

A low-angle photograph of several tall skyscrapers reaching towards a clear blue sky. In the foreground on the left, the branches of trees with yellowing autumn leaves are visible. The sun is shining brightly, creating a lens flare effect. The buildings have glass facades that reflect the sky and each other. A white rectangular box is overlaid on the right side of the image, containing text.

Fundación **MAPFRE**

**2018 ECONOMIC AND
INDUSTRY OUTLOOK:
THIRD QUARTER
PERSPECTIVES**

MAPFRE Economic Research

2018 Economic and Industry Outlook: Third Quarter Perspectives

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Contents

Executive Summary	9
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1. Economic outlook

1.1	World economic outlook: same growth, less synchrony and more risks	11
1.1.1	Monetary policy.....	12
1.1.2	Volatility in emerging market currencies	12
1.1.3	Risks and global governance	12
1.1.4	Global tariff escalation	15
1.2	Forecasts and risk assessment in selected economies	20
1.2.1	United States	20
1.2.2	Eurozone	22
1.2.3	Spain	24
1.2.4	Germany.....	24
1.2.5	Italy.....	27
1.2.6	United Kingdom	29
1.2.7	Japan.....	29
1.2.8	Turkey	32
1.2.9	Mexico	34
1.2.10	Brazil.....	36
1.2.11	Argentina	38
1.2.12	China	40
1.2.13	Indonesia.....	40
1.2.14	Philippines	43

2. Industry outlook

2.1	The economic outlook and its impact on the demand for insurance: update and forecast	45
2.1.1	Global markets	45
2.1.2	Eurozone.....	45
2.1.3	Spain	47
2.1.4	Turkey	48
2.1.5	United States	49
2.1.6	Brazil.....	50
2.1.7	Mexico	51
2.1.8	China	53
2.2	Regulatory trends: new aspects in the quarter	54

Tables: macroeconomic forecast scenarios	65
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Index of charts, tables and boxes	69
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References	73
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Executive Summary

2018 Economic and Industry Outlook: Third Quarter Perspectives

The resilience of the global cyclical momentum can be noted in the beginning of the second half of 2018, with economic activity remaining near its potential and with similar contributions between emerging and developed markets. Furthermore, this activity is occurring alongside pressure on prices and with slight but noticeable changes in the global monetary bias.

However, the cyclical momentum is more fragile and faces more risks than in the previous quarter, and requires consideration to be given not to the changes in the upcoming cycle change, which is taken for granted, but rather to the nature and intensity of how this cycle change may come about.

Global economic growth has lost its coordination and is led primarily by the impulses of demand, especially in the United States, which has extended the momentum it reached at the end of 2017 at the expense of extending imbalances such as leverage, increasing current and fiscal deficits and inflation of certain assets, while other regions are beginning to display symptoms of exhaustion (the eurozone, and to a lesser extent China).

The cyclical differences also equate with nominal differences, both in the monetary policy bias and in exchange trends that in general are keeping the dollar temporarily and moderately above its fundamentals (overpriced).

The US economy has become the ultimate driver of global momentum, but it is also the most likely focus of potential shocks that may transform our base scenario of global cyclical deceleration into a risk scenario.

In this regard, the beginning of volatility in the trade policy of the United States, together with pressures on crude oil prices, may become the catalyst of a global growth adjustment, while increasing pressures on monetary policy and a more expensive dollar may cause global economic conditions to harden, to the detriment of those countries most dependent on that currency.

These same countries, especially some of the emerging ones, are the ones that have seen the greatest volatility in their exchange rates during the first half of the year, indicating the possible catalyst of a global shock originating in the United States but transferred to their economies through the balance of payments.

In the final analysis, we are witnessing a global momentum that is still buoyant but clearly at the end of its cycle, with the economy of the United States leading the trend while also contributing to global risks that may transform the global scenario into one marked by a sudden adjustment.

Insurance markets

The strength in economic activity allows us to continue to be optimistic regarding the development of the insurance business worldwide, although the loss of synchrony and increased uncertainty in some emerging economies (such as Argentina, Turkey or Brazil) and the impact of monetary easing on developed countries may alter the outlook in the coming quarters.

The easing of monetary policy and protectionist measures in the United States have reinforced this uncertainty, but for the moment they have not affected markets and world trade for the most part. The environment continues to be favorable for the Non-Life and Life risk segments of the insurance industry. However, the flattening that is occurring in interest rate curves, a steeper rise than initially forecast and the expectations of interest rate increases themselves are detrimental to Life savings and annuities.

Furthermore, lax monetary policies are still being pursued by the central banks of the eurozone and Japan. The unremitting interest rate environment in these economies continues to drag down development of the Life savings and annuities lines of business.

In Spain, estimated economic growth for the entire year will incur a slight slowdown compared to the previous year. Nevertheless, expectations continue to be optimistic for the development of Non-Life and Life risk lines of business, with continuing strong consumption, supported to a large extent by the expansion of credit. Trends in the real estate market also favor development of these segments of the insurance business.

As for major regulatory trends, it should be noted that the European Insurance and Occupational Pension Authority (EIOPA) published its stress test technical specifications in May, which more than forty European insurance groups participate in. The results of the stress test are expected to be published at the end of this year.

Lastly, on June 25, 2018 the deadline was reached for the presentation of the second Solvency and Financial Condition Report (SFCR) of insurance groups in the European Union. This report includes a study of the components and behavior of its solvency ratios for 2017 based on this information, along with a comparison with 2016.

1. Economic outlook

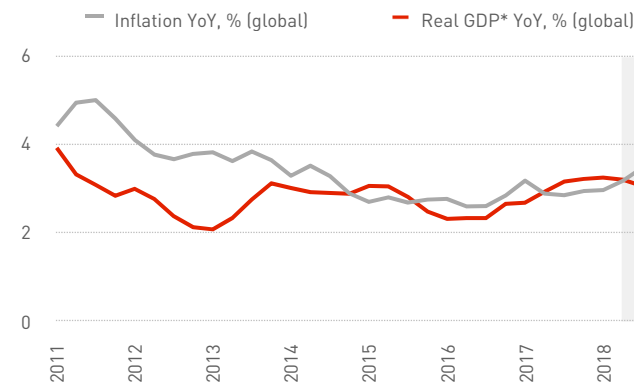
1.1 World economic outlook: same growth, less synchrony and more risks

Global economic growth has continued during the second and third quarter of the year, vindicating our forecast for the business environment that we made in our last report (3.8% YoY) and with similar contributions between developed and emerging markets (Chart 1.1-a). However, this growth in economic activity obscures two warning signs. The first one, that growth is less synchronized and widespread and depends precariously on the economy of the United States, which is maintaining its growth rate based on demand stimuli. And the second one, that growth is feebler, given the evidence of the next and nearest cycle change in a context of increasing risk, especially tied to the United States.

Economic activity continues to remain strong at worldwide level, despite signs of fatigue. On the one hand, the United States and China remain on the growth path, but signs of deceleration in Europe in the first quarter of the year are materializing at the same time that the loss of synchrony in growth in the developing world is becoming obvious (only Latin America and raw material-producing countries show accelerated growth).

It was in this context that petroleum reached 75 USD/bbl after the decrease in inventories, sanctions against Iran and the supply problem in Venezuela.

Chart 1.1-a
Global: growth and inflation,
2011-2018



Source: MAPFRE Economic Research (with Bloomberg data)
* GDP increase without PPP

Chart 1.1-b
Global: slope of interest rate curve
(10y - 3m rate), 2000-2020



Source: MAPFRE Economic Research (with Bloomberg data)

The United States in turn called for Saudi Arabia and Russia to agree on a production increase to counteract its effect. The price of Brent closed June at 79 USD/bbl, but no new increases are expected for the rest of the year.

1.1.1 Monetary policy

The reduced synchrony in global growth is also evident in terms of monetary bias, underlining the upward bias of the United States and a part of the emerging markets with the still accommodating tone of Europe and Japan.

Expectations of inflation are on the rise, in line with the resilience in the increase in petroleum prices to date, and although the underlying inflation has been contained for the time being, it is expected that sooner or later it will be impacted by the effects of the second round. In this regard, the US Federal Reserve raised benchmark interest rates by 25 basis points (bps), placing them in the range of 1.75-2.00%. The market is expecting an additional rate increase this year, probably a 60% increase in September and/or a 40% one in December (Chart 1.1-b). This factor, together with the stress observed in some emerging economies, has resulted in several central banks also raising interest rates (Turkey, Argentina, Indonesia, Mexico) or else, as a preventive measure, declining to lower them as previously planned (Brazil), coinciding with the new alignment mentioned above between the United States and some emerging markets with a neutral/restrictive bias, and the eurozone, Japan and other emerging markets (Europe and Asia) with a lax/neutral tone.

The second quarter of the year was marked by political volatility, with considerable ostensible effects on financial variables and reactions in monetary policy. These reactions were abetted by increases that were more aggressive than expected in United States benchmark interest rates strengthening the dollar against the euro (the exchange rate closed the

second quarter below 1.17), as well as against the currencies of some emerging countries whose central banks had to act in defense of their currencies faced with domestic and external shocks. Increases in risk premiums and higher tax charges displaced market interest rates in Argentina, Brazil, Turkey and Italy, aggravating the uncertainty hovering over these economies in the short term.

1.1.2 Volatility in emerging market currencies

The second quarter of 2018 experienced two severe exchange rate adjustments leading to depreciations greater than 20% and 40% in Turkey and Argentina respectively, marking a path diverging from the depreciation trend in emerging market currencies¹. It appears that these divergent depreciations may originate in one-off shocks and the amplifying effects resulting from serious misalignments in the balance of payments for those two countries that we believe do not apply to the other emerging markets (see Box 1.1.2).

Along similar lines, the central banks of both countries (Argentina and Turkey) reacted with aggressive increases to control outflows and stabilize their currencies. Despite the severity of the adjustment, the positive outcome is that almost all the emerging market currencies are aligned with their fundamentals. The Brazilian real lost about 15% during the quarter, largely brought about by a contagion effect from Argentina and not due to political uncertainty, which apparently was already discounted.

1.1.3 Risks and global governance

The United States has established itself as the potential focus of most of the shocks having global impact that dominate the most probable list of hypothetical future risk scenarios. With regard to this:

Box 1.1.2 Emerging country exchange rate volatility and balance of payments

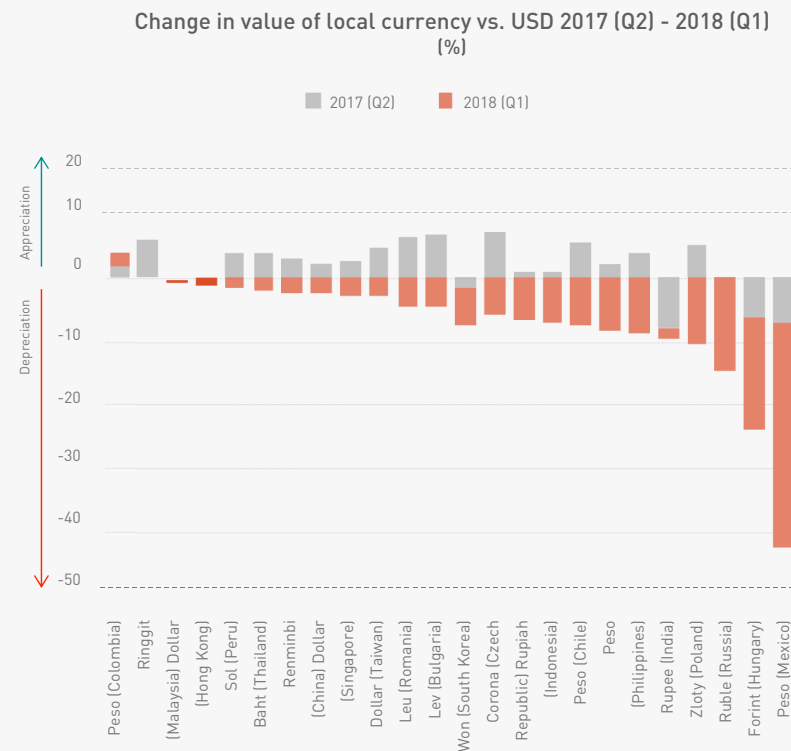
Following the volatility in exchange rates occurring in the first two quarters of the year, it's clear how this has affected countries unevenly, depending on the unique characteristics of each one. Taken together, these characteristics can be brought together into three large groups of countries that have sustained similar changes in their exchange rate:

1. Countries where the exchange rate remained stable and even appreciated.

- The exchange rate for Asian countries, Poland and Russia remained constant throughout the cycle.
- Their increases in productivity were expressed in real appreciation in their exchange rates.
- They are countries with healthy balances of payment characterized by: current surpluses, savings exporters, a net international investment position (NIIP) close to 0 and ample liquidity.

2. Countries sustaining slight depreciations.

- This group of countries includes the majority of Latin American and Emerging Europe currencies (excluding Argentina, Venezuela and Turkey).
- These countries have sustained real depreciation in their exchange rates due to loss of productivity and increasing inflation, although they have not been exceeded (overshooting).



Source: MAPFRE Economic Research (with Bloomberg data)

[Click here to access the interactive version of this information](#)

Box 1.1.2 (conclusion)
Emerging country exchange rate volatility
and balance of payments

- However, the adverse effect of productivity and liquidity is mitigated by the healthy status of balance of payments, characterized by: deficits close to equilibrium, negative but stable NIIP and deficit financing with stable direct foreign investment flows.

3. Countries sustaining serious depreciations.

- This group primarily includes countries like Argentina and Turkey. These countries are characterized by suffering strong real depreciation in their exchange rates coupled with high levels of inflation.
- This is due to the effect of overshooting as well as a deteriorated balance of payments: a deficit that is twice that of equilibrium, falling NIIP, unstable deficit financing, erosion of international reserves and critical liquidity position.

Hence, although it is true that there are measures ("tapering" by the US Federal Reserve) that result in depreciation in most of the currencies of the various emerging nations, the effect is not identical across them all. It can be seen that structural factors and the balance of payment structure become key factors when determining the trend in these countries and their exchange rate.

Based on the above, it is conceivable to expect major adjustments in emerging market currencies like those of Argentina and Turkey, but more limited adjustments in other currencies such as Brazil's or Mexico's.

- a) It has promoted a return to protectionism based on the tariff spiral against China and Europe, fundamentally (see Box 1.1.4) what now appears to be our most probable alternative global alternative scenario (albeit not more severe).
- b) Various geopolitical events have made a noticeable contribution, as well as possibly the setting of petroleum prices with the promotion of sanctions against Iran on the one hand and the quota increase by the Organization of Petroleum Exporting Countries (OPEC) on the other. As a result, volatility in petroleum prices has increased by 50%.
- c) The concept has surfaced that the underlying inflation merits a more restrictive monetary bias, provoking volatility and higher tension in global financial conditions (with the appreciation of the dollar and increase in exchange rates).
- d) The slope of the interest rate curve is virtually flat, predicting an imminent change in the global cycle in a context in which its growth is what is directing the current path (which is confirmed by our alternative scenario).

Furthermore, global political risk is not abating. The case of Italy stands out in Europe, which ended up forming an unorthodox government with the union of M5S and the LN. Although the risk of convertibility has retreated with the commitments of both representatives, uncertainties and traces of instability remain with the election promise to increase public spending (and unbalance the budget). The risk premium for Italy has not returned to its pre-election levels. Spain has also seen an increase in its risk premium during this period. It's not clear whether it is a symptom of risk contagion spreading from Italy or a result of concerns about the viability of the Social Democratic government currently in power in Spain after the no-confidence vote of the previous government.

The political cycle continued in emerging nations as well. The coalition put forward by Andrés Manuel López Obrador in Mexico achieved victory by a wide margin, which it appears will give him a majority in both the Chamber of Deputies and the Senate. Turkish elections took place a week prior to that, giving the presidency and control of the government (together with the MHP) to the AKP until 2023. However, a majority qualified to reform the constitution was not returned in either case, for the time being. Iván Duque achieved victory one month earlier in the elections in Colombia, maintaining the established Uribeist path in the country. The next elections will be held in Brazil (first round on October 7 and the second on the 28th of the same month), with uncertainty about the possible candidates.

1.1.4 Global tariff escalation

We have experienced a new wave of administrative and tariff impositions over the last few weeks that have been added to the international trade restrictions accumulated since the end of 2016².

After the unofficial announcement (via Twitter, 07/11/2018) of the Trump administration regarding the imposition of tariffs starting in September and the response of China, and the new additional measures imposed by the United States (see Box 1.1.4), the markets have reacted as expected to the message of the potential cost of the measure (between 0.5% and 1.75% of the global accumulated GDP to 2020³ and a reduction in accumulated global trade slightly below 4% based on consensus estimates). The following have been noted in this regard:

- a) A more pronounced flattening of the global interest rate curve, which has lost over 100 bps since the end of 2016 and accelerating during the last few months, coinciding with the recessive signal that might be read if the curve were reversed.

- b) A dollar 5% stronger against the euro in the long term, much more than was considered before the tariff escalation.
- c) An increase in steel and aluminum prices in the commodity derivatives market that will no doubt translate into global inflation (initial aluminum price quotes in two years expected to be 21% higher).

While acknowledging that this predicates a reverse of the gains in the worldwide economic order from globalization that will not be without cost in terms of growth, inflation and distribution of income in the medium and long terms, the short-term effects are uncertain, uneven and in any event contingent on specific baseline conditions in each country. Only one short-term conclusion can be drawn regarding tariff escalation: in terms of costs, it will affect China and benefit the United States. Otherwise it wouldn't be implemented.

These measures must be viewed in the context of the formulation of the other economic policy measures (fiscal, financial and trade) of the United States, as they complement each other. Whether or not costs for other countries will aggravate or dilute the transitional effect of a shock like this will depend on two key factors: (i) the exemption level of its strategic partners⁴ (e.g. the temporary exemptions granted for Mexico and Canada⁵), and (ii) the results of each individual macroeconomic situation.

An analysis of these results is timely. First of all, it is important to emphasize that tariffs have certain effects on the economy:

- a) They affect activity, income and growth levels. Duties increase import costs, and by extension inflation. This results in a decrease per se of actual disposable income, as well as consumption and investment.

Box 1.1.4 Planned tariff measures in the international sphere

Synopsis of measures

- **The United States:** The Trump administration set tariffs of 25% in the beginning of 2018 on imports of steel and 10% on aluminum on countries like China, Russia, India, Japan and Turkey. The measure was extended to the European Union, Canada and Mexico, which in principle were exempt, at the end of May.
- **China counterattacks:** The Chinese government is imposing tariffs on US imports in the area of 3 billion dollars.
- **More tariffs by the United States:** New tariffs of 10% on products imported from China worth 200 billion dollars, and 25% tariffs on technology products from China at a value of 50 billion dollars.
- **India:** Plans to introduce tariffs on 30 products from the United States starting August 4, valued at 240 million dollars.
- **Turkey:** Plans to impose tariffs worth 267 million dollars on products from the United States.
- **European Union:** The European Union (EU) imposed tariffs worth 2.8 billion euros on a list of products from the United States. It will apply a duty of 25% on all products.
- **Russia:** Will be introducing “compensatory measures” in retaliation against US products, at an estimated value of 537.6 million dollars.

- **Japan:** Informed the World Trade Organization (WTO) that it may impose tariffs on US products in the amount of 451 million dollars.
- **Canada:** Imposing duties on items from the United States in the amount of 16.6 billion Canadian dollars (12.5 billion dollars).
- **Mexico:** Imposed import duties on agricultural products and materials made of steel from the United States.

Breakdown of the costs of the global tariff escalation by country

China

It is forecast that China's GDP will decrease by 0.7% between now and 2020 due to the current trade war. The United States only represents about 20% of China's exports; exports from China to the rest of the world will not be affected.

China has a strategy drawn up in documents as “Made in China 2025” for advancing toward the technological frontier where they can compete with Honda, Hyundai, Boeing and Airbus. But there is some uncertainty about what will happen in the application of the tariffs, for two reasons:

- As the United States has no monopoly on technology, China can continue to pursue technology transfer opportunities from other countries, especially the advanced manufacturing capacities of South Korea, Taiwan and Japan.
- The trade commitment of the United States in China is tremendous and

Box 1.1.4 (conclusion)
Planned tariff measures in the international sphere

multifaceted. US companies are constantly looking for opportunities to exploit Chinese demand and pay a price for technology transfer.

United States

Steel and aluminum imports total about 75 billion dollars in 2017, less than 3% of all imports of goods and services. A price increase of 25% for steel and 10% for aluminum would push prices to mid-2008 levels, a period in which producer prices were rushing to a peak of 4.5%, compared with almost 2% in the beginning of 2018. If the current tariffs (which include solar panels, washing machines, aluminum and steel) remain limited, the adverse economic consequences will be slight and manageable. The tariffs have not noticeably affected American businesses; many of them have increased domestic production, and employment has not been affected to any significant extent.

Europe

EU steel destined for the US represents less than 0.1% of GDP of the trade bloc, and no economy within the EU has any exposure greater than 0.3%. Lower exports to the United States will not affect GDP on an individual basis either. Iron imports will be lower; alternative markets can be found and some products will be highly specialized, resulting in some US buyers having to pay the higher price. Aluminum exports represent less than 0.01% of GDP for the region. It is estimated that if the United States implements measures to increase import costs by 10% and the rest of the world responds in kind, Europe's GDP may be 0.2% lower by 2020.

Mexico

US Protectionist tariffs have had little impact on Mexican exports, which continue to benefit from high US demand and the weak peso. However, the measures have definitely contributed to an increase in uncertainty regarding the future of bilateral relations, and this is slowing down investment and growth. Some domestic and foreign companies have decided to cut back, delay or cancel investment plans while the future of bilateral relations between the United States and Mexico are being decided. Private investment in machinery and transport equipment has dropped off. In addition, the Bank of Mexico has implemented more restrictive monetary and fiscal policies to limit risks and volatility from possible changes. Private investment in Mexico has historically benefited from stronger economic growth in the United States.

Japan

A trade war would be damaging but probably not disastrous for the Japanese economy. Growth would be reduced by 0.2 percentage points (pp) this year and 0.3 pp in 2019, with a total impact of 0.6% of GDP by 2020, primarily through the effect on global supply channels, since the US duty on Japanese steel may affect individual companies but the overall effect on the economy would probably be negligible. Japanese steel imports to the United States was only 5%, whereas steel imports from Japan to Thailand and Mexico doubled in 2017. This would indicate that the risk to the Japanese steel industry from the application of US duties is focused on the supply chain rather than demand in the United States itself.

- b) They distort monetary policy, creating incentives to tighten it without the demand factors that would require it (in fact, the activity level may drop), although this depends on the individual tolerance for inflation in each country.
- c) They affect external positions (current accounts), as they may contribute to reducing trade deficits if the country has the capacity to substitute imports, or it may increase them if this is not the case and these costs are transferred to the current account. Tariff changes directly affect bilateral exchange rates (which usually absorb increments by depreciating the currency in the case of relatively small economies) and indirectly realign trade balances, although the first effect is immediate and the second takes longer to materialize.

In turn, the effects of the implementation of tariffs depend on three factors:

- a) The transition time.
- b) Exemptions from new tariff regimes (such as the temporary ones for Mexico and Canada).
- c) The starting position of each country in specific indicators:
 - Type and extent of trade integration with the United States. At one extreme, Mexico and Canada are strongly integrated (affected), and at the other, there are small countries that are highly integrated in some other trade region; this latter group benefiting the most (such as new members of the European Union (EU), Denmark and even Spain).

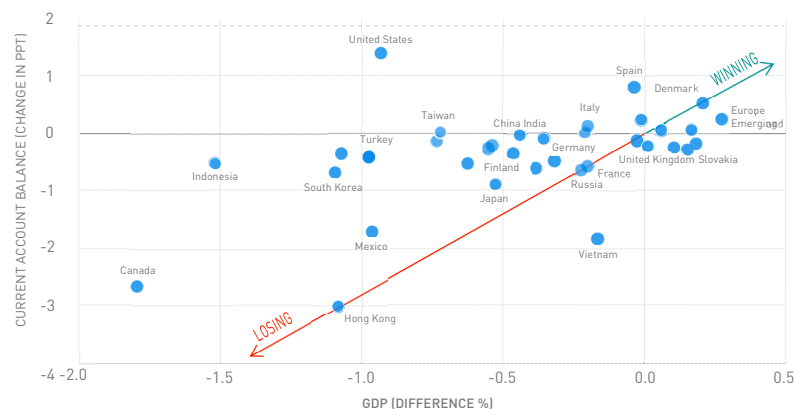
- Capacity to substitute imports. The larger the economy involved, the greater will its capacity for replacement will be, given the expected larger production structure. Spain is a good example of the capacity to replace US imports with European or domestic ones.
- Economies with higher or lower tolerance for inflation. Countries with a low tolerance for inflation will see new interest rate increases to counteract it.
- The existence of current relevant imbalances (public and/or private debt, current account deficits). Countries with the capacity to substitute imports (the United States, Spain) may reduce current imbalances, and furthermore, countries with a tolerance for inflation may benefit from the reducing effect on public and private debt.

