Fundación MAPFRE

ECONOMIC AND INDUSTRY OUTLOOK 2017: FORECASTS UPDATE AS OF Q3 2017

MAPFRE Economic Research

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Executive summary

Economic and industry outlook 2017: forecasts up to the third quarter

Global activity continued to grow at a rate of nearly 1 percent during the second quarter of 2017, though with recent signs of stabilization. This fact ratifies and even introduces an upside risk in our global growth forecast, which is slightly higher than 3.1 percent for 2017, with an acceleration in the contribution to economic activity of developed markets which we situate at around 2 percent, with emerging markets remaining stable at 4.5 percent.

In general, the indicators and expectations continue to be more benign than suggested by the real indicators, with clear signs of significant improvements in world trade, equipment investment and, in certain countries, in residential investment. We expect these improvements to impact on national accounts during the second half of the year. A certain moderation of activity in the United States contrasts with a more dynamic Eurozone, while activity in China remains in line with the country's agenda of a very gradual slowdown. Economic activity in emerging markets is still moderate and mixed, as well as being highly dependent on the cyclical recoveries of Brazil and Russia, the effect of U.S. economic policy on Mexico, resilience in spite of the political heterodoxy in Turkey and the Philippines, and the new credit rating for Indonesia.

Meanwhile, if inflation accelerated in developed markets during the first quarter of the year, it now seems to be losing traction, mainly to due to the temporary loss of buoyancy in energy prices (global inflation of nearly 3 percent in the second quarter of 2017, standing at 2 percent in developed markets and above 4 percent in the emerging ones). The inflation expectations implicit in indexed bonds are also lower, while the underlying rate remains stable.

The U.S. Federal Reserve Bank raised interest rates in June (25 bps) in spite of the moderation in prices, although the pace remains gradual. At least one more interest-rate hike is expected before the end of the year although, in the words of J. Yellen, it will be "data driven" and conditioned by inflation. The monetary policy of the European Central Bank (ECB) remains intact for the moment. Based on the likely sequence of monetary policy normalization, the adjustment to its balance sheet could take place in the second half of 2019 (only after eliminating negative rates and starting to raise interest rates, which is not expected until the second half of 2018).

Divergence in monetary policy continues to be a dominant feature of the emerging markets. In Mexico the latest interest-rate increase (+25bps) is likely to lead to a less restrictive bias because of the improved outlook regarding inflation and the stabilization of the peso at pre-Trumpian levels. Brazil continues to pursue its monetary easing policy with additional cuts to interest rates, and we expect this easing to be maintained next year as well. Meanwhile, Turkey once again raised the marginal funding rate, with the cumulative increase in the average cost of funding taking it to around 12 percent.

The delay in the visible materialization of the reflation expectations is impacting the appreciation of the dollar that was projected in previous quarters, situating it in the same average environment as 2016. In the Eurozone, changes in the language of the ECB and reduced political tensions appear to be favoring the appreciation of the euro. The bias in this case, combined with unfulfilled expectations by the new federal administration in the United States and the more upbeat tone of the language used by the ECB, is likely to be downward (i.e. greater appreciation of the euro).

In the main emerging markets the outlook is uneven. Brazil and Turkey are likely to see a greater depreciation of the local currency in line with the real financial vulnerabilities that are currently afflicting both countries and could even grow deeper as a result of domestic policy. In China the intervention of the central bank will aim to stabilize the renminbi at lower levels until the end of 2017. With regard to the other currencies, we expect moderate depreciation against the dollar in view of the normalization of the monetary policy in the United States and its effect on global portfolio flows.

At the global level, the risks appear to emanate from the performance of the U.S. economic policy, especially if the market sees its expectations of a global reflation policy dashed and if the asset prices currently not aligned to fundamentals experience a severe correction (corporate debt, commercial land prices, value of variable annuities). In this respect it is very important that the Fed's normalization of its monetary policy should be completed in a orderly and transparent manner, avoiding the tapering that occurred in 2013 with repercussions for global portfolios.

In Europe, now that the political risk of the elections in France has been diluted, attention has turned to the political situation in Italy, which could trigger a sovereign debt crisis event linked to a potential exit from the euro. In the emerging markets the vulnerabilities are associated with the strong leverage of private companies, in some cases in dollars. Furthermore, in China the risk with global implications is rooted in the relationship between the real estate sector, the financial markets and the management of the current economic policy, although it is clear that the government is undertaking macro-prudential containment measures to cool the economy. Likewise, certain asset inflation and nominal volatility (including the exchange rate) processes have had a calming effect, while intervention in the money markets to slow down the depreciation of the renminbi has proved effective.

Insurance markets

The global insurance business experienced a slight slowdown in 2016 following the downturn in life insurance in developed economies (-0.5 percent), which represented 81 percent of all life insurance premiums worldwide.

The future (2017/2018) performance of the insurance business will be determined by two factors: the dynamics of global reflation and its effects on long-term interest rates, which will boost the underwriting of life savings insurance and insurance linked to private pension schemes, and the more beneficial phase in the economic cycle for developed and emerging markets which, consistent with increased consumption, will have a favorable impact on the underwriting of non-life insurance.

In view of the need in emerging markets for convergence with average insurance levels worldwide, increases in activity will lead to proportionately higher increases in the purchase of insurance, and the underwriting of non-life insurance is therefore likely to grow more vigorously in emerging markets than in developed markets. On the financial side, as a result of the new cycle in global monetary policy, in terms of trends and synchronicity, the yield curves in the insurance market will steepen, although perhaps to a lesser extent than would be desirable because of the moderate duration risk currently faced worldwide.

1. Economic outlook

1.1 The world economic outlook: update

General aspects

The beginning of 2017 was marked by an acceleration in global activity and, in particular, by the renewed protagonism of China and the Eurozone in the face of a more moderate economy in the United States.

China reacted favorably to the regulatory stimuli that rekindled investment during the first quarter, with y-o-y growth close to 7.3 percent, while the Eurozone grew by 2.3 percent, the best increase recorded since the beginning of this cycle. Spain and Germany were the main large countries that contributed to the growth of this region, although the input from France and even Italy was not negligible.

The emerging markets also saw abundant activity, with a significant contribution from Russia (2.4 percent) and the larger economies of Latin America (2.7 percent). However, in light of the earliest indicators on expectations, activity and trade, we anticipated second-quarter growth to remain stable, repeating the current trend.

All of the above reinforces our prediction of a global growth of 3.1 percent, as published at the end of last year (see Chart 1.1-a), with developed markets contributing around +2 percent and emerging markets around +4.5 percent in 2017.

Our expectation for the whole of 2017 included the possibility (as we are now seeing) of a delay in Trump's reflation policy, thus limiting the negative effects on the supply side (immigration, NAFTA, protectionism) as well as the positive ones on the demand side (fiscal expansion, commercial flexibility, etc.). However, contrary to what we stated in our previous report, the risks seem to be more moderate in 2017 because the real indicators point to a certain convergence between market expectations and actual data. Corporate profit, residential investment, longer-term bond prices, and the monetary policy timeline, among others, seem to be obeying the orderly sequence of self-fulfilling expectations.

Our global prediction for the whole year therefore has an upward bias. We also believe that most of the demand policies of the Trump administration will be fulfilled, albeit with modifications and delays, with the result that their effect will only start to be felt on a global scale in the second half of 2018. For this reason, we have revised upward (under the baseline scenario) our growth forecast for the developed world, and by extension for the overall global economy, to 3.2 percent (see Table A-1 in the appendix to this report).

With regard to prices, a fall in the Brent oil price to around $45 per barrel and the persistent contention of underlying inflation (for structural reasons) are limiting the reflationary boost in developed countries, while incipient deleveraging efforts are limiting it in emerging markets. In any case, global inflation will remain at around 3 percent in 2017 with a certain downward bias in view of the recently extracted inflation expectation from bonds (see

Table A-2 in the appendix to this report). This has implications for the tone of global monetary policy, which sees no urgent need to accelerate its current dynamics.

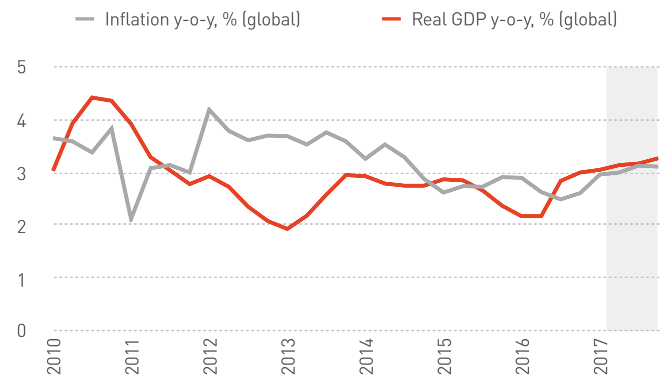
In broad terms, monetary policy remains uneven, conditioned by differences of phase in the economic cycle of the various economies (greater in developed markets than emerging ones), different inflationary pressures, global portfolio flows, the defense of the Chinese currency, the intervention of the Federal Reserve, and other factors such as the complementarity and feasibility of a more lax fiscal policy. The divergence in the intensity and direction of the global monetary condition represents a potential although limited risk (see Table A-5 in the appendix to this report).

With regard to currencies, the loss of momentum experienced by long-term rates and the moderation in inflation expectations are currently containing the appreciation of the dollar against the other currencies, although this will be short-lived because of the divergence between the monetary policy of the United States and that of the rest of the world (see Tables A-3 and A-4 in the appendix to this report).

All the other main financial variables repeat the general trend of the previous quarter, with limited appreciations of the global yield curve showing greater changes in the level of rates than in the slope because of the duration risk (greater than anticipated last year in the United States and with exceptions in the Eurozone), portfolio flows switching from sovereign and corporate debt to variable annuities, and boosted by the high risk appetite that usually accompanies a low VIX and high-yield rates (see Chart 1.1-b).

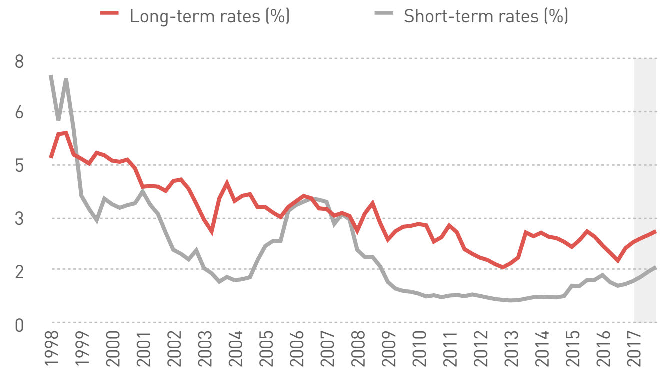
The Brent oil price used for our forecasts has been reduced from $60 per barrel at the end of 2018 (2016 forecasts) to $55 p/b. The reason for this is the fall in the current spot price triggered by the fear that the Organization of the Petroleum Exporting Countries (OPEC) will not reach an agreement to reduce production, and that in spite of the contraction of inventories the global supply will be higher (with alternative sources and markets expanding).

Chart 1.1-a
Global: growth and inflation, 2010-2017



Source: MAPFRE Economic Research (based on data from Bloomberg)

Chart 1.1-b
Global: long and short-term interest rates, 1998-2017



Source: MAPFRE Economic Research (based on data from Bloomberg)

The vulnerabilities and risks of our scenario remain the same as in the previous report. The enormous corporate debt of certain emerging markets, in many cases in dollars, makes them vulnerable to the U.S. monetary policy cycle and the volatility of their local currencies; some with significant sovereign debt and systemic implications for their real sector and their ability to transmit the global effects (China).

Asset inflation processes (high P/E ratios, residential prices not aligned to fundamentals and the price of high-yield debt, among others) also represent a vulnerability with the potential to create a balance of payments crisis. In our view, therefore, the number of downside risk (impairment) scenarios in the future is high and their probability even higher. The main risk, because of its probability, is structural economic damage due to the Trump administration supply side (as explained in our alternative scenario). The second risk (more severe but less probable) is a crisis scenario in China, and the third one is related to the convertibility risk in the Eurozone, the rejection of the euro and systemic problems in some of the member states leading to governability issues in the region.

1.2 Forecasts and balance of risks in selected economies

1.2.1 United States

No significant changes since the last quarter

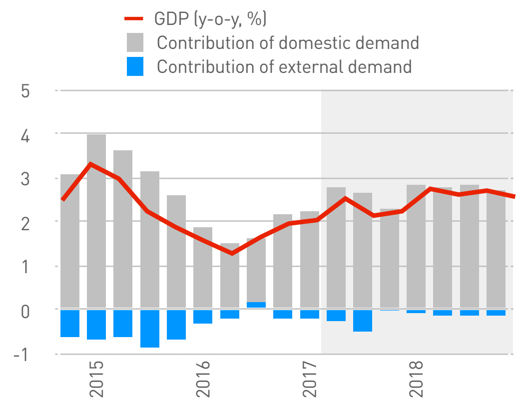
The first-quarter gross domestic product (GDP) figures were slightly lower than expected and everything points to this gradual downward trend being maintained in the second quarter of the year. Although employment figures remained strong during the last quarter and the broad unemployment metrics are positive (the unemployment rate was 4 percent and the U6 labor underutilization was less than 8 percent), the salary increase was moderate in both nominal and real terms. Once again, the relative stagnation of industrial production contrasts with the highly positive Purchasing Managers Index (PMI) indicators, which suggests continued hope in the materialization of the Trumpian reflationary policy.

- *Hardly any of the positive externalities associated with the Trump administration reforms will be felt in 2017. Their effects are likely to emerge in the first half of 2018.*
- *We maintain a positive outlook regarding activity and employment, but supported by domestic demand with investment playing an increasing role.*
- *The Federal Reserve is revising the pace of monetary policy normalization because of the positive performance of the labor market, although underlying inflation is still being contained.*
- *Risks continue their downward bias, linked in particular to unrealized expectations concerning economic policy and its real effects.*

Although inflation remained relatively stable compared with the previous quarter, underlying inflation is still moderate, indicating that salary expectations are anchored. Of some concern, however, is the fact that rental inflation is nearing 1 percent, rekindling signs of low inflation. This could impact Federal Reserve "guidance". GDP is estimated to grow by approximately 0.6 percent in the second quarter of 2017, and we therefore maintain our current forecast of 2.2 percent GDP growth for the whole of the year.

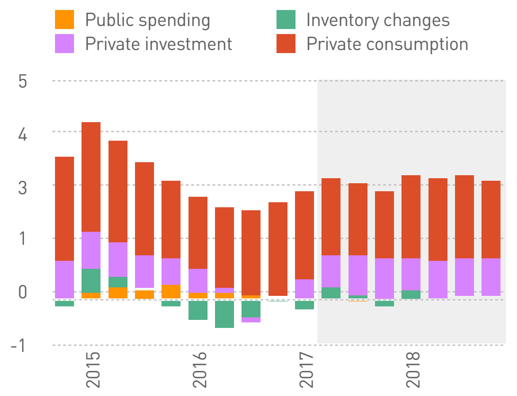
Meanwhile, monetary policy is gaining traction but with reservations related to low inflation. The interest-rate hike in June 2017 by the Federal Open Market Committee (FOMC) took the rate to 1.25 percent. Another hike is expected between September and December, putting the interest rate at 1.5 percent by the end of 2017. Meanwhile, the 10-year interest rate is below 2.4 percent and (due to a certain duration risk and fears over the speed of the implementation of economic stimuli) the yield curve appears to be flattening.

