2022 ECONOMIC AND INDUSTRY OUTLOOK: FOURTH-QUARTER PERSPECTIVES

MAPFRE Economics

2022 Economic and Industry Outlook: Fourth-Quarter Perspectives

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Executive summary

2022 Economic and Industry Outlook: Fourth-Quarter Perspectives

Economic outlook

Economic outlookGlobal economic growth has entered a phase of exhaustion, accompanied by tighter financial conditions and more entrenched and persistent inflation. In this context, we find *supply chains* that, despite having generally improved, are being weighed down by the wear and tear sustained by certain links during the bottlenecks, a *geopolitical reorganization* with ongoing restructuring processes that could be prolonged due to, among other factors, the remaining tensions in the Russia-Ukraine conflict, and in Asia, the growing political pressure around Taiwan, with China pushing for reunification and opposing the new chip export controls introduced by the United States; a *monetary policy* whose first consequences in the markets are starting to emerge (volatility, lack of liquidity, and correction of valuations); a *fiscal policy* that requires a new approach, given that access to financing is being faced without the central banks' umbrella and fiscal space is running out. For all these reasons, potential changes are being detected globally where the trend towards a multipolar world could accelerate, underpinning the dynamics of a decline in globalization.

The world economy is therefore expected to continue to grow over the next year by 2.7%, compared to the estimated 3.2% growth in 2022. In terms of prices, high inflation is expected to persist, finally reaching some symmetry as it reverses towards an average of 6.5% in 2023, compared to the 8.8% estimated for 2022. In general, we see a Eurozone where the energy factor will continue to weigh down industry, and the danger of a disorganized and asymmetric fiscal policy will be a risk to consider. Meanwhile, the United States is expected to end the year on a positive note despite some negative quarters. China's economic performance will be reduced, while the outlook remains positive for Asia (except Japan), and the countries of Latin America and other emerging markets will show weak yet positive growth, with increasing asymmetries depending on vulnerabilities that may persist or deepen in each case.

In this context, in the *baseline scenario* considered in this report, global GDP grows by 3.2% and 2.7%, respectively, in 2022 and 2023. We thus maintain the view in previous reports of a short and medium-term scenario of global stagflation with some countries entering briefly into a recession but without deterioration on a global scale. In contrast, the *stressed scenario* (alternative and more pessimistic) foresees a global recession without sufficient fiscal space to resolve it, pointing to worldwide economic growth of 3.0% and 2.0% for 2022 and 2023, respectively.

Industry outlook

The tightening of monetary policy in the main developed economies and a large number of emerging countries is causing major adjustments in the financial markets, and its effects are beginning to be transferred more strongly to the real economy in the form of lower growth, although the labor markets remain strong. So far, the restrictive monetary policies have not reversed lost purchasing power, and inflation remains high. Therefore, the scenario of an aggressive monetary policy in the coming months, with the main economies around the world entering a recession, is increasingly likely. This will have a negative impact on the insurance markets, which are facing a complex scenario.

Europe is still grappling with the uncertainty generated by the war in Ukraine and the tension in energy prices, while inflation continues to reach record highs in the Eurozone. This affects business development in the insurance industry, as growth in premiums cannot overcome high inflation, putting pressure on insurance prices and eroding profitability. The automobile sector is starting to overcome the problems of the semiconductor and supply shortages that were weighing down registrations, but it is now facing tougher conditions for financing new vehicle purchases. This situation may continue to stall the auto insurance business, which has yet to show clear signs of recovery.

On the positive side, the business environment is improving for traditional Life savings and annuities insurance with guaranteed interest rates and health insurance, as households and companies are more aware of the need to complement the coverage offered by public healthcare systems. However, the main stock markets worldwide have contracted sharply since the beginning of the year, with a rebound in volatility. This situation, together with the potential onset of a recession in an environment of tightening monetary policy, complicates the outlook for Life insurance products where the policyholder assumes the investment risk. These must be adapted to a new environment of less liquidity and falling financial markets, fixed income that offers higher interest rates, and risk premiums more aligned with the credit risk of issues (which is increasing).

In emerging markets, particularly in Latin America, growth estimates for some of the main economies have been revised upwards for this year and downwards for 2023, when forecasts continue to point to a significant slowdown due to the tightening of financing conditions and the loss of household purchasing power as a result of high inflation. Examples include Brazil and Mexico, whose improved economic performance in 2022 is reflected in their respective insurance markets, especially in the Non-Life business, with significant first-half growth and a notable recovery in all lines of business, some beating the high inflation. However, the outlook is complicated for the insurance industry next year due to the economic slowdown against a backdrop of tougher financing conditions with high interest rates that could hinder growth, particularly in the Non-Life insurance market.

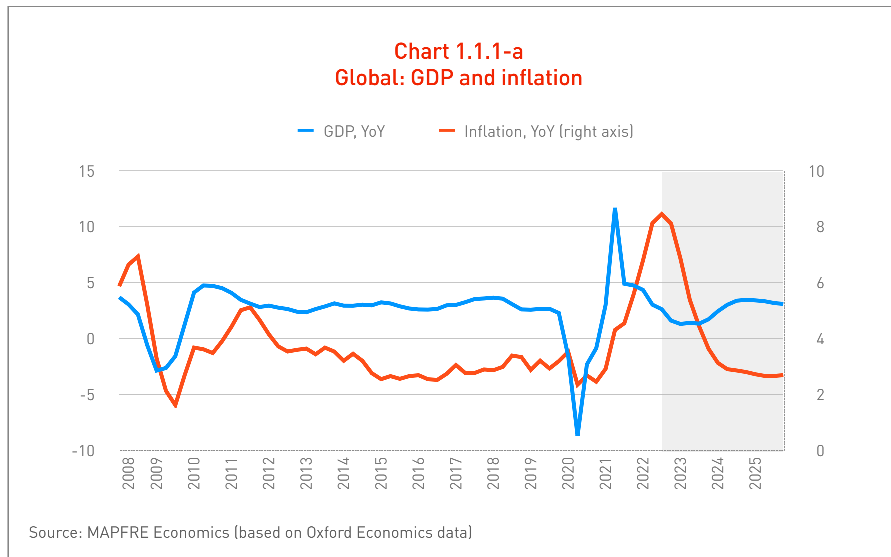
1. Economic outlook

1.1 The world economic outlook

1.1.1 Envisioning a landing for the global economy

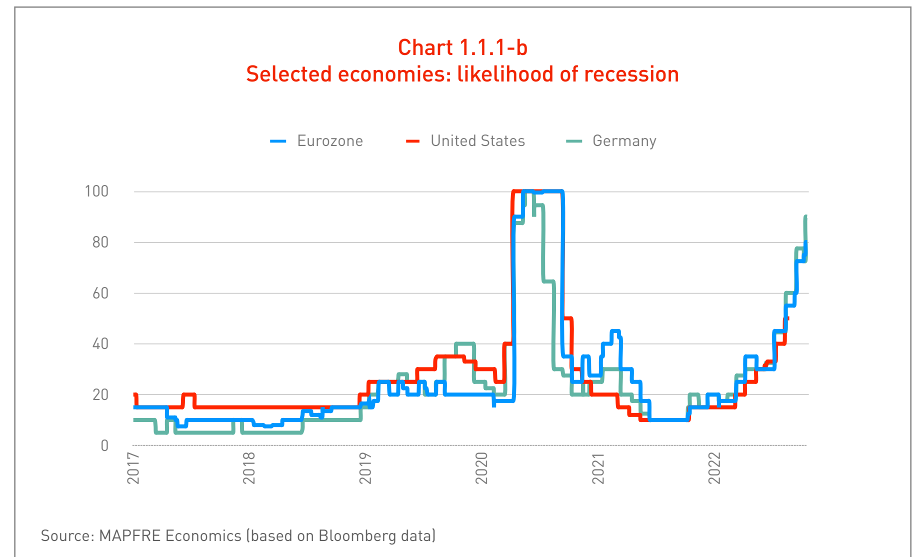
After a relatively normal summer period as the global economy enters the final stretch of 2022, the events and developments marking the year's flight path continue to reduce the likelihood of a "soft landing." On the activity levels side, the global economy is entering a phase of slowing growth while adjusting to tighter financial conditions, in line with more entrenched and persistent inflation. Despite having some relative relief, supply chains remain weighed down by the wear and tear on certain links amid the ongoing geopolitical reorganization, a restructuring process that could last for some time. Taking a closer look at the geopolitical factor, now that the hopes of a short-lived con-

Chart 1.1.1-a
Global: GDP and inflation



Source: MAPFRE Economics (based on Oxford Economics data)

Chart 1.1.1-b
Selected economies: likelihood of recession



Source: MAPFRE Economics (based on Bloomberg data)

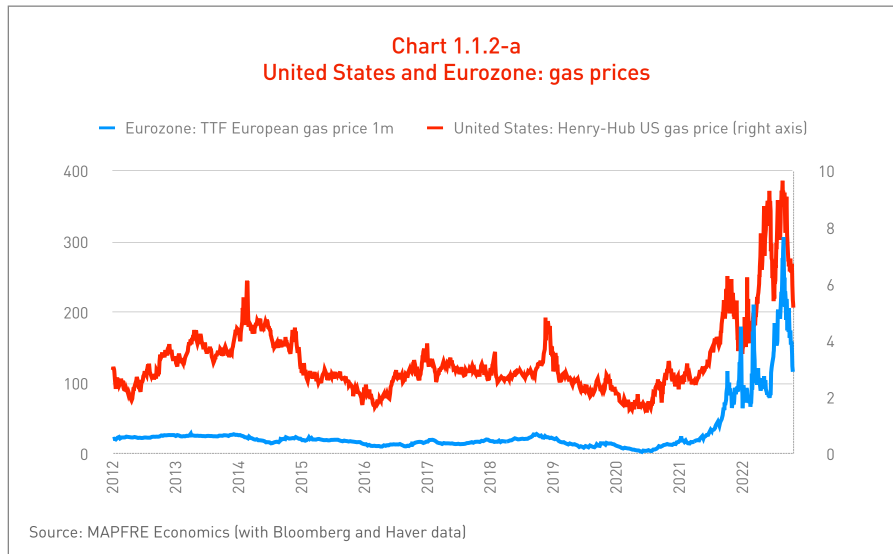
flict in Ukraine have faded, a positive catalyst involves a scenario in which the number of actors involved does not increase and the current context does not escalate towards greater warmongering.

The global economy is thus expected to continue growing next year, albeit at a slower pace (by 2.7% in the baseline scenario and 2.0% in the stressed one), weighed down by the underperformance of most developed countries, some of which could go through a recession, which is likely to be mild, or a "hard landing." Emerging markets should make a limited and asymmetric contribution, and China in particular should see its role as a shock absorber reduced due to internal dynamics with downward risk. In terms of prices, high inflation rates are expected to continue before peaking in 2023, giving rise to some symmetry as they revert to average levels of 8.8% in 2022 and 6.5% in 2023, compared to 7.4% and 4.8%, respectively, considered in our previous report[1] (see Charts 1.1.1-a and 1.1.1-b and Tables A-1 to A-5 in the appendix to this report).

1.1.2 Persistent crosswinds

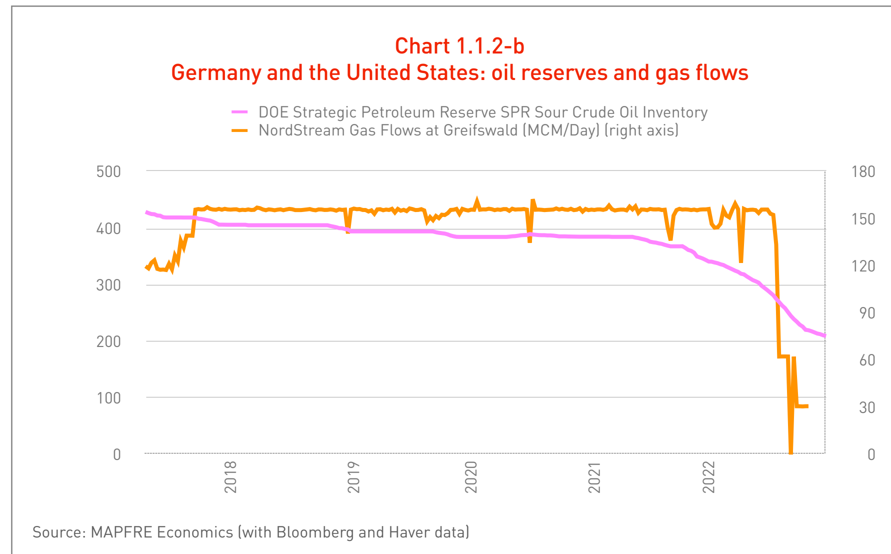
The main risk factor for the global economy is still the geopolitical landscape. Tensions continue to build after Russia declared the annexation of parts of Ukraine, an event that the North Atlantic Treaty Organization (NATO) bloc has condemned. Furthermore, the constant inflow of military equipment continues to escalate both the armed conflict and the war narrative, and the sabotage of the Nord Stream 1 and 2 pipelines, despite eliminating the threat of a supply shortage in the medium term, will exacerbate energy insecurity in the short term. This is particularly true in Europe due to its structural energy deficit (see

Chart 1.1.2-a
United States and Eurozone: gas prices



Source: MAPFRE Economics (with Bloomberg and Haver data)

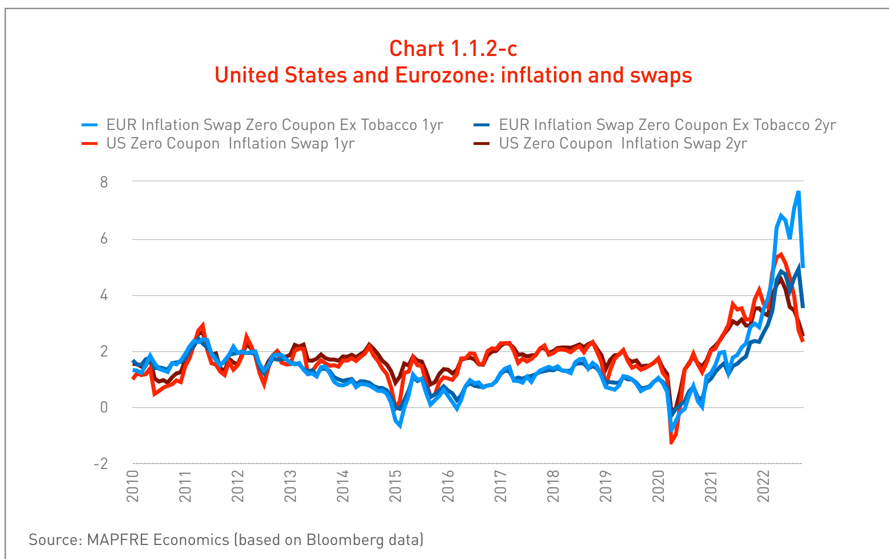
Chart 1.1.2-b
Germany and the United States: oil reserves and gas flows



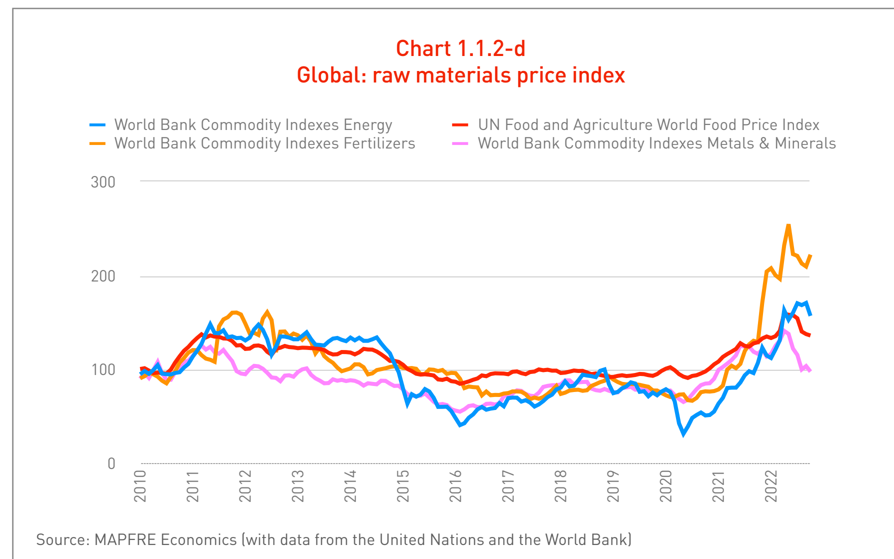
Source: MAPFRE Economics (with Bloomberg and Haver data)

Charts 1.1.2-a and 1.1.1-b). Meanwhile, the latest OPEC+ decision to slash oil production by 2 million barrels per day has generated a re-balancing of prices (impacted by lower demand, slower growth, and higher supply-side pressure) that impacts the interests of the United States, which continues to release oil from its strategic reserves. As for Asia, tensions have flared between the two Koreas, and political pressures are building around Taiwan, with Chinese President Xi Jin-ping pledging to complete the reunification at the last CPC National Congress and going up against the United States' cold war mentality by condemning the new chip export controls announced by the Biden ad-ministration. In short, these revised relations between blocs, together with the deterioration of the international order, are signs that the trend towards a multipolar world is accelerating, underpinning the dy-namics of the decline of globalization.

Unless the "hard landing" envisioned in our stressed scenario takes place, inflation is expected to remain high until at least 2023, albeit with a downward trend that year (see Charts 1.1.2-c and 1.1.2-d). The catalysts for this process, beyond the base effect, would be consumer confidence (still under pressure from the loss in purchasing power), the decline in raw materials, which should be reflected in the general price indexes, the supply chains, now less congested, and the impact of the restrictive monetary policy adopted months ago, which should be-gin to affect employment in the coming months. The continued tail risks for inflation include further disruptions in the energy markets, a widespread acyclical fiscal policy that counteracts the restrictive mon-etary effects, and potential second-round effects to offset the accumu-lated real loss. The latter has begun to spread from the United States to the Eurozone, as seen in the metallurgical and transport sectors in

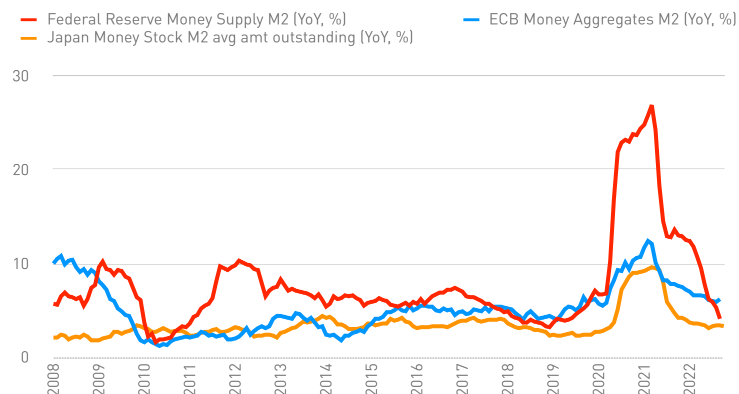


Source: MAPFRE Economics (based on Bloomberg data)



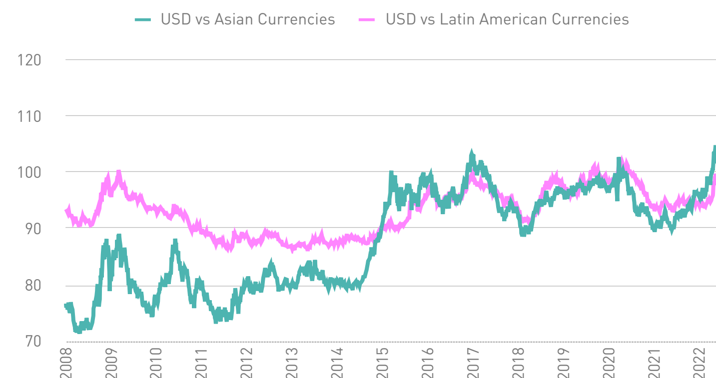
Source: MAPFRE Economics (with data from the United Nations and the World Bank)

Chart 1.1.2-e
Selected economies: money supply (M2)



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-f
United States: dollar value against other currencies



Source: MAPFRE Economics (based on Bloomberg data)

Germany and France, the public sector in Spain, and certain industries in Italy.

Monetary policy, which swung from inaction in 2021 to overreaction in 2022, is starting to have its first consequences in the financial markets (volatility, lack of liquidity, and correction of valuations). However, the negative effects on the real economy, particularly, the employment variable will only be perceived after a lag. Since the emerging markets were the first to begin monetary restriction, they could also be the first to start relaxing these policies (with the new global demand scenario causing a decline in raw materials), just as they were the first to enter the tightening cycle. Primary risks still include the price factor (as persistent inflation would fuel excessive, prolonged monetary policy tightening with an impact on growth) and the pressures of a strong dollar, which would imply growth matched to the U.S. monetary cycle (see Charts 1.1.2-e and 1.1.2-f as well as Box 1.1.2).

However, fiscal policy, out of step with its monetary counterpart, must be calibrated towards increasingly selective decisions as the fiscal space is exhausted and access to financing is faced without the central banks' umbrella. In this regard, it bears noting the risk-off episode that occurred in the United Kingdom following the fiscal expansion plans of former Prime Minister Elizabeth Truss. In addition, there is reduced liquidity in the market due to the drainage dynamics of the Bank of England, with the expectation that liquidity facilities for LDI (liability-driven investment) products in pension funds will be limited in time; the reactions to the public accounts heading down an imbalanced path are therefore being exacerbated. In the Eurozone, the risk of financing

Box 1.1.2
Monetary policy update

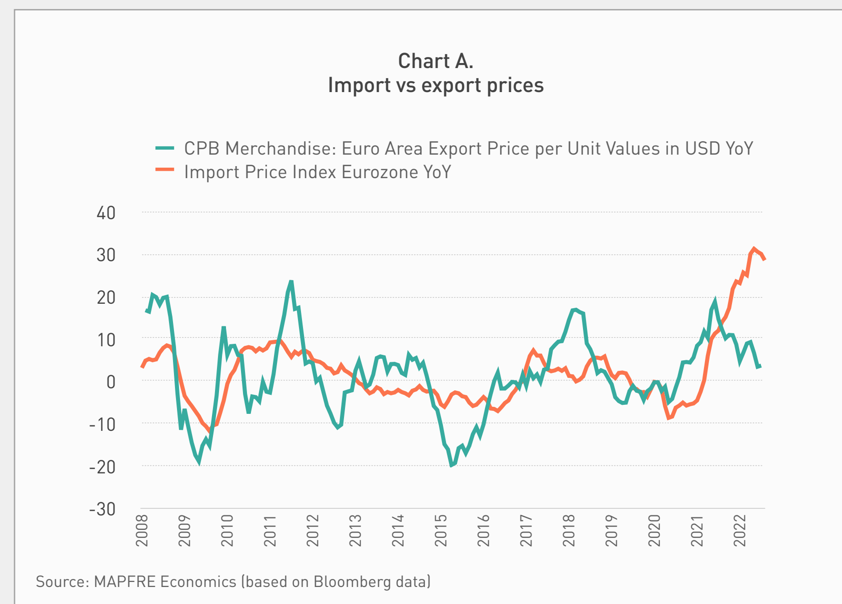
European Central Bank

At its meeting on September 8, the European Central Bank (ECB) continued on the path of monetary normalization, embarked on in the summer, by raising benchmark interest rates by 75 basis points (bps) to 1.25% for the main refinancing operations and 0.75% for the deposit facility. It indicated that further consecutive increases were likely at least until reaching a neutral interest rate, which it did not quantify.

Regarding the asset purchase program, at that meeting the ECB offered no further details beyond its verbal commitment, referring to the plan proposed in June, the final month of net bond purchases under the Asset Purchase Program (APP). At the same time, it maintained its intention to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP at least until the end of 2024, while applying flexibility in reinvesting redemptions under the Pandemic Emergency Purchase Program (PEPP). As for the third series of targeted longer-term refinancing operations (TLTRO), they were not changed in the aforementioned meeting but continue to be monitored according to schedule.

In terms of macroeconomic projections, at that meeting the ECB again modified its outlook, predicting growth of 3.1% for 2022 (from the previous 2.8%), 0.9% for 2023, and 1.9% for 2024 (versus 2.1% in June). Higher inflation was expected in 2022, averaging 8.1% (from 6.8%) and persisting in 2023–2024, when it should remain above the target at 5.5% and 2.3% respectively, compared to 3.5% and 2.1% previously. In this regard, and unlike at previous meetings, it indicated a baseline scenario with "the economy expected to stagnate later in the year and in the first quarter of 2023," while its downside scenario, conditioned by geopolitical and energy-related events, would imply a recession, as forecast in our previous reports.

Chart A.
Import vs export prices



Source: MAPFRE Economics (based on Bloomberg data)

Box 1.1.2 (continued)
Monetary policy update

Assessment

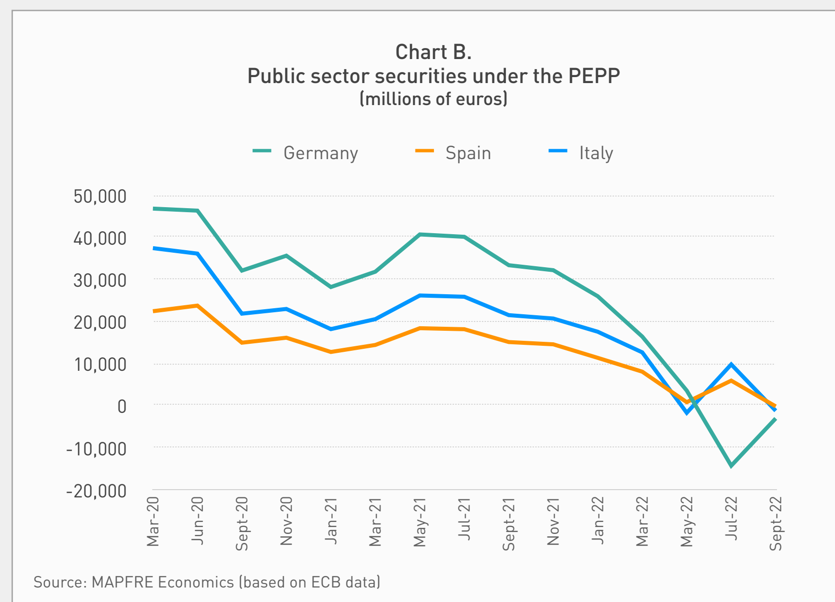
The September ECB meeting was marked by the concerns surrounding economic growth and the recession risk, which are not minor. However, they were not enough modify its discourse in view of the need to fulfill its mission to restore price stability and contain inflation. Thus, the Eurozone continued its stagflationary inertia in which, in line with the latest PMI data, the manufacturing sector was already contracting in several countries (see Chart 1.1.3-d of this report).

As for the price formation process, it remains deeply unbalanced on the supply side, with the energy problem in the eye of the storm (see Chart 1.1.3-c of this report), supply problems still unresolved, services underpinning the price increases, and core inflation absorbing both the persistence and the structural problems. Meanwhile, in the absence of wage increases to support consumer purchasing power, the deterioration in the purchasing power of the euro against its peers, while favoring exports, continues to amplify the imported inflation factor (see Chart A).

The ECB was therefore taking a moderately aggressive stance, hiking rates an additional 75 bps, signaling efforts in the future and centering its discourse around the rise in prices. The rationale was the objective of cooling demand, cushioned in part by the current fiscal expansion, a greater synchrony with the global monetary tightening, and an anchoring of the exchange rate at parity levels to reduce imported inflation (see Chart 1.1.2-h of this report).

This overview was strengthened by the fact that at its October 27 meeting, the ECB decided to increase key interest rates by another 75 bps, consolidating the prospects of further rate hikes in the future. Regarding asset purchases, the ECB will continue to allow the flexible reinvestment of redemptions coming due in the PEPP portfolio until at least the end of 2024. The roll-off will be managed to avoid interference with monetary policy transmission, while reinvestments under the

Chart B.
Public sector securities under the PEPP
(millions of euros)



Source: MAPFRE Economics (based on ECB data)

Box 1.1.2 (continued)
Monetary policy update

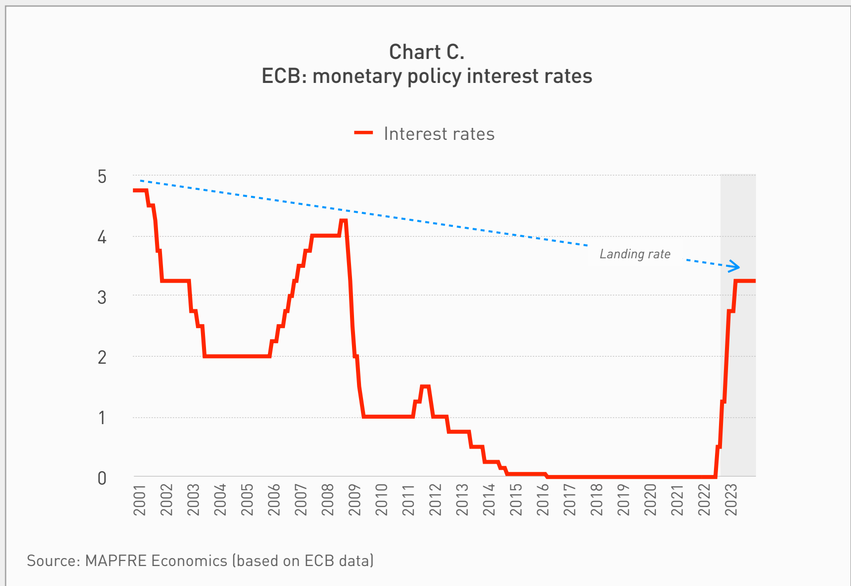


Chart C.
ECB: monetary policy interest rates

Source: MAPFRE Economics (based on ECB data)

PEPP program will remain flexible to counteract the fragmentation risk (see Chart B). The main change was the announcement that, in the TLTRO framework (modifying the terms and conditions of the third edition), these operations will be indexed to the reference interest rate from November 22, 2022, until they reach maturity. However, the ECB will offer banks additional dates for early voluntary amortization.

The adjustment in TLTROs represents additional tightening (by eliminating the beneficial conditions for them) and establishes forward guidance on the measures to be taken at future meetings, which should target reducing the size of the balance sheet. As for the interest rates, while the ECB's current position is that future movements will continue to be linked to economic data, the possibility of reaching a landing rate in early 2023 could be enough to make progress on the restructuring of the balance sheet, making this the main tool to re-balance the economy's landing (see Chart C).

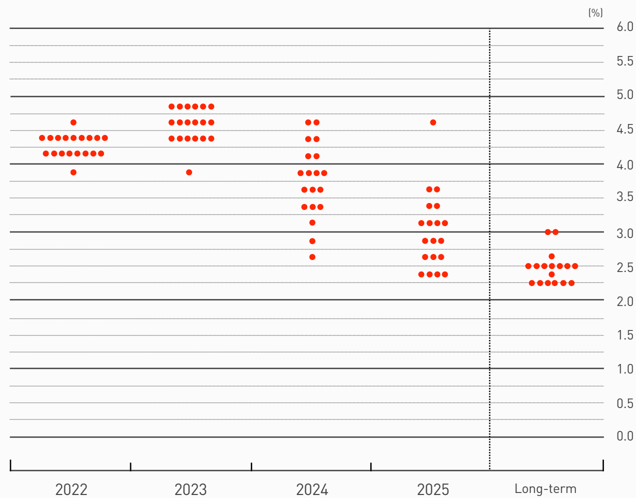
Federal Reserve

Meanwhile, the U.S. Federal Reserve continued the monetary normalization cycle at its September meeting by raising benchmark interest rates by 75 basis points (bps) to a range of 3%-3.25%. Regarding the projected path of future rate hikes, the Federal Open Market Committee's (FOMC) dot plot continued pointing to an upward adjustment (125 bps for the remainder of the year), which would see interest rates rise until hitting a *terminal rate* of 4.6% in the first half of 2023. Once again, this is above the levels anticipated at its previous meeting in what would be the most aggressive monetary path in the last 40 years (see Chart D).