Winners and losers in the short term

These effects and the characteristics of their baseline constitute a lopsided universe of winners and losers in the new tariff environment. From the point of view of its external position and growth, the world could be divided as illustrated in Chart 1.1.4, giving rise to counterintuitive results (in the sense that not all countries lose due to tariff measures). Overall, the spectrum of winners and losers could be as follows:

- **Benefiting countries.** Those countries that are heavily integrated in another trade region, especially if they can substitute imports and have a toleration for inflation that in some cases may help reduce domestic and external imbalances (debt and financing needs). Clear examples of this group would be Spain, Denmark and the new members of the EU, and to a certain extent the United Kingdom.

Chart 1.1.4
Change in value of local currency vs. USD in %, 2017 (H2) - 2018 (H2)



Source: MAPFRE Economic Research (with Bloomberg data)

- **Losing countries.** Those countries heavily integrated with the economy of the United States, which are relatively small, and display low tolerance for inflation and current account imbalances. Examples of this second group would be Mexico, the countries of Central America, Canada and South Korea.

In the center of the cost spectrum for the tariff onslaught you find the United States and China, the origin of the measure. On one hand, the United States is an economy whose situation explains its tariff policy decision. It is estimated that the bilateral movement against China will cost it 1% of accumulated growth to 2020, but this will occur in a context in which it will be experiencing a tax stimulus that will provide between 0.5% and 0.7%

growth, resulting in the effect on growth being relatively limited. On the contrary, it will have a positive effect on two elements that are currently its Achilles' Heel:

- 1) Reducing its current account deficit by redirecting exports to the domestic market and causing a relative rise in its currency.
- 2) Generating inflation, resulting in a situation in which public and private debt cannot be reined in in a context where interest rates are limited without significantly reducing the cost of expanding its public debt (the rest of the world paying for its tax stimulus).

Furthermore, China will see a moderate decrease in growth since it cannot substitute products with a high technology component and depends on US market demand for a large part of its exports. But the slower growth rate is not dramatic, and in any event the estimated 0.5% lower growth in GDP is already written off, given the tax stimulus and the implementation of its upcoming global commercial structure (*the One Belt One Road Project*). The impact on its current account is difficult to determine in the context of a current account closed to the rest of the world and US dollar reserves of almost 4 trillion. The consensus view is a neutral effect, and in any case their exchange rate does not respond to factors like this but to a national policy program.

Conclusion

Although the protectionist measures implemented by the United States in imposing tariffs will have a negative effect in the long term, it cannot be asserted that they will involve a cost for all countries in the medium and short term, which seems to fly in the face of common sense, given that their final effect will depend on various factors such as trade integration with the United States, the capability to replace imports and the starting

point for inflation and the current account, all elements that in some cases may amplify the negative effect of this shock, while in others may result in a positive effect.

Indeed, its effect works itself out within the context of the other economic and legal measures that the United States has implemented and that seek to recover the power of bilateral negotiation, improve its position internationally and limit the development of nominal imbalances, so nobody can consider it an error in the short term for that country, while it also earns political capital in the midterms elections to Congress in 2018. As for China, the effect is difficult to interpret, although the economic cost is clearly sustainable. Unfortunately, the cost of the measure will be borne by other countries that have no involvement in the motives for the tariff.

1.2 Forecasts and risk assessment in selected economies

1.2.1 United States

Settling up its position in the economic cycle

The US economy grew year-on-year by 2.8% in the first quarter, and all indicators point to this growth continuing during the second quarter of the year, promoting a total expected growth for the year of 3%, indicating a slight upward

- **Economic growth is accelerating in the United States, but there are medium-term symptoms of cycle change.**
- **All indicators support abandoning monetary neutrality.**
- **The principal risks to the US economy may originate in these very measures.**

revision compared to our previous report (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b).

All indicators are pointing to the end of a cycle: full employment in the economy (3.8% unemployment), output gap in negative terrain, the interest rate curve slope the lowest it's been in a decade, corporate profits are slowing down and indications show that salary growth is maturing. We stand by the view expressed two years ago that 2018 will mark the start of a new cycle.

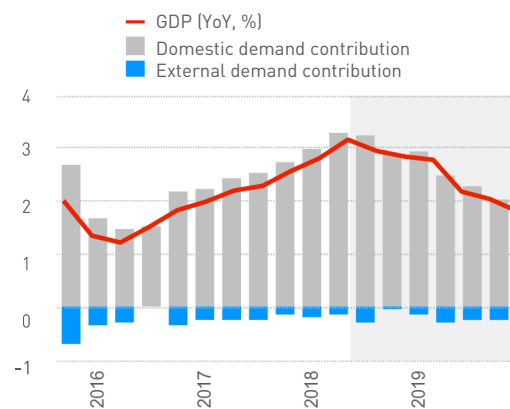
Inflation for June was at 2.9% and underlying inflation at 2.3%, indicating that the inflation target has been reached. This factor confirms the view of the Federal Reserve about the hardening of monetary conditions that has unleashed a reversion of global cash flows and the appreciation of the dollar.

The key interest rate is currently sitting in neutral terrain (1.75-2.00). We anticipate one more increase this year and two increases in 2019. We have not changed our view about the natural rate, which is currently at 3%, attainable between 2019 and 2020.

The current divergence in monetary bias between the Federal Reserve and the European Central Bank (ECB) has caused us to revise our outlook for the USD/EUR exchange rate compared to what we stated at the end of 2017, setting it slightly below 1.20 by the end of 2018. This outlook is transitional, responding to the cyclical situation and the divergence in monetary bias between the Federal Reserve and the ECB. It should be noted that we estimate the equilibrium exchange rate to be approximately 1.25 USD/EUR.

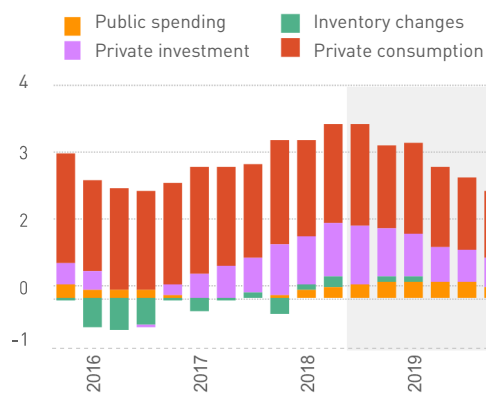
The tax stimulus is beginning to show its results, extending the buoyant cyclical momentum of the US economy. However, the tariff war will take away part of this stimulus, but on the other hand, it will correct various

Chart 1.2.1-a
United States: GDP breakdown
and forecasts



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

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



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

Table 1.2.1
United States: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	1.7	2.6	2.9	1.5	2.3	3.0	2.2
Domestic demand contribution	1.4	2.3	3.6	1.7	2.5	3.1	2.4
External demand contribution	0.3	0.3	-0.7	-0.2	-0.2	-0.2	-0.2
Private consumption contribution	1.0	1.9	2.5	1.9	1.9	1.8	1.5
Investment contribution	0.6	0.6	0.7	0.1	0.7	1.0	0.7
Contribution made by public spending	-0.4	-0.1	0.2	0.1	0.0	0.2	0.3
Domestic demand (% YoY, average)	1.3	2.7	3.5	1.7	2.4	3.0	2.3
Total consumption (% YoY, average)	0.8	2.3	3.2	2.4	2.3	2.4	2.1
Private investment (% YoY, average)	3.0	4.8	3.6	0.6	3.4	4.9	3.2
Exports (YoY in %)	3.5	4.3	0.4	-0.3	3.4	4.4	2.6
Imports (YoY in %)	1.1	4.5	5.0	1.3	3.9	4.5	3.6
Unemployment rate (% , last quarter)	6.9	5.7	5.0	4.7	4.1	3.7	3.7
Inflation (% YoY, last quarter)	1.2	1.2	0.4	1.8	2.1	2.4	1.9
Fiscal balance (% of GDP)	-5.4	-4.8	-4.4	-5.0	-4.8	-5.5	-5.8
Trade balance (% of GDP)	-4.4	-4.5	-4.4	-4.2	-4.3	-4.4	-4.5
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-2.1	-2.1	-2.4	-2.4	-2.4	-2.9	-3.1
Official interest rate (end of period)	0.13	0.13	0.38	0.63	1.38	2.25	3.00
Short-term rate (end of period)	0.25	0.26	0.61	1.00	1.69	2.79	3.21
Long-term rate (end of period)	3.04	2.17	2.27	2.45	2.40	3.15	3.26
Exchange rate vs. USD (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Exchange rate vs. euro (end of period)	1.38	1.21	1.09	1.05	1.20	1.19	1.25
Private lending (% YoY, average)	7.7	7.7	2.3	3.5	5.2	3.7	4.1
Household lending (% YoY, average)	0.8	2.4	2.4	2.6	3.7	5.3	5.5
P.S. non-financial lending (% YoY, average)	3.3	4.8	5.7	5.5	6.1	5.8	4.6
P.S. financial lending (% YoY, average)	2.2	2.9	2.2	4.1	3.3	3.0	2.3
Savings rate (% , average)	5.0	5.7	6.1	4.9	3.4	3.0	3.0

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

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imbalances that currently make up the Achilles Heel of the US economy: debt and current account deficit (see Box 1.1.4).

The largest risks to the economy of the United States are those derived from its own measures, rising interest rates, the tariff war and the reaction of the markets to some positive real interest rates and the high dollar, factors that may blow up in the medium term, given the cycle change.

1.2.2 Eurozone

The relative economic downswing continues

Expectations for activity in the eurozone indicate a relative downswing. The Growth Expectations Index (ZEW) was in negative territory in June (-12.6), while industrial production moved together with it, dropping to +1.7%; indicators that attest to the slowdown in growth in the second quarter to 2.1% from 2.5% in the first quarter.

- **Deceleration and gradualism in activity and underlying inflation in the eurozone.**
- **The ECB is sticking with its original script on its monetary policy; the euro depreciates against the dollar.**
- **Risks for the eurozone appear to involve politics and foreign relations, not sovereign.**

So lower domestic demand combined with lower expectations for disposable real income and predicted restrictions on global trade have led us to revise our current GDP prediction for the entire year to 2%, lower than our previous figure (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b).

Inflation in the eurozone rose to 2.0% in June, basically due to movement in the price of oil. However, underlying inflation was set at 1%. This supports the gradualist approach to monetary normalization of the ECB, which stated again that there will be no interest rate increases until the bond purchase program is completed (presumed to be the third quarter 2019).

Predictions indicate an initial rise in the REFI rate between the third and fourth quarter of 2019. Official interest rates are following current levels (0.0% refinancing rate and -0.40% deposit rate), at least until the summer of 2019, and in any event for long enough to ensure that inflation remains stabilized around the 2% target.

In its meeting on June 14, the ECB confirmed its intent to continue net purchases of assets at the current rate of 30 billion euros per month until the end of September 2018. The Central Bank will also continue its policy of reinvesting the principal on bonds reaching maturity during an extended period after the end of the net purchases of assets, and in any event for as long as necessary to maintain favorable liquidity conditions and a heightened level of monetary accommodation. This refers to the planned adjustments in agreement with the monetary easing schedule announced a year ago.

With the issue of exiting the euro off the public agenda in Italy for the time being, the major threat to destabilizing the region is political activity, especially regarding migration crises. Economic policy decisions and their effects still remain to be seen. The other main source of concern is the escalation of the tariff war with the United States (see Box 1.1.4), which may hamper growth over the medium term up to 2020.

Chart 1.2.2-a
Eurozone: GDP breakdown
and forecasts

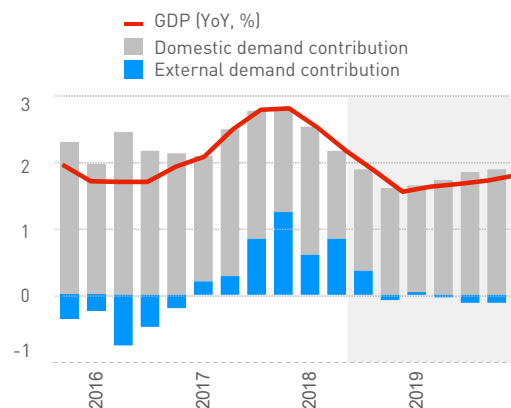


Chart 1.2.2-b
Eurozone: domestic demand breakdown
and forecasts

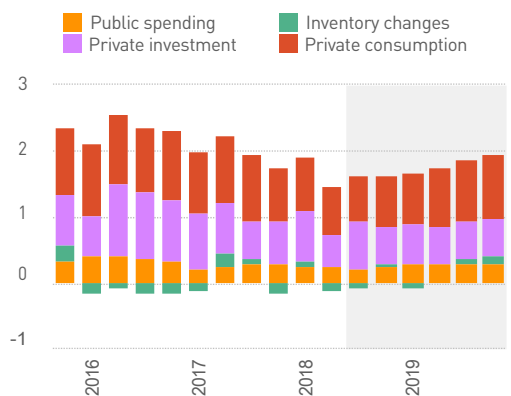


Table 1.2.2
Eurozone: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	-0.2	1.4	2.0	1.8	2.6	2.0	1.7
Domestic demand contribution	-0.6	0.8	1.8	2.2	1.9	1.6	1.8
External demand contribution	0.4	0.6	0.1	-0.4	0.7	0.4	-0.0
Private consumption contribution	-0.3	0.5	1.0	1.0	0.9	0.8	0.9
Investment contribution	-0.5	0.1	0.6	0.9	0.7	0.6	0.6
Contribution made by public spending	0.1	0.2	0.3	0.4	0.2	0.2	0.3
Domestic demand (% YoY, average)	-0.6	1.3	1.9	2.3	2.0	1.7	1.9
Total consumption (% YoY, average)	-0.3	0.8	1.6	1.9	1.6	1.3	1.5
Private investment (% YoY, average)	-2.4	1.8	3.1	4.5	3.5	3.0	2.8
Exports (YoY in %)	2.2	4.6	6.2	3.3	5.5	4.0	3.6
Imports (YoY in %)	1.4	4.9	6.5	4.6	4.5	3.4	4.0

Unemployment rate (% , last quarter)	11.9	11.4	10.5	9.7	8.7	8.2	7.7
Inflation (% YoY, last quarter)	0.8	0.2	0.2	0.7	1.4	2.1	1.4
Fiscal balance (% of GDP)	-3.0	-2.5	-2.0	-1.5	-0.9	-0.7	-0.8
Trade balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax boost (% GDP)	-0.2	0.1	0.3	0.6	1.1	1.3	1.2
Current account balance (% of GDP)	2.2	2.5	3.2	3.6	3.5	3.3	3.1
Official interest rate (end of period)	0.25	0.05	0.05	0.00	0.00	0.00	0.25
Short-term rate (end of period)	0.29	0.08	-0.13	-0.32	-0.33	-0.38	-0.21
Long-term rate (end of period)	2.96	1.34	1.20	1.04	0.91	1.66	1.91
Exchange rate vs. USD (end of period)	1.38	1.21	1.09	1.05	1.20	1.19	1.25
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r

Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	-0.6	-0.2	0.8	1.5	2.4	4.1	4.3
P.S. non-financial lending (% YoY, average)	-1.8	0.5	7.7	1.3	0.7	1.9	2.8
P.S. financial lending (% YoY, average)	-0.4	6.7	19.1	2.4	-0.6	-0.5	2.3
Savings rate (% , average)	12.5	12.7	12.5	12.2	12.0	11.9	12.0

Source: MAPFRE Economic Research (based on ECB data)
Forecasting end date: July 20, 2018

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1.2.3 Spain

Maintains drive but headwinds are picking up

The Spanish economy grew 3% YoY in the first quarter of 2018, which continues to be strong for Europe, although it is noted that the growth rate is starting to abate. Factors contributing to this strength were private consumption, investment and exports. The eurozone is the primary destination for Spanish exports, with the downswing in this region possibly ending any growth stimulus in Spain.

- The government sustained a vote of no confidence on June 1 and was replaced by a Social Democrat administration.
- Spain continues to be one of the fastest-growing economies in the eurozone.
- Expensive oil and symptoms of a slowdown in the eurozone will affect growth.

Last June 1, the People's Party sustained a vote of no confidence, which was approved for the first time in history. The new government, formed by the major opposition party, the Spanish Socialist Workers Party (PSOE), is already in power and will probably continue to adhere to the existing budget. Its first major test will be the approval of the 2019 budgets to be sent to Parliament at the end of September.

We expect GDP in 2018 to increase an average of 2.7% YoY, with the first quarter starting off strong at 3% and leveling off to 2.6% in the fourth quarter due to the slowdown effect in the eurozone and the increase

in oil prices, a factor to which the Spanish economy is particularly sensitive (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b).

Inflation in June ended up at 2.3%, with fuel prices and unprocessed food the major contributors. Underlying inflation came in at 1%. Our projection (which is quarterly) indicates that inflation in Spain will end the year at about 1.9% (average for the last quarter). Regarding unemployment, the jobless rate in the first quarter was 16.7%, and it is expected that it may continue to drop through the end of the year due to the continued increase in activity. Private consumption is being supported to a large extent by consumer credit, which hit bottom in 2014, while the company balance of credit and mortgages may be hitting bottom after 10 years of cleanup and reorganization of the banking system in Spain, as well as greater capital requirements for banks that affect the availability of credit.

1.2.4 Germany

Gradual slowdown and new risks in sight

The German economy slowed down slightly in the first quarter of 2018 to 2.3% (year-on-year adjusted for working days since the 2.9% from the fourth quarter), primarily due a drop in exports of 1% QoQ. The latest data on factory orders from May picked up to 4.4% and industrial production for May increased 3.1%, which is

- Gradual slowdown of the German economy and rebounding inflation in sight.
- Attraction of investment flow and pressure on interest rates continuing over the long term.
- The tariff war is the main risk to the German economy.

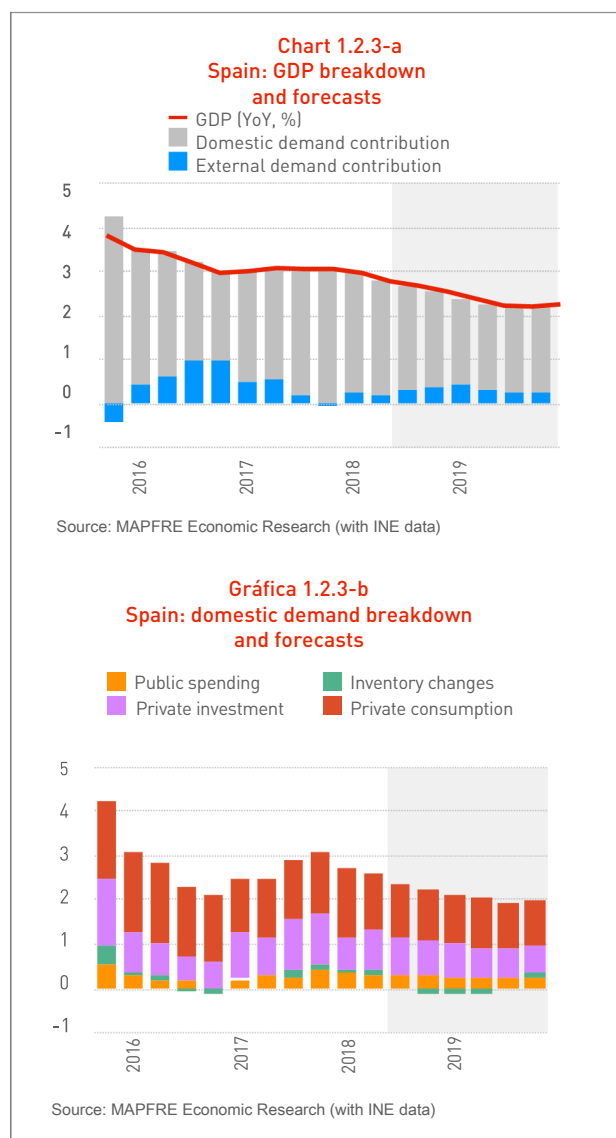


Table 1.2.3
Spain: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	-1.7	1.4	3.4	3.3	3.1	2.7	2.3
Domestic demand contribution	-3.1	1.3	3.8	2.5	2.7	2.5	2.0
External demand contribution	1.4	0.1	-0.3	0.7	0.3	0.3	0.3
Private consumption contribution	-1.7	0.8	1.7	1.7	1.3	1.3	1.1
Investment contribution	-0.7	0.5	1.3	0.7	1.1	0.8	0.7
Contribution made by public spending	-0.4	-0.1	0.4	0.2	0.3	0.3	0.3
Domestic demand (% YoY, average)	-3.1	1.9	3.9	2.6	2.9	2.6	2.1
Total consumption (% YoY, average)	-2.8	1.0	2.8	2.4	2.2	2.2	1.8
Private investment (% YoY, average)	-3.4	4.7	6.5	3.3	5.0	3.8	3.1
Exports (YoY in %)	4.3	4.3	4.2	4.8	5.0	3.9	3.9
Imports (YoY in %)	-0.5	6.6	5.9	2.7	4.7	3.5	3.4
Unemployment rate (% , last quarter)	25.7	23.7	20.9	18.6	16.6	14.8	13.6
Inflation (% YoY, last quarter)	0.1	-0.5	-0.3	1.0	1.4	1.9	1.1
Fiscal balance (% of GDP)	-7.1	-6.0	-5.3	-4.6	-3.1	-2.4	-2.0
Trade balance (% of GDP)	-1.4	-2.2	-2.1	-1.6	-2.0	-2.2	-1.8
Tax boost (% GDP)	-3.5	-2.5	-2.2	-1.7	-0.5	-0.1	0.2
Current account balance (% of GDP)	1.5	1.0	1.1	1.9	1.9	1.5	1.4
Official interest rate (end of period)	0.25	0.05	0.05	0.00	0.00	0.00	0.25
Short-term rate (end of period)	0.29	0.08	-0.13	-0.32	-0.33	-0.38	-0.21
Long-term rate (end of period)	4.12	1.61	1.77	1.35	1.51	1.93	2.37
Exchange rate vs. USD (end of period)	1.38	1.21	1.09	1.05	1.20	1.19	1.25
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	-5.1	-4.9	-3.6	-2.3	-1.4	0.7	2.9
P.S. non-financial lending (% YoY, average)	-9.6	-4.6	-2.6	-2.5	-0.6	-0.7	1.7
P.S. financial lending (% YoY, average)	-14.7	-1.6	-7.9	-27.4	-10.7	-3.2	-2.6
Savings rate (% , average)	9.9	9.3	8.8	7.9	5.9	4.6	4.5

Source: MAPFRE Economic Research (based on INE data)

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Chart 1.2.4-a
Germany: GDP breakdown and forecasts

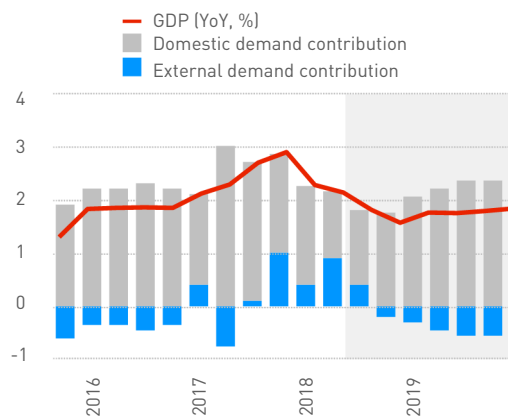


Chart 1.2.4-b
Germany: domestic demand breakdown and forecasts

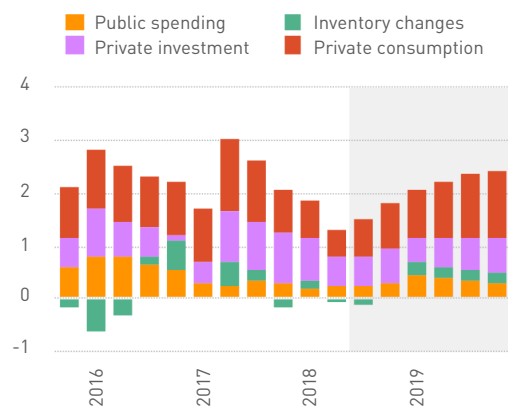


Table 1.2.4
Germany: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	0.6	1.9	1.5	1.9	2.5	2.0	1.8
Domestic demand contribution	0.9	0.8	1.4	2.2	2.3	1.6	2.3
External demand contribution	-0.3	1.1	0.2	-0.4	0.2	0.4	-0.5
Private consumption contribution	0.4	0.6	0.9	1.0	1.1	0.7	1.1
Investment contribution	-0.2	0.4	0.2	0.6	0.8	0.6	0.6
Contribution made by public spending	0.3	0.3	0.5	0.7	0.3	0.3	0.4
Domestic demand (% YoY, average)	1.0	1.3	1.5	2.4	2.5	1.7	2.4
Total consumption (% YoY, average)	0.9	1.2	1.9	2.3	1.9	1.3	2.0
Private investment (% YoY, average)	-1.1	3.7	1.0	2.9	4.0	3.1	2.8
Exports (YoY in %)	1.9	4.5	4.7	2.4	5.3	4.3	3.9
Imports (YoY in %)	3.1	3.5	5.2	3.8	5.6	4.1	5.6
Unemployment rate (% last quarter)	6.8	6.6	6.3	6.0	5.5	5.2	4.9
Inflation (% YoY, last quarter)	1.4	0.2	0.3	1.7	1.7	2.3	1.5
Fiscal balance (% of GDP)	-0.1	0.5	0.8	1.0	1.2	1.5	0.5
Trade balance (% of GDP)	7.6	7.8	8.5	8.5	8.2	7.8	7.5
Tax boost (% GDP)	1.4	1.8	1.9	1.9	2.0	2.3	1.5
Current account balance (% of GDP)	6.8	7.5	9.0	8.5	8.1	8.0	7.5
Official interest rate (end of period)	0.25	0.05	0.05	0.00	0.00	0.00	0.25
Short-term rate (end of period)	0.29	0.08	-0.13	-0.32	-0.33	-0.38	-0.21
Long-term rate (end of period)	1.94	0.54	0.63	0.11	0.42	0.90	1.17
Exchange rate vs. USD (end of period)	1.38	1.21	1.09	1.05	1.20	1.19	1.25
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	0.8	1.1	1.9	2.8	3.2	4.2	5.0
P.S. non-financial lending (% YoY, average)	4.2	2.5	1.8	2.1	4.6	3.5	3.8
P.S. financial lending (% YoY, average)	-7.7	-7.6	8.4	1.9	-1.1	2.6	3.9
Savings rate (% average)	8.9	9.3	9.6	9.8	9.8	10.3	10.0

Source: MAPFRE Economic Research (based on DESTATIS data)

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solid data. However, the ZEW economic sentiment survey (data published in July) shows a deterioration in expectations (-24.7 vs. -18.9 expected). As for inflation in June, it sat at 2.1%, which if sustained supports the ECB in its previously announced gradual and prudent withdrawal of monetary stimuli.

