



Fundación **MAPFRE**

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

MAPFRE Economic Research

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# MAPFRE Economic Research

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# Executive Summary

## 2018 Economic and Industry Outlook - Second Quarter Perspectives

Global growth maintained its drive during the first quarter of 2018, ratifying a growth forecast very similar to that achieved in 2017, both in terms of speed and composition.

In accordance with forecasts, the global economy will grow by around 3.8% in 2018 and very close to its potential, with developed and emerging markets contributing equally to this, (around 2% and 5% respectively). This growth will continue, drawing from strong monetary and fiscal stimuli of demand in both regions. The tax policy in the United States, maintenance of lax monetary policy worldwide (despite the organization of the financial statements of the central banks currently in progress) and the great inertia in consumption and investment dynamism will ensure this.

World trade is also acting as a support, particularly for emerging markets, which have not yet seen the threats of a trade war materialize and which, at present, are exploiting a benign cycle in the price of raw materials.

For its part, global monetary policy will continue along a route of gradual normalization, even if signs will only be seen in this sense in the United States in 2018, which may have consequences in

terms of capital flow, but only to a moderate extent. In this respect, the majority of currencies will remain relatively stable against the dollar, within current depreciation.

Risks are maintained both on the financial side (volatility and reduction of liquidity in the context of imbalance) and on the side of the real economy (possible global tariff spiral), and with respect to potential geopolitical risks (Middle East, Russia and North Korea) and the global political cycle currently centered on emerging markets, where the chances of a victory by governments with heterodox economic tendencies are ever greater, casting doubt on the necessary reforms process in these regions.

## Insurance market

The world growth context makes it possible to be optimistic with regards to the development of the insurance market. The forecast for solid, synchronized growth will have a positive influence on the insurance industry, development of which is very much tied to the economic cycle trends. Benefits will be seen in particular in the insurance industry in emerging markets, where the low level of insurance penetration in the economy causes the elasticity of insurance demand at growth to be greater than in more developed markets, meaning that weak or moderate growth of the GDP results in greater growth in insurance policy premiums.

In some developed economies, the context of interest rate reductions continues to act as a ballast for the Life, savings and life annuity business lines, which may be damaged despite solid economic performance. In the Eurozone, there is no expectation of a rise in interest rates until late 2019. For its part, the decreases in purchasing programs are expected to be very gradual, so as to avoid undesired consequences.

In the United States, for now, neither the normalization of monetary policy nor the protectionist measures adopted have significantly affected the economy or world trade. This is good news for Life savings and life annuity insurance policies. Nonetheless, the flattening out of the interest rates curve, a sudden rise in such, or expectations of future rises, may be damaging in the short-term, given that it takes insurance companies time to adjust the new products and rates guaranteed in their portfolios. In this context, the demand for savings products may slow as rises occur, and this may give rise to the redemption of policies marketed at lower-than-market rates.

In addition, it is confirmed that the second half of last year was a historic period in respect of the losses incurred as a result of disasters. According to preliminary estimates, the year's losses should come in at around 337 billion dollars, of which the total amount insured is 144 billion dollars, the largest figure ever registered. The strong capitalization seen to date in the reinsurance sector has supported the downturn seen in profitability. Nonetheless, the impact of the last two disasters on its accounts has put reinsurance premiums under pressure, on a market that has become excessively competitive on price in the absence of significant disasters.

With respect to the major regulatory trends, the International Association of Insurance Supervisors (IAIS) has made significant progress in the

revision process of the insurance core principles (ICPs) for the supervision of internationally active insurance groups (IAIGs) and global systemically important insurers (GSIIIs).

In the European Union, the European Insurance and Occupational Pensions Authority (EIOPA) has submitted the second technical consultation to the European Commission for the revision of the parameters and factors applicable to the calculation of regulatory capital according to the standard formula. The European Commission must now continue with the legislative process and prepare a text that must be submitted to the European Parliament and Council for its consideration.

As regards the progress made in the digital environment, together with the national supervisors and insurance industry, EIOPA is developing a qualitative exercise on the cybernautic risk in a bid to increase knowledge of this emerging risk, which it considers strategic. This activity is in line with others developed by the European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA), with the objective of encouraging financial institutions to take action to improve the weak points of their systems.

In the insurance distribution field, on March 14, the European Parliament and Council approved a Directive that modifies the terms for the transposition of the new insurance distribution Directive, extending them until October 1, 2018.



# 1. Economic outlook

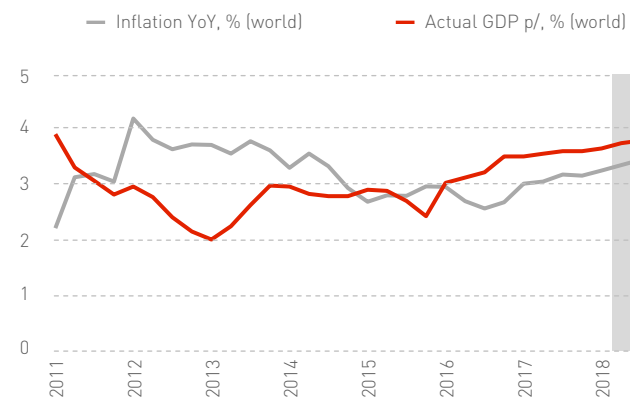
## 1.1 World economic outlook: update

### Global vision in the baseline

In 2017, solid growth was seen in virtually all regions across the globe (around 3.6% YoY globally) with developed economies growing by 2% and emerging economies close to 5%. The evolution of inflation was also benign (see Charts 1.1-a and 1.1-b). In developed markets, inflation increased moderately, while inflationist pressure on emerging markets, declined. The normalization of the monetary policy in the United States did not affect the world trade and markets, nor indeed was it more greatly affected by the recent protectionist rhetoric.

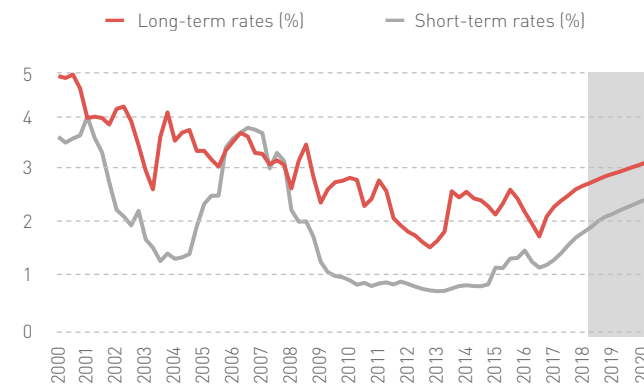
In the global vision based on our baseline (see Tables A-1 to A-5 in the appendix to this document), we have improved our growth prognosis for developed markets in 2018 by 0.1 percentage points (pp) up to 2%, to a large extent thanks to the strengthening of growth in the United States (as a result of the tax stimulus) and Eurozone prospects are also better. Nonetheless, the recovery will be less synchronized than last year, given that commercial tension would appear to head toward a certain level of divergence.

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



Source: MAPFRE Economic Research (with Bloomberg data)

**Chart 1.1-b**  
Global: short- and long-term interest rates, 2000-2020



Source: MAPFRE Economic Research (with Bloomberg data)

Inflationist pressure on the developed markets will continue to be moderate, thereby eliminating the possibility of a repeated tightening of the monetary policy. Despite commercial tension, the combination of strong growth and well-controlled inflation on developed markets, will also provide a good basis for solid growth on the emerging markets, where our forecasts have been raised up to around 5%. In regional terms, a somewhat slower business in emerging Europe will be compensated by improvements in the rest of the emerging economies.

During the last quarter of 2017, and starting from the publication of our report at the start of the year, major changes have been made to United States policies that have caused us to significantly improve our growth forecasts for this country, up to 2.8% in 2018. The December 2017 tax package reduced income tax charged against natural persons and businesses, including the possibility of a complete initial depreciation of capital. Stimuli are considerable, although it is hoped that they will eventually substantially expand upon the tax deficit. Nonetheless, the package must ensure a significant boost to growth, particularly in terms of investment.

Thus, we believe that this stimulus will add between 0.2 and 0.5 pp to 2018 growth with respect to that estimated toward the end of last year. Nonetheless, the increase in deficit may increase the return on bonds and, ultimately, be transferred to private investment.

In the case of the Eurozone, we hope that growth will establish at around 2.2% in 2018, as the delayed effects of the stimuli of the European Central Bank (ECB) are consolidated, confidence is recovered and the deleveraging cycle draws to a close.

Japan's economy is expected to grow by 1.5% this year, before slowing down in 2019, as the tax consolidation takes hold in this country. It is

hoped that the monetary policy will remain without major changes, with the yield curve control (YCC) policy objectives of the Bank of Japan, without changes for this year and the next.

### Emerging markets

As mentioned previously, the emerging markets will benefit from greater growth in developed economies and the recovery of prices of commodities, but the uncertainty relating to commercial protectionism may weigh down export-orientated economies. In this context, it is hoped that growth is recovered in all emerging regions. In Latin America, growth in Brazil will continue the route of recovery from the recovery of 2015-16, while uncertainty over NAFTA renegotiation will continue to weigh heavy on Mexico. In Asia, we hope that those responsible for formulating policies in China will achieve growth of 6.3%, as Indonesia and the Philippines maintain the strong domestic demand that guarantees current progress (between 5.5% and 6%), even if certain imbalances are accrued. For its part, prospects are positive in emerging Europe, with the exception of Turkey, where growth will slow after the strong credit boost of 2017 and due to the fact that this year will probably see elections held early, amid the backlash of the correction of the previous year's credit excesses.

### Monetary policy

As regards the normalization of monetary policy driven globally by the United States Federal Reserve, the boost to growth in tax stimuli in this country should increase underlying inflation to closer to the objective level, but not excessively so. Therefore, it is hoped that the Federal Reserve may increase interest rates twice more this year and even if there is an acceleration in the rate of rises, uncertainty remains regarding the recovery of the natural interest rate.

Additionally, there are risks of a reduction to the ECB and Bank of Japan inflation forecasts. The Phillips curve in the United States remains flat and the underlying inflation is rarely significantly recovered without disturbances to oil prices that permanently alter inflation expectations; despite the current bullish times, this looks unlikely. In actual fact, the long-term Brent balance price continues to be around 60 USD/b, below its current level.

At present, it is expected that non-resident capital flows toward emerging markets will be maintained, preserving a balance between the global effect of monetary normalization (exits) and the traction time gains (entries). Emerging currencies, therefore, will remain stable in general terms, as well the accrual of reserves that, save for the case of Turkey, will no longer impair.

### **World trade**

With regard to world trade, the matters relating to existing world and regional commercial agreements would appear to be the main source of risk. According to preliminary estimates, the tariffs announced between the United States and China affect a small portion of world trade and will have an insignificant impact on growth. Nonetheless, the balance is fragile. If those responsible for formulating policies should fall into a spiral of new tariffs and retaliation measures, world confidence and growth may be significantly more affected.

In more general terms, the discontent over social and economic results worldwide has given rise to a public that is receptive to political platforms based on populist policies. It is difficult to predict the result if radically

different policies should be applied, but the associated uncertainty may be negative to global economic growth.

### **Downward risks: the alternative scenario**

The baseline described previously is very likely to occur and be maintained beyond 2018, as part of the theory of an orderly cyclical adjustment<sup>1</sup>. Nonetheless, some initial signs seen in February this year relating to volatility demand caution and the conceptualization of an alternative global risk scenario (Risk Scenario)<sup>2</sup>.

The Risk Scenario considers a situation of tension on the markets, reflected in a rebound of the VIX index, tension on the bond markets with rebounds on returns and a decline in the stock exchanges. All this, together with a decline in the dollar against the euro, to levels of 1.37 (EUR/USD) at its all-time low in 2019, will result in major deceleration in GDP growth in 2019, albeit still in positive ground: United States 1.6%, Eurozone 0.5%, China 4.9%, emerging markets 2.1% and world 1.5% (see Tables A-1 to A-5 in the appendix to this document).

## 1.2 Forecasts and risk assessment in selected economies

### 1.2.1 United States

#### Maintains drive

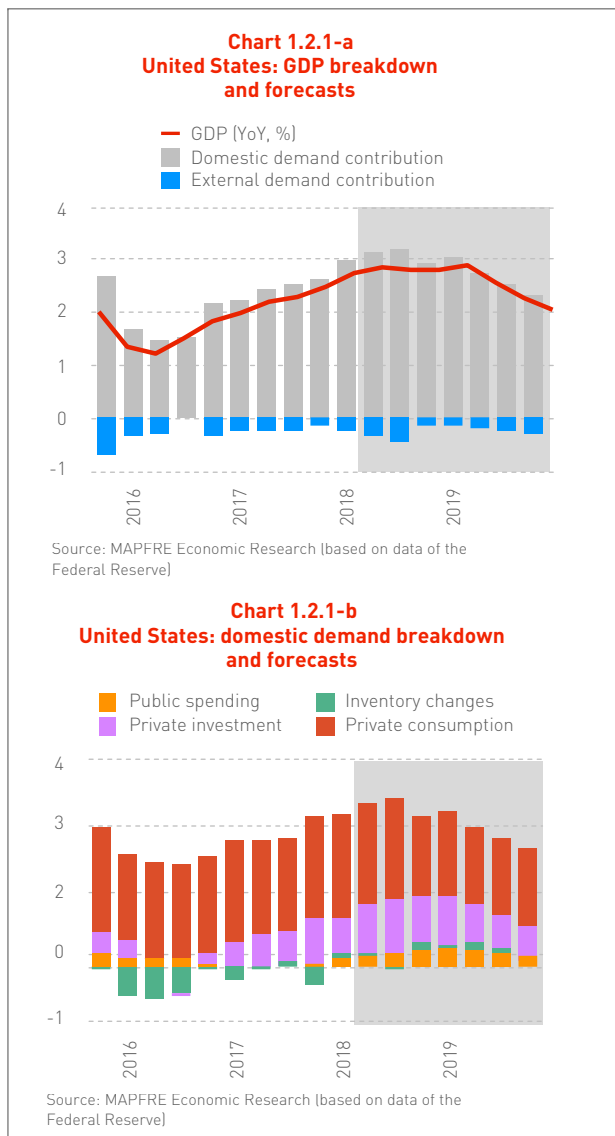
The 2.5% (YoY) growth of the gross domestic product (GDP) of the United States in the fourth quarter shows that the economic business continues to be strong, with growth forecast as 2.8% overall in 2018 (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b).

- **Monetary policy has already achieved its twofold objective of inflation and growth, which legitimizes a tightening of monetary conditions.**
- **The US economy is the most advanced in the cycle and will lead the selling cycle adjustments over the next few years.**

The US economy is in a situation of virtually complete employment, with an unemployment rate of 4.1%. The debate is now focused on inflation and salary growth. In February, inflation (CPI) rose by 2.2% as salaries rose by 2.5%. This data would appear to suggest that the Federal Reserve has made progress toward its twofold objective of inflation and growth, which entitles it to tighten monetary conditions, with six rises in interest rate registered from 2015 to March 2018, coming in at 1.75%. Tax stimuli (tax reductions and increased expenditure plans) will continue to boost business (+0.5% per year) at a time of almost full employment, driving salaries up along with inflation expectations. This makes it possible to predict that the Federal Reserve will probably tighten its monetary policy a little more quickly than expected, with three rises in 2018 and one more in 2019.

The US economy also appears to be the most advanced in the development of the economic cycle and will lead the selling cycle adjustments over the next few years. It is hoped that this adjustment is gentle, even if there are vulnerable issues that may speed up correction if certain risk events should occur. In this sense, additional factors must be considered, such as: i) a worsening to protectionist policies (e.g. rise in steel and aluminum tariffs), negotiations of NAFTA and rhetoric on possible European automobile sector tariffs; ii) an underestimation of the impact of the decrease of the balance of the Federal Reserve by the markets; iii) any unexpected systemic event; or iv) the ever-present geopolitical tensions.

On the markets, the 10-year bond has showed its tension, rising above 3.1% in April, even if it has recently recovered. The interest rate curve, in contrast with that expected, has not increased its slope, but rather moved parallel by approximately 50 basis points in all sections of the curve (see Chart 2.1.5). The dollar currently stands at around 1.22 against the euro, which will make greater depreciation possible if the European economy should gain ground.



**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	2.8	2.5
Domestic demand contribution	1.4	2.3	3.6	1.7	2.5	3.1	2.7
External demand contribution	0.3	0.3	-0.7	-0.2	-0.2	-0.3	-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	0.8
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	2.6
Total consumption (% YoY, average)	0.8	2.3	3.2	2.4	2.3	2.5	2.2
Private investment (% YoY, average)	3.0	4.8	3.6	0.6	3.3	4.7	3.8
Exports (YoY in %)	3.5	4.3	0.4	-0.3	3.4	3.5	3.0
Imports (YoY in %)	1.1	4.5	5.0	1.3	3.9	4.6	3.7
Unemployment rate (% end of period)	6.9	5.7	5.0	4.7	4.1	3.8	3.6
Inflation (% YoY, end of period)	1.2	1.2	0.4	1.8	2.1	2.4	1.8
Fiscal balance (% of GDP)	-5.4	-4.8	-4.4	-5.0	-4.8	-5.2	-4.9
Trade balance (% of GDP)	-4.4	-4.5	-4.4	-4.2	-4.3	-4.5	-4.6
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	-2.8	-3.0
Official interest rate (end of period)	0.13	0.13	0.17	0.42	1.17	2.25	2.75
Short-term rate (end of period)	0.24	0.24	0.41	0.92	1.47	2.35	3.04
Long-term rate (end of period)	2.75	2.28	2.19	2.13	2.37	3.05	3.22
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)	1.36	1.25	1.10	1.08	1.18	1.29	1.28
Private lending (% YoY, average)	7.7	7.7	2.3	3.5	5.2	4.3	5.0
Household lending (% YoY, average)	0.8	2.4	2.4	2.6	3.7	6.1	6.0
P.S. non-financial lending (% YoY, average)	3.3	4.8	5.7	5.5	6.1	5.3	4.6
P.S. financial lending (% YoY, average)	2.2	2.9	2.2	4.1	3.3	2.5	1.6
Savings rate (% average)	5.0	5.7	6.1	4.9	3.4	3.4	3.0

Source: MAPFRE Economic Research (based on data of the Federal Reserve)  
Forecasting end date: April 23, 2018.

