



Fundación **MAPFRE**

2023 ECONOMIC AND
INDUSTRY OUTLOOK:
THIRD-QUARTER
PERSPECTIVES

MAPFRE Σconomics

**2023 Economic and
Industry Outlook:
Third-Quarter
Perspectives**

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Cite as follows:

MAPFRE Economics (2023), *2023 Economic and Industry Outlook:
Third-Quarter Perspectives*, Madrid, Fundación MAPFRE.

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© For this edition:

2023, Fundación MAPFRE
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July 2023.

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Executive summary

2023 Economic and Industry Outlook: Third-Quarter Perspectives

Economic outlook

The global economy continues to grow at a more moderate pace, showing a positive growth trend that is preventing a worldwide recession for the time being, with some improvement in the financial system and greater dynamism in the services sector. Thus, forecasts point to weaker global growth than anticipated in our report of the previous quarter. On the inflation side, supply factors have softened rapidly, with raw material prices (mainly energy-related) transferring certain signs of deflation to industrial prices and introducing a more moderate reading of the cost of goods. In contrast, the boom in the services sector has stabilized core inflation readings on a more rigid downward path, broadly impacting salaries in a stressed labor market and shifting demand towards areas of activity less sensitive to monetary tightening.

Supply chains continue to normalize, yet are subject to both *downside* risks, given the underlying layer of geopolitical tensions, and *upside* risks because of the *nearshoring* process, which could offer future benefits in the form of greater diversification. Moreover, the context of declining global demand and China's weak post-COVID reopening have

caused raw materials, especially those in the energy sector, such as oil and gas, to move towards a more sustainable price environment. This is beginning to negatively impact countries that export raw materials, with regard to both trade volume and terms, affecting the current accounts of developed and emerging countries.

Meanwhile, factors such as the stressed labor markets, which may increase the risk of additional pressure on salaries, fiscal policy and the potential withdrawal of the majority of aid packages, among others, may affect price growth in both directions, meaning that greater price volatility is to be expected. Therefore, inflation is likely to continue falling, albeit more slowly, with a tendency to stabilize around core inflation at a potentially erratic and volatile pace.

The monetary tightening cycle is therefore expected to continue in the coming months. The revised inflation levels worldwide have barely changed compared to the previous quarter, making it necessary to assign more weight to the inflation factor as opposed to activity.

In the United States, the forecasts point to modest, positive changes in terms of activity for 2023. A short recession is still on the horizon, although the first contraction should appear later than we previously predicted, in the last quarter of 2023. As for the Eurozone, after the negative first-quarter data, we have maintained our growth forecasts

for 2023 and expect the economy to weaken slightly in 2024, in line with the data from the latest industry surveys. Meanwhile, the Chinese economy seems to have stalled in recent months, with industrial production, export and consumer-spending data reflecting a loss of momentum. However, this decline in economic activity should reverse in the second half of the year thanks to a more proactive economic policy and a looser monetary policy. As for the rest of Asia, thanks to investment and moderate inflation rates, dynamic growth can be expected, thus providing some level of relief to global economic performance. Lastly, our forecast for Latin American countries points to an upward revision in the aggregate, albeit with divergences, the main drivers being improved economic prospects for Mexico and Brazil. Otherwise, activity in these economies is expected to slow down, with below-potential growth.

In this context, the *baseline scenario* considered in this report is still one of global stagflation, with growth that remains limited by below-potential rates around the world, particularly in the developed markets, which remain affected by selective recessions and divergent growth. Therefore, global activity is forecast to grow by around 2.6% and 2.3% in 2023 and 2024, respectively, while in terms of prices, the revised forecasts point to average inflation of 7.0% and 4.9% in 2023 and 2024, respectively.

Meanwhile, in the *stressed scenario* (alternative and more pessimistic), lower activity is anticipated at the global level, with an upturn in inflation due to less cyclical and more structural forces. This would cause monetary policy to activate levers towards a higher *terminal rate* towards the end of the year, with more restrictive real interest rates. In this alternative scenario, global economic growth would stand at around 2.4% and 1.7% in 2023 and 2024, respectively, with average inflation of around 7.4% and 5.4% in each of these years.

Industry outlook

Our revised economic growth estimates for 2023 continue to present a mixed outlook for insurance companies' activity and profitability this year, which is being reflected in the insurance industry data, although a further economic slowdown is expected in 2024. This should appear as the effects of tougher financial conditions for households, businesses and companies are transferred to the real economy, which could result in lower growth in the more cyclical lines of the insurance business.

The latest inflation data shows signs of improvement but still suggests that most central banks will maintain tight financing conditions, with some making additional adjustments until they get close to their targets. Significant exceptions include China, which has entered a monetary easing phase, and Japan, which is maintaining loose financial conditions. Other central banks that began the monetary tightening process earlier, such as those of Brazil and Mexico, are now in a phase of holding interest rates at the levels reached in previous months as inflation subsides. The higher interest rates are favoring development of the life savings and annuity insurance business, although the inversion of the yield curves in many markets has been accentuated, somewhat complicating the management of products with medium and long-term interest rate guarantees.

The automotive sector, in particular, continues to benefit from the normalization of supply chain problems and some pent-up demand, which is why car insurance demand has improved. However, the persistence of inflation is impacting its profitability, while the tightening of conditions for financing new vehicle purchases and the anticipated economic slowdown may weigh on demand in the coming months. Meanwhile, health insurance continues to have strong

prospects as a complement to public health systems, although it also faces the challenge of controlling rising costs under inflationary pressures.

Regarding investment portfolios, the financial markets, especially equity, made a noteworthy recovery at the end of the first half of the year, and a certain degree of stability can be anticipated in monetary policy rates in the second half. Some additional hikes are on the horizon for central banks that started the monetary tightening process later, such as the European Central Bank in the Eurozone and, after its recent pause, the Federal Reserve in the United States.

Finally, when analyzing the solvency ratios of the main insurance groups in the European Union in 2022, it should be noted that despite the positive effect of interest rate hikes on the valuation of technical provisions, the accelerated increase in interest rates had a negative impact on the valuation of investment portfolios. This was amplified by the increase in risk premiums, both factors having a negative net effect on the own funds of the groups analyzed, which saw their solvency ratios drop, practically across the board, compared to the previous year, although they still show a robust solvency position.

1. Economic outlook

1.1 The world economic outlook

1.1.1 Stalled catalysts: growth, inflation and the financial system

Since the previous version of this report¹, global activity has continued to show the signs of cautious optimism detected at the start of the year, following a path of positive growth with moderate yet favorable progress on the inflation side. It has thus overcome both the accelerated normalization of monetary policy and the turbulence in the banking sector that sounded alarm bells regarding the health of the financial system. On the other hand, this resilience confirms that the positive cyclical behavior of the services sector is currently the main source of support, as it continues to reflect the post-COVID-19 reopening, in contrast with the aforementioned divergences in the manufacturing sector, which has entered a phase of cyclical slowdown. As a result, growth is being led by economies whose productive structure best reflects this reorganization (economies oriented towards the tertiary sector).

From the perspective of inflation, this change in drivers is reflected in the rapid softening of supply factors, with the prices of raw materials (mainly energy-related) transferring certain signs of deflation to

industrial prices and introducing a more moderate reading of the cost of goods. In contrast, the boom in the services sector has stabilized core inflation readings on a more rigid downward path, broadly impacting salaries in a stressed labor market and shifting demand towards areas of activity less sensitive to monetary tightening.

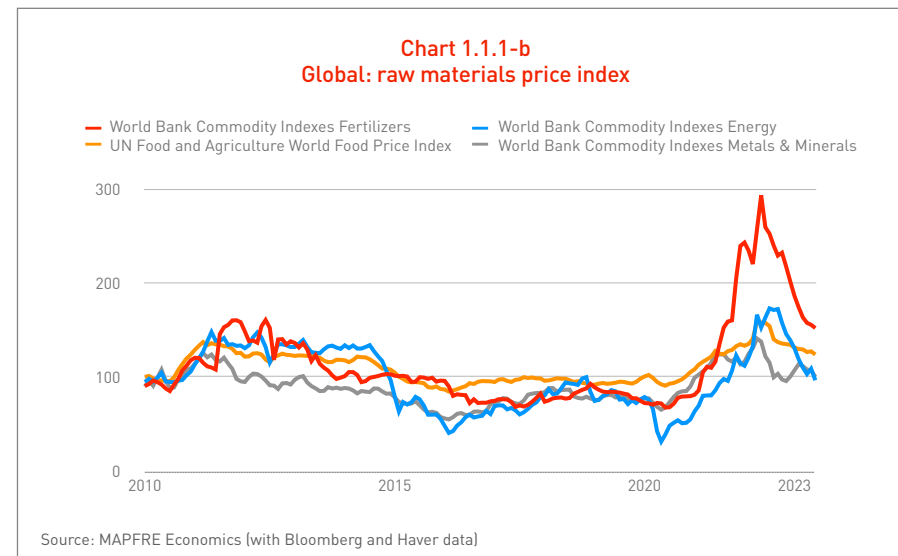
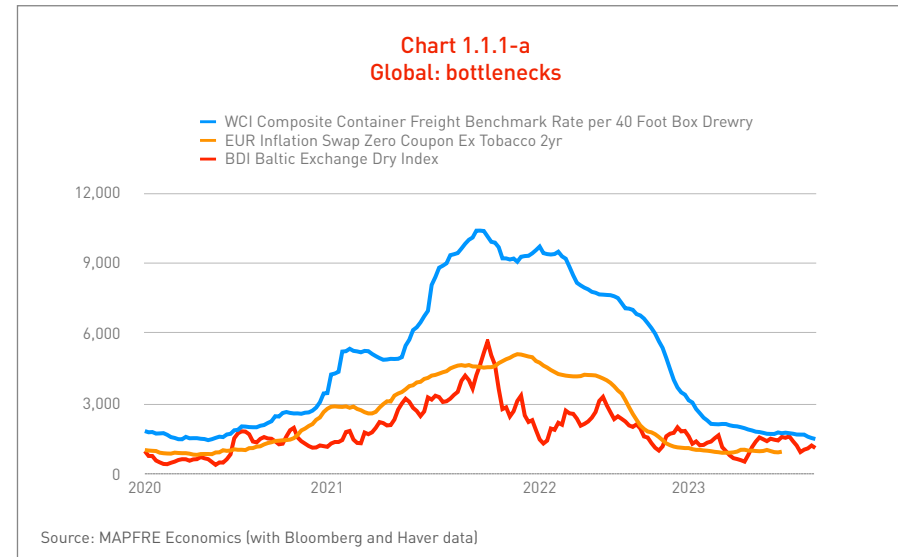
Recalling the catalysts of the inflationary episode still underway, the current status of supply chains could be described as practically normalized, albeit subject to both *downside* risks, given the underlying layer of geopolitical tensions, and *upside* risks because of the *nearshoring* process, which could offer future benefits in the form of greater diversification. In terms of inputs, improvement is mainly reflected in energy-related raw materials, with the oil and gas markets moving towards an environment of more sustainable prices, conditioned by both the context of shrinking global demand and the fact that China's post-COVID reopening failed to provide additional momentum. This dynamic is already starting to have a negative impact on countries that export raw materials, mining, and industry with proximity to inputs, whose activity figures are beginning to permeate the current accounts of certain emerging markets (countries in Latin America, such as Chile and Colombia, and in Asia, like South Korea and Taiwan) as well as developed economies that are also manufacturing-intensive but further along the supply chain (countries in Europe, like Germany and France). While the outlook is

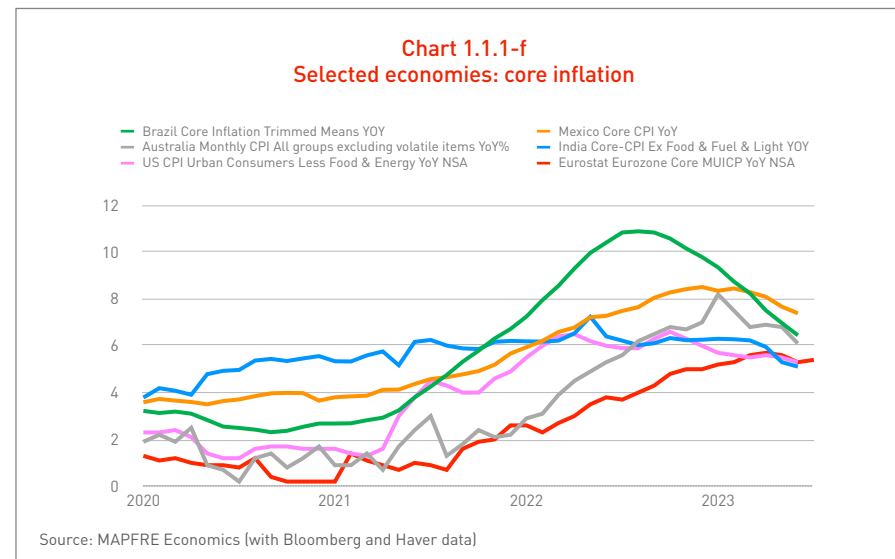
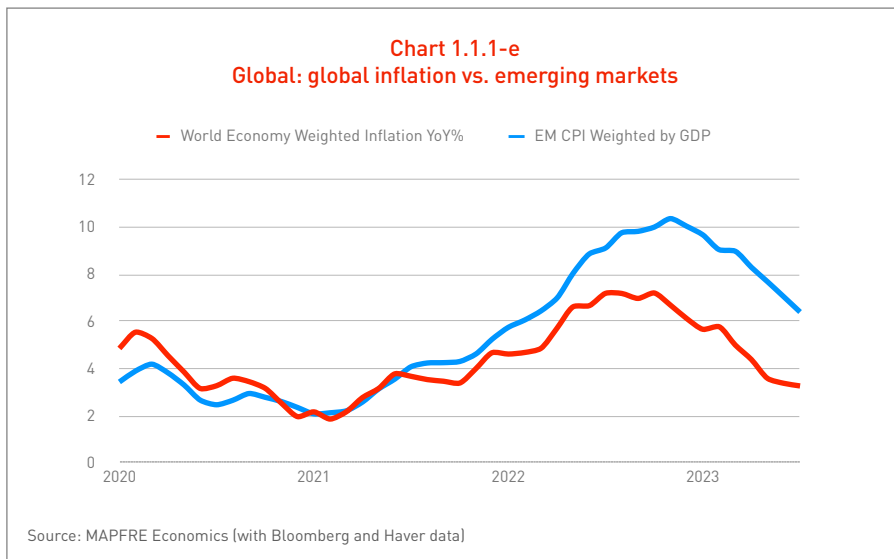
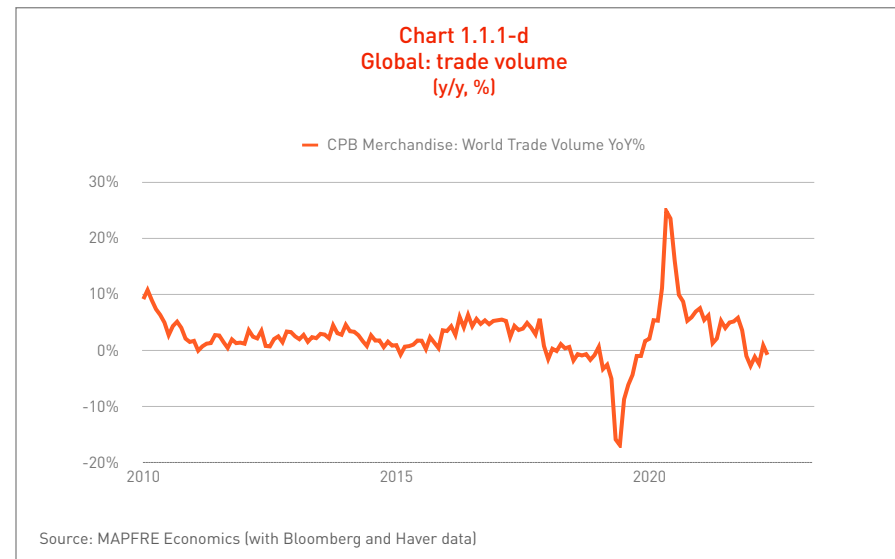
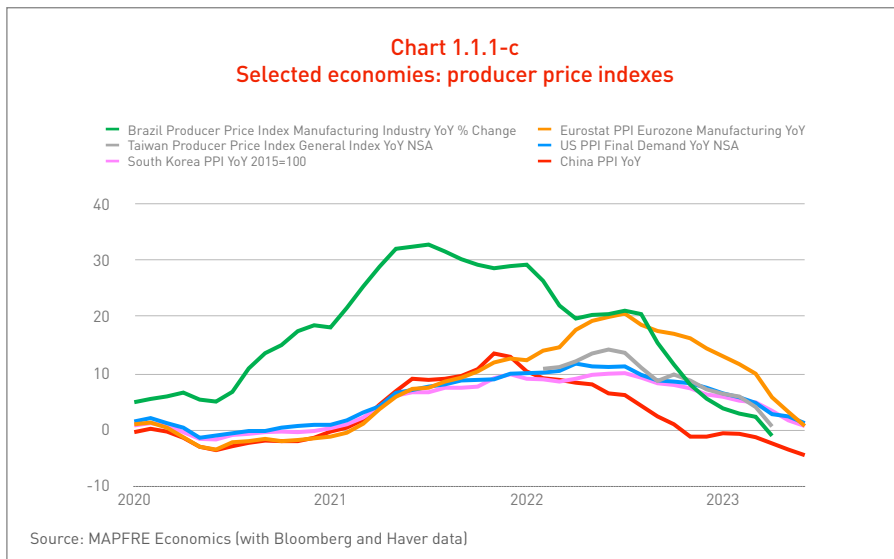
somewhat bleak in terms of activity, its pass-through to prices suggests more positive prospects, leading the current disinflation process and setting the stage for significantly better headline inflation readings. This situation could be amplified by the *bullwhip effect* (less predictable demand and excess inventory causing inverse bottlenecks), thus facilitating the battle of the central banks (see Charts 1.1.1-a to 1.1.1-d).

However, the shift of demand to the services sector, with tourism assuming the main role, has been affecting price dynamics in an additive way. This is due to the increased pressure on core inflation, helping to keep inflation at high levels, and in turn generating additional pressures on wages that could give rise to a price spiral as the service sector slows its pace of expansion and converges towards the manufacturing sector's already established path. In fact, the latest trading data already shows differential dynamics that make a correction in core inflation unlikely in the short term.

Other noteworthy factors in the reduction of price growth have been both the leveraging of the *base effect* and the fiscal policy factor, acting as a firewall in the transfer to final prices. However, both the dilution of this step in the year-on-year comparison (*base effect*) and the foreseeable withdrawal of most support packages (*fiscal policy effect*) may cause tailwinds that gradually dissipate in the second half of the year. In short, these clashing forces will foreseeably cause inflation to continue to decline, albeit at a slower pace, with less visibility in core inflation, and on a potentially erratic and volatile path (see Charts 1.1.1-e to 1.1.1-h).

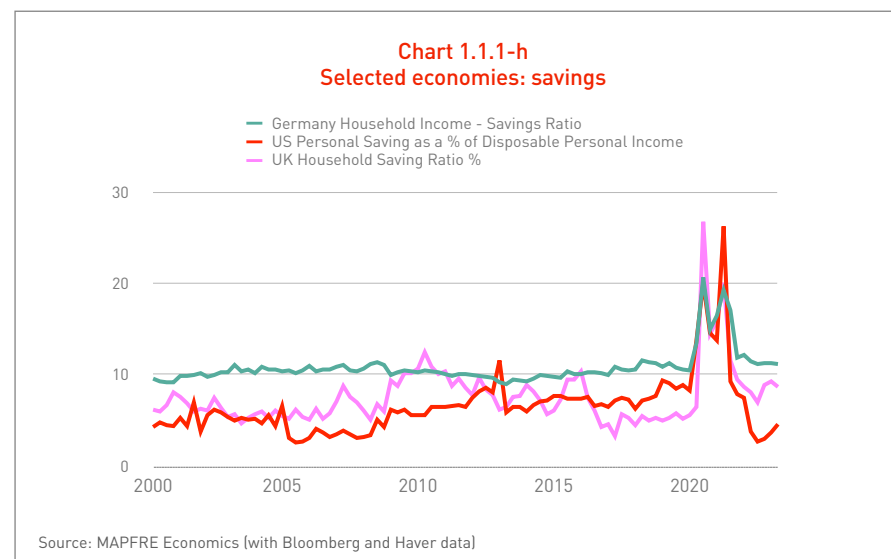
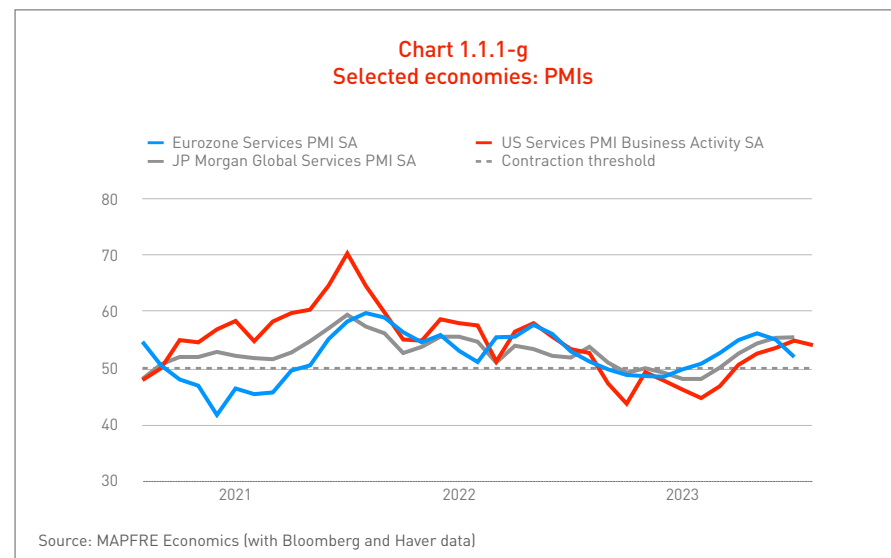
Against this backdrop, the main central banks have provided a roadmap for continuity, suggesting that the monetary tightening cycle will remain on course in the coming months, at least until enough progress has been made with inflation to prevent the aforementioned factors





from taking root in the economy, shifting inflation expectations (see Box 1.1.1). Thus, the still-uncomfortable developments on the price side prevail over economic performance, which remains surprisingly resistant (analogous behavior in the labor markets). Additionally, the conditioning factors arising from financial instability in the banking sector seem to be dissipating, suggesting a brighter outlook in which the financial system (verified in the latest stress test of the U.S. Federal Reserve²) and balance sheets of market agents remain relatively healthy. All of this, combined with the progressive tightening of credit standards and lower credit demand, means that the risks remain controlled to the extent that the reduced elasticity of monetary policies results in a higher *terminal rate* and provides longer-term support (see Charts 1.1.1-i and 1.1.1-j).

In line with the above, and despite remaining signs that progress in inflation has been insufficient overall, everything seems to indicate that the expansionary cycle is still underway, and therefore monetary policy will continue to react upwards. Thus, the most probable risk scenario is configured around the feedback from this dynamic, lengthening the cyclical stage and postponing a landing for the economy that is still forecast to be soft. This dynamic gives rise to the *stressed scenario* (risk scenario) considered in this report; a less-likely scenario where a more abrupt drop in global demand would be catalyzed by more intense and lasting inflationary pressures, activating a more aggressive monetary policy and with a certain degree of overreaction. However, considering the signs of recession, which have not dissipated, the limited impact of the lag effect and the atypical dynamics of this cycle (along with the limited capacity in terms of economic levers to deal with new *shocks*), we still cannot rule out the possibility of a full hard landing, or the feasibility of a transition to a non-linear event with a later (but also more pronounced) recession (see Charts 1.1.1-k to 1.1.1-o).

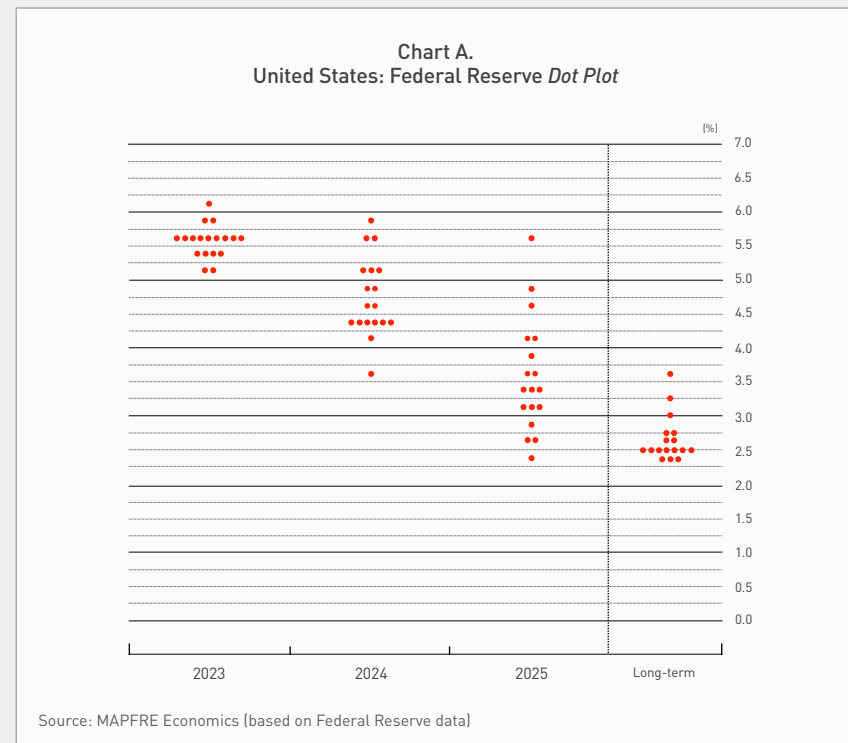


**Box 1.1.1
Monetary policy update**

Federal Reserve

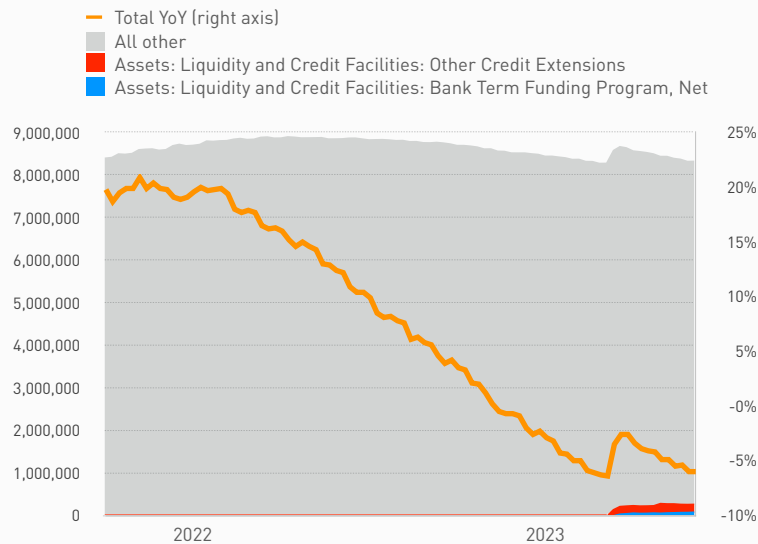
At its June meeting, the US Federal Reserve left monetary policy interest rates unchanged in the 5.00%–5.25% official range. In terms of rate projections, the Federal Open Market Committee (FOMC) *dot plot* hinted at the need to move forward with two additional rate hikes for the remainder of 2023, to the 5.50%-5.75% range, anticipating that rate cuts will not take place until at least 2024 and with levels that could remain elevated until 2025 (see Chart A). In terms of the balance sheet, the Federal Reserve made no changes to its asset holding reduction, with the monthly combined roll off of US\$60 billion in Treasury bonds and US\$35 billion in MBS (*Mortgage-Backed Securities*), without offering any additional future guidance.

As for the programs that were created following episodes of instability in the banking sector, the Bank Term Funding Program (BFTD) continued to increase by US\$6.546 billion, to reach a record of US\$100.161 billion. Meanwhile, lending through the discount window also increased by US\$1.741 billion to US\$296.396 billion. In sum, the balance stood at US\$8.3 trillion, resuming the path to normalization (see Chart B). In addition, the Federal Reserve activated a series of additional rules, establishing guidelines on repos (US\$500 billion per operation) and reverse repos (US\$160 billion per day), as well as the reinvestment of the amount of principal payments on Treasury and MBS holdings, capped at US\$35 billion and US\$65 billion per month, respectively.



Box 1.1.1 (continued)
Monetary policy update

Chart B.
United States: Federal Reserve balance sheet



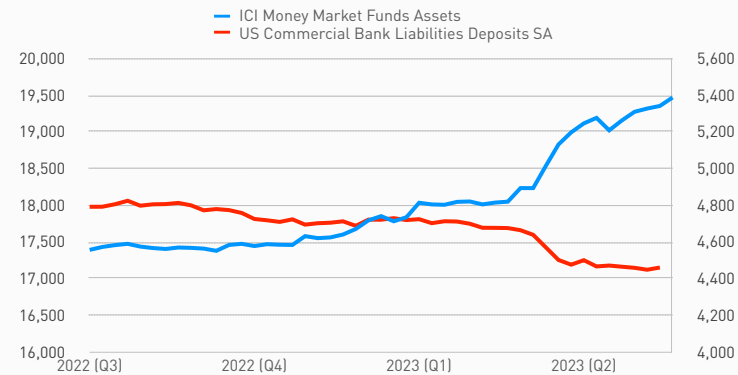
Source: MAPFRE Economics (with Haver data)

With the balance sheet reduction back on track, and as the Treasury is expected to rebuild its general account (TGA) once the debt ceiling deal is reached by depositing money at the Fed, it is expected that the money supply will be further tightened, putting more pressure on banks and

raising their calls on the central bank through the aforementioned windowing guidelines. Furthermore, money market funds climbed to a record US\$5.46 billion, to benefit from higher Treasury bill rates, to the detriment of traditional deposits, and could additionally weigh on the money supply (see Chart C).

On the macroeconomic front, new projections were presented, with economic growth for 2023 upward to 1.0% (from 0.4% previously), 1.1% in 2024 and 1.8% in 2025 (down one tenth and up one tenth, respectively). For inflation, the forecasts show little change, anticipating

Chart C.
United States: money market funds and bank deposits



Source: MAPFRE Economics (based on Bloomberg data)

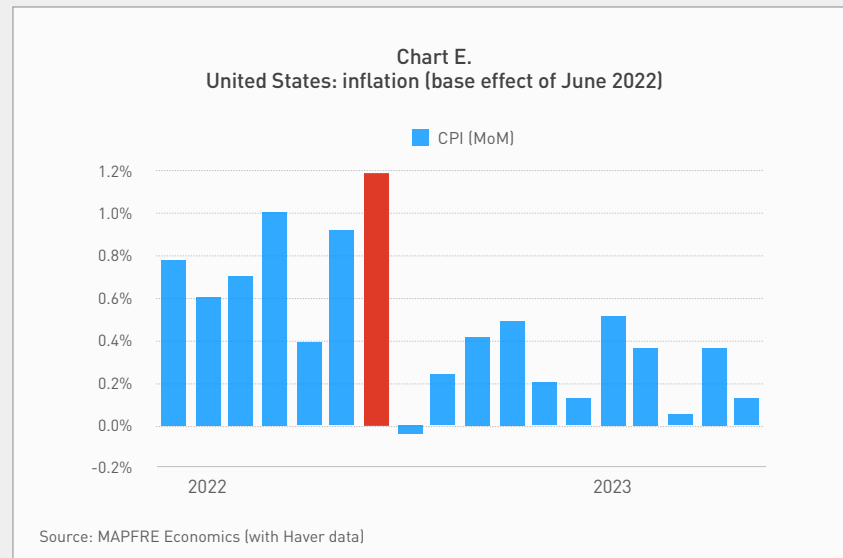
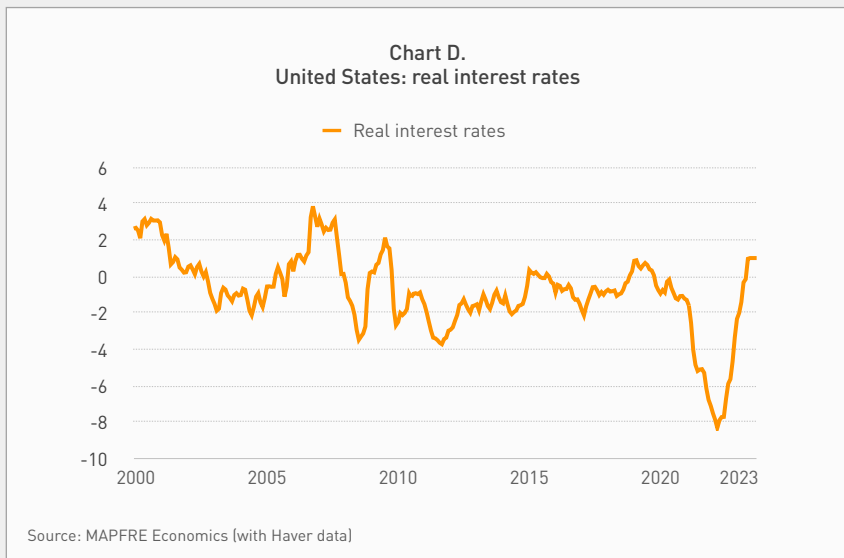
Box 1.1.1 (continued)
Monetary policy update

that inflation will remain high in 2023 at 3.2% (up from 3.1% previously), 2.5% in 2024 and 2.1% in 2025 (in line with the March forecast), while core inflation will be slightly higher.

The narrative from the Fed's statement has been harsher than expected, departing from the consensus by suggesting a higher *terminal rate* and subverting expectations of a sustained pause over time, relying on strong activity and employment, lack of progress in controlling inflation, and additional credit tightening in the wake of banking turmoil that has not materialized.

Assessment

With the June meeting, the Fed tilts its pause toward a further tightening environment, under a series of mixed signals across the board: (i) inflation moderating, but with core inflation showing some downward opposition; (ii) activity diverging across economic sectors, but expanding; (iii) employment continuing to imply wage pressures; and (iv) a less gloomy outlook for banking instability.

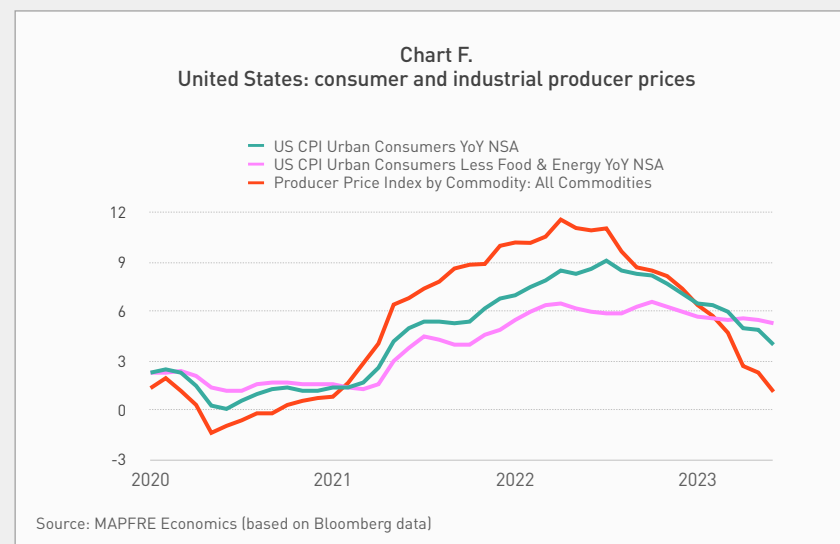


Box 1.1.1 (continued) Monetary policy update

Inflation data, meanwhile, offered positive progress in the headline CPI reading (4.0% YoY, 0.1% m/m), its most benign reading since March 2021 and better than expected for the fourth consecutive time, with energy as the main downward component. However, the contribution in the case of goods was moderate, sideways on the services side (i.e., housing, which did advance by 0.6% m/m, compared to 0.4% in April) and not yet visible in core inflation (5.3% YoY and 0.4% m/m). Thus, in general terms, progress was insufficient to sustain the pause, and premature despite the positive real interest rates (not under the prism of the core), the base effect of June (less favorable in the following months), and the tailwind of industrial prices (see Charts D, E and F).