The Purchasing Managers' Index (PMI) and the IFO Business Climate Index have indicated a certain downswing since the beginning of the year. Consumer confidence is still at its highest levels in the last five years, principally because unemployment is at a low (5.2% in June), reaching levels of frictional unemployment (businesses have difficulty finding qualified personnel). An increase in the area of 2% is expected for all of 2018, meaning a downward revision of the figure of 2.4% in our previous report (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b).

Furthermore, the German economy will maintain a hefty current account surplus (at 8.1% of GDP for 1Q18); this positive external position guarantees the greatest attraction of capital flow and compression of interest rates over the long term below those of the rest of the eurozone.

From the political perspective, there was nearly a political crisis in Germany in June in the coalition government over the migration issue, with the Minister of the Interior threatening to resign, but it was finally settled with concessions by Angela Merkel to the conditions that her minister was proposing.

On the risk side of the equation, the most visible risk currently is trade protectionism, with the United States threatening to impose tariffs on imports from the EU. The United States is the main market for German exports, and the sectors that may be affected are automotive, industrial machinery, pharmaceuticals and engineering electrical equipment (see Box 1.1.4: "Tariff escalation").

1.2.5 Italy

The balance between electoral promises and fiscal realities

The Italian economy grew 1.4% (YoY) in the first quarter of the year. For 2018, we are predicting an increase of 1.3% (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b) according to the forecast indicators that show that a slight slowdown repeating what was recorded in the first quarter due to the drop in exports in the quarter (-2.1% QoQ) and investment (-1.4% QoQ).

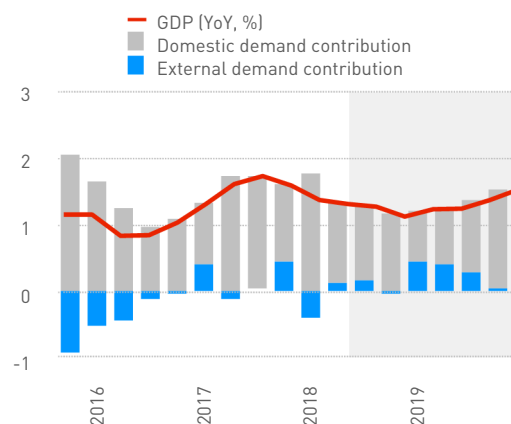
- Matching the slowdown in the first quarter of the year, we are reducing expected growth for 2018.
- Political risks with certain sovereign financing costs, but not with convertibility (relinquishing the euro).
- Premium risk contagion for Italian risk will not increase.

Italy has ended up forming an unorthodox government with the coalition of M5S and the LN. Although the risk of convertibility (departure from the euro) has retreated with the commitments of both representatives, uncertainties and traces of instability still remain with the election promise to increase public spending (and unbalance the budget). It should be noted that risk premium has not returned to the levels prior to the elections.

The future of the Italian economy in the coming years will be affected by different factors, among which we can discern:

Chart 1.2.5-a

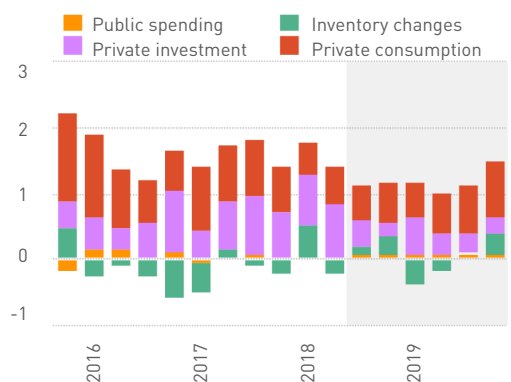
Italy: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with ISTAT data)

Chart 1.2.5-b

Italy: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (with ISTAT data)

Table 1.2.5
Italy: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	-1.7	0.2	0.8	1.0	1.6	1.3	1.4
Domestic demand contribution	-2.6	-0.1	1.4	1.3	1.4	1.3	1.1
External demand contribution	0.8	0.2	-0.5	-0.3	0.2	-0.0	0.3
Private consumption contribution	-1.5	0.1	1.1	0.8	0.8	0.5	0.7
Investment contribution	-1.2	-0.4	0.3	0.6	0.7	0.5	0.4
Contribution made by public spending	-0.1	-0.1	-0.1	0.1	0.0	0.0	0.1
Domestic demand (% YoY, average)	-2.6	0.3	1.4	1.3	1.4	1.3	1.1
Total consumption (% YoY, average)	-1.9	-0.0	1.3	1.2	1.0	0.7	1.0
Private investment (% YoY, average)	-6.6	-2.2	1.9	3.3	3.9	3.1	2.0
Exports (YoY in %)	0.9	2.4	4.2	2.6	6.0	3.1	4.7
Imports (YoY in %)	-2.3	3.0	6.6	3.8	5.7	3.4	4.0
Unemployment rate (% , last quarter)	12.4	12.8	11.5	11.8	11.1	10.8	10.4
Inflation (% YoY, last quarter)	0.6	0.1	0.2	0.1	0.9	2.0	1.6
Fiscal balance (% of GDP)	-2.9	-3.0	-2.6	-2.5	-2.3	-1.8	-2.0
Trade balance (% of GDP)	1.8	2.6	2.5	3.0	2.8	2.7	3.2
Tax boost (% GDP)	1.8	1.4	1.3	1.3	1.3	1.8	1.5
Current account balance (% of GDP)	1.0	1.9	1.5	2.6	2.8	2.8	2.6
Official interest rate (end of period)	0.25	0.05	0.05	0.00	0.00	0.00	0.25
Short-term rate (end of period)	0.29	0.08	-0.13	-0.32	-0.33	-0.38	-0.21
Long-term rate (end of period)	4.09	1.88	1.61	1.82	2.00	3.45	3.48
Exchange rate vs. USD (end of period)	1.38	1.21	1.09	1.05	1.20	1.19	1.25
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	-1.4	-1.0	-0.3	0.4	1.2	2.2	3.7
P.S. non-financial lending (% YoY, average)	-3.9	-2.7	-1.8	-2.1	-2.4	3.4	5.3
P.S. financial lending (% YoY, average)	-28.7	-27.6	-1.1	-0.1	4.9	9.2	6.9
Savings rate (% , average)	9.9	10.9	10.6	10.2	9.5	8.8	9.8

Source: MAPFRE Economic Research (based on DESTATIS data)

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i) the degree of instability of the coalition government; ii) how the government will balance the budget in a context of spending promises while at the same time maintaining solvency (through the high level of debt); and iii) an incompletely cleaned-up banking sector; all this in a context in which the ECB has announced that it will be reducing its purchase of sovereign and corporate debt, and so providing less monetary support for containing financing costs. This outlook involves considerable uncertainty weighing down on the horizon of the country. This is how the market goes up, displaying increasing spreads in risk premiums with regard to Spain, for example. However, there does not appear to be any risk of contagion from the rest of the European perimeter.

1.2.6 United Kingdom

Brexit negotiation and difference of opinion among the leadership

The economy of the United Kingdom increased 1.2% (YoY) in the first quarter of the year, continuing its slackening trend that began four months ago, when it grew 3%. Consumption increased 1.2% (YoY) and exports increased (2.4% in the first quarter). Investment fell 1.3% QoQ, although the year is still positive (1.5% YoY); a figure that further indicates the uncertainty that companies have about Brexit. We predict an average GDP growth of 1.3% for 2018, with some variability between quarters (see Table 1.2.6 and

- The gradual slowdown of the UK economy continues.
- Monetary laxity remains the ultimate resource for financial and real stability.
- A new crisis in Theresa May's cabinet indicates new leadership changes before the departure from the European Union.

Charts 1.2.6-a and 1.2.6-b). June inflation came in at 2.4%, driven by fuel prices (+38.8% YoY) and transport (5.5%), and foodstuffs increased 2%. In this context, the Bank of England maintained its benchmark interest rates at 0.50% at its last meeting.

As for Brexit, Prime Minister Theresa May is seeking an agreement with the EU within approximately four months, while there are nine months until the official departure set for March 2019. This is occurring in the context of a new internal crisis in the British government with the departure of the joint managers for Brexit (Davis and Johnson), who are critical of Theresa May's position and expected concessions.

The pound appreciated against the euro and the dollar in June and July in the expectation that the Bank of England will raise rates 25 bps in its August meeting.

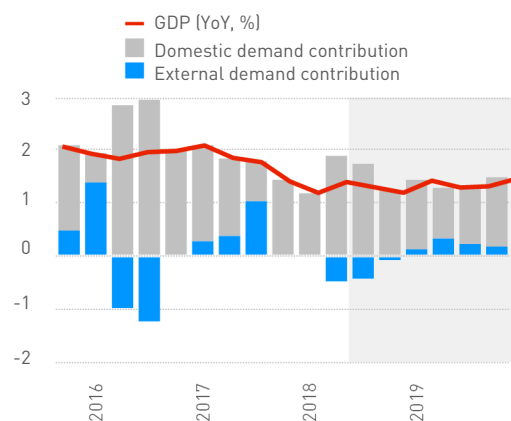
1.2.7 Japan

One-time contraction in the first quarter

The Japanese economy contracted (-0.6% QoQ) in the first quarter of the year (+1.1% YoY), after two years of growth. This phenomenon was due primarily to a slowdown in private consumption, driven in part by adverse weather conditions and a slowdown in exports, which had been increasing in the past year.

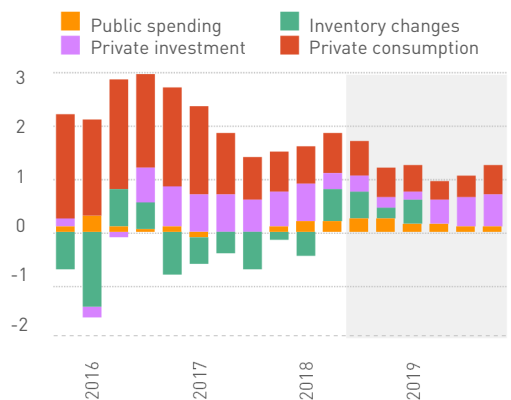
- Economic activity slowed down somewhat, but there are no signs of cycle change as of yet.
- Although there are several indications of salary inflation, monetary policy will remain unchanged.
- There will be a new government next year. There are uncertainties about the staying power of "Abenomics".

Chart 1.2.6-a
United Kingdom: GDP breakdown
and forecasts



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

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



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

Table 1.2.6
United Kingdom: main economic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	2.1	3.1	2.3	1.9	1.8	1.3	1.4
Domestic demand contribution	1.9	2.4	2.4	2.1	1.4	1.5	1.2
External demand contribution	0.1	0.7	-0.1	-0.2	0.4	-0.2	0.2
Private consumption contribution	1.2	1.4	1.7	1.9	1.1	0.7	0.5
Investment contribution	0.5	0.7	0.5	0.3	0.7	0.4	0.4
Contribution made by public spending	0.0	0.5	0.1	0.2	0.0	0.2	0.2
Domestic demand (% YoY, average)	1.9	3.2	2.5	2.2	1.4	1.5	1.2
Total consumption (% YoY, average)	1.5	2.2	2.2	2.6	1.4	1.1	0.8
Private investment (% YoY, average)	3.5	7.2	2.8	1.8	4.0	2.1	2.6
Exports (YoY in %)	0.9	2.7	5.0	2.3	5.7	1.5	3.2
Imports (YoY in %)	3.1	4.5	5.1	4.8	3.2	1.5	2.2
Unemployment rate (% , last quarter)	7.2	5.7	5.1	4.8	4.4	4.2	4.3
Inflation (% YoY, last quarter)	2.1	0.9	0.1	1.2	3.0	2.3	1.3
Fiscal balance (% of GDP)	-5.6	-5.7	-4.3	-3.3	-2.2	-2.3	-1.7
Trade balance (% of GDP)	-6.8	-6.7	-6.3	-6.9	-6.7	-6.7	-6.4
Tax boost (% GDP)	-4.0	-4.2	-3.0	-1.9	-0.6	-0.5	0.1
Current account balance (% of GDP)	-5.5	-5.3	-5.2	-5.8	-4.1	-3.3	-2.5
Official interest rate (end of period)	0.50	0.50	0.50	0.25	0.41	0.72	0.86
Short-term rate (end of period)	0.53	0.56	0.59	0.37	0.52	0.88	1.04
Long-term rate (end of period)	3.05	1.82	2.02	1.28	1.25	1.88	2.29
Exchange rate vs. USD (end of period)	1.65	1.56	1.48	1.23	1.35	1.42	1.47
Exchange rate vs. euro (end of period)	1.20	1.28	1.36	1.17	1.13	1.19	1.18
Private lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Household lending (% YoY, average)	1.2	2.1	2.9	4.2	4.6	3.0	3.1
P.S. non-financial lending (% YoY, average)	-1.2	-3.3	-2.3	6.7	5.8	4.0	2.3
P.S. financial lending (% YoY, average)	3.7	-9.3	-13.2	7.5	11.6	1.1	4.6
Savings rate (% , average)	8.7	8.4	9.2	7.1	5.1	5.5	5.8

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

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Chart 1.2.7-a
Japan: GDP breakdown
and forecasts

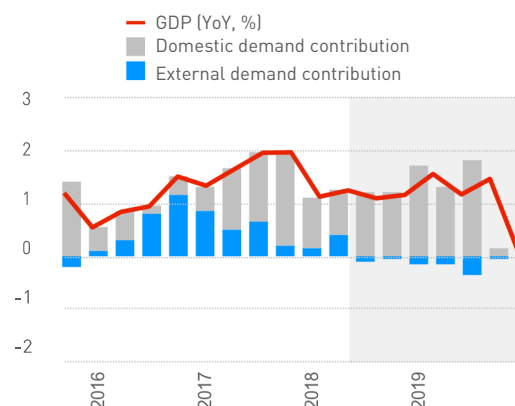


Chart 1.2.7-b
Japan: domestic demand breakdown
and forecasts

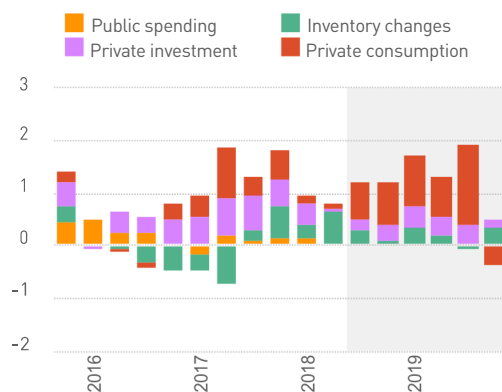


Table 1.2.7
Japan: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	2.0	0.3	1.4	1.0	1.7	1.2	1.1
Domestic demand contribution	2.4	-0.3	1.0	0.4	1.2	1.0	1.2
External demand contribution	-0.4	0.6	0.4	0.6	0.6	0.1	-0.2
Private consumption contribution	1.4	-0.5	0.0	0.0	0.6	0.4	0.7
Investment contribution	1.1	0.4	0.4	0.3	0.6	0.2	0.3
Contribution made by public spending	0.3	0.1	0.3	0.3	0.1	0.1	0.1
Domestic demand (% YoY, average)	2.4	0.3	1.0	0.4	1.2	1.0	1.2
Total consumption (% YoY, average)	2.1	-0.6	0.4	0.4	0.8	0.7	1.0
Private investment (% YoY, average)	5.0	3.0	1.8	1.1	2.5	1.0	1.3
Exports (YoY in %)	0.9	9.3	3.0	1.7	6.7	4.4	2.5
Imports (YoY in %)	3.3	8.4	0.7	-1.6	3.5	3.5	3.2
Unemployment rate (% , last quarter)	3.9	3.5	3.3	3.1	2.7	2.5	2.5
Inflation (% YoY, last quarter)	1.5	2.5	0.2	0.3	0.6	1.1	1.9
Fiscal balance (% of GDP)	-7.6	-5.4	-3.6	-3.4	-3.5	-3.5	-3.5
Trade balance (% of GDP)	-1.7	-2.0	-0.2	1.0	0.9	0.7	0.8
Tax boost (% GDP)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Current account balance (% of GDP)	0.9	0.8	3.1	3.8	4.0	3.7	3.8
Official interest rate (end of period)	0.07	0.07	0.04	-0.06	-0.06	-0.07	-0.18
Short-term rate (end of period)	0.15	0.11	0.08	-0.05	-0.02	-0.02	-0.13
Long-term rate (end of period)	0.74	0.33	0.27	0.04	0.05	0.07	-0.04
Exchange rate vs. USD (end of period)	105.25	119.85	120.27	116.78	112.69	108.28	108.30
Exchange rate vs. euro (end of period)	145.15	145.51	130.94	123.10	135.15	128.72	135.10
Private lending (% YoY, average)	3.4	2.2	2.4	1.7	4.5	3.5	3.3
Household lending (% YoY, average)	1.1	0.9	1.5	1.6	1.7	0.9	0.5
P.S. non-financial lending (% YoY, average)	-0.1	0.8	1.1	2.2	4.2	3.9	1.6
P.S. financial lending (% YoY, average)	3.9	8.5	7.7	-0.5	7.5	1.8	1.4
Savings rate (% , average)	0.3	-0.4	0.8	2.6	2.6	3.0	2.2

Source: MAPFRE Economic Research (with Statistics Bureau data)

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Advance indicators and confidence indexes indicate that this contraction is a one-time episode in the first quarter and that growth will continue on its path. It is hoped that exports and investments will continue to be the primary drivers, even if a yen that gains ground against the dollar may take away somewhat from exports over the next few quarters. The world commercial and economic cycle, the recovery of growth and the recent trade agreement reached with the EU will also be decisive supporting factors.

The slower growth in economic activity in the first quarter of the year has led us to revise our growth forecast for 2018 to 1.2% (from 1.5%), while the figure for 2019 is revised to 1.1% (from 0.8%) due to the base effect (see Table 1.2.7 and Charts 1.2.7-a and 1.2.7-b).

Also, the employment creation trend and economic activity are being maintained. Unemployment in the Japanese economy is at an all-time low (2.2% in May) and the ratio of jobs offered per applicant is 1.6, a figure not seen since the beginning of the nineties. Given the situation, some salary inflation may begin to appear, as the remuneration indicator has topped +2% for the first time since 2004. Inflation continues moderate (+0.7%), driven mainly by the energy effect (+14.2%), while underlying inflation remains almost stagnant (0.1%). Whether this will change the monetary policy schedule of the Bank of Japan remains to be seen.

In the short term, it is likely that the monetary policy will still remain expansive for lack of offsetting inflationary pressure, and with the aim of returning the first season of the sovereign curve to visibly positive ground. Hence, Japan will continue with its heterodox monetary policy (hinged on the interest rates curve and not on objective inflation), in order to protect its financial system. The end of the administration of Prime Minister Shinzō Abe next year may result in some changes to the course of the economic policy in Japan.

1.2.8 Turkey

The best of the worst to be expected

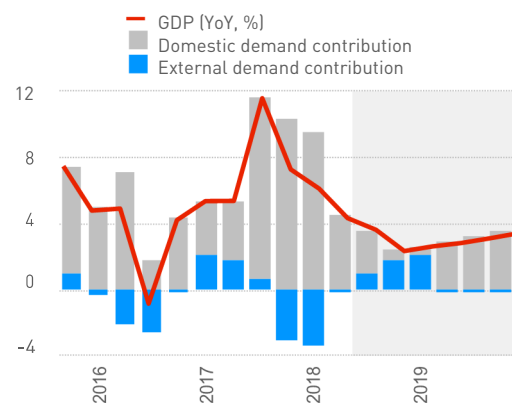
The Turkish economy grew 7.2% (YoY) in the first quarter of the year, a result of the delayed effects of pre-electoral stimuli of a semi-fiscal nature. An average GDP increase of 4.1% is expected for 2018.

The Turkish lira has been under heavy pressure this quarter, dropping 16.5% from 3.95 USD/TRY at the close of the first quarter to 4.60 USD/TRY at the close of the second. The factors underlying this pattern were on one hand one-off (such as the uncertainty of the elections) and on the other were fundamental economic problems (current account and fiscal deficits and the need for external financing in dollars rising to 25% of GDP).

Given a depreciation that appears to be starting to get out of control, the central bank raised interest rates by 300 bps in May, to 16.5%, and more in June to 125 bps up to 17.75%. June inflation rebounded to 15.4%, a surprising upturn. The current account deficit grew further to -6.3% in the first quarter, and the fiscal deficit was 1.6% for the same period.

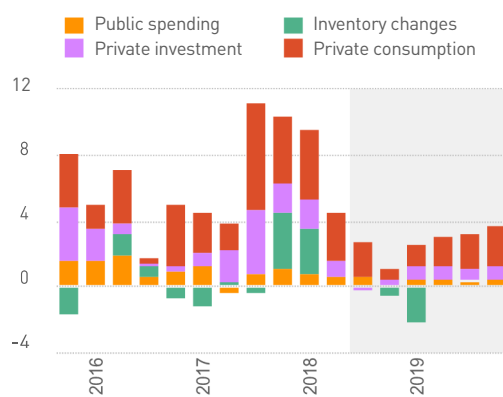
- The elections on June 24 resulted in “the best of the worst results”.
- GDP has visibly slowed down, but by less than expected in the previous quarter.
- Inflation remains in the double-digit range.
- The central bank changed its monetary references (change of instrument and raising interest rates) as a measure to stabilize the currency and earn credibility.

