.7	-2.5	-3.1	-2.9	-5.8
Current account balance (% of GDP)	2.8	1.9	2.1	0.8	0.9	0.8	2.9	-0.5	-1.5
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	1.00	1.00	1.50	1.75
3-month interest rate (end of period)	-0.33	-0.31	-0.38	-0.55	-0.57	0.84	0.88	1.32	1.35
10-year interest rate (end of period)	1.57	1.42	0.47	0.06	0.60	2.50	2.57	2.70	2.66
Exchange rate vs. U.S. dollar (end of period)	1.20	1.15	1.12	1.23	1.13	1.05	1.07	1.02	1.01
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	-1.4	-0.3	-0.2	-1.0	0.0	2.3	3.3	2.0	1.1
P.S. non-financial lending (% YoY, average)	-1.1	-2.0	-0.8	1.8	3.1	3.4	1.6	2.6	-9.7
P.S. financial lending (% YoY, average)	-5.9	3.8	-6.5	1.6	-0.6	-7.7	3.5	-7.8	3.1
Savings rate (% pers. disp. income, avg.)	5.8	5.6	8.3	15.2	11.5	8.2	7.1	8.3	6.0

Source: MAPFRE Economics (based on INE data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

As for the indicators that offer insight into the outlook, the purchasing managers' indexes (PMIs) worsened in June, although they remained in expansionary territory: the composite stands at 53.6 points, manufacturing at 52.6, and services at 54.0. The consumer confidence indicator has plummeted again (-28.6), dropping back to 2020 levels, clearly motivated by the loss of purchasing power under inflationary pressure. Meanwhile, the economic sentiment indicator of the European Union (102.4) has dropped compared to 2021 towards the levels of 2019. For its part, the retail sector survey expects activity to remain strong, and only the price component reflects pessimism. Against this backdrop, we have adjusted our economic growth estimates to 4.1% for 2022 and 2.4% for 2023 (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b).

- **Inflation (10.2%) is clearly the most worrisome figure, which, in view of the small increase in salaries (2.5%), implies a deterioration in purchasing power and in consumption.**
- **Consumption is stable for the time being, thanks to accumulated savings.**
- **Exports and investment show strong performance, offsetting imports affected by fuel costs.**
- **The growth forecast for the Spanish economy has been adjusted to 4.1% in 2022.**

Inflation reached 10.2% (CPI) in June, 10.0% harmonized and 5.5% core. The inflationary process became noticeable in March 2021, and core inflation appeared approximately a year ago. It is likely that the energy crisis, initiated by the non-opening of the Nord Stream 2 gas pipeline, aggravated inflation by causing a significant increase in the price of gas prior to the German elections in September 2021. With energy prices consistently high, it was only a matter of time before these costs began to be passed on to other products and services. Thus, while energy has been rising since the beginning of 2021, the process in food and other services began almost six months later. To contain inflation by avoiding second-round effects, salaries have risen by around 2.5%, so the loss of household purchasing power will be noticeable and impact consumption. Due to these circumstances and the tightening of financial conditions, the conditions for a slowdown in private consumption and investment have been met.

The risks for the Spanish economy in the coming quarters lie in the persistence and magnitude of inflation, which exceeds 10%. This is mainly due to raw materials, energy, and food, but also to the transfer to services. Since this is not a one-off episode, it will be difficult to avoid second-round effects (increases in salaries) and therefore the anchoring of inflation at higher levels. Higher inflation—especially due to energy costs—and more restrictive financial conditions will negatively impact growth. On the positive side are the effects of some sectors, such as tourism, that continue to recover and the stimuli from European funds (NGEU).

1.2.4 Germany

No recession for now, but the risk of an energy shortage is growing.

Germany's GDP grew by 3.8% YoY in the first quarter (+0.2% QoQ). Consumption stagnated (-0.1% QoQ), with an 8.8% YoY increase due to the base effect (-9.3% in 2021). Exports fell 2.1% QoQ, reflecting the higher energy and producer costs, which rose by more than 33%

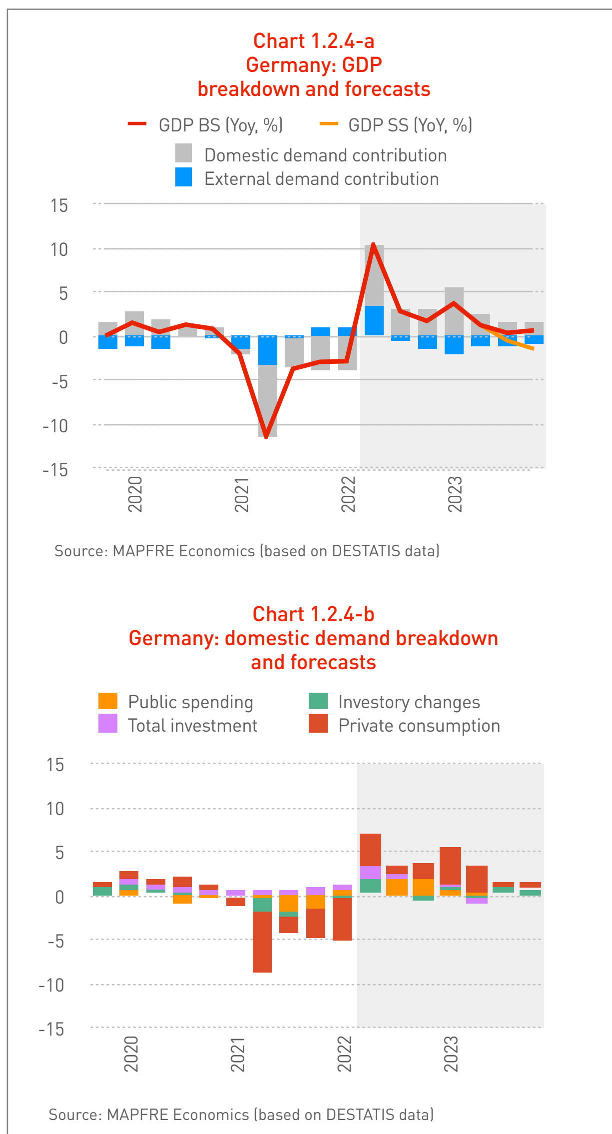


Table 1.2.4
Germany: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	3.0	1.1	1.1	-4.9	2.9	1.6	1.9	0.8	-2.1
Domestic demand contribution	2.7	1.6	1.8	-4.0	2.2	2.8	1.4	2.1	-2.7
External demand contribution	0.3	-0.5	-0.7	-0.9	0.7	-1.2	0.4	-1.3	0.7
Private consumption contribution	0.9	0.7	0.9	-3.2	0.2	2.2	1.5	1.7	0.0
Total investment contribution	0.7	0.7	0.4	-0.6	0.2	0.4	0.8	0.2	-1.1
Public spending contribution	0.3	0.2	0.6	0.8	0.6	0.0	0.1	0.0	0.1
Private consumption (% YoY)	1.7	1.4	1.6	-6.1	0.3	4.0	2.8	3.3	-0.1
Public spending (% YoY)	1.7	1.0	3.0	3.5	2.9	-0.2	0.6	-0.2	0.6
Total investment (% YoY)	3.3	3.5	1.9	-3.0	1.0	1.7	3.6	1.1	-5.2
Exports (% YoY)	5.6	2.5	1.1	-10.1	9.5	2.4	3.7	1.8	1.5
Imports (% YoY)	5.7	4.0	2.9	-9.2	9.0	5.5	3.1	4.9	0.2
Unemployment rate (%, last quarter)	5.5	5.1	5.0	6.2	5.3	5.3	5.6	5.6	7.4
Inflation (% YoY, average)	1.5	1.7	1.4	0.5	3.1	6.9	2.7	8.0	9.9
Inflation (% YoY, last quarter)	1.4	1.6	1.5	-0.3	5.3	6.4	2.1	9.5	10.0
Fiscal balance (% of GDP)	1.3	1.9	1.5	-4.3	-3.7	-1.9	-2.1	-2.2	-4.7
Primary fiscal balance (% of GDP)	2.3	2.8	2.3	-3.7	-3.1	-1.3	-1.5	-1.6	-4.0
Current account balance (% of GDP)	7.8	8.1	7.7	7.0	7.6	4.2	4.0	3.3	-0.1
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	1.00	1.00	1.50	1.75
3-month interest rate (end of period)	-0.33	-0.31	-0.38	-0.55	-0.57	0.84	0.88	1.32	1.35
10-year interest rate (end of period)	0.43	0.25	-0.19	-0.58	-0.18	1.19	1.31	1.82	2.44
Exchange rate vs. U.S. dollar (end of period)	1.20	1.15	1.12	1.23	1.13	1.05	1.07	1.02	1.01
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	3.2	2.3	4.7	4.3	5.1	7.4	10.3	7.0	7.4
P.S. non-financial lending (% YoY, average)	3.9	9.4	4.5	3.8	3.1	4.7	3.3	4.7	2.9
P.S. financial lending (% YoY, average)	-1.6	1.9	11.6	10.2	8.5	6.5	4.6	6.6	4.9
Savings rate (% pers. disp. income, avg.)	10.6	11.3	10.7	16.2	15.2	10.7	10.7	10.7	8.2

Source: MAPFRE Economics (based on DESTATIS data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

in April and May. Government consumption is also slowing down (+0.1% QoQ and +1.8% YoY).

Purchasing managers' indexes (PMIs) continued to fall in June, with the composite at 51.3, manufacturing at 52.0 and services at 52.4 points. Factory orders were down (-3.0% in May), and industrial production dropped 2.2% in April. The ZEW Indicator of Economic Sentiment dropped below the 2020 lows, to -40.5 in July from -28.0 in June, on the back of high inflation and energy shortage prospects. The key date to watch will be July 21, when the Nord Stream 1 gas pipeline, currently closed for maintenance, should be reopened.

- **Consumer confidence has plummeted, and unions are calling for substantial salary increases.**
- **Industry's expectations are worsening due to a 33% increase in costs, less activity, and the transfer of the price effect to the final product.**
- **A supply shock is underway, so tightening financial conditions will contribute only marginally to solving the problem.**
- **In terms of risks, the biggest is the reduction in gas imports from Russia, essential for electricity production and heating.**
- **Germany's economic growth forecast has been revised downward to 1.6% in 2022.**

Consumer confidence (GFK) was deeply negative, reaching -27.4 in July, given the loss of household purchasing power and the anticipation of continued cost increases while the European Union sanctions against Russia last. Against this backdrop, we have adjusted our 2022 growth forecast downwards again to 1.6%, compared to 2.0% in our previous report. This is mainly due to the slowdown that is already affecting industrial production and thus exports, and also to lower government consumption as the exceptional, pandemic-related stimulus measures are withdrawn (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b).

Meanwhile, inflation remains very high, reaching 7.6% in June, although harmonized inflation is at 8.2%, and inflation without factoring in energy stands at 4.0%. By components, in May, food rose 10.7%, transport 16.3%, fuels for private use 40.7% (fuels in general +50%), gas 39.1%, electricity 21% and flights 12.6%. Unions and employers are currently negotiating salary increases, a key factor determining whether inflation takes hold and remains elevated. The largest German workers' union, in the metal and electronics sector, representing 3.8 million workers, is seeking raises in the range of 7-8%.

The risks right now are abundant. In fact, Germany is the country facing the highest risks to its economic activity due to its heavy dependence on Russian energy. Full substitution of Russian gas imports will be difficult to achieve, which will also put pressure on international gas markets. For now, Germany seems to be signing contracts to import liquefied gas from the United States. Higher energy costs (as reflected in the 33% increase in producer prices) will lead to a combination of lower production and continuous price increases, with the consequent impact on GDP. The rise in bond yields and the interest rate hikes by the ECB are also risks, to the extent that their effect will be marginal as it is essentially a supply restriction phenomenon.

1.2.5 Italy

Stress on bond yields adds to concerns about inflation.

Italy's GDP grew by 6.2% YoY in the first quarter but only 0.1% QoQ, to -0.8% YoY (from -1.4%). The main driver was household consumption (+7.1%), although it fell compared to the previous quarter (-0.8%). Investment (+12.9%) and exports (+13%) also performed well, although imports rose more (+15.3%) due to energy costs. A deterioration in terms of trade is noticeable since import prices rose 14 points and those of exports only 1 point. Industrial production remained surprisingly robust in April (+4.2% YoY; +1.6% MoM). Consumer confidence bounced back slightly in May but has followed a declining trend since mid-2021. Purchasing managers' indexes (PMIs) worsened in June, with the composite at 51.3 points, manufacturing at 50.9 and services at 51.6.

Looking ahead to the following quarters, the base effect will reflect a sharp slowdown. At the same time, GDP is still in the recovery phase and will benefit from summer tourism and the recovery funds application, of which Italy has been the main beneficiary. By 2023, a slight moderation in growth is expected due to the effect of the price increases but sustained by the inflow of funds, starting with the FRR (Recovery and Resilience Funds), followed by the recently announced RepowerEU. Against this backdrop, we have adjusted our growth forecast to 2.7% for 2022 and 1.4% for 2023, reflecting a contraction in household purchasing power and increased costs for industries (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b).

Inflation rose to 8.0% in June, driven by the rise in fuel (+28.2%), flights (+90%), and home energy (+69.1%). For the time being, it is estimated that average inflation for the year will be around 6.7%, but this could be revised upwards if energy prices do not subside. Now more than ever, the evolution of inflation will depend on the course of geopolitical events, for which a short-term solution seems unlikely. Italy was heavily dependent on Russian gas, by around 40%, so it will now seek to acquire more gas from Algeria.

In terms of risks, the most visible for the Italian economy is the rise in government bond yields, which will gradually imply greater spending on interest, putting pressure on public accounts. The ECB is developing a mechanism to moderate the markets' concerns, especially for banks' exposure to government bonds. Otherwise, there are positive impulses, such as the European FRR and Repower EU funds, although the inflation effect will also detract from growth. Additionally, there is a risk that companies will reduce investment in anticipation of lower demand.

- **Inflation will slow down the economy in different ways.**
- **Once again, the Italian risk premium is one of the main concerns in anticipation of the ECB designing a mechanism to prevent the rise in bond yields in southern Europe.**
- **The GDP growth estimate has been adjusted downwards to 2.7% in 2022 and 1.4% in 2023.**

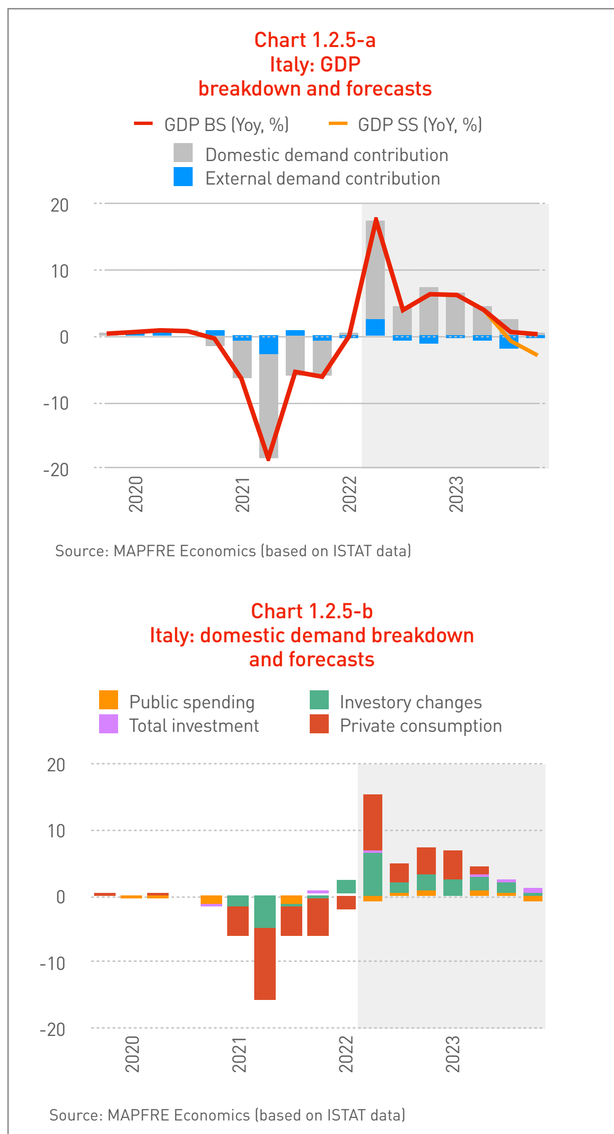


Chart 1.2.5-a
Italy: GDP breakdown and forecasts

Source: MAPFRE Economics (based on ISTAT data)

Chart 1.2.5-b
Italy: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on ISTAT data)

Table 1.2.5
Italy: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	1.7	0.8	0.5	-9.1	6.6	2.7	1.4	1.6	-3.4
Domestic demand contribution	1.7	1.1	-0.2	-8.3	6.6	3.5	1.0	2.4	-4.2
External demand contribution	0.0	-0.3	0.7	-0.8	0.0	-0.8	0.5	-0.8	0.8
Private consumption contribution	0.9	0.6	0.1	-6.3	3.1	1.5	1.1	0.7	-1.8
Total investment contribution	0.6	0.5	0.2	-1.7	3.4	1.7	0.1	1.3	-1.9
Public spending contribution	0.0	0.0	-0.1	0.1	0.1	0.3	0.1	0.3	0.1
Private consumption (% YoY)	1.5	1.0	0.2	-10.6	5.2	2.5	1.8	1.3	-3.0
Public spending (% YoY)	-0.1	0.1	-0.5	0.5	0.6	1.4	0.7	1.4	0.7
Total investment (% YoY)	3.4	2.9	1.2	-9.2	17.0	7.9	0.7	6.1	-10.0
Exports (% YoY)	6.0	1.7	1.8	-14.2	13.4	5.8	1.7	4.7	-1.7
Imports (% YoY)	6.5	2.9	-0.5	-12.7	14.3	9.2	-0.1	8.3	-4.9
Unemployment rate (%, last quarter)	11.0	10.5	9.7	9.8	9.1	9.3	9.2	9.4	10.5
Inflation (% YoY, average)	1.2	1.1	0.6	-0.1	1.9	6.7	2.9	8.4	12.4
Inflation (% YoY, last quarter)	0.9	1.1	0.5	-0.2	3.9	6.5	1.9	11.0	12.2
Fiscal balance (% of GDP)	-2.4	-2.2	-1.5	-9.6	-7.2	-5.4	-4.4	-6.0	-7.7
Primary fiscal balance (% of GDP)	1.4	1.4	1.9	-6.1	-3.7	-1.8	-0.9	-2.4	-3.9
Current account balance (% of GDP)	2.6	2.6	3.3	3.8	2.5	0.7	1.4	-0.5	-3.0
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	1.00	1.00	1.50	1.75
3-month interest rate (end of period)	-0.33	-0.31	-0.38	-0.55	-0.57	0.84	0.88	1.32	1.35
10-year interest rate (end of period)	2.00	2.77	1.43	0.52	1.19	3.24	3.26	4.00	5.22
Exchange rate vs. U.S. dollar (end of period)	1.20	1.15	1.12	1.23	1.13	1.05	1.07	1.02	1.01
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	1.2	1.8	2.2	1.2	3.0	3.9	3.9	3.5	0.8
P.S. non-financial lending (% YoY, average)	-3.0	-0.5	-0.7	2.8	0.2	1.3	3.3	-0.7	-8.0
P.S. financial lending (% YoY, average)	-13.2	25.1	-5.8	-10.9	10.6	5.4	0.8	3.9	-1.9
Savings rate (% pers. disp. income, avg.)	9.7	9.6	9.5	17.0	14.3	10.6	9.5	10.4	7.4

Source: MAPFRE Economics (based on ISTAT data)
Forecast end date: July 12, 2022.

Click here to access the interactive version of this information

1.2.6 United Kingdom

Higher cost of living prompts the government to activate more aid for families.

In the United Kingdom, first-quarter GDP grew by 0.8% QoQ (+8.7% YoY). The first quarter of 2021 saw closures due to the pandemic, so the year-on-year analysis is influenced by base effects. On a quarter-on-quarter basis, private consumption grew 0.6% QoQ, government consumption fell -1.7% and investment rose 5.4%. Exports fell 4.9%, and imports (which subtract from GDP) rose 9.3% due to energy price increases.

Activity data for April reveals a downward trend, with industrial production falling month-on-month since February. Consumer confidence (GFK) has been waning for several months (-40 in May). Retail sales rose 1.4% MoM in April but fell 4.9% year-on-year. The purchasing managers' indexes (PMIs) for June were positive, showing a mixed trend with the composite at 53.7 points, services at 54.3, and manufacturing at 52.8, worsening. In this context, our growth estimates are 3.6% for 2022 (one-tenth lower than the forecasts in our previous report) and 1.3% for 2023 (minus three-tenths) due to the higher cost of living, which is now expected to be somewhat longer-lasting (see Table 1.2.6 and Charts 1.2.6-a and 1.2.6-b).

Meanwhile, inflation in May reached 9.1%, with core inflation at 5.9%. Food is up 7.6%, household supplies (including electricity and gas) are up 19.4%, transport 13.8% (flights 21.8%), and hotels and restaurants 7.6%. Inflation is expected to hover above 10% in the last quarter and start to subside in 2023, although the expectation of it going back below the 2% target before the end of 2023 would be optimistic. Everything will largely depend on energy costs, and given the sought-after transition to green energies, which are generally more expensive, and the reduction in investments in fossil energy production, prices seem unlikely to return to their level before the start of the conflict in Ukraine.

- **Inflation stands at 9.1% and should rise above 10% by the end of 2022.**
- **The markets expect official interest rates to stand at 3.0% and 3.5% at the end of the year.**
- **Energy prices are not expected to normalize in the short term.**
- **Consumer confidence is dropping, and PMIs are still in positive territory.**
- **The GDP growth forecast has been adjusted to 3.6% in 2022 and 1.3% in 2023.**

At its June 16 meeting, the Bank of England raised interest rates by 25 bps to 1.25%, a decision based on the need to control inflation. In line with the Committee's decision at its February 2022 meeting to start reducing the stock of UK government bond purchases, the 3.2 billion-pound cash flows associated with the July 2022 gilt amortization would not be reinvested.