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## 1.2.2 Eurozone

### European economy synchrony

The economic business of the Eurozone continues to be strong, growing at a rate of 2.7% in the fourth quarter and it is hoped that this may be maintained during the first quarter of 2018, with Spain and Germany leading growth, while France and Italy continue to appreciate an acceleration and synchronization of business.

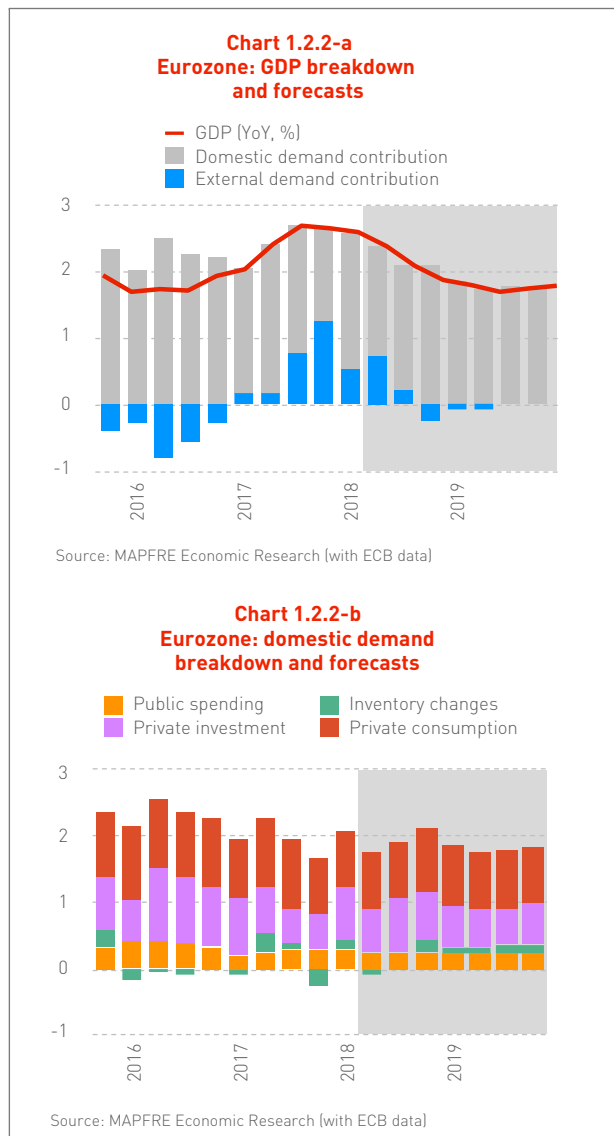
- **The Eurozone economy will continue to be strong, with the synchronized recovery of the world economic cycle and the monetary stimuli.**
- **Despite this, it is ready for a change in the monetary policy. No rise in interest rates is expected until six months after the end of the ECB purchasing program.**

Clearly, the synchronized recovery of the world economic cycle and the monetary stimuli in the Eurozone continue to yield positive results. For 2018, growth of the GDP is expected at around 2.2% (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b). Retail sales, exports, industrial production and investment in equipment continue to grow, keeping pace with industrial capacity used, which comes in at 84.5%. Car sales in the Eurozone have been increasing solidly since 2013, currently standing at 975,000 cars per month.

Eurozone inflation came in below 1.5% during the first quarter of the year, while underlying inflation is still a far cry from the European Central Bank (ECB) objective. In its meeting of March 8, the ECB ratified the expectation that rates would be maintained at current levels for a prolonged period of time that will exceed the time frame of its net purchases of assets. Hence

no rise in interest rates is expected until at least six months after the end of the purchasing program.

In addition, the ECB has also ratified its forecast that net asset purchases will continue at the current rate of 30 billion euros per month until end September 2018 or until a later date as may be necessary and, in any case, until the Governing Council observes a sustained change to inflation, which is compatible with its 2.0% inflation objective. The Eurosystem will reinvest the principal amount of the bonds maturing during a prolonged period between the end of the purchasing program and, in any case, for the time necessary to guarantee a smooth exit of the monetary contributions and thereby avoid tension on the markets.



**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	2.5	2.2	1.8
Domestic demand contribution	-0.6	0.8	1.9	2.3	1.9	1.9	1.8
External demand contribution	0.4	0.6	0.1	-0.5	0.6	0.3	0.0
Private consumption contribution	-0.3	0.5	1.0	1.1	1.0	0.9	0.9
Investment contribution	-0.5	0.1	0.6	0.9	0.6	0.8	0.6
Contribution made by public spending	0.1	0.2	0.3	0.4	0.3	0.3	0.3
Domestic demand (% YoY, average)	-0.6	1.3	1.9	2.4	1.9	2.0	1.9
Total consumption (% YoY, average)	-0.3	0.8	1.6	1.9	1.6	1.5	1.5
Private investment (% YoY, average)	-2.4	1.9	3.0	4.5	3.1	3.6	2.7
Exports (YoY in %)	2.2	4.6	6.2	3.4	5.3	4.8	3.5
Imports (YoY in %)	1.4	4.8	6.5	4.8	4.3	4.5	3.8
Unemployment rate (% , end of period)	11.9	11.4	10.5	9.7	8.7	8.0	7.7
Inflation (% YoY, end of period)	0.8	0.2	0.2	0.7	1.4	1.6	1.8
Fiscal balance (% of GDP)	-3.0	-2.6	-2.1	-1.5	-0.9	-0.8	-0.9
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	1.3	1.3	1.2
Current account balance (% of GDP)	2.2	2.4	3.1	3.4	3.5	3.5	3.3
Official interest rate (end of period)	0.37	0.05	0.05	0.00	0.00	0.00	0.04
Short-term rate (end of period)	0.24	0.08	-0.09	-0.31	-0.33	-0.40	0.02
Long-term rate (end of period)	2.96	1.50	1.19	0.92	0.98	1.68	1.95
Exchange rate vs USD (end of period)	1.36	1.25	1.10	1.08	1.18	1.29	1.28
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	1.6	2.3	3.1	3.6
P.S. non-financial lending (% YoY, average)	-1.8	0.4	7.6	1.2	0.6	1.0	2.3
P.S. financial lending (% YoY, average)	-0.5	6.4	15.9	3.8	0.8	1.0	2.0
Savings rate (% , average)	12.5	12.7	12.4	12.2	11.9	11.7	11.5

Source: MAPFRE Economic Research (based on data of the ECB)  
Forecasting end date: April 23, 2018.

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### 1.2.3 Spain

#### Leading European growth

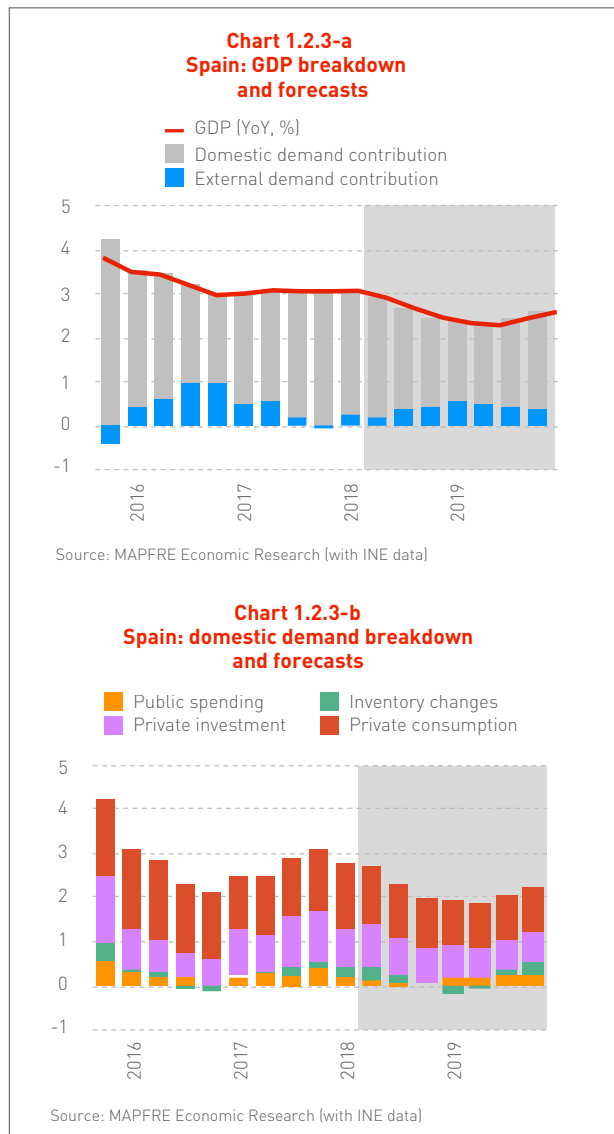
Spain continues to lead growth among the major Eurozone economies. During the fourth quarter of 2017, the Spanish economy returned to growing 3.1% (YoY), taking economic growth for the whole of 2017 to 3.1%. The main factors that have contributed to this strength have been domestic demand (+3.2%) and investment (+5.6%) along with lax monetary conditions and the creation of employment (unemployment dropped to 16.3% in January 2018, adjusted for seasonality).

- **Growth in Spain continues to be strong for domestic demand, investment and exports. The positive period is expected to be maintained, all the time the monetary policy, the world context and oil price do not turn against it.**
- **Domestic demand grows through job creation. For now, this continues without pressure to increase salaries and inflation is limited.**
- **Receivables start to recover after a long period of adjustment.**

Exports remain dynamic with growth of 4.4%, but imports too, with 5.6%. Consumption remained strong through employment gains, but for now, there is no salary pressure in Spain. Most of the consumption and investment is being carried out using receivables that, in fact, are gradually recovering and heading back into neutral territory. Newly-conceded mortgage loans are currently growing visibly.

For 2018, it is hoped that the economy closes the year with growth of 2.8%, slowing on the 3.1% booked for 2017 (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b). The figure is the result of a more optimistic revision that is in line with the trend of forecasts published recently by various analysts and may even be greater, depending on the final format adopted by the general State budgets. It is also expected that inflation shall continue to increase as observed, coming in at 1.5% at the end of 2018 and speeding up to 1.9% at end 2019.





**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	2.8	2.4
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	0.5
Private consumption contribution	-1.7	0.8	1.7	1.7	1.3	1.3	1.0
Investment contribution	-0.7	0.5	1.3	0.7	1.1	0.9	0.7
Contribution made by public spending	-0.4	-0.1	0.4	0.2	0.3	0.1	0.2
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	1.9	1.7
Private investment (% YoY, average)	-3.4	4.7	6.5	3.3	5.0	4.0	3.1
Exports (YoY in %)	4.3	4.3	4.2	4.8	5.0	4.3	4.2
Imports (YoY in %)	-0.5	6.6	5.9	2.7	4.7	3.9	3.3
Unemployment rate (% end of period)	25.7	23.7	20.9	18.6	16.6	14.8	13.9
Inflation (% YoY, end of period)	0.1	-0.5	-0.3	0.9	1.4	1.5	1.9
Fiscal balance (% of GDP)	-7.1	-6.0	-5.3	-4.6	-3.0	-2.4	-2.0
Trade balance (% of GDP)	-1.4	-2.2	-2.1	-1.6	-2.0	-1.9	-1.4
Tax boost (% GDP)	-3.5	-2.5	-2.2	-1.7	-0.6	0.0	0.3
Current account balance (% of GDP)	1.5	1.0	1.1	1.9	1.7	1.5	1.3
Official interest rate (end of period)	0.37	0.05	0.05	0.00	0.00	0.00	0.04
Short-term rate (end of period)	0.24	0.08	-0.09	-0.31	-0.33	-0.40	0.02
Long-term rate (end of period)	4.16	2.00	1.71	1.31	1.52	2.18	2.59
Exchange rate vs USD (end of period)	1.36	1.25	1.10	1.08	1.18	1.29	1.28
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	-3.7	-2.3	-0.5	4.1	3.4
P.S. non-financial lending (% YoY, average)	-9.6	-4.6	-2.5	-2.8	-0.6	1.7	1.9
P.S. financial lending (% YoY, average)	-14.7	-1.6	-7.9	-27.4	-12.0	-10.8	-10.3
Savings rate (% average)	9.9	9.3	8.8	7.9	5.9	4.8	4.4

Source: MAPFRE Economic Research (based on data of the INE)  
Forecasting end date: April 23, 2018.

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## 1.2.4 Germany

### Support in the dynamism of world trade with protectionism risks on the horizon

The activity of the German economy closed the fourth quarter of 2017 with a slight slow-down, with growth of 2.1% (YoY) in the fourth quarter and an average of 2.5% recorded over the whole year. Demand slowed slightly, while exports continued to be one of the main drivers of this country's economy (+7.4% YoY in the last quarter of 2017).

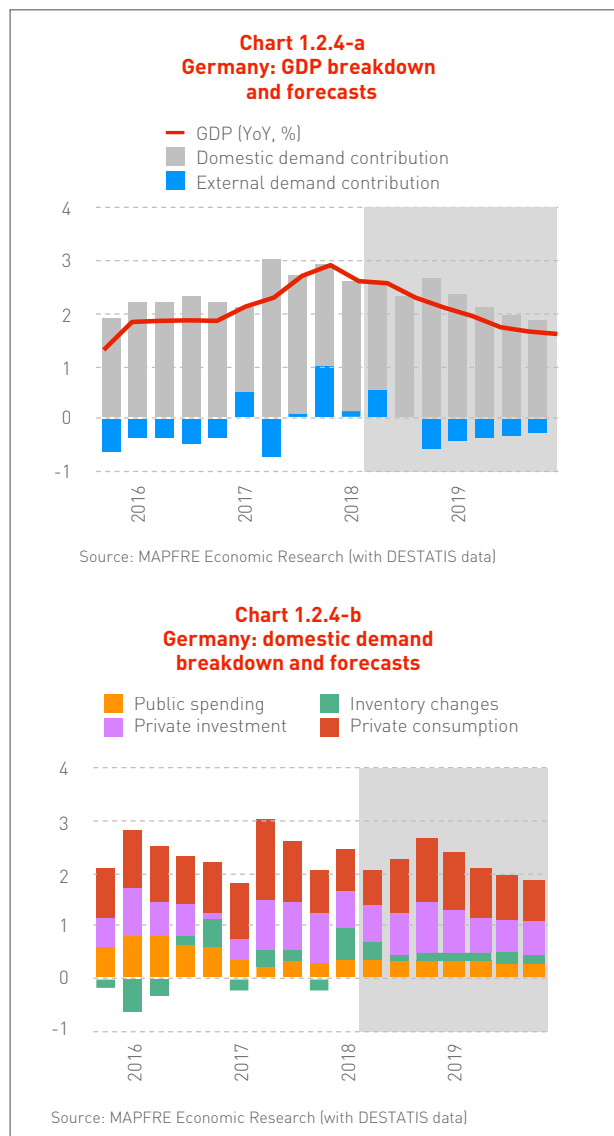
- **Business expectations are for a stabilization of the economy's growth, but consumer confidence remains high.**
- **2.4% growth of the GDP in 2018 continues to be very favorable, even if the economy is no longer accelerating.**
- **Unemployment stands at an all-time low.**

Consumer confidence reached a peak since 2011, animating investment, which responds to dynamic industrial production and exports, boosted by the strong external demand (fostered by the favorable cycle of global activity). Unemployment has recorded low figures (5.3% in March), reaching frictional unemployment levels (businesses experiencing difficulties in finding qualified labor). Growth is therefore expected of around 2.4% for the whole of 2018, which is an increase on our previous report (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b).

Also, the economy of Germany will maintain a surplus in current accounts (in excess of 7% of the GDP in the time frame 2018-2019), which assigns it a positive external position, attracts capital flows and offers long-term interest rates that are lower than the rest of the Eurozone.

From a political perspective, in March the two major German parties reached an agreement on forming the government. Ms. Merkel secured herself a fourth mandate, ceding the important position of Minister of Finance to the Social Democratic Party of Germany (SPD). This coalition has agreed to maintain a balanced budget, but also giving into the expenditure initiatives required by the coalition party, even if without an appreciable impact on growth due to public spending. No relaxing of the tax policy is expected either.

With regard to risk, the strength of the euro is maintained (which will without doubt to a certain extent take its toll on export volumes), at the same time as the risk of commercial protectionism increases, in which the United States and China are completely caught up (and which may even end up affecting exports from the European Union and Germany in particular). 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.