Chart 1.2.8-a
Turkey: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with Statistics Bureau data)

Chart 1.2.8-b
Turkey: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (with Statistics Bureau data)

Table 1.2.8
Turkey: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	8.5	5.3	6.0	3.3	7.4	4.1	3.0
Domestic demand contribution	10.3	3.4	5.5	4.6	7.1	4.3	2.6
External demand contribution	-1.8	1.9	0.5	-1.3	0.4	-0.2	0.4
Private consumption contribution	4.9	1.9	3.4	2.2	3.7	2.4	1.9
Investment contribution	3.8	1.3	2.7	0.7	2.1	0.8	0.8
Contribution made by public spending	1.1	0.4	0.5	1.3	0.7	0.5	0.4
Domestic demand (% YoY, average)	10.1	3.2	5.4	4.5	6.9	4.3	2.5
Total consumption (% YoY, average)	7.9	3.0	5.1	4.7	5.9	4.0	3.1
Private investment (% YoY, average)	14.0	5.5	9.1	2.4	7.2	2.7	2.7
Exports (YoY in %)	1.4	8.3	4.3	-1.7	12.1	6.5	3.2
Imports (YoY in %)	8.0	-0.3	1.8	3.7	10.2	6.9	1.4
Unemployment rate (% , last quarter)	9.3	10.7	10.5	12.1	10.3	11.0	10.8
Inflation (% YoY, last quarter)	7.5	8.8	8.2	7.6	12.3	11.5	9.3
Fiscal balance (% of GDP)	-1.1	-1.1	-1.1	-1.3	-1.6	-2.5	-1.9
Trade balance (% of GDP)	-8.4	-6.8	-5.6	-4.7	-6.9	-8.8	-7.8
Tax boost (% GDP)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Current account balance (% of GDP)	-6.7	-4.7	-3.7	-3.8	-5.6	-6.9	-5.9
Official interest rate (end of period)	7.10	8.51	8.81	8.31	12.75	16.48	13.11
Short-term rate (end of period)	9.12	9.79	11.47	9.90	14.61	18.01	14.42
Long-term rate (end of period)	10.20	7.96	10.74	11.40	11.72	13.48	10.69
Exchange rate vs. USD (end of period)	2.15	2.33	2.92	3.52	3.79	4.67	4.52
Exchange rate vs. euro (end of period)	2.96	2.83	3.18	3.71	4.55	5.55	5.64
Private lending (% YoY, average)	28.8	23.2	23.0	12.8	20.6	15.1	11.4
Household lending (% YoY, average)	24.0	16.3	12.5	7.1	17.5	12.7	13.0
P.S. non-financial lending (% YoY, average)	31.1	30.1	29.9	14.7	24.3	19.1	10.5
P.S. financial lending (% YoY, average)	24.3	22.4	26.4	9.0	27.2	38.5	13.1
Savings rate (% , average)	17.9	20.5	20.3	22.7	19.8	17.2	15.3

Source: MAPFRE Economic Research (based on TURKSTAT data)

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A slowdown in economic activity to the area of 4.1% is expected for 2018 (from 7.4% in 2017) due to an expected slowdown in credit in a higher interest rate environment, more expensive financing in dollars and some energy imports at a higher cost (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b).

The elections on June 24 gave the presidency and control of the government to the AKP party and its allies. This is the best of the worst possible results, since on one hand the government does not have a majority qualified to change the constitution, and on the other there are no incentives to engender a new volatile election environment. In this context, we believe that in the final analysis president Recep T. Erdoğan will allow a certain amount of market discipline. However, the gradual deterioration of the currency is not discounted, given the accumulated imbalances and the peculiar situation of the country.

1.2.9 Mexico

Prudence of the winning candidate renews market confidence

The Mexican economy has been winding down from the 3% levels that it had in 2016 to 1.3% recorded in the first quarter of 2018, due to loss of momentum in investments and exports.

Private consumption continues to be a major driver, growing 2.6%. For 2018, an average

- The current slowdown is a one-time event and was already forecast in the base scenario.
- The central bank has changed its message regarding its monetary policy due to pressures on the peso.
- The winning candidate of the presidential elections is calming the markets for now; the peso and the market are making a moderate recovery.

GDP increase of 2.4% is expected (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

Inflation was 4.6% in June (with underlying inflation of 3.6%), and we expect that it will be 4.3% for the fourth quarter 2018. In its last meeting in June, the Bank of Mexico raised the benchmark rate 25 bps to 7.75%, arguing that the currency was still under pressure.

In the July 1 elections, Andrés Manuel López Obrador won the presidency with 53% of the vote; the coalition of parties supporting him won the majority in the Chamber of Deputies and the Senate; all of these are victories that the markets expected, given the advantage indicated in the polls.

The Mexican peso is continuing to recover since the middle of June, from 20.9 MXN/USD to the current 19.0. The recovery of the currency will certainly moderate inflation. With expectations firmly headed downward, the central bank will be able to maintain interest rates at their current level, but the decisions going forward will be contingent to a large extent on salary negotiations in November, the budgets in December, currency developments and the result of the NAFTA negotiations that will probably continue at least until January 2019.

The markets have started showing their confidence in the Mexican economy again after the signals of López Obrador that he will adopt a prudent approach. The Mexican stock exchange has recovered 8% since the middle of June (16% in euros).

Chart 1.2.9-a
Mexico: GDP breakdown and forecasts

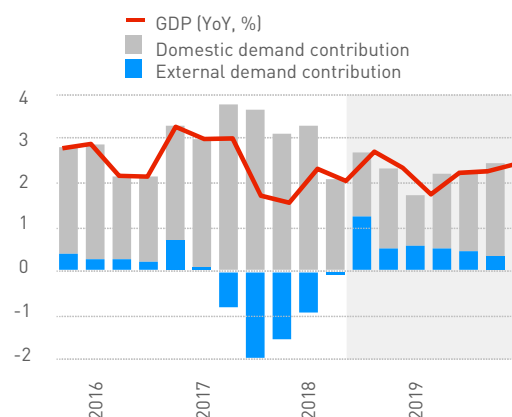


Chart 1.2.9-b
Mexico: domestic demand breakdown and forecasts

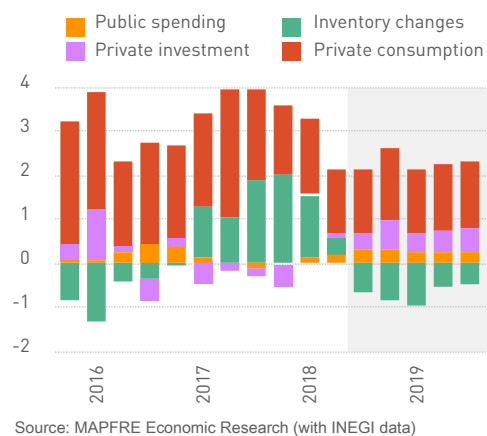


Table 1.2.9
Mexico: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	1.6	2.8	3.3	2.6	2.3	2.4	2.2
Domestic demand contribution	2.1	1.9	2.5	2.3	3.4	2.2	1.7
External demand contribution	-0.4	0.9	0.8	0.4	-1.1	0.2	0.5
Private consumption contribution	1.3	1.4	2.2	2.2	2.2	1.6	1.5
Investment contribution	-0.7	0.3	1.1	0.2	-0.3	0.3	0.5
Contribution made by public spending	0.1	0.4	0.2	0.3	0.0	0.2	0.3
Domestic demand (% YoY, average)	2.1	2.5	2.5	2.3	3.4	2.2	1.7
Total consumption (% YoY, average)	1.8	2.2	3.1	3.2	2.8	2.3	2.3
Private investment (% YoY, average)	-3.3	3.0	5.1	1.2	-1.5	1.5	2.5
Exports (YoY in %)	1.3	6.9	8.6	3.5	3.9	4.4	4.1
Imports (YoY in %)	2.6	5.9	6.0	2.4	7.0	3.7	2.8
Unemployment rate (% , last quarter)	4.6	4.4	4.2	3.5	3.3	3.5	3.8
Inflation (% YoY, last quarter)	3.7	4.2	2.3	3.2	6.6	4.2	3.3
Fiscal balance (% of GDP)	-2.3	-3.1	-3.4	-2.5	-1.1	-2.1	-2.4
Trade balance (% of GDP)	-0.1	-0.2	-1.2	-1.2	-1.0	-1.4	-1.8
Tax boost (% GDP)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Current account balance (% of GDP)	-2.4	-1.8	-2.5	-2.2	-1.7	-2.0	-1.9
Official interest rate (end of period)	3.50	3.00	3.25	5.75	7.25	7.74	6.10
Short-term rate (end of period)	3.41	2.92	3.29	5.87	7.31	8.01	6.25
Long-term rate (end of period)	6.40	5.79	6.28	7.42	7.66	7.45	6.34
Exchange rate vs. USD (end of period)	13.04	14.74	17.20	20.74	19.67	19.26	17.99
Exchange rate vs. euro (end of period)	17.99	17.90	18.73	21.86	23.59	22.90	22.44
Private lending (% YoY, average)	13.9	10.8	13.6	16.3	12.1	11.7	6.0
Household lending (% YoY, average)	9.1	8.1	8.4	12.8	9.9	7.9	4.5
P.S. non-financial lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
P.S. financial lending (% YoY, average)	15.4	9.8	-11.4	3.5	1.7	9.2	14.5
Savings rate (% , average)	15.0	13.8	14.7	13.0	11.0	11.4	11.0

Source: MAPFRE Economic Research (based on INEGI data)

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1.2.10 Brazil

Frustrated growth acceleration, political uncertainty and necessary reforms

In Brazil, GDP increased 1.2% YoY in the first quarter, a substantial drop from the 2.1% recorded in the fourth quarter of 2017. The slowdown is attributed mainly to a decrease in government spending and a reduction in the investment growth rate and exports.

We have revised GDP growth downward for 2018 to 1.6%, given the increase in oil prices and the depreciation of the real, as well as due to the effect of the truck drivers' strike in May (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b). In turn, inflation (IPCA) has rebounded at 4.4% YoY in June, from 2.9% in May.

The central bank surprised the market in its meeting of May 16, maintaining SELIC rates at 6.50%; a 25-bps drop was expected. The decision was based on a "change in risk assessment", an allusion to the pressure on emerging country currencies, the attractive return on United States bonds and a strong dollar (flight to quality).

The fiscal deficit has improved, ending at 7.2% in May (1.4% of the primary deficit). Brazil needs to continue structural reforms to balance public

- **The current slowdown in economic activity has been caused by both structural and one-off factors.**
- **The central bank is pulling back on its downward path; more stringent monetary conditions are in sight.**
- **Uncertainty persists; politics is hindering viability and the will for future reforms.**

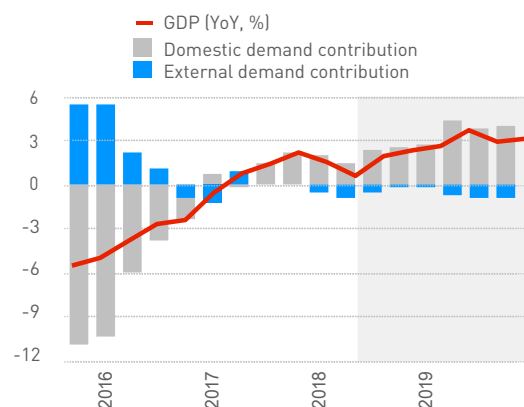
accounts, but no major advances in this regard are expected until the elections in October.

The Brazilian real has been under pressure from the markets, just like other emerging market currencies, ending up at around 3.90 to the dollar at the close of the second quarter. However, a positive trade balance, ample currency reserves and a healthier current account balance than other emerging markets under pressure are all working in its favor (see Box 1.1.2). Furthermore, Brazil has a currency adjustment that places it on an even playing field with the dollar, so that its financing is much more stable and less dependent on that currency.

Regarding the presidential elections in October, with Luiz Inácio Lula da Silva sidelined it will apparently be Jair Bolsonaro (PSL) who will come out ahead with 20%, compiled from surveys in June 2018, followed by Marina Silva (REDE) with 13%, although Ciro Gomes (PDT) with 10% and Geraldo Alckmin (PSDB) with 7.5% are still in the running to contest the second round.

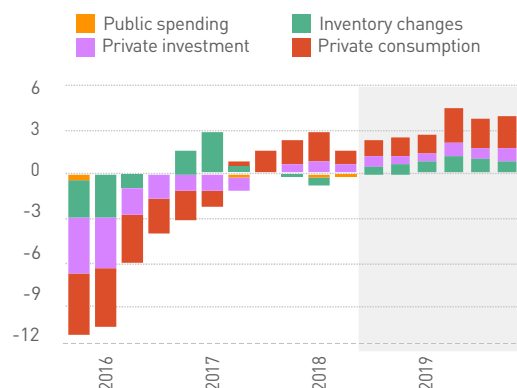
It's important to note that the necessity for new reforms, particularly in social security, is the big challenge that Brazil is facing, especially after President Michel Temer's administration wouldn't even approve a minimum reform that would have introduced a minimum retirement age. If the incoming administration does not implement a reasonably ambitious reform, it will have to deal with major fiscal deficits and an increase in debt starting from already elevated levels, which will hinder the economic recovery of the country.

Chart 1.2.10-a
Brazil: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with data of the Brazilian Institute of Geography and Statistics (IBGE))

Chart 1.2.10-b
Brazil: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (with data of the Brazilian Institute of Geography and Statistics (IBGE))

Table 1.2.10
Brazil: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	3.0	0.5	-3.6	-3.4	1.0	1.6	3.1
Domestic demand contribution	4.0	0.4	-7.1	-5.4	1.0	2.1	3.8
External demand contribution	-1.0	0.1	3.6	2.0	-0.1	-0.5	-0.7
Private consumption contribution	2.3	1.5	-2.2	-3.0	0.6	1.3	2.0
Investment contribution	1.2	-0.8	-2.9	-1.9	-0.3	0.7	0.7
Contribution made by public spending	0.3	0.1	-0.2	-0.0	-0.1	-0.1	0.0
Domestic demand (% YoY, average)	3.8	0.2	-6.7	-5.2	1.0	2.1	3.7
Total consumption (% YoY, average)	3.1	2.0	-2.8	-3.5	0.6	1.5	2.4
Private investment (% YoY, average)	5.8	-4.1	-14.0	-10.1	-1.8	4.3	3.9
Exports (YoY in %)	2.6	-0.8	6.9	1.9	5.8	5.9	4.7
Imports (YoY in %)	7.0	-1.9	-14.1	-9.5	5.6	8.5	7.8
Unemployment rate (% , last quarter)	6.2	6.5	9.0	12.0	11.8	12.0	10.1
Inflation (% YoY, last quarter)	5.8	6.5	10.4	7.0	2.8	3.6	4.5
Fiscal balance (% of GDP)	-3.0	-6.0	-10.2	-9.0	-7.8	-7.3	-6.7
Trade balance (% of GDP)	0.0	-0.3	1.0	2.5	3.1	2.9	2.1
Tax boost (% GDP)	1.7	-0.5	-1.8	-2.4	-1.7	-1.9	-1.7
Current account balance (% of GDP)	-3.0	-4.2	-3.3	-1.3	-0.5	-1.0	-1.7
Official interest rate (end of period)	9.63	11.32	14.25	13.97	7.58	6.53	8.06
Short-term rate (end of period)	9.90	11.65	14.15	13.65	6.90	6.43	8.20
Long-term rate (end of period)	13.05	12.25	16.10	11.36	10.24	10.02	9.41
Exchange rate vs. USD (end of period)	2.35	2.66	3.90	3.26	3.31	3.78	3.58
Exchange rate vs. euro (end of period)	3.25	3.22	4.25	3.43	3.97	4.50	4.46
Private lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Household lending (% YoY, average)	16.4	14.0	9.9	4.3	4.6	8.9	14.1
P.S. non-financial lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
P.S. financial lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Savings rate (% , average)	22.9	20.3	18.2	17.8	18.9	19.5	19.0

Source: MAPFRE Economic Research (with data of the Brazilian Institute of Geography and Statistics (IBGE))
Forecasting end date: July 20, 2018

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1.2.11 Argentina

IMF assistance contingent on meeting targets

After an increase in real GDP of 3.2% YoY in the first quarter of the year and a second quarter that will witness the impact of several problems in the agriculture area (drought and floods), the Argentine economy may experience a sharp slump in the second half of the year. The depreciation of the Argentine peso in April/May, the ensuing interest rate hikes to protect the currency and the increase in oil prices are going to affect inflation, confidence and consumption. Exports will also be affected by the fall in agricultural production.

Growth in the second half will be low, almost stagnant in YoY terms, resulting in average growth for the year of 1.3%, revised from the 2.6% that we indicated in our previous report (see Table 1.2.11 and the Charts 1.2.11-a and 1.2.11-b).

- **IMF assistance is contingent on controlling the public deficit, inflation (by controlling growth in the money supply) and cutting monetization.**
- **The sharp currency depreciation in April/May, the increase in interest rates and the increase in oil prices would indicate a certain economic stagnation in the second half of 2018.**
- **We are revising our estimate for GDP growth down for 2018 from 2.6% to 1.3%.**
- **Depreciation of the real exchange rate is not enough to correct the current account deficit over the short term.**
- **It is important to reach an equilibrium in cash flow to establish the direction in balance of payments.**

The International Monetary Fund (IMF) assistance program for Argentina will reach 50 billion dollars; an amount greater than expected, which has calmed the markets to a certain extent. However, the government must achieve a fiscal surplus of 0.5%

in 2021 in exchange for the assistance. Methods for straightening out the deficit are focusing on reducing non-social expenses, primarily public investment, reducing transfers to the regions and austerity in public sector wages, which may result in public protests. The first tranche of the assistance is 15 billion dollars, and access to the remaining 35 billion dollars is contingent on meeting the agreed targets. Other commitments include controlling inflation by moderating the increase in the money supply, and guaranteeing that the central bank does not directly finance the public treasury.

The popularity of the government in Argentina has been in free fall for months. Given the situation, its capacity to enlist the support of the opposition to approve the 2019 budget will be a crucial test for the current government. The ability to negotiate and build a consensus with the opposition will be fundamental in establishing credibility for the IMF program, bearing in mind especially that the program will be continuing past 2019, which is an election year as well.

Even so, the primary fiscal objective of 1.3% of GDP for 2019 could be reached even if the government does not manage to get the budget approved, in which case the same budget as the previous year would be used. This is why it is important to strengthen governance and for an agreement to be reached among the various political factions, because the successive tranches of assistance will be at risk. Reaching this would send a positive signal to the markets.

Depreciation of the Argentine peso is probably not enough to reduce the current account deficit over the short term. Furthermore, stabilization of capital outflow of residents and bringing it in line with incoming portfolio flows to stabilize the trend in the balance of payments will be important.

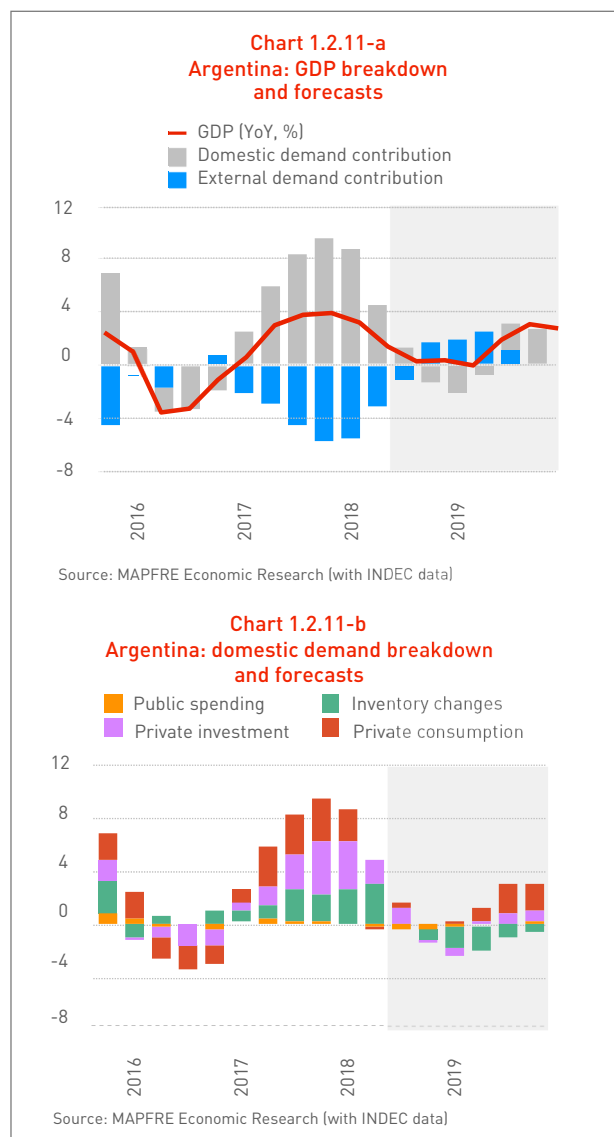


Table 1.2.11
Argentina: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	2.4	-2.5	2.7	-1.7	2.8	1.3	1.9
Domestic demand contribution	4.1	-4.2	4.4	-1.4	6.6	3.3	0.5
External demand contribution	-1.8	1.7	-1.7	-0.4	-3.8	-2.0	1.4
Private consumption contribution	2.6	-3.1	2.5	-0.7	2.6	0.7	1.3
Investment contribution	0.5	-1.2	0.7	-0.9	2.1	1.6	0.3
Contribution made by public spending	0.6	0.4	0.9	0.0	0.3	-0.1	0.0
Domestic demand (% YoY, average)	4.0	-3.8	4.2	-1.3	6.3	3.1	0.5
Total consumption (% YoY, average)	3.9	-3.2	4.1	-0.8	3.3	0.6	1.6
Private investment (% YoY, average)	2.5	-6.6	3.4	-4.8	11.2	8.2	1.5
Exports (YoY in %)	-3.6	-6.8	-2.8	6.0	0.4	-0.6	4.6
Imports (YoY in %)	4.1	-11.2	4.9	6.0	14.6	6.9	-1.6

Unemployment rate (% , last quarter)	6.4	6.9	7.0	7.6	7.2	7.0	6.8
Inflation (% YoY, last quarter)	31.2	44.2	26.0	39.3	23.3	29.3	19.4
Fiscal balance (% of GDP)	-3.5	-4.8	-5.9	-5.8	-6.0	-5.4	-4.2
Trade balance (% of GDP)	0.8	1.0	-0.1	0.8	-0.9	-1.7	-0.9
Tax boost (% GDP)	-2.1	-3.2	-3.9	-4.1	-3.7	-2.7	-1.7
Current account balance (% of GDP)	-2.1	-1.6	-2.7	-2.7	-4.8	-5.9	-5.0

Official interest rate (end of period)	17.65	25.33	33.00	24.75	28.75	32.98	24.76
Short-term rate (end of period)	11.00	16.00	26.00	26.75	30.75	35.00	26.78
Long-term rate (end of period)	11.12	9.36	6.65	7.00	5.91	7.63	7.22
Exchange rate vs. USD (end of period)	6.52	8.55	13.04	15.89	18.65	28.11	34.26
Exchange rate vs. euro (end of period)	8.99	10.38	14.20	16.75	22.37	33.42	42.74

Private lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Household lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
P.S. non-financial lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
P.S. financial lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Savings rate (% , average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r

Source: MAPFRE Economic Research (based on INDEC data)

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1.2.12 China

Economic downturn and trade risks

Chinese growth is slowing down as trade risks increase. Our estimate is that the economy is growing 6.3% in 2018, compared to 6.9% in 2017 (see Table 1.2.12, and Charts 1.2.12-a and 1.2.12-b).

The United States and China have imposed tariffs amounting to 34 billion dollars of imports each, with another 16 billion dollars this month (see Box 1.1.4). Although the economic fallout from this will be modest, the escalation of trade tensions is what is of concern. Uncertainty is already slowing down company confidence and retarding investment. In the meantime, the economic data for China in May suggest a general slowdown that we expect to continue in the second half, due to stricter financial policies initiated in the beginning of 2018.

The downward pressure on growth has led the leadership to draw up policies to ease its political stance. But failing a drastic downturn, no important changes are expected to stimulus measures.

- Economic growth has started slowing down as a result of the uncertainty due to the tariff conflict with the United States.
- The Chinese authorities will not change their economic policy road map, even if it means a drop-off in activity.
- The renminbi is depreciating with signs of worse expectations, but is still absorbing the possible tariff effect.

The depreciation of the renminbi since the middle of June reflects the market development, pressured by less kind sentiment toward growth and the increase in trade tensions with the United States.

1.2.13 Indonesia

Recovering imbalances

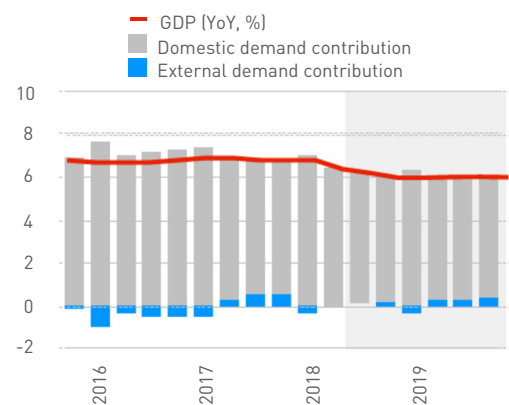
Amid the start of the regional elections for governor and mayor in 2018 and the presidential elections in 2019, a slight recovery is forecast of the drive of economic growth in Indonesia. Advance indicators predict that annual real GDP growth is increasing in 2018 to reach 5.1%, thanks fundamentally to internal demand (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

- Moderate lower level of economic activity and exchange rate deterioration.
- Hardening of monetary policy.
- Political and related risks in the trade scenario.

The rise in oil and food prices, coupled with an adjustment of administrative prices and a stronger domestic demand than last year, will generate global inflation in 2018 that will exceed that forecast by the Government (3.8%). By the same token, an expansion of the current account deficit is expected for 2018 (-2.0% of GDP), investing in the trend to strengthen the current account position that began in 2013.