In terms of economic activity, the forecast remains weaker, confirming that the slowdown in the U.S. economy is still ongoing, albeit moving away from landing scenarios. The main deterioration continues to unfold in the manufacturing sector (PMI dropped from its preliminary level of 48.5, to 48.4 at the end of May, down from 50.2 in April, while the ISM dropped from 47.1 to 46.9). On the flip side, services continue to expand (PMI of 54.9 PMI and ISM of 50.3), albeit moderating to the slowest pace since December 2022, partly due to the more advanced state of the cycle.

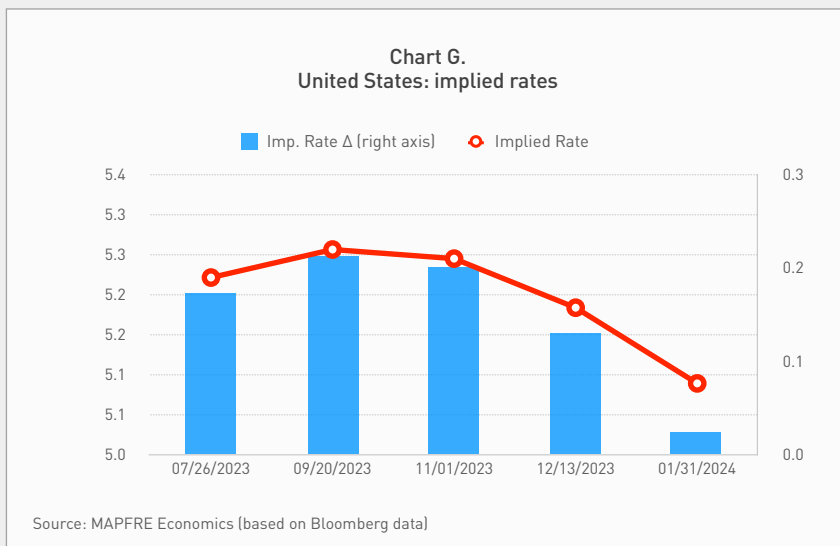
Employment, meanwhile, continues to show a latent imbalance, with the ratio of vacancies to be filled/unemployed at 1.66 and labor participation failing to recover pre-pandemic levels. However, the latest available data show some weakness in both job vacancies and household surveys, resulting in an unemployment rate that increased to 3.7% (from 3.4% previously). Finally, banking instability has had a



moderate impact, which appears to have been quelled, with less risk arising from the potential for further tightening of credit conditions.

All in all, the second half of the year is leaning towards an extension of the expansionary cycle subject to a higher-than-expected *terminal rate*, with an additional 25 basis points (bps) expected next July (implicit rates assessed at close to 70% probability) and an additional 25 bps that could well be signaled for August-September at the upcoming Jackson Hole symposium (implicit rates with more volatile probabilities). After

Box 1.1.1 (continued)
Monetary policy update



that point, it would be plausible to establish a new pause (unanimous decision in June) that would allow us to continue assessing the cumulative effect of monetary tightening and sustaining conditionality for a longer period of time (see Chart G).

European Central Bank

In its most recent meeting, the European Central Bank (ECB) decided to stay the course by raising the three official interest rates by 25 bps (4.25% for the marginal lending rate, 4.00% for the main refinancing rate and 3.50% for the deposit facility). As for the balance sheet, the

ECB is continuing to reduce its security holdings through the Asset Purchase Programme (APP), at an average pace of €15 billion through the end of June 2023, unlike reinvestments under APP, which will be discontinued as of July. Elsewhere, it will maintain its intention to reinvest the principal payments from securities purchased under PEPP (Pandemic Emergency Purchase Programme) until at least the end of 2024, as well as the direction of the Targeted Longer-term Refinancing Operations (TLTROs), with no new developments.

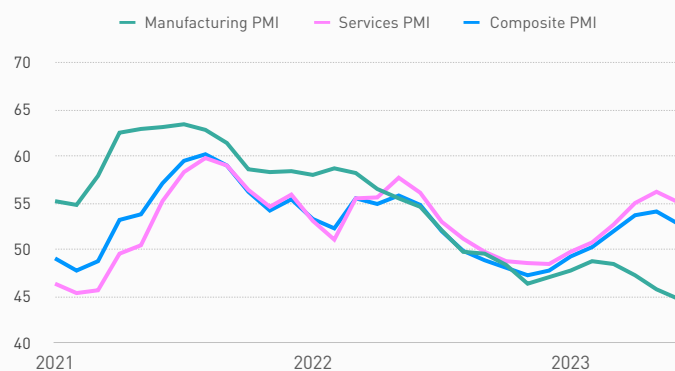
On the macroeconomic front, new projections were presented, including GDP contraction of 0.1% in Q1 which lowers growth for 2023 to 0.9% (from 1.0% previously), and with 1.5% in 2024 and 1.5% in 2025 (vs. 1.6% previously). As for inflation, the forecasts remain high and practically unchanged, averaging 5.4% in 2023, 3.0% in 2024 and 2.2% in 2025 (one tenth of a percent higher in all years). On the other hand, the dynamics of core inflation are expected to persist for longer than expected, driven by inflation in the services sector, which has not yet moderated, and by wage compensation, which is gaining momentum according to the most recent data. In sum, and as expected, the ECB meeting was accompanied by an additional interest rate hike, a prospect of more hikes throughout the rest of the year and the confirmation of a latent *stagflationary* outlook, offering a more pessimistic picture in its review of core inflation, whose moderation is still tentative.

Assessment

Along similar lines to the Federal Reserve, the ECB has revitalized the pillars underpinning the need for additional monetary tightening, with an upwardly biased narrative based on the factors proposed by the

Box 1.1.1 (continued) Monetary policy update

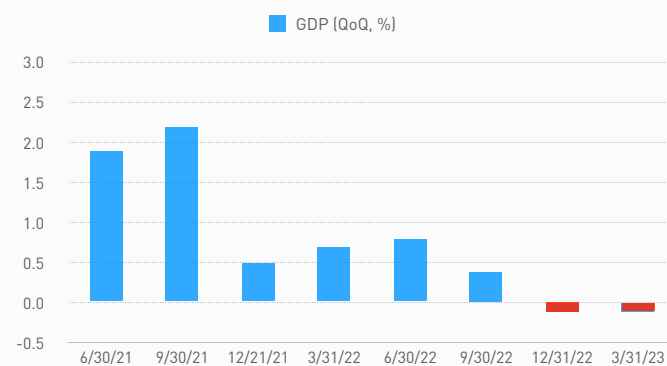
Chart H.
Eurozone: PMIs



Source: MAPFRE Economics (based on Bloomberg data)

Federal Reserve, albeit removing the pause scheme from the table. In terms of activity, and after revising the Q1 data, it is clear that the Eurozone is indeed immersed in a slight technical recession, with more notable divergences in the manufacturing industry (weighed down by the energy shock and the loss of competitiveness) and in the services sector (in a later phase of expansion), as well as the drop in consumption that could not be offset by the energy saving measures, fiscal support, or the strength of the labor market (see Charts H and I).

Chart I.
Eurozone: Quarterly GDP

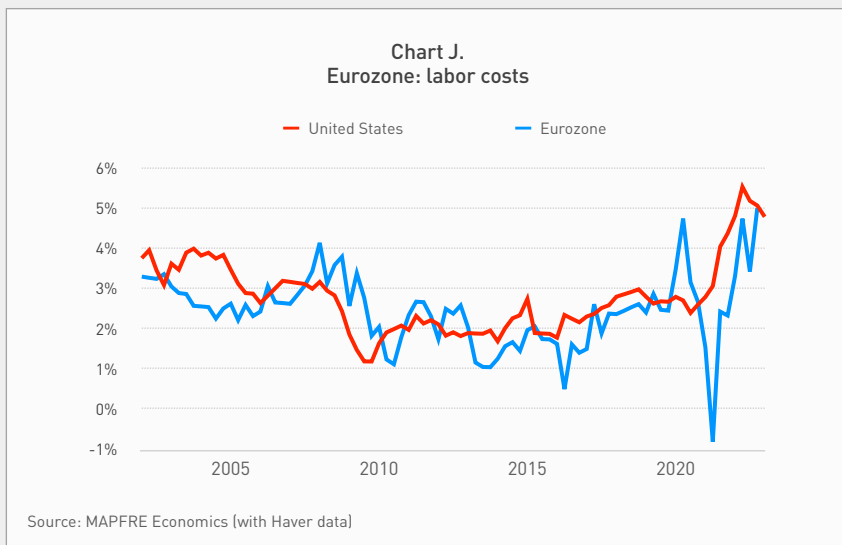


Source: MAPFRE Economics (with Haver data)

With respect to prices, progress has not been positive either, since, although the general indicator moderated to 6.1% in May, core inflation remains rigid (5.3%) and still does not show a clear change in trend, supported by both the services sector and wages, which are more noticeably beginning to shed their loss of purchasing power, although without fully triggering second-round effects (see Chart J).

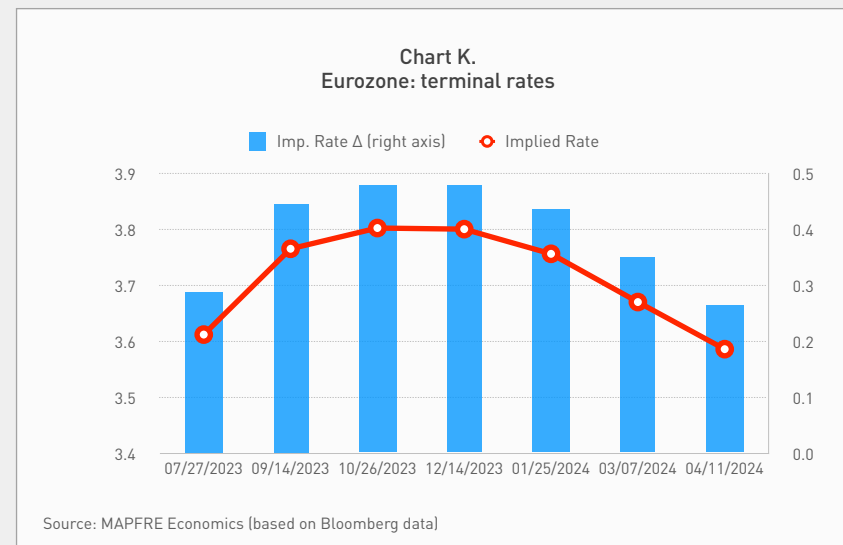
Financial instability, in terms of the Eurozone, seems to be well contained and, to date, has sustained a low level of contagion in the

Box 1.1.1 (continued)
Monetary policy update



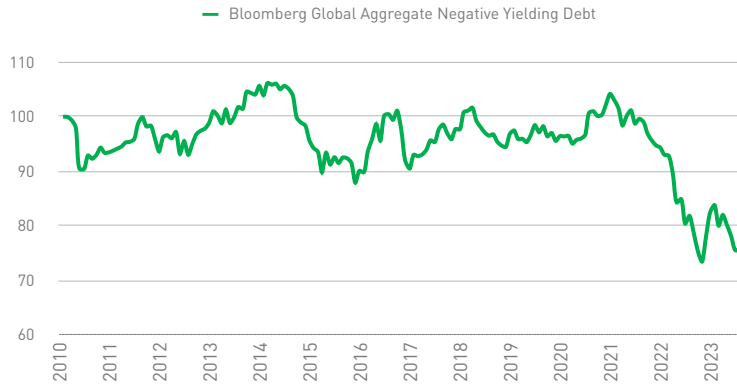
banking sector, which is in a less marked position (albeit with the imminent repayment of €500 billion of TRLTOs) with risk premiums contained, allowing the anti-fragmentation mechanism to remain inactive.

All in all, the outlook in the Eurozone remains weak, although overcoming the prospect of a deep recession and chronicling certain risks which to date have been overcome with some success, but which leave no room for complacency. Under this approach, with the risk of inflation expectations becoming unanchored (the average fell from 6.3%



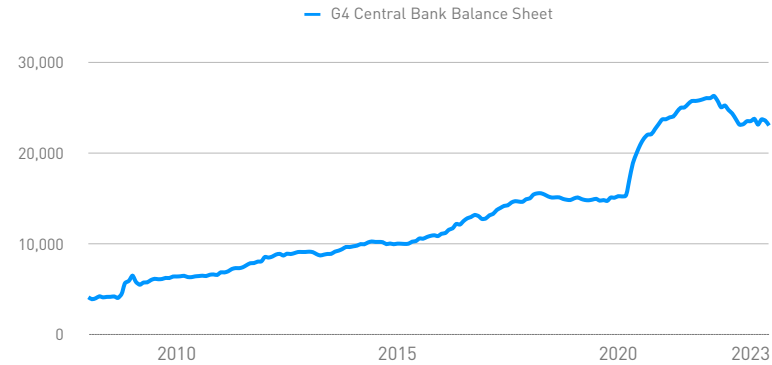
to 5.3% in April, but remains high) continuing to drive wages and sterilize part of the positive supply-side gains (in addition to a fiscal lever that has yet to change its bias), the data seem sufficient for the monetary cycle to remain in place. In this regard, two additional interest rate hikes of 25 bps are expected in July and September (see Chart K), thus prolonging the possibility of reaching a higher *terminal rate* before the end of the year.

Chart 1.1.1-i
Global: debt index with negative interest rates



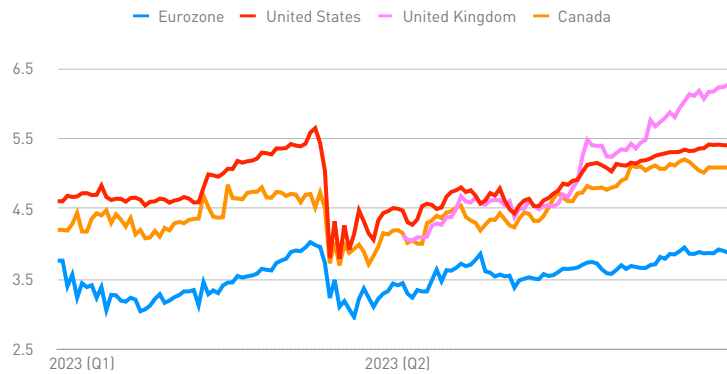
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.1-j
Selected economies: central bank balance sheet (G4)
(billions of dollars)



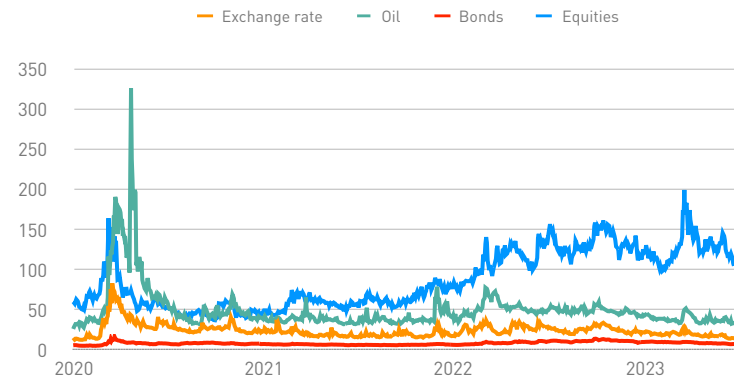
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.1-k
Selected economies: terminal interest rates



Source: MAPFRE Economics (with Bloomberg and Haver data)

Chart 1.1.1-l
Global: volatility levels



Source: MAPFRE Economics (based on Bloomberg data)

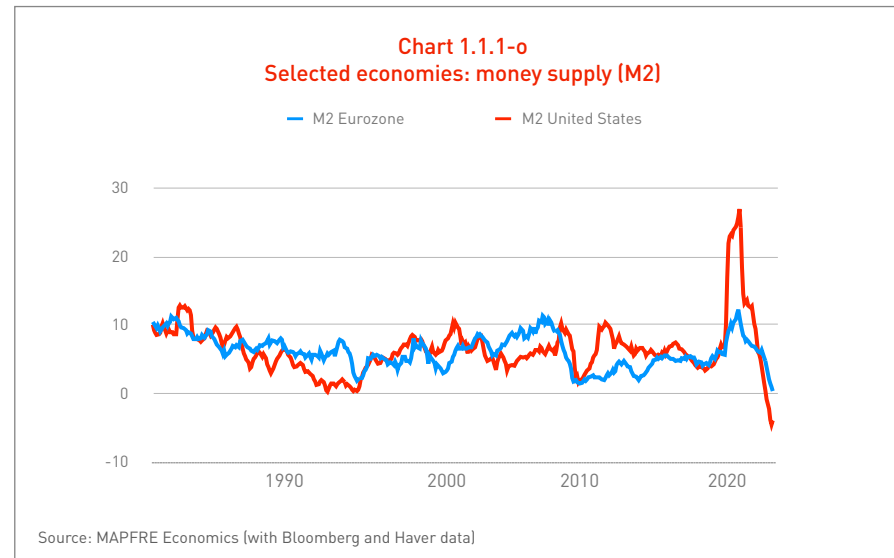
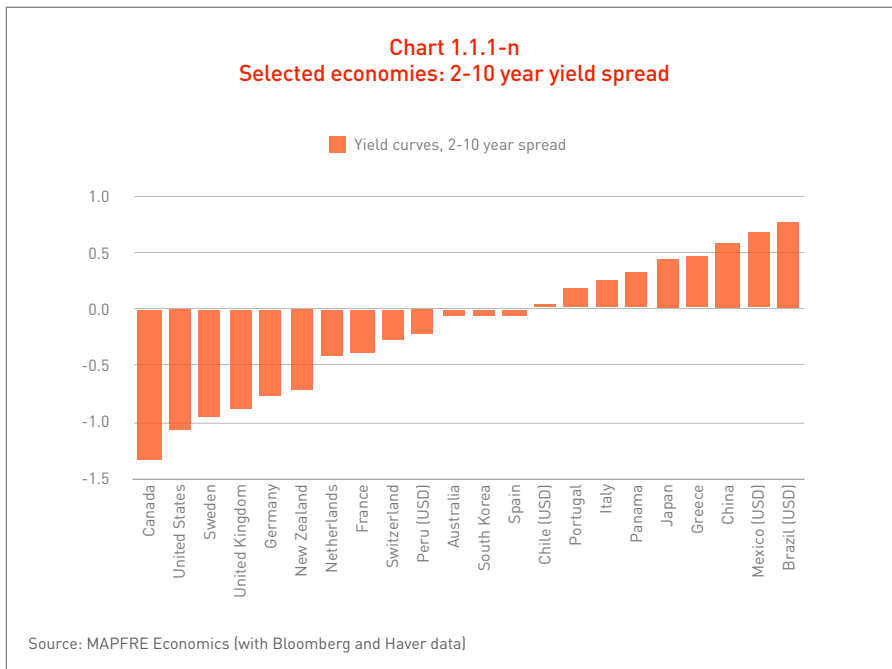
Chart 1.1.1-m
Selected economies: Manufacturing PMIs

	6/30/2022	7/31/2022	8/31/2022	9/30/2022	10/31/2022	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023	5/31/2023	6/30/2023
Austria	51.2	51.7	48.8	48.8	46.6	46.6	47.3	48.4	47.1	44.7	42.0	39.7	39.0
Brazil	54.1	54.0	51.9	51.1	50.8	44.3	44.2	47.5	49.2	47.0	44.3	47.1	46.6
Canada	54.6	52.5	48.7	49.8	48.8	49.6	49.2	51.0	52.4	48.6	50.2	49.0	48.8
China	51.7	50.4	49.5	48.1	49.2	49.4	49.0	49.2	51.6	50.0	49.5	50.9	50.5
Czech Republic	49.0	46.8	46.8	44.7	41.7	41.6	42.6	44.6	44.3	44.3	42.8	42.8	40.8
Developed markets	52.5	51.2	50.2	50.1	48.8	47.8	47.3	48.1	48.1	48.4	48.5	47.6	46.3
Emerging markets	51.7	50.8	50.2	49.3	49.8	49.7	49.8	49.9	51.6	50.7	50.5	51.4	51.1
European Union	51.6	49.3	49.1	48.1	46.1	46.7	47.5	48.6	48.3	47.3	45.8	44.9	43.4
Eurozone	52.1	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.4
France	51.4	49.5	50.6	47.7	47.2	48.3	49.2	50.5	47.4	47.3	45.6	45.7	46.0
Germany	52.0	49.3	49.1	47.8	45.1	46.2	47.1	47.3	46.3	44.7	44.5	43.2	40.6
Greece	51.1	49.1	48.8	49.7	48.1	48.4	47.2	49.2	51.7	52.8	52.4	51.5	51.8
India	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8
Indonesia	50.2	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7	50.3	52.5
Ireland	53.1	51.8	51.1	51.5	51.4	48.7	48.7	50.1	51.3	49.7	48.6	47.5	47.3
Italy	50.9	48.5	48.0	48.3	46.5	48.4	48.5	50.4	52.0	51.1	46.8	45.9	43.8
Japan	52.7	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8
Mexico	52.2	48.5	48.5	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1	50.5	50.9
Netherlands	55.9	54.5	52.6	49.0	47.9	46.0	48.6	49.6	48.7	46.4	44.9	44.2	43.8
Poland	44.4	42.1	40.9	43.0	42.0	43.4	45.6	47.5	48.5	48.3	46.6	47.0	45.1
Russia	50.9	50.3	51.7	52.0	50.7	53.2	53.0	52.6	53.6	53.2	52.6	53.5	52.6
South Korea	51.3	49.8	47.6	47.3	48.2	49.0	48.2	48.5	48.5	47.6	48.1	48.4	47.8
Spain	52.6	48.7	49.9	49.0	44.7	45.7	46.4	48.4	50.7	51.3	49.0	48.4	48.0
Taiwan	49.8	44.6	42.7	42.2	41.5	41.6	44.6	44.3	49.0	48.6	47.1	44.3	44.8
Turkey	48.1	46.9	47.4	46.9	46.4	45.7	48.1	50.1	50.1	50.9	51.5	51.5	51.5
United Kingdom	52.8	52.1	47.3	48.4	46.2	46.5	45.3	47.0	49.3	47.9	47.8	47.1	46.5
United States	52.7	52.2	51.5	52.0	50.4	47.7	46.2	46.9	47.3	49.2	50.2	48.4	46.3
Vietnam	54	51.2	52.7	52.5	50.6	47.4	46.4	47.4	51.2	47.7	46.7	45.3	46.2
Global	52.2	51.1	50.3	49.8	49.4	48.8	48.7	49.1	49.9	49.6	49.6	49.6	48.8

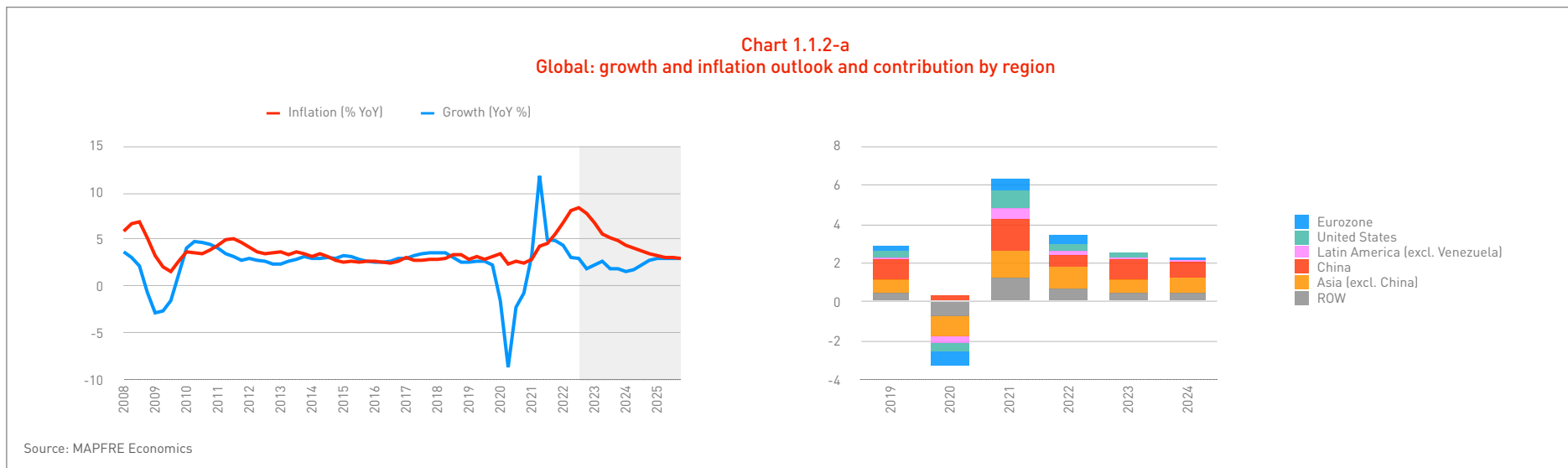
Source: MAPFRE Economics (based on Bloomberg data)

1.1.2 Regional perspectives and dynamics

The revised forecasts in this report consider changes at a global level, with slightly lower growth forecast for 2023, of 2.6% compared to the previous 2.8%, and for 2024, of approximately 2.3% (vs. 3.0% previously). Regarding the inflation outlook, the forecasts remain unchanged, pointing to 7.0% in 2023 and 4.9% in 2024, with concerns regarding inflation weighing more heavily on the scale than activity. It should be noted that the regional dynamics reflect a series of divergent trends that anticipate changes in terms of contributions to growth, although they are insufficient to escape the global



stagflationary environment. These disparities are largely due to: (i) the productive structure, which is conditioned by the gap between manufacturing and services (more pronounced in developed regions); (ii) the resilience of both consumer spending and labor markets, and (iii) the effectiveness of economic policies. Thus, special attention is paid to the current monetary cycle, which may begin to loosen in certain emerging economies that took a proactive stance sooner, compared to the more conservative stance of developed countries. Meanwhile, fiscal policy continues to adjust towards neutrality (highlighting the limitations of the United States after the agreement on the new debt ceiling), although at a slower pace than anticipated (with the Eurozone still maintaining an accommodative strategy, while optimistic that a compromise will be reached by the end of the year), and in a more complex environment for access to financing (see Chart 1.1.2-a).

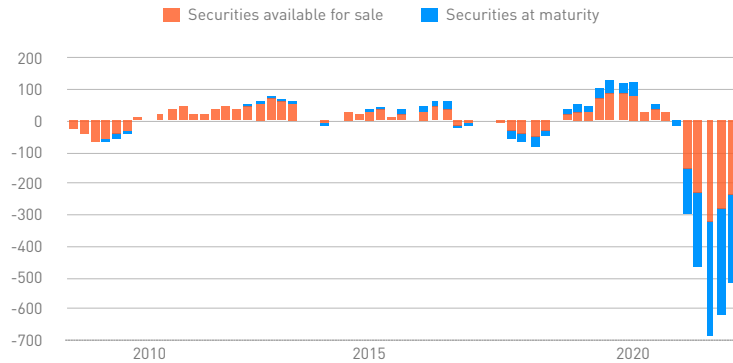


United States

In the United States, the forecasts point to positive changes in terms of activity, at least for 2023, as the staying power of consumption and tight labor market continue to thwart the anti-inflationary targets of the Federal Reserve. On the price side, the forecasts are unchanged, with pressures on durable goods fading, but services picking up the effects of this resilience in consumption and the base effects in a less favorable stage. Meanwhile, and after the pause in interest rate hikes and the stabilization of the banking environment, monetary policy is expected to resume the cycle of rate increases, with a level of additional tightening that raises the expected *terminal rate* and the intention to remain in restrictive territory for a longer period of time. The latest revision of GDP for the first quarter and its components, mainly personal consumption,

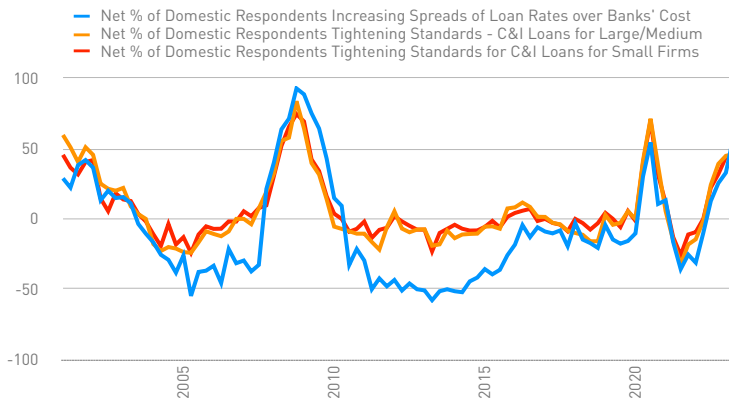
validate a trend that could be longer than initially expected, while financial health shows no signs of further adjustment in an environment of more adverse financial conditions. These are points of support that should be moderated as monetary policy takes effect, still with a lag, but reflected in “soft data” series and a fiscal policy with few changes on the horizon. All in all, we maintain our forecast of a short recession in the second half of the year, but expect to see the first contraction in economic activity later than previously anticipated, in the last quarter of 2023 or the first quarter of 2024 (see Charts 1.1-2-c and 1.1.2-d).

Chart 1.1.2-b
United States: unrealized bank losses



Source: MAPFRE Economics (based on FDIC data)

Chart 1.1.2-c
United States: credit standards



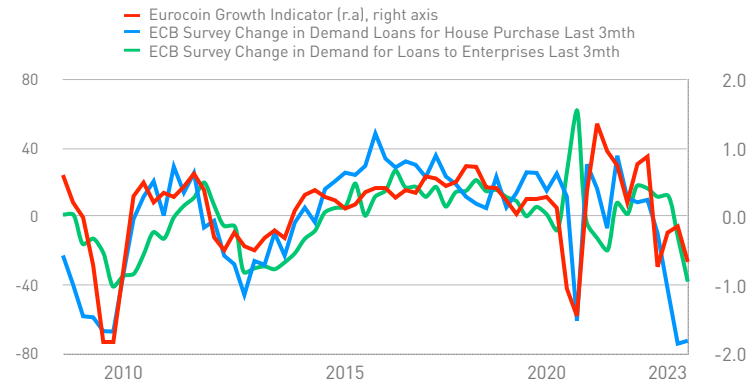
Source: MAPFRE Economics (based on data from Bloomberg, Haver, Federal Reserve)

Eurozone

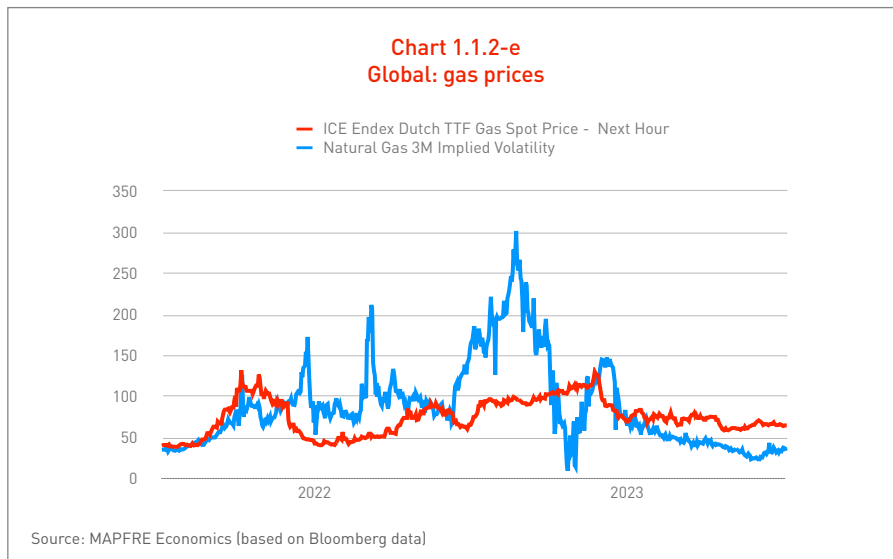
Meanwhile, our growth forecast for the Eurozone in 2023 is unchanged after the poor first-quarter data, with less support from manufacturing-intensive countries (mainly Germany) and a modest economic rebound in line with the weakness of the latest industry surveys. Consumer spending is expected to remain somewhat weak in 2023, with the momentum from salaries charting a better course in 2024 and some bias towards services, which would continue providing a breath of fresh air to the Southern European economies (Spain and Italy). The latter are benefiting from the rise in tourism and the absorption of the RRF and NGEU funds, which are acting as a counterweight with their positive contribution to the bloc's growth.

In terms of prices, the forecasts have been raised slightly for both 2023 and 2022. The good news is expected to continue from the industry

Chart 1.1.2-d
Eurozone: economic growth and credit indicators



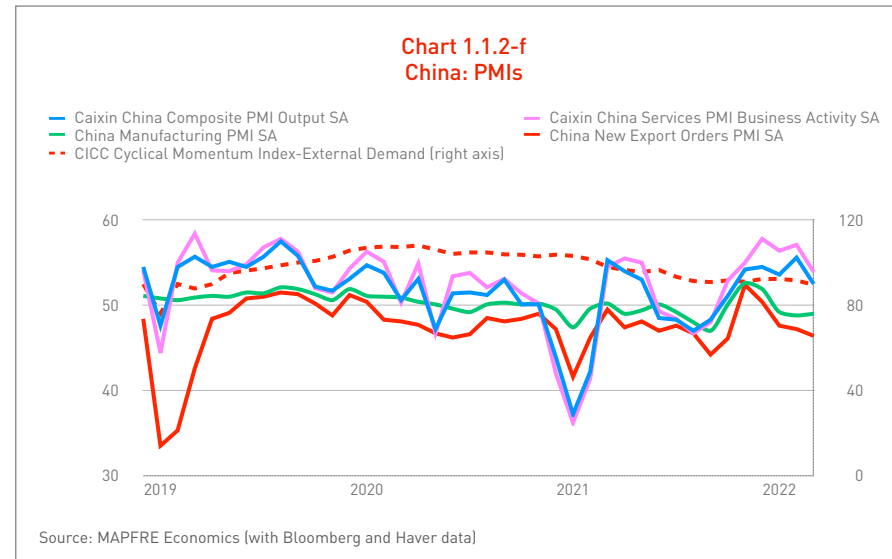
Source: MAPFRE Economics (based on Bloomberg data)



side, albeit at the cost of worse performance, subject to structural risks on the energy side, while core inflation will continue increasing slightly, subject to risks related to salary trends. Accordingly, we have revised our forecasts of a more hawkish European Central Bank (ECB), with a higher *terminal rate* and financial conditions that are tighter in general, which could accelerate governments' transition to fiscal sustainability (see Charts 1.1.2-d and 1.1.2-e).

