

A low-angle, upward-looking perspective of several modern skyscrapers with glass and steel facades, reaching towards a bright blue sky filled with white, fluffy clouds. The perspective creates a sense of height and architectural grandeur.

Fundación **MAPFRE**

**ECONOMIC AND INDUSTRY
OUTLOOK 2017:
FOURTH QUARTER
OUTLOOK**

MAPFRE Economic Research

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Contents

Executive summary	7
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1. Economic outlook

1.1 The world economic outlook: update	11
1.2 Forecasts and risk assessment in selected economies	14
1.2.1 United States	14
1.2.2 Eurozone	16
1.2.3 Spain	18
1.2.4 Germany	20
1.2.5 Italy	22
1.2.6 United Kingdom	24
1.2.7 Japan	26
1.2.8 Turkey	28
1.2.9 Mexico	30
1.2.10 Brazil	32
1.2.11 Argentina	34
1.2.12 China	36
1.2.13 Indonesia	38
1.2.14 Philippines	40

2. Industry outlook

2.1 The economic environment and its impact on the demand for insurance: update	43
2.1.1 Global markets	43
2.1.2 Eurozone	43
2.1.3 Spain	44
2.1.4 Turkey	45
2.1.5 United States	45
2.1.6 Brazil	46
2.1.7 Mexico	47
2.1.8 China	48
2.1.9 Reinsurance	49
2.2 Regulatory trends: new developments in the quarter	49

Tables: macroeconomic forecast scenarios	51
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Index of charts and tables	55
---	----

References	57
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Executive summary

Economic and industry outlook 2017: fourth quarter perspectives

Global activity remained dynamic in the third quarter, growing at around 1 percent. Hard data are gradually converging with buoyant sentiment indicators, foreshadowing global growth of around 3.5 percent in 2017, a significant improvement on our expectations at the start of the year. Strong growth momentum reflects the pick up and increasing mutual reinforcement of economic cycles in developed economies, which we estimate have been growing above 2 percent since the second quarter. Emerging markets are also rebounding to above 4.5 percent growth as countries such as Russia, Brazil and Argentina emerge from deep recessions, while output has remained more resilient than expected in Mexico, Turkey and China.

In general, hard data have coincided with global sentiment indicators. Leading indicators for global trade presage a stabilization over the coming six months, which could be the prelude to a turning point in the cycle which we expect to take place at the end of 2018 or the start of 2019. This change of cycle will manifest in the form of an easing of residential and capital goods investment and a slowing of job creation at a global level. Furthermore, against this backdrop we believe that full pass-through to wage gains will remain impaired with no visible acceleration in inflation, which in turn could usher in a new period of subdued growth and inflation.

In fact, inflation appears to be losing traction, which is not only a reflection of the temporary lack of dynamism in energy prices (a downside risk to our scenario of global inflation converging toward 3.5 percent, with inflation of around 2 percent in developed markets and over 4.5 percent in emerging economies) but also appears to reflect inflation expectations embedded in core inflation. Inflation could therefore come in below our forecast with the overall outturn depending more on developments in emerging markets than in developed economies. Indeed, this dynamic runs contrary to global needs, where inflation is needed to support household deleveraging in emerging markets and normalize financial conditions in developed economies.

The future outlook for monetary policy and the implications for financial conditions are becoming clearer in the developed world. This October the United States' Federal Reserve will embark on an unwinding of its balance sheet to the tune of approximately 2 percent of GDP p.a. over the next three years. The current plan is to offload a third of its total assets (4.5 trillion dollars). Meanwhile, the European Central Bank (ECB) is set to unveil its plan in its October meeting. So far they have given indications that normalization will start at the earliest toward the end of 2019. The signs are that both the Federal Reserve and the ECB will adapt their decisions to the evolution of macroeconomic data while continuing to embrace a gradual, guidance driven approach.

Cyclical developments dominate the exchange rate forecast even though the timing is favorable to the Federal Reserve which is expected to hike rates once again in December to 1.5 percent, while the ECB is not expected to touch rates until 2020. Having said that, the convergence of U.S. and EMU yield curves (in favor of the latter) will support short-term euro appreciation against the dollar. We see the euro/dollar exchange rate converging at around 1.20 at the end of this year.

Divergence in monetary policy continues to be the dominant story in emerging markets. Rates have risen again in Mexico but political and operational (September's earthquakes and hurricanes) circumstances point to a less restrictive approach in the immediate short run. This conviction is supported by the improved outlook for inflation and the stabilization of the peso at pre-Trumpian levels. Brazil continues to ease monetary policy with six cuts in 2017 bringing the SELIC down to 8.75 percent. Moderating inflation should enable the official rate to end the year at around 7.5 percent. Meanwhile, Turkey once again raised the interest rate on the marginal lending facility, increasing average funding costs above 9 percent.

Brazil and Turkey are likely to see a stronger depreciation of their local currencies in line with real and financial vulnerabilities afflicting both countries, which could deepen as a result of domestic policy developments. In China, the central bank's interventions will seek to stabilize the renminbi at current levels until the end of the year or at least until the completion of the 19th National Congress of the Chinese Communist Party. The Mexican peso is set to remain stable at current levels, provided that there is no deterioration in the risks associated with its relationship with the United States and that Fed policy does not become more hawkish, but the previously mentioned factors raise potential risks of a larger depreciation.

At the global level, risks appear to emanate from the implementation of U.S. economic policy, especially if the market sees its expectations of a global reflation policy dashed and if asset prices, which are currently out of sync with fundamentals, experience a severe correction (corporate debt, commercial land prices, equity valuations). In this respect it is very important that the Fed's normalization of monetary policy be orderly and well signposted to avoid a repeat of the 2013 taper tantrum which had repercussions for global portfolios. With elections in France and Germany out the way, Italy is now a focus point for European political risk with the political situation a potential trigger for a sovereign-financial event which could be linked to a possible Euro exit.

In emerging markets the main vulnerabilities are associated with the strong leverage of private corporate bonds, in some cases dollar-denominated. Furthermore, in China the risk has global implications, which emanate from the relationship between the real estate sector, financial markets and the current direction of economic policy, although the current administration is clearly taking restrictive macro-prudential measures to cool the economy. Some aspects of asset inflation and nominal volatility (exchange rate, among others) have mollified, meanwhile efforts to intervene in monetary markets to slow renminbi depreciation have paid off.

Finally, it is worth highlighting that geopolitical risk and the concurrent probability of an adverse event have reached post-Cold War highs in the ongoing dispute between the United States and North Korea.

Insurance markets

The significant improvement in global growth perspectives relative to the outlook at the start of the year is likely to have a positive impact on global insurance market performance, with a growing contribution from both developed and emerging economies, as Russia, Brazil and Argentina emerge from recession and growth proves to be more resilient than expected in Mexico, Turkey and China.

Recent activity and employment developments underpin a positive outlook for the United States, representing a favorable backdrop for Non-Life and Life risk businesses. At the same time, the Federal Reserve's cautious monetary policy approach in relation to gradual interest rate hikes and the process for unwinding its balance sheet, raises a degree of uncertainty regarding the future path for interest rates and the end equilibrium rate, which could hamper the performance of Life savings insurance and life annuities.

The strong performance of eurozone GDP, with an upward revision to growth forecasts, is welcome news for the region's insurance industry, especially the Non-Life and Life risk businesses. Germany and Spain are spearheading growth, but France and Italy are also contributing, which

should have a positive impact on their individual insurance markets. Recent European Central Bank (ECB) statements which suggest that monetary policy will remain unchanged until the end of 2018 point to a continuation of the low interest rate environment, which could put the dampeners on Life saving and life annuities business lines.

It is also worth taking into account that the third quarter of 2017 was blighted by a series of natural disasters, such as hurricanes Harvey, Irma and María in North America and the Caribbean, as well as the earthquakes which struck Chiapas and Puebla in Mexico on September 7 and 19. It will still take time to definitively count the economic cost of these disasters, but they will undoubtedly have a significant impact on combined ratios and the return on equity of reinsurers and possibly on the pricing of reinsurance contract renewals, in a market which had become very competitive in terms of pricing in the absence of major disasters.

1. Economic outlook

1.1 The world economic outlook: update

The first half of 2017 saw a consolidation of the EMU growth cycle (registering 2.2 percent growth in the second quarter) against the backdrop of resilient growth in emerging and developed markets. The United States revised up growth estimates (to 2.2 percent YoY in the second quarter), while momentum held up in China and Japan surprised to the upside (with growth of 1.4 percent YoY in the second quarter). Spain and Germany remained the main markets driving growth in the eurozone, although France and Italy made their strongest contributions since 2011.

- *Pace of activity in line with previous quarter, leading to an upward revision of 2017 forecasts.*
- *Momentum set to continue into 2018 but likely to represent a turning point in the global cycle.*
- *A timeline is now in place for normalizing global liquidity. An orderly unwinding of global stimulus is crucial to avoiding financial shocks.*
- *Vulnerabilities have eased but not disappeared, new geopolitical risks add to the risks associated with populism.*

In general, emerging markets also saw an acceleration in global economic activity, with notable contributions from Russia (2.5 percent YoY in the second quarter), India (5.7 percent YoY) and the large Latin American economies, which together accounted for half of the region's growth. However, leading indicators foreshadow a stabilization of growth at current levels. As a result, we revise up our forecast for global growth to 3.5 percent (with developed markets expected to grow at over 2 percent in 2017 and emerging markets at around 4.5 percent), which we see topping out at 3.6 percent in 2018 (see Table A-1 in the Appendix and Graph 1.1-a).

Our growth outlook for 2017 as a whole assumes that the Trump administration's reflationary policy will not be implemented until 2018 and will be watered down relative to original expectations. This will soften both the expected negative supply-side impacts (immigration, healthcare reform, NAFTA, protectionism) as well as diluting anticipated positive demand-side effects (fiscal expansion, business and regulatory liberalization). The risks to our global forecast are neutral both for this year and the next. We have revised up (under a base case scenario) our forecast for developed economies and hence the global economic outlook to around 3.5 percent on average for the period, which will mark a turning point in the global activity cycle.

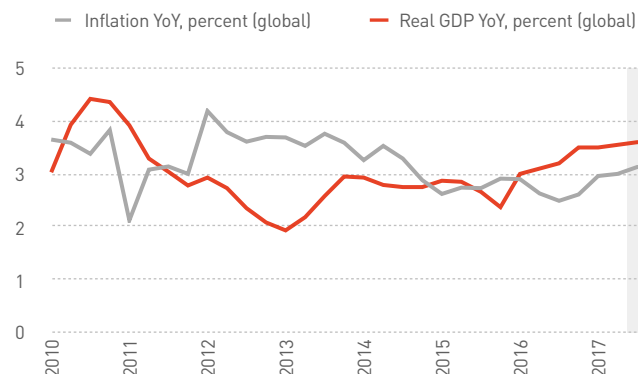
In terms of inflation, a moderation in oil prices to around 55 dollars per barrel of Brent and persistent subdued core inflation (owing to structural factors) will limit the degree of reflation in developed economies, while prices are set to accelerate in emerging economies due to supply problems and visible imbalances. Overall, global inflation is set to remain around 3-3.5 percent over 2017-18 (see Table A-2 in the Appendix and Chart 1.1-a), with some downside risks according to inflation expectations derived from bonds. This implies that the tone of global monetary policy is likely to reflect a lack of urgency regarding the pace of tightening.

In general terms, monetary policy remains uneven across countries, conditioned by the pace of economic momentum in different economies (stronger in developed economies than emerging), differing inflationary pressures, global portfolio flows, China's defense of its currency, the Federal Reserve's normalization strategy and other factors such as the complementarity and feasibility of a looser fiscal stance. On top of this, the Federal Reserve will imminently embark on a process to unwind its balance sheet, with the ECB expected to lag behind (not starting before 2020). The divergence in the intensity and direction of global monetary policy constitutes a potential - albeit limited - risk.

At the same time, the weaker impulse to long-term rates and the moderation in U.S. inflation expectations has fueled a generalized depreciation of the dollar against other global currencies. There are reasons to believe the United States may be pro-actively opting for dollar depreciation.

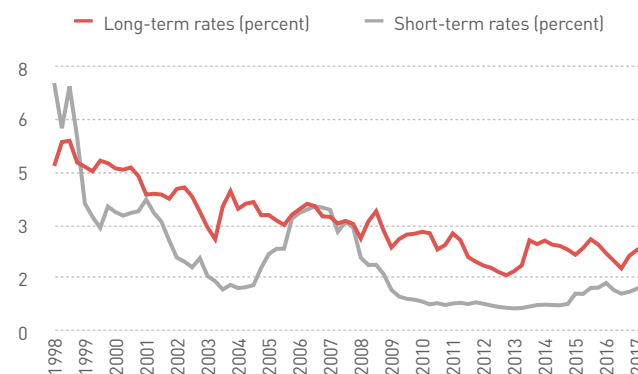
All of the other main financial variables remain on the same path as the previous quarter, with only a limited appreciation of the global yield curve (see Chart 1.1-b), with larger movements being registered in the level rather than changes in the slope due to duration risk (greater than expected last year in the United States, albeit with exceptions in the eurozone), portfolio flows out of sovereign and corporate debt into equities fueled by increased risk appetite, as reflected by a low VIX and diminishing returns on high yield debt.

Chart 1.1-a
Global: growth and inflation, 2010-17



Source: MAPFRE Economic Research (based on Bloomberg data)

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



Source: MAPFRE Economic Research (based on Bloomberg data)

The oil price underpinning our forecasts is assumed to remain stable at 55 dollars per barrel until the end of 2018 as a result of a recalibrating of our long-term price estimate to a point between the current spot and 60 dollars per barrel.

The signs are that emerging markets will return to the fore in 2018. The political cycle will shift toward Latin America with imminent elections in Mexico, Argentina, Brazil, Chile and Colombia. Here, there is potential for political discontent to give rise to less moderate positions (Lula, Lopez Obrador and Fernández de Kirchner are gathering some momentum). In emerging Asia there are signs that the populous economies (Indonesia, India, Philippines) are decoupling from other countries in the region, with loose monetary policy still helping to prolong the boost to their economic cycles.

The vulnerabilities and risks to our scenario remain unchanged from the previous report. The massive corporate indebtedness - often dollar-denominated - of some emerging markets makes them especially vulnerable to U.S. monetary policy developments and own currency volatility; many of these risks have significant sovereign-financial and systemic implications for their real economy and are capable of generating global contagion (China). The inflation of asset prices (high P/E ratios, residential prices above

fundamentals and the price of high yield debt, etc.) also represent a vulnerability capable of creating a balance of payments crisis.

Although our short-term outlook is subject to downside risks, the number of future downside scenarios is high and their probability has increased. The main short-term risk - on a probability basis - still relates to the potential damage resulting from the implementation of policy declarations by the current U.S. administration (as reflected in our alternative risk scenario). A second, severer but less probable scenario is a full blown crisis in China. And a third area of vulnerability relates to eurozone convertibility risk, euro rejection and systemic problems in one of the euro area's members, which severely impair eurozone governability. Finally, it is also worth highlighting the spike in geopolitical risk associated with tensions in North Korea's relations with Japan and the United States.

1.2 Forecasts and risk assessment in selected economies

1.2.1 United States

A gradual approach against the backdrop of an upswing

Second quarter GDP growth figures for the U.S. economy were revised up to 2.2 percent YoY and leading indicators foreshadow a continuation of momentum in the third quarter. Employment has continued to grow robustly, with the economy virtually at full employment although somewhat less tight than in the previous quarter (+155,000 new jobs). Investment and the external sector also contributed to growth on the back of dollar depreciation. The Purchasing Managers' Index (PMIs) are positive, albeit still factoring in implementation of the Trump administration's economic policies. GDP is forecasted to have grown by above 0.5 percent QoQ in the third quarter, in line with our overall forecast of 2.1–2.2 percent for the remainder of the year. This is consistent with a closing of the gap between real and potential output.