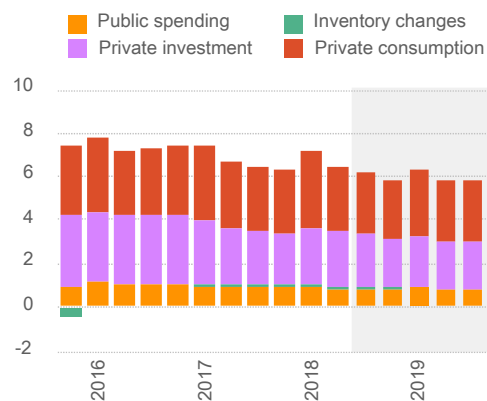
The Indonesian rupiah will come under downward pressure against the dollar as a result of monetary policy pressures and worldwide tariff effects. A narrower

**Chart 1.2.12-a China:
GDP breakdown and
forecasts**



Source: MAPFRE Economic Research (with BoPRC data)

**Chart 1.2.12-b
China: domestic demand breakdown and
forecasts**



Source: MAPFRE Economic Research (with BoPRC data)

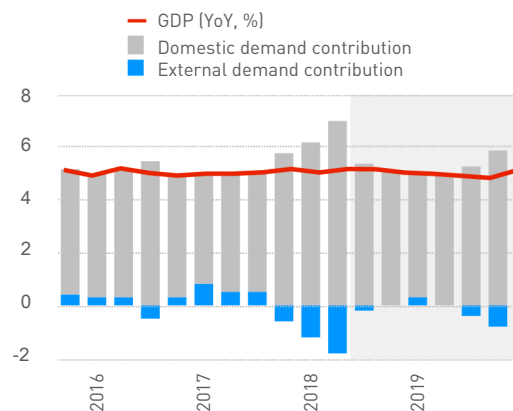
**Table 1.2.12
China: main economic aggregates**

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	7.8	7.3	6.9	6.7	6.9	6.3	6.0
Domestic demand contribution	7.9	5.7	6.9	7.3	6.7	6.4	5.9
External demand contribution	-0.1	1.6	-0.0	-0.6	0.2	-0.0	0.1
Private consumption contribution	3.0	3.1	3.1	3.1	3.0	3.0	2.8
Investment contribution	4.2	2.2	3.4	3.1	2.5	2.4	2.2
Contribution made by public spending	0.6	0.4	0.9	1.2	1.0	0.9	0.8
Domestic demand (% YoY, average)	8.1	7.2	7.1	7.5	6.8	6.5	6.0
Total consumption (% YoY, average)	7.2	7.1	8.0	8.6	7.8	7.5	6.9
Private investment (% YoY, average)	9.3	6.9	7.4	6.7	5.6	5.3	4.9
Exports (YoY in %)	8.3	5.4	0.5	1.8	6.7	5.2	3.9
Imports (YoY in %)	10.6	7.7	0.6	3.2	8.4	6.1	5.5
Unemployment rate (% , last quarter)	4.1	4.1	4.1	4.0	3.9	3.9	3.9
Inflation (% YoY, last quarter)	2.9	1.5	1.5	2.2	1.8	2.5	2.4
Fiscal balance (% of GDP)	-1.8	-1.8	-3.4	-3.8	-3.7	-3.8	-3.7
Trade balance (% of GDP)	3.7	4.2	5.3	4.4	3.9	2.9	2.7
Tax boost (% GDP)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Current account balance (% of GDP)	1.5	2.3	2.8	1.8	1.3	0.6	0.6
Official interest rate (end of period)	4.71	3.53	2.33	2.48	2.89	3.30	3.37
Short-term rate (end of period)	7.50	5.75	3.05	4.25	5.53	4.05	3.78
Long-term rate (end of period)	4.55	3.63	2.82	3.05	3.91	3.88	3.87
Exchange rate vs. USD (end of period)	6.05	6.20	6.49	6.94	6.51	6.27	6.19
Exchange rate vs. euro (end of period)	8.35	7.53	7.07	7.32	7.80	7.45	7.73
Private lending (% YoY, average)	15.4	13.4	14.8	13.3	10.5	11.4	9.6
Household lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
P.S. non-financial lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
P.S. financial lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Savings rate (% , average)	39.8	39.7	39.3	38.4	37.9	37.1	36.4

Source: MAPFRE Economic Research (based on BoPRC data)

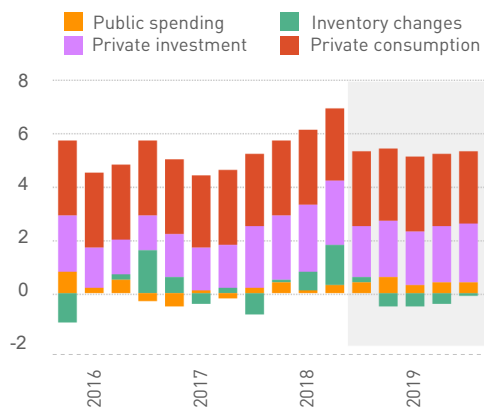
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Chart 1.2.13-a
Indonesia: GDP breakdown
and forecasts



Source: MAPFRE Economic Research (with BPS data)

Chart 1.2.13-b
Indonesia: domestic demand breakdown
and forecasts



Source: MAPFRE Economic Research (with BPS data)

Table 1.2.13
Indonesia: main economic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	5.6	5.0	4.9	5.0	5.1	5.1	5.0
Domestic demand contribution	5.0	4.6	3.9	4.9	4.7	5.9	5.2
External demand contribution	0.6	0.4	0.9	0.2	0.4	-0.8	-0.2
Private consumption contribution	3.0	2.9	2.7	2.8	2.8	2.8	2.8
Investment contribution	1.6	1.0	1.6	1.5	2.0	2.2	2.1
Contribution made by public spending	0.6	0.1	0.5	-0.0	0.2	0.4	0.5
Domestic demand (% YoY, average)	5.0	5.3	4.0	4.9	4.8	6.0	5.2
Total consumption (% YoY, average)	5.6	4.7	4.9	4.4	4.6	5.0	5.2
Private investment (% YoY, average)	5.1	4.5	5.0	4.5	6.1	6.9	6.5
Exports (YoY in %)	4.1	1.3	-2.1	-1.6	9.2	5.5	5.5
Imports (YoY in %)	2.0	2.2	-6.2	-2.5	8.1	10.1	6.7
Unemployment rate (% , last quarter)	5.7	5.9	5.8	5.5	5.3	5.3	4.9
Inflation (% YoY, last quarter)	8.0	6.5	4.8	3.3	3.5	3.8	4.0
Fiscal balance (% of GDP)	-2.2	-2.2	-2.6	-2.5	-2.6	-2.5	-2.6
Trade balance (% of GDP)	0.6	0.8	1.6	1.6	1.8	1.4	1.7
Tax boost (% GDP)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Current account balance (% of GDP)	-3.2	-3.1	-2.0	-1.8	-1.7	-2.03	-1.97
Official interest rate (end of period)	6.25	6.50	6.25	4.75	4.25	5.25	5.75
Short-term rate (end of period)	7.84	7.17	8.86	7.46	5.48	6.54	7.14
Long-term rate (end of period)	8.71	7.86	8.81	7.85	6.30	7.12	7.64
Exchange rate vs. USD (end of period)	12,160	12,427	13,836	13,525	13,484	13,793	13,951
Exchange rate vs. euro (end of period)	16,770	15,088	15,063	14,257	16,171	16,397	17,404
Private lending (% YoY, average)	21.9	15.2	10.6	7.8	8.2	9.6	9.4
Household lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
P.S. non-financial lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
P.S. financial lending (% YoY, average)	16.9	4.4	32.0	10.1	15.1	-1.7	9.2
Savings rate (% , average)	17.1	17.0	17.0	17.0	17.0	17.6	17.9

Source: MAPFRE Economic Research (based on BPS data)

Forecasting end date: July 20, 2018

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output and inflation gap and a volatile rupiah will force the monetary authority to raise interest rates during this year to over 5.25%.

The downward risks for Indonesia may arise from a hardening of worldwide financial conditions and a protectionist trade policy. Also, political risk may increase during the 2018 regional elections and 2019 presidential elections.

1.2.14 Philippines

Maintaining growth

The economy of the Philippines continues to grow beyond long-term potential thanks to public and private spending (transfers and remittances), while exports and investment are improving along with them. The administration of President R. Duterte plans to increase spending to new record levels in 2018, and investment in infrastructure will represent 6% of GDP next year.

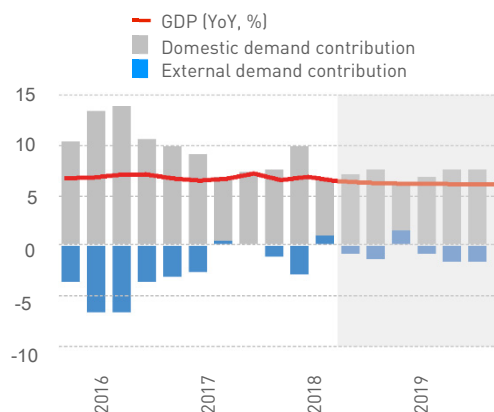
- An economy driven by strong domestic activity and external demand.
- Sovereign rating translates into improvements in market variables.
- Political risks remain unchanged.

Looking forward, the growth forecast for GDP sees a slight decrease in the dynamism of the Philippine economy, coming in at 6.4% (YoY) in 2018 and 6.1% in 2019 (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

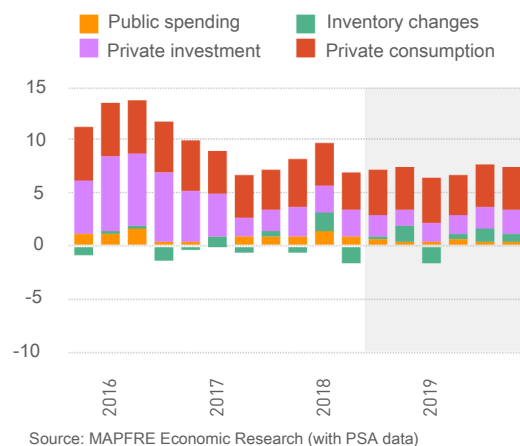
With regard to monetary policy, the appointment of the new Governor of the Central Bank, Nestor Espenilla, has resulted in continuity and supports the credibility of the monetary policy. The Central Bank of the Philippines (BSP) has not modified interest rates since May 2016, keeping the indebtedness costs low and liquidity in line.

The solid economic performance of the Philippine economy in the first quarter of 2018 confirms the sovereign rating in market variables that agencies accorded last year. Classification of long-term debt held in foreign currency was upped to BBB with a stable outlook. With this action, the ratings agencies have assigned the Philippines level “BBB” (S&P BBB, Moody's Baa2), on a par with Italy and above Indonesia.

**Chart 1.2.14-a Philippines:
GDP breakdown
and forecasts**



**Chart 1.2.14-b
Philippines: domestic demand breakdown and
forecasts**



**Table 1.2.14
Philippines: main macroeconomic aggregates**

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	7.1	6.1	6.0	6.9	6.7	6.4	6.1
Domestic demand contribution	9.8	4.8	9.1	11.9	7.5	7.5	6.7
External demand contribution	-2.7	1.3	-3.0	-5.0	-0.8	-1.1	-0.6
Private consumption contribution	4.0	3.9	4.4	4.9	4.1	4.0	4.0
Investment contribution	2.4	1.1	3.6	6.2	2.7	2.3	2.0
Contribution made by public spending	0.6	0.3	0.8	0.9	0.7	0.8	0.5
Domestic demand (% YoY, average)	9.9	5.0	9.0	11.5	6.9	6.9	6.1
Total consumption (% YoY, average)	5.6	5.2	6.5	7.4	6.0	6.0	5.7
Private investment (% YoY, average)	12.0	7.2	16.6	26.6	9.5	7.9	6.8
Exports (YoY in %)	-0.6	12.6	8.7	11.7	19.6	7.4	8.7
Imports (YoY in %)	4.5	10.1	14.6	20.5	18.2	8.1	8.4
Unemployment rate (% , last quarter)	6.4	6.0	5.6	4.7	5.0	5.2	4.7
Inflation (% YoY, last quarter)	3.0	2.9	0.3	2.0	3.0	4.4	3.6
Fiscal balance (% of GDP)	-1.4	-0.6	-0.9	-2.4	-2.2	-2.9	-3.0
Trade balance (% of GDP)	-6.5	-6.1	-8.0	-11.7	-13.1	-14.4	-13.3
Tax boost (% GDP)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Current account balance (% of GDP)	4.2	3.8	2.5	-0.4	-0.8	-1.8	-1.5
Official interest rate (end of period)	3.50	4.00	4.00	3.00	3.00	3.75	4.50
Short-term rate (end of period)	2.03	3.09	3.03	2.50	3.22	3.65	3.84
Long-term rate (end of period)	3.80	4.37	4.10	4.63	5.70	6.36	6.52
Exchange rate vs. USD (end of period)	44.41	44.62	47.17	49.81	49.92	51.97	50.81
Exchange rate vs. euro (end of period)	61.25	54.17	51.35	52.51	59.87	61.78	63.38
Private lending (% YoY, average)	16.6	18.0	13.2	15.3	18.0	15.8	11.4
Household lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
P.S. non-financial lending (% YoY, average)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
P.S. financial lending (% YoY, average)	6.0	8.8	2.6	8.7	9.2	10.4	10.3
Savings rate (% , average)	8.3	9.3	7.7	7.8	8.1	7.8	8.2

Source: MAPFRE Economic Research (based on PSA data)
Forecasting end date: July 20, 2018

[Click here to access the interactive version of this information](#)

2. Industry outlook

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

2.1.1 Global markets

The strength of economic activity worldwide will lead to global growth in 2018 of about 3.8%, similar to what was recorded in 2017. Solid growth continues although it is losing synchrony, displaying some symptoms of exhaustion from the advance of the economic cycle. Growth is estimated at above 2% for developed economies and in emerging economies at around 5%, although some economies like Argentina, Turkey and Brazil have heightened uncertainty over the short term.

In any event, growth is strong for the moment, and this situation favors the insurance market worldwide, which is closely linked to the development of the business cycle. Benefits will be seen in the insurance industry in emerging markets in particular, where the low level of insurance penetration in the economy also causes the elasticity of the growth in insurance demand to be greater than in more developed economies, meaning that weak or moderate growth in GDP tends to result in greater growth in insurance policy premiums.

Normalization of monetary policy and protectionist measures in the United States have enhanced the uncertainty, but so far they have not affected markets and world trade for the most part. Nevertheless, some emerging nations have sustained domestic and external shocks due to more aggressive increases in benchmark interest rates in the United States than expected. Furthermore, lax monetary policies are still being pursued by the central banks of the eurozone and Japan. In the eurozone, the monetary easing timeline will be very gradual, with the aim of avoiding any undesirable consequences, such as sudden increases in the cost of financing debt and possible overvaluations of assets that may occur, which could have a negative impact on the results of the insurance industry. But it remains a latent risk. To date, the unrelenting low interest rate environment in these economies continues to drag down development of the Life savings and annuities lines of business.

2.1.2 Eurozone

Activity in the eurozone indicates a relative cooling off, leading to a downward revision of growth forecasts for all of the year in the area of 2% (opposed to 6% in 2017) with a slowdown in demand, expected restrictions in international trade and lower expectations for real disposable income. Inflation in the eurozone rose to 2.0% in June, due primarily to the

performance of oil prices. In the insurance industry, this slacking off is expected to translate into a slowdown in the Non-Life and Life risk sectors.

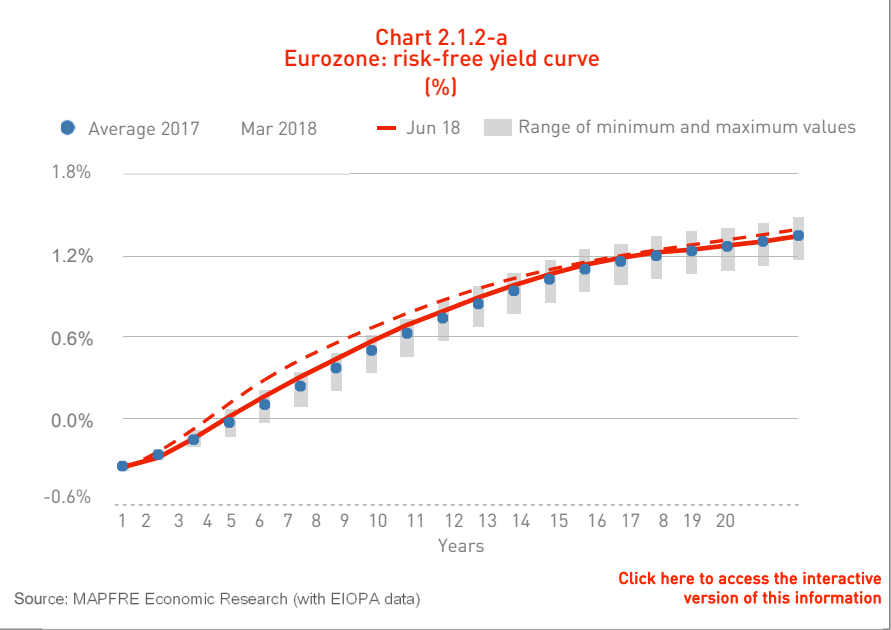
Furthermore, the underlying inflation will not depart from its upward path to the target of the European Central Bank (ECB), slowing down monetary easing, and everything indicates that it will be very gradual, as the ECB has in fact announced. Official interest rates will continue at their current levels (0.0% refinancing rate and -0.40% deposit rate), at least until the summer of 2019, and in any event for long enough to ensure that inflation remains stabilized around the 2.0% target.

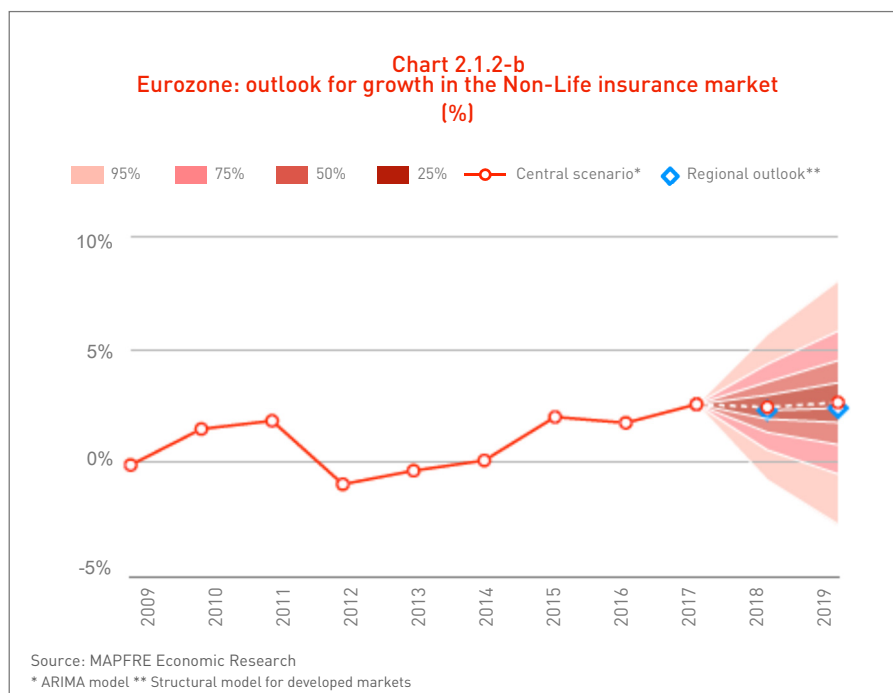
At its meeting on June 14, the ECB confirmed its intent to continue net purchases of assets at the current rate of 30 billion euros per month until the end of September 2018. Starting then, the purchasing rate will be reduced to 15 billion euros monthly until the end of the year. After that, the Central Bank will continue its policy of reinvesting the principal on bonds reaching maturity during an extended period after the end of the net purchases of assets, and in any event for as long as necessary to maintain favorable liquidity conditions and a heightened level of monetary accommodation.

Chart 2.1.2-a shows the risk-free yield curves for the European Insurance and Occupational Pensions Authority (EIOPA), indicating the minimum, average and maximum levels reached in 2017 as well as the level of the latest published curves for the months of March and June 2018 (other months and currencies can also be viewed on the interactive chart that can be accessed at the indicated link). The indicated chart shows a slight drop in rates along the length of the curve, very close to the average values reached in 2017 (see Chart 2.1.2-a). The curve continues to indicate a positive slope, with higher rates for longer maturities, which may

provide stimulus for the development of Life savings and annuity products, although with rates so low that their marketing will still be difficult. The short section of the curve continues to show negative values, and it appears that the segment with negative rates has extended slightly again. This sustained context of low interest rates continues to be prejudicial to the development of the specified lines of business.

Furthermore, we estimate that in this economic environment Non-Life insurance premiums in the eurozone could reach a nominal increase of about 2.4% in 2018 and 2.7% in 2019 (see Table 2.1.2 and Chart 2.1.2-b).





2.1.3 Spain

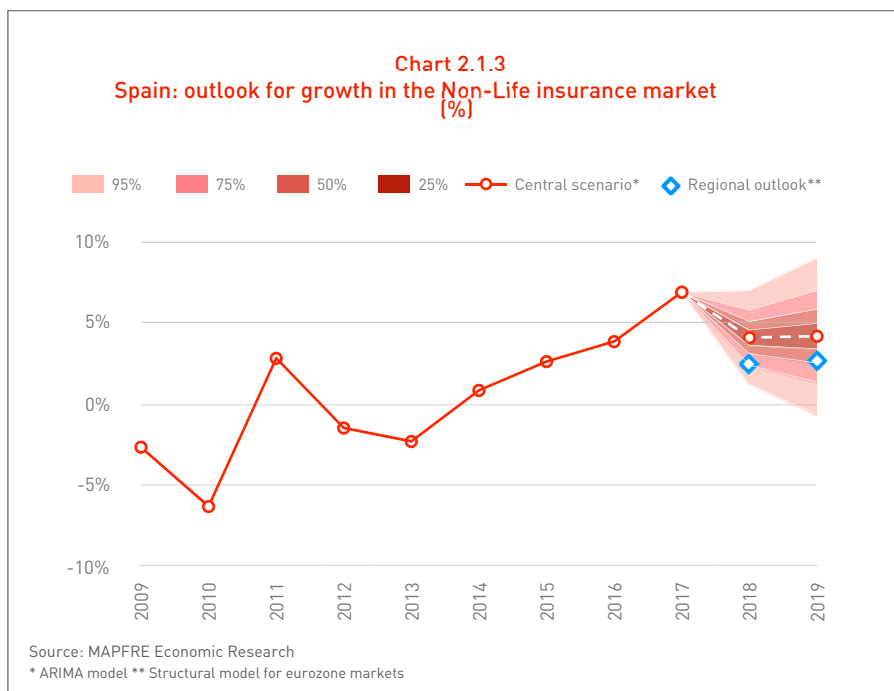
In Spain, estimated economic growth for the entire year is set at about 2.7% (3.1% in 2017), with a slight slowdown compared to the previous year. Private consumption, investment, exports and the job creation contribute to the growth, in a context of lax monetary conditions. The increase in oil prices and the downturn in the eurozone, the principal destination of Spanish exports, are contributing to this slowdown. Nevertheless, prognostics continue to be favorable for the development of Non-Life and Life risk in the insurance market with consumption continuing to run strong, assisted to a large extent by the expansion of credit. Trends in the real estate market also favor development of these segments of the insurance business.

Table 2.1.2
Non-Life market: outlook for growth in selected insurance markets, 2018-2019
(central scenario, growth in local currency, %)

	Non-Life market	
	2018	2019
Eurozone	2.4%	2.7%
Spain	4.1%	4.2%
Turkey	13.5%	9.3%
United States	4.1%	3.9%
Brazil	11.0%	10.9%
Mexico	9.3%	11.1%
China	14.7%	15.9%

Source: MAPFRE Economic Research

As for Life savings insurance and traditional annuities, the continuing low interest rate environment (due to inflation rates still below the ECB target) continues to bear down on this business, as we have noted in previous reports. Progress in the insurance industry toward products in which the investment holder assumes the risk of investment, or traditional products that make the most of the positive slope of the rates curve, has not ceased, in a context of interest rates that is negatively offsetting the effect that the improvement seen in the Spanish economy could have on these business lines.



Given the situation, we estimate that nominal Non-Life insurance premiums will increase 4.1% in 2018, and 4.2% in 2019 (see Table 2.1.2 and Chart 2.1.3).

2.1.4 Turkey

Growth forecasts for the Turkish economy in 2018 place it at about 4.1% (7.4% in 2017). The forecast decrease in growth is the result of an expected slowdown in credit given the increases in interest rates, and can

clearly be noted in the risk-free yield curves from EIOPA (see Chart 2.1.4-a) and more expensive financing in dollars due to the depreciation in the Turkish lira, as well as higher priced energy imports due to the increase in oil prices. The high inflation rates and currency depreciation in turn have a negative impact on the cost of claims of insurance companies.