As for balance sheet tools, the Federal Reserve is staying on its planned course of increasing, from September, the amount allowed to roll off its balance sheet to 95 billion dollars per month, consisting of 60 billion dol-

Box 1.1.2 (continued)
Monetary policy update

Chart D.
United States: Federal Reserve dot plot

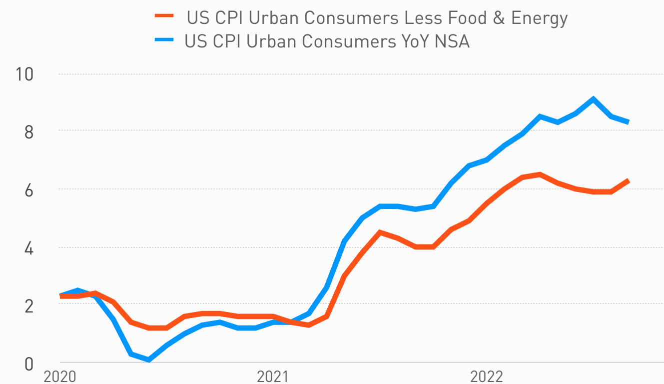


Source: MAPFRE Economics (based on Federal Reserve data)

lars in Treasury bonds and the remainder being maturities of mortgage-backed securities (MBS). At the macroeconomic level, its estimates continue to deteriorate, with a substantial downward revision in economic activity: GDP would grow by 0.2% in 2022 and 1.2% in 2023 (compared to its previous estimates of 1.7% and 1.7%). At the same time, inflation expectations keep being revised upwards, with an anticipated PCE of 5.4% and 2.8% in 2022 and 2023, respectively (from 5.2% and 2.6% previously) and core inflation absorbing the persistence (see Chart E).

At its annual symposium in late August in Jackson Hole, after considering the lessons of the past, the Federal Reserve announced the main theme of its next conferences, signaling the need for a restrictive monetary policy at least until it confirms that inflation is returning to its objective and despite the risk of below-trend economic performance.

Chart E.
Inflation without energy and food



Source: MAPFRE Economics (with Haver data)

Box 1.1.2 (continued)
Monetary policy update

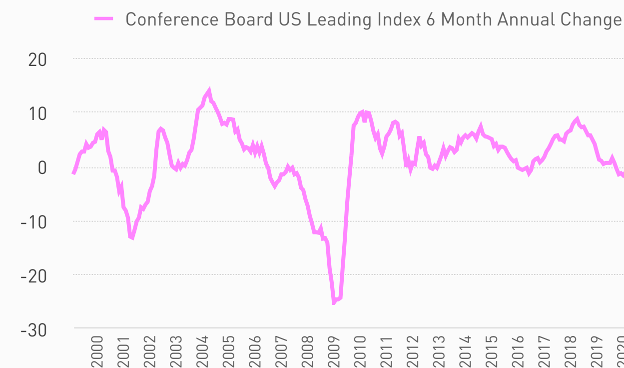
Considering that the labor market can still be described as strong (despite the latest mixed data), and with a wide jobs-workers gap to be filled, tolerance for the central "soft landing" scenario and the notion that reducing high prices is an unconditional obligation, the collateral damage to economic activity would still be insufficient to rebalance the current position.

Assessment

Expectations of higher inflation and lower growth continued to undermine the latest macroeconomic projections for the United States. However, as its narrative remains dominated by price stability, the Federal Reserve is maintaining its restrictive and countercyclical policy orientation. Interest rate hikes thus remain imminent in the short term (with the *terminal rate* being reached in early or mid-2023 and lasting in the medium term), and the levels will remain anchored above the neutral rate during at least 2023 and even 2024. Its determination to combat inflation to the detriment of the levels of economic activity (see Chart F), with higher interest rates for a longer period of time, is justified by the transmission of tighter financial conditions to the real economy. This is necessary to cool demand and must be effective enough to induce a certain deterioration in the labor market, where there are still two jobs for every unemployed person and growing salary pressures.

In this regard, the U.S. economy is forecast to continue moving towards a so-called "soft landing," with demand being lowered until it aligns with supply, in a price environment in line with its objective, consolidated along the path marked by long-term inflation expectations (declining in the latest available data). Meanwhile, the risk of an excessive adjustment remains high (see Charts G and H), and although the effects of this accelerated normalization are not yet fully reflected in the data, the lagged impact of these measures will materialize in the coming months, increasing the probability of a "crosswind landing." The risk scenario that would lead to a deeper, longer-lasting recession than anticipated would thus become likelier.

Chart F.
United States: change in activity levels



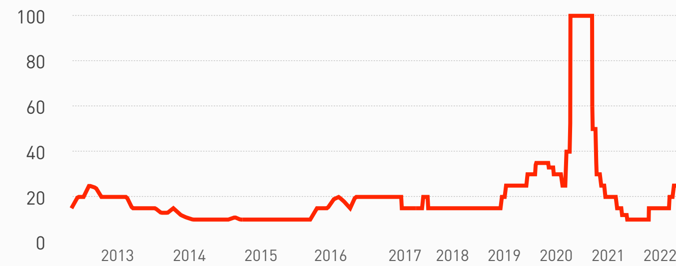
Source: MAPFRE Economics (based on Bloomberg data)

Box 1.1.2 (continued)
Monetary policy update

Chart G.
United States: yield spreads, 2y - 10y

Source: MAPFRE Economics (based on Bloomberg data)

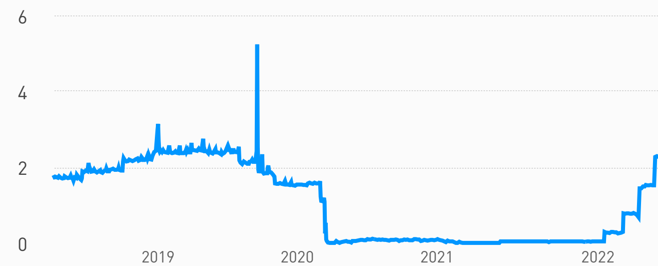
Chart H.
United States: likelihood of recession (%)



Source: MAPFRE Economics (based on Bloomberg data)

Finally, although the Federal Reserve provided certain details about the balance sheet, aspects such as the future guidance (amount and mix) and its combined effect with higher interest rates could represent an additional restrictive impulse that is still underestimated in terms of financial stability. Just as the Wu-Xia shadow rate indicates the additional effect of quantitative easing on the interest rate (breaking the official 0% barrier), precedents on this lever lack sufficient history to measure the potential impact, leaving the 2019 repo market crisis (see Chart I) as a precedent.

Chart I.
United States: Secured Overnight Financing Rate (SOFR)



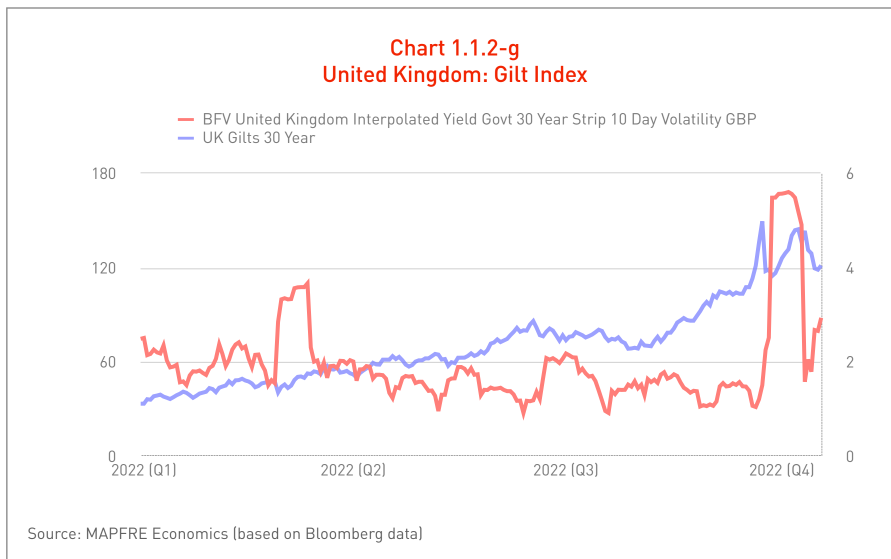
Source: MAPFRE Economics (based on Bloomberg data)

Source: MAPFRE Economics

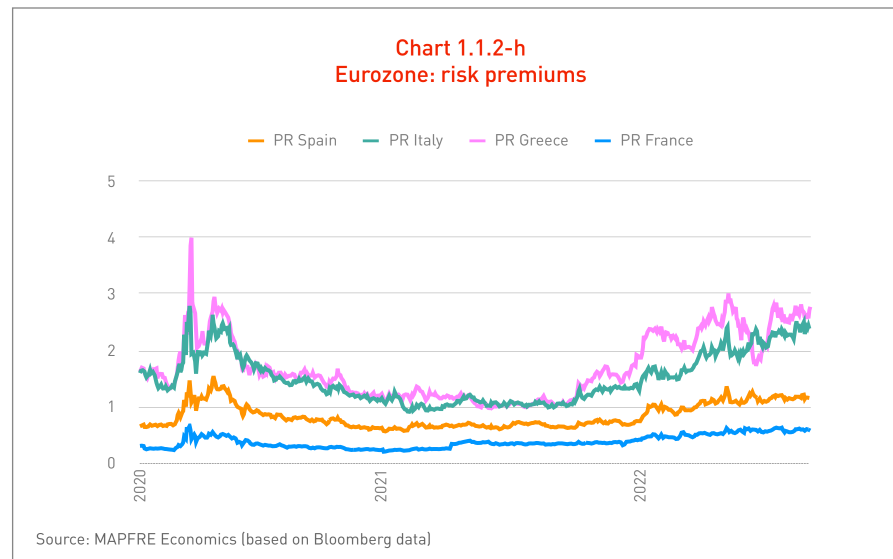
deficits at less advantageous interest rates remains under the umbrella of the European Central Bank's (ECB) anti-fragmentation tool. However, there is downside risk because of the challenging macroeconomic situation, delayed budgetary stability due to the need to address the energy problem, and a response capacity that, despite the implementation of a new common tool, differs widely in terms of maneuvering room, which is limited in some Eurozone economies (see Charts 1.1.2-g and 1.1.2-h).

Regarding the disruptions observed in the global supply chains, the aftermath of the COVID-19 pandemic, bottlenecks, and over-specialization are generating less integrated and more local supply chains. While the more temporary factors continue to improve and the latest events have been limited, structural factors continue to hamper normalization, and in particular: (i) transportation costs, which remain high; (ii) the still disharmonious inventory cycle (from shortage to excess); (iii) energy problems in some structural cases; (iv) reorganization of blocs in supply chains to alleviate dependencies, highlighting Asian diversification to the detriment of Chinese production, and (v) geopolitical tensions and differentiation of trading blocs (see Charts 1.1.2-i and 1.1.2-j).

All of the above has led to an additional problem: the strengthening of the U.S. dollar as the Federal Reserve's monetary policy is tightened locally to combat inflation and attracts cash flows from abroad, as well as a growing environment of uncertainty that enhances risk aversion. All this has confirmed the U.S. dollar's role as a safe-haven asset that: (i) distorts signals of the flow of goods and services by affecting importer-exporter relations; (ii) generates an additional incentive for other central banks to offset imported inflation, and (iii) produces a

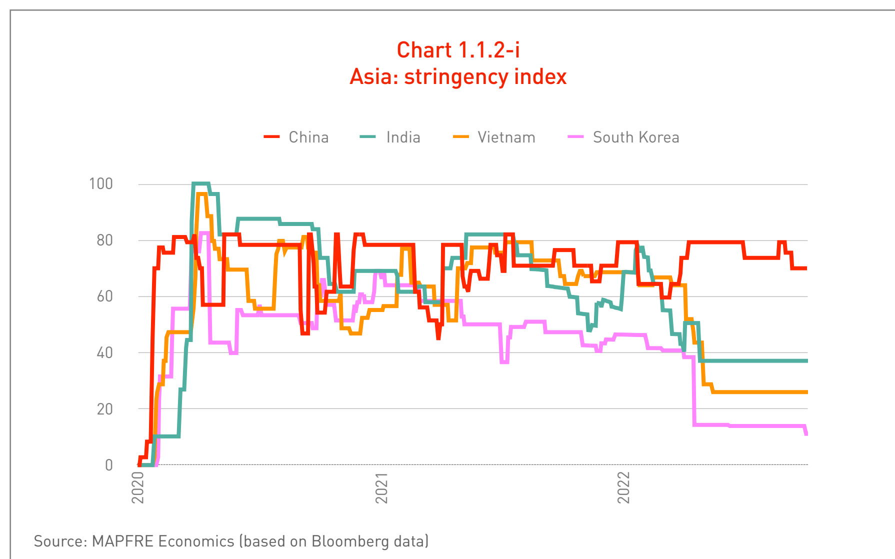


Source: MAPFRE Economics (based on Bloomberg data)



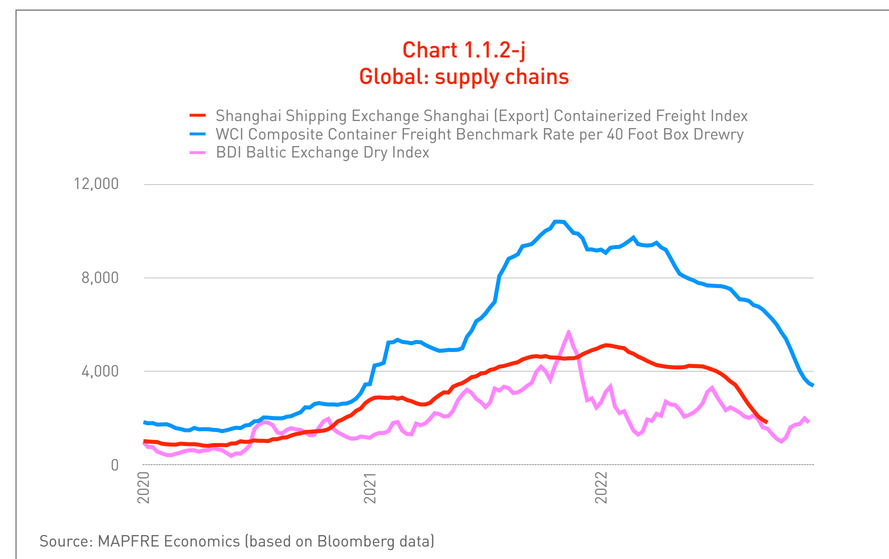
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-i
Asia: stringency index



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-j
Global: supply chains



Source: MAPFRE Economics (based on Bloomberg data)

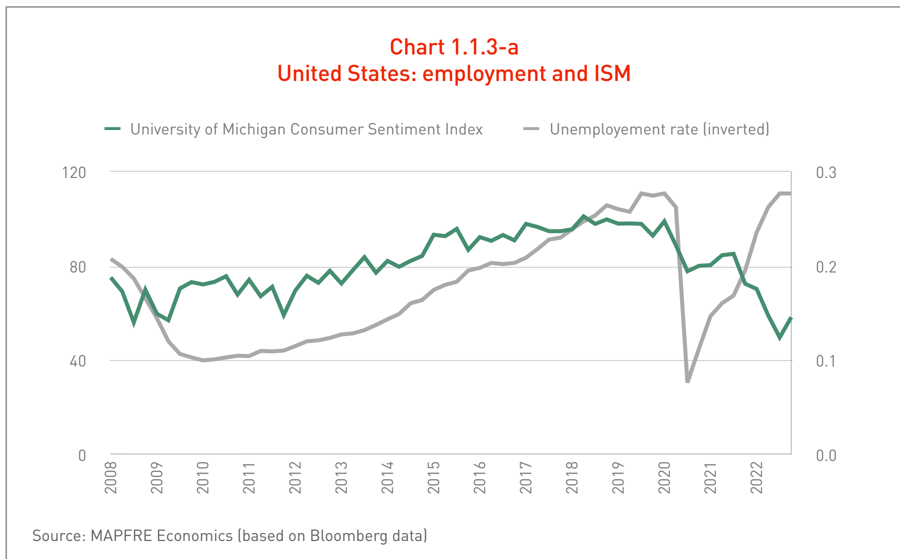
crowding-out effect by stressing the refinancing capacity of certain economies and their access to financing in the capital markets.

1.1.3 Regional dynamics

In the United States, growth is expected to be weak in the final stretch of 2022, with the moderation continuing in 2023; even with some consecutive quarters in the red, the year-end result would remain positive. The factors supporting this forecast include a strong dollar that will continue to hamper exports and limit the competitiveness of companies abroad; the energy market, which, despite being far better positioned than the European one, is not immune to the OPEC cuts, as offsets from releasing oil from the strategic reserves are becoming unsustainable. Additionally, the monetary policy factor will start to impact the real economy in the coming months, and, more specifically, employment conditions, which will begin to deteriorate. This will affect demand, which has already been reduced by inflation, as shown by consumer confidence indicators and the accumulation of wage growth in negative real terms (see Charts 1.1.3-a and 1.1.3-b).

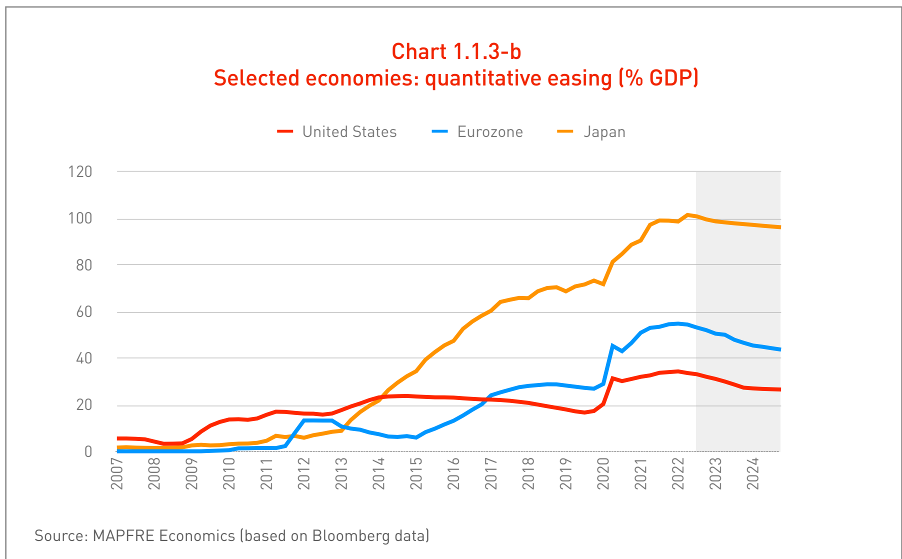
In the Eurozone, for the third time since the start of the conflict in Ukraine, the 2023 forecast has been lowered to the most significant extent, as the region should register zero underlying growth next year. The energy constraint will continue to weigh down industry, with Germany and Italy facing a recession, while Spain and France, among others, will keep growing, albeit below their potential. While the possibility of the recession spreading to these economies has not been ruled out, the contagion is expected to be limited for the time being. For the Eurozone as a whole, the risk of a disorganized and asymmetric fiscal

Chart 1.1.3-a
United States: employment and ISM



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.3-b
Selected economies: quantitative easing (% GDP)



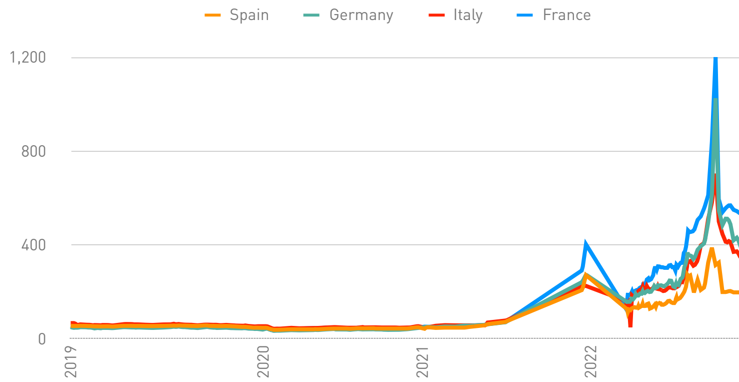
Source: MAPFRE Economics (based on Bloomberg data)

policy is a factor to be considered in an environment of adverse financial conditions and heterogeneous fiscal margins. Salary growth, still contained due to the mitigated impact on the labor market, may exert additional pressures over the coming quarters, activating a more aggressive monetary lever (see Charts 1.1.3-c and 1.1.3-d).

The Chinese economy will also see its forecasts reduced. The rationale mainly concerns endogenous factors as the country perpetuates its restrictive, zero-tolerance COVID-19 policies ahead of the winter. This may weigh down its presence in the supply chains, damaging employment in related sectors, which are showing signs of exhaustion. In addition, China's inaction in the face of the collapse of its real estate market and renewed trade tensions with the United States around the semiconductor industry add downside risks to economic performance (see Charts 1.1.3-e and 1.1.3-f). Thus, Asia (except Japan) maintains positive prospects in general terms. Taking over for China, the region should benefit from the relocation of its manufacturing leadership, limited inflation, and more stable growth prospects. It should therefore continue to cushion the shock to global growth.

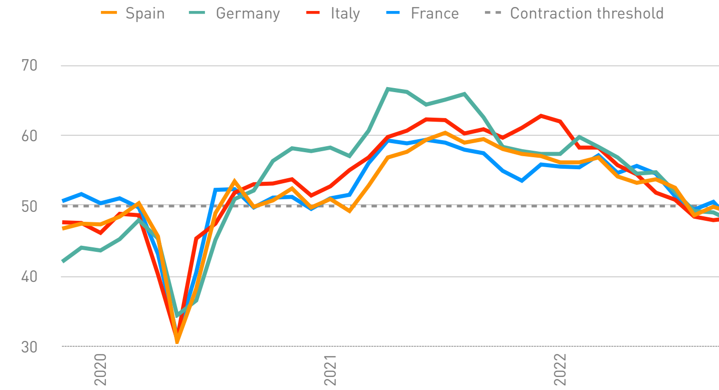
In Latin America and other emerging markets, the contribution to growth swings between net importing countries and exporting countries. The former are facing a new environment of reduced foreign demand, with lower raw material prices and a monetary policy that should approach its maximum tightening point and could partially offset this loss of dynamism. However, the dollar's continued strength could put the brakes on future development and limit the pace of monetary policy. In contrast, the net importing countries are relieved by this price mitigation. However, the tightening of global financial conditions counteracts this positive externality, making access to financing more

Chart 1.1.3-c
Eurozone: energy prices



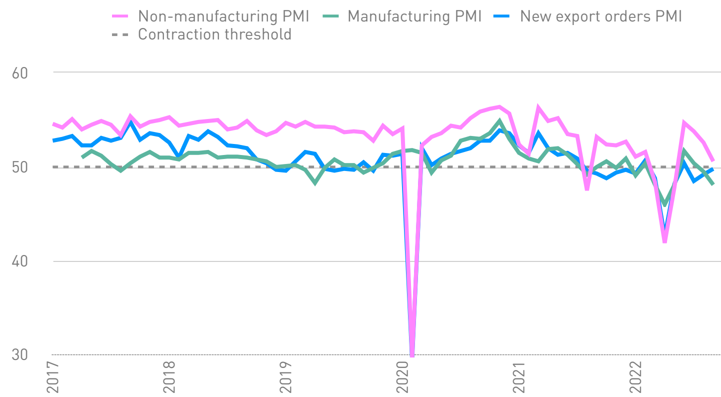
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.3-d
Eurozone: Manufacturing PMIs



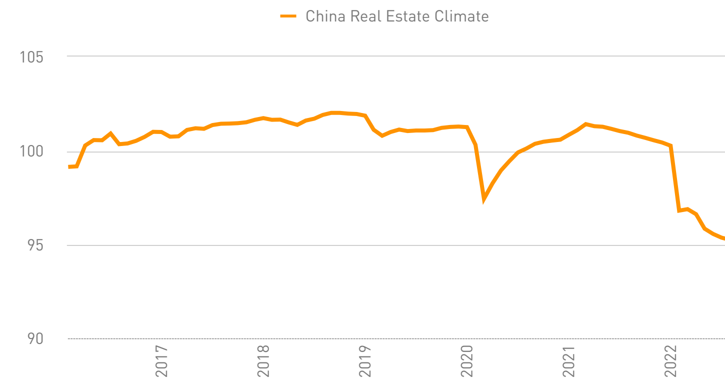
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.3-e
China: PMIs



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.3-f
China: real estate sentiment index

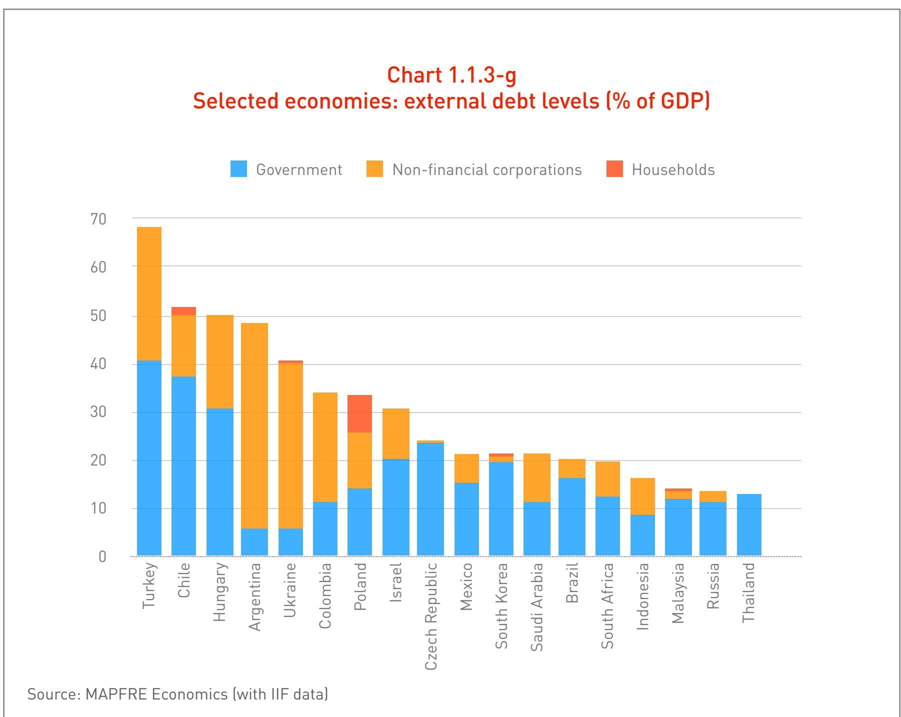


Source: MAPFRE Economics (based on Bloomberg data)

expensive. In short, the emerging markets should see weak yet positive growth, with increasingly widening asymmetries based on their vulnerabilities and a financial cost to be covered at higher market prices (see Chart 1.1.3-g and Box 1.1.3).

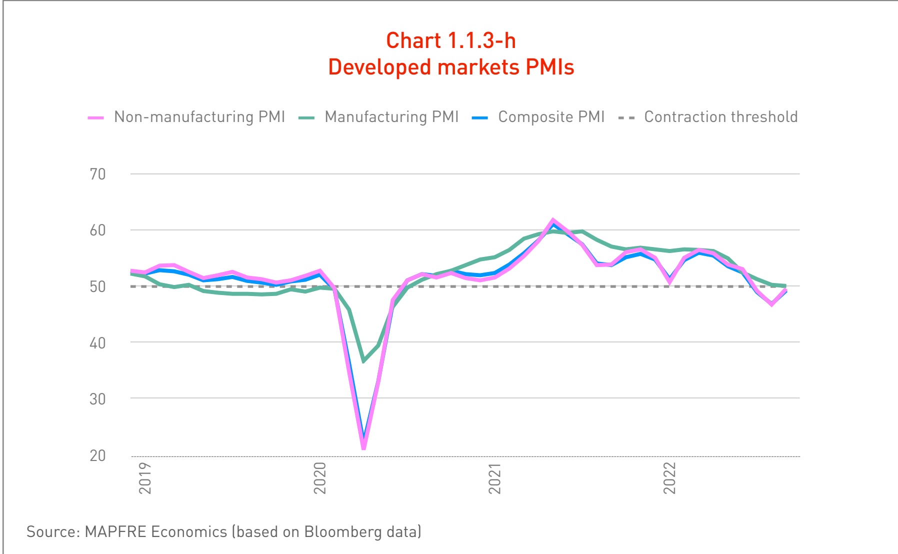
In summary, the marked weakness of the developed markets and insufficient support from the emerging markets confirm that the global economy has entered a stagflationary phase with growing downward risks, giving rise to tail events and an increasing risk of a global recession (see Charts 1.1.3-h and 1.1.3-i).

Chart 1.1.3-g
Selected economies: external debt levels (% of GDP)



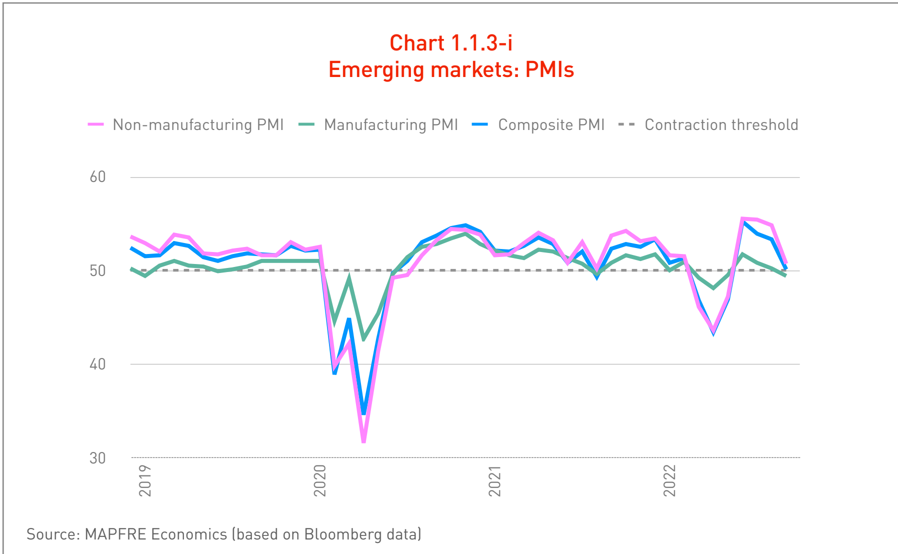
Source: MAPFRE Economics (with IIF data)

Chart 1.1.3-h
Developed markets PMIs



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.3-i
Emerging markets: PMIs



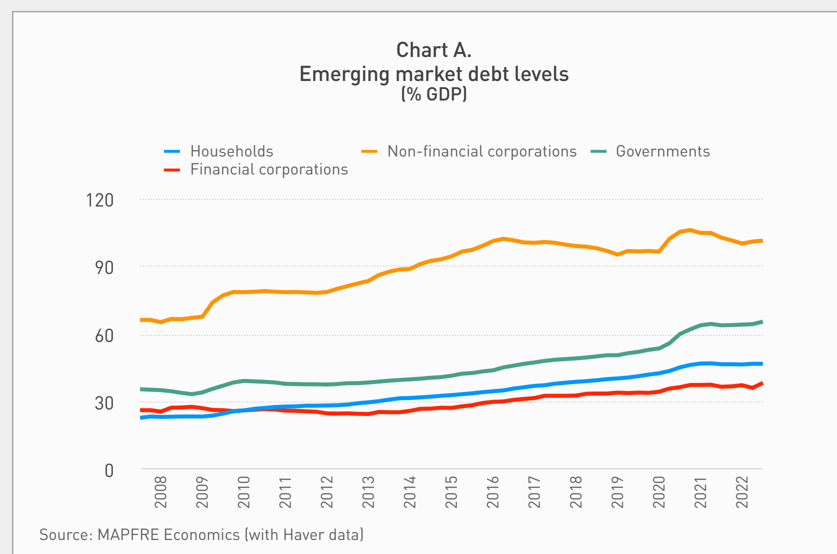
Source: MAPFRE Economics (based on Bloomberg data)

Box 1.1.3
Emerging vulnerability analysis:
evolution of the Emerging Risk Index (ERI)

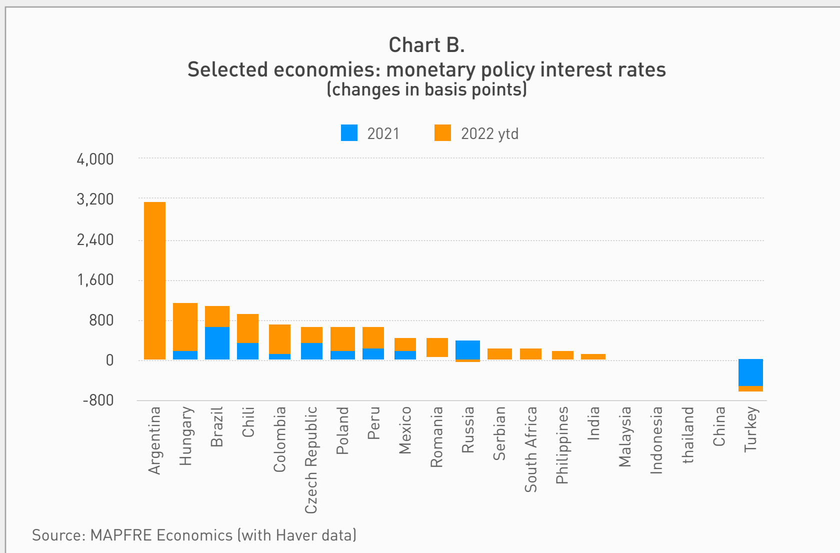
Emerging vulnerability analysis

The first half of 2022 was characterized by the reduced risk associated with the COVID-19 pandemic and the resulting reactivation of consumption, bottlenecks of varying durations, the conflict in Ukraine, and the widespread increase in the cost of raw materials, which became particularly notable for energy-related commodities. As a result of rising demand and still-significant supply disruptions, the imbalance has been permeating prices for a long time and gradually changing expectations, as what initially seemed like a transitory phenomenon now appears to be a scenario of persistent shock. Consequently, global monetary policy (with the emerging economies getting a head start) has been reacting with an accelerated shift from laxity to restrictive and countercyclical measures. At the same time, albeit after some lag time and in a less uniform manner, fiscal policy has also been compromised, with the rollout of a series of more specific and selective measures aimed at restoring the sustainability of public finances in the medium and long term (see Charts A and B). Focusing on the emerging markets, monetary policy was implemented sooner and recovery capacity was greater in countries whose financial accounts had lower financing needs and a trade surplus (boosted by the higher raw material prices), causing them to diverge from other economies to a certain extent. However, more recently, this second group's recovery has been narrowing the gap, supported by the reactivation of the services sector due to the fact that restrictions were generally quite limited in 2022.