**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	2.4	1.7
Domestic demand contribution	0.9	0.8	1.4	2.2	2.3	2.4	2.1
External demand contribution	-0.3	1.1	0.2	-0.4	0.2	0.0	-0.3
Private consumption contribution	0.4	0.6	0.9	1.0	1.2	0.9	0.9
Investment contribution	-0.2	0.4	0.2	0.6	0.8	0.8	0.7
Contribution made by public spending	0.3	0.3	0.5	0.7	0.3	0.3	0.3
Domestic demand (% YoY, average)	1.0	1.3	1.5	2.4	2.4	2.5	2.2
Total consumption (% YoY, average)	0.9	1.2	1.9	2.3	2.0	1.7	1.7
Private investment (% YoY, average)	-1.1	3.7	1.0	2.9	3.9	3.9	3.3
Exports (YoY in %)	1.9	4.5	4.7	2.4	5.3	6.0	4.0
Imports (YoY in %)	3.1	3.5	5.2	3.8	5.6	6.9	5.3
Unemployment rate (% end of period)	6.8	6.6	6.3	6.0	5.5	5.1	4.9
Inflation (% YoY, end of period)	1.3	0.5	0.3	1.1	1.6	1.7	2.2
Fiscal balance (% of GDP)	-0.1	0.3	0.6	0.8	1.1	0.9	0.3
Trade balance (% of GDP)	7.6	7.8	8.5	8.5	8.2	7.8	7.5
Tax boost (% GDP)	1.4	1.6	1.7	1.7	1.9	2.0	1.3
Current account balance (% of GDP)	6.8	7.5	8.6	8.2	7.9	8.2	7.8
Official interest rate (end of period)	0.37	0.05	0.05	0.00	0.00	0.00	0.04
Short-term rate (end of period)	0.24	0.08	-0.09	-0.31	-0.33	-0.40	0.02
Long-term rate (end of period)	1.80	0.78	0.57	0.11	0.38	1.10	1.35
Exchange rate vs USD (end of period)	1.36	1.25	1.10	1.08	1.18	1.29	1.28
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	3.9	5.1
P.S. non-financial lending (% YoY, average)	4.3	2.2	1.3	2.5	4.7	4.0	4.0
P.S. financial lending (% YoY, average)	-7.7	-8.6	7.4	2.2	-0.7	2.4	4.1
Savings rate (% average)	8.9	9.3	9.6	9.8	9.8	9.9	9.8

Source: MAPFRE Economic Research (based on data of the DESTATIS)  
Forecasting end date: April 23, 2018.

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## 1.2.5 Italy

### Forming a new government

The Italian economy is consolidating its recovery, with 2017 growth of 1.6% (YoY) in the fourth quarter of the year (1.5% the year average).

For 2018, this growth rate is expected to be maintained for the whole year (1.5% average); this is what the forecasting indicators suggest, although political uncertainty may start to catch up with investments during the second quarter of the year. A good portion of the acceleration of economic business in Italy has come from the performance of the external sector, meaning that a potential appreciation of the euro will not go in its favor (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b).

In the medium-term, doubts remain; the economic reforms have not been sufficient and the risk is run that they may grind to a halt (or even be reversed), depending on the government that forms. This particularly important result in a context in which the ECB will be gradually reducing its purchase of European (and Italian) corporate and sovereign debt and will, therefore, offer less support in limiting sovereign and financial risks (public debt is high and bank financial statements still have issues).

- **For 2018, a growth rate of 1.5% is expected to be maintained; this is what forecasting indicators suggest.**
- **The political uncertainty may start to catch up with investments during the second quarter of the year.**
- **The next government will have the important task of conciliating the promises made to its electors with the need for tax consolidation and growth-promoting reforms.**

The legislative elections of last March 4 resulted in a parliament with no absolute majority. The most voted party (the Five Star Movement) may attempt to form an alliance with Lega (Northern League) (the right-wing coalition). These two populist political groups have left anti-euro rhetoric behind, but continue to defend the revision of some of the structural reforms implemented by the previous government and have promised tax reductions. The next government will have the important task of conciliating the promises made to its electors with the need for tax consolidation and growth-promoting reforms. Politically, it will need to negotiate with Brussels, but the reality of the matter is that with a sovereign debt level of 130%, the country needs to activate growth, maintain its credibility with creditors and protect its credit rating.

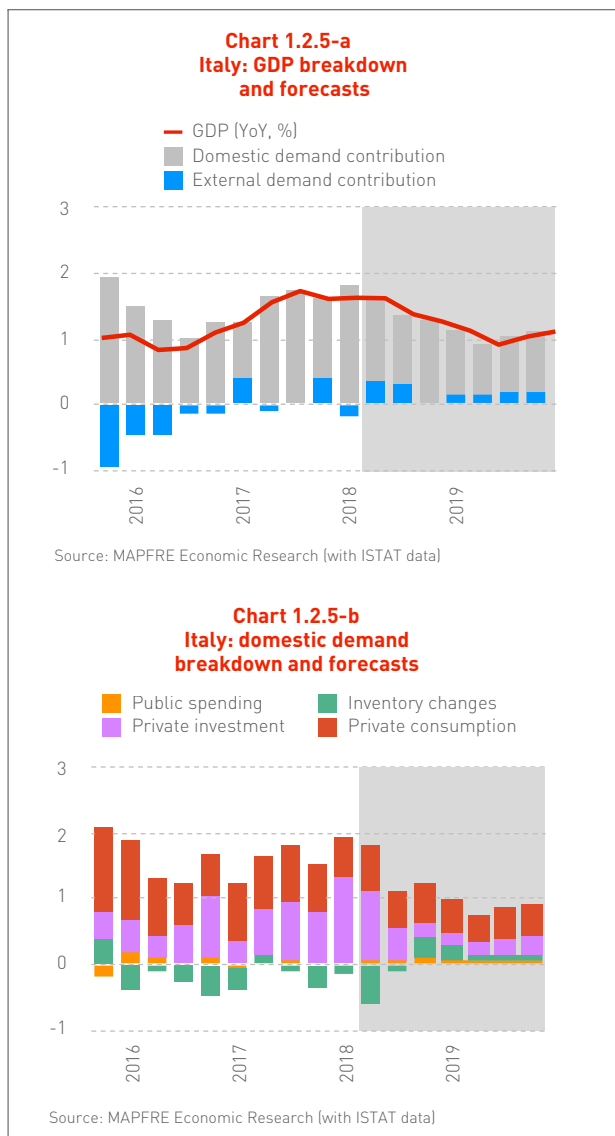


Table 1.2.5  
Italy: main macroeconomic aggregates

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	-1.7	0.2	0.8	1.0	1.5	1.5	1.1
Domestic demand contribution	-2.6	-0.1	1.4	1.3	1.4	1.3	0.9
External demand contribution	0.8	0.2	-0.5	-0.3	0.2	0.1	0.2
Private consumption contribution	-1.5	0.1	1.1	0.8	0.8	0.6	0.5
Investment contribution	-1.2	-0.4	0.3	0.6	0.7	0.8	0.2
Contribution made by public spending	-0.1	-0.1	-0.1	0.1	0.0	0.1	0.1
Domestic demand (% YoY, average)	-2.6	0.3	1.4	1.3	1.4	1.4	0.9
Total consumption (% YoY, average)	-1.9	0.0	1.3	1.2	1.0	0.9	0.7
Private investment (% YoY, average)	-6.6	-2.2	1.9	3.3	3.9	4.3	1.2
Exports (YoY in %)	0.9	2.4	4.2	2.6	6.0	4.7	3.4
Imports (YoY in %)	-2.3	3.0	6.6	3.8	5.7	4.6	3.1
Unemployment rate (% end of period)	12.3	12.7	11.5	11.8	11.0	10.5	10.2
Inflation (% YoY, end of period)	0.6	0.1	0.2	0.1	0.9	1.6	1.7
Fiscal balance (% of GDP)	-3.0	-3.0	-2.6	-2.5	-1.9	-1.8	-1.4
Trade balance (% of GDP)	1.8	2.6	2.5	3.0	2.8	3.1	3.3
Tax boost (% GDP)	1.8	1.4	1.3	1.3	1.7	1.7	2.1
Current account balance (% of GDP)	1.0	1.9	1.5	2.7	3.0	2.9	2.4
Official interest rate (end of period)	0.37	0.05	0.05	0.00	0.00	0.00	0.04
Short-term rate (end of period)	0.24	0.08	-0.09	-0.31	-0.33	-0.40	0.02
Long-term rate (end of period)	4.16	2.25	1.59	1.76	1.90	2.56	2.89
Exchange rate vs USD (end of period)	1.36	1.25	1.10	1.08	1.18	1.29	1.28
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	3.2	5.4
P.S. financial lending (% YoY, average)	-28.7	-27.6	-1.1	-0.1	4.9	9.1	7.0
Savings rate (% average)	9.9	10.9	10.6	10.1	9.6	9.1	9.3

Source: MAPFRE Economic Research (based on data of the ISTAT)  
Forecasting end date: April 23, 2018.

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## 1.2.6 United Kingdom

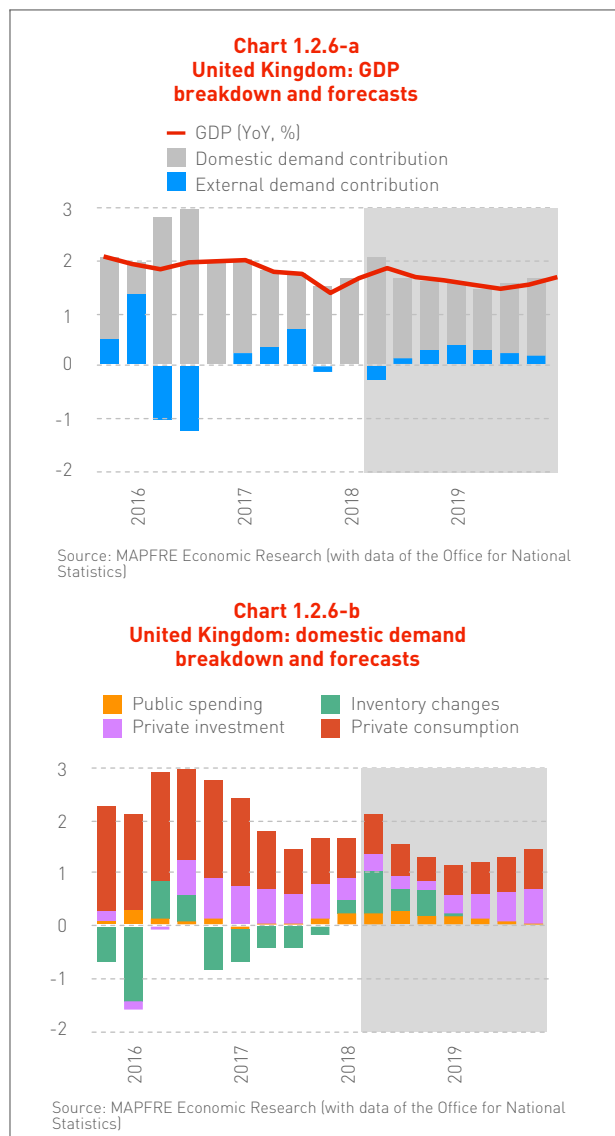
### A year away from the “official” exit from the European Union

2017 GDP growth of the United Kingdom economy came to 1.7% (YoY) and 1.4% (YoY) in the fourth quarter, with private consumption growing by 1.4% (YoY) during the last quarter of the year, exports were strong but decelerated in this same period (+5.1% p/ average and 1.7% YoY during the fourth quarter). Investment continues to surprise in the context of uncertainty, growing by 3.8% (YoY) in the fourth quarter of 2017.

- **For 2018, GDP growth is expected of 1.7%.**
- **Inflation is becoming more moderate as the pound has stabilized against the euro and appreciated against the dollar.**
- **The agreement on the transition period that will last until December 2020 is perceived as positive, during which time the United Kingdom will continue to contribute toward the European Union’s budgets.**

For 2018, GDP growth is expected of 1.7%. The latest inflation figure published in March (2.8%) shows that price growth is moderating as the pound has stabilized. Final inflation for 2018 is therefore forecast as 1.7%, significantly below the 3.0% booked for 2017 (see Table 1.2.6 and Charts 1.2.6-a and 1.2.6-b). In its last meeting, the Bank of England maintained reference interest rates at 0.50%, but indications suggest this may worsen; in 2018, it is expected that they will rise up to around 0.75%. The pound has struck a balance oscillating within the range of 1.12-1.14 against the euro in the last 7 months. This stabilization will help moderate inflation in 2018.

Last March 19, the European Commission published a draft agreement with the United Kingdom on the transition period through to its definitive exit. The transition period is established as 21 months, starting April 1, 2019 and ending in December 2020 (the official exit date according to the terms for the activation of Article 50 is March 29, 2019). These new terms assign extra time given that the date initially envisaged looked to be too early to reach a definitive agreement. As hoped, the transition basically defines the preservation of the “status quo”, with the United Kingdom remaining in the single market and customs union. The United Kingdom will continue contributing toward the European Union budget and citizens entering the United Kingdom during the transition period will enjoy the same privileges as they do at present. It has been agreed that any decision regarding a physical boundary in Northern Ireland will be left to a later date. The United Kingdom is authorized to start negotiating agreements with third parties, but these shall not come into effect until the transition period has reached an end.



**Table 1.2.6**  
**United Kingdom: main macroeconomic aggregates**

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	2.1	3.1	2.3	1.9	1.7	1.7	1.6
Domestic demand contribution	1.9	2.4	2.4	2.1	1.4	1.7	1.3
External demand contribution	0.1	0.7	-0.1	-0.2	0.3	0.1	0.3
Private consumption contribution	1.2	1.4	1.7	1.9	1.1	0.6	0.7
Investment contribution	0.5	0.7	0.5	0.3	0.6	0.3	0.5
Contribution made by public spending	0.0	0.5	0.1	0.2	0.1	0.2	0.1
Domestic demand (% YoY, average)	1.9	3.2	2.5	2.2	1.4	1.7	1.3
Total consumption (% YoY, average)	1.5	2.2	2.2	2.6	1.4	1.1	0.9
Private investment (% YoY, average)	3.5	7.2	2.8	1.8	3.9	1.7	2.9
Exports (YoY in %)	0.9	2.7	5.0	2.3	5.1	3.8	3.4
Imports (YoY in %)	3.1	4.5	5.1	4.8	3.5	2.7	2.4
Unemployment rate (% end of period)	3.8	2.6	2.2	2.2	2.3	2.2	2.2
Inflation (% YoY, end of period)	2.1	0.9	0.1	1.2	3.0	1.7	1.5
Fiscal balance (% of GDP)	-5.6	-5.7	-4.3	-3.3	-2.0	-1.7	-1.2
Trade balance (% of GDP)	-6.8	-6.7	-6.3	-6.9	-6.8	-6.4	-6.2
Tax boost (% GDP)	-4.0	-4.2	-3.0	-1.9	-0.5	-0.4	0.1
Current account balance (% of GDP)	-5.5	-5.3	-5.2	-5.8	-4.7	-3.5	-2.6
Official interest rate (end of period)	0.50	0.50	0.50	0.25	0.41	0.77	1.25
Short-term rate (end of period)	0.52	0.56	0.58	0.39	0.47	0.89	1.38
Long-term rate (end of period)	2.80	2.11	1.92	1.30	1.33	2.05	2.54
Exchange rate vs USD (end of period)	1.62	1.58	1.52	1.24	1.33	1.46	1.48
Exchange rate vs euro (end of period)	1.19	1.27	1.39	1.15	1.13	1.13	1.15
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	1.2	2.1	2.9	4.2	4.5	2.8	2.7
P.S. non-financial lending (% YoY, average)	-1.2	-3.3	-2.3	6.7	5.1	4.2	2.4
P.S. financial lending (% YoY, average)	3.7	-9.3	-13.2	7.5	11.4	3.3	4.4
Savings rate (% average)	8.7	8.4	9.2	7.1	5.1	5.2	5.7

Source: MAPFRE Economic Research (based on data of the Office for National Statistics)  
Forecasting end date: April 23, 2018.

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## 1.2.7 Japan

### Continuity of economic policy after the elections

The Japanese economy grew by 1.4% (YoY) in the fourth quarter of 2017, making for an average growth of 1.7% for the whole year. This growth was mainly driven by exports (which grew by 6.8%, favored by the strong world activity) and also by private sector investments (+2.6%).