The high volatility in interest rate behavior and the inverted curve of risk-free rates, which tend to increase its negative slope, are in turn detrimental to the development of Life savings and annuities business. All the same, in this elevated short-term interest rate environment, especially

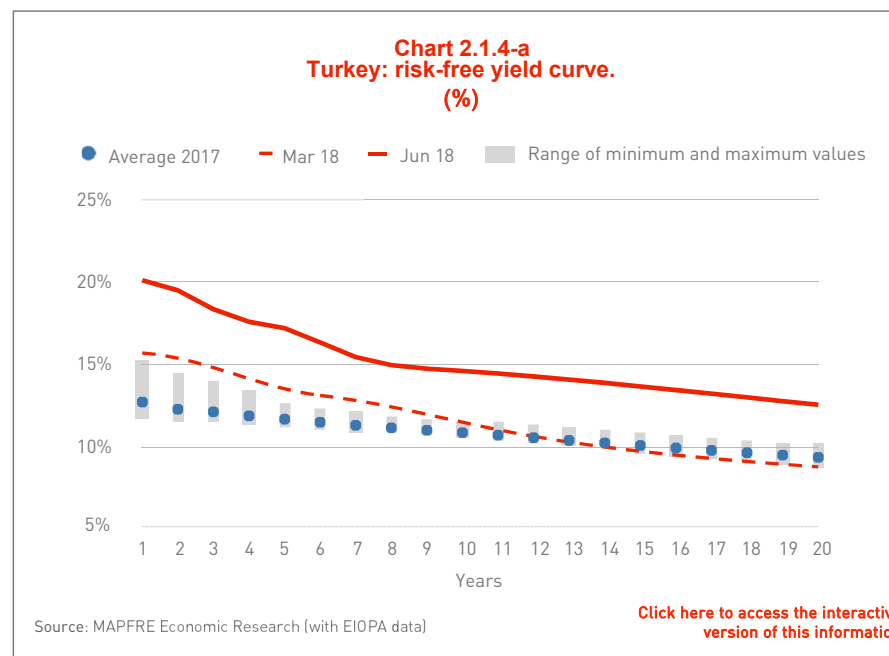
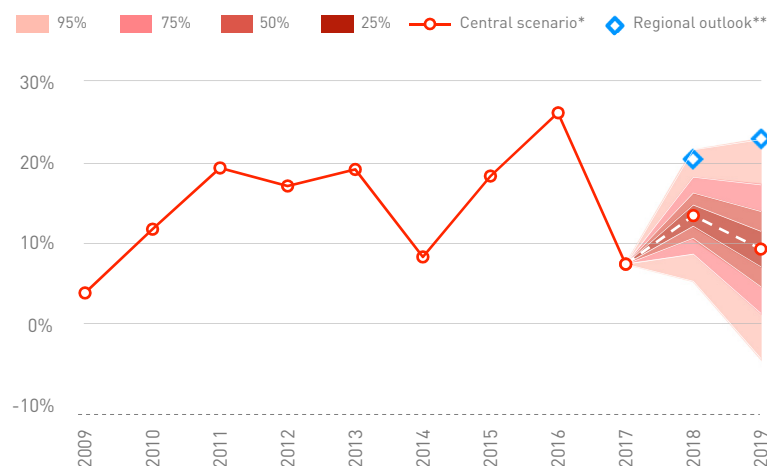


Chart 2.1.4-b
Turkey: outlook for growth in the Non-Life insurance market (%)



Source: MAPFRE Economic Research

* ARIMA model ** Structural model for Emerging European markets

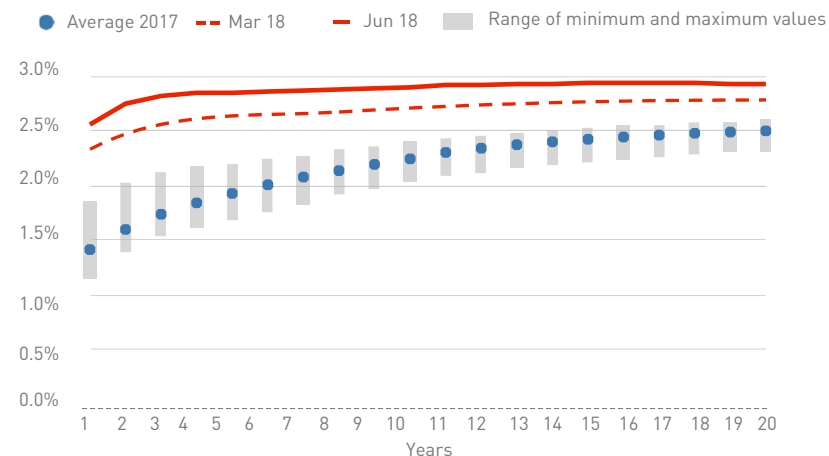
after the recent increases, an opportunity may present itself for the marketing of temporary renewable short-term Life savings products, allowing for a revision of the guaranteed rate at each renewal.

Considering the overall context, we estimate that Non-Life insurance premiums will increase in nominal terms about 13.5% in 2018 and 9.3% in 2019 (see Chart 2.1.4-b) as a central scenario, which could translate into very moderate real increases if the prediction of high inflation levels are taken into account.

2.1.5 United States

Predicted economic growth for 2018 in the United States could come in at about 3% (compared to 2.3% in 2017), which is a slightly upward revision of the previous prediction. The US economy is in a culminating phase, with unemployment at minimum levels (3.8%) and an increasing inflation rate. This environment continues to be favorable for the insurance industry, particularly with regard to Non-Life and Life risk businesses. Nevertheless, there are indicators alerting that the US economy is in a highly advanced stage of the economic cycle that the latest tax stimulus is prolonging, which could indicate an imminent change of cycle. This would have a negative effect on the development of these business segments.

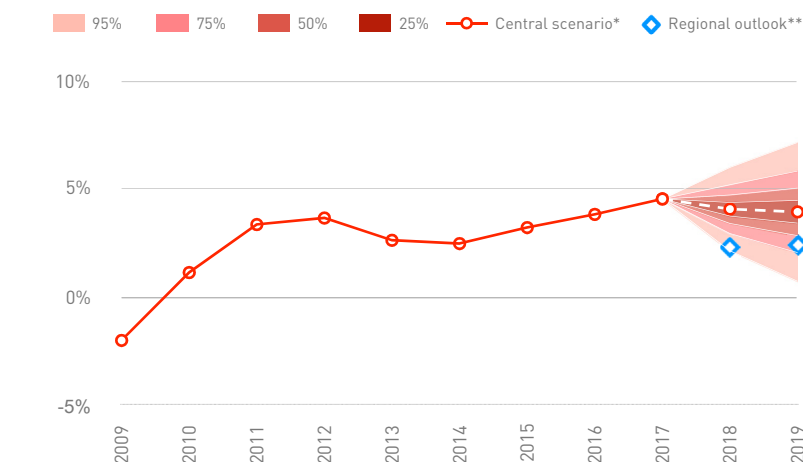
Chart 2.1.5-a
United States: risk-free yield curve (%)



Source: MAPFRE Economic Research (with EIOPA data)

[Click here to access the interactive version of this information](#)

Chart 2.1.5-b
United States: outlook for growth in the Non-Life insurance market (%)



Source: MAPFRE Economic Research

* ARIMA model ** Structural model for developed markets

In addition, inflation for June was 2.9% and the underlying inflation 2.3%, so the Federal Reserve has managed to reach its double objective of inflation and growth and is speeding up the hardening of its monetary policy. We anticipate one more increase this year and two increases in 2019. In the EIOPA risk-free yield curves for the US market, the latest rises can be seen clearly, affecting all sections of the curve, even if in the short and medium section the rise is greater than in the long section, causing a flattening out of the rate curve as it rises (see Chart 2.1.5-a). This situation complicates the development of Life savings and annuities business. The flattening that the curve is experiencing, a more abrupt rise than was initially expected and the expectation of interest rate increases

in itself are hurting these lines of business, as companies need time to adapt their new products and guaranteed rates in their portfolios. In this context, the demand for savings products slows as rises occur, and this may give rise to the redemption of policies marketed at lower-than-market rates.

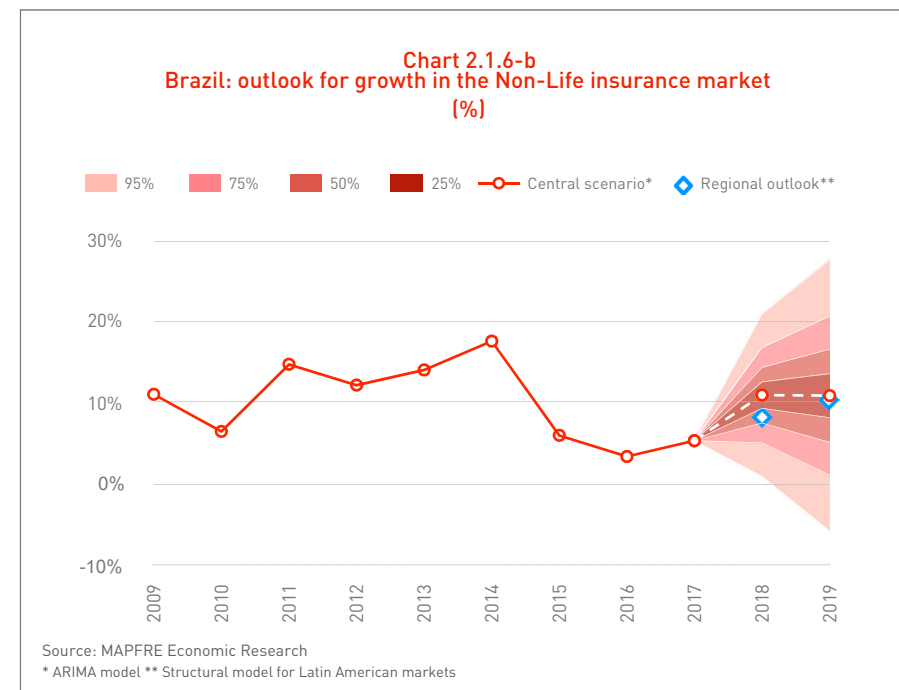
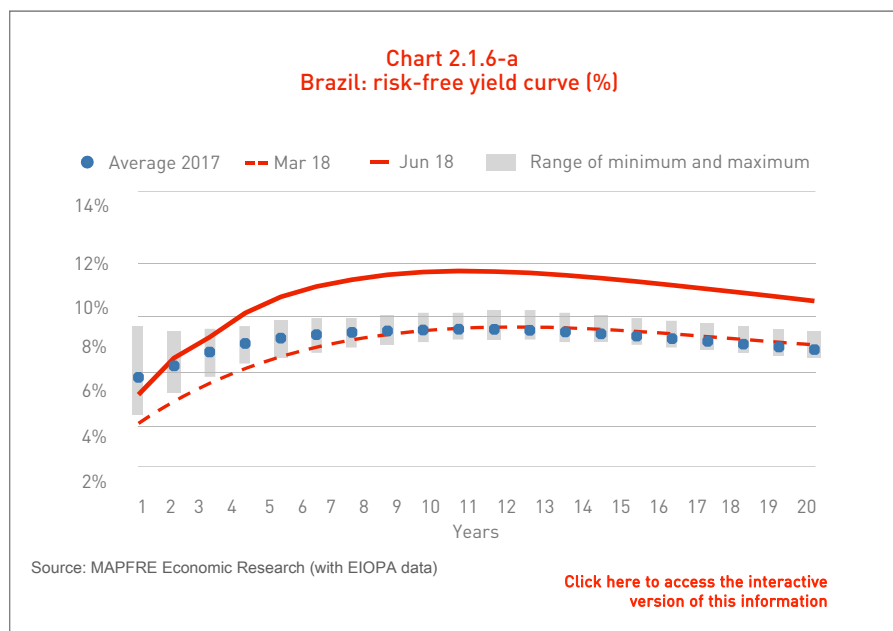
In this overall context, we estimate that premiums in the Non-Life sector may undergo some growth, in nominal terms, of about 4.1% in 2018 and 3.9% in 2019 as its central scenario (see Table 2.1.2 and Chart 2.1.5-b).

2.1.6 Brazil

In Brazil, the economy sustained a significant slowdown in the first quarter and an increase in uncertainty, causing a downward revision in the average growth predictions for 2018, which would come in at around 1.6% (1% in 2017). This slowdown in forecasts is due primarily to a decrease in public spending and a slowdown in investment and exports. The increase in oil prices and depreciation of the Brazilian real has had a negative impact. Also, the approach of the presidential elections to be held in October of this year will result in a postponement of necessary structural reforms to balance public accounts. In any event, the predicted growth will be greater than in 2017 and far from the recessive environment experienced in 2015 and 2016.

Given this scenario, we must moderate the still current forecast of good performance of the Non-Life and Life risk lines of business of the insurance industry, given their close relation with the performance of the business cycle. Furthermore, the upturn in inflation and depreciation of the real will have negative repercussions on loss costs, eroding the profitability of insurance business.

As for the slight upturn in inflation, it has curtailed its sustained declining trend in recent quarters, which together with the depreciation of the Brazilian real against the dollar has hindered the accommodative monetary policy that the Central Bank of Brazil was applying. So EIOPA's risk-free yield curves indicated a rate increase in June compared to the curve in March (see Chart 2.1.6-a). Likewise, it increases the already pronounced positive slope of its medium segment in a situation in which interest rates are dropping sharply, which is a highly favorable environment for the development of Life savings insurance and annuities business, especially for companies that are sufficiently flexible to rapidly adapt their new products in this environment.

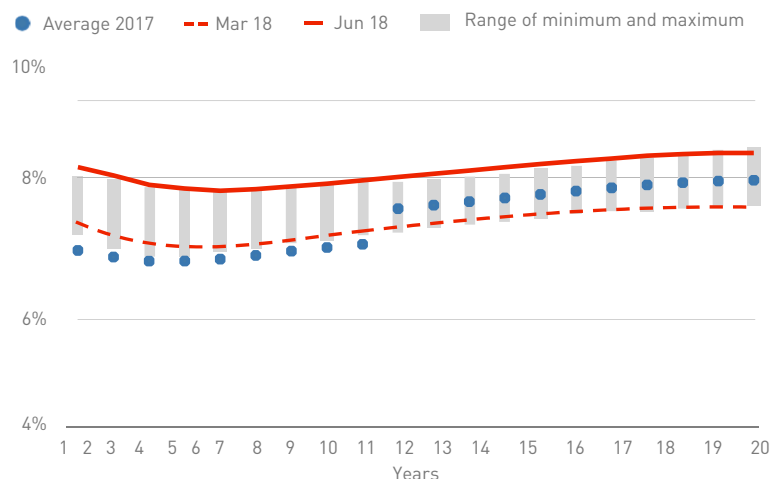


In this situation we estimate that premiums in the Non-Life insurance segment will increase in nominal terms to about 11% in 2018 and 10.9% in 2019 as the central scenario (see Table 2.1.2 and Chart 2.1.6-b).

2.1.7 Mexico

Growth in the Mexican economy for the entire year 2018 is estimated at around 2.4% (2.3% in 2017). Private consumption and the positive impact of the increase in oil prices in exports will contribute to this growth. The good performance of the economy will continue to favor

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



[Click here to access the interactive version of this information](#)

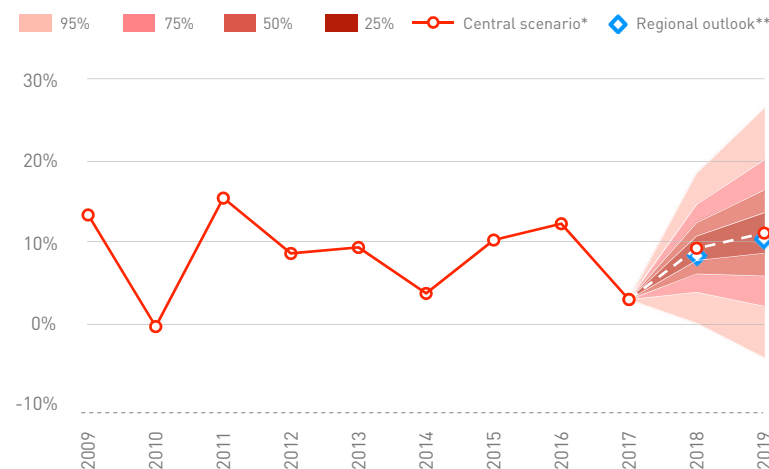
Source: MAPFRE Economic Research (with EIOPA data)

the development of Non-Life and Life risk business segments in the insurance market, supported by the low level of insurance penetration in Mexico.

Inflation was 4.6% in June and has continued to drop significantly since the beginning of the year, favorably affecting profitability in Non-Life lines of business through containment of expenses from anticipated losses. The recovery of the currency after the positive reaction of the markets following the elections in July is also good news for the insurance industry, as currency depreciation leads to higher loss costs for imported materials and an increase in coverage through reinsurance, the contracts of which are negotiated in dollars.

An upturn in interest rates in the curve for June compared to March can be observed in the risk-free yield curves published by EIOPA, leveling out higher than the maximum reached in 2017 in a somewhat more pronounced fashion in the short segment of the curve, which has a slightly negative slope (see Chart 2.1.7-a). Nonetheless, starting with maturities of around four years, a positive slope is recovered and long-term rates are relatively less volatile. This environment continues to be favorable for Life savings and annuity products, making the most of the long-term rate levels, as well as temporary Life savings products, renewable for periods of less than a year, which allow for a review of the guaranteed rate at each renewal.

Chart 2.1.7-b
Mexico: outlook for growth in the Non-Life insurance market
(%)



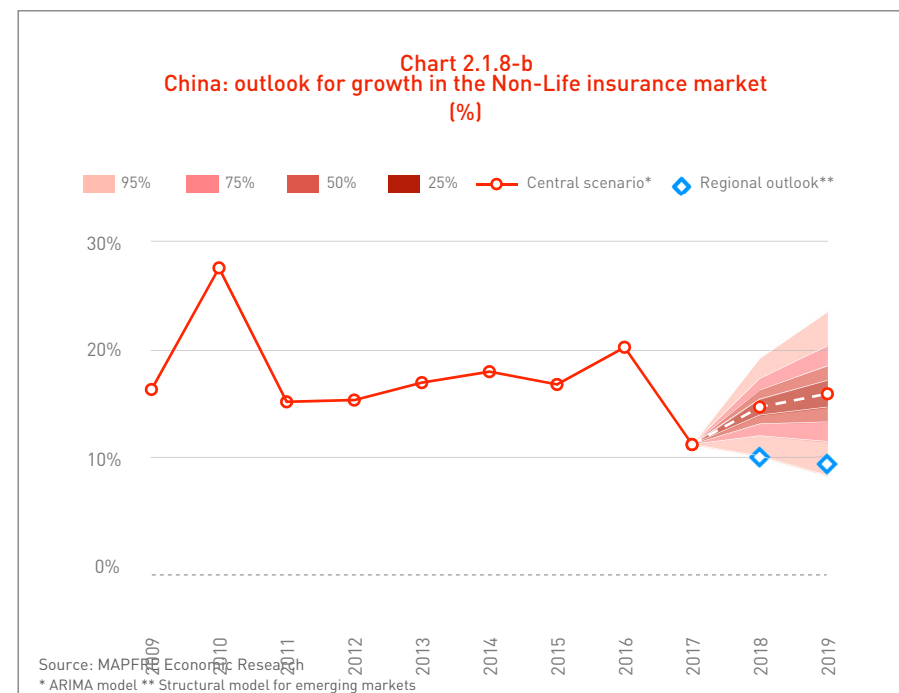
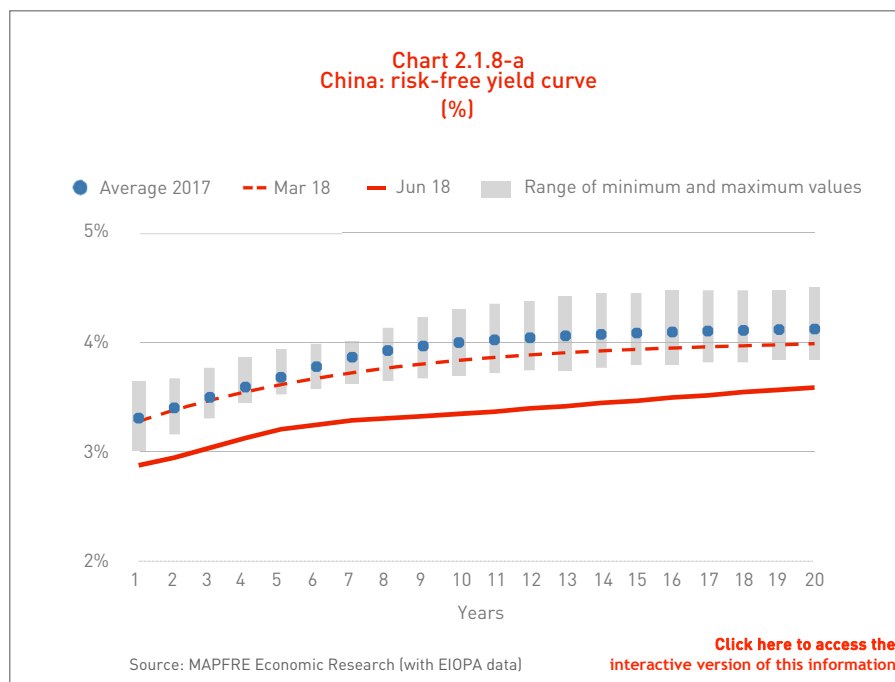
Source: MAPFRE Economic Research

* ARIMA model ** Structural model for Latin American markets

In this situation we estimate that premiums in the Non-Life insurance segment will increase in nominal terms to about 9.3% in 2018 and 11.1% in 2019 as the central scenario (see Table 2.1.2 and Chart 2.1.7-b).

2.1.8 China

The forecast for the Chinese economy is a GDP increase of around 6.3% in 2018 (6.9% in 2017), supported by good performance in investments and exports, although the escalation of trade tensions with the United States and the surrounding uncertainty is making businesses less confident, and thus they are postponing their investments. This, coupled with stricter financial



policies, leads to the expectation of a major deceleration of the Chinese economy in 2019. Nevertheless, the economic outlook continues to be favorable for the prospects of the Non-Life and Life risk insurance business, with the support of the still lowered insurance penetration rate in China, leading to greater flexibility for premium growth compared to GDP growth. It should be noted, as we have mentioned in previous reports, that the Chinese government's specific objectives include increasing the penetration rate of insurance activity. Prospects for moderate inflation in the area of 2.5% are also positive for the future development of loss costs.

As for Life savings and annuities business, the risk-free yield curves published by EIOPA indicate that interest rates are continuing to fall, remaining clearly below the 2017 average in all maturities (see Chart 2.1.8-a). The curve has been maintaining a positive slope for up to five years, which together with the expectation that rates may continue to fall is positive for these business segments. However, interest rates are already at low levels in absolute terms, which may affect their performance despite the positive slope of the curve, expectations regarding new interest rate lows and the good momentum of the economy. The outlook for this line of business most definitely continues to be favorable, but there are factors that may end up moderating its growth.

Within this context, we estimate that Non-Life insurance premiums will increase in nominal terms to about 14.7% in 2018 and 15.9% in 2019 as the central scenario (see Table 2.1.2 and Chart 2.1.8-b).

2.2 Regulatory trends: new aspects in the quarter

European Union

2018 Insurance Stress Test

Last May, EIOPA published technical specifications for the performance of the stress test in which more than forty insurance groups must participate⁶. The deadline for submitting information by these groups to their respective national supervisory authorities ends this July.

2017 SFCR for the principal insurance groups in the European Union

Solvency II and the Solvency and Financial Condition Report

The deadline for the presentation of the Solvency and Financial Condition Report (SFCR) of insurance groups in the European Union was reached on June 25, 2018. It was the second such report released by those companies since the new regulatory framework introduced under Solvency II entered into force.

One of the most important changes that the new solvency regulation introduced was the requirement for calculating a solvency capital requirement (SCR) for groups of insurance companies located in the European Union. Up until Solvency II entered into force, the only obligation was the calculation of regulatory capital at the individual level by insurance companies, with prudential control exercised by national supervisory authorities on this basis. In addition, supplementary control for the supervision of insurance groups was formulated, focusing basically on following intra-group operations that may result in double calculation of capital in various companies of the same group, or the existence of additional risk that is not discernible at the individual level.