- *We are upbeat about the outlook for activity in 2017 and 2018, but the latter will represent a turning point.*
- *The Federal Reserve is adopting a very gradual approach.*
- *Risks remain tilted to the downside, especially in terms of unfulfilled expectations concerning economic policy and its real economy effects.*

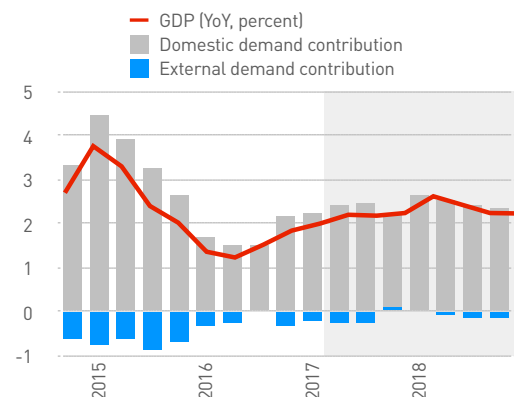
Even so, inflation remained stable and low in the third quarter with continued downward pressure from core inflation in the services sectors. Wage expectations appear to remain anchored, reflected in core inflation remaining below 2 percent. Monetary policy has turned extremely cautious. While the Federal Reserve unveiled plans to embark on a moderate process to unwind its balance sheet in October, with assets sales of 1.3 trillion

dollars over the next three years, this expected path is barely consistent in broad terms with the initial target of eliminating the balance sheet overhang (13 percent of GDP) within the envisaged timeframe (6–7 years). Meanwhile, although the market discounts a hike in interest rates in December to 1.5 percent, there is still widespread uncertainty regarding the outlook for rates and the natural equilibrium rate (estimated at 3 percent). Our forecast is somewhere between the upper end of market estimates and the Federal Reserve's own path (2 percent at the end of 2018). The interests of both the export sector (which benefits from a weak exchange rate) and the U.S. fiscal strategy (which would prefer low funding costs) argue in favor of a very moderate path for future rate hikes. The uncertainty regarding the composition of the Federal Reserve in 2018 (with three FOMC members up for replacement, potentially alongside the Chairman at the end of her mandate) represent an additional source of uncertainty regarding the degree of Fed hawkishness. Monetary policy is therefore set to remain on an extremely gradual path. 10-year yields are below 2.3 percent and the yield curve appears to be flattening due to a degree of duration risk as well as fears over the pace of implementation economic stimulus.

In fiscal policy terms, the trial-and-error approach of the Trump administration is running up against a new constraint in the form of debt ceiling limits and the need to pass a budget before the end of 2017. These limits were extended to a degree due to the emergency situation following the natural disasters which took place in the third quarter of the year. On September 25, a joint road map was published by both parties for addressing tax reform which will involve agreements to free up non-military discretionary spending headings in the budget.

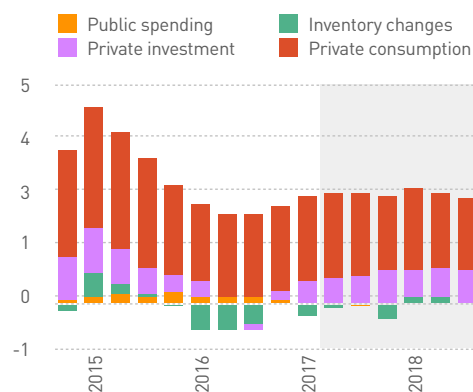
In the face of delays in implementing fiscal policy and moderation in monetary policy, as well as the aligning of U.S. and EMU cycles, the dollar depreciated to 1.20. We see it remaining at these levels in 2017.

Chart 1.2.1-a
United States: GDP breakdown
and forecasts, 2014-18



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

Chart 1.2.1-b
United States: domestic demand
breakdown and forecasts, 2014-18



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

Table 1.2.1
United States: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	2.2	1.7	2.6	2.9	1.5	2.1	2.4
Domestic demand contribution	2.1	1.4	2.3	3.6	1.7	2.3	2.5
External demand contribution	0.1	0.3	0.3	-0.7	-0.2	-0.2	-0.1
Private consumption contribution	1.0	1.0	1.9	2.5	1.9	1.9	1.7
Investment contribution	1.2	0.6	0.6	0.7	0.1	0.6	0.7
Public consumption contribution	-0.1	-0.3	-0.1	0.2	0.1	0.0	0.1
Domestic demand (percent YoY, average)	2.1	1.3	2.7	3.5	1.7	2.2	2.4
Total consumption (percent YoY, average)	-3.2	4.9	-11.3	-7.1	-2.9	-5.9	1.4
Investment (percent YoY, average)	6.3	3.0	4.8	3.6	0.6	3.1	3.4
Exports (YoY in percent)	0.4	0.5	0.6	0.0	0.0	0.4	0.4
Imports (YoY in percent)	-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	4.3	4.2
Inflation (YoY, end of period)	1.9	1.2	1.2	0.4	1.8	1.6	1.9
Fiscal balance (percentage of GDP)	-8.9	-5.4	-4.9	-4.4	-5.1	-4.5	-4.5
Trade balance (percentage of GDP)	-4.8	-4.4	-4.5	-4.4	-4.2	-4.3	-4.3
Current account balance (percentage of GDP)	-2.6	-2.1	-2.1	-2.4	-2.4	-2.4	-2.6
Official interest rate (end of period)	0.13	0.13	0.13	0.17	0.42	1.12	1.63
10-year rate (end of period)	1.71	2.75	2.28	2.19	2.13	2.28	2.53
Exchange rate vs euro (end of period)	1.30	1.36	1.25	1.10	1.08	1.20	1.20
Private lending (percent YoY, average)	3.1	7.7	7.7	2.3	3.5	5.4	5.8
Household lending (percent YoY, average)	-0.2	0.8	2.4	2.5	3.1	3.6	5.8
P.S. non-financial lending (percent YoY, average)	2.1	3.3	4.8	5.8	5.7	4.6	3.9
P.S. financial lending (percent YoY, average)	-1.9	2.2	2.9	2.2	4.1	2.9	2.2
Savings rate (percent)	7.6	5.0	5.7	6.1	4.9	3.7	3.8

Source: MAPFRE Economic Research (based on Federal Reserve data)
Forecast end date: September 25, 2017.

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1.2.2 Eurozone

Pick up in activity and expectations

Eurozone GDP continues to gain clear traction, growing at 2 percent in the second quarter of 2017.

This leads us to revise up our forecast for the euro area to 2.2 percent. Spain and Germany remain the main drivers of growth, but with stronger contributions from France and Italy. This is reflected both in hard and soft data (August PMIs rose 0.8ppts to 57.4 at the same time as job creation reached a pre-crisis peak). Exports and imports remain buoyant despite euro appreciation against the dollar, underscoring the positive effect of the region's export diversification.

- *The economy is enjoying strong momentum.*
- *We revise up our growth forecasts again for 2017 and 2018, representing the most bullish outlook for the last seven years.*
- *Monetary policy will remain unchanged, at least until the end of 2018. The potential sequencing of ECB policy normalization points to a rate hike from the end of 2019 onward.*
- *Political risk in Italy and Spain poses the largest and most imminent threat with potential sovereign financial implications.*

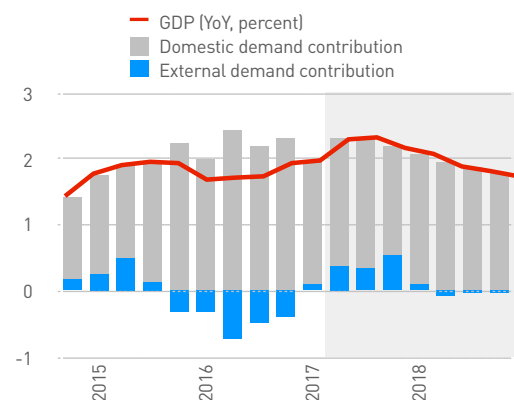
Inflation continues to decelerate despite robust activity and job creation, leaving our inflation forecast for the end of the year at around 1.2 percent, with core inflation stable and low.

Meanwhile the European Central Bank's (ECB) monetary policy remains unchanged in terms of interest rates and asset purchases (60 billion euros

until December 2017, keeping an eye on inflation and activity in southern Europe), although a 10 billion euro reduction in purchases is expected before the end of the year. We do not anticipate any changes to the main monetary policy instruments until at least 2018 (according to the ECB, the adjustment plan for the next three years will proceed as follows: LTROs in the first half of 2018, deposit rates in the second half of 2018, the ECB balance sheet in the second half of 2019 and Refi rate in the first quarter of 2020).

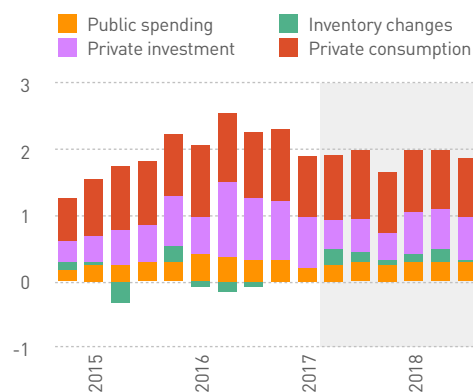
There are three main outstanding sources of risk facing the EMU: a bad agreement at the conclusion of Brexit negotiations (the negotiations appear to have come unstuck, although some of the obstacles may have been removed following British Prime Minister Theresa May's speech in Florence on September 22); another bout of "convertibility risk" with Italian elections in 2018; and the conclusion of negotiations regarding Greek debt relief.

Chart 1.2.2-a
Eurozone: GDP breakdown
and forecasts, 2014-18



Source: MAPFRE Economic Research (based on ECB data)

Chart 1.2.2-b
Eurozone: domestic demand
breakdown and forecasts, 2014-18



Source: MAPFRE Economic Research (based on ECB data)

Table 1.2.2
Eurozone: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	-0.8	-0.2	1.4	1.9	1.8	2.2	1.9
Domestic demand contribution	-2.3	-0.6	0.8	1.8	2.2	1.9	1.9
External demand contribution	1.5	0.4	0.6	0.1	-0.5	0.3	-0.0
Private consumption contribution	-0.6	-0.3	0.5	0.9	1.1	1.0	0.9
Investment contribution	-0.7	-0.5	0.1	0.6	0.9	0.5	0.6
Public consumption contribution	-0.1	0.1	0.2	0.3	0.4	0.3	0.3
Domestic demand (percent YoY, average)	-2.3	-0.6	1.3	1.8	2.3	1.9	2.0
Total consumption (percent YoY, average)	-0.9	-0.3	0.8	1.6	1.9	1.6	1.5
Investment (percent YoY, average)	-3.3	-2.4	1.7	2.9	4.3	2.6	3.1
Exports (YoY in percent)	1.2	0.9	2.2	2.8	1.5	2.2	1.7
Imports (YoY in percent)	0.3	-0.6	-1.0	-3.9	-2.0	-1.9	-1.7
Unemployment rate (end of period)	11.8	11.9	11.4	10.5	9.7	8.8	8.3
Inflation (YoY, end of period)	2.3	0.8	0.2	0.2	0.7	1.2	1.5
Fiscal balance (percentage of GDP)	-3.6	-3.0	-2.6	-2.1	-1.6	-1.1	-1.0
Trade balance (percentage of GDP)	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Fiscal impulse (percent of GDP)	0.1	0.1	0.1	0.1	0.2	-0.0	-0.0
Current account balance (percentage of GDP)	1.4	2.2	2.5	3.2	3.5	3.2	2.9
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	1.18	1.75
Exchange rate vs dollar (end of period)	1.30	1.36	1.25	1.10	1.08	1.20	1.20
Savings rate	12.3	12.4	12.7	12.5	12.3	12.6	12.9
Household lending (percent YoY, average)	0.4	-0.7	-0.2	0.8	1.6	2.8	3.4
P.S. non-financial lending (percent YoY, average)	0.9	-1.3	0.9	7.4	1.1	1.2	2.0
P.S. financial lending (percent YoY, average)	10.3	0.8	4.4	17.0	0.2	2.1	1.5

Source: MAPFRE Economic Research (based on ECB data)
Forecast end date: September 25, 2017.

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1.2.3 Spain

Making the most of good momentum

The expected slowdown in economic activity in the Spanish economy has failed to materialize. The economy grew by 0.9 percent QoQ in the second quarter of 2017, reinforcing our 3.1 percent growth forecast for the year, which is subject to upside risks.

High levels of confidence, easy monetary conditions and robust job creation (the unemployment rate stands at 17.7 percent) are the clearest drivers of growth, supported by the growing involvement of residential and capital goods investment and an increasing contribution from the external sector (both goods and services), against the backdrop of resilient private consumption. However, while remaining robust, there are some signs that certain tailwinds are fading, which foreshadows a modest deceleration in growth relative to the previous year.

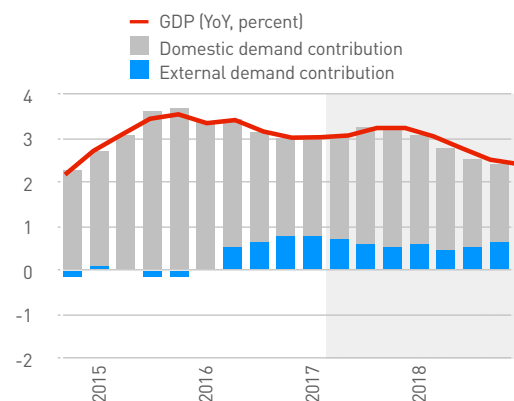
The potential constraints to consumption growth are especially significant, given the increase in inflation against a backdrop of limited wage growth and a potentially smaller fiscal space (the State budget envisages a 3.1 percent of GDP deficit compared to 4.3 percent last year, consistent with a neutral fiscal impulse). Euro appreciation, alongside the normalization of both monetary policy in the eurozone (from 2018) and high global risk appetite could also weigh on growth prospects.

- *Economic activity remains robust supported by domestic and external demand.*
- *The drag from fading tailwinds look set to only affect economic performance in 2018.*
- *Political instability related to the independence process in Catalonia could impact on confidence and national political and budgetary stability.*

Residential investment is beginning to recover thanks to the revival in mortgage lending and institutional investment flows into the real estate sector supported by the global liquidity glut and the scarcity of alternative return-yielding assets.

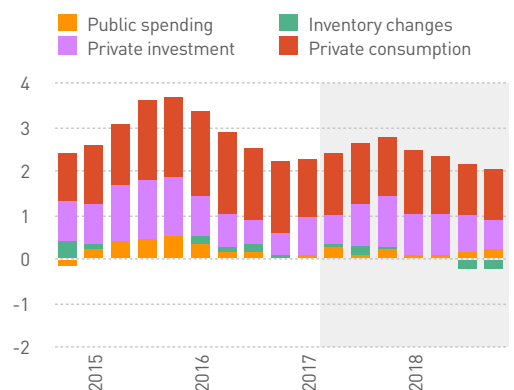
Regional conflicts represent the clearest risk to the Spanish economy. In particular, the Catalan crisis could have an impact on current political stability beyond the associated volatility, as well as affecting the timely approval and execution of the State budget.

Chart 1.2.3-a
Spain: GDP breakdown
and forecasts, 2014-18



Source: MAPFRE Economic Research (based on INE data)

Chart 1.2.3-b
Spain: domestic demand
breakdown and forecasts, 2014-18



Source: MAPFRE Economic Research (based on INE data)

Table 1.2.3
Spain: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	-2.9	-1.7	1.4	3.2	3.2	3.1	2.7
Domestic demand contribution	-4.9	-3.1	1.3	3.2	2.8	2.5	2.1
External demand contribution	2.0	1.4	0.1	0.0	0.5	0.6	0.6
Private consumption contribution	-2.0	-1.7	0.9	1.6	1.8	1.4	1.3
Investment contribution	-1.9	-0.7	0.4	1.2	0.7	0.9	0.8
Public consumption contribution	-1.0	-0.4	-0.1	0.4	0.2	0.2	0.1
Domestic demand (percent YoY, average)	-5.0	-3.1	1.9	3.4	2.9	2.6	2.2
Total consumption (percent YoY, average)	-3.8	-2.8	1.1	2.6	2.6	2.1	1.9
Investment (percent YoY, average)	-8.6	-3.4	3.8	6.0	3.1	4.3	3.9
Exports (YoY in percent)	0.3	1.3	1.6	1.3	1.4	2.2	1.7
Imports (YoY in percent)	1.6	0.1	-1.1	-2.4	-0.9	-1.5	-1.2
Unemployment rate (end of period)	25.8	25.7	23.7	20.9	18.6	16.3	14.6
Inflation (YoY, end of period)	3.1	0.1	-0.5	-0.3	1.0	0.9	1.8
Fiscal balance (percentage of GDP)	-10.3	-7.1	-6.0	-5.2	-4.6	-3.1	-2.5
Trade balance (percentage of GDP)	-2.8	-1.4	-2.2	-2.0	-1.6	-1.6	-0.6
Fiscal impulse (percent of GDP)	-2.6	-1.8	2.6	0.2	-0.3	0.0	-0.4
Current account balance (percentage of GDP)	-0.3	1.5	1.0	1.4	1.9	1.5	1.4
Official interest rate (end of period)	0.80	0.40	0.10	0.10	0.00	0.00	0.00
10-year rate (end of period)	5.60	4.20	2.00	1.70	1.30	1.70	2.30
Exchange rate vs dollar (end of period)	1.30	1.36	1.25	1.10	1.08	1.20	1.20
Savings rate (percent)	8.9	9.9	9.0	8.4	8.0	7.2	7.1
Household lending (percent YoY, average)	-3.9	-5.1	-4.9	-3.8	-2.2	4.5	5.1
P.S. non-financial lending (percent YoY, average)	-3.4	-9.1	-5.1	-3.4	-1.9	0.0	1.6
P.S. financial lending (percent YoY, average)	7.0	-17.4	-11.4	-5.2	-26.9	-12.6	-12.6

Source: MAPFRE Economic Research (based on INE data)
Forecast end date: September 25, 2017.