- **Growth of the Japanese GDP is expected to come to an average of around 1.5% in 2018.**
- **The employment creation trend and economic activity is maintained, with unemployment at all-time lows.**

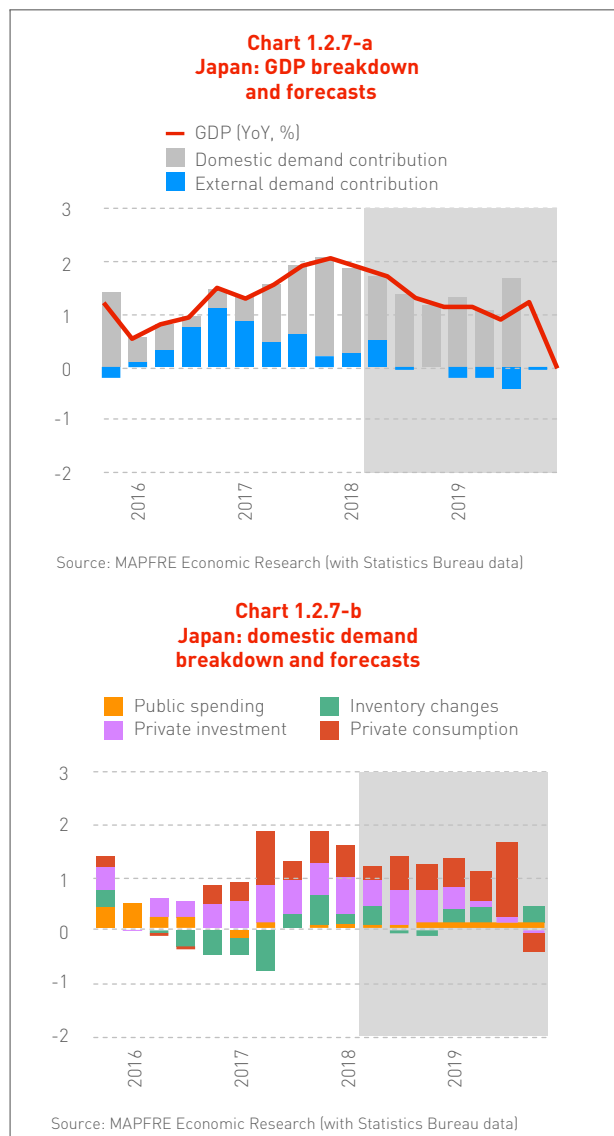
Domestic consumption does not stand out in particular, with growth of 0.8%. Advanced indicators and business confidence remain strong, and it is hoped that exports and investments will continue to drive them, even if a yen that gains ground against the dollar may take away somewhat from exports over the next few quarters. The world commercial and economic cycle, the recovery of growth and recent trade agreement reached with the European Union will also be decisive supporting factors. In this way, growth is envisaged of the GDP of around 1.5% on average in 2018, with a deceleration in 2019 to 0.8% as a result of the increase in consumption tax planned for October this year (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 maintained. Unemployment on the Japanese economy is at an all-time low (2.5% in February) and the ratio of jobs offered per applicant is 1.58, a figure not seen since the first decade of the 1990s. Despite this, for now and until

economic growth gains ground, this trend does not appear to be resulting in salary inflation for structural reasons. Additionally, the deleveraging of families and population dynamic is affecting the moderation of inflation.

In this way, it is likely that the monetary policy will remain expansive for lack of inflationist pressure (1% general for 2018 and 0.4% underlying without energy and fresh food) 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. Although the current cycle has led to a temporary appreciation of the yen to levels of 106 yen per dollar, it is expected to depreciated back to around 115 in 2018.





**Table 1.2.7  
Japan: main macroeconomic aggregates**

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	2.0	0.3	1.4	0.9	1.7	1.5	0.8
Domestic demand contribution	2.4	-0.3	1.0	0.4	1.2	1.3	1.0
External demand contribution	-0.4	0.6	0.4	0.6	0.5	0.2	-0.2
Private consumption contribution	1.4	-0.5	0.0	0.0	0.6	0.5	0.5
Investment contribution	1.1	0.4	0.4	0.3	0.6	0.6	0.1
Contribution made by public spending	0.3	0.1	0.3	0.3	0.0	0.1	0.1
Domestic demand (% YoY, average)	2.4	0.3	1.0	0.4	1.2	1.3	1.0
Total consumption (% YoY, average)	2.1	-0.6	0.4	0.4	0.8	0.8	0.9
Private investment (% YoY, average)	5.0	3.0	1.8	1.1	2.6	2.5	0.6
Exports (YoY in %)	0.9	9.3	3.0	1.3	6.8	5.3	2.7
Imports (YoY in %)	3.3	8.4	0.7	-1.9	3.6	3.8	3.6
Unemployment rate (% end of period)	3.9	3.5	3.3	3.1	2.7	2.6	2.6
Inflation (% YoY, end of period)	1.5	2.5	0.2	0.3	0.6	1.0	1.9
Fiscal balance (% of GDP)	-7.6	-5.4	-3.5	-4.6	-5.0	-5.5	-4.9
Trade balance (% of GDP)	-1.7	-2.0	-0.2	1.0	0.9	1.0	0.7
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	0.9	0.7	3.0	3.7	4.0	4.0	3.7
Official interest rate (end of period)	0.07	0.06	0.08	-0.04	-0.04	-0.10	-0.11
Short-term rate (end of period)	0.14	0.11	0.08	-0.04	-0.03	-0.07	-0.07
Long-term rate (end of period)	0.64	0.45	0.31	0.00	0.05	0.04	-0.01
Exchange rate vs USD (end of period)	100.43	114.55	121.44	109.45	112.89	109.74	114.12
Exchange rate vs euro (end of period)	136.75	142.83	133.01	118.01	132.92	141.47	146.49
Private lending (% YoY, average)	3.4	2.2	2.4	1.7	4.5	3.8	2.8
Household lending (% YoY, average)	1.1	0.9	1.5	1.6	1.5	1.0	0.5
P.S. non-financial lending (% YoY, average)	-0.1	0.8	1.1	2.2	4.5	3.5	1.7
P.S. financial lending (% YoY, average)	3.9	8.5	7.7	-0.5	7.2	0.8	1.6
Savings rate (% average)	0.3	-0.4	0.7	2.5	3.0	3.0	3.0

Source: MAPFRE Economic Research (based on data of the Statistics Bureau)  
Forecasting end date: April 23, 2018.

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## 1.2.8 Turkey

### End of growth promoted

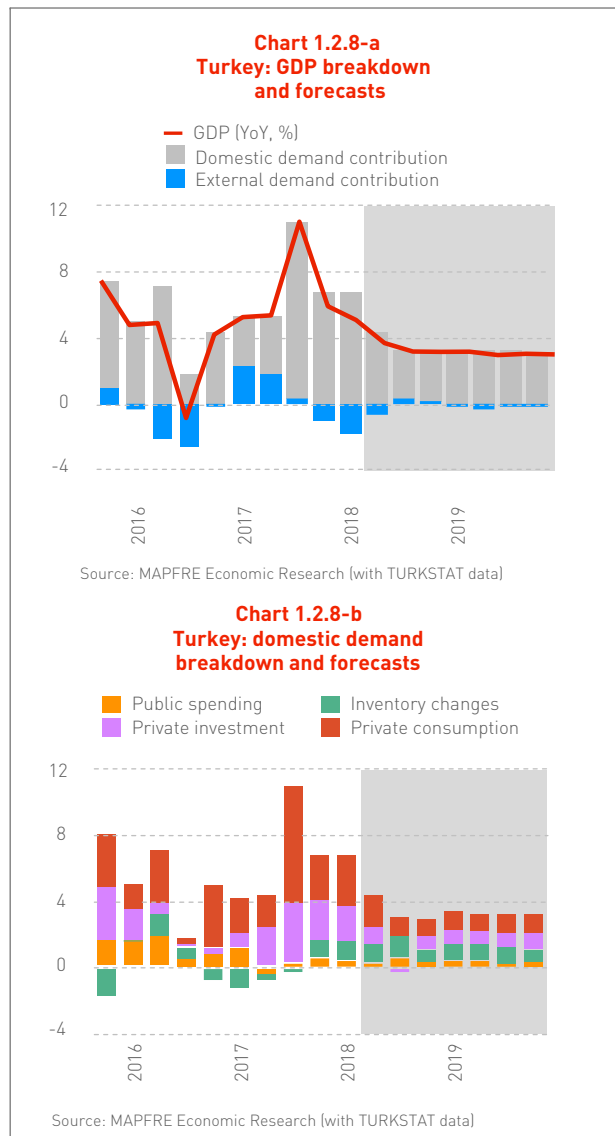
The Turkish economy has sped up, growing 7.3% (YoY) in the fourth quarter of 2017, taking annual growth up to 7.4% in 2017. This is mainly due to the boost to receivables activated by the government through the Receivables Guarantee Fund. It is estimated that the boost to receivables contributed by 1.5 percentage points to the growth seen in 2017. In turn, this has contributed toward a 3% growth in employment, which has increased household income and, therefore, consumption. The Turkish lira depreciated during the first quarter by 7.3%, which fostered a rebound of inflation (10.3% in February) and a worsening of the current account balance to -5.6% in December.

- **For 2018, a deceleration is expected of the economic activity, to approximately 4%.**
- **The hoped-for deceleration of receivables and growth will be a challenge to the economic policies in the run-up to the 2019 presidential, parliamentary and local elections.**

For 2018, a deceleration is expected in economic activity, to around 4% (below the government objective of 5.5%), which at once will help limit signs of an overheating of the economy and will intensify pressure on the monetary and tax policies (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b). The reference interest rate (liquidity window for banks) has come in, after December's rise, at 12.75%. With inflation at 10.3% in February (and foreseeably around 10% in 2018), the central bank has no margin to lower them. Moreover, the needs for external financing of the Turkish economy

in dollars rises to 25% of the GDP and, therefore, high interest rates are necessary to defend the value of the currency.

The hoped-for deceleration of receivables and growth will be a challenge for the economic policy in the run-up to the 2019 presidential, parliamentary and local elections, which will very probably cause them to be brought forward to September 2018 (if President Erdogan should call them in a challenge to recover the basis of popular support). It is likely that, in the short-term, tax and quasi-tax policies will be maintained to support growth, but this may, at the same time, continue to increase the macroeconomic imbalances that already exist. Considering the significant needs for external financing (equivalent to 25% of the GDP, to finance the current account deficit and debt maturities), the short-term risk is the volatility of capital flows (loss of appeal of Turkish assets). Turkey's dependency on the entry of foreign capital makes it vulnerable to market fluctuations and also increases difficulty in maintaining sustainable growth in the longer term.



**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	3.8	3.1
Domestic demand contribution	10.3	3.4	5.5	4.6	6.0	4.2	3.2
External demand contribution	-1.8	1.9	0.5	-1.3	0.9	-0.4	-0.2
Private consumption contribution	4.9	1.9	3.4	2.2	3.5	1.8	1.1
Investment contribution	3.8	1.3	2.7	0.7	2.3	0.9	0.8
Contribution made by public spending	1.1	0.4	0.5	1.3	0.5	0.5	0.4
Domestic demand (% YoY, average)	10.1	3.2	5.4	4.5	5.9	4.2	3.2
Total consumption (% YoY, average)	7.9	3.0	5.1	4.7	5.3	3.1	2.1
Private investment (% YoY, average)	14.0	5.5	9.1	2.4	7.7	2.9	2.8
Exports (YoY in %)	1.4	8.3	4.3	-1.7	11.4	3.3	1.7
Imports (YoY in %)	8.0	-0.3	1.8	3.7	6.8	4.9	2.2
Unemployment rate (% end of period)	9.3	10.7	10.5	12.1	10.3	11.2	10.9
Inflation (% YoY, end of period)	7.5	8.8	8.2	7.6	12.3	9.5	8.6
Fiscal balance (% of GDP)	-1.1	-1.1	-1.1	-1.3	-1.6	-1.9	-1.9
Trade balance (% of GDP)	-8.4	-6.8	-5.6	-4.7	-6.9	-6.9	-6.1
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-6.7	-4.7	-3.7	-3.8	-5.6	-5.5	-5.2
Official interest rate (end of period)	6.55	8.40	8.78	7.98	12.17	12.30	10.27
Short-term rate (end of period)	7.90	9.97	11.28	9.35	13.56	13.37	11.28
Long-term rate (end of period)	9.16	8.55	10.24	10.68	11.97	11.46	10.50
Exchange rate vs USD (end of period)	2.03	2.26	2.91	3.28	3.80	3.73	3.77
Exchange rate vs euro (end of period)	2.75	2.82	3.19	3.53	4.47	4.81	4.84
Private lending (% YoY, average)	28.8	23.2	23.0	12.8	20.6	11.8	10.6
Household lending (% YoY, average)	24.0	16.3	12.5	7.1	17.5	15.2	14.7
P.S. non-financial lending (% YoY, average)	31.1	30.1	29.9	14.7	24.3	17.3	9.9
P.S. financial lending (% YoY, average)	24.3	22.4	26.4	9.0	27.2	13.0	11.4
Savings rate (% average)	17.9	20.5	20.3	22.7	20.1	18.9	17.8

Source: MAPFRE Economic Research (based on data of the TURKSTAT)  
Forecasting end date: April 23, 2018.

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## 1.2.9 Mexico

### Uncertainty in the face of the presidential elections

The Mexican economy visibly decelerated during the second half of 2017, taking growth to 2.3% for the whole of 2017. At these times, similar, or even slightly less growth is envisaged for 2018. Inflation came in at 5.3% in February, as a continuation of the decline that began at the start of the year, hence it is expected to close the year with 3.9%, within the central bank objective bracket (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

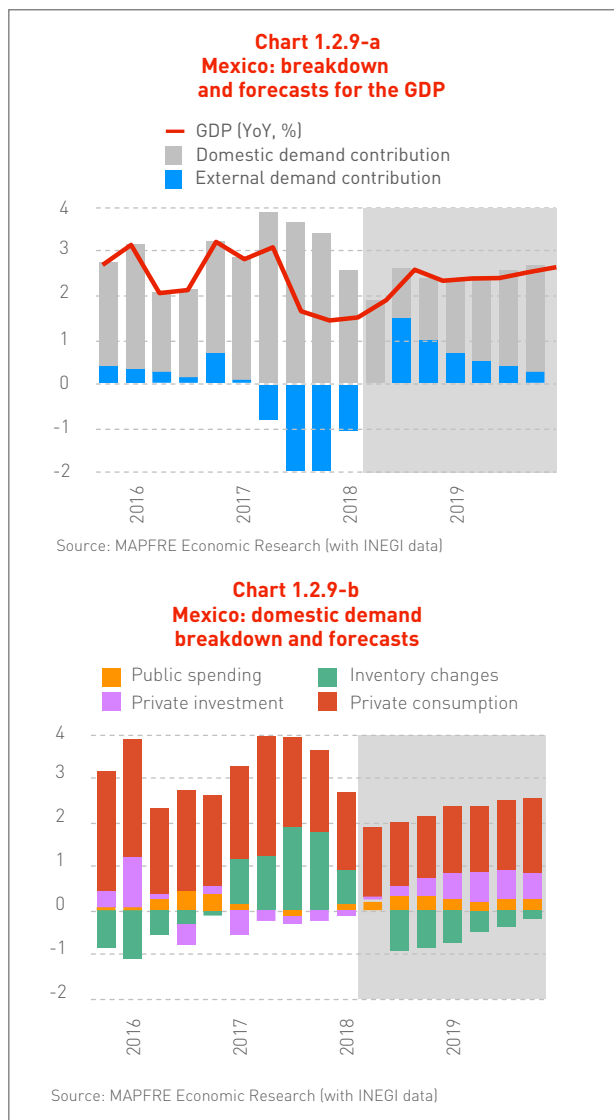
In the same way, the Bank of Mexico continues to align its monetary policy with that of the United States Federal Reserve, so as to avoid a movement of portfolio investments that could have an abrupt effect on the exchange rate and, therefore, the external position of the Mexican economy.

The two key topics in Mexico for 2018 are, on the one hand the conclusion of negotiations of the trade agreement with the United States and Canada (NAFTA), and on the other, the presidential elections of July 1. The NAFTA negotiations, after various rounds, have yet to reach a final conclusion. Despite the government's attempts to conclude negotiations before the July elections, it is expected that results will only be obtained toward the

- **A slight deceleration to Mexican economic growth is envisaged in 2018, to 2.1%.**
- **Inflation came in at 5.3% in February and is expected to close the year with 3.9%, within the central bank objective bracket.**
- **The two key topics in Mexico for 2018 are the conclusion of NAFTA negotiations and the presidential elections of July 1.**

second half of 2018. If the NAFTA should survive (which analysts rate to be the most likely option), it is expected to lean a little more favorably toward the United States, but among other aspects, Mexico has been working to expand its commercial agreements to include other areas worldwide, including the European Union.

With the elections in the immediate future, the greater uncertainty lies in clarifying the degree of economic heterodoxy that will be imposed by the candidate the surveys rate as most likely to triumph (the poll of polls carried out before the first presidential debate assigned Andrés Manuel López Obrador a 90% change of winning, followed by Ricardo Anaya with 8% and José Antonio Meade with 1%).



**Table 1.2.9**  
**Mexico: main macroeconomic aggregates**

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	1.6	2.8	3.3	2.7	2.3	2.1	2.5
Domestic demand contribution	2.0	2.0	2.5	2.3	3.4	1.8	2.1
External demand contribution	-0.4	0.9	0.8	0.4	-1.2	0.4	0.5
Private consumption contribution	1.3	1.4	2.2	2.2	2.2	1.5	1.6
Investment contribution	-0.7	0.3	1.1	0.2	-0.3	0.2	0.6
Contribution made by public spending	0.1	0.4	0.2	0.3	0.0	0.3	0.2
Domestic demand (% YoY, average)	2.0	2.6	2.5	2.3	3.5	1.7	2.0
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	-1.3	0.8	3.2
Exports (YoY in %)	1.3	6.9	8.6	3.5	3.4	4.3	4.5
Imports (YoY in %)	2.6	5.9	6.0	2.4	6.8	3.1	3.2
Unemployment rate (% end of period)	4.6	4.4	4.2	3.5	3.3	3.7	3.8
Inflation (% YoY, end of period)	3.7	4.2	2.3	3.2	6.6	3.9	3.4
Fiscal balance (% of GDP)	-2.3	-3.1	-3.4	-2.5	-1.1	-2.0	-2.1
Trade balance (% of GDP)	-0.1	-0.2	-1.2	-1.2	-0.9	-1.6	-1.2
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-2.4	-1.8	-2.5	-2.1	-1.6	-1.8	-1.6
Official interest rate (end of period)	3.57	3.00	3.04	5.09	7.05	7.23	6.05
Short-term rate (end of period)	3.85	3.30	3.40	5.60	7.46	7.53	6.16
Long-term rate (end of period)	6.15	5.88	6.06	6.81	7.28	7.15	6.17
Exchange rate vs USD (end of period)	13.02	13.90	16.76	19.84	18.98	17.98	17.72
Exchange rate vs euro (end of period)	17.72	17.37	18.36	21.39	22.34	23.18	22.74
Private lending (% YoY, average)	13.9	10.8	13.6	16.3	11.7	6.9	6.2
Household lending (% YoY, average)	9.1	8.1	8.4	12.8	9.9	6.1	5.7
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	15.4	9.8	-11.4	3.5	2.4	18.7	10.7
Savings rate (% average)	15.0	13.8	14.7	13.0	10.9	11.0	10.9

Source: MAPFRE Economic Research (based on data of the INEGI)  
Forecasting end date: April 23, 2018.