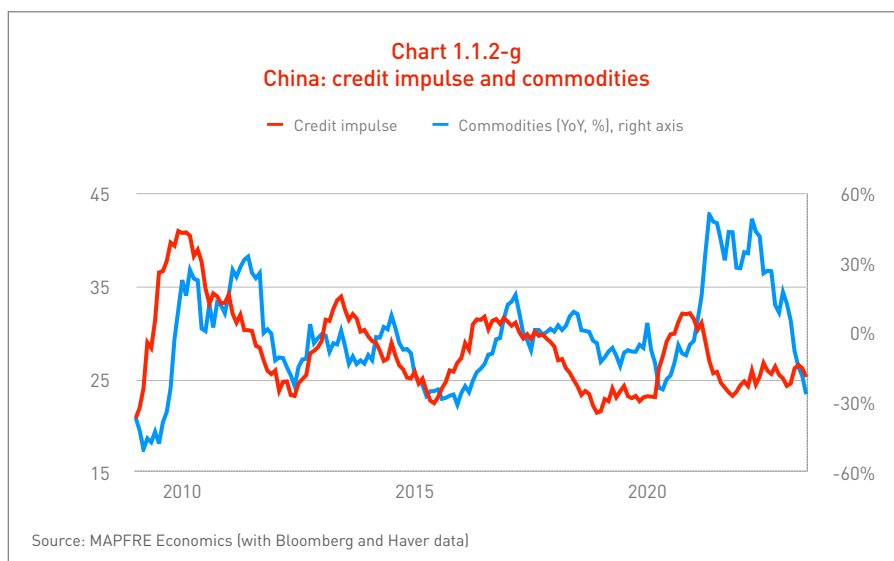
China and Asia Pacific

As for the Chinese economy, the boom from the post-COVID reopening appears to have stalled in recent months, with industrial production data, exports and consumer spending weakening slightly. Additionally, it continues to face headwinds, both externally, with the slowdown in global demand, and internally, with the real estate market that has not



quite overcome the downturn following the latest government measures (new housing-related loans fell to 2013 levels).

Despite a disappointing first half in terms of activity, reflected in prices (with inflation and industrial prices slowing down), the Chinese economy is thought to be building momentum and could be reinvigorated in the second half of the year. This would be the result of a more proactive economic policy (fiscal and quasi-fiscal policies aimed at restarting growth) and with the support of an easier monetary policy, sending signals of greater flexibility both in the RRR (in addition to the 10 basis points already announced in June) as well as the medium-term lending facility (MLF) and the benchmark rate for new loans (LPR) (see Charts 1.1.2-f and 1.1.2-g). As for the rest of Asia, a positive view of growth is maintained, despite concerns about the reduction in external demand (Taiwan and South Korea stand out due to the cyclical nature of semiconductors). A significant part of the



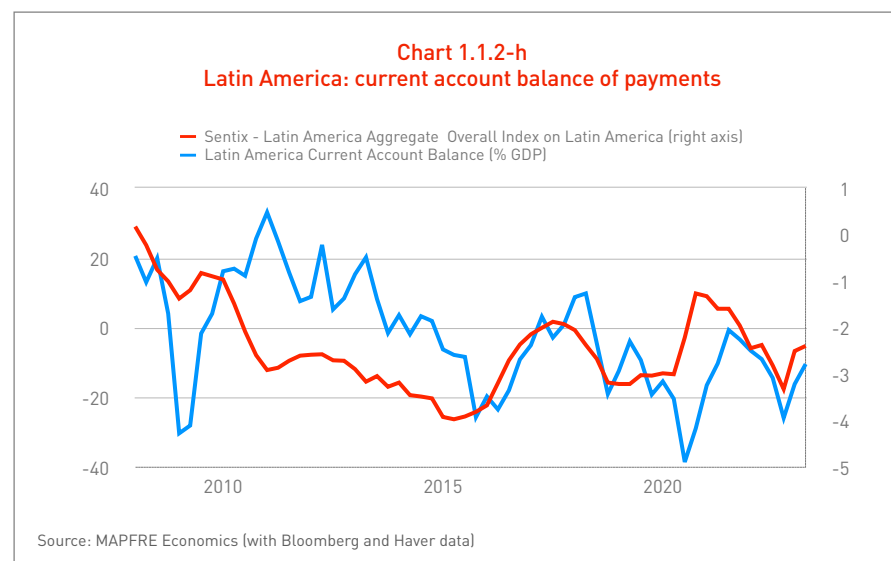
region's economic growth continues to come from investment, which, coupled with the reduced inflation rates, could lead central banks to assign more weight to growth and provide some level of early relief.

Latin America

Finally, our forecasts for the main Latin American economies have been revised upwards, despite the continued intra-regional divergences, with the improvement in prospects concentrated on the economies of Mexico and Brazil. Despite the symptoms of lower global demand and the accumulated drag of an early restrictive monetary policy, both economies are showing stronger signs of both a slowdown in prices and resilient consumption, indicating that economic activity could have been underestimated again in our last report. Further tailwinds are expected on the investment side, which could rally in

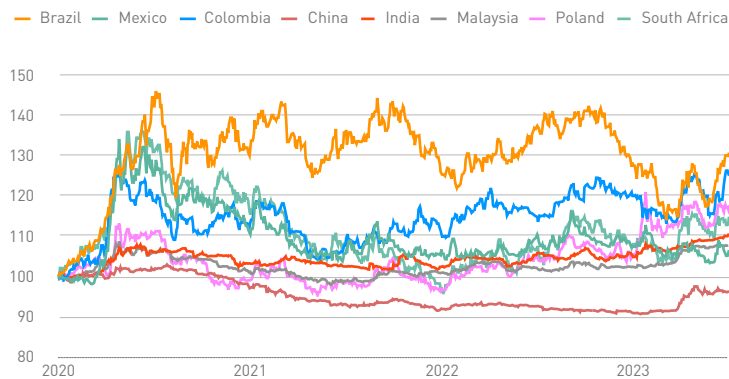
Brazil after the improvement in its credit rating, and in Mexico, benefiting from the gradual increase in investment related to *nearshoring*. Meanwhile, inflation dynamics show a more concrete path of deceleration, and should follow a slightly faster path in the future compared to the trend of developed economies, allowing several countries in the region to enter the easing cycle sooner, especially in economies supported by strong currencies. On the negative side, these improved prospects are not evenly distributed, and in particular, in economies such as Argentina, Colombia, Chile and Peru, fiscal accounts continue to deteriorate, activity is depressed and inflation is high, making a change in monetary policy impossible (see Charts 1.1.2-h and 1.1.2-i).

In short, the overall forecast at the beginning of the year for a gradual shift from price concerns to demand problems remains valid,



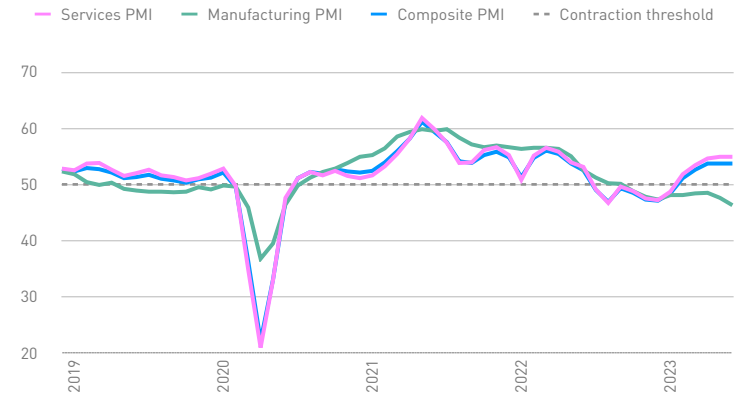
tempered by the cautious optimism at the beginning of the year that has continued over time, with the latest revision of the forecast pointing to greater resilience. Points of support include the firewall of fiscal policy, consumption, underpinned by the strong labor markets, the services sector (not manufacturing, which is following the expected script), and the drawn-out effects of monetary policies, which have not finished permeating the economy as a whole. In terms of prices, the indexes continue to pick up divergent signals from industry and services, reflecting the gap between headline inflation (trending downward) and core inflation (more stubborn) readings, providing insufficient fiscal and monetary policy space to close the cycle. Along these lines, and in the absence of new positive catalysts for economic activity, the forecast of inflation that does not subside along the expected path and the absence of new financial instability events that force a shift in monetary and fiscal policy, the scenario of *stagflation* remains (see Charts 1.1.2-j to 1.1.2-m).

Chart 1.1.2-i
Selected emerging markets: currency trends



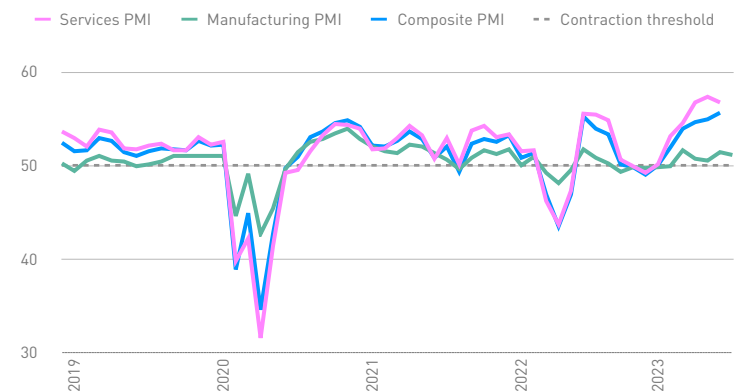
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-j
Developed markets: PMIs



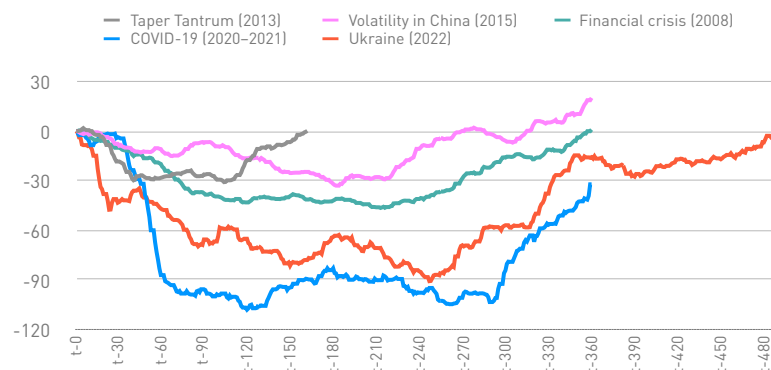
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-k
Emerging markets: PMIs



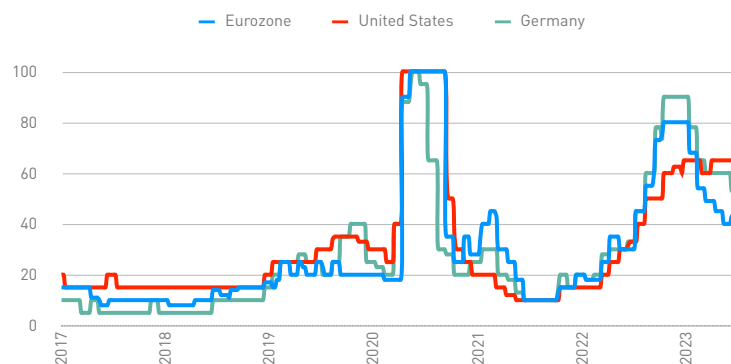
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.2-l
Portfolio investment flows to emerging markets
(billions of dollars)



Source: MAPFRE Economics (with IIF and Haver data)

Chart 1.1.2-m
Selected economies: likelihood of recession



Source: MAPFRE Economics (based on Bloomberg data)

1.1.3 Scenarios and forecasts

Baseline scenario

For the remainder of 2023 and early 2024, we have maintained a *baseline scenario* of global *stagflation*, with growth still constrained by below-potential rates globally, particularly in developed markets, which continue to experience selective recessions and divergence in terms of growth, more evident depending on each country's predominant productive structure. The baseline is maintained, with a cyclical slowdown in demand that eases concerns about inflation, but whose effects are extended over time, supported by factors that prolong the expansive tone of consumption, labor markets that are maintaining some strength, and a fiscal policy that took longer than anticipated to shift towards neutrality (mainly in Europe), with the weaknesses this entails in terms of debt sustainability.

On the price side, a high-pressure scenario continues, trending downward but over a longer period of time, and declining at a slower pace (mainly in the core index) due to the aforementioned factors. By contrast, inflation has a much narrower support base (the contribution of raw materials, durable goods and the manufacturing sector is limited compared to the support of services, especially tourism), but greater potential to trigger second-round effects. Salaries are the next link in the price chain and a potential catalyst for this risk, which would favor a movement towards the risk scenario considered below.

This outlook includes, in turn, tighter financial conditions than anticipated in the previous version of our report, with the central banks of developed countries adding another interest rate hike to what was anticipated; specifically, the Federal Reserve with an additional 25 basis points in July (versus the previously proposed pause) and the ECB with two 25-basis-point increases (versus one increase

previously). At the same time, their emerging counterparts, with a more advanced monetary cycle and more controlled price dynamics, have postponed monetary tightening for a quarter.

At the geopolitical level, the forecast horizon remains unchanged, with the war in Ukraine, tensions over Taiwan, and other events of fragmentation and transition towards a multipolar world as an ongoing trend, albeit subject to the inherent volatility they may cause. Therefore, in the baseline scenario of our report, raw materials stabilize at current levels, avoiding abrupt price drops due to lower demand and trending slightly higher than observed in the last decade. In particular, oil should stand at 85 USD/b on average in 2023 and remain at around 80 USD/b during 2024 and 2025.

Stressed scenario

Meanwhile, the *stressed scenario* (risk scenario) maintains the assumptions of the previous edition of this report, with a drop in global economic activity and rise in inflation that activate an environment of stricter financial conditions based on a more aggressive monetary policy and a moderate fiscal policy response, with increases in risk premiums that do not trigger a fiscal dominance event. Regarding activity, there is a marked erosion of purchasing power in consumption and investment, which begin to contract in the second half of 2023 and early 2024, with developed economies facing selective, yet deeper recessions. Meanwhile, emerging countries see their performance diminished by the drop in global demand, more noticeable in countries that export raw materials, which are especially open to the exterior and vulnerable in terms of current account financing. In aggregate terms, global growth continues to find support in Asia, especially in China, India and their satellite countries, and to a lesser extent, in other emerging countries in Latin America, Europe, the Middle East and Africa, with the developed regions making the smallest contribution.

On the inflation side, in this risk scenario, the rise in prices is due to less cyclical and more structural forces, causing monetary policy to activate levers towards a higher *terminal rate* towards the end of the year. Real interest rates are more restrictive than anticipated for much of 2024, channeling into a decline in the labor markets that deepens the drop in consumption. Consequently, countercyclical fiscal policies are only activated in a small group of countries, limited by fiscal space, and this is insufficient to serve as a cushion for previous *shocks*, such as in the energy sector.

Meanwhile, the change in financial conditions and decreased liquidity caused by more aggressive balance-sheet reduction programs lead to implicit volatility that raises the VIX to levels above 40 and the annual average to around 30. This implies a correction in risk assets, with global equities contracting 20% in their aggregate index, fixed income starting from a 10% correction in the 10-year duration, and the dollar strengthening again against other currencies (1.08 against the euro). This amplifies the effects of the withdrawal of liquidity and a *flight-to-quality* that affects emerging currencies, which face outflows similar to the ones caused by previous *shocks*. Credit *spreads* widen in the range of 150 to 300 basis points, depending on the credit quality scale. Meanwhile, the real estate market suffers limited yet adverse contagion, with falls similar to those modeled for fixed income and wide divergences by region. As for raw materials, they are not affected by a significant *shock*, as the assumption is based on a structural *shock*. However, they are moving towards a weaker price environment in the medium term, given the drop in demand, accelerating the end of the current stage of the cycle.

1.1.4 Risk assessment

There are several additional potential triggers illustrated schematically on the risk map shown in Chart 1.1.4. These triggers could result in an event similar to a recessionary shock and are described as follows.

Global governance and geopolitical crisis

The European Union (EU) recently issued a strategic economic security document with three main priorities: competitiveness, protection against economic risks and collaboration with other countries. The proposals aim to improve government oversight of “risky” trade with third countries, reflecting the new global environment, where the potential militarization of trade dependencies is mentioned several times. As part of the risk balance for the global economy, this section explores the importance of these measures, their potential impact on trade with partners such as China, and the challenges for their implementation. It also elaborates on current trends in various sectors, including trade tensions, financial developments, energy transitions, agricultural issues, defense and national security concerns, debates in the field of health and technological regulation, all of which are shaping the global landscape.

The EU's economic security strategy is centered on addressing economic security concerns, especially in light of geopolitical events such as Russia's invasion of Ukraine and the COVID-19 pandemic. The strategy includes proposals for periodic reviews and reports to the European Council, with input from the private sector, to address supply-chain vulnerabilities and technology leaks. It proposes the creation of a Strategic Technologies Platform for Europe that seeks to improve the EU's competitiveness, especially in green and digital transformations.

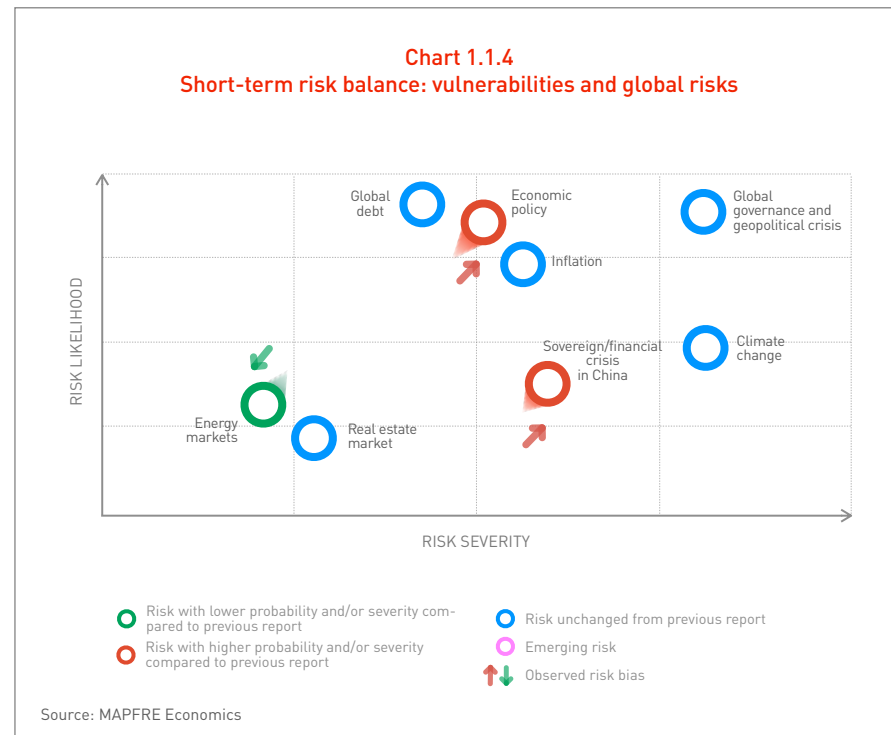
Pressure from the United States

The strategy also responds to pressure from the United States to restrict the flow of sensitive goods and technologies to China. While the EU is considering export controls on dual-use goods and security risks associated with investing abroad, its approach is less hardline than that of the United States. The EU aims to balance its collaboration with the

United States and maintain trade relations with China. The implementation of these measures will largely depend on the next Commission, and transatlantic tensions could arise if the United States experiences a change in leadership after the 2024 presidential election.

Spanish Presidency of the Council of the European Union

The Spanish Presidency of the Council of the European Union aims to address the main challenges facing the EU. This includes responding to crises such as the COVID-19 pandemic, Russia's invasion of Ukraine



and geopolitical changes. The Spanish government aims to play a significant role in shaping the future course of the EU and strengthening its global alliances. Top priorities include supporting Ukraine, finding new allies in Latin America and the Caribbean and making progress on the green transition. One of the key challenges for the Spanish presidency is finalizing the New Pact on Migration and Asylum, balancing responsibility and solidarity among European countries.

Current trends in various sectors

On the US business front, where intense global positioning activity is underway, a coalition of labor and environmental groups have raised concerns about the Treasury and the Biden Administration's vague and insufficient interpretation of the Inflation Reduction Act (IRA), especially regarding critical mineral mining practices and the electric vehicle tax credits applied to allied nations like Japan. Labor issues with Mexico are also becoming a campaign issue, with unions demanding stricter enforcement of the USMCA.

In the U.S. banking and financial market, Sherrod Brown, the chairman of the Senate Banking Committee, scored a major victory by securing approval of a proposal allowing the U.S. government to claw back the compensation received by top executives at failed banks. Separately, BlackRock and JPMorgan have partnered with the Ukrainian government to create a 400-billion-dollar reconstruction bank. Finally, Indian Prime Minister Narendra Modi's visit to the United States failed to deliver on commitments to lower barriers for Indian companies to list on U.S. stock exchanges.

On energy issues, the drama around COP-28 continues, and Russian oil is facing pressure from EU sanctions. EU countries with major automotive industries are struggling to respond to the flood of cheap Chinese electric vehicles on the market. The TransWest Express

Transmission project is finally beginning, marking a breakthrough in the Biden Administration's efforts toward clean energy. ESG investment is facing opposition, with GOP-controlled state legislatures banning such investments, and the EU potentially requiring ESG reporting from U.S. companies.

In U.S. national defense/security, President Joe Biden's comments about Chinese Supreme Leader Xi Jinping have sparked controversy. Meanwhile, Romania is being considered to train Ukrainian pilots to fly F-16s, and the House panel has approved amendments to strengthen cybersecurity against China.

Political impact of the riots in France

The murder of a young man of Algerian descent has unleashed widespread violence in France, exposing deep divisions in the country's society. The government is facing a complex challenge to restore order and address underlying issues to prevent further escalation and polarization. The lasting political impact of the riots will depend on how long they persist. Advocates of stricter enforcement of police control could gain popular support, as an IFOP poll showed that the majority trust and sympathize with the police. The situation has also raised concerns about public safety, tourism and upcoming events such as the Rugby World Cup and the Paris Olympics. However, parallels cannot be drawn with the riots of 2005, as the events then were far more intense and caused more damage. The political landscape has since changed, with increased support for both the far right and the far left, making incendiary responses to the police and riots more likely.

In short, the new EU economic security strategy reflects the growing concern for economic security in a changing world. The proposed measures seek to balance relations with the United States and China while protecting the EU's commercial interests. However, its

implementation will face challenges, and the political future of the EU will depend on how international tensions and domestic situations, such as the riots in France, are managed. Today's global scenario is full of complexities and challenges across various sectors, and it will be crucial to find more collaborative and balanced solutions to address these issues and move towards a more secure and prosperous future.

Global debt

In the first quarter of 2023, global debt increased by 8.3 trillion dollars, reaching 305 trillion dollars, which represents 332% of worldwide GDP (eight-tenths less than at the end of 2022). Overall, this increase was led by the developed markets, whose debt rose by 5.1 trillion dollars, while that of emerging markets did so by 3.2 trillion dollars, a new record. As interest rate hikes by major central banks take hold, and despite slowing global growth, global debt levels remain stuck near their all-time highs and around 50 percentage points above 2008 levels. The growth of leverage, in the case of developed markets, has concentrated mainly on governments, and to a lesser extent on the financial sector (the opposite of what has taken place in emerging markets), followed by the household sector. This dynamic continues to weigh on the debt burden (with upward pressure from the renewal of interest rates), hindering productivity (mainly in economies with the highest debt ratios) and jeopardizing its sustainability (debt crisis risk), as monetary policy has yet to reach a turning point, with less liquidity and slower growth.

Economic policy

Along with inflation data, the monetary policy of the main central banks has helped to lengthen the tightening cycle. They have signaled a higher terminal interest rate than forecast just one month ago while

reiterating that it will remain high until financial stability targets are met, together with the additional factor of the ongoing balance sheet reduction. In addition, fears have dissipated regarding financial turmoil related to the banking sector and the potential effects of an additional tightening of financial conditions that could reverse the progress made to date. On the other hand, and despite the improved performance of the global economy, there are still clear signs of a slowdown, with some soft landings already in progress (a slight recession in the Eurozone has been confirmed) and others on the horizon (the U.S. economy is still expected to contract slightly by the end of this year or early 2024).

This dissonance between growth and inflation, partly prolonged by lags in the transmission of monetary policy, the stronger-than-anticipated labor markets in terms of employment (although purchasing power has decreased) and the cushioning role of fiscal policy, has allowed activity to expand at the cost of more resilient inflation. However, the tendency to continue using monetary levers to depress activity without assessing the accumulated delayed effects (beyond a pause to benefit regional banking in the United States) widens the gap in expectations, as shown by the deeply inverted yield curve, while positioning the balance of risks to the downside, driven by the possibility of generating a monetary overreaction. As the Federal Reserve and the central banks of the G-10 move into the restrictive realm of monetary policy in their attempt to contain inflation, they face the increasingly palpable dilemma of how much to erode demand and, with it, global growth, and what levels of inflation are consistent with medium- and long-term expectations. In this sense, while inflation rates are starting to move away from their peaks, the fragility in risk assets and alarm bells of a potential financial accident continue to accumulate side-by-side with a return to normalcy that is still out of balance due to lower production capacity that has not yet recovered, and demand depressors that have yet to show their impact.

Sovereign financial crisis in China

Early indicators of momentum from China's post-pandemic reopening have been showing more weakness than initially anticipated, suggesting that the recovery could be less intense and more uneven. The main catalysts continue to be consumption and the services sector, supported by accumulated savings and the normalization of depressed confidence levels. However, this reactivation of consumption is not maintaining the initial level of momentum, consumer confidence has not fully recovered its anticipated positive tone, and savings could remain above the pre-pandemic trend for a longer period of time, as shown by the country's most recent inflation data. Meanwhile, indicators for the manufacturing sector show that normalization has not taken place at all (contraction of the PMI in May for the second consecutive month), the result of slowing global demand (putting the brakes on Chinese exports) and the drag from the country's reduced presence in supply chains, which could take time to reverse. In turn, the tone of the real estate sector remains subdued in general, unable to sustain its recent stabilization (the figures for new housing-related loans have plummeted to their lowest level since 2013) and casting doubt on the effectiveness of the comprehensive plan launched to revitalize it. In this context, the second half of the year should see new stimulus packages, in terms of both economic policy (the PBOC lowered the inverse repo rates, opening the door to further easing measures) and fiscal or quasi-fiscal policy, aimed at reviving domestic demand and propping up the real estate market to avoid negative feedback in terms of confidence. While these measures would restore the traction lost since the momentum from the reopening, they would feed into balance sheet risk, given the already high leverage of the Chinese economy.

Climate change

Vulnerabilities associated with climate change continue to generate warnings, as the economic costs of extreme weather-related events spread across the globe in an interconnected way, with forecasts of "El Niño" as an example of an approaching weather event. The appearance of these anomalies has been impacting the market prices of basic products, such as wheat, coffee, sugar and cocoa futures, among others, by affecting crop yields, energy prices and the availability of water. In this context, the volatility around the supply chains and its transfer to prices may generate an additional shock to the normalization of inflation.

Inflation

Inflation data has continued to show a downward trend, with the positive moderation of raw materials, mainly in the energy sector, supply chains operating almost normally and the easing of demand for durable and manufacturing-intensive goods. Conversely, inflation in services continues to rise without showing an equivalent trend, and is more resistant to yielding than anticipated. This dynamic has been reflected in core inflation, with a series of less favorable tailwinds, increasing the likelihood of a longer duration and the possible support of salary increases triggered both by labor market friction and by the cumulative loss of purchasing power.

In certain developed markets, inflation's more linear dynamic is palpable as the weight of the service sector is greater (depending on the production structure), fiscal policy has remained expansive for a longer period of time, and the normalization of the monetary cycle, while intense, also occurred later. In emerging countries, however, the slowdown in inflation is more advanced, a result of greater dependence on raw material prices, a tighter fiscal policy, the

anticipated impact of lower global demand and a more preemptive counter-cyclical monetary policy.

All in all, the price trend is expected to continue showing signs of moderation, albeit at a slower pace than desirable, while avoiding second-round effects that de-anchor inflation expectations. The main deflationary drivers will continue to be raw materials and the different links in the supply chains (China's dynamics may be decisive on this point), although with a base effect that could diminish. Conversely, services could take longer and trigger a tighter and more prolonged monetary reaction to speed up the process of reaching the targeted price stability. As for structural factors (deglobalization and geopolitical tensions, instability and energy transition, imbalances in the labor markets and prominence of fiscal levers), although they have made progress towards a better risk balance, they continue to weigh as factors with the potential to trigger a shift towards a regime of sustained inflation.

Real estate market

The turbulence in the banking sector, combined with the environment of rising interest rates and declining potential to recover purchasing power, continues to weaken the appetite for the real estate sector from the perspective of both investors (with both the money and debt markets offering competitive returns) and consumers (whose demand for credit is waning amid tighter financial conditions). Consequently, valuation adjustment continues to be a risk in the main economies, although the process has been taking place at a moderate pace thus far.

This resilience continues to be most evident in the residential segment, where supply remains out of balance with demand, which is still relatively stable despite the widespread economic uncertainty, fears of a recession and tighter financing environment, given the

monetary adjustment still in progress. On the other hand, the commercial real estate sector is at risk of greater turbulence, due in part to occupancy losses since the pandemic, investment demand with a downward trend, and the concentration of risks on certain types of credit institutions that were exposed to recent episodes of financial volatility in the United States, with a certain propensity to focus on liquidity management. In short, the valuation adjustment cycle could become more abrupt and pronounced as the appetite for risk declines, access to financing tightens, and refinancing needs increase insolvencies, all contingent on a more restrictive interest rate environment and below-trend economic performance.

Energy markets

Fears of a global energy crisis have been subsiding throughout 2023 as pressure on energy-related raw materials has eased, with gas prices, especially in Europe, recovering levels prior to the Russian invasion and moving away from the highs seen in the second half of 2022³. This progress towards containing energy prices is mainly underpinned by the China's underwhelming post-COVID reopening (far less intense than initially expected), the disappearance of support measures of the governments most exposed to the energy crisis, acceleration of the energy transition and the deployment of a larger network of alternative energies that balance the energy mix. This is taking place as the outlook shifts towards weaker global demand, which the manufacturing sectors are starting to reflect (both in purchasing manager surveys and in the reduction observed in industrial producer prices). In contrast, on the supply side, the OPEC countries have been maintaining a policy of slight production cuts in order to achieve an improvement in price levels⁴. With this re-balancing, concerns about the energy markets are diminishing, allowing a less abrupt reorientation of energy business and providing more maneuvering room to manage the ongoing transition. However, given the global geopolitical landscape, the energy crisis is still far from over, further

price volatility events remain a risk, and the investment gap in alternative energy is still visible.

1.2 Forecasts and risk assessments in selected economies

1.2.1 United States

The credit crunch continues to point to a recession

The U.S. economy grew 1.6% YoY in the first quarter of 2023 (+0.3% QoQ, +1.3% QoQ annualized) and is in the process of slowing down. Despite this, consumption is stronger than anticipated a few months ago (0.9% QoQ), and the explanation lies in households' use of accumulated savings and consumer credit. Meanwhile, investment fell sharply, by 2.1% YoY (-11.5 QoQ annualized) as a result of the rise in financing costs and the tightening of credit conditions. Exports grew by 8.6% YoY, and imports dropped 1.8% YoY. Although *initial* unemployment claims rose in June to 264,000, continuing claims are still below their February peak. In fact, the Federal Reserve relies on the argument of a tight labor market to justify that there is room to continue raising interest rates.

The *Conference Board's* Leading Economic Index has stabilized in recent months (-7.9 in May), the decline in new building permits has moderated, and production in the manufacturing sector continues to fall (-1.2%). The consumer confidence indicator has improved to 63.9, as have expectations, to 68.0. In the real estate market, building permits are gaining ground after falling by one-third in 2022. Mortgage interest rates have risen from 3% in 2021 to more than 6% (6.1% at the end of June for variable rates and 6.6% for 30-year fixed rates). Therefore, commercial real estate is also a sector that will suffer due to higher refinancing costs and lower demand for space, which has significant

ramifications for mid-sized commercial banks. As for the future activity surveys, the PMIs (purchasing manager indexes) worsened slightly in their most recent measurement, with the composite at 53.0, manufacturing at 46.3 and services at 54.1 points; only the manufacturing index is in the contraction zone.

United States

- So far, the U.S. economy has performed better than expected.
- However, expectations have worsened with regard to the coming quarters.
- The tightening of financial conditions will cool down the economy to control inflation.

In short, although 2023 has exceeded expectations so far, it is foreseeable that financial tightening and its implications for the availability of credit will impact activity levels in the second half of the year, with quarter-on-quarter contractions leading to the expected recession in the fourth quarter. This recession may or may not be accompanied by further events in the U.S. banking sector, in commercial real estate, or more abrupt credit restrictions, aspects that the Federal Reserve has promised to monitor closely. Thus, in the baseline scenario considered in this report, GDP growth is expected to reach 1.3% in 2023 and 0.5% in 2024 (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b).

Regarding inflation, the CPI stood at 4.0% in May (4.9% in April), with core inflation falling two tenths to 5.3%, a slow decline that gives the Federal Reserve reasons to maintain its tight monetary stance. By components: food at home rose 6.7%; food at restaurants was up 8.3%; automotive fuels dropped 20%, and electricity rose 5.9%.