On May 26, the Chancellor of the Exchequer announced a 15-billion-pound cost-of-living aid package. This package includes a one-time direct payment of 650 pounds to low-income households, a payment of 300 pounds for pensioners, and a payment of 150 pounds for people on disability benefits. The universal rebate through the En-

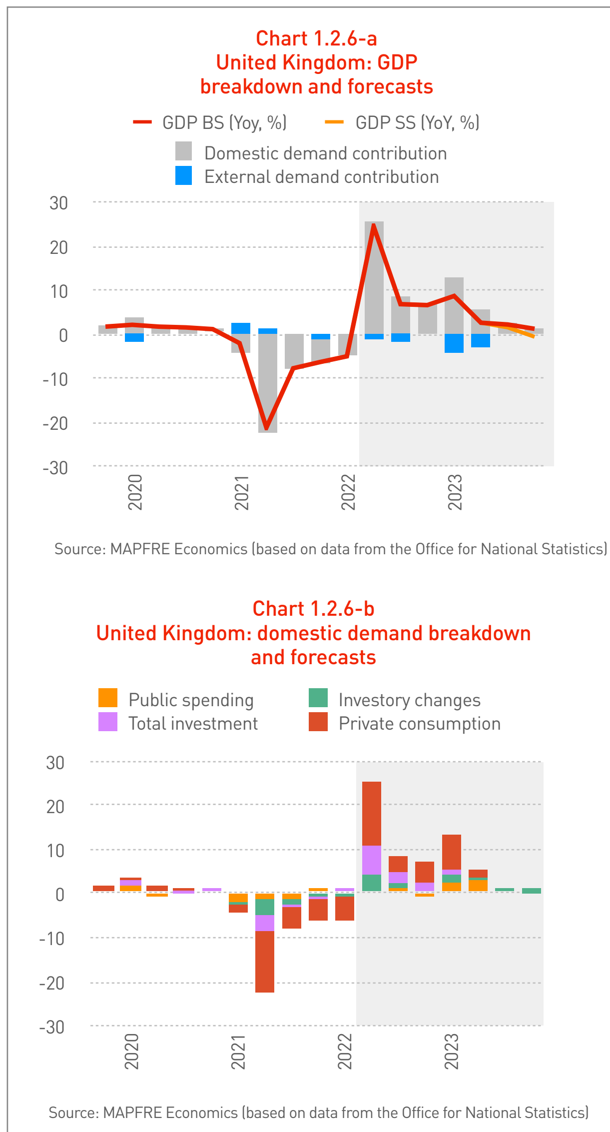


Chart 1.2.6-a
United Kingdom: GDP breakdown and forecasts

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

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

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

Table 1.2.6
United Kingdom: main economic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS)		Stressed (SS)	
						2022(f)	2023(f)	2022(f)	2023(f)
GDP (% YoY)	2.1	1.7	1.7	-9.3	7.4	3.6	1.3	3.0	-1.8
Domestic demand contribution	1.9	0.9	1.9	-9.9	8.1	5.3	-0.1	4.6	-3.4
External demand contribution	0.3	0.8	-0.2	0.6	-0.7	-1.7	1.4	-1.6	1.6
Private consumption contribution	1.0	1.3	0.8	-6.4	3.7	2.3	0.3	1.8	-1.9
Total investment contribution	0.6	0.0	0.1	-1.7	1.0	1.1	0.5	1.0	-0.6
Public spending contribution	0.1	0.1	0.8	-1.2	3.0	0.3	0.6	0.3	0.6
Private consumption (% YoY)	1.6	2.1	1.2	-10.5	6.2	3.7	0.4	2.9	-3.1
Public spending (% YoY)	0.6	0.4	4.2	-5.9	14.3	1.7	2.8	1.7	2.8
Total investment (% YoY)	3.3	-0.1	0.5	-9.5	5.9	6.2	2.6	5.3	-3.4
Exports (% YoY)	5.7	2.8	3.4	-13.0	-1.3	6.3	7.5	6.0	7.0
Imports (% YoY)	2.9	3.1	2.9	-15.8	3.8	11.9	1.4	11.7	-0.2
Unemployment rate (%, last quarter)	4.4	4.0	3.8	5.2	4.0	3.8	3.9	3.4	5.1
Inflation (% YoY, average)	2.7	2.5	1.8	0.9	2.6	8.7	4.5	9.8	9.8
Inflation (% YoY, last quarter)	2.7	2.0	1.3	0.8	4.8	10.1	0.7	13.1	5.2
Fiscal balance (% of GDP)	-2.4	-2.2	-2.3	-12.8	-8.3	-4.8	-2.7	-4.7	-3.4
Primary fiscal balance (% of GDP)	0.4	0.4	0.0	-10.8	-5.5	-0.5	0.7	-0.4	0.1
Current account balance (% of GDP)	-3.6	-3.9	-2.7	-2.5	-2.6	-5.2	-3.3	-5.9	-6.3
Official interest rate (end of period)	0.50	0.75	0.75	0.00	0.25	2.00	2.00	1.75	1.50
3-month interest rate (end of period)	0.52	0.91	0.79	0.03	0.26	2.36	2.24	3.18	2.99
10-year interest rate (end of period)	1.19	1.27	0.83	0.20	0.97	2.60	2.51	3.00	3.40
Exchange rate vs. U.S. dollar (end of period)	1.35	1.28	1.32	1.36	1.35	1.21	1.24	1.16	1.17
Exchange rate vs. euro (end of period)	1.13	1.11	1.18	1.11	1.19	1.15	1.16	1.13	1.15
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	4.0	3.1	2.1	2.9	3.0	3.8	5.5	3.8	5.5
P.S. non-financial lending (% YoY, average)	9.4	2.7	1.6	5.6	-1.5	0.5	2.0	0.5	1.8
P.S. financial lending (% YoY, average)	8.5	5.5	2.2	9.8	-4.0	5.6	4.3	5.8	5.1
Savings rate (% pers. disp. income, avg.)	4.8	4.8	4.6	14.1	10.5	4.9	4.7	4.7	2.9

Source: MAPFRE Economics (based on data from the Office for National Statistics)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

ergy Bills Support Scheme has been doubled, providing an additional 200 pounds to households. It is estimated that these measures will boost GDP by around 0.3% and increase inflation by 0.1 pp in the first year, with some upside risks around these estimates.

The Bank of England's efforts to try to steer inflation to lower levels pose a high risk for economic performance. The bank itself estimates that inflation may be around 11% in the last quarter of the year and that unemployment will gradually rise from the current 3.8%, potentially reaching 5.5% within three years. Because this inflation is not caused by excess demand but by supply restrictions and high energy costs, it will be very difficult to control through monetary policy alone. Fiscal aid to families is necessary to avoid poverty, but it brings the secondary effect of adding fuel to inflation.

1.2.7 Japan

Falling yen and rising import costs weigh on the trade balance and Japanese GDP.

The Japanese economy grew by 0.5% YoY (-0.1% QoQ) in the first quarter of 2022, and private final consumption only increased by 0.2%. Public consumption (-1.5% in the first quarter of 2022), especially investment, has been faltering for two years (-14.7% in the first quarter). Energy costs have caused imports to increase significantly (+13.9%) and exports somewhat less (+4.6%). This is essentially due to the deterioration in the terms of trade, in other words, the price of imports has risen twice as much as that of exports. The trade balance is therefore deteriorating and negative in a country that has always been a net exporter. This is due to not only the fall of the currency since early 2021 but also the effect of the aforementioned terms of trade. The current account balance remains positive (+2.3% of GDP), but it will move in the same direction as the trade balance if the context continues.

Retail sales are still positive compared to a year ago but are slowing down. Car sales, in turn, are dropping (-15.8% in June). Consumer confidence is negative, although the leading indicators point to stability, while the stock markets have factored in a decline (-8% in the year in JPY, -22% in USD). The purchasing managers' indexes (PMIs) for June was 53.0 points for the composite, 52.7 for manufacturing, and 54.0 for services, still in positive territory, indicating that the economic outlook is not entirely negative. As for the Tankan business conditions indexes, both the manufacturing and services indexes have declined, and there is greater concern about the future of small businesses. Within this context, we have adjusted our growth forecast for the Japanese economy downwards, to 1.8% for 2022 and 1.6% for 2023 (see Table 1.2.7 and Charts 1.2. 7-a and 1.2.7-b).

- **Import prices (energy and currency) are rising, affecting the Japanese trade balance.**
- **At the same time, the tightening of financial conditions worldwide may negatively impact the value of the yen.**
- **The economic growth forecasts for 2022 have been adjusted downwards to 1.8%, while those for 2023 stand at 1.6%.**

Meanwhile, inflation reached 2.5% in May, with core inflation at 0.2%, in a country where prices tend to stagnate due to demographic issues. There was an unusual increase in food (+4.1%), while energy (+17.1%) with electricity (+18.6%) and gas

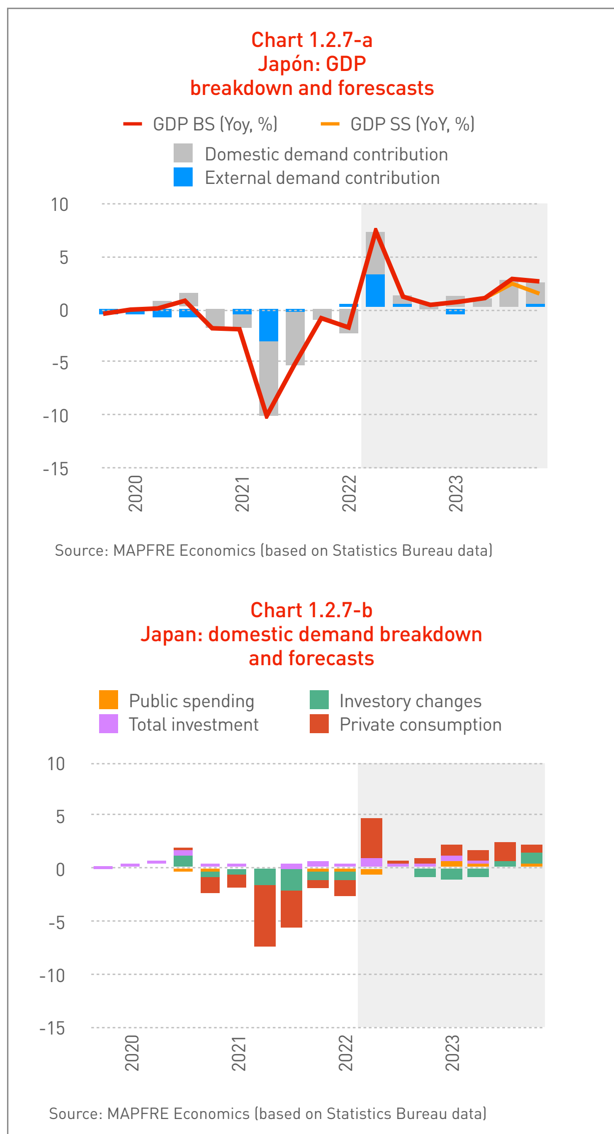


Table 1.2.7
Japan: main macroeconomic aggregates

	2017	2018	2019	2020	2021 (e)	Baseline (BS) 2022 (f)	Baseline (BS) 2023 (f)	Stressed (SS) 2022 (f)	Stressed (SS) 2023 (f)
GDP (% YoY)	1.7	0.6	-0.2	-4.6	1.7	1.8	1.6	1.4	0.4
Domestic demand contribution	1.2	0.5	0.2	-3.8	0.7	1.7	1.4	1.3	0.3
External demand contribution	0.5	0.0	-0.5	-0.8	1.1	0.1	0.2	0.1	0.0
Private consumption contribution	0.6	0.1	-0.3	-2.8	0.7	1.2	0.5	1.0	0.0
Total investment contribution	0.4	0.1	0.2	-1.2	-0.3	-0.2	1.6	-0.3	0.6
Public spending contribution	0.0	0.2	0.4	0.5	0.5	0.2	-0.1	0.2	-0.1
Private consumption (% YoY)	1.1	0.2	-0.5	-5.2	1.3	2.2	0.9	1.8	0.0
Public spending (% YoY)	0.1	1.0	1.9	2.3	2.1	1.1	-0.3	1.1	-0.3
Total investment (% YoY)	1.7	0.3	1.0	-4.7	-1.4	-0.7	4.3	-1.2	2.6
Exports (% YoY)	6.6	3.8	-1.4	-11.8	12.0	4.2	4.1	3.7	3.1
Imports (% YoY)	3.3	3.8	1.1	-6.9	5.1	3.9	3.1	3.6	2.7
Unemployment rate (%, last quarter)	2.7	2.4	2.3	3.0	2.7	2.6	2.5	2.4	2.9
Inflation (% YoY, average)	0.5	1.0	0.5	0.0	-0.2	2.1	0.3	2.3	2.8
Inflation (% YoY, last quarter)	0.6	0.9	0.5	-0.9	0.5	2.4	-0.8	3.2	1.8
Fiscal balance (% of GDP)	-3.1	-2.5	-3.0	-9.0	-6.7	-7.1	-4.9	-7.2	-5.6
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	4.2	3.5	3.4	2.9	2.9	1.4	2.7	1.1	0.5
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	-0.25	-0.50	-0.25	0.25
3-month interest rate (end of period)	0.07	0.07	0.07	0.08	0.07	-0.17	-0.38	-0.22	0.34
10-year interest rate (end of period)	0.05	0.01	-0.02	0.04	0.09	0.13	-0.12	0.22	0.34
Exchange rate vs. U.S. dollar (end of period)	112.90	110.83	109.12	103.54	115.00	128.33	115.60	132.38	120.18
Exchange rate vs. euro (end of period)	135.40	126.90	122.59	127.05	130.25	134.68	123.90	134.51	121.82
Private lending (% YoY, average)	4.2	2.5	1.7	5.3	3.0	1.7	0.6	1.4	-1.0
Household lending (% YoY, average)	2.2	2.5	2.3	2.4	2.4	1.0	0.6	0.9	-0.4
P.S. non-financial lending (% YoY, average)	2.4	2.3	3.4	8.1	3.6	-0.7	-1.0	-0.7	-1.1
P.S. financial lending (% YoY, average)	8.0	6.3	2.9	17.0	7.1	-5.0	-6.0	-5.0	-6.0
Savings rate (% pers. disp. income, avg.)	1.6	1.8	3.2	12.1	7.0	2.3	2.6	2.6	1.2

Source: MAPFRE Economics (based on Statistics Bureau data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

(+17%) followed the trend in the rest of the world. Against this backdrop, the Bank of Japan held interest rates negative at -0.10% at its June 17 meeting.

Currently, the main risks for the Japanese economy are those related to the tightening of monetary conditions around the world, which are weighing on the yen. Japan has been avoiding recessions through monetary stimulus mechanisms, and now the knock-on effect of those policies will impact its currency. The cost of imports will weigh on its GDP, and it is also foreseeable that private investment will deteriorate. While the impact of inflation on private consumption remains moderate, it will end up affecting it.

1.2.8 Turkey

Better-than-expected growth and relatively low interest rates, but macroeconomic imbalances are accumulating.

Turkey grew by 7.3% YoY in the first quarter of 2022, significantly exceeding our estimate (4.6% in the previous quarter). This was due to the strong performance of private consumption and exports. However, investment is stagnant against a backdrop of high inflation and great uncertainty regarding the economy's trends. The purchasing managers' index (PMI) for June (48.1) indicates lower purchasing intentions for the coming months. The services survey (+19% in May) and the retail trade survey (+14.7%) reflect more optimism.

Because of a more positive start to the year than expected, and the fact that real interest rates are largely negative, including on home and car loans, consumption is expected to remain flat this year. We have therefore revised our growth estimate to 3.0% for 2022, from 2.0% in our previous report, and to 2.7% for 2023, from 2.5% (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b).

Inflation reached 78.6% in June; by categories (May): food (+91.2%), housing (+63.5%), restaurants and hotels (+76.8%), transport (+106%) and fuel (+208%). With the exchange rate at 17.3 TRY/USD, the Turkish lira has lost half its value in a year. Core inflation (57.3%) and producer prices (138%) show that the upward trend will continue for some time.

- **Growth in the first quarter of 2022 was better than expected, based on the strong momentum of consumption and exports.**
- **However, a slowdown is foreseeable in the second half of the year.**
- **Inflation reached record levels of 78.6% in June.**
- **Given the circumstances, the Turkish currency can only continue to depreciate, and the repayment of external obligations in dollars will become increasingly difficult.**

The Turkish Central Bank (BCRT) kept interest rates (1-week Repo) at 14.00% at its June meeting. This position is not helping to combat inflation. Due to recent data, the BCRT is not expected to adopt an orthodox monetary approach before 2023 since it does not want to start the year in a recession after raising interest rates as would be necessary to reduce inflation. We therefore expect average inflation in the last quarter to be around 69.7% YoY, far above the Central Bank's forecast of below 50% YoY. Meanwhile, the current account balance stood at -3.0% in the first quarter of the year due to a very marked deterioration in the terms of trade (the

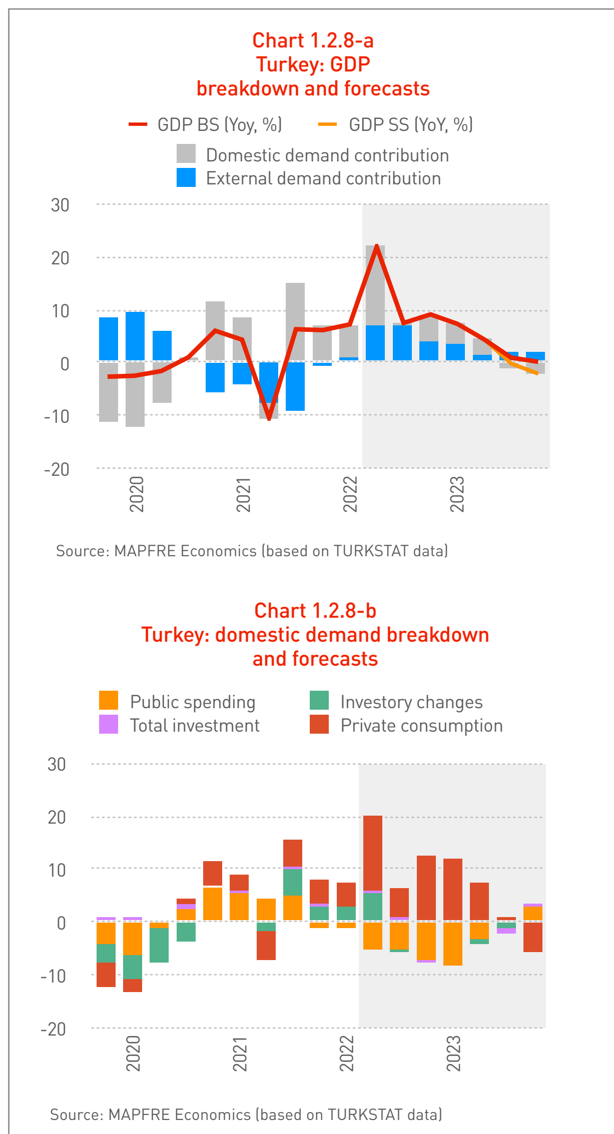


Table 1.2.8
Turkey: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	7.5	3.0	0.9	1.8	11.0	3.0	2.7	2.0	-2.2
Domestic demand contribution	7.2	-0.6	-1.4	7.5	5.9	0.8	1.7	-0.3	-3.4
External demand contribution	0.3	3.5	2.3	-5.7	5.1	2.2	1.0	2.3	1.2
Private consumption contribution	3.5	0.3	0.9	1.9	9.3	3.1	-1.0	2.4	-3.5
Total investment contribution	2.4	-0.1	-3.1	1.9	1.6	-0.5	0.1	-0.8	-1.6
Public spending contribution	0.7	0.9	0.6	0.3	0.3	0.0	0.5	0.0	0.5
Private consumption (% YoY)	5.9	0.6	1.5	3.2	15.1	4.9	2.0	3.7	-5.8
Public spending (% YoY)	5.0	6.5	4.1	2.2	2.1	-0.4	3.2	-0.4	3.8
Total investment (% YoY)	8.3	-0.2	-12.4	7.2	6.4	-2.2	0.5	-3.3	-6.9
Exports (% YoY)	12.4	8.8	4.6	-14.8	24.9	8.3	6.0	7.8	4.3
Imports (% YoY)	10.6	-6.2	-5.4	7.6	2.0	-1.2	3.0	-2.1	-0.9
Unemployment rate (%, last quarter)	10.3	12.3	13.3	12.9	11.0	11.5	10.6	11.7	12.2
Inflation (% YoY, average)	11.1	16.3	15.2	12.3	19.6	69.7	29.3	72.9	35.9
Inflation (% YoY, last quarter)	11.9	20.3	11.8	14.6	36.1	71.5	23.8	78.4	29.0
Fiscal balance (% of GDP)	-1.6	-1.9	-2.9	-3.5	-2.7	-1.5	-1.5	-1.0	-1.0
Primary fiscal balance (% of GDP)	0.2	0.0	-0.6	-0.8	-0.2	0.8	0.4	1.4	1.0
Current account balance (% of GDP)	-4.8	-2.8	0.7	-5.0	-1.7	-6.4	-2.0	-9.6	-9.8
Official interest rate (end of period)	12.75	24.00	11.50	17.00	14.00	14.75	14.50	15.50	15.75
3-month interest rate (end of period)	14.61	24.07	10.76	17.53	15.63	16.37	15.78	16.79	17.33
10-year interest rate (end of period)	11.72	16.53	11.95	12.51	22.99	20.59	16.92	21.16	18.44
Exchange rate vs. U.S. dollar (end of period)	3.79	5.29	5.95	7.44	13.32	17.61	18.13	20.48	18.84
Exchange rate vs. euro (end of period)	4.55	6.06	6.68	9.11	15.23	18.49	19.44	19.75	20.10
Private lending (% YoY, average)	20.9	20.2	8.4	30.1	23.9	42.5	16.7	43.8	14.3
Household lending (% YoY, average)	17.5	9.8	3.3	41.8	20.3	21.9	12.9	21.9	9.8
P.S. non-financial lending (% YoY, average)	21.8	18.2	5.5	29.0	23.2	26.1	18.9	24.3	8.9
P.S. financial lending (% YoY, average)	27.2	25.1	18.3	21.2	30.9	77.4	23.3	72.7	16.1
Savings rate (% pers. disp. income, avg.)	32.3	32.0	30.4	21.0	23.0	11.1	11.2	10.4	7.5

Source: MAPFRE Economics (based on TURKSTAT data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

prices of imports rose much more than the price of exports). Similarly, international currency reserves have fallen by 30% since the beginning of the year.

Turkey will have trouble attracting foreign investment in an international context of reduced liquidity, rising interest rates and risk aversion. Making deposits in lira, but at a fixed rate with the U.S. dollar, will continue to consume the central bank's dollar reserves. Exporters' obligation to transfer part of their foreign currency to the central bank is not doing enough to compensate for the fall in reserves. The combination of low interest rates and high inflation will continue causing the currency to depreciate. On the positive side, the upside growth is surprising, and Turkey's neutrality with respect to EU sanctions on Russia may work in its favor.

1.2.9 Mexico

Balancing the effects: boosted by consumption and exports, held back by high interest rates and inflation

The Mexican economy grew by 1.8% YoY (+1.0% QoQ) in the year's first quarter, slightly exceeding the consensus of analysts' expectations. This was due to a recovery in industrial production (+2.5%), favored by a slight improvement in supply chains, and retail sales, which performed well up until April (+4.5%), except the food segment, which was already starting to be impacted by price increases.

Looking ahead to the following quarters, factory orders have fallen to 52 (-2.8% MoM) and business confidence (51.9) remains positive but shows a downward trend. The purchasing managers' index (PMI) for manufacturing in June recovered to 52.2 points from 50.6 points. Retail sales are holding up, although persistent inflation may imply a slowdown. Meanwhile, car sales have been falling (-5% in the quarter) for six years and are 20% below 2019 levels. Within this context, we are maintaining our estimate for GDP growth of 1.6% YoY in 2022 and 1.9% in 2023 (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

Inflation has been trending upward since 2020, coinciding with the supply shock generated by the closures during the pandemic. It stood at 8.0% in June, with core inflation at 7.5%. Food rose 12%, other goods 7.8%, services 4.7%, and energy 6.3%. Rising inflation is beginning to be transferred to the increase in salaries, which rose 8.2% YoY in May. The Bank of Mexico raised official interest rates by 75 bps, to 7.75%, at its June meeting and expressed its intention to act decisively in future meetings if required.

- **Economic activity in the first quarter of the year was marginally better than expected.**
- **Exports have benefited from the high price of oil.**
- **The Mexican economy stands to benefit from the supply chains being brought closer to the United States.**
- **The growing trend of inflation is forcing the Bank of Mexico to continue raising interest rates.**
- **GDP is projected to grow 1.6% in 2022 and 1.9% in 2023.**

Like other countries, Mexico faces risks to economic growth stemming from its high inflation rates, which have been consolidating for some time, being transferred from energy to many other products.