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## 1.2.10 Brazil

### Opportunities amid political uncertainty and challenges

In Brazil, the GDP grew by 2.1% inter-annually in the fourth quarter of 2017, confirming that the economy is currently amid a full recovery. Therefore, for the whole of 2017, average growth was 1% and for 2018 and 2019, an acceleration is envisaged in the activity rate, with growth of 2.2% and 3.2% respectively (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b). The progress registered on the Brazilian economy in 2017 was essentially based on better trends in consumption (+2.6%) and investment (+3.7%) during the third quarter of 2017.

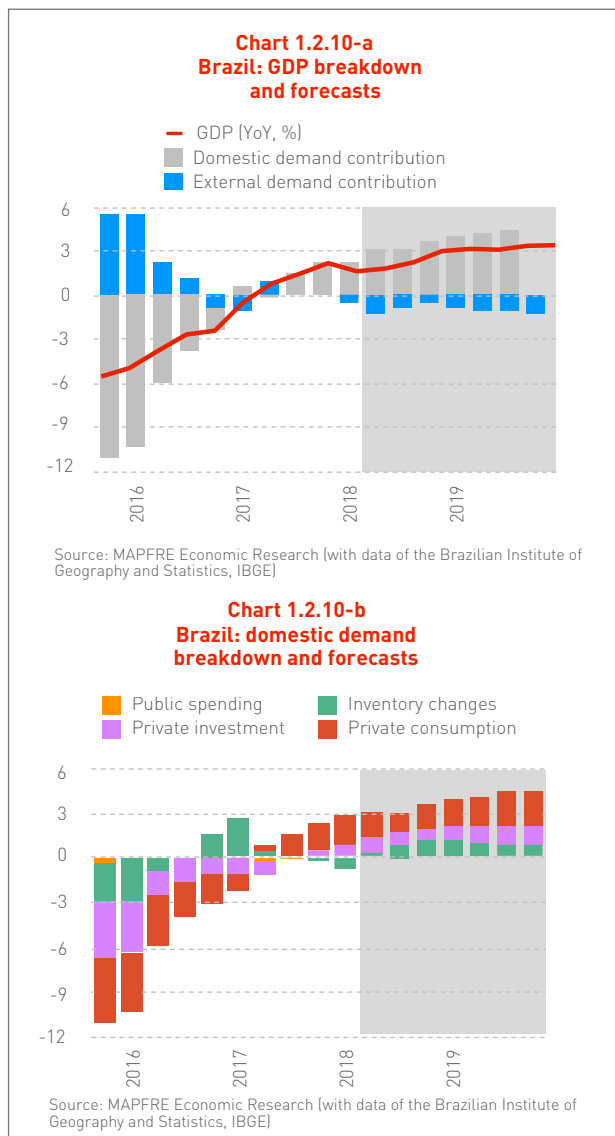
- **The Brazilian economy looks to be currently amid a full recovery and for 2018 and 2019, growth is expected to accelerate.**
- **Inflation is limited, allowing the central bank to set SELIC rates at 6.50%.**
- **The country needs to continue with its structural reforms to balance its public accounts.**

Additionally, the sustained decrease in inflation has allowed the central bank to cut interest rates seven times during 2017 and twice in 2018, setting the SELIC (the intervention interest rate) at 6.50% in the last meeting held in March. The unemployment rate is already below 13%. These aspects combine with a trend in exports (+9.1%) that has contributed toward the reduction in the current account deficit, bringing it in at -0.4% of the GDP, as compared with -4.5% in the second quarter of 2015, the lowest point of the recession.

The tax balance is already showing improvements in line with the economic recovery, closing February with a deficit of 7.3% of the GDP (and 1.4% primary deficit). The same does not occur with the Social Security system deficit, which books its highest figure since the series has existed. Despite it all, surveys show an

improvement in expectations and a greater degree of optimism about the economy by the Brazilian population. Nonetheless the country needs to continue its structural reforms to balance its public accounts. The most urgent reforms continue to be the pension and tax system, which are key to decreasing the deficit and ensuring sustainability of the debt.

Due to the nearness of the presidential elections in October 2018, the reforms have been paralyzed due to lack of a clear majority to approve them. Despite having been imprisoned, the former President Luiz Inácio Lula da Silva will continue to be a candidate until his inevitable renunciation, at which point it is speculated that a replacement for the party will be sought.



**Table 1.2.10  
Brazil: main macroeconomic aggregates**

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	3.0	0.5	-3.6	-3.5	1.0	2.2	3.2
Domestic demand contribution	4.0	0.4	-7.1	-5.4	1.0	3.0	4.3
External demand contribution	-1.0	0.1	3.6	2.0	0.0	-0.8	-1.0
Private consumption contribution	2.3	1.5	-2.2	-3.0	0.6	1.6	2.1
Investment contribution	1.2	-0.8	-2.9	-1.9	-0.3	0.9	1.2
Contribution made by public spending	0.3	0.1	-0.2	0.0	-0.1	0.0	0.0
Domestic demand (% YoY, average)	3.8	0.2	-6.7	-5.2	1.0	2.9	4.2
Total consumption (% YoY, average)	3.1	2.0	-2.8	-3.5	0.6	1.9	2.4
Private investment (% YoY, average)	5.8	-4.1	-14.0	-10.1	-1.8	5.4	6.7
Exports (YoY in %)	2.8	-0.8	6.8	1.8	5.8	5.2	4.4
Imports (YoY in %)	7.0	-1.9	-14.1	-9.5	5.6	9.5	9.6
Unemployment rate (% end of period)	6.2	6.5	9.0	12.0	11.8	11.7	9.8
Inflation (% YoY, end of period)	5.8	6.5	10.4	7.0	2.8	4.0	3.8
Fiscal balance (% of GDP)	-3.0	-6.0	-10.2	-9.0	-7.8	-7.3	-6.6
Trade balance (% of GDP)	0.0	-0.3	1.0	2.5	3.1	2.5	2.1
Tax boost (% GDP)	1.7	-0.5	-1.8	-2.4	-1.7	-1.8	-1.6
Current account balance (% of GDP)	-3.0	-4.2	-3.3	-1.3	-0.5	-1.4	-1.6
Official interest rate (end of period)	9.63	11.32	14.25	13.97	7.58	6.64	7.44
Short-term rate (end of period)	9.52	11.22	14.15	13.86	7.48	6.54	7.59
Long-term rate (end of period)	12.09	12.10	15.41	11.55	10.05	9.41	8.88
Exchange rate vs USD (end of period)	2.28	2.55	3.84	3.29	3.25	3.47	3.51
Exchange rate vs euro (end of period)	3.10	3.19	4.21	3.55	3.82	4.48	4.50
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	16.4	14.0	9.9	4.3	4.6	10.2	14.8
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (% average)	22.9	20.3	18.2	17.8	18.9	18.9	18.5

Source: MAPFRE Economic Research (based on data of the Brazilian Institute of Geography and Statistics, IBGE)  
Forecasting end date: April 23, 2018.

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## 1.2.11 Argentina

### Sustained realism

After average actual growth of the GDP of 4.1% on an inter-quarterly basis, in the first few quarters of 2017, the high frequency indicators show that the Argentinean economy grew at a slower rate in the fourth quarter of 2017. This is reflected in exports, the prices of commodities, industrial production, use of capacity and consumer confidence, which explain +80% of the quarterly growth change in the actual GDP.

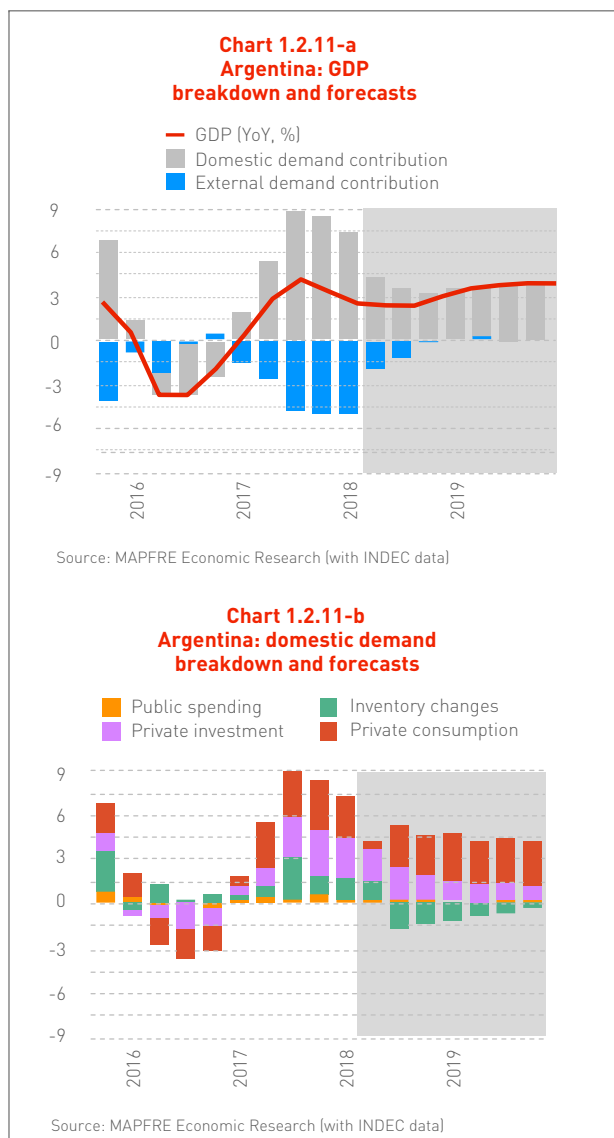
- **Growth of the Argentinean economy continues, backed by investments and private consumption.**
- **It is expected that growth will remain at around 2.6% in 2018, postponing the acceleration envisaged until 2019.**
- **Inflation continues its decreasing trend that began in 2017.**

It is estimated that the Argentinean economy grew 2.7% in 2017 (as compared with a decline of 2.2% in 2016), driven by the improvement in investment and private consumption. On the supply side, growth has generalized each time more between industries, as the economy completed six consecutive quarters of growth. Construction and agriculture are among the most dynamic sectors, and the manufacturing industry (led by the production of automobiles) has recovered constantly from a very low base. Additionally, formal employment has expanded in 2017, driven in particular by construction and public services, which established the unemployment rate.

It is expected that growth will remain at around 2.6% throughout 2018, postponing the acceleration envisaged last quarter to 2019 when growth of 3.8% is expected, mainly driven by investment (see Table 1.2.11 and Charts 1.2.11-a and 1.2.11-b).

Growth of employment and receivables should continue to support private consumption. The recovery of Brazil, Argentina's main commercial partner, and the solid growth prospects of the European Union and United States, should drive external demand, fostering the Argentinean manufacturing sector. It is hoped that the continuous expansion extends to all sectors led by activities relating to construction, services and energy.





**Table 1.2.11**  
**Argentina: main macroeconomic aggregates**

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	2.4	-2.5	2.6	-2.2	2.7	2.6	3.8
Domestic demand contribution	4.1	-4.2	4.1	-1.5	6.2	4.6	3.7
External demand contribution	-1.8	1.7	-1.5	-0.7	-3.5	-2.0	0.1
Private consumption contribution	2.6	-3.1	2.4	-1.0	2.5	2.3	3.1
Investment contribution	0.5	-1.2	0.7	-1.0	1.9	2.2	1.2
Contribution made by public spending	0.6	0.4	0.9	0.0	0.4	0.2	0.2
Domestic demand (% YoY, average)	4.0	-3.8	4.0	-1.4	5.8	4.2	3.3
Total consumption (% YoY, average)	3.9	-3.2	4.0	-1.1	3.4	2.9	3.7
Private investment (% YoY, average)	2.5	-6.6	3.8	-5.0	9.9	10.9	5.3
Exports (YoY in %)	-3.6	-6.8	-0.6	4.3	-0.1	3.1	7.2
Imports (YoY in %)	4.1	-11.2	5.9	6.1	12.8	9.2	4.3
Unemployment rate (% end of period)	6.4	6.9	7.0	7.6	7.8	7.2	6.8
Inflation (% YoY, end of period)	31.2	44.2	22.9	41.5	23.3	21.2	13.5
Fiscal balance (% of GDP)	-3.5	-4.8	-6.0	-5.9	-6.1	-5.6	-4.6
Trade balance (% of GDP)	0.8	1.0	-0.1	0.8	-1.0	-1.6	-1.6
Tax boost (% GDP)	-2.1	-3.2	-3.9	-4.2	-3.8	-3.4	-2.6
Current account balance (% of GDP)	-2.1	-1.6	-2.8	-2.7	-5.1	-5.5	-5.2
Official interest rate (end of period)	16.37	24.16	31.96	25.83	27.95	22.61	16.75
Short-term rate (end of period)	11.00	15.86	25.18	29.71	29.95	24.64	18.74
Long-term rate (end of period)	11.29	9.58	7.26	6.87	5.97	6.89	6.90
Exchange rate vs USD (end of period)	6.05	8.51	10.04	15.44	17.55	21.99	23.41
Exchange rate vs euro (end of period)	8.24	10.64	10.99	16.65	20.66	28.35	30.05
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (% average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: MAPFRE Economic Research (based on data of the INDEC)  
Forecasting end date: April 23, 2018.

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## 1.2.12 China

### Under the threat of a commercial war

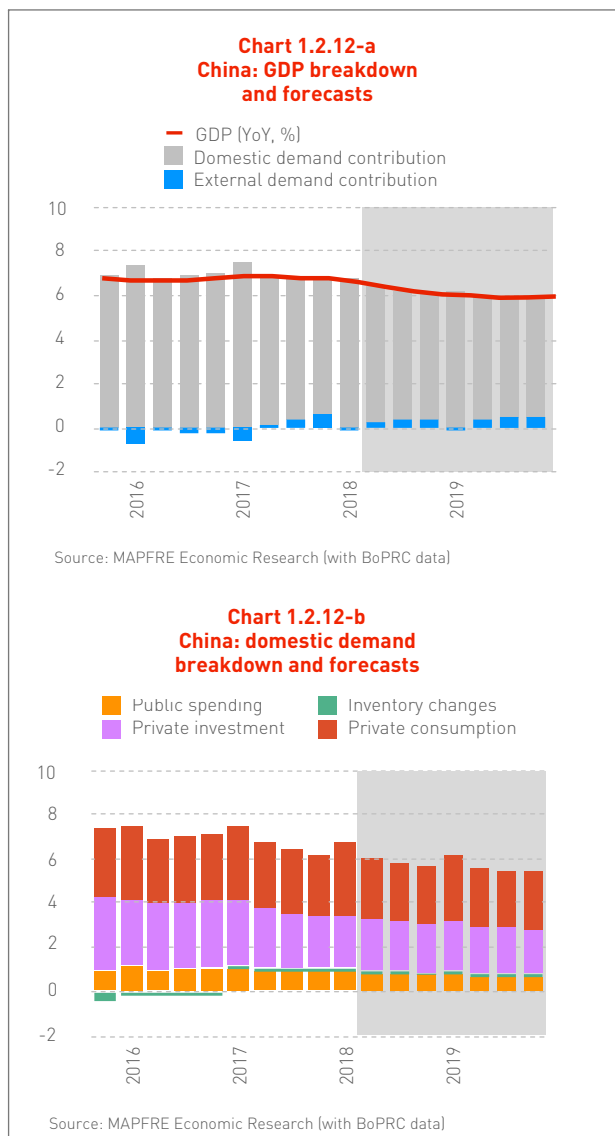
The growth of the Chinese economy appears to have remained solid in the first quarter of 2017, supported by stronger exports and investments. In light of a modest change in the way in which those in charge of the formulation of policies plan to balance growth with the reform and deleveraging, GDP growth forecasts are maintained at 6.3% for 2018, after a level of activity of 6.9% on average in 2017 (See Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

- **Solid economic growth continues throughout 2018.**
- **For now, commercial tension with the United States has had limited impact.**
- **Even so, there are risks of more serious commercial friction.**

Although the figures for the first two months of the year suggest some upward risks for our economic prospects for 2018, they are offset against the risks of a downward trend, deriving from commercial friction with the United States. In response to the recent tariffs of the United States (hinged on technology on Chinese exports to this country), worth 50,000 million dollars, China has threatened to impose tariffs on a similar quantity of exports from the United States to China. China's response, it would appear, has been more of an initial save in negotiations than a definitive move, and it would appear that there is room for maneuver and the tariffs imposed by both parties may be negotiated downwards in the next few weeks.

It is worth noting that it is estimated that the tariff of 25% in the United States on 50,000 million dollars in Chinese exports, with a comparable retaliation, would reduce growth of China's GDP by just 0.05 percentage points (pp) in 2018 and 0.07 pp in 2019, with an impact on the United States that is only slightly less.