At its June meeting, the Federal Reserve did not raise interest rates, holding them at 5.25% (high band), considering that inflation is easing slowly, especially core inflation. Therefore, further rate hikes are expected, but it has not committed to dates, since it wants to

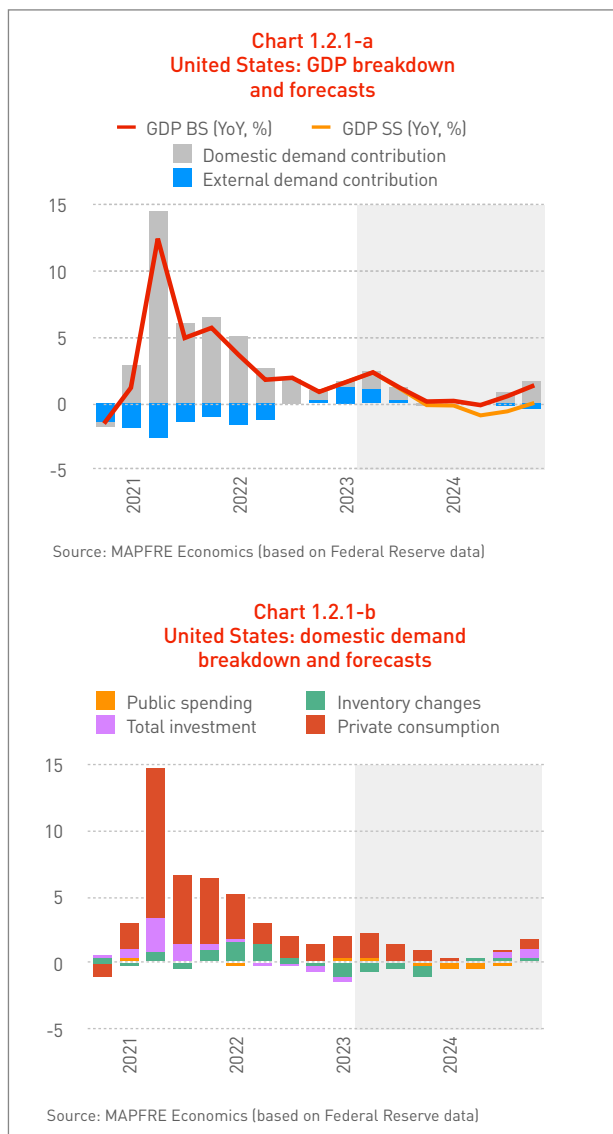
Table 1.2.1

United States: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline [BS]		Stressed [SS]	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	2.9	2.3	-2.8	5.9	2.1	1.3	0.5	1.2	-0.4
Domestic demand contribution	3.3	2.4	-2.7	7.3	2.5	0.7	0.6	0.6	-0.7
External demand contribution	-0.4	-0.1	-0.2	-1.7	-0.6	0.6	-0.1	0.6	0.3
Private consumption contribution	2.0	1.4	-2.1	5.7	1.9	1.3	0.3	1.3	-0.3
Total investment contribution	1.0	0.6	-0.3	1.2	-0.1	-0.1	0.3	-0.1	-0.2
Public spending contribution	0.2	0.5	0.3	0.2	0.0	0.2	-0.3	0.2	-0.3
Private consumption (% YoY)	2.9	2.0	-3.0	8.3	2.7	1.9	0.4	1.8	-0.5
Public spending (% YoY)	1.2	3.4	2.2	1.3	-0.2	1.5	-1.9	1.5	-1.9
Total investment (% YoY)	4.7	2.6	-1.2	5.7	-0.5	-0.3	1.3	-0.4	-1.2
Exports (% YoY)	2.8	0.5	-13.2	6.1	7.1	1.2	3.1	1.1	2.3
Imports (% YoY)	4.2	1.1	-9.0	14.1	8.1	-2.5	2.9	-2.6	1.8
Unemployment rate (% last quarter)	3.8	3.6	6.8	4.2	3.6	4.6	5.2	4.6	5.5
Inflation (% YoY, average)	2.4	1.8	1.3	4.7	8.0	4.1	2.9	4.5	3.2
Inflation (% YoY, last quarter)	2.2	2.0	1.2	6.8	7.1	3.5	2.4	3.7	2.5
Fiscal balance (% of GDP)	-6.0	-6.6	-14.8	-12.0	-4.5	-6.7	-6.3	-6.8	-6.7
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)	-2.1	-2.1	-2.9	-3.6	-3.7	-3.0	-3.0	-3.0	-2.9
Official interest rate (end of period)	2.50	1.75	0.25	0.25	4.50	5.50	4.25	5.75	4.50
3-month interest rate (end of period)	2.81	1.91	0.24	0.21	4.77	5.53	4.19	5.29	3.25
10-year interest rate (end of period)	2.69	1.92	0.93	1.52	3.88	3.28	2.81	2.83	2.41
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)	1.15	1.12	1.23	1.13	1.07	1.12	1.18	1.08	1.10
Private lending (% YoY, average)	4.7	5.0	6.3	14.8	2.1	-3.5	2.0	-3.6	0.9
Household lending (% YoY, average)	3.5	3.0	3.4	6.5	6.9	4.1	5.4	3.9	3.3
P.S. non-financial lending (% YoY, average)	9.1	6.6	8.8	3.2	9.4	6.0	2.4	6.0	2.2
P.S. financial lending (% YoY, average)	1.9	2.4	6.8	4.3	10.0	4.4	1.0	4.4	1.0
Savings rate (% pers. disp. income, avg.)	7.6	8.8	16.8	11.9	3.5	4.4	6.2	4.5	7.1

Source: MAPFRE Economics (based on Federal Reserve data)
Forecast end date: July 5, 2023.

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observe the effects of previous increases first. The more demanding credit conditions for households and companies could weigh on economic activity, employment and inflation. It should be noted that there is a lag between monetary policy and its impact on the availability and cost of credit (transmission of monetary policy). Therefore, the Federal Reserve wants to avoid tightening conditions too much, as this could have major implications for the financial system's stability.

The main short-term risk for the U.S. economy is the potential error in monetary policy. It is difficult to estimate the extent to which monetary tightening will result in a credit crunch for the economy, and the extent to which it could lead to a risk for the financial system. At the corporate level, many businesses created over the past 20 years (including those in the commercial real estate rental sector) have relied on low interest rates to be profitable. With higher interest rates, some contracts are no longer profitable, and commercial real estate sales are therefore being observed at great discounts. The higher cost of borrowing will affect rents, mortgages, business investment, car rentals, and the working capital of companies and businesses, to name just a few. Inflation will also cause a drop in consumption, although for now consumers are relying on savings and consumer credit to absorb the impact.

1.2.2 Eurozone

Monetary restriction deepens to control inflation.

The Eurozone's economy has shrunk by 0.1% QoQ for two consecutive quarters (+1.0% YoY), and although it is marginal, this officially places it in a recession. This situation has been caused mainly by Germany, which is suffering from high inflation and has also contracted for two consecutive quarters. Domestic demand in the Eurozone has contracted by 0.8% QoQ, while investment is growing weakly (+0.6% QoQ), and exports are down slightly (-0.1% QoQ).

The purchasing managers' indexes (PMIs) for June worsened, especially in the manufacturing sector, which fell to 43.6 points, while the composite stood at 50.3, and services at 52.4. Industrial production is declining in several sectors, especially in the energy and durable consumer goods sector. Thus, the industry survey anticipates a contraction in total orders (-9.4%) and in export orders (-12.3%).

The leading indicator index has been worsening for months, especially in terms of the (inverted) yield curve and the drop in building permits. Consumer confidence remains negative (-16.1), while car sales are one of the few positive points (with 20% growth), as the sector continues to meet pent-up demand following the bottlenecks in production lines and the semiconductor crisis, which had delayed deliveries.

Although Germany has entered a recession, in the Eurozone as a whole, there are still several countries with acceptable growth, with expanding tourism and services. Indeed, the Southern European countries will benefit from aid from the recovery and growth plan and the plan to promote renewable energy (NextGenEU). Thus, the estimate for GDP growth stands at 0.6% in 2023 and 1.0% in 2024 (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b).

For its part, aggregate inflation in the Eurozone stood at 5.5% YoY in June, dropping from 6.1% in May. Core inflation, on the other hand, increased one tenth of a point to 5.4% YoY. Food prices were still the

Eurozone

- Impacted by the performance of the German economy, the Eurozone has officially entered a recession.
- The Eurozone's leading indicators point to a cooling off in the coming quarters, especially in industry.
- The ECB recognizes that inflation remains high, and its restrictive monetary policy must be maintained.

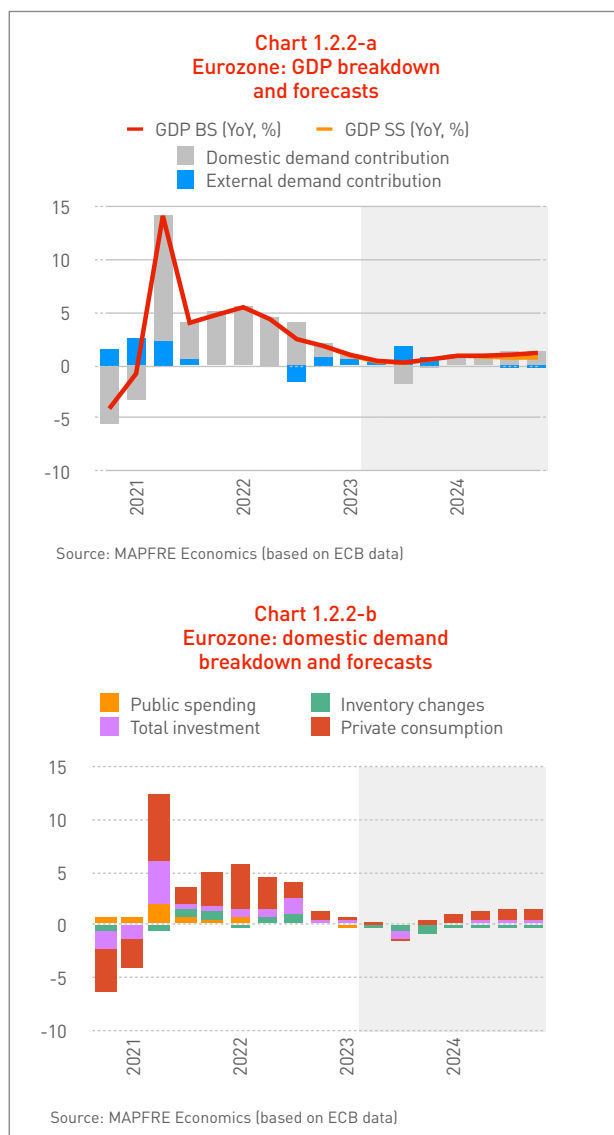
Table 1.2.2

Eurozone: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	1.8	1.6	-6.2	5.3	3.5	0.6	1.0	0.5	0.8
Domestic demand contribution	1.7	2.4	-5.7	4.0	3.8	-0.4	1.1	-0.4	0.8
External demand contribution	0.0	-0.8	-0.6	1.3	-0.2	0.8	-0.1	0.9	0.0
Private consumption contribution	0.8	0.7	-4.2	2.0	2.3	0.2	0.9	0.2	0.7
Total investment contribution	0.6	1.4	-1.4	0.9	0.8	-0.1	0.2	-0.1	0.1
Public spending contribution	0.2	0.4	0.2	0.9	0.3	-0.1	0.2	-0.1	0.2
Private consumption (% YoY)	1.5	1.4	-7.8	3.7	4.5	0.3	1.7	0.3	1.4
Public spending (% YoY)	1.0	1.7	1.0	4.3	1.4	-0.4	0.9	-0.4	0.9
Total investment (% YoY)	3.2	6.7	-6.5	4.0	3.8	-0.3	1.0	-0.3	0.4
Exports (% YoY)	3.6	2.9	-9.3	10.6	7.4	1.2	2.0	1.3	1.9
Imports (% YoY)	3.8	4.9	-8.8	8.3	8.4	-0.4	2.5	-0.4	2.1
Unemployment rate (% , last quarter)	7.9	7.5	8.3	7.1	6.7	6.7	6.9	6.7	7.0
Inflation (% YoY, average)	1.8	1.2	0.3	2.6	8.4	5.0	1.0	5.2	1.2
Inflation (% YoY, last quarter)	1.9	1.0	-0.3	4.6	10.0	2.0	0.7	2.4	0.7
Fiscal balance (% of GDP)	-0.4	-0.6	-7.1	-5.3	-3.6	-3.3	-2.8	-3.3	-2.8
Primary fiscal balance (% of GDP)	1.4	1.0	-5.5	-3.9	-1.9	-1.5	-0.9	-1.5	-0.9
Current account balance (% of GDP)	2.9	2.3	1.6	2.3	-1.1	2.2	2.0	2.2	2.2
Official interest rate (end of period)	0.00	0.00	0.00	0.00	2.50	4.50	3.25	4.75	3.50
3-month interest rate (end of period)	-0.31	-0.38	-0.55	-0.57	2.13	3.73	1.61	3.67	1.62
10-year interest rate (end of period)	1.17	0.32	-0.19	0.32	3.39	2.69	2.46	2.59	2.33
Exchange rate vs. U.S. dollar (end of period)	1.15	1.12	1.23	1.13	1.07	1.12	1.18	1.08	1.10
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)	2.4	3.4	3.0	3.9	4.1	1.9	4.4	1.8	3.6
P.S. non-financial lending (% YoY, average)	2.3	2.0	2.9	3.1	5.8	1.8	1.6	1.8	1.4
P.S. financial lending (% YoY, average)	-0.4	2.5	-0.9	-0.1	7.2	-0.2	1.4	-0.2	1.3
Savings rate (% pers. disp. income, avg.)	12.5	13.2	19.8	17.9	14.0	13.3	13.3	13.3	13.5

Source: MAPFRE Economics (based on ECB data)
Forecast end date: July 5, 2023.

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most worrisome item, rising nearly 14% (May), while airfares continued to show a marked increase (18%), and car prices went up 6.7%, with a trend that is leveling off.

At its June meeting, the European Central Bank (ECB) raised interest rates by 25 basis points (bps), leaving the main financing rates at 4.00% and deposit rates at 3.50%. The Council recognizes that inflation remains too high and considers it necessary to continue raising interest rates in order to reduce inflation to the 2% target. The indicators of core inflationary pressures remain high. The ECB believes that financing conditions have already begun to gradually affect the economy, while costs have risen sharply, and loan growth is running out of steam. The ECB's future decisions on interest rates will be made according to the inflation outlook, core inflation, new economic data and the intensity of the transmission of monetary policy (the latter is already intense, according to the most recent data).

The ECB intends to hold interest rates higher over a longer period of time. It remains to be seen whether this position can be maintained without wreaking too much havoc on the economy (unemployment, recession, destruction of companies) or the financial system (default rate, effect of the inverted curve). As for the asset purchase programs (APP and PEPP), the ECB will end reinvestments under the APP in July and continue to reinvest under the PEPP until at least the end of 2024. It will periodically evaluate measures for credit institutions. Additionally, the Transmission Protection Instrument is available to counteract unjustified and disorderly market dynamics. All these measures constitute a significant reduction in liquidity to the system, which will surely moderate inflation, but the cost in terms of an economic contraction, with all its ramifications, remains to be seen. Fine-tuning the credit crunch to control inflation is essential to avoid a monetary policy error.

Short-term risks for the real economy and the financial sector in the Eurozone are on the rise. As financial conditions tighten, household disposable income and the borrowing capacity of companies decrease. Households, in particular, are affected by higher monthly mortgage payments, which reduces their ability to spend on other goods and services. Meanwhile, for companies, this results in higher interest expenses and more expensive refinancing. This situation has significant ramifications for investment in the productive sectors, including the construction and real estate sectors. For example, in Germany, construction is already facing a 20% slowdown (construction orders), while residential construction fell 32% in 2022. In terms of financial risk, there is apparent calm, because the banks largely continue to operate without “deposit wars,” and the ECB is maintaining moderate speed as it undoes the “pandemic liquidity measures.” The ECB has attempted to reassure the markets by making it clear that it will always provide the necessary liquidity.

As for other non-financial risks, uncertainty persists about future energy prices, especially where fossil fuels are concerned, since the push towards renewable energies is generating underinvestment in this sector. The reduction of nuclear power in Europe, with the exception of France, will test the ability of renewables to replace fossil fuels. There is a risk of relocation of energy-intensive industries out of Europe. The destruction of the Nordstream 1 and 2 gas pipelines in September of last year will condition energy costs in Europe for many years to come.

1.2.3 Spain

Stronger economic performance in 2023 and impacts from the credit crunch in 2024.

In the first quarter of 2023, the Spanish economy performed better than expected a few months ago, growing 3.8% YoY (0.5% QoQ). Exports

are surprisingly positive, and the tourism component is very strong, with the potential to exceed 2019 levels this year. Private consumption is weaker due to the loss of purchasing power from the inflation effect, except in relation to car sales, which are recovering from their inventory shortage problems. Public consumption is evolving according to the forecast fiscal spending and different EU funds. Meanwhile, investment is slowing down, especially in the real estate and construction markets, given the tightening of financial conditions.

Spain

- So far in 2023, the Spanish economy has performed better than anticipated.
- Inflation stands below 2% due to the base effect and fuel aid.
- The credit crunch and rise in the Euribor will gradually impact dynamism in the economy.

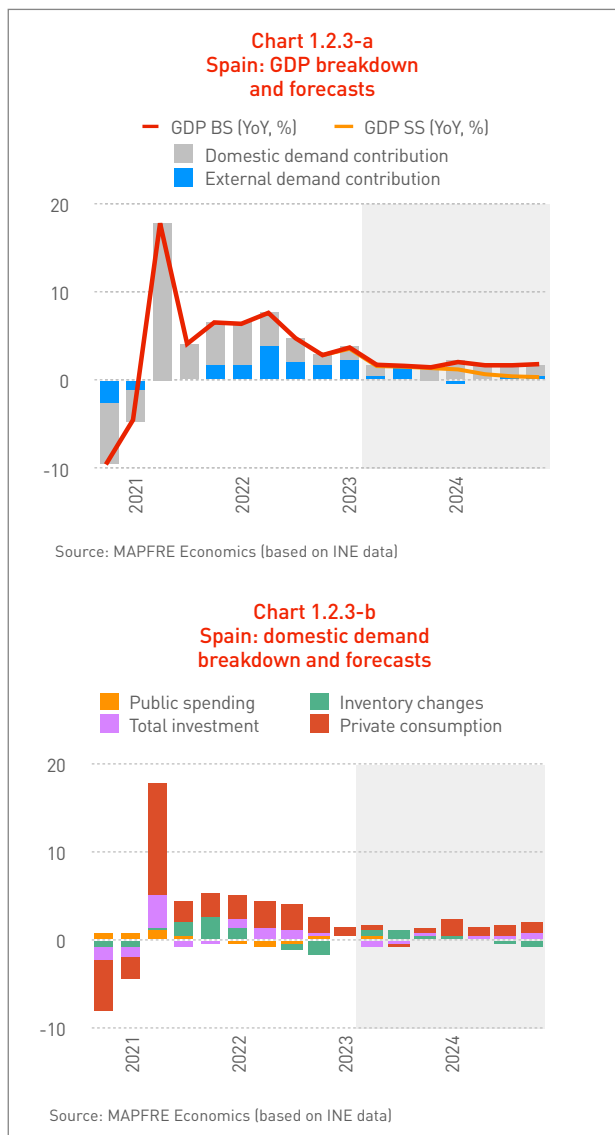
The purchasing managers' indexes (PMIs) for June were positive, except for manufacturing, which stood at 48.0 points, while services came in at 53.4. The leading indicator index has stabilized, while the consumer confidence indicator remains negative (-21.2). Retail sales have grown since last year (+6.5% YoY), although they contracted in April (-0.6% MoM). The European Commission's economic sentiment indicator (100.5) is below 2019 levels, and the retail sector survey is positive, but slowing down, with rising prices still expected. Similarly, car sales are recovering (+8.3% YoY).

Looking ahead to the rest of the year, and with indications that the economy performed well in the second quarter, growth is expected to be stronger than anticipated a few months ago. Prospects have improved thanks to the moderation of energy costs, a tourism sector that will recover and surpass its performance in 2019, and the normalization of the bottlenecks that impacted the previous year, especially in the automotive sector. Thus, the growth forecast for

Spanish GDP stands at 2.2% in 2023, with strong exports and reasonably high private consumption, given high inflation, financial tightening, and public consumption benefiting from the entry of European funds and still-expansive fiscal policy. In 2024, however, the economy is forecast to grow 1.9% (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b).

Meanwhile, inflation reached 1.9% in June (preliminary data), a positive figure (3.2% in May), but the result of falling energy prices (-10.5%), while food (12.0%), household goods (5.8%) and other items continue to climb. Core inflation remains uncomfortably high (6.1%), although it has eased. Producer prices fell 4.5%, which bodes well for inflation in the coming months. Companies made it through 2022 with salary moderation, while in 2023 renegotiations are already underway to recover the purchasing power of workers. Thus, inflation will be lower than expected in 2023, but it should be more resilient in 2024. This is due, on the one hand, to a possible rise in energy prices (partly a result of OPEC's strategy), and on the other, to the end of the temporary aid activated to minimize the impact of price increases.

Short-term risks for the Spanish economy are rooted in the lag in the effects of financial tightening and what this implies for the economy in terms of a credit crunch for consumption and investment purposes. In fact, a significant decrease is already being observed in the granting of mortgages (new mortgages fell 18% in the first four months and 26.7% YoY in April). This can also be seen in corporate loans, since, in Europe in general, the financing of companies is still largely brokered by the banking sector (to a much greater extent than in the United States). Additionally, the higher cost of public financing will reduce public consumption, although in this case, it will be offset by the inflow of EU funds. Furthermore, uncertainty persists regarding energy costs in the medium term.



**Table 1.2.3
Spain: main macroeconomic aggregates**

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	2.3	2.0	-11.3	5.5	5.5	2.2	1.9	2.1	0.8
Domestic demand contribution	2.9	1.6	-9.1	5.2	3.1	1.1	1.6	1.1	1.1
External demand contribution	-0.6	0.4	-2.3	0.3	2.3	1.1	0.3	1.0	-0.3
Private consumption contribution	1.0	0.6	-7.0	3.4	2.5	0.5	1.2	0.5	0.9
Total investment contribution	1.2	0.9	-1.9	0.2	0.9	-0.1	0.3	-0.1	0.2
Public spending contribution	0.4	0.4	0.7	0.6	-0.1	0.2	0.2	0.2	0.2
Private consumption (% YoY)	1.7	1.1	-12.2	6.0	4.4	0.8	2.1	0.8	1.5
Public spending (% YoY)	2.3	1.9	3.5	2.9	-0.7	1.2	1.1	1.2	1.1
Total investment (% YoY)	6.3	4.5	-9.7	0.9	4.6	-0.8	1.8	-0.8	0.9
Exports (% YoY)	1.7	2.2	-19.9	14.4	14.4	4.5	0.4	4.6	0.5
Imports (% YoY)	3.9	1.3	-14.9	13.9	7.9	1.7	1.9	1.7	1.5
Unemployment rate (% , last quarter)	14.5	13.8	16.1	13.3	12.9	12.7	13.0	12.7	13.3
Inflation (% YoY, average)	1.7	0.7	-0.3	3.1	8.4	3.4	2.5	3.9	2.8
Inflation (% YoY, last quarter)	1.7	0.4	-0.7	5.8	6.6	3.2	2.3	3.7	2.5
Fiscal balance (% of GDP)	-2.6	-3.1	-10.1	-6.9	-4.8	-4.3	-3.1	-4.3	-3.3
Primary fiscal balance (% of GDP)	-0.2	-0.8	-7.8	-4.7	-2.4	-1.6	-0.4	-1.6	-0.6
Current account balance (% of GDP)	1.9	2.1	0.6	0.9	0.5	2.4	1.7	2.4	2.1
Official interest rate (end of period)	0.00	0.00	0.00	0.00	2.50	4.50	3.25	4.75	3.50
3-month interest rate (end of period)	-0.31	-0.38	-0.55	-0.57	2.13	3.73	1.61	3.67	1.62
10-year interest rate (end of period)	1.42	0.47	0.06	0.60	3.66	3.11	2.95	3.04	2.83
Exchange rate vs. U.S. dollar (end of period)	1.15	1.12	1.23	1.13	1.07	1.12	1.18	1.08	1.10
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)	-0.3	-0.2	-1.0	0.1	0.5	0.8	2.3	0.8	1.8
P.S. non-financial lending (% YoY, average)	-1.9	0.0	2.0	3.4	2.1	2.1	2.1	2.2	1.3
P.S. financial lending (% YoY, average)	6.5	6.5	3.2	-0.8	-12.2	-2.7	1.9	-2.7	1.8
Savings rate (% pers. disp. income, avg.)	5.6	8.2	17.8	13.8	7.1	7.3	7.1	7.3	7.5

Source: MAPFRE Economics (based on INE data)
Forecast end date: July 5, 2023.

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1.2.4 Germany

The economy has entered a recession, and expectation surveys point to further contractions.

The German economy entered a recession in the first quarter of 2023, after two consecutive quarters of decline, with a 0.5% YoY decrease (-0.3% QoQ). Very high inflation and tightening interest rates have taken their toll on consumption (-1.2% QoQ), weak exports (+0.4% QoQ) and government spending (-4.9% QoQ with the end of aid). Thus, domestic demand dropped 1%. Based on data from the past few months, factory orders in the aggregate are down 10% from 2022, while the volume of construction activity has fallen by around 20% from 2021 levels, with a 28% decrease in residential construction. More expensive energy and financing are affecting industrial activity levels, even though energy prices have fallen recently. However, uncertainty over future energy prices is influencing industrial planning. Similarly, automobile production has fallen by almost half in the last four years due to the relocation trend.

The IFO business confidence index (expectations) has fallen to 83.6 (from 88.3), with many sectors expecting significant contractions in business volume. The index for business expectations has also dropped significantly, from 88 to 83.6. Additionally, the purchasing managers' indexes (PMIs) for June worsened, with the composite at 50.8 (from

Germany

- **The German economy has entered a recession.**
- **Factory orders are 10% lower than those registered in 2022.**
- **The construction sector is down 20%, and residential real estate has dropped 28%.**
- **More expensive financing and energy are taking their toll on industry.**

53.9), services at 54.1 (from 57.2) and manufacturing at 41.0 points (from 43.2). Retail sales (-5.1% in May) are falling in almost all categories, following a sustained downward trend due to the cooling off (via more severe financing conditions) pursued by the ECB to combat inflation. The sole exception were car sales, possibly due to pent-up demand from previous years. Similarly, consumer confidence remains very negative (-24.2 in June).

Meanwhile, inflation is already falling, although it remains at high levels (6.1% in May). Food was the category with the sharpest increase (+14.5%), followed by hotels and restaurants (+9.3%). Harmonized inflation is at 6.3%. In the coming quarters, the recession, which initially affected manufacturing above all, is expected to begin impacting consumption (lower retail sales) and could expand into a demand recession. Due to the aforementioned factors, in our baseline scenario, German GDP is expected to shrink 0.3% in 2023, with a recovery (+1.0%) in 2024 (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b).

Short-term risks for the German economy are centered around energy costs. Although they have fallen, it is difficult to predict how they will behave in the coming months. The energy transition will surely influence the production mix and therefore the cost of electricity. In the future, companies will have to plan their costs carefully, and this is causing industries to relocate, especially those with high energy consumption. The manufacturing recession will likely be replaced by a demand recession, as financial tightening and the loss of purchasing power of salaries take their toll. Latent financial risks for banks remain due to the increase in the cost of financing and the rise in default rates, which tend to increase during recessions.

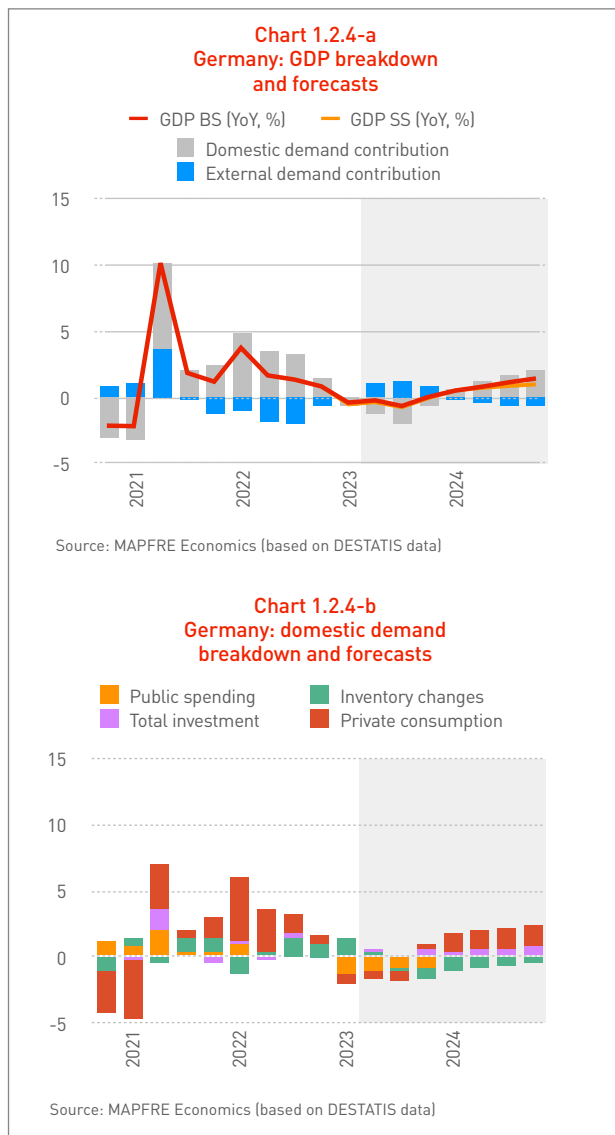


Table 1.2.4
Germany: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	1.0	1.1	-4.1	2.6	1.9	-0.3	1.0	-0.4	0.8
Domestic demand contribution	1.6	1.7	-3.1	1.9	3.2	-1.1	1.4	-1.1	1.1
External demand contribution	-0.5	-0.6	-1.0	0.7	-1.3	0.8	-0.4	0.7	-0.3
Private consumption contribution	0.8	0.9	-3.1	0.2	2.5	-0.5	1.6	-0.5	1.4
Total investment contribution	0.7	0.4	-0.6	0.2	0.1	0.2	0.4	0.2	0.3
Public spending contribution	0.2	0.5	0.8	0.8	0.3	-1.0	0.2	-1.0	0.2
Private consumption (% YoY)	1.5	1.7	-5.9	0.4	4.9	-0.9	3.0	-1.0	2.7
Public spending (% YoY)	0.8	2.6	4.0	3.8	1.2	-4.6	0.8	-4.6	0.8
Total investment (% YoY)	3.4	2.0	-3.0	1.0	0.5	1.0	2.0	1.0	1.5
Exports (% YoY)	2.4	1.3	-10.1	9.5	3.5	1.0	2.2	1.0	2.0
Imports (% YoY)	4.1	2.9	-9.1	8.9	7.0	-0.3	3.3	-0.4	3.0
Unemployment rate (% last quarter)	5.0	5.0	6.1	5.3	5.5	5.5	5.4	5.5	5.5
Inflation (% YoY, average)	1.8	1.4	0.6	3.0	6.9	5.5	1.7	5.2	1.2
Inflation (% YoY, last quarter)	2.0	1.2	-0.1	4.7	8.6	2.1	1.9	2.0	1.3
Fiscal balance (% of GDP)	1.9	1.5	-4.3	-3.7	-2.7	-2.3	-2.0	-2.3	-1.9
Primary fiscal balance (% of GDP)	2.8	2.3	-3.7	-3.1	-1.9	-1.5	-1.2	-1.5	-1.1
Current account balance (% of GDP)	8.1	8.4	7.0	7.8	4.3	6.1	5.7	6.1	5.7
Official interest rate (end of period)	0.00	0.00	0.00	0.00	2.50	4.50	3.25	4.75	3.50
3-month interest rate (end of period)	-0.31	-0.38	-0.55	-0.57	2.13	3.73	1.61	3.67	1.62
10-year interest rate (end of period)	0.25	-0.19	-0.58	-0.18	2.57	2.03	1.83	1.86	1.70
Exchange rate vs. U.S. dollar (end of period)	1.15	1.12	1.23	1.13	1.07	1.12	1.18	1.08	1.10
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)	2.4	4.6	4.3	5.1	5.0	4.0	7.4	3.8	6.1
P.S. non-financial lending (% YoY, average)	9.1	4.7	4.5	3.7	7.7	5.2	3.5	5.2	3.5
P.S. financial lending (% YoY, average)	2.7	10.3	9.7	8.4	9.6	-0.5	2.0	-0.5	2.1
Savings rate (% pers. disp. income, avg.)	11.2	10.7	16.5	15.3	11.4	11.3	11.3	11.3	11.4

Source: MAPFRE Economics (based on DESTATIS data)
Forecast end date: July 5, 2023.

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1.2.5 Italy

The indicators anticipate some decline, especially in industry and exports.

Italy's GDP grew 1.9% YoY in the first quarter (+0.6% QoQ), which was stronger than expected a few months ago. Private and public consumption remain at very healthy levels (+0.5% QoQ and +1.1% QoQ, respectively) thanks to the fiscal push, due to both fiscal spending and the receipt of EU recovery funds, of which Italy has been the main beneficiary. In addition, investment grew by 0.8% QoQ, but exports (-1.4% QoQ) are already reflecting the lower demand from abroad.

Italy

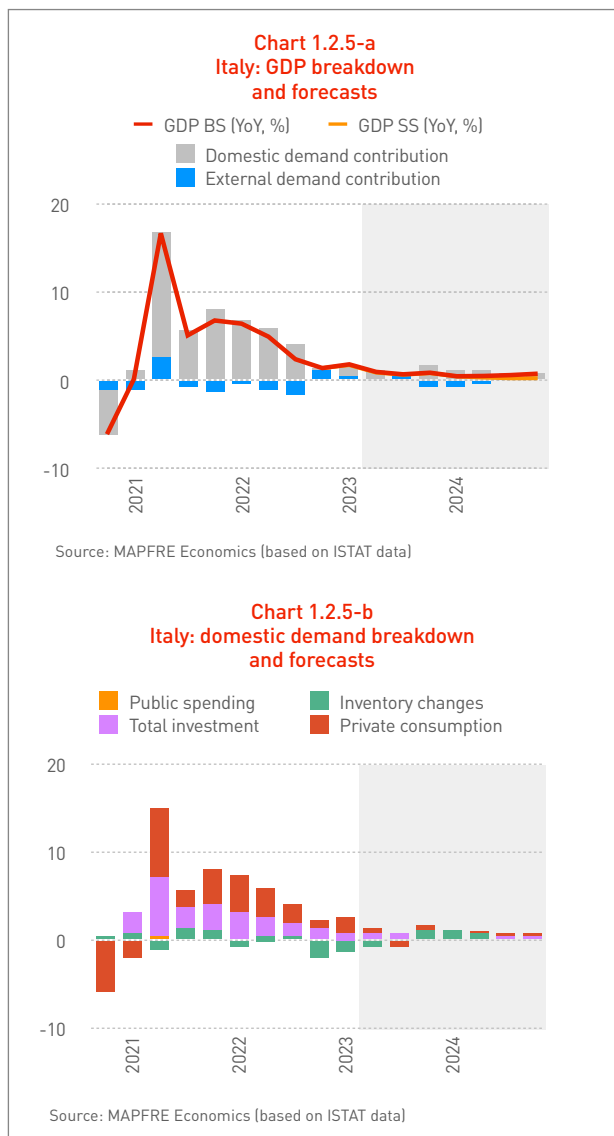
- Although the Italian economy performed better than expected in 2023, the leading indicators point to slow-down.
- The manufacturing and construction PMIs have entered contraction territory.
- Inflation is falling slowly, and core inflation remains quite high.

Industrial production fell significantly in April (-7.2% YoY) as a result of lower demand, higher production costs and higher financing. This real data has already been corroborated by the industry survey: factory orders for May at -11.7 (survey result) and export orders at -17.6 (survey result). While surveys point to an improvement in retail sales, the real data from recent months shows a contraction (-3.0% in April). Meanwhile, consumer confidence (105 points) seems to have peaked and is starting to decline, and car sales continue to recover from the 2021 semiconductor crisis. The June purchasing managers' indexes (PMIs) are in contraction territory, with the exception of services (52.2 points): manufacturing at 43.8, construction at 48.6 and composite at 49.7.

In the coming quarters, all contributions to GDP are expected to slow down except for public consumption, which will be supported by EU funds. Consumption, investment and exports will suffer due to higher prices and more restrictive financial conditions. In this context, and due to the lagged effects of financial tightening, economic growth is forecast to reach 1.2% in 2023 and 0.7% in 2024 (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b).

Meanwhile, inflation is already coming down, albeit slowly: It was 6.4% in June, with harmonized inflation of 6.7%, core inflation for goods of 7.6% and services 4.3%, while producer prices fell 6.8% YoY. Food has increased a further 11.2% and housing and household energy are up 10.1%, while transport is down 0.2%. Fuel has dropped 11.3%, while airfares have risen 11.4% from last year.

In terms of risks, there is noticeable calm in the banking sector, but financial tightening will end up being reflected in the default rate. Government bond yields are now above 4.0%, which will increase interest expenses in the budget. Additionally, the slowdown in exports and the recession in the Eurozone are already reflected in industrial production and factory orders. For now, with the inflow of EU funds and still-lax fiscal spending, the economy is maintaining some dynamism. It remains to be seen what will drive activity once the special post-pandemic measures expire, when the European Commission again demands fiscal balance.