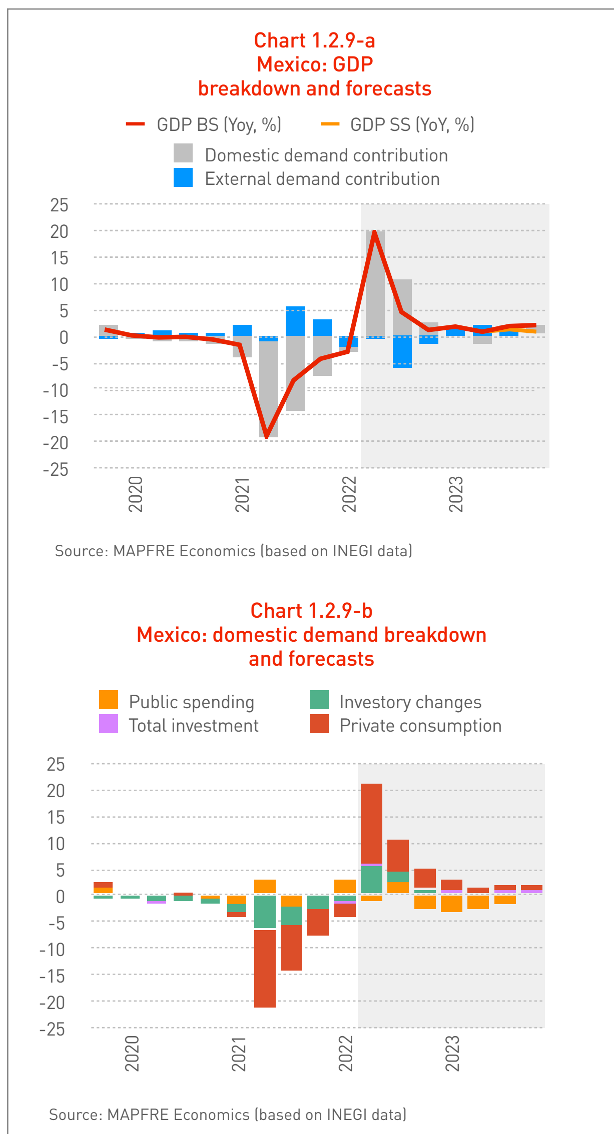


Table 1.2.9
Mexico: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	2.3	2.2	-0.2	-8.3	5.0	1.6	1.9	1.2	0.7
Domestic demand contribution	3.3	2.4	-1.0	-10.5	7.6	0.3	1.5	-0.4	0.4
External demand contribution	-0.9	-0.2	0.8	2.3	-2.6	1.3	0.4	1.6	0.4
Private consumption contribution	2.3	1.7	0.2	-7.0	5.2	1.3	0.9	0.7	0.3
Total investment contribution	-0.2	0.2	-0.9	-3.1	1.8	0.6	0.4	0.4	0.0
Public spending contribution	0.1	0.3	-0.2	0.0	0.1	0.3	0.3	0.3	0.3
Private consumption (% YoY)	3.4	2.6	0.4	-10.7	7.6	1.9	1.4	1.1	0.5
Public spending (% YoY)	0.7	2.9	-1.8	0.1	0.9	2.5	2.3	2.6	2.3
Total investment (% YoY)	-1.1	0.8	-4.7	-17.9	10.1	3.1	2.1	2.4	0.0
Exports (% YoY)	4.1	5.9	1.5	-7.2	6.8	8.5	3.7	8.3	2.2
Imports (% YoY)	6.8	6.4	-0.7	-14.1	14.2	5.2	2.9	4.1	1.3
Unemployment rate (%, last quarter)	3.3	3.3	3.4	4.5	3.7	3.8	4.0	3.5	4.6
Inflation (% YoY, average)	6.0	4.9	3.6	3.4	5.7	7.3	4.5	7.4	6.2
Inflation (% YoY, last quarter)	6.8	4.8	2.8	3.2	7.4	6.8	4.0	7.2	6.3
Fiscal balance (% of GDP)	-1.1	-2.0	-1.7	-2.8	-2.9	-3.0	-2.7	-3.1	-2.9
Primary fiscal balance (% of GDP)	1.4	0.6	1.1	0.1	-0.3	-0.4	-0.2	-0.5	-0.3
Current account balance (% of GDP)	-1.7	-2.0	-0.3	2.5	-0.4	0.0	0.3	0.1	0.2
Official interest rate (end of period)	7.25	8.25	7.25	4.25	5.50	9.00	9.00	10.00	10.50
3-month interest rate (end of period)	7.66	8.63	7.45	4.47	5.86	9.25	9.25	10.22	10.78
10-year interest rate (end of period)	7.66	8.70	6.84	5.23	7.57	8.82	8.19	9.20	9.18
Exchange rate vs. U.S. dollar (end of period)	19.67	19.65	18.93	19.88	20.50	20.74	21.14	22.48	21.77
Exchange rate vs. euro (end of period)	23.59	22.50	21.26	24.40	23.22	21.76	22.66	22.84	22.06
Private lending (% YoY, average)	12.1	10.4	8.9	5.2	-1.0	9.9	6.3	9.3	5.4
Household lending (% YoY, average)	9.9	8.4	6.2	1.6	4.4	6.7	5.2	6.5	3.9
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	1.7	-0.8	6.2	3.7	18.3	13.4	11.7	13.0	12.3
Savings rate (% pers. disp. income, avg.)	10.7	12.3	16.4	22.2	22.7	20.3	17.6	20.8	17.5

Source: MAPFRE Economics (based on INEGI data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

The interest rate hikes, necessary to control the rise in prices and currency stability, should aggravate the downturn of the economy, which was already noticeable as a consequence of weak consumption and, above all, investment. On the positive side, Mexico is an oil producer, which should partly benefit its trade balance. In turn, the Mexican economy stands to benefit from the "friend-shoring" trend, which involves bringing the manufacture of key inputs closer to home, to reliable countries, to reduce risks for supply chains. In this sense, the United States could again encourage investment in Mexican manufacturing to the detriment of Asia.

1.2.10 Brazil

Economic slowdown in the second half of the year due to rising inflation and higher official interest rates.

The Brazilian economy grew by 1.7% YoY (+1.0% QoQ) in the first quarter of 2022, somewhat less than expected (2.1% YoY; 1.2% QoQ). A year ago, we predicted growth of 2.2% in 2022, and now we expect that figure to be significantly lower. However, we believe that consumption, which grew by 2.2% in the first quarter, and exports, which rose by 8.2%, boosted by higher raw material prices, are performing well considering the circumstances.

Some measures of activity continue to offer positive surprises, such as retail sales, which are slowing down but remain strong (+4.5% YoY in April, +0.9% MoM). This effect may be due to demand that could not be met during the pandemic, causing savings to accumulate. On the other hand, industry is already showing a decrease in production (-0.5% in April). The industry confidence indicator is negative and got worse in June (-6.8). The purchasing managers' indexes (PMIs) for June are positive, with the composite at 59.4 points, manufacturing at 54.1, and services improving two points to 60.8.

Due to these factors, we have adjusted our growth forecast for 2022 to 1.1%, compared to 0.7% in our previous report, after a better-than-expected first half. Although some deceleration is expected in the second half of the year. For 2023 we anticipate GDP growth of 1.0%, which will depend on the trends in domestic inflation and the prices of raw materials in international markets (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b).

- **Inflation rose to 11.7% in May, with pressure on food and fuel.**
- **The central bank started the rate hike cycle early, and interest rates are now at 13.25%.**
- **Retail sales are still holding up, but industry is slowing down.**
- **Brazil's GDP growth estimate has been adjusted upwards to 1.1% in 2022 and 1.0% in 2023.**

Inflation reached 11.7% YoY in May (0.47% MoM, general IPCA), moderating slightly from 12.1% in April. The most impacted items are automotive fuels (+29%, +52% for diesel), gas (+30%) and food, rising 13.5% (16.3% for groceries). Inflation could move upwards in the future, especially since fuel prices are still low compared to the international markets; however, it could also benefit from the government's announcement that it will reduce some taxes. The high prices of oil and other raw materials are favoring exports. However, on the other hand, Brazil is a net importer of refined fuels due to limited its refining capacity. We believe that price containment in 2022 through

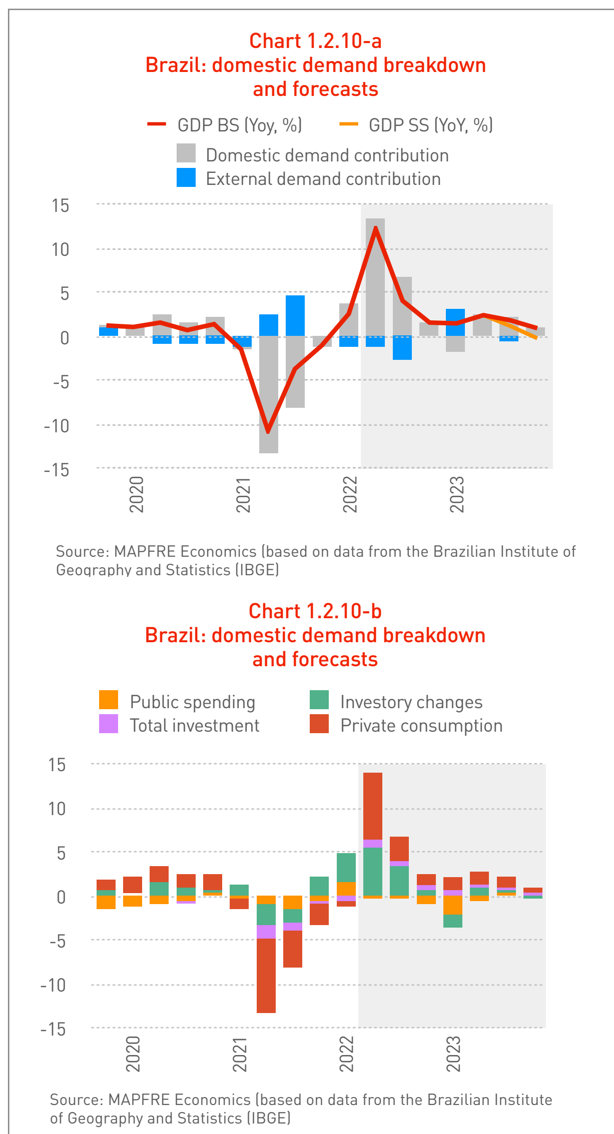


Chart 1.2.10-a
Brazil: domestic demand breakdown and forecasts

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

Table 1.2.10
Brazil: main macroeconomic aggregates

	2017	2018	2019	2020	2021 (e)	Baseline (BS) 2022 (f)	Baseline (BS) 2023 (f)	Stressed (SS) 2022 (f)	Stressed (SS) 2023 (f)
GDP (% YoY)	1.6	1.7	1.2	-4.2	4.9	1.1	1.0	0.8	0.4
Domestic demand contribution	2.1	2.4	1.8	-5.6	6.3	0.6	1.5	0.3	1.0
External demand contribution	-0.4	-0.7	-0.6	1.4	-1.3	0.5	-0.5	0.5	-0.7
Private consumption contribution	1.5	1.6	1.8	-4.0	2.7	1.3	0.8	0.6	0.4
Total investment contribution	-0.4	0.9	0.7	-0.1	3.5	-0.1	-0.2	-0.3	-0.3
Public spending contribution	-0.1	0.1	-0.1	-0.8	0.3	0.3	0.0	0.2	0.0
Private consumption (% YoY)	2.2	2.3	2.6	-5.8	3.9	1.2	1.1	1.3	0.5
Public spending (% YoY)	-0.7	0.8	-0.5	-4.5	2.0	1.0	0.3	2.0	0.3
Total investment (% YoY)	-2.6	5.2	4.0	-0.5	17.3	-0.6	-1.0	-1.3	-1.4
Exports (% YoY)	5.2	3.4	-2.5	-2.1	6.3	4.5	-0.2	4.2	-1.0
Imports (% YoY)	7.3	6.9	1.3	-10.3	13.0	0.0	3.2	-0.7	2.5
Unemployment rate (%, last quarter)	11.9	11.7	11.1	14.2	11.1	10.1	9.5	10.4	10.5
Inflation (% YoY, average)	3.4	3.7	3.7	3.2	8.3	11.0	7.5	11.9	11.8
Inflation (% YoY, last quarter)	2.9	3.7	4.3	4.5	10.1	10.1	5.6	12.4	8.9
Fiscal balance (% of GDP)	-7.8	-7.0	-5.8	-13.6	-4.4	-4.7	-6.9	-4.6	-6.4
Primary fiscal balance (% of GDP)	-1.7	-1.5	-0.8	-9.4	0.7	0.8	-0.8	0.8	-0.6
Current account balance (% of GDP)	-1.1	-2.7	-3.5	-1.7	-1.7	-0.9	-2.1	-0.4	1.0
Official interest rate (end of period)	7.00	6.50	4.50	2.00	9.25	14.50	13.00	16.50	16.25
3-month interest rate (end of period)	6.90	6.40	4.40	1.90	9.15	14.39	12.82	16.49	16.07
10-year interest rate (end of period)	10.21	9.24	6.81	6.98	10.31	13.59	12.25	14.18	13.55
Exchange rate vs. U.S. dollar (end of period)	3.31	3.87	4.03	5.20	5.58	5.11	5.23	5.73	5.19
Exchange rate vs. euro (end of period)	3.97	4.44	4.53	6.38	6.32	5.36	5.61	5.83	5.26
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	4.7	7.0	10.8	10.1	17.7	13.7	8.9	13.7	8.9
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	17.4	16.4	15.8	19.0	22.3	18.3	16.6	18.4	15.1

Source: MAPFRE Economics (based on data from the Brazilian Institute of Geography and Statistics - IBGE)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

government aid is causing the year's inflation to be underestimated to the detriment of 2023.

The central bank (BCB) raised SELIC interest rates by 50 bps, to 13.25%, at its June meeting. The BCB was one of the first to start the cycle of rate hikes, and easing inflation would allow the next increases to be only 25 bps. Meanwhile, monetary policy will have a delayed effect, and for now, it is not limiting inflation due to the global impact of constricted supply. Therefore, an excessive tightening of monetary policy could further aggravate the slowdown.

Regarding risks for the Brazilian economy, inflation is aggravating the risks of economic deceleration and currency depreciation. The planned tax cuts and ongoing aid to combat inflation will continue to put pressure on the public deficit and debt. Presidential elections will be held on October 2, with the polls pointing to a return of Lula da Silva with 41% voter intention against 35% for Bolsonaro.

1.2.11 Argentina

Moving forward on its commitments to the IMF in an increasingly complex context.

The Argentine economy grew by 6.0% YoY (+0.9% QoQ) in the first quarter of the year, with consumption growing by 10.4%, public consumption by 7.4%, exports by 9.4%, and investment by 11.9%, while imports (deducted from the calculation) soared by 28.3%. Within this context, we have adjusted our GDP growth forecast for 2022 to 2.8% (from 3.0%) due to the impact of inflation on the slowdown in activity. In fact, the economy is expected to contract in the final two quarters of the year, which could mean a future recession. Still, we estimate that consumption will grow 6% on average for the year, but it will clearly drop off (see Table 1.2.11 and Charts 1.2.11-a and 1.2.11-b).

Argentina has a serious inflation problem. Although we are currently witnessing a global inflationary process, Argentina has its own unique characteristics. These include the financing of the public deficit by the central bank and the fact that, since inflation is the norm in the country, the mechanisms for revising prices and salaries are very streamlined. The government has been capping energy prices, but its deficit target commitments to the International Monetary Fund (IMF) will force it to raise those limits.

- **We have adjusted our GDP growth forecast downwards to 2.8% for 2022, and a recession is foreseeable in the last part of the year.**
- **With inflation on the rise, the government will have to adjust managed prices.**
- **The currency will continue to depreciate, following a less-than-reassuring path.**
- **In general, there are increased risks due to the internal and external inflationary context.**

Inflation stood at 60.7% in May, rising from 58% in April. The increase in prices is being seen across all segments, including food, clothing, transportation, leisure, and culture. In the meantime, the government has been trying to mitigate inflation by controlling the prices of electricity and gas (+41.8%) and communications (+37.4%), which have risen less. According to the monthly survey of expectations conducted by the central bank in May, inflation in 2022 will be around 72.6% (9.4 points above the April survey), with core inflation at 72.8%. Our estimate for 2022 has also been revised upwards due

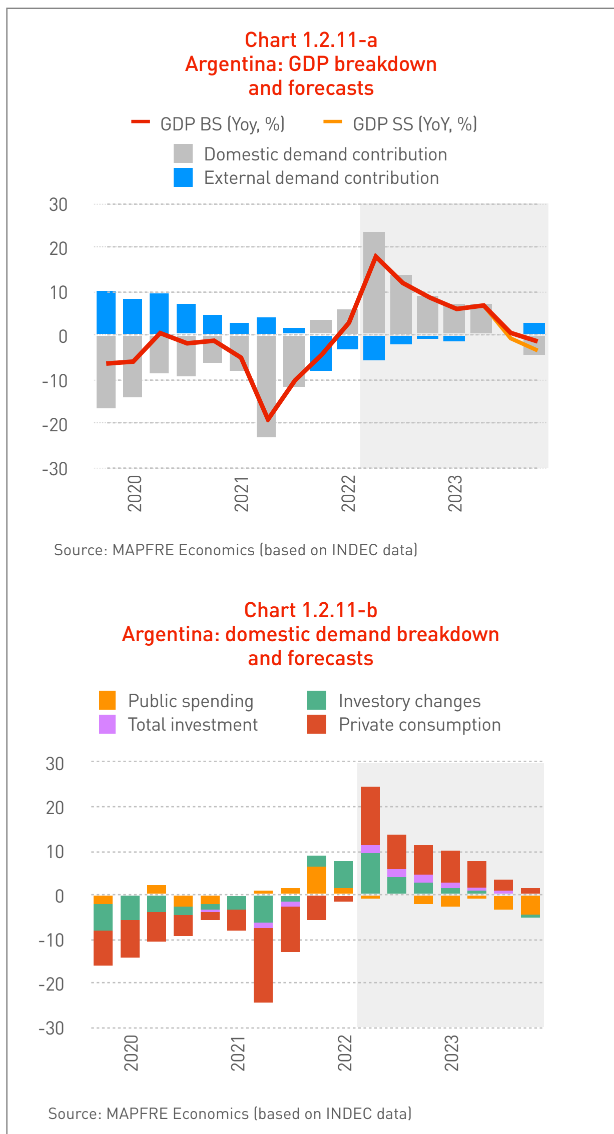


Chart 1.2.11-a
Argentina: GDP breakdown and forecasts

Source: MAPFRE Economics (based on INDEC data)

Chart 1.2.11-b
Argentina: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on INDEC data)

Table 1.2.11
Argentina: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2017	2018	2019	2020	2021(e)	2022(f)	2023(f)	2022(f)	2023(f)
GDP (% YoY)	2.8	-2.6	-2.0	-9.9	10.3	2.8	0.8	2.2	-1.5
Domestic demand contribution	6.6	-4.0	-8.8	-10.2	13.4	2.3	-0.6	1.5	-3.1
External demand contribution	-3.8	1.4	6.8	0.3	-3.1	0.5	1.4	0.7	1.7
Private consumption contribution	3.1	-1.7	-5.1	-9.3	6.8	4.4	0.9	3.6	-0.5
Total investment contribution	2.8	-1.2	-2.7	-2.2	6.6	0.4	-2.3	0.1	-2.7
Public spending contribution	0.4	-0.3	-0.2	-0.5	1.1	0.7	0.0	0.8	0.0
Private consumption (% YoY)	4.2	-2.2	-7.3	-13.8	10.2	5.3	1.3	5.3	-0.7
Public spending (% YoY)	2.6	-1.9	-1.2	-3.3	7.8	5.1	0.0	5.1	0.0
Total investment (% YoY)	13.4	-5.7	-15.9	-12.9	32.9	2.1	-13.2	0.6	-16.0
Exports (% YoY)	2.6	0.6	9.1	-17.3	9.0	2.8	1.2	2.4	0.3
Imports (% YoY)	15.6	-4.5	-19.0	-17.9	21.5	0.4	-4.8	-0.6	-7.1
Unemployment rate (%, last quarter)	7.2	9.1	8.9	11.0	7.0	8.2	7.7	8.5	8.5
Inflation (% YoY, average)	24.8	34.3	53.5	42.0	48.4	62.0	43.5	64.0	50.5
Inflation (% YoY, last quarter)	23.3	47.4	52.2	36.4	51.4	66.5	34.6	71.3	39.9
Fiscal balance (% of GDP)	-5.9	-4.9	-3.8	-8.3	-3.6	-4.3	-3.8	-4.3	-3.6
Primary fiscal balance (% of GDP)	-3.8	-2.3	-0.4	-6.4	-2.1	-2.7	-2.1	-2.6	-2.0
Current account balance (% of GDP)	-4.8	-4.9	-0.8	0.9	1.4	1.7	0.3	1.7	0.9
Official interest rate (end of period)	28.75	59.25	55.00	38.00	38.00	69.25	50.00	68.75	52.25
3-month interest rate (end of period)	27.44	56.76	45.13	29.55	31.49	67.30	48.00	66.00	50.26
10-year interest rate (end of period)	5.91	10.86	19.36	14.61	18.40	17.82	16.45	18.29	17.09
Exchange rate vs. U.S. dollar (end of period)	18.65	37.70	59.89	84.15	102.72	163.43	218.17	189.12	227.88
Exchange rate vs. euro (end of period)	22.37	43.17	67.28	103.26	116.34	171.52	233.84	192.24	231.06
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: MAPFRE Economics (based on PSA data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

to the latest data published and because the government has reduced energy subsidies.

At its June meeting, the Central Bank raised the 28-day LELIQ reference rate by 300 bps from 49% to 52%. The M3 monetary base grew at an annual rate of 52% (June), the currency continues to depreciate, and the yield curve shows a path that is anything but reassuring. Within this context, the Argentine peso has already surpassed the threshold of 126 pesos/USD.

The risks for the Argentine economy are varied: runaway inflation, currency devaluation, and potential deviations from the plan established with the IMF. Unless the government manages to meet and exceed the expectations set out in the plan, the internal and external climate is unfavorable for now. We therefore expect Argentina to enter a recession towards the end of the second half, with a slowdown in 2023 compared to 2022.

1.2.12 China

A declining economy and heightened risks for the real estate and financial sectors.

The Chinese economy grew by 4.8% YoY in the first quarter (+0.3 QoQ), a slowdown that was even more evident in the second quarter, when it fell 2.6% QoQ, due largely to the lockdowns in Shanghai in April and May. Similarly, retail sales fell 6.7% in May. Industrial production partially recovered in May (+0.8% YoY) after dropping in April (-2.9%). Exports grew by 15.3%, while private consumption, which performed well in the first quarter (+5.8%), should show a decline in the second (-4%) because of closures due to the pandemic. Private consumption is therefore expected to grow by 1.2% in the year.