Chart 1.2.1-a
United States: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on data from the Federal Reserve)

Chart 1.2.1-b
United States: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on data from the Federal Reserve)

Table 1.2.1
United States: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	2.2	1.7	2.4	2.6	1.6	2.2	2.7
Contribution of domestic demand	2.1	1.4	2.1	3.3	1.7	2.5	2.8
Contribution of external demand	0.1	0.3	0.2	-0.7	-0.1	-0.2	-0.1
Contribution of private consumption	1.0	1.0	1.9	2.2	1.9	1.7	1.8
Contribution of investment	1.2	0.6	0.5	0.8	0.1	0.8	0.8
Contribution of public consumption	-0.1	-0.3	-0.1	0.2	0.1	0.0	0.1
Domestic demand (% y-o-y, average)	2.1	1.3	2.5	3.2	1.7	2.4	2.7
Total consumption (% y-o-y, average)	-3.2	4.9	-11.3	-7.1	-2.9	-5.9	1.4
Investment (% y-o-y, average)	6.3	3.0	4.2	3.8	0.7	3.8	4.1
Exports (y-o-y in %)	0.4	0.5	0.6	0.0	0.0	0.3	0.4
Imports (y-o-y in %)	-0.4	-0.2	-0.4	-1.2	-0.2	-0.6	-0.5
Unemployment rate (end of period)	7.8	6.9	5.7	5.0	4.7	4.4	4.4
Inflation (y-o-y, end of period)	1.9	1.2	1.2	0.4	1.8	1.8	2.1
Fiscal balance (% of GDP)	-8.9	-5.4	-4.9	-4.5	-5.0	-4.8	-5.6
Trade balance (% of GDP)	-4.8	-4.4	-4.5	-4.4	-4.2	-4.3	-4.3
Current account balance (% of GDP)	-2.8	-2.2	-2.3	-2.6	-2.6	-2.6	-2.7
Official interest rate (end of period)	0.13	0.13	0.13	0.17	0.42	1.50	2.00
10-year rate (end of period)	1.71	2.75	2.28	2.19	2.13	2.46	2.87
Exchange rate vs euro (end of period)	1.30	1.36	1.25	1.10	1.08	1.12	1.13
Private credit (% y-o-y, average)	3.1	7.7	7.7	2.3	3.5	5.8	6.3
Household credit (% y-o-y, average)	-0.2	0.9	2.4	2.5	3.0	4.8	5.6
P.S. non-financial credit (% y-o-y, average)	2.1	3.3	4.8	5.7	5.7	4.4	4.1
P.S. financial credit (% y-o-y, average)	-1.9	2.2	2.9	2.2	4.1	3.2	2.1

Source: MAPFRE Economic Research (based on data from the Federal Reserve)

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1.2.2 Eurozone

A good moment in the economic cycle

The Eurozone GDP is visibly gaining traction. Following the 0.6 percent expansion in the first quarter of 2017 (annualized rate of 2.3 percent), the forecast for the whole year has been revised upward to 2 percent, with Spain and Germany leading the growth but with impressive metrics in France and even Italy. Exports and investment are performing well, mitigating the relatively sluggish consumption.

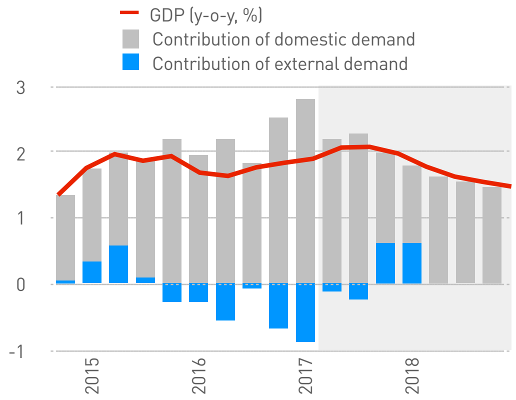
With regard to prices, we maintain our forecast of 1.5 percent for the whole year, in spite of the recent downturn in the general index (following the fall in the Brent oil price at the beginning of the year), since underlying inflation remains stable.

- *Activity maintains momentum.*
- *We have once again revised our forecasts for 2017-2018 upward, to the highest they have been for the last seven years.*
- *Monetary policy will remain unchanged until at least the end of 2018.*
- *The European Central Bank's references to its sequence of normalization suggest that interest rates will not be raised before the end of 2019.*
- *The greatest and most imminent risk in the Eurozone is political risk, with potential sovereign debt implications derived from the situation in Italy.*

The European Central Bank (ECB) has maintained its monetary policy, leaving intact both interest rates and the asset purchase program (60 billion euros until December 2017, with close monitoring of inflation and activity in Southern Europe), although purchases are expected to be cut to 10 billion euros at the end of this year. No changes are expected in any of the monetary policy items until at least 2018 (deposit rates, LTROs, balance sheet, Refi rate.) The July meeting of the ECB dispelled any doubts about its intention of maintaining a lax monetary policy irrespective of the circumstances.

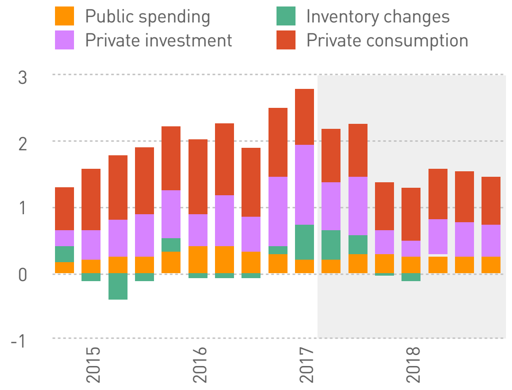
The risks still hovering over the Eurozone are related to a poorly negotiated Brexit (which seems to be materializing as negotiations become bogged down), a renewed “convertibility risk” (risk of the euro breaking up) associated with the Italian elections, and the outcome of the negotiations over Greek debt relief .

Chart 1.2.2-a
Eurozone: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on ECB data)

Chart 1.2.2-b
Eurozone: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on ECB data)

Table 1.2.2
Eurozone: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	-0.9	-0.2	1.3	1.9	1.7	2.0	1.6
Contribution of domestic demand	-2.3	-0.6	0.8	1.7	2.1	2.2	1.4
Contribution of external demand	1.4	0.4	0.5	0.2	-0.4	-0.1	0.0
Contribution of private consumption	-0.6	-0.3	0.5	1.0	1.1	0.8	0.8
Contribution of investment	-0.7	-0.5	0.1	0.6	0.7	0.8	0.5
Contribution of public consumption	-0.1	0.1	0.1	0.3	0.4	0.2	0.2
Domestic demand (% y-o-y, average)	-2.3	-0.6	1.3	1.8	2.2	2.2	1.5
Total consumption (% y-o-y, average)	-0.9	-0.3	0.8	1.6	1.9	1.4	1.3
Investment (% y-o-y, average)	-3.3	-2.4	1.6	3.0	3.4	3.9	2.2
Exports (y-o-y in %)	1.2	1.0	2.2	2.6	1.4	2.2	1.6
Imports (y-o-y in %)	0.2	-0.6	-1.1	-3.7	-1.8	-2.4	-1.5
Unemployment rate (end of period)	11.8	11.9	11.4	10.5	9.7	8.8	8.5
Inflation (y-o-y, end of period)	2.3	0.8	0.2	0.2	0.7	1.5	1.7
Fiscal balance (% of GDP)	-3.6	-3.0	-2.6	-2.1	-1.5	-1.0	-0.9
Trade balance (% of GDP)	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Fiscal impulse (% GDP)	0.1	0.1	0.1	0.1	0.2	0.0	0.0
Current account balance (% of GDP)	1.4	2.2	2.5	3.2	3.4	3.2	3.0
Official interest rate (end of period)	0.75	0.37	0.05	0.05	0.00	0.00	0.00
Repo rate	0.20	0.21	0.21	0.22	0.24	0.30	0.30
10-year rate (end of period)	3.31	2.96	1.50	1.19	0.93	1.49	1.87
Exchange rate vs dollar (end of period)	1.30	1.36	1.25	1.10	1.08	1.12	1.13
Savings rate	12.3	12.4	12.6	12.5	12.3	12.3	12.4
Household credit (% y-o-y, average)	0.3	-0.6	-0.2	0.9	1.5	3.1	3.4
P.S. non-financial credit (% y-o-y, average)	0.9	-1.6	0.7	7.0	1.0	2.3	2.6
P.S. financial credit (% y-o-y, average)	10.2	1.2	3.7	16.8	0.2	1.5	1.4

Source: MAPFRE Economic Research (based on ECB data)

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1.2.3 Spain

Economic activity remains buoyant

- *Postponement of the anticipated slowdown in economic activity.*
- *Signs of abatement in certain tailwinds (limitation of real salary growth, less fiscal laxity, moderate decline in fuel prices, anticipated normalization of monetary policy).*

In Spain the anticipated slowdown in economic activity appears to have been postponed, with the first quarter of 2017 seeing an upward bias. Confidence, lax monetary conditions and the creation of employment (+500,000 so far this year) will continue to boost growth, pushing it to nearly 0.9 percent in the first quarter of the year. This reaffirms our forecast of around 3.1 percent for the whole year (the highest growth in the European Union), in turn reinforced by the growing contribution of residential and equipment investment as well as the increasing contribution of the foreign sector (both goods and services) in a context in which consumption is demonstrating extraordinary resilience after recovering from a lean spell during the last quarter.

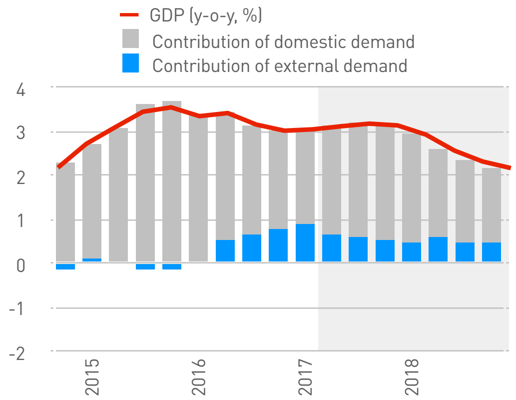
However, although still robust, there are signs of abatement in certain tailwinds, which points to a slight slowdown in the growth of the Spanish economy with respect to last year.

The limits to consumption growth are particularly significant in view of higher inflation, which is limiting real salary growth, and less fiscal laxity on the horizon (the budget deficit is 3.1 percent of GDP, compared with 4.3 percent last year, so the fiscal impulse will be zero).

Other factors likely to moderate the growth of economic activity are the appreciation of the euro, a slight decline in fuel prices, the anticipated normalization of the monetary policy in Europe (beginning in 2018), and the return of the current high risk appetite to more normal levels.

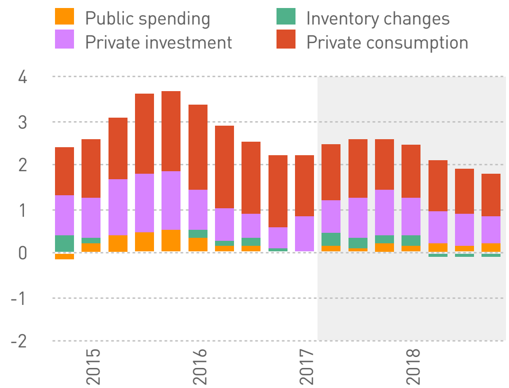
We anticipate an upturn in residential investment thanks to the reactivation of mortgage credit and institutional investment in real estate.

Chart 1.2.3-a
Spain: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on INE data)

Chart 1.2.3-b
Spain: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on INE data)

Table 1.2.3
Spain: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	-2.9	-1.7	1.4	3.2	3.2	3.1	2.5
Contribution of domestic demand	-4.9	-3.1	1.3	3.2	2.8	2.5	2.0
Contribution of external demand	2.0	1.4	0.1	0.0	0.5	0.7	0.5
Contribution of private consumption	-2.0	-1.7	0.9	1.6	1.8	1.3	1.1
Contribution of investment	-1.9	-0.7	0.4	1.2	0.7	0.9	0.7
Contribution of public consumption	-1.0	-0.4	-0.1	0.4	0.2	0.1	0.2
Domestic demand (% y-o-y, average)	-5.0	-3.1	1.9	3.4	2.9	2.6	2.1
Total consumption (% y-o-y, average)	-3.8	-2.8	1.1	2.6	2.6	1.9	1.7
Investment (% y-o-y, average)	-8.6	-3.4	3.8	6.0	3.1	4.2	3.4
Exports (y-o-y in %)	0.3	1.3	1.6	1.3	1.4	2.5	1.6
Imports (y-o-y in %)	1.6	0.1	-1.1	-2.4	-0.9	-1.8	-1.1
Unemployment rate (end of period)	25.8	25.7	23.7	20.9	18.6	16.7	15.4
Inflation (y-o-y, end of period)	3.0	0.1	-0.5	-0.3	1.0	1.3	1.8
Fiscal balance (% of GDP)	-10.3	-7.1	-6.0	-5.1	-4.5	-3.1	-2.6
Trade balance (% of GDP)	-2.8	-1.4	-2.2	-2.0	-1.6	-1.4	-0.8
Fiscal impulse (% GDP)	-2.6	-1.8	2.6	0.3	-0.2	0.0	-0.3
Current account balance (% of GDP)	-0.3	1.5	1.0	1.4	2.0	1.7	1.4
Official interest rate (end of period)	0.75	0.37	0.05	0.05	0.00	0.00	0.00
10-year rate (end of period)	5.57	4.16	2.00	1.71	1.31	2.05	2.44
Exchange rate vs dollar (end of period)	1.30	1.36	1.25	1.10	1.08	1.12	1.13
Savings rate (%)	8.9	9.9	9.0	8.4	7.9	7.1	7.1
Household credit (% y-o-y, average)	-3.9	-5.1	-4.9	-3.8	-2.2	5.9	3.6
P.S. non-financial credit (% y-o-y, average)	-3.4	-9.1	-5.1	-3.4	-1.9	-0.2	1.8
P.S. financial credit (% y-o-y, average)	7.0	-17.4	-11.3	-5.2	-26.9	-18.6	-18.9

Source: MAPFRE Economic Research (based on INE data)

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1.2.4 Germany

Still buoyant

German economic activity remained buoyant throughout the first quarter of 2017 (1.7 percent y-o-y), with the trend expected to continue for the remainder of the year (we predict an overall growth of 2.0 percent for 2017).

- *Buoyancy was sustained in the first quarter of 2017 and we therefore had to revise upward our forecasts for the Germany economy.*
- *The strength of employment and the foreign sector should drive salary increases and investment.*
- *The foreign sector will remain buoyant, keeping the current account surplus high and long-term interest rates significantly lower than in the rest of the Eurozone.*

The vigor of domestic demand is reflected in the performance of investment and imports. The positive surprise in the first quarter of the year came from investment in construction, machinery and industrial equipment. Exports will continue to be the main driver of growth (y-o-y increase of 3.8 percent). Capacity utilization is at a 9-year high and confidence in the capital goods sector is also high. All of this suggests that the economy will continue to do well.

However, as is the case in many other countries, the strength of employment with record low unemployment (5.7 percent) has not led to salary increases. Unless there is a visible increase in productivity or an upturn in inflation, salaries are unlikely to increase.

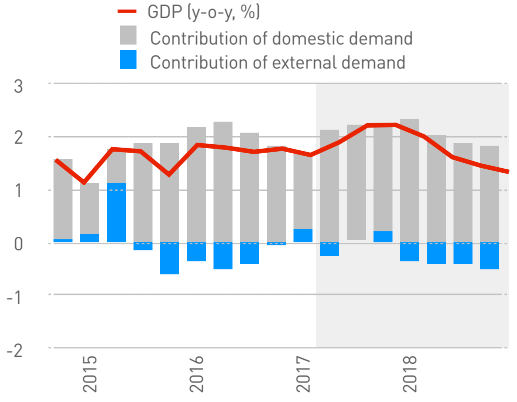
Exports will continue to be the main strength of the economy and ultimately, if they remain strong, could require investment in industrial capacity with utilization currently running at a record high. The synchronized recovery of the world economy could trigger this scenario.