**Table 1.2.5
Italy: main macroeconomic aggregates**

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023(f)	2024(f)	2023(f)	2024(f)
GDP (% YoY)	0.8	0.5	-9.0	7.0	3.8	1.2	0.7	1.1	0.4
Domestic demand contribution	1.1	-0.3	-8.2	7.0	4.3	0.9	0.9	0.8	0.5
External demand contribution	-0.3	0.7	-0.9	0.0	-0.5	0.3	-0.3	0.3	-0.1
Private consumption contribution	0.6	0.1	-6.3	2.8	2.7	0.6	0.2	0.5	0.0
Total investment contribution	0.5	0.2	-1.5	3.4	2.0	0.4	0.2	0.4	0.0
Public spending contribution	0.0	-0.1	0.0	0.3	0.0	0.2	-0.1	0.2	-0.1
Private consumption (% YoY)	1.0	0.2	-10.4	4.7	4.6	0.9	0.4	0.9	-0.1
Public spending (% YoY)	0.1	-0.6	0.0	1.5	0.0	1.0	-0.5	1.0	-0.5
Total investment (% YoY)	2.8	1.2	-8.0	18.6	9.7	2.0	0.8	2.0	0.1
Exports (% YoY)	1.6	1.8	-14.3	14.1	10.2	1.5	2.8	1.6	2.9
Imports (% YoY)	2.8	-0.5	-12.7	15.3	12.5	0.6	3.7	0.6	3.2
Unemployment rate (% , last quarter)	10.5	9.7	9.8	9.0	7.8	8.1	8.5	8.1	8.6
Inflation (% YoY, average)	1.1	0.6	-0.1	1.9	8.2	5.8	1.9	5.9	2.2
Inflation (% YoY, last quarter)	1.4	0.3	-0.2	3.5	11.7	1.0	1.8	1.2	1.9
Fiscal balance (% of GDP)	-2.2	-1.5	-9.7	-9.0	-8.0	-4.9	-3.4	-4.9	-3.3
Primary fiscal balance (% of GDP)	1.4	1.9	-6.2	-5.4	-3.6	-0.3	1.3	-0.2	1.3
Current account balance (% of GDP)	2.6	3.4	3.8	3.1	-1.2	2.4	1.4	2.4	1.8
Official interest rate (end of period)	0.00	0.00	0.00	0.00	2.50	4.50	3.25	4.75	3.50
3-month interest rate (end of period)	-0.31	-0.38	-0.55	-0.57	2.13	3.73	1.61	3.67	1.62
10-year interest rate (end of period)	2.77	1.43	0.52	1.19	4.72	3.89	3.77	3.82	3.62
Exchange rate vs. U.S. dollar (end of period)	1.15	1.12	1.23	1.13	1.07	1.12	1.18	1.08	1.10
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)	1.8	2.2	1.2	3.0	3.4	1.9	3.1	1.9	2.7
P.S. non-financial lending (% YoY, average)	-0.5	-0.7	3.3	0.1	2.0	2.1	2.4	2.1	1.6
P.S. financial lending (% YoY, average)	25.1	-5.8	-10.3	22.7	-5.0	-0.4	1.8	-0.3	1.7
Savings rate (% pers. disp. income, avg.)	9.6	9.5	17.0	14.7	9.7	8.4	9.2	8.4	9.7

Source: MAPFRE Economics (based on ISTAT data)
Forecast end date: July 5, 2023.

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1.2.6 United Kingdom

Inflation remains high, and financial tightening is increasing the risks.

The UK economy grew by 0.2% YoY (0.1% QoQ) in the first quarter of the year. Consumption is flat (0% QoQ), government spending is moderating (-2.5% QoQ), investment is still growing (1.3% QoQ), and exports and imports have fallen significantly (-8.1% and -7.2% QoQ, respectively). The fact that the British economy got off to a poor start in 2023 has been confirmed. High inflation and the tightening of financial conditions, both internally and externally, can only point to a continued slowdown. Consumption, government spending and investment are expected to swing between slightly positive and slightly negative. The purchasing managers indexes (PMIs) for June worsened, with manufacturing in the contraction zone. The composite stood at 52.8, services at 53.7, manufacturing at 46.2 and construction at 48.9 points. Consumer confidence (GfK) is recovering, although it remains negative (-24 in June). Furthermore, retail sales (-2.1%) have been contracting since April of last year. The contraction of imports is thus expected to surpass that of exports, which could allow a recession to be mathematically avoided. GDP is expected to grow around 0.4% in 2023, and given the challenges of controlling inflation and the expectation of

United Kingdom

- For now, the UK economy has escaped a recession.
- Amid inflation that remains high, the Bank of England will continue increasing interest rates.
- The rise in interest rates will have to be calibrated in order to avoid risks to the financial system.
- The manufacturing and construction PMIs point to a reduction in economic activity.

high rates for a longer period of time, it should do so by 0.7% in 2024 (see Table 1.2.6 and Charts 1.2.6-a and 1.2.6-b).

Inflation, for its part, reached 8.7% in May, the same value as in the previous month, showing that it is more entrenched than desired, with core inflation also persistent and rising to 7.1%. This, together with the tight labor market (unemployment at lows), led the Bank of England to implement a more aggressive rate tightening. Food prices remained high, rising 18.3%, home services increased 12.1%, transport rose less (+1.2%), but airfares continued to increase (+31.4%), and hotels and restaurants did so by 10.3%. Producer prices dropped slightly in May (-0.2% finished product prices), while input prices continued to rise in the aggregate (+0.5%) despite the sharp decline in petroleum products.

At its June meeting, the Bank of England raised interest rates by 50 bps to 5.00%, surprising the market, which expected only 25 bps. The decision was not unanimous: seven members voted in favor of the increase and two voted to leave them at 4.50%. The majority interpreted the latest inflation data, strong labor market, significantly revised salaries and still-strong retail demand as indicators of persistent inflation. The two members who voted against the increase recommended waiting to see the impact of the previous rate hikes, due to the lagged effects in the transmission of monetary policy. In their opinion, contrary to the data already published, forward indicators point to less pressure on wages and prices. In terms of forward guidance, the Bank of England has preferred not to commit, simply saying that it will keep a close eye on the data. The market has adjusted its expectations upwards to 6.0% by December before rates drop as of March 2024. We expect them to increase a bit less, to 5.75% by September, but this level should be held stable in 2024 before the first decreases in 2025.

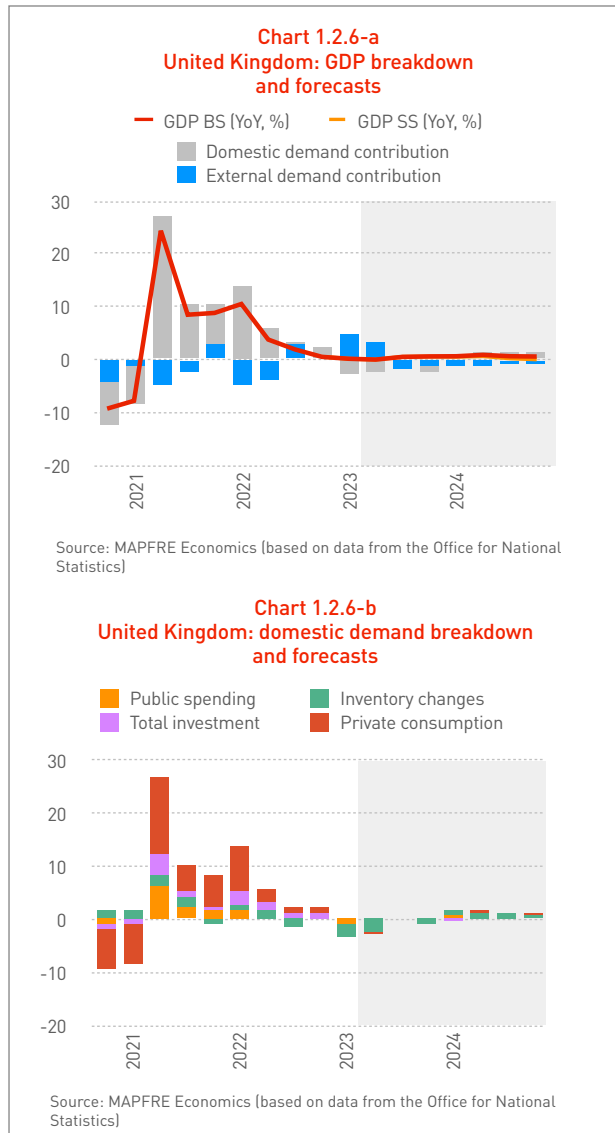


Table 1.2.6
United Kingdom: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	1.7	1.6	-11.0	7.6	4.1	0.4	0.7	0.4	0.4
Domestic demand contribution	0.8	1.8	-11.9	8.4	5.3	-1.4	1.2	-1.4	0.7
External demand contribution	-0.1	-0.3	1.5	-1.2	-1.2	1.2	-0.8	1.2	-0.7
Private consumption contribution	1.3	0.6	-8.0	3.8	3.2	0.0	0.3	-0.1	0.0
Total investment contribution	0.0	0.3	-1.9	1.1	1.5	0.0	-0.3	0.0	-0.4
Public spending contribution	0.1	0.8	-1.4	2.5	0.4	0.0	0.4	0.0	0.4
Private consumption (% YoY)	2.1	1.0	-12.9	6.3	5.3	-0.1	0.5	-0.1	-0.1
Public spending (% YoY)	0.3	4.1	-7.3	12.5	1.8	0.2	2.1	0.2	2.1
Total investment (% YoY)	-0.2	1.9	-10.5	6.1	8.6	-0.1	-1.3	-0.1	-1.9
Exports (% YoY)	3.1	1.7	-12.1	2.2	9.9	-3.1	2.1	-3.0	1.9
Imports (% YoY)	3.3	2.6	-16.0	6.2	13.3	-6.5	4.6	-6.6	4.0
Unemployment rate (% last quarter)	4.0	3.8	5.2	4.0	3.7	4.0	4.3	4.0	4.4
Inflation (% YoY, average)	2.5	1.8	0.9	2.6	9.1	7.8	3.0	8.0	3.3
Inflation (% YoY, last quarter)	2.3	1.4	0.6	4.9	10.8	4.4	2.6	4.7	2.9
Fiscal balance (% of GDP)	-2.2	-2.5	-13.1	-8.0	-5.2	-6.5	-6.1	-6.5	-6.0
Primary fiscal balance (% of GDP)	0.5	-0.1	-11.0	-5.2	-0.4	-1.4	-1.1	-1.4	-1.0
Current account balance (% of GDP)	-4.1	-2.8	-3.2	-1.5	-3.9	-2.7	-3.2	-2.7	-3.1
Official interest rate (end of period)	0.75	0.75	0.00	0.25	3.50	5.75	4.75	5.75	5.00
3-month interest rate (end of period)	0.91	0.79	0.03	0.26	3.87	5.27	5.19	5.21	4.96
10-year interest rate (end of period)	1.27	0.83	0.20	0.97	3.67	4.25	3.94	4.01	3.76
Exchange rate vs. U.S. dollar (end of period)	1.28	1.32	1.36	1.35	1.20	1.30	1.37	1.26	1.27
Exchange rate vs. euro (end of period)	1.11	1.18	1.11	1.19	1.13	1.17	1.16	1.17	1.16
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)	2.8	2.0	2.3	3.3	3.5	2.5	1.9	2.4	1.7
P.S. non-financial lending (% YoY, average)	2.1	1.2	9.4	1.2	1.5	2.9	2.9	2.9	2.9
P.S. financial lending (% YoY, average)	9.4	2.0	12.1	-1.3	12.2	1.5	3.7	1.5	3.8
Savings rate (% pers. disp. income, avg.)	5.1	5.4	15.9	12.6	8.5	7.8	6.8	7.8	7.3

Source: MAPFRE Economics (based on data from the Office for National Statistics)
 Forecast end date: July 5, 2023.

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The UK appears to be avoiding a recession, but many components have contracted. The fact that it has avoided a recession almost comes down to pure mathematics, thanks to a significant contraction in imports. With inflation showing few signs of easing and the central bank prepared to continue tightening financial conditions, the possibility of a monetary policy error that puts financial stability at risk is increasing. The United Kingdom already faced problems in September 2022 regarding liability management strategies in pension funds. After 20 years of very low interest rates, many investments are not prepared to withstand very high interest rates (such as those in the real estate sector, for example). Therefore, risks could materialize anywhere in the financial markets, commercial banking, real estate, or again in pensions. Managers will be adapting their strategies, anticipating higher interest rates for a longer period of time.

1.2.7 Japan

A weak economy due to global deceleration and currency devaluation.

The Japanese economy grew 1.8% YoY (+0.7% QoQ) in the first quarter of 2023, with strong private consumption (+2.7% YoY) and robust public and private non-residential investment. Conversely, residential investment is falling. Exports cooled off during the first quarter of the year, to +1% YoY (-15.9% QoQ). Meanwhile, automobile manufacturing is on the rise (+14.0%), a sign that supply chain problems have been overcome. The terms of trade have improved thanks to the decline in energy costs, and the current account balance is positive, at 1.6% of GDP.

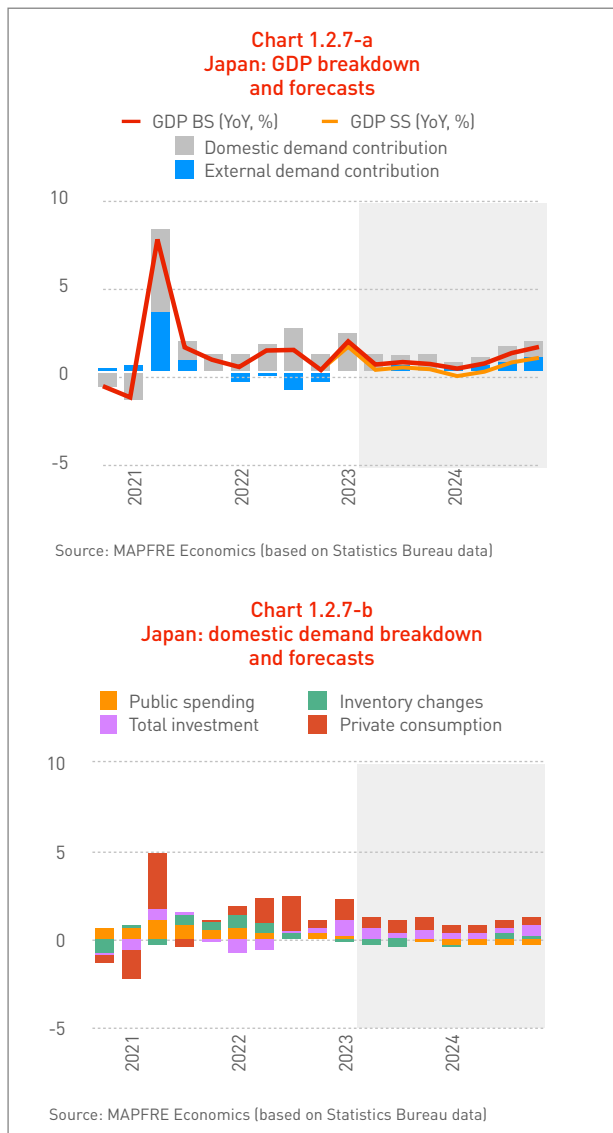
Retail sales continue to grow, rising 5.7% YoY in May (+1.3% MoM). Meanwhile, the leading indicator index has stabilized at around 97.0 (97.6 in April), its lowest level in the last two years (above 100).

Purchasing managers' indexes (PMIs) for June place manufacturing at 49.8 points, while services have dropped to 54.0 points. Going forward, consumption and investment are expected to grow, albeit gradually, while exports should show some weakness as the global economy cools off. The estimate for Japanese GDP growth stands at 1.1% in 2023 and 2024 (see Table 1.2.7 and Charts 1.2.7-a and 1.2.7-b).

Japan

- The Japanese economy is showing a cooling trend.
- The manufacturing and export sectors have been affected by the global economic slowdown.
- Inflation has stabilized, but at levels that remain high for Japan.

Meanwhile, inflation appears to have stabilized (3.2% in May) thanks to the reduction of fuel costs and the fact that producer prices are also moderating (+5.1%). However, core inflation is far from being under control (4.1% in April), reaching levels not seen since the 1980s. In this context, the Bank of Japan, at its June meeting, maintained interest rates at -0.10%. The central bank will continue to buy as many bonds as necessary (no limit has been set) to further control the interest rate curve and thus keep the yield on the 10-year bond close to zero, with a high fluctuation range between -0.50% and +0.50%. The Bank of Japan will also continue to buy ETFs (*exchange-traded funds*) and real estate funds up to 12 trillion yen and 180 trillion yen, respectively. Additionally, the central bank will continue acquiring commercial paper to maintain the portfolio at 2 trillion. For corporate bonds, it will continue buying in order to keep the portfolio at around its pre-pandemic level of 3 trillion yen. Japan's monetary policy is the most lax of the developed countries, with an expansion of the money supply (M2 has grown nearly 2.7%) thanks to the purchase of bonds to "control the curve."



**Table 1.2.7
Japan: main macroeconomic aggregates**

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	0.6	-0.4	-4.3	2.2	1.0	1.1	1.1	0.8	0.6
Domestic demand contribution	0.6	0.1	-3.5	1.2	1.6	1.2	0.6	1.2	0.7
External demand contribution	0.0	-0.5	-0.9	1.1	-0.5	0.1	0.5	-0.4	-0.1
Private consumption contribution	0.1	-0.3	-2.6	0.2	1.1	0.9	0.5	0.9	0.5
Total investment contribution	0.1	0.1	-0.9	0.0	-0.3	0.6	0.4	0.6	0.3
Public spending contribution	0.2	0.4	0.5	0.7	0.3	0.0	-0.2	0.0	-0.2
Private consumption (% YoY)	0.2	-0.6	-4.7	0.4	2.0	1.6	0.8	1.6	0.9
Public spending (% YoY)	1.0	1.9	2.4	3.5	1.5	0.1	-1.1	0.1	-1.1
Total investment (% YoY)	0.6	0.5	-3.7	0.1	-1.0	2.3	1.5	2.3	1.4
Exports (% YoY)	3.8	-1.4	-11.7	12.0	5.1	-0.6	1.5	-0.6	0.9
Imports (% YoY)	3.8	1.1	-6.8	5.1	8.0	1.8	1.2	1.8	1.2
Unemployment rate (% last quarter)	2.4	2.3	3.0	2.7	2.5	2.5	2.3	2.5	2.4
Inflation (% YoY, average)	1.0	0.5	0.0	-0.2	2.5	2.8	1.0	3.0	1.1
Inflation (% YoY, last quarter)	0.9	0.5	-0.9	0.5	3.9	1.6	0.6	1.6	0.7
Fiscal balance (% of GDP)	-2.5	-3.0	-9.0	-6.2	-6.2	-5.6	-4.5	-5.6	-4.5
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)	3.5	3.4	2.9	3.9	2.0	1.9	2.1	2.0	2.5
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	0.08	0.07	0.06	0.09	0.22	0.07	0.12
10-year interest rate (end of period)	0.01	-0.02	0.04	0.09	0.45	0.46	0.51	0.31	0.36
Exchange rate vs. U.S. dollar (end of period)	110.83	109.12	103.54	115.00	132.65	135.36	126.46	132.25	124.78
Exchange rate vs. euro (end of period)	126.90	122.59	127.05	130.25	141.48	151.26	149.13	142.23	136.88
Private lending (% YoY, average)	2.6	1.8	5.2	3.1	2.8	4.4	-0.2	4.3	-0.4
Household lending (% YoY, average)	2.5	2.2	3.1	3.6	1.7	1.0	0.0	0.9	-0.6
P.S. non-financial lending (% YoY, average)	2.4	3.6	7.9	3.2	2.5	0.9	-1.6	0.9	-1.6
P.S. financial lending (% YoY, average)	6.3	2.9	17.1	7.3	7.4	-2.6	3.8	-2.6	3.8
Savings rate (% pers. disp. income, avg.)	1.8	3.3	11.4	7.8	5.2	1.6	1.3	1.6	1.6

Source: MAPFRE Economics (based on Statistics Bureau data)
Forecast end date: July 5, 2023.

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One of the main short-term risks for the Japanese economy still lies in the continued depreciation of the yen. After a few months of relief, the pressure on the exchange rate has returned, given the ultra-lax monetary policy, with monetary expansion, as opposed to the dynamic in the United States and Europe. The Central Bank balance sheet will reach 130% of the GDP. Inflation is at unusual levels for Japan because of import prices, due in part to currency depreciation. This should keep raw material costs high, while the deceleration of Western countries will shrink its exports.

1.2.8 Turkey

Signs that the government will steer the economy carefully to avoid accumulated risks.

The Turkish economy grew 4.0% on a non-seasonally adjusted basis (+3.8% when seasonally adjusted) in the first quarter of the year (+0.3% QoQ when seasonally adjusted). Consumption was strong, growing 16.1%, but exports performed poorly, shrinking 0.3% YoY, and imports rose 14.4%. Currency depreciation has influenced the deterioration of the terms of trade, especially in fuel imports.

The re-election of Recep Tayyip Erdoğan for a third term appears to be a vote of confidence from the population for unconventional economic policies, as evidenced by their impact on inflation and currency depreciation. The cycle of low interest rates and the consequent depreciation of the currency has worsened the current account balance and points to future challenges. Mehmet Şimşek, a government official with extensive experience in previous Erdoğan mandates, having guided the post-crisis economic recovery in 2008, has been appointed as minister of Treasury and Finance. In his first statements, Şimşek acknowledged the need to return to “more rational policies” and promote fiscal discipline, supporting the central bank’s efforts to reduce inflation. This posture, supported by Vice President Cevdet Yılmaz, also known for his

more conventional views, has led the market to trust in that commitment and the stability, at least on a temporary basis, of the exchange rate.

At the level of indicators that suggest activity for the coming months, the purchasing managers’ index (PMI) for manufacturing in June came in at 51.5 points, marginally positive (>50). Retail sales slowed in April, to +3.4% MoM, due to the impact of inflation. For its part, consumer confidence dropped slightly to 85 in June. In this context, in our central scenario, we forecast growth of 1.9% for 2023 and 1.5% for 2024, with a significant slowdown in consumption, exports, and lower public consumption due to reduced spending (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b).

Inflation in Turkey continues to soften, falling to 39.6% in May from a peak of 85.5% in October. Food prices climbed 53%, and housing costs moderated to 20.7% while transport rose 23.7%. Core inflation (46.4%) and producer prices (40.7%) have improved but remain very high. The Turkish lira has reached nearly 24/USD and 26/EUR, and despite the recent, temporary stabilization, it is expected to continue depreciating.

At its June meeting, the Bank of Turkey abruptly raised interest rates (1-week Repo) by 650 bps to 15.00%. This increase follows new appointments in the central bank and Ministry of Finance under Erdoğan’s new government. The committee of Turkey’s central bank decided to initiate the monetary tightening process in order to chart a course towards deflation as soon as possible, while anchoring inflation

Turkey

- The central bank is showing signs of monetary orthodoxy after raising interest rates by 650 basis points.
- However, real interest rates remain quite negative, weighing down the exchange rate.
- The new Erdoğan government will try to prevent structural risks from materializing.

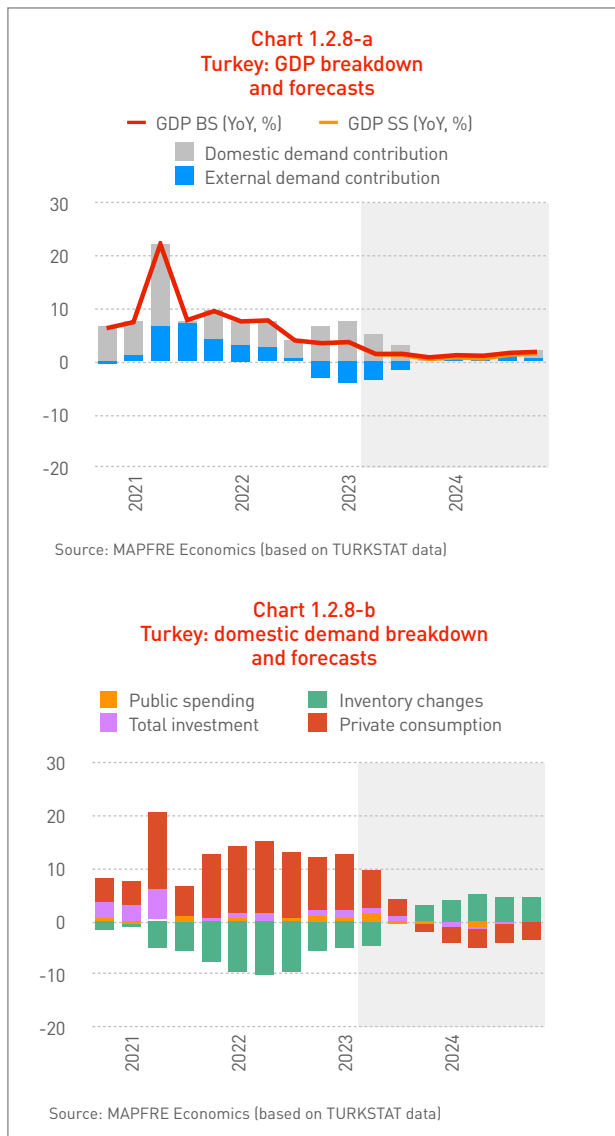


Table 1.2.8
Turkey: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	3.0	0.8	1.9	11.4	5.6	1.9	1.5	1.7	1.1
Domestic demand contribution	-0.6	-1.4	7.0	6.6	5.0	4.1	0.5	3.9	-0.1
External demand contribution	3.6	2.2	-5.0	4.8	0.6	-2.2	1.0	-1.2	1.2
Private consumption contribution	0.3	0.9	1.9	9.1	12.1	4.3	-3.3	4.1	-3.8
Total investment contribution	-0.1	-3.6	1.8	1.9	0.7	0.9	-0.4	0.8	-0.6
Public spending contribution	0.9	0.5	0.4	0.4	0.7	0.4	-0.2	0.4	-0.2
Private consumption (% YoY)	0.6	1.5	3.3	15.3	19.6	6.1	-4.6	5.9	-5.2
Public spending (% YoY)	6.5	3.8	2.5	2.6	5.2	2.7	-1.3	2.7	-1.3
Total investment (% YoY)	-0.2	-12.5	7.4	7.4	2.8	3.5	-1.8	3.4	-2.5
Exports (% YoY)	8.8	4.2	-14.4	24.9	9.1	-0.9	3.9	-0.9	3.8
Imports (% YoY)	-6.2	-5.0	6.7	2.4	7.9	8.4	-0.3	8.1	-1.1
Unemployment rate (% , last quarter)	12.3	13.3	12.9	11.0	10.1	10.6	10.2	10.7	10.4
Inflation (% YoY, average)	16.3	15.2	12.3	19.6	72.3	46.4	29.5	46.8	32.0
Inflation (% YoY, last quarter)	22.4	10.3	13.5	25.8	77.4	47.1	22.1	48.0	23.9
Fiscal balance (% of GDP)	-1.9	-2.9	-3.5	-2.7	-0.9	-4.7	-3.1	-4.7	-3.2
Primary fiscal balance (% of GDP)	0.0	-0.6	-0.8	-0.2	1.2	-3.1	-1.9	-3.1	-2.0
Current account balance (% of GDP)	-2.6	1.4	-4.4	-0.9	-5.4	-4.2	-2.0	-4.2	-1.6
Official interest rate (end of period)	24.00	11.50	17.00	14.00	9.00	24.75	22.75	25.50	22.50
3-month interest rate (end of period)	24.07	10.35	17.25	16.32	10.35	25.15	18.78	25.26	18.44
10-year interest rate (end of period)	16.53	11.95	12.51	22.99	9.50	19.62	12.20	19.35	12.19
Exchange rate vs. U.S. dollar (end of period)	5.29	5.95	7.44	13.32	18.69	25.35	25.17	26.64	27.30
Exchange rate vs. euro (end of period)	6.06	6.68	9.11	15.23	19.96	28.33	29.68	28.65	29.94
Private lending (% YoY, average)	20.2	8.4	30.1	23.9	54.8	44.4	13.7	45.0	14.7
Household lending (% YoY, average)	0.1	-2.4	32.1	16.2	25.9	89,393.7	24,037.0	89,146.1	23,876.0
P.S. non-financial lending (% YoY, average)	18.2	5.5	29.0	23.2	56.3	44.6	37.8	44.5	36.6
P.S. financial lending (% YoY, average)	25.1	18.3	21.2	31.5	105.5	62.0	39.1	62.1	39.1
Savings rate (% pers. disp. income, avg.)	32.0	30.4	20.9	22.7	9.8	22.7	20.8	22.7	21.0

Source: MAPFRE Economics (based on TURKSTAT data)
Forecast end date: July 5, 2023.

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expectations and controlling the deterioration of price behavior. The committee has indicated that it will determine the official interest rate in order to create the necessary monetary and financial conditions to guarantee a drop in core inflation and achieve its 5% inflation target in the midterm. Monetary tightening will be reinforced as necessary and appropriate, taking place gradually until a significant improvement in inflation prospects is achieved. Another benefit would be to stop the “drain” on the exchange rate. However, since interest rates are still in broadly negative territory, this decision has provided only slight relief.

Indicators seem to suggest that Erdoğan’s new government will attempt to prevent the structural risks from materializing. Turkey is seeking investment support in the Middle East to compensate for the distancing of Western investors. Currency depreciation is a difficult obstacle, a reflection of fiscal imbalances of the current account deficit and of the high external debt in dollars.

1.2.9 Mexico

A stronger currency, real interest rates and a moderate outlook for 2024.

The Mexican economy grew by 3.7% in the first quarter of the year (+1.0% QoQ). Private consumption has grown 4.8% YoY ahead of an expected deceleration in the coming quarters. Industrial production is holding steady in the aggregate (+0.7% YoY) thanks to oil, textiles, and machinery. However, as in other parts of the world, many other industrial sectors are shrinking. Monetary policies that aim to control inflation are influencing demand expectations, and industry is also adjusting production. Retail sales continue to grow year-on-year (+4.6% in April, +1.5% MoM). Additionally, factory orders remain at high levels, with the index at 52.8 in April, while business confidence is also at satisfactory levels, at 52.6 points.

It should be noted that geopolitical tensions and disruptions in production chains in the last two years are favoring the Mexican economy due to the *nearshoring* phenomenon (bringing production closer to destination markets). This is increasing foreign direct investment in industries that were already linked to the production chains generated by the trade agreement between Mexico, the United States and Canada. The purchasing managers’ index (PMI) for manufacturing in June stood at 50.9 points, still in expansion territory. Moreover, car production continues to improve from the lows of 2021. Consumer confidence has also improved compared to 2022. Thus, in view of the improved outlook for 2023, we have increased our forecast for Mexican GDP growth to 1.8% in 2023, while maintaining 1.5% in 2024, which could be modified if there is strong contagion of the anticipated recession in the United States (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

Meanwhile, inflation was 5.8% in May, continuing the downward trend since the highs of September 2022, although far from the target band of the monetary authorities, especially since core inflation remains at 7.4%. Food rose around 9%, housing climbed 4%, and fuels contributed to the moderation (+1.9%), while airfares fell 7.3%. Thus, inflation is expected to remain high, at 5.7% in 2023, before gradually dropping to 4.0% in 2024. The Bank of Mexico held reference interest rates at

Mexico

- The Mexican economy has been performing well so far in 2023, but it will inevitably cool off due to tighter financial conditions and a possible recession in the United States.
- Mexico has benefited from the global process for the relocation of production chains (nearshoring).
- The Mexican peso has been strengthened by very positive real interest rates and increased portfolio flows amid uncertainty in other emerging markets.

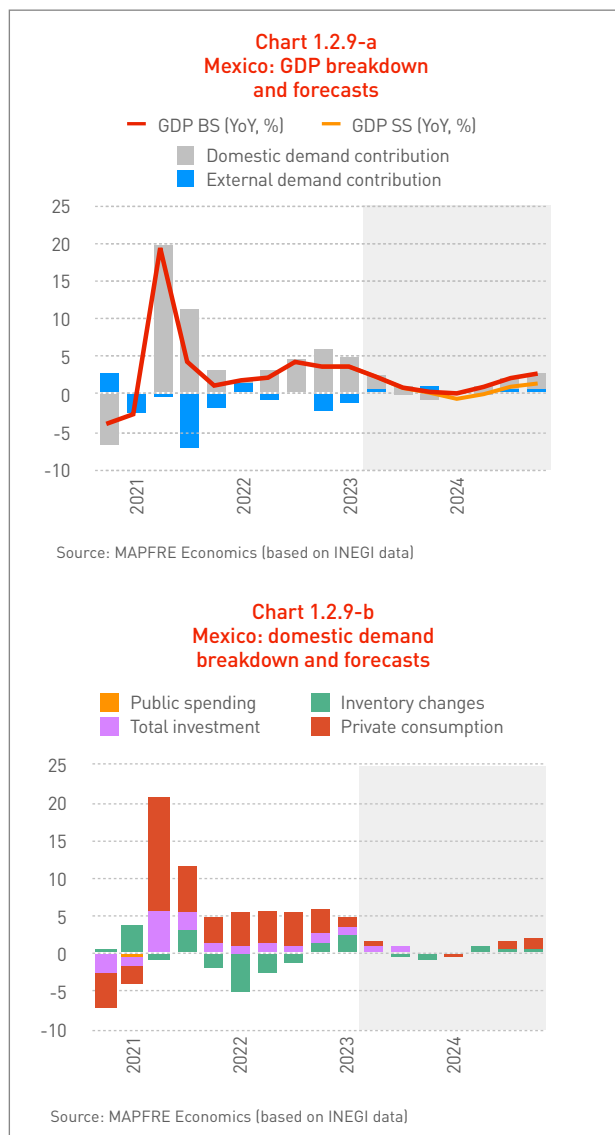


Table 1.2.9
Mexico: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	2.2	-0.2	-8.2	4.9	3.0	1.8	1.5	1.7	0.5
Domestic demand contribution	2.4	-1.0	-10.7	8.0	3.5	1.6	1.1	1.6	0.6
External demand contribution	-0.2	0.8	2.6	-3.0	-0.5	0.1	0.4	0.1	-0.1
Private consumption contribution	1.7	0.2	-7.1	5.1	4.1	0.6	0.5	0.6	0.4
Total investment contribution	0.2	-1.0	-3.4	1.8	1.1	0.6	0.0	0.5	-0.3
Public spending contribution	0.3	-0.2	0.0	-0.1	0.1	0.3	0.2	0.3	0.2
Private consumption (% YoY)	2.6	0.4	-10.5	7.8	6.1	0.9	0.8	0.9	0.5
Public spending (% YoY)	2.9	-1.8	-0.3	-0.6	1.0	2.7	2.0	2.7	2.0
Total investment (% YoY)	0.8	-4.7	-17.8	10.5	6.0	3.0	-0.2	2.9	-1.4
Exports (% YoY)	5.9	1.5	-7.1	6.9	7.6	-1.4	2.9	-1.5	1.7
Imports (% YoY)	6.4	-0.7	-14.1	16.1	8.8	-1.7	2.9	-1.8	2.0
Unemployment rate (% , last quarter)	3.3	3.4	4.5	3.7	3.0	3.4	3.8	3.4	4.1
Inflation (% YoY, average)	4.9	3.6	3.4	5.7	7.9	5.7	4.0	5.9	4.2
Inflation (% YoY, last quarter)	4.8	2.9	3.5	7.0	8.0	4.6	3.7	4.8	3.7
Fiscal balance (% of GDP)	-2.0	-1.7	-2.8	-3.0	-3.3	-3.6	-3.3	-3.6	-3.4
Primary fiscal balance (% of GDP)	0.6	1.1	0.1	-0.3	-0.5	-0.1	0.0	-0.2	0.0
Current account balance (% of GDP)	-2.1	-0.5	2.1	-0.6	-1.3	-1.0	-1.0	-1.0	-0.9
Official interest rate (end of period)	8.25	7.25	4.25	5.50	10.50	10.75	10.00	11.25	10.50
3-month interest rate (end of period)	8.63	7.45	4.47	5.86	10.97	10.25	6.29	10.13	5.89
10-year interest rate (end of period)	8.70	6.84	5.23	7.57	9.02	8.19	7.27	7.82	7.05
Exchange rate vs. U.S. dollar (end of period)	19.65	18.93	19.88	20.50	19.49	18.64	20.09	18.97	20.29
Exchange rate vs. euro (end of period)	22.50	21.26	24.40	23.22	20.79	20.83	23.69	20.40	22.26
Private lending (% YoY, average)	10.4	8.9	5.2	-1.0	7.4	10.4	5.8	10.4	5.0
Household lending (% YoY, average)	8.4	6.2	1.6	4.4	9.1	8.7	6.7	8.7	6.7
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)	-0.8	6.2	3.7	18.3	8.7	7.4	13.7	7.4	12.9
Savings rate (% pers. disp. income, avg.)	11.4	15.8	21.9	23.1	23.0	25.0	22.9	24.9	22.8

Mexico: main macroeconomic aggregates
Forecast end date: July 5, 2023.