Heading into the final stretch of 2022, most of these emerging economies should see a significant slowdown, with a general deterioration in fundamentals (compared to the pre-pandemic period) as weaker external demand puts downward pressure on raw material prices and accelerates the change of cycle. In this context, and in an antagonistic way, the countries most integrated into the global supply chains, which initially benefited from the reactivation, are expected to be the first to



Box 1.1.3 (continued)
Emerging vulnerability analysis:
evolution of the Emerging Risk Index (ERI)

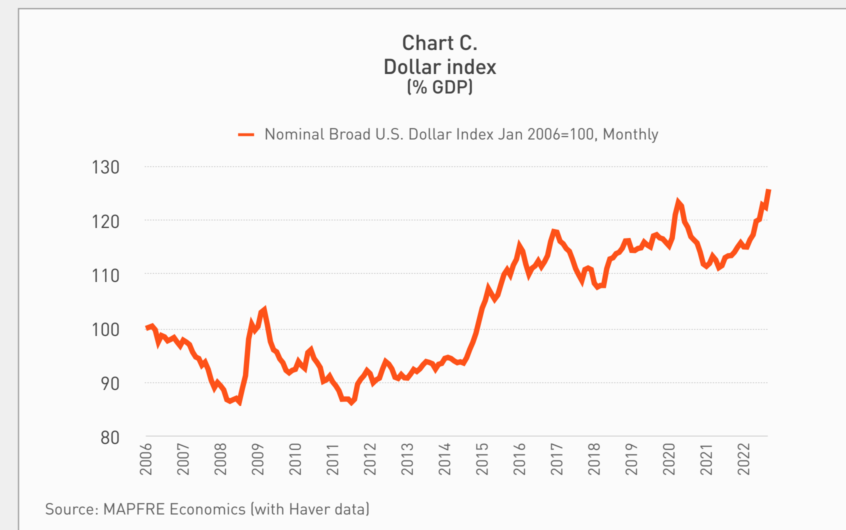


perceive the impact in this new environment compared to lagging economies with a more service-oriented production structure.

Additionally, global capital flows have been adjusting to a more favorable interest-rate environment in developed countries, adding to the widespread risk aversion due to the geopolitical catalyst. The U.S. economy has been the main beneficiary of this process, attracting global capital flows and strengthening its currency (see Charts C and D). In this regard, this drainage of capital flows could feed back into emerging countries' difficulties in accessing capital markets, triggering a procyclical spiral that would be difficult to reverse in the current context (the higher recession risk triggers the search for safe havens) and adding greater depreciatory pressure, which would be more noticeable in countries with particular tacit vulnerabilities.

Main conclusions from the analysis

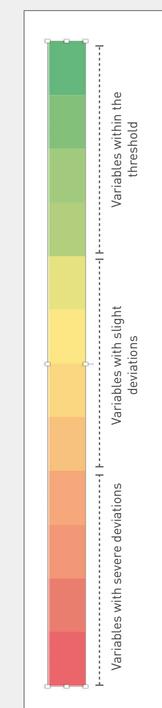
The analysis reflected by our *Emerging Risk Index* (ERI) uses data from 2022 and is forward-looking since it highlights weaknesses that will



Box 1.1.3 (continued)
Emerging vulnerability analysis: evolution of the Emerging Risk Index (ERI)

Table A.
Selected markets: risk profiles and Emerging Risk Index (ERI) estimation

	Markets		Emerging									
	Emerging	Developed	Argentina	Brazil	China	Colombia	Philippines	Indonesia	Mexico	Peru	Russia	Turkey
2030 potential growth	3	1.5										
Potential inflation	10	2										
EMBI	8%										N/A*	
CDS	20%	10%										
CA % GDP	1	1										
NIIP % GDP	-40	-40										
External Debt CB ST % GDP	4%	4%										
External Debt CB LT % GDP	1%	1%										
External Debt Governments ST % GDP	2%	2%										
External Debt Governments LT % GDP	34%	34%										
External Debt Corporate ST % GDP	8%	8%										
External Debt Corporate LT % GDP	27%	27%										
External Debt Bank ST % GDP	12%	12%										
External Debt Bank LT % GDP	12%	12%										
External Debt All Tot % GDP	30%	30%										
External Debt All ST % GDP	6%	6%										
External Debt All LT % GDP	24%	24%										
Credit Non Fin Sect Tot	20	90										
Credit Gen Governm	20	90										
Credit Households	20	90										
Credit Non Fin Corp	20	90										
Credit Non Fin Priv Sec	20	90										
LEVERAGE	10	8										
LC GDP Growth (Current)	3	1.5										
NPL	7	7										
CPI	3	1.5										
CB Rate	6	3										
Broad Money/ Total Reserves	3	6										
Total External Debt/Exports	1	3										
ERI 2021			71.61	37.54	56.96	42.86	11.50	26.13	30.04	13.33	30.04	67.04
ERI 2020			67.89	35.26	44.68	28.01	7.92	29.89	18.03	10.12	24.31	46.46
ERI 2019			71.35	32.07	42.74	26.29	8.52	30.48	22.35	11.85	19.99	42.04

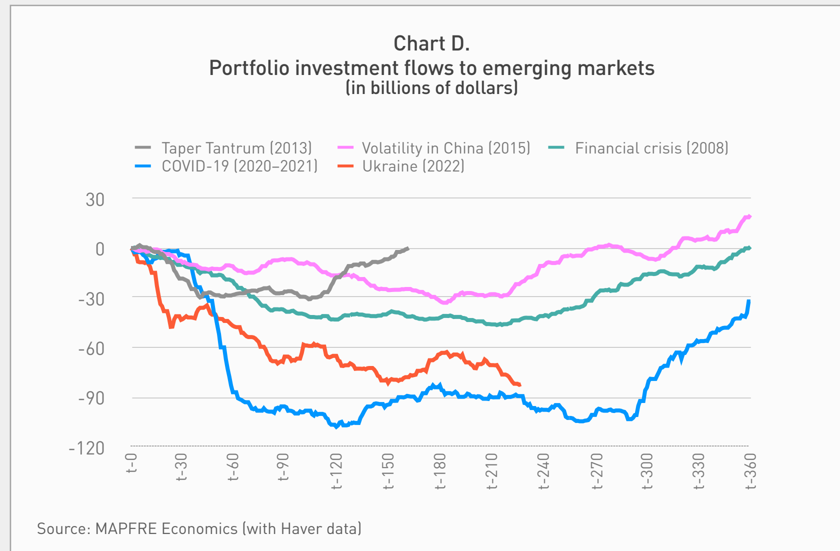


Source: MAPFRE Economics (estimates based on data from OEF, Haver, IMF, BIS, Bloomberg and World Bank)
* Russia: Equivalent CDS not available; in 2022 it was excluded from the EMBI index by JP Morgan; foreign debt data to 2021.

Click here to access the interactive version of this information

Box 1.1.3 (continued)
Emerging vulnerability analysis:
evolution of the Emerging Risk Index (ERI)

Chart D.
Portfolio investment flows to emerging markets
(in billions of dollars)



Source: MAPFRE Economics (with Haver data)

affect the development of nominal stability in emerging countries throughout 2022 and 2023. The ERI-based study of vulnerabilities of a series of markets, summarized in Table A, has allowed the following general conclusions to be drawn:

- In Argentina (see Chart E), the indicator again registers a drop generated by: (i) declining activity accompanied by rising inflation in both the most recent data and potential terms; (ii) the current account and international investment position that, despite remaining in positive territory, is losing momentum in 2022; (iii) although fiscal sustainability continues to align with the program proposed by the International Monetary Fund (now past its second review), closing the financing gap through debt issuing, remains a challenge; (iv) in terms of monetary policy, interest rates remain very high, while the local currency is becoming increasingly unbalanced despite the exchange controls. In Turkey (see Chart H), the decline of the indicator is far more significant; the main factor continues to be the unsustainable balance of payment dynamics, combined with high capital outflows that continue to put pressure on the reserve position and weaken the Turkish lira. Prices remain in an inflationary spiral, while the lack of monetary orthodoxy adds risks to financial stability, increasing the possibilities of an abrupt adjustment.

- In Peru (see Chart F), there is also some decline in the indicator despite the rapid recovery of aggregate demand, both internal and external, and a fiscal situation that favorable raw material prices have boosted. Also, its indebtedness in terms of GDP has continued to rise, with large issues at variable rates as well as significant external issues, together with a current account deficit that could be aggravated by the fragile international context, which points to a drop in raw material prices (copper and mining account for around 60% of the country's exports). Brazil (see Chart I), in turn, shows a stable and slightly downward trend, in which the following stand out: (I) in macroeconomic terms, growth remains stable while inflation is down

Box 1.1.3 (continued)
Emerging vulnerability analysis:
evolution of the Emerging Risk Index (ERI)

Chart E.
Argentina: ERI vs. EMBI

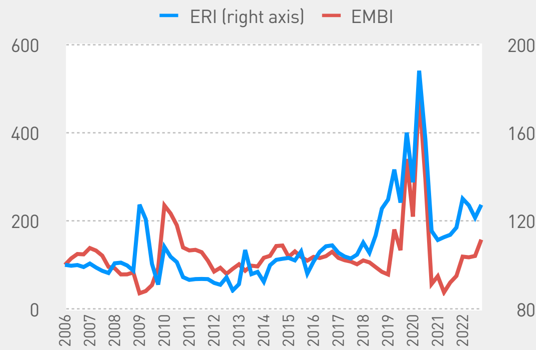


Chart F.
Peru: ERI vs. EMBI

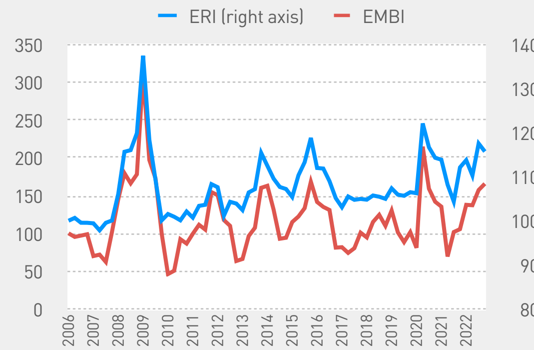


Chart G.
Indonesia: ERI vs. EMBI

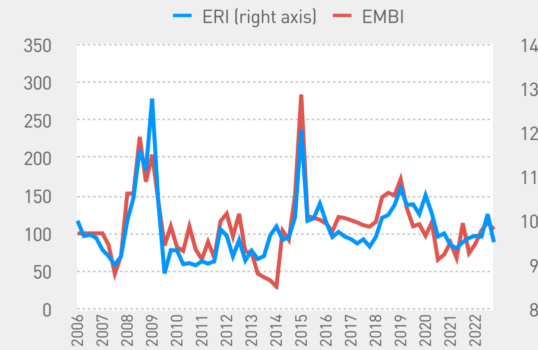


Chart H.
Turkey: ERI vs. EMBI

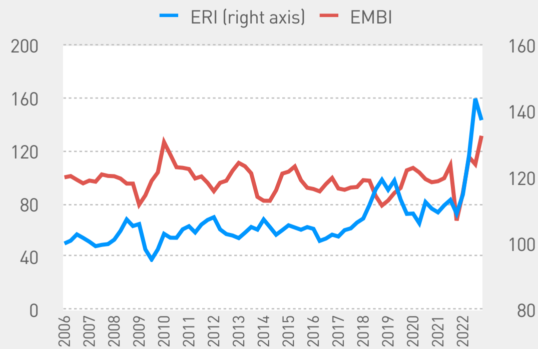


Chart I.
Brazil: ERI vs. EMBI

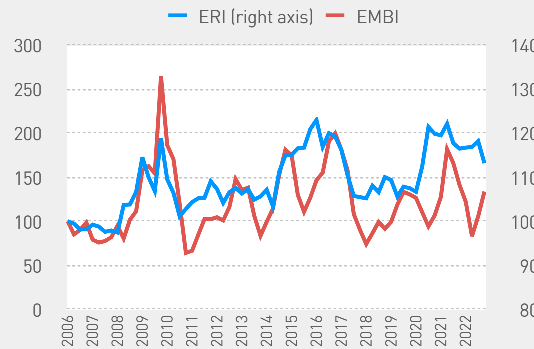
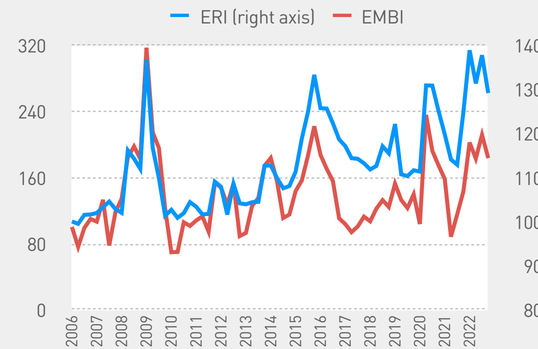


Chart J.
Colombia: ERI vs. EMBI



Source: MAPFRE Economics (own estimates and data from OEF, Haver)

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Box 1.1.3 (continued)
Emerging vulnerability analysis:
evolution of the Emerging Risk Index (ERI)

slightly, and (ii) on the fiscal side, the improvement in the public accounts, which remain on the path embarked on at the beginning of the year, with the potential to materialize in a short-term surplus and therefore an improvement in the debt position. On the other hand, Brazil's current account continues to show a deficiency that has yet to be corrected, which is significant in terms of vulnerability in the present context of difficult access to financing. The gap between the ERI and movements in the EMBI has therefore narrowed, balancing out.

- Finally, we have analyzed the Indonesian and Colombian economies. In the Asian country (see Chart G), vulnerabilities remain anchored in a relatively stable environment, in line with the EMBI, and there are still no major imbalances in the observed variables. The Colombian economy (see Chart J), however, saw a marked decline. Despite standing out for its early and vigorous recovery throughout 2021, it continued to show a high current account deficit despite the effect of higher raw material prices; in addition, in fiscal matters, the tax reform has yet to materialize, weakening the prospects for the current situation to be reversed. Another vulnerability for this Latin American economy is its external debt position, which is moderately high (above 50% of GDP), as well as its balance of payments. In this regard, the current account deficit remains high, and its considerable dependence on exporting oil and, to a lesser extent, other raw materials remains insufficient to cover the needs of the recurring deficit in the balance of goods, services, and revenue.

Source: MAPFRE Economics

1.1.4 Scenarios and forecasts

Baseline scenario

For this update of our forecast report, we have maintained the outlook described in our previous analyses, consistent with a *baseline scenario* of global stagflation in the short and medium term, with some countries sliding briefly into recession but a global recession still being avoided. The monetary policy path is maintained, with terminal rates in the transition to the second quarter of 2023 reaching around 4.5% in the United States and 3.0% in the Eurozone. Emerging economies will be the first to relax their policies to offset declines in activity and less-favorable raw material prices.

In this context, the baseline scenario considers an orderly fiscal policy, prioritizing stimulus in countries with wider margins and a greater impact on those struggling due to the energy crisis. In the Eurozone, it contemplates the partial use of *Next Generation EU* funds in a counter-

cyclical way to support demand, while in the United States, there are new fiscal stimuli, especially ahead of the elections. The war in Ukraine continues until the first quarter of 2023. Although "hot peace" may be achieved, Russia confirms the annexation of some provinces and faces a level of sanctions similar to the current one, with effects on energy and other commodities; the current situation is prolonged, but international tensions do not escalate. Along these lines, and considering the reduced supply from the OPEC+, oil moves towards USD 85/bbl in 2023 and USD 80/bbl in 2024. Gas, in turn, comes under additional pressure (USD 360/bbl oil equivalent in 2023 and USD 225/bbl in 2024) without convergence taking place until after 2024.

Meanwhile, in China, the sovereign financial tensions grow without becoming critical, and the central bank offsets yuan depreciations to crack-seven levels with more sales of U.S. Treasury bonds, although in a controlled manner. Outflows persist without becoming more pronounced, and the zero-COVID policy continues to hamper growth but shifts towards more selective measures. Thus, the baseline scenario does not foresee fiscal dominance or fragmentation risk, and the global economy would grow by almost, but not quite, 3%, which is *subpar* but does not signal a recession.

Additionally, the baseline scenario forecasts that inflation will remain high in the coming quarters, generating a higher average in 2023 but gradually slowing down later in the year. Likewise, interest rates grow in the short sections of the curve, which flattens in the middle sections and maintains its positive trend in the long sections. Once the terminal interest rate is reached, investment gradually ceases to suffer and rebounds, again allowing for more cyclical risk-taking (around mid-2023), mitigating the cumulative declines. Volatility levels therefore remain above the historical average but without generating extremes in the absence of sufficient risk events. The U.S. dollar remains appreciated relative to its fundamentals throughout 2023, albeit temporarily, which could be attributed to geopolitical tensions, the Federal Reserve's monetary leadership, and fears about a recession, leading to a subsequent reversal towards long-term equilibrium levels.

Risk scenario

Additionally, as in previous versions of this report, we consider a *stressed scenario* that, in this case, entails a global recession without enough fiscal space to be resolved and with certain events of selective fiscal dominance. In this alternative scenario, the monetary response exerts its countercyclical lever, slowing down normalization while generating an atypical pivoting scenario, given the reduced margin and accumulated inflation. In this case, a scenario of interest rates settling around the neutral rate is considered, with the main focus on relaxing the balance sheet tools (a combination of quantitative easing and interest rates above the minimums observed in previous recessions).

Despite being tempered by the contraction of activity, inflation persists as a structural phenomenon, giving way to an inflationary recession, but one of short duration. Economic activity has two negative quarters across the board in the developed countries, with a spread to the emerging markets on the whole amid insufficient global demand, reduced activity, and financing needs that remain subject to strict standards. The rationale behind this scenario includes the downward revision in the prices of oil and other raw materials, despite anchoring at comparatively higher levels, and a U.S. dollar that remains strong against its peers, feeding back into the inflationary factor behind the recession. Thus, in this stressed scenario, the financial variables face a two-sigma shock and volatility at levels equivalent to those observed with the COVID-19 shock.

1.1.5 Risk assessment

Global governance and geopolitical crisis

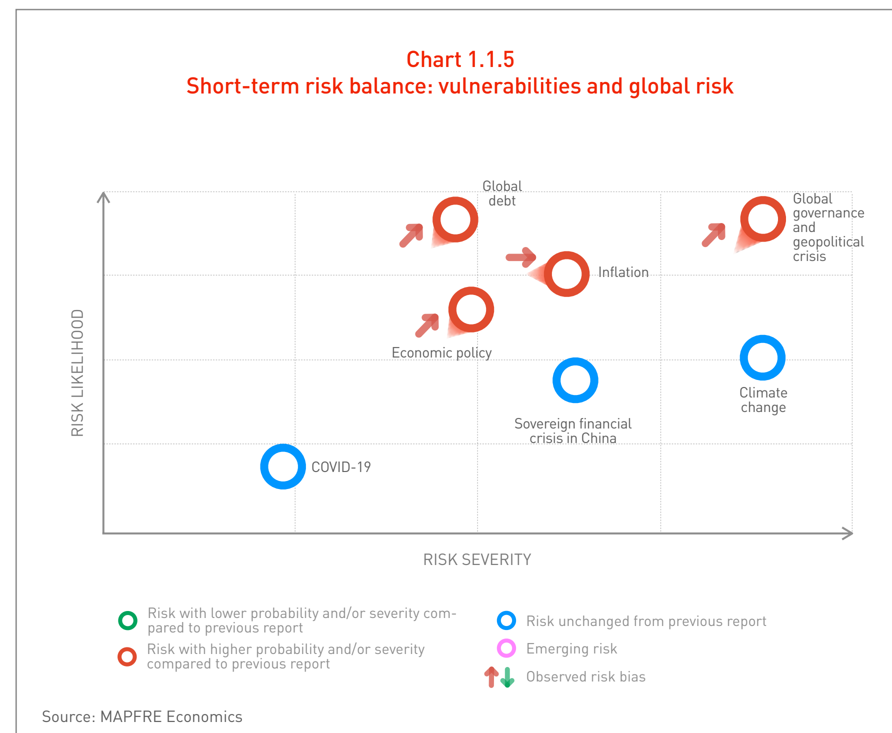
Ahead of the midterm elections in the United States, the Biden administration's approval ratings continue to decline (37%), with consumer confidence dropping under intense inflationary pressure, pointing to an eventual shift in the balance of political power in the country. In the European Union, the shift to the populist right is taking hold in the Italian government, the first differences in north-south fiscal stimulus capacity are emerging after the packages approved by Germany, and there is speculation surrounding the incident in the Nord Stream gas pipelines. Tensions between NATO and Russia continue to escalate, and sanctions are on the rise. This conflict will clearly go on for a long period of time, increasing the risk of additional actors on the map becoming actively involved. Taking a closer look at the pressures on energy prices, OPEC+ has agreed to new production cuts while the United States continues to use its strategic reserves. Meanwhile, in Asia, China remains reluctant to accept the trade alliance in the Indo-Pacific region promoted by the United States and is increasingly uneasy over the status of Taiwan, while tension is growing in the region due to the escalation between the two Koreas. In the Middle East, the risk of a new Arab spring persists, this time caused by rising food prices and deteriorating international relations. And in Latin America, the shift towards leftist governance has been strengthened by Lula da Silva's victory in the Brazilian presidential elections.

Global debt

In the second quarter of 2022, global debt decreased by 5.5 trillion dollars to 300 trillion, representing 350% of GDP, around 15 percentage points (pp) below its 2021 high. In developed markets, the decline relative to GDP was 0.4 pp, led by government and household debt. However, emerging markets saw a 3.6 pp increase, driven by the greater indebtedness of financial companies and governments, due largely to the strong depreciation of Latin American currencies against the dollar in the previous period. China continued to stand out, with its debt ratio reaching a new all-time high (347% of GDP) and all sectors contributing to the increase.

In a context where the successive interest-rate hikes announced by the central banks of the main economies to combat inflation are being

Chart 1.1.5
Short-term risk balance: vulnerabilities and global risk



Source: MAPFRE Economics

consolidated, debt sustainability is rapidly deteriorating. Until less than a year ago, with interest rates at historic lows and the main central banks' sustained purchase of financial assets, the debt servicing cost made it possible to maintain high debt levels. However, the current path highlights the imbalances accumulated in developed countries and certain emerging markets, which, together with the dollar's strength, could generate a significant risk of default. The primary vulnerabilities of developed countries include the debt stocks accumulated by governments, which increased sharply during the crisis, and the deficits that remain uncorrected. In emerging markets, the vulnerability lies in both the public sector and non-financial companies, where the proportion of dollar-denominated debt, the position of international reserves, and current imbalances expose this problem.

Additionally, the change in financial conditions is putting downward pressure on the performance of certain products, such as CLOs (collateralized loan obligations), especially those with covenant-lite clauses, whose leverage profiles are high while the solvency of collateral is decreasing. On a related note, the recent disruption of LDI (liability-driven investment) products in the United Kingdom is also notable, where leveraged operations set the precedent for the potential behavior of other complex products during times of market stress.

Economic policy

With inflationary friction gaining ground and the deteriorating economic framework (with some economies even on the edge of recession), the central banks' commitment to their mandates (dual or single) could begin to show limitations as they attempt to limit price increases without seriously compromising activity levels. Meanwhile, fiscal policy should accompany this restrictive path until establishing a sustainable structure consistent with the new interest rate environment to finance spending needs.

Thus, the main risks are the persistence of high prices, leading to an even more restrictive economic policy, and excessive fiscal leverage to mitigate effects inconsistent with the new market conditions. While the attempts to reduce demand-side pressures through higher interest rates and stricter financial conditions are being partly offset by the governments' measures to alleviate the energy shock, the problem—in terms of both higher prices over a longer period of time and more fragile public accounts (higher current expenditure combined with reduced revenue as the economy deteriorates)—could lead to events of *fiscal dominance*, aggravated by liquidity being drained from the system by the central banks. Additionally, the consequences of the rapid change in interest rates and the impact of central banks' balance sheet reduction may exacerbate this dynamic, generating sudden risk aversion with disorderly movements in financial markets.

Sovereign financial crisis in China

The Chinese economy continues to see some recovery in activity levels as it overcomes the second round of COVID-19 restrictions, as reflected by the most recent leading indicators (PMIs), as well as certain industrial production data. However, the forecasts remain on the downside, with certain risks that keep uncertainty high.

In terms of COVID-19, although the latest measures have consisted of more selective restrictions that are less harmful to the economy, they have produced distortions that continue to erode consumer confidence and external demand. This has resulted in uncertainty about the coming winter while redefining the role of Chinese industry in the global

supply chains, which continue to turn towards Southeast Asia in search of greater stability. On the real estate front, this sector was already under significant pressure for several quarters; the mortgage debtors' strikes, coupled with inaction on the part of the authorities, continue to erode the outlook for the sector.

In the geopolitical arena, tensions with the United States continue to grow, with the dispute over Taiwan's independence straining relations and the trade war still underway after the Biden administration confirmed new restrictions on technology exports to China, albeit in a tone contrasting with his predecessor in the White House. All in all, and despite efforts to address financial vulnerabilities, shore up fragile growth, and resolve structural problems, the risk of triggering a debt crisis with systemic potential for sovereign-financial spread remains real.

Climate change

The growing climate risk will be addressed again in November 2022, in Egypt, at the 27th United Nations Climate Change Conference (COP27). Although the talks are expected to focus on climate, water, food, and energy issues, the current geopolitical conflict is particularly important. It should be noted that the war in Ukraine led to shipping blockades at ports in the Black Sea, generating a severe food crisis in the Middle East and Africa while continuing to disrupt the energy landscape. Specifically, as the disruptions in global supply chains have demonstrated, the interconnection between systems means it is particularly urgent to formulate coordinated, combined, and globally integrated policies.

Inflation

Inflation rates have continued to surprise to the upside all over the world, but with differences between economies once again demonstrating the risk of pressures becoming more entrenched over time and systematically exceeding the central banks' targets. In turn, the impact on consumers is starting to significantly affect both spending decisions (due to the cumulative loss of purchasing power) and expectations that this will be prolonged in the medium term.

Focusing on core inflation, a growing number of categories are being affected by price increases due to several factors: (i) durable goods being impacted by disruptions in the supply chains, which, despite improving on the supply side, remain weighed down by the energy component, which is increasingly influenced by geopolitics, while the structural component related to the green energy transition is accelerating; (ii) services, after the initial normalization following the relaxation of the COVID-19 restrictions, continue to take center stage, having a delayed impact on the price index; (iii) the widespread increases in housing prices continue to permeate the equivalent cost of rent; (iv) as corporate margins shrink, retention capacity decreases and the pass-through to consumers becomes widespread, in line with the de-anchoring of expectations, and (v) salary demands begin to feed back into the inflationary spiral. Given this dynamic, the central banks continue to tighten their response function, shifting from their initial expectation of achieving monetary neutrality at year-end to policies that are already expected to be highly restrictive.

COVID-19

According to the most recent report from the World Health Organization (WHO), the number of weekly COVID-19 cases has steadily declined since mid-July. A total of 2.6 million new cases were reported during October 17–23, 2022, 15% lower than the previous week. The number of weekly deaths decreased by 13%, with around 8,500 deaths reported. Also, as of October 22, 624 million confirmed cases and around 6.5 million deaths had been reported worldwide.

Regionally, the number of new weekly cases decreased in five of the six regions studied: Africa (-41%), Europe (-23%), the Eastern Mediterranean (-9%), the Eastern Pacific (-5%), and Southeast Asia (-4%), while the figure increased slightly in the Americas (+2%). Meanwhile, the number of weekly deaths fell in four regions: Africa (-72%), Europe (-24%), Southeast Asia (-13%), and the Eastern Pacific (-8%), while the figure remained stable in the Americas (-1%) and increased in the Eastern Mediterranean (+9%).

Globally, GISAID reported 107,952 SARS-CoV-2 variants between September 24 and October 24, 2022, with 107,678 (99.7%) being Omicron variants of concern. As of epidemiological week 40 (October 3 to 9), 11.7% of the variants had not been assigned a Pango lineage but were presumed to be descendants of Omicron, while 1.4% of the variants were recombinant, the majority being XBB. Lineages derived from BA.5 continued to predominate at 77.1%, followed by those derived from BA.4 (5.4%) and BA.2 (4.3%).

Currently, 49 studies from 18 countries have confirmed that seven vaccines provide protection against the Omicron variant. Vaccination remains most effective against severe Omicron cases in most of the studies carried out, and it has been observed that the first booster dose markedly improves the vaccine's efficacy in all estimated scenarios. However, its efficacy in severe cases decreases after around six months. In relation to the second booster dose, 16 studies have shown that, for all scenarios, a fourth dose achieves marginal gains in vaccine efficacy compared to only three doses, being relatively more effective in severe cases and deaths versus symptomatic cases and infections.