Tax revenues are expected to remain strong and this has sparked an intense internal debate on possible tax cuts as well as insistence in the same vein from the European Union, Germany being one of the few countries with the capacity to implement these cuts.

Germany will maintain its large current account surplus (over 7 percent of GDP in our horizon), which will reinforce its robust international position, the attraction of capital flows and long-term interest rates below those of the rest of the Eurozone.

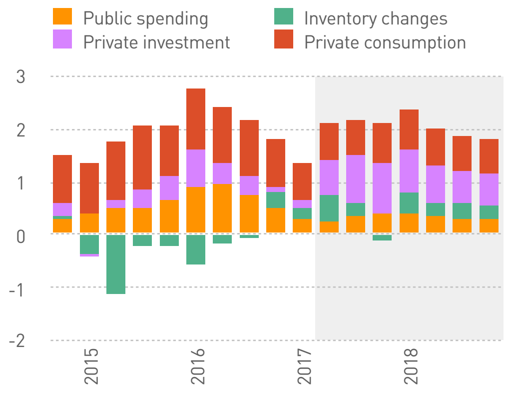
On the political scene, we do not envisage a risk scenario in the general elections of September 24. The populist setbacks in other European countries appear to be having a calming effect. The Social Democrat Party candidate Martin Schulz is expected to form a coalition with A. Merkel, especially with regard to foreign affairs and relations with the United States. The only risk for governability would be a coalition between the SPD, Greens and former communists, but there is no threat to the euro.

Chart 1.2.4-a
Germany: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on data from the DESTATIS)

Chart 1.2.4-b
Germany: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on data from the DESTATIS)

Table 1.2.4
Germany: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	0.7	0.6	1.6	1.5	1.8	2.0	1.6
Contribution of domestic demand	-0.7	0.9	0.8	1.3	2.1	1.9	2.0
Contribution of external demand	1.4	-0.3	0.8	0.2	-0.3	0.1	-0.5
Contribution of private consumption	0.7	0.5	0.5	1.1	1.1	0.7	0.7
Contribution of investment	-0.0	-0.2	0.4	0.2	0.4	0.7	0.7
Contribution of public consumption	0.2	0.2	0.2	0.5	0.8	0.3	0.3
Domestic demand (% y-o-y, average)	-0.7	1.0	1.4	1.4	2.3	2.1	2.2
Total consumption (% y-o-y, average)	1.3	1.0	1.0	2.1	2.5	1.4	1.4
Investment (% y-o-y, average)	-0.1	-1.0	3.5	1.1	2.0	3.4	3.4
Exports (y-o-y in %)	1.6	0.9	2.1	2.0	1.2	2.2	1.4
Imports (y-o-y in %)	-0.1	-1.3	-0.8	-3.1	-1.6	-2.1	-1.9
Unemployment rate (end of period)	6.8	6.8	6.6	6.3	6.0	5.7	5.7
Inflation (y-o-y, end of period)	2.0	1.3	0.5	0.3	1.1	1.9	2.2
Fiscal balance (% of GDP)	-0.0	-0.2	0.3	0.7	0.8	1.2	0.8
Trade balance (% of GDP)	7.3	7.6	7.9	8.6	8.6	8.3	7.9
Current account balance (% of GDP)	7.1	6.8	7.5	8.6	8.3	7.7	7.0
Official interest rate (end of period)	0.75	0.37	0.05	0.05	0.00	0.00	0.00
10-year rate (end of period)	1.42	1.80	0.78	0.57	0.11	0.65	1.04
Exchange rate vs dollar (end of period)	1.30	1.36	1.25	1.10	1.08	1.12	1.13
Household credit (% y-o-y, average)	1.1	0.8	1.1	1.9	2.9	3.1	4.2
Savings rate (%)	9.6	9.9	10.2	10.2	9.7	9.3	9.2
P.S. financial credit (% y-o-y, average)	0.8	-0.4	0.3	0.2	-0.1	0.4	-0.3

Source: MAPFRE Economic Research (based on data from the DESTATIS)

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1.2.5 Italy

Improved activity, complex political scene

- *The signs of recovery gathered some speed in the first quarter of 2017, leading to an upward revision of the growth figure to nearly 1.4 percent during 2017.*
- *However, growth will be weak and conditioned by how the political situation pans out.*
- *The probability of a fragmented political scenario after early elections is gaining traction but it is not the central scenario.*

The Italian economy is showing signs of recovery. Economic activity expanded nearly 1.7 percent in the first quarter of 2017, which points to an average growth of nearly 1.3 percent in 2017-2018.

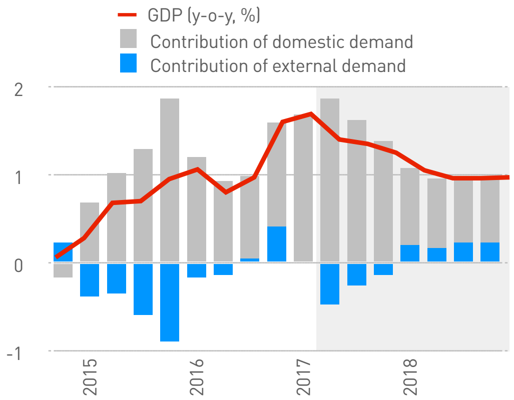
This growth was clearly fueled by domestic demand. To a certain extent consumption was boosted by the slight improvement in the labor market, in terms of both employment and participation, but this was offset partly by higher inflation and partly by the political uncertainty that is taking its toll on real available income as well as consumer and business confidence. Even so, the Italian economy is less buoyant than the other major countries in the Eurozone.

Meanwhile, political uncertainty remains high, as does the likelihood of the general elections being brought forward, if not in 2017 then probably during the first quarter of 2018. The "no" vote in the constitutional referendum at the end of last year (required to impose reforms) and the political stalemate between the eurosceptic parties (led by M5E) and the traditionalist parties undoubtedly introduce risks that could materialize in a sovereign debt crisis like the one unleashed at the beginning of this decade. Although a more centrist, pro-European coalition is anticipated, in the best-case scenario the political fragmentation points to a minority government.

The main vulnerabilities of the Italian economy continue to be low growth, high public debt, troublesome bank balance sheets, and populist movements. These factors raise concerns about a resurgence of perverse dynamics between sovereign assets in the financial system and government guarantees to smaller banks.

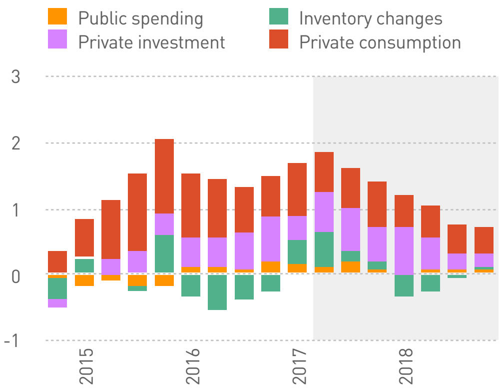
Although this situation cannot be underestimated, the fact that the structure and currency of the sovereign debt are favorable for Italy mitigates the risk somewhat. Furthermore, in spite of less monetary support in the future from the ECB, the central bank is nevertheless committed to not letting anyone fall through the net, and much less a country with the potential to cause a systemic risk.

Chart 1.2.5-a
Italy: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on ISTAT data)

Chart 1.2.5-b
Italy: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on ISTAT data)

Table 1.2.5
Italy: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	-2.9	-1.7	0.2	0.7	1.1	1.4	1.0
Contribution of domestic demand	-5.6	-2.6	-0.1	1.2	1.1	1.6	0.8
Contribution of external demand	2.8	0.8	0.2	-0.5	0.0	-0.2	0.2
Contribution of private consumption	-2.4	-1.5	0.1	0.9	0.8	0.7	0.5
Contribution of investment	-1.8	-1.2	-0.4	0.2	0.5	0.5	0.4
Contribution of public consumption	-0.3	-0.1	-0.1	-0.1	0.1	0.1	0.1
Domestic demand (% y-o-y, average)	-5.6	-2.6	0.3	1.2	1.1	1.7	0.8
Total consumption (% y-o-y, average)	-3.3	-1.9	0.0	1.0	1.2	1.0	0.7
Investment (% y-o-y, average)	-9.4	-6.6	-2.1	1.4	3.1	3.1	2.3
Exports (y-o-y in %)	0.6	0.3	0.9	1.0	0.8	1.1	0.9
Imports (y-o-y in %)	2.1	0.6	-0.3	-2.5	-0.9	-1.5	-0.6
Unemployment rate (end of period)	11.4	12.4	12.7	11.5	11.8	11.1	10.9
Inflation (y-o-y, end of period)	2.5	0.6	0.1	0.2	0.1	1.6	1.5
Fiscal balance (% of GDP)	-2.9	-2.9	-3.0	-2.7	-2.4	-2.2	-2.1
Trade balance (% of GDP)	0.6	1.8	2.6	2.5	3.1	2.7	2.8
Current account balance (% of GDP)	-0.4	1.0	1.8	1.4	2.6	2.2	2.1
Official interest rate (end of period)	0.75	0.37	0.05	0.05	0.00	0.00	0.00
Short-term rate	0.20	0.21	0.21	0.22	0.24	0.30	0.30
10-year rate (end of period)	4.80	4.16	2.25	1.59	1.76	2.82	3.24
Exchange rate vs dollar (end of period)	1.30	1.36	1.25	1.10	1.08	1.12	1.13
Household credit (% y-o-y, average)	-0.3	-1.4	-1.0	-0.3	0.3	1.0	3.0
P.S. non-financial credit (% y-o-y, average)	-0.7	-3.9	-2.7	-1.8	-1.3	1.9	3.0
P.S. financial credit (% y-o-y, average)	-2.9	-30.2	-26.9	1.0	6.6	6.6	6.2

Source: MAPFRE Economic Research (based on ISTAT data)

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1.2.6 United Kingdom

The cost of Brexit

- *The British economy will shrink in 2017 due to lower private consumption and delayed investment in light of Brexit.*
- *The Brexit road map sets departure from the European Union as Abril 2019, but in view of the current dynamics (lack of agreements) it will probably be postponed.*
- *The European Union refuses to negotiate single market access for the UK until an agreement has been reached on the exit terms and conditions.*

First-quarter growth was lower than expected (2.0 percent y-o-y, 0.2 percent q-o-q). This was caused by inflationary pressures on private consumption stemming from the depreciation of the pound. Imports also fell. According to some early indicators, consumption and investment will continue to lose traction as the Brexit issue becomes more complicated. The strength of the labor market and public spending (in the form of transfers) will not be able to offset this effect.

The moderation of consumption is likely to producue a growth rate in 2017 of nearly 1.7 percent, still supported by private consumption and exports, the latter boosted by a higher global growth rate.

Meanwhile, inflation continues its upward trend due to the weak currency and strong labor market rather than energy costs, which have fallen. This context has led us to revise our inflation forecast upward to 3.2 percent at the end of 2017. A slowdown in private consumption and a brake on investment until the outcome of Brexit becomes clearer both point to the continuation of an ultra-accommodative monetary policy (without reversing balance sheets or raising interest rates until at least 2019).

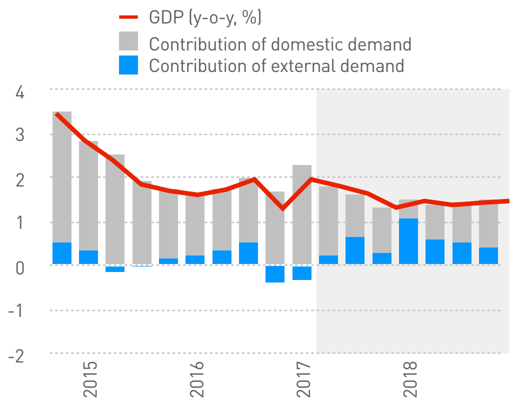
The depreciation of the currency is also projected to continue. In recent months the pound has once again been losing ground against the euro, buying just 1.12 euros per pound in mid-July. We expect the pound to end the year at around 1.19 euros.

The June 10 elections strengthened neither Theresa May nor the Brexit position, culminating in a minority government forced to reach agreements to push through measures and contingent on complicated decisions shared with the Labor party. Meanwhile, Jeremy Corbyn's popularity has catapulted the party to a record high not seen since the 1990s.

The outcome of the negotiations has passed from a “hard” Brexit to a “soft” Brexit, or even to no deal at all. The European Union refuses to negotiate the conditions of single market access for the UK until an agreement has been reached on the exit bill, the situation of EU residents, and the status of the Irish border. Although the negotiating position of the United Kingdom is now weaker, the country has begun taking a hard line. The risk of a no-deal Brexit grows with every day that passes.

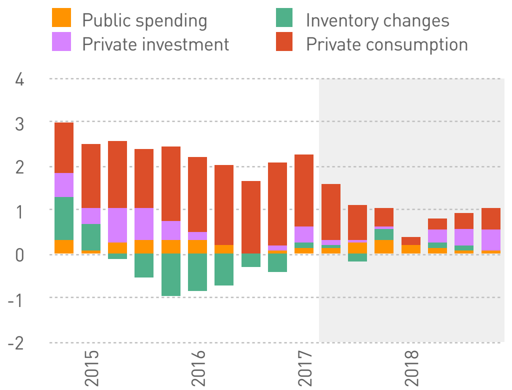
The Brexit timeline and negotiating positions continue to point to two years of uncertainty. We will therefore see significant nominal volatility in the exchange rate and credit spreads. The most likely outcome remains a WTO-type solution.

Chart 1.2.6-a
United Kingdom: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (with data from the Office for National Statistics)

Chart 1.2.6-b
United Kingdom: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (with data from the Office for National Statistics)

Table 1.2.6
United Kingdom: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	1.3	1.9	3.1	2.2	1.6	1.7	1.4
Contribution of domestic demand	2.1	1.9	2.7	2.1	1.5	1.5	0.8
Contribution of external demand	-0.8	0.0	0.3	0.1	0.2	0.2	0.4
Contribution of private consumption	1.2	1.0	1.3	1.5	1.7	1.0	0.3
Contribution of investment	0.4	0.5	0.6	0.6	0.1	0.2	0.3
Contribution of public consumption	0.3	0.1	0.5	0.3	0.2	0.2	0.1
Domestic demand (% y-o-y, average)	2.2	1.9	3.6	2.1	1.5	1.5	0.8
Total consumption (% y-o-y, average)	1.8	1.3	2.2	2.2	2.3	1.5	0.5
Investment (% y-o-y, average)	2.4	3.2	6.7	3.4	0.5	0.9	1.8
Exports (y-o-y in %)	0.2	0.3	1.0	1.3	0.6	0.8	1.1
Imports (y-o-y in %)	-0.9	-1.1	-0.5	-2.2	-1.0	-0.8	-0.4
Unemployment rate (end of period)	4.7	3.8	2.6	2.3	2.3	2.4	2.3
Inflation (y-o-y, end of period)	2.7	2.1	0.9	0.1	1.2	3.2	1.4
Fiscal balance (% of GDP)	-8.3	-5.7	-5.6	-4.3	-3.3	-2.9	-2.5
Trade balance (% of GDP)	-6.6	-6.9	-6.7	-6.4	-6.9	-6.7	-6.1
Fiscal impulse (% GDP)	0.4	0.5	1.9	0.9	1.4	0.2	0.0
Current account balance (% of GDP)	-3.7	-4.4	-4.7	-4.3	-4.4	-3.0	-2.1
Official interest rate (end of period)	0.50	0.50	0.50	0.50	0.25	0.25	0.25
10-year rate (end of period)	1.80	2.80	2.11	1.92	1.30	1.42	1.87
Exchange rate vs dollar (end of period)	1.61	1.62	1.58	1.52	1.24	1.33	1.37
Exchange rate vs euro (end of period)	1.24	1.19	1.27	1.39	1.15	1.19	1.21
Savings rate (%)	8.4	6.7	6.8	6.5	5.2	4.4	4.7
Household credit (% y-o-y, average)	1.1	1.2	2.1	2.8	4.2	3.0	2.5
P.S. non-financial credit (% y-o-y, average)	5.0	-2.5	-3.9	-1.0	0.8	4.3	2.6
P.S. financial credit (% y-o-y, average)	2.6	7.2	-10.3	-15.4	-0.1	1.2	3.7

Source: MAPFRE Economic Research (with data from the Office for National Statistics)

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1.2.7 Japan

Flying low but steadily

The Japanese economy grew 1.3 percent y-o-y in the first quarter of 2017, mainly boosted by exports and private sector investment.