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11.25% at its June meeting. Amid the process of reducing price growth, which is progressing, albeit slowly, no further increases or immediate decreases are anticipated until the deflationary process is considered to be over. Meanwhile, given the positive real interest rates and increase in portfolio cash flows, in view of the uncertainty in other emerging markets, the Mexican peso has appreciated to nearly 17 pesos/dollar.

The main short-term risk to the Mexican economy is the potential recession in the United States, predicted for the first quarter of 2024, which would spread to Mexico through its exports. Otherwise, the deflation process is progressing slowly yet surely. Meanwhile, *nearshoring* is bringing production from Asia to North America, with benefits for the Mexican economy.

1.2.10 Brazil

Better growth in 2023, but the uncertainty continues.

The Brazilian economy grew by 3.4% in the first quarter of 2023 (+1.9% QoQ). Private consumption rose 3.5%, investment weakened (+0.8%), and exports behaved well (+7.0%). Industrial production in Brazil fell by 2.7% in April, reflecting the cooling down of activity to a certain extent. Fixed investment is expected to be the weakest item this year due to the tightening of financing conditions for companies. Meanwhile, consumer confidence has improved thanks to the improvement in inflation. The PMIs fell in June, with the composite index at 51.5 points, the service index at 53.3 and the manufacturing index at 46.6. In this context, our growth estimate for Brazil's GDP this year stands at 1.8%, driven by exports and consumption, although our expectations for 2024 have decreased to 1.4% (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b).

Meanwhile, inflation has been dropping for a year and stood at 4.0% in May. Food increased less (5.5%), but pressures remained from clothing (11.1%) and health (11.6%), while fuels pushed down the CPI (-26%). Inflation in 2023 should stand at around 5.0% on average, affected by the end of aid. At its June meeting, the Central Bank of Brazil maintained the SELIC interest rate at 13.75%. The central bank considers that there

are risks in both directions and that macroeconomic projections have more uncertainty than usual. Its objective is to bring inflation back to target by stabilizing prices, smoothing fluctuations in the level of economic activity and promoting full employment.

Short-term risks to the Brazilian economy are concentrated in the following areas: the inflationary pressures still observed worldwide; the evolution of fiscal policy and the path of public debt and its impacts on the markets; the deceleration of the global economy, which could affect demand for Brazilian exports, and elimination of the aid established for economic recovery. The tightening of global financial conditions, specifically those of Brazil, will undoubtedly make an impact on activity and investment levels.

Brazil

- Inflation has been dropping for a year thanks to a monetary tightening cycle initiated ahead of the majority of other central banks.
- The central bank held interest rates steady, recognizing that there is still considerable uncertainty, with risks in both directions.
- The tightening of financial conditions will lead to an economic slowdown.

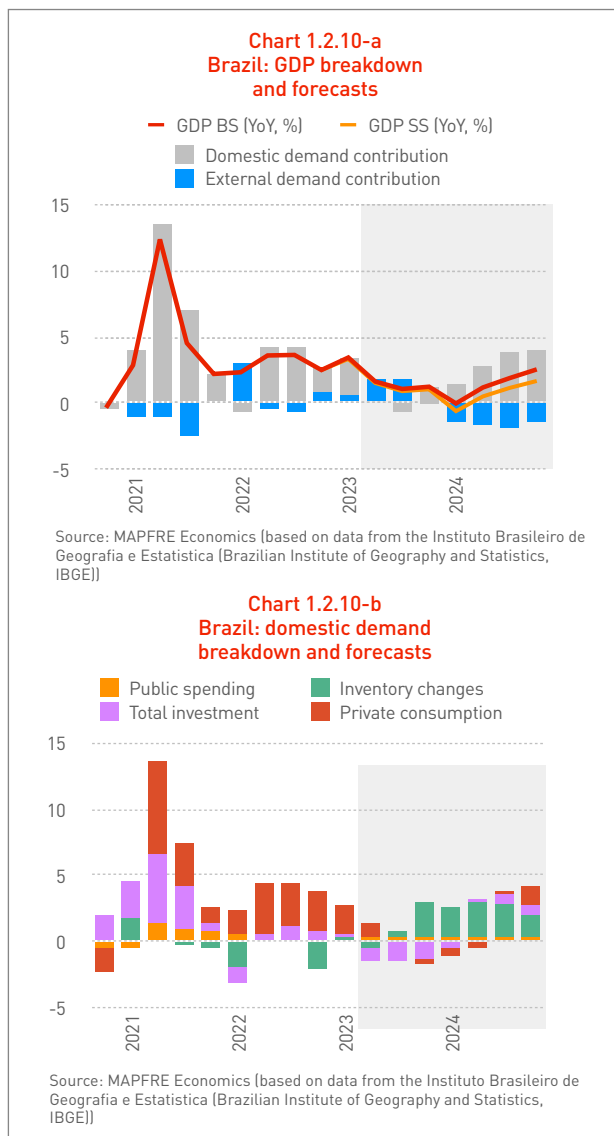


Table 1.2.10
Brazil: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	1.7	1.2	-3.6	5.3	3.0	1.8	1.4	1.7	0.7
Domestic demand contribution	2.3	1.8	-4.9	6.5	2.3	0.8	3.0	0.8	2.7
External demand contribution	-0.7	-0.6	1.4	-1.2	0.7	1.0	-1.6	0.9	-2.0
Private consumption contribution	1.6	1.8	-3.4	2.8	3.0	0.7	0.1	0.7	0.0
Total investment contribution	0.8	0.7	-0.3	2.9	0.2	-0.9	0.3	-0.9	0.2
Public spending contribution	0.1	-0.1	-0.6	0.6	0.3	0.3	0.3	0.3	0.3
Private consumption (% YoY)	2.3	2.6	-4.9	4.0	4.3	1.0	0.2	1.0	0.0
Public spending (% YoY)	0.8	-0.5	-3.7	3.5	1.5	1.7	2.0	1.7	2.0
Total investment (% YoY)	5.2	4.0	-1.7	16.6	0.8	-4.6	1.8	-4.7	0.9
Exports (% YoY)	3.5	-2.5	-2.7	6.5	5.9	5.7	-0.2	5.7	-0.7
Imports (% YoY)	7.1	1.3	-9.8	12.6	1.1	-0.8	11.6	-0.9	11.3
Unemployment rate (% , last quarter)	11.7	11.1	14.2	11.1	7.9	8.2	8.3	8.2	8.4
Inflation (% YoY, average)	3.7	3.7	3.2	8.3	9.3	5.0	4.3	5.1	4.5
Inflation (% YoY, last quarter)	4.1	3.4	4.3	10.5	6.1	5.4	4.0	5.6	3.8
Fiscal balance (% of GDP)	-7.0	-5.8	-13.3	-4.3	-4.6	-8.0	-7.7	-8.0	-7.8
Primary fiscal balance (% of GDP)	-1.5	-0.8	-9.2	0.7	1.3	-1.0	-0.8	-1.0	-0.9
Current account balance (% of GDP)	-2.8	-3.6	-1.9	-2.8	-3.0	-1.5	-3.5	-1.6	-3.9
Official interest rate (end of period)	6.50	4.50	2.00	9.25	13.75	13.25	9.25	13.50	9.50
3-month interest rate (end of period)	6.40	4.40	1.90	9.15	13.65	12.90	8.93	13.04	8.65
10-year interest rate (end of period)	9.24	6.81	6.98	10.31	12.76	11.18	10.81	10.89	10.67
Exchange rate vs. U.S. dollar (end of period)	3.87	4.03	5.20	5.58	5.22	5.03	5.10	5.22	5.24
Exchange rate vs. euro (end of period)	4.44	4.53	6.38	6.32	5.56	5.63	6.02	5.62	5.75
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)	7.0	10.8	10.1	17.7	20.3	11.6	10.2	11.5	10.2
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.)	16.4	15.8	19.0	22.2	20.2	20.4	19.7	20.3	19.8

Source: MAPFRE Economics (based on data from the Brazilian Institute of Geography and Statistics (IBGE))
Forecast end date: July 5, 2023.

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1.2.11 Argentina

Accelerating inflation and exponential currency depreciation.

The Argentine economy grew 1.3% in the first quarter of the year, when economic activity is expected to be affected by the drought, which will reduce agricultural production. Private consumption increased 6.0%, investment fell 0.6%, exports dropped 6.0%, and imports rose 2.9%. Government consumption may not decrease before the December elections, and the fiscal deficit has barely changed (nearly 4%/GDP). Industrial production has cooled off (+1.6%), while construction is down (-4.0%), and automobile production is stable. Car sales also grew (+15% YoY) but have been at low levels since 2019, with the industry selling half as many cars as were sold in 2018. In this framework, our GDP growth forecast for 2023 (see Table 1.2.11 and Charts 1.2.11-a and 1.2.11-b) stands at -1.5% (versus -0.7% in our previous report) due to the challenging conditions for exports (drought in the countryside), public spending (commitment to adjust the deficit), private consumption (inflation) and investment (investor confidence).

Meanwhile, inflation continues to climb (114.2% in May), with core inflation at 110.3%. According to the expectations survey conducted by the central bank in late May, the analysts surveyed expect inflation to stand at 149% throughout 2023, compared to their estimates of 126% in April and 98.4% last December. Price increases are occurring in all segments: food, clothing, transportation, restaurants, goods and services. It is difficult to cool down prices when the money supply (M2) continues to grow at around 70% per year. The LELIQ 28-day referenced rates have risen four times since March, from 75% to 97% in mid-June. The other benchmark rate is the BADLAR rate for private banks, which stands at 93%. The Argentine peso will continue to depreciate due to the increase in money supply and injections of money

in the form of outside assistance. As of the date of this report, the currency was already above 248 ARS/USD, with an almost exponential depreciation trend.

Argentina is grappling with out-of-control inflation due to the increase in the money supply, fiscal spending, currency depreciation and the external financing it receives. The government has few incentives to cut spending during a general election year (October). Reserves in U.S. dollars are lower than in other pre-electoral periods, which will give the central bank less of a margin to adjust the interest rate. The currency is depreciating exponentially, and the inflation estimates for 2023 in the central bank's survey were revised from around 100% in December to around 150% today.

Argentina

- The Argentine economy is facing challenging conditions for growth.
- Prices continue to grow at hyper-inflationary levels.
- The currency is following an accelerated depreciation trend.

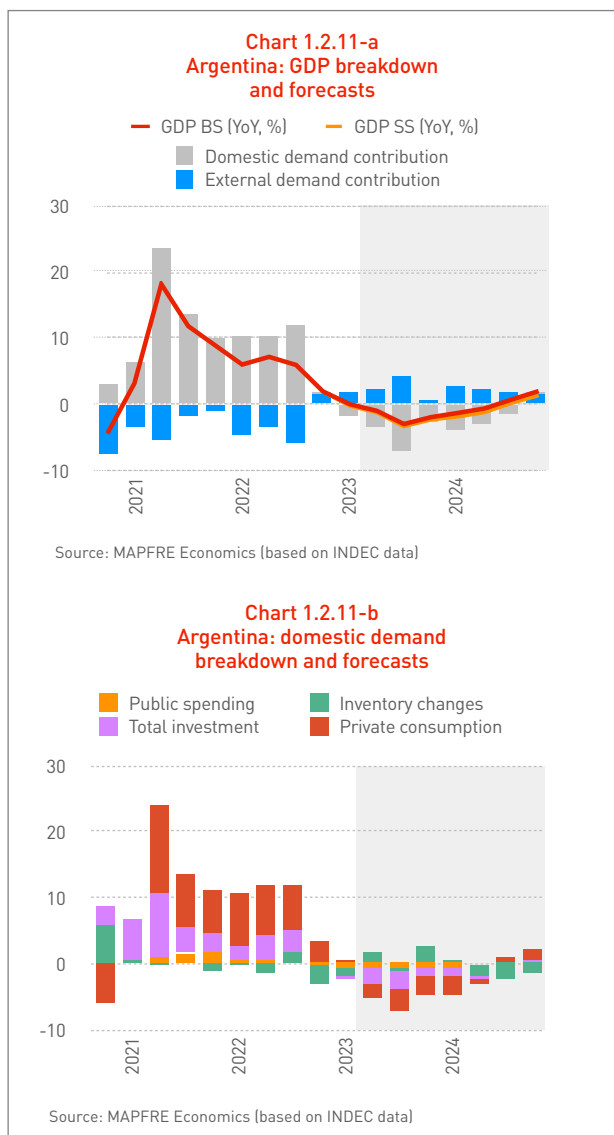


Table 1.2.11
Argentina: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	-2.6	-2.0	-9.9	10.4	5.2	-1.5	0.2	-1.8	-0.4
Domestic demand contribution	-4.1	-9.5	-10.3	13.3	8.2	-3.7	-1.9	-3.7	-2.0
External demand contribution	1.5	7.5	0.3	-2.9	-3.0	2.2	2.0	1.9	1.6
Private consumption contribution	-1.7	-4.6	-9.8	6.8	6.4	-1.9	-0.3	-2.0	-0.3
Total investment contribution	-1.2	-3.2	-2.2	5.6	2.2	-1.8	-0.3	-1.8	-0.4
Public spending contribution	-0.3	-0.9	-0.2	1.0	0.3	-0.6	-0.1	-0.6	-0.1
Private consumption (% YoY)	-2.2	-6.1	-13.7	10.0	9.4	-2.7	-0.4	-2.8	-0.5
Public spending (% YoY)	-1.9	-6.4	-1.9	7.1	1.8	-4.5	-0.7	-4.5	-0.7
Total investment (% YoY)	-5.7	-16.0	-13.0	33.4	10.9	-8.4	-1.6	-8.5	-1.8
Exports (% YoY)	0.6	9.8	-17.7	9.2	5.7	-0.1	4.9	-0.2	4.5
Imports (% YoY)	-4.5	-18.7	-18.5	22.0	17.4	-13.5	-4.2	-13.6	-4.4
Unemployment rate (% , last quarter)	9.1	8.9	11.0	7.0	6.3	8.4	7.4	8.5	7.5
Inflation (% YoY, average)	34.3	53.5	42.0	48.4	72.4	120.0	97.9	132.0	104.0
Inflation (% YoY, last quarter)	47.4	52.2	36.4	51.4	91.8	134.3	70.6	146.8	69.8
Fiscal balance (% of GDP)	-4.9	-3.8	-8.4	-3.6	-3.8	-3.8	-2.9	-3.8	-3.0
Primary fiscal balance (% of GDP)	-2.3	-0.4	-6.4	-2.1	-2.0	-2.3	-1.9	-2.3	-2.0
Current account balance (% of GDP)	-4.9	-0.8	0.8	1.4	-0.6	1.0	1.6	1.0	1.7
Official interest rate (end of period)	59.25	55.00	38.00	38.00	75.00	112.00	97.00	120.00	110.00
3-month interest rate (end of period)	56.76	45.13	29.55	31.49	67.61	95.01	95.07	95.11	93.18
10-year interest rate (end of period)	16.85	30.24	21.68	25.52	34.40	33.70	31.37	33.37	31.39
Exchange rate vs. U.S. dollar (end of period)	37.70	59.89	84.15	102.72	177.15	382.71	638.12	401.54	656.86
Exchange rate vs. euro (end of period)	43.17	67.28	103.26	116.34	188.95	427.65	752.54	431.85	720.67
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)	52.3	15.3	22.9	34.6	60.4	56.2	57.5	56.2	57.5
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: July 5, 2023.

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1.2.12 China

Exports fall, anticipating a worldwide economic slowdown.

The Chinese economy grew 4.5% in the first quarter of 2023, with private consumption rising 3.3% and government consumption by 15.2%, but exports remain unchanged (0% YoY) and imports rose only marginally (+0.2% YoY). It should be noted that since the end of the quarter, a significant decline has been measured in exports (-7.5% in May) and imports (-4.5%), reflecting the impact of the deceleration of the global economy.

China

- Chinese exports are falling as a result of lower demand from the rest of the world.
- The authorities are reinforcing stimuli in an attempt to prevent the economy from slowing down.
- Risks in the real estate sector persist, as do the high levels of debt in the economy.

However, leading indicators (purchasing managers' indexes, PMIs) remain positive, with the composite at 52.5, manufacturing at 50.5 and services at 53.9 points. Although they have changed markedly throughout the year, car sales are strong, reaching 2.2 million units a month. Meanwhile, consumer and business confidence are stable. The Chinese government has an official growth target for the economy of around 5%. Against this backdrop, growth is forecast to reach 5.3% this year and 4.7% in 2024, provided that the decline in exports is not significantly exacerbated and the economy manages to navigate the choppy waters of its financial and real estate sectors (see Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

Meanwhile, inflation is very low, 0.2% YoY in May (-0.2% MoM) and has been dropping for four months. In fact, it is feared that China could begin experiencing deflation if this dynamic is maintained. With the global deceleration and producer prices (PPI) falling (-4.6% in May, and -5.3% in the case of raw materials), deflation is certainly a possibility to consider. Regarding monetary policy, the central bank unexpectedly decided to lower the *reverse repo rate* by 10 bps to 1.90%, the first drop since August 2022, in a clear effort to encourage lending. Subsequently, it also relaxed the *medium-term credit facility* by 10 bps, to 3.55%. Furthermore, the required reserve ratio for banks has not changed since March, at 10.75%.

Regarding short-term economic risks, China continues to face the problem of a very inflated real estate sector, a heavily indebted state-owned business sector, and regional finance under pressure. Global deceleration is on the horizon, and this is noticeable in Chinese exports. Now that prices have been dropping for four months, with extremely negative producer prices, there is a certain risk of China beginning to export deflation to the rest of the world. With the financial sector, real estate sector and regional finance to save, China will attempt to make at least its exports resilient. At the geopolitical level, amid growing tensions with the United States, China continues to draw closer to the rest of the BRICS and the Middle East. Europe, which is carefully observing this dynamic, is attempting to clarify that it only wants to “*de-risk*” and not “*de-couple*” from China.

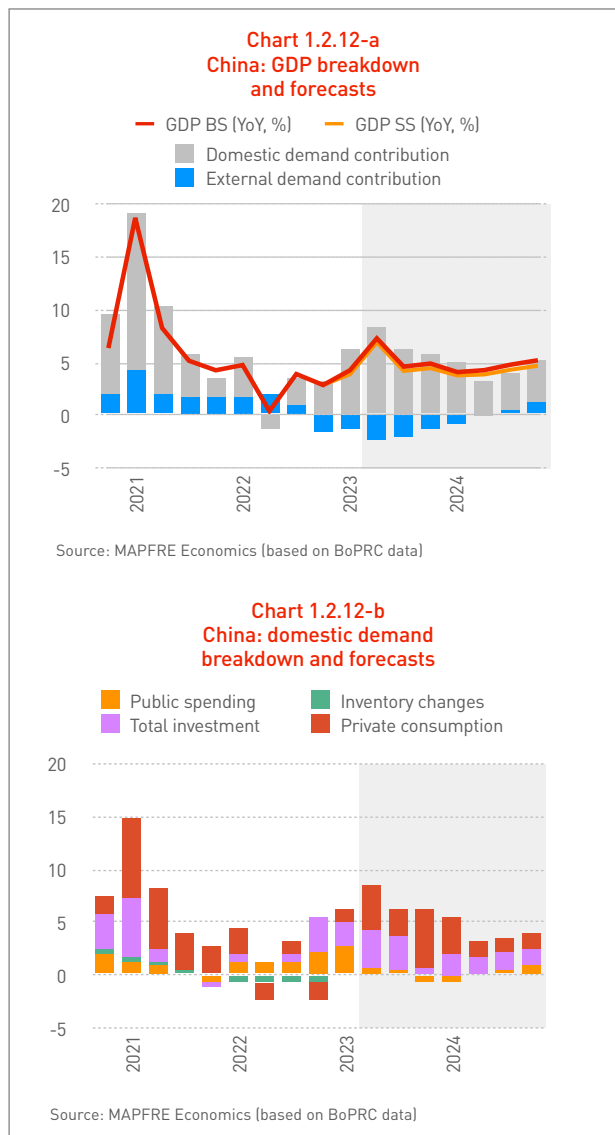


Table 1.2.12
China: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	6.7	6.0	2.2	8.5	3.0	5.3	4.7	4.9	4.2
Domestic demand contribution	7.3	5.3	1.6	6.6	2.2	6.6	4.1	6.6	3.9
External demand contribution	-0.3	0.6	0.7	2.3	0.7	-1.3	-1.0	-1.7	0.3
Private consumption contribution	3.2	2.5	-1.0	4.6	0.0	3.6	2.0	3.6	2.0
Total investment contribution	3.1	2.2	1.3	1.3	1.3	2.4	1.8	2.4	1.6
Public spending contribution	1.2	1.1	0.8	0.3	1.4	0.7	0.3	0.7	0.3
Private consumption (% YoY)	8.1	6.3	-2.4	12.1	0.1	9.3	5.0	9.3	5.0
Public spending (% YoY)	7.1	6.6	4.6	1.6	9.0	4.3	1.7	4.3	1.7
Total investment (% YoY)	7.3	5.1	3.1	3.2	3.3	5.9	4.4	5.9	4.0
Exports (% YoY)	4.4	2.3	1.7	18.2	-0.3	0.4	0.8	0.3	0.1
Imports (% YoY)	6.5	-0.7	-2.2	6.7	-4.7	5.6	7.6	5.6	7.4
Unemployment rate (% , last quarter)	2.9	3.1	3.5	3.3	3.6	3.4	3.4	3.4	3.5
Inflation (% YoY, average)	2.1	2.9	2.5	0.9	2.0	1.4	2.3	1.5	2.2
Inflation (% YoY, last quarter)	2.2	4.3	0.1	1.8	1.8	2.4	2.0	2.4	1.7
Fiscal balance (% of GDP)	-4.7	-5.6	-7.6	-5.1	-7.4	-6.8	-6.2	-6.8	-6.3
Primary fiscal balance (% of GDP)	-1.5	-2.2	-3.7	-1.5	-3.6	-2.8	-2.2	-2.8	-2.3
Current account balance (% of GDP)	0.2	0.7	1.7	2.0	2.2	2.2	0.8	2.2	0.8
Official interest rate (end of period)	3.25	3.25	3.00	3.00	2.75	2.50	3.00	2.50	2.75
3-month interest rate (end of period)	3.35	3.02	2.76	2.50	2.42	2.45	2.58	2.42	2.44
10-year interest rate (end of period)	3.23	3.14	3.14	2.78	2.84	3.21	3.68	2.91	3.51
Exchange rate vs. U.S. dollar (end of period)	6.88	6.99	6.52	6.35	6.90	7.00	6.48	7.08	6.53
Exchange rate vs. euro (end of period)	7.87	7.85	8.00	7.19	7.36	7.82	7.64	7.61	7.17
Private lending (% YoY, average)	12.9	13.1	13.1	12.3	11.1	11.3	9.0	11.4	9.7
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.)	28.8	29.0	32.9	30.2	32.0	29.2	29.2	29.2	29.3

Source: MAPFRE Economics (based on BoPRC data)
Forecast end date: July 5, 2023.

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1.2.13 Indonesia

Inflation is coming under control, with a potential change in the monetary cycle ahead.

The Indonesian economy grew 5.0% in the first quarter of the year, with domestic, private and public consumption rising 4.5% and 4.0%, respectively, and investment up 2.0%. While exports increased by 11.7%, already slowing down, the balance of trade is very positive thanks to agricultural and mining exports. The purchasing managers' index (PMI manufacturing) for June came in at 52.5, improving from 50.3 the previous month. Factory orders are progressing well, but the sub-indicator for suppliers shows that there are still some headwinds for materials supply. Retail sales are on the rise, but the latest data points to moderation (+0.9%). Additionally, car sales performed well in the first quarter but experienced a significant slowdown at the start of the second.

Indonesia

- The Indonesian economy continues to grow at a fast pace.
- Despite slowing down to a certain extent, growth in 2023 will reach around 4.5%.
- Inflation is also easing, and interest rates could soon be lowered.

For the coming quarters, consumption is expected to continue driving growth, while exports and imports are expected to weaken due to the global slowdown and the tightening of financial conditions in many countries. Thus, the forecast for economic growth in Indonesia stands at 4.5% for 2023, rising to 4.9% for 2024 (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

Inflation dropped to 3.5% in June, easing from a peak of almost 6.0% in 2022, and core inflation fell to 2.6%. Producer prices remain somewhat higher, but also on a moderation path (+4.4% in April). This moderation trend is expected to continue thanks to the drop in energy costs and imported products. The Central Bank of Indonesia held interest rates at 5.75% at its June meeting, with inflation within the target range of 2–4%. Core inflation stands at 2.6%, which suggests a positive trend ahead. If it continues on this path, we could see the beginning of a change in the monetary cycle in the fourth quarter.

Short-term risks to the Indonesian economy could come from a global economic slowdown, affecting palm oil and coal prices, its main exports. The current account balance remains positive, close to 1.2% of GDP, and although exports are softening, imports are falling more (the upward trend continues). The exchange rate recovered in the last quarter, albeit with a certain degree of volatility, standing at around 15,000 IDR /USD. Rising interest rates on external dollar debt is a challenge for all emerging countries when rolling over such debt issues, and instability in international funding markets would be a challenge for Indonesia.

1.2.14 Philippines

Economic growth weakens as exports slow down.

The Philippine economy grew 6.4% in the first quarter of the year. Private consumption grew by 6.3% YoY, government consumption by 6.2% YoY, and investment by 12.2%. Exports remained flat (0.4%), easing for a few months after a spectacular previous year (base effect). The most recent data (April) show exports falling by 20.2% and imports by 17.7%, which seems to support the prediction of a slowdown in 2023. The current account balance is strongly negative, especially since 2021, as a result of a deterioration of the terms of trade. As for

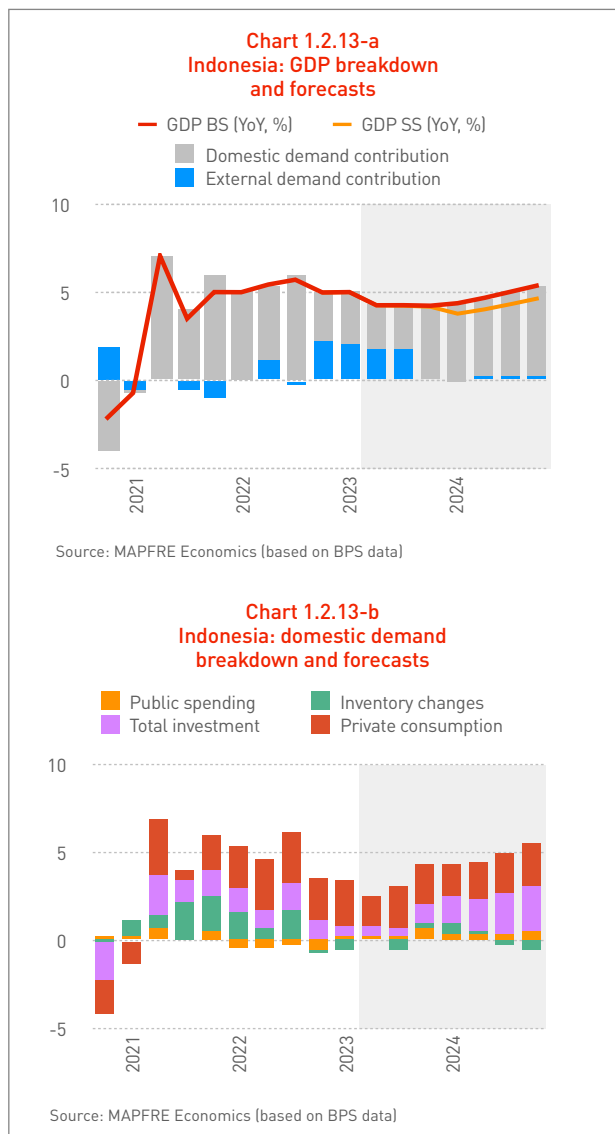


Table 1.2.13
Indonesia: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	5.2	5.0	-2.1	3.7	5.3	4.5	4.9	4.4	4.2
Domestic demand contribution	6.2	3.6	-3.6	4.1	4.5	3.1	4.7	3.1	4.5
External demand contribution	-1.0	1.4	1.5	-0.4	0.8	1.4	0.2	1.4	-0.3
Private consumption contribution	2.8	2.9	-1.5	1.1	2.7	2.2	2.2	2.2	2.2
Total investment contribution	2.2	1.5	-1.6	1.2	1.2	0.7	2.0	0.7	1.9
Public spending contribution	0.4	0.3	0.2	0.3	-0.4	0.3	0.4	0.3	0.4
Private consumption (% YoY)	5.1	5.2	-2.7	2.0	4.9	4.1	4.1	4.1	4.1
Public spending (% YoY)	4.8	3.3	2.1	4.2	-4.5	4.3	5.7	4.3	5.6
Total investment (% YoY)	6.7	4.5	-5.0	3.8	3.9	2.2	6.6	2.1	6.1
Exports (% YoY)	6.5	-0.5	-8.4	18.0	16.3	2.5	2.5	2.5	2.1
Imports (% YoY)	12.1	-7.1	-17.6	24.9	14.7	-3.7	4.4	-3.8	4.2
Unemployment rate (% , last quarter)	5.1	5.1	6.7	6.2	5.7	5.6	5.3	5.6	5.4
Inflation (% YoY, average)	3.3	2.8	2.0	1.6	4.2	4.0	2.4	4.1	2.6
Inflation (% YoY, last quarter)	3.3	2.7	1.6	1.8	5.5	2.8	2.4	2.9	2.4
Fiscal balance (% of GDP)	-1.7	-2.2	-6.2	-4.6	-2.4	-1.9	-2.2	-1.9	-2.3
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)	-2.9	-2.7	-0.4	0.3	1.0	0.5	0.1	0.5	0.3
Official interest rate (end of period)	6.00	5.00	3.75	3.50	5.50	5.50	5.25	5.50	4.50
3-month interest rate (end of period)	7.70	5.51	4.06	3.75	6.62	6.50	6.07	6.51	5.50
10-year interest rate (end of period)	7.98	7.10	6.10	6.38	6.93	6.31	6.77	5.96	6.46
Exchange rate vs. U.S. dollar (end of period)	14,380	13,883	14,050	14,253	15,568	15,308	14,485	15,471	14,602
Exchange rate vs. euro (end of period)	16,465	15,596	17,241	16,143	16,605	17,105	17,083	16,638	16,018
Private lending (% YoY, average)	10.8	8.8	1.4	1.0	9.6	7.7	9.6	7.8	9.5
Household lending (% YoY, average)	10.2	7.9	2.1	2.2	7.8	7.8	5.4	7.8	5.5
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)	5.6	-3.0	-6.0	-12.6	15.3	29.1	13.7	29.1	13.4
Savings rate (% pers. disp. income, avg.)	24.0	22.8	21.4	25.7	29.2	27.7	25.4	27.7	25.4

Source: MAPFRE Economics (based on BPS data)
Forecast end date: July 5, 2023.

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leading indicators of activity, the manufacturing PMI stood at 50.9 points in June, and the future business conditions surveys dropped from 49 to 46.4 (<50 indicates contraction). Industrial production rose 8.2% in April, with the automotive sector expanding (+38%), while other sectors contracted (chemicals and furniture). Against this backdrop, in 2023, the Philippine

economy is expected to slow down from its record levels in 2022, mainly due to inflationary pressures and tighter financial conditions. Thus, Philippine GDP growth should reach around 5.1% in 2023 and 4.9% in 2024, due mainly to a slowdown in consumption, while exports are running out of momentum, consolidating levels after significant growth in the last two years (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

Inflation, on the other hand, reached 6.1% in May, stabilizing (0.0% MoM) and appearing unlikely to drop any further, and with persistently high core inflation (7.7%). With the monetary base increasing significantly at the end of 2022, inflation should remain high for some time. By categories, food rose 7.4%, and housing and household supplies by 6.5%, while the cost of transport has fallen (-0.5%) due to the moderation of fuels. Within this framework, the central bank's interest rates remain at 6.25% (*overnight repo*). The central bank has lowered the reserve requirement for commercial banks and other entities by 25 bps. The bank emphasizes that this is not a relaxation, but rather a measure to counterbalance others that are about to expire

Philippines

- **The Philippine economy has begun to slow down but is far more dynamic than the global average.**
- **Exports fell significantly in April as a result of the slowdown of the global economy.**
- **Inflation was stuck above 6%, showing a certain degree of stubbornness.**

related to the fulfillment of reserves, adding that it intends to maintain the levels of liquidity and credit in the economy. The central bank continues to prioritize bringing inflation back to the medium-term path, and it will continue to signal monetary policy through the *overnight repo* rate.

As for short-term risks to the Philippine economy, the main risk continues to be inflation, with core inflation easing very slowly. Another risk is the trade deficit, which remains broadly negative despite moderating to a certain extent in April, with exports falling more than imports. The terms of trade have been worsening for years, with the price of exports growing less than those of imports. On the positive side, we must acknowledge the sustained high economic growth of the Philippine economy, even if it will slow down in the next two years.