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1.2.4 Germany

Renewed leadership

The German economy finished the first half of the year posting buoyant growth figures (2.1 percent YoY).

On the basis of sentiment and some leading indicators, growth momentum looks set to have carried over into the third quarter of 2017, underpinning our forecast of 2 percent growth for the year. Robust domestic demand is reflected in investment and imports. The positive surprise in the first quarter of the year came from investment in construction, machinery and industrial equipment. Exports continue to be the main driver of growth (3.8 percent YoY).

Industrial capital utilization hit a nine-year high and the outlook for the capital goods sector is positive. All this suggests that the economy will continue to perform strongly. However, as in many other countries, robust job creation with record low unemployment has not fed through to wage increases. Unless there is a visible increase in productivity or a spike in inflation, wages look unlikely to increase significantly.

- *The German economy remained buoyant in the first half of 2017, underpinning our bullish outlook.*
- *Strong job growth and a dynamic external sector are stimulating investment and domestic demand in general, but the pass-through to disposable income per capita remains very limited.*
- *The external sector looks set to remain vigorous further swelling the current account surplus and contributing to lower long-term interest rates than in the rest of the eurozone.*

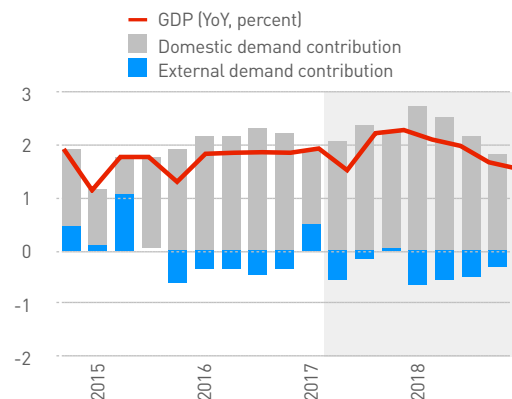
Exports will remain the main motor of the economy and assuming they remain robust, could possibly require investment in industrial capacity given capacity utilization is currently running at a record high. The synchronized recovery of the world economy could trigger this scenario.

Tax revenues are expected to remain strong which has sparked a ferocious internal debate on possible tax cuts, reflecting similar calls from the European Union. Germany is one of the few countries with the capacity to implement tax cuts - a topic that was debated in the electoral programs leading up to elections on September 24.

Germany is set to maintain its large current account surplus (over 7 percent of GDP over our horizon), which will reinforce its robust international position, attract capital flows and keep long-term interest rates below the rest of the eurozone.

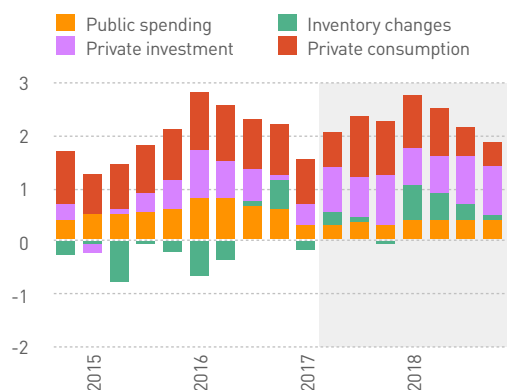
General elections on September 24 handed an overall victory to A. Merkel who will now embark on her fourth mandate. Given the electoral arithmetic, a coalition appears to be a given. However, populist movements performed surprisingly well (AfD on the extreme right and Die Linke on the left) attaining around 22 percent of the overall vote.

Chart 1.2.4-a
Germany: GDP breakdown
and forecasts, 2014-18



Source: MAPFRE Economic Research (based on DESTATIS data)

Chart 1.2.4-b
Germany: domestic demand
breakdown and forecasts, 2014-18



Source: MAPFRE Economic Research (based on DESTATIS data)

Table 1.2.4
Germany: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	0.7	0.6	1.9	1.5	1.9	2.0	1.8
Domestic demand contribution	-0.7	0.9	0.8	1.4	2.2	2.0	2.3
External demand contribution	1.4	-0.3	1.1	0.2	-0.4	-0.0	-0.3
Private consumption contribution	0.7	0.4	0.6	0.9	1.0	0.9	0.7
Investment contribution	-0.0	-0.2	0.4	0.2	0.6	0.8	0.8
Public consumption contribution	0.2	0.3	0.3	0.5	0.7	0.3	0.4
Domestic demand (percent YoY, average)	-0.7	1.0	1.3	1.5	2.4	2.2	2.5
Total consumption (percent YoY, average)	1.3	0.9	1.2	1.9	2.3	1.7	1.6
Investment (percent YoY, average)	-0.1	-1.1	3.8	1.0	2.9	3.8	4.0
Exports (YoY in percent)	1.6	0.9	2.3	2.1	1.2	2.0	1.5
Imports (YoY in percent)	-0.1	-1.2	-0.6	-3.0	-1.6	-2.0	-2.0
Unemployment rate (end of period)	6.8	6.8	6.6	6.3	6.0	5.3	5.2
Inflation (YoY, end of period)	2.0	1.3	0.5	0.3	1.1	1.5	2.0
Fiscal balance (percentage of GDP)	-0.0	-0.1	0.3	0.6	0.8	0.8	0.6
Trade balance (percentage of GDP)	7.3	7.6	7.8	8.5	8.6	8.2	7.7
Current account balance (percentage of GDP)	7.1	6.8	7.5	8.6	8.3	7.9	7.8
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	0.50	0.94
Exchange rate vs dollar (end of period)	1.30	1.36	1.25	1.10	1.08	1.20	1.20
Household lending (percent YoY, average)	1.1	0.8	1.1	1.9	2.9	3.1	4.3
Savings rate (percent)	9.6	9.8	10.0	10.3	9.7	9.3	9.1
P.S. financial lending (percent YoY, average)	0.8	-0.4	0.3	0.2	-0.1	0.1	-0.2

Source: MAPFRE Economic Research (based on DESTATIS data)
Forecast end date: September 25, 2017.

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1.2.5 Italy

Activity and uncertainty with upside risks

In general terms, the Italian economy managed to build on tepid signs of recovery. The economy expanded by close to 0.4 percent QoQ in the second quarter of 2017, foreshadowing average annual growth of around 1.4 percent, supported by domestic demand. This is the strongest rate of growth in Italy since the start of the great recession in 2007. Consumption is being underpinned by a mild recovery in the labor market in both employment and participation, as well as a bounce in consumer and corporate confidence.

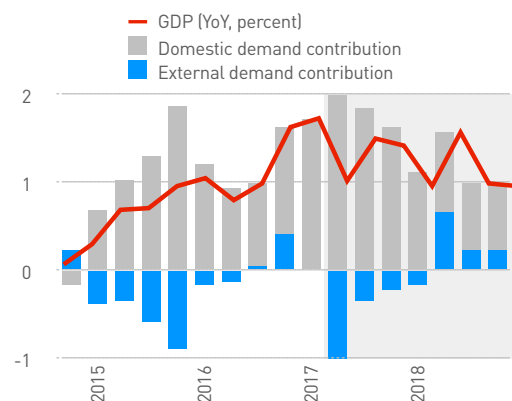
- *Signs of recovery gathered a degree of momentum in the first half of 2017, leading to an upward revision to our growth forecast to 1.4 percent in 2017.*
- *However, growth is set to remain lackluster and dependent on the political outlook and the ability to introduce economic reforms to reduce vulnerabilities.*
- *The probability of a fragmented political scenario after early elections is gaining traction though not yet the central scenario.*

However, the Italian still remains a growth laggard relative to other large euro area economics, highlighting vulnerabilities that need to be addressed: low growth, high public debt levels, troublesome bank balance sheets and political disaffection which is fueling 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 should not be underplayed, the structure and denomination of sovereign debt are favorable for Italy, and even though the European Central Bank will eventually rein in monetary support, M. Draghi is committed to preventing any eurozone economy from failing, even more so if it is a systemically important country. In this regard, the restructuring of the balance sheets of some Veneto banks, albeit lacking systemic importance, is seen as a step in the right direction.

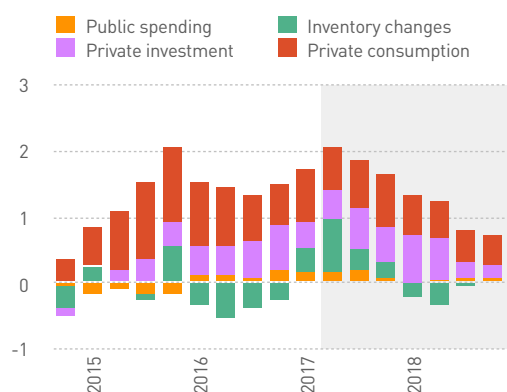
Political uncertainty remains ongoing and there is a high probability that early legislative elections will be called, albeit more likely during the first half of next year than in 2017. The “no” response to the constitutional referendum at the end of last year (necessary to push through reforms) and the political stalemate between eurosceptic (led by M5E) and traditional parties, represent undoubtable sources of risk which could unleash a sovereign-financial event along the lines of those seen as the start of this decade. Although a more centrist, pro-Europe coalition is our base case, political fragmentation points to a minority government even under a best-case scenario.

Chart 1.2.5-a
Italy: GDP breakdown
and forecasts, 2014-18



Source: MAPFRE Economic Research (based on ISTAT data)

Chart 1.2.5-b
Italy: domestic demand
breakdown and forecasts, 2014-18



Source: MAPFRE Economic Research (based on ISTAT data)

Table 1.2.5
Italy: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	-2.9	-1.7	0.2	0.7	1.1	1.4	1.1
Domestic demand contribution	-5.6	-2.6	-0.1	1.2	1.1	1.8	0.9
External demand contribution	2.8	0.8	0.2	-0.5	0.0	-0.4	0.2
Private consumption contribution	-2.4	-1.5	0.1	0.9	0.8	0.8	0.5
Investment contribution	-1.8	-1.2	-0.4	0.2	0.5	0.5	0.4
Public consumption contribution	-0.3	-0.1	-0.1	-0.1	0.1	0.1	0.1
Domestic demand (percent YoY, average)	-5.6	-2.6	0.3	1.2	1.1	1.9	0.9
Total consumption (percent YoY, average)	-3.3	-1.9	0.0	1.0	1.2	1.1	0.7
Investment (percent YoY, average)	-9.4	-6.6	-2.1	1.4	3.1	2.9	2.5
Exports (YoY in percent)	0.6	0.3	0.9	1.0	0.8	1.2	0.9
Imports (YoY in percent)	2.1	0.6	-0.3	-2.5	-0.9	-1.7	-0.8
Unemployment rate (end of period)	11.4	12.4	12.7	11.5	11.8	11.2	11.0
Inflation (YoY, end of period)	2.5	0.6	0.1	0.2	0.1	1.5	1.2
Fiscal balance (percentage of GDP)	-2.9	-2.9	-3.0	-2.7	-2.4	-2.2	-2.1
Trade balance (percentage of GDP)	0.6	1.8	2.6	2.5	3.1	2.8	3.0
Current account balance (percentage of GDP)	-0.4	1.0	1.8	1.4	2.6	2.5	2.0
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	2.24	3.15
Exchange rate vs dollar (end of period)	1.30	1.36	1.25	1.10	1.08	1.20	1.20
Household lending (percent YoY, average)	-0.3	-1.4	-1.0	-0.3	0.5	1.0	2.8
P.S. non-financial lending (percent YoY, average)	-0.7	-3.9	-2.7	-1.8	-1.4	1.6	3.3
P.S. financial lending (percent YoY, average)	-2.9	-30.2	-26.9	1.0	6.6	6.6	6.2

Source: MAPFRE Economic Research (based on ISTAT data)
Forecast end date: September 25, 2017.

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1.2.6 United Kingdom

Beyond Brexit

The British economy slowed in the second quarter of 2017 relative to the first quarter (1.7 after 2 percent) due to a weakening of private consumption and trade. However, investment continues to contribute to growth, growing at 2.5 percent. Against this backdrop, we forecast growth of 1.7 percent in 2017 and 1.5 percent in 2018.

August inflation (2.9 percent) came in above the expectations of the Bank of England's Monetary Policy Committee (2.7 percent). This was due to a lagged inflationary impact on consumer prices from sterling depreciation.

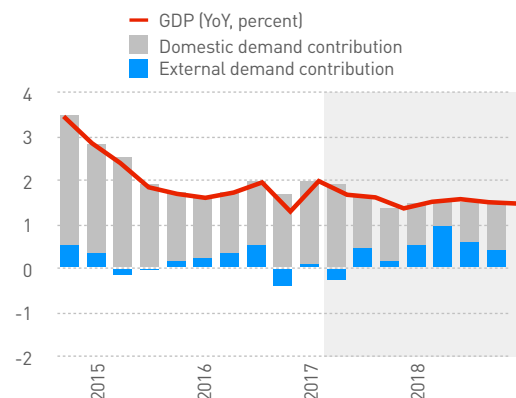
However, the pound recovered against the euro in September and has been gaining ground against the dollar over the last year, suggesting that inflationary pressures will subside.

- *Growth is slowing in 2017 as a result of weaker private consumption and investment restraint due to Brexit.*
- *According to the Brexit road map, the UK will leave the European Union (EU) in April 2019, but in view of current dynamics (lack of agreement) this may well be postponed.*
- *The European Union is refusing to negotiate European single market access for the UK until an agreement has been reached on the exit "bill". In a speech on September 22, Theresa May addressed her European partners, proposing that all aspects of the UK's exit be discussed together and seeking market access during a smooth transition period.*

In its September 14 meeting, the Bank of England's Monetary Policy Committee noted that if the economy were to continue moving in line with its central scenario it might be necessary for stronger tightening than anticipated by the market, providing a clearly more hawkish tone to its guidance. The market discounts a 25 basis points hike in November of this year and another 25bps in 2018. However, with growth running out of steam and the pound strengthening, we see inflationary pressures easing in 2018, reducing the need for the Committee to raise rates.

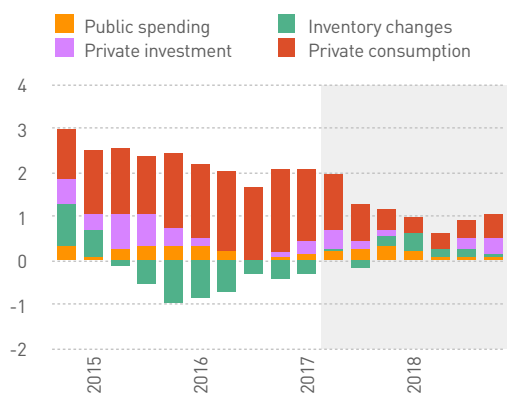
The third round of Brexit negotiations ended without progress, with the United Kingdom's refusal to accept the European Commission's estimate of the "exit bill" for previously undertaken commitments. The European Commission does not want to open negotiations on a trade agreement without first having reached a deal on the exit bill. The British Prime Minister's speech set out the UK's preference to negotiate all aspects of Brexit together (the "bill", market access, immigration, security and defense cooperation).

Chart 1.2.6-a
United Kingdom: GDP breakdown
and forecasts, 2014-18



Source: MAPFRE Economic Research (based on Office for National Statistics data)

Chart 1.2.6-b
United Kingdom: domestic demand
breakdown and forecasts, 2014-18



Source: MAPFRE Economic Research (based on Office for National Statistics data)

Table 1.2.6
United Kingdom: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	1.3	1.9	3.1	2.2	1.7	1.7	1.5
Domestic demand contribution	2.1	1.9	2.7	2.1	1.5	1.5	0.9
External demand contribution	-0.8	0.0	0.4	0.1	0.2	0.1	0.4
Private consumption contribution	1.2	1.0	1.3	1.5	1.8	1.1	0.4
Investment contribution	0.4	0.5	0.6	0.6	0.1	0.3	0.2
Public consumption contribution	0.3	0.1	0.5	0.3	0.2	0.3	0.1
Domestic demand (percent YoY, average)	2.2	1.9	3.6	2.1	1.5	1.6	0.9
Total consumption (percent YoY, average)	1.9	1.3	2.2	2.2	2.3	1.6	0.7
Investment (percent YoY, average)	2.4	3.2	6.7	3.4	0.5	1.6	1.1
Exports (YoY in percent)	0.2	0.3	1.0	1.3	0.6	0.9	1.0
Imports (YoY in percent)	-0.9	-1.1	-0.5	-2.2	-1.0	-0.9	-0.4
Unemployment rate (end of period)	4.7	3.8	2.6	2.2	2.2	2.3	2.3
Inflation (YoY, end of period)	2.7	2.1	0.9	0.1	1.2	3.1	1.6
Fiscal balance (percentage of GDP)	-8.3	-5.7	-5.6	-4.3	-3.3	-2.9	-2.5
Trade balance (percentage of GDP)	-6.6	-6.9	-6.7	-6.4	-6.9	-6.7	-6.3
Fiscal impulse (percent of GDP)	0.4	0.5	1.9	0.9	1.4	0.4	0.2
Current account balance (percentage 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	1.27	1.75
Exchange rate vs dollar (end of period)	1.61	1.62	1.58	1.52	1.24	1.31	1.34
Exchange rate vs euro (end of period)	1.24	1.19	1.27	1.39	1.15	1.09	1.11
Savings rate (percent)	8.4	6.7	6.8	6.5	5.2	3.9	5.0
Household lending (percent YoY, average)	1.1	1.2	2.1	2.8	4.2	3.8	2.5
P.S. non-financial lending (percent YoY, average)	5.0	-2.5	-3.9	-1.0	0.8	4.2	2.6
P.S. financial lending (percent YoY, average)	2.7	7.2	-10.3	-15.5	-0.1	4.1	3.6

Source: MAPFRE Economic Research (based on Office for National Statistics data)

Forecast end date: September 25, 2017.