1.2 Forecasts and risk assessments in selected economies

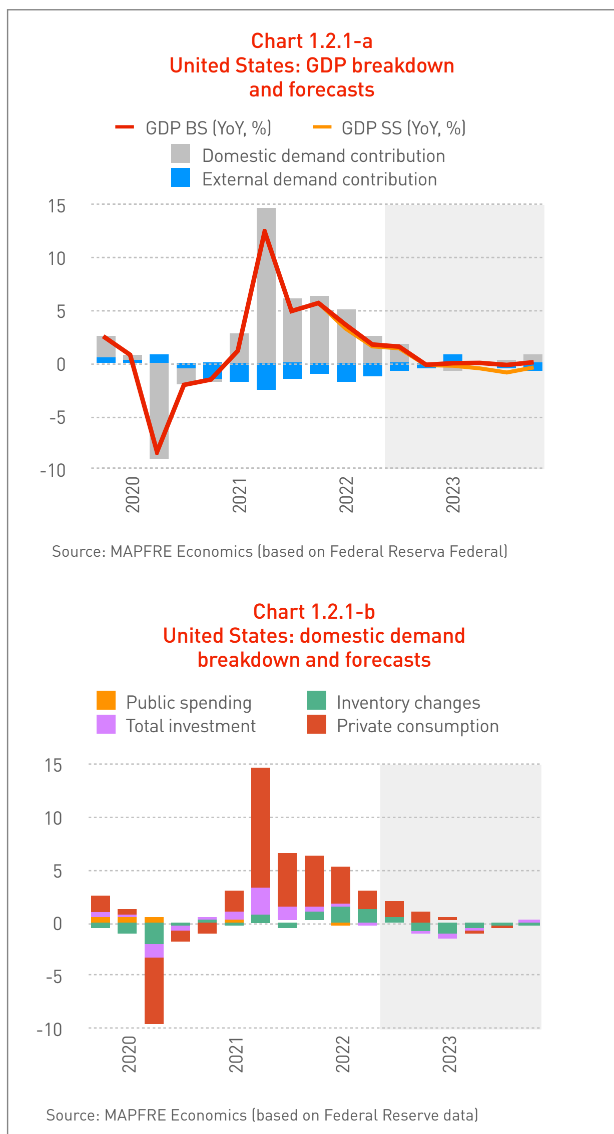
1.2.1 United States

Recession: the price to pay for expensive energy and the monetary excesses of the past.

The U.S. economy shrank for two consecutive quarters (-0.4% QoQ in the second quarter and -0.1% QoQ in the first), which, from a technical point of view, signaled a recession. While consumption grew (+0.5% QoQ), investment (-3.7% QoQ) and government consumption (-0.4% QoQ) fell. Exports continued to grow in the second quarter (+3.3% QoQ) but are expected to drop in the coming quarters as a result of the strength acquired by the dollar as a safe-haven currency. Tightening financial conditions, energy prices, and general inflation are pushing the economy towards a reces-

- **The Federal Reserve has predicted a short recession, but the likelihood of it being prolonged is increasing.**
- **Inflation remains entrenched for now, with core inflation increasing to 6.6%.**
- **The greatest risk is that monetary tightening could cause a systemic financial accident.**

Chart 1.2.1-a
United States: GDP breakdown and forecasts



Source: MAPFRE Economics (based on Federal Reserva Federal)

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

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	2.2	2.9	2.3	-2.8	5.9	1.7	0.2	1.6	-0.5
Domestic demand contribution	2.4	3.3	2.4	-2.7	7.3	2.4	0.1	2.4	-0.5
External demand contribution	-0.2	-0.4	-0.1	-0.2	-1.7	-1.0	0.1	-0.8	0.2
Private consumption contribution	1.6	2.0	1.4	-2.1	5.7	1.8	0.5	1.8	0.0
Total investment contribution	0.8	1.0	0.6	-0.3	1.2	0.0	0.0	0.0	-0.1
Public spending contribution	0.0	0.2	0.5	0.3	0.2	0.0	0.1	0.0	0.1
Private consumption (% YoY)	2.4	2.9	2.0	-3.0	8.3	2.5	0.6	2.5	0.0
Public spending (% YoY)	-0.1	1.2	3.4	2.2	1.3	-0.1	0.9	-0.1	0.9
Total investment (% YoY)	3.8	4.7	2.6	-1.2	5.7	-0.1	0.0	-0.1	-0.7
Exports (% YoY)	4.3	2.8	0.5	-13.2	6.1	4.4	-1.4	4.4	-1.9
Imports (% YoY)	4.5	4.2	1.1	-9.0	14.1	8.2	-1.1	8.2	-2.2
Unemployment rate (%, last quarter)	4.2	3.8	3.6	6.8	4.2	3.8	4.5	3.8	4.8
Inflation (% YoY, average)	2.1	2.4	1.8	1.2	4.7	8.0	4.1	8.1	5.5
Inflation (% YoY, last quarter)	2.1	2.2	2.0	1.2	6.7	7.0	3.6	7.3	4.3
Fiscal balance (% of GDP)	-4.2	-6.1	-6.3	-15.2	-11.6	-4.2	-5.4	-4.3	-5.8
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-1.9	-2.1	-2.1	-2.9	-3.6	-4.2	-4.3	-4.2	-4.1
Official interest rate (end of period)	1.50	2.50	1.75	0.25	0.25	4.25	3.25	4.50	4.25
3-month interest rate (end of period)	1.69	2.81	1.91	0.24	0.21	4.10	3.45	4.49	4.51
10-year interest rate (end of period)	2.40	2.69	1.92	0.93	1.52	4.10	3.50	4.50	4.50
Exchange rate vs. U.S. dollar (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate vs. euro (end of period)	1.20	1.15	1.12	1.23	1.13	0.98	1.01	0.98	1.00
Private lending (% YoY, average)	6.9	4.7	5.0	6.4	14.9	1.3	-1.6	1.3	-2.8
Household lending (% YoY, average)	3.4	3.5	3.0	3.4	6.5	7.8	8.2	7.8	7.8
P.S. non-financial lending (% YoY, average)	6.2	9.1	6.6	8.8	3.1	8.9	2.9	8.9	3.0
P.S. financial lending (% YoY, average)	3.1	1.9	2.4	6.8	4.3	7.6	1.0	7.7	1.5
Savings rate (% pers. disp. income, avg.)	7.3	7.6	8.8	16.8	11.9	3.7	4.2	3.7	4.3

Source: MAPFRE Economics (based on Federal Reserve data)
Forecast end date: October 26, 2022.

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sion. In the third quarter of the year, the initial estimate points to 0.6% growth QoQ in the U.S. economy, which is expected to shrink again in the last quarter of 2022 and the first quarters of 2023.

Meanwhile, the stock markets have fallen nearly 20% so far this year, reflecting the bleaker economic outlook and the increase in the 10-year Treasury bond yield, which has exceeded 4.1%, while the two-year has surpassed 4.6% (compared to 1.5% and 0.7%, respectively, at the beginning of the year). Furthermore, the interest rate curve is inverted between 2 and 10-year bonds, another classic indicator of the onset of a recession.

As for the activity forecast, the purchasing managers' indexes (PMIs) for September have the composite at 49.3 points, the manufacturing at 51.8, and services at 49.2 points (below the contraction threshold of 50 points). Employment remains strong, but that is typical before a recession. Also, reports of companies starting to announce layoffs are already appearing in the media. Meanwhile, the Conference Board Leading Economic Index turned negative in July (-0.1) and continued to fall in August (-1.0). Consumer confidence (59.8) has returned to levels seen during the global financial crisis in 2008–2009. Finally, in the real estate market, foreclosures have increased since the beginning of the year after 12 consecutive years of decline.

Our forecast is that the U.S. economy will end 2022 with 1.7% growth and enter 2023 in a recession during the first half before recovering in the second half. Thus, it would avoid a full-year decline with economic growth at around 0.2%. This will obviously depend on the circumstances not getting worse for energy and raw materials and the financial and inflationary conditions not leading to an extreme scenario. If inflation fails to ease and financial conditions continue to tighten, then we would be talking about our stressed (alternative) scenario, which would see the economy shrink 0.5% in 2023 (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b). It should be noted that the Federal Reserve's forecast is far more pessimistic for 2022 (+0.2%) and optimistic for 2023 (+1.2%), reflecting its vision of a shorter and shallower recession, whereas the market broadly believes that the worst is yet to come.

Inflation in the United States stood at 8.2% in September, with core inflation rising to 6.6%, backing the belief that the Federal Reserve will remain on its aggressive path of tightening interest rates. Food prices rose 13% for households and 8.5% for restaurants. Automobile fuels climbed 18.8%, and electricity went up 15.5%. Flight prices soared 43%, while the cost of auto insurance increased 10.3%. Finally, production (finished products) prices rose 8.5%, and construction material prices increased by 16.3%.

The Federal Reserve is committed to combating inflation through aggressively tightening financial conditions. The median of governors' expectations (dot plot) projects a year-end rate of 4.375% in 2022 and 4.625% in 2023, while futures point to 4.23% and 4.93%, respectively. Interest rates are currently at 3.25%, and the Federal Reserve is expected to raise them an additional 75 basis points (bps) at its November 2 meeting to 4.00% (high band). Current inflation, a phenomenon strongly driven by energy prices, is a problem with a significant supply-side component. The Federal Reserve's restrictive monetary policy is beginning to have noticeable effects on the demand side. This will undoubtedly take its toll in terms of rising unemployment. Although, in the view of some Federal Reserve governors, it is a cost that must be borne. Ultimately, it all boils down to two options: allow inflation to save growth or accept the recession as an inevitable process to control inflation. The Federal Reserve is choosing to control inflation, but there is a risk that higher interest rates will cause a systemic financial

accident due mainly to the large and poorly monitored size of over-the-counter (OTC) derivatives trading.

The risks for the U.S. economy are on the rise. Inflation and tighter financial conditions are already reducing disposable household income. The cooling-off of consumption is now a reality. Signs of this include the fact that distribution giant Amazon is already closing some of its warehouses[2], and mortgage defaults have rebounded after 12 consecutive years of decline.

1.2.2 Eurozone

High energy costs, entrenched inflation, and interest rate hikes.

- **Inflation in the Eurozone is accelerating and reached 10.7% in October.**
- **The devaluation of the euro and the rise in imported energy prices have significantly eroded the balance of trade.**
- **A recession is guaranteed for 2023 unless there is a turnaround in the conflict in Ukraine.**

The Eurozone grew by 0.8% QoQ in the second quarter of the year (4.1% YoY), when the slowdown in economic activity was not yet felt. This deceleration will become more noticeable in the third and fourth quarters. Meanwhile, private consumption grew by 1.3% QoQ, public consumption rose 1.6% QoQ, and exports went up 1.3% QoQ. The ZEW Indicator of Economic Sentiment for the Eurozone is at a record low, reaching -59.7 in September and -60.7 in August, worse values than those registered in the 2008 and 2012 crises. Consumer confidence also experienced a marked decrease (-28.8 in September), and investor confidence (Sentix) neared the lows of 2008 (-38.3). Retail sales fell by 2.0% YoY (-0.3% MoM), while the trade balance has sustained significant erosion since mid-2021, from 15 billion euros to -47 billion euros, accompanying the fall of the euro from 1.20 USD/EUR to the current 0.98 USD/EUR. Industrial production is stable for now (+2.5% YoY), based on the availability of energy, albeit at higher prices. Vehicle sales are recovering (+9.6%), a sign that the chip shortage problems are being resolved in the auto industry.

The outlook for the Eurozone economy is highly uncertain. The only certainties are a weaker euro, energy costs that are not expected to be resolved in the short term (as long as the conflict in Ukraine is not resolved), inflation that will become more entrenched through salary increases the longer it persists, and tighter financial conditions that will result in a credit crunch. All this will have implications for 2023, which looks complicated. In this context, we have adjusted our growth forecast for 2022 to 3.1% but expect activity to fall from the fourth quarter of this year. We therefore foresee three consecutive quarters of decline, so we have revised our 2023 growth forecast to 0.0% (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b).

Meanwhile, inflation reached 10.7% YoY in October (increasing by eight-tenths from September), with core inflation also taking hold (5.0% YoY). Food and energy continue to face the most intense price pressures, but they gradually extend to other sectors. Due to the cost of energy in manufacturing, shops, and transport, the increases will inevitably be passed on. Furthermore, strikes and wage agreement negotiations are underway that will intensify the second-round effects. Food is up 15.4%, and energy is 41.9% costlier YoY. After eliminating the effect of the latter category, year-on-year inflation stood at 6.9% (6.4% in September). Also significant is the increase in producer prices, which reached 43.3% across the Eurozone in August, pointing to future price increases for finished products.

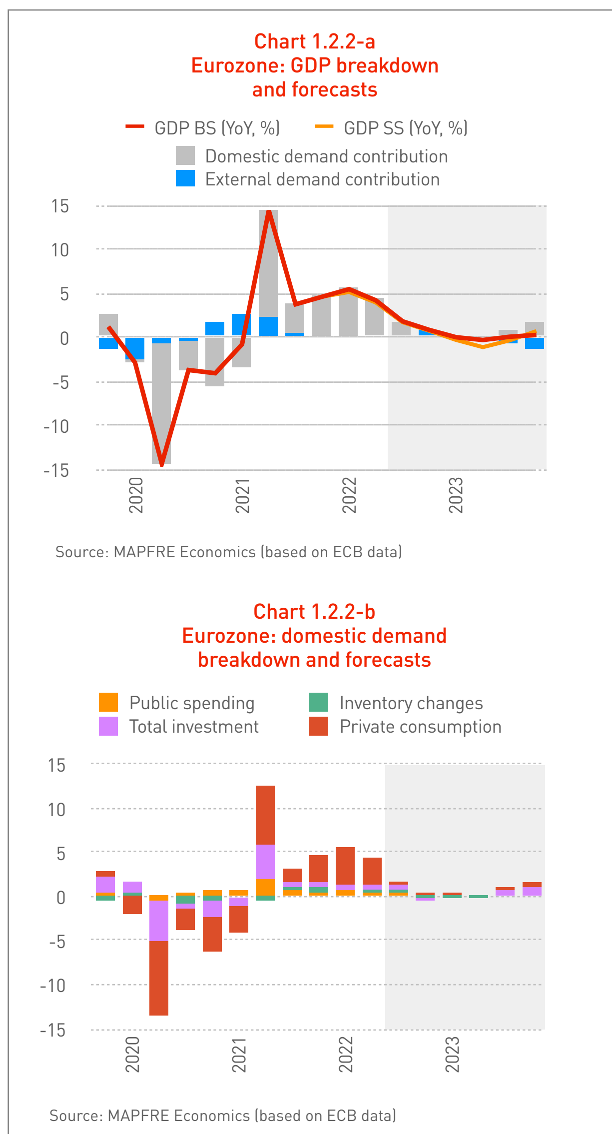

Table 1.2.2
Eurozone: main macroeconomic aggregates

	2017	2018	2019	2020	2021 (e)	Baseline (BS) 2022 (f)	Baseline (BS) 2023 (f)	Stressed (SS) 2022 (f)	Stressed (SS) 2023 (f)
GDP (% YoY)	2.8	1.8	1.6	-6.2	5.2	3.1	0.0	2.9	-0.3
Domestic demand contribution	2.3	1.7	2.4	-5.7	3.9	2.9	0.6	2.9	0.1
External demand contribution	0.5	0.1	-0.8	-0.5	1.4	0.2	-0.5	0.0	-0.4
Private consumption contribution	1.0	0.8	0.7	-4.2	1.9	1.9	0.3	1.9	0.0
Total investment contribution	0.8	0.7	1.4	-1.5	0.9	0.5	0.3	0.5	0.2
Public spending contribution	0.2	0.2	0.4	0.2	0.9	0.4	0.2	0.4	0.2
Private consumption (% YoY)	1.9	1.5	1.4	-7.8	3.7	3.7	0.6	3.6	0.1
Public spending (% YoY)	1.1	1.0	1.8	1.0	4.2	1.7	0.9	1.7	0.9
Total investment (% YoY)	4.2	3.2	6.7	-6.6	4.1	2.2	1.6	2.2	0.7
Exports (% YoY)	6.0	3.5	2.9	-9.3	10.3	5.8	1.4	5.8	1.0
Imports (% YoY)	5.4	3.7	4.9	-8.8	8.0	6.1	2.2	6.1	1.6
Unemployment rate (%, last quarter)	8.7	8.0	7.5	8.3	7.1	6.9	7.1	6.9	7.3
Inflation (% YoY, average)	1.5	1.8	1.2	0.3	2.6	8.2	5.4	8.4	6.3
Inflation (% YoY, last quarter)	1.4	1.9	1.0	-0.3	4.6	9.4	1.0	9.8	2.0
Fiscal balance (% of GDP)	-0.9	-0.4	-0.7	-7.0	-5.1	-3.1	-3.7	-3.2	-4.1
Primary fiscal balance (% of GDP)	1.0	1.4	1.0	-5.6	-3.1	-1.3	-2.0	-1.3	-2.3
Current account balance (% of GDP)	3.2	2.9	2.4	1.6	2.3	-0.4	0.6	-0.5	-0.3
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	2.50	2.00	2.50	2.50
3-month interest rate (end of period)	-0.33	-0.31	-0.38	-0.55	-0.57	2.17	2.40	2.17	2.01
10-year interest rate (end of period)	1.13	1.17	0.32	-0.19	0.32	2.15	2.20	2.85	2.46
Exchange rate vs. U.S. dollar (end of period)	1.20	1.15	1.12	1.23	1.13	0.98	1.01	0.98	1.00
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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)	2.3	2.4	3.4	3.0	3.9	4.3	5.3	4.3	4.7
P.S. non-financial lending (% YoY, average)	1.2	1.8	2.7	2.7	3.2	5.9	5.3	5.8	5.0
P.S. financial lending (% YoY, average)	1.5	-1.0	1.0	-1.9	-0.3	6.3	2.0	6.4	2.4
Savings rate (% pers. disp. income, avg.)	12.3	12.5	13.2	19.8	18.0	14.0	13.2	14.0	13.0

Source: MAPFRE Economics (based on ECB data)
Forecast end date: October 26, 2022.

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At its meeting on October 27, the European Central Bank (ECB) decided to increase key interest rates by 75 bps, consolidating the prospects of further rate hikes in the future. Regarding asset purchases, the ECB will continue to allow the flexible reinvestment of redemptions coming due in the Pandemic Emergency Purchase Program (PEPP) portfolio until at least the end of 2024. The roll-off will be managed to avoid interference with monetary policy transmission, while reinvestments under the program will remain flexible to counteract the fragmentation risk. Furthermore, TLTROs will be indexed to the reference interest rates from November 22, 2022, until their maturity, although banks will be offered additional dates for voluntary early amortization. This adjustment represents additional tightening and establishes forward guidance on the measures to be taken in future meetings, which should target balance sheet size and reduction.

In summary, the outlook on the Eurozone is becoming bleaker. After the North Sea gas pipeline sabotage, there is no turning back regarding the region's relationship with Russia. Now Europe will inevitably have to obtain supplies from other sources, mainly liquefied gas, but not enough terminals have been built for 100% replacement. Generation via clean energies will be promoted, but it will take years to install sufficient capacity. Higher energy costs will result in higher industrial costs, with serious implications for the competitiveness of certain industries. For this reason, the possibility of energy-intensive industries relocating outside of Europe in the midterm cannot be ruled out[3]. High inflation, tighter financial conditions, and the euro devaluation have set the stage for a gloomy landscape over the coming quarters.

1.2.3 Spain

A recession is possible in early 2023 due to energy costs and tightening financial conditions.

In the third quarter of 2022, Spain's economic growth slowed to 0.2% QoQ (+3.8% YoY). This was particularly due to the decline in private consumption (-1.5% YoY) as well as the reduced growth in external demand (-3.0% YoY). However, the purchasing managers'' indexes (PMIs) worsened in September, falling below the contraction threshold with the composite at 48.4, manufacturing at 49.0, and services at 48.5 points. Meanwhile, the consumer confidence indicator also continues to decline (-32.9), dropping below the 2020 level and approaching that of the 2008 crisis (-36.7), while the indicator of EU economic sentiment (96.7) stands below 2019 levels.

The growth estimate for the next quarter and the whole of 2023 points to a general slowdown in the Spanish economy. However, the magnitude is highly uncertain, with downside risks due to the potential persistence of high energy costs and the impact of the higher interest rates on the expansion or contraction of lending volume, on default, and the use of *NextGenEU* funds. According to the Bank of Spain, which monitored the use of these funds in 2021, they had an impact of just 0.2 percentage points (pp) on GDP.

- **Energy costs show no signs of dropping in the short term, which will affect economic performance in Spain.**
- **If inflation persists, it could become entrenched through salary increases.**
- **The increase in interest rates and its impact on lending will affect Spanish economic growth.**

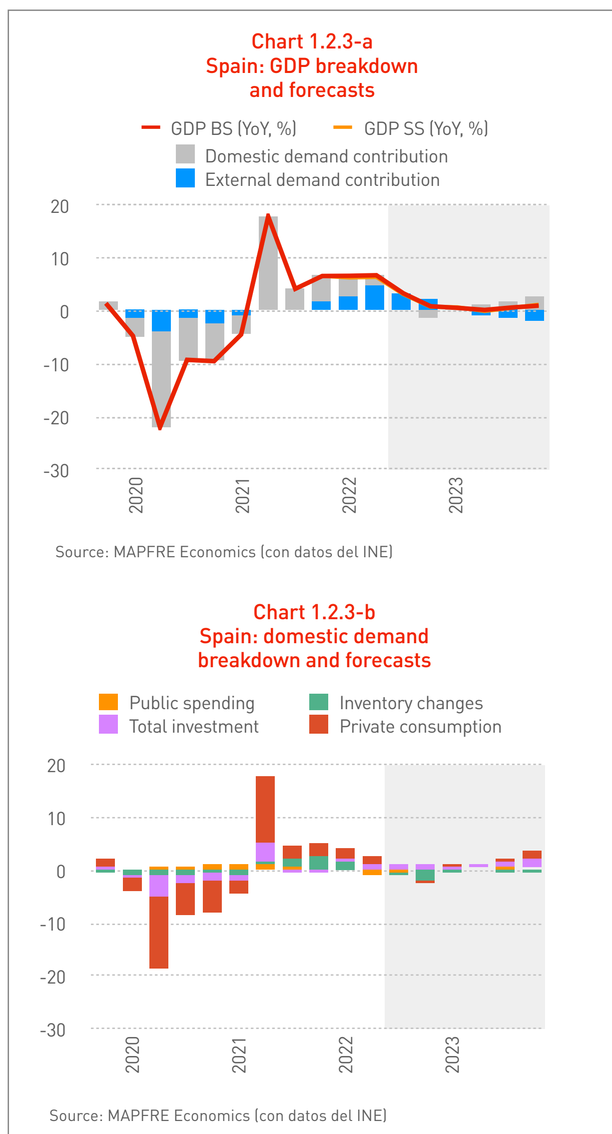

Chart 1.2.3-a
Spain: GDP breakdown and forecasts

Source: MAPFRE Economics (con datos del INE)

Chart 1.2.3-b
Spain: domestic demand breakdown and forecasts

Source: MAPFRE Economics (con datos del INE)

Table 1.2.3
Spain: main macroeconomic aggregates

	2017	2018	2019	2020	2021 (e)	Baseline (BS) 2022 (f)	Baseline (BS) 2023 (f)	Stressed (SS) 2022 (f)	Stressed (SS) 2023 (f)
GDP (% YoY)	3.0	2.3	2.0	-11.3	5.5	4.4	1.0	4.2	0.6
Domestic demand contribution	3.1	2.9	1.6	-9.1	5.2	1.1	1.6	1.1	1.0
External demand contribution	-0.2	-0.6	0.4	-2.3	0.3	3.3	-0.6	3.2	-0.4
Private consumption contribution	1.8	1.0	0.6	-7.0	3.4	0.6	0.7	0.6	0.4
Total investment contribution	1.2	1.2	0.9	-1.9	0.2	1.0	0.9	1.0	0.7
Public spending contribution	0.2	0.4	0.4	0.7	0.6	-0.4	0.4	-0.4	0.4
Private consumption (% YoY)	3.0	1.7	1.1	-12.2	6.0	1.1	1.3	1.1	0.7
Public spending (% YoY)	1.0	2.3	1.9	3.5	2.9	-1.8	2.0	-1.8	2.0
Total investment (% YoY)	6.8	6.3	4.5	-9.7	0.9	5.1	4.7	5.0	3.8
Exports (% YoY)	5.5	1.7	2.2	-19.9	14.4	15.8	0.8	15.8	0.6
Imports (% YoY)	6.8	3.9	1.3	-14.9	13.9	6.5	2.0	6.5	1.2
Unemployment rate (%, last quarter)	16.6	14.5	13.8	16.1	13.3	12.6	13.2	12.6	13.5
Inflation (% YoY, average)	2.0	1.7	0.7	-0.3	3.1	8.8	4.8	9.0	5.5
Inflation (% YoY, last quarter)	1.5	1.8	0.5	-0.7	5.8	7.7	1.9	8.0	2.5
Fiscal balance (% of GDP)	-3.1	-2.6	-3.1	-10.1	-6.9	-4.5	-4.5	-4.6	-5.0
Primary fiscal balance (% of GDP)	-0.6	-0.2	-0.8	-8.1	-4.7	-2.1	-2.1	-2.2	-2.4
Current account balance (% of GDP)	2.8	1.9	2.1	0.6	0.9	0.7	2.1	0.5	1.1
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	2.50	2.00	2.50	2.50
3-month interest rate (end of period)	-0.33	-0.31	-0.38	-0.55	-0.57	2.17	2.40	2.17	2.01
10-year interest rate (end of period)	1.57	1.42	0.47	0.06	0.60	3.50	2.90	3.22	2.89
Exchange rate vs. U.S. dollar (end of period)	1.20	1.15	1.12	1.23	1.13	0.98	1.01	0.98	1.00
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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)	-1.4	-0.3	-0.2	-1.0	0.1	1.0	3.3	1.0	2.6
P.S. non-financial lending (% YoY, average)	-1.1	-1.8	0.0	1.8	3.4	2.0	3.5	2.0	2.7
P.S. financial lending (% YoY, average)	-6.0	5.6	-0.9	1.6	0.0	-10.8	1.8	-10.7	3.0
Savings rate (% pers. disp. income, avg.)	5.8	5.6	8.2	17.8	13.8	8.6	7.8	8.5	7.6

Source: MAPFRE Economics (based on INE data)
Forecast end date: October 26, 2022.

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Based on its forecast, the impact should be 0.6 pp in both 2022 and 2023, whereas the government foresees an impact of 1.0 pp in 2023. In this context, we have adjusted our growth estimate to 4.4% in 2022 because performance was strong in the second quarter and remained good, despite being weaker, in the third quarter. In 2023, however, we expect a significant slowdown in Spain's economic growth to 1.0% (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b).

Meanwhile, inflation reached 7.3% in October (compared to 8.9% in September), with 7.3% harmonized inflation and 6.2% core inflation, which remains at the same level as in the previous month. According to the latest available data, food rose 14.4%, with marked growth in flour (+39.0%), chicken (+18.1%), and milk (+25.0%). Household consumption, including electricity and gas, rose 14.2%. The moderation in the general CPI is due to base effects and the moderation in fuels (diesel 26.0% vs. 43.0% in June), electricity (20.0%), and natural gas (23.8%).

The risks for the Spanish economy lie in the high uncertainty around the cost of energy, raw materials, and food, and its gradual impact on services. If energy inflation persists, it will be difficult to avoid second-round effects (salary increases), which would cause the price increases to become entrenched. Interest rate hikes will have an impact on credit markets, with higher costs, increased defaults, and a possible credit crunch. Employment levels have not changed for now, but the tightening of financial conditions and the decline in private consumption may cause unemployment to rebound. The public accounts have experienced a boom with increased tax revenue thanks to inflation. However, the governor of the Bank of Spain warns that this effect is unlikely to last once the crisis begins to impact activity levels, thus making fiscal consolidation still necessary in the midterm.

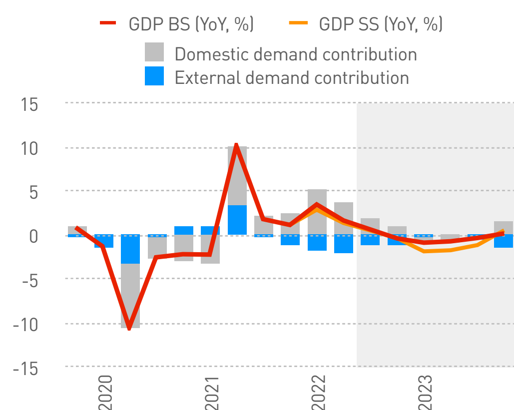
1.2.4 Germany

The recession is now inevitable, and its severity will depend on the solutions to the energy issue.

German GDP grew by 0.3% in the third quarter, driven mainly by private consumption. While details by components are not available in the preliminary result, consumption in the previous quarter rose just 0.8% QoQ, while exports grew only 0.3% QoQ, reflecting the rising energy costs and producer costs, which increased 45.8% in August, while investment fell 0.1% QoQ (-0.5% YoY). The German economy is forecast to enter a recession in the coming quarters, possibly seeing its first contraction in the fourth quarter. The sabotage of the pipelines supplying gas from Russia has ended any hope of reactivating this supply. Therefore, energy rationing appears inevitable, as Germany lacks the infrastructure to switch to a liquefied gas supply to replace all it received through the Nordstream 1 gas pipeline. Gas rationing will affect both households and industries, affecting not only the quantity available but also prices, which will remain much higher. This factor may have serious consequences for the competitiveness of German industry. Additionally, the aid from the German government to its industries raises the problem of fair competition in the European Union, as countries like Italy have less fiscal space to implement aid.

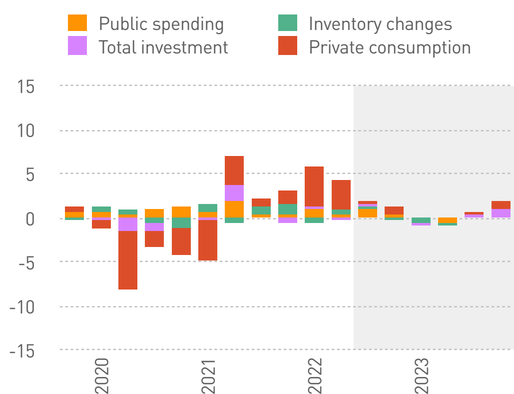
- **After the sabotage of the gas pipelines, returning to the previous status quo is no longer an option.**
- **Inflation will be more persistent; producer prices have soared.**
- **Consumer confidence has dropped abruptly.**
- **GDP is expected to drop by 0.4% in 2023.**

Chart 1.2.4-a
Germany: GDP breakdown and forecasts



Source: MAPFRE Economics (based on DESTATIS data)

Chart 1.2.4-b
Germany: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on DESTATIS data)

Table 1.2.4
Germany: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	3.0	1.0	1.1	-4.1	2.6	1.4	-0.4	1.2	-1.0
Domestic demand contribution	2.7	1.6	1.7	-3.1	1.9	3.0	0.1	2.9	-0.3
External demand contribution	0.3	-0.5	-0.6	-1.0	0.7	-1.6	-0.5	-1.8	-0.7
Private consumption contribution	0.9	0.8	0.9	-3.1	0.2	2.2	0.3	2.2	0.1
Total investment contribution	0.7	0.7	0.4	-0.6	0.2	0.1	0.3	0.1	0.1
Public spending contribution	0.3	0.2	0.5	0.8	0.8	0.7	-0.1	0.7	-0.1
Private consumption (% YoY)	1.7	1.5	1.7	-5.9	0.4	4.3	0.5	4.3	0.2
Public spending (% YoY)	1.7	0.8	2.6	4.0	3.8	3.0	-0.7	3.0	-0.7
Total investment (% YoY)	3.3	3.4	2.0	-3.0	1.0	0.3	1.3	0.3	0.5
Exports (% YoY)	5.6	2.4	1.3	-10.1	9.5	1.4	1.5	1.4	1.0
Imports (% YoY)	5.7	4.1	2.9	-9.1	8.9	5.2	3.2	5.2	2.6
Unemployment rate (%, last quarter)	5.5	5.0	5.0	6.1	5.3	5.6	5.3	5.6	5.5
Inflation (% YoY, average)	1.5	1.7	1.4	0.5	3.1	8.2	6.0	8.1	6.6
Inflation (% YoY, last quarter)	1.4	2.0	1.2	-0.2	5.1	10.2	0.2	10.2	1.3
Fiscal balance (% of GDP)	1.3	1.9	1.5	-4.3	-3.7	-1.5	-2.6	-1.5	-2.9
Primary fiscal balance (% of GDP)	2.3	2.8	2.3	-3.7	-3.1	-0.9	-2.0	-0.9	-2.2
Current account balance (% of GDP)	7.8	8.1	7.7	6.9	7.5	3.0	2.4	2.9	1.6
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	2.50	2.00	2.50	2.50
3-month interest rate (end of period)	-0.33	-0.31	-0.38	-0.55	-0.57	2.17	2.40	2.17	2.01
10-year interest rate (end of period)	0.43	0.25	-0.19	-0.58	-0.18	2.15	1.92	2.15	1.80
Exchange rate vs. U.S. dollar (end of period)	1.20	1.15	1.12	1.23	1.13	0.98	1.01	0.98	1.00
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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)	3.2	2.3	4.7	4.3	5.1	5.5	8.5	5.5	7.9
P.S. non-financial lending (% YoY, average)	3.9	9.4	4.5	3.7	3.1	5.5	3.3	5.5	3.3
P.S. financial lending (% YoY, average)	-1.6	1.9	11.6	10.2	8.5	7.5	1.3	7.5	2.0
Savings rate (% pers. disp. income, avg.)	10.6	11.2	10.7	16.6	15.3	10.1	9.8	10.1	9.5

Source: MAPFRE Economics (based on DESTATIS data)
Forecast end date: October 26, 2022.