Under the new solvency regime applicable to insurance groups, a regulatory scheme is reproduced based on three pillars, seeking to create incentives not just so that insurance companies are properly administered at the individual level, but also at the level of the insurance groups of which they are a part. It seeks to strengthen the regulatory scheme based on the principle of protecting the interests of the insured while at the same time guaranteeing that the insurance industry contributes to sound economic performance, and ultimately in the

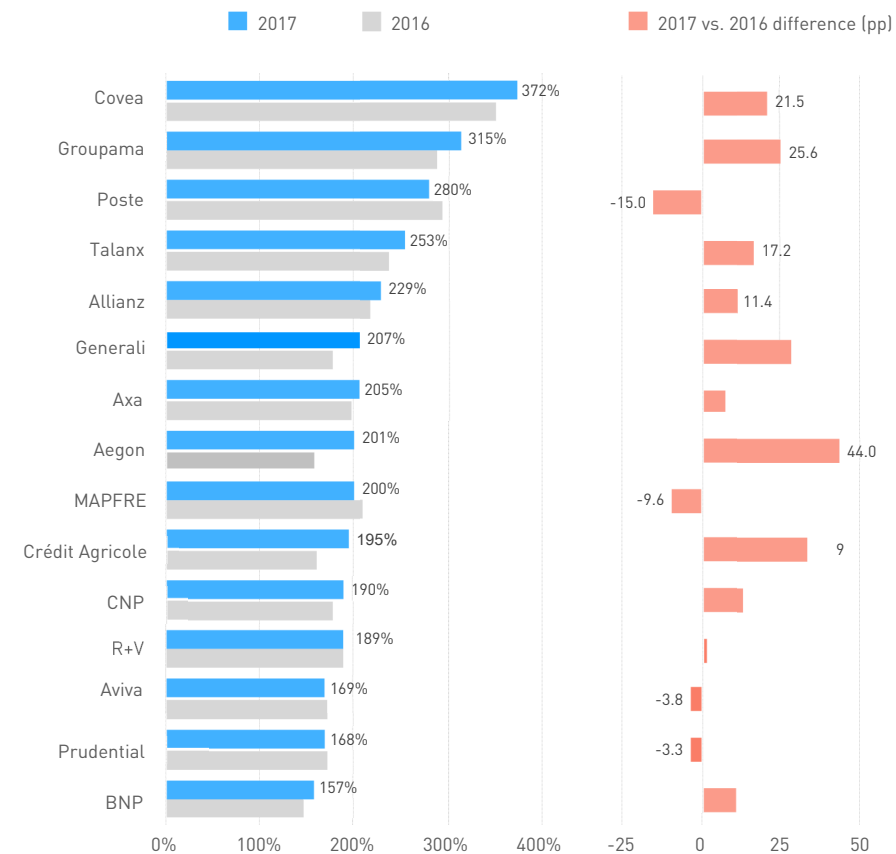
stability of the financial system. Hence, under the Solvency II scheme applicable to insurance groups, Pillar 1 focuses on determining quantitative aspects that preserve the solvency of the group as defined under the solvency regulation itself, and that consequently may differ from the scope of the consolidated group's accounts; Pillar 2 seeks to maintain satisfactory governance of the insurance groups as an additional element supporting their performance, and specifically their solvency; and lastly, the objective of Pillar 3 is to increase transparency and disclosure of information of these groups to the market.

In this situation, pursuant to the specific applicable regulatory framework under Pillar 3, the groups of insurance companies must publish information on their financial position and solvency on an annual basis, providing clear, comparable and high quality information to the market by the release of the group SFCR. By doing this, the regulation seeks to enable interested economic operators to best evaluate the characteristics of the processes and evaluation and management of risks, the sufficiency of their technical provisions and shareholders' equity, and to obtain an overall view of their solvency of these groups, to the extent that they have information making it possible for them to understand the risk implicit at the level of the different insurance groups.

Solvency ratios

Based on this information made available to the market by the major insurance groups of the European Union (EU) and the European Economic Area (EEA) that have assumed the Solvency II regulations, the components and performance of their solvency ratios have been analyzed. This analysis covers the performance of the solvency ratios of the major insurance groups for 2017, including some comparisons in the development of their major components with reference to 2016, which was the first year that Solvency II was in operation. Furthermore, this collection of groups makes up the ranking of the 15 major insurance groups within the EU, based on total written premiums.

Chart 2.4-a
2017 solvency ratios and difference vs. 2016



Source: MAPFRE Economic Research (with SFCR data published by the indicated companies)

Table 2.4-a
Principal 2017 financial and solvency figures
(millions of euros)

	Premiums	Technical provisions	Eligible own funds	SCR required	Solvency ratio
Allianz	125,064	559,476	76,393	33,317	229%
Axa	91,989	482,287	57,764	28,201	205%
Generali	70,395	428,710	45,880	22,191	207%
Prudential	52,710	258,438	37,648	22,443	168%
Aviva	42,845	393,449	33,813	20,042	169%
Talanx	33,805	102,276	20,880	8,248	253%
CNP	32,399	361,217	26,088	13,707	190%
Crédit Agricole	30,517	316,585	23,562	12,064	195%
Aegon	23,814	134,350	15,628	7,774	201%
MAPFRE	23,481	34,942	8,875	4,433	200%
BNP	21,991	180,175	12,061	7,696	157%
Poste	20,263	117,370	8,522	3,049	280%
Covea	16,474	84,934	23,680	6,357	372%
R+V	15,448	85,284	10,722	5,661	189%
Groupama	13,672	74,263	12,682	4,027	315%
Total	614,867	3,613,757	414,197	199,209	208%

Source: MAPFRE Economic Research (with SFCR data published by the indicated companies)
* Standard Formula (SF); Partial Internal Model (PIM)

First of all, Chart 2.4-a shows the solvency ratios for fiscal year 2017 published in the SFCRs presented in 2018 for the 15 major insurance groups in the European Union⁷. These ratios are compared with those that were published respectively regarding the 2016 fiscal year, as well as the variation between both years.

Table 2.4-a also shows the major financial and solvency figures for fiscal year 2017 stated in the various SFCRs by the large insurance groups of the EU considered in the sample analyzed. As this information indicates, the total premiums for this year included in our analyzed sample was 614.9 billion euros (equivalent to over 50% of the Spanish GDP) and technical provisions of 3.6 trillion (more than three times the Spanish GDP). Also, total own funds were 414.2 billion euros, while the aggregate SCR was 199.2 billion euros, rendering an aggregate solvency ratio for the sample at 208%.

SCR calculation methods

Table 2.4-b shows the method used by the insurance groups considered in this analysis for the purposes of calculating SCR for 2017. To summarize, out of the 15 groups analyzed, seven (SNP, Crédit Agricole, MAPFRE, BNP, Poste, Covea and R+V) used the standard formula, whereas the remaining eight (Allianz, Axa, Generali, Prudential, Aviva, Talanx, Aegon and Groupama) used different variations on internal models, making use of the options provided under Solvency II for this. It should be noted that in 2017 the Aegon Group received approval from its supervisor for the introduction of changes in its internal market risk model related to adjustment of the calculation of spread risk.

None of the groups analyzed is using a pure internal model for the calculation of SCR. All the groups performing some type of internal modeling have elected, with the authorization of their supervisors, to apply partial internal models, combining the standard formula calculation for some modules with internal models for specific categories of risks.

Table 2.4-b
SCR calculation methods, 2017

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

Source: MAPFRE Economic Research (with SFCR data published by the indicated companies)

Eligible own funds

As for the quality of eligible own funds available to the different insurance groups considered in the analysis to cover their capital requirements, Table 2.4-c presents the most relevant information. According to this data, at the aggregate level 86% of the eligible own funds is of maximum quality or tier 1 (84% in 2016), 13% in tier 2 (14% in 2016), and only 1% is in tier 3 (2% in 2016).

Furthermore, with regard to size, Charts 2.4-b, 2.4-c and 2.4-d illustrate a comparison of the amount of eligible own funds in relation to some figures relevant to the balance sheet and business (assets, technical provisions and premiums) of the various insurance groups considered in the analysis, as well as variations recorded in these relative references with regard to 2016.

Transitional and adjustment measures

One piece of relevant information for the purposes of the development of solvency ratios incorporating the SFCRs for insurance groups in the European Union is the derivative effect of the measures introduced in the Solvency II Directive intended to alleviate possible damage to business resulting from the existence of product portfolios with long-term guarantees.

These measures establish an ample transitional regime for the full entry into force of the new system, and also consider to some extent the characteristics of long-term institutional investors that hold these types of companies and their groups that may have to contend with considerable volatility of financial markets with market spread increments, without requiring forced sales to be made (volatility adjustment) and the satisfactory management of asset-liability risks (matching adjustment). As such, the transitional regime permits a smooth transition to the requirements under the new system for those that decide to make use of it. The principal measures adopted by the Directive in this regard are as follows:

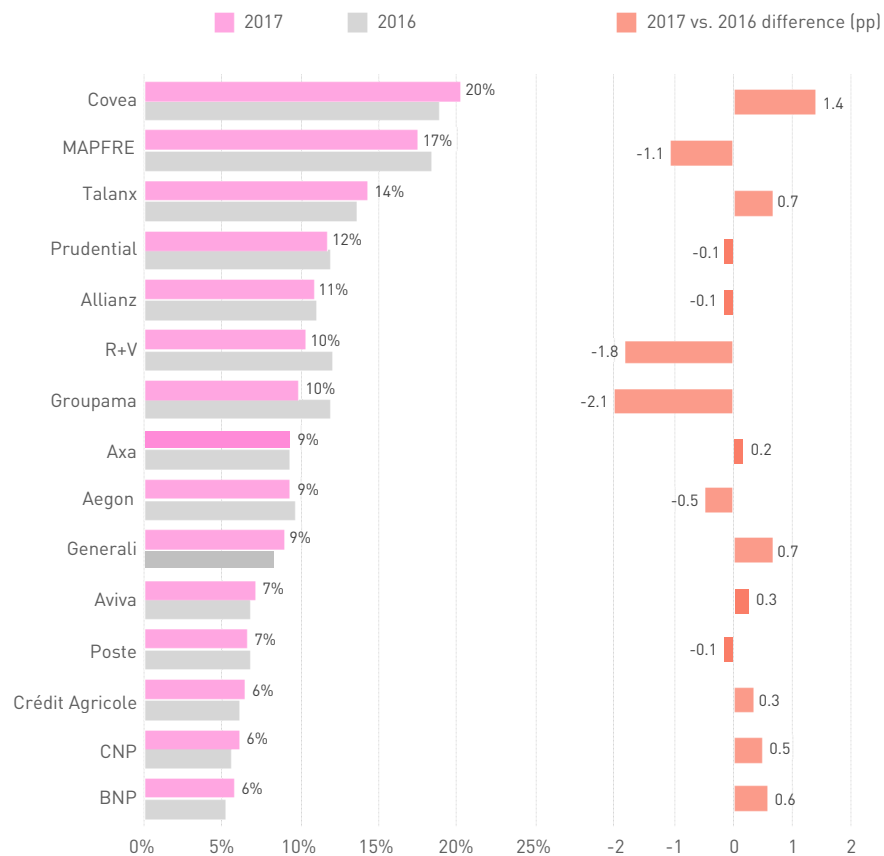
- Technical provision transitional measure. This measure enables the staggered postponement of the effect of the existing difference between the estimated technical provision under Solvency II parameters and the calculated provision in line with the previous I

Table 2.4-c
Quality of eligible own funds, 2017
(thousands of euros and percentages)

	Eligible own funds	Tier 1		Tier 1r		Tier 2		Tier 3	
		(amount)	(%)	(amount)	(%)	(amount)	(%)	(amount)	(%)
Allianz	76,393,131	61,838,366	81%	3,201,484	4%	10,618,332	14%	734,949	1%
Axa	57,763,793	41,716,539	72%	7,457,480	13%	7,654,103	13%	935,671	2%
Generali	45,879,550	36,869,701	80%	3,603,078	8%	5,327,828	12%	78,944	0%
Prudential	37,647,801	31,009,334	82%	931,926	2%	5,670,026	15%	36,515	0%
Aviva	33,812,722	23,324,662	69%	2,914,509	9%	7,182,405	21%	391,146	1%
Talanx	20,879,737	18,420,312	88%	383,706	2%	1,930,957	9%	144,762	1%
CNP	26,087,946	18,584,738	71%	2,634,229	10%	3,877,926	15%	991,053	4%
Crédit Agricole	23,561,948	16,776,198	71%	1,955,410	8%	4,822,261	20%	8,079	0%
Aegon	15,627,637	10,427,405	67%	2,451,444	16%	2,301,067	15%	447,721	3%
MAPFRE	8,875,020	8,275,700	93%			599,320	7%		
BNP	12,060,978	7,195,000	60%	1,132,000	9%	2,755,000	23%	978,978	8%
Poste	8,522,237	7,481,412	88%			1,040,825	12%		
Covea	23,680,185	23,627,747	100%	45,958	0%	6,480	0%		
R+V	10,721,910	10,706,210	100%			15,700	0%	28,475	0%
Groupama	12,682,403	10,219,470	81%	1,210,828	10%	1,223,630	10%	28,475	0%
Total	414,196,998	326,472,794	79%	27,922,052	7%	55,025,860	13%	4,804,768	1%

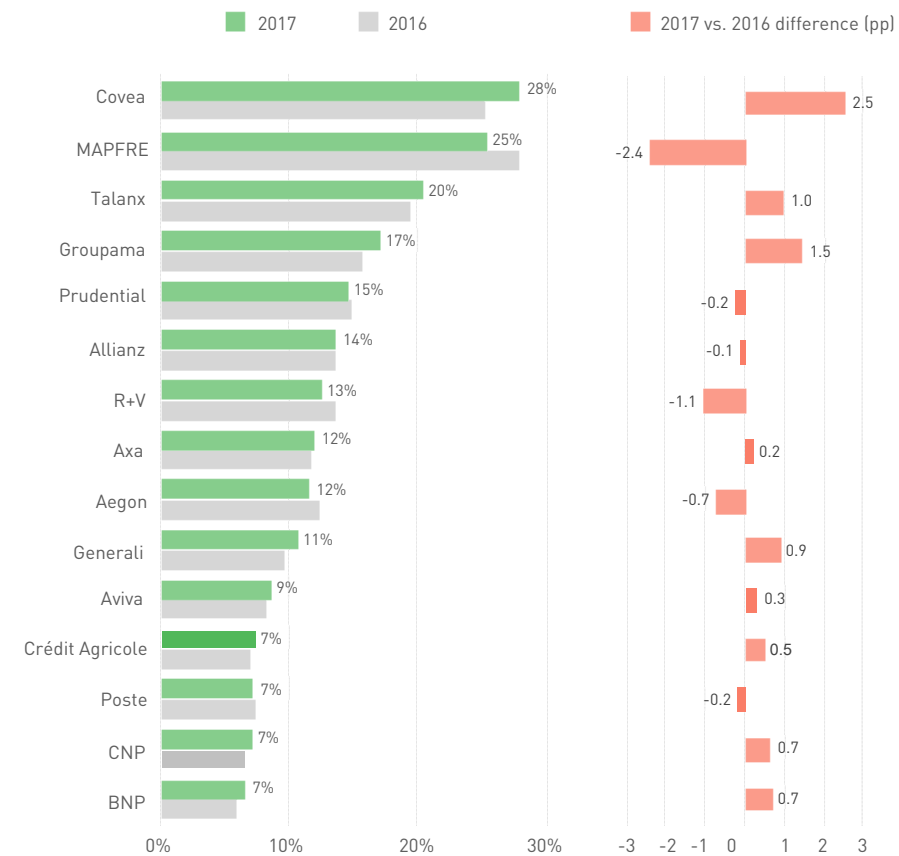
Source: MAPFRE Economic Research (with SFCR data published by the indicated companies)

Chart 2.4-b
Relative weight of own funds to assets in 2017 and
difference vs. 2016



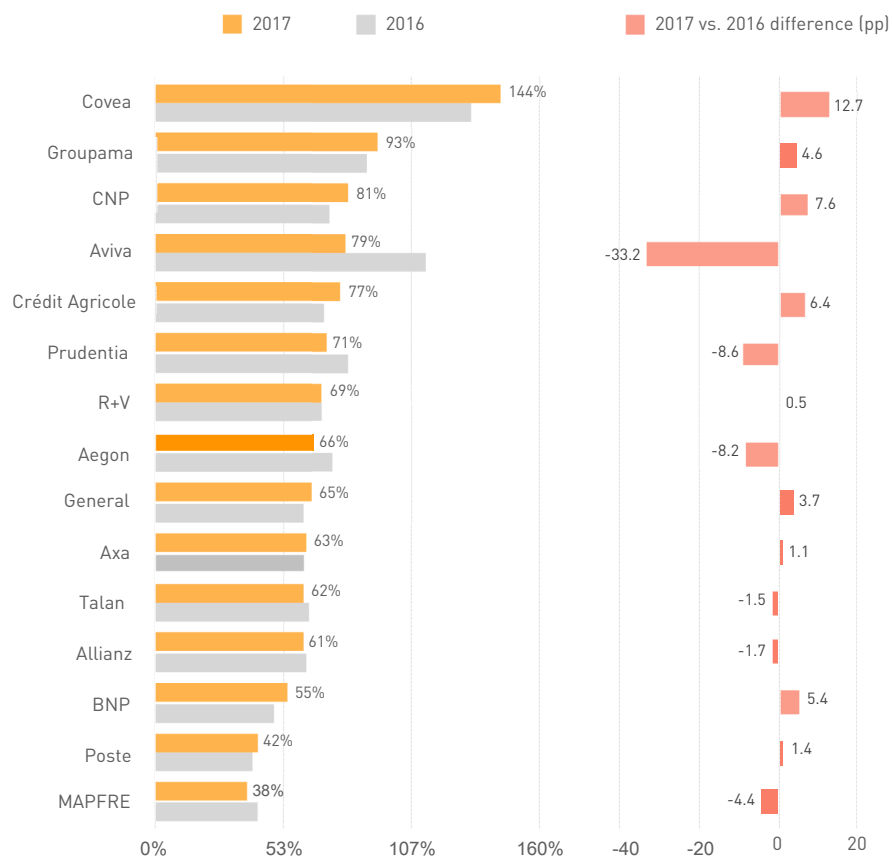
Source: MAPFRE Economic Research (with SFCR data published by the indicated entities)

Chart 2.4-c
Relative weight of own funds to technical provisions in 2017 and
difference vs. 2016



Source: MAPFRE Economic Research (with SFCR data published by the indicated entities)

Chart 2.4-d.
Relative weight of own funds to premiums in 2017 and difference vs. 2016



Source: MAPFRE Economic Research (with SFCR data published by the indicated entities)

Solvency regulations during a period of 16 years. This applies only to portfolios existing at the time that the new system entered into force, on January 1, 2016.

- b) Volatility adjustment measure. The adjustment makes it possible to correct the discount interest rate for technical provisions to amortize the effects of one-time increases in credit spreads in investment portfolios.
- c) Matching adjustment measure between assets and liabilities. This measure makes it possible to adjust the interest rate curve used to discount technical provisions for those insurance companies that hold fixed income assets with, among other requirements, durations similar to their liabilities, and that therefore are not exposed to market fluctuations from credit spreads.

Impact of transitional and adjustment measures

By their nature, transitional and adjustment measures affect the level of eligible own funds and the SCR, and by extension the solvency ratio. The extent of this impact is determined by, among other factors, the structure of the risk portfolio of each insurance group as well as by the characteristics of their risk management process.

The effect of each transitional and adjustment measure on eligible own funds and the SCR of the insurance groups analyzed were disclosed by each group when publishing their respective SFCRs. This effect is presented in Tables 2.4-d and 2.4-e, and illustrated (together with the difference relative to 2016) in Charts 2.4-e and 2.4-f.

Table 2.4-d
Effect of adjustment and transitional
measures on own funds, 2017
(thousands of euros)

	Eligible own funds	Effect of the PT transitional adjustment on own funds	Effect of the volatility adjustment on own funds	Effect of the matching adjustment on own funds
Allianz	76,393,131		1,174,176	
Axa	57,763,793		-645,087	
Generali	45,879,550		-247,724	
Prudential	37,647,801	-2,210,165	90,632	-3,012,920
Aviva	33,812,722	-5,168,480	-226,756	-8,469,043
Talanx	20,879,737	-3,781,845	162,348	
CNP	26,087,946		-172,053	
Crédit Agricole	23,561,948		-453,399	
Aegon	15,627,637	-55,833	-205,341	-54,699
MAPFRE	8,875,020	-762,550	-19,480	-494,550
BNP	12,060,978		-107,810	
Poste	8,522,237		-108,798	
Covea	23,680,185			
R+V	10,721,910			
Groupama	12,682,403	-3,655,716	-72,730	

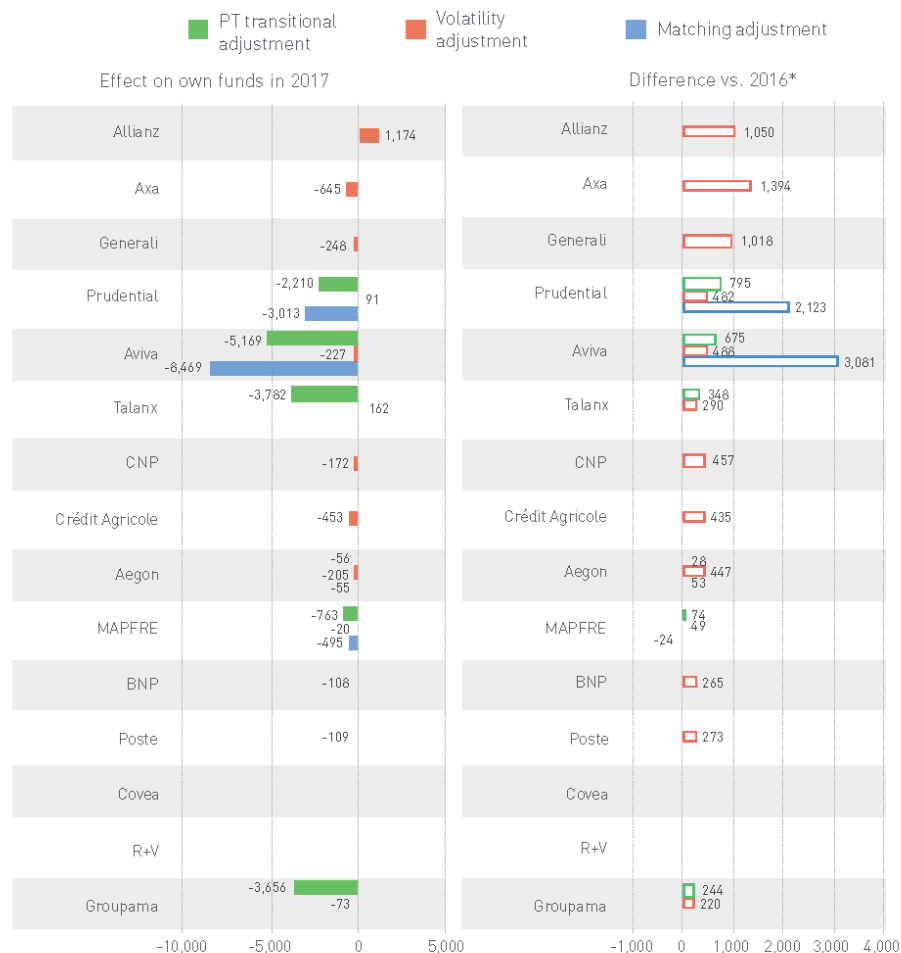
Source: MAPFRE Economic Research (with SFCR data published by the indicated companies)

Table 2.4-e
Effect of adjustment and transitional
measures on SCR, 2017
(thousands of euros)

	SCR required	Effect of the PT transitional adjustment on own funds	Effect of the volatility adjustment on own funds	Effect of the matching adjustment on own funds
Allianz	33,316,733		3,342,725	
Axa	28,200,911		6,451,633	
Generali	22,190,932		5,463,777	
Prudential	22,443,074	439,716	360,470	5,835,203
Aviva	20,041,978	735,187	224,435	6,729,065
Talanx	8,248,002	10,515	1,676,873	
CNP	13,706,778		106,996	
Crédit Agricole	12,063,856		-20,528	
Aegon	7,773,975	515	1,273,243	64,733
MAPFRE	4,432,639	-800	-150	-184,980
BNP	7,696,238		83,875	
Poste	3,048,633		14,324	
Covea	6,357,303			
R+V	5,661,062			
Groupama	4,027,111	1,184,564	72,392	

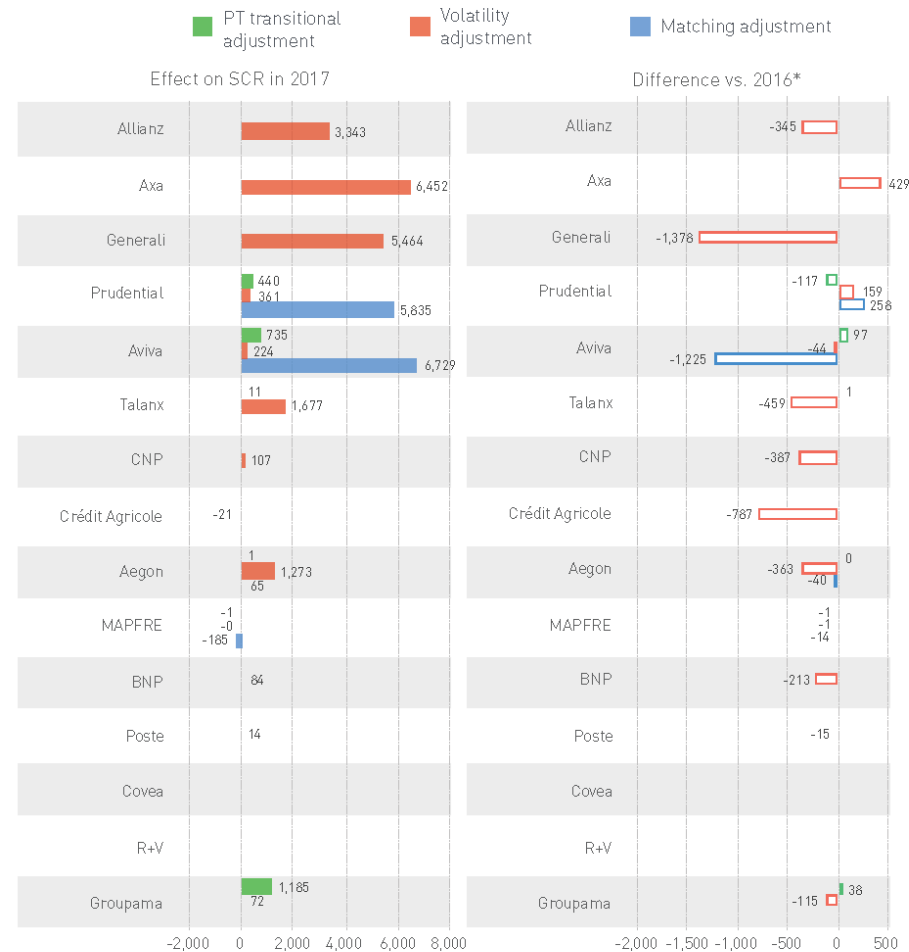
Source: MAPFRE Economic Research (with SFCR data published by the indicated companies)

Chart 2.4-e
Effect of adjustment and transitional measures on own funds, 2017
(millions of euros)



Source: MAPFRE Economic Research (with SFCR data published by the indicated entities)
* Negative variation indicates increase in impact of adjustment.