- *Though limited, the prospects for the Japanese economy remain favorable thanks to foreign demand, the fiscal impulse and the depreciation of the yen.*
- *The yen will continue to depreciate against the dollar because of the growing difference with the long-term interest rates in the United States as a result of the divergence in monetary policy.*
- *Economic policy will combine generous fiscal impulses (1 percent of GDP) with a continuation of extremely lax monetary and financial conditions in the future (Japan is the only country where QE is expected to last beyond 2020).*

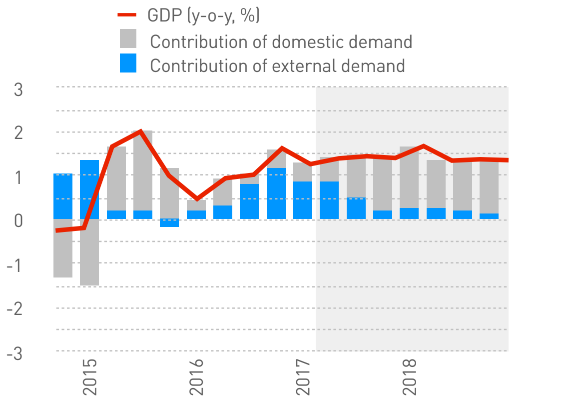
Exports are projected to continue driving economic growth, while public spending will support consumption thanks to the broad fiscal program approved last year. We estimate that both factors will help sustain the pace of growth in economic activity over the next two years.

The global economic and trade recovery cycle and the recent trade agreement with the European Union will provide decisive support, and in view of this context we predict that GDP will grow by 1.4 percent in both 2017 and 2018.

Meanwhile, employment continues to be created but for the moment this boost in economic activity is not leading to salary increases for structural reasons, but this could well happen when the growth gains traction and activity becomes more buoyant. Household deleveraging is also moderating inflation.

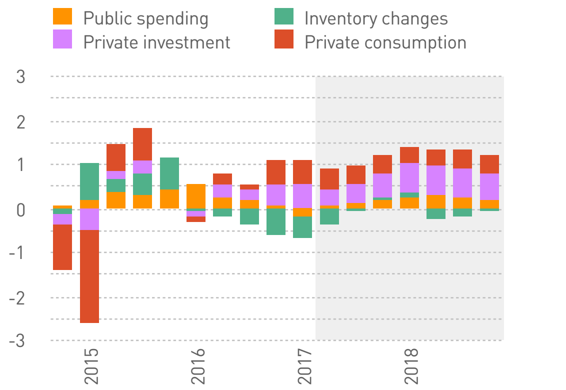
Monetary policy in Japan remains expansionary in the absence of inflationary pressures and with the aim of pushing the term premium of the sovereign curve firmly back into positive territory. The debate on monetary policy will probably focus on whether the central bank will keep up its current pace of bond purchases (JPY80 trn) while continuing to control the yield curve in light of the difference with U.S. interest rates.

Chart 1.2.7-a
Japan: GDP breakdown
and forecasts, 2014-2018



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

Chart 1.2.7-b
Japan: domestic demand
breakdown and forecasts, 2014-2018



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

Table 1.2.7
Japan: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	1.5	2.0	0.3	1.1	1.0	1.4	1.4
Contribution of domestic demand	2.4	2.4	-0.3	0.7	0.4	0.8	1.2
Contribution of external demand	-0.8	-0.4	0.6	0.4	0.6	0.6	0.1
Contribution of private consumption	1.2	1.4	-0.5	-0.2	0.2	0.5	0.4
Contribution of investment	0.8	1.1	0.3	0.0	0.2	0.5	0.6
Contribution of public consumption	0.3	0.3	0.1	0.3	0.3	0.0	0.2
Domestic demand (% y-o-y, average)	2.4	2.4	0.3	0.7	0.4	0.8	1.2
Total consumption (% y-o-y, average)	2.0	2.2	-0.6	0.2	0.6	0.7	0.9
Investment (% y-o-y, average)	3.5	5.0	2.8	0.1	1.0	2.1	2.7
Exports (y-o-y in %)	0.0	0.1	1.4	0.5	0.2	1.2	0.6
Imports (y-o-y in %)	-0.9	-0.5	-1.0	-0.7	0.4	-0.6	-0.4
Unemployment rate (end of period)	4.2	3.9	3.5	3.3	3.1	2.7	2.5
Inflation (y-o-y, end of period)	-0.2	1.5	2.5	0.2	0.3	0.7	0.9
Fiscal balance (% of GDP)	-8.3	-7.6	-5.4	-3.5	-4.6	-5.2	-5.6
Trade balance (% of GDP)	-0.9	-1.7	-2.0	-0.2	1.0	0.9	1.0
Current account balance (% of GDP)	1.0	0.9	0.8	3.1	3.7	4.1	4.0
Official interest rate (end of period)	0.08	0.07	0.06	0.08	-0.04	-0.04	-0.04
10-year rate (end of period)	0.76	0.64	0.45	0.31	0.00	0.06	0.07
Exchange rate vs dollar (end of period)	81.28	100.43	114.55	121.44	109.45	113.20	117.93
Exchange rate vs euro (end of period)	105.40	136.75	142.83	133.01	118.01	126.79	133.08
Private credit (% y-o-y, average)	0.9	3.6	1.6	2.1	-0.7	3.3	3.4
Household credit (% y-o-y, average)	-0.5	0.9	1.3	2.0	2.4	2.0	0.8
P.S. non-financial credit (% y-o-y, average)	-1.7	-0.1	0.7	0.5	1.4	1.7	2.0
P.S. financial credit (% y-o-y, average)	4.3	3.9	8.5	7.6	-0.5	3.5	2.0

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

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1.2.8 Turkey

Public support for activity is paying off in 2017

- *Economic activity performed very well in the first quarter of the year.*
- *The upturn was supported by public spending.*
- *We have revised our GDP growth forecast for 2017 up to 4 percent.*
- *Inflation will exceed the central bank target, pointing to a tighter monetary policy, temporarily at least.*

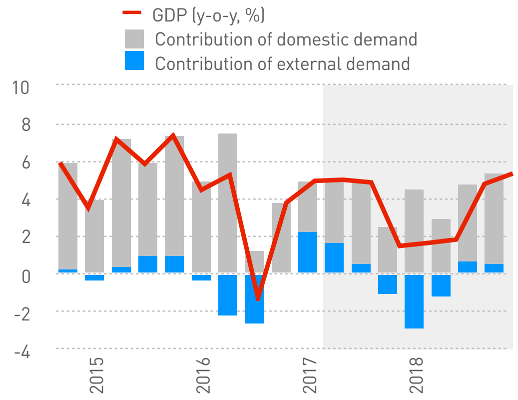
In an environment marked by economic and political challenges, economic activity in Turkey during the first quarter of 2017 was very favorable, registering an increase of 5 percent on the adjusted y-o-y rate.

The unexpected upturn was temporarily supported by public spending. The second quarter of 2017 points to fairly robust growth, based on the industrial production and energy consumption figures. The projected adjustment will take GDP growth to above our initial forecast of 2.3 percent for the whole year, and we have revised this figure upward to 4.1 percent, primarily in view of the performance of domestic demand (private consumption and investment boosted by credit with government guarantees and fiscal stimulus) but also because of the foreign sector and tourism in particular, which is climbing significantly compared with last year.

Inflation continued to rise during the second quarter of 2017, reaching two-digit figures, due to food and beverages, and although it has recently slowed down slightly it is still expected to end the year above the central bank target (+9 percent vs 5 percent target), which suggests that the tight monetary policy will be maintained, temporarily at least.

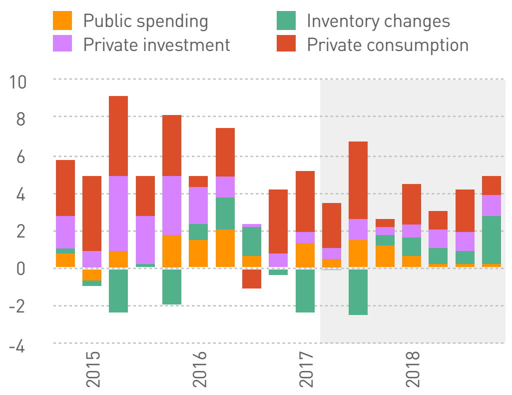
The central bank raised the marginal funding rate in the second quarter of the year to around 11.9 percent, which has added more than 300 bps to the average cost of financing so far this year (8.5 percent). This strategy is expected to be maintained until the average cost of financing reaches 10 percent. The Turkish lira (3.3 TRY/$ in 2016) is projected to depreciate to around 3.5 TRY to the dollar by the end of the year.

Chart 1.2.8-a
Turkey: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on TURKSTAT data)

Chart 1.2.8-b
Turkey: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on TURKSTAT data)

Table 1.2.8
Turkey: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	4.9	8.5	5.3	6.0	3.3	4.1	3.4
Contribution of domestic demand	1.8	10.3	3.4	5.5	4.3	3.2	4.1
Contribution of external demand	3.2	-1.8	1.9	0.5	-1.3	0.9	0.5
Contribution of private consumption	2.0	5.0	1.9	3.4	1.4	2.5	1.6
Contribution of investment	0.8	3.8	1.3	2.6	1.0	0.7	1.0
Contribution of public consumption	1.0	1.1	0.4	0.5	1.1	1.2	0.4
Domestic demand (% y-o-y, average)	1.7	10.1	3.2	5.4	4.3	3.2	4.1
Total consumption (% y-o-y, average)	3.8	7.9	3.0	5.2	3.2	4.9	2.6
Investment (% y-o-y, average)	2.9	14.0	5.5	9.1	3.2	2.3	3.3
Exports (y-o-y in %)	3.7	0.3	1.8	1.0	-0.4	2.0	0.2
Imports (y-o-y in %)	-0.1	-2.1	0.1	-0.4	-0.9	-1.1	-1.0
Unemployment rate (end of period)	8.6	9.3	10.7	10.5	12.1	12.2	11.2
Inflation (y-o-y, end of period)	6.8	7.5	8.8	8.2	7.6	9.1	7.5
Fiscal balance (% of GDP)	-1.9	-1.1	-1.1	-1.0	-1.2	-2.7	-2.7
Trade balance (% of GDP)	-7.5	-8.4	-6.8	-5.6	-4.8	-5.9	-5.3
Current account balance (% of GDP)	-5.5	-6.7	-4.7	-3.8	-3.8	-4.5	-4.1
Official interest rate (end of period)	5.71	4.50	8.25	7.50	7.71	8.00	7.25
Average cost of financing	5.92	6.20	9.11	9.39	8.53	10.13	8.05
Exchange rate vs dollar (end of period)	1.79	2.03	2.26	2.91	3.28	3.47	3.50
Exchange rate vs euro (end of period)	2.32	2.75	2.82	3.19	3.53	4.05	4.19
Private credit (% y-o-y, average)	19.8	28.8	23.2	23.0	12.9	19.2	11.7
Household credit (% y-o-y, average)	15.9	24.0	16.3	12.5	7.1	15.6	12.4
P.S. non-financial credit (% y-o-y, average)	21.5	31.1	30.1	29.9	14.7	18.3	6.8
P.S. financial credit (% y-o-y, average)	13.1	24.3	22.4	26.4	9.0	18.7	6.2

Source: MAPFRE Economic Research (based on TURKSTAT data)

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1.2.9 Mexico

Resilience of consumption

- *GDP growth demonstrated resilience in the first quarter of 2017, forcing an upward revision in line with the global context and improved consumer prospects.*
- *Inflation sustains its current upturn, exceeding the central bank target, while the exchange rate continues to suffer. The Bank of Mexico will keep up its restrictive monetary stance this year and raise interest rates again.*
- *Despite a negative bias, risks are beginning to balance out.*

Although the expansion of economic activity in Mexico is projected to be weak in 2017 in relation to its potential, the consumer and net export data suggest a certain acceleration compared with 2016.

We have therefore revised our forecast for 2017 growth up by 0.5 percent to a total 2.4 percent, thanks to the higher-than-expected contribution of the foreign sector and, in particular, the resilience of private consumption.

The depreciation of the peso during the last quarter (reaching 22 MXN/$ at its lowest), coupled with the moderation of the climate of conflict over trade with the United States and the improved international economic environment, are giving rise to the growing (though moderate) contribution of foreign demand to GDP.

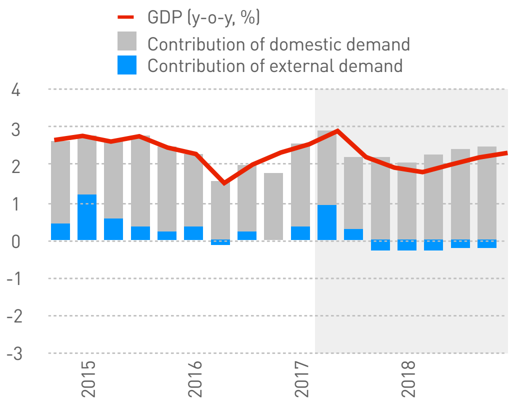
Private consumption is projected to perform well for the rest of the year, partly as a result of higher real disposable income (which will be boosted by the anticipated slowdown in inflation, a tighter labor market with high employment, and the foreseeable salary increases) and partly due to the still very favorable financial conditions for consumers, who see consumer interest rates as still being low, in spite of a tighter monetary policy thanks to the extension of banking services. Coupled with these factors is the high level of consumer confidence, in contrast to the level registered at the beginning of the year.

Inflation accelerated significantly during the first and second quarters of the year (up to around 5.8 percent as a result of the deregulation of fuel prices), in terms of both the general and underlying rates. General inflation rose following the depreciation of the peso and the fuel price liberalization policy, while underlying inflation climbed as a result of the increasingly tight labor market. Inflation currently exceeds the central bank target ranges (3 percent + -1 percent) and we believe it still has room to continue climbing as a result of the pass-through to other prices, probably ending the year at around 6.3 percent. However, the forecasts for two years hence see inflation falling back to the confidence ranges of the central bank by the end of 2018 as result of monetary policy and the anticipated appreciation of the currency.

The Bank of Mexico has raised its interest rates by 350 bps since the end of 2015 to June, taking the official rate to 7 percent in the second quarter of the year. In view of the inflation dynamics and the foreseeable direction of the U.S. monetary policy, we anticipate a new hike before the end of the year, which will push the cost of financing to around 7.25/7.50 percent by December 2017. In 2018 we expect the monetary cycle to evolve toward a new laxity.

