2020 ECONOMIC AND INDUSTRY OUTLOOK: THIRD QUARTER PERSPECTIVES

MAPFRE Economics

2020 Economic and industry outlook: third quarter perspectives

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Executive summary

2020 Economic and industry outlook: third quarter perspectives

Economic outlook

In this quarterly edition of the *Economic and industry outlook*, the analysis of the global epidemiological situation has been updated and the macroeconomic scenarios have been updated based on the latest information. National accounting data, as well as real high-frequency data, show a very notable global contraction in economic activity during the first half of 2020, although the latest data for the third quarter point to some stabilization. The relaxation of the suppression measures implemented to contain the effects of the COVID-19 pandemic, which is more advanced in developed countries, is allowing the demand contained during the first half of the year to begin to thaw and, with it, a slow return to normal nominal and real variables. Furthermore, the measures triggered in monetary and fiscal policy, both at the national and regional levels, have been key to slowing down the economic downturn in the short-term, thanks to the provision of liquidity and the stabilization of the system's balance sheets, although, in many cases, at the expense of increased vulnerability, particularly fiscal, due to the significant stimulus measures taken. Therefore, we can now see a *baseline scenario* the starting point of which is more global economic contraction in 2020, without any permanent effects and with a way out of the recession in 2021, though smoother than previously anticipated.

The current uncertainty, however, lies in the possibility of a global outbreak of the pandemic, which would cause new and more severe contractions in demand, followed by a set of monetary measures (given that all the fiscal space seems to have been used up). This situation would involve a failed recovery attempt in the third quarter of the year that could lead growth back into recession in 2021 as well, prolonging not only the sluggishness but also its effect on global nominal variables, especially on exchange rates, which would remain severely depreciated against the dollar. In this way, the *stressed scenario* would be one characterized by factors that would have effects not only on short-term economic performance, but also on long-term growth capacity. In this context of greater stress, the exit from the recession would be complex and long, not reaching the levels of the gross domestic product of 2019, at least until the year 2023.

It should be noted that this central vision (made up of both the *baseline scenario* and the *stressed scenario*) is strongly weighted to the downside, given the numerous latent risks known and yet to be seen; risks that could transform the economic recession into a depression, although this is not yet considered within our central vision.

Industry outlook

The world economy continues to be mired in an unprecedented situation that will undoubtedly have significant effects on the insurance industry. On the one hand, developed countries have managed, to a greater or lesser extent, to control the development of the pandemic after implementing distancing and lockdown measures. These measures, however, are starting to be relaxed, focusing instead on selective measures that seek to prevent the expansion of new outbreaks as and when they happen and, at the same time, to minimize the effects on the performance of the economy. In addition, many emerging countries are still in an acute phase of the pandemic, with weaker health systems, and with governance that reduces the effectiveness of lockdown measures.

In response, central banks at the global level are extending expansion measures by reducing interest rates and both sovereign and corporate bond-buying programs in order to stabilize financial markets. Added to this are significant packages of fiscal support measures, which are also unprecedented, which is substantially increasing fiscal deficits and the level of debt. All these provisions, to the extent that they have an effect on the real economy, will be of great help to the insurance industry, which is highly dependent on the smooth running of financial markets and whose business is closely linked to economic performance. However, this is not expected to happen before 2021, and there is significant uncertainty about economic estimates, given the very nature of this crisis.

In order to progress with the analysis of the potential effect of the current economic context on insurance demand, this report includes a review of economic and health crises experienced in recent decades. In principle, this analysis predicts abrupt declines in insurance business premiums in all cases at the aggregate level. In the Life business, the influence of monetary policy measures is visible. In cases where these measures were restrictive, this helped to soften the blows in this line of business; on this occasion, however, the monetary policies adopted tend to be accommodative, which will have a negative effect on this market segment. Finally, the analysis confirms that, in general terms, once the economic recovery arrived, insurance premiums tended to experience growth above the increase in gross domestic product, especially in emerging markets.

1. Economic outlook

1.1 The global economic outlook

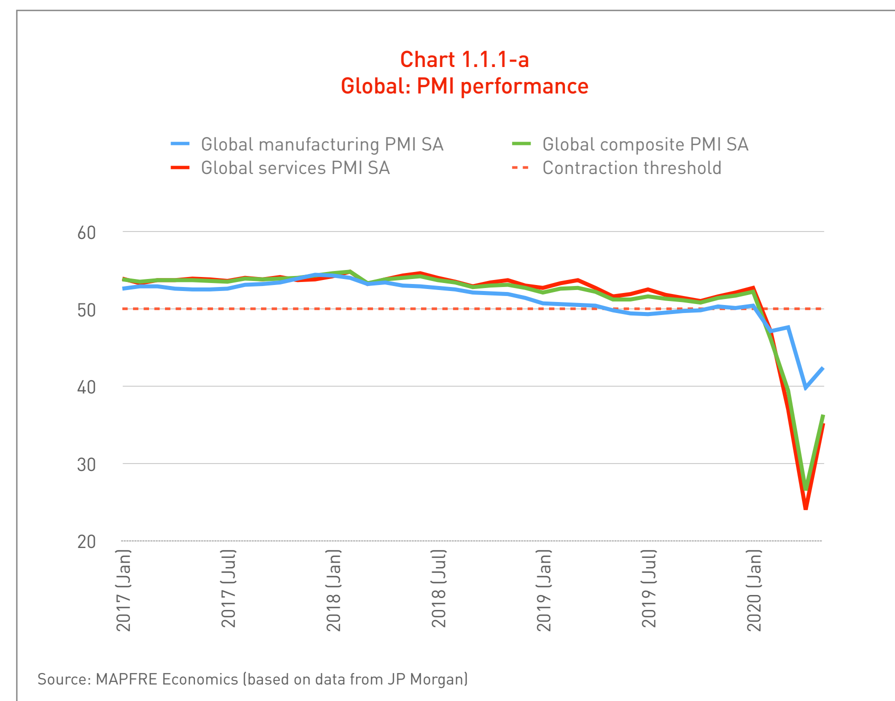
1.1.1 COVID-19 and the global crisis: update

As anticipated in our previous report[1], the global contraction in global trade in production, investment and consumption during the first half of 2020 was remarkable. With the national accounting data for the first quarter and the global production, retail sales and global trade data for April and May, there is no doubt that the global GDP contraction will be even greater than anticipated.

The most recent data from Purchasing Managers' Indices (PMIs), however, are beginning to show signs of stabilization at a global level, with slight upturns in the measurements of manufacturing and services activity, although still below the contraction threshold (see Chart 1.1.1-a). Regionally, the main global economies also show this sign of recovery, more clearly in China (the first economy to attempt to relax suppression measures) than in the United States or the eurozone (see Chart 1.1.1-b)[2].

This reaction seems to be in response to the easing of global suppression measures, which, regardless of the rising curve of infection, have begun to relax in both developed and emerging countries. Although it is true that said relaxation of lockdown and social distancing measures is beginning to allow for economic recovery, it also allows for greater uncertainty regarding

Chart 1.1.1-a
Global: PMI performance



Source: MAPFRE Economics (based on data from JP Morgan)

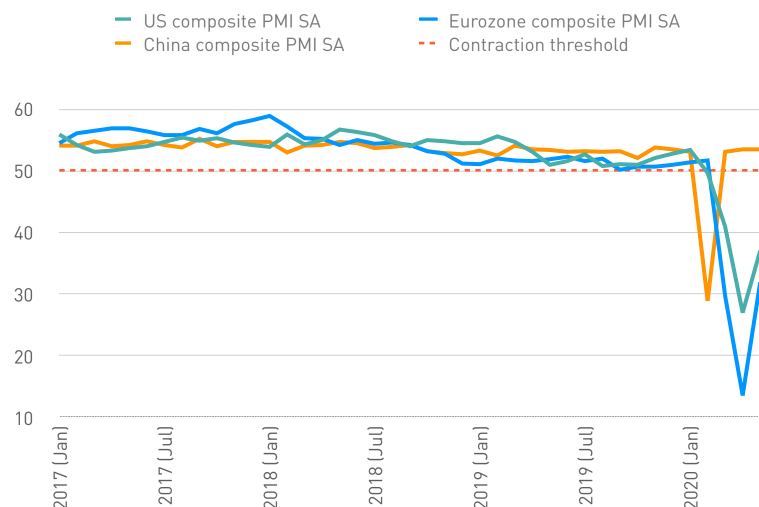


Chart 1.1.1-b
Selected economies: PMI performance

Source: MAPFRE Economics (based on data from JP Morgan)

the possibility of new outbreaks and, as a result, further effects on the real economy, as in the case of China where various suppression measures have been reintroduced (see Chart 1.1.1-c).

Furthermore, in the emerging world, increasingly volatile investment flows are once again, at least partially, covering the financing needs of emerging Latin American and European countries, which will gradually lead to stabilizing their currencies (see Box 1.1.1-a). This readjustment of capital flows is unlikely to lead these economies back to their pre-COVID-19 situation. The closing balance will be influenced by each country's macroeconomic fundamentals and, to a large extent, the degree to which the pandemic has affected their economic structure.

Therefore, right now, the question is whether the global economy has indeed bottomed out in the second quarter and whether now, thanks to the implementation of fiscal and monetary policy measures (see Box 1.1.1-b), we are entering a gradual phase of normalization that will bring growth back to positive territory at the beginning of next year (baseline scenario). Or whether, on the contrary, biological uncertainty regarding a challenging widespread immunization effort with increasing outbreaks, coupled with insufficient economic policy measures being implemented, will lead to a brief recovery in the third quarter, followed by a prolonged crisis with more

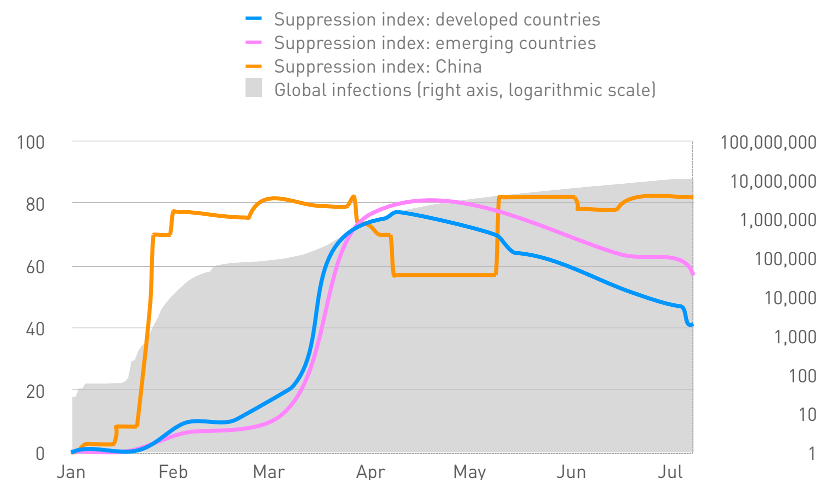


Chart 1.1.1-c
Global: COVID-19 infections and suppression index

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

Box 1.1.1-a
Emerging exchange rate volatility

Emerging exchange rate volatility

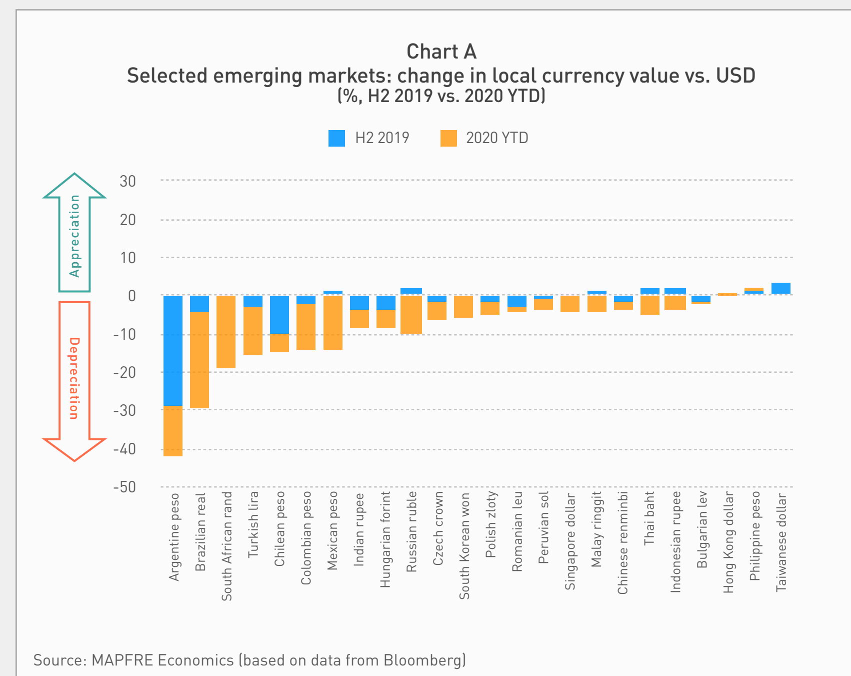
Throughout the last 12 months, some stylized facts for exchange rate development have been observed within a broad group of emerging markets. Most of these markets have suffered a depreciation of their currencies, although this has been especially concentrated in Latin America and emerging Europe.

In this currency dynamic, two phases can be distinguished (see Chart A):

- The first phase took place during the second half of 2019. In this phase, we can see that activity slows cyclically in mature economies and this is exacerbated by trade tensions and a change of trend in US monetary policy, translating into an improvement in financial conditions for emerging countries, especially in Latin America. This first phase was very stable for emerging countries in terms of foreign exchange.

- The second phase, which takes place in the part of 2020 coinciding with the COVID-19 crisis, produces a sudden and marked depreciation of emerging market currencies. This crisis has caused a general depreciation of currencies, which, unlike on other occasions, has little to do with the strengths or imbalances of the balance of payments of each country. In this case, it is the result of two shocks activated by the COVID-19 pandemic: the first being an unprecedented drop in economic activity as a result of the introduction of lockdown and social distancing measures, and the second being an episode of global risk aversion only comparable in intensity to that of the 2008 Lehman crisis. These two factors caused a spike in the emerging market risk premium and, with it, a flow of financing out of the current account which was left more volatile; this financing was portfolio flows and international credit lines; the first as a result of the relocation of investment toward safe havens, and the second as a consequence of increased collateral demands on

Chart A
Selected emerging markets: change in local currency value vs. USD
(%, H2 2019 vs. 2020 YTD)



Source: MAPFRE Economics (based on data from Bloomberg)

Box 1.1.1-a (continued)
Emerging exchange rate volatility

borrowers. The most liquid and strongly integrated markets are those that have suffered the worst impairment in their financial accounts and, as a consequence, those that have had to reduce their current deficit and employ reserves to mitigate the decline of their currency.

Based on the structure of the balance of payments of emerging countries, it can be seen that the global average current account stood at a deficit of close to 2% at the end of 2019 and that this is fundamentally generated by a permanent deficit in the capital account, as well as the trade deficit, especially that resulting from the importation of services. This current account deficit is financed with direct foreign investment flows, which, on average, stabilize the balance of payments in emerging markets in general. On average, emerging markets accumulated reserves in 2019 and did not increase their excess liabilities, which kept the liquidity risk limited. Consequently, the exchange rate stabilized and even appreciated slightly (8% on average).

Looking more closely at the average, we have identified four different groups within emerging markets: (i) those with current account surpluses and therefore currency stability; (ii) those with a deficit and stable funding; (iii) those with a deficit and flow-dependent funding, and (iv) those with unsustainable deficits.

The first group includes countries that are savings exporters and have a significant current account surplus i.e. China (the world's largest sovereign creditor) and the oil-producing countries. These are countries that, in 2019, maintained a surplus trading account and accumulated reserves; in exchange, they are net issuers of portfolio and credit flows. The accumulation of surpluses has made the net international investment position of these countries almost neutral, supporting their currencies.

On the opposite end of the spectrum is the group of countries with large and unsustainable current account deficits, usually owing to structural factors (large structural deficits), low productivity and heavy dependence on external savings, especially on portfolio and credit flows. This group consists of countries that were affected by crises in their balance of payments and draconian adjustments in their activity or exchange rates in 2019, such as Turkey, Argentina and South Africa. In 2019, these countries saw how their economy collapsed, giving the current account a break; the depreciation of the exchange rate took the trade balance back into negative territory and liquidity restrictions were mitigated thanks to exports. The financial account, meanwhile, was undergoing a correction in portfolio flows and direct foreign investment.

The other two groups consist of those countries with relatively manageable current account deficits (with either stable or flow-dependent funding). This covers virtually all of emerging Europe, non-oil exporting countries in Asia (Indonesia, the Philippines, etc.) and large Latin American countries such as Mexico, Brazil, Colombia and Peru.

However, it should be noted that, among these countries, the subset of the countries highly dependent on short-term financing are the ones that will be most affected by the strong depreciations of 2020. These are countries that, in addition to having gradually been losing their trade surplus,

Box 1.1.1-a (continued)
Emerging exchange rate volatility

maintain a strong deficit in their capital accounts. Despite this, they were able to finance themselves with a degree of freedom; however, in the financial account, the involvement of direct investment flows has been shrinking as portfolio flows increase. In this context, in 2019 they were a group of countries that were moving away from relative stability in the balance of payments toward vulnerability and a dependence on external financing that is increasingly unstable and supported by flows.

This exceptional situation is expected to last as long as pandemic-induced uncertainty persists at the global level. Countries whose currencies require structural adjustment will remain under a double downward pressure, that exerted by funding and that of domestic vulnerabilities. Savings-exporting countries have sufficient reserves to withstand the current risk-off episode, and emerging countries with a sustainable deficit will, as the crisis progresses, enter the currency club with sharp depreciations. However, this is a liquidity issue, that is, a flow issue, and it could be reversed with global economic normalization. The main thing will be to limit the crisis and prevent the liquidity problem from becoming a solvency problem and increasing the vulnerability of these currencies.

The following link provides an interactive version of the information referred to in this box:

[Link to interactive version]

Source: MAPFRE Economics

extensive effects and financial side effects that underpin a recession not only in 2020 but also 2021.

Therefore, in addition to reviewing the forecasts for the next two years, we have adapted the profiles of our central scenarios. The *baseline scenario*, our "U" scenario, now has a much more recessive low which is close to -5% in 2020, but is followed by a relatively swift recovery that would allow the lost product to be recovered before the end of 2022. Alternatively, we have introduced a *stressed scenario* in which recovery is truncated by an outbreak and an exhaustion of fiscal measures, and by the greater prominence of monetary measures in developed economies, with effects on activity, but also on financial markets, such as the reversal of flows to emerging markets, depreciations, severe stock market corrections and compression of long-term interest rates (see Chart 1.1.1-d).

Baseline scenario: the economy recovers as restrictions are lifted

April data confirm that the rate of contraction of the world economy worsened significantly at the beginning of the second quarter. This occurred not only in economies with severe suppression measures, but it extends to other economies such as South Korea or Japan. However, the

Box 1.1.1-b
Monetary policy update

European Central Bank

The European Central Bank (ECB) announced on June 4 that interest rates will remain constant (0% in loan facility and -0.4% in deposit facility). It also indicated that it will expand the Pandemic Emergency Purchase Programme (PEPP), which is increasing by 600 billion euros to a total of 1.35 trillion euros, and will run until at least June 2021, while the reinvestment of bonds with maturities will run until at least June 2022. As for the Asset Purchase Programme (APP), the purchase rate will remain at 20 billion euros per month for as long as necessary and until a strong convergence of inflation dynamics is achieved.

Along with this decision, some macroeconomic forecasts were presented, which provide for a downward revision of both expected economic performance and lower inflationary pressures on the projected horizon (see Table A).

Table A.
Eurozone: GDP and inflation scenarios

	Mild scenario			Severe scenario		
	2020	2021	2022	2020	2021	2022
GDP	-5.9%	6.8%	2.2%	-12.6%	3.3%	3.8%
HICP	0.4%	1.1%	1.7%	0.2%	0.4%	0.9%

Source: MAPFRE Economics (based on data from ECB)

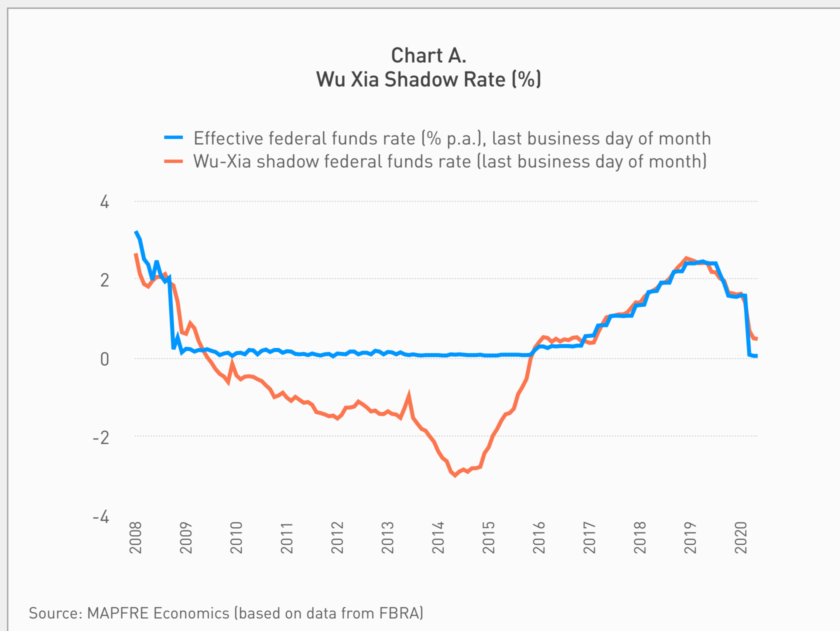
President of the ECB, Christine Lagarde, who has been warning about the need to support monetary policy with counter-cyclical efforts since December, is beginning to receive some responsiveness from governments. This is illustrated by the stimulus package totaling 750 billion euros proposed by the European Commission. In this sense, the first step toward the European policy consensus stands out, as well as the commitment to supplement monetary constraints with fiscal measures at a time when both requests by the German courts on the ECB's purchase programs and economic disruptions and governance problems highlighted the need for an understanding between the parties.

Therefore, in the short-term, the role of the ECB and its effort to dispel the doubts of the European Commission, could be significant enough to maintain confidence in the eurozone and make the economy more resilient, propping up the pillars of an eventual recovery. However, a delay in the approval of the agreement or a delay in the implementation of these measures could exert new pressure on the ECB, giving it a greater role in absorbing economic impairment and renewing confidence in the highest risk countries through balance sheet extensions.

The Federal Reserve

At its June meeting, the US Federal Reserve left interest rates unchanged in the 0–0.25% range. Following the three cuts since the start of the COVID-19 pandemic, the interest rate level is considered appropriate and has been supported once again almost unanimously by members of the Federal Open Market Committee (FOMC). In this way, expectations about normalization or the introduction of negative interest rates (the possibility

Box 1.1.1-b (continued)
Monetary policy update



Source: MAPFRE Economics (based on data from FBRA)

of which futures markets are pricing in) will continue to change, until at least 2022. However, unlike the official interest rate, according to the Wu-Xia Shadow Rate (indicator that combines the Federal Reserve's effective rate with the impact of its QE), the unobservable interest rate could recapture a negative equivalent (see Chart A).

With regard to the balance sheet program, the Federal Reserve has not offered additional stimuli. Since the revival of purchases started in March, it has increased to 7.2 trillion US dollars, driven mainly by the purchase of US Treasury bonds (US Treasuries) and mortgage-backed securities (MBS). However, it could be offset with other assets as previously announced programs are consolidated throughout June, such as the Term Asset-Backed Loans (TALF), Municipal Liquidity Facility (MLF), Main Street Lending (MSL) and Paycheck Protection Program Liquidity Facility (PPPLF).

At the macroeconomic level, the forecasts for the GDP and inflation of the United States economy face greater impairment than initially anticipated, indicating that the economic outlook is exceptionally uncertain and the scenarios it faces are extremely challenging (see Table B). As with the ECB, the Federal Reserve's uncertainty about the current situation means that macroeconomic prospects are subject to assumptions based on epidemiological development. In this sense, the flexibility of its

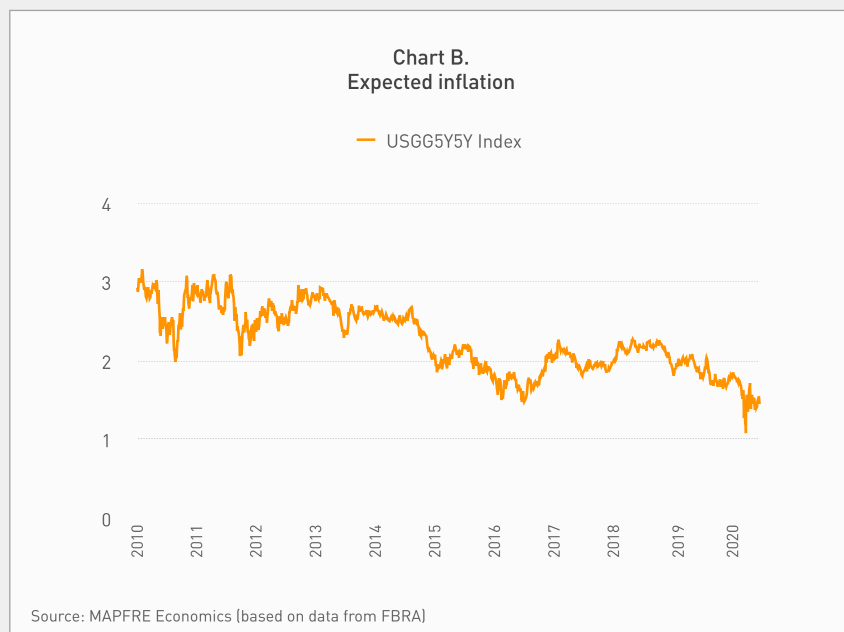
Table B.
United States: FOMC projections (06/10/2020)

	December 2019			June 2020		
	2020	2021	2022	2020	2021	2022
GDP	2.0%	1.9%	1.8%	-6.5%	5.0%	3.5%
PCE	1.9%	2.0%	2.0%	0.8%	1.6%	1.7%

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

Box 1.1.1-b (continued)
Monetary policy update

Chart B.
Expected inflation



Source: MAPFRE Economics (based on data from FBRA)

interventions continues to be tied to atypical economic variables, such as the rate of reproduction of the disease (R0), the capacity of the health care system, the stage of development of a vaccine or the traceability of social distancing measures.

In this uncertain environment, the Federal Reserve's dual mandate for price stability and economic growth that guarantees employment seems to provide more room for maneuver. Given the experience of low inflationary pressures in response to QE and the low expectations that this trend will be reversed (see Chart B), the agency can focus on recovering its commitment to employment through forward guidance, reflecting its intention to keep interest rates low for longer and anchor normalization until certain unemployment levels are reached, or (imitating the Bank of Japan movement in 2016) with greater control over the interest rate curve by resuming the performance target on US treasury bonds.

Central Bank of Brazil

On June 17, the Monetary Policy Committee (Copom) of the Central Bank of Brazil reduced the Selic monetary policy rate by 75 basis points (bp), to a new all-time low of 2.25%. The committee cautioned that this would, in principle, be close to target levels, but that there may still be scope for some additional relaxation, although if so, it would be small. Given the very moderate inflation forecast for 2021 (below the 3.75% target) and the repeated claim that core inflation measurements are "below the level required to meet the inflation target on the appropriate time horizon for monetary policy," there is likely to be a further reduction at the meeting on August 5, unless there are further increases in the fiscal risk premium and/or a significant devaluation of the currency.

Box 1.1.1-b (continued)
Monetary policy update

This future trend leaves the door open for an additional smaller reduction at the next meeting (-25 bp, or even -50 bp). Copom considers that, with the reduction to 2.25%, the monetary stimulus "seems in line with the economic impact of the COVID-19 pandemic." The committee will now move into surveillance mode and will act on data, and it will remain in this mode until the next meeting, when it will evaluate the impact of the pandemic and the package of credit stimulus measures.

Copom has also explicitly called for further progress in structural reforms of the economy and has expressed concern about a possible impairment in the structural fiscal trajectory, which is something that could end up reducing the policy space for rate cuts or shortening the term of the currently high level of stimulus (that is, it could lead to an earlier normalization of monetary policy).

Bank of Mexico

At its June 25 meeting, the Bank of Mexico (Banxico) lowered interest rates overnight by 50 bp, to 5.00%. Note that the Mexican Central Bank had already cut 225 bps since December. Banxico has indicated that improved economic standing is expected in the coming months and that the balance of growth risks continues to be on a significant downward trend, which shows that the central bank is concerned about growth. However, despite increased economic weakness, Banxico believes that the risks for inflation are uncertain. On the one hand, inflation in services basically responds to the production gap, while inflation in merchandise tends to be strongly affected by the movements of the Mexican peso. In principle, the more the economy contracts, the weaker the exchange rate, which counteracts the impact of a negative production gap on core inflation.

Banxico's only mandate is the maintenance of inflation, the target range of which hovers around 3%. Both headline and core inflation are currently above the target (3.2% and 3.7%, respectively, using the most recent biweekly figure). It therefore seems difficult to continue cutting interest rates, unless core inflation shows a clear downward trend. Given the price dynamics in Mexico, a deeper economic contraction may reduce core inflation, but further depreciation of the peso will cause it to rise.

Banxico has left the door open for further cuts, which means that it is likely to happen, especially if the contraction in economic activity continues. However, the new cuts will depend on economic data, in particular data on the evolution of inflation and the exchange rate.

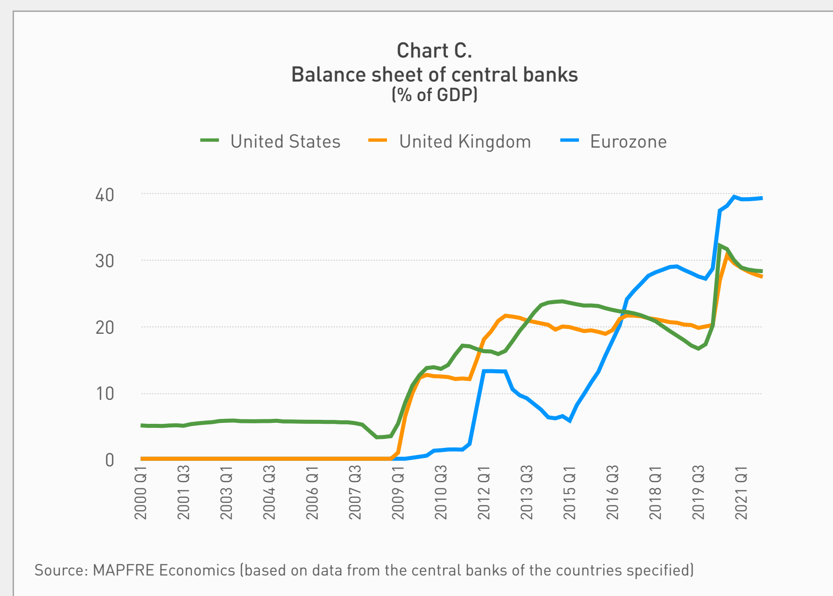
Conditional uncertainty and QE

At this time, both the depth of the economic contraction and the pace of recovery continue to be dependent on very high levels of uncertainty. As the gradual withdrawal of lockdown and social distancing measures becomes widespread among the major eurozone countries, levels of economic activity show signs of support and readiness to return to pre-shock levels. However, both the relative stability and the likelihood of starting the path of recovery continue to be dependent on the epidemiological evolution of the virus.

Box 1.1.1-b (continued)
Monetary policy update

In this context, the main central banks' initiative to deal with the shock revolves mainly around relaunching the size of their balance sheets through various asset purchase programs whose accumulation, in terms of GDP, could keep reaching new all-time highs, albeit moderating the strong initial expansion rate (see Chart C).

Chart C.
Balance sheet of central banks
(% of GDP)



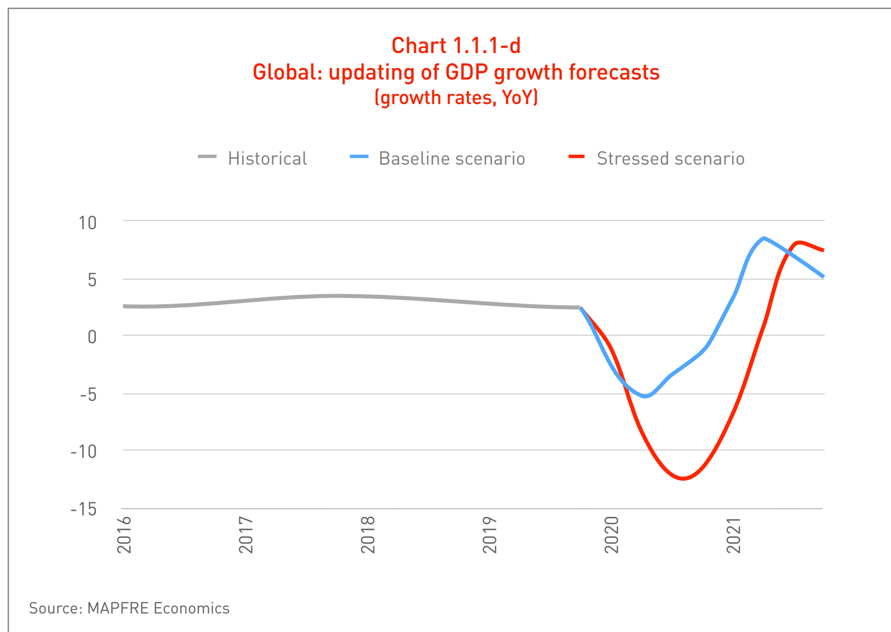
Source: MAPFRE Economics (based on data from the central banks of the countries specified)

Source: MAPFRE Economics

spike in business and consumer surveys in May, along with the improvement in some alternative activity indicators (Google mobility, restaurant reservations and air tickets) point to a relative improvement. In this new scenario, we have only stressed growth in the second quarter leaving the rest practically the same. The result is a deeper, longer-lasting, but temporary U-shaped recovery.

COVID-19 will leave scars on the economy and undermine its recovery further down the line, especially since companies, governments and families will have to prioritize the stabilization of their balance sheets, which will limit the expansion of demand that is currently limited, but will not eliminate it. This outline offers potential as long as employment and expectations continue to maintain prospects for improvement, something for which national and regional aid plans are crucial.

Chart 1.1.1-d
Global: updating of GDP growth forecasts
(growth rates, YoY)



Source: MAPFRE Economics

Stressed scenario: recovery wanes amid a new wave of infections

In this alternative scenario, a second wave of coronavirus infections would cause a return to global lockdown. In this scenario, an increase in infections globally would be widespread from the fourth quarter of 2020, reaching a peak in the first quarter of 2021. In this stressed scenario, domestic demand would stagger as new restrictions are introduced, to end up falling even below the levels of activity experienced in the first wave. Financial damage would weaken the balance sheets of families and companies, preventing a recovery in consumption, which would persistently remain lower than in 2019 for the foreseeable future, as it did during the Lehman crisis. In this case, global unemployment would increase especially due to structural factors, and recovering previous employment levels would become much more tortuous. Thus, potential GDP does not recover its original path until after 2023.

It should be noted that this stressed scenario is of particular importance since it may rapidly become more likely. If it were to happen, there would be several causal elements that should be highlighted:

- A return to more severe lockdown and social distancing would lead to an immediate contraction of household consumption and business activity to levels below those observed in the first wave of the pandemic.

- Global trade, in terms of amounts and volumes, would fall sharply again with effects on demand, but also on the incomes of countries producing raw materials. The Brent price could return to below USD 25/bl, putting emerging oil-exporting countries in a difficult position.

- Global financial conditions would again be impaired, to the extent that the USD strongly appreciates. Portfolio and credit flows to emerging markets could again vanish, causing sequential bankruptcies and balance-of-payment problems to begin to spread to more significant emerging countries, particularly in Latin American and European emerging markets.

- Equity would again show the change in long-term expectations (including real investment), and strong price/earning ratio (P/E ratio) corrections would trigger adjustments in the balance sheets of the real corporate and financial sector. The value of global equities would return to mid-March 2020 levels.

- Yields on safe-haven assets would be compressed again, with effects on the temporary premium of assets on the financial system's balance sheet.

- Risk aversion (picked up by the VIX globally and by the EMBI at the level of emerging markets) would rebound again, causing more portfolio outflows from emerging markets. This high and persistent level of risk aversion would contribute to a slow recovery.

- Fiscal support would be more limited and less effective than in the first wave. After an initial costly wave, the political response would be more skewed toward monetary measures, with the Federal Reserve pushing interest rates to the effective lower limit until the end of 2024, and the European Central Bank halting any expectation of developing an eventual and timid agenda of monetary normalization.

Finally, it should be stressed that these two scenarios (*baseline* and *stressed*) are central scenarios and are strongly weighted downward due to the balance of risks that remain on the horizon and that may turn the current recession into a depression with more permanent effects.

1.1.2 Risk assessment

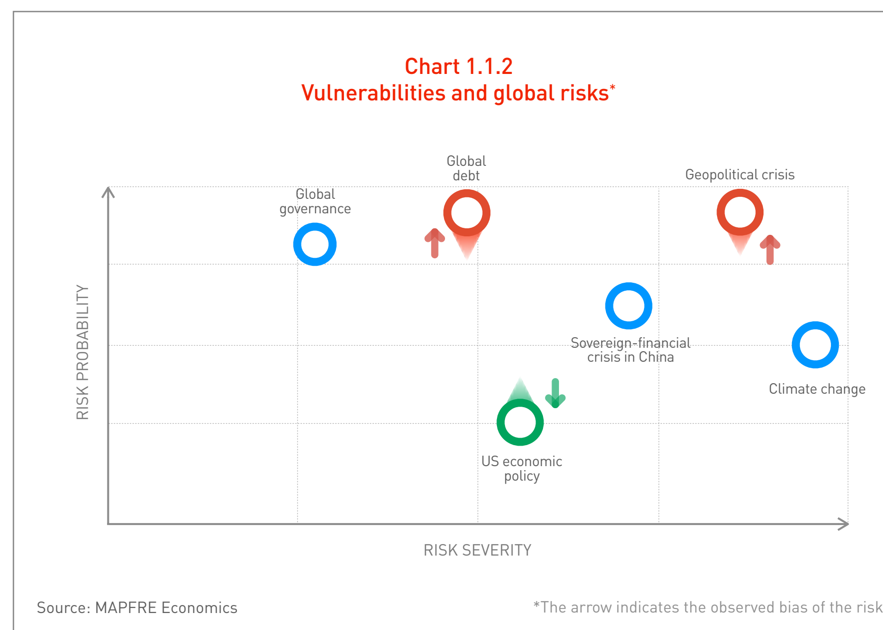
Given the situation since the beginning of the previous quarter caused by the effects of the introduction of lockdown and social distancing measures to face the COVID-19 pandemic, the current risk map, rather than being a collection of extreme situations that may arise with definite likelihood and severity, it now represents a list of possible catalysts that could turn the current global recession into a depression with longer-term effects (see Chart 1.1.2).

Global governance

As stated in our previous report, the introduction of measures to stop the spread of the COVID-19 pandemic continue to have the potential to generate increased tensions on governance globally, especially in emerging regions where health systems are weaker and which are proving less equipped to deal with the emergency.

These tensions, however, seem to have been reduced in the specific case of the eurozone. The implication of an accommodative monetary policy introduced by the European Central Bank, accompanied by the coordination of an expansive fiscal policy (fruit of the progress made by the European Commission), has been an important step in terms of both the

Chart 1.1.2
Vulnerabilities and global risks*



Source: MAPFRE Economics

*The arrow indicates the observed bias of the risk

future recovery and the welcome convergence toward a structural integration of the eurozone. In this sense, the commitment to establish effective common mechanisms renews confidence in the eurozone at a time of serious economic uncertainty.

Global debt

Generally speaking, although with varying degrees of intensity, central banks and governments around the world have strengthened their automatic stabilizers with unprecedented expansions of monetary and fiscal policies, in order to cushion the global shock. This reaction, however, has set a record in terms of sovereign and corporate debt in both emerging and developed markets, which imply weaknesses that could turn the current liquidity crisis into a solvency crisis. Among emerging markets, high dollar leverage could push financing needs to levels that may become unsustainable if the crisis is prolonged, leading to selective defaults and market contractions, with effects on the current account (as with the crisis in Brazil in the 1980s or that of Mexico in the 1990s).

As for developed economies, the increase in sovereign debt may push fiscal sustainability to the limit, especially if the potential growth capacity of the economy is not raised and if the current recession does not produce a deflationary debt dynamic (as happened in Japan in the 1990s), a situation that, moreover, could be structurally closer than ever given the effect of the aging population. Additionally, southern Europe could find itself (if the current European lockdown mechanisms do not work) in a situation where the sovereign spread leads to a situation of fiscal dominance.

In the United States, as well as in several countries of the European Union, one of the greatest weaknesses continues to be associated with the corporate debt segment of the so-called Collateralized Debt Obligations (CDOs), in which cascading exposure to potential default of underlying assets increases as credit rating reviews consolidate downward and prospects for lower quality tranches deteriorate.

Sovereign-financial crisis in China

The Chinese economy, after being the epicenter of the COVID-19 pandemic, continues to recover, supported by a set of expansionary economic policies that allow the accumulation of positive indicators to be reactivated in both manufacturing and services, a situation that, on the whole, has rebalanced risks. However, and in the absence of data on the possible structural consequences of the pandemic, the country's economy continues to face the issue of over-indebtedness and of transforming its economy in an environment of growing geopolitical tensions both with the United States and with the recent deterioration of its relations with the countries of East Asia.