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1.2.7 Japan

Good vibrations

The Japanese economy grew by 1.4 percent YoY in the first half of 2017, driven primarily by consumption and private sector investment. Furthermore, the national statistics institute revised historic data, increasing the share of consumption well beyond initial estimates. The acceleration in consumption in 2017 partly reflects consumers bringing forward purchases ahead of the planned 2019 tax hike. However, PMI and business indicators suggest that momentum will be sustained in the third quarter and the rest of the year.

- *Though limited, the prospects for the Japanese economy remain favorable thanks to external demand, fiscal stimulus and possible yen depreciation.*
- *The yen will continue its secular depreciation against the dollar given the growing disparity in long-term interest rates, reflecting divergent monetary policy stances.*
- *Economic policy will combine generous fiscal stimulus (1 percent of GDP) with a continuation of extremely lax monetary and financial conditions in the future (the Japanese central bank is the only bank where we expect QE to be in full swing beyond 2020).*

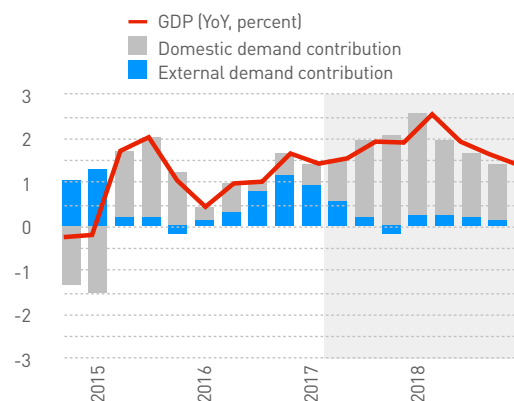
Exports are projected to continue driving economic growth, while public spending will support consumption thanks to the broad fiscal program approved last year. Both factors will help sustain the pace of growth in economic activity over the next two years. The global economic and trade cycle, the growth recovery and the recent trade agreement with the European Union will be important support factors. We see GDP growth of over 1.7 percent on average over 2017 and 2018.

There continues to be momentum in job creation and activity, but for the time being this is not translating into wage increases - due to structural factors - until growth gains traction. Household deleveraging is also moderating inflation.

Japan's monetary policy remains expansionary in the absence of inflationary pressure (with inflation subdued for a sixth month in a row) and aimed at pushing the term premium on the sovereign yield curve firmly back into positive territory. The debate on monetary policy will likely focus on whether the Bank of Japan will maintain the current pace of bond purchases (80 trillion yen) while continuing to control the yield curve in light of the spread against U.S. interest rates. Indeed, the September meeting of the monetary policy committee maintained the status quo.

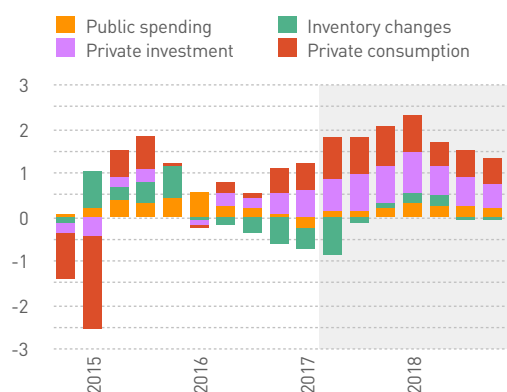
Although the current cycle has led to a momentary appreciation of the yen, it looks set to depreciate back to 115 in 2018. Beyond the deflation risk and associated debt implications, risks in Japan currently stay centered on geopolitical tensions in North Korea. The dissolution of Parliament at the end of September and the calling of early elections could strength S. Abe's position.

Chart 1.2.7-a
Japan: GDP breakdown
and forecasts, 2014-18



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

Chart 1.2.7-b
Japan: domestic demand
breakdown and forecasts, 2014-18



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

Table 1.2.7
Japan: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	1.5	2.0	0.3	1.2	1.0	1.7	1.8
Domestic demand contribution	2.4	2.4	-0.3	0.8	0.4	1.3	1.7
External demand contribution	-0.9	-0.4	0.6	0.4	0.6	0.4	0.2
Private consumption contribution	1.2	1.4	-0.5	-0.2	0.2	0.8	0.6
Investment contribution	0.8	1.1	0.3	0.0	0.2	0.8	0.7
Public consumption contribution	0.3	0.3	0.1	0.3	0.3	0.1	0.2
Domestic demand (percent YoY, average)	2.4	2.4	0.3	0.8	0.4	1.3	1.7
Total consumption (percent YoY, average)	2.0	2.2	-0.6	0.2	0.6	1.2	1.2
Investment (percent YoY, average)	3.5	5.0	2.8	0.1	1.0	3.3	2.9
Exports (YoY in percent)	0.0	0.1	1.4	0.5	0.2	1.0	0.5
Imports (YoY in percent)	-0.9	-0.5	-1.0	-0.7	0.4	-0.6	-0.6
Unemployment rate (end of period)	4.2	3.9	3.5	3.3	3.1	2.7	2.4
Inflation (YoY, end of period)	-0.2	1.5	2.5	0.2	0.3	0.5	0.8
Fiscal balance (percentage of GDP)	-8.3	-7.6	-5.4	-3.5	-4.6	-5.2	-5.6
Trade balance (percentage of GDP)	-0.9	-1.7	-2.1	-0.2	1.0	0.8	0.6
Current account balance (percentage of GDP)	1.0	0.9	0.8	3.1	3.7	3.7	3.5
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	0.02	0.06
Exchange rate vs dollar (end of period)	81.28	100.43	114.55	121.44	109.45	110.00	114.55
Exchange rate vs euro (end of period)	105.40	136.75	142.83	133.01	118.01	132.00	137.46
Private lending (percent YoY, average)	0.9	3.6	1.6	2.1	-0.2	4.4	3.7
Household lending (percent YoY, average)	-2.8	1.1	0.9	1.5	1.6	1.8	0.8
P.S. non-financial lending (percent YoY, average)	0.0	-0.1	0.8	1.1	2.2	6.1	2.7
P.S. financial lending (percent YoY, average)	4.3	3.9	8.5	7.7	-0.5	6.1	1.1

Source: MAPFRE Economic Research (based on Statistics Bureau data)
Forecast end date: September 25, 2017.

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1.2.8 Turkey

Growth holding up for now

The Turkish economy grew at an adjusted rate of above 5.5 percent year-on-year in the first half of 2017, against a backdrop of economic and political challenges. Growth was essentially driven by an unprecedented acceleration in activity in the second quarter (2.1 percent QoQ or 6.5 percent YoY).

The unexpected upturn was a result of public support policies. Given the sharp slowdown in private lending - adjusted for exchange rate effects - from 30 to 15 percent year-on-year, it appears as though this momentum has not been sustained in the third quarter of 2017.

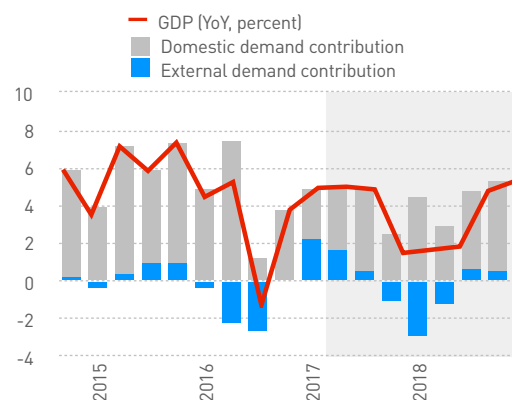
This will bring GDP in line with expectations in the previous quarter (around 4 percent), supported mainly by domestic demand (private consumption and investment driven by lending supported by public guarantees and fiscal stimulus), although the external sector will also contribute to growth, especially tourism which is growing significantly in comparison with last year. Considering the nature of the demand shock, we believe that in the best-case scenario, GDP growth will return to potential of around 3.5 percent in 2018.

- *Growth is holding up, largely supported by public spending.*
- *Turkey once again raised the interest rate on the marginal lending facility, increasing average funding costs.*
- *More pronounced depreciation of the Turkish lira is expected, in line with real and financial vulnerabilities, which could deepen in the face of internal political developments.*

Inflation continued to rise in the second quarter of the year, entering double-digit territory on the back of food and beverage price increases. Although it has recently slowed slightly, inflation is still likely to come in well above the Central Bank's target (+9 percent versus 5 percent target), suggesting that tight monetary policy will be sustained, at least temporarily.

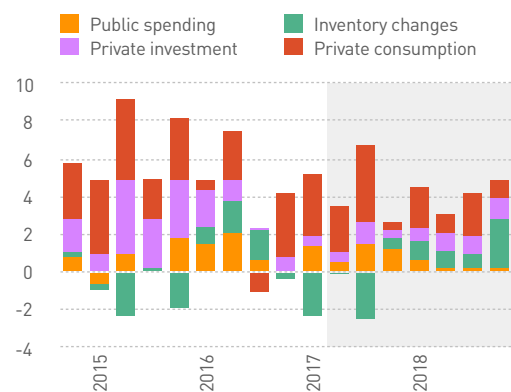
The central bank raised the interest rate on the marginal lending facility in the second quarter to around 11.9 percent, which has added more than 300 bps to the average cost of financing so far this year (8.5 percent). This strategy is expected to be maintained until the average cost of financing reaches 10 percent. The Turkish lira (3.3 TRY/USD in 2016) is set 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, 2014-18



Source: MAPFRE Economic Research (based on TURKSTAT data)

Chart 1.2.8-b
Turkey: domestic demand
breakdown and forecasts, 2014-18



Source: MAPFRE Economic Research (based on TURKSTAT data)

Table 1.2.8
Turkey: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	4.9	8.5	5.3	6.0	3.3	4.1	3.4
Domestic demand contribution	1.8	10.3	3.4	5.5	4.3	3.2	4.1
External demand contribution	3.2	-1.8	1.9	0.5	-1.3	0.9	0.5
Private consumption contribution	2.0	5.0	1.9	3.4	1.4	2.5	1.6
Investment contribution	0.8	3.8	1.3	2.6	1.0	0.7	1.0
Public consumption contribution	1.0	1.1	0.4	0.5	1.1	1.2	0.4
Domestic demand (percent YoY, average)	1.7	10.1	3.2	5.4	4.3	3.2	4.1
Total consumption (percent YoY, average)	3.8	7.9	3.0	5.2	3.2	4.9	2.6
Investment (percent YoY, average)	2.9	14.0	5.5	9.1	3.2	2.3	3.3
Exports (YoY in percent)	3.7	0.3	1.8	1.0	-0.4	2.0	0.2
Imports (YoY in percent)	-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 (YoY, end of period)	6.8	7.5	8.8	8.2	7.6	9.3	8.3
Fiscal balance (percentage of GDP)	-1.9	-1.1	-1.1	-1.1	-1.3	-2.5	-2.5
Trade balance (percentage of GDP)	-7.5	-8.4	-6.8	-5.6	-4.8	-6.1	-5.3
Current account balance (percentage of GDP)	-5.5	-6.7	-4.7	-3.8	-3.8	-4.8	-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	10.25	8.73
Exchange rate vs dollar (end of period)	1.79	2.03	2.26	2.91	3.28	3.45	3.49
Exchange rate vs euro (end of period)	2.32	2.75	2.82	3.19	3.53	4.14	4.19
Private lending (percent YoY, average)	19.8	28.8	23.2	23.0	12.9	19.6	11.3
Household lending (percent YoY, average)	15.9	24.0	16.3	12.5	7.1	15.4	10.8
P.S. non-financial lending (percent YoY, average)	21.5	31.1	30.1	29.9	14.7	17.4	10.2
P.S. financial lending (percent YoY, average)	13.1	24.3	22.4	26.4	9.0	19.9	5.4

Source: MAPFRE Economic Research (based on TURKSTAT data)
Forecast end date: September 25, 2017.

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1.2.9 Mexico

Resilient consumption

According to GDP data for the second quarter of 2017, the economy grew by 1.8 percent year-on-year, pointing to a relatively optimistic forecast of 2.5 percent for the year as a whole. This comes off the back of a stronger contribution from the external sector, the resilience of private consumption and - more recently - a renewed fiscal impulse related to the electoral cycle (general elections in 2018) and the impact of natural disasters.

- *Second quarter GDP growth underpins a slightly more bullish reading for GDP growth in the rest of the year, thanks to the global environment and improved consumption prospects.*
- *Inflation remains elevated, well above the central bank's target range, meaning interest rates are set to stay on hold at 7 percent.*
- *Risks to the Mexican economy remain tilted to the downside.*

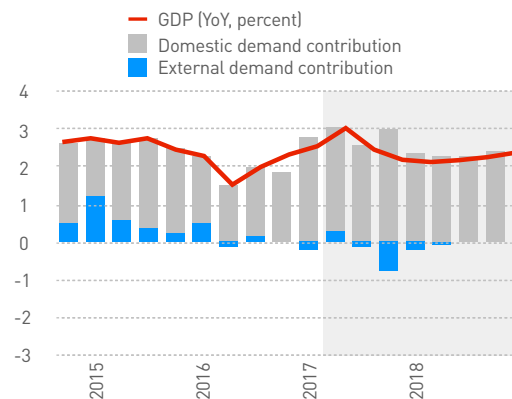
Inflation increased once again in the third quarter, both headline and core, reaching 6.7 percent in August, exceeding the central bank's target range (target of 3 percent +/- 1 percent). However, we see inflation coming in at around 6.3 percent at the end of the year and two-year inflation expectations are in line with the central bank's target range at the end of 2018, reflecting monetary policy, a foreseeable currency appreciation and the conclusion of the electoral cycle.

The Bank of Mexico raised official interest rates by 50bps in June, to the current level of 7 percent. In its meeting at the end of September, the central bank confirmed that no new hikes are likely until the end of the year which is consistent with inflation dynamics and the U.S. Federal Reserve's probable monetary policy path. Accordingly, we expect that the base rate will remain

at 7 percent. However, in its most recent monetary policy meeting the Bank of Mexico signaled that in the near future it will not only assess Mexico's monetary policy relative to the United States but also the possible impact of the recent earthquakes on prices in the economy.

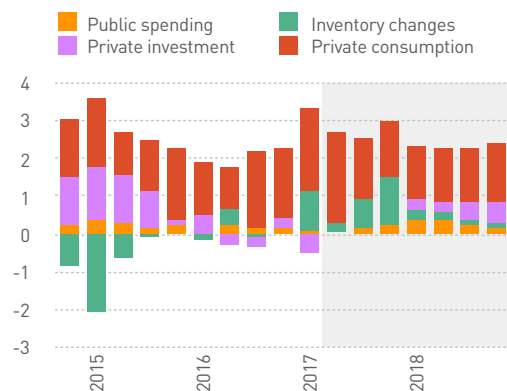
The exchange rate has returned to pre-Trumpian levels (around 18 MXN/USD) after starting the year at nearly 22 MXN to the dollar. In light of the dampening of the Federal Reserve's restrictive monetary stance and given the improved outlook for NAFTA renegotiation, we see the peso trading at between 17 and 18 MXN to the dollar at the end of year.