Chart 2.4-f
Effect of adjustment and transitional measures on SCR, 2017
(millions of euros)



Source: MAPFRE Economic Research (with SFCR data published by the indicated entities)
* Negative variation indicates increase in impact of adjustment.

Relative weight of SCR components

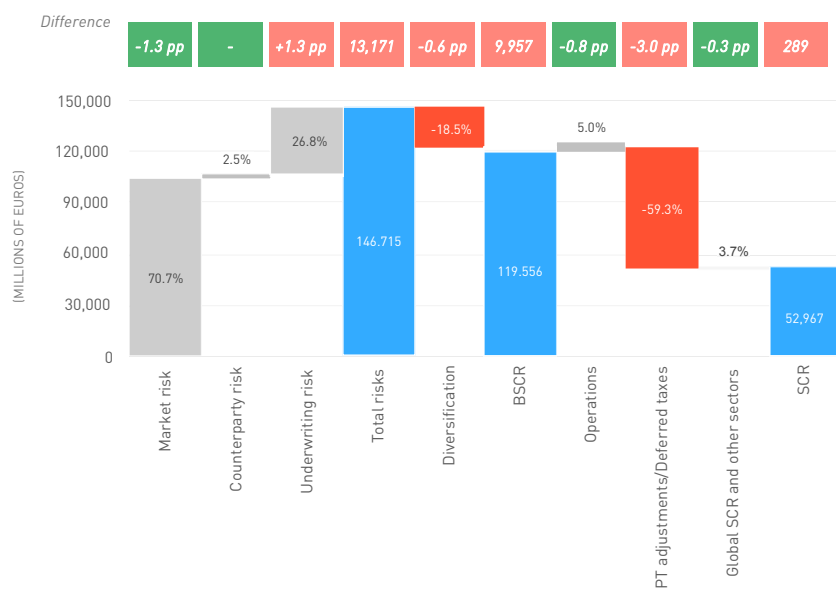
Finally, Charts 2.4-g and 2.4-h illustrate the overall composition of the various modules and other components of the SCR for the insurance groups analyzed in this report. On one hand, for insurance groups that calculate SCR using the standard formula (Chart 2.4-g), a decrease in the relative weight of the market risk module (-1.3 pp) to the detriment of underwriting risk (+1.3 pp) was observed between 2016 and 2017. Likewise, for this subset of insurance groups analyzed, a decrease in the positive effect of diversification (-0.6 pp) related to what was observed in the previous year was recorded. Finally, a decrease in the weight of the operational risk component (-0.8 pp) and a lower gain derived from the capacity to absorb losses from technical provisions and deferred taxes was noted with regard to 2016.

In the case of the subset made up of insurance groups that use different variants of the internal models (Chart 2.4-h), a decrease was noted between 2016 and 2017 in the relative weight of the credit risk component

(-1.5 pp), while the market and underwriting risk components showed an increase compared to the previous year (+1.1 and 0.4 pp respectively). Unlike what happened to the groups that used the standard formula, in this subset, an increase was noted in 2017 in the gains derived from diversification (+0.9 pp) and a noticeably lower decrease from adjustments for loss absorption capacity of the technical provisions and deferred taxes (-1.1 pp).

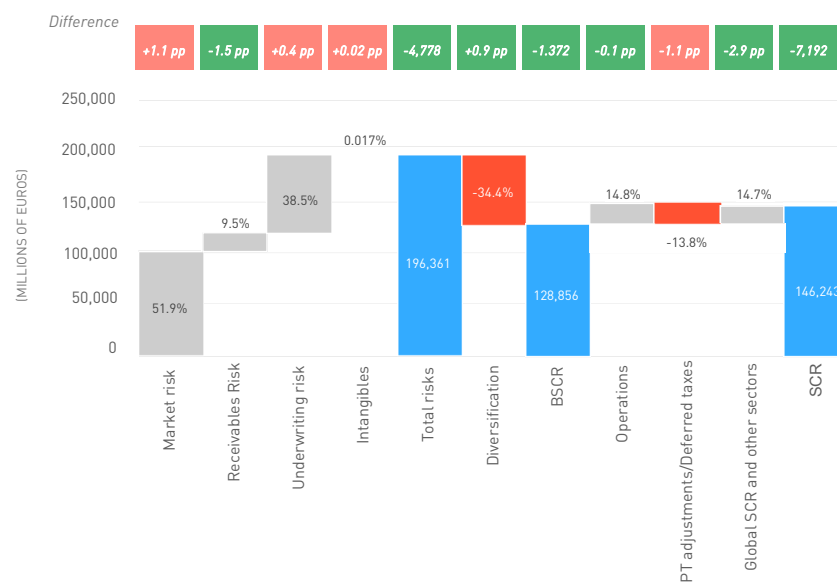
Regarding the effect of the adjustments on the absorption capacity of the technical provisions and deferred taxes, it is correct to point out that, in the case of groups that used internal models, this measurement is indicating solely the effect of adjustments that had been modeled but not incorporated in the other components of the SCR.

Chart 2.4-g
Relative weight of separate SCR components
for groups using the standard formula in 2017 and difference vs. 2016
(millions of euros and percentages)



Source: MAPFRE Economic Research (with SFCR data published by the indicated entities)

Chart 2.4-h
Relative weight of separate SCR components
for groups using partial internal models in 2017 and difference vs. 2016
(millions of euros and percentages)



Source: MAPFRE Economic Research (with SFCR data published by the indicated entities)

Tables: macroeconomic forecast scenarios

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

	Baseline						Risk scenario					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
United States	2.6	2.9	1.5	2.3	3.0	2.2	2.6	2.9	1.5	2.3	2.3	1.6
Eurozone	1.4	2.0	1.8	2.6	2.0	1.7	1.4	2.0	1.8	2.6	1.8	0.5
Germany	1.9	1.5	1.9	2.5	2.0	1.8	1.9	1.5	1.9	2.5	2.1	0.7
France	0.6	1.3	1.2	1.4	2.1	2.0	0.6	1.3	1.2	1.4	1.8	1.0
Italy	0.2	0.8	1.0	1.6	1.3	1.4	0.2	0.8	1.0	1.6	1.0	-0.5
Spain	1.4	3.4	3.3	3.1	2.7	2.3	1.4	3.4	3.3	3.1	2.0	0.8
United Kingdom	3.1	2.3	1.9	1.8	1.3	1.4	3.1	2.3	1.9	1.8	1.4	0.7
Japan	0.3	1.4	1.0	1.7	1.2	1.1	0.3	1.4	1.0	1.7	1.1	-0.1
Emerging markets	4.7	4.3	4.3	4.6	4.9	5.1	4.7	4.3	4.3	4.6	3.1	2.1
Latin America ¹	1.2	0.1	-0.9	1.3	2.0	2.8	1.2	0.1	-0.9	1.3	1.4	1.6
Mexico	2.8	3.3	2.6	2.3	2.4	2.2	2.8	3.3	2.7	2.3	1.6	2.6
Brazil	0.5	-3.6	-3.4	1.0	1.6	3.1	0.5	-3.6	-3.4	1.0	1.7	1.9
Argentina	-2.5	2.7	-1.7	2.8	1.3	1.9	-2.5	2.7	-1.7	2.8	2.1	2.4
Emerging European ²	3.9	4.7	3.1	4.5	4.3	3.3	3.9	4.7	3.1	4.5	3.4	1.0
Turkey	5.3	6.0	3.3	7.4	4.1	3.0	5.3	6.0	3.3	7.4	3.4	1.9
Asia Pacific ³	6.1	5.9	6.2	6.2	6.0	5.7	6.1	5.9	6.2	6.2	5.5	4.6
China	7.3	6.9	6.7	6.9	6.3	6.0	7.3	6.9	6.7	6.9	5.9	4.9
Indonesia	5.0	4.9	5.0	5.1	5.1	5.0	5.0	4.9	5.0	5.1	4.5	3.3
Philippines	6.1	6.0	6.9	6.7	6.4	6.1	6.1	6.0	6.9	6.7	5.9	5.6
World	3.6	3.4	3.2	3.8	3.8	3.7	3.6	3.4	3.2	3.8	2.4	1.5

Source: MAPFRE Economic Research

¹Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; ²Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; ³Association of Southeast Asian Nations (ASEAN)
Forecast end date: July 20, 2018

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

	Baseline						Risk scenario					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
United States	1.2	0.4	1.8	2.1	2.4	1.9	1.2	0.4	1.8	2.1	2.5	1.8
Eurozone	0.2	0.2	0.7	1.4	2.1	1.4	0.2	0.2	0.7	1.4	1.5	0.9
Germany	0.2	0.3	1.7	1.7	2.3	1.5	0.2	0.3	1.7	1.7	1.7	1.3
France	0.1	0.3	0.7	1.2	1.4	2.0	0.1	0.3	0.7	1.2	1.3	1.3
Italy	0.1	0.2	0.1	0.9	2.0	1.6	0.1	0.2	0.1	0.9	1.4	0.7
Spain	-0.5	-0.3	1.0	1.4	1.9	1.1	-0.5	-0.3	1.0	1.4	1.3	1.0
United Kingdom	0.9	0.1	1.2	3.0	2.3	1.3	0.9	0.1	1.2	3.0	1.7	0.9
Japan	2.5	0.2	0.3	0.6	1.1	1.9	2.5	0.2	0.3	0.6	1.0	1.6
Emerging markets	4.7	4.7	4.2	4.5	4.6	4.4	4.7	4.7	4.2	4.5	5.8	5.5
Latin America ¹	5.0	6.2	4.6	4.1	3.6	3.5	5.0	6.2	4.6	4.1	5.6	4.6
Mexico	4.2	2.3	3.2	6.6	4.2	3.3	4.2	2.3	3.2	6.6	3.8	3.9
Brazil	6.5	10.4	7.0	2.8	3.6	4.5	6.5	10.4	7.0	2.8	5.4	3.8
Argentina	44.2	26.0	39.3	23.3	29.3	19.4	44.2	26.0	39.3	23.3	21.7	14.4
Emerging European ²	3.4	3.9	4.2	5.7	5.9	5.3	3.4	3.9	4.2	5.7	7.8	6.9
Turkey	8.8	8.2	7.6	12.3	11.5	9.3	8.8	8.2	7.6	12.3	9.5	8.3
Asia Pacific ³	3.6	2.2	2.5	2.8	3.6	3.4	3.6	2.2	2.5	2.8	3.8	4.0
China	1.5	1.5	2.2	1.8	2.5	2.4	1.5	1.5	2.2	1.8	2.3	2.6
Indonesia	6.5	4.8	3.3	3.5	3.8	4.0	6.5	4.8	3.3	3.5	4.2	5.0
Philippines	2.9	0.3	2.0	3.0	4.4	3.6	2.9	0.3	2.0	3.0	5.0	4.7
World	2.9	2.9	3.1	3.2	3.5	3.4	2.9	2.9	3.1	3.2	3.3	2.9

Source: MAPFRE Economic Research

¹Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; ²Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; ³Association of Southeast Asian Nations (ASEAN)
Forecast end date: July 20, 2018

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

	Baseline						Risk scenario					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
United States	2.17	2.27	2.45	2.40	3.15	3.26	2.17	2.27	2.45	2.40	3.12	2.85
Eurozone	1.34	1.20	1.04	0.91	1.66	1.91	1.34	1.20	1.04	0.91	2.48	2.73

Source: MAPFRE Economic Research
 Forecasting end date: July 20, 2018

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

	Baseline						Risk scenario					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
USD-EUR	0.82	0.92	0.95	0.83	0.84	0.80	0.82	0.92	0.95	0.83	0.78	0.73
EUR-USD	1.21	1.09	1.05	1.20	1.19	1.25	1.21	1.09	1.05	1.20	1.29	1.37
GBP-USD	1.56	1.48	1.23	1.35	1.42	1.47	1.56	1.48	1.23	1.35	1.46	1.56
USD-JPY	119.85	120.27	116.78	112.69	108.28	108.30	119.85	120.27	116.78	112.69	109.12	113.25
USD-CNY	6.20	6.49	6.94	6.51	6.27	6.19	6.20	6.49	6.94	6.51	6.26	6.18

Source: MAPFRE Economic Research
 Forecasting end date: July 20, 2018

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

	Baseline						Risk scenario					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
United States	0.13	0.38	0.63	1.38	2.25	3.00	0.13	0.38	0.63	1.38	1.47	1.84
Eurozone	0.05	0.05	0.00	0.00	0.00	0.25	0.05	0.05	0.00	0.00	0.00	0.00
China	3.53	2.33	2.48	2.89	3.30	3.37	3.53	2.33	2.48	2.89	2.33	2.56

Source: MAPFRE Economic Research
 Forecasting end date: July 20, 2018

Index of charts, tables and boxes

Charts

Chart 1.1-a	Global: growth and inflation, 2011-2018	11
Chart 1.1-b	Global: slope of interest rate curve (10y - 3m type), 2000-2020.....	11
Chart 1.1.4	Change in value of local currency vs. USD in %, 2017 (H2) - 2018 (H2).....	19
Chart 1.2.1-a	United States: GDP breakdown and forecasts.....	21
Chart 1.2.1-b	United States: domestic demand breakdown and forecasts	21
Chart 1.2.2-a	Eurozone: GDP breakdown and forecasts	23
Chart 1.2.2-b	Eurozone: domestic demand breakdown and forecasts	23
Chart 1.2.3-a	Spain: GDP breakdown and forecasts	25
Chart 1.2.3-b	Spain: domestic demand breakdown and forecasts.....	25
Chart 1.2.4-a	Germany: GDP breakdown and forecasts.....	26
Chart 1.2.4-b	Germany: domestic demand breakdown and forecasts.....	26
Chart 1.2.5-a	Italy: GDP breakdown and forecasts.....	28
Chart 1.2.5-b	Italy: domestic demand breakdown and forecasts.....	28
Chart 1.2.6-a	United Kingdom: GDP breakdown and forecasts	30
Chart 1.2.6-b	United Kingdom: domestic demand breakdown and forecasts	30
Chart 1.2.7-a	Japan: GDP breakdown and forecasts.....	31
Chart 1.2.7-b	Japan: domestic demand breakdown and forecasts.....	31
Chart 1.2.8-a	Turkey: GDP breakdown and forecasts	33
Chart 1.2.8-b	Turkey: domestic demand breakdown and forecasts	33
Chart 1.2.9-a	Mexico: GDP breakdown and forecasts	35
Chart 1.2.9-b	Mexico: domestic demand breakdown and forecasts	35

Chart 1.2.10-a	Brazil: GDP breakdown and forecasts	37
Chart 1.2.10-b	Brazil: domestic demand breakdown and forecasts.....	37
Chart 1.2.11-a	Argentina: GDP breakdown and forecasts	39
Chart 1.2.11-b	Argentina: domestic demand breakdown and forecasts	39
Chart 1.2.12-a	China: GDP breakdown and forecasts.....	41
Chart 1.2.12-b	China: domestic demand breakdown and forecasts	41
Chart 1.2.13-a	Indonesia: GDP breakdown and forecasts	42
Chart 1.2.13-b	Indonesia: domestic demand breakdown and forecasts	42
Chart 1.2.14-a	Philippines: GDP breakdown and forecasts.....	44
Chart 1.2.14-b	Philippines: domestic demand breakdown and forecasts	44
Chart 2.1.2-a	Eurozone: risk-free yield curve	46
Chart 2.1.2-b	Eurozone: outlook for growth in the Non-Life insurance market	47
Chart 2.1.3	Spain: outlook for growth in the Non-Life insurance market.....	48
Chart 2.1.4-a	Turkey: risk-free yield curve	48
Chart 2.1.4-b	Turkey: outlook for growth in the Non-Life insurance market.....	49
Chart 2.1.5-a	United States: risk-free yield curve	49
Chart 2.1.5-b	United States: outlook for growth in the Non-Life insurance market.....	50
Chart 2.1.6-a	Brazil: risk-free yield curve	51
Chart 2.1.6-b	Brazil: outlook for growth in the Non-Life insurance market	51
Chart 2.1.7-a	Mexico: risk-free yield curve	52
Chart 2.1.7-b	Mexico: outlook for growth in the Non-Life insurance market	52
Chart 2.1.8-a	China: risk-free yield curve	53
Chart 2.1.8-b	China: outlook for growth in the Non-Life insurance market.....	53
Chart 2.4-a	2017 solvency ratios and difference vs. 2016	55
Chart 2.4-b	Relative weight of own funds to assets in 2017 and difference vs. 2016	59
Chart 2.4-c	Relative weight of own funds to technical provisions in 2017 and difference vs. 2016	59
Chart 2.4-d	Relative weight of own funds to premiums in 2017 and difference vs. 2016	60
Chart 2.4-e	Effect of adjustment and transitional measures on own funds, 2017	62
Chart 2.4-f	Effect of adjustment and transitional measures on SCR, 2017	62
Chart 2.4-g	Relative weight of separate SCR components for groups	
	using the standard formula in 2017 and difference vs. 2016.....	64
Chart 2.4-h	Relative weight of separate SCR components for groups	
	using partial internal models in 2017 and difference vs. 2016	64

Tables

Table 1.2.1	United States: main macroeconomic aggregates	21
Table 1.2.2	Eurozone: main macroeconomic aggregates.....	23
Table 1.2.3	Spain: main macroeconomic aggregates	25
Table 1.2.4	Germany: main macroeconomic aggregates	26
Table 1.2.5	Italy: main macroeconomic aggregates	28
Table 1.2.6	United Kingdom: main macroeconomic aggregates.....	30
Table 1.2.7	Japan: main macroeconomic aggregates	31
Table 1.2.8	Turkey: main macroeconomic aggregates	33
Table 1.2.9	Mexico: main macroeconomic aggregates.....	35
Table 1.2.10	Brazil: main macroeconomic aggregates.....	37
Table 1.2.11	Argentina: main macroeconomic aggregates	39
Table 1.2.12	China: main macroeconomic aggregates.....	41
Table 1.2.13	Indonesia: main macroeconomic aggregates	42
Table 1.2.14	Philippines: main macroeconomic aggregates	44
Table 2.1.2	Non-Life market: outlook for growth in selected insurance markets, 2018-2019	47
Table 2.4-a	Principal 2017 financial and solvency figures	56
Table 2.4-b	SCR calculation methods, 2017	57
Table 2.4-c	Quality of eligible own funds, 2017	58
Table 2.4-d	Effect of adjustment and transitional measures on own funds, 2017.....	61
Table 2.4-e	Effect of adjustment and transitional measures on SCR, 2017.....	61
Table A-1	Baseline and risk scenarios: gross domestic product	65
Table A-2	Baseline and risk scenarios: inflation	66
Table A-3	Baseline and risk scenarios: 10-year government bond yield	67
Table A-4	Baseline and risk scenarios: exchange rates.....	67
Table A-5	Baseline and risk scenarios: benchmark interest rate	67

Boxes

Box 1.1.2	Emerging country exchange rate volatility and balance of payments	13
Box 1.1.4	Planned tariff measures in the international sphere	16

References

- 1/ Attributable to the effect of US monetary easing and, probably, the beginning of a general risk aversion phase (risk off mood).
- 2/ Revision of the North American Free Trade Agreement (NAFTA-TCLAN) or the imposition of new tariffs on Mexico, dropping of the Trans-Pacific Partnership (TPP), and in Europe the approval of Brexit and its potential consequences for the free movement of capital, persons, goods and services.
- 3/ To which is added the calculation of the cost of the other averages, such as those related to NAFTA, which may end up costing 300,000 jobs and cut US economic growth by about 0.5% in the long term.
- 4/ The United States will protect a list of allies (including Europe, Australia, South Korea, Argentina, Brazil, Canada and Mexico) from the rates on steel and aluminum. The characteristic uniting these countries is that they make up half or more of the steel and aluminum imports of the United States.
- 5/ Temporary exemptions for Canada and Mexico are due to the renegotiation of NAFTA; if no agreement is reached, the duties will be imposed.
- 6/ https://eiopa.europa.eu/Publications/Surveys/EIOPA-BOS-18-189_Technical%20Specifications_v20180622.pdf
- 7/ The *Solvency and Financial Condition Reports* for 2017 that are used as the basis for the preparation of this report were consulted as required at the following links:
 - Axa: <https://www.axa.com/en/investor/earnings-presentation#year=2017>
 - Allianz: https://www.allianz.com/en/investor_relations/results-reports/SFCR/
 - Generali: <https://www.generali.com/investors/reports-and-presentations/report-archive#2017>
 - Prudential: <http://www.prudential.co.uk/investors/reports/reports/2017>
 - Talanx: http://www.talanx.com/investor-relations/berichte-risikomanagement/group.aspx?sc_lang=en
 - Aviva: <https://www.aviva.com/investors/regulatory-returns/>
 - Aegon: <https://www.aegon.com/en/Home/Investors/Annual-Reports/?of.section=%2fnewsroom%2fannual-reports%2fsfrc%2f>
 - Groupama: <http://www.groupama.com/fr/investisseur/publications-financieres/informations-reglementee-2017/>
 - CNP: <http://www.cnp.fr/en/Investor-Analyst>
 - Crédit Agricole: <https://www.ca-assurances.com/en/investors/solvency-2-narrative-reports>

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

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

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

Covea: <https://www.covea.eu/nos-activites/nos-publications/>

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

And for the *Solvency and Financial Condition Reports* for 2016, the links consulted as required were the following: Axa:

<https://www.axa.com/en/investor/earnings-presentation#year=2016>

Allianz: https://www.allianz.com/en/investor_relations/results-reports/SFCR/#!owid:27-163209ebdbf

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

Prudential: <http://www.prudential.co.uk/investors/reports/reports/2016>

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

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

Aegon: <https://www.aegon.com/en/Home/Investors/Annual-Reports/>

Groupama: [http://www.groupama.com/fr/investisseur/publicaitons-financieres/information-reglementee-](http://www.groupama.com/fr/investisseur/publicaitons-financieres/information-reglementee-2016/)

[2016/](http://www.groupama.com/fr/investisseur/publicaitons-financieres/information-reglementee-2016/) Crédit Agricole: <https://www.ca-assurances.com/en/investors/solvency-2-narrative-reports>

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

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

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

Covea: <https://www.covea.eu/nos-activites/nos-publications/>

R+V: <https://www.ruv.de/static-files/ruvde/downloads/ueber-uns/geschaeftsberichte/2016-SFCR-2016-RUV-Versicherung-AG.pdf>

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