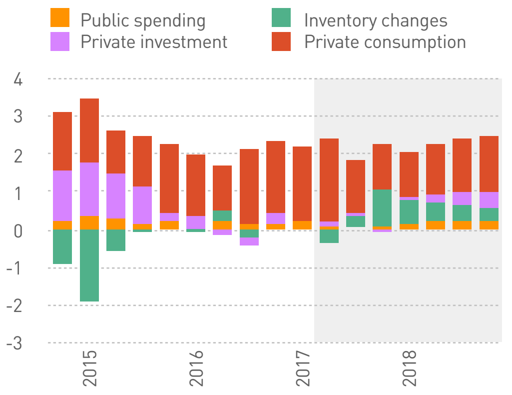
The exchange rate has returned to pre-Trumpian levels (18 MXN/$) after starting the year at nearly 22 MXN to the dollar. We expect it to fluctuate between 20/21 MXN to the dollar in the coming years. The attenuation of the Federal Reserve stance and improved prospects about NAFTA should keep the exchange rate at around 18.5 MXN/$ in the upcoming quarters.

Chart 1.2.9-a
Mexico: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on INEGI data)

Chart 1.2.9-b
Mexico: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on INEGI data)

Table 1.2.9
Mexico: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	3.8	1.6	2.3	2.7	1.9	2.4	2.1
Contribution of domestic demand	3.5	2.0	1.4	2.1	1.8	2.1	2.3
Contribution of external demand	0.3	-0.3	0.8	0.6	0.1	0.3	-0.2
Contribution of private consumption	3.1	1.7	1.2	1.5	1.7	1.7	1.4
Contribution of investment	1.1	-0.3	0.3	0.9	0.1	0.0	0.3
Contribution of public consumption	0.4	0.1	0.2	0.3	0.1	0.1	0.2
Domestic demand (% y-o-y, average)	3.4	2.0	2.0	2.1	1.8	2.1	2.3
Total consumption (% y-o-y, average)	4.5	2.3	1.8	2.3	2.3	2.3	2.0
Investment (% y-o-y, average)	4.8	-1.5	2.9	4.4	0.4	0.1	1.2
Exports (y-o-y in %)	1.9	0.7	2.3	3.7	0.5	1.2	0.8
Imports (y-o-y in %)	-1.5	-1.1	-1.2	-4.0	-0.2	-0.9	-1.0
Unemployment rate (end of period)	4.9	4.6	4.4	4.2	3.5	3.7	4.1
Inflation (y-o-y, end of period)	4.1	3.7	4.2	2.3	3.2	6.3	3.5
Fiscal balance (% of GDP)	-2.6	-2.4	-3.2	-3.4	-2.6	-2.0	-2.5
Trade balance (% of GDP)	0.0	-0.1	-0.2	-1.3	-1.3	-1.1	-0.9
Current account balance (% of GDP)	-1.3	-2.4	-1.7	-2.5	0.0		
Official interest rate (end of period)							
10-year rate (end of period)	5.42	6.15	5.88	6.06	6.81	7.40	7.00
Exchange rate vs dollar (end of period)	12.95	13.02	13.90	16.76	19.84	18.24	18.54
Exchange rate vs euro (end of period)	16.79	17.72	17.37	18.36	21.39	20.43	20.92
Private credit (% y-o-y, average)	15.0	14.0	10.8	13.6	16.3	11.7	5.6
Household credit (% y-o-y, average)	11.3	9.1	8.2	8.4	12.8	8.7	5.2
P.S. financial credit (% y-o-y, average)	1.4	15.4	9.8	-11.4	3.5	4.0	12.8
Savings rate (%)	13.4	13.3	12.3	12.6	11.6	9.4	9.5

Source: MAPFRE Economic Research (based on INEGI data)

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1.2.10 Brazil

Political tension is mounting

- *The path out of recession is taking shape but is still hazy, with issues yet to be resolved.*
- *The slowdown in inflation is giving the central bank a brief respite.*
- *The political problems surrounding President Temer and the proximity of elections compromise the necessary structural reforms planned.*

In Brazil the GDP figure for the first quarter of 2017 was -0.4 percent, but although negative, it reflects a slightly slower pace of contraction than the previous quarter, primarily thanks to better relative performance by investment and consumption. This ratifies our view that the country will move out of recession in 2017, albeit with very limited growth (0.4 percent in 2017 and 1.5 percent in 2018). The recent recovery of certain economic sentiment indicators points to this as well.

Meanwhile, the robust correction of inflation (now between the central bank target ranges) is alleviating the pressure on monetary policy, which suggests that the central bank will continue to cut the intervention rate (SELIC) to around 8 percent by the end of 2018 (in our baseline scenario).

In a scenario of limited political volatility and in view of the likely direction of the central bank's monetary policy, we expect the Brazilian real to remain at a similar level of depreciation as last year until the end of 2017.

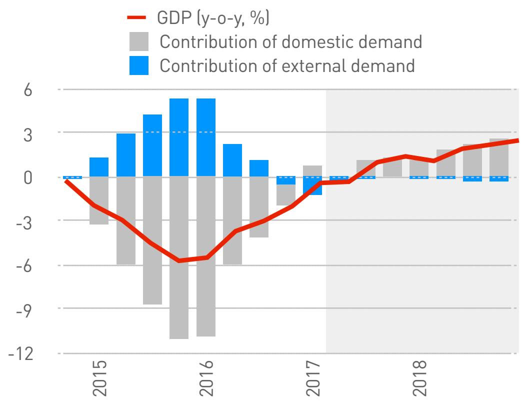
One crucial aspect of the anticipated move out of recession depends on public sector support, both through direct fiscal policy and government credit. How economic policy instruments perform in the future will depend on the political development of the country in the coming months, and this in turn will be conditioned by the dynamics of nominal variables such the exchange rate, the sovereign spread, intervention rates, and inflation.

According to the latest information, President Temer is caught between the possibility of impeachment, sought by the prosecution (Janot) and resignation. Though still strong, the gradual loss of support in the Senate (where Temer has 70 percent in his favor) could accelerate one of the two possible outcomes. Whether this debate continues or not, general elections are in any case on the horizon in 2018, with former president Lula the Workers' Party (PT) candidate and favorite to win.

Greater political volatility and/or wins for *justicialist* parties compromise the structural reforms proposed in recent months: the labor reform (to reduce the structural unemployment rate), fiscal reform (to limit the real public spending ceiling) and pension system reform (to guarantee its sustainability). All three reforms are considered to be crucial for returning the current public debt dynamics to a more sustainable path and avoiding a sovereign crisis of the type seen in earlier decades.

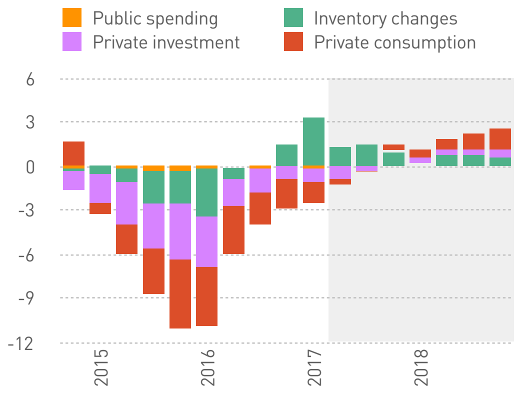
Having said that, Brazil boasts two robust pillars of support: the credibility of its finance ministry and central bank, which remains intact; and the current international appetite for emerging markets.

Chart 1.2.10-a
Brazil: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (with data from the Instituto Brasileiro de Geografia e Estatística, IBGE)

Chart 1.2.10-b
Brazil: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (with data from the Instituto Brasileiro de Geografia e Estatística, IBGE)

Table 1.2.10
Brazil: main macroeconomic aggregates

				2015	2016	2017	2018
GDP (% y-o-y, average)	1.9	3.0	0.5	-3.8	-3.6	0.4	1.5
Contribution of domestic demand	2.0	4.0	0.5	-7.3	-5.6	0.8	1.9
Contribution of external demand	-0.1	-1.0	0.0	3.5	2.0	-0.4	-0.4
Contribution of private consumption	2.3	2.3	1.5	-2.7	-2.9	-0.4	0.9
Contribution of investment	0.2	1.2	-0.8	-2.9	-1.9	-0.5	0.5
Contribution of public consumption	0.4	0.3	0.1	-0.2	-0.1	-0.1	0.0
Domestic demand (% y-o-y, average)	1.9	3.8	0.2	-6.8	-5.3	0.8	1.9
Total consumption (% y-o-y, average)	3.2	3.1	2.0	-3.3	-3.5	-0.5	1.1
Investment (% y-o-y, average)	0.9	5.8	-4.1	-14.0	-10.0	-2.9	2.8
Exports (y-o-y in %)	0.0	0.3	0.1	0.6	0.3	0.2	0.5
Imports (y-o-y in %)	-0.1	-1.4	0.4	2.3	1.5	-0.7	-0.5
Unemployment rate (end of period)	6.9	6.2	6.5	9.0	12.0	13.0	12.5
Inflation (y-o-y, end of period)	5.6	5.8	6.5	10.4	7.0	3.7	4.1
Fiscal balance (% of GDP)	-2.3	-3.0	-6.0	-10.2	-9.0	-8.0	-7.2
Trade balance (% of GDP)	0.7	0.0	-0.3	1.0	2.5	2.4	2.0
Current account balance (% of GDP)	-3.0	-3.0	-4.2	-3.3	-1.3	-1.4	-1.9
Official interest rate (end of period)	7.28	9.63	11.32	14.25	13.97	8.75	8.00
10-year rate (end of period)	9.21	12.17	12.29	15.74	11.59	10.74	9.46
Exchange rate vs dollar (end of period)	2.06	2.28	2.55	3.84	3.29	3.33	3.50
Exchange rate vs euro (end of period)	2.67	3.10	3.19	4.21	3.55	3.72	3.95
Household credit (% y-o-y, average)	17.6	16.4	14.1	10.0	4.3	7.2	12.7
Savings rate (%)	18.4	17.8	19.1	19.9	20.4	20.4	20.4
Fiscal impulse (% GDP)	-0.8	-0.5	-2.2	-1.3	-0.7	0.9	0.0

Source: MAPFRE Economic Research (with data from the Instituto Brasileiro de Geografia e Estatística, IBGE)

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1.2.11 Argentina

More favorable forecast and better risk composition

- *A slight downward revision of growth but with better foundations pointing to greater sustainability.*
- *Investment and the foreign sector are increasingly being replaced by private consumption thanks to higher real income.*
- *Risks are declining and stem from domestic factors. The elections at the end of 2017 will be a crucial moment because they could end up taking the country back to the previous system of political economy.*

Recent figures show that economic activity gained new momentum in quarterly rates during the first three months of 2017, primarily due to the recovery of agriculture and public investment.

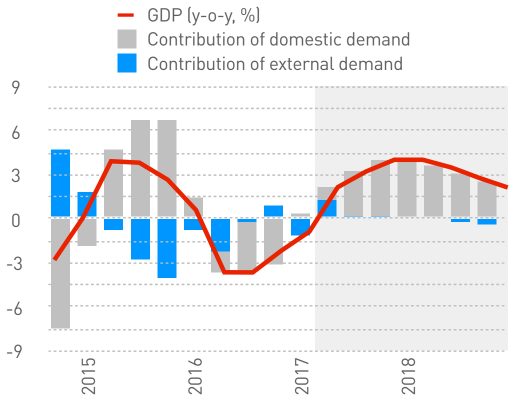
Investment continues to be the main driver of growth (especially in agriculture, renewable energy, public infrastructure, and sales of cement), which points to a growth of 2.1 percent for the whole year, following last year's recession.

Although this represents a downward revision of the figure published last quarter, it is still good news because although the contribution of investment and the foreign sector is expected to decline, consumption looks set to contribute increasingly to recovery, which will help sustain it and spread its effects. We anticipate a larger contribution from consumption because of the foreseeable increase in real income, with the growth of formal employment and expectations of inflation falling to less than half the rate registered at the end of 2016.

However, the political risks remain significant. Popular discontent with President Macri is affecting expectations, especially in an environment increasingly dominated by non-labor-intensive sectors (energy and finance), tenacious inflation eroding available income as a result of the depreciation of the currency, and the lack of tax revenues. These are all factors that could impact the elections in the fourth quarter of 2017 and send the country hurtling back to the pre-Macri system of political economy.

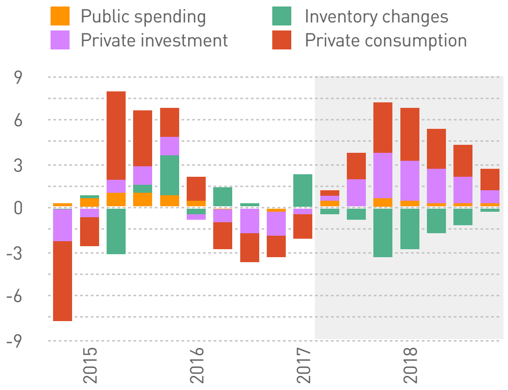
Meanwhile, a difficult path toward fiscal consolidation, popular discontent and tensions in the bond market could lead to new repercussions for capital markets, pointing to possible new depreciations of the currency against the dollar.

Chart 1.2.11-a
Argentina: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on INDEC data)

Chart 1.2.11-b
Argentina: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on INDEC data)

Table 1.2.11
Argentina: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	-0.9	2.4	-2.5	2.6	-2.2	2.1	3.1
Contribution of domestic demand	-1.3	4.1	-4.2	4.1	-1.7	2.0	3.3
Contribution of external demand	0.3	-1.8	1.7	-1.5	-0.6	0.1	-0.3
Contribution of private consumption	0.8	2.6	-3.1	2.4	-0.9	1.0	2.5
Contribution of investment	-1.5	0.5	-1.2	0.7	-1.1	1.2	2.0
Contribution of public consumption	0.4	0.7	0.4	0.9	0.1	0.3	0.3
Domestic demand (% y-o-y, average)	-1.2	4.0	-3.8	4.0	-1.6	1.9	3.1
Total consumption (% y-o-y, average)	1.4	3.9	-3.2	4.0	-1.1	1.6	3.2
Investment (% y-o-y, average)	-7.0	2.5	-6.6	3.8	-5.4	6.2	10.3
Exports (y-o-y in %)	-0.8	-0.7	-0.5	-0.8	0.9	1.0	0.8
Imports (y-o-y in %)	1.1	-1.0	2.3	-1.2	-1.5	-0.8	-1.0
Unemployment rate (end of period)	6.9	6.4	6.9	7.0	7.6	7.3	6.9
Inflation (y-o-y, end of period)	13.4	26.2	39.0	24.9	48.3	20.8	14.7
Fiscal balance (% of GDP)	-1.0	-2.2	-3.2	-4.0	-4.3	-4.2	-3.5
Trade balance (% of GDP)	2.6	0.8	1.1	-0.1	0.8	-0.1	-0.2
Current account balance (% of GDP)	-0.2	-2.0	-1.4	-2.7	-2.8	-2.6	-2.2
Official interest rate (end of period)	12.81	16.37	25.98	35.60	27.42	23.25	15.75
Short-term rate	12.81	16.37	19.85	23.80	20.11	15.94	8.44
Long-term rate	12.02	11.29	9.58	7.26	6.87	6.39	6.69
Exchange rate vs dollar (end of period)	4.80	6.05	8.51	10.04	15.44	15.99	16.51
Exchange rate vs euro (end of period)	6.22	8.24	10.64	10.99	16.65	17.91	18.63

Source: MAPFRE Economic Research (based on INDEC data)

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1.2.12 China

The controlled slowdown continues

In the first quarter of 2017 GDP growth (6.9 percent) exceeded the government's target (6.5 percent) for the second time in a row, and the latest PMI figures were also positive. The mixture of fiscal laxity in the form of investment in infrastructures increasingly financed by resorting to the public deficit (which has risen from 0 percent in 2008 to -4 percent in 2017) and the gradual implementation of macro-prudential measures to contain credit therefore seems to be working for the moment.