Chart 1.2.9-a
Mexico: GDP breakdown
and forecasts, 2014-18



Source: MAPFRE Economic Research (based on INEGI data)

Chart 1.2.9-b
Mexico: domestic demand
breakdown and forecasts, 2014-18



Source: MAPFRE Economic Research (based on INEGI data)

Table 1.2.9
Mexico: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	3.8	1.6	2.3	2.7	1.9	2.5	2.2
Domestic demand contribution	3.5	1.9	1.4	2.1	1.8	2.8	2.3
External demand contribution	0.3	-0.3	0.8	0.6	0.2	-0.2	-0.0
Private consumption contribution	3.1	1.7	1.2	1.6	1.6	2.0	1.5
Investment contribution	1.1	-0.3	0.3	1.0	0.0	-0.1	0.4
Public consumption contribution	0.4	0.1	0.2	0.3	0.1	0.1	0.3
Domestic demand (percent YoY, average)	3.5	2.0	2.0	2.1	1.8	2.8	2.3
Total consumption (percent YoY, average)	4.5	2.3	1.9	2.3	2.3	2.7	2.2
Investment (percent YoY, average)	4.8	-1.5	2.9	4.4	0.1	-0.5	2.0
Exports (YoY in percent)	1.9	0.7	2.3	3.7	0.5	2.8	1.1
Imports (YoY in percent)	-1.5	-1.1	-1.2	-4.0	-0.2	-3.0	-1.2
Unemployment rate (end of period)	4.9	4.6	4.4	4.2	3.5	3.6	4.0
Inflation (YoY, end of period)	4.1	3.7	4.2	2.3	3.2	6.3	3.5
Fiscal balance (percentage of GDP)	-2.6	-2.4	-3.2	-3.4	-2.6	-1.9	-2.5
Trade balance (percentage of GDP)	0.0	-0.1	-0.2	-1.3	-1.3	-0.9	-1.1
Current account balance (percentage of GDP)	-1.3	-2.5	-1.8	-2.5	-2.2	-1.9	-2.1
Official interest rate (end of period)	4.50	3.57	3.00	3.04	5.09	7.00	6.13
10-year rate (end of period)	5.42	6.15	5.88	6.06	6.81	6.75	6.33
Exchange rate vs dollar (end of period)	12.95	13.02	13.90	16.76	19.84	17.61	17.83
Exchange rate vs euro (end of period)	16.79	17.72	17.37	18.36	21.39	21.13	21.40
Private lending (percent YoY, average)	15.0	14.0	10.8	13.6	16.3	11.8	6.2
Household lending (percent YoY, average)	11.3	9.1	8.2	8.4	12.8	8.9	5.6
P.S. financial lending (percent YoY, average)	1.4	15.4	9.8	-11.4	3.5	4.6	13.3
Savings rate (percent)	13.4	13.3	12.3	12.5	11.5	10.8	10.8

Source: MAPFRE Economic Research (based on INEGI data)
Forecast end date: September 25, 2017.

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1.2.10 Brazil

Hopes and opportunities

Brazil left recession in the second quarter of 2017, posting a first positive growth outturn (0.3 percent YoY).

Growth was driven by an improved performance of consumption and exports. This confirms our expectations that the Brazilian economy will leave behind the recession in 2017, leading to an upward revision to our growth forecast to 0.4 percent.

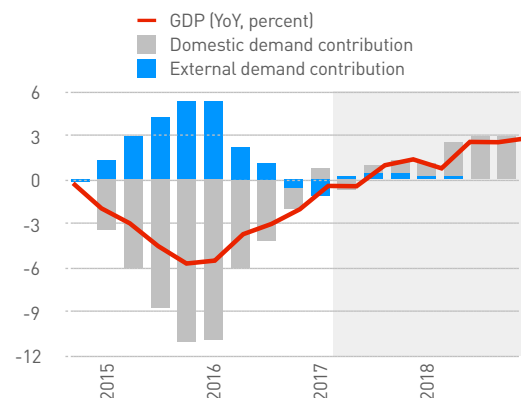
Meanwhile, the sustained decrease in inflation to 2.5 percent YoY in August enabled the Central Bank to slash interest rates six times over 2017, leaving the SELIC (main interest rate) at 8.25 percent in September. We see SELIC ending the year at around 7.5 percent.

The degree of support from fiscal stimulus will depend on the viability of fiscal policy and, to a large degree, political developments in the country. So far President Michel Temer has survived the impeachment process, but it remains unclear whether he will have sufficient support to continue his mandate, whether he will survive to 2018 elections and whether along the way he will have enough political will to continue with the reforms required

to maintain institutional credibility. The most pressing reforms concern the pension and tax system, which are crucial to lowering the deficit and thus improving the sustainability of sovereign debt.

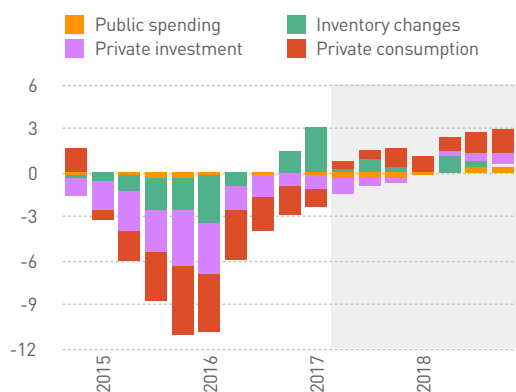
- *Positive growth in the second quarter is a signal that the Brazilian economy appears to be leaving the recession behind.*
- *Inflation is slowing, providing short-term relief to the central bank and pointing to further interest rate reductions to the end of the year.*
- *Though President Temer is formally committed to structural reform, political problems and upcoming elections leave their practical implementation open to question. Without reform, fiscal sustainability will be hard to achieve.*

Chart 1.2.10-a
Brazil: GDP breakdown
and forecasts, 2014-18



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

Chart 1.2.10-b
Brazil: domestic demand
breakdown and forecasts, 2014-18



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

Table 1.2.10
Brazil: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	1.9	3.0	0.5	-3.8	-3.6	0.4	2.2
Domestic demand contribution	2.0	4.0	0.5	-7.3	-5.6	0.4	2.2
External demand contribution	-0.1	-1.0	0.0	3.5	2.0	0.0	0.0
Private consumption contribution	2.3	2.3	1.5	-2.7	-2.9	0.2	1.3
Investment contribution	0.2	1.2	-0.8	-2.9	-1.9	-0.7	0.4
Public consumption contribution	0.4	0.3	0.1	-0.2	-0.1	-0.4	0.2
Domestic demand (percent YoY, average)	1.9	3.8	0.2	-6.8	-5.3	0.4	2.2
Total consumption (percent YoY, average)	3.2	3.1	2.0	-3.3	-3.5	-0.1	1.8
Investment (percent YoY, average)	0.8	5.8	-4.1	-14.0	-10.0	-3.8	2.2
Exports (YoY in percent)	0.0	0.4	0.2	0.7	0.3	0.5	0.5
Imports (YoY in percent)	-0.1	-1.4	0.4	2.3	1.5	-0.3	-0.7
Unemployment rate (end of period)	6.9	6.2	6.5	9.0	12.0	12.6	12.3
Inflation (YoY, end of period)	5.6	5.8	6.5	10.4	7.0	3.0	4.5
Fiscal balance (percentage of GDP)	-2.3	-3.0	-6.0	-10.2	-9.0	-8.5	-7.7
Trade balance (percentage of GDP)	0.7	0.0	-0.3	1.0	2.5	2.7	2.0
Current account balance (percentage of GDP)	-3.0	-3.0	-4.2	-3.3	-1.3	-0.9	-2.0
Official interest rate (end of period)	7.28	9.63	11.32	14.25	13.97	7.62	7.25
10-year rate (end of period)	9.21	12.17	12.29	15.74	11.59	8.97	8.79
Exchange rate vs dollar (end of period)	2.06	2.28	2.55	3.84	3.29	3.16	3.48
Exchange rate vs euro (end of period)	2.67	3.10	3.19	4.21	3.55	3.80	4.17
Household lending (percent YoY, average)	17.6	16.4	14.1	10.0	4.3	5.0	10.1
Savings rate (percent)	18.4	17.8	18.9	19.0	19.6	19.8	19.8
Fiscal impulse (percent of GDP)	-0.8	-0.5	-2.2	-1.3	-0.7	0.1	0.0

Source: MAPFRE Economic Research (based on data from the Instituto Brasileiro de Geografia e Estatística, IBGE)
Forecast end date: September 25, 2017.

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1.2.11 Argentina

Improvement in the growth profile and outlook but risks remain

National accounting data confirmed a pick up in economic activity in the first half of 2017, enabling Argentina to leave behind the recession mainly thanks to a recovery in primary sector activities and public investment.

Investment continues to be the main driver of growth (especially in agriculture, renewable energy, public infrastructure and sales of cement), which foreshadows growth of 2.5 percent in 2017. This represents an upward revision relative to our previous forecast.

- *We revised up our growth outlook and an improved profile points to greater sustainability.*
- *Investment and the external sector, increasingly being replaced by private consumption (thanks to higher real incomes), could be in danger if inflation runs out of control again.*
- *Risks are still tilted to the downside and relate to domestic factors.*
- *Elections at the end of 2017 will be crucial to watch since they could return the country to the previous system of political economy, although for the time being this is not the leading scenario.*

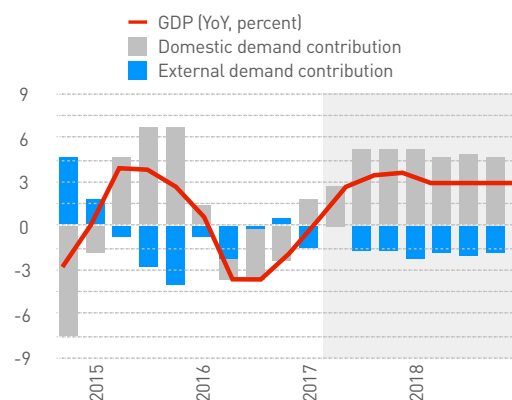
We predict a larger contribution of consumption resulting from foreseeable increase in real incomes, underpinned by growth in formal employment and expectations of inflation falling by half relative to the end of 2016.

Political risks remain significant, especially given the dissatisfaction with President Mauricio Macri among certain sectors of society which in turn reflects the persistent erosion of disposable income and a widening of the

social divide. There are clear electoral risks, even more so since Cristina Fernández de Kirchner announced her intention to return to politics. However, voting intentions and the result of local elections in Buenos Aires suggest that Macri is shoring up his position.

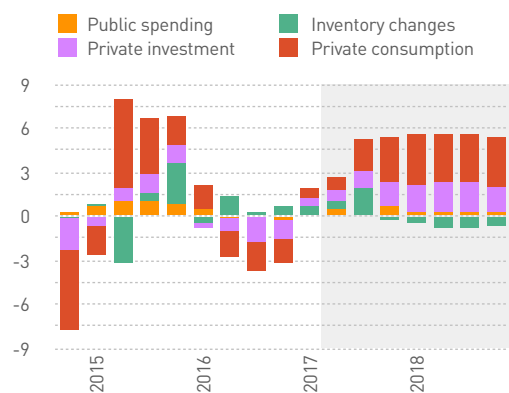
Meanwhile, a difficult path toward fiscal consolidation, popular discontent and tensions in the bond market could have new repercussions for capital markets, pointing to possible further depreciation of the Argentinian peso against the dollar.

Chart 1.2.11-a
Argentina: GDP breakdown
and forecasts, 2014-18



Source: MAPFRE Economic Research (based on INDEC data)

Chart 1.2.11-b
Argentina: domestic demand
breakdown and forecasts, 2014-18



Source: MAPFRE Economic Research (based on INDEC data)

Table 1.2.11
Argentina: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	-0.9	2.4	-2.5	2.6	-2.2	2.5	2.9
Domestic demand contribution	-1.3	4.1	-4.2	4.1	-1.5	3.7	4.9
External demand contribution	0.3	-1.8	1.7	-1.5	-0.7	-1.2	-1.8
Private consumption contribution	0.8	2.6	-3.1	2.4	-1.0	1.7	3.4
Investment contribution	-1.5	0.5	-1.2	0.7	-1.0	1.0	1.9
Public consumption contribution	0.4	0.7	0.4	0.9	0.1	0.3	0.3
Domestic demand (percent YoY, average)	-1.2	4.0	-3.8	4.0	-1.4	3.5	4.5
Total consumption (percent YoY, average)	1.4	3.9	-3.2	4.0	-1.1	2.4	4.2
Investment (percent YoY, average)	-7.0	2.5	-6.6	3.8	-5.0	5.1	9.6
Exports (YoY in percent)	-0.8	-0.7	-0.5	-0.8	0.9	1.1	0.6
Imports (YoY in percent)	1.1	-1.0	2.3	-1.2	-1.6	-2.3	-2.0
Unemployment rate (end of period)	6.9	6.4	6.9	7.0	7.6	7.7	6.9
Inflation (YoY, end of period)	10.6	26.2	39.0	24.9	43.5	22.2	15.3
Fiscal balance (percentage of GDP)	-1.0	-2.2	-3.2	-4.0	-4.3	-3.7	-3.8
Trade balance (percentage of GDP)	2.6	0.8	1.1	-0.1	0.8	-0.5	-0.8
Current account balance (percentage of GDP)	-0.4	-2.1	-1.5	-2.7	-2.7	-3.8	-3.5
Official interest rate (end of period)	12.81	16.37	26.35	36.33	27.42	25.50	19.38
Short-term rate	12.81	16.37	19.85	23.80	19.87	17.92	15.47
Long-term rate	12.02	11.29	9.58	7.26	6.87	6.16	6.32
Exchange rate vs dollar (end of period)	4.80	6.05	8.51	10.04	15.44	17.53	18.42
Exchange rate vs euro (end of period)	6.22	8.24	10.64	10.99	16.65	21.04	22.11

Source: MAPFRE Economic Research (based on INDEC data)
Forecast end date: September 25, 2017.

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1.2.12 China

The controlled slowdown continues

Growth surpassed the government's target (6.5 percent) in the second quarter of 2017 for the third time in a row, posting year-on-year growth of 6.9 percent. Leading indicators of global activity point to a continuation of the current growth trend, giving way to a slowdown in 2018 as the effects of the monetary and fiscal adjustment begin to take effect. A large part of the stimulus in recent months relates to the need to meet the government's growth targets, while will be revised in the Communist Party's National Congress in October.

- *Growth still remains above the government's target.*
- *But risks are still there - centered on the residential sector and excess lending.*
- *The next Communist Party National Congress will review the long-term growth strategy.*

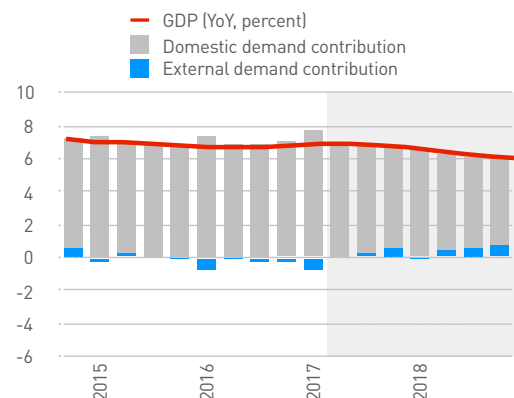
The administration is attempting to balance the growth target with financial stability through intervention in the money markets (via the standard lending facility), which has cut lending growth in half, at the same time as imposing macro-prudential limits on the residential sector. On the basis of current evidence, the strategy appears to be working: a) the official manufacturing PMI (which includes traditional "industry" such as construction and steel) has contracted, while the broader PMI-Caixin index has remained in positive territory; b) lending has fallen notably from +1.1 trillion yuan to somewhat below 0.8 trillion yuan, mainly mortgage lending for house purchases in large cities. Prices in Tier 1 and Tier 2 cities have contracted, while prices in (smaller) Tier 3 cities have increased. c) In financial terms, although portfolio investment outflows have not halted, there has been an increase in inward lending flows. The renminbi should appreciate slightly to the end of the year.

We expect GDP to grow by nearly 6.8 percent in 2017, primarily 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 percent, while growth in industrial prices will remain in positive territory, reducing the risk of China continuing to export deflation. The central bank will continue to shun lax financial conditions, barely touching official rates and preferring to intervene more through the money markets.

Risks for China remain tilted to the downside, both for growth and inflation. China still has to deal with a high level of corporate leverage which makes it vulnerable to interest and exchange rate risks, and despite government efforts, lending growth continues to outpace nominal GDP growth. This risk could generate perverse effects when combined with other vulnerabilities such as (residential) asset price imbalances, the deterioration in profitability of public companies, and liquidity and funding problems in capital markets due to public control. Meanwhile, political tensions with the United States could resurface over the handling of the North Korean crisis, with potential repercussions for global international trade as well as the commodity cycle, especially affecting Latin American exporters.

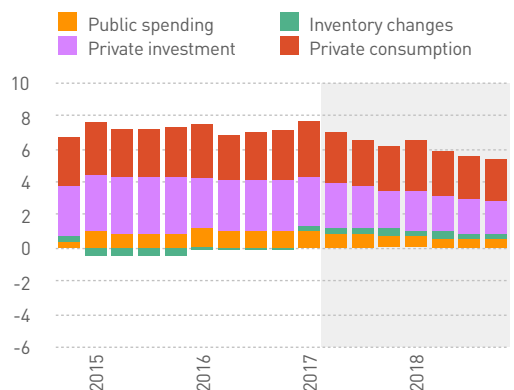
Despite these vulnerabilities, China's systemic risk to the world appears to be limited. Even though corporate indebtedness is three times pre-crisis levels in the United States, the severity of a potential macro-financial crisis is estimated to be more modest than the 2008 crisis. Some sources put the impact of a disorderly slowdown in China at around a 0.5 to 1 percentage point fall in global GDP.