Nonetheless, considering the possible dynamics in such high wagers, there are risks of far more serious commercial friction. Additionally, the focus of the United States measures suggests risks of a major economic and technological confrontation.



**Table 1.2.12  
China: main macroeconomic 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	7.0	6.7	6.1	5.7
External demand contribution	-0.1	1.6	0.0	-0.3	0.1	0.2	0.3
Private consumption contribution	3.0	3.1	3.1	3.0	3.1	2.9	2.7
Investment contribution	4.2	2.2	3.4	3.0	2.5	2.3	2.1
Contribution made by public spending	0.6	0.4	0.9	1.1	1.0	0.8	0.8
Domestic demand (% YoY, average)	8.1	7.2	7.1	7.2	6.9	6.2	5.8
Total consumption (% YoY, average)	7.2	7.1	8.0	8.2	8.0	7.2	6.8
Private investment (% YoY, average)	9.3	6.9	7.4	6.6	5.5	5.0	4.6
Exports (YoY in %)	8.3	5.4	0.5	1.8	7.0	5.7	4.6
Imports (YoY in %)	10.6	7.7	0.6	3.8	7.8	5.6	5.7
Unemployment rate (% , end of period)	4.1	4.1	4.1	4.0	3.9	3.9	3.9
Inflation (% YoY, end of period)	2.9	1.5	1.5	2.2	1.8	2.5	2.6
Fiscal balance (% of GDP)	-1.8	-1.8	-3.4	-3.8	-3.7	-3.6	-3.7
Trade balance (% of GDP)	3.7	4.2	5.3	4.4	3.9	3.5	3.5
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	1.5	2.3	2.8	1.8	1.4	1.3	1.4
Official interest rate (end of period)	4.71	3.53	2.33	2.48	2.89	3.28	3.52
Short-term rate (end of period)	6.10	4.67	3.02	3.31	5.03	4.01	3.90
Long-term rate (end of period)	4.36	3.70	3.05	2.91	3.85	3.90	4.00
Exchange rate vs USD (end of period)	6.09	6.15	6.39	6.83	6.61	6.22	6.18
Exchange rate vs euro (end of period)	8.29	7.68	7.00	7.37	7.78	8.02	7.94
Private lending (% YoY, average)	15.4	13.4	14.8	13.3	10.8	10.5	9.5
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (% , average)	39.8	39.7	39.3	38.6	38.0	37.4	36.7

Source: MAPFRE Economic Research (based on data of the BoPRC)  
Forecasting end date: April 23, 2018.

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## 1.2.13 Indonesia

### Recovering imbalances

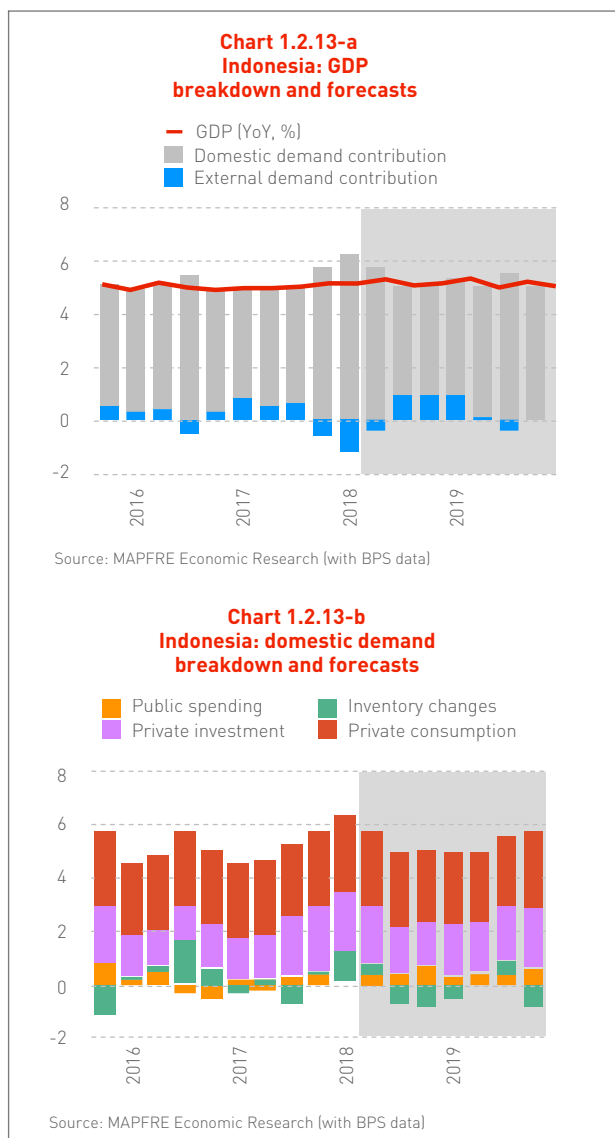
Amid the start of the regional elections for governor and mayor in 2018 and the presidential elections in 2019, a slight recovery is forecast of the drive of economic growth in Indonesia. In 2017, extensive base economic growth was reported (5.1% YoY), mainly driven by domestic demand; it is hoped that the trend will continue this year and the next. In this way, it is envisaged that annual growth of the actual GDP shall increase in 2018, coming in at 5.2% (See Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

- **Growth of Indonesia's GDP is expected to be stable in the short- and medium-term, with slight inflationist pressure upwards.**
- **The downward risks may derive from a worsening of world financial conditions and a protectionist commercial policy.**

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 shall exceed that envisaged by the Government (3.7%). By the same token, an expansion of the current account deficit is expected for 2018 (-2.0% of the GDP), investing in the trend to strengthen the current account position that had begun in 2013. The balance of payments should remain as a surplus this year and next year, even if to a lesser extent, with the support of non-resident capital entries, in particular direct foreign investment.

The Indonesian rupee (IDR) will be under pressure of depreciation against the dollar this year. Also at play are a narrower production gap, a smaller inflation gap and a volatile IDR. It is hoped that the monetary authority increases its interest rate in the last quarter of 2018 and maintains its monetary policy in 2019.

The downward risks may derive from a worsening of world financial conditions and a protectionist commercial policy. Internally, the strict administrative pricing policy during the current environment of an increase in commodity prices causes risks to the balances of local businesses, particularly state businesses, and their investment capacity. Political risk may increase during the 2018 regional elections and 2019 presidential elections.



**Table 1.2.13  
Indonesia: main macroeconomic aggregates**

	2013	2014	2015	2016	2017	2018	2019
GDP (% YoY, average)	5.6	5.0	4.9	5.0	5.1	5.2	5.2
Domestic demand contribution	5.0	4.6	3.9	4.9	4.7	5.1	5.0
External demand contribution	0.6	0.4	0.9	0.2	0.4	0.1	0.2
Private consumption contribution	3.0	2.9	2.7	2.8	2.8	2.8	2.7
Investment contribution	1.6	1.0	1.6	1.5	2.0	2.0	2.0
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	5.2	5.1
Total consumption (% YoY, average)	5.6	4.7	4.9	4.4	4.6	5.0	5.1
Private investment (% YoY, average)	5.1	4.5	5.0	4.5	6.1	6.0	6.0
Exports (YoY in %)	4.1	1.3	-2.1	-1.6	9.2	6.0	5.5
Imports (YoY in %)	2.0	2.2	-6.2	-2.5	8.1	6.4	5.1
Unemployment rate (% , end of period)	5.7	5.9	5.8	5.5	5.4	5.3	5.0
Inflation (% YoY, end of period)	8.0	6.5	4.8	3.3	3.5	3.7	4.2
Fiscal balance (% of GDP)	-2.2	-2.2	-2.6	-2.5	-2.5	-2.4	-2.4
Trade balance (% of GDP)	0.6	0.8	1.6	1.6	1.9	1.6	2.5
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-3.2	-3.1	-2.0	-1.8	-1.7	-2.0	-1.1
Official interest rate (end of period)	6.14	6.37	6.25	4.81	4.25	4.43	4.88
Short-term rate (end of period)	7.45	7.43	8.42	7.06	5.25	6.47	7.23
Long-term rate (end of period)	8.12	7.98	8.71	7.53	6.53	7.06	7.63
Exchange rate vs USD (end of period)	11,552	12,252	13,769	13,259	13,534	13,810	13,921
Exchange rate vs euro (end of period)	15,721	15,312	15,081	14,296	15,934	17,804	17,868
Private lending (% YoY, average)	21.9	15.2	10.6	7.8	8.2	9.6	9.4
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	16.9	4.4	32.0	10.1	12.4	1.2	9.4
Savings rate (% , average)	17.1	17.0	17.0	17.0	17.0	17.6	17.9

Source: MAPFRE Economic Research (based on data of the BPS)  
Forecasting end date: April 23, 2018.

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## 1.2.14 Philippines

### Growth of demand with an increase in imbalances

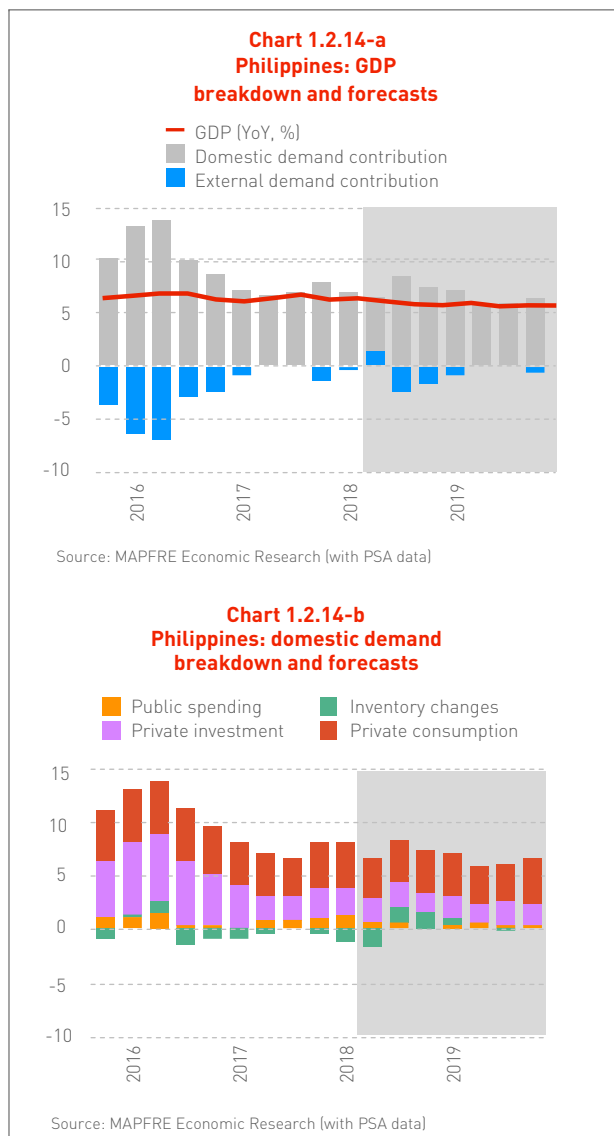
The economy of the Philippines grew by 6.7% (YoY) in 2017, even above the country's long-term potential. Government spending increased once more at a rapid rate as the cost of homes has improved, supported by the increase in consignments (10% of the GDP) and the investment and exports increased even more. Demand is therefore robust, although imbalances grow with an adjusted labor market and a continued expansion of receivables.

- **For 2018, a new record is envisaged in public spending, with investment in infrastructures standing out.**
- **Still, growth of the GDP may suffer a slight decrease in dynamism over the next few years.**
- **A continuation of the monetary policy is maintained between the change in central bank governor.**

The administration of President R. Duterte plans to increase the expense up to a new record in 2018 and investments in infrastructures will account for 6% of the GDP next year. Onwards, the growth forecast for the GDP sees a slight decrease in the dynamism of the Philippine economy, coming in at 6.3% (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 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 costs of debt low and plenty of liquidity.

The solid economic performance seen during the third quarter of 2017 of the Philippines economy drove Fitch to improve the sovereign rating. Classification of long-term debt held in foreign currency was upped to BBB with outlook stable. 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.



**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	6.3	6.1
Domestic demand contribution	9.8	4.8	9.1	11.5	7.2	7.0	6.4
External demand contribution	-2.7	1.3	-3.0	-4.6	-0.5	-0.7	-0.4
Private consumption contribution	4.0	3.9	4.4	4.8	4.0	4.1	3.8
Investment contribution	2.4	1.1	3.6	6.0	2.9	2.1	2.0
Contribution made by public spending	0.6	0.3	0.8	0.9	0.7	0.7	0.5
Domestic demand (% YoY, average)	9.9	5.0	9.0	11.2	6.7	6.5	5.9
Total consumption (% YoY, average)	5.6	5.2	6.5	7.2	5.9	6.0	5.4
Private investment (% YoY, average)	12.0	7.2	16.6	25.7	10.3	7.3	6.8
Exports (YoY in %)	-0.6	12.6	8.7	10.8	19.2	9.4	8.7
Imports (YoY in %)	4.5	10.1	14.6	18.8	17.6	9.4	8.2
Unemployment rate (% end of period)	6.4	6.0	5.6	4.7	5.0	4.8	4.6
Inflation (% YoY, end of period)	3.0	2.9	0.3	2.0	3.0	4.1	3.8
Fiscal balance (% of GDP)	-1.4	-0.6	-0.9	-2.4	-2.2	-2.4	-2.7
Trade balance (% of GDP)	-6.5	-6.1	-8.0	-11.7	-13.1	-14.3	-13.3
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	4.2	3.8	2.5	-0.3	-0.9	-2.1	-1.5
Official interest rate (end of period)	3.50	4.00	4.00	3.00	3.00	3.25	4.27
Short-term rate (end of period)	2.02	2.56	2.53	2.51	2.81	3.58	4.18
Long-term rate (end of period)	3.72	4.24	3.91	4.43	5.25	6.77	6.98
Exchange rate vs USD (end of period)	43.62	44.81	46.87	49.11	50.93	51.84	50.34
Exchange rate vs euro (end of period)	59.36	56.01	51.33	52.95	59.96	66.83	64.62
Private lending (% YoY, average)	16.6	18.0	13.2	15.3	17.8	14.0	8.1
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	6.0	8.8	2.6	8.7	9.1	9.9	10.2
Savings rate (% average)	8.3	9.3	7.7	8.0	8.3	8.2	8.5

Source: MAPFRE Economic Research (based on data of the PSA)  
Forecasting end date: April 23, 2018.

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## 2. Industry outlook

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

#### 2.1.1 Global markets

The world growth envisaged for 2018 of around 3.8% (3.6% in 2017) is an economic prospect that is expected to maintain the positive impact on the development of the insurance market worldwide. Economic growth will be solid and synchronized in all major regions, estimated as above 2% on the developed economies and around 5% for emerging economies. This context of solid global growth and moderate inflation will continue to be extremely favorable for the insurance industry, whose development is very closely linked to the economic cycle. As mentioned in previous reports, benefits will be seen in particular in the insurance industry on the emerging markets, where the low level of insurance penetration (premiums/GDP) causes the elasticity of the insurance demand at growth to be greater than in more developed economies, meaning that weak or moderate growth of the GDP results in greater growth in insurance policy premiums.

The normalization of the monetary policy and the protectionist measures in the United States have not had a great impact on the economic

development, market and world trade, at least for now. Lax monetary policies continue by the central banks of the Eurozone and Japan. In the Eurozone, considering the envisaged scheduled for the monetary normalization, there is no expectation of a rise in interest rates until late 2019. Decreases in the purchasing programs by the European Central Bank (ECB) are expected to be very gradual, with the aim of avoiding any undesired consequences, such as sudden increases in the cost of financing debt and possible over-valuations of assets that may occur, which can have a negative impact on the results of, among other sectors, the insurance industry. Nonetheless, it is a latent risk. This context of interest rates continues to act as a ballast for the Life, savings and life annuity business lines, which may be damaged despite the good economic performance.

In this context, it is still considered that on developed markets, Life insurance premiums may decline by around -1% in 2018, while Life insurance premiums on emerging markets will grow by more than 9% this year. Nonetheless, as the monetary normalization process advances, the situation of the Life insurance premiums of the developed markets will improve with growth in excess of 1% in 2019. Non-Life insurance premiums also maintain forecasts in the sense that developed markets may experience growth of around 2.7% in 2018, while emerging markets show growth of around 7.5%.

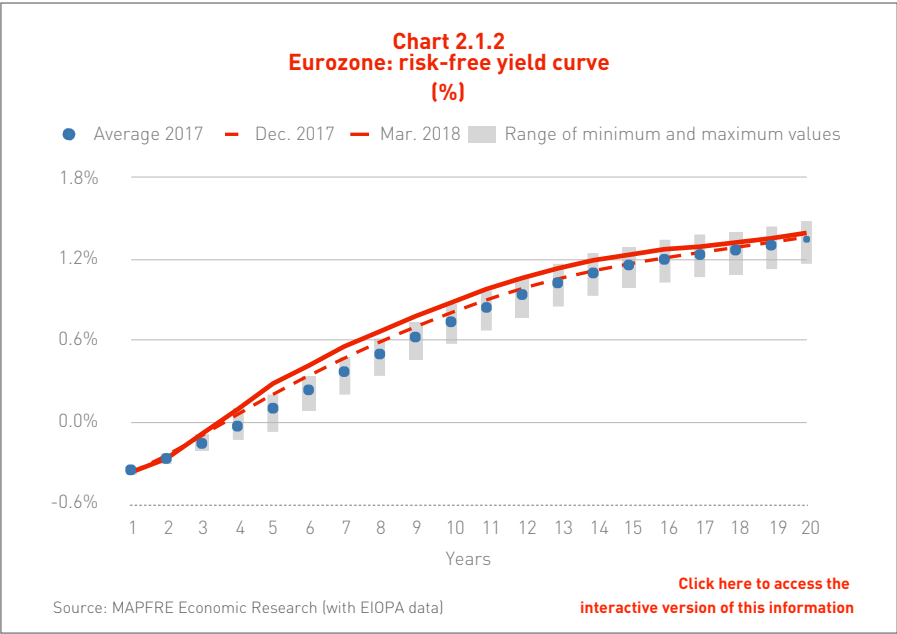
### 2.1.2 Eurozone

The strength of the economic business in the Eurozone improves GDP growth forecasts for the whole of the year by around 2.2% (as compared with 2.5% in 2017); favorable growth for the development of the Non-Life and Life risk business lines of the insurance market. Spain and Germany continue to be some of the greatest contributors toward the area growth, but France and Italy also grow, in line with the synchronized recovery of global growth.