Consumer confidence has hit a 30-year low (86.8) due to the harshness of the lockdowns. Car sales fell 1% in May and 47% in April. Activity should resume in June, once the lockdowns in one of the world's most industrial regions are over, but production and delivery delays will be reflected in the global supply chains for months. Purchasing managers' indexes (PMIs) for June returned to the expansion zone after contracting in May: the composite at 55.3 points; manufacturing at 51.7, and services at 54.5. Under these circumstances, we expect China's GDP to grow by 4.0% in 2022 (down eight-tenths from 4.8%), but we maintain our forecast of 5.1% for 2023 (see Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

- **The lockdowns in Shanghai due to COVID-19 will have repercussions on global production and trade chains**
- **The central bank has lowered the reserve requirements for banks and injected liquidity, a sign of tension. • Inflation is lower than in the West but will be driven by pressures in energy, raw materials, and the supply shock from the Shanghai lockdowns.**
- **Chinese GDP is projected to grow 4.0% in 2022, down from our previous forecast of 4.8%.**

Meanwhile, inflation remained stable at 2.1% in May. The most stressed item is fuel (+27%). Inflation is now expected to remain stable until the end of the year (+2.2%); core inflation (excluding

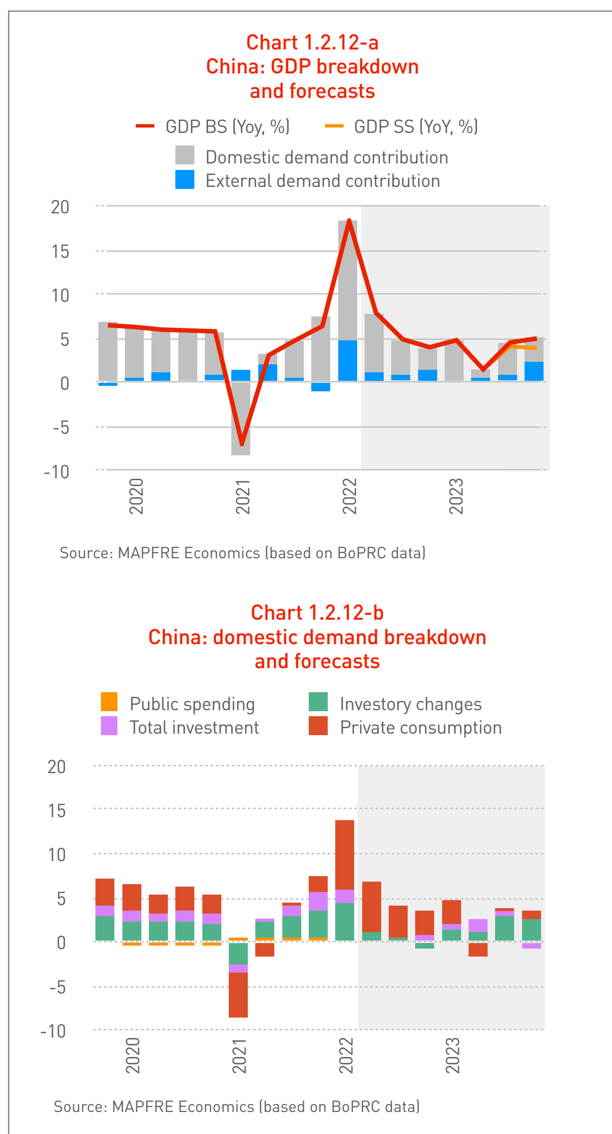


Chart 1.2.12-a
China: GDP breakdown and forecasts

Source: MAPFRE Economics (based on BoPRC data)

Chart 1.2.12-b
China: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on BoPRC data)

Table 1.2.12
China: main economic aggregates

	2017	2018	2019	2020	2021 (e)	Baseline (BS) 2022 (f)	Baseline (BS) 2023 (f)	Stressed (SS) 2022 (f)	Stressed (SS) 2023 (f)
GDP (% YoY)	6.9	6.7	6.0	2.2	8.1	4.0	5.1	3.6	3.6
Domestic demand contribution	6.7	7.4	5.2	1.6	6.1	2.9	5.7	2.5	4.0
External demand contribution	0.2	-0.6	0.7	0.7	2.0	1.1	-0.6	1.0	-0.5
Private consumption contribution	3.7	3.2	2.5	-0.9	5.0	0.5	3.3	0.3	2.7
Total investment contribution	2.6	3.1	2.2	1.3	1.1	2.0	1.9	1.8	0.9
Public spending contribution	0.3	1.2	1.1	0.8	0.5	0.6	0.6	0.6	0.6
Private consumption (% YoY)	9.4	8.1	6.3	-2.4	12.6	1.3	8.2	0.8	6.7
Public spending (% YoY)	2.0	7.1	6.6	4.6	2.9	3.5	3.9	3.5	3.9
Total investment (% YoY)	6.2	7.3	5.1	3.1	2.6	4.8	4.7	4.3	2.1
Exports (% YoY)	6.7	4.4	2.3	1.7	18.2	2.2	1.1	1.8	0.2
Imports (% YoY)	7.8	6.5	-0.7	-2.2	6.6	0.3	6.6	-0.1	4.3
Unemployment rate (%, last quarter)	2.9	2.9	3.1	3.5	3.2	3.5	3.3	3.5	3.8
Inflation (% YoY, average)	1.5	2.1	2.9	2.5	0.9	2.2	2.3	2.5	5.3
Inflation (% YoY, last quarter)	1.8	2.2	4.3	0.1	1.8	2.7	2.1	3.6	5.6
Fiscal balance (% of GDP)	-4.8	-4.7	-5.6	-8.6	-5.2	-7.3	-5.8	-7.4	-6.1
Primary fiscal balance (% of GDP)	-1.8	-1.5	-2.2	-4.7	-1.5	-3.9	-2.5	-4.0	-2.8
Current account balance (% of GDP)	1.5	0.2	0.7	1.7	1.8	1.2	0.7	1.1	0.4
Official interest rate (end of period)	3.25	3.25	3.25	3.00	3.00	2.75	2.75	3.00	3.25
3-month interest rate (end of period)	5.53	3.70	3.20	3.03	2.73	2.36	2.50	2.50	3.05
10-year interest rate (end of period)	3.88	3.23	3.14	3.14	2.78	2.85	3.67	2.89	3.99
Exchange rate vs. U.S. dollar (end of period)	6.51	6.88	6.99	6.52	6.35	6.70	6.47	7.05	6.64
Exchange rate vs. euro (end of period)	7.80	7.87	7.85	8.00	7.19	7.04	6.94	7.16	6.74
Private lending (% YoY, average)	13.1	12.9	13.1	13.1	12.3	11.7	11.1	11.6	10.3
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	29.5	28.8	29.0	32.9	30.2	31.9	30.0	32.0	29.1

Source: MAPFRE Economics (based on PSA data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

energy and food) is at 0.9%, and producer prices are at 6.4% as of May versus 8.0% in April.

Monetary policy is controlled through different instruments, but the main benchmark is the level of reserves required of banks, which the Central Bank lowered at its April 15th meeting by 25 bps to 11.25%. The 7-day Reverse Repo rates stand at 1.55%, the deposit rate at 1.5% and the loan rate at 4.35%. The bank continues to inject liquidity into the banking system (10 billion yuan, an additional 1.5 billion on June 8) to keep it at "adequate levels."

The risks for the growth of the Chinese economy currently lie in the prices of raw materials and energy; for now, the transference to headline inflation is slow. The closures due to COVID-19 have caused delays in industrial production with effects on global trade. An economic slowdown impacting employment could aggravate tension in real estate markets and, in turn, the financial market. The central bank's injections of liquidity into the banking system are a symptom of this tension.

1.2.13 Indonesia

Strong growth on the price cycle of raw materials and fuel subsidies.

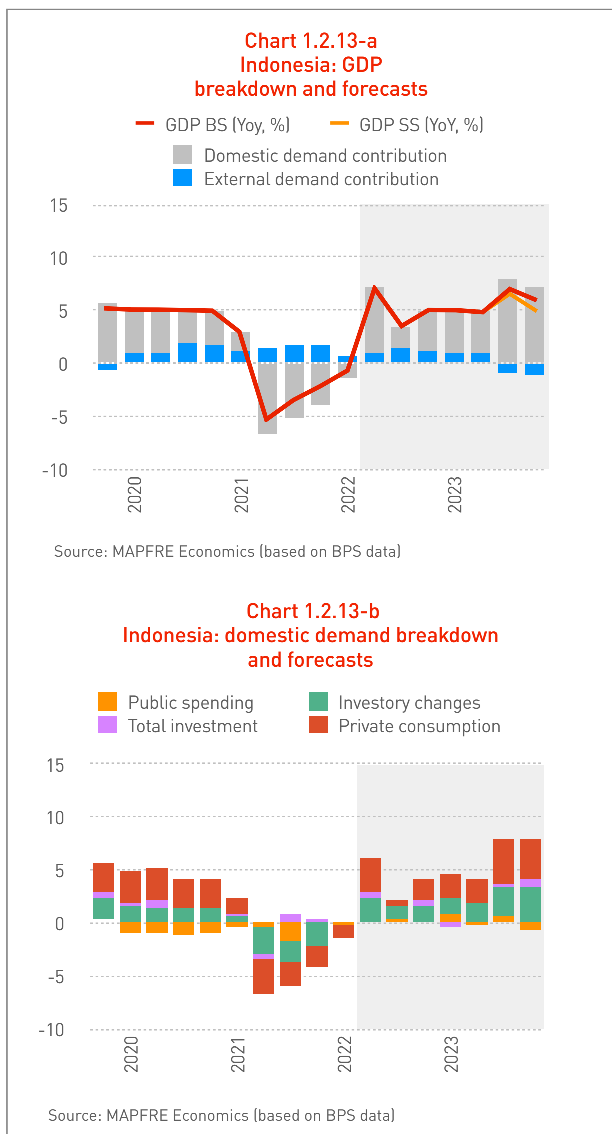
Indonesia's GDP grew by 5.0% YoY in the first quarter (-1% QoQ; +1.5% QoQ seasonally adjusted) with strong performance in consumption and investment, and with exports (+16%) outperforming imports (+15%). Growth is expected to continue in the coming quarters, although inflation is beginning to pick up. While the influence of inflation is already noticeable, it still does not pose as high of a risk to growth as it does in Western countries. Both consumption and exports are expected to remain dynamic in the coming quarters; the dynamics of prices (oil exports) are favoring the terms of trade (export prices are rising more than those of imports).

The purchasing managers' index (PMI) for manufacturing in June dipped to 56 points, with the orders and manufacturing PMI components above 58.4 and 59.8, respectively. As in the previous year, the current account balance should be positive this year on the back of raw material prices and the agricultural products that the country exports (palm oil). Growth levels should therefore be maintained for now, as they are still barely impacted by inflation. Our GDP growth forecast is therefore 5.7% in 2022 and 5.6% in 2023 (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

- **GDP is expected to grow 5.7% in 2022 and 5.6% in 2023.**
- **Private consumption is strong, and exports are growing more than imports on the back of raw materials.**
- **The central bank will soon have to start raising interest rates due to inflation, which has been reflected in the slight recovery of the exchange rate against the dollar.**

Meanwhile, Inflation is starting to rise; it stood at 4.4% in June, with core inflation at 2.6%. Nevertheless, it still remains within the central bank's targeted range of 2-4%. Inflation, which is lower than in other countries, is benefiting from fuel subsidies, which amount to 24.8 billion dollars after an increase of 5 billion dollars in May. This will impact the fiscal deficit, which will rise to an estimated 4.5% of GDP after an improvement in tax collection due to the high prices of

Chart 1.2.13-a
Indonesia: GDP breakdown and forecasts



Source: MAPFRE Economics (based on BPS data)

Chart 1.2.13-b
Indonesia: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on BPS data)

Table 1.2.13
Indonesia: main economic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.7	5.6	5.3	4.2
Domestic demand contribution	4.8	6.2	3.6	-3.4	2.7	5.8	6.7	5.4	5.3
External demand contribution	0.3	-1.1	1.4	1.4	1.0	-0.1	-1.1	-0.1	-1.1
Private consumption contribution	2.8	2.8	2.9	-1.5	1.1	3.2	3.6	3.0	2.9
Total investment contribution	2.0	2.2	1.5	-1.6	1.2	2.4	3.2	2.2	2.3
Public spending contribution	0.2	0.4	0.3	0.2	0.3	0.1	0.9	0.1	1.0
Private consumption (% YoY)	5.0	5.1	5.2	-2.7	2.0	5.9	6.5	5.4	5.3
Public spending (% YoY)	2.1	4.8	3.3	2.0	4.2	1.5	10.6	1.5	12.1
Total investment (% YoY)	6.2	6.7	4.5	-5.0	3.8	7.4	9.5	6.9	6.9
Exports (% YoY)	8.9	6.5	-0.5	-8.1	24.0	5.8	-0.4	5.4	-1.5
Imports (% YoY)	8.1	12.1	-7.1	-16.7	23.3	7.7	4.8	7.1	3.3
Unemployment rate (%, last quarter)	5.3	5.1	5.1	6.7	6.2	5.8	5.4	5.8	6.2
Inflation (% YoY, average)	3.8	3.3	2.8	2.0	1.6	3.7	3.1	4.2	5.9
Inflation (% YoY, last quarter)	3.5	3.3	2.7	1.6	1.8	4.4	2.8	5.7	5.6
Fiscal balance (% of GDP)	-2.6	-1.7	-2.2	-6.2	-4.6	-3.5	-3.6	-3.4	-3.3
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-1.6	-2.9	-2.7	-0.4	0.3	0.0	-0.7	-0.2	-2.2
Official interest rate (end of period)	4.25	6.00	5.00	3.75	3.50	4.25	4.50	4.50	7.00
3-month interest rate (end of period)	5.48	7.70	5.51	4.06	3.75	4.47	5.31	4.81	7.79
10-year interest rate (end of period)	6.31	7.98	7.10	6.10	6.38	7.32	7.41	7.42	8.63
Exchange rate vs. U.S. dollar (end of period)	13,484	14,380	13,883	14,050	14,253	14,282	13,701	15,471	13,835
Exchange rate vs. euro (end of period)	16,171	16,465	15,596	17,241	16,143	14,989	14,685	15,720	14,024
Private lending (% YoY, average)	8.2	10.8	8.8	1.4	1.0	8.2	11.6	9.2	12.1
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	15.1	5.6	-3.0	-6.0	-12.6	27.9	27.6	27.7	27.3
Savings rate (% pers. disp. income, avg.)	23.6	24.0	22.8	21.4	25.7	24.6	23.2	24.7	21.9

Source: MAPFRE Economics (based on PSA data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

raw materials. The Central Bank of Indonesia kept interest rates at 3.50% at its June meeting, and three increases are expected for the remainder of the year as inflation forces it to tighten monetary conditions. The strengthening of the dollar that occurred in May could be a challenge for servicing the external debt. However, the start of rate hikes in Indonesia and the moderation of expectations of rate hikes in the United States has once again balanced the exchange rate. Fuel subsidies burden public accounts and public debt, so it will be impossible to extend them for much longer.

1.2.14 Philippines

Robust growth but an upturn in inflation.

Philippine GDP grew by 8.3% YoY (+1.9% QoQ) in the first quarter of 2022. Private consumption was up strongly (+10%) due to the end of restrictions. Investment is also growing markedly but is affected by base effects since volume is at 2017 levels. Exports are performing well (+10.3%) but are outpaced by imports (+15.6%). This is due to higher import prices, especially energy, which is leading to a predictable deterioration in the current account balance. The manufacturing purchasing managers' index (PMI) for June fell slightly, standing at 53.8 points, from 54.1 in May. Likewise, consumer confidence is recovering but remains in negative territory. Within this context, we have reduced our growth estimates by three-tenths to 6.5% in 2022 and seven-tenths to 5.0% in 2023, which are high levels compared to Western countries (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

Inflation reached 6.1% in June, with producer prices increasing much less than in Europe; for example, only 7% versus 36% in the Eurozone (finished goods). The Central Bank of the Philippines has raised interest rates in June by 25 bps to 3.00% (Overnight Repo) after raising them in May for the first time since November 2018. A new interest rate cycle has thus begun, although the rate hikes are still very small given the acceleration of inflation. The central bank's inflation forecast is that it will remain within a range of 5.7-6.5% in 2022.

Ferdinand Marcos was the winner of the presidential elections in May. Marcos has already appointed the current governor of the central bank, Benjamin Diokno, as finance minister, while Felipe Medalla, a longtime central bank official, will be the new governor. Marcos has also indicated that he will maintain the treasurer and most of the undersecretaries of state, a sign of continuity and positivity for the markets.

- **The Philippine economy is growing much faster than Western economies, with a 6.5% growth forecast for 2022.**
- **Inflation is rebounding, and the central bank has embarked on a cycle of raising interest rates.**
- **Exports are performing well, but imports are doing even better, creating problems for the current account balance.**
- **The high prices of energy and raw materials and supply chain problems are the main risks in the short term.**

The biggest risks for the Philippine economy are related to rising inflation, which is outside the 2-4% target range. Currently at 5%, it will continue to experience pressure if the prices of raw materials and energy are maintained and the problems in the supply chain persist over time. This has implications for the imbalance between imports and exports, the widening of the current account deficit, the exchange rate, and the country's ability to attract investments. On the positive side, its growth is quite high compared to Western countries, which are slowing down more than expected.

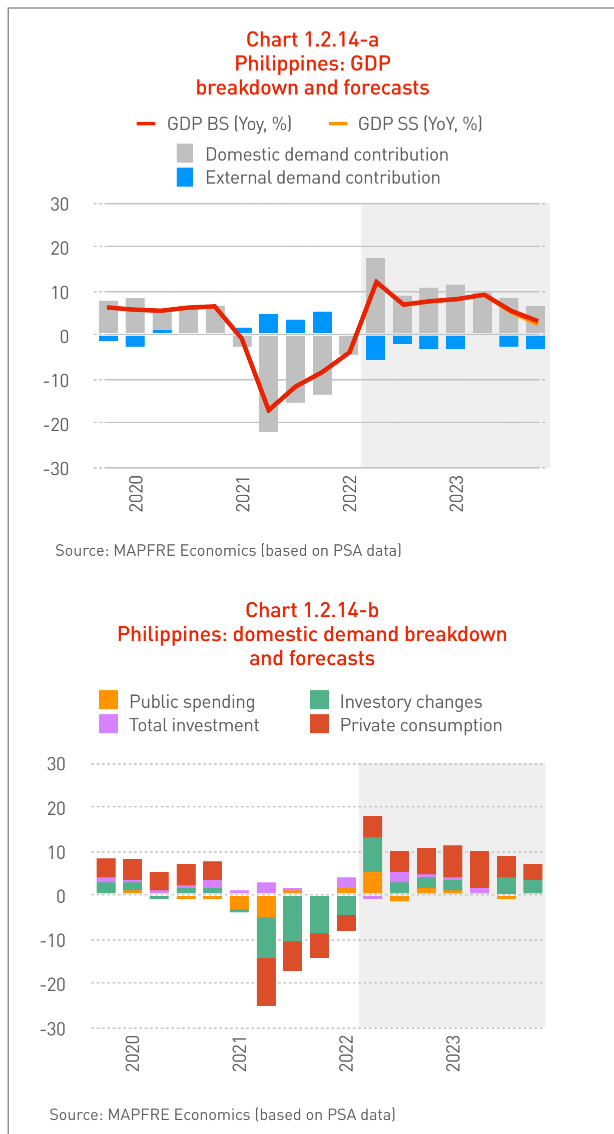


Chart 1.2.14-a
Philippines: GDP breakdown and forecasts

Source: MAPFRE Economics (based on PSA data)

Chart 1.2.14-b
Philippines: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on PSA data)

Table 1.2.14
Philippines: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	6.9	6.3	6.1	-9.5	5.7	6.5	5.0	6.2	4.2
Domestic demand contribution	7.9	8.8	6.3	-13.1	8.2	8.9	6.2	8.6	5.5
External demand contribution	-0.9	-2.4	-0.2	3.6	-2.5	-2.5	-1.1	-2.4	-1.4
Private consumption contribution	4.3	4.2	4.2	-5.9	3.1	6.2	2.7	5.8	2.0
Total investment contribution	2.7	3.5	1.0	-5.9	2.2	2.7	2.4	2.7	2.4
Public spending contribution	0.7	1.6	1.1	1.6	1.1	0.3	0.5	0.3	0.5
Private consumption (% YoY)	6.0	5.8	5.9	-8.0	4.2	8.4	3.7	7.9	2.7
Public spending (% YoY)	6.5	13.4	9.1	10.5	7.1	2.1	3.7	2.1	3.7
Total investment (% YoY)	10.6	12.9	3.9	-27.3	9.9	11.4	9.9	11.4	9.9
Exports (% YoY)	17.4	11.8	2.6	-16.1	8.0	7.1	9.8	7.1	9.8
Imports (% YoY)	15.1	14.6	2.3	-21.6	13.0	12.9	8.4	12.7	8.9
Unemployment rate (%, last quarter)	5.0	5.1	4.6	8.7	6.8	5.9	5.5	5.4	5.5
Inflation (% YoY, average)	2.9	5.3	2.4	2.4	3.9	5.8	3.6	6.3	6.3
Inflation (% YoY, last quarter)	3.0	6.1	1.4	2.9	3.6	7.7	1.1	9.1	3.5
Fiscal balance (% of GDP)	-2.1	-3.1	-3.4	-7.6	-8.6	-7.4	-7.4	-7.4	-7.6
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-0.7	-2.6	-0.8	3.2	-1.8	-5.2	-4.4	-5.7	-8.0
Official interest rate (end of period)	3.00	4.75	4.00	2.00	2.00	3.00	3.75	3.00	7.00
3-month interest rate (end of period)	3.22	5.03	3.97	2.00	1.81	2.99	3.83	3.07	7.18
10-year interest rate (end of period)	5.70	7.05	4.44	2.97	4.72	7.06	6.09	7.07	7.50
Exchange rate vs. U.S. dollar (end of period)	49.92	52.72	50.74	48.04	50.27	52.09	49.93	56.11	50.37
Exchange rate vs. euro (end of period)	59.87	60.37	57.01	58.94	56.93	54.67	53.52	57.01	51.05
Private lending (% YoY, average)	17.6	16.8	9.5	4.0	0.9	6.7	7.6	7.6	8.2
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	9.4	10.3	6.9	-7.9	8.2	10.0	9.6	9.4	8.4
Savings rate (% pers. disp. income, avg.)	7.1	6.4	5.0	5.7	3.5	2.0	6.1	2.1	4.4

Source: MAPFRE Economics (based on PSA data)
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

2. Industry Outlook

2.1 The economic outlook and its impact on insurance demand

2.1.1 Global markets

Six months have elapsed since the start of the invasion of Ukraine, which is maintaining pressure on the prices of energy, food, and other raw materials. This is in addition to the severe mobility restrictions imposed by the Chinese government to combat the expansion of new waves of COVID-19 across the region, which now seem to be under control. All these geopolitical factors have led to an upward revision of inflation forecasts and a downward revision of economic growth projections, which continues to complicate the business and profitability outlook for the insurance sector worldwide.

The most recent data on inflation has exceeded expectations, being far away, once again, from the central banks' targets. This is motivating a tightening of monetary policy in the main economies worldwide, sometimes at a rapid pace (for example, in the United States). Meanwhile, most emerging markets started this process in the second half of 2021.

The tightening of monetary policy will slow overall demand, weakening the economy in an environment of higher, longer-lasting inflation than expected. This in turn will erode the purchasing power of households and corporate margins, negatively impacting the insurance market's development and profitability while putting pressure on insurance prices. However, business opportunities are emerging in Life savings and traditional annuities insurance, with interest-rate guarantees, and in some lines of business, such as health insurance, which may continue to perform positively in light of the saturation of public healthcare systems. The automotive sector continues to be impacted by shortages of semiconductors and supplies, which are weighing down new vehicle registrations, negatively impacting the auto insurance business. Regarding the outlook for Life insurance in which the policyholder assumes the investment risk, the setbacks and high volatility of the financial markets after the announcement of the withdrawal of monetary stimuli by the Federal Reserve and other central banks, and by the geopolitical situation caused by the war in Ukraine, are painting a more complex picture. Corrections in the bond market and in the major equity indexes, as well as the increased credit risk, may adversely affect the balance sheet and solvency position of those insurance companies that have not handled these risks adequately.