- *Resilient growth above the government target supported by investment, thanks to efforts from the government.*
- *In spite of the initial upturn, growth will slowly return to slightly more moderate rates (6.7 percent in 2017), nevertheless representing an upward revision compared with the projection for the last quarter.*
- *The risks stemming from the relationship between the imbalances of the residential sector and excessive credit (credit and financial stability risks) continue.*
- *The PBOC combines financial stability and the strength of the renminbi with its growth target.*

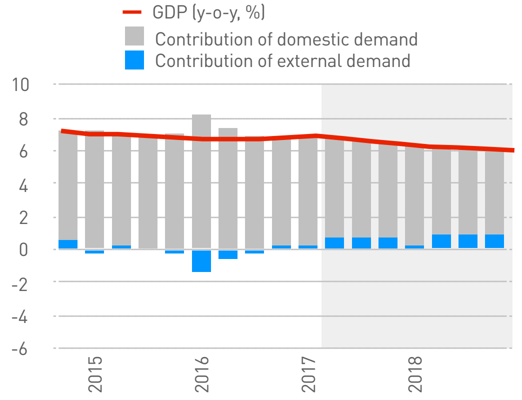
The administration clearly seems to be trying to balance the growth target with financial stability through intervention in the money markets (through the standard lending facility), which has cut credit in half, and the imposition of macro-prudential limits in the residential sector. The ultimate aim is to assuage fears of a sovereign debt crisis triggered by the real estate sector (prices in Tier-1 and Tier-2 cities have stagnated) and halt portfolio outflows from the country to protect the renminbi, currently at 6.8RMB to the dollar.

We therefore expect GDP to grow by nearly 6.7 percent in 2017, basically supported by domestic demand through both consumption and investment, with the emphasis on public investment in infrastructures. Inflation will stay in the region of 2.2 percent, while the inflation of industrial prices will remain in positive territory, diluting the risk of China continuing to export deflation.

The central bank (PBOC) will continue to shun lax financial conditions, barely touching official rates and tending to intervene more through the money markets. This will push up the cost of financing. Even so, the exchange rate is projected to end 2017 at around 6.9, in line with the controlled and gradual depreciation of the current monetary policy.

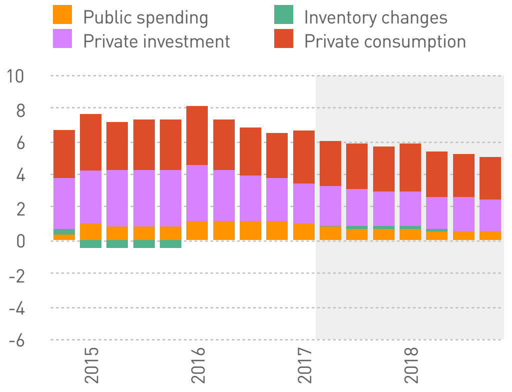
Risks for China remain downside, for both growth and inflation. China is facing high corporate leverage, making it vulnerable to interest and exchange rate risks. Meanwhile, political tensions with the United States have cooled but could resurface with repercussions for global international trade as well as the commodity cycle, especially affecting Latin American exporters.

Chart 1.2.12-a
China: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on PBOC data)

Chart 1.2.12-b
China: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on PBOC data)

Table 1.2.12
China: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	7.8	7.8	7.3	6.9	6.7	6.7	6.1
Contribution of domestic demand	7.7	7.9	5.7	6.9	7.2	6.0	5.4
Contribution of external demand	0.1	-0.1	1.6	0.0	-0.5	0.6	0.9
Contribution of private consumption	3.6	3.0	3.1	3.1	3.1	2.8	2.7
Contribution of investment	3.9	4.2	2.2	3.4	2.9	2.3	2.0
Contribution of public consumption	0.8	0.6	0.4	0.9	1.2	0.8	0.6
Domestic demand (% y-o-y, average)	8.0	8.1	7.2	7.1	7.4	6.1	5.5
Total consumption (% y-o-y, average)	8.7	7.2	7.1	8.0	8.5	7.0	6.4
Investment (% y-o-y, average)	8.7	9.3	6.9	7.4	6.4	5.1	4.5
Exports (y-o-y in %)	1.5	2.3	1.4	0.2	0.4	2.2	1.0
Imports (y-o-y in %)	-1.6	-2.6	-1.3	-0.7	-0.8	-2.3	-1.1
Unemployment rate (end of period)	4.1	4.1	4.1	4.1	4.0	4.0	4.0
Inflation (y-o-y, end of period)	2.1	2.9	1.5	1.5	2.2	2.2	2.9
Fiscal balance (% of GDP)	-1.6	-1.8	-1.8	-3.4	-3.8	-4.9	-4.8
Trade balance (% of GDP)	3.6	3.7	4.2	5.3	4.4	4.1	4.0
Current account balance ($ mM)	13.4	14.5	15.5	16.7	17.8	18.9	19.9
Current account balance (% of GDP)	2.5	1.5	2.3	2.8	1.8	1.6	1.5
Official interest rate (end of period)	3.22	4.71	3.53	2.33	2.48	3.23	3.52
Long-term rate	3.57	5.40	4.10	2.68	2.90	3.63	3.71
Exchange rate vs dollar (end of period)	6.24	6.09	6.15	6.39	6.83	6.95	6.97
Exchange rate vs euro (end of period)	8.10	8.29	7.68	7.00	7.37	7.78	7.86
Private credit (% y-o-y, average)	16.1	15.4	13.4	14.8	13.3	11.0	10.7
Savings rate (%)	37.8	39.8	39.7	39.7	38.8	38.4	37.8

Source: MAPFRE Economic Research (based on PBOC data)

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1.2.13 Indonesia

Sustained growth supported by domestic factors

The Indonesian economy is confirming the dynamics of its recent growth, and we therefore expect GDP growth for 2017 to exceed 5 percent (its potential).

- *The Indonesian economy is confirming the dynamics of its recent economic growth. Our projection for 2017 is above 5 percent.*
- *For first time since the Asian financial crisis, Indonesian sovereign bonds were classed as investment grade.*
- *Inflation will rise during the rest of 2017 and the currency is expected to depreciate again as a result of the delayed effects of monetary policy.*

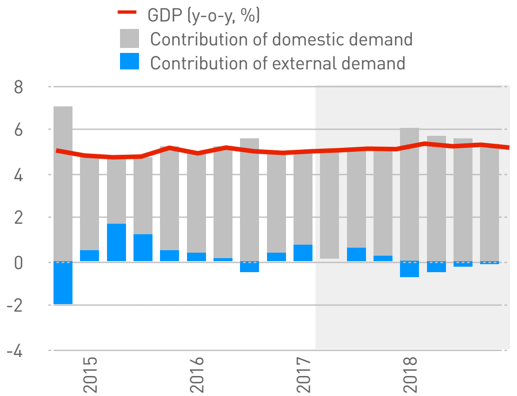
Buoyant economic activity has been fueled by both domestic and foreign demand, by structural and fiscal reforms that have earned the country investment grade from SP, by a more favorable commodity cycle, and by strong employment and salary growth (close to full employment).

Meanwhile, inflation in 2017 is expected to rise to above 4.5 percent due to the delayed effects of the depreciation of the currency and the past laxity of monetary policy. Even so, we expect inflation to stay very close to the central bank's target ranges.

The financial balance of the Indonesian current account is greatly funded by external flows and relatively short terms, which makes the currency somewhat volatile and especially vulnerable to changes of stance in the monetary policy of the U.S. Federal Reserve (as was the case in 2013). Indonesia also has moderate corporate inflation in U.S. dollars, which again introduces a certain vulnerability and makes the currency potentially more volatile.

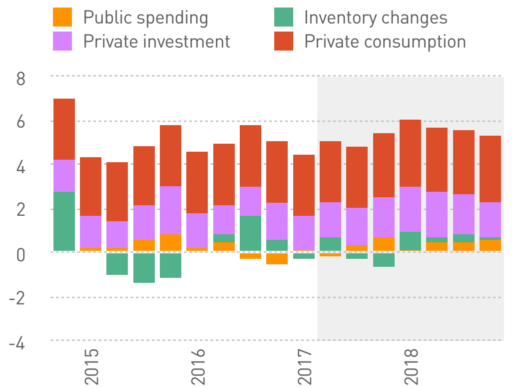
However, the current phase of the economic cycle, the profitability of its sovereign bonds and the attainment of the investment grade will not be able to contain the depreciation projected for 2017 as a result of the delayed effect of the monetary policy.

Chart 1.2.13-a
Indonesia: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on BPS data)

Chart 1.2.13-b
Indonesia: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on BPS data)

Table 1.2.13
Indonesia: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	6.0	5.6	5.0	4.9	5.0	5.1	5.3
Contribution of domestic demand	7.6	5.0	4.6	3.9	4.9	4.7	5.6
Contribution of external demand	-1.5	0.6	0.4	1.0	0.1	0.4	-0.1
Contribution of private consumption	3.1	3.0	2.9	2.7	2.8	2.8	3.0
Contribution of investment	2.9	1.7	1.0	1.6	1.5	1.7	1.9
Contribution of public consumption	0.5	0.6	0.1	0.5	0.0	0.3	0.4
Domestic demand (% y-o-y, average)	7.7	5.0	5.3	3.9	5.0	4.7	5.8
Total consumption (% y-o-y, average)	5.4	5.6	4.7	4.9	4.4	4.8	5.3
Investment (% y-o-y, average)	9.1	5.1	4.5	5.0	4.5	5.2	5.8
Exports (y-o-y in %)	0.5	1.1	0.5	-0.7	-0.3	1.6	1.5
Imports (y-o-y in %)	-2.1	-0.5	-0.2	1.1	0.4	-1.2	-1.9
Unemployment rate (end of period)	5.8	5.7	5.9	5.8	5.5	5.4	5.3
Inflation (y-o-y, end of period)	3.9	8.0	6.5	4.8	3.3	4.6	4.3
Fiscal balance (% of GDP)	-1.7	-2.2	-2.2	-2.6	-2.5	-2.4	-2.3
Trade balance (% of GDP)	0.9	0.6	0.8	1.6	1.7	2.0	2.1
Current account balance (% of GDP)	-2.7	-3.2	-3.1	-2.0	-1.8	-1.5	-1.7
Official interest rate (end of period)	4.50	6.14	6.37	6.25	4.81	5.00	5.50
Long-term rate	5.50	8.12	7.98	8.71	7.53	7.65	8.29
Exchange rate vs dollar (end of period)	9,616	11,552	12,252	13,769	13,259	13,575	13,960
Exchange rate vs euro (end of period)	12,469	15,721	15,312	15,081	14,296	15,204	15,753
Savings rate (%)	17.1	17.2	17.0	17.0	17.0	17.2	17.3
P.S. financial credit (% y-o-y, average)	19.0	16.9	4.5	32.0	10.1	3.8	9.4

Source: MAPFRE Economic Research (based on BPS data)

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1.2.14 Philippines

Sustained growth based on domestic demand

- *High (but slightly more moderate) growth supported by the strength of domestic demand.*
- *The depreciation of the currency will be consistent with the depletion of the current account surplus.*
- *Inflation will rise but stay within the central bank's target ranges.*

The Philippines continues to see significant growth of its gross domestic product in line with its potential.

Most of this buoyancy stems from domestic demand (consumption and residential), with contributions from the export of services and remittances from abroad. The growth projected for 2017 will be less than the rate registered last year due to a moderation of domestic demand (advisable), in terms of both consumption and investment. Our projection for 2017 is therefore a growth of around 6.5 percent, closer to its potential.

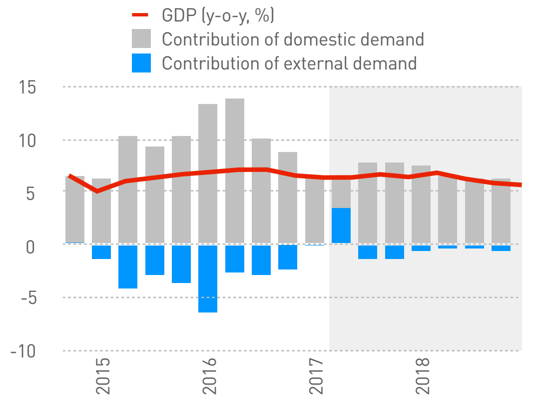
Even with this correction, consumption and residential and infrastructure investment will continue to boost these dynamics, especially in the context of a projected double-digit growth in credit, despite the central bank's efforts to cool the economy.

Growing fiscal deficits (above 2 percent) and the depletion of the current account surplus will lead to a moderate depreciation of the currency to offset the effect of inflation.

This trend in the fiscal deficit seems highly probable in view of the plans of the current administration to raise spending on infrastructure from 2 percent to 7.4 percent of GDP while cutting corporate tax to 25 percent (from the current 30 percent).

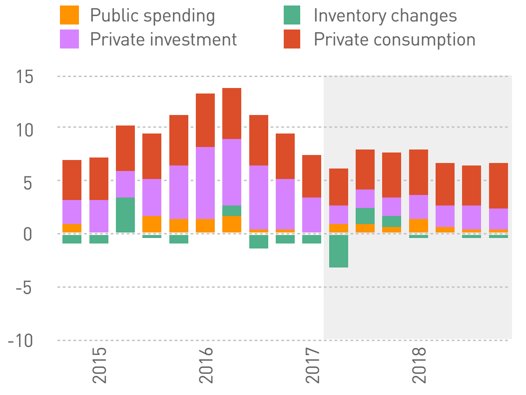
The Philippines is not only a net importer of manufactured goods but of food and energy as well. Consequently, the projected currency depreciation will be accompanied by imported inflation. Although we project higher inflation in 2017, the figure will remain within the central bank's target range of 2-4 percent.