US economic policy

The response of monetary and fiscal policy to the COVID-19 crisis has generally been very positive, both in terms of effective support (monetary and fiscal support has exceeded 15% of GDP) and in terms of the management of expectations of consumers and small and medium-sized enterprises. However, it will still be necessary to consider what economic policy lines must be taken to guarantee sustained and lasting growth that is also aligned with the objectives of sustainability and reduction of inequality. Therefore, this risk vector does not refer so much to the short-term, but rather to the long-term consequences of not addressing this transition.

Geopolitical crisis

Social polarization and unrest in one part of the developed and emerging world show a growing trend which could accelerate as the inequality gap widens due to the impact of the pandemic. As lockdown and social distancing measures relax, the aftermath reveals a political disaffection on the part of the strata most punished by said measures, faced with prospects of economic and social impairment. Similarly, from an institutional perspective, the health crisis is revealing a confrontational dynamic bolstered by protectionist positions that have gained strength in recent years, where the positive externalities of globalization and the advances in the construction of international mechanisms are becoming weaker, plunging into an opposite and deglobalization dynamic in which negative externalities could become more significant.

Climate change

The global health crisis has revealed the weaknesses of an interconnected world, fueling the holistic view of the impacts of a natural phenomenon. The main lesson to be taken from the vulnerability observed in this pandemic could serve to speed up the debate on the need to move toward a sustainable economy model that encourages expansion toward renewable energies, circular models and the emergence of more catalysts to face the climate challenge.

1.2 Forecasts and risk assessment in selected economies

1.2.1 United States

Dissonance between markets and the real economy

- **Markets have begun to anticipate a return to the new normal economy.**
- **However, reopening is slow and the pandemic is not yet under control.**
- **Stock indices recover by 20% in the quarter.**
- **The US economy is expected to contract by -8.0% in 2020.**

The United States economy contracted -5.0% (QoQ, annualized) in the first quarter of 2020 (+0.2% YoY). The quarterly decline is similar to that seen in other countries in that it only reflects the beginning of the lockdowns imposed at the end of March. Private consumption fell -6.8% QoQ and investment fell -10.5% QoQ. The declines in April and May are expected to have been much higher (20–25%), as shown by data from other countries that monitor on a monthly basis. A symptom of this is that exports and imports, for which we have monthly data, fell -28% and -22%, respectively (vs. -10.8% and -11.3% in March). We have revised our estimate of GDP growth for 2020 to a contraction of -8.0% in the baseline scenario (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b). However, it should be noted that the projections are based on the pandemic not recurring; if it does recur then another revision will be necessary.

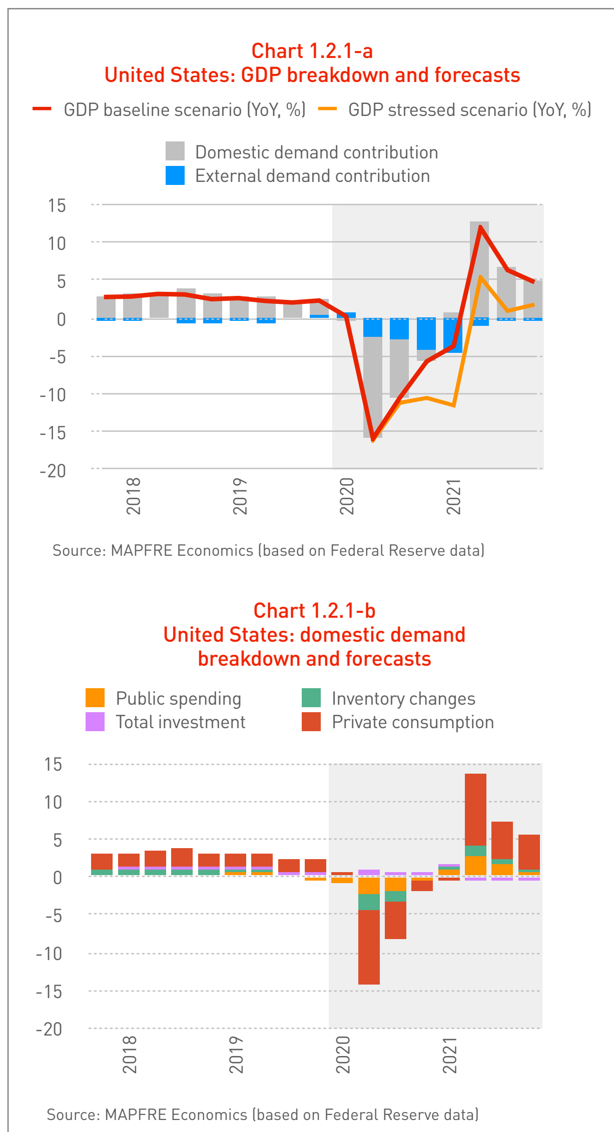


Chart 1.2.1-a
United States: GDP breakdown and forecasts

Source: MAPFRE Economics (based on Federal Reserve data)

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

Source: MAPFRE Economics (based on Federal Reserve data)

Table 1.2.1
United States: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	Baseline (baseline scenario) 2020(f)	Baseline (baseline scenario) 2021(f)	Stressed (stressed scenario) 2020(f)	Stressed (stressed scenario) 2021(f)
GDP (% YoY, average)	2.9	1.6	2.4	2.9	2.3	-8.0	4.8	-9.4	-0.8
Domestic demand contribution	3.7	1.9	2.7	3.3	2.5	-5.8	6.3	-7.2	-4.9
External demand contribution	-0.8	-0.3	-0.3	-0.3	-0.2	-2.2	-1.5	-2.2	4.0
Private consumption contribution	2.5	1.9	1.8	2.1	1.8	-4.1	4.5	-5.6	-3.8
Total investment contribution	0.7	0.4	0.8	0.9	0.4	-0.9	0.7	-1.1	-0.9
Public spending contribution	0.3	0.3	0.1	0.2	0.3	0.5	-0.4	0.5	-0.4
Private consumption (% YoY, average)	3.7	2.7	2.6	3.0	2.6	-5.8	6.3	-8.0	-5.4
Public consumption (% YoY, average)	1.8	1.8	0.6	1.7	1.8	3.9	-2.1	3.9	-2.1
Total investment (% YoY, average)	3.3	1.9	3.7	4.1	1.8	-4.2	3.2	-5.3	-4.1
Exports (YoY in %)	0.5	-0.0	3.5	3.0	0.0	-15.5	10.7	-15.9	1.0
Imports (YoY in %)	5.3	2.0	4.7	4.4	1.0	-13.0	8.6	-14.5	-5.6
Unemployment rate (%, last quarter)	5.0	4.8	4.1	3.8	3.5	9.1	6.8	13.6	10.2
Inflation (% YoY, last quarter)	0.7	2.1	2.1	1.9	2.3	0.7	1.6	-1.0	-0.6
Fiscal balance (% of GDP)	-4.8	-5.4	-4.2	-6.5	-7.2	-14.5	-9.4	-15.2	-13.7
Primary fiscal balance (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance (% of GDP)	-4.4	-4.2	-4.3	-4.4	-4.1	-3.9	-3.7	-3.8	-3.2
Current account balance (% of GDP)	-2.2	-2.3	-2.3	-2.4	-2.3	-2.7	-2.6	-2.5	-1.6
Official interest rate (end of period)	0.50	0.75	1.50	2.50	1.75	0.20	0.20	0.20	0.00
3-month interest rate (end of period)	0.61	1.00	1.69	2.81	1.91	0.33	0.33	0.33	0.01
10-year interest rate (end of period)	2.27	2.45	2.40	2.69	1.92	0.87	1.29	0.21	0.45
Exchange rate vs. USD (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Exchange rate vs. euro (end of period)	1.09	1.05	1.20	1.15	1.12	1.13	1.13	1.13	1.14
Private lending (% YoY, average)	2.4	3.5	6.9	4.7	5.7	16.0	0.0	15.3	-1.1
Household lending (% YoY, average)	1.9	2.2	3.5	3.5	3.2	3.9	4.8	3.9	5.1
P.S. non-financial lending (% YoY, average)	5.7	5.3	6.4	8.8	6.5	-3.1	6.0	-3.3	5.7
P.S. financial lending (% YoY, average)	2.1	4.3	2.9	2.2	2.2	1.6	2.4	1.8	2.7
Savings rate (as % pers. disp. income, avg.)	7.6	6.8	7.0	7.7	7.9	13.9	6.9	15.6	15.4

Source: MAPFRE Economics (based on Federal Reserve data)
Forecast end date: July 7, 2020.

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Surveys are starting to improve, with the June manufacturing PMI at 49.8 approaching optimistic levels (> 50), and the ISM manufacturing index has already surpassed that level, reaching 52.6 points. The New York Federal Reserve survey of services stood at -75.8, close to the string of lows reaching -76.5 in April, due to business closures. The Empire Manufacturing New York Federal Reserve survey rose to -0.2, while the University of Michigan sentiment index rebounded to 78.9.

In the labor market, weekly unemployment benefit requests, a figure closely watched by the markets, stood at around 1.5 million (June 25), bringing the total number of unemployed people to 19.5 million. Thus, the unemployment rate in May stood at 13.3%, down from 14.7% in April. The trajectory of unemployment will depend on the degree to which businesses reopen and how many will become insolvent and close permanently. An unemployment rate of 9.2% is expected at the end of 2020, more than double the figure of 3.5% at the end of 2019, although recently job creation has more than doubled the market estimate, reaching almost 5 million in June.

At its June 10 meeting, the Federal Reserve left interest rates unchanged in the 0–0.25% range. It indicated that it may continue to keep them low until 2022, but will avoid negative rates. It also set a minimum for Treasury bond purchasing of 80 billion US dollars a month and 40 billion US dollars for mortgage-backed bonds. This sent a clear signal that the Federal Reserve is determined to provide strong monetary support to the economy over a long period of time. At the press conference, the Chair of the Federal Reserve System, Jerome Powell, tried to emphasize the risks the economy is running and updated the economic projections to an economic contraction of -6.5% this year and a recovery of 5% in 2021.

Inflation (0.1% YoY in May) is on a similar trajectory as the rest of the world, influenced by the drop in demand pressure driven by closures. Although oil already picked up in May and June, inflation in May did not yet reflect this in overall prices. In any case, it should be taken into account that the measurement of inflation in these months has been hindered by the closures. Inflation should be close to 0.5% at the end of the year.

In March, the United States Congress approved the CARES Act, a 2 trillion US dollar economic support package, to reduce the financial strain on households and businesses. This summer, Congress will negotiate a significant additional package. The main issues are whether there will be more stimulus payments to households, and whether unemployment benefits, aid to small businesses, and tax relief for states and local governments will be maintained or extended.

The risks to the American economy have been compounded by this crisis. The pandemic is not under control and it does not seem that it will abate while there are no effective medicines or vaccines. Closures have led to a historic rise in unemployment of more than 20 million people, and many businesses will close for good. These insolvencies will result in increased financial defaults, while the higher unemployment level will also have implications for the volume of consumer credit and its default, as well as for the real estate market. The crisis will also affect the tax revenues of states, many of which were already at the limit in their public accounts. In addition to the federal government's fiscal deficit, which is estimated at 15%, we have to consider the high level of debt that the country is accumulating.

1.2.2 Eurozone

Activation of packages for recovery

The eurozone contracted by -3.1% in the first quarter, only a few weeks into lockdown. The worst closures were seen in April. In May some

- The European Commission activates the Recovery Programme for 750 billion euros.
- In June, the European Central Bank expanded the emergency purchase programme to 1.35 trillion euros.
- In 2020, the eurozone GDP is expected to drop by -10.0%.

economies were already beginning to relax measures. Consumption has declined by 4.7% QoQ, and investment by -4.3% QoQ, while government spending has risen by 1.0% QoQ. The main decline will be seen in the data for the second quarter, where a year-on-year drop of 15% is expected. For the whole of 2020, a decline in GDP of -10.0% is expected (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b).

Economic activity in June continued to pick up as global economies reopened, with the composite PMI at 47.5 points, aftera low of 13.6 in April, with the manufacturing and services PMI at levels of 47.4 and 47.3 respectively. Although on the up, the level of the purchasing managers' indices shows that a majority still expects things to get worse.

In June, inflation stood at 0.3% YoY, picking up from 0.1% in May, with core inflation standing at 0.8% YoY. This low inflation is due to weak demand in general and to outlooks. The upturn is explained by the recovery in fuel prices, though these still remain at low levels, since they are a reflection of future demand expectations. Inflation will recover to the 2% target level as activity and employment recover.

On June 4, the European Central Bank (ECB) expanded its Pandemic Emergency Purchase Programme (PEPP) by 600 billion euros. This brings the total amount of the program to 1.35 trillion euros, in addition to the existing quantitative easing (QE) program of 20 billion euros per month and the 120 billion euros of net asset purchases announced on March 12. Likewise, the ECB indicated that it will continue with the purchases of the PEPP until the end of June 2021 and will reinvest bonds that are maturing until at least the end of 2022.

The European Union (EU), through the European Commission, launched the Recovery Plan, which amounts to 750 billion euros. The Commission will borrow this value from the market, backed by common budgets. Of this amount, 500 billion euros will be in the form of aid and 250 billion euros will be in the form of loans. It should be noted that this package has not yet been unanimously approved by EU members.

The risks for the eurozone's economy entail a deeper and longer-lasting recession, as this crisis will leave scars in terms of both the employment level and companies going bankrupt. Demand and supply will surely not return to the pre-pandemic trajectory, and will only return to the 2019 level in 2022. All EU countries will end up with higher deficits and debt, with the private sector also more indebted, so careful management will be needed to avoid solvency problems in countries and in the finance sector. The risk of a re-emergence of the pandemic is high and economies cannot afford to close down totally again; in any case, selective lockdowns and partial closures may be introduced instead.

1.2.3 Spain

Lockdown exacerbates recession

The Spanish economy contracted by -5.2% QoQ (-4.1 YoY) in the first quarter of 2020, according to the final figure published on June 30 by the Spanish National Statistics Institute (INE). This figure already reflected the effects of lockdown, which entered into force on March 14, with the

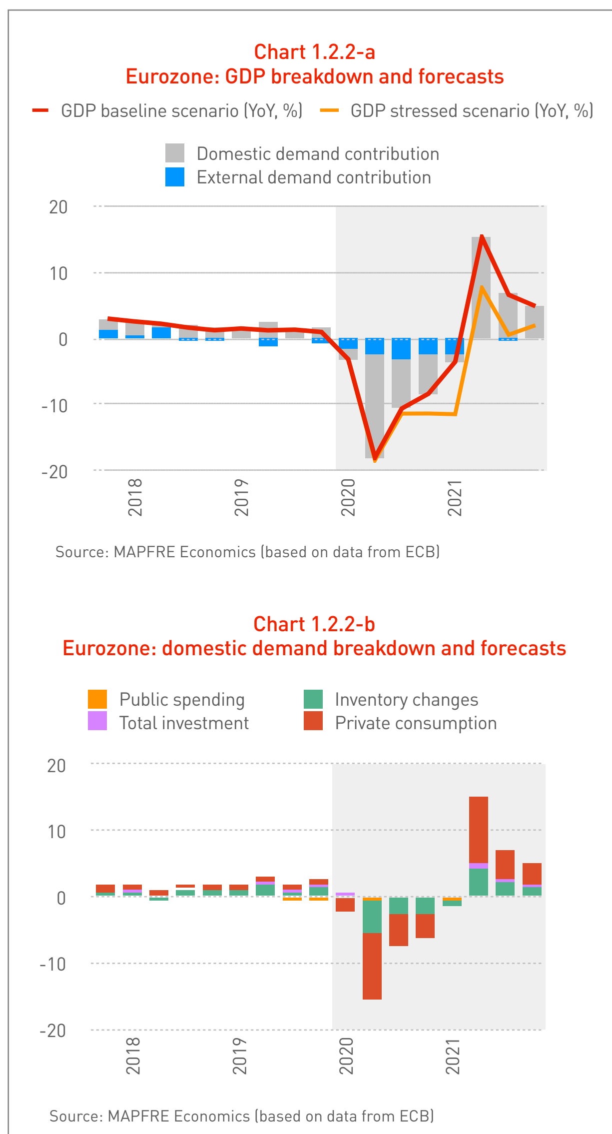

Chart 1.2.2-a
Eurozone: GDP breakdown and forecasts

Source: MAPFRE Economics (based on data from ECB)

Chart 1.2.2-b
Eurozone: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on data from ECB)

Table 1.2.2
Eurozone: main macroeconomic aggregates

						Baseline (baseline scenario)		Stressed (stressed scenario)	
	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)	2020(f)	2021(f)
GDP (% YoY, average)	2.0	1.9	2.7	1.9	1.2	-10.0	5.8	-11.1	-0.3
Domestic demand contribution	2.1	2.3	2.2	1.5	1.8	-7.6	6.4	-8.2	-3.2
External demand contribution	-0.1	-0.4	0.5	0.4	-0.5	-2.4	-0.6	-2.8	2.8
Private consumption contribution	1.0	1.0	1.0	0.7	0.7	-5.1	4.3	-5.4	-2.6
Total investment contribution	0.9	0.8	0.8	0.5	1.2	-2.3	1.7	-2.7	-0.9
Public spending contribution	0.3	0.4	0.3	0.2	0.4	0.1	0.5	0.1	0.6
Private consumption (% YoY, average)	1.8	1.9	1.9	1.4	1.3	-9.6	8.0	-10.0	-4.9
Public consumption (% YoY, average)	1.3	1.9	1.3	1.1	1.8	0.6	2.2	0.3	2.4
Total investment (% YoY, average)	4.5	4.0	3.8	2.4	5.8	-10.7	8.3	-12.3	-4.1
Exports (YoY in %)	6.4	2.9	5.8	3.5	2.5	-11.2	9.0	-11.7	-1.2
Imports (YoY in %)	7.5	4.2	5.3	3.0	4.0	-11.3	9.1	-12.4	-0.7
Unemployment rate (%, last quarter)	10.5	9.7	8.7	7.9	7.4	9.7	8.4	10.5	12.2
Inflation (% YoY, last quarter)	0.3	0.7	1.4	1.9	1.0	0.5	1.3	-0.3	-2.1
Fiscal balance (% of GDP)	-2.0	-1.4	-1.0	-0.5	-0.7	-9.3	-4.5	-9.5	-8.8
Primary fiscal balance (% of GDP)	0.3	0.7	1.0	1.4	1.0	-7.5	-2.8	-7.8	-6.9
Trade balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance (% of GDP)	2.8	3.2	3.1	3.1	2.7	2.9	3.0	2.9	3.7
Official interest rate (end of period)	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (end of period)	-0.13	-0.32	-0.33	-0.31	-0.38	-0.36	-0.36	-0.86	-0.87
10-year interest rate (end of period)	1.26	0.93	1.13	1.17	0.32	0.48	0.84	0.38	0.29
Exchange rate vs. USD (end of period)	1.09	1.05	1.20	1.15	1.12	1.13	1.14	1.13	1.14
Exchange rate vs. euro (end of period)	n/r	n/r	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	n/a	n/a
Household lending (% YoY, average)	0.9	1.5	2.3	2.7	3.3	2.7	3.4	2.6	0.7
P.S. non-financial lending (% YoY, average)	8.9	2.9	2.1	2.9	2.2	-3.0	2.3	-3.3	-3.6
P.S. financial lending (% YoY, average)	17.0	3.6	1.2	0.6	1.4	-1.5	2.2	-1.5	1.8
Savings rate (as % pers. disp. income, avg.)	12.3	12.3	12.0	12.3	13.0	17.8	14.6	18.0	22.7

Source: MAPFRE Economics (based on ECB data)
Forecast end date: July 7, 2020.

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temporary closure of many businesses and with very stringent restrictions on movement. Private consumption fell -6.6% QoQ, investment fell -5.7% QoQ, exports fell -8.2% QoQ and imports fell -6.6% QoQ. However, public spending has risen (+1.8%), in line with the necessary responses of spending to the temporary unemployment situation and with the stimuli put in place to absorb the impact of the economic slowdown.

According to the Oxford University Index, which analyzes how strict closures have been (Stringency Index – Government Response Tracker), Spain was particularly strict, especially in the first 10 days of April when all non-essential activities were prohibited. Due to the closures ordered, activity in the second quarter will suffer a substantial fall, which is estimated to be over 20% year-on-year. Thus, we have revised our estimate for economic contraction for 2020 to -12.1% (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b). This estimate is subject to a high degree of uncertainty due to the difficulty of evaluating the impact of a return to activity in phases, at different times and staggered by provinces. Even once activities are resumed, the impact of social distancing rules on the capacity of businesses must be taken into account.

In the labor market, there were temporary layoffs of 3.4 million (*Expediente de Regulación Temporal de Empleo* (ERTEs — temporary layoffs)), which represents 14.7% of the workforce (23.1 million), to which we must add permanent dismissals (lower rate of membership to Social Security) of almost 1 million people, and of 1.2 million self-employed workers who requested benefits following a suspension of business activity. The unemployment rate rose to 14.8% in April, but if temporary layoffs (ERTE) are included, this rate would be double. At the end of June, 1.2 million of the 3.4 million workers affected by ERTE had returned to work. However, it remains to be seen what percentage of workers affected by temporary layoffs (ERTE) will be able to return to their jobs. In the Spanish economy, tourism and the hotel and catering industry carry significant weight, and it will probably take time for these sectors to return to their previous level of activity, with the subsequent impact on employment.

- **In the event of a return to normal without an outbreak, Spain's GDP is expected to contract by -12.1% in 2020.**
- **The return to normality will be slow due to the restrictions imposed and the necessary precautions.**
- **The Spanish economy, highly dependent on hospitality, tourism and leisure, will be affected by the selective and slow opening of borders and by the hesitation of tourists to travel.**

Inflation stood at -0.3% YoY in June, compared to -0.9% YoY in May. This is the third consecutive month of falling prices, although these data are affected by the abnormal situation of lower demand due to lockdown. Although a recovery is expected, the pressure of demand may remain at lower levels than before.

The fiscal measures to support the economy launched by the government amount to around 3% of GDP, 36 billion euros, including budgetary support from the contingency fund to the Ministry of Health (1.4 billion euros), early transfer to regional health services (2.8 billion euros), additional funding for research related to the development of medicines and vaccines for COVID-19 (46 million euros), and the right to unemployment benefits for temporarily laid off workers within the framework of temporary employment adjustment plans (17.8 billion euros).

In addition, the government has granted up to 100 billion euros of public guarantees to companies and self-employed workers, which cover both loans and promissory notes from medium-sized companies; up to 2 billion

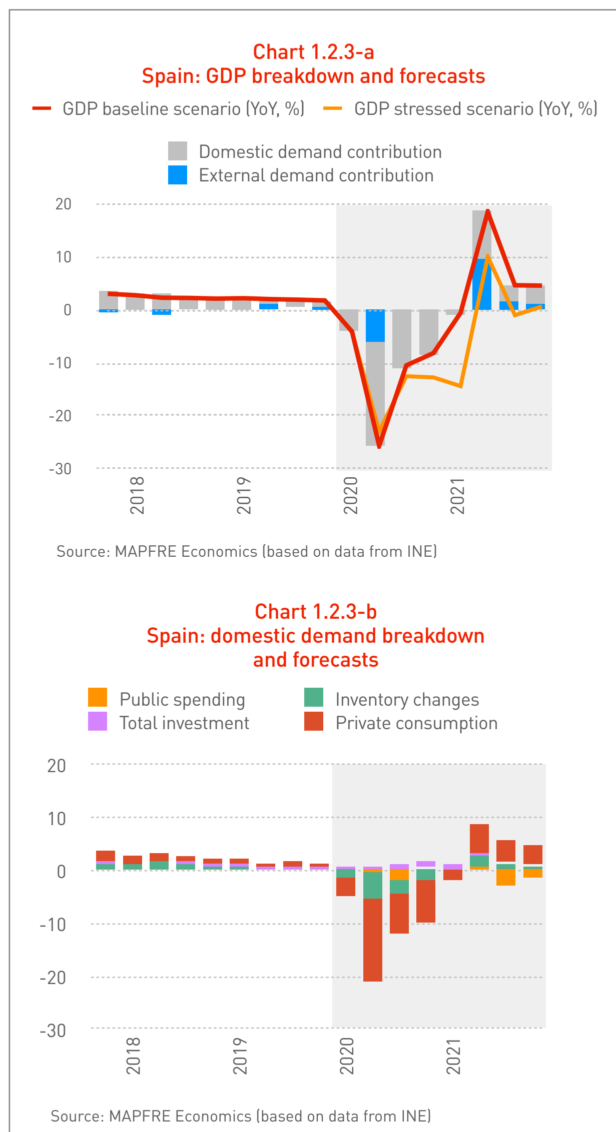

Table 1.2.3
Spain: main macroeconomic aggregates

	2015	2016	2017	2018	2019 (e)	Baseline (baseline scenario) 2020 (f)	Baseline (baseline scenario) 2021 (f)	Stressed (stressed scenario) 2020 (f)	Stressed (stressed scenario) 2021 (f)
GDP (% YoY, average)	3.8	3.0	2.9	2.4	2.0	-12.1	6.8	-13.1	-1.2
Domestic demand contribution	3.9	2.0	3.0	2.6	1.5	-10.8	3.7	-10.5	-5.2
External demand contribution	-0.1	1.0	-0.1	-0.3	0.5	-1.3	3.1	-2.6	4.0
Private consumption contribution	1.7	1.6	1.7	1.1	0.6	-8.6	3.0	-8.8	-3.0
Total investment contribution	0.9	0.4	1.1	1.0	0.3	-2.6	1.1	-2.9	-1.7
Public spending contribution	0.4	0.2	0.2	0.3	0.4	0.9	0.4	0.9	0.4
Private consumption (% YoY, average)	2.9	2.7	3.0	1.9	1.1	-15.0	5.3	-15.2	-5.2
Public consumption (% YoY, average)	2.0	1.0	1.0	1.9	2.3	4.8	1.8	4.8	1.8
Total investment (% YoY, average)	4.9	2.4	5.9	5.3	1.8	-13.9	5.7	-15.4	-9.2
Exports (YoY in %)	4.3	5.4	5.6	2.2	2.6	-18.0	9.2	-16.7	-2.4
Imports (YoY in %)	5.1	2.7	6.6	3.3	1.2	-19.3	4.4	-19.0	-5.8
Unemployment rate (%, last quarter)	20.9	18.6	16.6	14.5	13.8	17.2	14.3	20.4	21.5
Inflation (% YoY, last quarter)	0.0	1.6	1.1	1.2	0.8	-0.1	0.8	-1.2	-4.4
Fiscal balance (% of GDP)	-5.2	-4.3	-3.0	-2.5	-2.8	-12.8	-7.2	-13.3	-12.0
Primary fiscal balance (% of GDP)	-2.2	-1.5	-0.5	-0.1	-0.5	-10.3	-4.7	-10.7	-9.1
Trade balance (% of GDP)	-1.9	-1.3	-1.9	-2.4	-2.3	0.0	0.1	0.5	0.6
Current account balance (% of GDP)	2.0	3.2	2.7	1.9	2.0	1.9	2.6	2.0	2.6
Official interest rate (end of period)	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (end of period)	-0.13	-0.32	-0.33	-0.31	-0.38	-0.53	-0.80	-0.86	-0.87
10-year interest rate (end of period)	1.77	1.35	1.51	1.41	0.46	0.84	1.48	1.63	1.82
Exchange rate vs. USD (end of period)	1.09	1.05	1.20	1.15	1.12	1.13	1.13	1.13	1.14
Exchange rate vs. euro (end of period)	n/r	n/r	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	n/a	n/a
Household lending (% YoY, average)	-3.7	-2.5	-1.4	-0.3	-0.2	0.8	3.4	0.7	-0.7
P.S. non-financial lending (% YoY, average)	-3.0	-2.7	-1.2	-1.3	-0.2	1.5	-4.3	0.5	-23.7
P.S. financial lending (% YoY, average)	-7.7	-17.1	-9.7	-3.5	-5.4	-0.6	3.3	-0.4	4.1
Savings rate (as % pers. disp. income, avg.)	7.7	7.5	5.9	6.3	7.6	15.4	16.7	14.9	20.6

Source: MAPFRE Economics (based on data from INE)
Forecast end date: July 7, 2020.

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euros of public guarantees for exporters through the *Compañía Española de Seguros de Crédito a la Exportación* (CESCE — Spanish Export Credit Agency); guarantees for extending the terms of loans to farmers through special credit lines; a line of guarantees to provide financial assistance for the housing expenses of vulnerable households (1.2 billion euros); and additional loan guarantees for small and medium-sized companies and self-employed workers through the *Compañía Española de Reafianzamiento* (Spanish Financing Company) (1 billion euros). These public guarantees could reach up to 83 billion euros in support of the liquidity of companies through the private sector. Other measures include the additional financing of the credit lines of the *Instituto de Crédito Oficial* (Official Credit Institute), ICO (10 billion euros); the introduction of a special line of credit for the tourism sector through the ICO itself (400 million euros); a line of ICO guarantees for the automotive sector (500 million euros); and loans for the industrial sector to promote digital transformation and modernization (123.5 million euros).

Risks to the economy are now focused on the level of recovery in activity. The state of emergency ended on June 22, and the return to normal looks set to take place very gradually, with much uncertainty around tourism and leisure activities. Airlines are reinstating their capacity, but they are responding to the pace of their customers' bookings. In the first week after the state of emergency was raised, only flights within the EU were authorized. On July 1, the borders were opened to a group of other countries defined by the EU, which excluded countries that were still very affected by the pandemic. In the long run, the risks for Spain are as follows: the high increase in debt, which may exceed 124% of GDP in 2020, and not only public but also private debt due to the activated liquidity lines (it remains to be seen what effect State guarantees and guarantees granted to the private sector will have); the fiscal deficit which, in 2020, could amount to 13% of GDP, due to the drop in tax revenue, increased spending and a reduction in GDP; and the final effect of EU aid (140 billion euros), which will ultimately arrive in the form of a loan and with strong conditionality as to the performance of structural reforms to balance the public accounts.

1.2.4 Germany

Sentiment improves with a return to activity, but the previous level of GDP will not be recovered until 2022.

- **Growth of the German economy for 2020 has been revised downward to -7.5%.**
- **Exports will keep contracting while global uncertainty continues.**
- **Germany has been one of the most ambitious countries with respect to COVID-19 support, in terms of direct aid, guarantees and endorsements.**

Germany's GDP contracted -2.3% YoY SAAR (-1.9% YoY NSA) in the first quarter of 2020, as a result of the impact of the COVID-19 pandemic and the lockdown measures introduced. Consumption contracted by -3.2% QoQ, exports by -3.1% QoQ and imports by -1.6% QoQ. This took place against a backdrop in which the crisis only affected part of the month of March. Therefore, the impact in the second semester is expected to be much greater.

Forward-looking indicators anticipate a stabilization during the third quarter of the year. The purchasing managers' surveys (PMI) of June have recovered from 32 to 46 points (composite and services), and manufacturing has recovered from 37 to 45, in line with the resumption of activity, but is still in the contraction zone. Economic sentiment indices, meanwhile, have picked up visibly, with an optimistic outlook on a return to activity (ZEW expectations are at 63.4 and IFO expectations are at 91.4). It

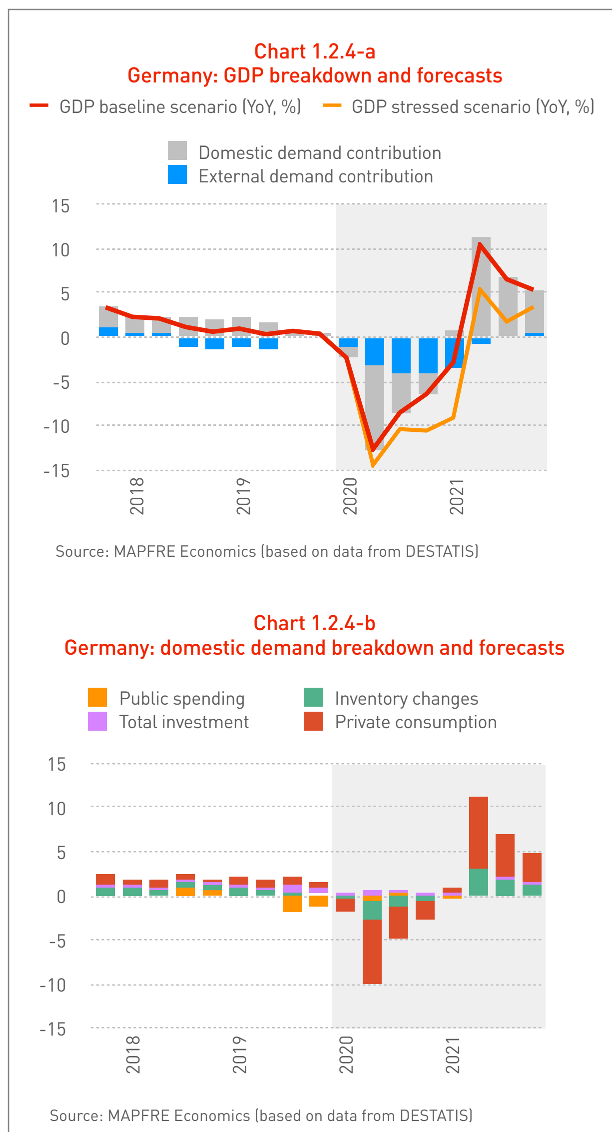

Chart 1.2.4-a
Germany: GDP breakdown and forecasts

Source: MAPFRE Economics (based on data from DESTATIS)

Chart 1.2.4-b
Germany: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on data from DESTATIS)

Table 1.2.4
Germany: main macroeconomic aggregates

						Baseline (baseline scenario)		Stressed (stressed scenario)	
	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)	2020(f)	2021(f)
GDP (% YoY, average)	1.5	2.1	2.8	1.6	0.6	-7.5	4.9	-9.4	0.4
Domestic demand contribution	1.3	2.8	2.4	2.0	1.2	-4.4	5.9	-4.8	-2.1
External demand contribution	0.2	-0.6	0.3	-0.4	-0.6	-3.1	-1.1	-4.6	2.4
Private consumption contribution	1.0	1.1	0.9	0.6	0.9	-3.6	4.2	-3.9	-1.3
Total investment contribution	0.2	0.7	0.6	0.7	0.5	-1.1	1.5	-1.2	-1.0
Public spending contribution	0.5	0.8	0.5	0.3	0.5	0.3	0.2	0.3	0.2
Private consumption (% YoY, average)	1.8	2.1	1.6	1.2	1.7	-6.8	8.0	-7.4	-2.4
Public consumption (% YoY, average)	2.8	4.1	2.4	1.4	2.7	1.7	1.0	1.7	1.0
Total investment (% YoY, average)	1.2	3.6	3.1	3.5	2.6	-5.1	7.0	-5.5	-4.6
Exports (YoY in %)	4.9	2.2	5.5	2.3	1.0	-11.1	10.5	-11.7	1.3
Imports (YoY in %)	5.4	4.2	5.7	3.8	2.5	-8.5	12.6	-8.9	3.0
Unemployment rate (%, last quarter)	6.3	6.0	5.5	5.0	5.0	5.7	5.3	6.1	8.6
Inflation (% YoY, last quarter)	0.7	1.4	1.4	1.6	1.5	1.0	1.4	0.3	-1.2
Fiscal balance (% of GDP)	0.9	1.2	1.2	1.9	1.5	-6.6	-2.4	-6.8	-6.2
Primary fiscal balance (% of GDP)	2.3	2.4	2.3	2.8	2.2	-5.8	-1.7	-6.0	-5.5
Trade balance (% of GDP)	8.1	8.0	7.8	6.8	6.5	6.2	5.3	6.1	6.1
Current account balance (% of GDP)	8.7	8.4	7.8	7.5	7.3	6.2	5.6	6.1	6.1
Official interest rate (end of period)	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (end of period)	-0.13	-0.32	-0.33	-0.31	-0.38	-0.36	-0.36	-0.86	-0.87
10-year interest rate (end of period)	0.63	0.21	0.43	0.25	-0.19	-0.14	0.10	-1.04	-0.97
Exchange rate vs. USD (end of period)	1.09	1.05	1.20	1.15	1.12	1.13	1.14	1.13	1.14
Exchange rate vs. euro (end of period)	n/r	n/r	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	n/a	n/a
Household lending (% YoY, average)	1.9	2.8	3.2	3.6	4.4	5.1	5.4	5.2	2.7
P.S. non-financial lending (% YoY, average)	2.9	4.1	5.2	7.5	5.4	5.0	-1.0	5.0	-1.9
P.S. financial lending (% YoY, average)	5.1	2.2	0.7	3.9	6.3	-4.7	4.0	-4.6	3.5
Savings rate (as % pers. disp. income, avg.)	10.0	10.3	10.3	10.9	10.8	13.6	10.1	14.1	17.1

Source: MAPFRE Economics (based on data from DESTATIS)
Forecast end date: July 7, 2020.

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remains to be seen whether these signs are temporary or if, on the contrary, they will translate into a gradual recovery of the economic pulse.

Our estimate for the whole of 2020 is for a GDP contraction of -7.5% (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b). Since Germany has a strongly export-oriented economy, economic recovery will be largely dependent on the recovery of external demand. The economy will not reach 2019 levels in 2021. Rather, it is not until 2022 that it will fully recover, and this will depend on whether activity can return to normal, something which is only viable when uncertainty is dispelled by the discovery of a vaccine or an effective medical treatment for COVID-19.

Furthermore, inflation sped up slightly in June (0.9% YoY, provisional), but this is expected to have been due to the recovery in oil prices and a 4.4% rise in food. Core inflation continues to show signs of a possible deflationary path in the short-term as a result of sluggish activity.

Germany has launched some of the largest stimulus packages (after the United States and Japan), with fiscal measures of 10% of GDP, and guarantees and endorsements of up to 32% of GDP. In order to stabilize the economy, the federal government has launched these fiscal measures in the form of a supplementary budget amounting to 4.9% of GDP. These measures include health care spending, subsidies for job retention, support for small and medium-sized enterprises and unemployment benefits. This package was expanded on June 3, when the government announced an additional fiscal stimulus package worth another 4.5% of GDP, which includes a temporary reduction in VAT, support for family income, subsidies for the most affected small and medium-sized enterprises, financial support to local governments, and subsidies/investments in green energy and digitization. In turn, through the recently created economic stability fund (WSF) and the state-owned development bank KfW, the Government is expanding the volume and access to public guarantees for companies of different sizes and credit insurers, some of which can obtain up to 100% of the guarantees, increasing the total volume by at least 757 billion euros (24% of GDP). In addition to the federal government tax package, many local governments (Länder and municipalities) have announced their own measures to support their economies, amounting to 141 billion euros in direct support and 63 billion euros in loan guarantees at the state level.

The risks for the German economy, in addition to the health-related ones, are mainly related to a weak external demand for its export products, which would delay economic recovery.

1.2.5 Italy

Strengthening of fiscal "relaunch" measures to avoid more serious damage

Italy officially ended confinement on May 4, and is gradually opening activities by sector. It opened its borders to EU countries on June 3, although many countries in the area only opened their borders on June 21. Italy was ahead in the pandemic cycle, and thus also in reopening of the economy; however, this is proving slower than expected due to mandatory health precautions.