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Purchasing managers' indexes (PMIs) are clearly dropping, having contracted since July, with the composite at 45.7, manufacturing at 47.8, services at 45.0, and construction at 41.8 points. Factory orders, industrial production, and export orders are slowing down. Consumer confidence fell to -42.5 in October, the worst result in the series. The consequences of the current uncertainty about energy supply are likely to impact employment levels, and if high costs persist over a long period of time, we could see the relocation of companies. Against this backdrop, we have reduced our growth forecast for 2022 to 1.4% (from 1.6% in our previous report), and we expect the economy to shrink by 0.4% (instead of growing 1.9%) in 2023 (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b).

Meanwhile, inflation reached 10.4% in October, with harmonized inflation, which makes it possible to compare European countries at 11.6%, while inflation "without energy" stood at 6.0% (in September). By components, energy and food prices increased 43.0% and 20.3%, respectively, while services rose 4.0%.

The risks for the German economy stem mainly from the potential rationing of energy for industry, which could lead to forced factory stoppages; in some sectors, such as the steel, chemical, fertilizer, or automobile industries, this could have a strong impact on the economy. If energy costs remain high, the competitiveness of German industry may be significantly affected. In addition, inflation and the ECB's interest rate hikes will reduce household purchasing power and undermine consumption.

1.2.5 Italy

High energy costs will drag Italy into a recession in 2023.

Italy's second-quarter GDP grew 5.0% YoY (+1.1% QoQ). Consumption remained strong thanks to tourism (+2.6% QoQ) and investment (+1.1% QoQ), while exports were up (+1.6% QoQ), although imports grew more significantly due to energy costs (+2.0% QoQ). Industrial production increased only 0.4% MoM in July after two months of decline (-1.2% and -2.0% in May and June). Retail sales data for August (-0.4% MoM) were negative across all categories, and consumer confidence has hit the lows recorded in 2020–2021 (during lockdown). Purchasing managers' indexes (PMIs) continue to worsen and have all entered the contraction range (<50), with the composite at 47.6, manufacturing at 48.3, services at 48.8 and construction at 46.7 points.

- **2022 started well but will close with a significant slowdown.**
- **A recession seems increasingly inevitable in 2023 due to high energy costs.**
- **The new government has inherited a challenging context; debt sustainability has become the main concern.**

The electricity generation in Italy is 50% gas dependent, and the high energy costs will weigh down the industry. Industry's long-term competitiveness will largely depend on the cost of energy. Nevertheless, the Italian economy will still register reasonable growth in 2022 (+3.4% YoY) due to the positive start to the year and strong tourism. However, a clear slowdown is expected in the fourth quarter, and a recession will be inevitable in 2023, with an estimated 0.1% decrease for the full year (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b).

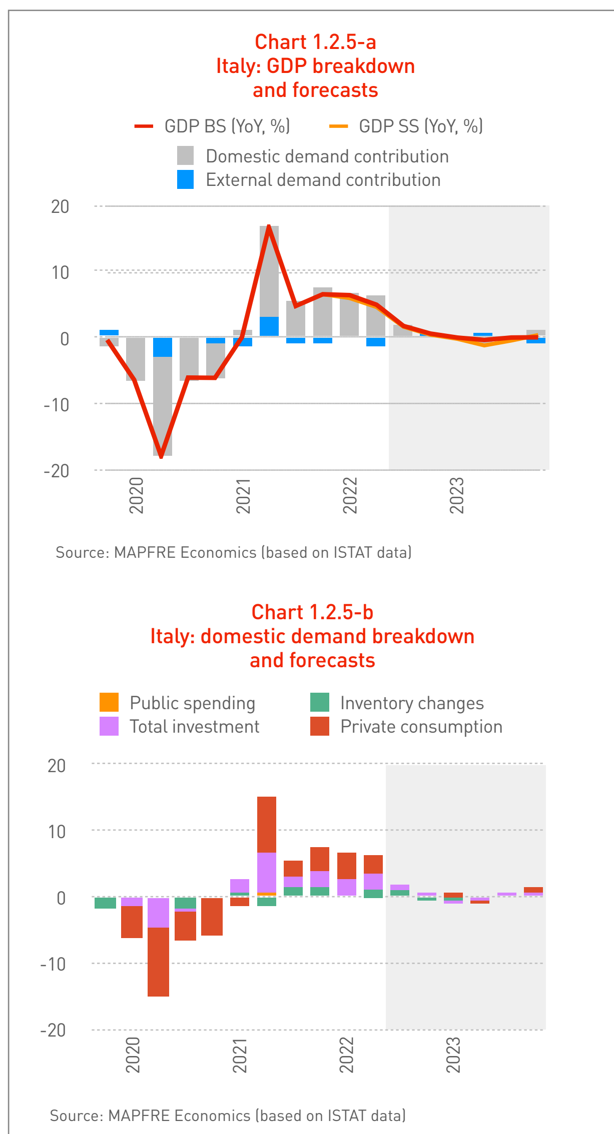

Table 1.2.5
Italy: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	1.7	0.8	0.5	-9.1	6.7	3.4	-0.1	3.2	-0.4
Domestic demand contribution	1.7	1.1	-0.2	-8.2	6.8	3.7	0.1	3.6	-0.6
External demand contribution	0.0	-0.3	0.7	-0.9	-0.1	-0.3	-0.2	-0.5	0.1
Private consumption contribution	0.9	0.6	0.1	-6.3	3.1	1.7	0.1	1.7	-0.3
Total investment contribution	0.6	0.5	0.2	-1.5	3.0	1.5	0.2	1.5	0.0
Public spending contribution	0.0	0.0	-0.1	0.0	0.3	0.1	0.1	0.1	0.1
Private consumption (% YoY)	1.5	1.0	0.2	-10.4	5.1	2.9	0.2	2.9	-0.5
Public spending (% YoY)	-0.1	0.1	-0.6	0.0	1.5	0.5	0.3	0.5	0.3
Total investment (% YoY)	3.4	2.8	1.2	-8.2	16.5	7.4	1.0	7.3	-0.2
Exports (% YoY)	6.0	1.6	1.8	-14.2	13.5	9.7	0.4	9.7	-0.3
Imports (% YoY)	6.6	2.8	-0.5	-12.7	14.8	11.3	-0.2	11.2	-1.1
Unemployment rate (%, last quarter)	11.0	10.5	9.7	9.8	9.0	8.4	8.7	8.4	8.8
Inflation (% YoY, average)	1.2	1.1	0.6	-0.1	1.9	7.8	5.0	8.0	6.0
Inflation (% YoY, last quarter)	0.9	1.4	0.3	-0.2	3.5	10.2	-0.5	10.7	1.1
Fiscal balance (% of GDP)	-2.4	-2.2	-1.5	-9.5	-7.2	-5.2	-4.0	-5.3	-4.4
Primary fiscal balance (% of GDP)	1.4	1.4	1.9	-6.0	-3.6	-1.3	-0.1	-1.3	-0.4
Current account balance (% of GDP)	2.6	2.6	3.4	3.9	3.0	0.0	-0.1	-0.2	-1.1
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	2.50	2.00	2.50	2.50
3-month interest rate (end of period)	-0.33	-0.31	-0.38	-0.55	-0.57	2.17	2.40	2.17	2.01
10-year interest rate (end of period)	2.00	2.77	1.43	0.52	1.19	4.65	4.05	4.31	3.83
Exchange rate vs. U.S. dollar (end of period)	1.20	1.15	1.12	1.23	1.13	0.98	1.01	0.98	1.00
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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)	1.2	1.8	2.2	1.2	3.0	3.9	2.5	3.9	1.6
P.S. non-financial lending (% YoY, average)	-3.0	-0.5	-0.7	3.3	-0.1	1.5	3.9	1.4	3.0
P.S. financial lending (% YoY, average)	-13.2	25.1	-5.8	-10.9	10.6	5.7	0.1	5.5	-0.3
Savings rate (% pers. disp. income, avg.)	9.7	9.6	9.5	17.0	14.4	10.5	9.0	10.5	8.8

Source: MAPFRE Economics (based on ISTAT data)
Forecast end date: October 26, 2022.

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Meanwhile, inflation continues to rise and stood at 11.9% in October, although harmonized inflation, which can be compared between EU countries, reached 12.8%. Food rose 13.1%, while the price of energy went up 73.2%. The future inflation trend in Italy will depend on the evolution of energy costs, which are expected to stabilize but at higher levels.

The greatest risk for the Italian economy is the rise in bond yields, which will gradually imply a greater burden for the public accounts. If Italy decides to aid its industries, as Germany is doing, it may put pressure on the deficit again, feeding back into the stress on bond yields. A confrontation with Brussels is not the likeliest scenario for now, but high energy costs and aid will continue to be obstacles to consolidating public accounts. The fragmentation risk, which the ECB is trying to avoid (with some countries paying far more than others for government debt), will increase if the current context continues.

1.2.6 United Kingdom

A new prime minister for what appears to be the final stretch of the conservative mandate.

The UK economy grew by only 0.2% QoQ (+4.4% YoY) in the second quarter. Private consumption increased 0.1% QoQ, government consumption fell 1.5% QoQ, investment was down 1.4% QoQ, and exports rose 3.6% QoQ. At the end of September, the new government presented a spending plan called the "mini-budget," consisting of tax cuts and increased spending that was intended to boost consumption and avoid the risk of recession. However, the plan came about in a context of high inflation caused by the energy crisis and supply restrictions and at a time when the Bank of England is applying a contractionary policy. This caused a drop in bond prices and a rise in yields that jeopardized the entire pension fund industry. Investment flows were diverted to safe-haven assets (in dollars), causing the biggest fall in the pound sterling in a long time. The currency approached parity with the dollar (1.04 USD/GBP) and forced the Bank of England to intervene in the bond market. The government backtracked on its proposal a week later, and the pound rallied to USD/GBP 1.14.

- **The government had to backtrack on its fiscal plan after causing stress in the bond markets and a sudden drop in the pound sterling.**
- **Inflation is approaching 10%, and the energy crisis is palpable.**
- **2023 is expected to be a difficult year, with GDP expected to fall by around 0.4%.**

The PMIs (purchasing managers' indexes) were all down in September, with the composite index at 48.4, the services index at 49.2, and the manufacturing index at 48.4 points. Retail sales fell 1.6% MoM and 5.4% YoY in August. Industrial production has been dropping for months but remains positive compared to last year (+1.1% YoY in July). Meanwhile, consumer confidence (GFK) has been eroding for several months now (-49 in September) Against this backdrop, our growth forecast stands at 4.0% for 2022, while we have lowered it to -0.4% for 2023 (see Table 1.2.6 and Charts 1.2.6-a and 1.2.6-b).

Meanwhile, inflation in August reached 9.9%, with core inflation at 6.3%. Food rose 10.8%, and utilities increased 20.0%, with a 70% rise in electricity, gas, and other fuels, making the energy crisis very palpable. Transport went up 12% (flights 40%), while hotels and restaurants rose 8.7%. Inflation is expected to be at more than 10% in the fourth quarter before beginning to ease in 2023. Although this process will be slower than previously anticipated.

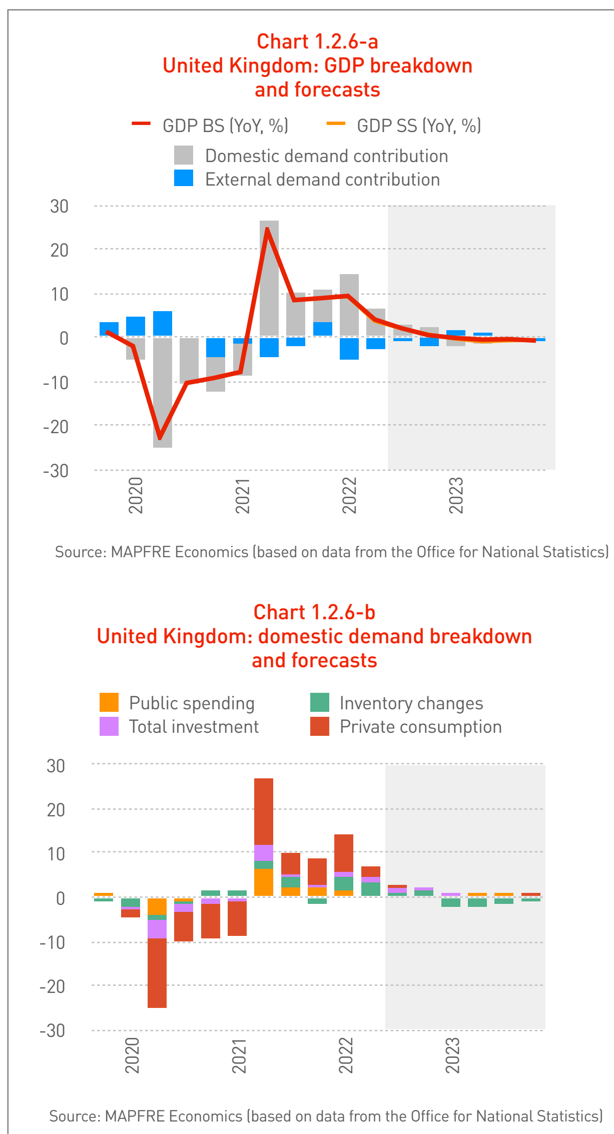

Table 1.2.6
United Kingdom: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	2.4	1.7	1.6	-11.0	7.5	4.0	-0.4	3.9	-0.6
Domestic demand contribution	2.1	0.8	1.8	-11.9	8.2	6.3	-0.9	6.3	-1.6
External demand contribution	1.0	-0.1	-0.3	1.5	-1.0	-2.3	0.5	-2.4	1.0
Private consumption contribution	1.2	1.3	0.6	-8.0	3.8	2.9	0.0	2.9	-0.4
Total investment contribution	0.6	0.0	0.3	-1.9	1.0	1.0	0.2	1.0	0.0
Public spending contribution	0.1	0.1	0.8	-1.4	2.5	0.3	0.6	0.3	0.6
Private consumption (% YoY)	1.9	2.1	1.0	-12.9	6.2	4.9	0.1	4.9	-0.7
Public spending (% YoY)	0.4	0.3	4.1	-7.3	12.6	1.4	3.0	1.4	3.0
Total investment (% YoY)	3.5	-0.2	1.9	-10.5	5.6	5.5	1.2	5.4	0.2
Exports (% YoY)	6.8	3.1	1.7	-12.1	-0.3	6.8	5.0	6.8	4.7
Imports (% YoY)	3.3	3.3	2.6	-16.0	2.8	14.0	0.9	14.0	0.2
Unemployment rate (%, last quarter)	4.4	4.0	3.8	5.2	4.0	3.9	4.6	3.9	4.8
Inflation (% YoY, average)	2.7	2.5	1.8	0.9	2.6	8.9	6.5	9.1	7.2
Inflation (% YoY, last quarter)	3.0	2.3	1.4	0.6	4.9	10.1	3.1	10.5	3.6
Fiscal balance (% of GDP)	-2.4	-2.2	-2.5	-13.1	-8.2	-5.9	-9.1	-5.9	-9.5
Primary fiscal balance (% of GDP)	0.5	0.5	-0.1	-11.0	-5.4	-1.0	-4.2	-1.0	-4.4
Current account balance (% of GDP)	-3.6	-4.1	-2.8	-3.2	-2.0	-5.6	-3.5	-5.7	-4.1
Official interest rate (end of period)	0.50	0.75	0.75	0.00	0.25	3.75	4.25	3.75	4.00
3-month interest rate (end of period)	0.52	0.91	0.79	0.03	0.26	3.50	3.70	4.10	4.35
10-year interest rate (end of period)	1.19	1.27	0.83	0.20	0.97	4.10	3.70	4.50	4.16
Exchange rate vs. U.S. dollar (end of period)	1.35	1.28	1.32	1.36	1.35	1.10	1.12	1.10	1.12
Exchange rate vs. euro (end of period)	1.13	1.11	1.18	1.11	1.19	1.12	1.11	1.12	1.12
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	2.8	2.0	2.3	3.3	3.3	2.9	3.3	2.8
P.S. non-financial lending (% YoY, average)	10.4	2.1	1.2	9.4	-6.3	2.6	1.7	2.6	1.6
P.S. financial lending (% YoY, average)	8.6	9.4	2.0	12.1	-4.3	3.9	2.0	4.0	2.7
Savings rate (% pers. disp. income, avg.)	5.1	5.1	5.4	15.9	12.5	6.7	6.2	6.6	5.9

Source: MAPFRE Economics (based on data from the Office for National Statistics)
Forecast end date: October 26, 2022.

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The Bank of England increased interest rates by 50 bps to 2.25% at its September meeting, in line with other central banks, with the objective of controlling inflation. Due to the risk-off event caused by the "mini-budget," which stresses the pension fund sector, the Bank of England has purchased 100 billion pounds in bonds.

The main risk for the UK economy is entering a recession. The central bank's intervention prevented the situation from escalating, and the pound stabilized again. However, the energy crisis and general rise in inflation are risks that are here to stay until the geopolitical tensions subside. Reorientation towards alternative energy sources is a mid-term plan. The country is also struggling with the consequences of Brexit, which are multiple and still difficult to assess comprehensively. On October 24, the Conservative Party elected Rishi Sunak as prime minister, replacing Liz Truss. The current mandate will run until the end of 2024, after which, according to polls, the Labour Party is expected to return.

1.2.7 Japan

The yen continues to fall, and the Bank of Japan has limited maneuvering room to prevent it.

The Japanese economy grew 1.6% YoY (+0.9% QoQ) in the second quarter of 2022, with private consumption growing 2.5% and exports up 2.7%. The yen's decline against other currencies, but especially against the dollar (144.7 JPY/USD), will aggravate the cost of imports, although the magnitude of its depreciation is what worries the government and the central bank. The current account balance has reduced its surplus (1.75% of GDP, down from 2.3%) due to increased import costs. The government is trying to limit the impact of a weaker yen on inflation by providing aid for auto and aviation fuels, capping the price of electricity and freezing the price of imported wheat. The government hopes to overcome this weak period for the yen by expanding aid and fiscal measures, including direct aid to citizens.

- **The Bank of Japan could only tighten interest rates if salaries begin to increase.**
- **The weakness of the yen is a result of the exchange rate difference with the U.S. dollar.**
- **Increasingly expensive imports will have an impact on prices.**

Retail sales are dropping (-0.1%), except in food (+2.0%). Meanwhile, car sales fell 13.3% in August, while consumer confidence has recovered only half of what it lost in 2020 (it remains very negative, at -50.7), and leading indicators point to a small erosion. The purchasing managers' indexes (PMIs) for September stood at 50.9 points as regards the composite index, 51.0 for manufacturing and 51.9 for services, still in expansion territory. The Tankan business conditions indexes show a positive current situation but reveal concerns about the future. Against this backdrop, we believe that growth in the third and fourth quarters will continue to benefit from some positive momentum before stalling in 2023. We therefore forecast GDP growth of 1.6% in 2022 and in 2023 (see Table 1.2.7 and Charts 1.2.7-a and 1.2.7-b).

Meanwhile, inflation reached 3.0% in September, with core inflation at 1.8%, which are high values for a country that is used to being on the verge of deflation. The pressure is coming mainly from food (4.2%) and energy (16.9%), along with electricity (21.5%), gas (19.4%), and other fuels (18.4%). Producer prices for finished goods grew by 11.4% (although the most recent data is from April), well below other countries more directly immersed in the energy crisis, such as Germany (+45%).

The Bank of Japan held interest rates negative at -0.10% at its September meeting. The body's governor has maintained that there will be no rate hikes until the end of his term (next April). The central

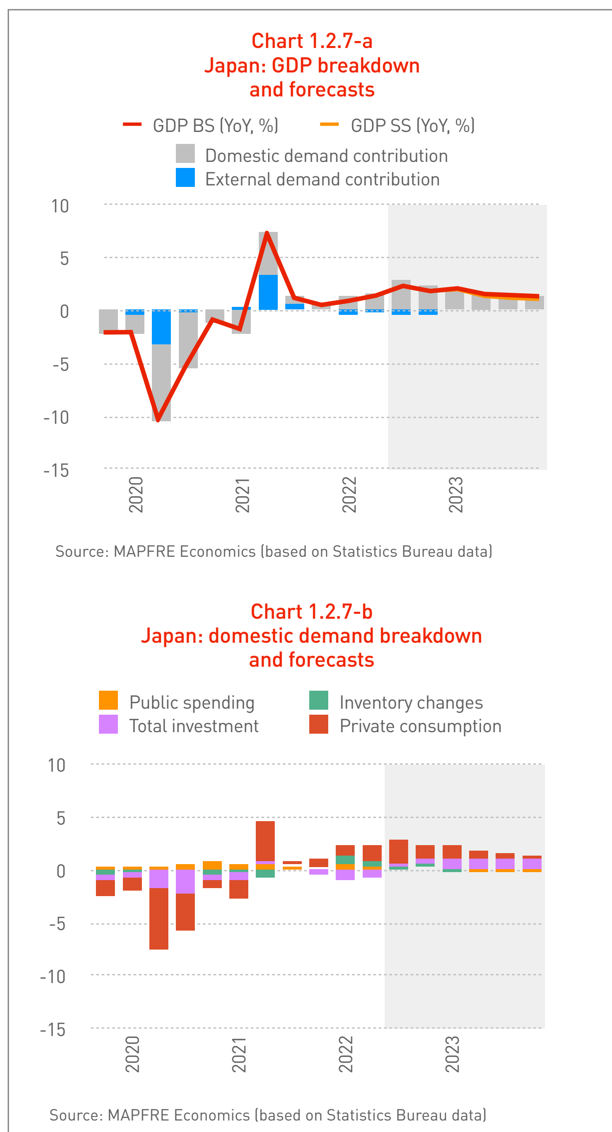

Table 1.2.7
Japan: main macroeconomic aggregates

	2017	2018	2019	2020	2021 (e)	Baseline (BS) 2022 (f)	Baseline (BS) 2023 (f)	Stressed (SS) 2022 (f)	Stressed (SS) 2023 (f)
GDP (% YoY)	1.7	0.6	-0.4	-4.6	1.7	1.6	1.6	1.6	1.4
Domestic demand contribution	1.2	0.6	0.1	-3.8	0.7	2.0	1.6	2.0	1.3
External demand contribution	0.6	0.0	-0.5	-0.9	1.1	-0.4	0.0	-0.4	0.1
Private consumption contribution	0.6	0.1	-0.3	-2.9	0.7	1.5	0.7	1.5	0.5
Total investment contribution	0.4	0.1	0.1	-1.3	-0.3	-0.2	0.9	-0.2	0.9
Public spending contribution	0.0	0.2	0.4	0.5	0.5	0.3	-0.1	0.3	-0.1
Private consumption (% YoY)	1.1	0.2	-0.5	-5.2	1.3	2.9	1.2	2.9	1.0
Public spending (% YoY)	0.1	1.0	1.9	2.3	2.1	1.4	-0.4	1.4	-0.4
Total investment (% YoY)	1.7	0.6	0.5	-5.0	-1.3	-0.9	4.0	-0.9	3.6
Exports (% YoY)	6.6	3.8	-1.4	-11.7	11.9	3.8	3.0	3.8	2.8
Imports (% YoY)	3.3	3.8	1.1	-6.8	5.1	5.8	2.9	5.8	2.3
Unemployment rate (%, last quarter)	2.7	2.4	2.3	3.0	2.7	2.5	2.3	2.5	2.4
Inflation (% YoY, average)	0.5	1.0	0.5	0.0	-0.2	2.2	1.5	2.3	2.0
Inflation (% YoY, last quarter)	0.6	0.9	0.5	-0.9	0.5	2.8	0.5	2.9	0.9
Fiscal balance (% of GDP)	-3.1	-2.5	-3.0	-9.0	-6.2	-7.1	-4.7	-7.1	-4.9
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	4.2	3.5	3.4	2.9	2.9	1.2	2.9	1.1	2.1
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (end of period)	0.07	0.07	0.07	0.08	0.07	-0.01	-0.01	0.07	0.07
10-year interest rate (end of period)	0.05	0.01	-0.02	0.04	0.09	0.22	0.22	0.25	0.07
Exchange rate vs. U.S. dollar (end of period)	112.90	110.83	109.12	103.54	115.00	145.44	137.43	145.51	138.91
Exchange rate vs. euro (end of period)	135.40	126.90	122.59	127.05	130.25	142.66	138.48	142.60	138.91
Private lending (% YoY, average)	4.4	2.6	1.8	5.2	3.1	1.7	0.5	1.7	0.5
Household lending (% YoY, average)	2.2	2.5	2.2	3.1	3.6	0.9	0.2	0.9	-0.1
P.S. non-financial lending (% YoY, average)	2.6	2.4	3.6	7.9	3.2	0.9	0.0	0.9	0.0
P.S. financial lending (% YoY, average)	8.0	6.3	2.9	17.1	7.3	10.4	-0.2	10.5	0.3
Savings rate (% pers. disp. income, avg.)	1.6	1.8	3.2	12.1	7.1	1.9	1.4	1.8	1.2

Source: MAPFRE Economics (based on Statistics Bureau data)
Forecast end date: October 26, 2022.

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bank would only start raising interest rates when longer-term inflation expectations begin to show through salary increases, moving away from the deflationary trends caused by demographic aging.

Currently, the biggest risk for the Japanese economy is a weak currency, which could push inflation up. Despite the impact of interest-rate differentials (especially against the United States) on the currency, the Bank of Japan maintained interest rates at its meeting on September 22. In contrast, the Ministry of Finance carried out the largest intervention in the exchange rate since 1991, with a massive purchase of yen equivalent to 25 billion dollars. This movement was insufficient to significantly affect the exchange rate in the face of the enormous market volumes.

1.2.8 Turkey

The current account balance worsens, and the hyperinflationary environment intensifies.

Turkey's economy grew 7.6% YoY in the second quarter of 2022, exceeding expectations. Private consumption increased 22.4% YoY, exports grew 16% in the second quarter (+13% in August), and imports soared 40% due to the country's weak currency and strong consumer demand, which has been slowing down since May. The purchasing managers' index (PMI) for September remained negative, as it has since March, signaling a manufacturing slowdown in the coming months. Similarly, the services and retail trade survey worsened in June with negative month-on-month results.

Despite the negative real interest rates and therefore financing facilities, the weak currency (and consequently inflation in imported products) will begin to impact private consumption. After a strong first half, the slowdown is clearly noticeable in the second half. In this context, we have increased our growth forecast for 2022 to 4.8%, from 3.3% in our previous report, and lowered it to 1.8% for 2023, compared to the previous 2.0% (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b).

- Economic activity remained strong in the first half but started to weaken in the second half.
- Inflation is now above 80%, and producer prices have jumped 143%, with core inflation at 66%.
- The central bank continues to go against the tide, lowering interest rates to 12%.
- A current account deficit that continues for a long time could cause bigger problems.

Inflation reached 83.5% in September and was significant in food (92.8%), housing (84.7%), restaurants and hotels (81.3%), transportation (117.7%), and fuels (182%). Core inflation (66.0%) and producer prices (143%) suggest that inflation will be anchored at higher levels for some time. With exchange rates above 18.6 TRY/USD and 18.4 TRY/EUR, the Turkish lira continues to depreciate. At its October meeting, the Central Bank of Turkey lowered interest rates (one-week Repo) by 150 bps to 10.50%. Despite falling interest rates, macro-prudential policy remains tight to keep the credit expansion in check. The deficit in the current account balance widened to almost -4.0% of GDP in the second quarter of the year, which could become problematic if it persists over time.

The main risks for the Turkish economy are the deterioration of the current account balance, which, in an extreme case, could trigger a balance of payments crisis. With high inflation and the lira losing value, there is a risk that citizens will want their deposits in dollars again. The government is now maintaining its incentives to hold deposits in local currency by compensating for losses incurred against foreign curren-

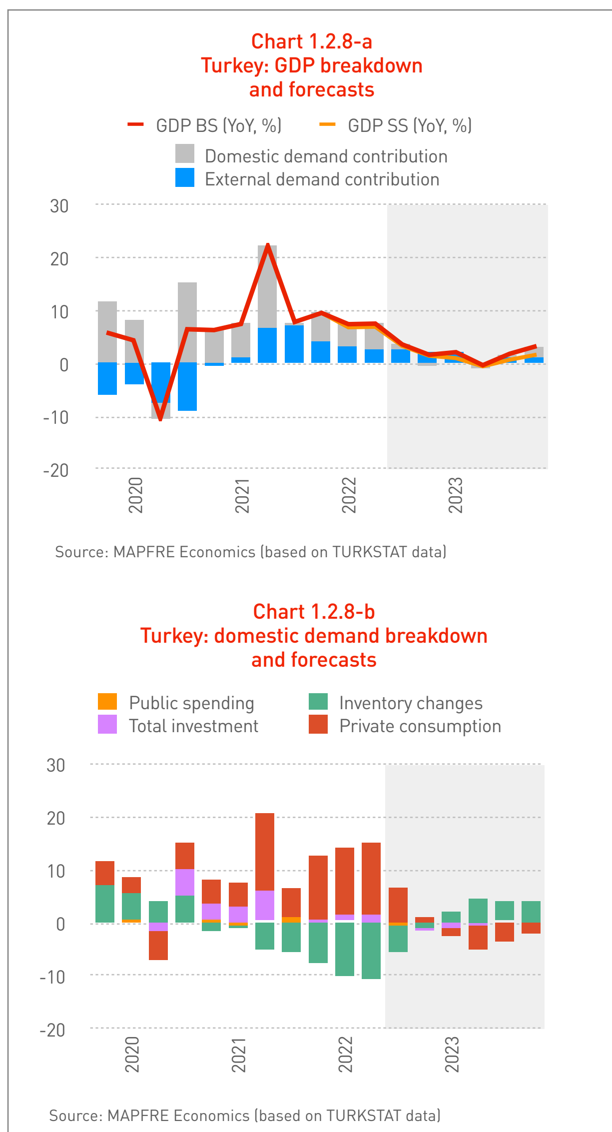

Table 1.2.8
Turkey: main macroeconomic aggregates

	2017	2018	2019	2020	2021 (e)	Baseline (BS) 2022 (f)	Baseline (BS) 2023 (f)	Stressed (SS) 2022 (f)	Stressed (SS) 2023 (f)
GDP (% YoY)	7.5	3.0	0.8	1.9	11.4	4.8	1.8	4.7	0.8
Domestic demand contribution	7.3	-0.6	-1.4	7.0	6.6	2.2	0.7	2.2	0.3
External demand contribution	0.2	3.6	2.2	-5.0	4.8	2.7	1.1	2.5	0.5
Private consumption contribution	3.6	0.3	0.9	1.9	9.1	8.0	-2.7	8.0	-3.0
Total investment contribution	2.4	-0.1	-3.6	1.8	1.9	0.3	-0.4	0.3	-0.5
Public spending contribution	0.7	0.9	0.5	0.4	0.4	0.0	0.3	0.0	0.3
Private consumption (% YoY)	5.9	0.6	1.5	3.3	15.3	13.0	-4.0	12.9	-4.5
Public spending (% YoY)	5.0	6.5	3.8	2.5	2.6	0.3	2.3	0.3	2.3
Total investment (% YoY)	8.3	-0.2	-12.5	7.4	7.4	1.3	-1.6	1.3	-2.0
Exports (% YoY)	12.4	8.8	4.2	-14.4	24.9	12.7	3.5	12.7	3.4
Imports (% YoY)	10.6	-6.2	-5.0	6.7	2.4	1.8	2.5	1.8	1.8
Unemployment rate (%, last quarter)	10.3	12.3	13.3	12.9	11.0	10.9	10.6	10.9	10.7
Inflation (% YoY, average)	11.1	16.3	15.2	12.3	19.6	72.1	42.0	73.1	51.0
Inflation (% YoY, last quarter)	12.3	22.4	10.3	13.5	25.8	78.5	34.2	79.9	41.4
Fiscal balance (% of GDP)	-1.6	-1.9	-2.9	-3.5	-2.7	-1.8	-2.0	-1.7	-1.9
Primary fiscal balance (% of GDP)	0.2	0.0	-0.6	-0.8	-0.2	0.1	-0.5	0.2	-0.3
Current account balance (% of GDP)	-4.8	-2.8	0.7	-5.0	-1.7	-6.3	-2.1	-6.7	-3.9
Official interest rate (end of period)	12.75	24.00	11.50	17.00	14.00	12.50	17.25	12.00	12.00
3-month interest rate (end of period)	14.61	24.07	10.76	17.53	15.63	13.00	12.00	13.63	13.63
10-year interest rate (end of period)	11.72	16.53	11.95	12.51	22.99	13.00	11.40	11.53	11.38
Exchange rate vs. U.S. dollar (end of period)	3.79	5.29	5.95	7.44	13.32	19.40	20.75	19.39	20.92
Exchange rate vs. euro (end of period)	4.55	6.06	6.68	9.11	15.23	19.03	20.91	19.00	20.92
Private lending (% YoY, average)	20.9	20.2	8.4	30.1	23.9	53.4	25.5	53.3	25.3
Household lending (% YoY, average)	17.5	9.8	3.3	41.8	20.3	23.9	15.0	23.8	14.1
P.S. non-financial lending (% YoY, average)	21.8	18.2	5.5	29.0	23.2	46.6	29.0	46.5	28.4
P.S. financial lending (% YoY, average)	27.2	25.1	18.3	21.2	31.5	101.6	38.8	100.9	36.8
Savings rate (% pers. disp. income, avg.)	32.3	32.0	30.4	20.9	22.7	3.9	2.5	3.9	2.4

Source: MAPFRE Economics (based on TURKSTAT data)
Forecast end date: October 26, 2022.