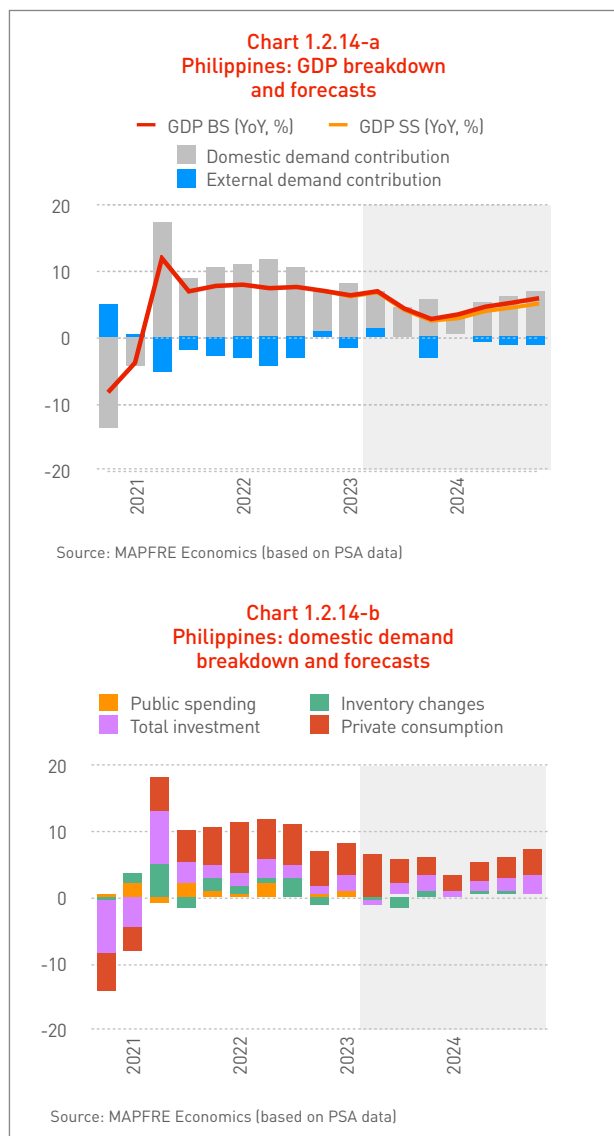


Table 1.2.14
Philippines: main macroeconomic aggregates

	2018	2019	2020	2021	2022	Baseline (BS)		Stressed (SS)	
						2023 ^(f)	2024 ^(f)	2023 ^(f)	2024 ^(f)
GDP (% YoY)	6.3	6.1	-9.5	5.7	7.6	5.1	4.9	5.0	4.2
Domestic demand contribution	8.6	6.3	-13.5	8.0	9.8	6.0	5.5	5.9	5.2
External demand contribution	-2.3	-0.2	4.0	-2.3	-2.2	-0.9	-0.6	-0.9	-1.0
Private consumption contribution	4.2	4.3	-5.8	3.1	6.0	4.3	3.2	4.3	3.1
Total investment contribution	3.3	1.1	-7.3	2.1	2.2	1.6	1.8	1.5	1.6
Public spending contribution	1.5	1.1	1.3	1.1	0.7	0.4	0.3	0.4	0.3
Private consumption (% YoY)	5.8	5.9	-8.0	4.2	8.3	5.9	4.3	5.9	4.2
Public spending (% YoY)	13.4	9.1	10.5	7.2	4.9	2.4	1.8	2.4	1.8
Total investment (% YoY)	12.9	3.9	-27.3	9.8	9.7	6.8	7.7	6.7	7.0
Exports (% YoY)	11.8	2.6	-16.1	8.0	10.9	0.2	3.9	0.2	3.5
Imports (% YoY)	14.6	2.3	-21.6	12.8	13.9	2.3	6.2	2.3	6.0
Unemployment rate (% , last quarter)	5.1	4.6	8.7	6.8	4.3	4.8	4.7	4.8	4.8
Inflation (% YoY, average)	5.3	2.4	2.4	3.9	5.8	5.6	2.8	5.7	3.0
Inflation (% YoY, last quarter)	6.1	1.4	2.9	3.6	7.9	3.3	2.6	3.3	2.5
Fiscal balance (% of GDP)	-3.1	-3.4	-7.6	-8.6	-7.3	-6.2	-5.3	-6.2	-5.4
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)	-2.6	-0.8	3.2	-1.5	-4.4	-3.5	-4.2	-3.5	-3.7
Official interest rate (end of period)	4.75	4.00	2.00	2.00	5.50	6.25	5.25	6.25	4.75
3-month interest rate (end of period)	5.03	3.97	2.00	1.81	5.50	6.40	5.20	6.33	4.66
10-year interest rate (end of period)	7.05	4.44	2.97	4.72	6.91	5.85	5.88	5.47	5.58
Exchange rate vs. U.S. dollar (end of period)	52.72	50.74	48.04	50.27	56.12	57.00	53.93	57.65	54.39
Exchange rate vs. euro (end of period)	60.37	57.01	58.94	56.93	59.86	63.70	63.61	62.01	59.67
Private lending (% YoY, average)	16.8	9.5	4.0	0.9	8.3	7.5	6.9	7.6	6.8
Household lending (% YoY, average)	14.3	12.8	11.2	-2.1	7.9	12.7	9.8	12.7	9.9
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)	10.3	6.9	-7.9	8.2	13.4	12.2	6.1	12.1	5.9
Savings rate (% pers. disp. income, avg.)	6.4	5.0	3.4	-0.4	-2.7	-2.6	1.0	-2.6	1.4

Source: MAPFRE Economics (based on PSA data)
Forecast end date: July 5, 2023.

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2. Industry outlook

2.1 The economic environment and its impact on insurance demand

2.1.1 Global markets

Estimates for 2023 point to a scenario of economic slowdown, with global growth of around 2.6% (+3.4% in 2022) and data on inflation that, despite showing signs of improvement, suggests that the problem is not yet under control. This is prompting additional interest rate hikes by some central banks, with the forecast that they will maintain the tight financing conditions until inflation clearly approaches their monetary policy targets. However, this economic slowdown should be less pronounced than we predicted at the beginning of the year, considering the accelerated tightening of financing conditions that has taken place in the world's main economies over the past year. This context continues to paint a mixed picture for the activity and profitability of insurance companies this year, although a further economic slowdown is expected in 2024, as the effects of tighter financial conditions and their repercussions on credit volume are transferred to the real economy.

On the other hand, inflation data is at high levels in many economies (especially core inflation), so the profitability of insurance companies will therefore remain under pressure from rising claims costs and

other operating expenses. However, the situation continues to improve, and higher interest rates are encouraging the growth of the life insurance business. The automotive sector, in particular, continues to benefit from the normalization of supply chain problems and some pent-up demand, which is why car insurance demand has improved. However, the persistence of inflation is impacting its profitability, while the tightening of conditions for financing new vehicle purchases and the anticipated economic slowdown may weigh on demand in the coming months. Meanwhile, health insurance continues to have strong prospects as a complement to public health systems, although it also faces the challenge of controlling rising costs under inflationary pressures.

Lastly, the financial markets, especially equity, made a noteworthy recovery at the end of the first half of the year, and a certain degree of stability can be anticipated in monetary policy rates in the second half. Some additional hikes are on the horizon for central banks that started the monetary tightening process later, such as the European Central Bank (ECB) in the Eurozone and, after its recent pause, the Federal Reserve in the United States, based on inflation data. Other central banks that began the monetary tightening process earlier, such as Brazil and Mexico, have already entered a phase of holding interest rates at the levels reached in previous months, while inflation subsides. The improved performance of equity indexes (after the falls experienced in the previous year) and high interest rates could be

favorable to life savings insurance products and those in which the policyholder assumes the investment risk. These products can take advantage of the higher returns offered by fixed income in the product mix launched in the market.

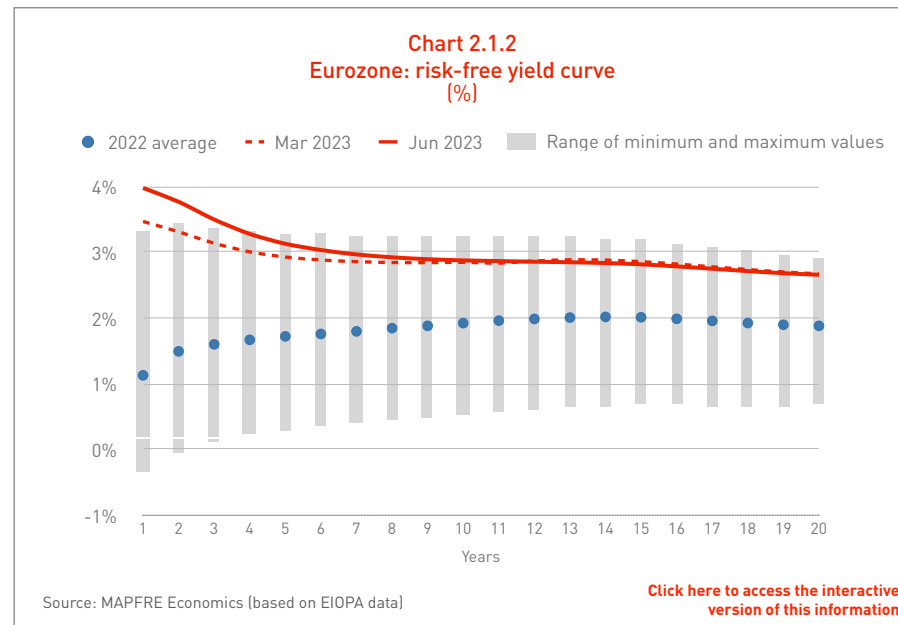
2.1.2 Eurozone

Economic growth across the Eurozone should reach an estimated 0.6% in 2023 (+3.5% in 2022), which would confirm a significant slowdown in the area's economic activity, as the effects of interest rate hikes and credit crunch associated with the tightening of financing conditions are transmitted to the real economy. This climate of slowing economic growth could mean lower growth for the most cyclical lines of the insurance industry. However, the interest rate hikes will continue to favor life savings insurance, while the improved returns on investment portfolios, lower inflation and the revised rates applied in 2023 to offset higher costs may help to boost the profitability of insurance companies, recovering lost margins from the inflationary process.

Meanwhile, the ECB has continued to tighten its monetary policy with two new interest rate hikes of 50 basis points (bps) each, in May and June, putting interest rates at 4% for main financing operations and 3.5% for the deposit facility. The message is that the interest rate increases have not yet ended, with inflation data that is improving, but that remains high across the Eurozone as a whole, standing at 5.5% in June (6.1% in May), compared to average inflation of 8.4% for 2022. Upon analyzing the risk-free yield curves produced by the European Insurance and Pensions Authority (EIOPA), the short and medium tranches show a further rise in interest rates, increasing the inversion of the risk-free yield curve, which has a negative slope in all its tranches, especially maturities up to six years (see Chart 2.1.2)⁵.

The rises in risk-free interest rates continue offering a suitable outlook for the Life Savings business, although the inversion of the interest rate curve continues to complicate the management of this business, which must adapt to a new environment in which the term premium is negative, more appropriate for products with shorter durations and periodic renewals and more complex for longer-term products offered by insurers, such as traditional life annuities.

Also notable are the rally of the Euro Stoxx 50 index, which reached 15.7% between January and the end of June, and in the U.S. market, the S&P500, which has rebounded 15.5%, as well as the Nasdaq Composite, which has done so by 30.5%. This recovery of the indexes (after the drops experienced the previous year) can be favorable for life insurance products in which the policyholder assumes the investment



risk. These can also take advantage of the higher profitability offered by fixed income, especially in the shortest terms of the curve, in the product mix launched on the market, given the high level of the equity indexes, which are close to their historic highs.

2.1.3 Germany

In this report, our economic growth forecast for Germany in 2023 has been revised downwards, and we anticipate a mild recession with a 0.3% decrease in annual GDP (+1.9% in 2022). The moderation in energy prices and rapid normalization of supply chains were not enough to prevent the German economy from entering a technical recession in the first quarter of the year. Weaker-than-anticipated demand, a result of tighter financing conditions, and inflation that is beginning to show some signs of easing, but remains high (6.1% and 6.4% in May and June, respectively, after averaging 6.9% in 2022), continue to present a complex outlook for the business growth and profitability of the insurance industry in the Non-Life segment (as a result of high inflation). This situation could improve in 2024, when economic growth should reach around 1.0% and inflation is expected to ease significantly.

Meanwhile, after the latest inflation data and the ECB's additional interest rate hikes, German sovereign bond yields have continued to rise, especially in the shorter maturities, and to a lesser extent, in the long tranches. Therefore, the slope of the German sovereign bond yield curve remained markedly negative at the end of the first half. This interest rate situation continues to provide a favorable environment for Life savings business with guaranteed interest rates with shorter terms and periodic renewals, and a more complex one for products with longer-term guaranteed interest rates, as well as for traditional annuities by virtue of the inversion of the risk-free yield curve. However, in the last quarter, the environment has slightly improved for these types of products with guaranteed interest rates with longer

terms. The German DAX, meanwhile, has recovered with a revaluation of 15.4% in the first half of the year, following a 12.3% drop in 2022. The strong performance of equities may favor the development of Life insurance products in which the policyholder assumes the investment risk. These products can also benefit from the higher returns offered by fixed income in the product mix offered in the market.

2.1.4 Italy

The forecast for the Italian economy has been revised upwards for 2023, to 1.2% (+3.8% in 2022), and downwards for 2024, to 0.7%. This upward revision of this year's growth estimate is based on some economic indicators that continue to provide positive surprises, particularly consumption (public and private). However, this is observed in a slowing economic environment as a result of the tightening of financial conditions for households and companies due to the interest rate increases, with an inflation level that, although it continues to moderate, remains high (7.6% and 6.4% in May and June, compared to an average inflation rate of 8.2% in 2022). This economic situation will imply a still-complicated picture for the business and profitability of the insurance industry, especially for the Non-Life segment, due to high inflation levels.

On the other hand, the ten-year sovereign bond yield has remained above 4%, although for the first time, the sovereign debt curve had an inverted tranche for maturities between three and seven years at the end of the first half. In any case, this environment of higher interest rates and a yield curve that makes it possible to offer returns on medium and long-term products that are significantly higher than short-term rates (term premium) continues to paint a good picture for traditional life savings and annuity products. On the other hand, equity markets have performed well so far this year (after the declines observed in the previous year); the FTSE MIB in particular rose by 18.3% in the first half of the year. This strong performance of equity

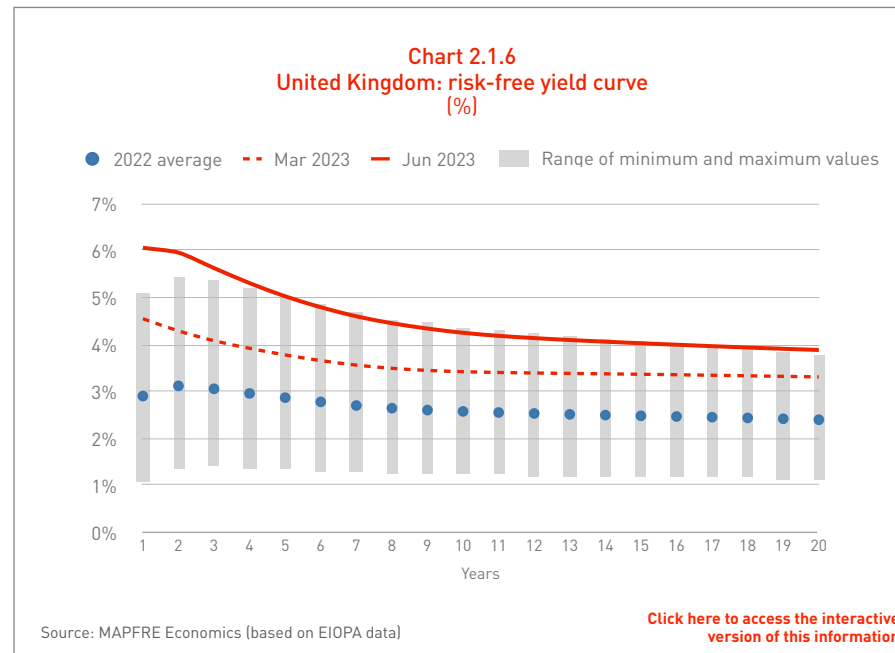
can help the development of life insurance products in which the policyholder assumes the investment risk, which are very common in the Italian market. These can also continue taking advantage of the higher profitability offered by fixed income in the combination of products launched on the market.

2.1.5 Spain

The economic growth forecast for the Spanish economy in 2023 has improved, reaching 2.2% (+5.5% in 2022), exceeding the pre-pandemic level of GDP. The strong performance of the foreign sector (tourism and exports) and the moderation of energy prices are contributing to this. However, the tightening of financial conditions for households and companies continues, despite the fact that in Spain, inflation continues to show clear signs of moderation (3.2% and 1.9% year-on-year in May and June, respectively, compared to average inflation of 8.4% in 2022). The ECB continues to transmit the message that it will continue to tighten monetary policy, with some additional interest rate hikes and balance sheet reductions, until inflation eases across the entire Eurozone. In particular, the Spanish economy continues to paint a picture of moderate growth for the insurance business and improved prospects for profitability (due to lower inflation). This is reflected in its behavior in the first half of the year, with positive, above-inflation growth in all the major business segments and strong potential for the rest of the year. This is especially the case of the Life savings business, where premiums grew 71.6% in the first five months of the year thanks to the rise in interest rates and the behavior of other participants in the Spanish savings management market. The Spanish economy should grow by an estimated 1.9% in 2024, which represents a slowdown as the effects of interest rate hikes and the credit crunch are transferred to the real economy, which could be reflected in lower growth in the insurance industry.

2.1.6 United Kingdom

The forecast for the UK economy in 2023 points to low growth, with GDP rising by around 0.4% (+4.1% in 2022), while the 2024 forecast has been revised downward to +0.7%, due to the Bank of England's decision to tighten monetary policy in response to inflation that remains stubbornly high despite the fall in energy prices. In any case, the outlook remains unfavorable for the development of the UK insurance market, especially for the Non-Life segment, in an environment of weak economic growth and high inflation (8.7% year-on-year in April and May, compared to an average inflation of 9.1% in 2022). This continues to erode household disposable income and the



profitability of the insurance industry, keeping pressure on insurance prices high.

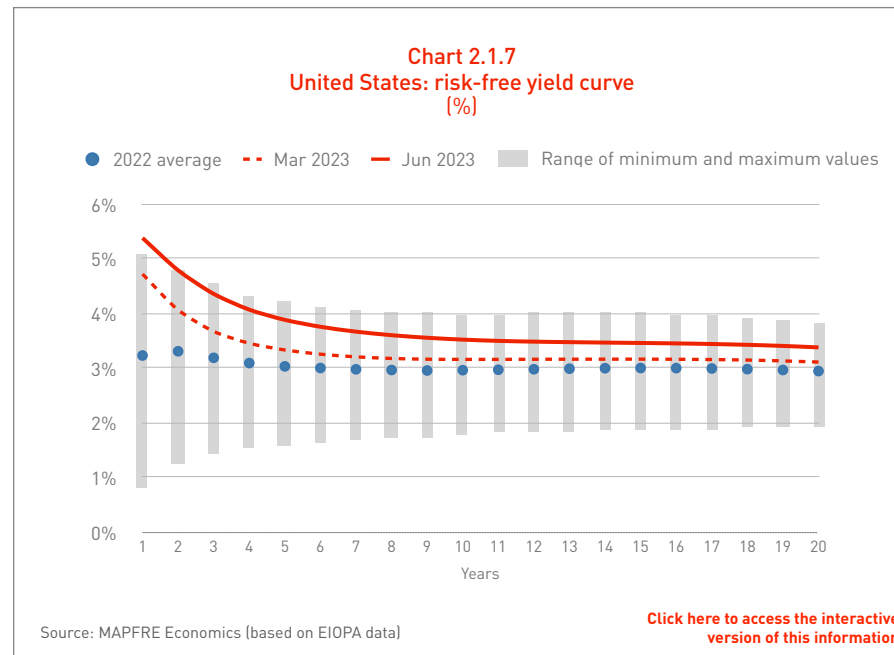
With respect to savings-linked Life insurance and traditional annuities, the Bank of England notably increased interest rates again at its May and June meetings by 25 and 50 basis points, respectively, leaving them at 5%, in view of the poor inflation data. EIOPA's risk-free yield curves at the end of June (see Chart 2.1.6) show an upward movement in the curve, especially in the first tranches, compared to the curve in March, with a curve maintaining a markedly negative slope. The high level of short-term interest rates continues to be favorable for the marketing of life savings insurance products with guaranteed rates for short durations and rate reviews at each renewal. Meanwhile, it is less favorable for the marketing of annuities with guaranteed interest rates, in an environment of negative real interest rates and a curve that maintains a negative slope affecting all tranches. With regard to equities, the FTSE 100 remains sideways, unlike other large indexes, closing the first half with a slight increase of 1.1%. However, the strong performance of the main international equity indexes in the quarter continues to favor the marketing of life insurance policies in which the policyholder assumes the investment risk, which are deeply rooted in this market, with products that can also leverage the higher returns of fixed income.

2.1.7 United States

In this report, the economic growth forecast for the United States in 2023 has been revised upwards to 1.3% (+2.1% in 2022). However, the forecast for next year has been lowered, with estimated growth of 0.5%, as a result of the effect on the real economy of the tightening of financing conditions, with interest rates at levels not seen in the last 15 years. The risk of a major credit crunch due to the problems in medium-sized and small U.S. banks, after the bankruptcies in March, has not materialized, and inflation continues to show signs of easing

(4.9% and 4.0% in April and May, respectively, compared to average inflation of 8.0% in 2022). Despite the economic slowdown, the labor market and consumption remain strong, which continues to favor moderate growth in the insurance business, and lower inflation may help improve its profitability. High interest rates are also helping to improve the outlook for the future profitability of its investment portfolios.

Regarding the financial environment for savings-linked life insurance, at its June meeting, the U.S. Federal Reserve notably decided to pause the process of interest rate hikes, holding monetary policy rates within a range of 5% to 5.25% after the 25 bps increase agreed in May. It



suggested that a further increase could be announced at its next meeting in July, maintaining a restrictive monetary policy until there is solid evidence that inflation is under control, approaching its 2% target. The June market risk-free yield curve produced by EIOPA (see Chart 2.1.7) shows a rise in interest rates in all tranches of the curve, which has acquired a negative slope affecting every tranche. In any case, the high levels of risk-free interest rates continue to offer a favorable outlook for the Life Savings business, but the inversion of the interest rate curve continues to complicate the management of this business, which must adapt to a new environment in which the short-term rates are higher than the long-term rates (negative term premium), which could benefit products with shorter durations and periodic renewals, although more complex for longer-term products and for traditional life annuities.

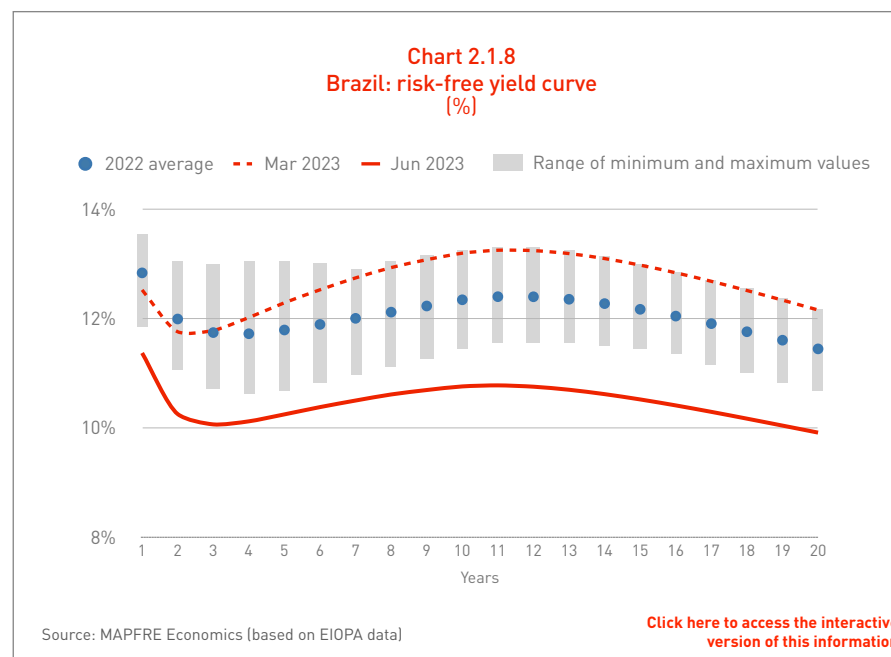
On the other hand, the S&P 500 index gained 15.5% year-to-date through the end of June, and the Nasdaq Composite rallied 30.5%. This may encourage the sale of life insurance products in which the policyholder assumes the investment risk, very common in the U.S. market, which can also take advantage of the higher returns offered by fixed income in the mix of products launched in the market.

2.1.8 Brazil

The growth forecast for the Brazilian economy in 2023 has been revised upwards, to 1.8% (+3.0% in 2022), due to the stronger performance of the foreign sector and domestic consumption. However, the slowdown should be accentuated in 2024, with estimated economic growth of 1.4%, as the effects of the high interest rates maintained by the central bank of Brazil to combat inflation are transferred to the real economy. Meanwhile, the insurance market continues to show good performance, mainly in the non-life segment, with significant, above-inflation growth in nearly all lines of business,

and particularly in car insurance, a segment that has benefited from the normalization of supply chains and the moderation of energy prices, boosting production and new vehicle registrations. On the other hand, the profitability indicators for the insurance industry have also improved, which is helping to ease inflation.

In general, the interest rate environment continues to benefit the development of life savings insurance in the Brazilian market, following the Brazilian central bank's decision to hold interest rates at 13.75% at its June meeting, their level since August 2022, with inflation already within its target range and continuing to decline (4.18% and 3.94% in April and May, respectively, compared to average inflation of

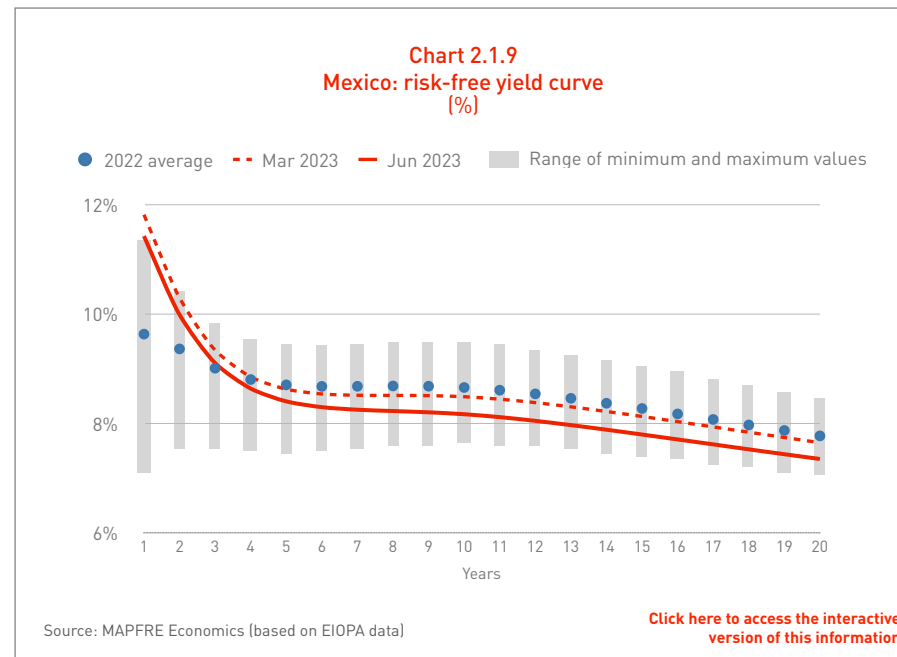


9.3% in 2022), but which remains exposed to upward risks. This positive real interest rate environment is still highly favorable for conducting the life savings and annuities business, with interest rates offering returns significantly higher than the latest inflation data. The EIOPA risk-free yield curves at the end of June (see Chart 2.1.8) show a decline in all tranches of the curve, which has a negative slope in its first tranches, a situation that continues to favor the development of products backed by short-maturity sovereign bonds, which are very common in this market (*Vida Gerador de Beneficio Livre*, VGBL, and *Plano Gerador de Beneficio Livre*, PGBL), and continues to make the possibility of acquiring bonds with longer durations attractive.

2.1.9 Mexico

The Mexican economy is handling the tightening of monetary policy in 2023 better than expected thanks to private consumption, which has led to an upward revision of the growth forecasts for 2023, to 1.8% (+3.0% in 2022), with a slight additional slowdown in 2024, when economic growth could be around 1.5%. The economy is slowing down due to the effect of high interest rates (11.25%), with inflation that continues to ease (6.25% and 5.84% in April and May, respectively), still above its target range (between 2% and 4%). This may lead to a slowdown in the insurance market, mainly in the non-life segment, although the easing of inflation and the high profitability of the investment portfolios could help improve their profitability.

Regarding the interest rate environment, the Bank of Mexico decided to hold the reference monetary policy interest rate at 11.25% in May and June. In the risk-free yield curves produced by EIOPA (see Chart 2.1.9), a slight decline is noticeable at all tranches of the curve, which remains significantly inverted in its shortest tranches. This interest rate environment continues to be appropriate for the development of life savings insurance, which can offer significantly higher remuneration than the latest inflation data. The inversion in the



interest rate curve remains favorable for launching savings products with shorter-term rate guarantees and periodic reviews of guaranteed rates, and even to take advantage of the relatively high levels of the medium tranches with longer-term rate guarantees.

2.1.10 Argentina

In Argentina, the economic growth prospects have been revised downward, with GDP expected to drop by around 1.5% in 2023 (+5.2% in 2022) and triple-digit inflation that continues to rise (114.2% in May, compared to average inflation of 72.4% for 2022). Estimates indicate that the Argentine economy could emerge from recession and grow slightly in 2024, by around 0.2% in 2024. This challenging economic

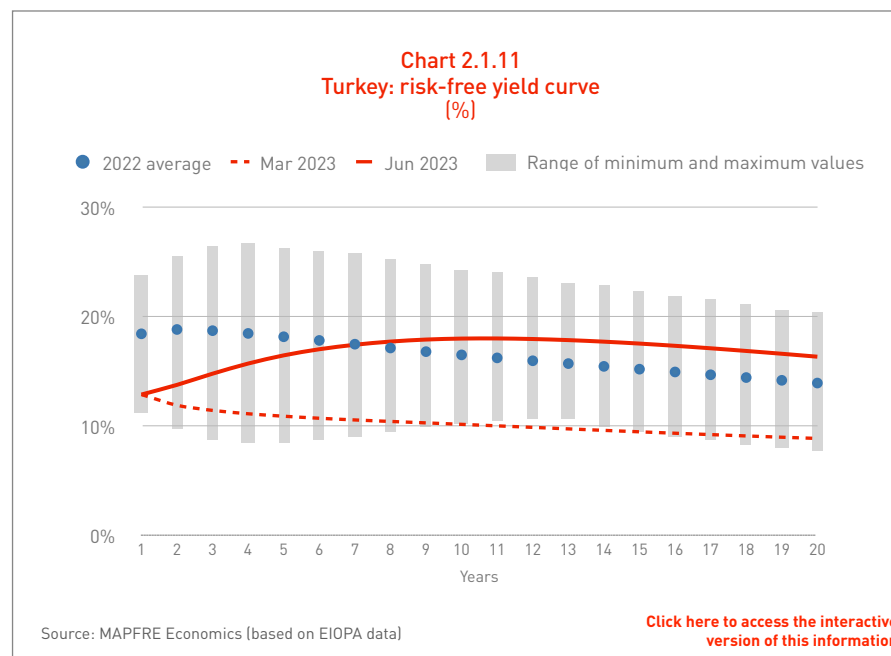
context continues to paint a very complex picture for the business and profitability of the insurance industry.

Meanwhile, in response to the rise in inflation, the central bank decided to increase the reference interest rate to 97% at its meeting in June, in an environment of negative real interest rates. Thus, the outlook is difficult for savings-linked life insurance, since the market does not offer financial assets with enough security and profitability to back products that can offset the loss of purchasing power caused by inflation.

2.1.11 Turkey

In this report, the forecast for the Turkish economy in 2023 has been revised slightly upwards, with estimated growth of 1.9% (5.6% in 2022), which implies an economic slowdown that would continue until 2024, when growth of around 1.5% is anticipated. Inflation remains high but is easing (39.6% in May, compared to average inflation in 2022 of 72.3%). At its latest meeting in June, the Turkish central bank decided to change the orientation of the monetary policy applied at recent meetings (when it held rates at 8.5%, despite high inflation) and raised interest rates to 15%.

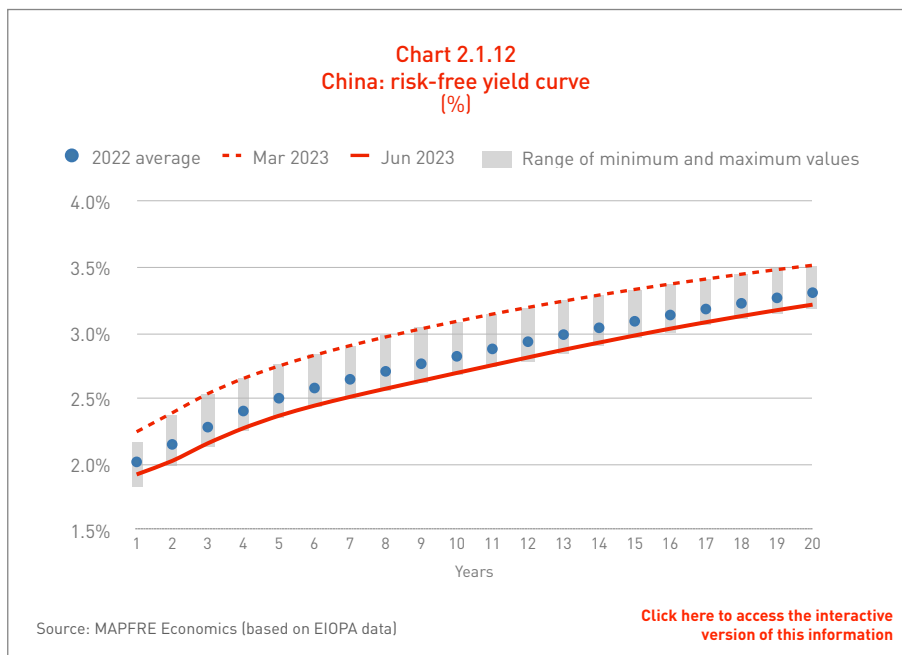
The milder-than-expected economic slowdown points to an outlook for moderate growth for the insurance industry in real terms, and better inflation data may help to improve profitability. On the other hand, despite the latest rise in interest rates, the savings-linked life insurance business will remain weighed down by the situation of negative real interest rates, although in recent months the gap between inflation and nominal interest rates has continued to narrow. The EIOPA curves (see Chart 2.1.11) show a rise in the market risk-free interest rates across all tranches of the curve, which now shows a positive slope in maturities up to 10 years, although the interest rates



are still far from being able to compensate for the loss of purchasing power due to high inflation. The outlook therefore remains very complex for the life savings insurance business in that market.

2.1.12 China

The anticipated economic growth environment in China remains appropriate for the development of the insurance business. Thus, in this report, we have revised our expectations for economic growth in China slightly upwards for 2023, anticipating real GDP growth of around 5.3% (+3.0% in 2022), and slightly downwards for 2024, when



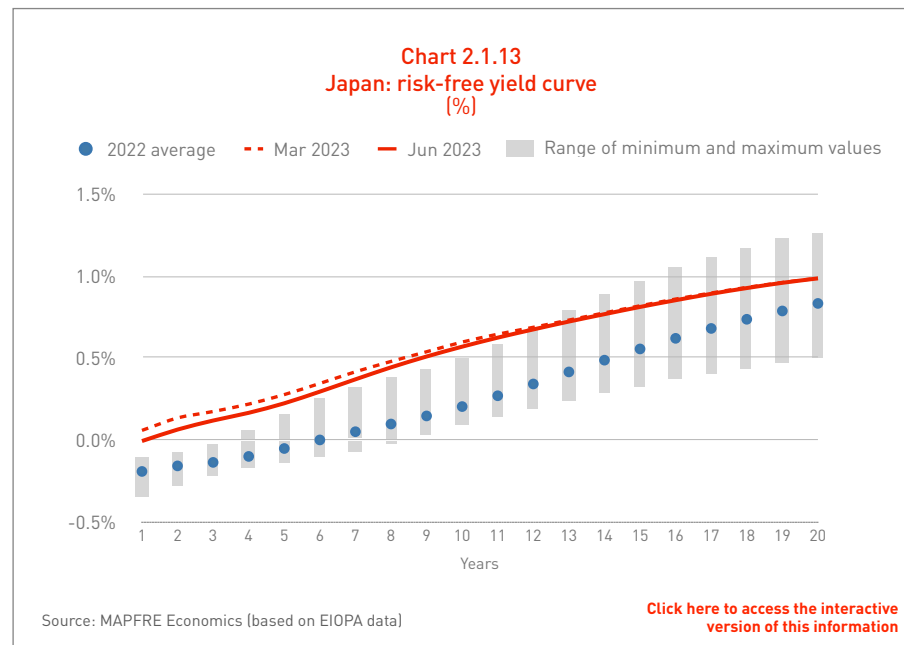
economic growth is expected to be around 4.7%, supported by an accommodative monetary policy and moderation in energy prices.