- **The forecast for Italian GDP growth in 2020 has been revised to -12.1%.**
- **Strong package of fiscal measures and liquidity provision.**
- **The support measures, together with the drop in activity, are putting investors' focus back on debt sustainability.**

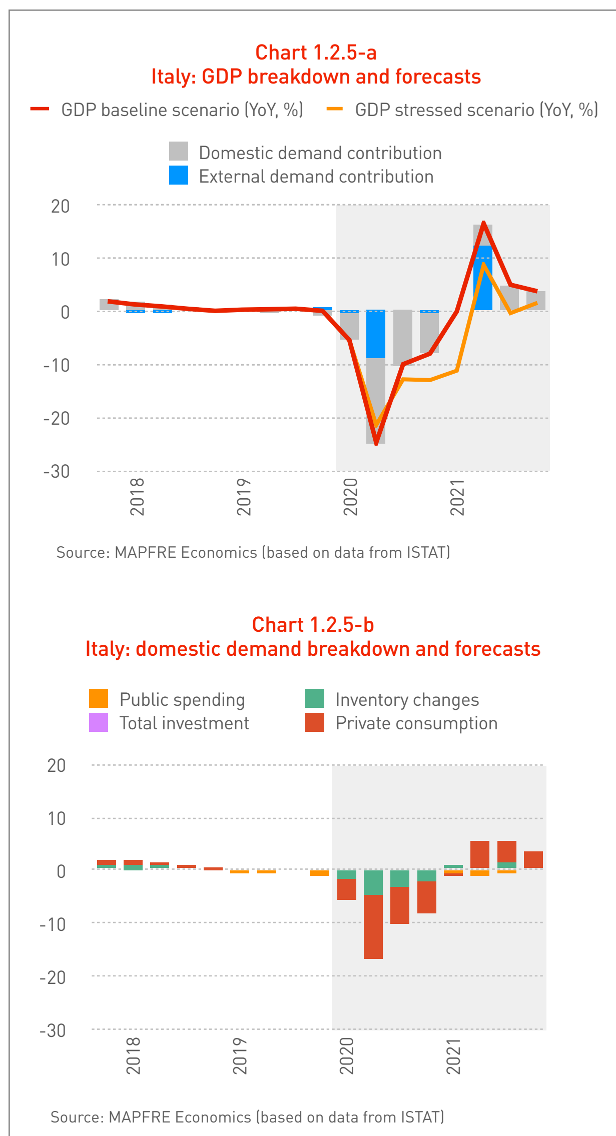

Chart 1.2.5-a
Italy: GDP breakdown and forecasts

Source: MAPFRE Economics (based on data from ISTAT)

Chart 1.2.5-b
Italy: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on data from ISTAT)

Table 1.2.5
Italy: main macroeconomic aggregates

						Baseline (baseline scenario)		Stressed (stressed scenario)	
	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)	2020(f)	2021(f)
GDP (% YoY, average)	0.7	1.4	1.7	0.7	0.3	-12.1	6.3	-13.2	-0.3
Domestic demand contribution	1.1	1.9	1.7	1.0	-0.2	-9.7	3.1	-9.2	-4.0
External demand contribution	-0.4	-0.5	-0.0	-0.3	0.5	-2.3	3.2	-4.0	3.7
Private consumption contribution	1.1	0.7	0.9	0.6	0.3	-7.2	2.6	-7.0	-2.8
Total investment contribution	0.3	0.7	0.6	0.5	0.3	-2.9	0.9	-2.6	-0.5
Public spending contribution	-0.1	0.1	-0.0	0.0	-0.1	0.0	0.1	0.0	0.1
Private consumption (% YoY, average)	1.9	1.2	1.5	0.9	0.4	-11.9	4.3	-11.6	-4.6
Public consumption (% YoY, average)	-0.6	0.7	-0.1	0.1	-0.4	0.1	0.7	0.1	0.7
Total investment (% YoY, average)	1.6	4.2	3.4	3.0	1.4	-15.6	5.3	-14.1	-2.6
Exports (YoY in %)	4.1	2.0	6.0	1.7	1.4	-15.1	15.4	-15.4	4.2
Imports (YoY in %)	6.3	4.1	6.5	2.8	-0.2	-14.8	14.0	-14.5	5.4
Unemployment rate (%, last quarter)	11.5	11.8	11.0	10.5	9.6	12.7	11.0	13.4	14.2
Inflation (% YoY, last quarter)	0.1	0.5	0.9	1.1	0.5	0.2	0.0	-0.7	-3.6
Fiscal balance (% of GDP)	-2.6	-2.4	-2.4	-2.2	-1.6	-11.5	-5.9	-11.6	-9.8
Primary fiscal balance (% of GDP)	1.5	1.5	1.4	1.5	1.8	-7.9	-2.4	-7.9	-5.7
Trade balance (% of GDP)	3.3	3.5	3.1	2.6	3.2	4.3	5.0	4.1	4.4
Current account balance (% of GDP)	1.5	2.6	2.6	2.5	3.0	3.7	4.4	3.4	3.9
Official interest rate (end of period)	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (end of period)	-0.13	-0.32	-0.33	-0.31	-0.38	-0.53	-0.80	-0.86	-0.87
10-year interest rate (end of period)	1.61	1.82	2.00	2.77	1.43	1.69	2.06	3.87	2.95
Exchange rate vs. USD (end of period)	1.09	1.05	1.20	1.15	1.12	1.13	1.13	1.13	1.14
Exchange rate vs. euro (end of period)	n/r	n/r	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	n/a	n/a
Household lending (% YoY, average)	-0.3	0.4	1.3	1.8	2.1	0.7	1.4	0.7	-2.6
P.S. non-financial lending (% YoY, average)	-1.9	-2.1	-2.9	-0.3	-0.9	-8.2	-2.7	-6.0	-16.3
P.S. financial lending (% YoY, average)	-3.0	-3.9	-11.5	25.7	13.4	-5.1	-2.9	-4.9	-12.9
Savings rate (as % pers. disp. income, avg.)	10.2	10.2	9.7	9.5	9.7	15.5	15.1	15.3	21.5

Source: MAPFRE Economics (based on data from ISTAT)
Forecast end date: July 7, 2020.

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In the first quarter, GDP declined by -5.3% QoQ (-5.4 YoY), with private consumption decreasing by -6.6% (QoQ), investment by -8.1%, exports by -8.1% and imports by -6.2%. PMIs for May were still in the contraction zone, with the services PMI at 28.9 points, the manufacturing PMI at 45.4 and the composite PMI at 33.9. The PMIs for June are expected to pick up, but will surely remain below 50 points, the level that separates expectations for contraction and expectations for expansion. In the second quarter, GDP is expected to contract just as much as it did in the first quarter. Therefore, we have revised our GDP growth forecast of 2020 to -12.1%, with a slower recovery than expected three months ago. Recovery in 2021 will be only 6.3%, which means GDP will have to delay recovering its 2019 level until 2022 (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b).

In May, prices fell into the deflation zone (-0.2% YoY), strongly influenced by the fall in demand. It is foreseeable that the increase in unemployment will keep rates in negative terrain for a while, which is not at all ideal given the current high volume of public debt and the debt that will follow due to the application of fiscal measures to face the economic effects of the pandemic.

In terms of these fiscal measures, on March 17, the government adopted an emergency package of 25 billion euros (1.4% of GDP), which includes: funds to strengthen the Italian health care system and civil protection (3.2 billion euros); measures to preserve jobs and support the income of laid-off workers and self-employed workers (10.3 billion euros); other measures to support companies, including tax deferrals and deferment of utility bill payments in the most affected municipalities (6.4 billion euros); and measures to support the credit supply (5.1 billion euros).

On April 6, the Liquidity Decree allowed additional state guarantees of up to 400 billion euros (25% of GDP). The provision of guarantees under this plan and previous ones is intended to release more than 750 billion euros (about 50% of GDP) of liquidity for companies and households. In addition, on May 15, the government agreed to another package of "relaunch" fiscal measures amounting to 55 billion euros (3.2% of GDP). Among other issues, this provides greater support for family incomes (14.5 billion euros), funds for the health system (3.3 billion euros) and other measures to support companies, including subsidies for small and medium-sized enterprises, and tax deferrals (16 billion euros).

Furthermore, the main monetary and financial measures include: a moratorium on the repayment of loans for some households and small and medium-sized enterprises, including mortgages and overdrafts; state guarantees on loans to all companies; incentives for financial and non-financial companies in the form of tax-deferred activities; state guarantee for the state-owned development bank (*Cassa Depositi e Prestiti*) to support loans and liquidity to banks so that they can finance medium and large companies; and an insurance plan for exporters.

The Bank of Italy has announced a series of measures to assist banks and non-bank financial intermediaries under its supervision, in accordance with initiatives undertaken by the ECB and the European Banking Authority (EBA). These include the possibility of temporarily operating below certain capital and liquidity requirements, the extension of some reporting obligations and the rescheduling of on-site inspections. On May 20, in order to promote the use of credit claims as collateral and to encourage the granting of loans to small and medium-sized enterprises, the Bank of Italy expanded the additional credit claims frameworks to include loans backed by public sector guarantees related to COVID-19.

The risks for the Italian economy are the high level of fiscal deficit (-11.3%), which will be doubly aggravated by the fall in tax revenue and the

contraction of GDP, and debt levels that will exceed 160% of GDP in 2020 and 2021. The debt trajectory will have to be closely monitored in order to assess its sustainability.

1.2.6 United Kingdom

Impact of the pandemic and uncertainty on tariffs with the European Union

- **The effects of the pandemic have forced the UK to revise its GDP growth to -10.8% in 2020.**
- **Uncertainty levels are at a maximum and confidence levels are at a minimum.**
- **The government published its general import tariff regime, pending the outcome with the European Union when the transition period ends in December 2020.**

The UK economy contracted -1.6% YoY in the first quarter of 2020 (-2.0% QoQ), a quarter in which lockdown measures only entered into force on March 23. Private consumption has declined by -1.7% QoQ, government spending by -2.6% QoQ, investment by -1.0%, exports by -10.8% QoQ and imports by -5.3% QoQ. The economy was lacking momentum even before the pandemic happened, and activity in the first quarter does not yet reflect the depth of the slowdown, which is sure to have been much greater in the second quarter of the year. Accordingly, we have adjusted our estimate for economic contraction to -10.8% in 2020 (see Table 1.2.6 and Charts 1.2.6-a and 1.2.6-b).

PMI surveys for May picked up slightly from the lows in April, but are clearly still in the contraction zone; the composite PMI stood at 30.0 points, the services PMI stood at 29.0, and the manufacturing PMI stood at 40.7. Meanwhile, consumer confidence (GfK) remains very negative, at -30 points in June, and industrial production in April decreased by -24.4% YoY.

Inflation continues to moderate. It stood at 0.5% in May, with core inflation at 1.2%, showing a downward trend in the last three years. Furthermore, despite monetary and fiscal stimuli, in April and May unemployment levels increased by 1.5 million, which will surely keep inflation very low, but for now there is no risk of deflation.

At its June meeting, the Bank of England's Monetary Policy Committee (MPC) voted to keep interest rates at 0.10%, and increase asset purchases by 100 billion pounds to 745 billion pounds. However, the pace of purchases is expected to slow down; the Bank said the program should be completed by the end of the year, but is willing to increase the pace again if market conditions deteriorate. Only government bonds will be purchased, not corporate bonds as in the last round. The minutes of the meeting also reiterated the message that the MPC is ready to take further action if necessary. It argues that "existing fiscal support provided to workers and businesses is likely to continue to play a key role in preventing further drops in spending and widespread corporate bankruptcies." Similarly, the harshness of the pandemic in the United Kingdom has hit the British pound hard and, although it recovered slightly in April, its trend against the euro is still negative.

With the outbreak of the pandemic, the issue of Brexit seems to have been put on the back burner. However, we are now six months away from the end of the transitional period set for December 31. The United Kingdom has not requested an extension of the transition period, which it had until

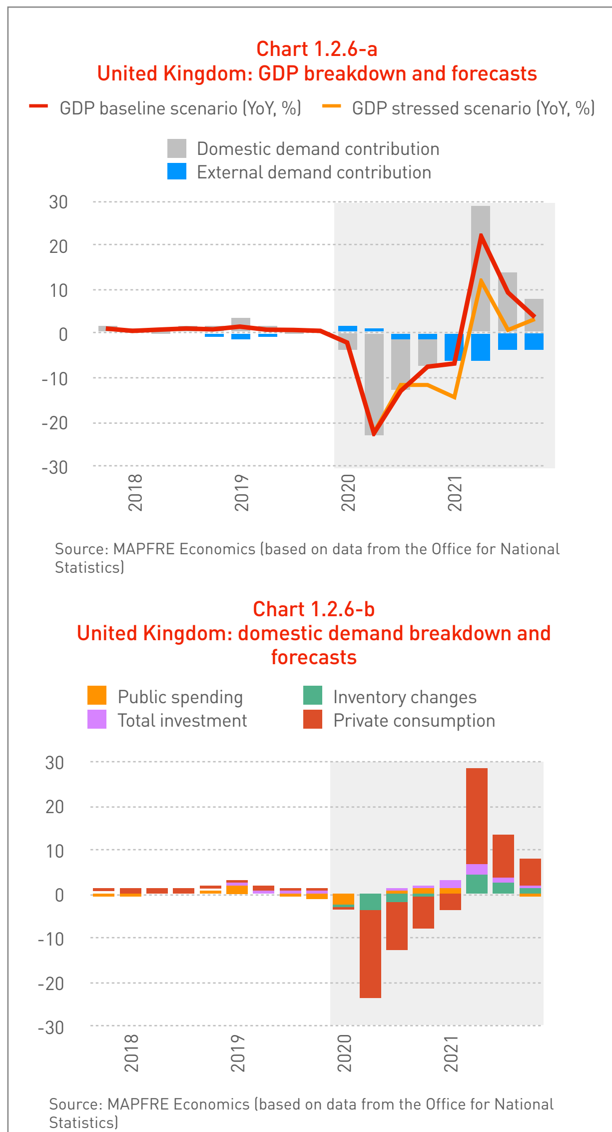

Chart 1.2.6-a
United Kingdom: GDP breakdown and forecasts

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

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

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

Table 1.2.6
United Kingdom: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	Baseline (baseline scenario) 2020(f)	Baseline (baseline scenario) 2021(f)	Stressed (stressed scenario) 2020(f)	Stressed (stressed scenario) 2021(f)
GDP (% YoY, average)	2.4	1.9	1.9	1.3	1.4	-10.8	7.5	-11.5	0.8
Domestic demand contribution	2.5	2.5	1.1	1.2	1.6	-10.8	12.5	-8.7	-2.9
External demand contribution	-0.1	-0.6	0.7	0.1	-0.2	0.0	-5.0	-2.8	3.8
Private consumption contribution	1.8	2.4	1.4	1.0	0.7	-9.5	8.7	-7.3	-3.3
Total investment contribution	0.6	0.6	0.3	-0.0	0.1	-1.6	2.0	-1.3	-1.0
Public spending contribution	0.3	0.2	0.0	0.1	0.7	0.3	1.5	0.3	1.5
Private consumption (% YoY, average)	2.9	3.8	2.3	1.6	1.1	-15.0	15.2	-11.5	-5.2
Public consumption (% YoY, average)	1.8	1.0	0.3	0.4	3.5	1.5	6.9	1.5	6.9
Total investment (% YoY, average)	3.7	3.6	1.6	-0.2	0.6	-9.4	11.7	-7.7	-5.8
Exports (YoY in %)	3.8	2.7	6.2	1.2	5.1	-22.6	19.2	-17.9	4.5
Imports (YoY in %)	5.5	4.4	3.5	2.0	4.7	-23.4	24.8	-17.5	1.8
Unemployment rate (%, last quarter)	5.1	4.7	4.4	4.0	3.8	6.5	4.4	6.4	8.3
Inflation (% YoY, last quarter)	0.5	1.8	2.7	2.0	1.3	0.3	1.7	0.4	-0.1
Fiscal balance (% of GDP)	-4.5	-3.2	-2.4	-2.2	-2.1	-14.4	-3.4	-14.0	-8.2
Primary fiscal balance (% of GDP)	-1.8	-0.4	0.6	0.6	0.4	-12.2	-1.2	-11.8	-5.8
Trade balance (% of GDP)	-6.1	-6.7	-6.6	-6.5	-5.9	-5.1	-5.0	-4.5	-3.3
Current account balance (% of GDP)	-4.9	-5.2	-3.5	-3.8	-3.8	-3.1	-3.7	-3.3	-2.0
Official interest rate (end of period)	0.50	0.25	0.50	0.75	0.75	0.10	0.10	0.10	0.10
3-month interest rate (end of period)	0.59	0.37	0.52	0.91	0.79	0.20	0.20	0.07	0.06
10-year interest rate (end of period)	2.02	1.28	1.25	1.33	0.91	0.35	0.64	-0.64	-0.12
Exchange rate vs. USD (end of period)	1.48	1.23	1.35	1.28	1.32	1.26	1.29	1.31	1.34
Exchange rate vs. euro (end of period)	1.36	1.17	1.13	1.11	1.18	1.12	1.13	1.15	1.17
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	2.9	4.0	3.9	3.7	3.6	1.7	2.1	1.7	0.1
P.S. non-financial lending (% YoY, average)	-1.9	6.2	9.5	5.6	-0.5	21.7	9.9	3.0	1.8
P.S. financial lending (% YoY, average)	-13.9	7.3	9.4	5.6	3.0	2.2	5.3	2.2	4.4
Savings rate (as % pers. disp. income, avg.)	10.0	7.2	5.3	5.8	5.7	16.6	7.9	13.1	16.5

Source: MAPFRE Economics (based on data from the Office for National Statistics)
Forecast end date: July 7, 2020.

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June 30 to do. Negotiations with the EU on the terms of the agreement remain complex, so the "agreement/non-agreement" uncertainty that has been ongoing since 2016 continues. Meanwhile, the UK released its new UK Global Tariff on May 19; this system will replace the EU's Common External Tariff on January 1, 2021 (end of the transition period). Regardless of the final Brexit agreement, the British economy will surely be impacted by the end of the tariff regime with its main trading partner, the EU; an effect that will, however, be smaller than the impact of the pandemic, but which will worsen it. The exchange rate of the pound may continue to suffer, and it can no longer be taken for granted that a weakening of the currency will be fully offset by increased exports, which will surely lead to higher inflation.

1.2.7 Japan

Japan faces possible depression with deflation

- **The government would consider an increase in stimuli if the current plan turns out to be insufficient.**
- **Japan's GDP is expected to contract by -6.0% in 2020.**
- **The Bank of Japan has adopted unlimited asset purchases in order to control the interest rate curve.**
- **Despite this, further deflation is expected in 2020.**

Japan's economy is already in recession, as GDP contracted in the first quarter of the year, for the second consecutive quarter (-0.6% QoQ, -1.9% YoY SAAR, -1.7% YoY NSA), weighed down: first, due to exports as a result of the shock of COVID-19 that impacted on value chains; second, incipiently, but also severely, due to the contraction in consumption as suppression measures progressed, and, third, due to the sharp drop in investment, dragged down by a visible deterioration in expectations and a reduction in income. Contraction reached a high during the second quarter of the year, for which we have no data as of yet but for which we do have high-frequency indicators, such as the Coincident Indicator components, which show that in April and May the declines got worse (industrial production -15.0%, shopping mall sales -71.6%, wholesale sales -17.2%). Expectations continue to deteriorate, so it is expected that the third quarter will only show a marginal improvement (negative consumer sentiment and PMIs still in contraction). Given the evidence that the economic slowdown is getting worse and recovery is slower than originally anticipated, we have revised our growth forecast for 2020 to -6.0%, from -4.8% in our previous forecast (see Table 1.2.7 and Charts 1.2.7-a and 1.2.7-b).

In this context of sluggish activity, inflation has weakened further (0.1% in May), and we estimate that it will deflate in the following quarters of the year (-0.5% average for the year, -0.8% in the fourth quarter).

At its June meeting, the Bank of Japan kept interest rates at -0.10%, with its sights set on the aim of keeping the curve under control. It will buy an unlimited number of treasury bonds to ensure that 10-year JGB (Japanese Government Bond) yields remain around 0%. In addition, it has announced that it is willing to buy exchange-traded funds (ETFs) and real estate investment trusts in Japan (J-REIT), so that its amounts outstanding increase at annual rates with the upper limit of about 12 trillion yen and some 180 billion yen, respectively. As for commercial paper and corporate bonds, the Bank will maintain its amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of March 2021, it will undertake additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

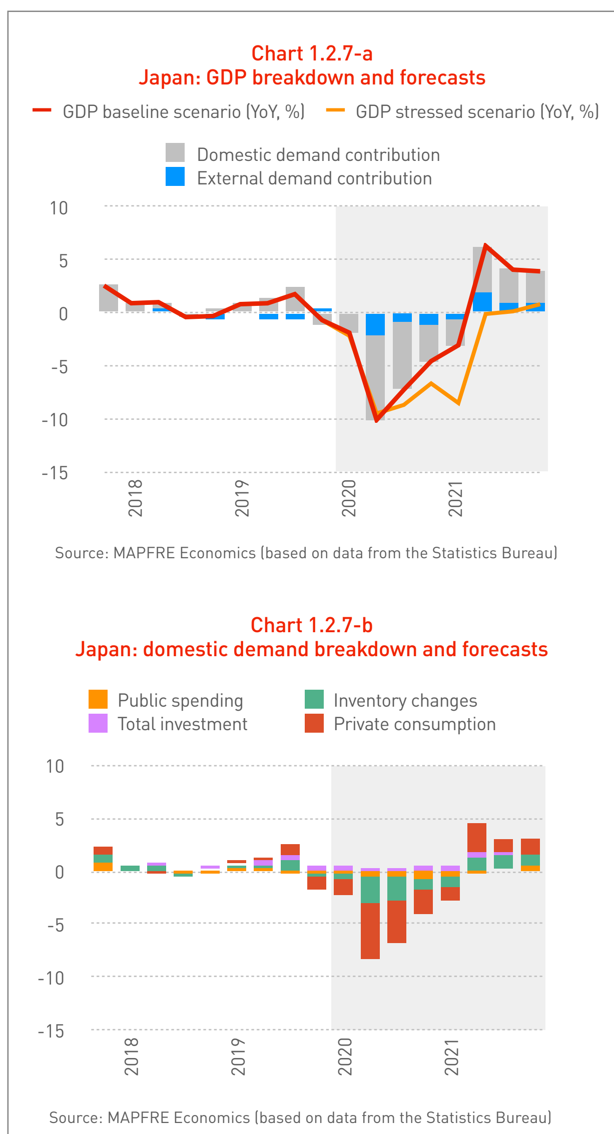

Chart 1.2.7-a
Japan: GDP breakdown and forecasts

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

Chart 1.2.7-b
Japan: domestic demand breakdown and forecasts

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

Table 1.2.7
Japan: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	Baseline (baseline scenario) 2020(f)	Baseline (baseline scenario) 2021(f)	Stressed (stressed scenario) 2020(f)	Stressed (stressed scenario) 2021(f)
GDP (% YoY, average)	1.3	0.5	2.2	0.3	0.7	-6.0	2.8	-6.8	-1.9
Domestic demand contribution	0.9	-0.1	1.6	0.3	0.9	-4.9	2.0	-5.9	-1.4
External demand contribution	0.4	0.6	0.6	0.0	-0.2	-1.1	0.8	-0.9	-0.5
Private consumption contribution	-0.1	-0.2	0.8	-0.0	0.1	-3.2	1.1	-3.5	-1.3
Total investment contribution	0.4	-0.1	0.7	0.1	0.3	-1.6	0.7	-1.8	-0.7
Public spending contribution	0.3	0.3	0.0	0.2	0.4	0.4	0.3	0.4	0.3
Private consumption (% YoY, average)	-0.2	-0.3	1.3	-0.0	0.2	-5.8	1.9	-6.3	-2.4
Public consumption (% YoY, average)	1.5	1.4	0.1	0.9	1.9	1.9	1.3	1.9	1.3
Total investment (% YoY, average)	1.7	-0.3	3.0	0.6	1.3	-6.5	2.9	-7.6	-3.1
Exports (YoY in %)	3.0	1.7	6.8	3.5	-1.6	-18.1	12.1	-22.3	2.7
Imports (YoY in %)	0.7	-1.6	3.4	3.7	-0.6	-11.8	5.4	-16.8	4.7
Unemployment rate (%, last quarter)	3.3	3.0	2.7	2.4	2.3	3.0	2.3	3.1	3.7
Inflation (% YoY, last quarter)	0.2	0.3	0.6	0.9	0.5	-1.1	0.2	-1.5	-2.8
Fiscal balance (% of GDP)	-3.6	-3.5	-3.0	-2.4	-2.7	-12.6	-8.8	-12.8	-10.5
Primary fiscal balance (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance (% of GDP)	-0.2	1.0	0.9	0.2	0.1	-0.1	0.2	-0.0	0.1
Current account balance (% of GDP)	3.1	3.9	4.2	3.6	3.6	2.6	3.6	2.8	3.6
Official interest rate (end of period)	0.04	-0.06	-0.06	-0.06	-0.07	-0.06	-0.05	-0.05	-0.05
3-month interest rate (end of period)	0.08	-0.05	-0.02	-0.07	-0.05	-0.07	-0.06	-0.07	-0.06
10-year interest rate (end of period)	0.27	0.04	0.05	0.01	-0.02	-0.09	-0.06	-0.11	-0.06
Exchange rate vs. USD (end of period)	120.50	116.80	112.90	110.83	109.12	106.00	106.00	104.00	105.10
Exchange rate vs. euro (end of period)	131.19	123.12	135.40	126.90	122.59	119.78	120.84	117.95	120.10
Private lending (% YoY, average)	2.0	2.2	4.2	2.9	2.4	5.4	1.9	4.4	-5.1
Household lending (% YoY, average)	1.1	1.3	2.2	2.8	1.7	0.0	-0.0	0.0	-0.9
P.S. non-financial lending (% YoY, average)	0.4	1.8	2.4	1.9	3.8	1.9	1.3	1.9	1.2
P.S. financial lending (% YoY, average)	7.8	-0.2	8.0	5.9	2.3	2.0	1.7	2.1	2.0
Savings rate (as % pers. disp. income, avg.)	1.2	2.9	2.5	4.3	4.9	9.2	7.0	10.1	10.5

Source: MAPFRE Economics (based on data from the Statistics Bureau)
Forecast end date: July 7, 2020.

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Support for Prime Minister Shinzō Abe has declined due to dissatisfaction with his handling of the pandemic, his attempt to extend the retirement age of senior prosecutors, the arrest of a former justice minister and suspicions of a waste of public spending on programs to support tourism and small businesses. Amid increasing damage to his popularity, it has been speculated that Abe could call early elections before September, which is when his term ends. The government is expected to prepare a large-scale economic stimulus package this fall to support growth.

The main risk in sight is now that the recession is deep, with structural damage to the economy and deflation that seems inevitable, despite all the stimuli from both the central bank and the government.

1.2.8 Turkey

Reopening of the economy alongside an outbreak of infections

- **The growth estimate for the Turkish economy has been revised downward to -4.6% in 2020.**
- **Net capital outflows have brought the lira closer to 7.0 TRY/USD.**
- **High-frequency indicators show that the return to normality will be slow.**

In the first quarter of the year, the Turkish economy showed some resilience, with growth of 0.6% QoQ, although in year-on-year terms it benefited from the base effect (+4.5% YoY in the first quarter of 2020 vs. -2.3% in the same period of the previous year) and some carry over of demand, both public and private. The high-frequency indicators, however, show a mixed picture: a sharp contraction in domestic demand stemming from the COVID-19 restrictions on demand in April and May, followed by a strong recovery when lockdown was lifted in June. Since a reintroduction of lockdown measures cannot be ruled out as outbreaks multiply, we anticipate a GDP contraction of close to -4.6% in 2020, which is a substantial downward revision compared to the estimate from our previous report which was -1.2% (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b).

Despite the sluggish demand and the abrupt correction in crude oil prices, inflation remains far from the target of the central bank (CBRT), reaching 11.4% in May. The main cause is the pass-through which weakens its currency, which was around, on average, 7 TRY/USD during the quarter, as a consequence of the contraction of the financial account of the balance of payments, basically due to portfolio investment outflows. Domestic vulnerabilities are one element to be considered when establishing for how long the Lira will remain depressed.

On June 25, the CBRT reduced its 1-week repo rate by 25 basis points to 8.00%, entering the territory of negative real interest rates. The central bank is not expected to be able to lower interest rates any further due to the risks to financial stability and capital outflows, putting more pressure on currency (reserves have been significantly depleted) and on inflation.

The risks in the coming months lie mainly in how the pandemic will evolve as movement restrictions are lifted and as activity resumes, especially tourism, which is one of the major contributors to Turkish GDP. Furthermore, there is the challenge of stabilizing the economy in the face of the growth of the money supply and inflation, given the strong dependence of the corporate sector on external debt in dollars.

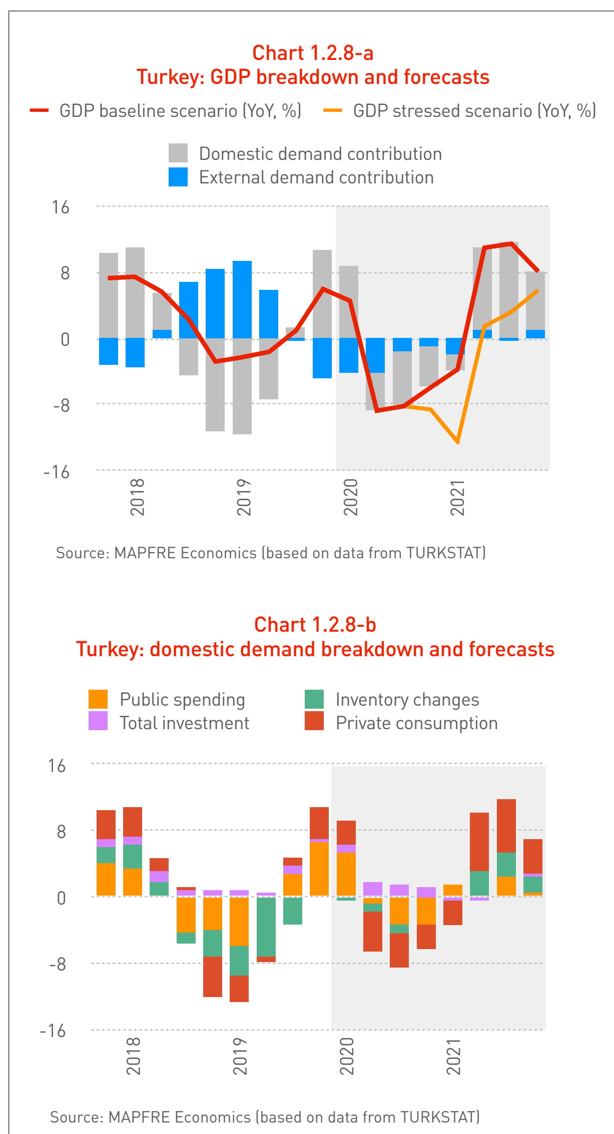

Table 1.2.8
Turkey: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	Baseline (baseline scenario) 2020(f)	Baseline (baseline scenario) 2021(f)	Stressed (stressed scenario) 2020(f)	Stressed (stressed scenario) 2021(f)
GDP (% YoY, average)	6.0	3.3	7.4	3.1	0.8	-4.6	6.7	-5.2	-0.5
Domestic demand contribution	5.5	4.6	7.1	-0.0	-1.8	-1.9	6.7	-2.7	0.1
External demand contribution	0.5	-1.3	0.3	3.2	2.5	-2.7	0.0	-2.6	-0.6
Private consumption contribution	3.4	2.2	3.8	0.3	0.3	-2.2	3.7	-2.8	-1.0
Total investment contribution	2.7	0.7	2.4	0.0	-3.6	-0.6	2.0	-0.7	0.3
Public spending contribution	0.5	1.3	0.7	0.9	0.6	1.4	-0.1	1.4	-0.4
Private consumption (% YoY, average)	5.5	3.6	6.2	0.4	0.6	-3.7	6.2	-4.9	-1.6
Public consumption (% YoY, average)	3.5	9.8	5.2	6.6	4.6	9.6	-0.8	9.4	-2.5
Total investment (% YoY, average)	9.1	2.4	8.2	0.1	-12.2	-2.4	7.8	-2.7	1.3
Exports (YoY in %)	4.3	-1.7	12.0	7.6	6.6	-13.7	15.2	-14.3	4.9
Imports (YoY in %)	1.8	3.7	10.2	-6.3	-2.3	-3.0	16.7	-3.9	8.3
Unemployment rate (%, last quarter)	10.5	12.1	10.3	12.3	13.3	15.0	11.9	15.5	13.9
Inflation (% YoY, last quarter)	8.8	8.5	11.9	20.3	11.8	9.6	9.0	9.5	5.7
Fiscal balance (% of GDP)	-1.1	-1.3	-1.6	-1.9	-2.9	-5.4	-2.8	-5.6	-4.5
Primary fiscal balance (% of GDP)	1.2	0.7	0.2	0.0	-0.6	-2.3	0.3	-2.5	-0.8
Trade balance (% of GDP)	-5.7	-4.6	-6.9	-5.2	-2.2	-2.6	-3.1	-2.3	-2.7
Current account balance (% of GDP)	-3.2	-3.1	-4.8	-2.7	1.2	-2.2	-2.6	-2.0	-3.0
Official interest rate (end of period)	8.81	8.31	12.75	24.06	11.43	7.50	9.75	6.03	6.00
3-month interest rate (end of period)	11.47	9.90	14.61	24.07	10.76	7.55	9.80	6.64	7.08
10-year interest rate (end of period)	10.74	11.40	11.72	16.53	11.95	11.06	11.20	13.50	11.93
Exchange rate vs. USD (end of period)	2.92	3.52	3.79	5.29	5.95	6.84	7.14	7.29	7.32
Exchange rate vs. euro (end of period)	3.18	3.71	4.55	6.06	6.68	7.73	8.14	7.91	8.48
Private lending (% YoY, average)	22.9	13.1	20.9	20.2	8.5	20.2	7.5	20.5	6.2
Household lending (% YoY, average)	12.5	7.1	17.5	9.8	3.3	13.9	8.2	14.1	7.4
P.S. non-financial lending (% YoY, average)	29.9	14.7	24.3	20.9	5.4	-11.7	22.9	-12.3	8.1
P.S. financial lending (% YoY, average)	26.4	9.0	27.2	25.1	18.3	12.5	16.8	11.7	8.9
Savings rate (as % pers. disp. income, avg.)	28.3	32.8	30.9	30.0	28.6	27.3	28.1	28.1	30.5

Source: MAPFRE Economics (based on data from TURKSTAT)
Forecast end date: July 7, 2020.

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1.2.9 Mexico

The dependence on oil, tourism and American demand will have an influence.

- **The recession will deepen and the Mexican economy is forecast to drop by -10.5% in 2020.**
- **Lower external demand, especially from the United States, will affect exports.**
- **The low price of oil reduces tax revenues, limiting the margin for possible fiscal stimuli.**
- **The spread of the virus is still in the expansion phase, so returning to normality will be slow and risky.**

The Mexican economy contracted -1.4% YoY in the first quarter of the year (-1.2% QoQ), which signaled the fourth consecutive quarter of negative growth. In the first quarter, private consumption had already fallen when the pandemic was just starting (-1.3% YoY), so a much more pronounced drop is expected in the second quarter as a result of the lockdown. Investment is still not looking up and the outlook is still not good, at least for 2020. Exports fell 2.6% in the first quarter and may fall up to 15% in the second.

The effect of the shutdown of activity as a result of lockdown measures, the divergences between the government and businesses, the effect of the pandemic on the tourism sector and on the oil sector, will make 2020 an especially difficult year for the Mexican economy. Oil prices have picked up reaching 40 US dollars/bl (Brent), but are still 30% below 2019 levels. Due to the structure of oil production in Mexico, income from the sale of crude oil plays an especially important role in the government's budget.

Furthermore, the global economic activity index (GEAI) for April fell 17.3% compared to March, and 19.7% compared to the same month of the previous year. Industrial production fell 29.3% YoY in April, and new industrial orders have also fallen sharply. The PMIs (purchasing managers' index) for May are still depressed, indicating that the trend is still worsening (39.2 points for manufacturing and 38.0 for non-manufacturing). The entry into force of the new trade agreement between Mexico, the United States and Canada (successor to NAFTA) may have positive effects for the Mexican economy in the medium- and long-term, but it will hardly change the foreseeable dynamics of the recovery in the short-term.

Unlike the main economies of the world, the Mexican government has provided emergency support funds close to just 0.7% of GDP, an amount that has not proved sufficient to boost growth, while continuing to adopt a stance of fiscal austerity and limitation of debt levels. Thus, there are three reasons why it is foreseeable that the recession of the Mexican economy will deepen: lower oil revenues, reduced economic activity and reduced exports due to lower external demand. Accordingly, we have revised our estimate of GDP growth in 2020 to a contraction of -10.5% (from -3.9% from our base forecast in the previous report) and with a relatively slower recovery (4.4% in 2021), both due to the lack of visibility in terms of the normalization of oil prices and due to a slow return to normality (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

Furthermore, in May inflation stood at 2.84%, showing a slight upturn from 2.15% in April, with core inflation standing at 3.64%. The trend will now be subject to various conflicting forces. On the one hand, there is the devaluation of the currency and the recovery of oil prices (which have an inflationary effect) and, on the other, there is the lower demand (as a consequence of the shock due to the shutdown of the economy) along with

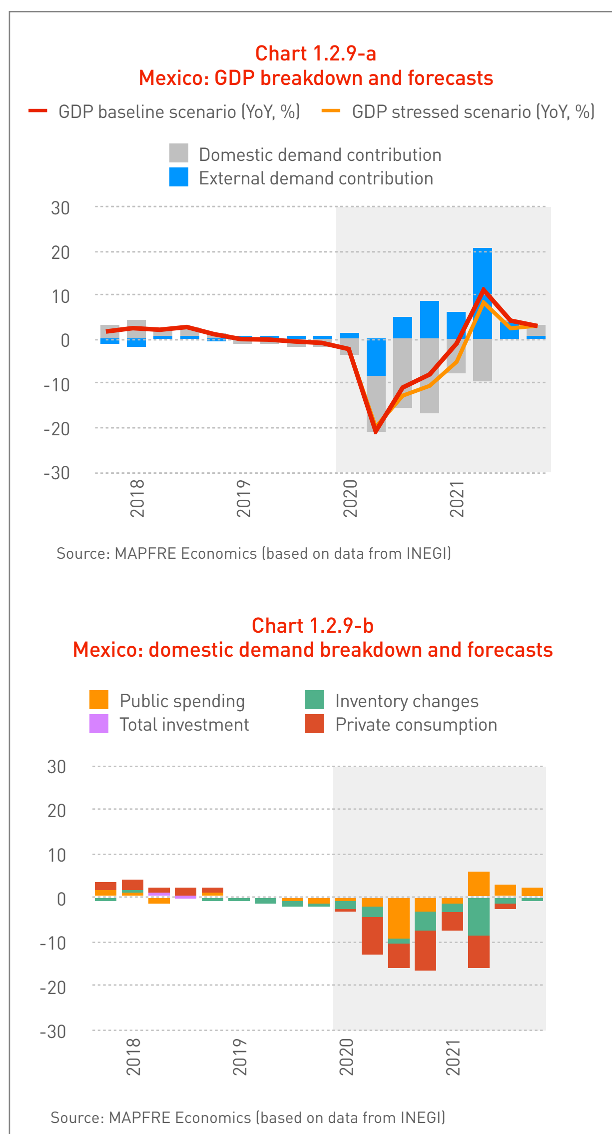

Chart 1.2.9-a
Mexico: GDP breakdown and forecasts

Source: MAPFRE Economics (based on data from INEGI)

Chart 1.2.9-b
Mexico: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on data from INEGI)

Table 1.2.9
Mexico: main macroeconomic aggregates

						Baseline (baseline scenario)		Stressed (stressed scenario)	
	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)	2020(f)	2021(f)
GDP (% YoY, average)	3.3	2.4	2.3	2.2	-0.3	-10.5	4.4	-11.3	2.2
Domestic demand contribution	2.5	2.0	3.3	2.2	-1.1	-12.1	-3.7	-8.2	-9.8
External demand contribution	0.8	0.4	-0.9	-0.0	0.8	1.6	8.1	-3.1	12.0
Private consumption contribution	1.8	2.3	2.3	1.6	0.4	-6.0	-3.2	-5.4	-1.8
Total investment contribution	1.1	0.2	-0.3	0.2	-1.0	-2.5	-3.1	-1.9	-0.6
Public spending contribution	0.2	0.3	0.1	0.4	-0.2	0.1	0.2	0.1	0.2
Private consumption (% YoY, average)	2.7	3.5	3.5	2.3	0.6	-8.8	-4.5	-7.9	-2.7
Public consumption (% YoY, average)	1.9	2.6	0.7	3.0	-1.5	0.5	1.4	0.5	1.4
Total investment (% YoY, average)	5.1	1.1	-1.5	0.9	-5.0	-13.0	-15.0	-10.1	-3.0
Exports (YoY in %)	8.6	3.6	4.3	5.9	1.2	-6.2	5.0	-7.8	-3.6
Imports (YoY in %)	6.0	2.3	7.0	5.9	-1.0	-18.4	-7.2	-16.0	-17.5
Unemployment rate (%, last quarter)	4.2	3.5	3.3	3.3	3.4	5.7	5.1	5.2	8.4
Inflation (% YoY, last quarter)	2.1	3.4	6.8	4.8	2.8	3.4	3.6	3.0	0.9
Fiscal balance (% of GDP)	-3.4	-2.5	-1.1	-2.0	-1.7	-3.9	-5.2	-3.8	-6.0
Primary fiscal balance (% of GDP)	-1.2	-0.1	1.4	0.6	1.1	-0.3	-1.4	-0.3	-1.8
Trade balance (% of GDP)	-1.2	-1.2	-0.9	-1.1	0.4	4.2	9.0	1.5	7.3
Current account balance (% of GDP)	-2.6	-2.3	-1.8	-2.1	-0.3	2.5	7.8	-0.1	5.8
Official interest rate (end of period)	3.25	5.75	7.25	8.25	7.25	2.11	3.79	2.25	1.25
3-month interest rate (end of period)	3.58	6.19	7.66	8.63	7.45	2.93	2.53	2.89	2.18
10-year interest rate (end of period)	6.28	7.42	7.66	8.70	6.84	5.30	6.54	7.82	7.21
Exchange rate vs. USD (end of period)	17.20	20.74	19.67	19.65	18.93	24.23	22.28	24.80	22.77
Exchange rate vs. euro (end of period)	18.73	21.86	23.59	22.50	21.26	27.32	25.24	28.01	25.99
Private lending (% YoY, average)	13.6	16.3	12.1	10.4	8.9	-2.9	6.9	-1.1	-0.2
Household lending (% YoY, average)	8.4	12.8	10.0	8.4	6.2	5.8	7.8	5.5	7.3
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	-11.4	3.5	1.7	-0.8	6.2	7.6	11.6	10.1	5.7
Savings rate (as % pers. disp. income, avg.)	14.6	12.8	10.7	12.5	16.5	23.7	24.2	23.4	23.2

Source: MAPFRE Economics (based on data from INEGI)
Forecast end date: July 7, 2020.

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some slack in production capacity (which have a deflationary effect). Thus, inflation is expected to be close to 3.4% at the end of the year. However, inflation is expected to remain moderate, since this crisis has affected employment and, therefore, has affected the purchasing power of consumers.

The Board of Governors of the Bank of Mexico, at its meeting on June 25, lowered the benchmark interest rates by 50 basis points, placing them at 5.00%. If inflation remains moderate, as everything seems to indicate, the central bank could continue lowering interest rates, but it will have to carefully assess the effect of this measure on the behavior of the exchange rate. At the end of June, the peso had recovered slightly hovering at around 23 MXN/USD, after trading at levels of 24.0–25.0 MXN/USD in the first quarter of the year.

The Mexican economy faces a risk that may well be greater than other countries, as its fiscal revenues depend largely on oil revenues, and it has little room for fiscal stimuli. Furthermore, if it fails to sustain fiscal revenues and/or substantially increase its debt level, rating agencies could remove the 'investment grade' status that it currently holds.