Chart 1.2.12-a
China: GDP breakdown
and forecasts, 2014-18



Source: MAPFRE Economic Research (based on PBOC data)

Chart 1.2.12-b
China: domestic demand
breakdown and forecasts, 2014-18



Source: MAPFRE Economic Research (based on PBOC data)

Table 1.2.12
China: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	7.8	7.8	7.3	6.9	6.7	6.8	6.2
Domestic demand contribution	7.7	7.9	5.7	6.9	7.0	6.8	5.8
External demand contribution	0.1	-0.1	1.6	0.0	-0.3	0.0	0.7
Private consumption contribution	3.6	3.0	3.1	3.1	3.0	2.9	2.8
Investment contribution	3.9	4.2	2.2	3.4	3.0	2.6	2.1
Public consumption contribution	0.8	0.6	0.4	0.9	1.1	0.9	0.6
Domestic demand (percent YoY, average)	8.0	8.1	7.2	7.1	7.2	6.9	5.9
Total consumption (percent YoY, average)	8.7	7.2	7.1	8.0	8.2	7.5	6.6
Investment (percent YoY, average)	8.7	9.3	6.9	7.4	6.6	5.8	4.7
Exports (YoY in percent)	1.5	2.3	1.4	0.2	0.4	2.4	1.1
Imports (YoY in percent)	-1.6	-2.6	-1.3	-0.7	-0.8	-2.2	-1.3
Unemployment rate (end of period)	4.1	4.1	4.1	4.1	4.0	4.0	4.0
Inflation (YoY, end of period)	2.1	2.9	1.5	1.5	2.2	1.7	2.3
Fiscal balance (percentage of GDP)	-1.6	-1.8	-1.8	-3.4	-3.8	-5.1	-4.7
Trade balance (percentage of GDP)	3.6	3.7	4.2	5.3	4.4	4.5	4.5
Current account balance (billions of dollars)	13.4	14.5	15.5	16.7	17.9	19.0	20.1
Current account balance (percentage of GDP)	2.5	1.5	2.3	2.8	1.8	1.8	1.8
Official interest rate (end of period)	3.22	4.71	3.53	2.33	2.48	3.05	3.45
Long-term rate	3.57	5.40	4.10	2.68	2.90	3.65	3.68
Exchange rate vs dollar (end of period)	6.24	6.09	6.15	6.39	6.83	6.63	6.50
Exchange rate vs euro (end of period)	8.10	8.29	7.68	7.00	7.37	7.95	7.80
Private lending (percent YoY, average)	16.1	15.4	13.4	14.8	13.3	10.8	10.6
Savings rate (percent)	37.8	39.8	39.7	39.7	38.9	38.5	38.1

Source: MAPFRE Economic Research (based on PBOC data)
Forecast end date: September 25, 2017.

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1.2.13 Indonesia

Growth continues to be driven by domestic factors

The Indonesian economy once again grew slightly above 5 percent in the second half of 2017, which given that it is a highly populated country, puts it close to but still below its potential.

Economic growth was propped up by domestic demand against a backdrop of easy monetary policy, which could be reaching an end given the U.S. Federal Reserve's planned schedule for stimulus withdrawal and the activism of the Chinese central bank.

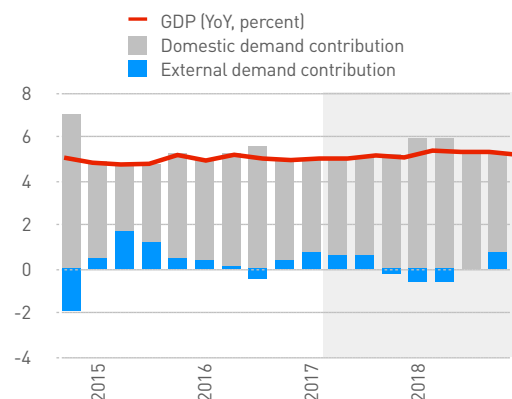
- *Growth remains robust supported by domestic demand, albeit below potential.*
- *Relatively easy monetary policy supports consumption and investment, with inflation remaining relatively under control.*
- *External portfolio flows are supported by global risk appetite and by the country's investment grade.*
- *Changes in global liquidity flows could affect the country's financing capacity.*

The government believes that the Indonesian economy should post growth of over 5 percent, but for the moment it is focusing its economic policy efforts on meeting the public deficit target of 3 percent. Accordingly, we forecast a deficit of below this threshold in 2017 and 2018.

Inflation will end 2017 at around 4 percent, still within the target range of the central bank, meaning that our interest rate forecast of 4.5 percent at the end of the year could even be subject to downside risks (looser policy).

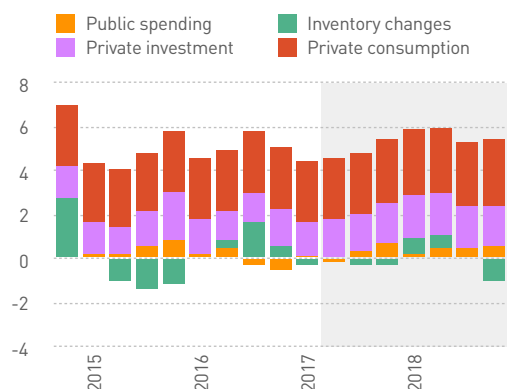
The current account is highly dependent on relatively short-term foreign portfolio flows, which builds in a degree of currency volatility, especially when faced with changes in U.S. monetary policy stance (as occurred in 2013). Furthermore, a significant share of corporate funding in Indonesia is denominated in U.S. dollars, which creates a certain amount of vulnerability in the face of currency volatility. In this regard, the current phase of the economic cycle, the return on sovereign bonds and expectations of achieving investment grade are unlikely to be sufficient to offset the expected depreciation, which will continue in 2017 as a result of monetary policy lags.

Chart 1.2.13-a
Indonesia: GDP breakdown
and forecasts, 2014-18



Source: MAPFRE Economic Research (based on BPS data)

Chart 1.2.13-b
Indonesia: domestic demand
breakdown and forecasts, 2014-18



Source: MAPFRE Economic Research (based on BPS data)

Table 1.2.13
Indonesia: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	6.0	5.6	5.0	4.9	5.0	5.1	5.3
Domestic demand contribution	7.6	5.0	4.6	3.9	4.9	4.6	5.4
External demand contribution	-1.5	0.6	0.4	1.0	0.1	0.4	0.7
Private consumption contribution	3.1	3.0	2.9	2.7	2.8	2.8	3.0
Investment contribution	2.9	1.7	1.0	1.6	1.5	1.7	1.9
Public consumption contribution	0.5	0.6	0.1	0.5	0.0	0.3	0.4
Domestic demand (percent YoY, average)	7.7	5.0	5.3	3.9	5.0	4.7	5.5
Total consumption (percent YoY, average)	5.4	5.6	4.7	4.9	4.4	4.8	5.4
Investment (percent YoY, average)	9.1	5.1	4.5	5.0	4.5	5.3	5.9
Exports (YoY in percent)	0.5	1.1	0.5	-0.7	-0.3	1.2	1.1
Imports (YoY in percent)	-2.1	-0.5	-0.2	1.1	0.4	-0.8	-1.3
Unemployment rate (end of period)	5.8	5.7	5.9	5.8	5.5	5.4	5.3
Inflation (YoY, end of period)	3.9	8.0	6.5	4.8	3.3	4.1	4.2
Fiscal balance (percentage of GDP)	-1.7	-2.2	-2.2	-2.6	-2.5	-2.8	-2.3
Trade balance (percentage of GDP)	0.9	0.6	0.8	1.6	1.7	2.1	2.1
Current account balance (percentage of GDP)	-2.7	-3.2	-3.1	-2.0	-1.8	-1.5	-1.5
Official interest rate (end of period)	4.50	6.14	6.37	6.25	4.81	4.50	4.63
Long-term rate	5.50	8.12	7.98	8.71	7.53	6.63	7.52
Exchange rate vs dollar (end of period)	9,616	11,552	12,252	13,769	13,259	13,305	13,522
Exchange rate vs euro (end of period)	12,469	15,721	15,312	15,081	14,296	15,966	16,226
Savings rate (percent)	17.1	17.2	17.0	17.0	17.0	17.1	17.3
P.S. financial lending (percent YoY, average)	19.0	16.9	4.5	32.0	10.1	5.9	7.2

Source: MAPFRE Economic Research (based on BPS data)

Forecast end date: September 25, 2017.

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1.2.14 Philippines

Growth supported by domestic demand

GDP grew by 6.5 percent (YoY) in the second quarter of 2017, increasing from 6.4 percent YoY in the first quarter.

This outturn suggests annual growth for the year as a whole could come in at close to the government's target range of 6.5-7 percent. Our central scenario sees growth of 6.5 percent, below last year's growth rate (8 percent) due to a moderation of domestic demand, both in terms of consumption and investment. This momentum comes from domestic demand (private and public consumption and investment in all sectors).

- *Growth is being propped up by domestic demand which will inevitably moderate.*
- *Currency depreciation looks likely in line with a deterioration in the current account.*
- *Inflation will rise but stay within the central bank's target range.*

Lending for residential investment is growing at above 20 percent and lending to industry is expanding at double-digit rates in all sectors, rising by 19 percent in the construction sector. The infrastructure plan pursued by President Rodrigo Duterte's government will continue to fuel economic momentum.

Meanwhile, burgeoning 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 real appreciation brought about by inflation.

The fiscal deficit trajectory appears to be highly questionable given the President's plans to raise infrastructure spending from 2 percent to 7.4 percent of GDP, while bringing down corporation tax to 25 percent of GDP (from a current 30 percent).

The Philippines is not only a net importer of manufactured goods but of food and energy as well. The projected currency depreciation will bring with it imported inflation. We see inflation in 2017 at around 3.1 percent which would remain within the central bank's target range of 2-4 percent, but could accelerate in 2018.

Chart 1.2.14-a
Philippines: GDP breakdown
and forecasts, 2014-18

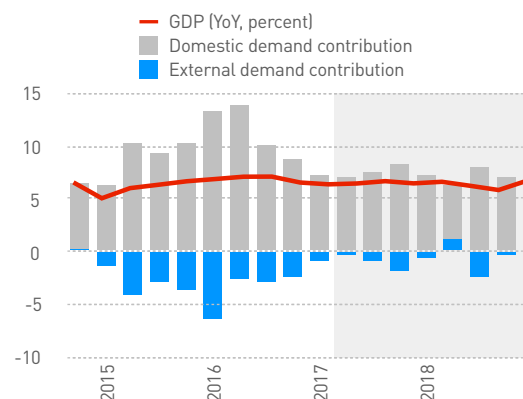


Chart 1.2.14-b
Philippines: domestic demand
breakdown and forecasts, 2014-18

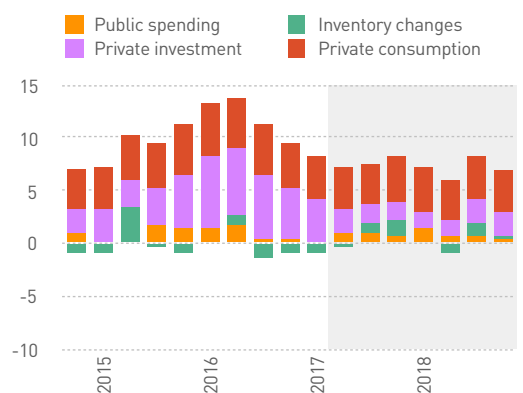


Table 1.2.14
Philippines: main macroeconomic indicators

	2012	2013	2014	2015	2016	2017	2018
GDP (percent YoY, average)	6.7	7.1	6.1	6.0	8.0	6.5	6.4
Domestic demand contribution	5.3	9.8	4.8	9.1	11.5	7.5	6.8
External demand contribution	1.4	-2.7	1.3	-3.0	-3.5	-1.0	-0.3
Private consumption contribution	4.7	4.0	3.9	4.4	4.8	4.1	4.0
Investment contribution	2.1	2.5	1.1	3.6	6.0	2.5	1.9
Public consumption contribution	1.7	0.6	0.3	0.8	0.9	0.6	0.8
Domestic demand (percent YoY, average)	5.2	9.9	5.0	9.0	11.2	7.0	6.3
Total consumption (percent YoY, average)	7.8	5.6	5.2	6.5	7.2	5.8	6.0
Investment (percent YoY, average)	10.8	12.0	7.2	16.6	25.7	9.1	6.6
Exports (YoY in percent)	4.2	-0.2	5.5	4.8	5.4	9.8	3.4
Imports (YoY in percent)	-2.7	-2.4	-4.0	-9.0	-10.9	-10.8	-4.1
Unemployment rate (end of period)	6.8	6.4	6.0	5.6	4.7	5.2	5.0
Inflation (YoY, end of period)	3.0	3.5	3.6	1.0	2.5	3.1	3.8
Fiscal balance (percentage of GDP)	-2.3	-1.4	-0.6	-0.9	-2.4	-2.9	-3.0
Trade balance (percentage of GDP)	-7.6	-6.5	-6.1	-8.0	-11.2	-12.6	-12.1
Current account balance (percentage of GDP)	2.8	4.2	3.8	2.5	0.2	-0.7	-0.4
Official interest rate (end of period)	3.57	3.50	4.00	4.00	3.00	3.00	3.38
Long-term rate	4.87	3.72	4.24	3.91	4.43	4.76	5.30
Exchange rate vs dollar (end of period)	41.19	43.62	44.81	46.87	49.11	51.11	50.45
Exchange rate vs euro (end of period)	53.42	59.36	56.01	51.33	52.95	61.34	60.54
Savings rate (percent)	7.2	8.3	9.3	7.7	8.0	8.4	9.0
P.S. financial lending (percent YoY, average)	7.8	6.0	8.8	2.6	8.7	9.4	9.6

Source: MAPFRE Economic Research (based on PSA data)
Forecast end date: September 25, 2017.

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2. Industry outlook

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

2.1.1 Global markets

The pick up in growth in developed economies in the third quarter of 2017 points to global GDP rising by around 3.5 percent this year (after 3.1 percent in 2016), with an increasing contribution from developed economies - growing at above 2 percent - and emerging market growth of over 4.5 percent, thanks to Russia, Brazil and Argentina's emergence from recession and more robust than expected growth in Mexico, Turkey and China.

This economic backdrop, which is significantly stronger than initially expected at the start of the year, should have a positive impact on global insurance market performance.

2.1.2 Eurozone

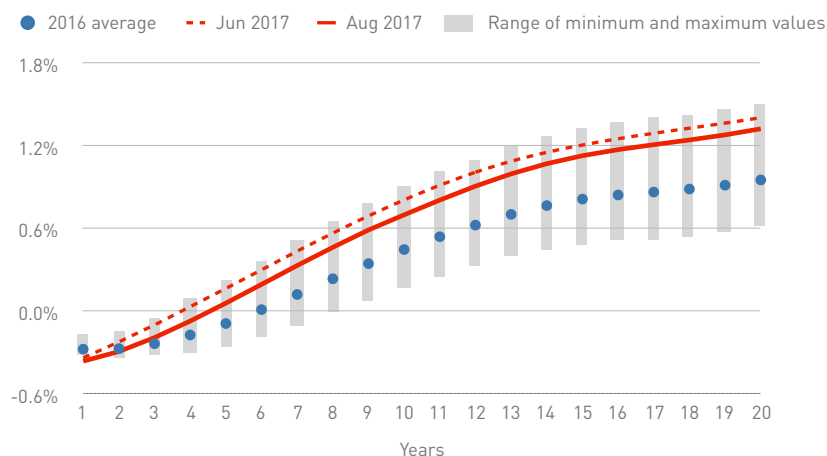
The strong performance of eurozone's GDP, with an upward revision to growth forecasts to around 2.2 percent in 2017 - the highest in the last seven years - is welcome news for the eurozone's insurance industry, especially the Non-Life and Life risk businesses. Germany and Spain are spearheading growth, but France and Italy are also contributing, which should have a positive impact on their individual insurance markets.

Recent European Central Bank (ECB) statements which suggest that monetary policy will remain unchanged until the end of 2018 point to the continuation of a low interest rate environment, which could be a potential dampener on the performance of Life saving and life annuities business lines. The ECB's allusion to the sequencing of normalization suggests a potential rate hike could happen from the end of 2019 onwards - still a long way off.