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cies. In addition, its policy of lowering interest rates in an inflationary environment, both locally and globally, while the rest of the world is raising them, is clearly a high-risk factor.

1.2.9 Mexico

The economy is going strong in 2022, but 2023 looks more difficult.

The Mexican economy grew 2.0% YoY (+0.9% QoQ) in the second quarter, with private consumption shrinking by 1.4% QoQ (+3.5% YoY), the same as exports (-0.2% QoQ, +9.8% YoY). Higher interest rates, persistent inflation, and the drop in the U.S. economy were among the main factors behind this. Industrial production grew (+2.7% YoY), while a slowdown was noticeable in construction and textile manufacturing. While retail sales rose overall (+5.7% in July), there was a drop in food (-5.8%) and durable household goods (-1.9%), whereas textile sales remained strong (+14.7% YoY).

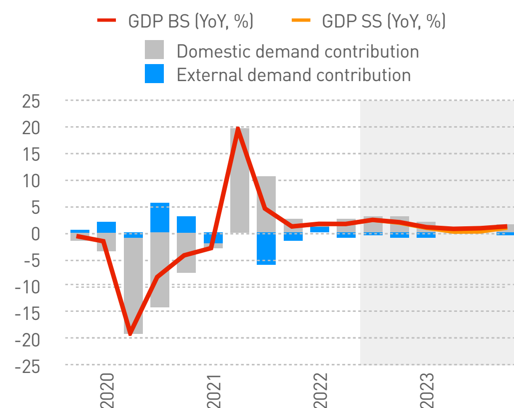
In the surveys that help to predict economic performance, factory order expectations are positive at 51.2, while business confidence is now only marginally positive (50.1). The purchasing managers' index (PMI) for manufacturing in September recovered to 50.3 points from 48.5 points in August. Automobile production is also recovering, reflecting an improvement in supply chains, while sales have followed a downward trend for the past six years. In this context, our new growth forecast for the Mexican economy has slightly improved to 2.0% in 2022, while growth should reach 1.0% in 2023, down 0.9 percentage points compared to our previous report (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

Meanwhile, inflation continues to rise, standing at 8.7% in September, with core inflation at 8.3%; food increased 14.8%, hotels and restaurants went up 10.9%, services rose 5.5%, and energy climbed 8.1%. At its September meeting, the Bank of Mexico raised the monetary policy interest rates by 75 bps to 9.25%, affirming its target inflation rate of 3% and indicating that rate hikes at its upcoming meetings would depend on the circumstances at the time.

- **High inflation and tightening financial conditions darken the economic outlook.**
- **The slowdown in the economy, both globally and locally will be reflected in 2023 by the erosion in external demand.**
- **Although Mexico is better positioned than others to withstand the energy crisis, local uncertainty continues to hamper private investment.**

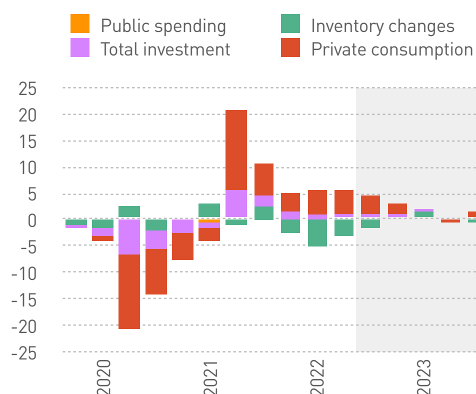
The risk for Mexico's economic growth is centered on the slowdown of internal and external demand due to high inflation and more restrictive financial conditions, as well as uncertainty regarding economic policy that is weighing down investment. On the positive side, supply chains are normalizing, and there is some momentum from industries that have begun to relocate closer to the United States.

Chart 1.2.9-a
Mexico: GDP breakdown and forecasts



Source: MAPFRE Economics (based on INEGI data)

Chart 1.2.9-b
Mexico: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on INEGI data)

Table 1.2.9
Mexico: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2017	2018	2019	2020	2021(e)	2022(f)	2023(f)	2022(f)	2023(f)
GDP (% YoY)	2.3	2.2	-0.2	-8.2	5.0	2.0	1.0	1.9	0.6
Domestic demand contribution	3.2	2.4	-1.0	-10.8	7.4	2.4	1.1	2.3	0.1
External demand contribution	-0.9	-0.2	0.8	2.6	-2.4	-0.4	-0.1	-0.4	0.5
Private consumption contribution	2.2	1.7	0.2	-7.1	5.1	3.7	0.4	3.7	-0.3
Total investment contribution	-0.2	0.2	-1.0	-3.4	1.7	0.9	0.4	0.9	0.1
Public spending contribution	0.1	0.3	-0.2	0.0	0.1	0.2	0.3	0.2	0.3
Private consumption (% YoY)	3.4	2.6	0.4	-10.5	7.7	5.5	0.5	5.5	-0.4
Public spending (% YoY)	0.7	2.8	-1.8	-0.2	1.0	1.6	2.5	1.6	2.5
Total investment (% YoY)	-1.1	0.8	-4.7	-17.8	9.5	4.8	2.0	4.8	0.6
Exports (% YoY)	4.1	5.9	1.5	-7.2	6.8	7.6	2.3	7.5	1.4
Imports (% YoY)	6.8	6.4	-0.7	-14.1	14.1	8.3	2.0	8.2	0.3
Unemployment rate (%, last quarter)	3.3	3.3	3.4	4.5	3.7	3.6	3.5	3.6	3.8
Inflation (% YoY, average)	6.0	4.9	3.6	3.4	5.7	8.0	5.4	8.0	6.6
Inflation (% YoY, last quarter)	6.6	4.8	2.9	3.5	7.0	8.3	4.1	8.3	5.1
Fiscal balance (% of GDP)	-1.1	-2.0	-1.7	-2.8	-2.9	-3.0	-2.6	-3.0	-2.9
Primary fiscal balance (% of GDP)	1.4	0.6	1.1	0.1	-0.3	-0.3	0.0	-0.3	-0.1
Current account balance (% of GDP)	-1.7	-2.0	-0.3	2.5	-0.4	-1.0	-0.9	-1.1	-1.8
Official interest rate (end of period)	7.25	8.25	7.25	4.25	5.50	10.50	10.00	10.50	9.00
3-month interest rate (end of period)	7.66	8.63	7.45	4.47	5.86	9.45	9.10	10.75	9.25
10-year interest rate (end of period)	7.66	8.70	6.84	5.23	7.57	9.70	9.40	10.60	8.89
Exchange rate vs. U.S. dollar (end of period)	19.67	19.65	18.93	19.88	20.50	20.51	20.88	20.52	21.25
Exchange rate vs. euro (end of period)	23.59	22.50	21.26	24.40	23.22	20.12	21.04	20.11	21.25
Private lending (% YoY, average)	12.1	10.4	8.9	5.2	-1.0	8.3	8.7	8.1	6.9
Household lending (% YoY, average)	9.9	8.4	6.2	1.6	4.4	8.1	5.6	8.1	4.6
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)	1.7	-0.8	6.2	3.7	18.3	7.9	14.8	7.7	13.7
Savings rate (% pers. disp. income, avg.)	10.7	12.3	16.4	22.0	22.5	18.8	14.6	18.8	14.5

Source: MAPFRE Economics (based on INEGI data)
Forecast end date: October 26, 2022.

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1.2.10 Brazil

Economic performance exceeds expectations in 2022, but a slowdown is already in the cards for 2023.

In the second quarter of 2022, the Brazilian economy grew by 3.2% YoY (+1.2% QoQ) and is expected to continue doing so in the third quarter. Private consumption remains strong (+5.3%), and investment is weathering the crisis (+1.6%), while exports are already reflecting the international cooldown (-4.8%). The Brazilian economy is surprisingly strong in 2022. At the beginning of the year, GDP growth was expected to reach around 0.5% but based on performance so far this year, the estimate has been raised to 2.7%. Looking ahead to the next few quarters, industrial production is expected to suffer under high energy costs, but to a lesser extent than in Europe (in fact, in August, it rose 2.8%). The industry confidence indicator (Fundación Getulio Vargas) was negative in September (-6.8), and the purchasing managers' indexes (PMIs) for September, despite worsening, remain in positive territory: the composite at 51.9, manufacturing at 51.1 and services at 51.9 points.

Although the end of 2022 will be stronger than expected, we forecast a slowdown in the last three months of the year and the first quarter of 2023, with negative quarter-on-quarter growth. High energy costs, inflation, and more restrictive financial conditions will take an inevitable toll on Brazil's economic performance in 2023, so we expect growth to slow to 0.9% (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b).

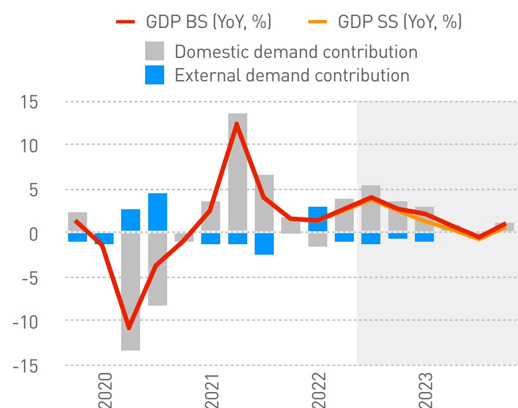
Inflation is already beginning to show signs of moderation after falling for three consecutive months, from a high of 11.9% in June to 7.2% in September (-0.3% MoM, general IPCA). Food (+11.7%), household goods (+11.5%), and clothing (+19.2%) continue to be the categories with the highest price increases, while fuels were the category that caused the CPI to drop the most (-17.0%).

At its October meeting, the central bank (BCB) maintained the SELIC interest rates at 13.75%. The committee considers that there are upside and downside risks and will base future decisions on the desired disinflation scenario, the trend in raw material prices, and the easing of fluctuations in economic activity and employment. With inflation subsiding, the BCB will have room to cut interest rates in 2023.

The risks for the Brazilian economy are downward and include a rise in raw material prices; a faster-than-expected slowdown in economic activity; the withdrawal of the economic support activated in the last two years; continued inflationary pressures and lower global activity, and in the longer term, the balancing of public accounts. On the positive side, Brazil has a less open economy than Western countries and may therefore be somewhat more sheltered from the crisis that should impact the global economy.

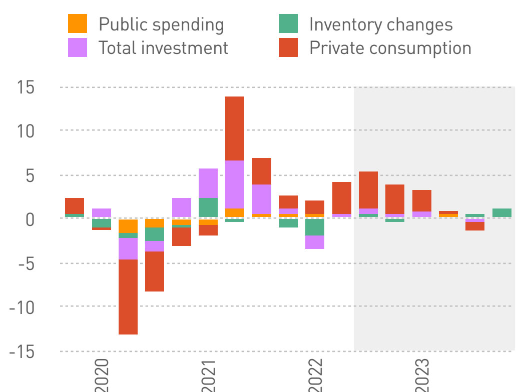
- The economic growth forecast has been raised for 2022.
- However, the economy is expected to drop sharply in 2023.
- The Brazilian economy is less tied to the United States and Europe but is being affected by the increase in energy prices and more restrictive financial conditions worldwide.

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 (BS)		Stressed (SS)	
	2017	2018	2019	2020	2021 (e)	2022 (f)	2023 (f)	2022 (f)	2023 (f)
GDP (% YoY)	1.6	1.7	1.2	-4.2	4.9	2.7	0.9	2.6	0.4
Domestic demand contribution	2.0	2.3	1.8	-5.7	6.2	2.8	1.0	2.8	0.8
External demand contribution	-0.4	-0.6	-0.6	1.5	-1.2	-0.1	-0.1	-0.2	-0.4
Private consumption contribution	1.3	1.6	1.8	-3.8	2.5	3.2	0.4	3.2	0.3
Total investment contribution	-0.4	0.8	0.7	-0.1	3.1	-0.1	0.0	-0.1	0.0
Public spending contribution	-0.1	0.1	-0.1	-0.8	0.3	0.3	0.2	0.3	0.2
Private consumption (% YoY)	1.9	2.4	2.6	-5.5	3.6	4.7	0.6	4.7	0.5
Public spending (% YoY)	-0.7	0.8	-0.5	-4.5	2.0	1.6	1.4	1.6	1.4
Total investment (% YoY)	-2.6	5.2	4.0	-0.5	17.3	-0.6	0.2	-0.6	-0.2
Exports (% YoY)	5.3	3.5	-2.5	-2.3	6.4	2.4	1.3	2.4	0.9
Imports (% YoY)	7.3	6.9	1.3	-10.3	13.0	-0.4	3.5	-0.4	3.1
Unemployment rate (%, last quarter)	11.9	11.7	11.1	14.2	11.1	9.1	8.4	9.1	8.4
Inflation (% YoY, average)	3.4	3.7	3.7	3.2	8.3	9.0	5.7	9.8	7.9
Inflation (% YoY, last quarter)	2.8	4.1	3.4	4.3	10.5	6.7	5.5	7.3	7.2
Fiscal balance (% of GDP)	-7.8	-7.0	-5.8	-13.6	-4.4	-4.8	-6.4	-4.9	-6.5
Primary fiscal balance (% of GDP)	-1.7	-1.5	-0.8	-9.4	0.7	0.8	-0.7	0.8	-0.7
Current account balance (% of GDP)	-1.1	-2.7	-3.5	-1.7	-1.7	-1.7	-2.0	-1.8	-2.3
Official interest rate (end of period)	7.00	6.50	4.50	2.00	9.25	13.75	10.75	13.75	11.75
3-month interest rate (end of period)	6.90	6.40	4.40	1.90	9.15	11.60	10.75	13.65	11.65
10-year interest rate (end of period)	10.21	9.24	6.81	6.98	10.31	11.80	11.05	12.50	11.53
Exchange rate vs. U.S. dollar (end of period)	3.31	3.87	4.03	5.20	5.58	5.41	5.44	5.39	5.32
Exchange rate vs. euro (end of period)	3.97	4.44	4.53	6.38	6.32	5.30	5.48	5.28	5.32
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)	4.7	7.0	10.8	10.1	17.7	17.6	8.0	17.6	7.9
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 (% pers. disp. income, avg.)	17.4	16.4	15.8	19.0	22.3	17.0	16.3	17.0	16.2

Source: MAPFRE Economics (based on data from the Brazilian Institute of Geography and Statistics (IBGE))
Forecast end date: October 26, 2022.

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1.2.11 Argentina

Economic activity remains reasonably strong in 2022, but the future looks complicated.

The Argentine economy grew 6.9% YoY (+1.0% QoQ) in the second quarter, with consumption increasing 10.7%, public consumption up 5.3%, investment rising 18.8%, exports up 9.3%, and imports growing 23.1%. These surprisingly strong indicators are associated with high inflation expectations that have disrupted economic performance, causing consumers and investors to speed up their decisions. Retail sales therefore remain strong (+55% in July), accounting for the strong consumption indicator. Car sales have stabilized, although at much lower levels than in 2018, while industrial production is up 7.3% and construction 7.3% YoY, as confirmed by the cement sales indicator, which rose 6.9% month-on-month. In this context, we have raised our forecast for Argentine GDP growth in 2022 to 3.7% (from 2.8% in our previous report) based on the positive performance year to date, but we anticipate a significant slowdown of up to 0.9% in 2023 (see Table 1.2.11 and Charts 1.2.11-a and 1.2.11-b).

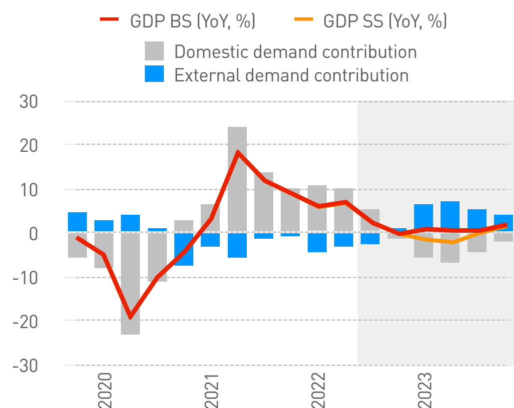
- Economic growth in 2022 was better than expected, but a slowdown is expected for 2023.
- Inflation expectations have worsened, especially due to the dollar's strength.
- The growing macroeconomic imbalances may bring back mid-term uncertainties regarding sovereign solvency.

Inflation stood at 83.0% in September, with core inflation at 82.3%, and is expected to remain high in the coming quarters. The rise in prices is being seen across all segments, including food, clothing, transport, recreation, and culture. The increase in the electricity, gas, and water category (+58.6%) is less significant, as prices are regulated. The central bank's monthly survey of expectations in May suggests that year-end inflation in 2022 will be around 100.3% (5.3 pp above the previous month's survey), with core inflation at 99.2%. Therefore, we have revised our estimate for 2022 upwards, considering the most recent data and the reduction in energy subsidies. As a result, inflation is expected to remain high in 2023 but become a bit more moderate, averaging 81.0% for the year.

At its October meeting, the central bank kept the benchmark 28-day LELIQ interest rate at 75.00%, almost double its level at the beginning of the year. This is due to the worsening of inflation data and also expectations. Against this backdrop, the Argentine peso continues to depreciate, and this situation is being aggravated by the fact that the dollar is very strong against all other currencies, having already exceeded the threshold of 154 pesos/USD.

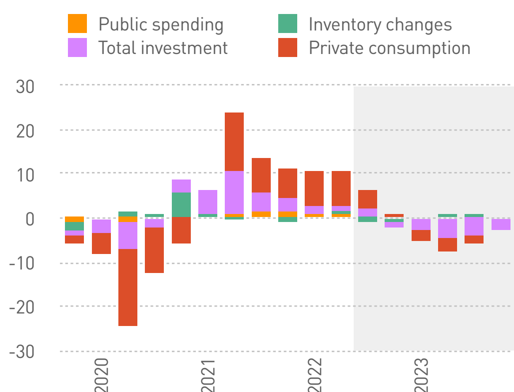
One of the main risks for the Argentine economy is rising inflation, especially due to the ongoing devaluation of the country's currency. Although the government announced that no more central bank financing would be necessary this year, getting the funds to cover the deficit via financing in the markets may be challenging. The accumulation of macroeconomic imbalances, together with the strength of the dollar, could hinder its solvency in the medium term.

Chart 1.2.11-a
Argentina: GDP breakdown and forecasts



Source: MAPFRE Economics (based on INDEC data)

Chart 1.2.11-b
Argentina: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on INDEC data)

Table 1.2.11
Argentina: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	2.8	-2.6	-2.0	-9.9	10.4	3.7	0.9	3.6	-0.6
Domestic demand contribution	6.4	-4.1	-9.5	-10.3	13.3	6.1	-4.8	6.1	-5.1
External demand contribution	-3.6	1.5	7.5	0.3	-2.9	-2.4	5.7	-2.4	4.4
Private consumption contribution	3.0	-1.7	-4.6	-9.8	6.8	5.1	-1.9	5.1	-2.1
Total investment contribution	2.5	-1.2	-3.2	-2.2	5.6	1.0	-3.4	1.0	-3.4
Public spending contribution	0.4	-0.3	-0.9	-0.2	1.0	0.3	0.0	0.3	0.0
Private consumption (% YoY)	4.2	-2.2	-6.1	-13.7	10.0	7.4	-2.6	7.4	-3.0
Public spending (% YoY)	2.6	-1.9	-6.4	-1.9	7.1	2.4	0.3	2.4	0.3
Total investment (% YoY)	13.4	-5.7	-16.0	-13.0	33.4	5.2	-16.8	5.1	-16.8
Exports (% YoY)	2.6	0.6	9.8	-17.7	9.2	4.4	0.6	4.4	0.7
Imports (% YoY)	15.6	-4.5	-18.7	-18.5	22.0	13.5	-15.7	13.5	-16.3
Unemployment rate (%, last quarter)	7.2	9.1	8.9	11.0	7.0	8.2	8.2	8.2	8.2
Inflation (% YoY, average)	24.8	34.3	53.5	42.0	48.4	72.4	81.0	74.5	89.0
Inflation (% YoY, last quarter)	23.3	47.4	52.2	36.4	51.4	95.5	58.5	98.5	64.4
Fiscal balance (% of GDP)	-5.9	-4.9	-3.8	-8.4	-3.6	-4.1	-2.7	-4.1	-2.7
Primary fiscal balance (% of GDP)	-3.8	-2.3	-0.4	-6.4	-2.1	-2.7	-1.2	-2.7	-1.2
Current account balance (% of GDP)	-4.8	-4.9	-0.8	0.8	1.4	0.6	1.1	0.6	0.7
Official interest rate (end of period)	28.75	59.25	55.00	38.00	38.00	87.00	76.50	87.00	77.00
3-month interest rate (end of period)	27.44	56.76	45.13	29.55	31.49	84.98	74.56	85.00	75.00
10-year interest rate (end of period)	12.88	16.85	30.24	21.68	25.52	31.39	31.75	33.08	32.62
Exchange rate vs. U.S. dollar (end of period)	18.65	37.70	59.89	84.15	102.72	178.89	267.54	179.06	270.41
Exchange rate vs. euro (end of period)	22.37	43.17	67.28	103.26	116.34	175.47	269.59	175.48	270.41
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)	44.3	52.3	15.3	22.9	34.6	41.0	9.2	41.0	9.3
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)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% 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 INDEC data)
Forecast end date: October 26, 2022.

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1.2.12 China

Global slowdown and internal problems pose risks to Chinese economic growth.

The Chinese economy grew 3.9% YoY in the third quarter compared to 2.5% YoY in the second, which was marked by lockdowns. The recovery of industry influenced economic performance (industrial production increased 6.3%), unstable consumption (-2.5% in September), and slower export growth (+5.7% in September) compared to imports (up 7.4%). Looking at more recent indicators, retail sales recovered in July and August after falling sharply in the year's second quarter, while industrial production remained strong (+3.6% YoY until August).

- **Lower growth is forecast for the Chinese economy in 2022, followed by an eventual recovery in 2023.**
- **Economic and financial policy will have to continue addressing the problems in the real estate and banking sectors.**
- **Geopolitical tensions are becoming an important factor in the mid-term economic outlook.**

Consumer confidence plummeted in March and April and has yet to recover (87.9). Confidence in the real estate sector also nosedived at the start of 2022 Furthermore, the liquidity problems of the retail banking sector in recent months are evident, and contagion from the real estate sector to the banking sector may have already occurred. Real estate sales are 30% lower than last year (-27.9% in August). Banks are withdrawing lending from real estate, and housing prices are down 2.0% YoY.

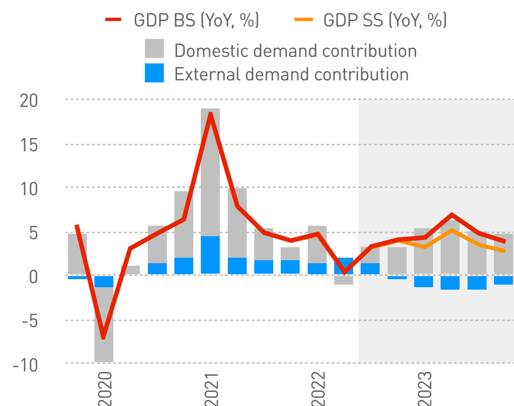
Purchasing managers' indexes (PMIs) for August differ, with positive services and composite indexes (55.0 and 53.0 points, respectively) and the manufacturing index in the red at 49.5 points. In this context, growth is expected to slow to 3.2% in 2022 (from 8.8% in 2021 and more than 6% before the pandemic) and recover to around 5.0% in 2023 (see Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

Meanwhile, inflation stood at 2.8% in September, substantially lower than in Western countries, thanks to the fact that energy, except for automotive fuels (19%), has not sustained such significant increases. Inflation is expected to stand at nearly 3.0% at year-end. Core inflation (excluding energy and food) is 0.6%, while that of producer prices has eased to 0.9% (produced goods) and 2.6% (materials).

Monetary policy is mainly controlled through the reserve requirement ratio for banks, which has been maintained at 11.25% since April. The 7-Day Reverse Repo rate stands at 1.70%, the deposit rate at 1.5%, and the lending rate at 4.35%. In September, the central bank (PBOC) imposed a 20% reserve requirement on futures transactions in foreign currency in an attempt to control the marked increase in these products in a context of exchange-rate volatility.

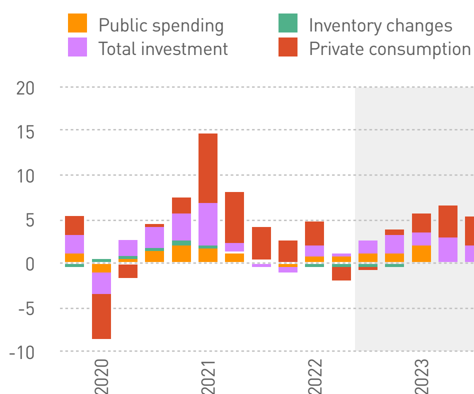
The risks for the growth of the Chinese economy are currently linked to the real estate sector, the banking sector, and the potential of future lockdowns. The energy crisis is not as acute as in the West, although the country's growth is being impacted by the economic slowdown in Western countries and the primary destination markets for its exports. In addition, geopolitical tensions are heightened over China's neutrality and Taiwan in the U.S.-Russia affair.

Chart 1.2.12-a
China: GDP breakdown and forecasts



Source: MAPFRE Economics (based on BoPRC data)

Chart 1.2.12-b
China: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on BoPRC data)

Table 1.2.12
China: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2017	2018	2019	2020	2021(e)	2022(f)	2023(f)	2022(f)	2023(f)
GDP (% YoY)	6.9	6.7	6.0	2.2	8.1	3.2	5.0	3.1	3.7
Domestic demand contribution	6.7	7.3	5.3	1.6	6.4	2.1	5.4	2.1	5.3
External demand contribution	-0.1	-0.3	0.6	0.7	2.3	1.1	-1.3	1.0	-1.5
Private consumption contribution	3.6	3.2	2.5	-1.0	4.7	0.2	3.0	0.2	2.9
Total investment contribution	2.6	3.1	2.2	1.3	1.0	1.4	2.0	1.4	1.9
Public spending contribution	0.3	1.2	1.1	0.8	0.6	0.9	0.5	0.9	0.5
Private consumption (% YoY)	9.4	8.1	6.3	-2.4	12.3	0.6	7.8	0.6	7.6
Public spending (% YoY)	2.0	7.1	6.6	4.6	3.5	5.8	3.0	5.8	3.0
Total investment (% YoY)	6.2	7.3	5.1	3.1	2.3	3.4	4.9	3.4	4.8
Exports (% YoY)	6.7	4.4	2.3	1.7	18.2	3.0	-0.5	3.0	-0.6
Imports (% YoY)	7.8	6.5	-0.7	-2.2	6.6	-2.8	7.9	-2.8	7.5
Unemployment rate (%, last quarter)	2.9	2.9	3.1	3.5	3.2	3.5	3.2	3.4	3.2
Inflation (% YoY, average)	1.5	2.1	2.9	2.5	0.9	2.3	2.4	2.4	3.2
Inflation (% YoY, last quarter)	1.8	2.2	4.3	0.1	1.8	2.9	1.9	3.0	2.7
Fiscal balance (% of GDP)	-4.8	-4.7	-5.6	-7.6	-5.2	-8.9	-7.9	-8.9	-8.0
Primary fiscal balance (% of GDP)	-1.8	-1.5	-2.2	-3.7	-1.5	-5.1	-4.0	-5.1	-4.0
Current account balance (% of GDP)	1.5	0.2	0.7	1.7	1.8	2.2	1.1	2.1	0.9
Official interest rate (end of period)	3.25	3.25	3.25	3.00	3.00	4.25	4.25	2.75	2.75
3-month interest rate (end of period)	4.91	3.35	3.02	2.76	2.50	2.60	2.50	1.60	1.60
10-year interest rate (end of period)	3.88	3.23	3.14	3.14	2.78	2.70	2.80	2.68	3.23
Exchange rate vs. U.S. dollar (end of period)	6.51	6.88	6.99	6.52	6.35	7.08	6.56	7.09	6.65
Exchange rate vs. euro (end of period)	7.80	7.87	7.85	8.00	7.19	6.95	6.61	6.95	6.65
Private lending (% YoY, average)	13.1	12.9	13.1	13.1	12.3	12.0	13.2	11.3	11.0
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 (% pers. disp. income, avg.)	29.5	28.8	29.0	32.9	30.4	31.7	30.4	31.7	30.2

Source: MAPFRE Economics (based on BoPRC data)
Forecast end date: October 26, 2022.

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1.2.13 Indonesia

Growth will be tempered by the reduction in fuel subsidies.

The Indonesian economy grew 3.7% QoQ in the second quarter (+5.4% YoY) when consumption grew 4.2%, and investment was up 3.0%. Exports (which rose 19.7%) have benefited from the increase in the trading volume of palm oil, the country's largest export. Although prices have fallen by 20% this year, precisely in anticipation of a greater supply, while imports increased less (+12.3%). More moderate economic growth is expected over the next few quarters, among other things, because the government slashed its fuel subsidies by approximately 30% at the beginning of September. These subsidies had made Indonesia one of the world's economies with the lowest inflation; now there will be a period in which prices are adapted for more expensive energy.