Nonetheless, the resistance of the underlying inflation in achieving the ECB objective and its persistence in an ultra-lax monetary policy continues to weigh heavy on Lie, traditional savings and life annuity businesses. In this respect, the ECB has confirmed its forecast that net asset purchases will continue at the current rate of 30 billion euros per month until end September 2018 or until a later date as may be necessary and, in any case, until the Governing Council observes a sustained change to inflation, which is compatible with its 2% inflation objective. Indeed, the reinvestment is envisaged of the principal amount of the bonds maturing during a prolonged period between the end of the purchasing program and for the time necessary to guarantee a smooth exit of the monetary contributions and avoid tension on the markets. Therefore, at present, despite the schedule for monetary normalization, as yet there is no talk of decreasing the balance nor raising interest rates. It is expected that rises will only begin to be seen once the purchasing program is complete and the deposit facility rate has normalized.

In the risk-free interest rate curves prepared by the European Insurance and Occupational Pensions Authority (EIOPA) corresponding to the

Eurozone, a slight rise is seen throughout the curve, which in the middle sections already exceeds the maximums reached in 2017. In the long segments, a tendency is seen for the curve to flatten out, although continuing to show a positive inclination, with higher rates and longer maturities, which may be a stimulus for the development of Life savings and life annuity products. Notwithstanding, the short section of the curve continues to show negative values, even if it appears that the segment with negative rates is becoming shorter (see Chart 2.1.2). In any case, this sustained context of low interest rates continues to be prejudicial to the development of the specified business lines.



### 2.1.3 Spain

In Spain, the deceleration hoped for in 2018 will be less than expected, with growth estimated as around 2.8% (3.1% in 2017). Consumer and investor confidence, lax monetary conditions and the creation of employment (unemployment dropped to 16.3% in January) contribute toward growth, which is being revised upwards by almost all institutions that prepare forecasts on the Spanish market. The Spanish economy, together with that of Germany, lead growth in the major Eurozone economies. Residential investments continue to bounce back thanks to the reactivation of mortgage receivables, as well as institution investment flows on the real estate market. Oil prices appear to show a certain slowing to growth, but, overall, all these factors are positive for the development of the insurance market for the Non-Life and Life risk business lines.

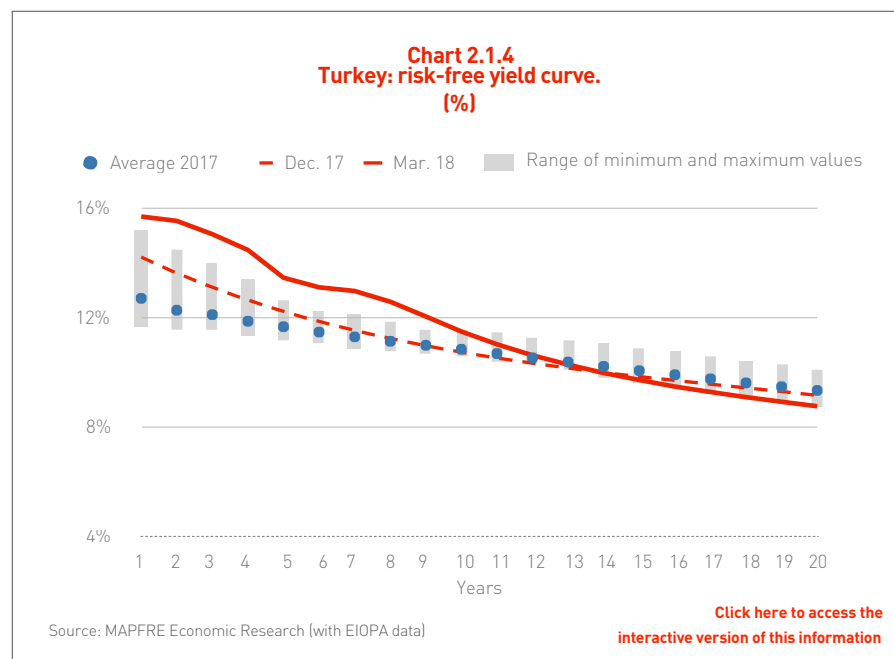
As regard Life savings and traditional life annuity insurance policies, the continued context of low interest rates (see Chart 2.1.2), with inflation rates that are still below the ECB objective, continues to hamper this business. Innovation in the insurance industry toward products in which the investment 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.

### 2.1.4 Turkey

The forecast deceleration in growth for the Turkish economy in 2018 puts it at around 4% (7.4% in 2017), which may result in a deceleration in the growth of the insurance industry in Non-Life and Life risk businesses, which is very closely linked to economic growth. Although it is expected

that expansive tax policies will be maintained to support short-term growth, there are a series of macroeconomic imbalances, like the high inflation rate (10.3% in February) or the significant needs for external financing (equivalent to 25% of the GDP), which may heighten, impacting growth of the Turkish economy in the medium- and long-term, which will end up in lesser growth on said insurance business lines. The high inflation rates and depreciation of the Turkish lira, in turn, have a negative impact on the cost of claims of insurance companies.

The high degree of volatility in interest rates and the inverted curve of risk-free rates, which even



increases its slope with respect to the last quarter, is prejudicial to the development of the Life savings and life annuity businesses (see Chart 2.1.4). Despite this, in this context of high short-term interest rates, an opportunity may arise for the marketing of temporary Life savings products renewable for short terms, which allow for a review of the rate guaranteed at each renewal.

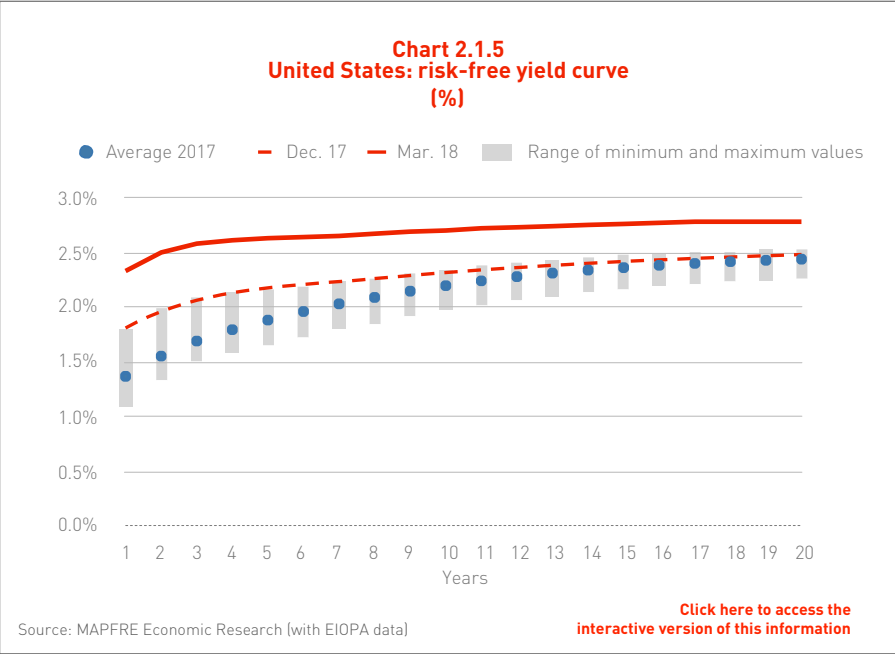
**2.1.5 United States**

The economic growth envisaged for 2018 in the United States may come in at around 2.8% (as compared with 2.3% in 2017). The economy is currently in a good place and a situation of almost full employment. The tax stimuli with the lowering of tax and increase in savings plans will continue to boost the economic activity, driving salaries up along with inflation expectations. This context is extremely favorable for the insurance business, particularly with regard to Non-Life and Life risk businesses. Nonetheless, the tax stimuli have repercussions on the increase in the debt level, which may have a negative impact on the US economy, which is already at an advanced stage of the economic cycle.

The consumer price index rose 2.2% and salaries 2.5% in February, hence the Federal Reserve has achieved its twofold objective of inflation and growth and may now tighten the normalization rate of its monetary policy. In the EIOPA 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 curve, the rise is greater than in the long curve, causing a flattening out of rates curve as it rises (see Chart 2.1.5).

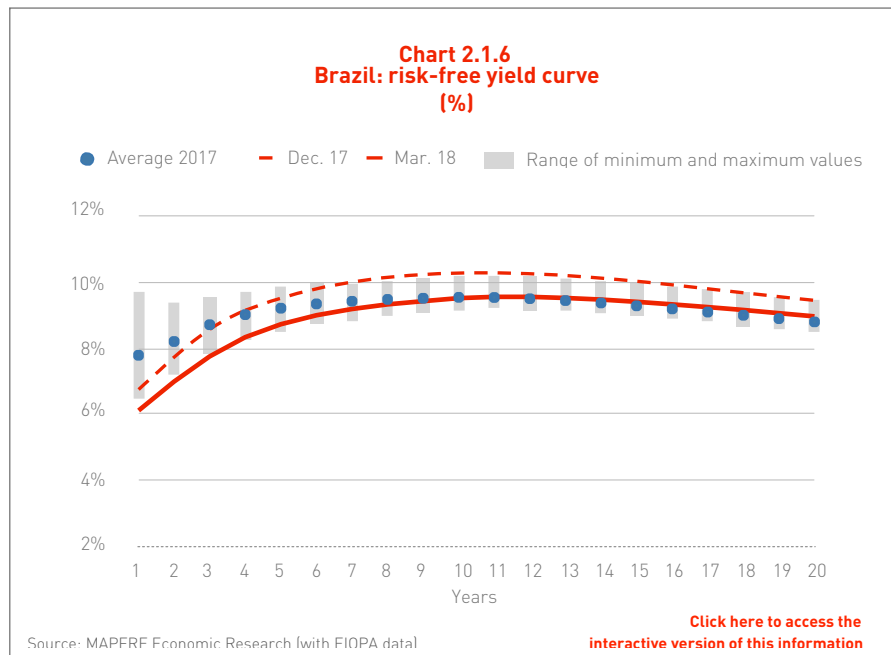
This context, coupled with the good economic performance, is favorable from the development of the Life savings business, enabling guaranteed rates to be offered on savings products and life annuities that exceed the

short-term rates. Nonetheless, the flattening out of the curve, a sudden rise to such or expectations of future rises, may be damaging to this business segment, given that it takes insurance companies time to adjust the new products and rates guaranteed in their portfolios. In this context, growth may slow in the demand for savings products, as rises occur, and this may give rise to the redemption of policies marketed at lower-than-market rates.



### 2.1.6 Brazil

In Brazil, the strength of the recovery and forecast average growth for 2018 are confirmed, which will come in at around 2.2% (1% in 2017), fundamentally hinged on the performance of consumption, investment and the external sector. This context is positive to the development of Non-Life and Life risk insurance policies, which are closely tied to economic performance, whose technical performance continues to foster a decrease in inflation, due to the limiting of expenses deriving from claims. The low level of penetration of this insurance in Brazil also means that the elasticity of the insurance demand with economic growth is greater than in other



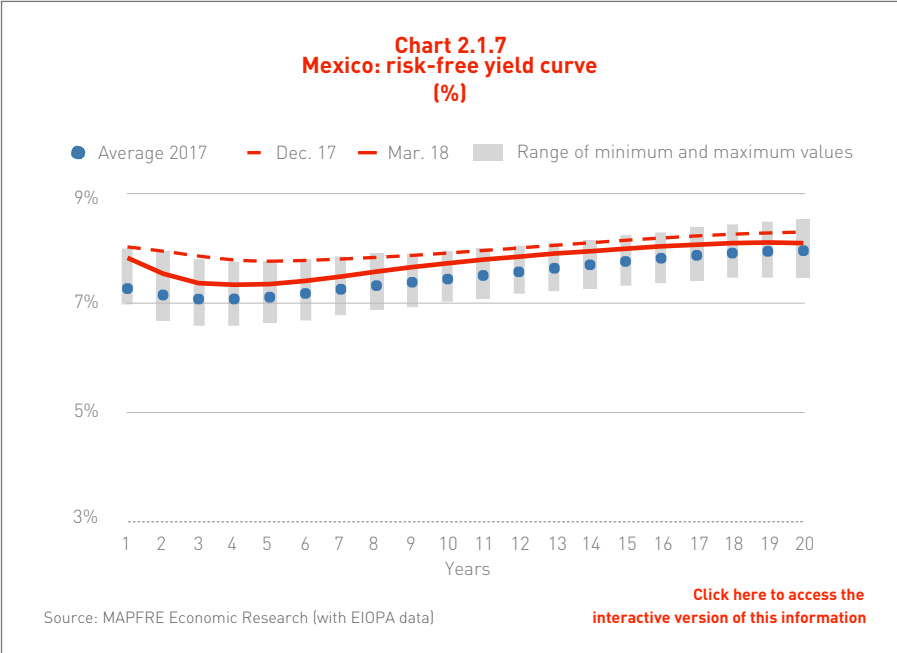
more developed economies, for which the weak or moderate growth in the GDP tends to result in higher growth in insurance premiums.

It continues to be essential to carry out the structural reforms necessary to balance the public accounts (the tax deficit accounts for 7.3% of the GDP, of which 1.4% is primary deficit), to make them more sustainable and to strengthen the country’s credit rating, which will reduce the cost of debt. The most important reforms continue to be the pension and tax system. Nonetheless, the nearness of the presidential elections (October 2018) means that no reform can be made before this date.

The sustained fall in inflation (2.8% inter-annually in February) has allowed the central bank to cut interest rates twice in 2018, however (in addition to the seven cuts in 2017). The SELIC (the intervention interest rate) was fixed at 6.50% in the last meeting held in March. These cuts can be clearly seen in the EIOPA curves, with a curve that shows a clear positive slope in the medium segment, which, together with the expectations for a lowering of rates, is a highly favorable context for the development of the Life savings and life annuity insurance businesses (see Chart 2.1.6).

### 2.1.7 Mexico

The deceleration of the Mexican economy in the last six months of 2017 results in growth forecasts for 2018 of around 2.1% (2.3% in 2017). It is a slight slowing, hence growth forecasts continue to be favorable to the development of Non-Life and Life risk insurance businesses. As in the case of other emerging economies, the low level of insurance penetration in Mexico means that the elasticity of the insurance demand with economic growth is greater than in the more developed economies, for which the



In the risk-free interest rates of EIOPA for the Mexican market (see Chart 2.1.6), interest rates may be seen to have fallen slightly, a little more clearly in the short section of the curve, which gains a negative slope. Nonetheless, starting with maturities of around four years, a positive slope is recovered and long-term rates are less volatile. In this context, Life savings and life annuity products can proliferate, 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.

**2.1.8 China**

The forecast for the Chinese economy is for growth of the GDP of around 6.3% in 2018 (6.9% in 2017), supporting the positive performance of investments and exports in the first quarter, in turn suggesting a favorable economic outlook for the prospects of the Non-Life and Life risk insurance business. It would not appear that the risk of a heightening of the commercial war with the United States is likely to materialize, which could potentially impact economic growth and end up transferring onto the insurance market in these business lines. However, the Chinese economy maintains its controlled deceleration agenda for the economic business, considering the high leveraging and tightening of credit access conditions that may offset part of the good development forecasts for the insurance market.

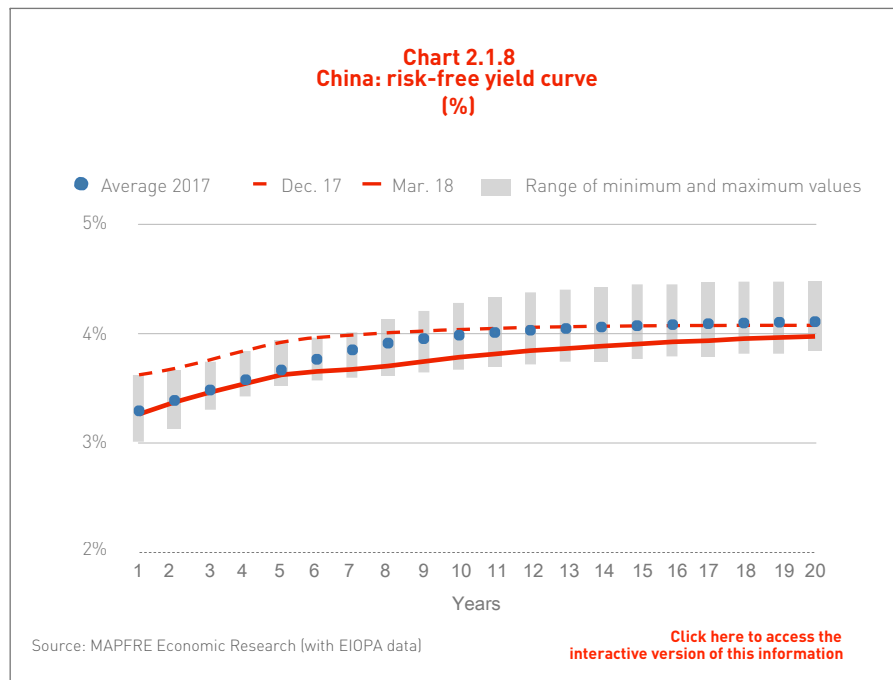
This context is also favored by the as-yet low insurance penetration rate in China, as is true of emerging economies, which results in greater elasticity in premium growth in the event of GDP growth. As mentioned in other reports, the Chinese government’s specific objectives include increasing the penetration rate of insurance activity. The prospects of a moderate

weak or moderate growth can result in higher growth in insurance premiums. Nonetheless, in the case of Mexico, uncertainty remains connected with the commercial negotiations underway with the United States and Canada (NAFTA) and the possible result of the presidential elections scheduled for July 1.