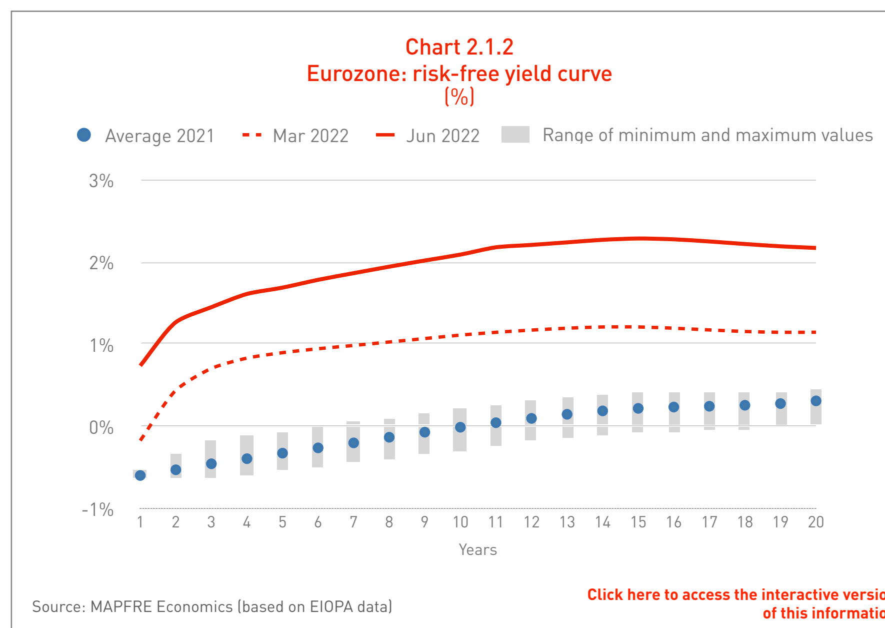
Some large economies face a greater risk of economic stagnation with high inflation rates, which would be especially harmful to all sectors of activity, including the insurance industry. For now, the labor markets in the United States and (to a lesser extent) in the Eurozone remain strong, and the savings accumulated by households during the worst phases of the pandemic are high. These circumstances may help mitigate the impact of this situation on their respective markets, together with the greater aversion to risk that is helping to stimulate insurance demand.

2.1.2 Eurozone

The economic growth forecast for 2022 in the Eurozone has been revised downwards by 0.2 pp to 2.7% (5.3% in 2021). This would mean recovering the pre-pandemic GDP level but represents a slowdown in economic growth that would carry over to 2023 when the growth forecast is reduced to 1.8%. The climate is still characterized by great uncertainty over the war in Ukraine and the sanctions against Russia for the invasion, which are having a marked impact on Europe. This environment of economic slowdown, together with high inflation (8.6% in June) that will continue into next year, complicates the outlook for business development and profitability in the insurance industry, putting pressure on insurance prices.

On the other hand, the sharp rise and persistence of inflation has led to a change in orientation for the ultra-accommodative monetary policy that the European Central Bank (ECB) had been applying. At its last meeting in June, the ECB announced its intention to increase official interest rates by 25 basis points (bps) at its next meeting, scheduled for July 21 (which would leave rates at 0.25% for the main financing operations and -0.25% for the deposit facility). It also forecasted a new increase of 25 to 50 bps for September, depending on the economic data trends, particularly inflation. In July, it stopped expanding its balance sheet, ending the net asset purchase program (reinvesting maturing bonds), which has already put pressure on the risk premiums of sovereign bonds, especially in southern Europe, to the point where the ECB Governing Council has announced that it is designing an anti-fragmentation instrument for the Eurozone. On the risk-free yield curves produced by the European Insurance and Pension Authority (EIOPA), another sharp increase in market risk-free interest rates can be seen in all tranches. These reach substantially higher levels than the maximums registered in 2021 and at the end of March

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

2022, with positive interest rates in all maturities (when they remained in negative territory up to six years at the end of 2021). Risk-free interest rates remain significantly lower than inflation, but levels continue on an upward path, painting a more favorable picture for the Life savings and traditional annuities business of insurance companies. Chart 2.1.2 shows the minimum, average and maximum levels reached in 2021, along with the level of the latest curves published by EIOPA for March and June 2022[4].

Meanwhile, the Euro Stoxx 50 index (and in general, the main stock markets worldwide) have experienced an upturn in volatility and a decline since the beginning of the year, falling 19.6% in the first half of 2022. This was caused by the greater uncertainty generated by the war in Ukraine, the sanctions against Russia, and the announcements of the withdrawal of monetary stimuli by the central banks. This situation, together with the risk of entering a recession, complicates the outlook for Life insurance products in which the policyholder assumes the investment risk. These must adapt to a new climate marked by declines in equities and fixed income, offering higher interest rates and risk premiums more in line with the credit risk of the issues once the central banks' net asset acquisition programs have ended.

2.1.3 Germany

The German economy continues to have the greatest exposure to the consequences of the war in Ukraine and the sanctions against Russia for the invasion, being affected by gas supply cuts that could worsen towards the winter. In this complicated context, economic growth expectations for 2022 have been lowered again by 0.4 percentage points, down to 1.6%. The German economy would therefore not recover its pre-crisis level until 2023, when growth is projected to reach 1.9%. Private consumption continues to be the driver of growth, followed to a lesser extent by investment. This maintains a relatively favorable environment for the insurance industry due to continued growth, but uncertainty is high.

On the other hand, German sovereign bond yields continue to experience a significant upward trend and in June showed positive levels in all maturities over six months. The upturn in inflation and the ECB's messages concerning the start of interest rate hikes are still clearly reflected in the rise in German sovereign bond yields. While interest rate levels remain relatively low, they are at least moving out of negative territory and the yield curve is sloping positively. This represents a slight improvement in the still-difficult environment for traditional Life savings and annuity business as they remain below inflation (7.6% in June), leading to a negative real interest situation. The German DAX, on the other hand, is showing continued volatility, with steeper declines as a result of the invasion of Ukraine, complicating the outlook for Life insurance products in which the policyholder assumes the investment risk.

2.1.4 Italy

Economic growth expectations for Italy have been lowered by 0.2 percentage points to 2.7% in 2022 (6.6% in 2021), marking a return to its pre-crisis GDP level. In 2023, the Italian economy should slow down with estimated growth of 1.4%. Private consumption and investment (with the help of European recovery funds) continue to perform well, but the foreign sector will still weigh down the year due to high energy prices and supply chain disruptions. The fact that the economy is growing favors the insurance industry. However,

the outlook for its development and profitability is complicated by the rise in inflation (8% in June), which is eroding disposable household income and business margins, increasing the pressure on insurance prices.

Meanwhile, the reorientation of monetary policy by the ECB due to higher, more-persistent-than-expected inflation data in the Eurozone, and particularly the end of net purchases of sovereign and corporate bonds scheduled for the third quarter, has caused a rise in the risk premium and the term premium of Italy's sovereign debt, which decreased slightly following the ECB's announcement that it would design an anti-fragmentation instrument. However, although the outlook for traditional Life savings and annuity insurance products has improved, the situation of negative real interest persists, complicating their sales. Furthermore, the volatility and declines in the equity markets, particularly in the FTSE MIB, complicate the outlook for Life insurance products in which the policyholder assumes the investment risk, which have gained importance in the Italian market in recent years.

2.1.5 Spain

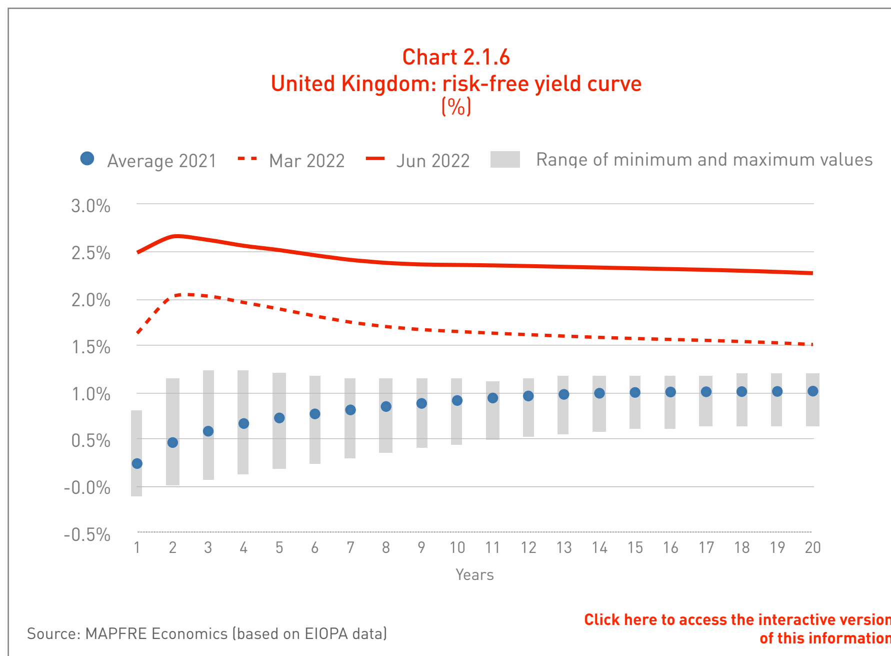
The growth estimates for the Spanish economy have been revised slightly downwards to 4.1% in 2022 (+5.1% in 2021), postponing the country's return to a pre-crisis GDP until 2023, when 2.4% growth is expected. The problem of high inflation (10.2% in June) is also being aggravated by the high energy and food prices, eroding household purchasing power and business margins. This is casting a shadow over the outlook for the insurance business and eroding its profitability while increasing the pressure on the pricing of insurance products. Similarly, as the supply shortage continues to weigh on the automotive sector, the auto insurance business will continue to suffer from this situation in the coming months.

The context for the Life insurance business linked to savings and traditional annuities continues to improve as the ECB tightens its monetary policy, announcing the start of a series of interest rate hikes as of July and the end of the monetary expansion process (which is putting pressure on risk premiums). These factors are raising the market interest rate curve of the Spanish sovereign bond, which has come out of negative territory in all maturities over three months and offers a positive, increasing term premium in longer maturities. However, nominal interest rates remain below inflation, generating an environment of negative real interest rates, a situation that makes these types of products hard to market. Equities, which had been an alternative to hedge against the low interest rate environment and the upturn in inflation, have sustained falls and increased volatility, complicating the outlook for Life insurance products in which the policyholder assumes the investment risk, which were starting to grow in the Spanish market.

2.1.6 United Kingdom

In the United Kingdom, the economy is forecast to grow 3.6% in 2022 (+7.4% in 2021), marking its return to a pre-crisis GDP level this year. Growth is expected to slow to 1.3% in 2023. Consumption and (to a lesser extent) private investment continue to perform well, but the UK economy remains weighted down by the external sector due to high energy prices and supply chain shortages. The economic growth forecast for this year will continue to support the insurance market, although the upturn in inflation (9.1% in March) and the resulting erosion of household disposable income and

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

corporate margins may end up negatively affecting business volume and profitability, putting pressure on insurance prices.

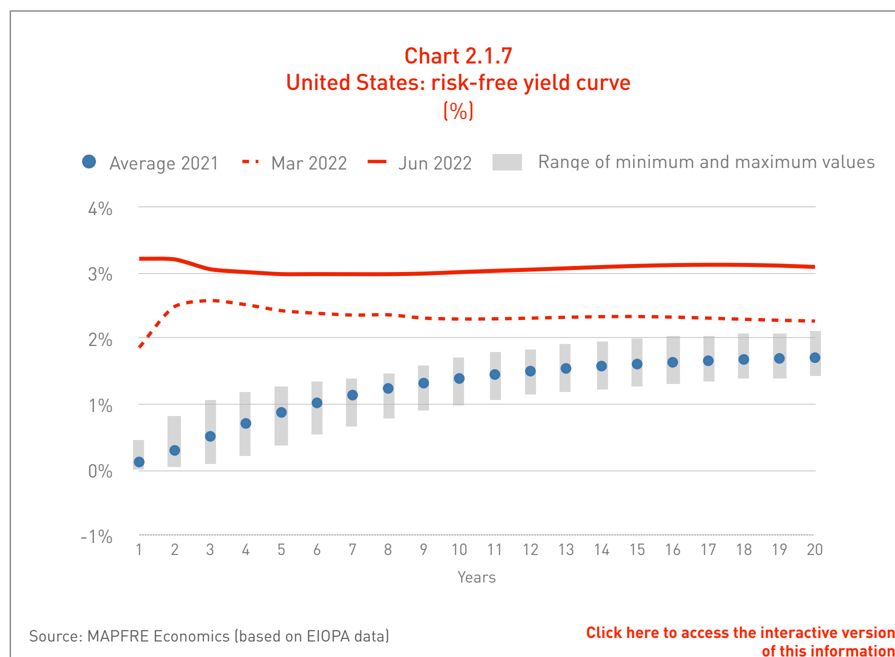
With regard to traditional Life savings and annuities, the Bank of England continued to tighten monetary policy and increased interest rates twice, by 25 bps, in May and June respectively, to 1.25%, as a result of the upturn in inflation. The EIOPA risk-free yield curves at the end of June (see Chart 2.1.6) again show a significant rise in all sections of the curve, which is notably above the levels from the previous quarter and the highs reached last year. A first section in the short maturities (up to two years) still shows a positive slope, and a second section shows an inversion of the yield curve in the middle and long sections, with a negative slope. Thus, uncertainty about inflation and the future direction of monetary policy continues to produce distortions in the yield curve. Despite being able to offer a positive term premium on maturities up to two years, the interest rate environment remains difficult for the marketing of traditional Life savings and annuity products due to the low nominal interest rates, which are below inflation, generating an environment of negative real interest rates. In addition, the FTSE 100 continues to fall amid high volatility, which complicates the marketing of Life insurance in which the policyholder assumes the investment risk, which is deeply rooted in this market.

2.1.7 United States

The economic growth forecast for the United States in 2022 has been lowered by 0.7 percentage points to 2.5% (+5.7% in 2021). High inflation is aggravated by rising energy and food prices and supply bottlenecks in an economy with a saturated labor market and abundant cash in the system. The U.S. economy thus continues to grow but is slowing down, and this deceleration is expected to last until 2023 when 1.4% growth is expected. This panorama of economic growth remains favorable for the insurance industry. However, the reduction of household purchasing power and business margins due to inflation, together with the withdrawal of fiscal and monetary stimuli, may end up impacting the business and eroding its profitability, increasing the pressure on insurance prices.

As for the Life business, the Federal Reserve's decision to tighten monetary policy to address inflation (8.6% in May)—raising interest rates by 75 bps at its June meeting and indicating a potential range of 3% to 3.5% at the end of the year—is reflected in the latest EIOPA yield curves for December (see Chart 2.1.7). A sharp rise in market risk-free interest rates can be seen in all sections of the curve, significantly surpassing the maximum levels reached in the previous year and in those it presented at the end of March. Furthermore, a small inversion of the curve can be observed, showing a negative slope up to ten-year maturities. Therefore, the interest rate environment remains difficult for the sale of traditional savings and life annuity products with nominal interest rates below inflation, generating an environment of negative real interest rates and unable to offer a positive term premium as the curve is slightly inverted. Meanwhile, the equity markets are seeing great volatility and have fallen significantly since the start of the year (-20.6% for the S&P500 in the first half), which may complicate the marketing of Life insurance products in which the policyholder assumes the investment risk.

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



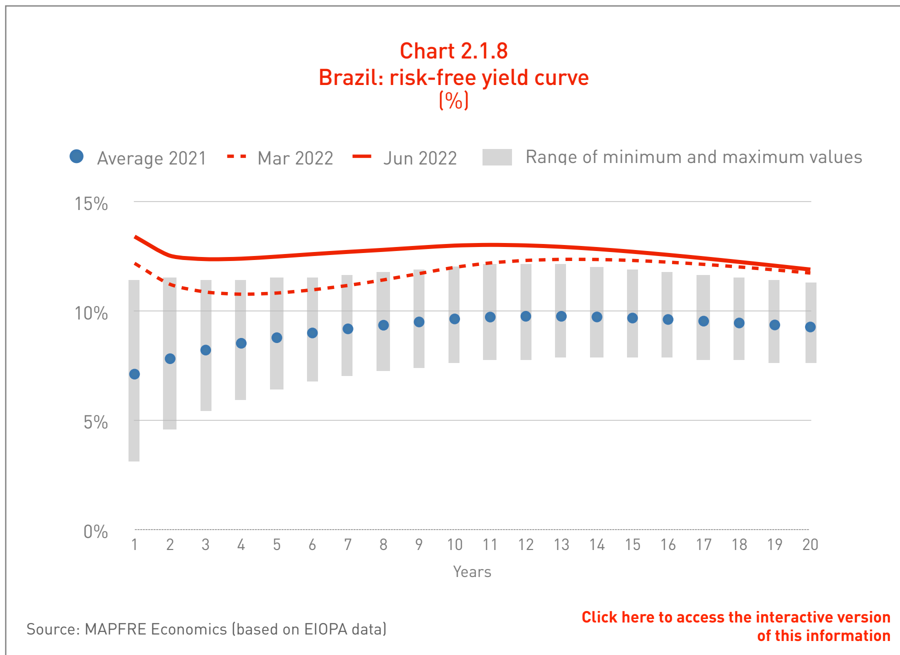
Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

2.1.8 Brazil

In Brazil, the economic forecast continues to point to a significant slowdown due to the tightening of monetary policy. However, expectations have slightly improved, with real GDP projected to grow by 1.1% in 2022 (+4.9% in 2021, atypical growth that enabled the Brazilian GDP to exceed its pre-pandemic level). The economy is forecast to grow by 1.0% in 2023. Weak economic growth in a context of tightening of financing conditions may slow the growth of the Brazilian Non-Life insurance market after the recovery experienced in 2021. Problems in global supply chains continue to affect automobile production and new vehicle registrations, a situation that will keep weighing on the auto insurance business.

Inflation is still out of control (11.9% in June), forcing the central bank to tighten its monetary policy with new interest rate hikes to reach 13.25% in June (an increase of 1.5 pp since March 2022 and the tenth hike since March 2021, when the interest rate stood at 2%). This interest rate environment is favorable for the business of Life insurance and annuities, an instrument used by households to hedge against inflation, although the erosion of

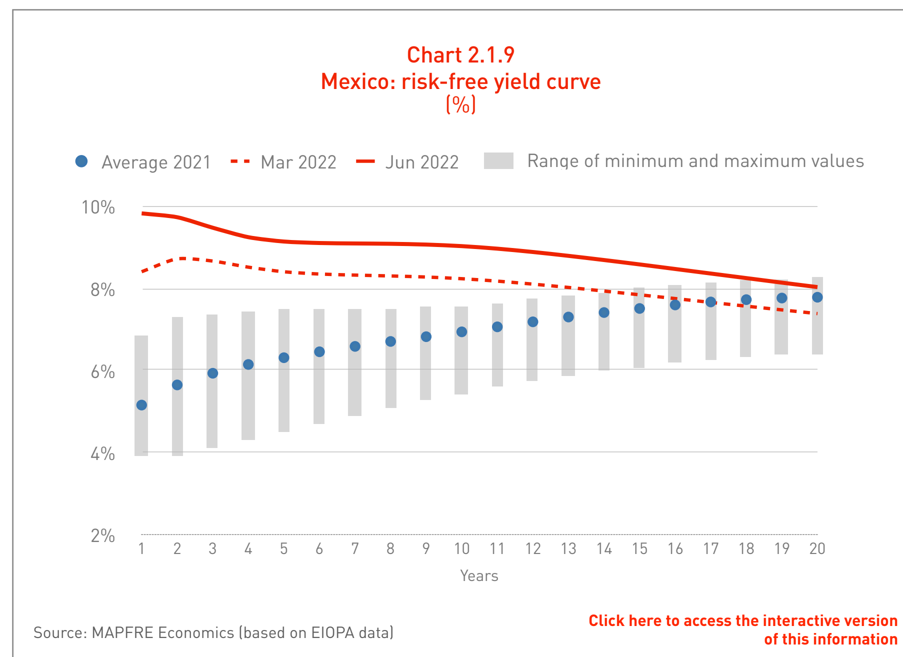


their disposable income may reduce their savings capacity. On the EIOPA risk-free yield curves (see Chart 2.1.8), a flattening of the curve is observed in June with a slight negative slope in its first sections. This may favor the development of products backed by short-maturity sovereign bonds (VGBL and PGBL), which are very common in this market.

2.1.9 México

The growth estimates for the Mexican economy have been maintained at 1.6% (+5.0% in 2021), and the country's return to a pre-crisis GDP will thus be postponed until 2023, when 1.9% growth is expected. Despite Mexico's weak economic growth, inflation is still out of control (7.99% in June), eroding household purchasing power and business margins in a context of tightening financing conditions. All this may weigh down the insurance business and its profitability, putting pressure on the pricing of insurance products.

Meanwhile, due to rising inflation, the Bank of Mexico once again raised the official interest rate in May and June to 7.75%, the fourth rate hike of 2022 (after five in 2021). The EIOPA curves (see Chart 2.1.9) reflect a significant rise in market risk-free interest rates, with the curve showing a negative slope in all sections. This interest rate environment remains favorable for the development of the Life



savings and annuities business due to the high level of short-term interest rates and the need to protect savings against high inflation. Nevertheless, the economic slowdown and erosion of household purchasing power due to the sharp increase in prices may reduce savings capacity, which continues to complicate the outlook for this line of business.

2.1.10 Argentina

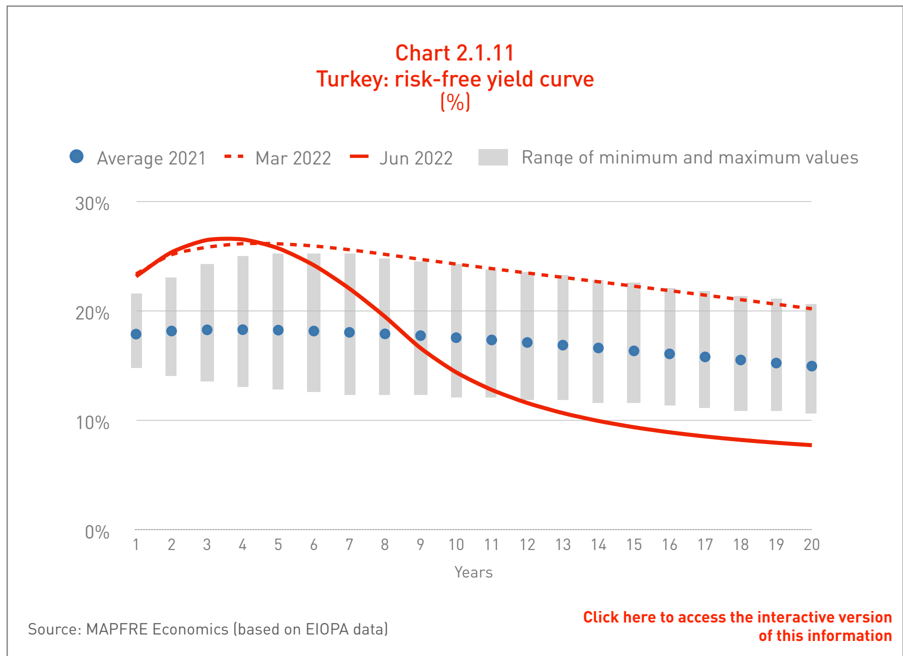
The growth estimates for the Argentine economy have been revised slightly downward to 2.8% in 2022 (versus +10.3% in 2021, atypical growth after the 9.9% decline in 2020). However, Argentina's economy is expected to slow even more in 2023, when 0.8% growth is expected. Inflation rose again to 60.7% in May, while the currency keeps depreciating, a situation that continues to negatively affect insurance companies' profitability. This economic climate may favor the insurance business in the short term, but the predicted economic slowdown, with high inflation and the need to implement the reforms agreed with the IMF, will cast a shadow over the insurance outlook in the medium term.