The latest risk-free yield curve for the euro published by the European Insurance and Occupational Pensions Authority (EIOPA) points to a slight fall in rates relative to June 2017, although still some way above the minimum levels reached in July 2016 (see Chart 2.1.2). Nonetheless, the yield curve is clearly upward sloping with rates increasing over longer maturities, which could give impetus to traditional Life saving and life annuities products. Either way, for the time being the outlook is for rates to stay low and the yield curve remains in negative territory for maturities of less than four years. Consequently, the problems for new businesses continue as well as for insurance companies that have Life insurance portfolios in their balance sheets with high guaranteed rates and a mismatch of flows with regard to the assets that support the obligations derived from their insurance contracts, whose solvency position will continue to be gradually eroded as the flows from investments in their portfolios are reinvested.

This trend is reflected in Chart 2.1.2, which shows the minimum, average and maximum levels reached in 2016, as well as plotting the latest yield curves published by EIOPA for June and August 2017.

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



Source: MAPFRE Economic Research (based on EIOPA data)

2.1.3 Spain

Economic activity in Spain remains robust, underpinned by domestic and external demand. High levels of confidence, easy monetary conditions and a declining unemployment rate will continue driving growth, supported by the increasing involvement of residential and capital goods investment and the dynamic external sector, against the backdrop of highly resilient private consumption. All these factors are positive for insurance market performance in relation to Non-Life and Life risk business lines. The recovery in mortgage lending and institutional investment flows into the real estate sector, driven by a global liquidity glut and the scarcity of alternative return-yielding assets, are particularly favorable for Life risk and multiperil Non-Life products.

However, while remaining robust, there are some signs that the economy may be beginning to run out of steam which could result in a modest slowdown in growth with potential knock-on effects for the insurance market. The erosion of real wages due to the spike in inflation and political instability linked to the independence process in Catalonia could have implications for confidence, political stability, national budget execution and a negative impact on consumption. If the slowdown in consumption were to materialize, the performance of Non-Life insurance products could suffer given the strong link to economic growth and, particularly, to the performance of household and corporate consumption. In any case, the second quarter outturn increases the likelihood of GDP growth coming in at 3.1 percent for the year as a whole.

Meanwhile, the enduring low interest rate environment will continue to hamper traditional Life savings and life annuities businesses. However, the negligible or non-existent return offered by bank deposits, which continue to face a negative deposit facility rate, is mitigating the impact of low rates on the Life insurance market, together with a pick up in the long end of the risk-free yield curve and certain tax breaks associated with these types of products. Likewise, innovation in the insurance industry toward products in which the policyholder assumes the investment risk are also providing impetus to the Life savings market.

2.1.4 Turkey

Despite the challenging economic and political backdrop, the economy grew in excess of 5.5 percent in the first half of 2017 (adjusted year-on-year rate) and is set to grow by 4.1 percent for the year as a whole, which is good news for the Non-Life insurance market in Turkey.

GDP growth is being supported primarily by private consumption and investment, underpinned by public guarantees and fiscal stimulus, but also by the external sector - especially tourism - which is growing significantly in comparison with last year. For the time being, this is a favorable context for Non-Life and Life risk business lines. However, the rigidity in the adaptation of premiums following the introduction of a price control system in

compulsory automobile insurance continues to be a problem which could affect the technical performance of this business line.

Furthermore, the spike in inflation to levels that are well above the central bank's target (+9 percent against a 5 percent target), together with an expected depreciation of the Turkish lira, will have a negative impact on Non-Life insurance as a result of a knock-on increase in the cost of claims. Meanwhile, volatile interest rates and an inverted yield curve are detrimental to the Life savings and life annuities businesses (see Chart 2.1.4).

2.1.5 United States

The positive outlook for U.S. economic activity in 2017 will have equally favorable implications for the insurance industry. The U.S. economy posted year-on-year growth of 2.2 percent in the second quarter and leading indicators point to a continuation of economic momentum in the third quarter. Employment, investment and the external sector (thanks to dollar depreciation) all performed positively. However, the expected impact of expansive fiscal policy will no longer materialize in 2017, which implies a degree of caution, though we stand by our forecast of around 2.1 percent growth in 2017. In general, the outlook for activity and employment in the United States remains positive, which constitutes a favorable backdrop for insurance industry performance, particularly Non-Life and Life risk businesses.

At the same time, the Federal Reserve's cautious monetary policy approach in relation to gradual interest rate hikes and the process for unwinding its balance sheet, raises a degree of uncertainty regarding the future path for interest rates and the end equilibrium rate, which could hamper the performance of Life savings insurance and life annuities. EIOA's risk-free yield curves for the American market (see Chart 2.1.5) show a small decline across the yield curve in August relative to June, alongside a slight

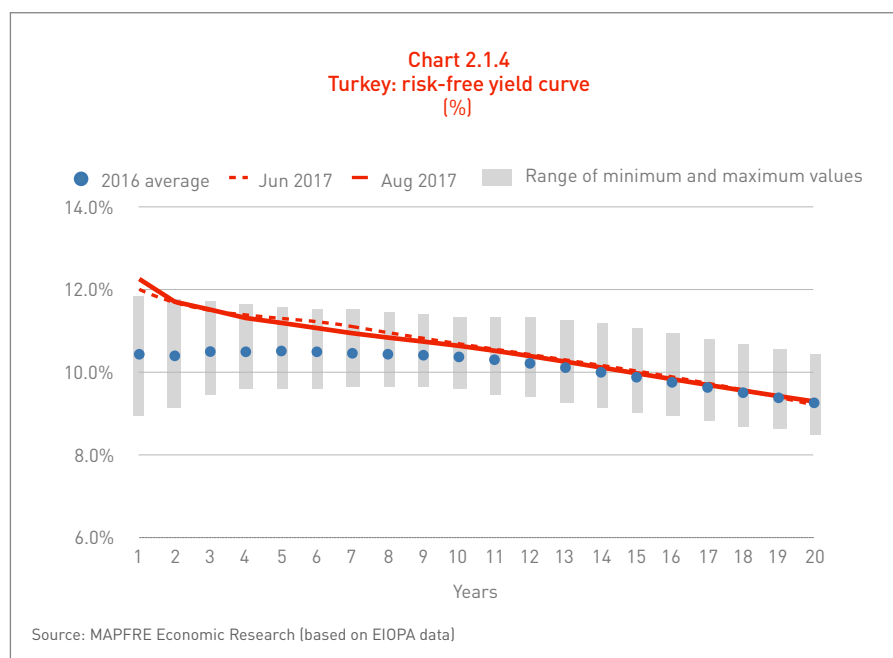
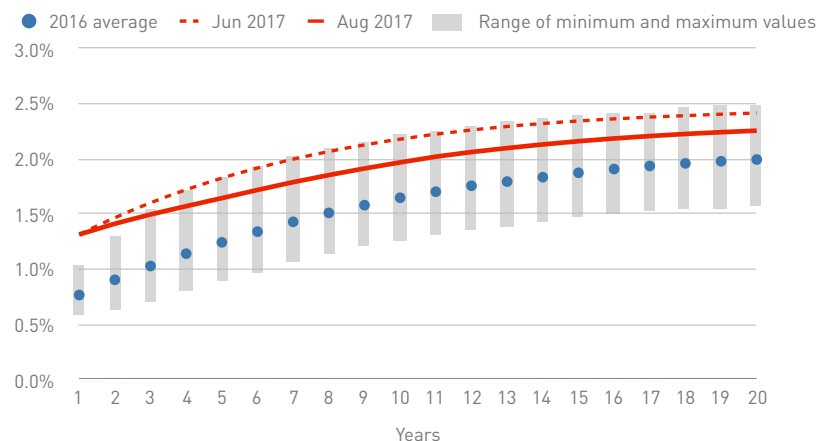


Chart 2.1.5
United States: risk-free yield curve
[%]



Source: MAPFRE Economic Research (based on EIOPA data)

flattening, which indicates that the Federal Reserve's interest rate hikes are not being fully priced in to the long-end of the curve, which could ultimately be detrimental to the Life savings and life annuities business by preventing higher guaranteed rates from being offered on long-term savings products and thus improving companies' situation in terms of appropriately matching durations in their portfolios.

2.1.6 Brazil

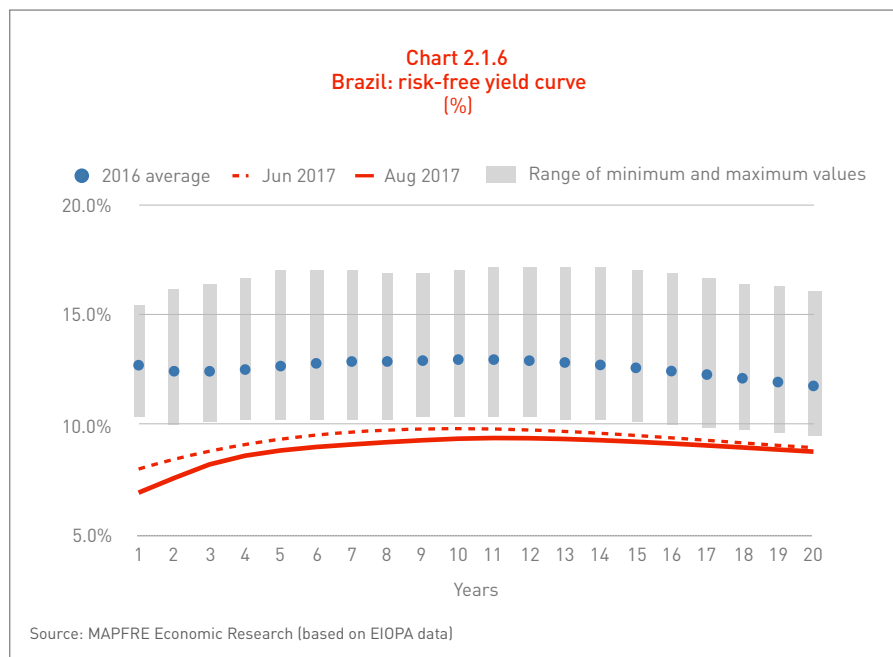
The Brazilian economy returned to growth in the second quarter following a two-year recession, thanks to an improved consumption and exports performance, leading to an upward revision to our growth forecast to 0.4 percent for 2017. The improving economic environment is equally favorable for Non-Life and Life risk insurance businesses which are closely linked to economic growth.

Indeed, the relatively low level of insurance penetration in Brazil (compared to developed economies) increases the elasticity of premiums to GDP growth relative to other economies, meaning that weak or modest GDP growth can translate into stronger insurance premium growth.

For the time being the improvement in the overall economic situation is positive for the insurance industry whose technical performance will be supported by a decrease in inflation reflected in slower growth in claims-related expenses. The sustained decrease in inflation (to 2.5 percent YoY in August) enabled the central bank to slash interest rates six times over 2017, leaving the main interest rate at 8.25 percent in September. The interest rate could end the year at around 7.5 percent.

EIOPA's risk-free yield curve shows interest rates continuing to come down in the short end of the curve, thanks to the central bank interest rate cuts, with the yield curve steepening at the medium end. While expectations of interest rate cuts remain a possibility but not a reality and the yield curve continues to slope upward, this constitutes a highly favorable situation for the performance of Life savings insurance and life annuities (see Chart 2.1.6).

However, Brazilian political developments, with the failed attempted to impeach President Michel Temer, who also faces elections next year, introduce uncertainty regarding the viability of his economic policy. The most pressing structural reforms concern the pension and tax system, which are crucial to lowering the deficit and thus improving the sustainability of sovereign debt.



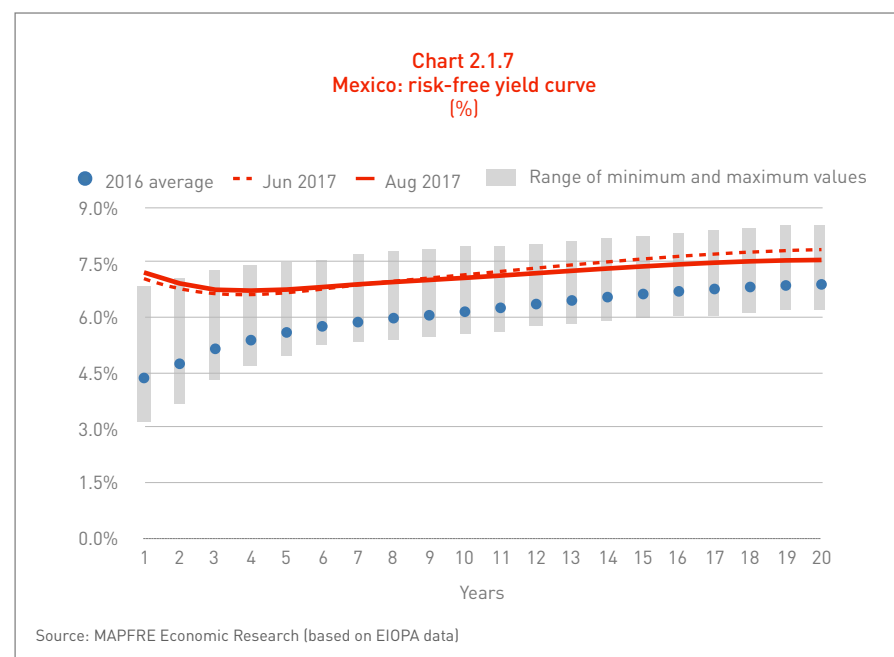
2.1.7 Mexico

The pick up in Mexican economic growth continued in 2017, with an upward revision to growth forecasts to around 2.5 percent for the year as a whole, thanks to a stronger contribution from the external sector, the resilience of private consumption and - more recently - a renewed fiscal stimulus related to the electoral cycle (general elections in 2018) and natural disasters. These factors are supportive of the Mexican insurance market in regard to the Non-Life and Life risk businesses. Furthermore, the relatively low level of insurance penetration in Mexico increases the elasticity of premiums to GDP growth relative to more developed economies, meaning that moderate GDP growth can lead to a more rapid increase in insurance premiums.

However, the high rate of inflation, which jumped to 6.7 percent in August, is detrimental to insurance industry performance due to the increase in claims

costs, although this effect may be mitigated by currency appreciation, with the currency back trading at pre-Trumpian levels. Furthermore, inflation forecasts for 2017 and 2018 envisage a clear easing of price growth, bringing inflation back within the central bank's target range in 2018.

The outlook for the Life savings and life annuities business could improve following the latest interest rate hike and expectations that the Bank of Mexico will keep rates on hold. However, for the time being the interest rate increases are not translating to the long end of the yield curve, with a slightly negative slope (see Chart 2.1.7), which has a detrimental impact on these businesses preventing companies from offering higher guaranteed rates on long-term savings products and thus improving the appropriate matching of durations in their portfolios.



2.1.8 China

GDP growth surpassed the government's target of 6.5 percent in the second quarter of 2017 for the third time in a row, registering year-on-year growth of 6.9 percent. Growth is forecast to come in at around 6.8 percent in 2017, supported by consumption and investment-led domestic demand. The economic backdrop is therefore favorable to the Non-Life and Life risk insurance businesses, which are very sensitive to economic growth developments and household and corporate consumption in particular. This performance will also be boosted by the still low rate of insurance penetration in China, which is typical of emerging economies and generates a greater elasticity of premium growth to GDP growth.

Indeed, one of the Chinese government's explicit objectives for insurance activities is to increase the rate of penetration. The moderate outlook for inflation, at around 1.7 percent for the end of 2017, and the prospect of moderate currency appreciation are also good news for the future development of claims costs facing insurers in the coming months.

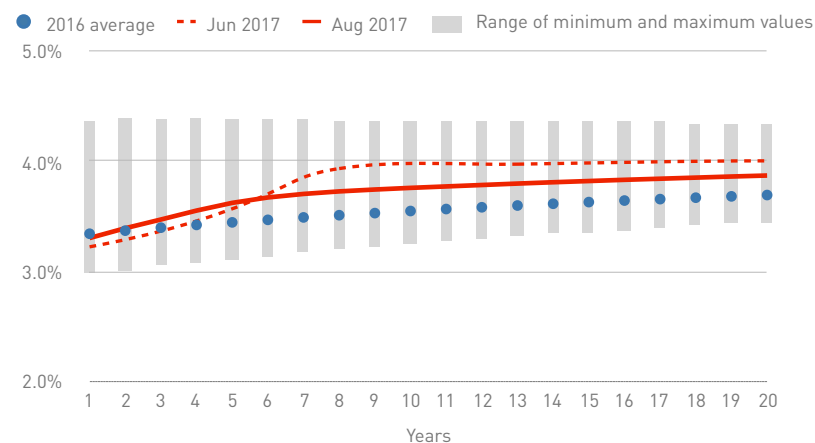
However, the planned tightening of access conditions for home buyers could partly offset the favorable outlook for the insurance market. This tightening of conditions is beginning to have an impact with a decline in mortgage lending for house purchases in large cities. Accordingly, house prices in large and even medium-sized cities are contracting, while prices in small cities are increasing.

In terms of the Life saving and life annuities business, the risk-free yield curves produced by EIOPA for the Chinese market (see Chart 2.1.8) point to a small increase in rates at the short and medium end of the yield curve and a slight flattening at maturities of over eight years. In any case, interest rate volatility is low and the yield curve is upward sloping - at least in the middle part, which alongside positive economic developments creates a favorable environment for these business lines.