1.2.10 Brazil

Economic expectations are worsened by the fact that the pandemic is not under control

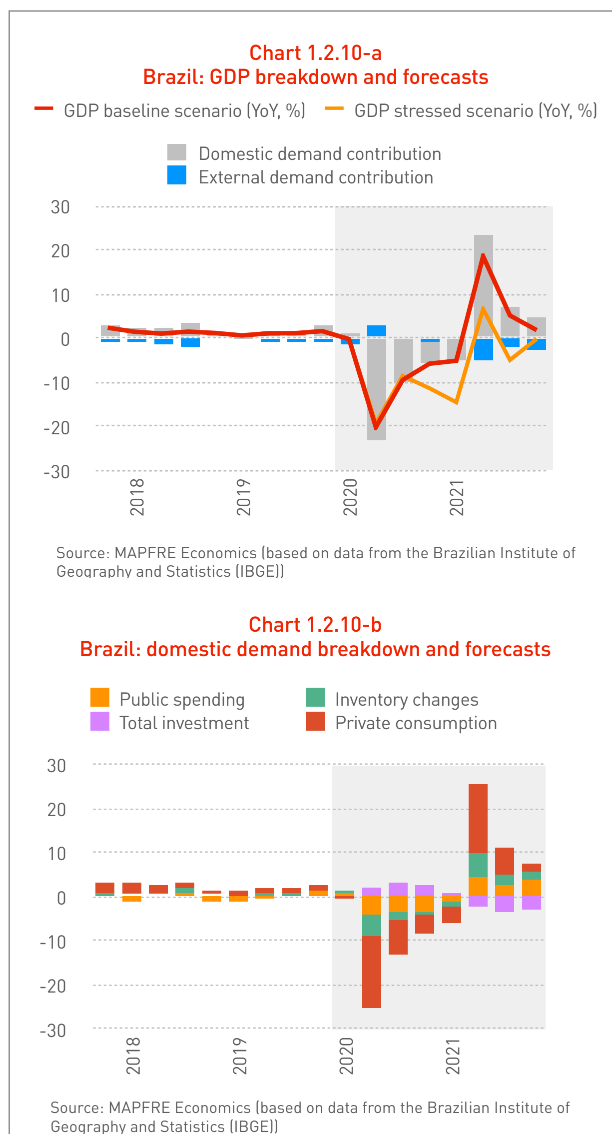
The COVID-19 pandemic in Brazil has sped up a process that was already taking place at the beginning of the year, as the Brazilian economy was entering a recession for reasons related to the current economic management. COVID-19 has been more severe than in other regions and the cost of its mitigation has been even higher given the capacity of the health system and the initial errors in social policy. After a first decline of -0.3% YoY, a very severe contraction in activity is expected due to suppression measures, which places GDP growth at -8.9% throughout 2020 and poses difficulties in activating a rapid recovery (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b). Forward indicators, specifically the May Purchasing Managers' Index (PMI), appear to have bottomed out, but continue to show prospects of worsening, with the composite PMI at 28.1 points, the manufacturing PMI at 38.3 and the services PMI at 27.6, all of which are still in the zone of economic contraction.

- **Brazil's GDP growth estimate has been revised downward to -8.9% in 2020.**
- **The government activated a fiscal support package equivalent to 5.6% of GDP.**
- **A reactivation is still expected in the second quarter of the year, but it will be smaller and slower than anticipated due to the difficulty in controlling the pandemic and the permanent damage it has caused.**

Furthermore, inflation in May stood at 1.9% and expectations indicate that it will remain low for the coming quarters. In the face of the economic emergency, on June 17, the Brazilian Central Bank lowered the Selic interest rate by 75 basis points to 2.25%, when the COVID-19 crisis is not yet under control. With inflation slowing down and with the reversal of global flows slightly easing pressure on the Real (see Box 1.1.1-a), the central bank is expected to be able to introduce additional cuts.

The government has launched a special budget that amounts to 5.6% of GDP to fight the economic effects of the pandemic. The increase in spending, together with the fall in GDP, may place the fiscal deficit at around 16%, and the total government debt may reach 91% of GDP. The

Chart 1.2.10-a
Brazil: GDP breakdown and forecasts



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

Chart 1.2.10-b
Brazil: domestic demand breakdown and forecasts

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

Table 1.2.10
Brazil: main macroeconomic aggregates

						Baseline (baseline scenario)		Stressed (stressed scenario)	
	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)	2020(f)	2021(f)
GDP (% YoY, average)	-3.6	-3.3	1.3	1.3	1.1	-8.9	5.1	-9.8	-3.2
Domestic demand contribution	-7.1	-5.2	1.7	2.1	1.7	-9.3	7.6	-11.1	-2.7
External demand contribution	3.6	1.9	-0.4	-0.8	-0.6	0.4	-2.5	1.3	-0.5
Private consumption contribution	-2.2	-2.6	1.3	1.4	1.3	-7.2	4.9	-8.8	-2.8
Total investment contribution	-2.9	-2.3	-0.4	0.6	0.4	-1.7	2.1	-1.9	-0.6
Public spending contribution	-0.2	0.0	-0.1	0.1	-0.1	2.1	-1.9	2.1	-1.9
Private consumption (% YoY, average)	-3.2	-3.8	2.0	2.1	1.8	-10.3	7.2	-12.6	-3.9
Public consumption (% YoY, average)	-1.4	0.2	-0.7	0.4	-0.4	12.2	-8.0	12.2	-8.0
Total investment (% YoY, average)	-14.0	-11.9	-2.5	3.9	2.3	-9.9	13.6	-11.1	-2.9
Exports (YoY in %)	6.9	1.0	5.3	3.3	-2.4	-4.2	3.1	-4.8	-5.5
Imports (YoY in %)	-14.1	-9.7	7.3	7.6	1.2	-13.0	14.8	-14.7	3.9
Unemployment rate (%, last quarter)	8.9	12.0	11.8	11.6	11.0	13.4	10.9	14.6	16.9
Inflation (% YoY, last quarter)	10.7	6.3	2.9	3.7	4.3	1.2	3.1	1.7	0.1
Fiscal balance (% of GDP)	-10.2	-9.0	-7.8	-7.1	-5.9	-15.4	-8.3	-16.0	-11.2
Primary fiscal balance (% of GDP)	-1.9	-2.5	-1.7	-1.6	-0.9	-10.1	-3.8	-10.5	-6.7
Trade balance (% of GDP)	1.0	2.5	3.1	2.8	2.2	2.6	1.8	2.8	1.3
Current account balance (% of GDP)	-3.0	-1.3	-0.7	-2.2	-2.7	-0.9	-2.5	-0.8	-3.7
Official interest rate (end of period)	14.25	13.75	7.00	6.50	4.50	1.50	3.00	0.55	0.00
3-month interest rate (end of period)	14.15	13.65	6.90	6.40	4.40	1.40	2.90	1.44	2.85
10-year interest rate (end of period)	16.10	11.36	10.24	9.28	6.86	6.23	6.50	9.18	7.82
Exchange rate vs. USD (end of period)	3.90	3.26	3.31	3.87	4.03	4.88	4.44	5.06	4.51
Exchange rate vs. euro (end of period)	4.25	3.43	3.97	4.44	4.53	5.51	5.06	5.74	5.15
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	10.2	4.4	4.7	7.0	10.8	10.7	14.6	10.6	8.8
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (as % pers. disp. income, avg.)	18.5	17.2	17.4	16.1	15.8	23.6	21.3	24.6	25.5

Source: MAPFRE Economics (based on data from the Brazilian Institute of Geography and Statistics (IBGE))
Forecast end date: July 7, 2020.

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current account stood at -2.6% in May, but a weaker currency and eventual capital outflows will surely force the current account balance to enter positive territory in the second quarter, with exports on the rise and imports on the decline.

In terms of risks for the Brazilian economy, the risk of political instability is high due to the lack of consensus among the president, state governors and other politicians regarding how to deal with the pandemic. There is also a high risk that the pandemic will get out of control, as infections are still trending upward. When this unprecedented situation comes to an end, Brazil will have to resume its agenda of structural reforms that are still pending.

1.2.11 Argentina

Debt restructuring agreement pending

- **The growth expectation of the Argentine economy in 2020 has been revised to -9.5%.**
- **Argentine currency loses its level of 69 ARS/USD.**
- **Debt forgiveness will place the recovery of the value of bonds between 45% and 55%.**

Argentina is, by far, the country in the world where lockdown has been most restrictive and long-lasting, stretching all recovery prospects over a longer horizon. Data for the first quarter show a decline of -11.5% YoY and, although there are no data yet for the second quarter, extreme lockdown measures, a shortage of liquidity in dollars and uncertainty all guarantee a strong contraction.

Prospects for Argentina's economy remain poor given that it is not starting from a good place, with activity levels matching those of 2010 and greater domestic uncertainty in light of debt negotiations. With activity reopening very slowly, the economy will be even more affected, while fiscal restrictions due to its sovereign debt default situation limit a possible response in the form of government economic support. Therefore, we have revised our GDP estimate for 2020 downward to -9.5%, in light of the greater depth and duration of the crisis (see Table 1.2.11 and Charts 1.2.11-a and 1.2.11- b).

External financing difficulties and decreasing reserves will manifest themselves in the current account balance, which may reflect a severe adjustment and enter positive territory as early as the second quarter of the year. This, however, will not mitigate the deterioration in the exchange rate, which is now influenced by financing difficulties. The Central Bank's benchmark interest rate (7-day LELIQ) has stabilized at 38% (real rate in negative terrain at -1%), which hardly leaves room for further decreases. Furthermore, official rates must be kept at these levels so as not to adversely affect the exchange rate.

With a monetary base (M2) that has doubled compared to the previous year (100% growth), and restrictions on access to the official dollar market due to the low level of reserves and the use of parallel dollar markets (which may make imports more expensive), inflation will remain high. In May, it stood at 39.2%, exacerbated by the continuous currency depreciation that surpassed the level of 69 ARS/USD in June. Inflation is expected to be around 41% by the end of the year. With foreign bond markets closed, Treasury financing by the Central Bank seems to be the main alternative.

Argentina is officially in default after the coupon grace period expired, which has caused a cross-default on all foreign-law bonds for 66 billion US

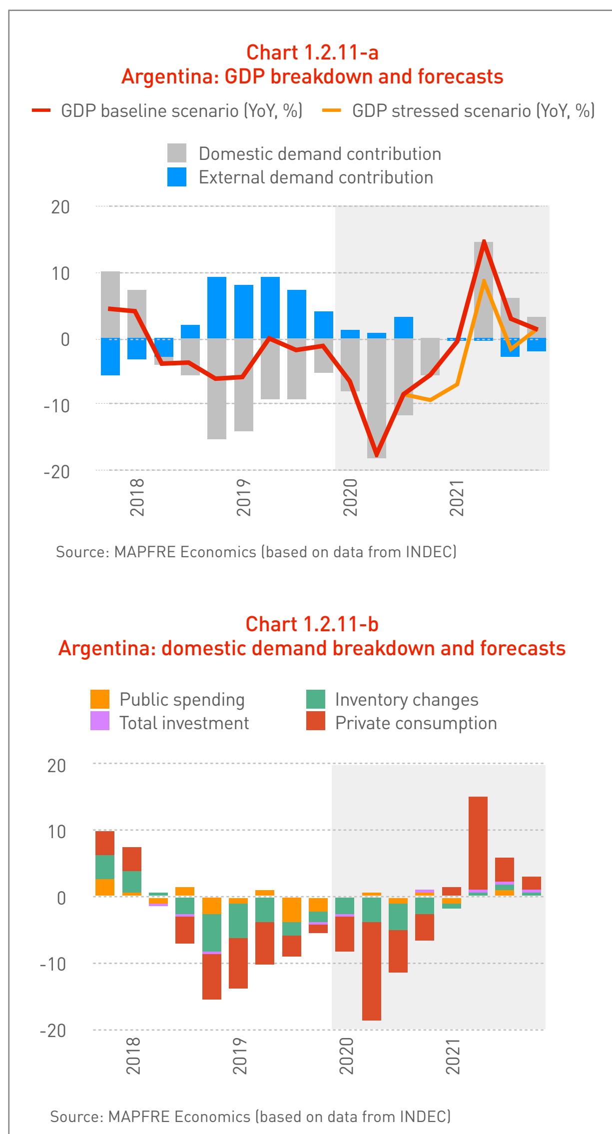

Chart 1.2.11-a
Argentina: GDP breakdown and forecasts

Source: MAPFRE Economics (based on data from INDEC)

Chart 1.2.11-b
Argentina: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on data from INDEC)

Table 1.2.11
Argentina: main macroeconomic aggregates

						Baseline (baseline scenario)		Stressed (stressed scenario)	
	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)	2020(f)	2021(f)
GDP (% YoY, average)	2.7	-2.0	2.7	-2.4	-2.2	-9.5	4.6	-10.4	0.4
Domestic demand contribution	4.4	-1.6	6.4	-3.6	-9.5	-10.8	5.9	-11.9	-2.8
External demand contribution	-1.7	-0.4	-3.7	1.3	7.3	1.3	-1.3	1.5	3.2
Private consumption contribution	2.5	-0.5	2.9	-1.7	-4.7	-7.8	5.3	-8.8	-1.3
Total investment contribution	0.7	-1.1	2.3	-1.1	-3.1	-3.2	0.2	-3.3	-1.9
Public spending contribution	0.9	-0.1	0.4	-0.4	-0.2	0.0	0.3	0.0	0.3
Private consumption (% YoY, average)	3.7	-0.7	4.0	-2.5	-6.1	-11.0	7.8	-12.4	-1.6
Public consumption (% YoY, average)	6.9	-0.5	2.7	-3.2	-1.5	-0.0	2.3	-0.0	2.3
Total investment (% YoY, average)	3.4	-5.7	12.0	-4.5	-15.5	-18.4	1.5	-19.1	-12.4
Exports (YoY in %)	-2.8	6.0	1.7	-0.4	9.5	-12.3	14.9	-12.8	8.6
Imports (YoY in %)	4.9	6.1	15.3	-3.8	-18.2	-20.7	11.3	-21.8	-1.4
Unemployment rate (%, last quarter)	7.0	7.6	7.2	9.1	8.9	9.8	8.7	10.4	11.5
Inflation (% YoY, last quarter)	26.0	37.5	23.3	47.4	52.2	40.5	30.1	40.4	26.1
Fiscal balance (% of GDP)	-5.9	-5.8	-5.9	-5.0	-3.8	-6.9	-4.1	-7.1	-5.6
Primary fiscal balance (% of GDP)	-3.9	-4.2	-3.8	-2.3	-0.4	-3.7	-0.7	-3.9	-2.6
Trade balance (% of GDP)	-0.1	0.8	-0.8	-0.1	4.0	5.2	5.8	5.3	5.1
Current account balance (% of GDP)	-2.7	-2.7	-4.9	-5.0	-0.8	0.3	0.2	0.2	-1.6
Official interest rate (end of period)	33.00	24.75	28.75	59.25	55.00	30.00	22.26	29.99	17.20
3-month interest rate (end of period)	23.50	26.23	27.44	56.76	45.13	25.00	20.03	25.17	14.82
10-year interest rate (end of period)	6.65	7.00	5.91	10.86	19.36	8.17	7.13	16.33	14.44
Exchange rate vs. USD (end of period)	13.04	15.89	18.65	37.70	59.89	79.93	101.68	86.01	104.71
Exchange rate vs. euro (end of period)	14.20	16.75	22.37	43.17	67.28	90.32	115.92	97.17	119.53
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY,	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (as % pers. disp. income, avg.)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: MAPFRE Economics (based on data from INDEC)
Forecast end date: July 7, 2020.

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dollars. The government is working on the final offer to bondholders, but warned that any room for improvement is limited. It remains to be seen whether the new proposal will close the gap between the hopes of most bondholders who are pushing for a recovery in the 53%-55% range and the government's initial proposal of 45%. The difference between the parties seems small, but, ultimately, it comes down to a political decision by President Alberto Fernández, who has repeatedly expressed his willingness to reach a solution quickly but one that makes the debt sustainable. Fernández would need to gain 85% agreement to the CACs (Collective Action Clauses – Group of Bondholders) for the K bonds (issued in the Kirchner era), and 66% for the M bonds (Macri-era bonds); otherwise, the dispute would end up in the New York courts.

1.2.12 China

A cautious resumption of economic activity

- **A somewhat more optimistic growth in the Chinese economy is expected in the second quarter due to the rapid return to activity.**
- **The government's fiscal support package amounts to 8.4% of GDP; if extra-budgetary items are included, support amounts to 15.1% of GDP.**
- **The money supply (M2) has increased to 11%, compared to 8.5% in recent years.**

China entered the epidemiological cycle earlier than the rest of the world and having passed the peak of the pandemic at the beginning of the first quarter of the year, it has served as a guide on the form the new normality and the recovery of economic activity will take. The year-on-year change in GDP in the first quarter of the year was -6.8% YoY, with a contraction in all items, which now seems to be in reverse, albeit gradual. While the supply shock seems to have subsided, the sluggishness of demand is more persistent. Industrial production grew at 4.4% YoY in May, but demand has a slower recovery trajectory (retail sales in May -2.8% and in April -7.5%).

We have revised the 2020 GDP growth estimate in our central scenario to 0.8%, from the -0.6% in our previous forecast, based on a faster than expected recovery in activity, although uncertainties persist regarding consumption and investment (see Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

The current account went into a negative balance in the first quarter of this year (-1.3% of GDP), due to the significant decline in the contribution of goods exports. Given the difference in cyclical momentum, the balance of payments composition and the size of monetary transactions between China and the United States, we believe that the yuan will stabilize at around CNY/USD 7.15 throughout 2020, before starting to appreciate over the coming years. However, there is still a risk that the re-escalation of tensions between China and the United States will trigger geopolitical concerns and pose risks of further depreciation.

In terms of fiscal policy, the Chinese government has stressed that supporting employment is the top priority this year, leaving behind the goal of stabilizing the 2019 economy. To mitigate the effects of COVID-19, a fiscal package equivalent to 8.4% of GDP in 2020 was announced, focused on supporting investment in infrastructure and the business sector. If extra-budgetary items are included, this year's fiscal deficit is close to 15.1% of GDP, with a fiscal stimulus of 3.2% of GDP. The fiscal package also includes the issuance of local and national debt for a value greater than 4% of GDP, to address the COVID-19 emergency.

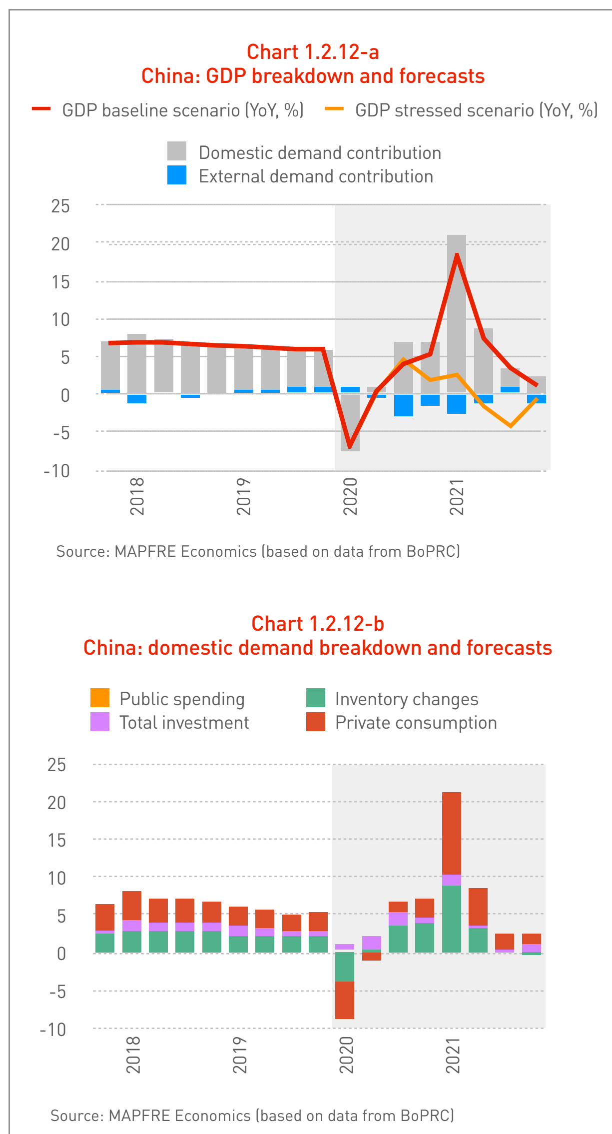

Chart 1.2.12-a
China: GDP breakdown and forecasts

Source: MAPFRE Economics (based on data from BoPRC)

Chart 1.2.12-b
China: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on data from BoPRC)

Table 1.2.12
China: main macroeconomic aggregates

						Baseline (baseline scenario)		Stressed (stressed scenario)	
	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)	2020(f)	2021(f)
GDP (% YoY, average)	7.0	6.9	6.9	6.8	6.2	0.8	7.6	0.0	-0.9
Domestic demand contribution	6.4	7.7	6.6	7.2	5.4	1.8	8.6	0.3	-2.6
External demand contribution	0.6	-0.8	0.3	-0.5	0.8	-1.0	-1.0	-0.2	1.7
Private consumption contribution	3.2	3.3	3.6	3.2	2.4	-0.5	4.8	-1.5	-0.4
Total investment contribution	4.4	3.2	2.6	3.0	2.1	0.9	3.0	0.3	-2.9
Public spending contribution	1.6	1.2	0.3	1.1	1.1	1.3	0.7	1.3	0.7
Private consumption (% YoY, average)	8.6	8.7	9.4	8.2	5.9	-0.9	12.1	-3.6	-1.1
Public consumption (% YoY, average)	11.3	7.9	1.8	7.7	7.7	8.7	4.6	8.7	4.1
Total investment (% YoY, average)	10.1	7.0	5.8	6.6	4.7	1.9	6.9	0.7	-6.5
Exports (YoY in %)	0.4	1.9	6.9	4.4	2.5	-7.1	8.7	-13.1	-1.3
Imports (YoY in %)	0.4	3.3	8.2	6.7	-0.7	-7.0	8.4	-11.2	-7.1
Unemployment rate (%, last quarter)	4.1	4.0	3.9	3.8	3.6	3.7	3.7	4.2	4.9
Inflation (% YoY, last quarter)	1.5	2.2	1.8	2.2	4.3	1.0	2.4	0.8	-2.9
Fiscal balance (% of GDP)	-3.4	-3.8	-3.7	-4.1	-4.9	-6.7	-4.4	-6.9	-5.3
Primary fiscal balance (% of GDP)	-2.7	-3.2	-3.1	-3.5	-4.3	-6.0	-3.6	-6.1	-4.4
Trade balance (% of GDP)	5.3	4.4	3.9	2.8	3.0	3.0	3.3	2.6	3.9
Current account balance (% of GDP)	2.8	1.8	1.6	0.2	1.0	1.5	1.5	1.1	2.2
Official interest rate (end of period)	2.32	2.59	3.09	3.07	2.81	1.50	2.71	0.80	0.76
3-month interest rate (end of period)	3.05	4.25	5.53	3.70	3.20	1.81	2.91	1.10	0.91
10-year interest rate (end of period)	2.82	3.05	3.91	3.26	3.15	2.81	3.32	3.13	3.60
Exchange rate vs. USD (end of period)	6.49	6.94	6.51	6.88	6.99	7.10	6.95	7.21	6.99
Exchange rate vs. euro (end of period)	7.07	7.32	7.80	7.87	7.85	8.03	7.92	8.17	7.98
Private lending (% YoY, average)	14.8	13.3	10.5	12.0	12.7	13.3	9.6	12.9	3.5
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (as % pers. disp. income, avg.)	40.6	39.3	38.7	37.9	38.2	39.4	38.2	40.2	44.6

Source: MAPFRE Economics (based on data from BoPRC)
Forecast end date: July 7, 2020.

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Regarding monetary policy, the authorities stressed that the growth of the money supply (M2) and Total Social Financing (TSF, total volume of funds provided by the finance sector to the private sector) should be significantly higher than last year, with a combination of policy instruments that include the reduction of banks' reserve ratios (RRR), the reduction of interest rates and the granting of new loans. The money supply has grown in recent months to 11.1%, which is a significant boost compared to 8.5% on average in the last two years. As for interest rates, the central bank (PBOC) lowered the Loan Prime Rate in June.

1.2.13 Indonesia

Capital flows and currency have stabilized, but the economic downturn will drag on into the second semester.

- Indonesia's GDP growth forecast has been revised downward to -0.4% in 2020.
- Capital outflows for February-March have moderated and have been offset by domestic investment.
- Its currency, after falling in the first quarter, has recovered and stabilized at 14,000 IDR/USD.

The Indonesian economy is slowing down. In the first quarter of the year it grew by 3.0%, when the health crisis in the country was just beginning, with stagnant exports and contracting imports (-2.2% YoY). Private demand and government spending are the items that had been sustaining growth in the first quarter. Private consumption and investment should drop visibly and predominantly in the second quarter, with a slow recovery in the second half of the year.

We have significantly revised the growth forecast in 2020 to -0.4% (from 0% in our previous forecast), due to the forecast of a sharper decline in the second quarter, which may continue into the second half of the year. Growth should begin again in around 2021, recovering due to the dynamics of this particular economy, but the trajectory will be hindered by some longer-lasting damage (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

Furthermore, inflation in May fell to 2.2%, from 3.0% in March, against a backdrop of economic slowdown, which leaves the central bank scope to continue lowering interest rates. Indeed, the Central Bank of Indonesia lowered rates three times leading up to July (reaching a total reduction of -75 basis points to 4.25%) to sustain activity. Since the exchange rate has stabilized, and with the current reversal of flows, it is expected that the central bank will be able to lower rates up to 4% in the rest of the year.

1.2.14 Philippines

Economic severity and reinforced lockdown

- Lockdown in Luzón (region representing 74% of the Philippine economy) depressed activity during the first half of the year.
- GDP is expected to contract by around -3.8% in 2020.
- The central bank cut interest rates by an additional 50 basis points in April to 2.75% and still has room for further adjustments.

The Philippine economy contracted in the first quarter of the year by -5.1% QoQ (-0.2% YoY), which was slightly more negative than expected, in a changing environment and in reliance on the duration of lockdown measures caused by the health crisis. Our forecast for 2020 places the growth of the Philippine economy at around -3.8%, entering a

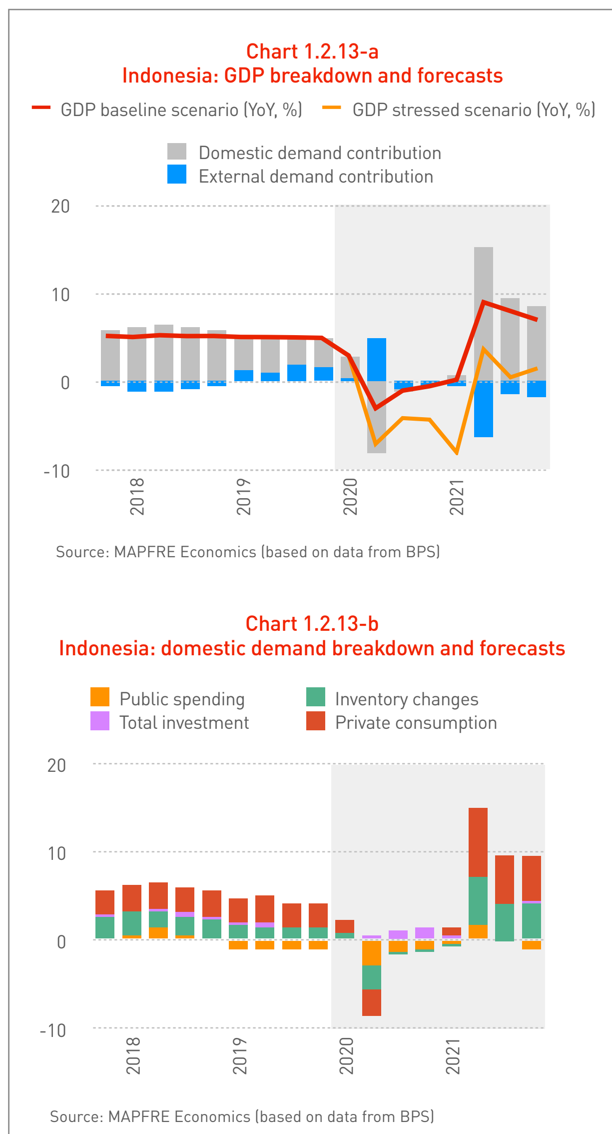

Chart 1.2.13-a
Indonesia: GDP breakdown and forecasts

Source: MAPFRE Economics (based on data from BPS)

Chart 1.2.13-b
Indonesia: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on data from BPS)

Table 1.2.13
Indonesia: main macroeconomic aggregates

						Baseline (baseline scenario)		Stressed (stressed scenario)	
	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)	2020(f)	2021(f)
GDP (% YoY, average)	4.9	5.0	5.1	5.2	5.0	-0.4	6.1	-3.1	-0.6
Domestic demand contribution	3.9	4.9	4.8	6.1	3.6	-1.4	8.5	-2.9	-0.6
External demand contribution	0.9	0.1	0.3	-0.9	1.4	1.0	-2.5	-0.2	0.0
Private consumption contribution	2.7	2.8	2.8	2.8	2.9	-0.4	4.7	-1.4	0.5
Total investment contribution	1.6	1.5	2.0	2.2	1.5	-0.7	3.3	-1.5	-1.6
Public spending contribution	0.5	-0.0	0.2	0.4	0.3	0.9	0.3	0.9	0.2
Private consumption (% YoY, average)	4.8	5.0	5.0	5.1	5.2	-0.8	8.7	-2.6	0.8
Public consumption (% YoY, average)	4.9	0.7	2.0	4.7	3.7	10.5	4.0	10.5	2.1
Total investment (% YoY, average)	5.0	4.5	6.1	6.7	4.5	-2.1	10.5	-4.5	-4.9
Exports (YoY in %)	-2.1	-1.6	9.0	6.6	-0.9	-8.4	5.2	-11.3	-2.8
Imports (YoY in %)	-6.2	-2.4	8.1	12.1	-7.7	-9.5	14.6	-11.5	-3.5
Unemployment rate (%, last quarter)	5.8	5.5	5.3	5.2	5.1	6.8	4.7	7.6	8.4
Inflation (% YoY, last quarter)	4.8	3.3	3.5	3.3	2.7	1.8	3.9	2.6	1.1
Fiscal balance (% of GDP)	-2.6	-2.5	-2.6	-1.7	-2.2	-7.3	-4.2	-7.7	-6.3
Primary fiscal balance (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance (% of GDP)	1.6	1.6	1.9	-0.0	0.3	1.0	0.1	1.2	2.2
Current account balance (% of GDP)	-2.0	-1.8	-1.6	-2.9	-2.7	-2.60	-3.00	-2.63	-1.47
Official interest rate (end of period)	6.25	4.75	4.25	6.00	5.00	4.33	5.30	3.22	1.00
3-month interest rate (end of period)	8.86	7.46	5.48	7.70	5.51	4.60	6.72	4.91	3.91
10-year interest rate (end of period)	8.81	7.85	6.30	7.90	7.05	7.19	7.99	8.60	7.89
Exchange rate vs. USD (end of period)	13,836	13,525	13,484	14,380	13,883	14,308	13,604	15,276	14,259
Exchange rate vs. euro (end of period)	15,063	14,257	16,171	16,465	15,596	16,132	15,413	17,326	16,283
Private lending (% YoY, average)	10.6	7.8	8.2	10.8	8.8	3.5	11.8	3.1	8.1
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	32.0	10.1	15.1	5.6	-3.0	3.1	10.8	1.7	3.4
Savings rate (as % pers. disp. income, avg.)	17.0	17.0	17.0	17.1	17.0	17.1	15.6	17.4	16.5

Source: MAPFRE Economics (based on data from BPS)
Forecast end date: July 7, 2020.

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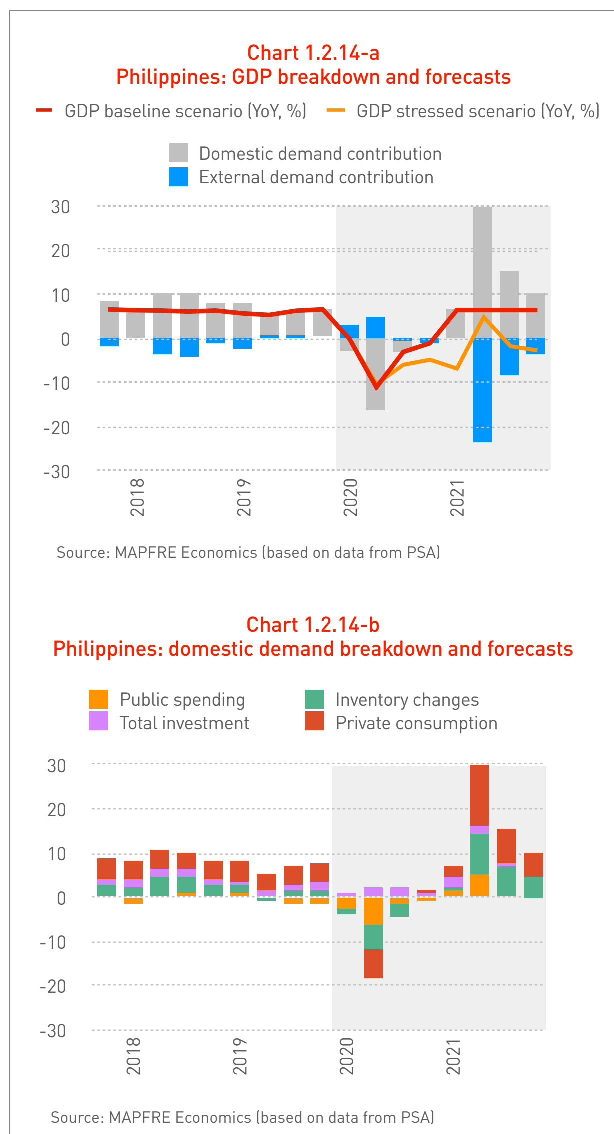

Table 1.2.14
Philippines: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	Baseline (baseline scenario) 2020(f)	Baseline (baseline scenario) 2021(f)	Stressed (stressed scenario) 2020(f)	Stressed (stressed scenario) 2021(f)
GDP (% YoY, average)	6.3	7.2	6.9	6.3	6.0	-3.8	6.5	-5.2	-1.5
Domestic demand contribution	8.3	10.9	7.8	8.6	6.1	-5.3	15.5	-6.2	-1.2
External demand contribution	-2.0	-3.8	-0.9	-2.3	-0.1	1.6	-9.0	1.0	-0.3
Private consumption contribution	4.7	5.3	4.4	4.2	4.3	-1.5	7.2	-3.9	-3.1
Total investment contribution	2.8	4.6	2.6	3.3	1.1	-2.3	5.4	-3.3	2.2
Public spending contribution	0.9	1.0	0.7	1.5	1.1	1.5	1.4	1.5	1.4
Private consumption (% YoY, average)	6.4	7.2	5.9	5.8	5.9	-2.2	10.0	-5.4	-4.2
Public consumption (% YoY, average)	8.7	9.1	6.7	13.5	9.8	11.5	9.3	11.5	9.3
Total investment (% YoY, average)	13.5	21.1	10.6	12.9	4.1	-8.5	21.5	-12.0	9.1
Exports (YoY in %)	10.0	9.2	17.4	11.9	2.4	-12.1	21.3	-11.4	10.2
Imports (YoY in %)	15.0	18.9	15.1	14.6	2.0	-10.6	21.8	-10.6	8.0
Unemployment rate (%, last quarter)	5.6	4.7	5.0	5.1	4.5	10.2	6.6	10.6	7.3
Inflation (% YoY, last quarter)	0.3	2.0	3.0	5.9	1.5	1.4	3.5	0.6	-2.9
Fiscal balance (% of GDP)	-0.9	-2.3	-2.1	-3.1	-3.4	-7.4	-4.3	-8.0	-8.2
Primary fiscal balance (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance (% of GDP)	-7.6	-11.2	-12.2	-14.7	-12.3	-11.5	-12.7	-10.6	-10.7
Current account balance (% of GDP)	2.4	-0.4	-0.7	-2.5	-0.1	-0.1	-1.9	1.1	1.1
Official interest rate (end of period)	4.00	3.00	3.00	4.75	4.00	3.00	2.19	1.25	0.25
3-month interest rate (end of period)	3.03	2.50	3.22	5.03	3.97	2.63	2.87	1.69	0.44
10-year interest rate (end of period)	4.10	4.63	5.70	7.05	4.44	3.16	2.77	6.23	4.36
Exchange rate vs. USD (end of period)	47.17	49.81	49.92	52.72	50.74	50.68	49.86	52.54	50.74
Exchange rate vs. euro (end of period)	51.35	52.51	59.87	60.37	57.01	57.14	56.49	59.47	57.94
Private lending (% YoY, average)	12.8	15.3	17.6	16.8	9.5	7.2	13.3	6.2	10.4
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	3.9	8.5	9.4	10.3	6.9	-3.2	15.8	-3.4	1.4
Savings rate (as % pers. disp. income, avg.)	9.3	9.3	9.7	9.3	8.4	10.7	9.1	11.9	17.7

Source: MAPFRE Economics (based on data from PSA)
Forecast end date: July 7, 2020.

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recession in the second quarter of the year. The recovery will also be smoother, as it becomes clear that the return to normality will be gradual, both due to health requirements and the risk aversion of consumers, and due to interruptions in the remittance flows. A strong recovery is expected in 2021, mainly due to the base effect, but we conjecture that due to the weakness of the external sector and the uncertainties in the tourism sector, activity will not return to pre-crisis levels until 2022 (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

Furthermore, inflation in May stood at 2.1%, a moderate level that will allow the central bank to continue adjusting monetary policy to support the economy. The Central Bank of the Philippines cut official interest rates (Overnight Repo) by an additional 50 basis points in April to 2.75%, and a further cut of 25 basis points is expected before the end of the year.

The package launched by the Philippine government to support the economy amounts to 3.4% of GDP, one of the lowest in the Asian area. It is foreseeable that this package may be revised to 5–6% of GDP, as the Secretary of State for Finance suggested at one point.

2. Industry outlook

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

2.1.1 Global markets

The global economy remains in an unprecedented state of affairs. On the one hand, developed countries have managed, to a greater or lesser extent, to control the development of the pandemic after implementing distancing and lockdown measures. These measures, however, are starting to be relaxed, focusing instead on selective measures in order to prevent the expansion of new outbreaks as and when they happen and, at the same time, trying to minimize the effects on the performance of the economy. In addition, many emerging countries are still in an acute phase of the pandemic, with weaker health systems, and with governance that reduces the effectiveness of lockdown measures.

From a monetary policy perspective, central banks at the global level are extending expansion measures by reducing interest rates and both sovereign and corporate bond-buying programs in order to stabilize financial markets. Added to this are significant packages of fiscal support measures, which are also unprecedented, which is substantially increasing fiscal deficits and the level of debt. All these provisions, to the extent that they have an effect on the real economy, will be of great help to the insurance industry, which is highly dependent on the smooth running of the financial markets and whose business is closely linked to economic performance. However, despite the application of these measures, a sudden fall in global GDP is expected in 2020, which could range between -4.9% and -5.7% compared to the growth of 2.9% in 2019 (3.6% in 2018), so a sharp fall in the insurance business is expected, in line with economic performance.

In the rest of this part of the report, the analysis begun in the previous version of this report has been expanded with respect to the economic crises experienced in previous decades (since 1980) by each of the markets under analysis, in order to determine what the impacts on the insurance industry were, both in terms of total business and the Non-Life and Life segments, considered separately (see the additional analysis in Box 2.1.1).

The analysis confirms that, in general, sharp falls in premiums can be expected in the insurance business at the aggregate level. In the Life business, the influence of monetary policy measures is visible. In cases where these measures were restrictive, this helped to soften the blows in this line of business; on this occasion, however, the monetary policies

Box 2.1.1
Pandemics, economic crises and performance of the insurance industry

Framework for analysis

The current situation poses a challenge in terms of preparing forecasts for the performance of the insurance industry. The global health response (which has involved the application of various measures to suppress economic activity) has led to an unprecedented crisis, with various elements to consider, both real and financial. In summary, the phenomenon is characterized by:

(i) A *supply shock* resulting from the disruption in value chains,

(ii) A *demand shock* as a result of the lockdown and shutdown measures,

(iii) A severe *process of risk aversion,* and

(iv) A *deterioration in long-term expectations* caused by the uncertainty about the biological development of the pandemic.

In the case of insurance activity, in addition to this situation there is the uncertainty around the biological effect of the disease with a strong contraction of activity and its non-linear relationship with insurance demand, since insurance is a complex product (a service). On the one hand, insurance demand represents the *consumption* of goods (sometimes "complementary" to the demand for other goods, such as cars, residential property, etc.) and, on the other, a quasi-compulsory *consumption* or inelastic demand, such as health insurance or compulsory automobile insurance (Non-Life insurance). In addition, insurance demand also represents *savings* and, therefore, is susceptible to liquidity stress that may generate an economic crisis (Life insurance).

In order to try to shed some light on the possible effect of the current crisis on insurance demand, we have compared the growth of global premiums against the most relevant health crises on a global scale and against the most far-reaching economic crises. Therefore, the *epidemic crises* considered in the analysis are as follows:

- 2002–2003: severe acute respiratory syndrome (SARS-CoV), with 8,422 cases and 916 deaths.
- 2009–2010: A-H1N1 influenza pandemic, which claimed the lives of between 150,000 to 575,000 people worldwide.
- 2012–2015: Middle East respiratory syndrome (MERS-CoV), with a total of 2,468 infections and 851 deaths (up to September 30, 2019).
- 2014–2016: Ebola epidemic, with 28,646 infections and 11,323 deaths.
- 2014: Zika virus, with around 4,030 deaths.
- 2020 -: (conceptually) COVID-19 pandemic (SARS-CoV-2), with 12 million cases and 575,000 deaths (as of July 13, 2020).