On the other hand, the central bank has again tightened its monetary policy by raising the benchmark interest rate twice in May and June to 52%, still below inflation, in an environment of negative interest rates. This improves the outlook due to the rate hikes, but the context remains complicated for the marketing of Life savings insurance products, which cannot offer sufficient interest rates to offset the loss of purchasing power due to high inflation, as financial assets with sufficient returns to support these types of products are not available on the market. The expected economic slowdown and the rise in interest rates will complicate the life protection business outlook.

2.1.11 Turkey

Estimates for the Turkish economy have been revised upward, with real GDP growth forecast to reach 3.0% in 2022 (vs. +11.0% in 2021) and 2.7% in 2023 following a slight deceleration. This represents a sharp slowdown compared to the exceptional economic performance of 2021 in an environment in which inflation continues to rise rapidly, eroding disposable household income and business margins and negatively affecting the business and profitability of the insurance industry. At its last meeting, the Turkish central bank decided to maintain its policy of not raising interest rates, exacerbating a situation of negative real interest rates and sharp exchange rate depreciations, which are fueling inflation due to higher import prices, as observed in previous quarters. All these factors are having negative repercussions on the business and profitability of the insurance industry, as inflation is driving up claims and operating costs, which cannot be compensated by companies' financial margins, putting pressure on insurance prices.

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

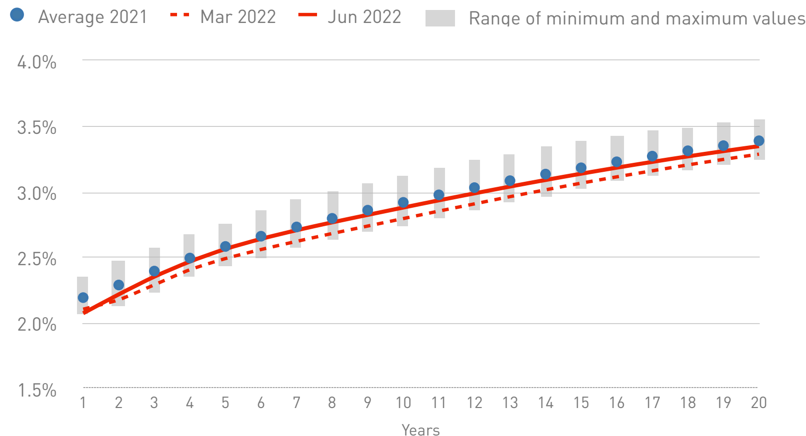
At its aforementioned April meeting, the Turkish central bank maintained the official interest rate at 14% despite the rise in inflation (which reached 78.6% in June). The EIOPA curves (see Chart 2.1.11) show market risk-free interest rates that remain practically the same for maturities of up to four years (above the maximum rates of 2021), with a curve that slopes positively in that tranche before reversing sharply in maturities over four years. This continues to generate a complex interest rate scenario for the sale of Life savings insurance products on account of the uncertainty regarding short-term rates. Despite the upturn in inflation, these remain anchored at levels that do not come close to being able to offset the loss of purchasing power caused by high inflation; all this means that real interest rates remain deeply negative. Nonetheless, the outlook is a bit more favorable for the Life protection business due to the greater sensitivity to the risk of death generated by the pandemic and the war in an economy that, despite losing momentum, continues showing growth and in which favorable financial conditions stimulate borrowing for the acquisition of real assets to hedge against inflation.

2.1.12 China

Economic growth expectations for the Chinese economy have been reduced once again by 0.8 percentage points, with GDP forecast to grow by around 4.0% in 2022 (compared to 8.1% in 2021) and 5.1% in 2023. This significant slowdown in the pace of growth is being influenced by problems concerning the real estate market and the management of the pandemic, with the latest outbreaks triggering new lockdowns with a negative impact on consumption. This deceleration of anticipated growth in 2022 paints a less benign picture than usual for the insurance industry.

As for the interest rate environment, the rise in inflation in China as a result of higher energy prices remains moderate (2.5% in June), so the central bank continues to apply an accommodative monetary

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

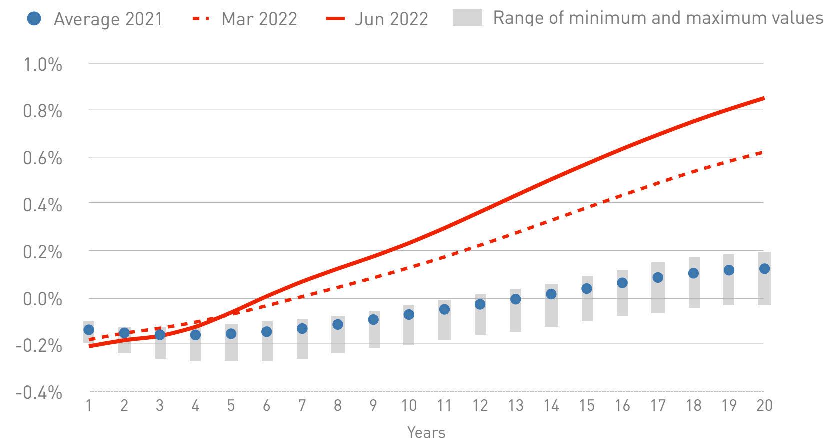
policy, maintaining interest rates at 3.7% at its June meeting. The EIOPA curves (see Chart 2.1.12) show that risk-free interest rates are fairly stable, having increased very slightly on a curve that remains positively sloped. This stable interest rate environment with positive term premiums is favorable for the Life savings and annuities insurance business, as it can offer higher medium- and long-term guaranteed rates than short-term rates.

2.1.13 Japan

Growth estimates for the Japanese economy in 2022 have been revised downwards by 0.6 percentage points to 1.8% (+1.7% in 2021), postponing the return to a pre-crisis GDP level until 2023, when it should grow by 1.6%. Problems concerning supply chains and high energy prices remain unsolved and will continue to delay the recovery of the Japanese economy. Despite the downward revision, the economic growth forecast reflects a slight acceleration based on private consumption, which stands to be the main driver of economic growth. In general, this factor continues to shape a favorable environment for the insurance industry.

For its part, the Bank of Japan has decided not to alter its ultra-accommodative monetary policy in an environment in which inflation continues to pick up, standing at 2.5% in May (above its 2% target). On the EIOPA curves (see Chart 2.1.13), we observe

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

that the risk-free yield curve continues to steepen, with negative values for maturities up to five years (compared to six years in the previous quarter). This increase in the positive slope of the curve makes it possible to offer a higher term premium, favoring the marketing of Life savings and annuity products. Although interest rates remain relatively low, the rebound in medium and long-term rates, notably higher than usual, could help to stimulate the growth of these lines of business.

2.1.14 Philippines

In the Philippines, economic expectations for 2022 have been slightly reduced, with GDP growth now expected to reach 6.5% (vs. +5.7% in 2021), exceeding the country's pre-crisis GDP level. For 2023, a slowdown to 5.0% is expected, which still represents robust growth. Private consumption and investment continue to perform strongly, which will favor the insurance business with the help of the low level of insurance penetration in the Philippine economy. However, the spike in inflation (6.1% in June) and currency depreciation may negatively affect insurers' profitability by increasing the cost of claims and putting pressure on the price of insurance.

As regards Life insurance, the Central Bank of the Philippines raised the benchmark rate for monetary policy by 25 bps in May and June, to 2.5%, due to the upturn in inflation. The return on the 10-year sovereign bond was slightly above 7% as of June 31, with the interest rate curve becoming steeper with a greater term premium. This situation bolsters the sale of Life savings and traditional annuities products, as it is possible to guarantee higher medium and long-term rates than is the case in the short term (above the inflation rate in the long tranches of the curve).

2.2 Regulatory and supervisory trends

SFCR of the leading insurance groups in the European Union

During the second quarter of 2022, the leading insurance groups in the European Union (EU) published the *Solvency and Financial Condition Report (SFCR)* for fiscal year 2021. It was the sixth such report released by those companies since the regulatory framework for solvency based on risk (Solvency II) entered into force in the EU[5].

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 companies located in the EU. Before *Solvency II entered into force*, the only obligation was the calculation of regulatory capital at the individual level by insurance companies, with prudential control exercised by national supervisory authorities on this basis. In addition, supplementary control for the supervision of insurance groups was formulated, focusing on detecting intra-group operations that may result in the double calculation of capital in various companies of the same group, or the existence of additional risks that are not discernible at the individual level. Under the new guidelines framework applicable to insurance groups, a regulatory scheme is reproduced based on three pillars, seeking to create incentives not just so that insurance companies are properly administered at the individual level, but also at the level of the

insurance groups of which they are a part. 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.

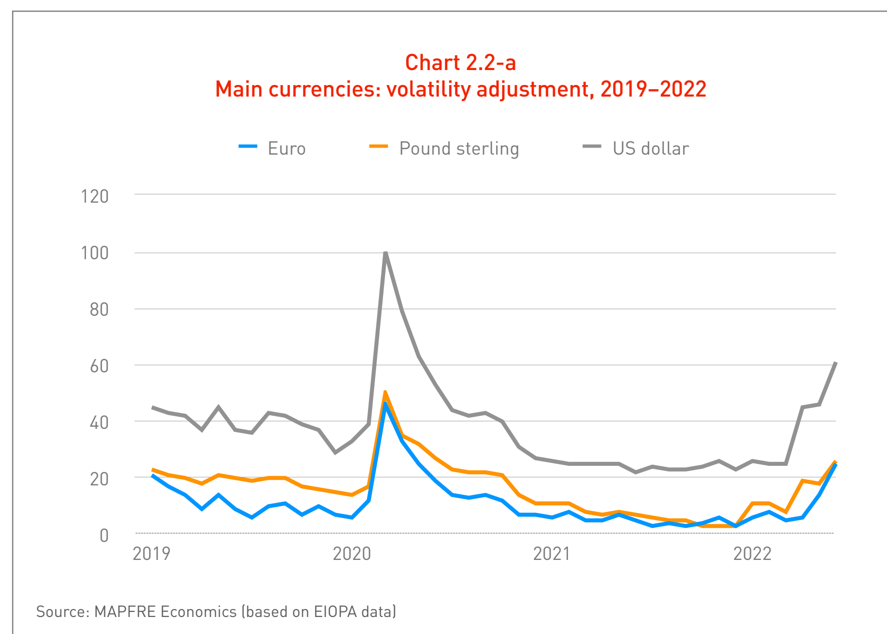
Therefore, under the scheme applicable to insurance groups, Pillar 1 focuses on determining the quantitative aspects that preserve the group's solvency position as defined under the solvency regulation itself, and that consequently may differ from the scope of accounting consolidation; Pillar 2 seeks to maintain satisfactory governance of the insurance groups as an additional element to boost their performance and solvency position; 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 groups of insurance companies must publish information on their financial position and solvency on an annual basis, providing clear, comparable and high-quality information to the market by releasing the group's SFCR. With this exercise in transparency, the regulation seeks to enable interested economic operators to have access to information that allows them to understand the implicit risk at the level of the different insurance groups and, to that extent, to be able to assess, from an aggregate perspective, the characteristics of their risk assessment and management processes, the level of sufficiency of their technical provisions and shareholders' equity and, therefore, their solvency position.

Analysis of the behavior of solvency ratios

This section contains an analysis of the behavior of the solvency ratios of the main EU insurance groups for 2021, including some comparisons of changes in their main components compared to 2020. As part of the evolution of this behavior, it should be noted that the volatility adjustment in fiscal year 2021 for the main currencies in which European insurance groups make investments was slightly lower than at the start of the year, without large fluctuations throughout the period. This was unlike what happened in 2020, when the arrival of the pandemic substantially increased the level of uncertainty, as reflected in the volatility adjustments in that year (see Chart 2.2-a). Thus, in March 2020, the currency

Chart 2.2-a
Main currencies: volatility adjustment, 2019–2022



Source: MAPFRE Economics (based on EIOPA data)

adjustment for the euro, U.S. dollar, and pound sterling reached the highest level observed for these indicators since the Solvency II regulations came into force due to the sharp rise in the volatility to which insurance groups' investment portfolios were exposed as a result of the start of the crisis triggered by the pandemic. The adjustment also reflects the powerful impact of the messages transmitted by the European Central Bank (ECB), the U.S. Federal Reserve, and the Bank of England in March 2020 by approving extensive asset purchase programs, which involved resorting to the massive use of unconventional monetary policy measures to provide liquidity to the bond markets (sovereign and corporate).

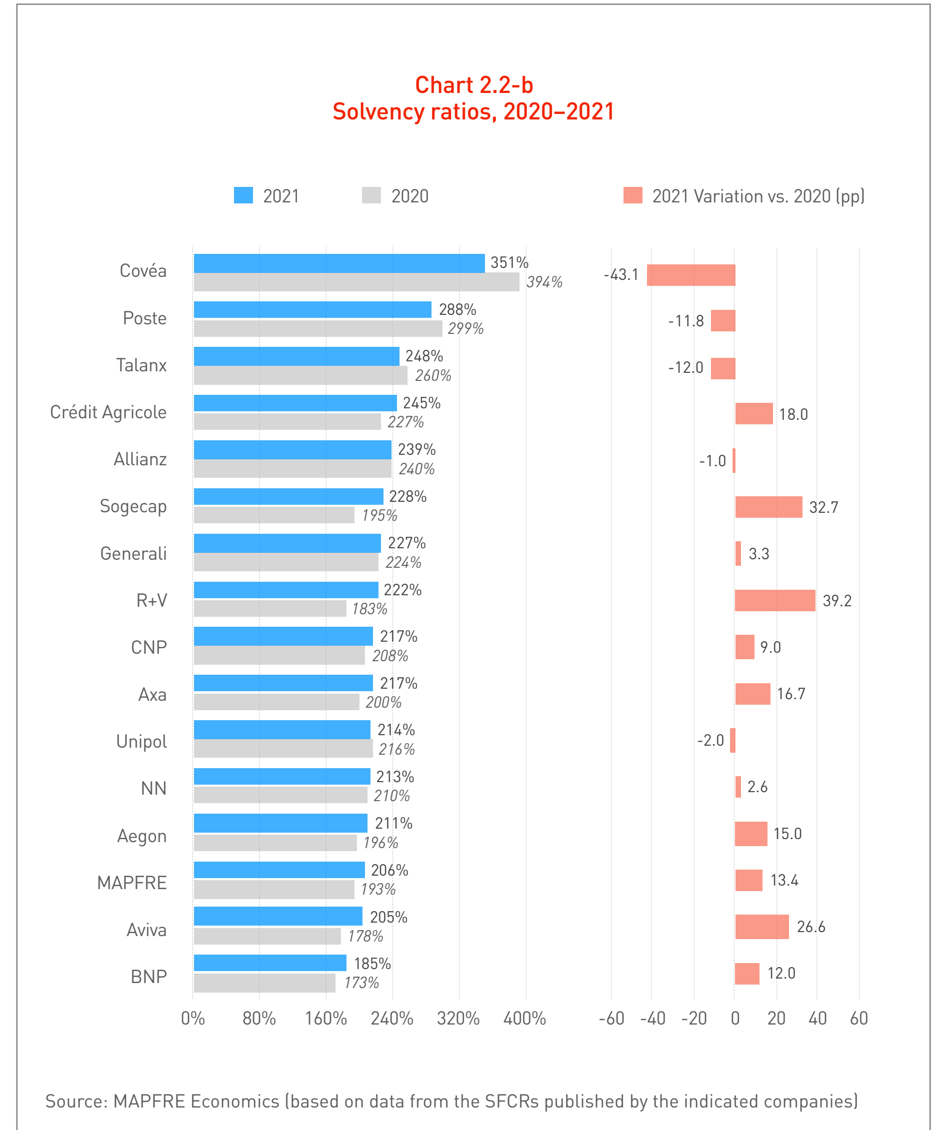
The analysis of the volatility adjustment trend also highlights that the outbreak of the war in Ukraine in February 2022, and the sanctions against Russia have once again raised the level of uncertainty (although to a lesser extent than in the earliest days of the pandemic). This again highlights the importance of this adjustment as a mechanism to (partially) offset the potential effects of these occasional spikes in financial market volatility on the solvency of insurance companies and their groups, considering their nature as medium and long-term institutional investors.

Solvency ratios

Chart 2.2-b presents the solvency ratios for fiscal year 2021 published in the SFCRs presented in 2022 for the major insurance groups in the EU6. On the aforementioned chart, these ratios are compared with those published at the time with respect to fiscal year 2020, as well as the variation between both years.

As can be deduced from this information, Covéa continues to show the highest solvency ratio at 351% (compared to 394% in 2020), far

Chart 2.2-b
Solvency ratios, 2020–2021



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

Table 2.2-a
Main financial and solvency figures, 2021
(millions of euros)

	Premiums	Technical provisions	Eligible own funds	SCR required	Solvency ratio
Allianz	141,327	854,159	98,388	41,205	238.8%
Axa	97,133	534,143	61,961	28,595	216.7%
CNP	31,668	452,300	39,100	18,000	217.2%
Generali	75,825	451,399	50,622	22,288	227.1%
Credit Agricole	36,548	359,495	34,327	14,025	244.8%
Aviva	51,252	334,598	30,414	14,864	204.6%
BNP	27,093	239,610	19,967	10,822	184.5%
Aegon	22,309	177,582	19,431	9,226	210.6%
Poste	17,574	151,439	12,677	4,409	287.5%
Sogecap	15,766	150,811	10,846	4,762	227.7%
Talanx	45,508	130,499	25,857	10,446	247.5%
R+V	19,515	106,841	17,656	7,960	221.8%
Covea	19,178	88,212	27,950	7,956	351.3%
Nationale Nederlanden	14,312	172,778	20,927	9,840	212.7%
UNIPOL	13,478	61,363	9,727	4,552	213.7%
MAPFRE	21,374	30,531	9,302	4,508	206.3%
Total	**649,859**	**4,295,760**	**489,152**	**213,458**	**229.2%**

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

from the other groups analyzed. However, it was the company with the greatest decrease in its solvency ratio in 2021 (-43.1 percentage points, pp), which is added to the previous year. Meanwhile, the groups that saw the greatest increases in their solvency ratios during 2020–2021 were R+V and Sogecap, up 39.2 and 32.7 pp, respectively. Table 2.2-a complements this information with the main financial and solvency figures for fiscal year 2021 reported by the insurance groups in their respective SFCRs. Based on this information, we observe that the total premiums in that year for all the leading EU insurance groups included in the sample amounted to 649.8 billion euros (598.2 billion in 2020), while technical provisions stood at 4.3 trillion euros (4.0 trillion euros in 2020). Also, total shareholders' equity stood at 489.2 billion euros (449.6 billion in 2020) while the aggregate SCR was 213.5 billion euros (205.1 billion in 2020), resulting in an aggregate solvency ratio for the sample that stood at 229.2% (compared to 219.2% in 2020).

SCR calculation methods

The information regarding the method used by the insurance groups considered in this report to calculate the SCR in 2021 is presented in Table 2.2-b. According to this information, of the 16 groups analyzed, seven (CNP, Crédit Agricole, BNP, Sogecap, Poste, Covéa, and R+V) used the standard formula, while the remaining nine (Allianz, Axa, Generali, RSA, Aviva, Talanx, Aegon MAPFRE, and Nationale Nederlanden) used different types of internal models. Note that none of the insurance groups analyzed is using a purely internal model for SCR calculation. In general, the groups performing some type of internal modeling have elected to apply partial internal models, combining the standard formula calculation for some modules with internal models for specific

Table 2.2-b
SCR calculation methods, 2021

	Standard formula	Partial internal models				
		Market	Credit	Underwriting	Operational	Other
Allianz		✓	✓	✓	✓	✓
Axa		✓	✓	✓	✓	✓
Generali		✓	✓	✓		
Aviva		✓	✓	✓	✓	✓
Talanx		✓	✓	✓		
Crédit Agricole	✓					
CNP	✓					
BNP	✓					
Aegon		✓	✓	✓		✓
MAPFRE				✓		
R+V	✓					
Covea	✓					
Sogecap	✓					
NN		✓	✓	✓	✓	✓
UNIPOL		✓	✓	✓		
Poste	✓					

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

categories of risks. Similarly, it should be noted that most internal models focus on financial risks (market and credit) and underwriting risks.

Eligible own funds

Table 2.2-c contains data regarding the quality of the eligible shareholders' equity available to cover the capital requirements of the different insurance groups considered in this analysis. According to this information, at an aggregate level, 86.1% of eligible shareholders' equity were of the highest quality or tier 1, 12.4% were tier 2, and 1.6% corresponded to tier 3.