The purchasing managers' index (PMI) for the fourth quarter stood at 53.18 points, remaining high for both manufacturing and new factory orders. This is a good sign of economic health, although companies have doubts about the strength of future demand. However, the same survey acknowledges that the positive current situation lowers confidence about the future. In this context, our forecast puts Indonesia's GDP growth at 5.3% in 2022 and 4.7% in 2023 (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

- **Fuel subsidies were slashed by 30% in September, which will affect Indonesia's GDP growth rate.**
- **While lower than in other countries, inflation is escalating, albeit slowly.**
- **The central bank raised its monetary policy interest rate by 50 bps in October to 4.75%.**

Inflation stood at 6.0% in September, with core inflation at 3.2%; the latter is rising slowly but becoming anchored. Producer prices also rose 6.0%. In September, with the cut in fuel subsidies, a rebound in the CPI is expected. It should be noted that for now, inflation in Indonesia is lower than in other countries, which has helped to prop up consumption. Due to the lower-than-expected increase in administered prices in September, the Central Bank of Indonesia reduced its inflation forecast for this year, without giving a specific figure. The objective is to bring headline inflation back to the 2%-4% target by July 2023. In this regard, the central bank raised interest rates by 50 bps in October to 4.75% and announced that it would continue to purchase government bonds in the primary market. Also, to maintain support for recovery, the central bank indicated that it would roll out more flexible regulations for initial mortgage payments and vehicle purchases from January.

The continued strengthening of the dollar could pose a risk to the servicing of Indonesia's external debt. Also, the increase in interest rates worldwide will reduce economic growth externally, pointing to a slowdown in Indonesian exports.

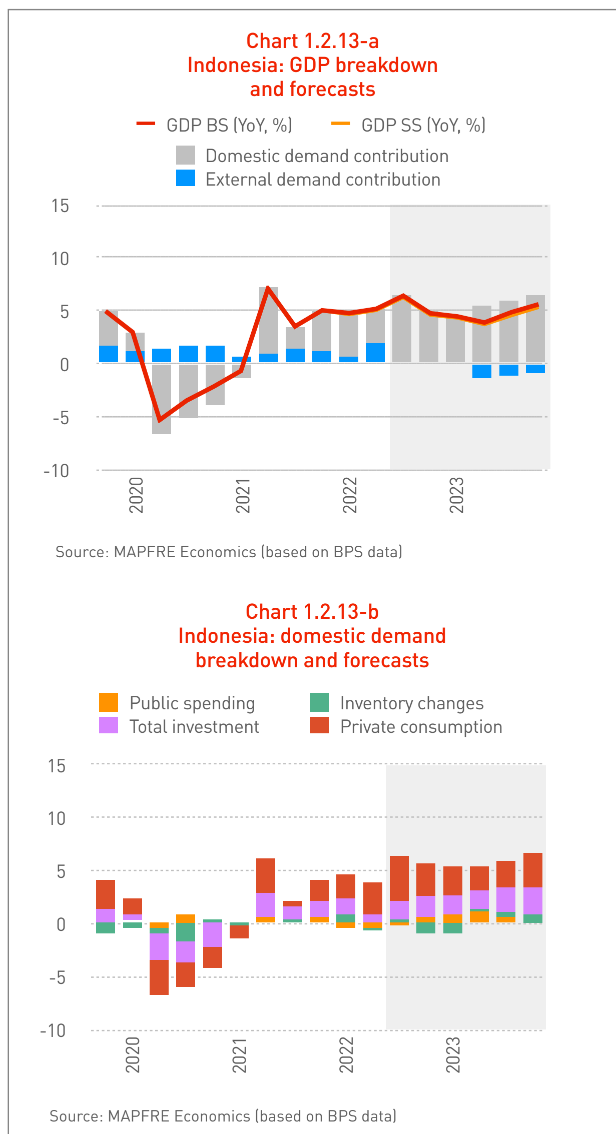

Table 1.2.13
Indonesia: main macroeconomic aggregates

	2017	2018	2019	2020	2021(e)	Baseline (BS) 2022(f)	Baseline (BS) 2023(f)	Stressed (SS) 2022(f)	Stressed (SS) 2023(f)
GDP (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.3	4.7	5.2	4.5
Domestic demand contribution	4.8	6.2	3.6	-3.5	2.7	4.7	5.6	4.7	5.3
External demand contribution	0.3	-1.0	1.4	1.4	1.0	0.6	-0.8	0.5	-0.8
Private consumption contribution	2.8	2.8	2.9	-1.5	1.1	3.2	2.7	3.2	2.5
Total investment contribution	2.0	2.2	1.5	-1.6	1.2	1.5	2.1	1.5	1.9
Public spending contribution	0.2	0.4	0.3	0.2	0.3	-0.1	0.7	-0.1	0.7
Private consumption (% YoY)	5.0	5.1	5.2	-2.7	2.0	6.0	4.9	6.0	4.6
Public spending (% YoY)	2.1	4.8	3.3	2.0	4.2	-1.0	9.0	-1.0	9.2
Total investment (% YoY)	6.2	6.7	4.5	-5.0	3.8	4.7	6.5	4.7	6.1
Exports (% YoY)	8.9	6.5	-0.5	-8.1	24.0	14.6	-0.2	14.6	-0.5
Imports (% YoY)	8.1	12.1	-7.1	-16.7	23.3	13.4	2.8	13.4	2.2
Unemployment rate (%, last quarter)	5.3	5.1	5.1	6.7	6.2	5.8	5.4	5.8	5.5
Inflation (% YoY, average)	3.8	3.3	2.8	2.0	1.6	4.6	4.5	4.7	5.6
Inflation (% YoY, last quarter)	3.5	3.3	2.7	1.6	1.8	7.2	2.4	7.4	3.4
Fiscal balance (% of GDP)	-2.6	-1.7	-2.2	-6.2	-4.6	-3.9	-3.5	-3.9	-3.4
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-1.6	-2.9	-2.7	-0.4	0.3	0.5	0.4	0.5	0.1
Official interest rate (end of period)	4.25	6.00	5.00	3.75	3.50	5.00	5.25	5.00	5.00
3-month interest rate (end of period)	5.48	7.70	5.51	4.06	3.75	4.43	4.84	5.80	5.73
10-year interest rate (end of period)	6.31	7.98	7.10	6.10	6.38	7.41	7.36	7.42	7.50
Exchange rate vs. U.S. dollar (end of period)	13,484	14,380	13,883	14,050	14,253	15,271	14,986	15,284	15,038
Exchange rate vs. euro (end of period)	16,171	16,465	15,596	17,241	16,143	14,979	15,101	14,979	15,038
Private lending (% YoY, average)	8.2	10.8	8.8	1.4	1.0	9.0	5.4	9.1	6.1
Household lending (% YoY, average)	10.1	10.2	7.9	2.1	2.2	7.0	6.2	7.0	5.7
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)	15.1	5.6	-3.0	-6.0	-12.6	15.1	25.2	15.2	25.6
Savings rate (% pers. disp. income, avg.)	23.6	24.0	22.8	21.4	25.7	26.1	23.3	26.1	23.2

Source: MAPFRE Economics (based on BPS data)
Forecast end date: October 26, 2022.

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1.2.14 Philippines

Economic growth remains robust, yet tempered by inflationary pressures.

- **The Philippine GDP could grow 6.4% in 2022, but growth will be tempered in 2023.**
- **Inflation is becoming anchored at higher levels.**
- **The government is promoting oil and gas products to leverage the country's energy resources.**
- **The current account deficit has widened to 4.5%.**

The Philippine economy fell by 0.1% QoQ in the second quarter of 2022 (+7.4% YoY). Private consumption increased by 8.6% and government consumption by 11.1%, while investment remained very dynamic (+20%), returning to 2019 levels. The pace of exports slowed down (+4.3%), and imports continued to accelerate (+13.6%). The increased cost of imports, especially energy, is driving the current account balance into negative territory (-4.5% of GDP in the second quarter). Regarding activity indicators, the September manufacturing sector index (PMI) was positive at 52.9 points, up from 51.2 in August. Consumer confidence worsened in the third quarter, to -12.9 from -5.2 in the previous quarter. Meanwhile, unemployment is improving and has fallen back to 2019 levels. Against this backdrop, our forecast is for continued growth in 2022–2023, although the effect of inflation and high energy prices should temper it. GDP is therefore expected to grow around 6.4% in 2022 and 4.9% in 2023 (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

Inflation stood at 6.9% in September (+0.4% MoM), reaching a broad basket of products. The increase was the greatest in the transport category, although it improved to 14.6% from 18.1% YoY. Producer inflation and wholesale prices both stood at 7.9%. The Central Bank of the Philippines raised interest rates by 50 bps to 4.25% (Overnight Repo) in September, accompanying the rise in inflation. The inflation risks are amplified as the increases extend to a growing basket of products. In this regard, the central bank's inflation forecast is 5.6% on average in 2022 and 4.1% in 2023, exceeding the target range of 2-4%.

The government, through the state oil company, is trying to promote oil and gas projects to leverage the country's energy resources. The company currently has seven drilling service contracts in the country, and the government will soon present its five-year development plan for 2023–2028.

The biggest risks for the Philippine economy are related to inflation exceeding the 2-4% target range. It reached 6.9% in September and is spreading to a growing basket of products. The rise in import prices, together with their higher growth, is widening the current account deficit, which reached 4.5% in the second quarter. On the positive side, the Philippine economy will continue to grow significantly, unlike Europe and the United States, where the interest-rate hikes threaten to cause a recession.

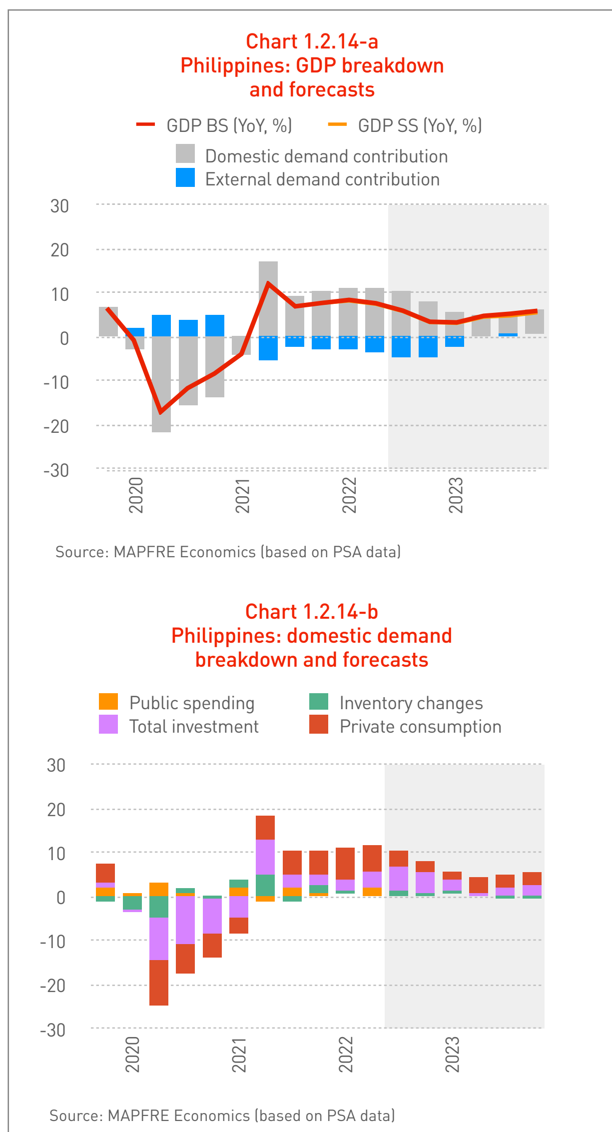

Chart 1.2.14-a
Philippines: GDP breakdown and forecasts

Source: MAPFRE Economics (based on PSA data)

Chart 1.2.14-b
Philippines: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on PSA data)

Table 1.2.14
Philippines: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2017	2018	2019	2020	2021(e)	2022(f)	2023(f)	2022(f)	2023(f)
GDP (% YoY)	6.9	6.3	6.1	-9.5	5.7	6.4	4.9	6.3	4.6
Domestic demand contribution	7.8	8.6	6.3	-13.5	8.1	10.2	4.9	10.2	4.5
External demand contribution	-0.9	-2.3	-0.2	4.0	-2.4	-3.8	0.0	-3.9	0.1
Private consumption contribution	4.4	4.2	4.3	-5.8	3.1	4.8	3.0	4.8	2.7
Total investment contribution	2.6	3.3	1.1	-7.3	2.1	4.0	1.8	4.0	1.7
Public spending contribution	0.7	1.5	1.1	1.3	1.1	0.8	0.2	0.8	0.2
Private consumption (% YoY)	6.0	5.8	5.9	-8.0	4.2	6.6	4.2	6.6	3.7
Public spending (% YoY)	6.5	13.4	9.1	10.5	7.1	5.0	1.3	5.0	1.3
Total investment (% YoY)	10.6	12.9	3.9	-27.3	9.9	18.0	7.4	17.9	6.9
Exports (% YoY)	17.4	11.8	2.6	-16.1	8.0	4.3	5.5	4.3	5.1
Imports (% YoY)	15.1	14.6	2.3	-21.6	13.0	14.1	5.1	14.1	4.6
Unemployment rate (%, last quarter)	5.0	5.1	4.6	8.7	6.8	5.2	4.9	5.2	5.1
Inflation (% YoY, average)	2.9	5.3	2.4	2.4	3.9	5.4	4.0	5.5	4.6
Inflation (% YoY, last quarter)	3.0	6.1	1.4	2.9	3.6	7.2	1.2	7.4	2.0
Fiscal balance (% of GDP)	-2.1	-3.1	-3.4	-7.6	-8.6	-6.6	-6.2	-6.7	-6.5
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-0.7	-2.6	-0.8	3.2	-1.5	-6.2	-3.8	-6.4	-5.7
Official interest rate (end of period)	3.00	4.75	4.00	2.00	2.00	4.75	4.75	4.75	4.75
3-month interest rate (end of period)	3.22	5.03	3.97	2.00	1.81	4.74	4.90	4.75	4.75
10-year interest rate (end of period)	5.70	7.05	4.44	2.97	4.72	5.42	5.50	7.11	6.40
Exchange rate vs. U.S. dollar (end of period)	49.92	52.72	50.74	48.04	50.27	59.95	57.48	60.00	57.82
Exchange rate vs. euro (end of period)	59.87	60.37	57.01	58.94	56.93	58.80	57.92	58.80	57.82
Private lending (% YoY, average)	17.6	16.8	9.5	4.0	0.9	6.9	5.3	6.9	6.0
Household lending (% YoY, average)	18.1	14.3	12.8	11.2	-2.1	6.5	11.0	6.5	10.3
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)	9.4	10.3	6.9	-7.9	8.2	12.2	8.4	12.0	7.3
Savings rate (% pers. disp. income, avg.)	7.1	6.4	5.0	3.4	-0.4	-3.5	3.7	-3.5	3.5

Source: MAPFRE Economics (based on PSA data)
Forecast end date: October 26, 2022.

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2. Industry outlook

2.1 The economic environment and its impact on insurance demand

2.1.1 Global markets

The tightening of monetary policy in the main developed economies and a large part of the emerging ones (with the exception of Japan and China) is causing significant adjustments in the financial markets, and its effects are beginning to be felt more strongly in the real economy in the form of lower growth, although labor markets remain strong. So far, the restrictive monetary policies have reversed the loss of purchasing power, and inflation remains high. Therefore, the scenario of an aggressive monetary policy in the coming months, with the main world economies entering a recession, is increasingly likely. This will have a negative impact on insurance markets, which face a complex landscape. In general, insurance markets have been experiencing growth in premium volume, but this has been insufficient to offset the rise in inflation, which also affects their profitability.

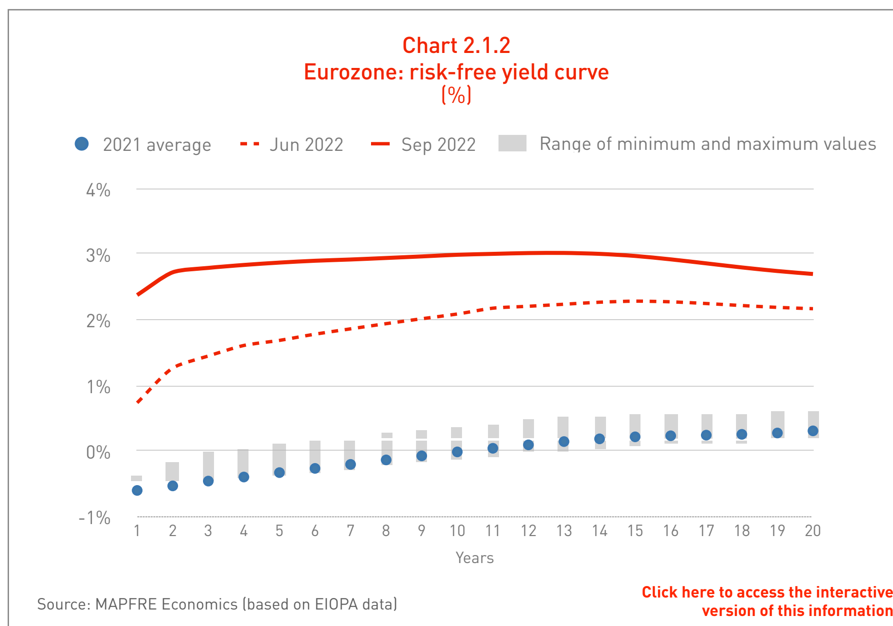
As for the insurance industry's balance sheet, the drop in the financial markets is undermining the valuation of sovereign and corporate bonds of higher credit quality (its main investment), and especially those of longer duration as well as risk assets (equities and high-yield fixed income). On the positive side, the business environment for traditional Life savings and annuities with guaranteed interest rates, as well as for health insurance, continues to improve as households and companies become more aware of the need to supplement the coverage offered by public healthcare systems. The automotive sector is starting to overcome the semiconductor and supply shortage problems that were weighing down registrations but is now facing tougher conditions for financing new vehicle purchases. This situation may continue putting the brakes on the auto insurance business, which has yet to show clear signs of recovery.

2.1.2 Eurozone

The forecast for the Eurozone for 2023 points to a marked economic slowdown, with a potential variation in aggregate real GDP of around 0.0% (vs. the 3.1% growth forecast for 2022), a slight upward revision of the growth forecast for this year and a downward revision of the estimate for next year. Uncertainties over the war in Ukraine and the tension in energy prices continue to impact Europe, with inflation still reaching record highs (9.9% in September). Therefore, the outlook remains complicated for business development in the insurance industry, whose premium growth cannot offset high inflation, putting pressure on insurance prices and eroding profitability.

Meanwhile, the European Central Bank (ECB) continues to tighten its monetary policy, announcing further rate hikes in July and September of 50 and 75 basis points (bps), respectively, both above what was initially expected, and a new 75 bps increase in October due to the strong rebound in inflation. These latest increases put interest rates at 2% for main financing operations and 1.5% for the deposit facility (now far from negative territory), with inflation standing at 9.9% in September, which suggests further rate hikes at the next meetings. Regarding the quantitative easing program through bond acquisitions, the ECB has stopped increasing its balance sheet this quarter (reinvesting only maturing bonds, flexibly and by country) without starting a quantitative tightening process. It has stated its intention to use a tool to avoid the fragmentation risk in the Eurozone, maintaining controlled pressure on the risk premiums of sovereign bonds, especially in the southern European countries.

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



Source: MAPFRE Economics (based on EIOPA data)

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On the risk-free yield curves produced by the European Insurance and Occupational Pensions Authority (EIOPA), a sharp rise in interest rates can be seen in all sections, far exceeding levels reached at the end of June 2022, with positive rates in all maturities, well above the negative interest rates that the curve showed at the end of 2021 (see Chart 2.1.2)[4]. Risk-free interest rates remain well below inflation, but levels continue on an upward path, so insurance companies' outlook for the traditional Life savings and annuities business continues to improve.

On the other hand, the Euro Stoxx 50 index (and generally, the main stock markets worldwide) plummeted 22.9% year-to-date at the end of the third quarter of 2022, with a rebound in volatility. This situation, together with the likely onset of a recession as the ECB tightens its monetary policy, complicates the outlook for Life insurance products in which the policyholder takes on the investment risk. These must adapt to a new environment of falling equity and fixed income that offers higher interest rates and risk premiums more aligned with the credit risk of issues.

2.1.3 Germany

The problems resulting from the war in Ukraine, which are especially impacting the German economy, could become worse towards the winter, with high inflation (10.4% in October) and potential gas supply issues. This situation has led to a further reduction in the economic growth forecast for 2023, which could see a decline in Germany's real GDP by 0.4% (+1.4% in 2022). This represents a significant downward revision of the growth foreseen in the coming year, complicating the

outlook for the insurance industry's business development and profitability.

However, the German sovereign bond yield continues to trend upward, and in September, it showed positive levels in all sections of the curve. The rebound in inflation and tightening of monetary policy by the ECB continues to impact German sovereign bond yields, which are on the rise. Therefore, the environment continues to improve for the traditional Life savings and annuity business, albeit to a moderate extent, as real interest rates remain negative. The German DAX, on the other hand, is showing continued volatility, falling further as a result of the invasion of Ukraine, complicating the outlook for Life insurance products in which the policyholder assumes the investment risk.

2.1.4 Italy

The growth forecast for Italy's economy points to a slowdown and the potential onset of a recession in 2023, with a change in real GDP of around -0.1% (versus the 3.4% increase foreseen in 2022). This means an upward revision of this year's growth forecast and a reduction in that of next year. The recovery of tourism, consumption, and investment remain strong in 2022 despite being weighed down by the external sector due to high energy prices. The sharp slowdown in the Italian economy complicates the outlook for the development and profitability of the insurance industry due to the rise in inflation (11.9% in October), which is eroding household disposable income and business margins, increasing pressure on insurance prices.

Meanwhile, the risk premium and term premium for Italian sovereign debt continue to rise after the change in monetary policy orientation, with the ECB's interest rate hikes and the end of net acquisitions of sovereign and corporate bonds. This interest-rate environment improves the outlook for traditional Life savings and annuity insurance products, although negative real interest rates persist due to high inflation. At the same time, the volatility and declines in the equity markets continue, and this is particularly the case of the FTSE MIB, which hinders the growth of Life insurance products in which the policyholder assumes the investment risk, which had gained importance in the Italian market in recent years.

2.1.5 Spain

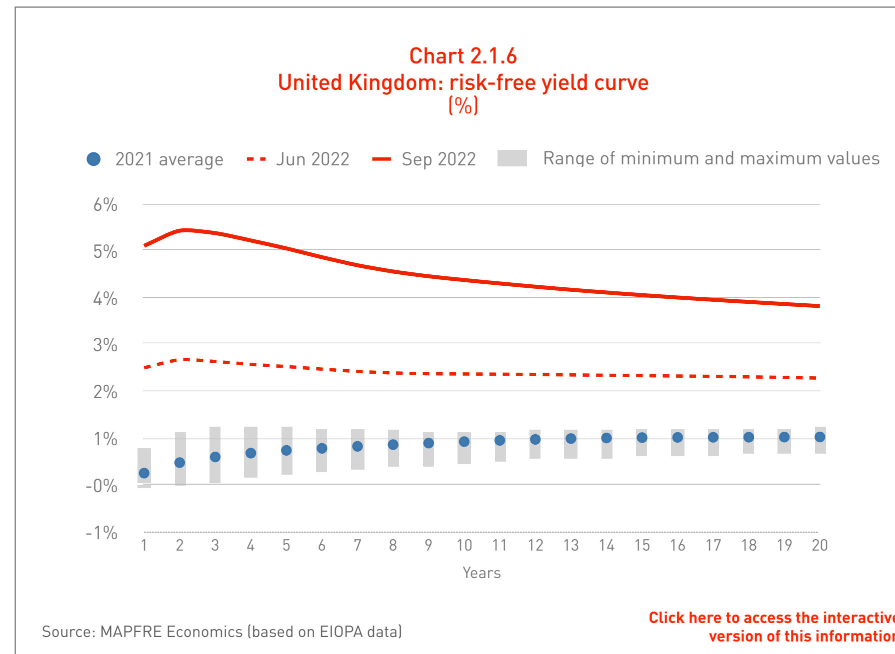
Spain's economic growth estimate for 2023 stands at 1.0% (compared to growth of 4.4% for 2022). This implies a significant economic slowdown and a further downward revision of next year's growth forecast. The effects of inflation (7.3% in October) and tighter financing conditions on household disposable income continue to create a complex landscape for the insurance industry. For now, the Spanish economy remains dynamic, underpinned by the recovery in tourism and the strong labor market. This is reflected in the performance of the insurance industry, which is observing significant growth in premium volume (+5.7% and +5.6% in the Non-Life and Life business, respectively, year-on-year from January to September). However, the growth in the insurance business is insufficient to offset average inflation, which stood at 8.8% year-to-date in October. Furthermore, this inflationary process continues to erode the profitability of insurance companies while maintaining high pressure on insurance prices. The supply shortage that had been weighing down the auto sector seems to be showing signs of improvement, and the auto insurance business is showing a slight recovery. However, the year-on-year growth between January and September (+1.4% for third-party liability coverage and +5.1% for other coverage) does not come close to outperforming inflation.

As for Life insurance, the business context for the traditional Life savings and annuity business continues to recover as the ECB tightens its monetary policy. This is elevating the market interest-rate curve for the sovereign debt and particularly for the Spanish sovereign bond across all terms, offering a positive term premium that trends upward for longer maturities (still below inflation, maintaining the environment of negative real interest rates, although they are lower than in the previous quarter).

2.1.6 United Kingdom

The growth forecast for the UK economy in 2023 stands at -0.4% (+4.0% in 2022), which implies a major slowdown and a further downward revision in the growth estimate for the coming year. This economy is grappling with the problems of political instability, which resulted in the appointment of a new prime minister after the turbulence in the financial market and interest rates following the announcement of a fiscal expansion plan against a backdrop of high inflation, which is currently out of control (10.1% in September). The environment of high inflation, which is eroding available household income, and the forecast of a marked economic slowdown complicate the outlook for business growth and profitability in the insurance industry, putting pressure on insurance prices.

Concerning traditional Life savings and annuity insurance, on the EIOPA risk-free yield curves at the end of September (see Chart 2.1.6), we observe a sharp rise in risk-free interest rates in all sections, a result of both the tightening of monetary policy by the Bank of England (which announced two additional 50 bps rate hikes in August and September, respectively, reaching 2.25%, as a result of higher inflation) and the turbulence from the political crisis. This caused rates in all the short sections of the risk-free yield curve to soar, greatly exceeding the monetary policy rates and even prompting an unscheduled intervention by the Bank of England in the sovereign bond market to restore financial stability. From the insurance industry's perspective, the high interest rates (especially in the short sections of the curve) are improving the environment for the sale of Life savings and annuity insurance products. However, the high volatility of market interest rates greatly complicates the management of this business. In addition, interest rates remain significantly below inflation, creating an environment of negative real interest rates. As for equities, the FTSE 100 continues to experience declines and high volatility, which complicates the sale of Life insurance in which the policyholder assumes the investment risk, which is deeply rooted in this market.

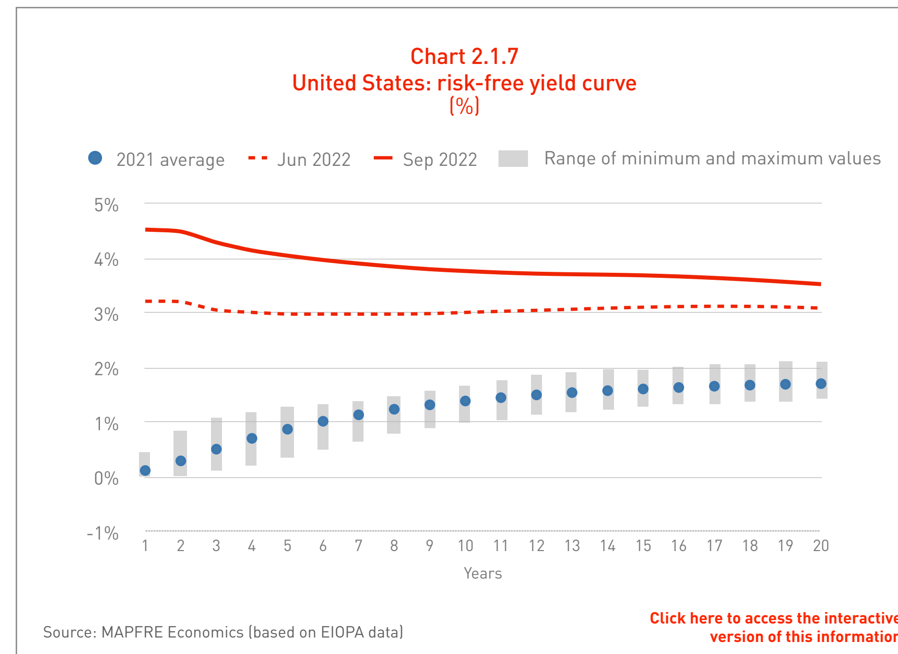


2.1.7 United States

The U.S. economy has been forecast to grow 0.2% in 2023 (compared to 1.7% in 2022), which would mean a significant slowdown in the economy and a further downward revision of the growth estimates. Inflation remains high in an economy with a strong labor market and abundant liquidity in the system (which is already being withdrawn) but is showing clear signs of slowing down. This paints a less favorable picture for the operations of the insurance industry, especially in the Non-Life business.

Regarding traditional Life savings and annuities, the Federal Reserve continues to tighten its monetary policy—raising interest rates by 75 bps at its September meeting to a range of 3% to 3.25%, a line of action that should continue at its coming meetings, potentially putting rates above 4% at the end of the year—given the persistence of inflation (8.2% in September). On the risk-free yield curve for September produced by EIOPA (see Chart 2.1.7), an additional sharp rise in interest rates can be seen in addition to the one experienced in the previous quarter. We also can observe an increase in the negative slope of the curve that affects nearly all of its sections. The interest-rate environment, therefore, remains complex for the sale of traditional savings and annuity products: nominal interest rates remain well below inflation, generating an environment of negative real interest rates, being unable to offer a positive term premium as the curve is slightly inverted. However, this environment could be favorable for launching savings products with shorter-term rate guarantees and periodic reviews of guaranteed rates or profit-sharing products. Meanwhile, equity markets have dropped significantly since January (-25% in the case of the S&P 500 at the end of the third quarter), and volatility remains high. This continues to paint a complex picture for the sale of Life insurance products in which the policyholder assumes the investment risk, which are widespread in this market.