The regional *economic crises* considered in the analysis were:

- 1999–2000: economic crisis that followed the "DotCom" bubble.
- 2007–2009: crisis of the global mortgage market, marked by Lehman Brothers ("The Great Recession").

Box 2.1.1 (continued)
Pandemics, economic crises and performance of the insurance industry

- 2011–2013: European financial sovereign crisis, marked by sovereign tensions on the European periphery.
- 2020 -: (conceptually) the economic crisis caused by the COVID-19 pandemic ("The Great Lockdown").

The visual exercise, which covers the period from 1998 to 2018, contrasts the nominal growth of Life and Non-Life insurance premiums recorded in different regions of the world—grouped by geographic and economic proximity: Global, Eurozone, Rest of Developed Europe, Emerging Europe, MENA, North America, Central America, Andean Countries, Southern Common Market (where each region is expressed by the median and interquartile values of the countries that the region is made up of, in order to capture the most relevant outline for each set of countries)—against three health crises (SARS-CoV 2002–2003; Influenza A-H1N1 2009–2010; the MERS-Ebola-Zika infection group 2013–2015), and against three regional economic crises (the "DotCom" crisis of 2000–2001; the Great Recession of 2007–2009; the Eurocrisis of 2011–2013).

The heuristic rule to determine whether an economic or health shock has had a regional/global impact consists of verifying that the regional median of the growth rates of real GDP and/or of nominal premiums suffer a contraction (in the case of premiums, this is a nominal contraction, but since premium prices do not change rapidly, any contraction may also be attributed to variations in demand, not price).

Economic and epidemic crises: effect on insurance premiums

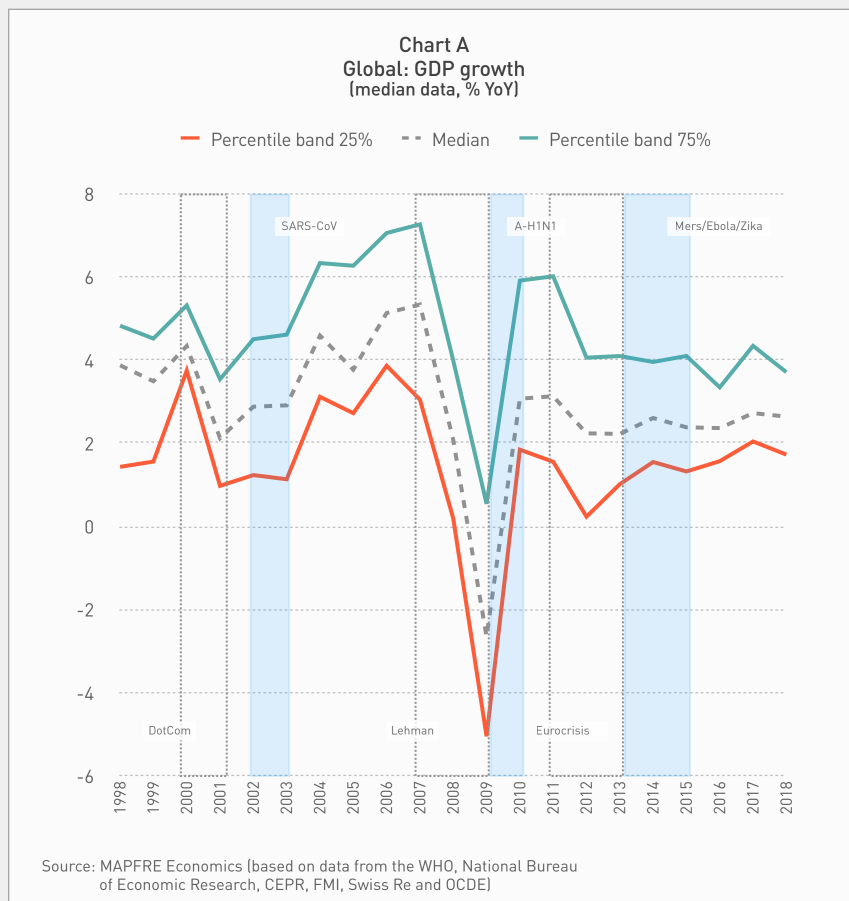
After completing the exercise, on reviewing the dynamics of real GDP growth, it can be verified that:

- The Lehman Brothers crisis is the only one that produces a global contraction in the global growth median, which went from 2% in 2007 to -2.7% in 2009 (see Chart A).
- The sovereign financial crisis generated in the European periphery in 2011 reached its peak in 2013 and led to an eventual recovery in the region (after the Lehman Brothers crisis), during which growth went from 1.5% to figures close to 0% in general (but visibly below this in the whole of the periphery; median of -2.5%).
- The "DotCom" crisis in the United States did not translate into an annual contraction of GDP in that country and its regional effect was not felt in the period of 2000 to 2001.
- By way of exception, the crisis spotted in South America can be mentioned, in which the growth of the region decreased from approximately 4% in 1998 to -8% in 2002; an environment where the default situation and the so-called "corralito" in Argentina played leading roles.

By reviewing the growth of the nominal premiums of the Non-Life and Life insurance markets throughout the period 1998–2018, the following stylized facts were observed, which follow the chronological order in which the economic crises and epidemic crises unfolded.

Box 2.1.1 (continued)
Pandemics, economic crises and performance of the insurance industry

Chart A
Global: GDP growth
(median data, % YoY)



Source: MAPFRE Economics (based on data from the WHO, National Bureau of Economic Research, CEPR, FMI, Swiss Re and OCDE)

Non-Life premiums

It should be noted that, in general, Non-Life insurance premiums, due to their characteristics as a proxy for consumption, statistically tend to show a high correlation with the economic cycle. Thus, from the analysis carried out, the following can be seen:

Economic events

- The **"DotCom" crisis** which originated in the United States did not have any regional or global effects. Non-Life premiums during the 2000–2001 period continued to undergo positive and relatively stable growth (see Chart B).

- The **global crisis (Lehman Brothers)** originating from the mortgage market (2007–2009) did have significant effects on insurance premiums, which slowed down globally by approximately 450 basis points, from 7.7% to 2.5% in terms of the median. Much of this slowdown was related to the drop in durable consumption (automobiles) and residential investment (mortgages), for which insurance is clearly complementary. As much of the effect was felt in regions with low inflation (eurozone, Japan, etc.), it is arguable that this had a more real than nominal character (unlike the previous case).

- During the **European crisis of 2011–2013** there was no acceleration or deceleration in the nominal growth of insurance premiums. This crisis had a profoundly regional character within the eurozone. Therefore, if we analyze only the countries of the European periphery, a contraction in

Box 2.1.1 (continued)
Pandemics, economic crises and performance of the insurance industry

premiums can be seen, leading to nominal growth of -2% (Greece -7%), since, in addition to the strong economic contraction, the periphery experienced its first deflationary phase in history.

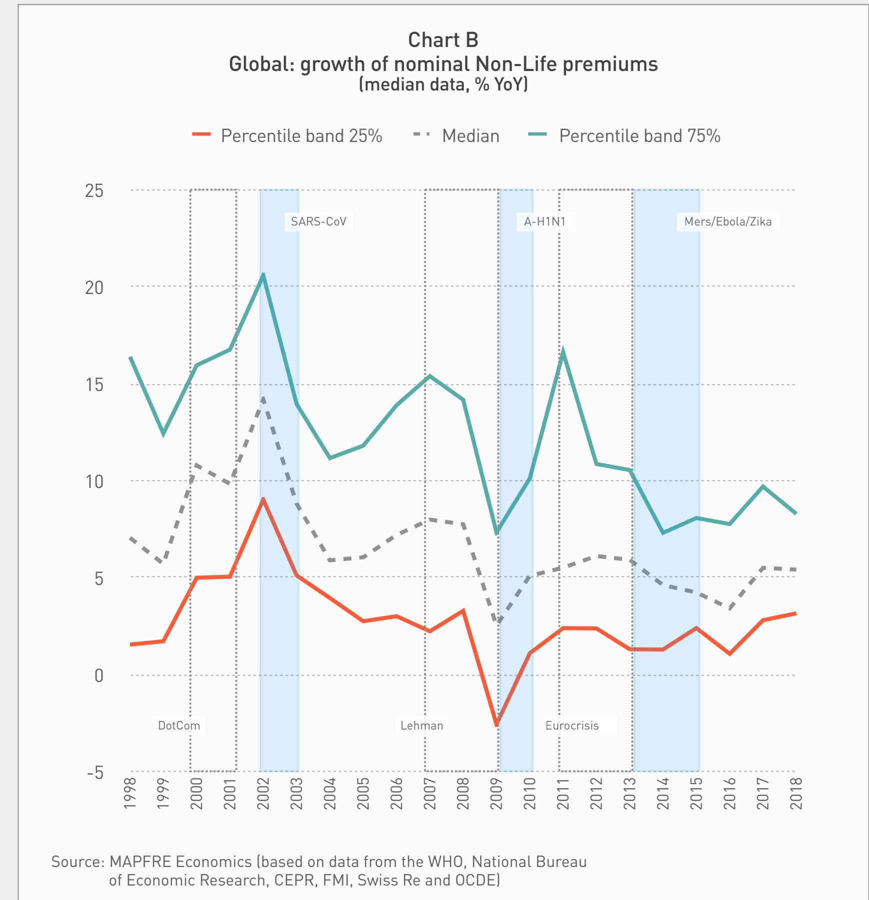
Health events

- During the **SARS-CoV epidemic** , globally it can be seen that Non-Life premiums slowed down approximately 500 basis points, going from 14% to 9%, but did not suffer a contraction, and the most pronounced slowdown was related more closely to the outbreak of hyperinflation and occasional economic crises in countries in emerging Asia and Latin America. In other words, the slowdown was extremely nominal in nature.

- During the **avian influenza (A-H1N1) pandemic 2009–2010**, Non-Life insurance premiums sped up in terms of nominal growth by 250 basis points at a global level, going from 2.3% to 4.8%, in terms of the median. In terms of size, the effect on growth occurred mainly in developed Europe (which accelerated by 200 basis points), although the region in which the effect was really obvious was in emerging Asia, given that growth contracted by 500 basis points to 12% during the pandemic.

- The successive **health crises recorded between 2012 and 2015 (Mers/Ebola/Zika)** had a negligible overall median net effect. But this was the result of contrasting effects, among which the 700-basis-point increase in emerging Asia stood out, against the reduction in the growth of premiums in the eurozone, developed Asia and developed Europe.

Chart B
Global: growth of nominal Non-Life premiums
(median data, % YoY)



Source: MAPFRE Economics (based on data from the WHO, National Bureau of Economic Research, CEPR, FMI, Swiss Re and OCDE)

Box 2.1.1 (continued)
Pandemics, economic crises and performance of the insurance industry

Life premiums

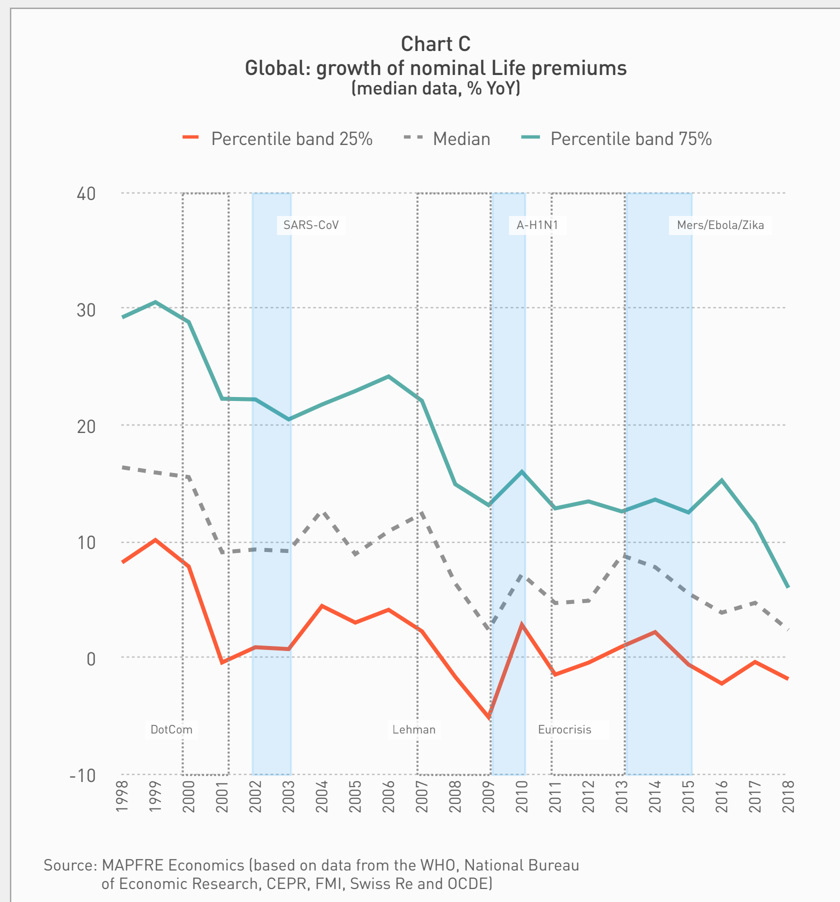
Life insurance is unique in that it is made up of a very significant portion of savings and, as such, the laws that govern it are different from that of Non-Life insurance, responding to the cycle, to income, to risk aversion and to liquidity needs. After carrying out the relevant analysis, it is verified that:

Economic events

- The **"DotCom" crisis** coincides with a slowdown in the global median premium of 500 basis points, to 10%. This slowdown was mainly seen in the eurozone, where the slowdown was from 21% to 2% growth and, very significantly, in the United States, where premiums went from 14% growth to -6% contraction. Life premiums, such as provisions and unit-linked premiums, have a strong financial component; the crisis that occurred involved the correction of the technological bubble with expansion of both the stability of financial markets and of liquidity in the United States (see Chart C).

- The **global crisis (Lehman Brothers)** caused a global slowdown in premiums from 12% to 2% in terms of the median. This was the result of very diverse dynamics. While the eurozone did not see much change in the Life business, in Saxon countries and in North America the slowdown was of more than 900 basis points. In emerging markets, the reaction was mixed, but the sharp contraction in emerging Europe (influenced by the situation in the Visegrad countries), where premiums went from growing by 10% to contracting by -9%, is striking.

Chart C
Global: growth of nominal Life premiums
(median data, % YoY)



Source: MAPFRE Economics (based on data from the WHO, National Bureau of Economic Research, CEPR, FMI, Swiss Re and OCDE)

Box 2.1.1 (continued)
Pandemics, economic crises and performance of the insurance industry

- The **European crisis of 2011–2013** was profoundly regional within the eurozone and, as a result, it can be seen that premiums contracted by up to 6%. There were no effects in the rest of the world.

Health events

- During the **SARS-CoV epidemic** globally it can be seen that Life insurance premiums did not change in general terms, with the exception of North America, which slowed from a rate of 8% to 0% throughout the process. South America, however, saw Life premiums grow sharply in nominal terms, but since the economy was suffering contraction at the time, we attribute this to the nominal effects of inflation that were prevailing at the time.

- During the **2009–2010 avian influenza (A-H1N1) pandemic**, global median Life premiums sped up from 2.5% to 7.5%. Among these, the dynamics of the eurozone and the United States were accelerated, but those of other developed countries, developed Asia and emerging Europe, went from a post-Lehman contraction environment (-10% in some cases) to growth of more than 10%. It should be noted that the post-Lehman economic recovery recuperated part of the savings destroyed during the crisis in the form of Life insurance premiums.

- In the successive **health crises recorded in 2012–2015 (Mers/Ebola/Zika)**, Life premiums slowed down on average from 8% to 4% throughout 2012 until the beginning of 2016. Global monetary policy was very lax in this period and it is difficult to differentiate between the part of decreased business that can be explained by the situation and the part that can be explained by the effect of the epidemics.

Summary of conclusions

As a result of the analysis performed, the following general conclusions can be drawn:

- First, it should be noted that a single relationship between insurance premium performance and the last three global epidemic crises cannot be established. Non-Life and Life premiums have never reacted unequivocally and generally to said events.

- There is a certain coincidence in changes in the nominal dynamics of premiums when the three epidemics occurred, visibly accelerating and decelerating in many cases; this is especially true of Non-Life insurance.

  However, we felt that this was a nominal effect (because it happens mainly in emerging countries with high inflation) and that it occurred in countries that recovered from a previous economic crisis and rebuilt their savings bases (such as in Europe and North America during the avian influenza that followed the moderation of the Lehman Brothers economic crisis).

- The most obvious case of insurance premium acceleration or deceleration was during the avian influenza epidemic. However, we fundamentally attribute this to the fact that this situation followed and

Box 2.1.1 (continued)
Pandemics, economic crises and performance of the insurance industry

preceded two economic crises that truly imprinted the dynamics of global premiums, especially the Life market.

- Economic crises, and especially the "Great Recession," did have significant impacts on the growth of insurance premiums; a situation that is felt both globally and regionally, particularly in the United States, the eurozone and the rest of developed countries and, especially, in the Life market. The rest of the economic crises had an impact, but it is not as clear or widespread.

- "The Great Recession" involved a global growth correction that, in terms of the median, amounted to 450 basis points of real growth at a global level, placing growth in recessive terrain during the years 2008 and 2009 (-2.5%).

  This translated into a similar global slowdown in insurance premiums, and of more than double in the case of Life premiums. However, most of the contraction of the insurance premiums is explained by the dynamics of the eurozone and, in the case of Life insurance, by the dynamics of the United States and other developed countries. The elasticity of Non-Life insurance demand on contraction of GDP is greater than has previously been considered (less than 1), accounting for the non-linear nature of insurance demand at extremely recessive periods.

- Therefore, the relationship between economic crises and the impact on the insurance industry is clear. However, the relationship between premium performance and epidemic crises does not seem to be as clear. However, because COVID-19 is a truly global pandemic, and due to the lockdown measures and social distancing that have been implemented to contain the disease, it is expected to rapidly lead to an economic crisis that, as confirmed in the analysis, will have an effect on insurance industry premiums.

- Thus, "The Great Recession" (in the context of avian influenza and the European crisis) is perhaps the best match to see how global insurance markets could behave given the scale of the current health crisis, the expected size of the economic downturn, and the monetary and financial environment we are now experiencing. During the COVID-19 crisis, the median global contraction in total premiums is expected – based on the elasticities that can be inferred from this analysis – to be at least as sharp as the contraction in global GDP that is predicted in our various economic scenarios.

Source: MAPFRE Economics

adopted tend to be accommodative, which will have a negative effect on this market segment. Lastly, the analysis confirms that, generally speaking, once the economic recovery arrived, insurance premiums experienced growth above GDP growth, especially in emerging markets.

2.1.2 Eurozone

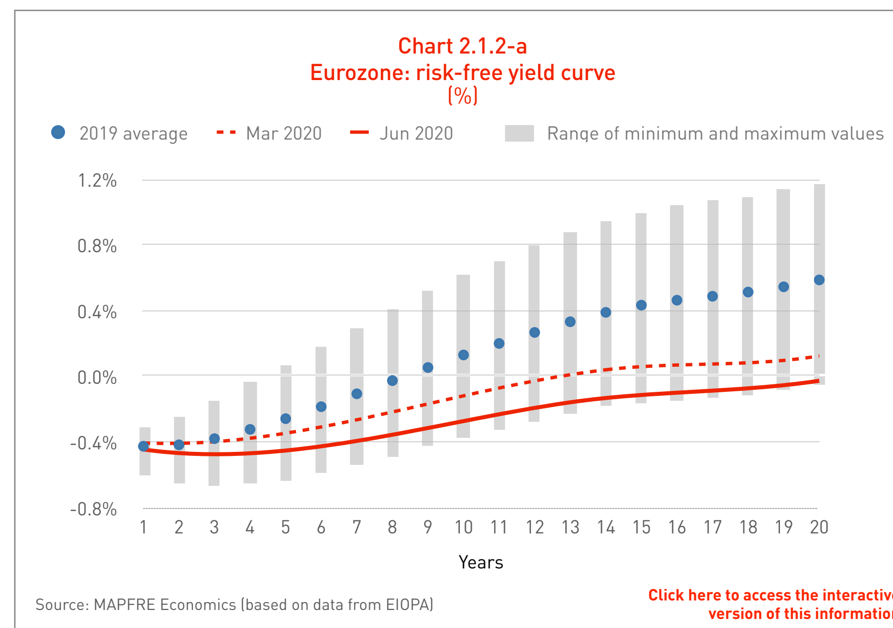
With regard to the eurozone, it is estimated that there will be a reduction in real GDP in 2020 ranging between -10% and -11.1%, which is a serious drop compared to the growth of 1.2% in 2019 (1.9% in 2018). The effects on the economy resulting from social distancing and lockdown as a result of the pandemic are causing an unprecedented global recession that will have a major impact on employment and the viability of many companies, which will in turn have a knock-on effect on the insurance business, closely linked to economic performance.

The European Central Bank (ECB) continues to firmly support the financial markets of the eurozone, resorting to the widespread use of unconventional monetary policy measures to provide liquidity to the bond markets (both sovereign and corporate). Approved asset purchase programs have already reached a combined amount of 1.35 trillion euros and are flexible in terms of the maximum limits that can be purchased from different countries, in order to increase purchases from those that need it most. In addition to this, fiscal measures are being discussed within the European Union, with a package of measures amounting to 750 billion euros, in addition to those already being adopted by Member States themselves.

Moreover, inflation in the eurozone recovered slightly, in line with the price of oil, but is still weak. In the risk-free interest rate curves for the month of June produced by the European Insurance and Occupational Pensions Authority, EIOPA (see Chart 2.1.2-a), a further decline in rates can be seen along the curve, compared to the previous quarter, showing negative values that affect all the terms of the curve up to 20 years, which virtually completely prevents the development of the Life savings and the traditional Life annuity business lines. In addition, the Euro Stoxx 50 index is still extremely volatile, which is detrimental to the development of Life insurance products where the policyholder assumes the risk of investment. It should be noted that the current situation and volatility in the value of policies may lead to bailouts by policyholders who require liquidity or who do not wish to expose themselves to loss.

Furthermore, the analysis of the crises experienced since 1980 by a group of the most representative markets that now form part of the eurozone,

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



Source: MAPFRE Economics (based on data from EIOPA)

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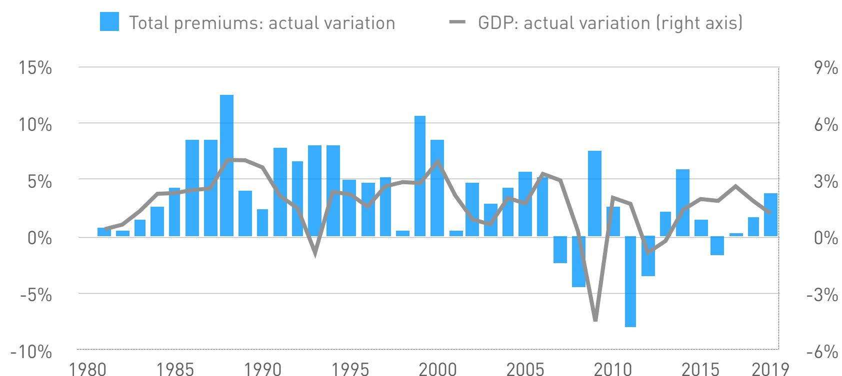
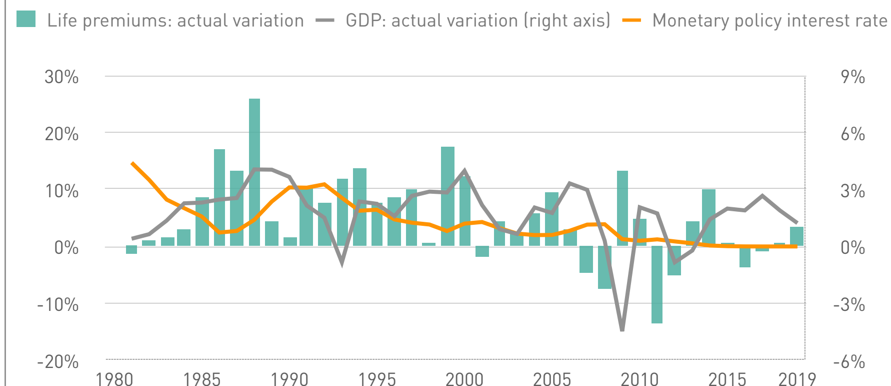
Chart 2.1.2-b
Eurozone: analysis of the impact of the economic crises on the insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.2-c
Eurozone: analysis of the impact of the economic crises on the Life insurance market



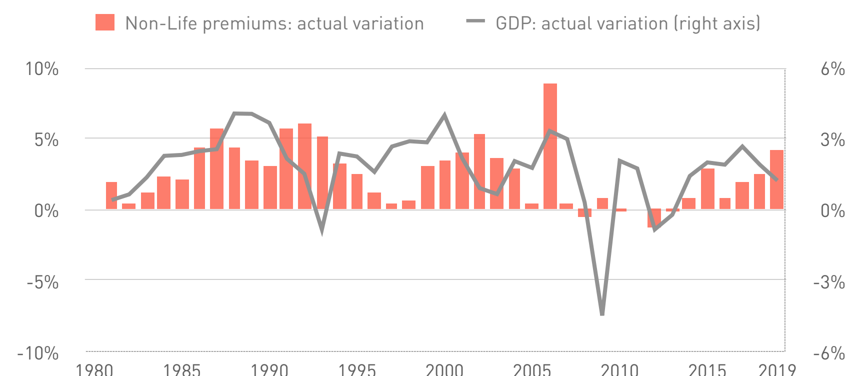
Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

focuses on the period between 2007 and 2012 during which the European insurance industry suffered greatly from the crisis originating in the United States real estate market (amplified by instruments in which mortgage debts had been collateralized), which culminated in the bankruptcy of Lehman Brothers in 2008, and the banking and sovereign debt crisis in the European Union in 2012 (see Chart 2.1.2-b). By way of consolidation, Charts 2.1.2-c and 2.1.2-d show the impact at the disaggregated level for the Life and Non-Life lines, respectively.

2.1.3 Germany

The decline in German GDP as a result of the coronavirus crisis is expected to be severe, ranging between -7.5% and -9.4%, compared to growth of 0.6% in 2019 (1.6% in 2018). The approved expansionary fiscal package, one of the largest in the world, suggests that in 2021 the

Chart 2.1.2-d
Eurozone: analysis of the impact of the economic crises on the Non-Life insurance market



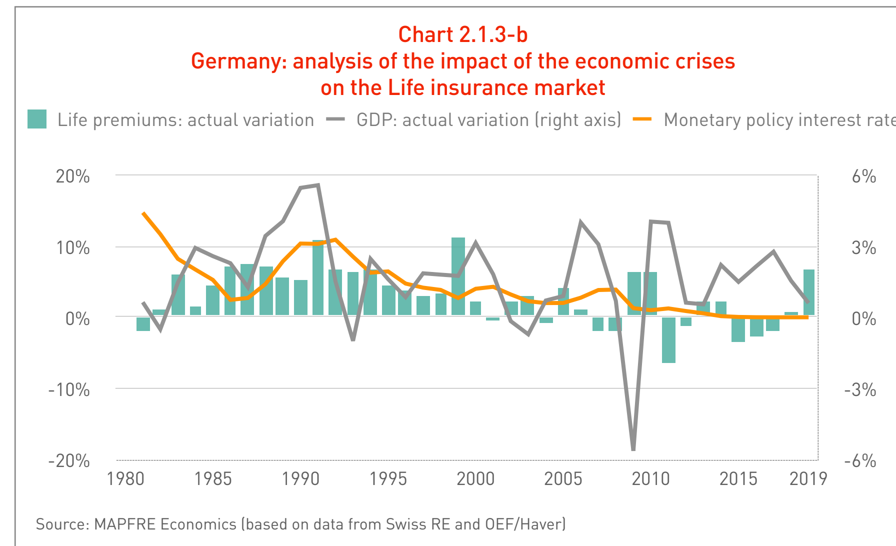
Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

economy could start to make up lost ground with growth of 4.9%, although there is much uncertainty with regard to these estimates.

The decline in GDP in 2020 will undoubtedly affect the insurance business, which may experience a severe decline as a result of the deterioration of the economic situation. Aid to workers and small- and medium-sized companies included in the comprehensive package of approved tax measures could, however, help to mitigate this decline. Likewise, the low interest rate environment will continue to have an adverse effect on the Life savings and traditional Life annuities business lines.

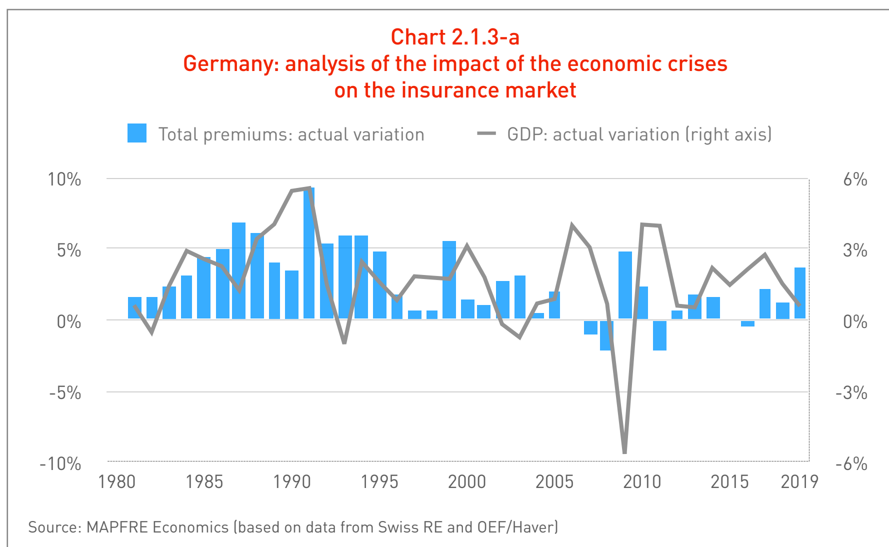
If the crises experienced since the year 1980 (see Chart 2.1.3-a) are taken as a reference, we can see that in Germany the crisis of the 1990s caused a notable slowdown in the growth of insurance premiums, but these premiums did not decline. The two subsequent crises (during the 2007–

Chart 2.1.3-b
Germany: analysis of the impact of the economic crises on the Life insurance market



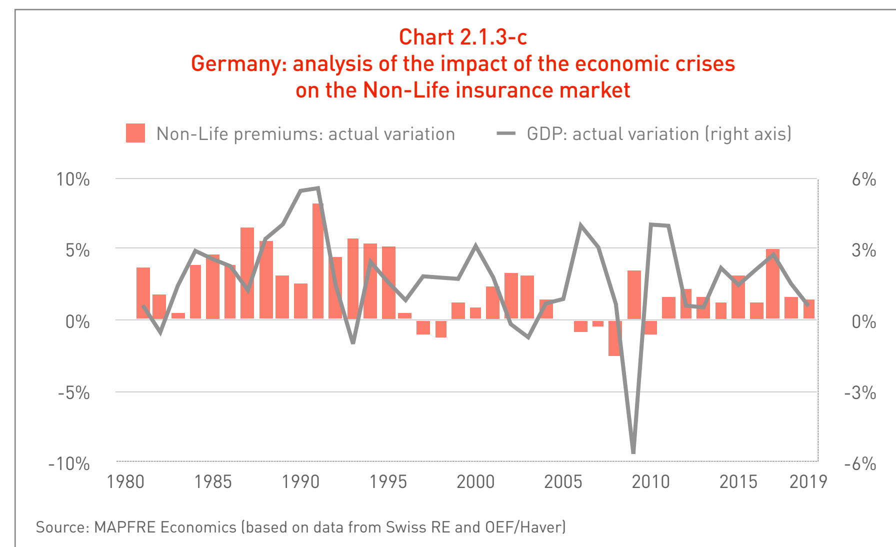
Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.3-a
Germany: analysis of the impact of the economic crises on the insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.3-c
Germany: analysis of the impact of the economic crises on the Non-Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

2012 period) did cause a decline in insurance industry premiums in specific years, leaving the subsequent years' growth anchored at low levels, and even below GDP growth. This can be attributed to the effect on the Life savings and traditional Life annuity business because of the low interest rate environment that the entire economy of the eurozone was plunged into as a result of these crises; an environment that will continue as a result of monetary easing measures taken to address the economic effects of the pandemic.

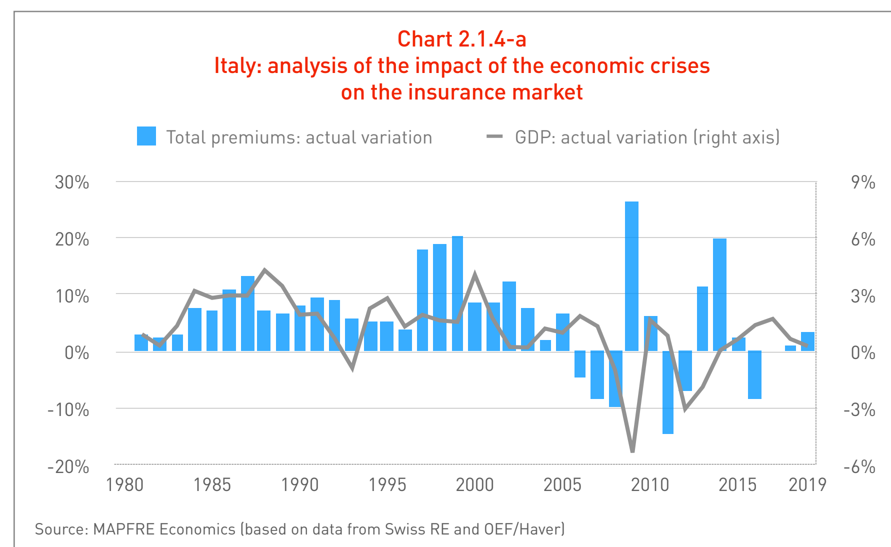
Charts 2.1.3-b and 2.1.3-c, by way of consolidation, show the impact at the disaggregated level for the Life and Non-Life lines, respectively. It is worth noting the significant increase in the 2019 Life business in Germany (Chart 2.1.3-b), in a market that has chosen to promote investment Life insurance in which the policyholder assumes the risk of the investment, against the backdrop of depressed interest rates we are currently experiencing. We will have to wait and see what effect the declines in equity markets as a result of the crisis caused by the pandemic may have on this type of insurance.

2.1.4 Italy

The growth forecast for the Italian economy is a decline within a range of between -12.1% and -13.2% in 2020, with a partial recovery in 2021, a year in which the economy could grow by around 6.3%, although these estimates are extremely uncertain. In Italy, the situation before the health crisis was already one of low growth (0.3% in 2019), with a high level of public debt as the main vulnerability. Despite this, the Italian government is applying a comprehensive package of fiscal measures to support its economy, which anticipates a sharp impairment in its public accounts. The measures adopted by the ECB have meant it can continue financing itself in the markets without an excessive spike in the risk premium, which means it can continue implementing these measures, but this creates uncertainty for the future.

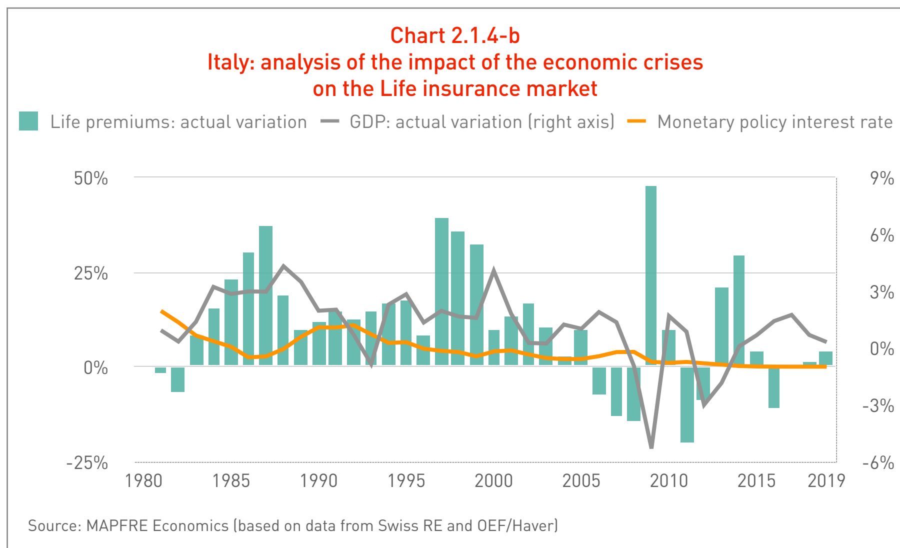
This economic environment will undoubtedly harm the development of the insurance market. If we analyze previous economic crises (see Chart 2.1.4-a), we can see that the Italian insurance market had traditionally been quite resilient in the face of sudden declines in GDP, with an insurance business that had a tendency to slow down, but without experiencing setbacks, which has been reaffirmed by the 2019 data. However, the two successive economic crises experienced between 2007–2012 did make a difference as they strongly affected the behavior of the insurance business, which experienced serious setbacks over periods of two to three years, with very volatile behavior since then and a significant influence not just on the behavior of GDP, but also on the interest rate environment, swings in the risk premium and the term premium of the Italian sovereign debt.

Chart 2.1.4-a
Italy: analysis of the impact of the economic crises on the insurance market



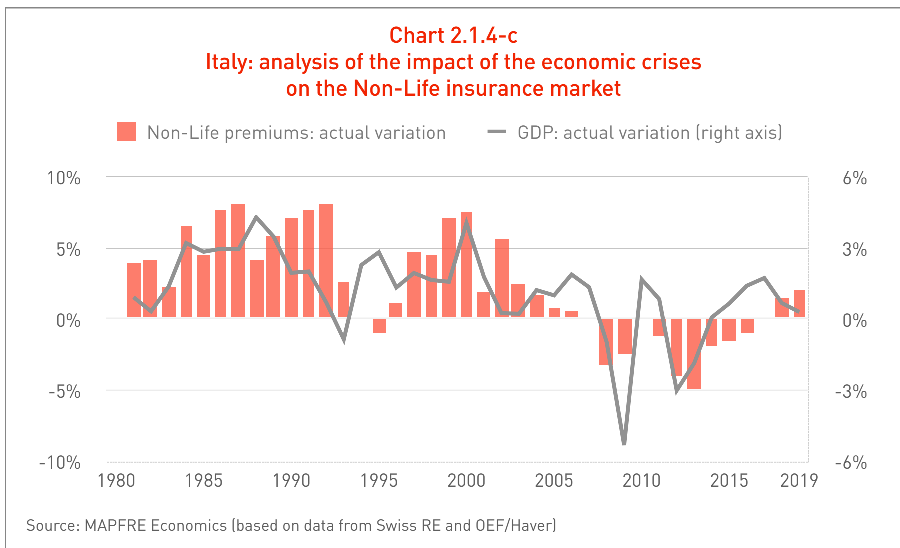
Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.4-b
Italy: analysis of the impact of the economic crises on the Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.4-c
Italy: analysis of the impact of the economic crises on the Non-Life insurance market



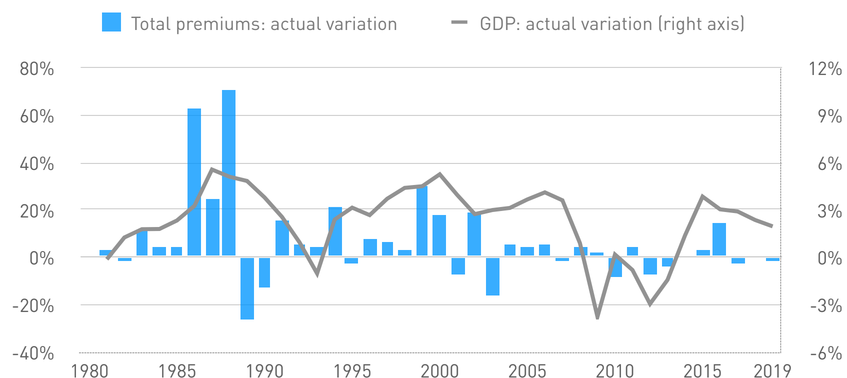
Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Charts 2.1.4-b and 2.1.4-c show the impact at the disaggregated level for the Life and Non-Life lines, respectively. This analysis shows that the sharp decline in GDP expected for this year will particularly harm Life savings, Life investments and traditional annuity, because of the loss of business and the increase in bailouts that may occur on the part of people who have been left in a situation of need. To this must be added the negative effect that the fall of the equity markets may cause on the perception of Life insurance in which the policyholder assumes the risk of investment and in the mixed Life savings-investment products (which were beginning to be widely distributed in Italy), while low stock prices could attract investors who have liquidity and are willing to take risks. In the case of incorporating financial guarantees, the high volatility of the financial markets will increase the cost of covering these guarantees, to the detriment of the profitability of these products. Such sharp declines in insurance premiums and bailouts also have a negative impact on insurance companies' profitability, because they have to cope with administration expenses that are fairly rigid to the downside with lower revenue from premiums, which increases its expense ratio.