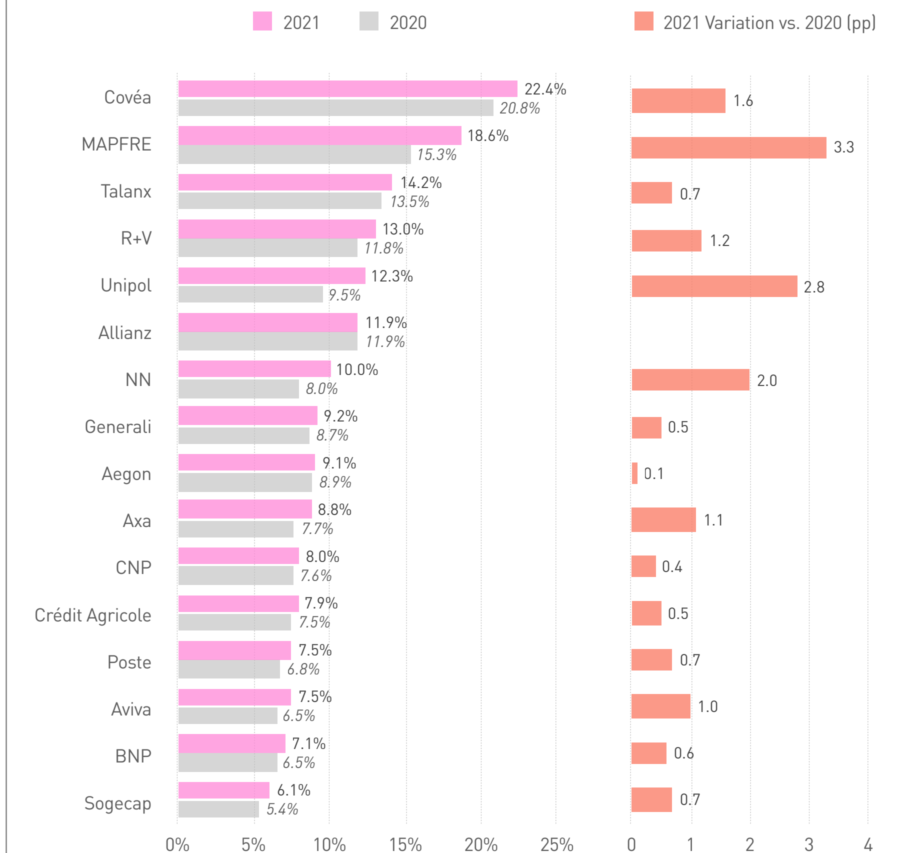
These percentages are similar to those shown by the sample of groups analyzed in the 2020 study, although it should be noted that the sample is slightly different, as the Nationale Nederlanden and Unipol groups were included instead of Groupama and RSA (which had not published their group SFCR for 2021 at the time that this report was prepared). In addition, the Talanx and R+V groups stand out for having almost 100% highest-quality eligible shareholders' equity. In support of this information, Charts 2.2-c, 2.2-d and 2.2-e illustrate a comparison of the amount of eligible shareholders' equity in relation to certain 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 relevant references with regard to 2020. In the ratio between shareholders' equity and assets, the cases of Covéa, MAPFRE, and Talanx stand out, with proportions of 22.4%, 18.6%, and 14.2%, respectively; in the ratio between shareholders' equity and technical provisions, the first three positions are also occupied by Covéa, MAPFRE, and Talanx, with proportions of 31.7%, 30.5%, and

Table 2.2-c
Quality of eligible own funds, 2021

	Eligible own funds	Tier 1		Tier 1r		Tier 2		Tier 3	
		thousands of euros	(%)	thousands of euros	(%)	thousands of euros	(%)	thousands of euros	(%)
Allianz	98,387,576	81,686,245	83.0%	6,128,844	6.2%	9,478,255	9.6%	1,094,232	1.1%
Axa	61,961,229	44,193,155	71.3%	6,762,007	10.9%	10,539,354	17.0%	466,713	0.8%
Generali	50,622,301	41,800,853	82.6%	1,896,497	3.7%	6,622,338	13.1%	302,613	0.6%
CNP	39,100,000	28,509,576	72.9%	2,648,749	6.8%	5,910,868	15.1%	2,030,807	5.2%
Crédit Agricole	34,326,866	27,293,417	79.5%	1,852,661	5.4%	5,146,799	15.0%	33,989	0.1%
Aviva	30,413,749	22,739,563	74.8%	1,149,854	3.8%	6,378,498	21.0%	145,833	0.5%
Covéa	27,950,094	27,925,969	99.9%	16,125	0.1%	8.000	0.0%	0	0.0%
Talanx	25,857,278	21,635,483	83.7%	381,077	1.5%	3,484,824	13.5%	355,894	1.4%
BNP	19,967,163	14,256,061	71.4%	1,598,829	8.0%	2,824,266	14.1%	1,288,007	6.5%
Aegon	19,431,378	14,044,291	72.3%	2,364,352	12.2%	2,347,956	12.1%	674,778	3.5%
R+V	17,656,133	17,640,433	99.9%	500	0.0%	15,200	0.1%	0	0.0%
NN	20,926,628	15,696,863	75.0%	1,875,031	9.0%	2,506,877	12.0%	847,857	4.1%
Poste	12,676,835	10,364,195	81.8%	298,590	2.4%	2,014,050	15.9%	0	0.0%
Sogecap	10,846,232	7,898,581	72.8%	997,725	9.2%	1,629,165	15.0%	320,758	3.0%
MAPFRE	9,301,520	8,131,490	87.4%	0	0.0%	1,170,030	12.6%	0	0.0%
Unipol	9,726,927	7,892,850	81.1%	1,310,880	13.5%	490,438	5.0%	32,759	0.3%
TOTAL	**489,151,909**	**391,709,025**	**80.1%**	**29,281,722**	**6.0%**	**60,566,918**	**12.4%**	**7,594,241**	**1.6%**

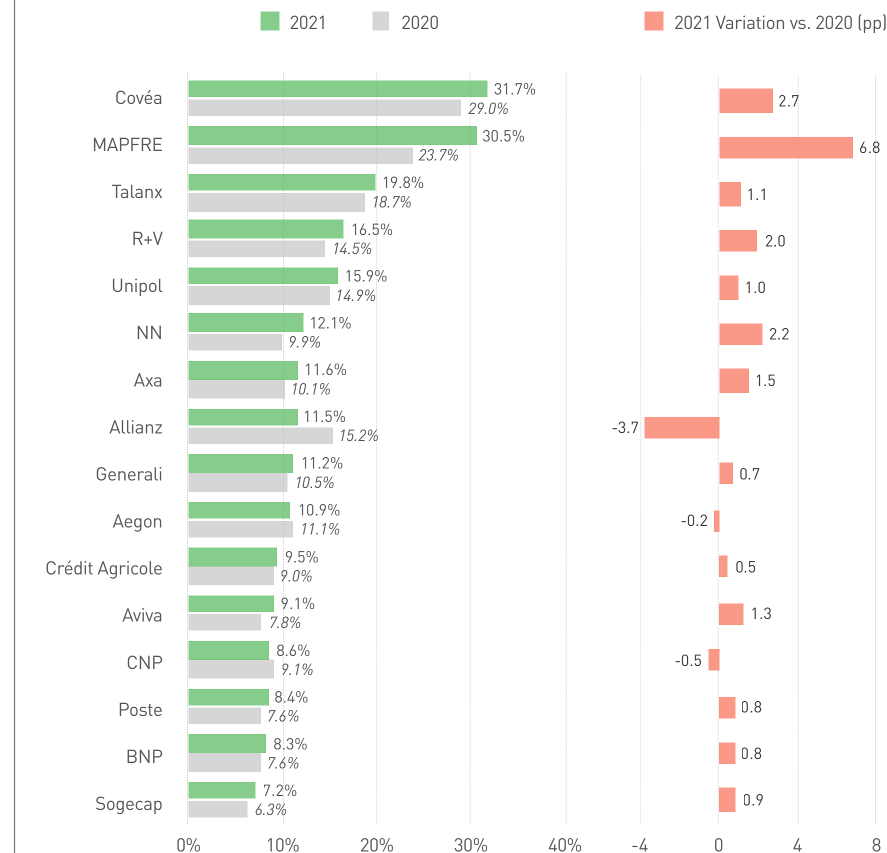
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-c
Relative weight of own funds to assets in 2021 and variation vs. 2020



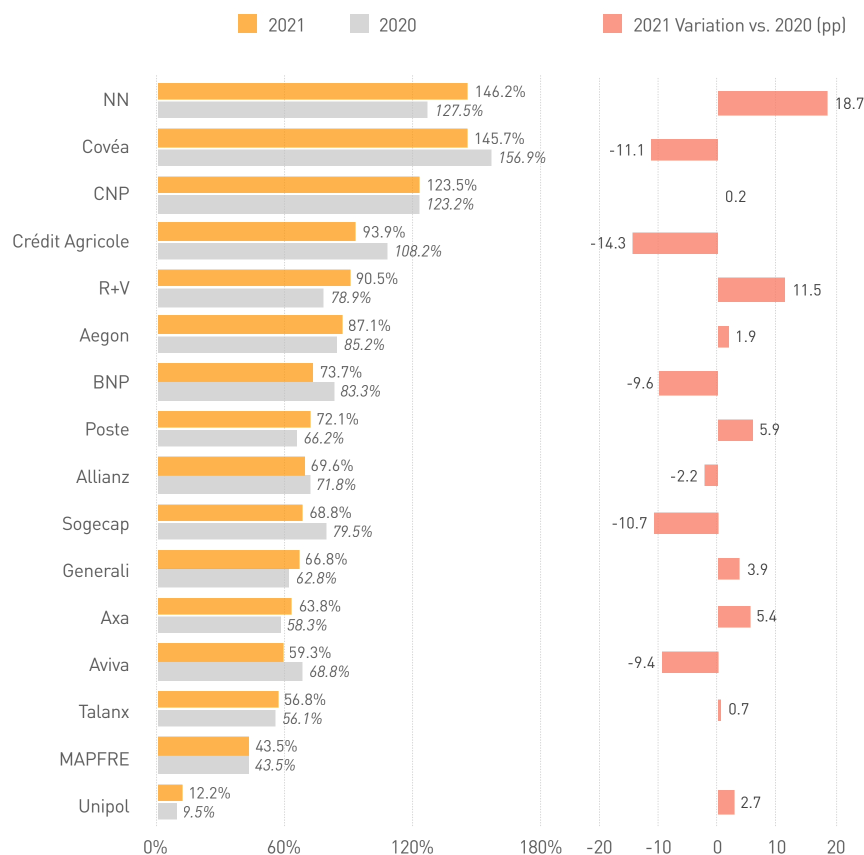
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-d
Relative weight of own funds to technical provisions in 2021 and variation vs. 2020



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

Chart 2.2-e
Relative weight of own funds compared to premiums in 2021 and variation vs. 2020



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

19.8%, in each case. Finally, in the ratio between shareholders' equity and premiums, Nationale Nederlanden, Covéa, and CNP are in the first places, with 146.2%, 145.7%, and 123.5%, respectively.

Transitional and adjustment measures

When analyzing the level of the solvency ratios of the insurance groups, a significant aspect is the effect of the transitional and adjustment measures that were introduced in the Solvency II Directive in order to alleviate potential harm to the business arising from the existence of product portfolios with long-term guarantees. These measures establish a broad transitional regime for the full entry into force of Solvency II, considering the nature of long-term institutional investors that insurance companies and their groups have, 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, said transitional regime allows for a smooth transition to the requirements of the new system for those who decide to make use of it.

More specifically, the measures adopted by the Directive in this regard were as follows: First of all, the *transitional measure on technical provisions* allows the difference between the technical provision estimated under the parameters of Solvency II and the one calculated in line with the previous standards under Solvency I to be phased in gradually over an initial 16-year period, until January 1, 2032 (six years having now elapsed). Note that this applies only to portfolios existing at the time that the new system entered into force on January 1, 2016. Secondly, the *volatility*

Table 2.2-d
Effect of transitional and adjustment measures on own funds, 2021
(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	98,387,576	-12,425,138	4,326,482	
Axa	61,961,229		-1,101,417	
Generali	50,622,301	-101,288	-404,877	
CNP	39,100,000		-200,000	
Crédit Agricole	34,326,866		111,218	
Aviva	30,413,749	-4,033,946	-228,607	-7,339,214
Covéa	27,950,094		-18,477	
Talanx	25,857,278	-3,933,300	883,187	
NN	20,926,628	-361,613	-365,846	
BNP	19,967,163		-144,737	
Aegon	19,431,378		-171,299	-23,291
R+V	17,656,133	-5,096,482	6,676	
Poste	12,676,835	-1,100,015	-150,368	
Sogecap	10,846,232		-82,107	
Unipol	9,726,927		-45,846	
MAPFRE	9,301,520	-492,970	-10,700	-154,100

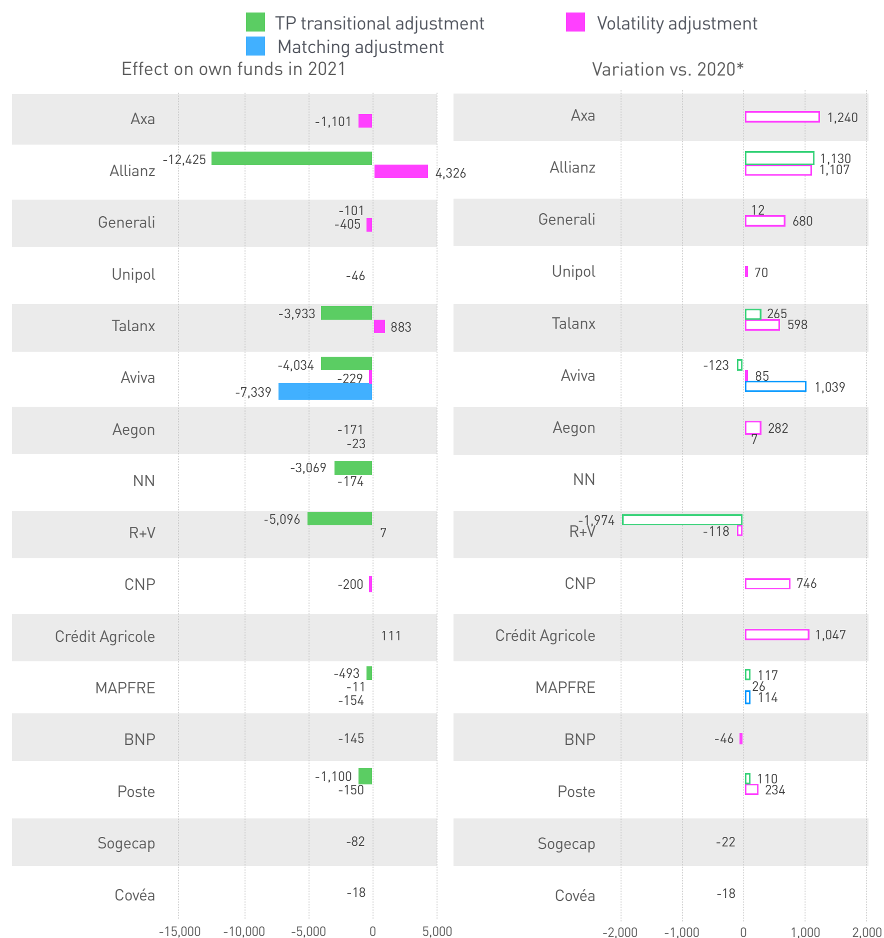
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Table 2.2-e
Effect of transitional and adjustment measures on SCR, 2021
(thousands of euros)

	SCR required	Effect of transitional adjustment TP on own funds	Effect of volatility adjustment on own funds	Effect of matching adjustment on own funds
Allianz	41,205,355		7,667,379	
Axa	28,595,076		9,074,415	
Generali	22,287,955	7,672	7,268,569	
CNP	18,000,000		100,000	
Aviva	14,864,247	1,035,224	104,914	7,382,580
Crédit Agricole	14,025,089		450,878	
BNP	10,821,613		65,243	
Talanx	10,445,827	87,152	2,563,152	
NN	9,840,015		1,153,197	
Aegon	9,226,080		1,261,873	59,845
R+V	7,960,272	325,838	9,887	
Covéa	7,955,877		28,363	
Sogecap	4,762,413		31,802	
MAPFRE	4,507,770	-690	-220	-108,880
Unipol	4,551,621		7,312	
Poste	4,409,171		49,345	

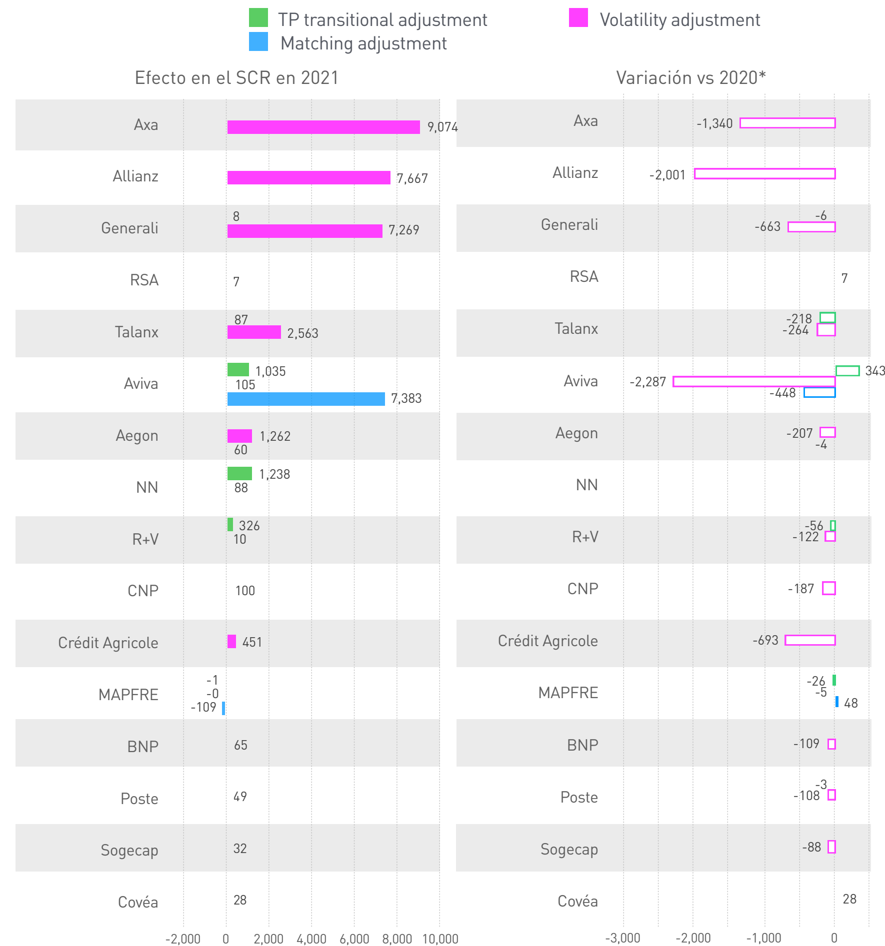
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-f
Effect of transitional and adjustment measures on own funds, 2021
(millions of euros)



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

Chart 2.2-g
Effect of transitional and adjustment measures on SCR, 2021
(millions of euros)



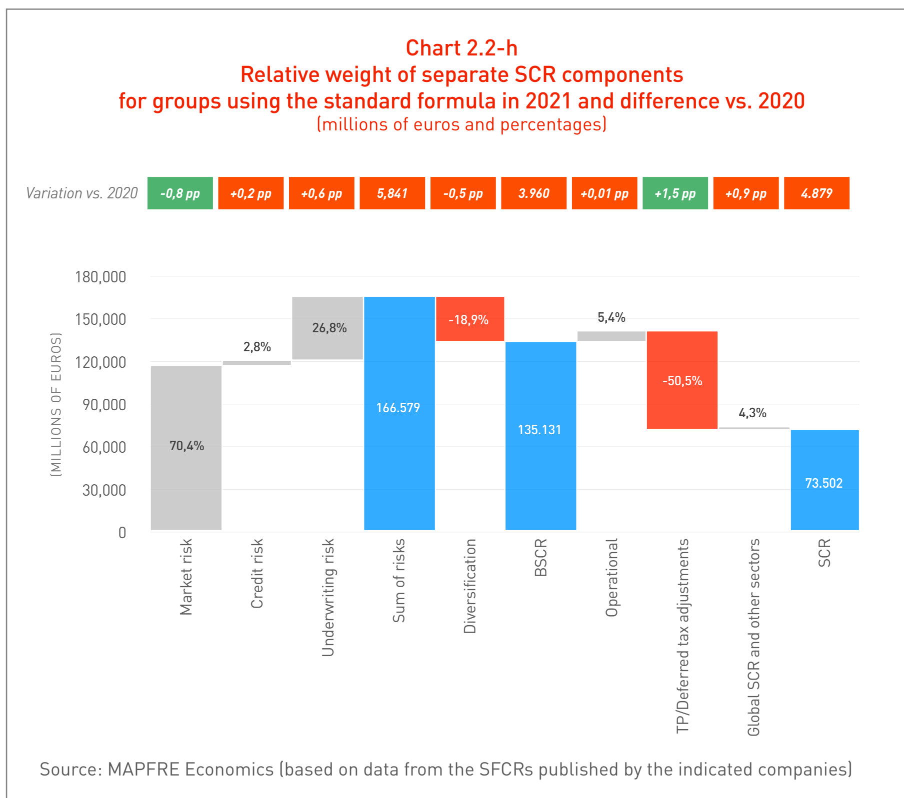
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)
* Negative variation implies increased impact of adjustment.

adjustment measure allows for correcting the discount interest rate for the technical provisions to mitigate the effects of momentary volatilities in credit spreads in investment portfolios. And finally, the *matching adjustment for assets and liabilities;* provided that 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

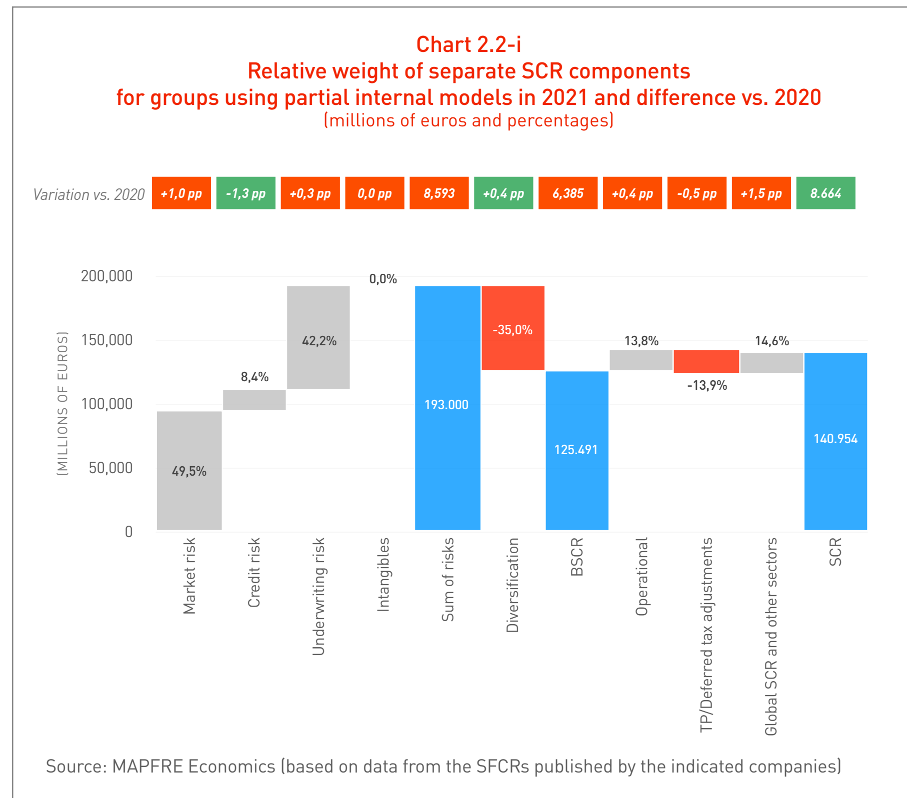
Due to their nature, the aforementioned transitional and adjustment measures have a different effect on the level of eligible shareholders' equity and the SCR and, therefore, on the solvency ratio of the insurance groups. The extent of this impact in each case is determined by, among other factors, the structure of the risk portfolio of each insurance group as well as by the characteristics of their risk management process. These effects were disclosed by

Chart 2.2-h
Relative weight of separate SCR components
for groups using the standard formula in 2021 and difference vs. 2020
(millions of euros and percentages)



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

Chart 2.2-i
Relative weight of separate SCR components
for groups using partial internal models in 2021 and difference vs. 2020
(millions of euros and percentages)



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

each of them in the respective SFCR publication, and are presented in Tables 2.2-d and 2.2-e. Furthermore, these impacts are illustrated (along with their variation compared to 2020) in Charts 2.2-f and 2.2-g.

Relative weight of SCR components

Finally, Charts 2.2-h and 2.2-i illustrate the aggregate composition of the different modules and other components of the SCR in 2021 for the insurance groups analyzed in this report, distinguishing between those that calculate the SCR using the standard formula and those that use different forms of internal models for that purpose. In the case of insurance groups that calculate SCR using the standard formula (Chart 2.2-h), a reduction in the relative weight of the market risk module (-0.8 pp) and a corresponding increase in the underwriting (+0.6 pp) and credit risk (+0.2 pp) modules was observed between 2020 and 2021. Likewise, for this subset of insurance groups, a reduction in the positive effect of diversification (-0.48 pp) related to what was observed in the previous year was recorded. Finally, compared to 2020, a larger relative profit derived from the adjustments for the loss absorbing capacity of the technical provisions and deferred taxes (+1.45 pp) is observed.

With regard to the subset made up of insurance groups using different modalities of partial internal models (Chart 2.2- i), a decrease is observed between 2020 and 2021 in the relative weight of the credit risk component (-1.28 pp), while the market risk component shows an increase compared to the previous year (+1.02 pp), as was the case with the underwriting risk (+0.26 pp). Additionally, in 2021 this subset registered an increase in profits derived from diversification (+0.43 pp) and an increase in the weight of operational risk (+0.37 pp). Finally, regarding the effect of the adjustments on the loss absorption capacity of the technical provisions and deferred taxes, it is correct to note that, in the case of insurance groups that used internal models, this metric is indicating solely the effect of the adjustments that had been modeled but not incorporated in the other components of the SCR.