Chart 1.2.14-a
Philippines: GDP breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on PSA data)

Chart 1.2.14-b
Philippines: domestic demand breakdown and forecasts, 2014-2018



Source: MAPFRE Economic Research (based on PSA data)

Table 1.2.14
Philippines: main macroeconomic aggregates

	2012	2013	2014	2015	2016	2017	2018
GDP (% y-o-y, average)	6.7	7.1	6.1	6.0	8.0	6.5	6.2
Contribution of domestic demand	5.3	9.8	4.8	9.1	11.5	6.3	6.6
Contribution of external demand	1.4	-2.7	1.3	-3.0	-3.5	0.2	-0.6
Contribution of private consumption	4.7	4.0	3.9	4.4	4.8	3.9	4.0
Contribution of investment	2.1	2.5	1.1	3.6	6.0	2.2	2.2
Contribution of public consumption	1.7	0.6	0.3	0.8	0.9	0.7	0.7
Domestic demand (% y-o-y, average)	5.2	9.9	5.0	9.0	11.2	5.8	6.2
Total consumption (% y-o-y, average)	7.8	5.6	5.2	6.5	7.2	5.7	6.0
Investment (% y-o-y, average)	10.8	12.0	7.2	16.6	25.7	7.9	7.8
Exports (y-o-y in %)	4.2	-0.2	5.5	4.8	5.4	9.8	3.4
Imports (y-o-y in %)	-2.7	-2.4	-4.0	-9.0	-10.9	-9.4	-3.8
Unemployment rate (end of period)	6.8	6.4	6.0	5.6	4.7	5.7	5.1
Inflation (y-o-y, end of period)	3.0	3.5	3.6	1.0	2.5	3.7	3.8
Fiscal balance (% of GDP)	-2.3	-1.4	-0.6	-0.9	-2.4	-2.5	-2.7
Trade balance (% of GDP)	-7.6	-6.5	-6.1	-8.0	-11.2	-11.6	-10.7
Current account balance (% of GDP)	2.8	4.2	3.8	2.5	0.2	0.1	0.7
Official interest rate (end of period)	3.57	3.50	4.00	4.00	3.00	3.13	3.88
Long-term rate	4.87	3.72	4.24	3.91	4.43	5.20	5.83
Exchange rate vs dollar (end of period)	41.19	43.62	44.81	46.87	49.11	49.99	49.75
Exchange rate vs euro (end of period)	53.42	59.36	56.01	51.33	52.95	55.99	56.14
Savings rate (%)	7.2	8.3	9.3	7.7	8.0	8.6	8.8
P.S. financial credit (% y-o-y, average)	7.8	6.0	8.8	2.6	8.7	9.4	9.6

Source: MAPFRE Economic Research (based on PSA data)

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2. Industry outlook

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

2.1.1 Global markets

Estimations of global insurance market premiums placed 2016 growth at 3.1 percent in real terms, compared with growth of 4.3 percent in 2015. This slowdown in growth basically stemmed from the behavior of the insurance industry in developed markets, which saw a real aggregate increase of 0.7 percent compared with 14 percent in emerging markets. The main cause behind the slowdown was the 0.5 percent downturn in life insurance in developed economies, which represented 81 percent of all life insurance premiums worldwide. Meanwhile, the growth in premiums in emerging countries is owing to the robust increase in insurance premiums in China, without which they would have seen an aggregate slowdown.[1]

However, the acceleration in the economic growth of developed countries witnessed in the first quarter of 2017 points to a projected global GDP growth of around 3.1 percent for the whole year (2.5 percent in 2016), with a contribution of 2 percent from developing countries and 4.5 percent from emerging ones, accompanied by significant improvements in world trade, investment in infrastructures and equipment, and in certain Asian countries (most notably, China) residential investment as well.

This economic outlook will have a positive impact on the development of the insurance market worldwide. Life insurance premiums in developed markets are expected to return to their upward trend but will still lag behind the growth in emerging countries.

2.1.2 Eurozone

Less political uncertainty following the French elections and the upward revision of GDP forecasts in the Eurozone, with values of around 2 percent, are good news for the insurance industry of the EMU, and for the non-life and life risk business lines in particular. However, uncertainty persists with regard to the Italian elections, poor Brexit negotiations, and the outcome of the negotiations regarding Greek debt relief.

Meanwhile, the risk-free euro yield curves calculated by EIOPA (see Chart 2.1.2) show that interest rates continue to rise from the minimum levels of July 2016. This rise is greater in the long ends of the curve—above 60 basis points in the 10-year rate—with respect to the July low. For longer ends the growth is even higher, above 75 basis points for maturities exceeding 17 years. Although we remain in an environment of low interest rates, a continued increase in the yield from bonds and the inclination of the curve slope could encourage the development of life savings products and traditional life annuities, as indeed is already happening in certain Eurozone countries.

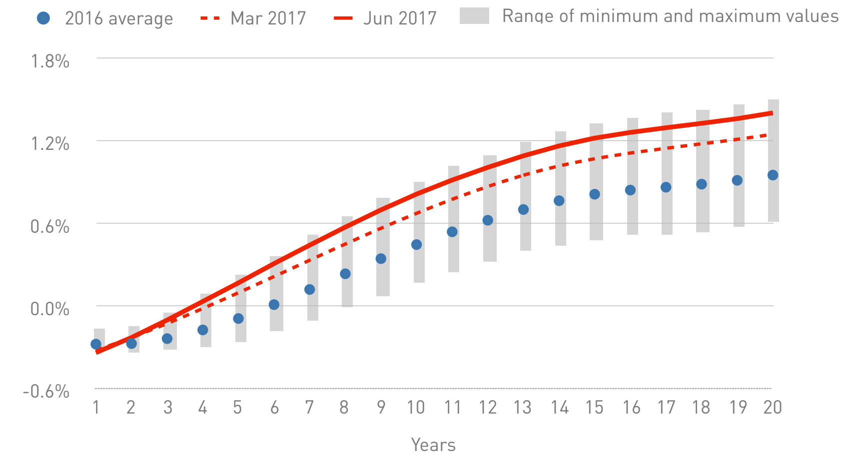
However, rates are still low and the points of the curve with maturities of less than four years continue to show negative values, indicating that we are still a long way from a genuine normalization of the monetary policy. Consequently, the problems for new business continue, and also for insurance companies that have life insurance portfolios on their balance sheets with guaranteed high rates and a mismatch of flows with regard to the assets that support the obligations derived from their insurance contracts, whose solvency position will be gradually eroded as the flows from investments in their portfolios are reinvested.

2.1.3 Spain

In Spain the slowdown in economic activity initially predicted has not materialized, leading to an upward revision of the forecasts for the whole year to between 2.7 percent and 3 percent, the highest in the European Union.

However, although robust, consumption is showing signs of fatigue, which suggests that the initially projected slowdown may materialize in the future. Exports and investment could partly offset these dynamics. Also notable is the upturn in residential investment thanks to the reactivation of mortgage credit and retained demand, since the effects of the crisis are still being felt, as well as a rekindling of institution investment in the real estate market. This is a favorable environment for life risk products, due to the reactivation of mortgage credit, and for non-life business lines like multiperil products, linked to residential and real estate investment. However, if the slowdown in consumption materializes, the development of non-life products may lose

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



Source: MAPFRE Economic Research (based on EIOPA data)

momentum because it is closely linked to economic growth and, in particular, to the behavior of household and business consumption.

Meanwhile, in spite of the improvement experienced in 2016, the persistence of the low interest rate environment continues to encumber life savings products and traditional life annuities, although the upturn in risk-free interest rates at the long end of the curve is having a positive impact on this business, supported by negligible or non-existent returns on bank deposits, which remain subject to a negative marginal deposit facility. Innovation in the insurance industry toward products in which the policyholder assumes the risk of the investment is also injecting momentum into the life savings market.

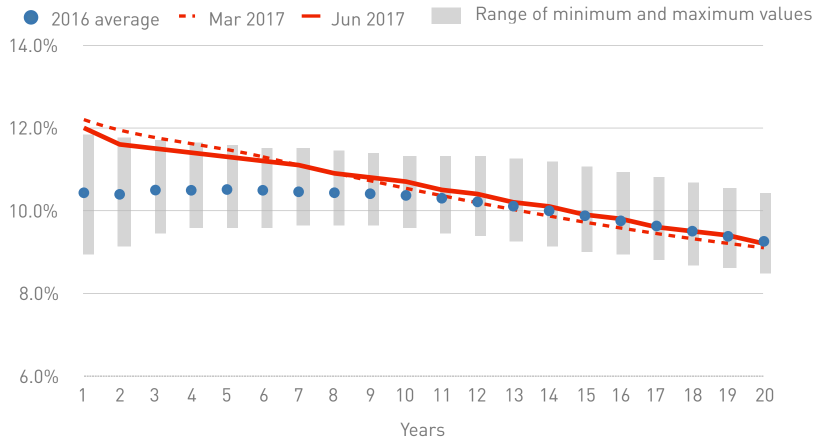
2.1.4 Turkey

In spite of an environment of economic and political uncertainty in Turkey, the 5-percent growth in economic activity in the first quarter of 2017 (the adjusted year-over-year rate) and the upward revision of projections for the whole of the year to 4 percent is good news for the development of the insurance market, at least as regards the non-life business lines. However, the anticipated rise in inflation and depreciation of the Turkish lira will have a negative impact on the performance of the non-life business, because of higher claims costs. The rigidity in the adaptation of premiums following the introduction a price controlling system in compulsory automobile insurance is an additional problem which could affect the technical performance of this business line. Meanwhile, volatile interest rates and an inverted yield curve are detrimental to the life business.

2.1.5 United States

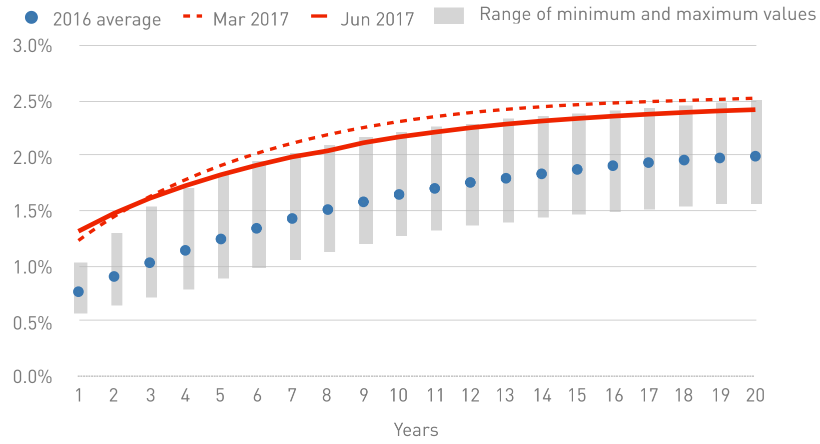
The fact that the expansionary fiscal policies planned by the new U.S. administration have still not materialized advises a certain degree of caution. Even so, growth for 2017 is still projected to be around 2.2 percent. Activity and employment continue to offer a positive view, which constitutes a favorable environment for the development of the insurance industry and

Chart 2.1.4
Turkey: risk-free yield curve
(%)



Source: MAPFRE Economic Research (based on EIOPA data)

Chart 2.1.5
United States: risk-free yield curve
(%)



Source: MAPFRE Economic Research (based on EIOPA data)

a favorable environment for the development of the insurance industry and the non-life and life risk business lines in particular.

Meanwhile, the gradual interest rate hikes by the Federal Reserve are not having a significant impact on the long-term rates of the yield curve, which would be favorable for the development of the life savings and life annuities business because it would offer higher guaranteed returns on long-term savings products and would improve the situation of companies by remedying the mismatch in their portfolio durations. The risk-free dollar yield curves calculated by EIOPA show that the rise in long-term interest rates is not materializing, with a slight downward flattening of the long maturities. Short-term interest rates maintain their slight upward trend (see Chart 2.1.5).

2.1.6 Brazil

The first-quarter figures appear to confirm that the country has moved out of recession, with growth estimated to be close to zero for 2017. But while the environment appears to be improving, it is still complicated by the weak performance of the economy. Controlled inflation is favorable for the performance of the insurance market, because of the contention of expenses related to claims, but the expansionary monetary and fiscal policies could lead to a currency impairment, partially offsetting that positive effect.

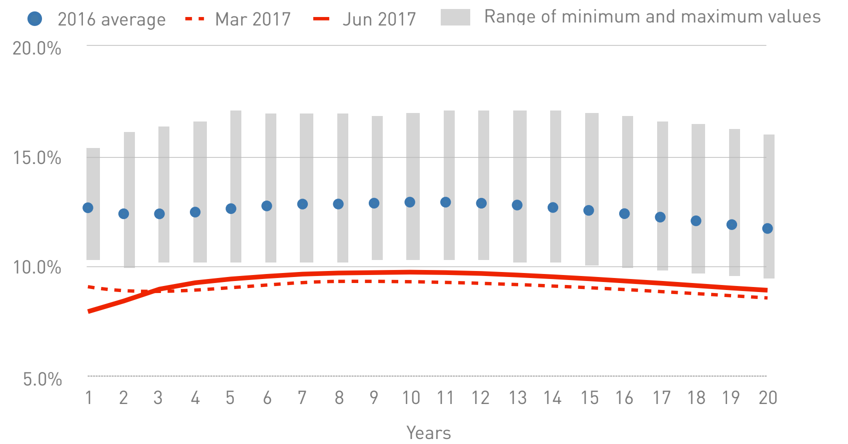
Interest rates remain low at the short end of the yield curve, with a flattening at the long end and even a slight dip, which could create an unfavorable environment and jeopardize the buoyancy of life savings products and life annuities (see Chart 2.1.6).

However, the situation could improve in the medium term if the forecasts are consolidated and there is a return to growth in 2018.

2.1.7 Mexico

The upturn in economic growth in the first quarter of 2017, the upward revision of the projected growth to around 2.4 percent for the whole of the year, and the current moderation of the climate of conflict over trade with the United States are all good news and liable to lead to better performance by the Mexican insurance industry, especially because of the improved prospects for consumption.

Chart 2.1.6
Brazil: risk-free yield curve
(%)



Source: MAPFRE Economic Research (based on EIOPA data)

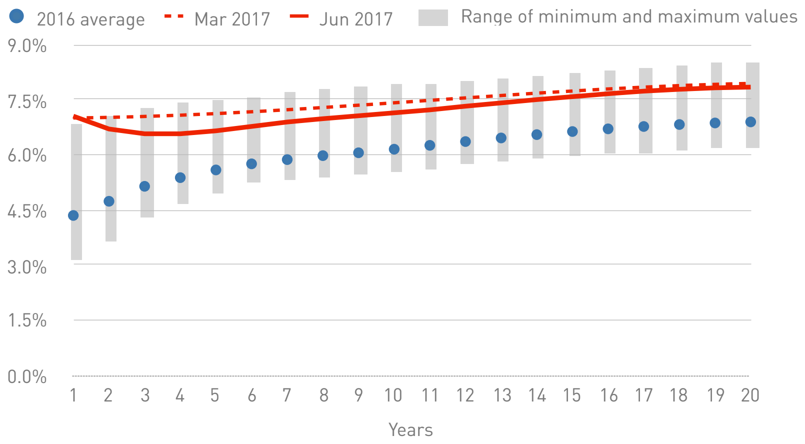
Since the penetration of insurance is still low in Mexico, growth could be more elastic than in other more developed economies, meaning that moderate increases in GDP usually result in higher growths of insurance premiums. High inflation rates and the depreciation of the Mexican currency are having a negative impact on the performance of the insurance industry because of higher claims costs, which could partly offset this improvement. However, the price controls planned for 2017 and the maintenance of the exchange rate could reverse this potential risk.

The outlook for the life savings and life annuities business could be favorable in light of the interest-rake hikes planned by the central bank and the likely continuation of a restrictive monetary policy. However, the volatility already observed continues its upward trend, and for the moment the interest-rate hikes do not appear to be having an effect on the long ends of the yield curve (see Chart 2.1.7). This is having a harmful knock-on effect on the aforementioned business lines because it is making these products harder to sell, and it also entails potential risks of bailouts from portfolios held by insurance companies.

2.1.8. China

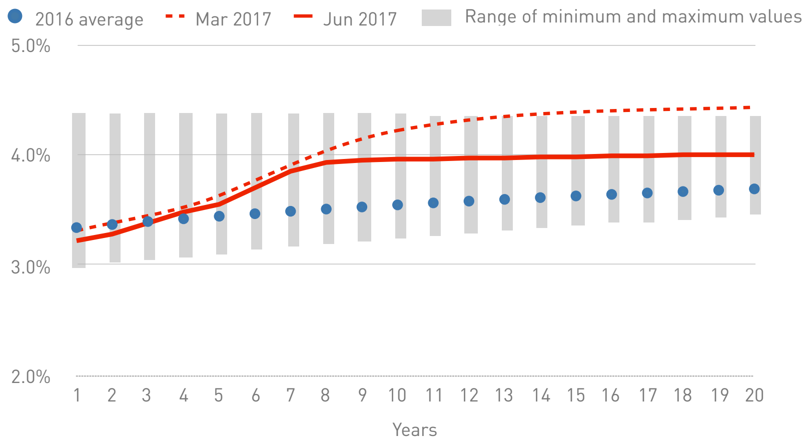
The projected growth of Chinese GDP to around 6.7 percent in 2017, supported by domestic demand through consumption and investment

Chart 2.1.7
Mexico: risk-free yield curve
(%)



Source: MAPFRE Economic Research (based on EIOPA data)

Chart 2.1.8
China: risk-free yield curve
(%)



Source: MAPFRE Economic Research (based on EIOPA data)

continues to point to a favorable economic environment for the country's insurance industry, especially for non-life and life risk business lines, which are very sensitive to the dynamics of economic growth in general and to household and business consumption in particular. This behavior will also be boosted by the low penetration of insurance in China, which is typical of emerging economies and will result in a greater elasticity of premium growth compared with GDP growth.