2.1.5 Spain

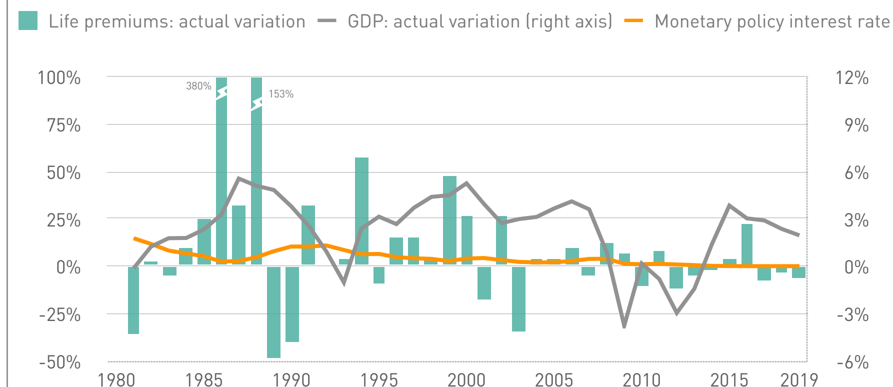
The strict lockdown and social distancing measures adopted in Spain to limit the effects of the COVID-19 pandemic, which were among the strictest in the world, have succeeded in controlling the health crisis, but it is anticipated that the effect on the economy will be an entry into recession whose GDP could suffer a decline ranging between -12.1% and -13.1% for the whole of 2020, compared to a growth of 2% in 2019 (2.4% in 2018). The effects on employment, the impact on trade, tourism and industry are unprecedented. The state of emergency ended on June 22 and the return to normality is taking place very gradually. The economy could begin to recover in 2021, although there is still a lot of uncertainty in terms of any forecasts that can be made at this time.

Chart 2.1.5-a
Spain: analysis of the impact of the economic crises on the insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

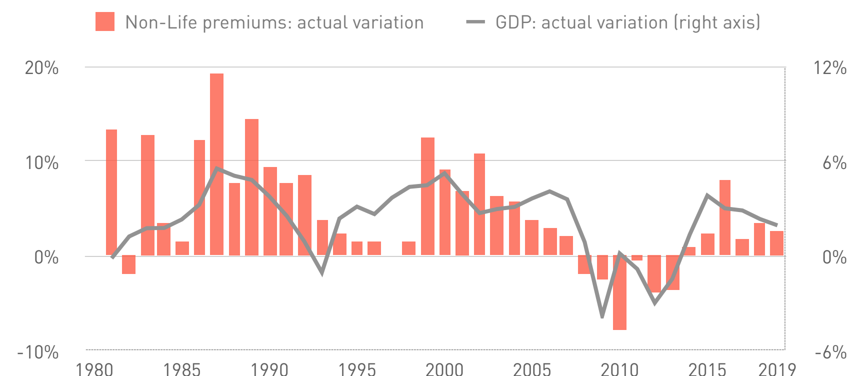
Chart 2.1.5-b
Spain: analysis of the impact of the economic crises on the Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

This situation is already impacting the insurance market. If the most recent economic crises in Spain since 1980 are taken as a reference (see Chart 2.1.5-a), the periods that most closely compare to the situation that the sector is going through at the moment are the two crises between 2007–2009 and 2011–2012. These were virtually consecutive, which led to sharp drops in GDP and a decline in insurance industry premiums even in specific years. Thus, GDP fell by -3.8% and -3% in 2009 and 2012, respectively, which led to a decline in insurance industry premiums of -8.8% and -7.4% in 2010 and 2012, respectively, particularly affecting the Life business but also automobile, industrial multirisk, third-party liability, transportation (hull and merchandise) and credit insurance. Health insurance showed the most resilience, while homeowners and condominium insurance proved resistant at the worst moments of the crisis and simply slowed down. Data for the first five months of 2020 (which include the worst moments of lockdown) reflect this behavior, with the automobiles line experiencing

Chart 2.1.5-c
Spain: analysis of the impact of the economic crises on the Non-Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

major setbacks of more than -3% compared to the first five months of 2019. By way of consolidation, Charts 2.1.5-b and 2.1.5-c show the impact at the disaggregated level for the Life and Non-Life lines.

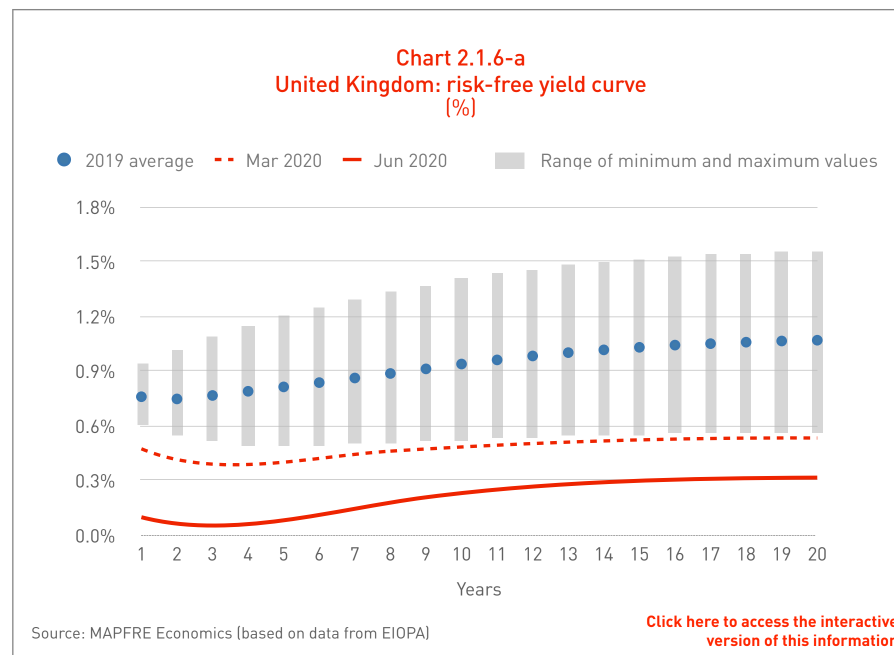
2.1.6 United Kingdom

The growth forecast for the UK economy gets worse for 2020, with GDP falling by a range of -10.8% to -11.5%, compared to growth of 1.4% in 2019. In the case of the United Kingdom, there is additional uncertainty about the effect leaving the European Union will have on its economy. The unemployment rate, which remained low before the pandemic, is beginning to pick up and could almost double this year. This environment will have a negative impact on the development of the Non-Life and Life protection insurance business, which has already been slowing down and may suffer sharp setbacks, given the magnitude of the estimated decline in GDP.

With regard to Life savings and traditional Life annuity insurance, given the magnitude of the crisis caused by the pandemic, the Bank of England has cut interest rates again and expanded the quantitative easing program for the acquisition of assets by an amount that may reach up to 745 billion pounds sterling. In EIOPA's risk-free interest rate yield curves (see Chart 2.1.6-a), another drop in interest rates for all segments of the curve with respect to the previous quarter can be seen, remaining substantially below the minimum levels for 2019 in all segments. The sharp decline in GDP expected this year and the low interest rate environment will undoubtedly damage the development of Life savings, Life investments and traditional annuity business, due to the loss of business and the bailouts that may occur. It is necessary to add to this the negative effect that the fall of the equity markets may cause on the perception of Life insurance in which the policyholder assumes the risk of the investment, widely distributed in the British market, while the low levels of stock prices may attract investors who have liquidity and are willing to take risks.

Moreover, when looking at what has happened in the United Kingdom insurance market in the economic crises experienced since 1980 (see Chart 2.1.6-b), it is noted that the crisis that is closest to the current situation is the one of 2007–2009, in which GDP fell by -0.3% and -4.2% in 2008 and 2009, respectively, leading to a decline in insurance industry premiums of -23.5% and -8.7% during those years with no clear signs of recovery since then. These huge declines in insurance premiums originated in the Life business and largely contributed to the stock market declines of -17.5% and -14.8% in 2008 and 2009, respectively, in a market

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



Source: MAPFRE Economics (based on data from EIOPA)

Click here to access the interactive version of this information

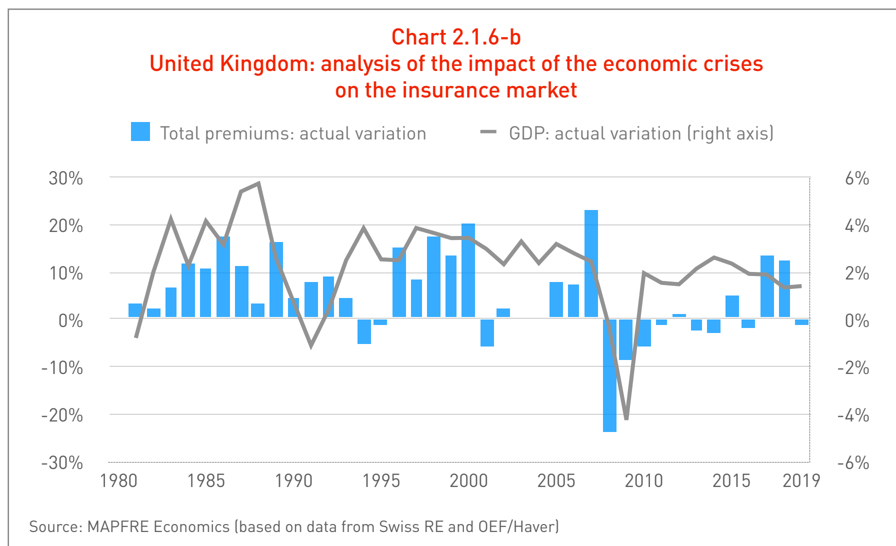


Chart 2.1.6-b
United Kingdom: analysis of the impact of the economic crises on the insurance market

Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

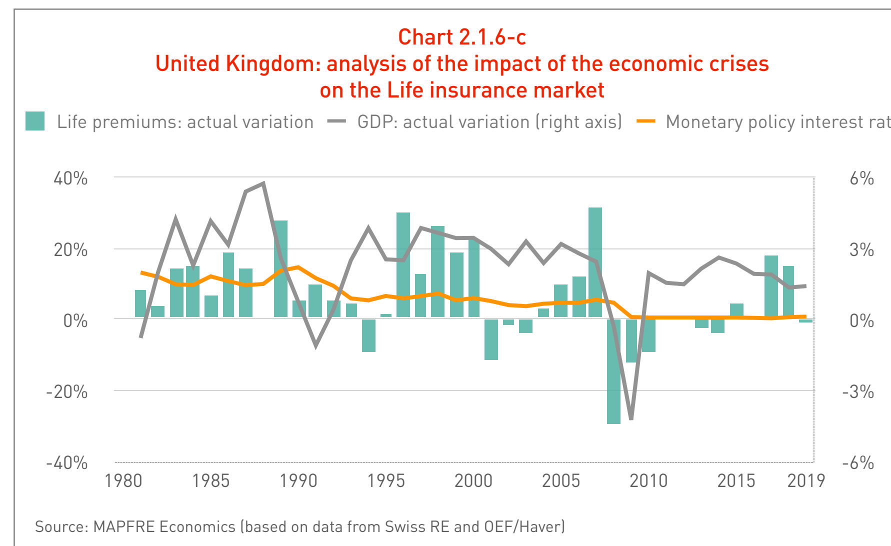


Chart 2.1.6-c
United Kingdom: analysis of the impact of the economic crises on the Life insurance market

Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

with a high prevalence of Life insurance in which the policyholder assumes the risk of the investment. Such sharp declines in insurance premiums and policy bailouts in situations of crisis often have a negative impact on insurance companies' profitability, because they have to cope with administration expenses that are fairly rigid in the event of lower revenue from premiums, which increases the expense ratio. In addition to this analysis, Charts 2.1.6-c and 2.1.6-d show the impact at the disaggregated level for the Life and Non-Life lines.

2.1.7 United States

Expectations about the economic situation caused by the pandemic have deteriorated throughout the last quarter, with a decline in GDP that could be in the range of -8% to -9.4% in 2020, after growth of 2.3% in 2019 (2.9% in 2018). The United States is one of the countries in which, despite the

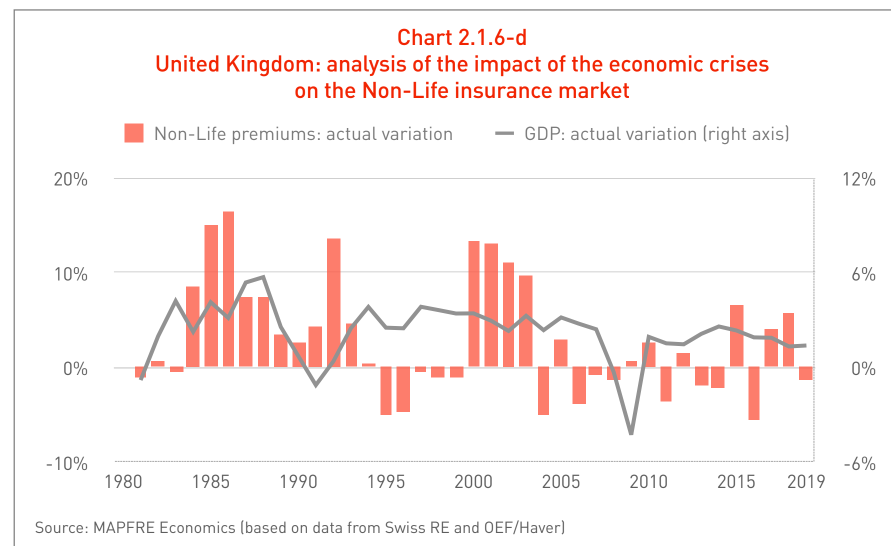


Chart 2.1.6-d
United Kingdom: analysis of the impact of the economic crises on the Non-Life insurance market

Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

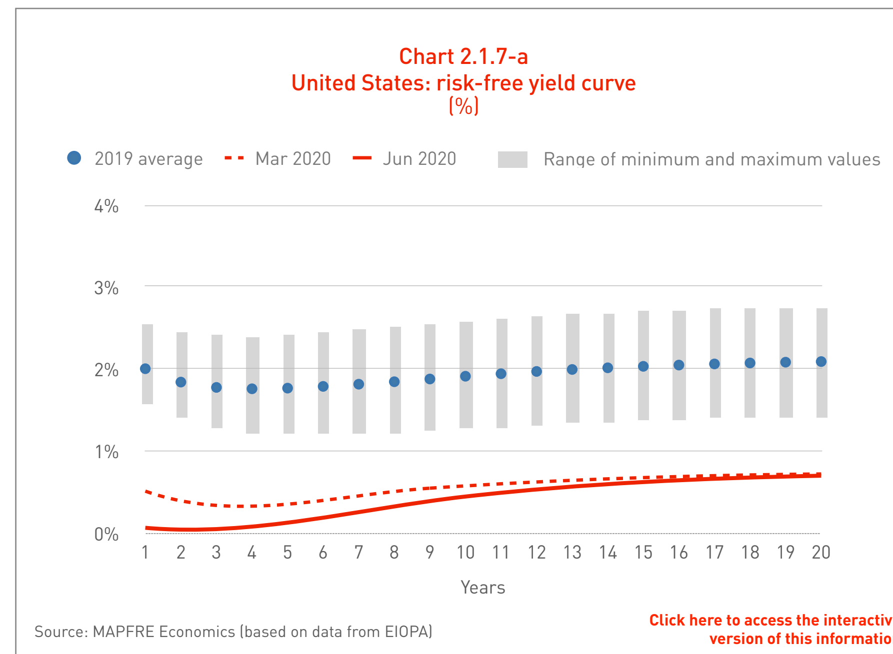
growing route of infection, the reopening of the economy has already begun. However, the lockdown measures taken have led to unprecedented job destruction. A recovery is expected in 2021 but there is great uncertainty as to the economic growth and structural effects that may arise from this crisis.

Meanwhile, the sharp drop in GDP forecast for this year will undoubtedly have a negative impact on the development of the insurance industry, both on the Non-Life and Life protection business (the growth of which is closely linked to economic performance), as well as Life savings, Life investments and traditional annuity. This is due to the loss of business and the bailouts that may occur for those people who are in need, given that they cannot carry out their normal work. At the end of June, the unemployment rate was still above 13% (compared to 3.5% in 2019). The expansive fiscal and monetary measures taken could, however, help to mitigate that impact.

The Life savings business, in particular, will be affected by the low interest rate environment, after the last cut in rates to levels close to zero by the Federal Reserve. In the latest EIOPA risk-free rate curves (see Chart 2.1.7-a), a further decline in rates can be seen in all sections of the curve between the months of March and June. Equity markets have been recovering but they are still susceptible to high levels of volatility, which negatively affects the Life insurance business in which the policyholder assumes the risk of the investment, which is very common in this market.

Furthermore, if we look at what happened in the insurance market of the United States in economic crises experienced since 1980 (see Chart 2.1.7-b), we can confirm that the crisis that is closest to the current situation is the great crisis of 2007–2009, with a decline in GDP of -2.5%, which led to a decline in the insurance industry's premiums of -7% in that year, without

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



Source: MAPFRE Economics (based on data from EIOPA)

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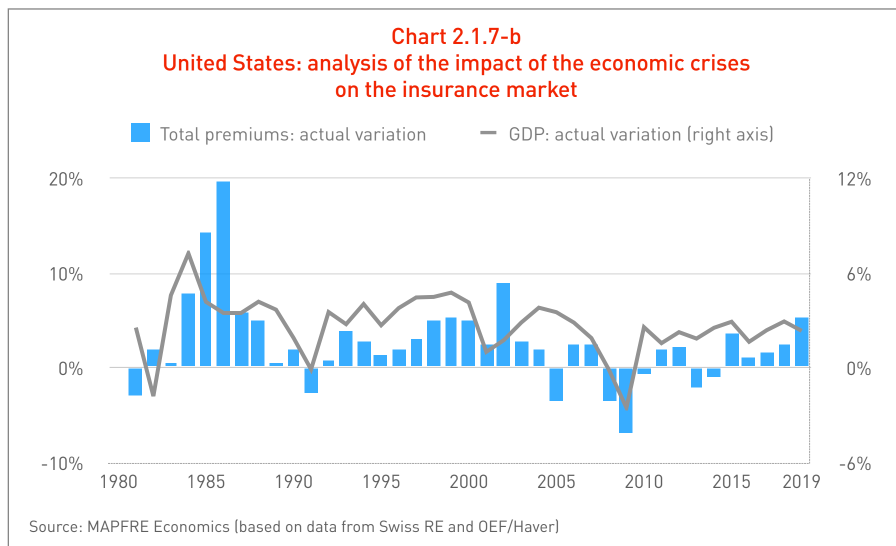
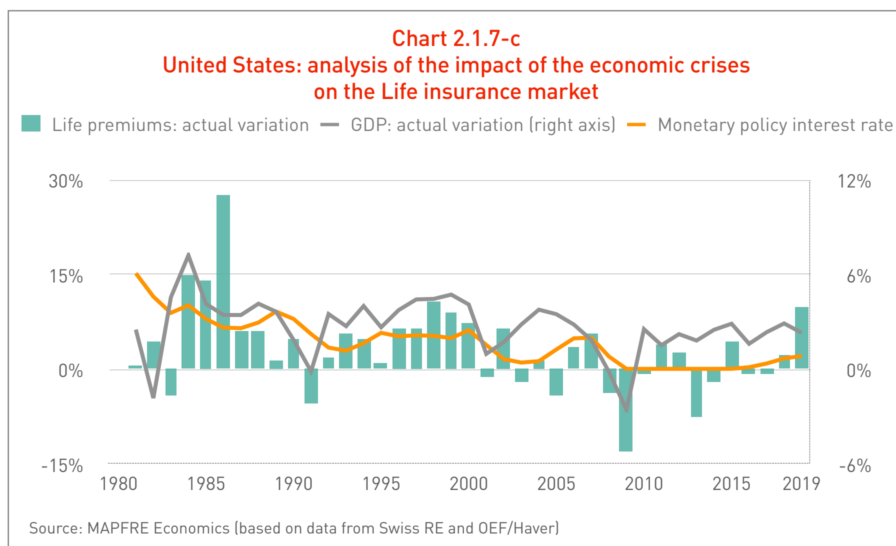
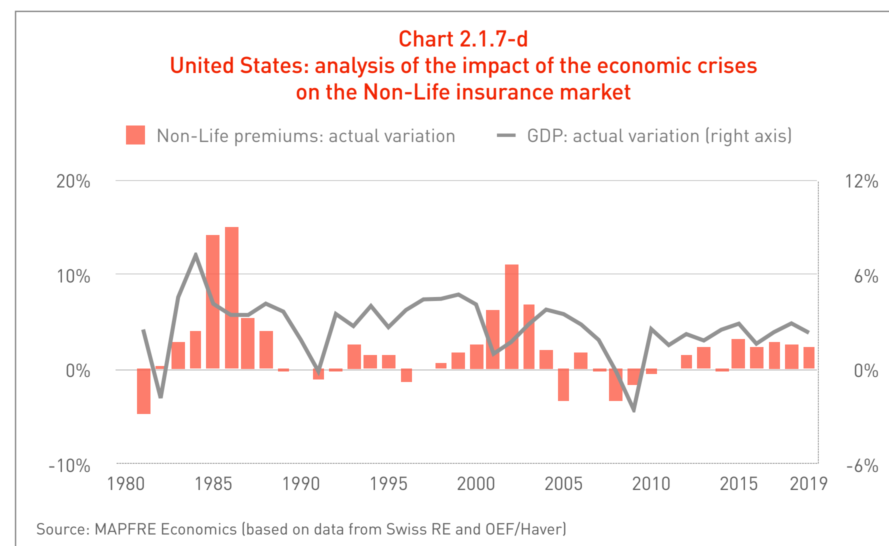
clear signs of recovery until 2015, when the trend changed, starting on a path of recovery that the latest data from 2019 later confirmed, before the situation caused by the COVID-19 pandemic.

By way of consolidation, Charts 2.1.7-c and 2.1.7-d show the impact at the disaggregated level for the Life and Non-Life lines, respectively. In this sense, it can be seen that the recovery of the economy had a particularly significant effect on the Non-Life business from 2015. In the Life business, meanwhile, we had to wait until 2018, when interest rates began to rise, being felt especially in 2019, with the help of the good performance of the economy and the equity markets, which have a lot of influence in this market. Again, the crisis caused by the pandemic has truncated economic



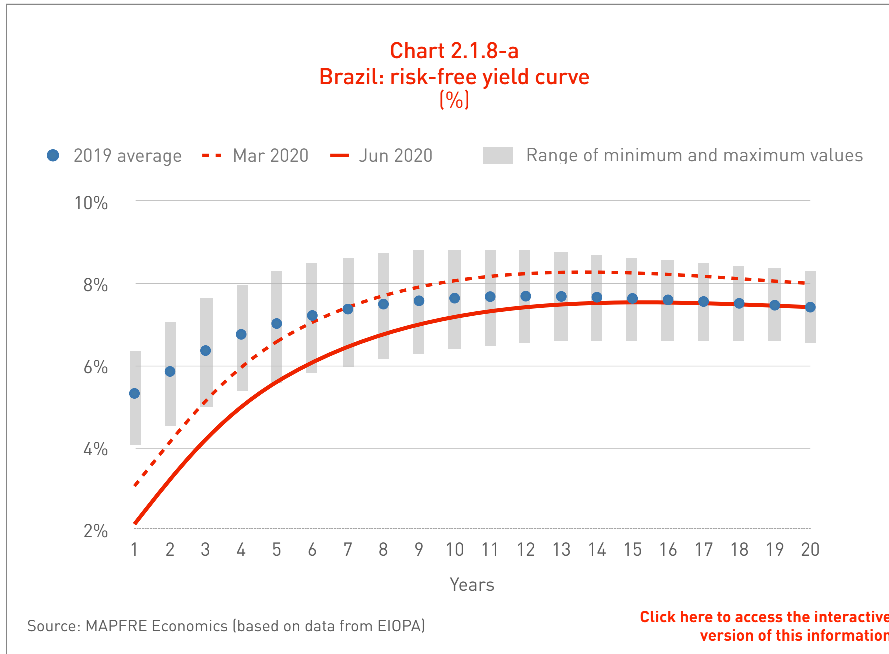




growth and interest rate hikes, and has increased the volatility of the equity markets, so that the insurance markets could once again experience sudden declines, as happened in the 2007–2009 crisis.

2.1.8 Brazil

In Brazil, the economic expectations for 2020 are deteriorating and a decline in GDP is anticipated ranging between -8.9% and -9.8%, compared to the estimated real growth in 2019 of 1.1% (1.3% in 2018). The fact that the virus has not been controlled and that the infection curve is still going up is detrimental to the development of the insurance industry, particularly for the Non-Life business, due to the impact that the situation is having on the Brazilian economy.



Furthermore, the Bank of Brazil continues its accommodative monetary policy to stimulate the economy, taking advantage of low inflation expectations. The curves produced by EIOPA (see Chart 2.1.8-a) show the decline in risk-free interest rates over the last quarter, with a curve showing a positive slope. This may mitigate the negative effect of GDP reduction and the short-term rate drop on the Life annuity and Life savings insurance business, by being able to offer medium- and long-term guaranteed rates that are higher than short-term rates. Expectations that some additional downfall may occur could also be another incentive to market new products for this business segment.

Moreover, in analyzing the economic crises experienced by Brazil since 1995 (see Chart 2.1.8-b), the situation that most resembles the current period would be the one experienced in 2015 and 2016, during which GDP fell -6.8% in an aggregate manner. During that period, the insurance industry experienced a sharp slowdown, but without experiencing setbacks (from 8% growth in 2014 to 2% in 2015 and 2016, in real terms).

Likewise, Charts 2.1.8-c and 2.1.8-d show the impact at the disaggregated level for the Life and Non-Life lines, respectively. It can be seen that the rise in interest rates adopted on that occasion by the Brazilian central bank in order to control inflation, benefited Life insurance, which experienced growth. However, Non-Life insurance suffered severe setbacks, in line with the economic impairment.

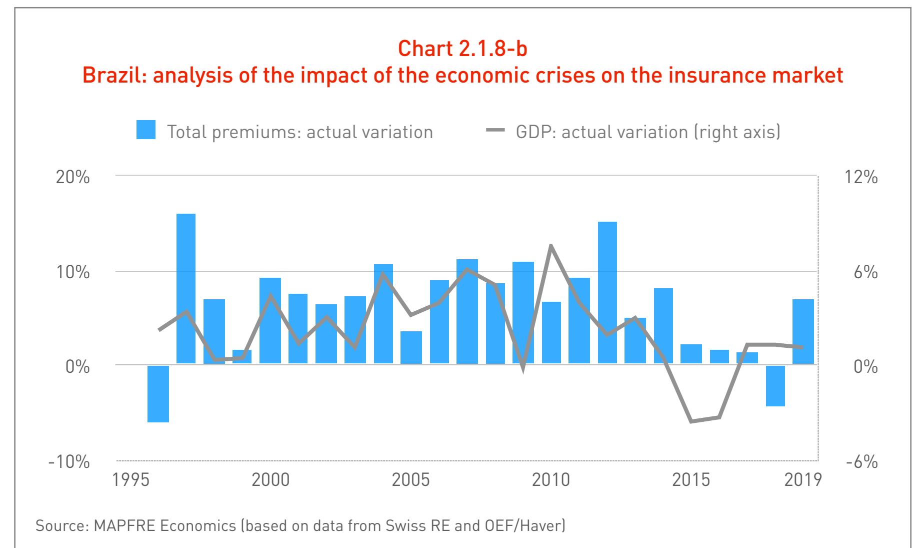
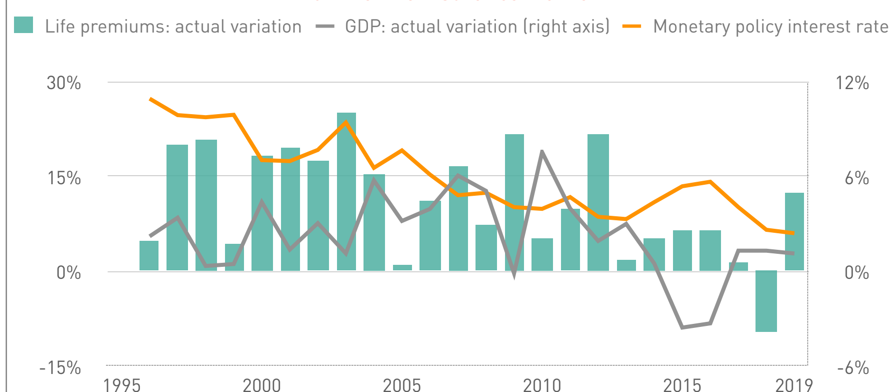
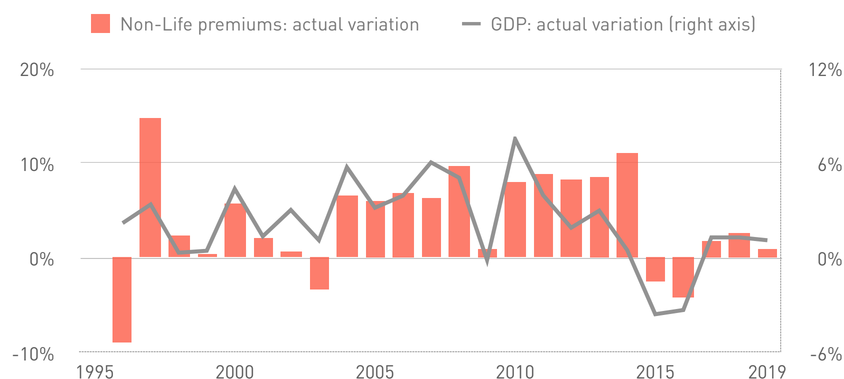


Chart 2.1.8-c
Brazil: analysis of the impact of the economic crises on the Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.8-d
Brazil: analysis of the impact of the economic crises on the Non-Life insurance market

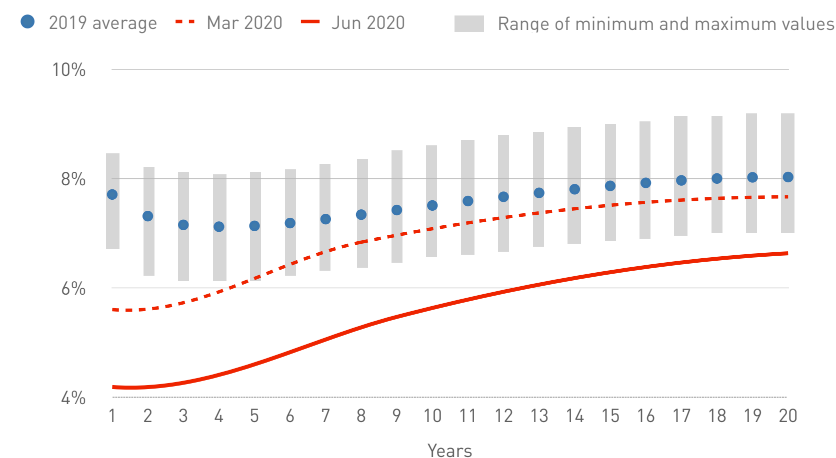


Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

2.1.9 Mexico

In Mexico, expectations have worsened as a result of the economic effects of the pandemic, which is not fully under control, and by the drop in the price of oil, tourism and external demand, especially from the United States. In this context, economic expectations for 2020 anticipate a decline in GDP that could be in a range between -10.5% and -11.3%, after the decrease of -0.3% in 2019 (2.2% in 2018). After this recessionary period, a recovery is expected in 2021, but there is much uncertainty in the estimates. The sharp decline in GDP forecast for this year will undoubtedly be detrimental to the development of the insurance industry, particularly for the Non-Life and Life protection segment.

Chart 2.1.9-a
Mexico: risk-free yield curve
(%)



Source: MAPFRE Economics (based on data from EIOPA)

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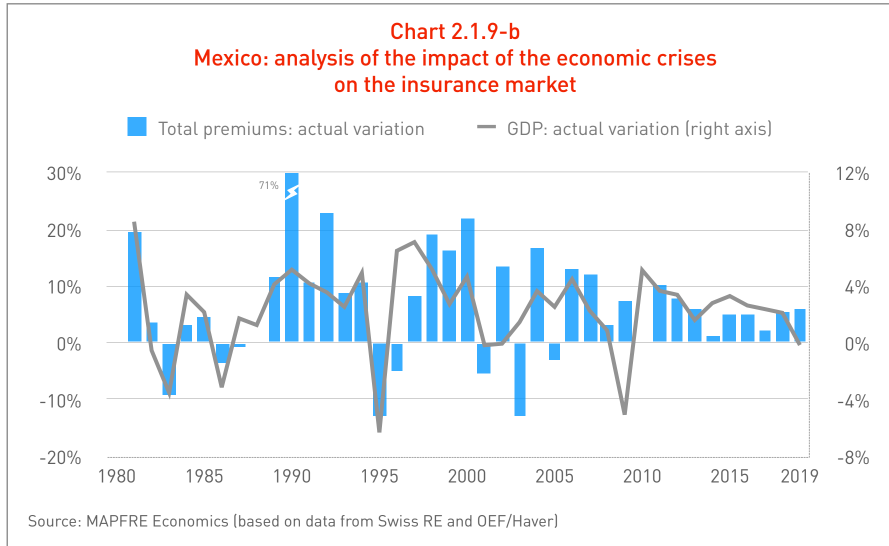
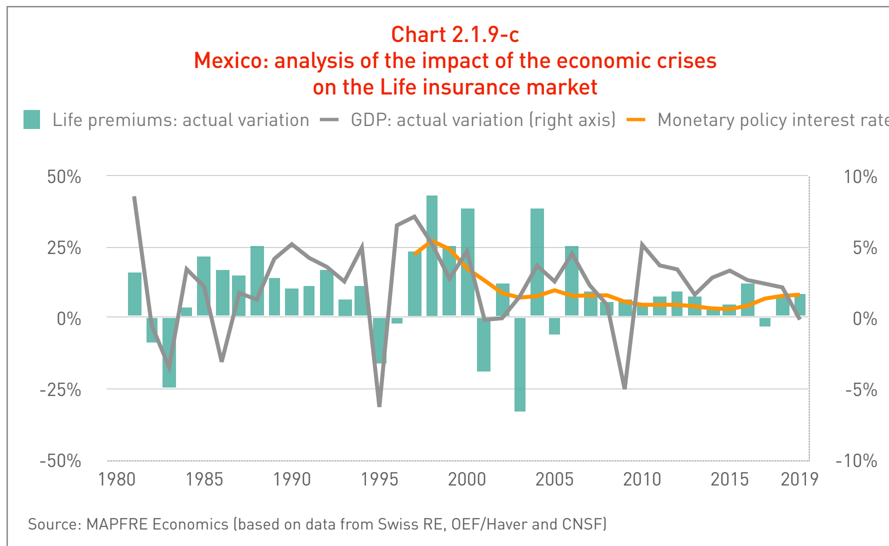
Chart 2.1.9-b
Mexico: analysis of the impact of the economic crises on the insurance market



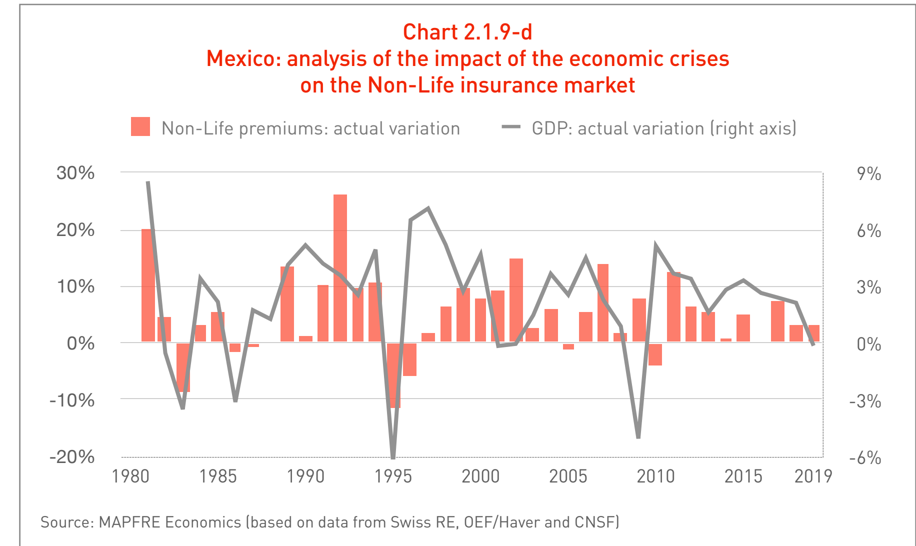
Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.9-c
Mexico: analysis of the impact of the economic crises on the Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE, OEF/Haver and CNSF)

Chart 2.1.9-d
Mexico: analysis of the impact of the economic crises on the Non-Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE, OEF/Haver and CNSF)

Moreover, the accommodative monetary policy adopted by the Bank of Mexico will affect the development of the Life savings business, due to the fall in profitability that this type of product can offer. The EIOPA curves (see Chart 2.1.9-a) show the drop in interest rates throughout the last quarter, with an interest rate curve that has started sloping upward in practically all its sections. This situation may mitigate the negative effect of GDP reduction and the short-term interest rate drop on the Life annuity and Life savings insurance business by offering a positive term premium, enabling the offering of guaranteed medium- and long-term rates higher than short-term rates. Expectations that some additional downfall may occur could also be an incentive to market new products for this business segment.

Meanwhile, from the analysis of what has happened in the Mexican insurance market in the economic crises experienced since 1980 (see Chart 2.1.9-b), we can see that the crisis of 1995, the year in which the GDP dropped -6.5%, led to a decline in insurance premiums of -13% in

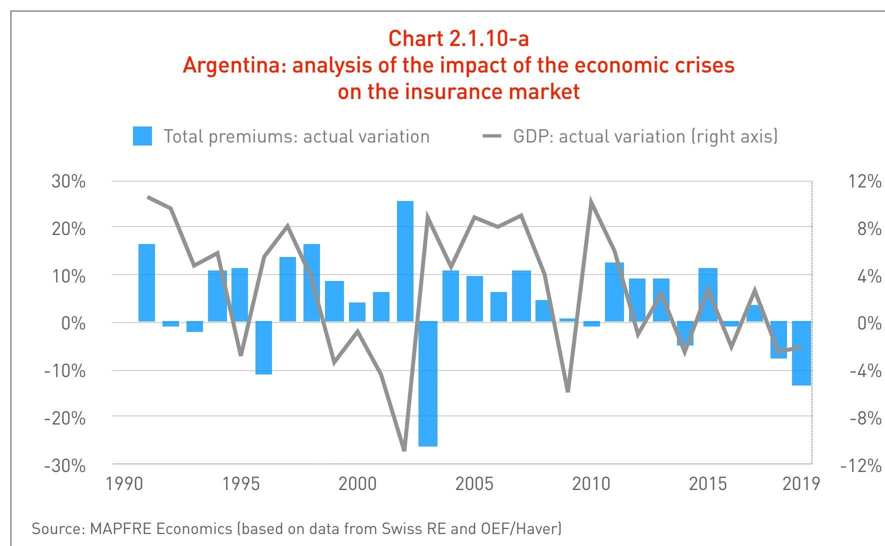
that year and -5% in the following year, despite the economic recovery. However, during the next four years, the insurance industry experienced strong growth, well above GDP growth, with real average growth (once the effect of inflation had been corrected) of 16% per year. In addition, in the so-called "Great Recession" between 2007 and 2012, the Mexican insurance industry showed great resilience, slowing down, but not experiencing setbacks. These recoveries are also aided by the low level of insurance penetration in the Mexican economy, which leads to an improvement in economic conditions that translates into larger growth in the insurance business, as is often the case in other emerging markets. By way of consolidation, Charts 2.1.9-c and 2.1.9-d show the impact at the disaggregated level for the Life and Non-Life lines, respectively.

2.1.10 Argentina

Forecasts for the Argentine economy worsen as a result, on the one hand, from the strict lockdown introduced as a result of the pandemic and, on the other, from the credit impairment situation that had been affecting the country. Thus, a fall in GDP is estimated in 2020 that may be within a range of between -9.5% and -10.4% in real terms, compared to -2.2% in 2019 (-2.4% in 2018).

This environment also worsens the prospects for the development of the insurance business, which had already been suffering the consequences of the economic crisis Argentina was experiencing in 2019. If we look at what happened in the Argentine insurance market in the economic crises experienced since 1990, we can see that in the crisis of the late 1990s and early 2000s, which culminated in a decline in GDP of -11% in 2002, the Argentine insurance market maintained positive real growth until 2003, when it suffered a severe real contraction of -26%, when the economy began to recover. However, in the four years after that decline, the insurance industry recovered with remarkable growth, with an average annual growth of 9.5%, in real terms, above real GDP growth, which grew an average of 7.6% in that period. Subsequently, the global crisis that started with the fall of Lehman Brothers affected the Argentine economy, which suffered a decline in GDP in 2009 of -5.9%. It had a smaller impact on the development of the insurance market, which slowed down, experiencing a decline of -0.9% in 2010, but grew again notably in the three years after the crisis, with an average real growth of 10.3% per year, well above GDP growth. However, from then on the Argentine economy and the insurance industry entered into a dynamic in which a year of crisis alternated with a year of slight growth, until the 2018 crisis that deepened in 2019, and is becoming even worse as a consequence of the pandemic (see Chart 2.1.10-b). By way of consolidation, Charts 2.1.10-c and 2.1.10-d show the impact at the disaggregated level for the Life and Non-Life lines, respectively.