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



Source: MAPFRE Economics (based on EIOPA data)

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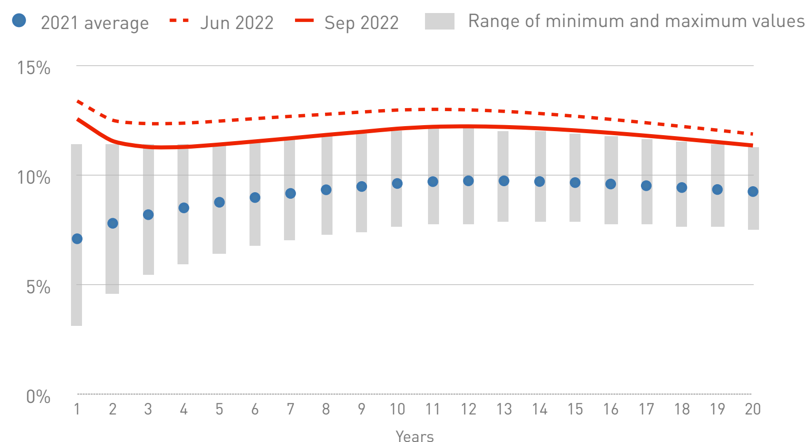
2.1.8 Brazil

The Brazilian economy is forecast to grow 0.9% in 2023 (after this year's estimated growth of 2.7%). The growth estimates have been revised upwards for 2022, which has exceeded expectations, underpinned by domestic consumption, and downwards for 2023, when the economy should slow down significantly amid tighter financing conditions due to the interest-rate hikes and the loss of household purchasing power caused by high inflation. However, the Brazilian economy's better-than-expected performance this year is reflected in the country's insurance market and particularly the Non-Life business, where business volume grew significantly in the first half, with a significant

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



Source: MAPFRE Economics (based on EIOPA data)

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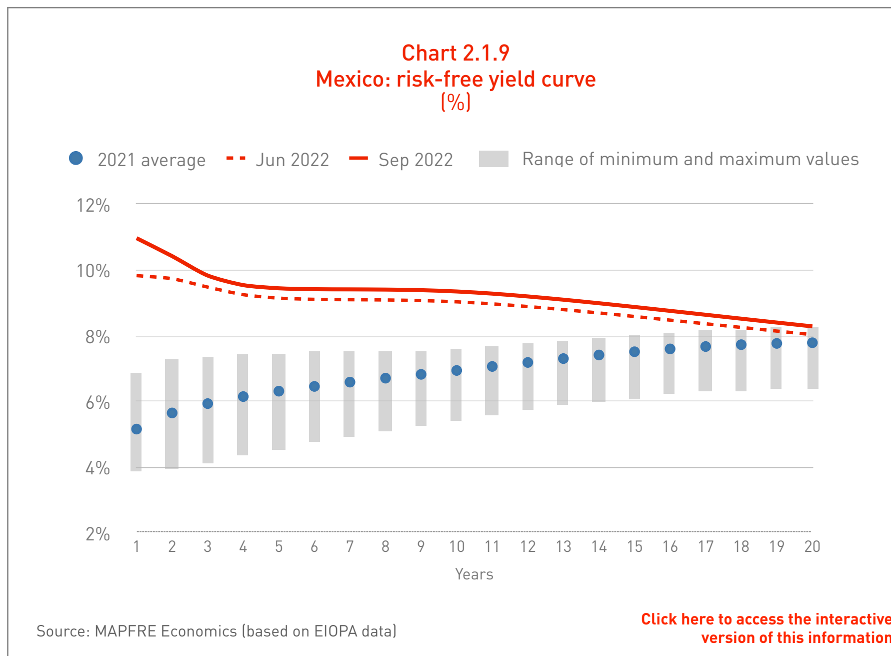
recovery for all lines of business and especially auto and agricultural insurance. Meanwhile, inflation is beginning to decrease, which may help to boost insurance companies' profitability. However, the outlook for the insurance industry in the coming year is complicated due to the predicted economic slowdown in an environment with tighter financing conditions because of higher interest rates, which could weigh down the growth of the Non-Life insurance market.

As for interest rates, it should be noted Central Bank of Brazil was one of the first to shift its orientation towards a tightening of monetary policy. It thus embarked, one year in advance, on the path that the majority of central banks in the developed countries would follow, and its results are only becoming noticeable now, with a clear decrease in inflation in July (10.1%), August (8.7%), and September (7.2%), versus 11.9% in June. As a part of the monetary policy tightening process, the central bank raised interest rates to 13.75% in August. This represented a 0.5 percentage point increase from June 2022 and the eleventh rate hike since March 2021, when the interest rate was 2%. In September, the central bank maintained the monetary policy interest rate at 13.75%. This interest-rate environment is highly favorable for the Life savings and annuities business, a tool used by households to hedge against inflation, with interest rates that appear to have peaked and offer significantly higher returns compared to the latest inflation data. Therefore, real interest rates are clearly positive. On the EIOPA risk-free yield curves (see Chart 2.1.8), a slight decrease is observed in the curve for September, which slopes gently downward in the first sections. This may favor the development of products backed by sovereign bonds with short maturities, which are very common in this market (VGBL and PGBL), and even the possibility of entering longer-term bonds, given the high interest rates in all sections of the curve.

2.1.9 Mexico

The growth forecast for the Mexican economy in 2023 points to a slowdown, with a change in real GDP that could be around 1.0% (compared to the 2.0% growth foreseen in 2022). Therefore, as in other economies, the growth forecast for this year has been revised upwards while the estimate has been reduced for next year. Inflation remains high (8.7% in September), a situation that continues to erode household purchasing power and business margins in the context of high interest rates that are significantly tightening financing conditions. This environment may weigh on the insurance business and its profitability, maintaining pressure on insurance prices. However, it is worth noting that Mexico's economic performance this year is reflected in its insur-



Source: MAPFRE Economics (based on EIOPA data)

ance market and particularly in some Non-Life lines of business, such as health insurance (aided by the greater sensitivity to risk in the wake of the pandemic) and auto insurance, where business volume rose above inflation in the first half.

The upturn in prices in August, with inflation at 8.7% (where it also stood in September), prompted two further interest-rate increases by the Bank of Mexico in August and September, to 9.25%. Now there have been a total of six interest-rate hikes in 2022 (after five in 2021). Once again, the EIOPA curves (see Chart 2.1.9) show an increase in market risk-free interest rates, with the first sections of the curve gaining a negative slope. This interest-rate environment remains favorable for Life savings products, especially for products with short-term rate guarantees and revision of guaranteed rates upon renewal. This is due to the high short-term interest rates and the need to protect savings from elevated inflation, although the erosion of household purchasing power due to further price increases continues to reduce savings capacity.

2.1.10 Argentina

The growth forecast for the Argentine economy in 2023 is 0.9% (after this year's estimate of 3.7% growth). Real GDP growth estimates have been revised upwards, especially for this year, as the economy is performing better than expected, supported by domestic consumption. However, forecasts still point to a significant slowdown in the Argentine economy amid the tightening of financing conditions due to higher interest rates and the loss of household purchasing power. This is a consequence of high inflation, which rose again to 82.9% in September, and the fact that the country's currency keeps depreciating, which continues to negatively impact insurance companies' profitability. As in other regional markets, the Argentine economy's better-than-expected performance this year has been reflected in its insurance market, which grew significantly in the first half, although the results remain below the latest inflation data. The business, therefore, continues to show some stagnation in real terms. Thus, the economic slowdown forecast for next year could hamper the insurance business, which is facing a more complex set of circumstances.

On the other hand, the central bank has again tightened its monetary policy, raising the reference interest rate twice in August and September to 75% (which it maintained at its October meeting), still below inflation, in an environment of slightly negative interest rates. This could improve conditions for Life savings products, although the environment remains complicated for a business that cannot offer high enough in-

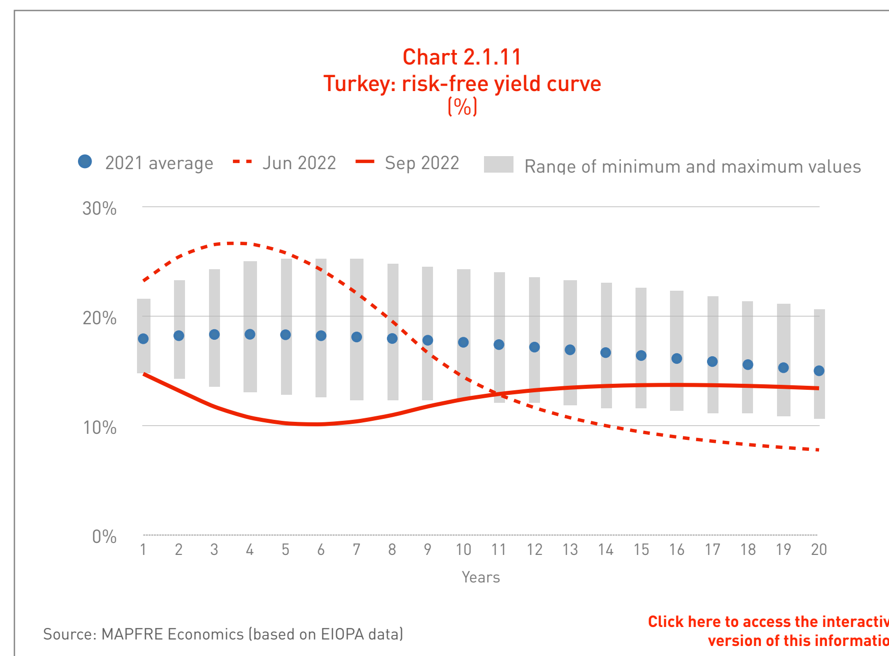
terest rates to offset the loss of purchasing power caused by high inflation. This is the case because there are no financial assets in the market with high enough yields to back these kinds of products.

2.1.11 Turkey

The Turkish economy is forecast to grow 1.8% in 2023 (after this year's estimated growth of 4.8%). The growth estimates have therefore been revised upwards for this year and downwards for 2023 when the economy is expected to decelerate markedly. The fact that Turkey is maintaining a lax monetary policy as inflation continues to soar (83.4% in September) is eroding available household income and business margins. This complicates the outlook for business and profitability in the insurance industry as inflation increases the cost of claims and operations, which cannot be offset by financial margins, putting pressure on insurance prices. However, it should be noted that the Turkish economy's stronger performance this year has improved business volume in the insurance industry, which saw significant growth in the first half, especially in the Non-Life business, with auto and health insurance growing in real terms (above inflation).

As for the Life insurance business, it is noteworthy that the Turkish central bank slashed the official interest rate three times in the third quarter to 10.5% (from 14.0%) despite the significant rise in inflation (83.45% in September). On the EIOPA curves (see Chart 2.1.11), the anomalous movement of the curve compared to the previous quarter can be observed, with market risk-free interest rates that, in maturities of up to 10 years, remain below the minimum rates of 2021, with a pronounced inversion of the curve in maturities below five years. This again presents an extremely complex interest-rate scenario for the sale of Life savings insurance products due to the uncertainty about the movement of short-term rates (which are moving in the opposite direction compared to an orthodox monetary policy response to poor

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



Source: MAPFRE Economics (based on EIOPA data)

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inflation data). Their levels do not come close to compensating for the loss of purchasing power caused by high inflation rates, intensifying the situation of negative real interest rates. However, the outlook remains somewhat more favorable for the Life risk business due to the greater sensitivity to the risk of death generated by the pandemic and the war in an economy that, despite slowing down, continues to show growth and where the favorable financial conditions are a stimulus for borrowing to acquire real assets to hedge against inflation.

2.1.12 China

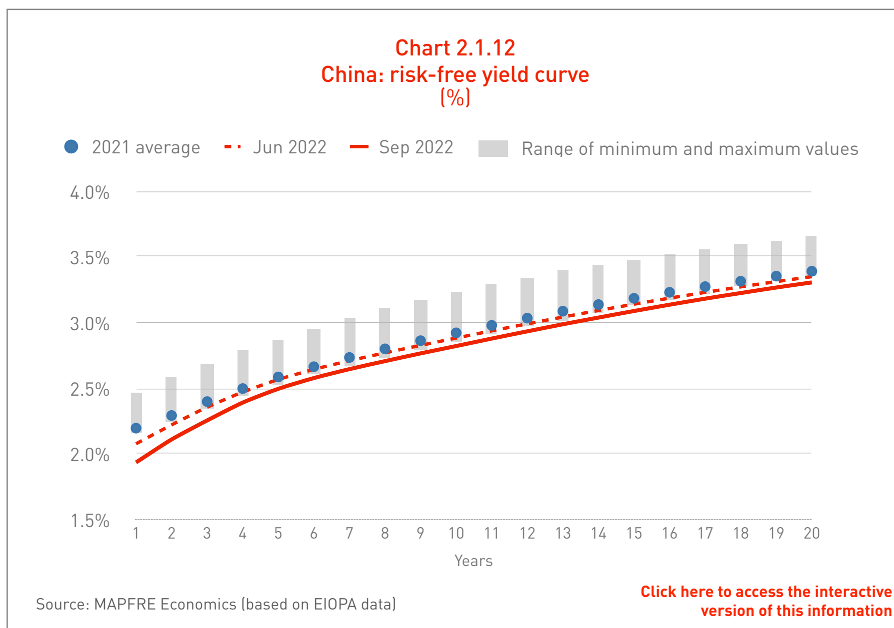
China's economic growth is expected to accelerate to a certain extent in 2023, reaching 5.0% (compared to the 3.2% growth forecast for 2022). This implies a slight downward revision of the estimates, especially because of the problems faced by its real estate market. It should be noted that this recovery in economic growth for next year will improve the outlook for the performance of the insurance industry.

Regarding the interest-rate environment, inflation in China has rebounded slightly due to higher energy prices, but it remains moderate (2.8% in September). This has led the central bank to continue applying an accommodative monetary policy, given the economy's weakness: it slightly reduced interest rates to 3.65% at its August meeting and maintained them at its September and October meetings. On the EIOPA curves (see Chart 2.1.12), risk-free interest rates have moved downwards, standing below the minimum rates of 2021 and showing a positive slope. This environment of stable interest rates, with only slight movements and a positive term premium, is favorable for the Life savings and annuity insurance business, as it is possible to offer guaranteed medium and long-term rates that are higher than short-term rates, still above inflation.

2.1.13 Japan

The Japanese economy is forecast to grow 1.6% in 2023, on par with the growth foreseen this year. The supply chain problems have im-

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



Source: MAPFRE Economics (based on EIOPA data)

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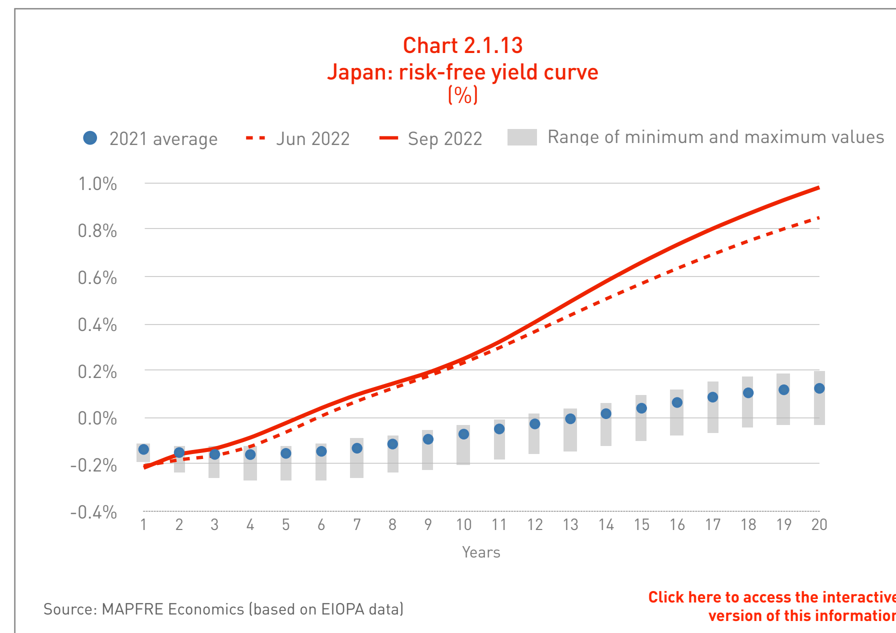
Chart 2.1.13
Japan: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

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proved, but the high energy prices have yet to be resolved and will continue to delay Japan's economic recovery. The economic growth forecast points to a slight deceleration but remains positive, which continues to paint a favorable picture for the development of the insurance industry.

In terms of the Life business, the Bank of Japan is sticking to its decision to maintain its ultra-accommodative monetary policy, leaving rates at -0.1% despite the depreciation of the yen against the dollar and the further upturn in inflation, which increased to 3% in September (moving away from the 2% target). On the EIOPA curves (see Chart 2.1.13), the risk-free yield curve has continued to steepen, with negative values for maturities up to five years. This further increase in the positive slope makes it possible to offer a higher term premium, favoring the marketing of Life savings and annuity products. While interest rates remain relatively low, the increase in medium and long-term rates, which are significantly higher than usual, may help to stimulate the development of the aforementioned lines of business.

2.1.14 Philippines

The forecasts point to a slowdown in the Philippine economy in 2023, with a real GDP increase of around 4.0% (versus 6.4% estimated for 2022), which represents a downward revision in the economic growth estimates, although this growth remains significant. The main reason for the revision is the reduced performance of the external balance due to more expensive imports, which has influenced the depreciation of the exchange rate against the dollar. Private consumption and investment continue to perform well, maintaining a favorable context for the insurance business, with the help of the low insurance penetration in the Philippine economy. However, inflation has risen again (6.9% in October), and the currency's depreciation could negatively impact insurance companies' profitability, making claims more expensive and maintaining pressure on insurance prices.

Concerning Life insurance, the Central Bank of the Philippines is tightening its monetary policy considerably to combat inflation, and it raised the monetary policy reference rate three times in July, August, and September by a total of 1.75 bps, to 4.25%. The 10-year sovereign bond yield stood slightly above 7.5% at the end of October, causing the interest rate curve to steepen for all maturities, with a slightly less positive slope than in the previous quarter. This environment remains favorable for the sale of Life savings and annuity products, as they can guarantee higher medium and long-term rates than short-term rates (above the inflation rate in the longest sections of the curve), while such products with shorter maturities have also gained appeal.

2.2 Regulatory and supervisory trends

Risks and vulnerabilities in the European Union financial system

In September, the Joint Committee of the European System of Financial Supervision (EBA, ESMA, and EIOPA) released its report on risks and vulnerabilities in the financial system of the European Union (EU)[5]. In its report, the Committee states that Russia's invasion of Ukraine and its economic and political consequences, including the sanctions introduced in response, have drastically changed the market environment since early 2022. The invasion, the increased uncertainty, and inflation are not only weighing down the economic outlook but also impacting the confidence of consumers and companies. It warns that high inflation is being transferred to business costs and household purchasing power, which has been weakened. The exposure of the economic sectors most sensitive to energy and raw material prices increases requires cross-sectoral attention. It also notes that the gradual withdrawal of accommodative monetary policy is affecting the outlook of the financial markets. Bond performance rose in response to the increase in inflation and the forecast of higher interest rates, while equity markets showed volatility and saw significant sell-offs. The Russian

invasion and the sanctions strongly impacted some key raw material markets.

The Committee reports that insurance companies' balance sheet position is being affected by inflation on both the asset and liability sides, with net effects that are typically negative for the Non-Life segment. On the asset side, insurance companies' investments, whose market prices are sensitive to inflation, will see direct and indirect impacts from interest-rate movements. On the liability side, inflation is affecting insurance companies by increasing the cost of claims, which is especially relevant for the Non-Life lines of business, as Life provisions are stipulated when the contract is entered into and do not increase along with prices. It should also be noted that claims inflation tends to exceed the headline inflation rate[6].

Finally, sensitivity to inflation and interest rates also depends crucially on the duration gap between insurance companies' assets and liabilities. Those with positive duration gaps are more likely to be negatively impacted by inflation than those with negative duration gaps, such as Life insurance companies. Based on the above context, the Committee advised national authorities and financial institutions to adopt five measures, summarized as follows.

Asset quality risk

First, it advises a policy of strict oversight of asset quality, especially in loan portfolios with vulnerabilities due to the pandemic, which are facing slower recovery, and in loans assigned under phase 2 of the IFRS pointing to a deterioration of asset quality. Additionally, 35% of banks plan to release all or part of the coverage to cover possible pandemic-related losses and the supervisors must remain vigilant related to the adequacy of the banks' provisions.

Interest rate risk

A policy of adequate monitoring is recommended for financial agents and lenders, as the expected increase in official interest rates and the adjustment in risk premiums affects both the asset (lowest reasonable value of the investment portfolio and greatest provisions for credit losses) and the liability (less growth of loans and reduction in the valuation of the technical provision), as well as higher financing costs and delinquency in the long term. It could also affect the adjustment in real estate assessments in Europe, for which the bank's exposure has been identified as a relevant risk.

Inflation risk

The increase in demand after the pandemic recovery and the increase in the price of energy after Russia's invasion of Ukraine have led to an increase in the risk of persistent inflation and stagflation. The financial fragmentation could place pressure on price stability. Inflation, in turn, impacts the real yield of assets and calculation for the rating of new financial and insurance products. In this regard, profit-sharing contracts and investment funds in underlying assets protected from inflation could help maintain the policyholder's profitability.

The measures implemented to control the inflation risk result in a reduction in household buying power and a cycle of more restrictive monetary policy. The reference interest rates of the United States Federal Reserve climbed 25 and 50 basis points (bps) in March and May, respectively, while the European Central Bank (ECB) climbed 50 bps in July 2022. They continue to rise with the 75 bps jump in September, by both the Federal Reserve and the ECB. The investment funds also reduced the average weighted maturity of their portfolios from 44 to 30 days (the lowest in 3 years) to reduce interest rate risk and improve the resistance to a rate hike.

Cryptocurrency investment risk

A policy of awareness and oversight of the high risks brought on by retail buying of cryptocurrency and related products is also recommended. Given the volatility and recent movement to liquidate cryptocurrency (for which the withdrawal of deposits had to be temporarily suspended in some cases in June), they require oversight by the entities in order to provide more effective information that will help to avoid aggravating investment risks.

Environmental and cyber risk

Cyber risks related to the commencement of the invasion of Ukraine remain high, although incidents have been more limited. The financial and oversight institutions should be assured that there is an adequate control and technological framework. In this regard, the DORA (Digital Operational Resilience Act) is expected to be implemented in 2023, and intends to consolidate the requirements related to the risk of information and communications technologies (ICT), which are currently distributed over various laws (MiFID, NIS, DSP2). In particular, the EIOPA will work on including cyber risk as part of its insurance stress testing methodology.

In terms of environmental risk, the EU's issue of environmental, social, and governance (ESG) bonds are holding up, despite the uncertainty brought on by the Russian invasion, while the corporate bond issues, in general, have dropped some 32% compared to the start of 2021.

Impact of the Ukraine invasion on the financial markets and insurance companies

The credit rating of companies and States (especially in Russia and Ukraine) have dropped. The probability of credit risk materializing, due to macroeconomic deterioration and rising interest rates, has increased, although the exposure of European funds in Russia is less than 0.1% and the exposure of EU insurance companies to assets issued in Russia, Ukraine and Belarus is also less than 0.1% and is implemented on investment funds (representing 84% of this type of investment), mainly in sovereign bonds and equities, and where 42% corresponds to indexed or unit-linked portfolios, the risk of which is assumed by policyholder. Even more important are the second round effects derived from the lack of consumer and corporate confidence, indirectly impacting on more exposed sectors, such as gas and energy, or the banking sector, where insurance companies retain 3% of their stock and 7.5% of the corporate bonds.

In turn, the commodities market was fundamentally affected by the drop in supply due to the sanctions after the Russian invasion and fewer exports of basic products from Ukraine. The foregoing has led to inflationary pressures since February that have been reflected in the price of crude, agricultural products and natural gas, as well as a growth in the profitability of commodities mutual funds (while, in all other funds, in general, it was reduced).

In summary, the perspectives for the insurance sector are marked by uncertainty, high inflation, the withdrawal of accommodative economic policy, and increased volatility due to supply disruptions, which could exacerbate some of the risks mentioned above.

Tables: macroeconomic forecast scenarios

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(f)	2023(f)	2018	2019	2020	2021(e)	2022(f)	2023(f)
United States	2.9	2.3	-2.8	5.9	1.7	0.2	2.9	2.3	-2.8	5.9	1.6	-0.5
Eurozone	1.8	1.6	-6.2	5.2	3.1	0.0	1.8	1.6	-6.2	5.2	2.9	-0.3
Germany	1.0	1.1	-4.1	2.6	1.4	-0.4	1.0	1.1	-4.1	2.6	1.2	-1.0
France	1.8	1.9	-7.9	6.8	2.6	0.6	1.8	1.9	-7.9	6.8	2.4	0.2
Italy	0.8	0.5	-9.1	6.7	3.4	-0.1	0.8	0.5	-9.1	6.7	3.2	-0.4
Spain	2.3	2.0	-11.3	5.5	4.4	1.0	2.3	2.0	-11.3	5.5	4.2	0.6
United Kingdom	1.7	1.6	-11.0	7.5	4.0	-0.4	1.7	1.6	-11.0	7.5	3.9	-0.6
Japan	0.6	-0.4	-4.6	1.7	1.6	1.6	0.6	-0.4	-4.6	1.7	1.6	1.4
Emerging markets	4.6	3.7	-2.0	6.8	3.7	3.7	4.6	3.7	-2.0	6.8	3.4	3.4
Latin America	1.2	0.1	-7.0	6.8	3.5	1.7	1.2	0.1	-7.0	6.8	3.4	0.8
Mexico	2.2	-0.2	-8.2	5.0	2.0	1.0	2.2	-0.2	-8.2	5.0	1.9	0.6
Brazil	1.7	1.2	-4.2	4.9	2.7	0.9	1.7	1.2	-4.2	4.9	2.6	0.4
Argentina	-2.6	-2.0	-9.9	10.4	3.7	0.9	-2.6	-2.0	-9.9	10.4	3.6	-0.6
Colombia	2.6	3.2	-7.0	10.7	6.7	2.0	2.6	3.2	-7.0	10.7	6.6	-0.8
Chile	4.0	0.7	-6.2	11.9	2.3	-0.5	4.0	0.7	-6.2	11.9	2.2	-0.9
Peru	4.0	2.3	-11.0	13.6	2.7	2.5	4.0	2.3	-11.0	13.6	2.6	1.7
Emerging markets, Europe[1]	3.4	2.5	-1.8	6.7	0.0	0.6	3.4	2.5	-1.8	6.7	-0.1	0.2
Turkey	3.0	0.8	1.9	11.4	4.8	1.8	3.0	0.8	1.9	11.4	4.7	0.8
Asia Pacific	6.6	5.9	1.6	7.7	3.4	4.9	6.6	5.9	1.6	7.7	3.3	3.8
China	6.7	6.0	2.2	8.1	3.2	5.0	6.7	6.0	2.2	8.1	3.1	3.7
Indonesia	5.2	5.0	-2.1	3.7	5.3	4.7	5.2	5.0	-2.1	3.7	5.2	4.5
Philippines	6.3	6.1	-9.5	5.7	6.4	4.9	6.3	6.1	-9.5	5.7	6.3	4.6
Global	3.6	2.9	-3.1	6.1	3.2	2.7	3.6	2.9	-3.1	6.1	3.0	2.0

Source: MAPFRE Economics

[1]Eastern Europe
Forecast end date: October 26, 2022.

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Table A-2
Baseline and stressed scenarios: inflation
(annual average,%)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(f)	2023(f)	2018	2019	2020	2021(e)	2022(f)	2023(f)
United States	2.4	1.8	1.2	4.7	8.0	4.1	2.4	1.8	1.2	4.7	8.1	5.5
Eurozone	1.8	1.2	0.3	2.6	8.2	5.4	1.8	1.2	0.3	2.6	8.4	6.3
Germany	1.7	1.4	0.5	3.1	8.2	6.0	1.7	1.4	0.5	3.1	8.1	6.6
France	1.9	1.1	0.5	1.6	5.7	4.4	1.9	1.1	0.5	1.6	5.9	5.0
Italy	1.1	0.6	-0.1	1.9	7.8	5.0	1.1	0.6	-0.1	1.9	8.0	6.0
Spain	1.7	0.7	-0.3	3.1	8.8	4.8	1.7	0.7	-0.3	3.1	9.0	5.5
United Kingdom	2.5	1.8	0.9	2.6	8.9	6.5	2.5	1.8	0.9	2.6	9.1	7.2
Japan	1.0	0.5	0.0	-0.2	2.2	1.5	1.0	0.5	0.0	-0.2	2.3	2.0
Emerging markets	4.9	5.1	5.2	5.9	9.9	8.1	4.9	5.1	5.2	5.9	10.1	8.3
Latin America	6.6	7.7	6.4	9.8	14.1	11.4	6.6	7.7	6.4	9.8	14.2	12.1
Mexico	4.9	3.6	3.4	5.7	8.0	5.4	4.9	3.6	3.4	5.7	8.0	6.6
Brazil	3.7	3.7	3.2	8.3	9.0	5.7	3.7	3.7	3.2	8.3	9.8	7.9
Argentina	34.3	53.5	42.0	48.4	72.4	81.0	34.3	53.5	42.0	48.4	74.5	89.0
Colombia	3.2	3.5	2.5	3.5	10.0	7.9	3.2	3.5	2.5	3.5	10.7	8.5
Chile	2.3	2.3	3.0	4.5	11.6	7.3	2.3	2.3	3.0	4.5	11.8	8.0
Peru	1.3	2.1	1.8	4.0	7.7	5.2	1.3	2.1	1.8	4.0	7.8	6.4
Emerging markets, Europe[1]	6.4	6.6	5.3	9.5	27.8	19.4	6.4	6.6	5.3	9.5	27.9	22.0
Turkey	16.3	15.2	12.3	19.6	72.1	42.0	16.3	15.2	12.3	19.6	73.1	51.0
Asia Pacific	2.3	2.9	2.5	1.0	2.6	2.6	2.3	2.9	2.5	1.0	2.7	3.4
China	2.1	2.9	2.5	0.9	2.3	2.4	2.1	2.9	2.5	0.9	2.4	3.2
Indonesia	3.3	2.8	2.0	1.6	4.6	4.5	3.3	2.8	2.0	1.6	4.7	5.6
Philippines	5.3	2.4	2.4	3.9	5.4	4.0	5.3	2.4	2.4	3.9	5.5	4.6
Global	3.6	3.5	3.2	4.7	8.8	6.5	3.6	3.5	3.2	4.7	8.9	6.8

Source: MAPFRE Economics

[1]Eastern Europe
Forecast end date: October 26, 2022.

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(f)	2023(f)	2018	2019	2020	2021(e)	2022(f)	2023(f)
United States	2.69	1.92	0.93	1.52	4.10	3.50	2.69	1.92	0.93	1.52	4.50	4.50
Eurozone	1.17	0.32	-0.19	0.32	2.15	2.20	1.17	0.32	-0.19	0.32	2.85	2.46

Source: MAPFRE Economics
Forecast end date: October 26, 2022.

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(f)	2023(f)	2018	2019	2020	2021(e)	2022(f)	2023(f)
USD-EUR	0.87	0.89	0.81	0.88	1.02	0.99	0.87	0.89	0.81	0.88	1.02	1.00
EUR-USD	1.15	1.12	1.23	1.13	0.98	1.01	1.15	1.12	1.23	1.13	0.98	1.00
GBP-USD	1.28	1.32	1.36	1.35	1.10	1.12	1.28	1.32	1.36	1.35	1.10	1.12
USD-JPY	110.83	109.12	103.54	115.00	145.44	137.43	110.83	109.12	103.54	115.00	145.51	138.91
USD-CNY	6.88	6.99	6.52	6.35	7.08	6.56	6.88	6.99	6.52	6.35	7.09	6.65

Source: MAPFRE Economics
Forecast end date: October 26, 2022.

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(f)	2023(f)	2018	2019	2020	2021(e)	2022(f)	2023(f)
United States	2.50	1.75	0.25	0.25	4.25	3.25	2.50	1.75	0.25	0.25	4.50	4.25
Eurozone	0.00	0.00	0.00	0.00	2.50	2.00	0.00	0.00	0.00	0.00	2.50	2.50
China	3.25	3.25	3.00	3.00	4.25	4.25	3.25	3.25	3.00	3.00	2.75	2.75

Source: MAPFRE Economics
Forecast end date: October 26, 2022.

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1/ See: MAPFRE Economics (2022), *2022 Economic and Industry Outlook: Third-Quarter Perspectives*, Madrid, Fundación MAPFRE.

2/ See: https://www.cnbc.com/2022/09/14/map-of-amazon-warehouse-closures.html

3/ For example, the Mittal steel manufacturing company (originally Indian-owned) is "temporarily" closing factories in Germany and Spain.

4/ The risk-free yield curves prepared by the European Insurance and Occupational Pensions Authority (EIOPA) show the minimum, average and maximum levels reached in 2021 as well as the level of the latest published curves for the months of June and September 2022. Also, in the interactive version, which is available at the indicated link, other months and currencies can be displayed for each of them.

5/ See: https://www.eiopa.europa.eu/document-library/report/joint-committee-report-risks-and-vulnerabilities-eu-financial-system-1_en

6/ It should be noted that in Europe, there are no time series available for claims inflation estimates, so each insurance company usually makes its own specific forecast for each line of business. However, the increase in general costs may have a negative impact on profitability for both Life and Non-Life insurance.

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