Most notably, one of the Chinese government's explicit objectives for insurance activities is to increase the rate of penetration. The prospect of moderate inflation (around 2.2 percent) is also good news for the development of the claims costs that insurers will have to bear in the coming months. However, the planned tightening of conditions for home buyers could partly offset the favorable outlook for the insurance market.

Meanwhile, less lax monetary policies are likely to improve the outlook for the life savings and life annuities business lines. The EIOPA yield curves show interest rates rising in the middle sections, where the slope becomes steeper, which is positive for the sale of these types of products (see Chart 2.1.8). Interest-rate volatility also remains moderate, which will favor the development of the life business.

2.1.9 Reinsurance

According to the latest report published by the International Association of Insurance Supervisors (IAIS) on the situation of the global insurance market,[2] reinsurers are facing competitive pressures and changing demand from cedants while investment yields remain low and the possibilities of reserve releases diminish.

Against this competitive and volatile backdrop, it is likely that some operators will resort to mergers and acquisitions with other reinsurance or insurance players to diversify their portfolio, both in terms of business lines and geographically, and make adjustments to shareholders' equity in a low profitability environment through capital reduction or extraordinary dividend payouts. For the moment, however, the absence of significant natural disasters has enabled reinsurers to continue generating positive—albeit declining—results, partly alleviating those pressures.

2.2 Regulatory trends: new developments in the quarter

Global trends

On June 1, 2017 the deadline closed for sending comments about the consultation launched by the International Association of Insurance Supervisors (IAIS) on the review of certain Insurance Core Principles (ICPs) included in “ComFrame”, or the Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs). The analysis for the review refers to certain aspects concerning the introduction to the principles, assessment methodology, corporate governance system, supervision, cooperation, measures to be adopted by supervisors, the resolution of these groups. The IAIS is currently analyzing the responses received.

With regard to Global Systemically Important Insurers (GSIIs), the IAIS is working on the criteria for preparing the list of companies classed as systemic. The approach used in previous designations is being reviewed with the aim of developing a set of criteria not based exclusively on companies but on the type of activities pursued by potentially systemic insurers. In June 2017 the IAIS held its first meeting with the different parties involved and announced its plans to launch a consultation process later this year on the preliminary conclusions, ahead of a full public consultation at the end of 2018 on the designation of systemic risk.

This constitutes a delay in the initial plans for the publication of the list of systemic insurers by the Financial Stability Board (FSB), with a view to implementing the calculation of additional capital requirements in January 2019. Based on the new calendar, this could be postponed, with the result that the revised framework with the methodology for handling system risk by the IAIGs would be completed at the end of 2019 and the relevant list of GSIIs based on the new criteria would be drawn up at the end of 2020 for implementation in 2022.

United States

On May 29, 2017 the Council of the European Union adopted a decision[3] authorizing the signing of a bilateral agreement reached on January 13 concerning insurance and reinsurance with the European Union. However, the agreement is still pending ratification by the U.S. Congress.[4] In July the Treasury Department and the Office of the U.S. Trade Representative issued a press release indicating their intention to sign the agreement in the coming weeks.[5]

Meanwhile, the bill to reform the regulations affecting the finance sector and the Dodd-Frank Act in particular, known as the Financial Choice Act, is under way.[6] The House of Representatives of the U.S. Congress approved the bill on June 6, 2017 and it is currently being discussed in the Senate. In the meantime, on June 12 the Treasury Department issued its recommendations on reforming the U.S. financial system to make the financial markets more efficient. The report recommends easing and in certain cases eliminating part of the reform that was adopted as a result of the financial crisis, introduced through the Dodd-Frank Act. The report provides a crucial basis for the negotiations to reach an agreement in the Senate.

European Union

European supervisory authorities

The deadline for sending comments on the public consultation launched by the European Commission on the operations of the European supervisory authorities[7] (EBA, ESMA and EIOPA) ended on May 16, 2017. The aim is to identify areas for improvement and reinforcement, reflecting the important role these authorities play in the development and integration of financial markets in the European Union. The consultation is taking place against the backdrop of the overall review of supervisory authorities planned for this year, as required in their founding principles. The Commission is currently analyzing the responses received.

Solvency II

July 1, 2017 marked the deadline for publishing the first Solvency and Financial Condition Report (SFCR) for European Union groups. This is the first report on a full year since Solvency II was implemented, as per the new risk-based prudential regulations that entered into force in the European Union on January 1, 2016. The situation of the top 20 European groups, in terms of premium volume, is sound and seven of those groups have eligible own funds of over twice the mandatory solvency capital required[8]. The use of transitory measures has cushioned the impact of the entry into force of the new solvency regulation, which will be absorbed gradually over a period of 17 years.

Meanwhile, on July 4, 2017 EIOPA issued a public consultation document on its technical advice for the current review of the parameters and factors used to calculate capital requirements under the standard formula planned for 2018,[9] together with proposals for making the standard formula simpler. This reform will affect the Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC on Solvency II. The areas covered by the consultation are wide ranging, including general aspects of the standard formula, underwriting risk modules for non-life, life and health, natural disasters, specific parameters, counterparty risk modules, certain aspects of the market risk module, the loss absorbing capacity of deferred taxes, the risk margin and shareholders' equity. The deadline for sending comments is August 31, 2017.

Lastly, on May 17, 2017 EIOPA published its final report containing the methodology that will enter into force on January 1, 2018 for calculating the Ultimate Forward Rate (UFR). Once implemented, the UFR for the euro yield curve will fall from 4.2 percent to 4.05 percent in 2018, with additional reductions in the following years to reach 3.65 percent, according to the value estimated by EIOPA. These reductions may not exceed 15 basis points per year, and the full implementation of the new UFR will therefore be phased in over a period of four years.

Private pension funds

On June 29 the European Commission adopted a legislative proposal on a pan-European personal pension product based on the technical advice received from EIOPA in July 2016 and the public consultation carried out by the Commission itself at the end of 2016 on possible measures related to this type of instrument for addressing aspects such as demographic challenges, the innovation and development of markets, and the cross-border portability of funds within the European Union.

This proposal now has to be debated by the European Union Council and Parliament. The idea is to develop a simple, voluntary product for people who work in different EU countries during the course of their working life. At the same time, all the risks and costs will be transparent and controlled. Products that meet these requirements will receive a quality label so that they can be easily identified by consumers and savers. The regulation proposal is accompanied by a recommendation to member states to treat these types of products in the same way as other pension products for tax purposes. In other words, even if the new pan-European product does not meet the requirements currently in force in the different countries to receive favorable tax treatment, it should still be eligible for tax relief.

With regard to occupational retirement provision, the member states are still in the process of transposing the amended text of the directive on the activities and supervision of institutions for occupational retirement provision (IORP II) that was published in the Official Journal of the European Union on December 23, 2016. The aims of the directive are to achieve a minimum level of harmonization between the different national legislations on the regulation of occupational retirement provision, guaranteeing minimum levels of transparency, governance and risk management. The deadline for transposing the amended text of the directive is January 13, 2019.

Lastly, July 16, 2017 was the deadline for sending information on the 2017 Occupational Pensions Stress Test launched by EIOPA on May 18, 2017.[10] EIOPA is currently analyzing and consolidating the information received.

Insurance distribution and consumer protection

The final development to mention in the second quarter is that on April 26, 2017 EIOPA published its EU-wide thematic review of consumer protection issues related to monetary incentives and remuneration payments from asset managers to insurance undertakings in the unit-linked market aimed at shedding light on the interlinkages between the two and identifying how to establish measures to avoid consumer detriment due to possible conflicts of interest. The report identifies a series of elements where improvements and supervisory actions need to be taken..

Tables: macroeconomic forecast scenarios

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

	Baseline scenario						Risk scenario					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
United States	1.7	2.4	2.6	1.6	2.2	2.7	1.7	2.4	2.6	1.6	1.5	1.1
Eurozone	-0.2	1.3	1.9	1.7	2.0	1.6	-0.2	1.3	1.9	1.7	1.0	1.0
Germany	0.6	1.6	1.5	1.8	2.0	1.6	0.6	1.6	1.5	1.8	0.9	0.7
France	0.6	0.6	1.3	1.3	1.3	1.6	0.6	0.6	1.3	1.3	0.8	1.3
Italy	-1.7	0.2	0.7	1.1	1.4	1.0	-1.7	0.2	0.7	1.1	0.6	0.5
Spain	-1.7	1.4	3.2	3.2	3.1	2.5	-1.7	1.4	3.2	3.2	1.6	1.7
United Kingdom	1.9	3.1	2.2	1.6	1.7	1.4	1.9	3.1	2.2	1.6	1.2	0.8
Japan	2.0	0.3	1.1	1.0	1.4	1.4	2.0	0.3	1.1	1.0	0.4	0.1
Emerging markets	5.1	4.7	4.2	4.1	4.6	4.8	5.1	4.7	4.2	4.1	3.9	4.0
Latin America[1]	2.9	1.0	0.0	-0.6	1.6	2.1	2.9	1.0	0.0	-0.6	1.2	1.2
Mexico	1.6	2.3	2.7	1.9	2.4	2.1	1.6	2.3	2.7	1.9	1.6	0.6
Brazil	4.0	0.5	-7.3	-5.6	0.8	1.9	4.0	0.5	-7.3	-5.6	0.1	2.3
Argentina	2.4	-2.5	2.6	-2.2	2.1	3.1	2.4	-2.5	2.6	-2.2	3.3	3.3
European emerging markets	2.8	2.8	3.6	3.3	3.1	3.2	2.8	2.8	3.6	3.3	3.0	3.1
Turkey	8.5	5.3	6.0	3.3	4.1	3.4	8.5	5.3	6.0	3.3	2.7	3.1
Asia Pacific	5.8	5.6	5.5	6.5	5.8	5.7	5.8	5.6	5.5	6.5	5.2	4.8
China	7.8	7.3	6.9	6.7	6.7	6.1	7.8	7.3	6.9	6.7	6.0	4.4
Indonesia	5.6	4.9	5.0	5.0	5.1	5.3	5.6	4.9	5.0	5.0	4.9	4.3
Philippines	7.1	6.1	6.0	8.0	6.5	6.2	7.1	6.1	6.0	8.0	5.6	5.3
World	3.4	3.5	3.4	3.1	3.1	3.2	3.4	3.5	3.4	3.1	2.6	2.5

Source: MAPFRE Economic Research (based on IMF data)
[1]Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Forecast end date: July 17, 2017.

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

	Baseline scenario						Risk scenario					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
United States	1.2	1.2	0.4	1.8	1.8	2.1	1.2	1.2	0.4	1.8	2.2	2.4
Eurozone	0.8	0.2	0.2	0.7	1.5	1.7	0.8	0.2	0.2	0.7	0.8	1.0
Germany	1.3	0.5	0.3	1.1	1.9	2.2	1.3	0.5	0.3	1.1	1.2	1.4
France	1.0	0.6	0.1	0.3	1.0	1.1	1.0	0.6	0.1	0.3	0.9	0.9
Italy	0.6	0.1	0.2	0.1	1.6	1.5	0.6	0.1	0.2	0.1	0.7	0.6
Spain	0.1	-0.5	-0.3	1.0	1.3	1.8	0.1	-0.5	-0.3	1.0	0.4	1.2
United Kingdom	2.1	0.9	0.1	1.2	3.2	1.4	2.1	0.9	0.1	1.2	2.5	1.3
Japan	1.5	2.5	0.2	0.3	0.7	0.9	1.5	2.5	0.2	0.3	0.1	0.4
Emerging markets	5.5	4.7	4.7	4.5	4.4	4.2	5.5	4.7	4.7	4.5	4.4	4.2
Latin America[1]	4.6	4.9	5.5	5.8	4.2	3.8	4.6	4.9	5.5	5.8	4.2	3.8
Mexico	3.7	4.2	2.3	3.2	6.3	3.5	3.7	4.2	2.3	3.2	5.1	4.5
Brazil	5.8	6.5	10.4	7.0	3.7	4.1	5.8	6.5	10.4	7.0	4.9	4.1
Argentina	26.2	39.0	24.9	48.3	20.8	14.7	26.2	39.0	24.9	48.3	19.5	15.2
European emerging markets	4.3	3.8	2.9	3.1	4.2	4.2	4.3	3.8	2.9	3.1	2.8	2.5
Turkey	7.5	8.8	8.2	7.6	9.1	7.5	7.5	8.8	8.2	7.6	7.2	5.7
Asia Pacific	5.8	5.6	2.2	2.9	4.1	4.0	5.8	5.6	2.2	2.9	4.7	4.3
China	2.9	1.5	1.5	2.2	2.2	2.9	2.9	1.5	1.5	2.2	3.3	3.3
Indonesia	8.0	6.5	4.8	3.3	4.6	4.3	8.0	6.5	4.8	3.3	5.5	5.1
Philippines	3.5	3.6	1.0	2.5	3.7	3.8	3.5	3.6	1.0	2.5	4.0	3.5
World	3.7	3.2	2.8	2.5	3.0	3.1	3.7	3.2	2.8	2.5	2.9	3.0

Source: MAPFRE Economic Research (based on IMF data)
[1]Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Forecast end date: July 17, 2017.

Table A-3
Baseline and risk scenarios: 10-year government bond interest rate
(annual average, %)

	Baseline scenario						Risk scenario					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
United States	2.75	2.28	2.19	2.13	2.46	2.87	2.75	2.28	2.19	2.13	2.21	1.51
Eurozone	2.96	1.50	1.19	0.93	1.49	1.87	2.96	1.50	1.19	0.93	1.27	1.45

Source: MAPFRE Economic Research (based on IMF data) Forecast end date: July 17, 2017.

Table A-4
Baseline and risk scenarios: exchange rates
(annual average)

	Baseline scenario						Risk scenario					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
USD-EUR	0.73	0.80	0.91	0.90	0.89	0.89	0.73	0.80	0.91	0.90	0.90	0.92
EUR-USD	1.36	1.25	1.10	1.11	1.12	1.13	1.36	1.25	1.10	1.11	1.11	1.09
GBP-USD	1.62	1.58	1.52	1.24	1.33	1.37	1.62	1.58	1.52	1.24	1.31	1.27
USD-JPY	100.43	114.55	121.44	109.45	113.20	117.93	100.43	114.55	121.44	109.45	106.96	106.46
USD-CNY	6.09	6.15	6.39	6.83	6.95	6.97	6.09	6.15	6.39	6.83	6.91	6.76

Source: MAPFRE Economic Research (based on IMF data) Forecast end date: July 17, 2017.

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

	Baseline scenario						Risk scenario					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
United States	0.13	0.13	0.17	0.42	1.50	2.00	0.13	0.13	0.17	0.42	0.63	0.13
Eurozone	0.37	0.05	0.05	0.00	0.00	0.00	0.37	0.05	0.05	0.00	0.00	0.00

Source: MAPFRE Economic Research (based on IMF data) Forecast end date: July 17, 2017.

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