2.1.9 Reinsurance

A series of major natural disasters took place in the third quarter of 2017, notably hurricanes Harvey, Irma and María in North America and the Caribbean, as well as the earthquakes which struck Chiapas and Puebla in Mexico on September 7 and 19. It will still take time to definitively count the economic cost of these disasters which will undoubtedly have a significant impact on combined ratios and the return on equity of reinsurers and possibly on the pricing of reinsurance contract renewals, in a market which in the absence of major disasters had become very competitive in terms of pricing.

Chart 2.1.8
China: risk-free yield curve
[%]



Source: MAPFRE Economic Research (based on EIOPA data)

2.2 Regulatory trends: new developments in the quarter

Global trends

September 2017 marked the cut-off date for data submission by insurance companies taking part in field work as part of data collection which will enable the International Association of Insurance Supervisors (IAIS) to make progress in developing a harmonized supervisory framework for overseeing the solvency of internationally active insurance groups (IAIGs).

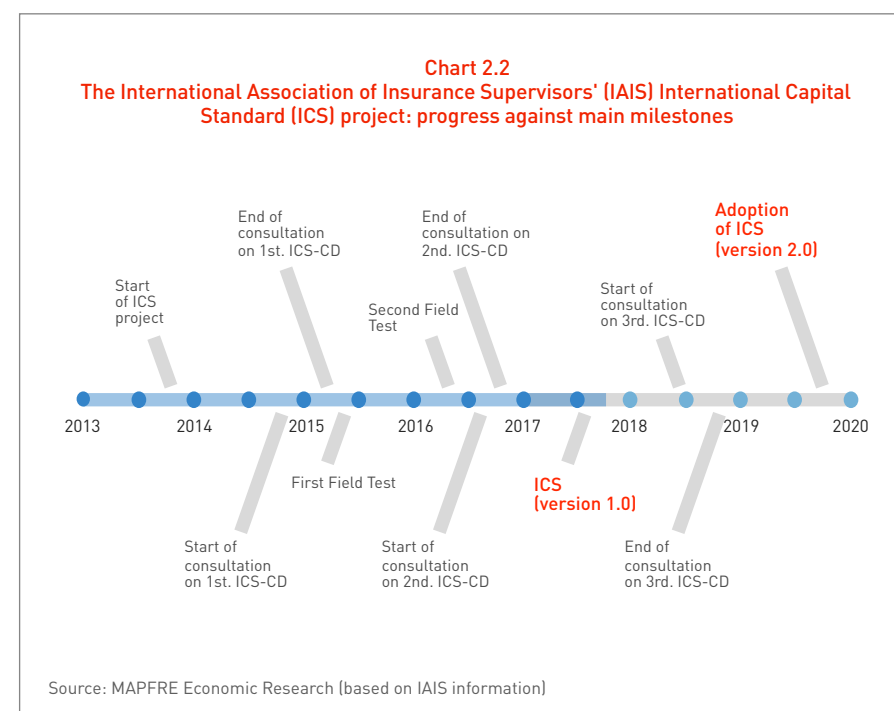
The IAIS will now proceed to analyze and deliberate on the information received in order to develop a so-called International Capital Standard, ICS Version 2.0. IAIS published version 1.0 of the technical specifications on July 21, 2017, which should be followed as part of preparing information submissions¹, and represents a significant milestone in the process of developing a harmonized framework. This will serve as the basis, alongside the conclusions which are obtained from the information received, for preparing a draft of version 2.0 of the ICS by the end of 2018 which will be subject to further field testing in 2019, with the final objective of adopting a definite version at the end of 2019 (see Chart 2.2).

United States

On September 22, 2017, the Treasury Department and the United States' Trade Representative signed an agreement with the European Union containing information regarding the previous bilateral agreement signed by the US and the EU on prudential supervisory measures in insurance and reinsurance. The objective was to provide additional clarity to insurance supervisors in the United States and the industry² on the implementation of the Agreement.³

This new Agreement clarifies that in the United States the removal of requirements to provide collateral to European reinsurers will not be fully implemented until the end of a five-year transition period and will apply to reinsurers meeting requirements for financial solidity and specified market conduct.

The Agreement also limits the global application of the European Union's prudential supervisory measures to internationally active American groups operating in the EU, without requiring the development of a group capital requirement in the United States. Notwithstanding, through the National Association of Insurance Commissioners (NAIC), the States are



working on a process to develop a group capital calculation which is designed to serve as an analytical tool for analyzing the solvency position at a group level of American companies. A different term is employed for this particular analysis (“group capital assessment” instead of “group capital requirement”) which will only be applied to American groups operating in the European Union and which they hope will prove sufficient to meet the conditions set out in Article 4 (h) of the Agreement, provided that the NAIC's work is completed within five days following the date on which the Agreement is signed.

It is important to highlight that this new Agreement has still to be ratified by American Congress and the European Parliament.

Tables: macroeconomic forecast scenarios

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

	Baseline scenario						Risk scenario					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
United States	1.7	2.6	2.9	1.5	2.1	2.4	1.7	2.6	2.9	1.5	1.8	0.6
Eurozone	-0.2	1.4	1.9	1.8	2.2	1.9	-0.2	1.4	1.9	1.8	2.0	1.1
Germany	0.6	1.9	1.5	1.9	2.0	1.8	0.6	1.9	1.5	1.9	2.0	1.2
France	0.6	0.6	1.3	1.2	1.4	1.7	0.6	0.6	1.3	1.2	1.3	1.0
Italy	-1.7	0.2	0.7	1.1	1.4	1.1	-1.7	0.2	0.7	1.1	1.3	0.2
Spain	-1.7	1.4	3.2	3.2	3.1	2.7	-1.7	1.4	3.2	3.2	2.9	1.9
United Kingdom	1.9	3.1	2.2	1.6	1.7	1.5	1.9	3.1	2.2	1.6	1.5	1.0
Japan	2.0	0.3	1.2	1.0	1.7	1.8	2.0	0.3	1.2	1.0	1.5	1.4
Emerging markets	5.1	4.7	4.2	4.1	4.5	4.8	5.1	4.7	4.2	4.1	3.8	4.3
Latin America¹	2.9	1.2	0.1	-1.0	1.1	2.0	2.9	1.2	0.1	-1.0	1.0	2.0
Mexico	1.6	2.3	2.7	1.9	2.5	2.2	1.6	2.3	2.7	1.9	2.0	0.2
Brazil	3.0	0.5	-3.8	-3.6	0.4	2.2	3.0	0.5	-3.8	-3.6	0.3	1.9
Argentina	2.4	-2.5	2.6	-2.2	2.5	2.9	2.4	-2.5	2.6	-2.2	2.4	3.1
Emerging Europe²	4.9	3.9	4.7	3.0	3.0	3.3	4.9	3.9	4.7	3.0	2.3	3.2
Turkey	8.5	5.3	6.0	3.3	4.1	3.4	8.5	5.3	6.0	3.3	3.2	3.4
Asia Pacific³	6.8	6.1	5.9	6.6	6.1	6.0	6.8	6.1	5.9	6.6	5.3	4.9
China	7.8	7.3	6.9	6.7	6.8	6.2	7.8	7.3	6.9	6.7	6.5	4.2
Indonesia	5.6	5.0	4.9	5.0	5.1	5.3	5.6	5.0	4.9	5.0	4.5	4.5
Philippines	7.1	6.1	6.0	8.0	6.5	6.4	7.1	6.1	6.0	8.0	6.0	5.4
World	3.4	3.5	3.4	3.1	3.5	3.6	3.4	3.5	3.4	3.1	2.4	2.0

Source: MAPFRE Economic Research

¹Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; ²Russia, Turkey, Community of Independent States (CIS) and Central Europe; ³Association of Southeast Asian Nations (ASEAN)
Forecast end date: September 25, 2017.

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

	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	1.6	1.9	1.2	1.2	0.4	1.8	1.6	1.9
Eurozone	0.8	0.2	0.2	0.7	1.2	1.5	0.8	0.2	0.2	0.7	0.9	0.6
Germany	1.3	0.5	0.3	1.1	1.5	2.0	1.3	0.5	0.3	1.1	1.2	1.3
France	0.8	0.1	0.3	0.7	1.4	1.3	0.8	0.1	0.3	0.7	1.0	0.5
Italy	0.6	0.1	0.2	0.1	1.5	1.2	0.6	0.1	0.2	0.1	1.2	0.4
Spain	0.1	-0.5	-0.3	1.0	0.9	1.8	0.1	-0.5	-0.3	1.0	0.3	0.7
United Kingdom	2.1	0.9	0.1	1.2	3.1	1.6	2.1	0.9	0.1	1.2	2.9	0.9
Japan	1.5	2.5	0.2	0.3	0.5	0.8	1.5	2.5	0.2	0.3	-0.3	0.4
Emerging markets	5.0	4.7	4.7	4.4	4.8	4.3	5.0	4.7	4.7	4.4	4.8	3.7
Latin America¹	4.5	5.0	6.2	4.6	4.2	3.7	4.5	5.0	6.2	4.6	4.2	2.9
Mexico	3.7	4.2	2.3	3.2	6.3	3.5	3.7	4.2	2.3	3.2	6.7	6.7
Brazil	5.8	6.5	10.4	7.0	3.0	4.5	5.8	6.5	10.4	7.0	2.9	3.7
Argentina	26.2	39.0	24.9	43.5	22.2	15.3	26.2	39.0	24.9	43.5	22.2	14.8
Emerging Europe²	3.8	3.4	3.9	4.2	5.8	5.4	3.8	3.4	3.9	4.2	5.5	5.0
Turkey	7.5	8.8	8.2	7.6	9.3	8.3	7.5	8.8	8.2	7.6	8.8	7.6
Asia Pacific³	4.8	3.8	2.4	2.6	2.9	3.5	4.8	3.8	2.4	2.6	3.4	3.1
China	2.9	1.5	1.5	2.2	1.7	2.3	2.9	1.5	1.5	2.2	1.8	2.7
Indonesia	8.0	6.5	4.8	3.3	4.1	4.2	8.0	6.5	4.8	3.3	4.0	3.1
Philippines	3.5	3.6	1.0	2.5	3.1	3.8	3.5	3.6	1.0	2.5	2.8	3.0
World	3.3	2.9	2.9	3.1	3.5	3.3	3.3	2.9	2.9	3.1	2.6	2.1

Source: MAPFRE Economic Research

¹Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; ²Russia, Turkey, Community of Independent States (CIS) and Central Europe; ³Association of Southeast Asian Nations (ASEAN)
 Forecast end date: September 25, 2017.

Table A-3
Baseline and risk scenarios: 10-year government bond yield
 (annual average, percent)

	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	2.28	2.53	2.75	2.28	2.19	2.13	2.21	1.49
Eurozone	2.96	1.50	1.19	0.93	1.18	1.75	2.96	1.50	1.19	0.93	1.05	1.41

Source: MAPFRE Economic Research
 Forecast end date: September 25, 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	0.74	0.80	0.91	0.93	0.83	1.00	0.74	0.80	0.91	0.93	0.80	1.00
EUR-USD	1.36	1.25	1.10	1.08	1.20	1.00	1.36	1.25	1.10	1.08	1.25	1.00
GBP-USD	1.62	1.58	1.52	1.24	1.31	1.34	1.62	1.58	1.52	1.24	1.32	1.36
USD-JPY	100.43	114.55	121.44	109.45	110.00	114.55	100.43	114.55	121.44	109.45	106.31	111.45
USD-CNY	6.09	6.15	6.39	6.83	6.63	6.50	6.09	6.15	6.39	6.83	6.71	6.62

Source: MAPFRE Economic Research
 Forecast end date: September 25, 2017.

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

	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	1.13	1.63	0.13	0.13	0.17	0.42	0.90	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
China	4.71	3.53	2.33	2.49	3.05	3.45	4.71	3.53	2.33	2.49	2.67	3.89

Source: MAPFRE Economic Research
 Forecast end date: September 25, 2017.

Index of charts and tables

Charts

Chart 1.1-a	Global: growth and inflation, 2010-17	12
Chart 1.1-b	Global: short and long-term interest rates, 1998-2017	12
Chart 1.2.1-a	United States: GDP breakdown and forecasts, 2014-18	15
Chart 1.2.1-b	United States: domestic demand breakdown and forecasts, 2014-18	15
Chart 1.2.2-a	Eurozone: GDP breakdown and forecasts, 2014-18	17
Chart 1.2.2-b	Eurozone: domestic demand breakdown and forecasts, 2014-18	17
Chart 1.2.3-a	Spain: GDP breakdown and forecasts, 2014-18	19
Chart 1.2.3-b	Spain: domestic demand breakdown and forecasts, 2014-18	19
Chart 1.2.4-a	Germany: GDP breakdown and forecasts, 2014-18	21
Chart 1.2.4-b	Germany: domestic demand breakdown and forecasts, 2014-18	21
Chart 1.2.5-a	Italy: GDP breakdown and forecasts, 2014-18	23
Chart 1.2.5-b	Italy: domestic demand breakdown and forecasts, 2014-18	23
Chart 1.2.6-a	United Kingdom: GDP breakdown and forecasts, 2014-18	25
Chart 1.2.6-b	United Kingdom: domestic demand breakdown and forecasts, 2014-18	25
Chart 1.2.7-a	Japan: GDP breakdown and forecasts, 2014-18	27
Chart 1.2.7-b	Japan: domestic demand breakdown and forecasts, 2014-18	27
Chart 1.2.8-a	Turkey: GDP breakdown and forecasts, 2014-18	29
Chart 1.2.8-b	Turkey: domestic demand breakdown and forecasts, 2014-18	29
Chart 1.2.9-a	Mexico: GDP breakdown and forecasts, 2014-18	31
Chart 1.2.9-b	Mexico: domestic demand breakdown and forecasts, 2014-18	31
Chart 1.2.10-a	Brazil: GDP breakdown and forecasts, 2014-18	33
Chart 1.2.10-b	Brazil: domestic demand breakdown and forecasts, 2014-18	33
Chart 1.2.11-a	Argentina: GDP breakdown and forecasts, 2014-18	35
Chart 1.2.11-b	Argentina: domestic demand breakdown and forecasts, 2014-18	35
Chart 1.2.12-a	China: GDP breakdown and forecasts, 2014-18	37

Chart 1.2.12-b	China: domestic demand breakdown and forecasts, 2014-18	37
Chart 1.2.13-a	Indonesia: GDP breakdown and forecasts, 2014-18	39
Chart 1.2.13-b	Indonesia: domestic demand breakdown and forecasts, 2014-18	39
Chart 1.2.14-a	Philippines: GDP breakdown and forecasts, 2014-18	41
Chart 1.2.14-b	Philippines: domestic demand breakdown and forecasts, 2014-18	41
Chart 2.1.2	Eurozone: risk-free yield curve	44
Chart 2.1.4	Turkey: risk-free yield curve	45
Chart 2.1.5	United States: risk-free yield curve	46
Chart 2.1.6	Brazil: risk-free yield curve	47
Chart 2.1.7	Mexico: risk-free yield curve	47
Chart 2.1.8	China: risk-free yield curve	48
Chart 2.2	The International Association of Insurance Supervisors' (IAIS) International Capital Standard (ICS) project: progress against main milestones	49

Tables

Table 1.2.1	United States: main macroeconomic indicators	15
Table 1.2.2	Eurozone: main macroeconomic indicators	17
Table 1.2.3	Spain: main macroeconomic indicators	19
Table 1.2.4	Germany: main macroeconomic indicators	21
Table 1.2.5	Italy: main macroeconomic indicators	23
Table 1.2.6	United Kingdom: main macroeconomic indicators	25
Table 1.2.7	Japan: main macroeconomic indicators	27
Table 1.2.8	Turkey: main macroeconomic indicators	29
Table 1.2.9	Mexico: main macroeconomic indicators	31
Table 1.2.10	Brazil: main macroeconomic indicators	33
Table 1.2.11	Argentina: main macroeconomic indicators	35
Table 1.2.12	China: main macroeconomic indicators	37
Table 1.2.13	Indonesia: main macroeconomic indicators	39
Table 1.2.14	Philippines: main macroeconomic indicators	41
Table A-1	Baseline and risk scenarios: gross domestic product	51
Table A-2	Baseline and risk scenarios: inflation	52
Table A-3	Baseline and risk scenarios: 10-year government bond yield	53
Table A-4	Baseline and risk scenarios: exchange rates	53
Table A-5	Baseline and risk scenarios: benchmark interest rate	53

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- 1/ <https://www.iaisweb.org/page/supervisory-material/insurance-capital-standard//file/67670/ics-goals-principles-and-delivery-process-updated-21-july-2017>
- 2/ https://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/US_Covered_Agreement_Policy_Statement_Issued_September_2017.pdf
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