Chart 2.1.10-a
Argentina: analysis of the impact of the economic crises on the insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

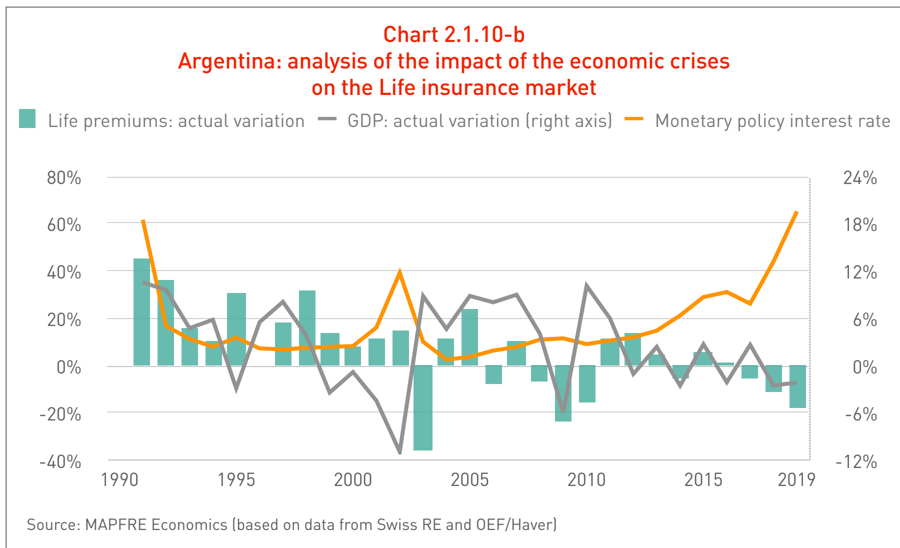


Chart 2.1.10-b
Argentina: analysis of the impact of the economic crises on the Life insurance market

Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

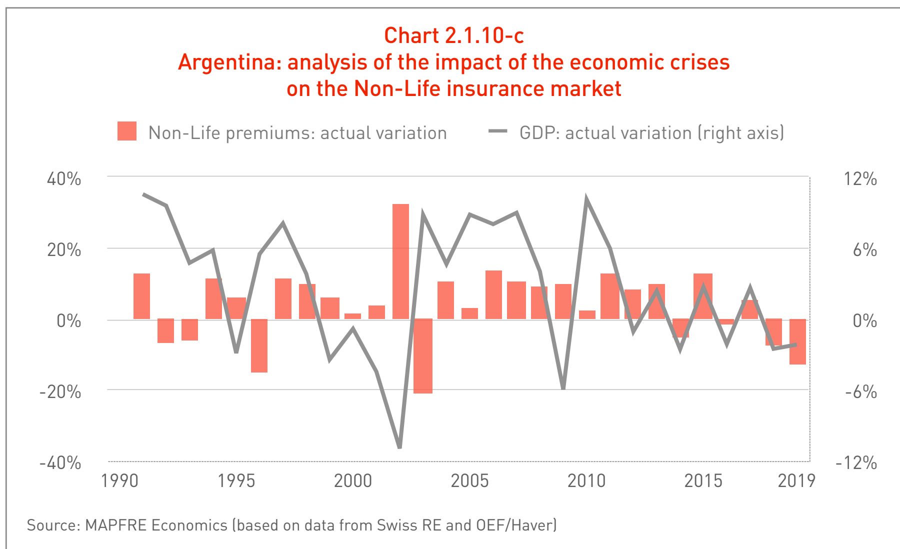


Chart 2.1.10-c
Argentina: analysis of the impact of the economic crises on the Non-Life insurance market

Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

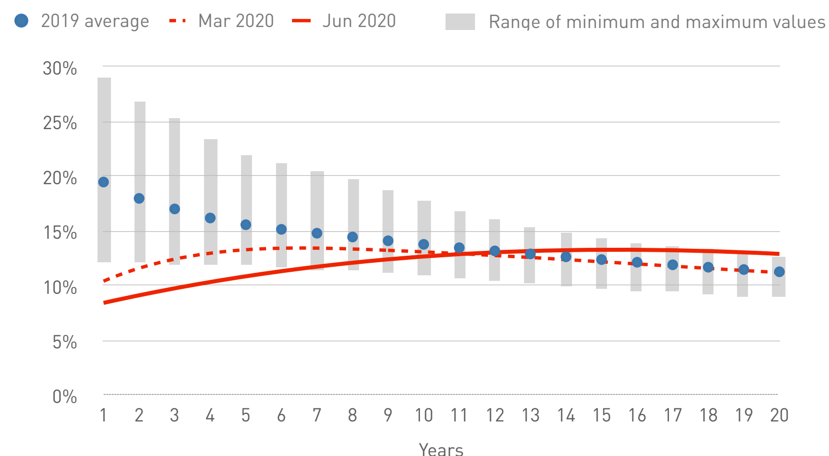
2.1.11 Turkey

The forecast for the Turkish economy is a decline in GDP ranging from -4.6% to -5.2% in 2020, in real terms, against growth of 0.8% in 2019 (3.1% in 2018). The effects of the measures taken against the pandemic on domestic consumption and tourism, together with the strong depreciation of the Turkish lira, have substantially worsened expectations.

The projected drop in GDP forecast this year will be detrimental to the insurance industry's development, particularly for the Non-Life and Life protection business, which is closely linked to economic performance. The depreciation of the exchange rate and the high inflation, which is not yet under control, negatively affect its profitability, because of the increased cost of the claims involved. Monetary policy interest rates are still high (8% since mid-June) and may help partially offset these adverse effects, underpinning the financial profitability of these business lines, although the real interest rate is already entering negative terrain.

Furthermore, as can be seen in the EIOPA curves (see Chart 2.1.11-a), the decline in interest rates at the end of the last quarter has occurred in terms of less than ten years, forming a rate curve that has increased its upward slope in its short-term and medium-term sections. This may mitigate the negative effect of the decline in GDP and the decline in short-term interest rates on the Life savings and Life annuity insurance business by offering a higher positive term premium, enabling guaranteed medium-term rates that are higher than short-term rates to be offered. Expectations that some additional downfall may occur could also be an incentive to market new products for this business segment. The economic situation, however, may lead to a marked increase in bailouts by those people suffering from a drop in income, because they are unable to carry out their work as a result of the pandemic.

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



Source: MAPFRE Economics (based on data from EIOPA)

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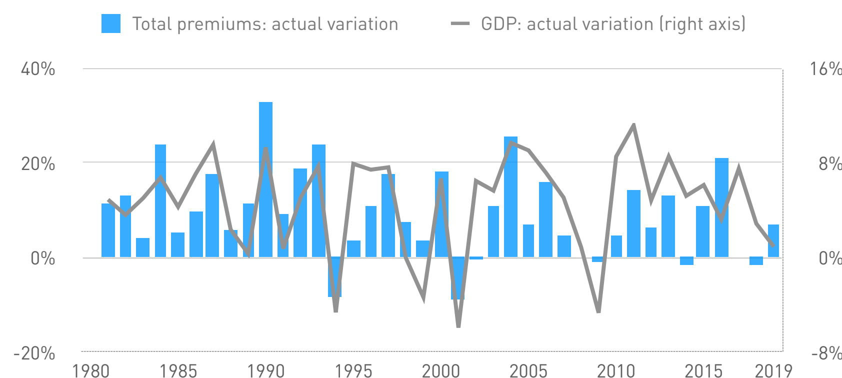
In addition, when looking at what happened in the Turkish insurance market in the economic crises experienced since 1980 (see Chart 2.1.11-b), it can be seen that the crisis of 1994, when the GDP fell -4.7%, also saw a drop in insurance premiums of -8.3%. Over the next four years, however, the insurance industry experienced strong growth, with real growth (after correcting for the effect of inflation) averaging 10% annually, significantly higher than GDP growth, which had an average growth of 5.7%.

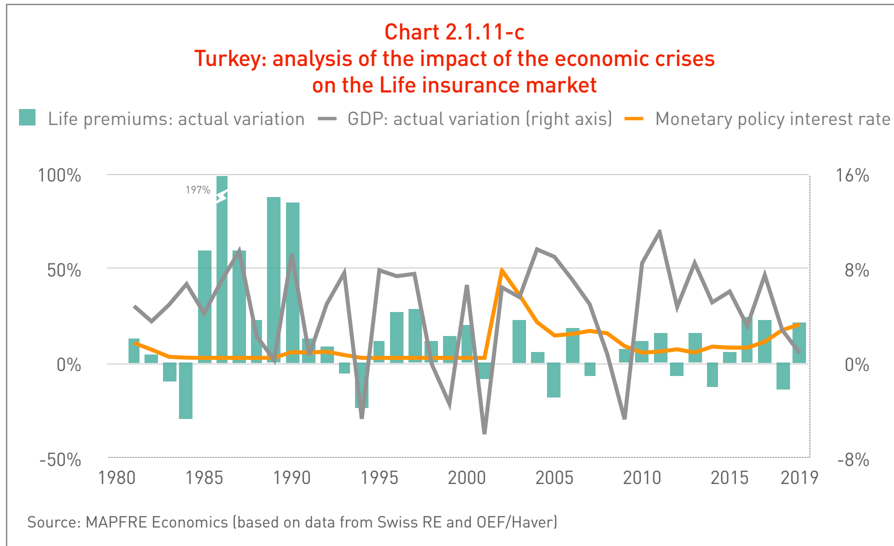
Moreover, in the 2007–2009 crisis, the Turkish insurance industry experienced a sharp slowdown during the early years of the crisis and a slight decline in 2009 of -1%, when the fall in Turkish GDP was -4.7%. There was a significant growth in insurance premiums in the next four years, which was also higher on average than the average economic growth in those years. Therefore, the Turkish insurance industry showed considerable resistance in this latest crisis, as has been observed in other emerging markets. These recoveries are also aided by the low level of insurance penetration in the Turkish economy, which leads to an improvement in economic conditions that translates into larger growth in the insurance business. Finally, Charts 2.1.11-c and 2.1.11-d show the impact at the disaggregated level for the Life and Non-Life lines.

Chart 2.1.11-b
Turkey: analysis of the impact of the economic crises on the insurance market



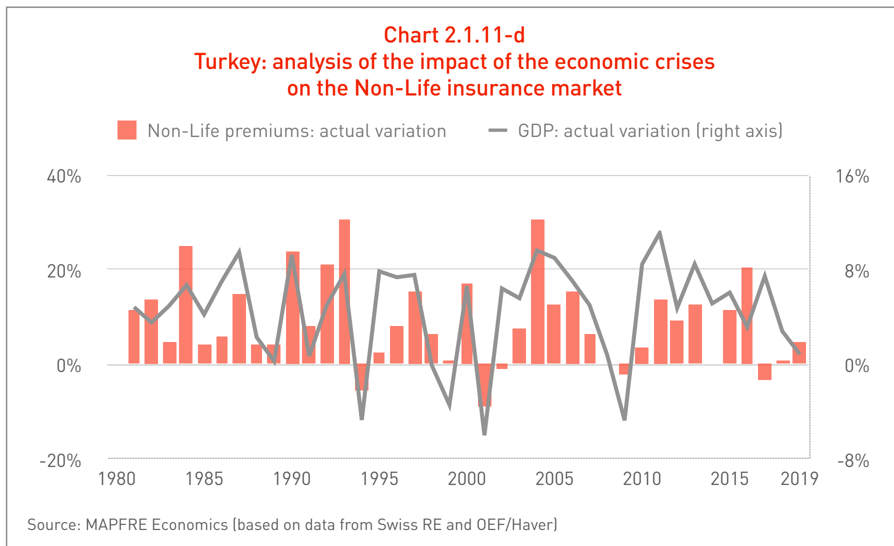
Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.11-c
Turkey: analysis of the impact of the economic crises on the Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.11-d
Turkey: analysis of the impact of the economic crises on the Non-Life insurance market

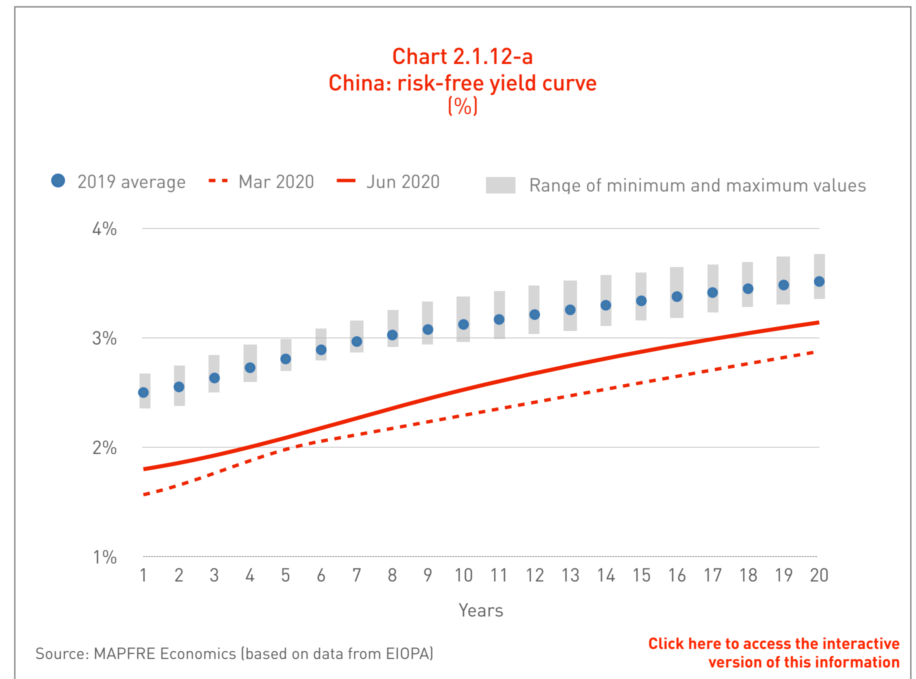


Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

2.1.12 China

In China, economic expectations for 2020 anticipate a sharp slowdown in GDP, with growth in the range of between 0.8% and 0%, compared to real growth of 6.2% in 2019 (6.7% in 2018). China was the first economy to suffer the effects of the health crisis and to consequently take lockdown measures in areas affected by the pandemic. Likewise, it was also the first country to gradually lift some of these measures, which is already reflected in some of the leading indicators of activity. The Chinese government is carrying out an extensive program of fiscal and monetary stimuli that could accelerate the return to economic growth, mitigating the

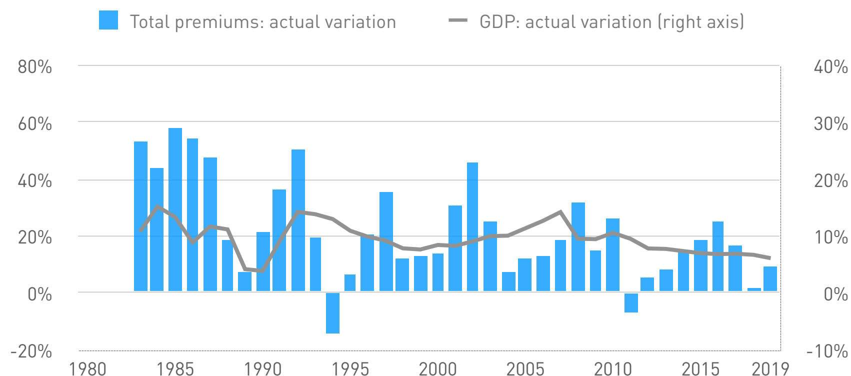
Chart 2.1.12-a
China: risk-free yield curve
(%)



Source: MAPFRE Economics (based on data from EIOPA)

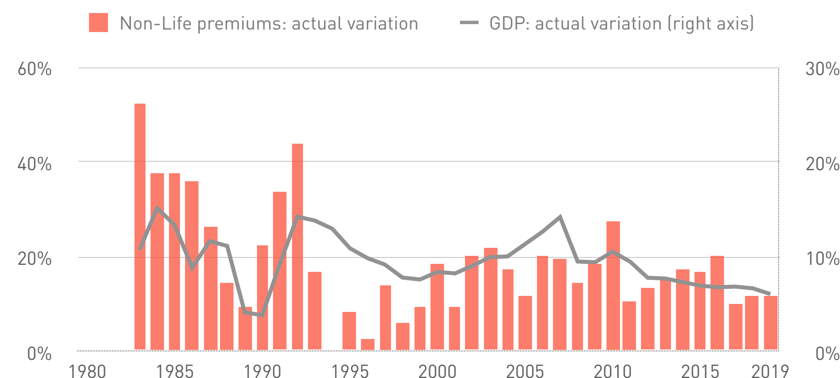
Click here to access the interactive version of this information

Chart 2.1.12-b
China: analysis of the impact of the economic crises on the insurance market



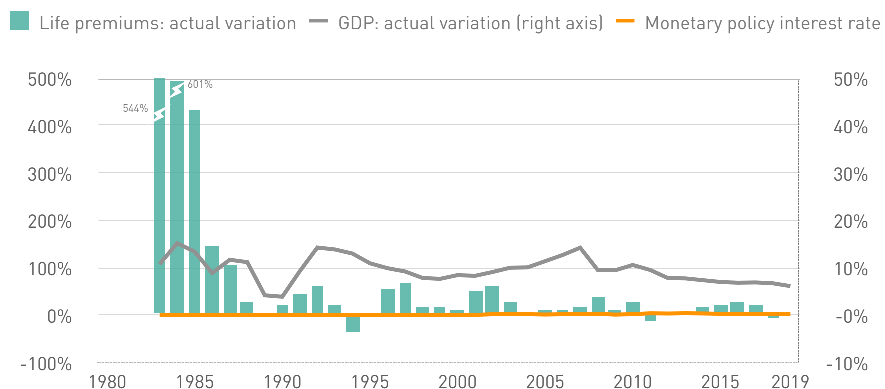
Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.12-d
China: analysis of the impact of the economic crises on the Non-Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.12-c
China: analysis of the impact of the economic crises on the Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

negative impact that the sharp economic slowdown will have on the insurance industry.

In the EIOPA curves (see Chart 2.1.12-a), a slight recovery in risk-free interest rates can be seen throughout the last quarter, after the sharp decrease in the previous quarter, accentuating its upward slope. This may mitigate the negative effect of GDP contraction and falling interest rates on the Life savings and Life annuity insurance business, by being able to offer medium- and long-term guaranteed rates that are higher than short-term rates.

Furthermore, if we analyze what happened in the Chinese insurance market in economic crises experienced since 1980 (see Chart 2.1.12-b), it can be seen that in the crisis of 1994 and the crisis of 2011, the Chinese economy suffered only slight slowdowns in terms of GDP; however, the

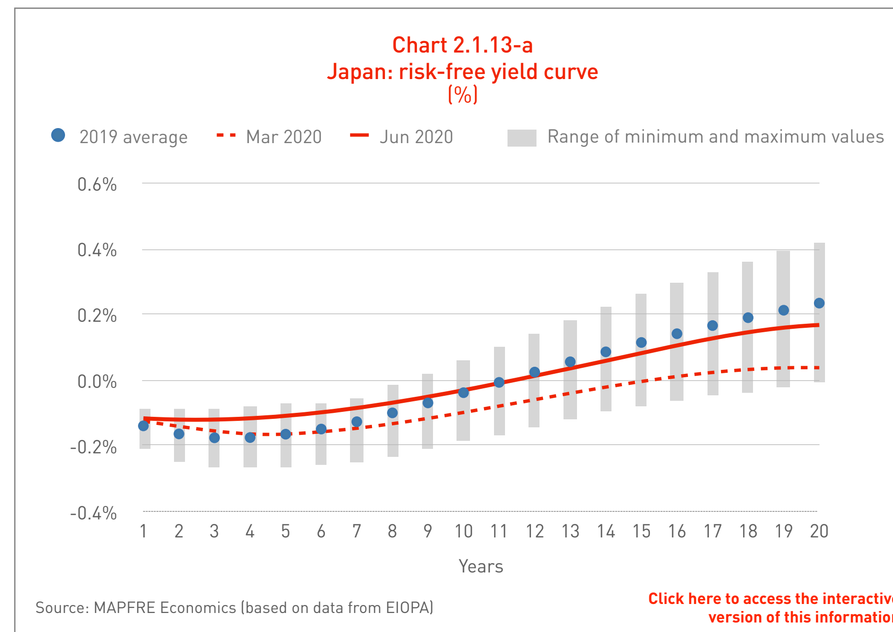
premiums of the insurance industry suffered marked decreases in those years of -15% and -6%, respectively. In the following four years, however, the insurance industry experienced strong growth, significantly higher than GDP growth, with real average growth (after correcting for the effect of inflation) of 19% per year and 12% from 1994 and 2011, in each case. It should be noted that in these recoveries the low level of insurance development in the Chinese economy has also helped, the penetration rate of which is still far from the levels of more developed economies. Charts 2.1.12-c and 2.1.12-d show the impact at the disaggregated level for the Life and Non-Life lines, respectively.

2.1.13 Japan

Forecasts for the Japanese economy anticipate a severe recession in 2020, with a decline in GDP that could range between -6% and -6.8%, compared to growth of 0.7% in 2019 (0.3% in 2018). As in practically all the economies analyzed in this report, a recovery is expected in 2021, but there is great uncertainty as to the estimates and structural effects that may result from the current crisis, despite the monetary and fiscal expansion measures being taken by the Japanese authorities. The sharp drop in GDP forecast for this year will undoubtedly be detrimental to the development of the insurance industry, both in terms of the Non-Life business and the Life protection business, whose growth is closely linked to economic performance.

Furthermore, in the EIOPA curves (see Chart 2.1.13-a), it can be seen that the risk-free interest rates have increased slightly, after the decrease in the previous quarter, but still have negative values for maturities up to 11 years and a low term premium from these maturities, which makes it very difficult to market Life savings products and Life annuities. This sustained context of low interest rates continues to be detrimental to the development of the specified lines of business.

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

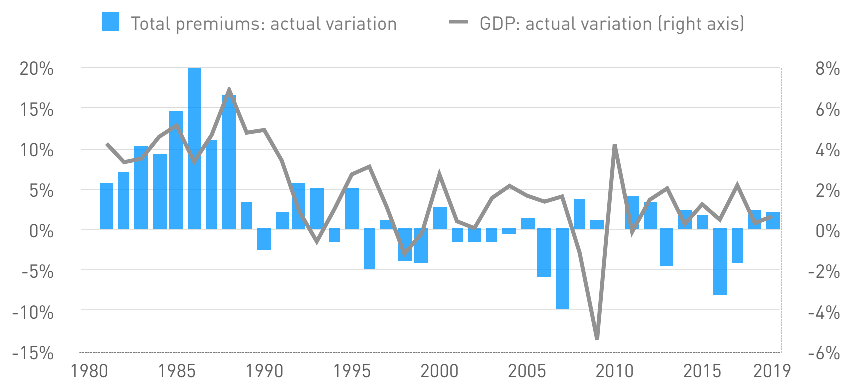


Source: MAPFRE Economics (based on data from EIOPA)

Click here to access the interactive version of this information

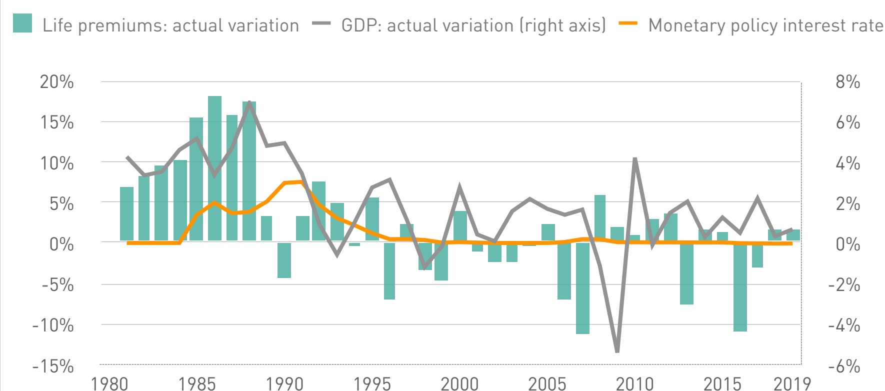
Furthermore, by analyzing what happened in the Japanese insurance market in the economic crises experienced since 1980 (see Chart 2.1.13-b), we can see that the bursting of Japan's housing bubble in the early 1990s marked a turning point both in terms of economic growth and in terms of the development of the country's insurance industry; a structural situation that has not yet fully recovered to date. In the 1990s (the "lost decade"), the solid and sustained growth of the insurance market did not recover again. By way of consolidation, Charts 2.1.13-c and 2.1.13-d show the impact at the disaggregated level for the Life and Non-Life lines.

Chart 2.1.13-b
Japan: analysis of the impact of the economic crises on the insurance market



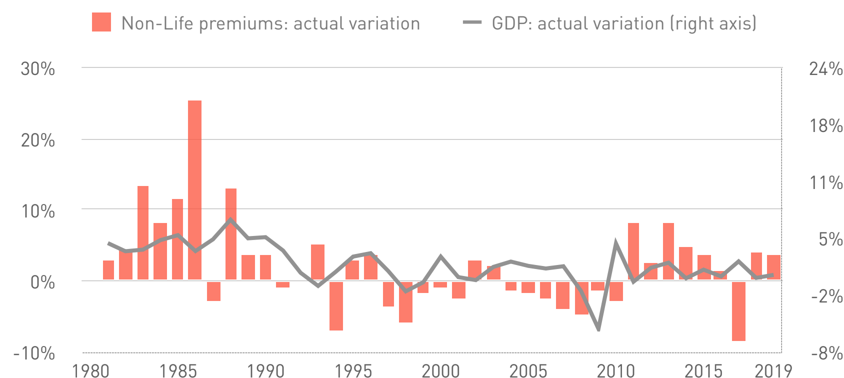
Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.13-c
Japan: analysis of the impact of the economic crises on the Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.13-d
Japan: analysis of the impact of the economic crises on the Non-Life insurance market



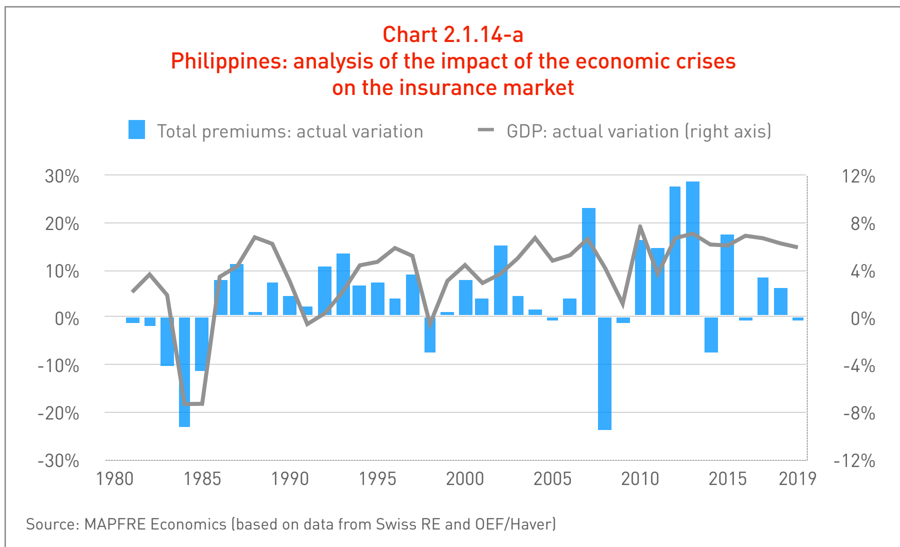
Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

2.1.14 Philippines

In the Philippines, the economic expectations for 2020 anticipate a decline in GDP in the range of -3.8% to -5.2%, compared with real growth of 6% in 2019 (6.3% in 2018). The economic crisis caused by the COVID-19 pandemic is driving strong setbacks in private consumption, which was the main driver of economic growth. This situation is detrimental to the development of the insurance industry, particularly for the Non-Life business, the growth of which is closely linked to economic performance.

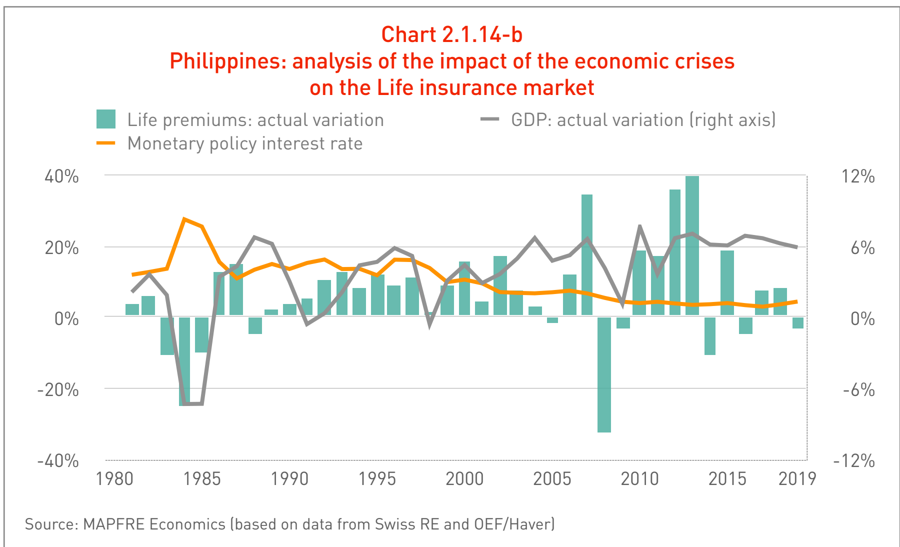
At the moment, the fiscal support package for the economy amounts to 3.4% of GDP, one of the lowest in the Asian area. This implies that the future recovery, around which there is much uncertainty, may be slower than anticipated in previous estimates. The Central Bank of the Philippines has taken new measures with further cutting of interest rates,

Chart 2.1.14-a
Philippines: analysis of the impact of the economic crises on the insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

Chart 2.1.14-b
Philippines: analysis of the impact of the economic crises on the Life insurance market

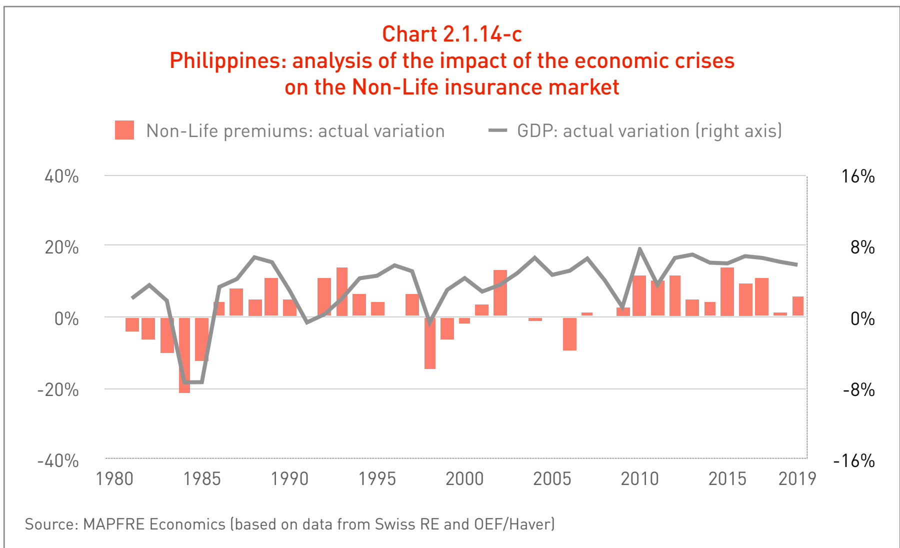


Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

in an environment of moderate inflation. The monetary policy benchmark rate stands at 2.75% (from 3.25%) and the ten-year sovereign bond yield, which stood at 4.44% at the end of June, is forecast to decline to levels of around 3.16% by late 2020. This interest rate environment, with low rates coupled with the flattening of the risk-free yield curve, complicates the outlook for the Life savings and Life annuity business lines. These are currently exposed to the risk of business loss due to bailouts that may occur for those people in need who are not able to carry out their normal work as a result of the pandemic.

If we look at how the economic crises experienced since 1980 have affected the Philippine insurance market (see Chart 2.1.14-a), we can confirm that the more profound crises usually have severe negative effects on the insurance business, as can be seen in the crisis of the eighties in which the GDP contracted by -7%, leading to a drop in insurance

Chart 2.1.14-c
Philippines: analysis of the impact of the economic crises on the Non-Life insurance market



Source: MAPFRE Economics (based on data from Swiss RE and OEF/Haver)

premiums of -23% in real terms, and with a long recovery process in subsequent years. The Asian crisis that unfolded in 1997, which is more similar to the current crisis in terms of contraction, led to a fall in insurance premiums of -7%, when GDP went from a growth of 5.2% in 1997 to a drop of -0.6% in 1998. In this case, the insurance industry performed well in the four years following the crisis, with an average annual growth of 7.1%, doubling the average annual GDP growth of 3.5% in that four-year period. The same happened in the 2008 crisis, when the insurance business fell sharply by -23.5% in real terms (as inflation skyrocketed), but recovered after the crisis to hit an average annual growth rate of 22% in the four years that followed, and was again significantly above the average real GDP growth of 6.3%. These recoveries are aided by the low level of insurance penetration in the Philippine economy, which leads to an improvement in economic conditions that translates into larger growth in the insurance business, as is often the case in other emerging markets. Finally, Charts 2.1.14-c and 2.1.14-d show the impact at the disaggregated level for the Life and Non-Life lines.

2.2 Regulatory trends

SFCR of the leading insurance groups in the European Union

For the fourth time since the new harmonized framework for Solvency II regulation came into force, during the second quarter of 2020, the main insurance groups of the European Union (EU) have published their Solvency and Financial Condition Report (SFCR) for the fiscal year of 2019[3].

One of the main changes introduced by the new European solvency regulation was the mandatory calculation of a group-level solvency capital requirement (SCR), which applies to groups of insurance companies located in the European Union. Before Solvency II entered into force, the only obligation was the calculation of regulatory capital at the individual level by insurance companies, with prudential control exercised by national supervisory authorities on this basis. In addition, supplementary control for the supervision of insurance groups was formulated, focusing on detecting intra-group operations that may result in the double calculation of capital in various companies of the same group, or the existence of additional risks that are not discernible at the individual level. Under the new guidelines framework applicable to insurance groups, a regulatory scheme is reproduced based on three pillars, seeking to create incentives not just so that insurance companies are properly administered at the individual level, but also at the level of the insurance groups of which they are a part. The aim is to strengthen the regulatory scheme in charge of protecting the interests of those insured while ensuring that the insurance industry contributes to good economic performance and, accordingly, to the stability of the financial system.

Therefore, under the scheme applicable to insurance groups, Pillar 1 focuses on determining the quantitative aspects that preserve the group's solvency position as defined under the solvency regulation itself, and that consequently may differ from the scope of accounting consolidation; Pillar 2 seeks to maintain satisfactory governance of the insurance groups as an additional element to boost their performance, and specifically their solvency position; and finally, the objective of Pillar 3 is to increase the requirements of these groups with respect to transparency and disclosure of information to the market.

In this situation, pursuant to the specific applicable regulatory framework under Pillar 3, the groups of insurance companies must publish information on their financial position and solvency on an annual basis, providing clear, comparable and high quality information to the market by

releasing the group's SFCR. With this exercise in transparency, the regulation seeks to enable interested economic operators to have access to information that allows them to understand the implicit risk at the level of the different insurance groups and, to that extent, to be able to assess, from an aggregate perspective, the characteristics of their risk assessment and management processes, the level of sufficiency of their technical provisions and shareholders' equity and, therefore, their solvency position.

SCR, shareholders' equity and solvency ratios

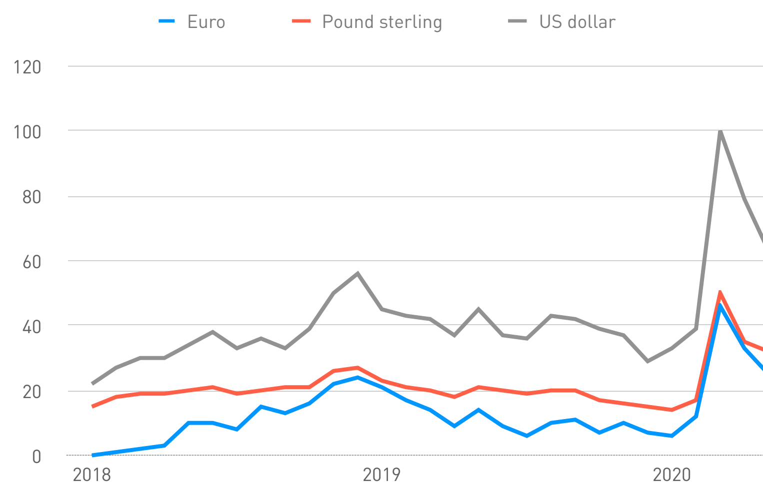
The following is an analysis of the behavior of Solvency Capital Requirement (SCR), shareholders' equity and solvency ratios of the main EU insurance groups for 2019, including some comparisons of changes in their main components compared to 2018.

It should be noted from the outset that the report has an important update compared to the previous year's report, in that it does not include the Prudential plc group. In 2019, this group split its business in Europe into the group called M&G, which has gone on to list independently. By doing this, the Prudential plc group has concentrated its business in other regions, mainly in Asia and the United States, falling under the supervision of the Hong Kong insurance authority. As a result of this restructuring, Prudential plc stopped publishing a group SFCR under Solvency II regulations in 2019. From then on, the SFCR is only drawn up by M&G for the business acquired (business in the United Kingdom and the rest of Europe). It should be noted, however, that M&G has not been considered in this report because it does not have a basis for comparison with the previous year, as 2019 is the first year in which it published a group SFCR. This situation has led to a change in the list of insurance groups analyzed in this report, with the addition of Sogecap and the removal of Prudential plc group. In addition, this year the RSA group has been included in order to round off the analysis and cover eight groups that use internal models and eight that use the standard formula to calculate the group SFCR.

Volatility adjustment

The volatility adjustment for the main currencies at the end of 2019 turned out to be notably lower than the adjustment at the end of the previous year (see Chart 2.2-a). This decreased volatility in the financial markets, reflected in the volatility adjustments calculated by the European Insurance and Occupational Pensions Authority (EIOPA) for a representative portfolio of investments of insurance companies in different currencies, helped the solvency position of the insurance groups, which, in general terms, has resulted in an improvement in the 2019 solvency ratios, without prejudice to other factors that may negatively affect their risk profiles on an exceptional basis. However, the economic crisis resulting from the lockdown measures taken in the wake of the health crisis caused by the COVID-19 pandemic has led to an unprecedented surge in volatility so far in 2020. This is clearly reflected in the evolution of the volatility adjustment in the months after the end of 2019. We can also see an abrupt change in trend in March after the United States Federal Reserve, the European Central Bank and the Bank of England announced significant and unconventional measures to guarantee the liquidity of the bond markets (both sovereign and corporate). The decrease in volatility at the end of 2019 in investments in euros, dollars and pounds, led to a decrease in the volatility and matching adjustments applied for the calculation of the technical provisions and SCR when determining the solvency ratio at group level under the new prudential regulation, as can be confirmed in the analysis presented in the following sections of this report.

Chart 2.2-a
Main currencies: volatility adjustment, 2018–2020



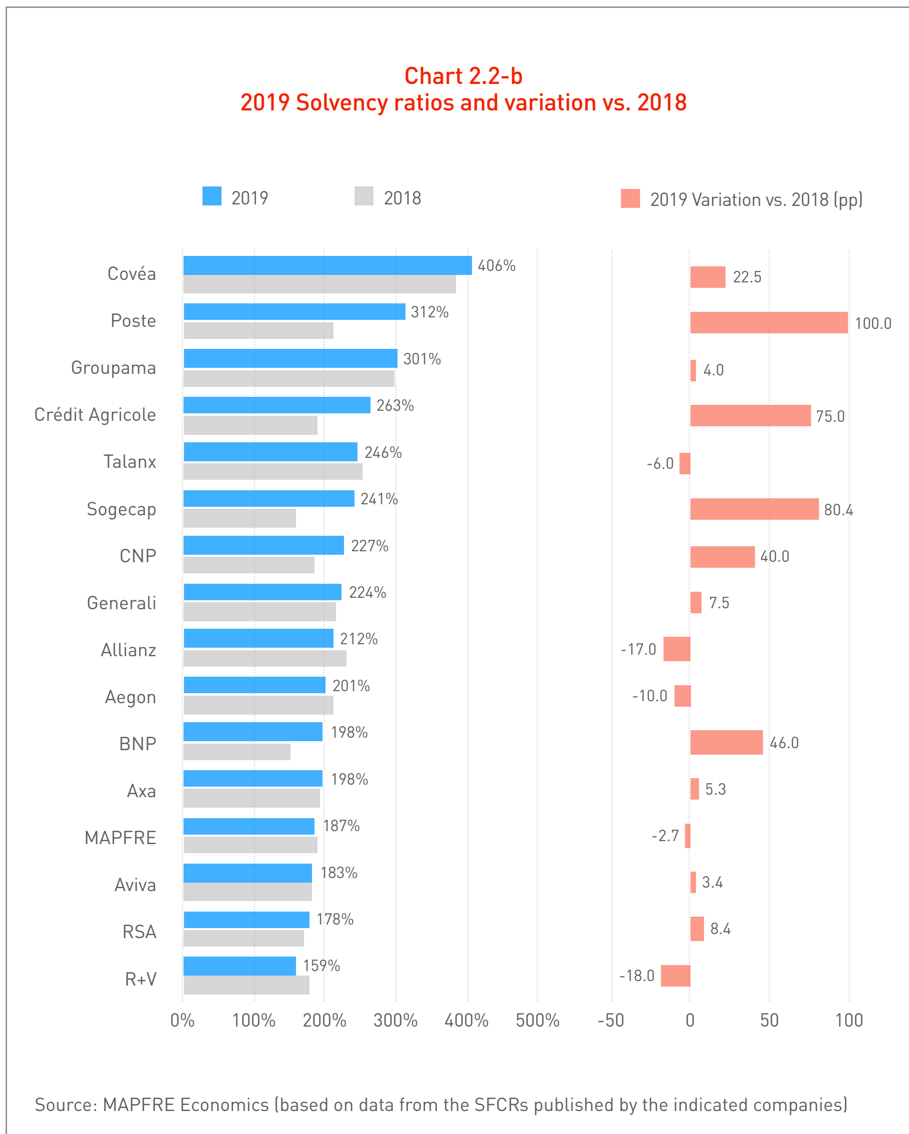
Source: MAPFRE Economics (based on data from EIOPA)

However, the subsequent surge as a result of the economic crisis caused by the pandemic may be partially offset by greater adjustments, which once again highlights the importance of these adjustment measures incorporated since Solvency II entered into force. These act non-cyclically when there are high occasional volatilities in market assessments, bearing in mind that, due to their business model, insurance companies are not directly exposed to the aforementioned volatilities as they are investors who, when properly managing their risks, invest normally at maturity.