Inflation came in at 5.3% in February and has dropped considerable since the start of the year, meaning that the forecasts are for a close at 3.9%, which will have a favorable impact on the profitability of the Non-Life business lines, due to the limitation of expenses connected with claims.

inflation, of around 2.5% and slight appreciation of its currency are also good news for the future evolution of the costs of claims to be borne by insurers over the next few months.

Life savings and life annuity businesses, in the risk-free interest rate curves of EIOPA for the Chinese market, suggest a decline in rates, which may even fall below the 2017 average in maturities exceeding five years, starting from which the curve then flattens out (see Chart 2.1.8). The curve maintains a positive slope up to five years, which is always positive for these business lines, however the drop in rates and their volatility may



slow development and cause a redemption of policies, despite the good economic performance.

### 2.1.9 Reinsurance

The second half of 2017 was a historic period with regard to disaster losses caused by natural events and humans. Hurricanes Harvey, Irma and María stand out in North America and the Caribbean, the earthquakes in Chiapas and Puebla in Mexico and the fires in California. According to initial estimates, calculated by Swiss Re, losses come to approximately 337 billion dollars in 2017 (180 billion dollars in 2016).

It is estimated that the total amount insured will rise to 144 billion dollars, the highest ever registered (56 billion in 2016). Insured damages of consequences of natural disasters accounted for 8% of direct insurance premiums for damages underwritten globally in 2017<sup>3</sup> and a combined ratio is estimated for world reinsurance of approximately 115% (92% in 2016<sup>4</sup>).

In view of this situation, pressure is expected in the sector to obtain positive technical results in 2018. The great capitalization existing to date has supported the impairment seen in profitability in later years. Nonetheless, it is expected that this compensation cannot continue, considering the major impact on the accounts and balances of many reinsurers of the latest disasters, hence the pressure has been transferred to the reinsurance premiums on a market on which the absence of significant disasters had returned to being excessively competitive on prices (soft market).

## 2.2 Regulatory trends: new aspects in the quarter

### Global trends

Toward the end of March 2018, the International Association of Insurance Supervisors (IAIS) published its responses to the comments received during the public consultation carried out as part of the process to review a portion of the core principles applicable to the supervision of insurance companies and their groups<sup>5</sup>. These Insurance Core Principles (ICP) are part of the “ComFrame” or common framework for the supervision of Internationally Active Insurance Groups (IAIGs), and the related Global Systemically Important Insurers (GSIIIs). The ultimate objective is the adoption of the revised principles, together with the common supervisory framework (ComFrame), which includes the International Capital Standard (ICS), version 2.0, at the Annual IAIS Conference to be held in November 2019.

### European Union

#### 2018 Insurance Stress Test

This coming May, EIOPA is expecting to publish the technical specifications of the stress test in which more than forty European insurance groups will take part<sup>6</sup>. Terms for submitting information by these groups to their respective national supervisory authorities ends in July.

#### Solvency II

On February 28, 2018, EIOPA submitted the second technical consultancy to the European Commission for the revision of the parameters and factors applicable to the calculation of regulatory capital according to the standard formula. This technical advice responds to the request made by

the European Commission as a basis for a future reform, with the aim of updating some of said parameters and factors in 2018 and introducing simplifications, if applicable, to the Delegated Regulation (EU) No. 2015/35 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

The greatest impact in quantitative terms of the measures proposed by EIOPA is that relative to the calibration of the factors applicable to the interest rates risk module, which, if it was not an aspect on which the Commission was able to seek technical advice for this reform, it understands is important and must be considered in the current interest rate context, with negative rates in some segments of the euro curve. In this sense, it proposes that this measure should come into force progressively over a period of three years.

Once it has received this technical advice<sup>7</sup>, the European Commission must now continue with the legislative process and prepare a text that must be submitted to the European Parliament and Council for its consideration. Submission should ideally be made before the summer, in order to guarantee that the reform is published in 2018.

#### Digital progress

Together with the national supervisors and insurance industry, EIOPA is currently developing a qualitative exercise on the cybernautic risk in a bid to increase knowledge of this emerging risks, which it has decided to consider as strategic. This activity is in line with the activities pursued by the European securities and bank supervisory authorities. In this respect, the European Securities and Markets Authority (ESMA) is developing a cloud computing supervisory project and the European Banking Authority (EBA) is developing guides to risk management in information and communication technology. The objective of these initiatives is not only to increase knowledge of the risk but also to ensure that financial institutions act on the weaknesses of their systems<sup>8</sup>.



### **Distribution of insurance policies**

On March 14, the European Parliament and Council approved a Directive that modifies the terms for the transposition of the new insurance distribution Directive, extending them until October 1, 2018<sup>9</sup>. The transposition can give rise to different systems in the different member states, as it is not a Directive of maximum harmonization, with the aim of adapting to the idiosyncrasies of the individual existing distribution models on the different markets.

In Spain, on January 26, 2018 the Council of Ministers approved at first submission the Preliminary Draft Law for the Distribution of Insurance and Reinsurance Policies, the measure transposing the specified Directive. The text must obtain the relevant opinions and be returned to the Council of Ministers for approval as a Draft Law and start the parliamentary process. The Preliminary Draft strengthens the protection of the insured party by means of transparency and behavioral obligations on insurance distributors.

One of the main new features is that it extends its scope of application to include all insurance distribution channels: insurance and reinsurance distributors shall therefore include insurance and reinsurance intermediaries, insurance and reinsurance companies, other participants in the market that distribute auxiliary insurance products, such as travel agencies or automobile rental companies and which shall be considered as complementary insurance intermediaries (unless they meet the conditions for exemption) and the activity carried out by insurance buyers.

As a consequence of the inclusion of insurance companies as distribution channel, the figure of a management body responsible for the distribution activity is created, which is filled by the persons holding, within the

insurance distributor, legal entity, the most senior positions of senior management of the insurance distribution activity, directly or indirectly reporting to its administrative body, executive committees or Managing Directors.

Thus an internal register is created in the insurance companies subject to the control of the General Management of Insurance and Pension Funds, naming all employees directly involved in distribution activities, as well as the person responsible for distribution and the persons forming part of the management body responsible for distribution. Moreover, the latter are obliged to be registered with the administrative register.

It is important to also point out that the new regulation lays down additional requirements for information when the insurance distribution refers to the marketing of Insurance-Based Investment Products (IBIPs). The client must be informed by insurance companies and insurance intermediaries of all costs, expenses and risks it assumes in the insurance-based investment products and must have access to a regular assessment of suitability, thereby guaranteeing that the insurance product is fit for the client, among other matters, with respect to risk tolerance level and capacity to withstand losses.

The Preliminary Draft Law includes all external collaborators of insurance intermediaries in its scope of application, but only when developing or directly participating in the distribution of insurance policies.

For bank insurance operators, the current restriction will be eliminated whereby the banks can only make its distribution network available to a single bank insurance operator.

Both exclusive bank insurance operators and those restricted must submit the statistics-accounting information to the General Management of Insurance and Pension Funds.

It also introduces the item of non-banking sales, establishing the obligation for the insurance policy distributor to inform the client, when the insurance contract also includes auxiliary services or products, if the various components can be purchased separately and the corresponding explanations of the costs and expenses of each component.

The infractions and sanction system is strengthened, fixing pecuniary sanctions that are appropriate and in line with the general framework established by Directive 2016/97 on Insurance Distribution.

## 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	2.8	2.5	2.6	2.9	1.5	2.3	2.3	1.6
Eurozone	1.4	2.0	1.8	2.5	2.2	1.8	1.4	2.0	1.8	2.5	1.8	0.5
Germany	1.9	1.5	1.9	2.5	2.4	1.7	1.9	1.5	1.9	2.5	2.1	0.7
France	0.6	1.3	1.2	1.4	2.1	1.7	0.6	1.3	1.2	1.4	1.8	1.0
Italy	0.2	0.8	1.0	1.5	1.5	1.1	0.2	0.8	1.0	1.5	1.0	-0.5
Spain	1.4	3.4	3.3	3.1	2.8	2.4	1.4	3.4	3.3	3.1	2.0	0.8
United Kingdom	3.1	2.3	1.9	1.7	1.7	1.6	3.1	2.3	1.9	1.7	1.4	0.7
Japan	0.3	1.4	0.9	1.7	1.5	0.8	0.3	1.4	0.9	1.7	1.1	-0.1
Emerging markets	4.7	4.3	4.3	4.6	4.9	5.0	4.7	4.3	4.3	4.6	3.1	2.1
Latin America <sup>1</sup>	1.2	0.1	-0.9	1.2	1.9	2.4	1.2	0.1	-0.9	1.2	1.4	1.6
Mexico	2.8	3.3	2.7	2.3	2.1	2.5	2.8	3.3	2.7	2.3	1.6	2.6
Brazil	0.5	-3.6	-3.5	1.0	2.2	3.2	0.5	-3.6	-3.5	1.0	1.7	1.9
Argentina	-2.5	2.6	-2.2	2.7	2.6	3.8	-2.5	2.6	-2.2	2.7	2.1	2.4
Emerging European <sup>2</sup>	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	3.8	3.1	5.3	6.0	3.3	7.4	3.4	1.9
Asia Pacific <sup>3</sup>	6.1	5.9	6.2	6.2	5.9	6.3	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	5.2	5.2	5.0	4.9	5.0	5.1	4.5	3.3
Philippines	6.1	6.0	6.9	6.7	6.3	6.1	6.1	6.0	6.9	6.7	5.9	5.6
World	3.6	3.4	3.2	3.6	3.8	3.6	3.6	3.4	3.2	3.6	2.4	1.5

Source: MAPFRE Economic Research

<sup>1</sup>Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; <sup>2</sup>Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; <sup>3</sup>Association of Southeast Asian Nations (ASEAN)  
 Forecast end date: April 23, 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	1.8	1.2	0.4	1.8	2.1	2.5	1.8
Eurozone	0.2	0.2	0.7	1.4	1.6	1.8	0.2	0.2	0.7	1.4	1.5	0.9
Germany	0.5	0.3	1.1	1.6	1.7	2.2	0.5	0.3	1.1	1.6	1.7	1.3
France	0.1	0.3	0.7	1.4	1.3	1.7	0.1	0.3	0.7	1.4	1.3	1.3
Italy	0.1	0.2	0.1	0.9	1.6	1.7	0.1	0.2	0.1	0.9	1.4	0.7
Spain	-0.5	-0.3	0.9	1.4	1.5	1.9	-0.5	-0.3	0.9	1.4	1.3	1.0
United Kingdom	0.9	0.1	1.2	3.0	1.7	1.5	0.9	0.1	1.2	3.0	1.7	0.9
Japan	2.5	0.2	0.3	0.6	1.0	1.9	2.5	0.2	0.3	0.6	1.0	1.6
Emerging markets	4.7	4.7	4.2	4.5	4.2	4.2	4.7	4.7	4.2	4.5	5.8	5.5
Latin America <sup>1</sup>	5.0	6.2	4.6	4.2	3.6	3.5	5.0	6.2	4.6	4.2	5.6	4.6
Mexico	4.2	2.3	3.2	6.6	3.9	3.4	4.2	2.3	3.2	6.6	3.8	3.9
Brazil	6.5	10.4	7.0	2.8	4.0	3.8	6.5	10.4	7.0	2.8	5.4	3.8
Argentina	44.2	22.9	41.5	23.3	21.2	13.5	44.2	22.9	41.5	23.3	21.7	14.4
Emerging European <sup>2</sup>	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	9.5	8.6	8.8	8.2	7.6	12.3	9.5	8.3
Asia Pacific <sup>3</sup>	3.6	2.2	2.5	2.8	3.4	3.5	3.6	2.2	2.5	2.8	3.8	4.0
China	1.5	1.5	2.2	1.8	2.5	2.6	1.5	1.5	2.2	1.8	2.3	2.6
Indonesia	6.5	4.8	3.3	3.5	3.7	4.2	6.5	4.8	3.3	3.5	4.2	5.0
Philippines	2.9	0.3	2.0	3.0	4.1	3.8	2.9	0.3	2.0	3.0	5.0	4.7
World	2.9	2.9	3.1	3.2	3.2	3.4	2.9	2.9	3.1	3.2	3.3	2.9

Source: MAPFRE Economic Research

<sup>1</sup>Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; <sup>2</sup>Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; <sup>3</sup>Association of Southeast Asian Nations (ASEAN)  
 Forecast end date: April 23, 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	2.28	2.19	2.13	2.37	3.05	3.22	2.28	2.19	2.13	2.37	3.12	2.85
Eurozone	1.50	1.19	0.92	0.98	1.68	1.95	1.50	1.19	0.92	0.98	2.48	2.73

Source: MAPFRE Economic Research  
 Forecasting end date: April 23, 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	0.80	0.91	0.93	0.85	0.78	0.78	0.80	0.91	0.93	0.85	0.78	0.73
EUR-USD	1.25	1.10	1.08	1.18	1.29	1.28	1.25	1.10	1.08	1.18	1.29	1.37
GBP-USD	1.58	1.52	1.24	1.33	1.46	1.48	1.58	1.52	1.24	1.33	1.46	1.56
USD-JPY	114.55	121.44	109.45	112.89	109.74	114.12	114.55	121.44	109.45	112.89	109.12	113.25
USD-CNY	6.15	6.39	6.83	6.61	6.22	6.18	6.15	6.39	6.83	6.61	6.26	6.18

Source: MAPFRE Economic Research  
 Forecasting end date: April 23, 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	0.17	0.42	1.17	2.25	2.75	0.13	0.17	0.42	1.17	1.47	1.84
Eurozone	0.05	0.05	0.00	0.00	0.00	0.04	0.05	0.05	0.00	0.00	0.00	0.00
China	3.53	2.33	2.48	2.89	3.28	3.52	3.53	2.33	2.48	2.89	2.33	2.56

Source: MAPFRE Economic Research  
 Forecasting end date: April 23, 2018.



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## References

1/ See our report: Economic Research, 2018 Economic and Industry Outlook, Madrid, Fundación MAPFRE, January 2018, pages 15-29 ([http://www.fundacionmapfre.org/documentacion/publico/i18n/catalogo\\_imagenes/grupo.cmd?path=1095478](http://www.fundacionmapfre.org/documentacion/publico/i18n/catalogo_imagenes/grupo.cmd?path=1095478)).

2/ Concretely, the assumptions forming the Risk Scenario (alternative) are as follows: (a) the VIX (volatility of variable income) increases to 25 points over the forecasting time frame; (b) returns on bonds are stressed approximately +100 bps, depending on the country; (c) reduction of European and global stock exchanges generally between 15% and 20%; (d) the dollar depreciates against the euro continuously until reaching 1.37 (EUR/USD) at end 2019; (e) the price of Brent remains stable at the current 70 USD/b perpetually deriving both from the effects of supply, such as OPEP and geopolitical risks in the Middle East (differing from that considered in the baseline, which is a reversal of the Brent to a long-term route of close to 60 USD/b); (f) monetary policy interest rates in the Eurozone register two rises of 25 bps in 2019, one rise in 2020 and another in 2021, ending up as 1.0%; and (g) the Federal Reserve interest rates, in the face of a deceleration, shall remain in the area of 1.75% and 2.0% over the next few years, instead of converging toward an estimated natural rate (3.0% consensus).

3/ Swiss Re. Natural disasters and anthropogenic claims in 2017: a year of unprecedented damages. Sigma, No. 1/2018.

4/ Swiss Re. Obtained from: [http://www.swissre.com/media/news\\_releases/nr\\_20171121\\_pricing\\_non-life\\_re\\_insurance.html](http://www.swissre.com/media/news_releases/nr_20171121_pricing_non-life_re_insurance.html)

5/ <https://www.iaisweb.org/filelist/72367/mergefiles>

6/ <https://eiopa.europa.eu/Publications/Surveys/%28Re%29InsuranceGroupsEIOPA2018InsuranceStressTest.pdf>

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[https://eiopa.europa.eu/Publications/Consultations/EIOPABoS-17-280\\_First\\_set\\_of\\_Advice\\_on\\_SII\\_DR\\_Review.pdf](https://eiopa.europa.eu/Publications/Consultations/EIOPABoS-17-280_First_set_of_Advice_on_SII_DR_Review.pdf)

8/ <https://esas-joint-committee.europa.eu/Publications/Reports/Joint%20Committee%20Risk%20Report.pdf>

9/ <http://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:32018L0411&from=EN>



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