Tables: macroeconomic forecast scenarios

Table A-1
Baseline and Stressed Scenarios: Gross Domestic Product
(annual growth, %)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(f)	2023(f)	2018	2019	2020	2021(e)	2022(f)	2023(f)
United States	2.9	2.3	-3.4	5.7	2.5	1.4	2.9	2.3	-3.4	5.7	2.0	-1.1
Eurozone	1.8	1.6	-6.5	5.3	2.7	1.8	1.8	1.6	-6.5	5.3	2.0	-2.0
Germany	1.1	1.1	-4.9	2.9	1.6	1.9	1.1	1.1	-4.9	2.9	0.8	-2.1
France	1.8	1.8	-8.0	7.0	2.7	1.9	1.8	1.8	-8.0	7.0	1.9	-1.3
Italy	0.8	0.5	-9.1	6.6	2.7	1.4	0.8	0.5	-9.1	6.6	1.6	-3.4
Spain	2.3	2.1	-10.8	5.1	4.1	2.4	2.3	2.1	-10.8	5.1	3.6	-2.5
United Kingdom	1.7	1.7	-9.3	7.4	3.6	1.3	1.7	1.7	-9.3	7.4	3.0	-1.8
Japan	0.6	-0.2	-4.6	1.7	1.8	1.6	0.6	-0.2	-4.6	1.7	1.4	0.4
Emerging markets	4.6	3.7	-2.0	6.8	3.6	4.1	4.6	3.7	-2.0	6.8	2.8	2.0
Latin America	1.2	0.1	-7.0	6.8	1.8	1.2	1.2	0.1	-7.0	6.8	1.6	0.3
Mexico	2.2	-0.2	-8.3	5.0	1.6	1.9	2.2	-0.2	-8.3	5.0	1.2	0.7
Brazil	1.7	1.2	-4.2	4.9	1.1	1.0	1.7	1.2	-4.2	4.9	0.8	0.4
Argentina	-2.6	-2.0	-9.9	10.3	2.8	0.8	-2.6	-2.0	-9.9	10.3	2.2	-1.5
Emerging Europe1	3.4	2.5	-1.8	6.7	-1.8	0.6	3.4	2.5	-1.8	6.7	-2.8	-2.9
Turkey	3.0	0.9	1.8	11.0	3.0	2.7	3.0	0.9	1.8	11.0	2.0	-2.2
Asia Pacific	6.4	5.9	0.8	7.3	3.9	4.4	6.4	5.9	0.8	7.3	3.5	2.8
China	6.7	6.0	2.2	8.1	4.0	5.1	6.7	6.0	2.2	8.1	3.6	3.6
Indonesia	5.2	5.0	-2.1	3.7	5.7	5.6	5.2	5.0	-2.1	3.7	5.3	4.2
Philippines	6.3	6.1	-9.5	5.7	6.5	5.0	6.3	6.1	-9.5	5.7	6.2	4.2
Global	3.6	2.9	-3.1	6.1	3.0	2.7	3.6	2.9	-3.1	6.1	2.5	0.6

Source: MAPFRE Economics

[1]Eastern Europe
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(f)	2023(f)	2018	2019	2020	2021(e)	2022(f)	2023(f)
United States	2.4	1.8	1.2	4.7	7.6	2.9	2.4	1.8	1.2	4.7	8.1	5.3
Eurozone	1.8	1.2	0.3	2.6	6.7	2.6	1.8	1.2	0.3	2.6	6.9	3.4
Germany	1.7	1.4	0.5	3.1	6.9	2.7	1.7	1.4	0.5	3.1	8.0	9.9
France	2.1	1.3	0.5	2.1	4.1	1.8	2.1	1.3	0.5	2.1	5.1	2.0
Italy	1.1	0.6	-0.1	1.9	6.7	2.9	1.1	0.6	-0.1	1.9	8.4	12.4
Spain	1.7	0.7	-0.3	3.1	8.2	3.6	1.7	0.7	-0.3	3.1	8.8	7.0
United Kingdom	2.5	1.8	0.9	2.6	8.7	4.5	2.5	1.8	0.9	2.6	9.8	9.8
Japan	1.0	0.5	0.0	-0.2	2.1	0.3	1.0	0.5	0.0	-0.2	2.3	2.8
Emerging markets	4.9	5.1	5.2	5.9	8.7	6.5	4.9	5.1	5.2	5.9	9.7	6.7
Latin America	6.6	7.7	6.4	9.8	11.2	8.0	6.6	7.7	6.4	9.8	12.2	8.2
Mexico	4.9	3.6	3.4	5.7	7.3	4.5	4.9	3.6	3.4	5.7	7.4	6.2
Brazil	3.7	3.7	3.2	8.3	11.0	7.5	3.7	3.7	3.2	8.3	11.9	11.8
Argentina	34.3	53.5	42.0	48.4	62.0	43.5	34.3	53.5	42.0	48.4	64.0	50.5
Emerging Europe[1]	6.4	6.6	5.3	9.5	27.1	18.1	6.4	6.6	5.3	9.5	28.1	18.3
Turkey	16.3	15.2	12.3	19.6	69.7	29.3	16.3	15.2	12.3	19.6	72.9	35.9
Asia Pacific	2.5	2.9	2.4	1.2	2.8	2.8	2.5	2.9	2.4	1.2	3.4	3.9
China	2.1	2.9	2.5	0.9	2.2	2.3	2.1	2.9	2.5	0.9	2.5	5.3
Indonesia	3.3	2.8	2.0	1.6	3.7	3.1	3.3	2.8	2.0	1.6	4.2	5.9
Philippines	5.3	2.4	2.4	3.9	5.8	3.6	5.3	2.4	2.4	3.9	6.3	6.3
Global	3.6	3.5	3.2	4.7	7.4	4.8	3.6	3.5	3.2	4.7	8.4	5.0

Source: MAPFRE Economics

[1]Eastern Europe
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(f)	2023(f)	2018	2019	2020	2021(e)	2022(f)	2023(f)
United States	2.69	1.92	0.93	1.52	3.20	2.88	2.69	1.92	0.93	1.52	3.53	3.98
Eurozone	1.17	0.32	-0.19	0.32	1.91	2.02	1.17	0.32	-0.19	0.32	2.57	3.40

Source: MAPFRE Economics
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(f)	2023(f)	2018	2019	2020	2021(e)	2022(f)	2023(f)
USD-EUR	0.87	0.89	0.81	0.88	0.95	0.93	0.87	0.89	0.81	0.88	0.98	0.99
EUR-USD	1.15	1.12	1.23	1.13	1.05	1.07	1.15	1.12	1.23	1.13	1.02	1.01
GBP-USD	1.28	1.32	1.36	1.35	1.21	1.24	1.28	1.32	1.36	1.35	1.16	1.17
USD-JPY	110.83	109.12	103.54	115.00	128.33	115.60	110.83	109.12	103.54	115.00	132.38	120.18
USD-CNY	6.88	6.99	6.52	6.35	6.70	6.47	6.88	6.99	6.52	6.35	7.05	6.64

Source: MAPFRE Economics
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(f)	2023(f)	2018	2019	2020	2021(e)	2022(f)	2023(f)
United States	2.50	1.75	0.25	0.25	3.00	2.25	2.50	1.75	0.25	0.25	3.50	4.00
Eurozone	0.00	0.00	0.00	0.00	1.00	1.00	0.00	0.00	0.00	0.00	1.50	1.75
China	3.25	3.25	3.00	3.00	2.75	2.75	3.25	3.25	3.00	3.00	3.00	3.25

Source: MAPFRE Economics
Forecast end date: July 12, 2022

Click here to access the interactive version of this information

Index of charts, tables and boxes

Charts

Chart 1.1.1-a Global: supply chain trend ...12
Chart 1.1.1-b Global: daily futures of the financial base for energy ...12
Chart 1.1.1-c Global: food price index... 12
Chart 1.1.1-d Global: volatility trends ... 12
Chart 1.1.1-e Developed markets: PMI performance...13
Chart 1.1.1-f Emerging markets: PMI performance... 13
Chart 1.1.1-g Germany: evolution of trade balance... 23
Chart 1.1.1-h United States: index of the value of the dollar vs. other currencies ...23
Chart 1.1.1-i United States: consumer confidence ... 24
Chart 1.1.1-j United States: unemployment ... 24
Chart 1.1.1-k China: PMI performance ... 24
Chart 1.1.1-l Raw materials ... 24
Chart 1.1.2-a Baseline scenario: GDP and inflation ... 29
Chart 1.1.2-b Shock: oil prices... 30
Chart 1.1.2-c Shock: Real GDP (index), stressed scenario ...30
Chart 1.1.2-d Shock: Inflation GDP (YoY), stressed scenario ... 31
Chart 1.1.3-a Short-term risk balance: vulnerabilities and global risks ... 32
Chart 1.1.3-b Global: Daily COVID-19 infections and deaths vs. stringency index... 35
Chart 1.1.3-c Developed countries: daily COVID-19 infections and deaths vs. stringency index ... 36
Chart 1.1.3-d Emerging countries: daily COVID-19 infections and deaths vs. stringency index... 36
Chart 1.2.1-a United States: GDP breakdown and forecasts... 38
Chart 1.2.1-b United States: domestic demand breakdown and forecasts... 38

Chart 1.2.2-a Eurozone: GDP breakdown and forecasts ... 40
Chart 1.2.2-b Eurozone: domestic demand breakdown and forecasts ... 40
Chart 1.2.3-a Spain: GDP breakdown and forecasts ... 43
Chart 1.2.3-b Spain: domestic demand breakdown and forecasts ... 43
Chart 1.2.4-a Germany: GDP breakdown and forecasts ... 45
Chart 1.2.4-b Germany: domestic demand breakdown and forecasts ... 45
Chart 1.2.5-a Italy: GDP breakdown and forecasts ... 47
Chart 1.2.5-b Italy: domestic demand breakdown and forecasts ... 47
Chart 1.2.6-a United Kingdom: GDP breakdown and forecasts ... 49
Chart 1.2.6-b United Kingdom: domestic demand breakdown and forecasts ... 49
Chart 1.2.7-a Japan: GDP breakdown and forecasts ... 51
Chart 1.2.7-b Japan: domestic demand breakdown and forecasts ... 51
Chart 1.2.8-a Turkey: GDP breakdown and forecasts ... 53
Chart 1.2.8-b Turkey: domestic demand breakdown and forecasts ... 53
Chart 1.2.9-a Mexico: GDP breakdown and forecasts ... 55
Chart 1.2.9-b Mexico: domestic demand breakdown and forecasts ... 55
Chart 1.2.10-a Brazil: GDP breakdown and forecast ... 57
Chart 1.2.10-b Brazil: domestic demand breakdown and forecasts ... 57
Chart 1.2.11-a Argentina: GDP breakdown and forecasts ... 59
Chart 1.2.11-b Argentina: domestic demand breakdown and forecasts ... 59
Chart 1.2.12-a China: GDP breakdown and forecasts ... 61
Chart 1.2.12-b China: domestic demand breakdown and forecasts ... 61
Chart 1.2.13-a Indonesia: GDP breakdown and forecasts ... 63
Chart 1.2.13-b Indonesia: domestic demand breakdown and forecasts ... 63
Chart 1.2.14-a Philippines: GDP breakdown and forecasts ... 65
Chart 1.2.14-b Philippines: domestic demand breakdown and forecasts ... 65
Chart 2.1.2 Eurozone: risk-free yield curve ... 68
Chart 2.1.6 United Kingdom: risk-free yield curve ... 71
Chart 2.1.7 United States: risk-free yield curve ... 72
Chart 2.1.8 Brazil: risk-free yield curve ... 73
Chart 2.1.9 Mexico: risk-free yield curve ... 73
Chart 2.1.11 Turkey: risk-free yield curve ... 75

Chart 2.1.12 China: risk-free yield curve 76
Chart 2.1.13 Japan: risk-free yield curve 76
Chart 2.2-a Main currencies: volatility adjustment, 2019–2022....78
Chart 2.2-b Solvency ratios, 2020-2021 79
Chart 2.2-c Relative weight of shareholders' equity to assets in 2021 and variation vs. 2020 83
Chart 2.2-d Relative weight of shareholders' equity to technical provisions in 2021 and difference vs. 2020 83
Chart 2.2-e Relative weight of shareholders' equity compared to premiums in 2021 and variation vs. 2020....84
Chart 2.2-f Effect of adjustment and transitional measures on shareholders' equity, 2021 86
Chart 2.2-g Effect of adjustment and transitional measures on SCR, 2021 86
Chart 2.2-h Relative weight of separate SCR components for groups using the standard formula in 2021 and difference vs. 2020 87
Chart 2.2-i Relative weight of separate SCR components for groups using partial internal models in 2021 and difference vs. 2020 87

Tables

Table 1.2.1 United States: main macroeconomic aggregates 38
Table 1.2.2 Eurozone: main macroeconomic aggregates....40
Table 1.2.3 Spain: main macroeconomic aggregates 43
Table 1.2.4 Germany: main macroeconomic aggregates 45
Table 1.2.5 Italy: main macroeconomic aggregates....47
Table 1.2.6 United Kingdom: main macroeconomic aggregates 49
Table 1.2.7 Japan: main macroeconomic aggregates 51
Table 1.2.8 Turkey: main macroeconomic aggregates 53
Table 1.2.9 Mexico: main macroeconomic aggregates....55
Table 1.2.10 Brazil: main macroeconomic aggregates 57
Table 1.2.11 Argentina: main macroeconomic aggregates 59
Table 1.2.12 China: main macroeconomic aggregates 61
Table 1.2.13 Indonesia: main macroeconomic aggregates 63

Table 1.2.14 Philippines: main macroeconomic aggregates 65
Table 2.2-a Principal 2021 financial and solvency figures....80
Table 2.2-b SCR calculation methods, 2021 81
Table 2.2-c Quality of eligible shareholders' equity, 2021 82
Table 2.2-d Effect of adjustment and transitional measures on shareholders' equity, 2021 85
Table 2.2-e Effect of adjustment and transitional measures on SCR, 2021.... 85
Table A-1 Baseline and stressed scenarios: gross domestic product 89
Table A-2 Baseline and stressed scenarios: inflation 90
Table A-3 Baseline and stressed scenarios: 10-year government bond yield 91
Table A-4 Baseline and stressed scenarios: exchange rates 91
Table A-5 Baseline and stressed scenarios: official benchmark interest rate 91

Recuadros

Box 1.1.1-a REPowerEU: more challenges than certainties 14
Box 1.1.1-b Monetary policy update 17
Box 1.1.1-c Emerging exchange rate volatility 25

References

1/ See: MAPFRE Economics (2022), *2022 Economic and Industry Outlook: Second quarter perspectives,*, Madrid, Fundación MAPFRE.

2/ The NBER's traditional definition implies a significant reduction in economic activity that is spread across the economy and that lasts more than a few months, against the traditional definition that limits it to two consecutive quarters of economic decline.

3/ Amount that remained available as there were countries that, like Spain, only used the funds that would not have to be repaid and rejected those in the form of a loan. Spain's case is very unique, since at the most critical time, when electricity companies are expected to participate in this transformation effort, it is considering increasing taxation of the sector.

4/ In relation to the risk-free yield curves produced from the EIOPA data, other months and currencies can be viewed on the interactive chart indicated on each chart in this section of the report.

5/ The Solvency and Financial Condition Reports (SFCR) for 2021 that are used as the basis for the preparation of this report were consulted as required at the following links:

Allianz: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/investor-relations/en/results-reports/sfcr/2022/en-Allianz-Group-SFCR-2021.pdf

Axa: https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/671c9b43-1d97-4f94-b64c-ff4150dfa8ec_axa_sfcr_2021_va.pdf

CNP: https://www.cnp.fr/en/cnp/content/download/10431/file/CNP-Assurances-SFCR-Groupe-2021-EN.pdf

Generali: https://www.generali.com/doc/jcr:b69ae136-4c01-443c-a141-db6d8b68c623/SFCR%20GRUPPO%202021%20ENG.pdf/lang:en/SFCR_GRUPPO_2021_ENG.pdf

Crédit Agricole: https://www.ca-assurances.com/previewPDF/26596/CAA%20-%20SFCR_2021_FR.pdf

Aviva: https://static.aviva.io/content/dam/aviva-corporate/documents/investors/pdfs/regulatoryreturns/2021/31%20Dec%2021%20Aviva%20plc%20Group%20SFCR.pdf

BNP: https://www.bnpparibascardif.com/c/document_library/get_file?uuid=201104b1-4b10-b7e3-dbd0-53ba4c64edb8&groupId=348001

Aegon: https://www.aegon.com/contentassets/db4477ad6df34e1fa80a1cf928169d4f/2021-sfcr-aegon-group.pdf

Poste: https://www.poste.it/files/1476561715657/RelazioneUnicaSolvibilita_CondizioneFinanziaria_31122021.pdf

Sogecap: https://www.assurances.societegenerale.com/uploads/tx_bisgnews/SFCR_SOGECAP_2021_VF.pdf

Talanx: https://www.talanx.com/media/Files/investor-relations/pdf/geschaeftsberichte/risikoberichte/2021-SFCR-HDI-GRUPPE-EN.pdf

R+V: https://www.ruv.de/dam/jcr:cae3f48d-41ec-4fcb-be19-458be4184770/2021-SFCR-Gruppe.pdf

Covéa: https://www.covea.eu/sites/default/files/2022-06/sfcr_covea_2021_synthese_bilingue_anglais_italien.pdf

Nationale Nederlanden: https://www.nn-group.com/nn-group/file?uuid=b20d6f94-e5ba-4e0f-a0fc-1cfffabd1540&owner=84c25534-c28a-4a64-9c78-5cc1388e4766&contentid=11878

Unipol: https://www.unipol.it/sites/corporate/files/document_attachments/sfcr_ug_2021_en.pdf

MAPFRE: https://www.mapfre.com/media/accionistas/2022/2021-sfcr-grupo-mapfre.pdf

And the 2020 equivalents against which the data is compared were consulted at the following links:

Allianz: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/investor-relations/en/results-reports/sfcr/2021/en-Allianz-Group-SFCR-2020.pdf

Axa: https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/d87a089b-4f7b-42d9-8167-65168a7f7937_axa_sfcr_2020_va.pdf

CNP: https://www.cnp.fr/en/cnp/content/download/9644/file/CNP-Assurances-SFCR-Groupe-2020-VA.pdf

Generali: https://www.generali.com/doc/jcr:51062ddb-528c-468c-bf91-d2947a5fdbba/SFCR%20Generali%20Group%202020%20ENG.PDF/lang:en/SFCR_Generali_Group_2020_ENG.PDF

Crédit Agricole: https://www.ca-assurances.com/previewPDF/22096/CAA_%20SFCR%202020_FR.pdf

Aviva: https://static.aviva.io/content/dam/aviva-corporate/documents/investors/pdfs/regulatoryreturns/2020/aviva-plc-group-sfcr-2020.pdf

BNP: https://www.bnpparibascardif.com/c/document_library/get_file?uuid=b51fc835-3394-801c-702d-0e930809a7b4&groupId=348001

Aegon: https://www.aegon.com/contentassets/93133cb175974c9eb139d0b00bf6455e/2020-sfcr-aegon-group.pdf

Poste: https://www.poste.it/files/1476538733185/RelazioneUnicaSolvibilita_CondizioneFinanziaria_31122020.pdf

Sogecap: https://www.assurances.societegenerale.com/uploads/tx_bisgnews/SOGECAP_SFCR_2020_02.pdf

Talanx: https://www.talanx.com/media/Files/investor-relations/pdf/geschaeftsberichte/risikoberichte/2020_sfcr_hdi_gruppe_en-2.pdf

R+V: https://www.ruv.de/dam/jcr:228f74ff-e273-4542-8bf8-f3b3faf79034/2020-SFCR-Gruppe.pdf

Covéa: https://www.covea.eu/sites/default/files/2022-06/sfcr_covea_2021_synthese_bilingue_anglais_italien.pdf

Nationale Nederlanden: https://www.nn-group.com/nn-group/file?uuid=ba216cc0-a333-435c-a0d6-99da19314bc2&owner=84c25534-c28a-4a64-9c78-5cc1388e4766&contentid=11405

Unipol: https://www.unipol.it/sites/corporate/files/document_attachments/sfcr_ug_2020_en.pdf

MAPFRE: https://www.mapfre.com/media/accionistas/2021/2020-sfcr-grupo-mapfre.pdf

6/ Please note that Groupama and RSA have not been included in the analysis for 2021, as in previous years, as they had not published their 2021 group SFCRs at the time this report was prepared.

Other reports from MAPFRE Economics

MAPFRE Economics (2022), *The Spanish Insurance Market in 2021*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2022), *Global savings after the pandemic and insurance industry investments*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2022), *COVID-19: a preliminary analysis of demographic and insurance industry impacts*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2022), *2022 Economic and Industry Outlook*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2021), *GIP-MAPFRE 2021*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2021), *A Global Perspective on Pension Systems*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2020), *Elements for the Development of Life Insurance*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2020), *Financial Inclusion in Insurance*, Madrid, MAPFRE Economics.

MAPFRE Economic Research (2019), *Population Aging*, Madrid, Fundación MAPFRE.

MAPFRE Economic Research (2018), *Health Systems: A Global Analysis*, Madrid, Fundación MAPFRE.

MAPFRE Economic Research (2018), *Insurance Solvency Regulation Systems*, Madrid, Fundación MAPFRE.

MAPFRE Economic Research (2017), *Elements for Insurance Expansion in Latin America*, Madrid, Fundación MAPFRE.

DISCLAIMER

This document has been prepared by MAPFRE Economics for information purposes only. It does not reflect the views or opinions of MAPFRE or Fundación MAPFRE. The document presents and compiles data, views and estimates relative to the time at which it was prepared. These were prepared directly by MAPFRE Economics or otherwise obtained from or prepared using sources considered reliable, but which have not been independently verified by MAPFRE Economics. Therefore, MAPFRE and Fundación MAPFRE specifically refuse all liability with respect to its precision, integrity or correctness.

The estimates contained in this document have been prepared on the basis of widely accepted methodologies and should be treated as forecasts or projections only, given that the results obtained from positive or negative historical data cannot be considered as a guarantee of future performance. This document and its contents are also subject to changes that will depend on variables like the economic outlook or market performance. MAPFRE and Fundación MAPFRE therefore refuse all liability with respect to how up to date or relevant these contents may be, or with respect to providing any related notices.

This document and its contents do not constitute any form of offer, invitation or solicitation to purchase, participate or divest in financial assets or instruments. This document and its contents cannot form part of any contract, commitment or decision of any type. With regard to the investment in financial assets connected with the economic variables analyzed in this document, readers of this study must be aware that under no circumstances should they base their investment decisions on the information given in this document. People or companies offering investment products to potential investors are legally bound to provide the necessary information by which to make a suitable investment decision. For all of the foregoing, MAPFRE and Fundación MAPFRE specifically refuse all liability for any direct or indirect harm, loss or damage that may ensue from the use of this document or its contents for these purposes.

The contents of this document are protected by intellectual property laws. The information contained in this study may be reproduced in part, provided the source is cited.

Fundación
MAPFRE

www.fundacionmapfre.org
Paseo de Recoletos, 23
28004 Madrid

Fundación MAPFRE

www.fundacionmapfre.org

Paseo de Recoletos, 23
28004 Madrid