Solvency ratios

The solvency ratios for the 2019 fiscal year, published in the SFCRs presented in 2020 by the main insurance groups in the EU, are presented in Chart 2.2-b. As can be seen in the aforementioned chart, these ratios have been compared with those that were published for the 2018 fiscal year when made available, also including the variation between both years. From this information, it appears that Covéa once again had the highest solvency ratio in 2019 among the groups analyzed, with 406% (compared to 384% in 2018). The groups that saw the greatest increases in their solvency ratios during 2018–2019 were Poste, Sogecap, Crédit Agricole and BNP, increasing by 100, 80.4, 75 and 46 percentage points (pp), respectively. In contrast, the insurance groups R+V, Allianz and Aegon had the largest falls in their respective solvency ratios with respect to 2018, falling by 18, 17 and 10 pp, respectively.

In addition, Table 2.2-a shows the main financial and solvency figures for fiscal year 2019 reported by the insurance groups in their respective SFCRs[4]. This information shows that the total premiums in that year for all the leading EU insurance groups considered in this report amounted to 633 billion euros (639 billion in 2018), while technical provisions stood at 3.8 trillion euros (3.6 in 2018). Also, total own funds stood at 435.7 billion euros (416.9 billion in 2018) while the aggregate SCR was 196.6 billion euros (199.4 billion in 2018), resulting in an aggregate solvency ratio for the sample of analyzed groups that stood at 222% (compared to 209% in 2018).



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

SCR calculation methods

In addition, Table 2.2-b shows the information related to the method used by the insurance groups considered in this analysis for the purposes of calculating the SCR in 2019. In this regard, of the 16 groups analyzed, 8 (CNP, Crédit Agricole, MAPFRE, BNP, Sogecap, Poste, Covéa and R+V) used the standard formula, while the remaining 8 (Allianz, Axa, Generali, RSA, Aviva, Talanx, Aegon and Groupama) used different forms of internal models.

Note that none of the groups analyzed is using a purely internal model for SCR calculation. As illustrated in the aforementioned Table 2.2-b, the groups that carry out some type of internal modeling have chosen to apply partial internal models (market risk, credit risk, underwriting risk, operational risk or another risk type), combining the calculation of the standard formula for certain modules with internal models for certain risk categories.

Eligible own funds

Furthermore, the quality of the eligible own funds available to the different insurance groups considered in this analysis to cover their capital requirements, is detailed in Table 2.2-c. As can be seen from this information, at the aggregate level, 85% of the eligible own funds were of the highest quality (Tier 1), 13.7% were Tier 2 and only 1.3% were Tier 3. It should be noted that these percentages are similar to those presented in the sample of groups analyzed in the study for 2018.

However, the cases of Covéa and R+V stand out, whose highest quality eligible own funds are at levels close to 100% (99.8% and 99.9%, respectively). In support of this information, Charts 2.2-c, 2.2-d and 2.2-e

Table 2.2-a
Main financial and solvency figures, 2019
(millions of euros)

	Premiums	Technical provisions	Eligible own funds	SCR required	Solvency ratio
Allianz	138,540	638,149	83,959	39,525	212.4%
Axa	100,154	521,163	59,413	29,954	198.3%
Generali	70,477	395,833	45,516	20,306	224.1%
Aviva	51,388	427,385	34,080	18,580	183.4%
Talanx	38,552	120,788	22,729	9,224	246.4%
Crédit Agricole	36,864	343,500	34,561	13,157	262.7%
CNP	33,892	369,326	34,786	15,339	226.8%
BNP	24,738	224,466	16,364	8,249	198.4%
Aegon	23,678	162,746	18,470	9,173	201.3%
MAPFRE	23,044	38,128	8,976	4,805	186.8%
R+V	17,539	99,662	12,025	7,568	158.9%
Covéa	17,492	87,674	26,578	6,545	406.1%
Sogecap	15,846	140,624	9,475	3,939	240.6%
Groupama	14,240	76,339	13,666	4,542	300.9%
RSA	8,823	11,892	3,634	2,042	177.9%
Poste	17,972	132,765	11,469	3,679	311.7%
Total	633,239	3,790,440	435,699	196,625	221.6%

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

Table 2.2-b
SCR calculation methods, 2019

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

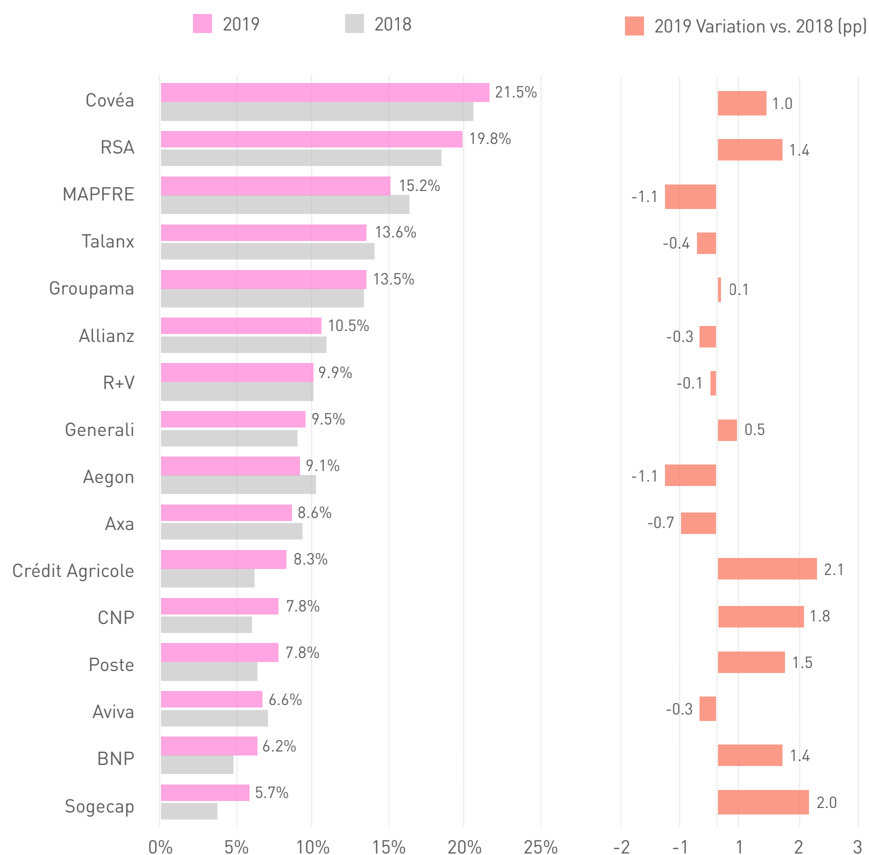
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Table 2.2-c
Quality of eligible own funds, 2019
(thousands of euros and percentages)

	Eligible own funds	Tier 1		Tier 1r		Tier 2		Tier 3	
		(amount)	(%)	(amount)	(%)	(amount)	(%)	(amount)	(%)
Allianz	83,958,827	69,556,835	82.8%	3,296,084	3.9%	10,239,899	12.2%	866,009	1.0%
Axa	59,412,654	40,786,817	68.7%	6,774,818	11.4%	11,328,990	19.1%	522,030	0.9%
Generali	45,515,623	37,185,967	81.7%	2,271,221	5.0%	5,987,313	13.2%	71,122	0.2%
RSA	3,633,590	2,368,610	65.2%	499,170	13.7%	536,395	14.8%	229,416	6.3%
Aviva	34,079,616	24,658,112	72.4%	2,173,903	6.4%	6,850,993	20.1%	396,610	1.2%
CNP	34,785,962	26,081,364	75.0%	2,295,477	6.6%	5,150,006	14.8%	1,259,115	3.6%
Covéa	26,577,648	26,527,096	99.8%	42,552	0.2%	8,000	0.0%	-	-
Crédit Agricole	34,561,289	27,152,798	78.6%	1,996,212	5.8%	5,348,696	15.5%	63,583	0.2%
Talanx	22,729,165	19,568,737	86.1%	390,096	1.7%	2,505,244	11.0%	265,088	1.2%
Aegon	18,469,591	12,723,463	68.9%	2,614,013	14.2%	2,370,415	12.8%	761,699	4.1%
Groupama	13,665,841	10,743,848	78.6%	1,179,790	8.6%	1,694,267	12.4%	47,936	0.4%
BNP	16,363,864	10,582,959	64.7%	1,656,498	10.1%	3,048,103	18.6%	1,076,304	6.6%
R+V	12,024,830	12,009,130	99.9%	-	-	15,700	0.1%	-	-
MAPFRE	8,976,340	7,793,430	86.8%	-	-	1,182,900	13.2%	-	-
Sogecap	9,475,462	6,977,648	73.6%	954,335	10.1%	1,543,479	16.3%	-	-
Poste	11,468,565	9,628,928	84.0%	-	-	1,839,638	16.0%	-	-
Total	**435,698,867**	**344,345,741**	**79.0%**	**26,144,168**	**6.0%**	**59,650,038**	**13.7%**	**5,558,912**	**1.3%**

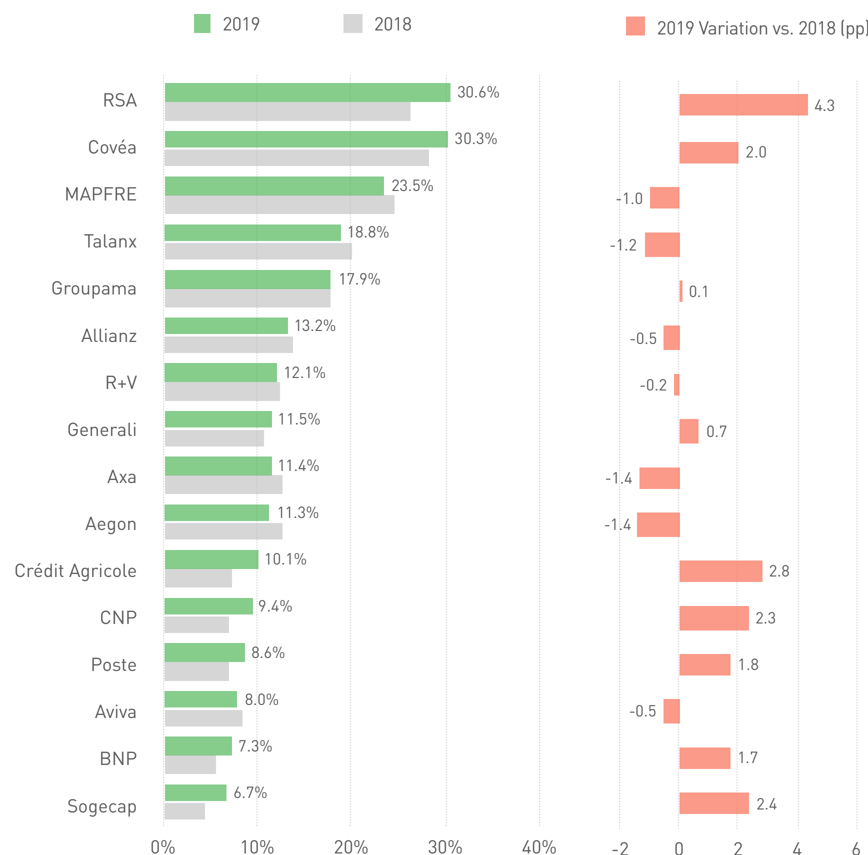
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-c
Relative weight of own funds to assets in 2019 and variation vs. 2018



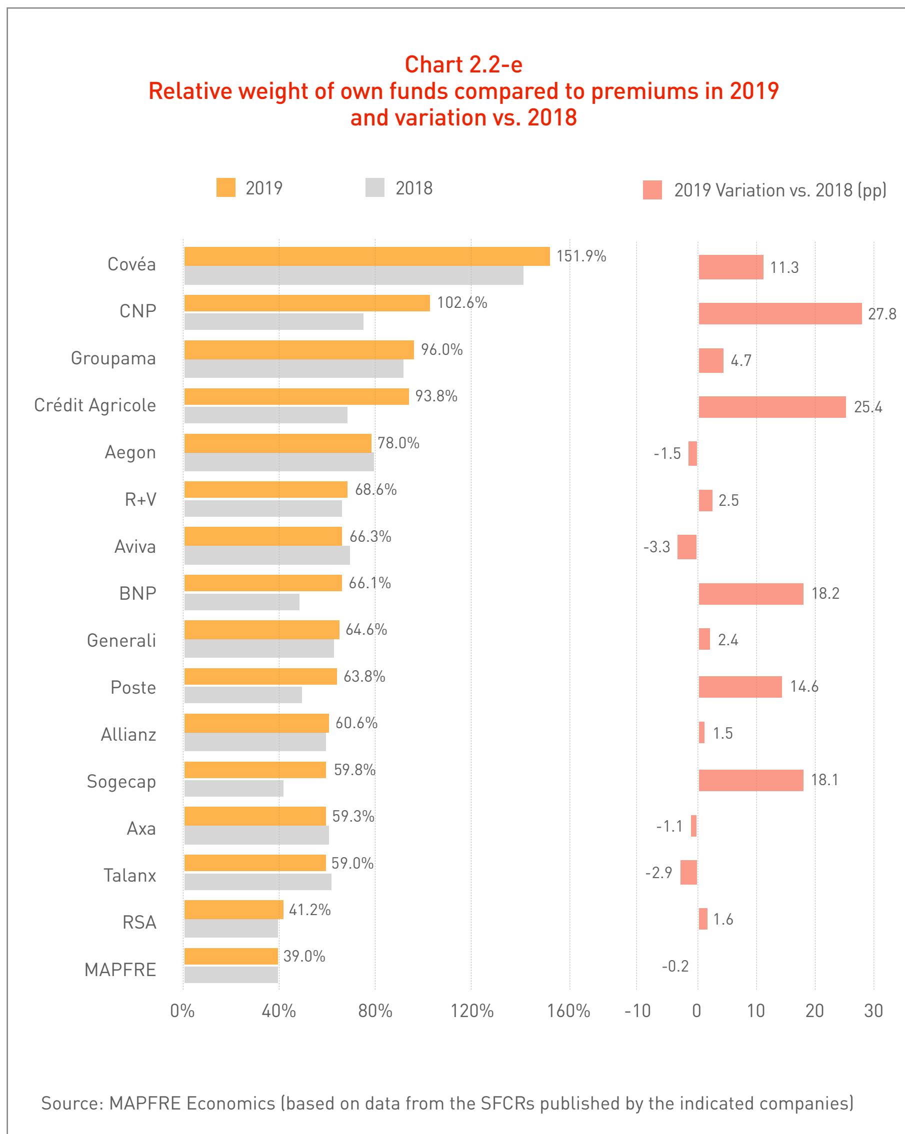
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-d
Relative weight of own funds to technical provisions in 2019 and variation vs. 2018



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

Chart 2.2-e
Relative weight of own funds compared to premiums in 2019 and variation vs. 2018



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

illustrate a comparison of the amount of eligible own funds in relation to certain figures relevant to the balance sheet and business (assets, technical provisions and premiums) of the various insurance groups included in the analysis, as well as variations recorded in these relevant references with regard to 2018.

In the first case (the relationship between own funds and assets), the cases of Covéa, RSA and MAPFRE stand out, with a proportion of 21.5%, 19.8% and 15.2%, respectively. In the relationship between own funds and technical provisions, the first three positions are also held by RSA, Covéa and MAPFRE, with a proportion of 30.6%, 30.3% and 23.5%, in each case. And finally, in the relationship between own funds and premiums, Covéa, CNP and Groupama take the leading positions, with 151.9%, 102.6% and 96%, respectively.

Transitional and adjustment measures

When analyzing the level of the solvency ratios of the insurance groups, a significant aspect is the effect of the transitional and adjustment measures that were introduced in the Solvency II Directive in order to alleviate potential harm to the business arising from the existence of product portfolios with long-term guarantees. These measures establish a broad transitional regime for the full entry into force of Solvency II, considering the nature of long-term institutional investors that insurance companies and their groups have, which may have to contend with considerable volatility of financial markets with market spread increments, without requiring forced sales to be made (volatility adjustment) and the satisfactory management of asset-liability risks (matching adjustment). In this way, the transitional regime allows for a smooth transition to the requirements of the new system for those who

decide to make use of it. More specifically, the measures adopted by the Directive in this regard were as follows:

- *Transitional measure of technical provisions*. This measure allows the difference between the technical provision estimated under the parameters of Solvency II and the one calculated in line with the previous standards under Solvency I to be phased in gradually over an initial 16-year period, until January 1, 2032 (four years having now elapsed). This applies only to portfolios existing at the time that the new system entered into force on January 1, 2016.

- *Volatility adjustment measure*. This adjustment allows for correcting the discount interest rate for the technical provisions to mitigate the effects of momentary volatilities in credit spreads in investment portfolios.

- *Matching adjustment measure between assets and liabilities*. If certain requirements are met, the measure allows companies to adjust the discount curve on technical provisions in line with institutions holding fixed income assets to maturity with a duration that is similar to their liabilities, and which are therefore not exposed to market volatility in credit spreads.

Impact of transitional and adjustment measures

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

Table 2.2-d
Effect of transitional and adjustment measures on own funds, 2019
(thousands of euros)

	Eligible own funds	Effect of transitional adjustment TP on own funds	Effect of volatility adjustment on own funds	Effect of matching adjustment on own funds
Allianz	83,958,827		3,447,517	
Axa	59,412,654		-1,663,209	
Generali	45,515,623		-792,465	
CNP	34,785,962		-637,454	
Crédit Agricole	34,561,289		-350,718	
Aviva	34,079,616	-4,536,284	-368,341	-8,003,466
Covéa	26,577,648			
Talanx	22,729,165	-3,310,305	272,968	
Aegon	18,469,591		-408,400	-37,255
BNP	16,363,864		-290,205	
Groupama	13,665,841	-3,245,294	-133,416	
R+V	12,024,830			
Poste	11,468,565	-1,320,017	-345,275	
Sogecap	9,475,462		-41,049	
MAPFRE	8,976,340	-660,870	-34,850	-265,180
RSA	3,633,590			

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

Table 2.2-e
Effect of transitional and adjustment measures on SCR, 2019
(thousands of euros)

	SRC required	Effect of transitional adjustment TP on own funds	Effect of volatility adjustment on own funds	Effect of matching adjustment on own funds
Allianz	39,525,279		7,049,313	
Axa	29,953,559		7,326,191	
Generali	20,306,053		6,707,918	
Aviva	18,579,664	597,956	1,239,696	7,915,079
CNP	15,338,546		289,142	
Crédit Agricole	13,156,895		345,158	
Talanx	9,223,808		2,704,339	
Aegon	9,172,955		904,331	57,800
BNP	8,248,815		51,334	
R+V	7,568,194			
Covéa	6,544,555			
MAPFRE	4,804,960	1,950	2,980	-295,820
Groupama	4,541,803	1,331,756	119,635	
Sogecap	3,938,923		83,087	
Poste	3,679,275		52,240	
RSA	2,042,041			

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

publication, and are presented in Tables 2.2-d and 2.2-e. Furthermore, these impacts are illustrated (along with their variation compared to 2018) in Charts 2.2-f and 2.2-g.

As is clear from this information, during 2019, Groupama (especially due to the application of the transitional measure of technical provisions) and Aviva (due to the application of the volatility adjustment and matching adjustment measures in particular) have made most use of said measures, in terms of the impact on the solvency ratio. Except for Groupama and Axa, French groups and R+V have made relatively less use of the adjustment and transitional measures.

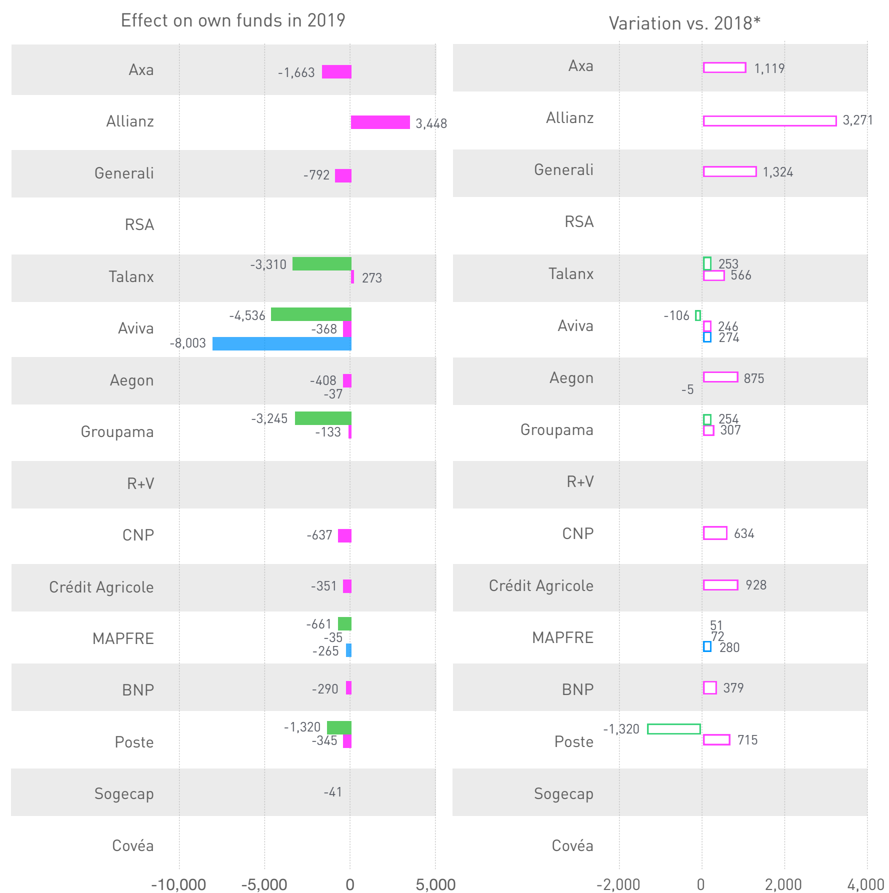
Relative weight of SCR components

Finally, Charts 2.2-h and 2.2-i illustrate the aggregate composition of the different modules and other components of the SCR in 2019 for the insurance groups analyzed, distinguishing between those that calculate the SCR using the standard formula and those that use different forms of internal models for that purpose.

In the first case, for insurance groups that calculate SCR using the standard formula (Chart 2.2-h), an increase in the relative weight of the market risk module (+2.7 pp) to the detriment of the underwriting risk (-2.4 pp), and to a lesser extent the credit risk (-0.3 pp) was observed between 2018 and 2019. Likewise, for this subset of insurance groups, an increase in the positive effect of diversification (+1.0 pp) related to what was observed in the previous year was seen. Finally, compared to 2018, a larger profit derived from the adjustments for the loss absorbing capacity of the technical provisions and deferred taxes (+2.9 pp) is observed.

Chart 2.2.1-f
Effect of transitional and adjustment measures on own funds, 2019
(millions of euros)

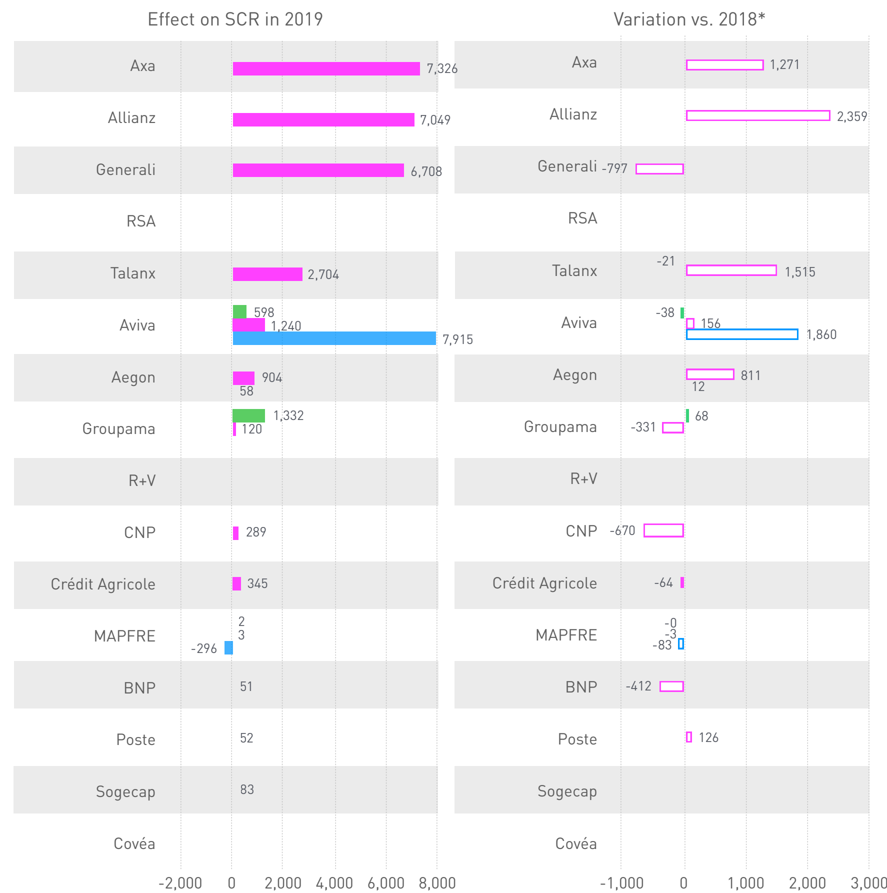
TP transitional adjustment | Volatility adjustment | Matching adjustment



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

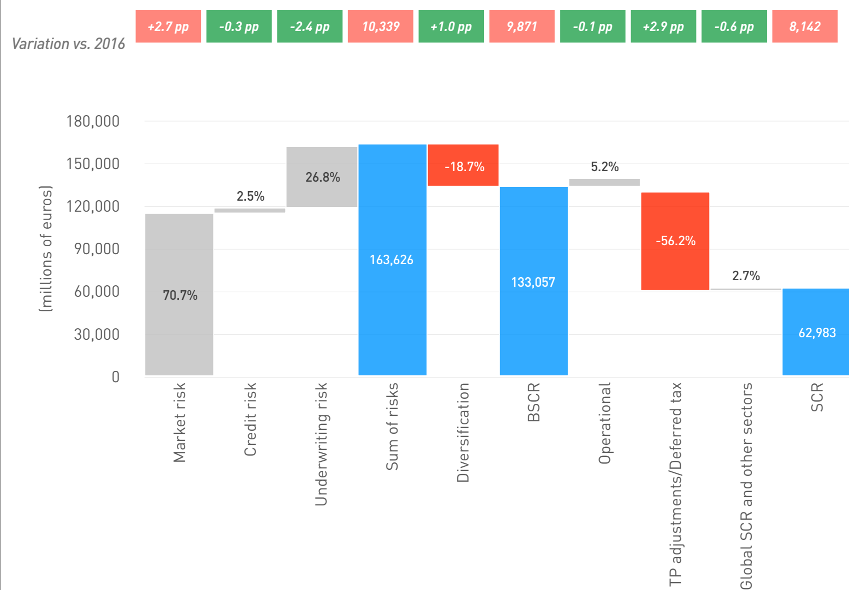
Chart 2.2.1-g
Effect of transitional and adjustment measures on SCR, 2019
(millions of euros)

TP transitional adjustment | Volatility adjustment | Matching adjustment



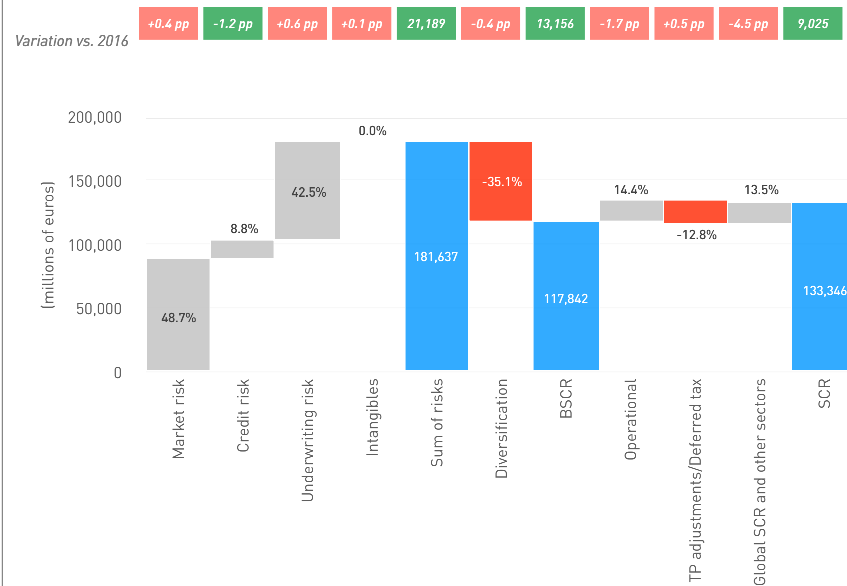
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)
* Negative variation implies increased impact of adjustment.

Chart 2.2-h
Relative weight of the different components of the SCR for groups that use the standard formula in 2019 and variation vs. 2018
(millions of euros and percentages)



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

Chart 2.2-i
Relative weight of the different components of the SCR for groups that use partial internal models in 2019 and variations vs. 2018
(millions of euros and percentages)



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

Furthermore, in the second case, the subset made up of insurance groups using different types of partial internal models (Chart 2.2- i) shows a decrease between 2018 and 2019 in the relative weight of the credit risk component (-1.2 pp), while the market risk component shows an increase compared to the previous year (+0.4 pp), as was the case with the underwriting risk (0.6 pp). Unlike what happened with the groups that used the standard formula, in this subset a reduction in the profits derived from diversification was recorded in 2019 (-0.4 pp), as well as a reduction in the weight of the operational risk module (-1.7 pp). Regarding the effect of the adjustments on the loss absorption capacity of the technical provisions and deferred taxes, it is correct to note that, in the case of insurance groups that used internal models, this metric is indicating solely the effect of the adjustments that had been modeled but not incorporated in the other components of the SCR.

Tables: macroeconomic forecast scenarios

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

	Baseline scenario (BS)						Stressed scenario (SS)					
	2016	2017	2018	2019(e)	2020(f)	2021(f)	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	1.6	2.4	2.9	2.3	-8.0	4.8	1.6	2.4	2.9	2.3	-9.4	-0.8
Eurozone	1.9	2.7	1.9	1.2	-10.0	5.8	1.9	2.7	1.9	1.2	-11.1	-0.3
Germany	2.1	2.8	1.6	0.6	-7.5	4.9	2.1	2.8	1.6	0.6	-9.4	0.4
France	1.1	2.3	1.7	1.2	-10.3	8.0	1.1	2.3	1.7	1.2	-10.5	3.9
Italy	1.4	1.7	0.7	0.3	-12.1	6.3	1.4	1.7	0.7	0.3	-13.2	-0.3
Spain	3.0	2.9	2.4	2.0	-12.1	6.8	3.0	2.9	2.4	2.0	-13.1	-1.2
United Kingdom	1.9	1.9	1.3	1.4	-10.8	7.5	1.9	1.9	1.3	1.4	-11.5	0.8
Japan	0.5	2.2	0.3	0.7	-6.0	2.8	0.5	2.2	0.3	0.7	-6.8	-1.9
Emerging markets	4.6	4.8	4.5	3.7	-3.0	5.9	4.6	4.8	4.5	3.7	-3.7	1.7
Latin America[1]	-0.6	1.2	1.0	0.1	-9.4	3.7	-0.6	1.2	1.0	0.1	-8.0	-0.5
Mexico	2.4	2.3	2.2	-0.3	-10.5	4.4	2.4	2.3	2.2	-0.3	-11.3	2.2
Brazil	-3.3	1.3	1.3	1.1	-8.9	5.1	-3.3	1.3	1.3	1.1	-9.8	-3.2
Argentina	-2.0	2.7	-2.4	-2.2	-9.5	4.6	-2.0	2.7	-2.4	-2.2	-10.4	0.4
Emerging European[2]	4.8	3.3	6.0	2.1	-5.8	4.3	4.8	3.3	6.0	2.1	-5.3	-1.9
Turkey	3.3	7.4	3.1	0.8	-4.6	6.7	3.3	7.4	3.1	0.8	-5.2	-0.5
Asia Pacific[3]	6.3	6.3	6.1	5.7	-1.1	6.7	6.3	6.3	6.1	5.7	-2.8	-1.0
China	6.9	6.9	6.7	6.2	0.8	7.6	6.9	6.9	6.7	6.2	0.0	-0.9
Indonesia	5.0	5.1	5.2	5.0	-0.4	6.1	5.0	5.1	5.2	5.0	-3.1	-0.6
Philippines	7.2	6.9	6.3	6.0	-3.8	6.5	7.2	6.9	6.3	6.0	-5.2	-1.5
World	3.4	3.8	3.6	2.9	-4.9	5.4	3.4	3.8	3.6	2.9	-5.7	-2.2

Source: MAPFRE Economics

[1]Argentina, Brazil, Chile, Colombia, Mexico and Peru; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: July 7, 2020.

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

	Baseline scenario (BS)						Stressed scenario (SS)					
	2016	2017	2018	2019(e)	2020(f)	2021(f)	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	2.1	2.1	1.9	2.3	0.7	1.6	2.1	2.1	1.9	2.3	-1.0	-0.6
Eurozone	0.7	1.4	1.9	1.0	0.5	1.3	0.7	1.4	1.9	1.0	-0.3	-2.1
Germany	1.4	1.4	1.6	1.5	1.0	1.4	1.4	1.4	1.6	1.5	0.3	-1.2
France	0.5	1.1	1.9	1.1	0.4	1.5	0.5	1.1	1.9	1.1	0.2	-1.5
Italy	0.5	0.9	1.1	0.5	0.2	0.0	0.5	0.9	1.1	0.5	-0.7	-3.6
Spain	1.6	1.1	1.2	0.8	-0.1	0.8	1.6	1.1	1.2	0.8	-1.2	-4.4
United Kingdom	1.8	2.7	2.0	1.3	0.3	1.7	1.8	2.7	2.0	1.3	0.4	-0.1
Japan	0.3	0.6	0.9	0.5	-1.1	0.2	0.3	0.6	0.9	0.5	-1.5	-2.8
Emerging markets	4.3	4.3	4.8	4.7	4.1	3.7	4.3	4.3	4.8	4.7	4.2	1.8
Latin America[1]	5.6	6.0	6.2	7.2	5.9	5.6	5.6	6.0	6.2	7.2	5.6	4.9
Mexico	3.4	6.8	4.8	2.8	3.4	3.6	3.4	6.8	4.8	2.8	3.0	0.9
Brazil	6.3	2.9	3.7	4.3	1.2	3.1	6.3	2.9	3.7	4.3	1.7	0.1
Argentina	37.5	23.3	47.4	52.2	40.5	30.1	37.5	23.3	47.4	52.2	40.4	26.1
Emerging European[2]	5.5	5.4	6.2	4.0	3.5	3.5	5.5	5.4	6.2	4.0	3.5	-0.4
Turkey	8.5	11.9	20.3	11.8	9.6	9.0	8.5	11.9	20.3	11.8	9.5	5.7
Asia Pacific[3]	2.6	2.6	3.0	3.0	1.4	3.3	2.6	2.6	3.0	3.0	1.3	-1.6
China	2.2	1.8	2.2	4.3	1.0	2.4	2.2	1.8	2.2	4.3	0.8	-2.9
Indonesia	3.3	3.5	3.3	2.7	1.8	3.9	3.3	3.5	3.3	2.7	2.6	1.1
Philippines	2.0	3.0	5.9	1.5	1.4	3.5	2.0	3.0	5.9	1.5	0.6	-2.9
World	2.8	3.0	3.3	3.1	2.5	2.7	2.8	3.0	3.3	3.1	1.3	-0.6

Source: MAPFRE Economics

[1]Argentina, Brazil, Chile, Colombia, Mexico and Peru; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: July 7, 2020.

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

	Baseline scenario (BS)						Stressed scenario (SS)					
	2016	2017	2018	2019(e)	2020(f)	2021(f)	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	2.45	2.40	2.69	1.92	0.87	1.29	2.45	2.40	2.69	1.92	0.21	0.45
Eurozone	0.93	1.13	1.17	0.32	0.48	0.84	0.93	1.13	1.17	0.32	0.38	0.29

Source: MAPFRE Economics
Forecast end date: July 7, 2020.

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

	Baseline scenario (BS)						Stressed scenario (SS)					
	2016	2017	2018	2019(e)	2020(f)	2021(f)	2016	2017	2018	2019(e)	2020(f)	2021(f)
USD-EUR	0.95	0.83	0.87	0.89	0.89	0.88	0.95	0.83	0.87	0.89	0.88	0.88
EUR-USD	1.05	1.20	1.15	1.12	1.13	1.14	1.05	1.20	1.15	1.12	1.13	1.14
GBP-USD	1.23	1.35	1.28	1.32	1.26	1.29	1.23	1.35	1.28	1.32	1.31	1.34
USD-JPY	116.80	112.90	110.83	109.12	106.00	106.00	116.80	112.90	110.83	109.12	104.00	105.10
USD-CNY	6.94	6.51	6.88	6.99	7.10	6.95	6.94	6.51	6.88	6.99	7.21	6.99

Source: MAPFRE Economics
Forecast end date: July 7, 2020.

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

	Baseline scenario (BS)						Stressed scenario (SS)					
	2016	2017	2018	2019(e)	2020(f)	2021(f)	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	0.75	1.50	2.50	1.75	0.20	0.20	0.75	1.50	2.50	1.75	0.20	0.00
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
China	2.59	3.09	3.07	2.81	1.50	2.71	2.59	3.09	3.07	2.81	0.80	0.76

Source: MAPFRE Economics
Forecast end date: July 7, 2020.

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Charts

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1/ See: MAPFRE Economics (2020), *2020 Economic and industry outlook: second quarter perspectives*. Madrid, Fundación MAPFRE. At: https://www.fundacionmapfre.org/documentacion/publico/es/catalogo_imagenes/grupo.do?path=1105926

2/ An update of the suppression measures related to COVID-19, confirmed cases and changes in the consensus expectations for the growth of the global economy by country can be seen here: https://app.klipfolio.com/published/ca635768cc1b32264d33836fc491e79c/institucional-response-to-the-covid19-crisis-and-effects-on-expected-growth

3/ The *Solvency and Financial Condition Reports* (SFCR) for 2019 that are used as the basis for the preparation of this report were consulted as required at the following links:

Allianz: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/investor-relations/en/results-reports/sfcr/2020/EN-Allianz-Group-SFCR-2019.pdf

Axa: https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com%2F09af29af-f672-42db-a0e3-ccbba2053693_axa_sfcr_2019_va.pdf

Generali: https://www.generali.com/doc/jcr:8755bddb-1edb-4286-ada3-68d86e9be77f/lang:en/Generali_Group_SCFR_2019.pdf

Aviva: https://www.aviva.com/content/dam/aviva-corporate/documents/investors/pdfs/regulatoryreturns/2019/31%20Dec%202019%20-%20Aviva%20plc%20Group%20SFCR.pdf

Talanx: https://www.talanx.com/media/Files/investor-relations/pdf/geschaeftsberichte/risikoberichte/2019_sfcr_hdi_gruppe_en.pdf

Crédit Agricole: https://www.ca-assurances.com/previewPDF/17885/CAA%20-%20SFCR%202019_FR.pdf

CNP: https://www.cnp.fr/en/the-cnp-assurances-group/newsroom/publications/2020/le-groupe-cnp/analyste-investisseur/resultats/sfcr-2019-groupe-cnp-assurances

BNP: https://www.bnpparibascardif.com/documents/583427/1227287/SFCR+2019+BNPPC+Synth%C3%A8se+en+Italien.pdf/05ef10a4-8c60-4d4b-8dca-c717105456fd

Aegon: https://www.aegon.com/contentassets/44095bac30594b779000c9c7dc02d7d0/2019-sfcr-aegon-group.pdf

MAPFRE: https://www.mapfre.com/media/accionistas/2020/2019-sfcr-grupo-mapfre.pdf

R+V: https://www.ruv.de/static-files/ruvde/downloads/ueber-uns/geschaeftsberichte/2019-SFCR-ruv-versicherungag-gruppe.pdf

Covéa: https://www.Covéa.eu/sites/default/files/2020-05/SFCR_Covéa_2019.pdf

Sogecap: https://www.assurances.societegenerale.com/uploads/tx_bisgnews/07_GROUPESOGECAP_SFCR_2019_2804_PLANCHE_01.pdf

Groupama: https://www.groupama.com/wp-content/uploads/2020/05/SFCR-Groupe-Groupama-31-d%C3%A9cembre-2019-1.pdf

RSA: https://www.rsagroup.com/media/4037/rsa-insurance-group-plc-sfcr-including-uk-entities.pdf

Poste Vita: https://www.poste.it/files/1476519465546/Allegato_RelazioneSemestrale_Consolidata_2019_GruppoPosteVita.pdf

4/ In the case of the Poste insurance group, the premium figure has been taken from the group's consolidated accounts, as it is not included in the 2019 SFCR partial report published to date.

Other MAPFRE Economics reports

MAPFRE Economics (2020), *The Spanish insurance market in 2019*, Madrid, Fundación MAPFRE.

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