On the other hand, inflation in China picked up slightly in May, increasing to 0.2% from 0.1% in April, but stands at relatively low levels (average inflation for 2022 was 2.0%). This has allowed the central bank to continue applying an accommodative monetary policy, reducing interest rates by ten basis points to 3.55% at its June meeting for the first time in ten months. The EIOPA curves (see Chart 2.1.12) show a significant fall in market risk-free interest rates across all tranches, settling around the minimum values reached in 2022. Long-term rates are still significantly higher than short-term rates, offering a positive term premium. This maintains a favorable environment for the life

savings and annuity insurance business, with a curve that allows guaranteed medium- and long-term rates to be offered that are higher than short-term rates, above inflation. However, rate decreases may make them less attractive until policyholders assume that the market offers lower guaranteed rates than they were accustomed to.

2.1.13 Japan

For the Japanese economy, we have maintained our forecast of GDP growth of around 1.1% in 2023 (+1.0% in 2022) as well as next year. This moderate, steady growth will allow it to reach its pre-pandemic level this year, creating a favorable environment for the development of the insurance business, although inflation remains relatively high for the



structural standards of the Japanese economy, which could have a negative impact on its profitability.

Regarding the life business, the Bank of Japan decided once again, at its June meeting, not to modify its ultra-lax monetary policy, holding short-term interest rates at -0.1% and the 10-year sovereign bond at around 0%, despite the inflation data (3.5% and 3.2% in April and May, respectively, above its 2% target). The risk-free yield curves produced by EIOPA (see Chart 2.1.13) show a curve that has stabilized compared to the levels observed at the end of the previous quarter, with positive values across all tranches except maturities of up to one year, which are negative. The curve makes it possible to offer a positive term premium, albeit below inflation, which, together with the expectations that it might increase, continues to paint a more complex picture for the management of this business.

2.1.14 Philippines

Economic expectations for the Philippines in 2023 have been revised slightly upwards, with anticipated GDP growth of 5.1% (+7.6% in 2022), reflecting strong performance in the industrial and manufacturing sectors and aided by falling energy prices. All of this continues to present a favorable outlook for the development of the insurance business. Inflation has eased significantly, although it remains high, standing at 5.4% in June (average inflation in 2022 was 5.8%), thus improving the outlook for the profitability of insurance companies.

In relation to savings-linked life insurance, the Central Bank of the Philippines continues to apply a restrictive monetary policy, deciding to maintain the benchmark rate at 6.25% at its last two meetings in May and June, given the improvement in the latest inflation data. The yield on the two-year sovereign bond stood at 6.41% at the end of June, while the ten-year sovereign bond was at 6.45%. This makes the interest rate environment significantly better for the marketing of traditional life

savings and annuity products, with real interest rates entering positive territory and high levels in an inflationary environment that shows clear signs of improvement.

2.2 Regulatory and supervisory trends

SFCR of the leading insurance groups in the European Union

During the second quarter of 2023, the leading insurance groups in the European Union (EU) published the *Solvency and Financial Condition Report* (SFCR) for fiscal year 2022. It was the seventh such report released by those companies since the risk-based solvency regulatory framework (Solvency II) entered into force in the EU⁶.

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

Within the scheme applicable to insurance groups, Pillar 1 is aimed at determining the quantitative aspects that preserve the group's solvency position, defined under the solvency regulations themselves, and which therefore may differ from the accounting consolidation perimeter. Pillar 2, for its part, aims to maintain adequate governance and supervision of insurance groups as an additional element that underpins their performance and solvency position. And finally, the purpose of Pillar 3 is to ensure transparency and the disclosure of these groups' information to the market.

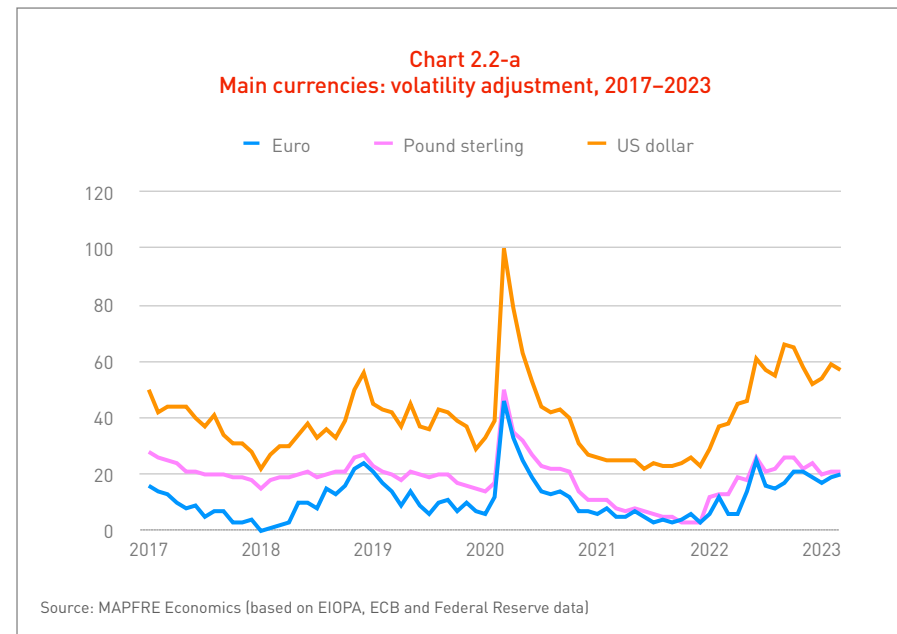
Thus, pursuant to the specific applicable regulatory framework under Pillar 3, insurance groups must publish information on their financial position and solvency on an annual basis, providing clear, comparable and high-quality information to the market by releasing the group's SFCR. With this exercise in transparency, the regulation seeks to enable interested economic operators to have access to information that allows them to understand the implicit risk at the level of the different insurance groups and, to that extent, are in a condition to be able to assess, from an aggregate perspective, the characteristics of their risk assessment and management processes, the level of sufficiency of their technical provisions and own funds and, therefore, their solvency position.

Analysis of solvency ratio behavior

This section includes an analysis of the behavior of the solvency ratios of the top insurance groups in the European Union (EU) in 2022, including some comparisons of the evolution of their main components with respect to 2021. It is important to highlight that, in 2022, the fall in the value of the technical provisions of the set of groups analyzed was especially relevant. This highlights the impact that the change in orientation in 2022, with the tightening of monetary policy by the European Central Bank (ECB) and other central banks of the main developed economies (with accelerated interest rate hikes due to

rising inflation), has had on the valuation of technical provisions for solvency purposes. These have fallen substantially when discounting the flows of projected liabilities with higher discount rates, after a prolonged situation of near-zero and even negative interest rates.

However, despite the positive impact of interest rate increases on the valuation of technical provisions, the accelerated rate hikes had a negative impact on the valuation of insurance groups' investment portfolios. This impact on the asset side was amplified by the increase in risk premiums (due to geopolitical tensions and the central banks' liquidity withdrawal programs), both factors having a negative net effect on the own funds of the groups analyzed, which have seen their solvency ratios drop, practically across the board, compared to the



previous year, despite continuing to show a robust position. Thus, as illustrated in Chart 2.2-a, the volatility adjustments for the calculation of technical provisions for investment portfolios in the main currencies at year-end were substantially higher than those at the start of the year, having increased progressively throughout the year, unlike in 2021, when they remained fairly stable. Thus, once again, in 2022 the volatility adjustments partially offset the impact of volatility spikes on insurance groups' solvency position, considering their nature as medium- and long-term institutional investors and highlighting the importance of this mechanism introduced by the Solvency II regulation.

Solvency ratios

Chart 2.2-b shows the 2022 solvency ratios published by the main insurance groups in the EU, as well as their comparison with those of the previous year. According to this information, the French group Covéa saw its solvency ratio reduced significantly to 226% (compared to 351% in 2021), due largely to the impact of the acquisition of the reinsurer Partner RE on its solvency position. Therefore, it no longer occupies the top position in the ranking of European groups based on this criterion. Meanwhile, Poste Vita tops the ranking in 2022, with a solvency ratio of 253%, which has also been reduced by 34.5 percentage points (pp) compared to the previous year. Also noteworthy is the 41 pp drop in the solvency ratio of Crédit Agricole, which stands at 204% (compared to 245% in 2021), causing the group to fall seven positions to eleventh place in the ranking based on the solvency ratios of the groups analyzed. Of all the groups that make up the analyzed sample, only CNP, and to a lesser extent, Sogecap, increased their solvency ratio between 2021 and 2022, by 13.0 and 0.3 pp, respectively.

In addition, Table 2.2-a shows the main financial and solvency figures for fiscal year 2022 reported by the insurance groups in their respective SFCRs. This information shows that the total premiums in that year for all the EU insurance groups included in the sample that served as a

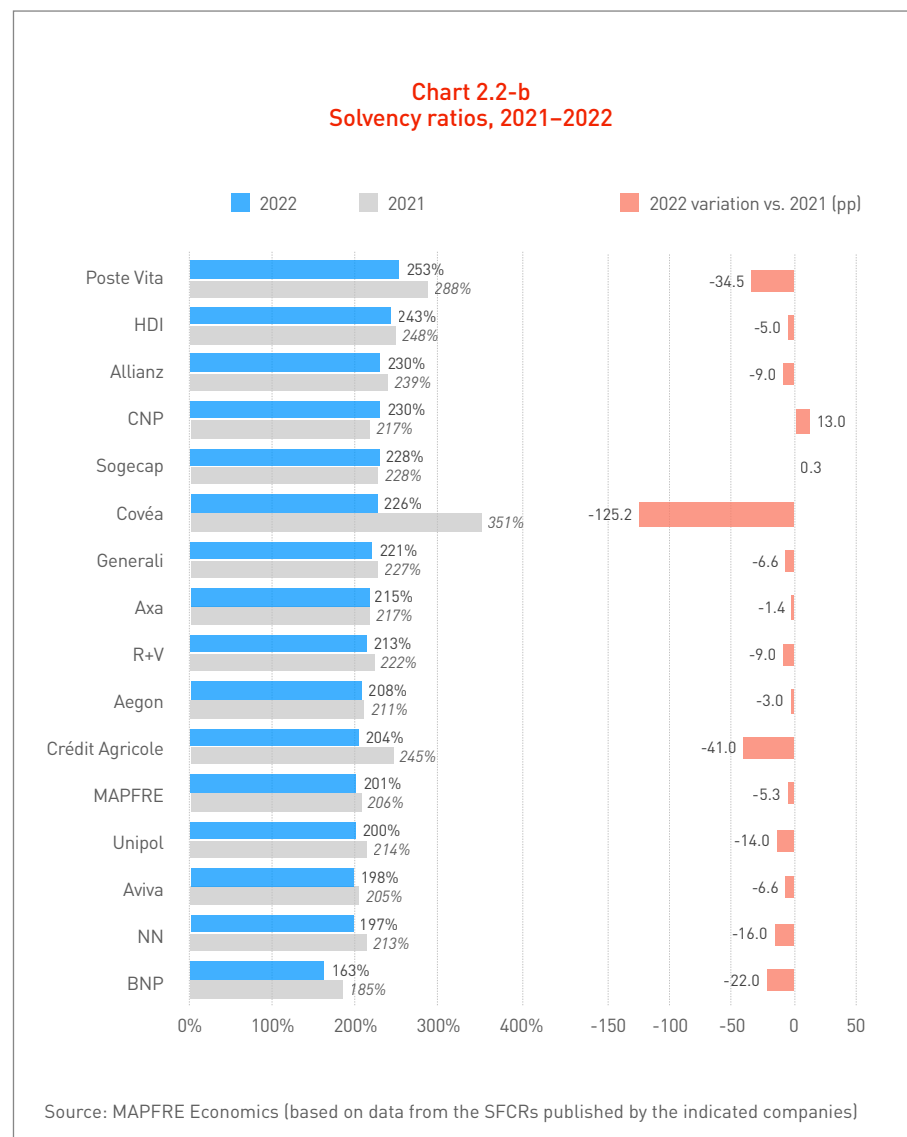


Table 2.2-a
Main financial and solvency figures, 2022
(millions of euros)

	Premiums	Technical provisions	Eligible own funds	SCR required	Solvency ratio
Allianz	145,657	544,671	89,169	38,769	230.0%
Axa	99,615	444,468	58,483	27,170	215.2%
Generali	81,538	367,100	46,421	21,050	220.5%
HDI	53,432	113,082	27,041	11,121	243.2%
Aviva	36,340	276,283	21,086	10,664	197.7%
CNP	36,007	323,945	36,380	15,803	230.2%
Crédit Agricole	33,663	296,870	27,295	13,403	203.6%
MAPFRE	24,540	26,921	9,235	4,591	201.2%
BNP	23,920	196,448	15,822	9,717	162.8%
Aegon	21,745	139,479	16,332	7,844	208.2%
Covéa	21,466	71,582	28,143	12,464	225.8%
R+V	18,985	87,098	15,918	7,484	212.7%
Poste Vita	17,572	133,029	12,805	5,056	253.3%
Sogecap	14,758	134,858	9,679	4,241	228.2%
Unipol	13,843	53,815	9,192	4,591	200.2%
Nationale Nederlanden	13,641	130,835	17,822	9,040	197.1%
Total	656,722	3,340,486	440,823	203,009	217.1%

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

basis for this analysis amounted to €656.7 billion (€649.8 billion in 2021), while technical provisions stood at €3.3 trillion (€4 billion in 2021). As previously indicated, this represents a 16.6% drop in the value of the technical provisions of all the groups analyzed, highlighting the impact that the tightening of monetary policy by the ECB and other central banks of the main developed economies in 2022 (with accelerated interest rate hikes due to the sharp rise in inflation) has had on the valuation of technical provisions for solvency purposes, which have fallen upon discounting the projected liability flows at higher discount rates.

However, as previously noted, despite the positive impact of interest rate hikes on the valuation of technical provisions, the rate increases had a negative impact on the valuation of the investment portfolios of the insurance groups analyzed. This was amplified by the increase in risk premiums (as a result of geopolitical tensions and central banks' liquidity withdrawal programs), both factors having a net negative effect on the equity of the groups analyzed on the whole. Thus, the total own funds of the sample stood at €440.8 billion (€489.2 billion in 2021), while the aggregate SCR amounted to €203.0 billion (€213.5 billion in 2021). The foregoing resulted in the relative worsening of the aggregate solvency ratio of the sample, which stood at 217.1% (compared to 229.2% in 2021); in any case, this was well above the minimum capital requirements set by the Solvency II regulation.

SCR calculation methods

Information regarding the method used by the insurance groups considered in this report to calculate the SCR in 2022 is presented in Table 2.2-b. Based on this information, of the 16 groups analyzed, seven (CNP, Crédit Agricole, BNP, Sogecap, Poste, Covéa and R+V) used the *standard formula*, while the remaining nine (Allianz, Axa, Generali, RSA, Aviva, HDI, Aegon, MAPFRE and Nationale Nederlanden) used different forms of *internal models*. In general, the

groups that carry out some form of internal modeling chose to apply partial internal models, combining the calculation of the standard formula for certain modules with internal models for certain risk categories, with the sole exception of HDI, which uses a comprehensive internal model. Similarly, most of the internal models used focus on financial (market and credit) and underwriting risks, and five of them used a dynamic volatility adjustment in their respective models (Axa, Allianz, HDI, Aviva and Aegon).

Eligible own funds

Table 2.2-c presents information on the quality of eligible own funds that were available to the different insurance groups considered in this analysis to cover their capital requirements. According to this information, at an aggregate level, 85.9% of eligible own funds were of the highest quality, or Tier 1, while 12.4% were classified as Tier 2, and the remaining 1.7% corresponded to the Tier 3 level, with hardly any changes compared to the quality structure observed the previous year. Based on this analysis, the R+V and Covéa groups stand out, for which the highest-quality eligible own funds were 100% and 98%, respectively.

To complement this information, Charts 2.2-c, 2.2-d and 2.2-e offer a comparison of the amount of eligible own funds of the different insurance groups considered in the analysis, in relation to some main figures of the balance sheet and the business (assets, technical provisions and premiums), as well as the changes recorded in these relative references compared to 2021. Regarding the comparison between own funds and assets, the cases of Covéa, MAPFRE and HDI stand out, with a proportion of 26.5%, 20.7% and 16.0%, respectively. In the relationship between own funds and technical provisions, the first three positions are also held by Covéa, MAPFRE and HDI, with a proportion of 39.3%, 34.3% and 23.9%, in each case. Finally, in the relationship between own funds and premiums, Covéa, Nationale

Table 2.2-b
SCR calculation methods, 2022

	Standard formula	Partial internal models				
		Market	Credit	Underwriting	Operational	Others
Allianz		✓	✓	✓	✓	✓
Axa		✓	✓	✓	✓	✓
Generali		✓	✓	✓	✓	
Aviva		✓	✓	✓	✓	✓
HDI		✓	✓	✓	✓	✓
Crédit Agricole	✓					
CNP	✓					
BNP	✓					
Aegon		✓	✓	✓	✓	✓
MAPFRE				✓		
R+V	✓					
Covéa	✓					
Sogecap	✓					
Nationale Nederlanden		✓	✓	✓	✓	✓
Unipol		✓	✓	✓		
Poste Vita	✓					

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

Table 2.2-c
Quality of eligible own funds, 2022

	Eligible own funds	Tier 1		Tier 1r		Tier 2		Tier 3	
		Thousands of euros	(%)	Thousands of euros	(%)	Thousands of euros	(%)	Thousands of euros	(%)
Allianz	89,169,194	73,179,019	82.1%	5,465,461	6.1%	9,297,390	10.4%	1,227,325	1.4%
Axa	58,482,858	40,674,449	69.5%	5,704,369	9.8%	11,414,102	19.5%	689,938	1.2%
Generali	46,421,023	38,563,305	83.1%	1,703,595	3.7%	5,787,967	12.5%	393,156	0.8%
CNP	36,380,277	28,910,965	79.5%	2,596,073	7.1%	3,806,152	10.5%	1,067,087	2.9%
Covéa	28,142,995	27,400,844	97.4%	220,341	0.8%	521,810	1.9%		
Crédit Agricole	27,294,623	21,573,001	79.0%	1,813,516	6.6%	3,862,597	14.2%	45,509	0.2%
HDI	27,041,268	23,201,855	85.8%	349,951	1.3%	3,170,033	11.7%	319,429	1.2%
Aviva	21,085,875	14,866,465	70.5%	1,068,507	5.1%	4,816,600	22.8%	334,303	1.6%
Nationale Nederlanden	17,821,988	12,922,969	72.5%	1,715,680	9.6%	2,273,695	12.8%	909,644	5.1%
Aegon	16,332,013	11,762,356	72.0%	1,822,078	11.2%	2,195,500	13.4%	552,079	3.4%
R+V	15,918,386	15,904,319	99.9%	522	0.0%	13,545	0.1%		
BNP	15,821,739	10,626,294	67.2%	1,401,327	8.9%	2,627,138	16.6%	1,166,980	7.4%
Poste Vita	12,804,895	10,064,015	78.6%	727,630	5.7%	2,013,250	15.7%		
Sogecap	9,678,583	7,411,865	76.6%	870,060	9.0%	1,377,439	14.2%	19,219	0.2%
MAPFRE	9,235,240	7,670,080	83.1%			1,022,280	11.1%	542,880	5.9%
Unipol	9,192,007	7,611,958	82.8%	1,133,922	12.3%	425,048	4.6%	21,079	0.2%
TOTAL	440,822,964	352,343,760	79.9%	26,593,033	6.0%	54,624,546	12.4%	7,288,627	1.7%

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

Nederlanden and CNP stand out, with coefficients of 131.1%, 130.7% and 101.0%, respectively.

Impact of transitional and adjustment measures

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

In this regard, the measures adopted by the Solvency II Directive were as follows: First, the *transitional measure on technical provisions*, which allows the difference between the technical provision estimated under the parameters of Solvency II and the one calculated in line with the previous standards under Solvency I to be phased in gradually over an initial 16-year period, until January 1, 2032 (seven years having now elapsed)⁷. This regime allows for a smooth transition to the requirements of the new system for those who decide to make use of it. It should be noted that, in 2022, the insurance groups Allianz, Aviva, Generali, MAPFRE, Nationale Nederlanden, R+V and HDI applied the transitional measures in calculating their group solvency ratio. Second, the *volatility adjustment measure*, which permits correcting the discount interest rate for the technical provisions to mitigate the effects of momentary volatilities in credit spreads in investment portfolios. And finally, the *asset and liability matching adjustment*

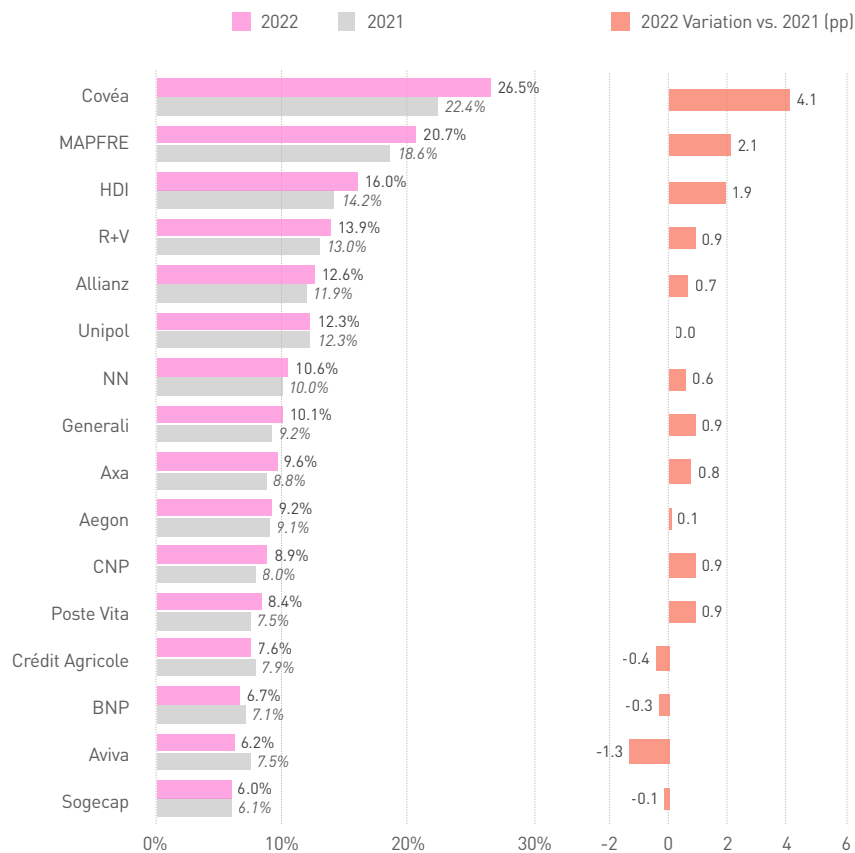
measure, a measure which, if certain requirements are met, allows companies to adjust the discount curve on technical provisions in line with institutions holding fixed income assets to maturity with a duration that is similar to their liabilities, and which are therefore not exposed to market volatility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

The aforementioned transitional and adjustment measures have a different effect on the level of eligible own funds and the SCR, and therefore on the solvency ratio of the insurance groups. The extent of this impact in each case is determined by, among other factors, the structure of the risk portfolio of each insurance group as well as by the characteristics of their risk management process. These effects were disclosed by each of them in the respective SFCR publication, and are presented in Tables 2.2-d and 2.2-e. Furthermore, these impacts are illustrated, along with their variation compared to 2021, in Charts 2.2-f and 2.2-g.

Relative weight of SCR components

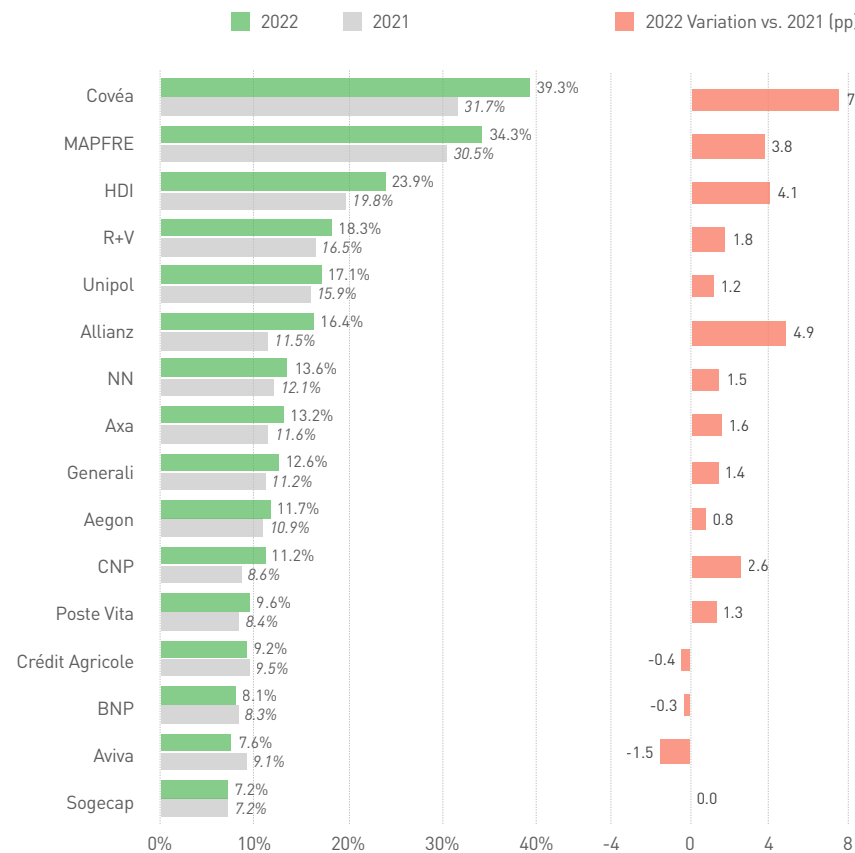
Charts 2.2-h and 2.2-i illustrate the aggregate composition of the different modules and other components of the SCR in 2022 for the insurance groups analyzed in this report, distinguishing between those that calculate the SCR using the *standard formula* and those that use different forms of internal models for that purpose. In the case of insurance groups that calculate SCR using the standard formula (Chart 2.2-h), a significant increase in the relative weight of the underwriting risk module (+21.0 pp) and a correlated reduction in the market risk modules (-20.1 pp), and to a lesser extent, the credit risk (-0.9 pp), were observed between 2021 and 2022. It should be noted that this increase in underwriting risk comes mainly from life underwriting risk and, particularly, surrender risk. Likewise, for this subset of insurance groups, a reduction in the positive effect of diversification (-6.2 pp) related to what was observed in the previous year was recorded. Finally, compared to 2021, a larger relative profit

Chart 2.2-c
Relative weight of own funds to assets in 2022 and variation vs. 2021



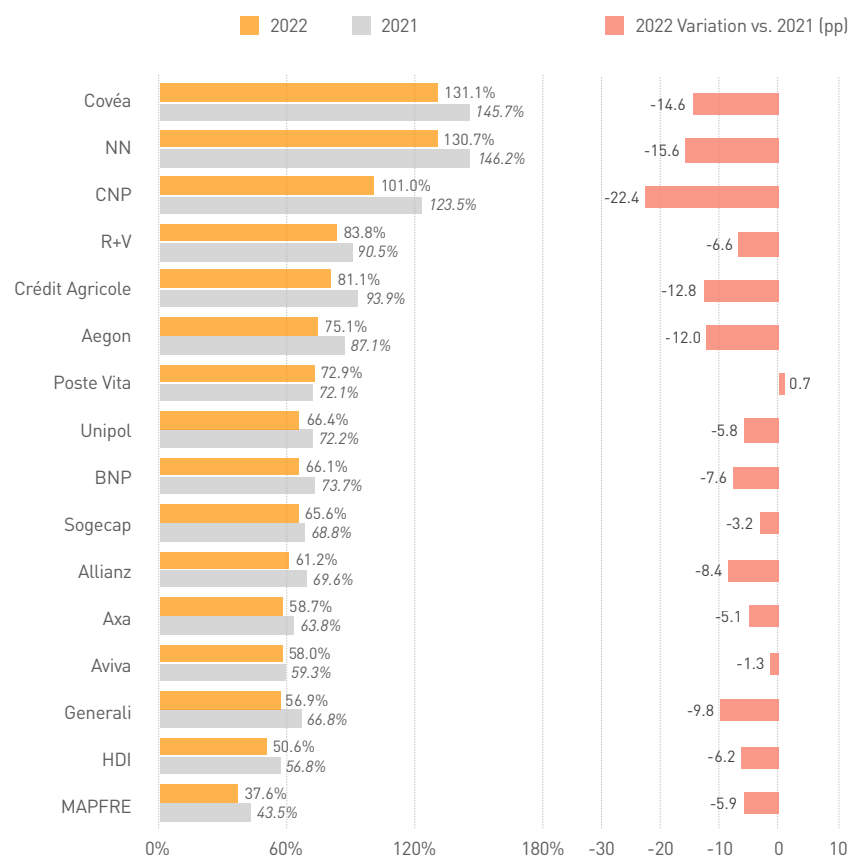
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-d
Relative weight of own funds to technical provisions in 2022 and variation vs. 2021



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

Chart 2.2-e
Relative weight of own funds compared to premiums in 2022 and variation vs. 2021



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

derived from the adjustments for the loss absorbing capacity of the technical provisions and deferred taxes, which represent a 63.2% reduction compared to 50.5% in the previous year (-12.7 pp), is observed.

On the other hand, with regard to the subset made up of insurance groups that use different forms of *internal models* (Chart 2.2-i), between 2021 and 2022, there was a slight decrease in the relative weight of the market risk component (-0.8 pp) and of credit risk (-0.2 pp), while the underwriting risk component showed an increase compared to the previous year (+1.0 pp). Additionally, in this subset, in 2022, an increase in the benefits derived from diversification was registered (-0.9 pp, implying a greater reduction in the capital requirement), along with an increase in the weight of operational risk (+1.6 pp). Finally, regarding the effect of the adjustments on the loss absorption capacity of the technical provisions and deferred taxes, it is correct to note that, in the case of insurance groups that used internal models, this metric is indicating solely the effect of the adjustments that had been modeled but not incorporated in the other components of the SCR.

Table 2.2-d
Effect of transitional and adjustment measures
on own funds, 2022
(thousands of euros)

	Eligible own funds	Effect of transitional adjustment TP on own funds	Effect of volatility adjustment on own funds	Effect of matching adjustment on own funds
Allianz	89,169,194	-11,295,581	702,743	
Axa	58,482,858		-1,710,982	
Generali	46,421,023	-92,389	-1,176,255	
CNP	36,380,277		-464,572	
Covéa	28,142,995		-208,313	
Crédit Agricole	27,294,623		614,011	
HDI	27,041,268	-3,594,681	112,709	
Aviva	21,085,875	-2,503,252	-89,381	-5,446,324
Nationale Nederlanden	17,821,988	-95,663	-1,419,139	
Aegon	16,332,013		-570,645	-15,681
R+V	15,918,386	-4,632,909	40,693	
BNP	15,821,739		-177,682	
Poste Vita	12,804,895		-391,511	
Sogecap	9,678,583		-310,071	
MAPFRE	9,235,240	-448,150	-37,800	-200,930
Unipol	9,192,007		-170,544	

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

Table 2.2-e
Effect of transitional and adjustment measures
on SCR, 2022
(thousands of euros)

	SCR required	Effect of transitional adjustment TP on own funds	Effect of volatility adjustment on own funds	Effect of matching adjustment on own funds
Allianz	38,769,154		3,377,945	
Axa	27,170,224		5,023,471	
Generali	21,050,098		6,447,098	
CNP	15,803,240		301,105	
Crédit Agricole	13,402,766		-105,763	
Covéa	12,463,688		74,496	
HDI	11,120,882	119,001	1,943,644	
Aviva	10,664,052	588,966	204,131	5,229,795
BNP	9,717,258		-89,114	
Nationale Nederlanden	9,040,198		1,024,736	
Aegon	7,843,550		653,972	28,291
R+V	7,484,356	314.662	52.048	
Poste Vita	5,055,992		135,944	
Unipol	4,591,379		49,965	
MAPFRE	4,591,130	450	-420	-74,830
Sogecap	4,241,342		27,732	

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

Chart 2.2-f
Effect of transitional and adjustment measures on own funds, 2022
 (millions of Euros)

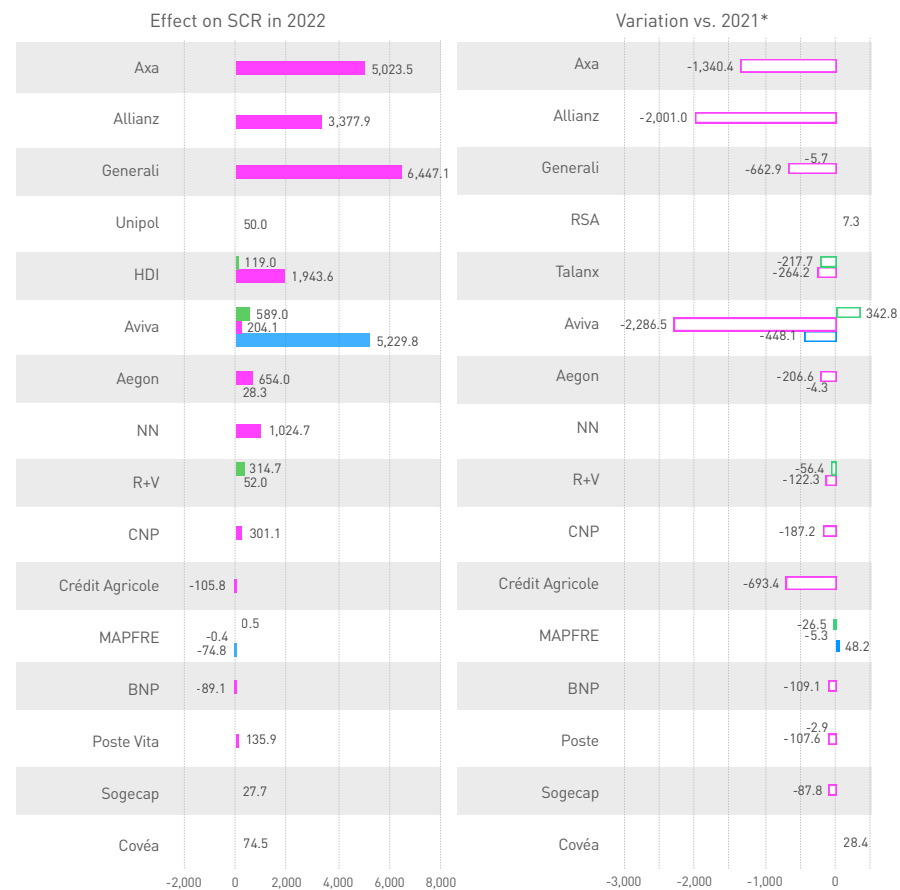
■ TP transitional adjustment ■ Volatility adjustment ■ Matching adjustment



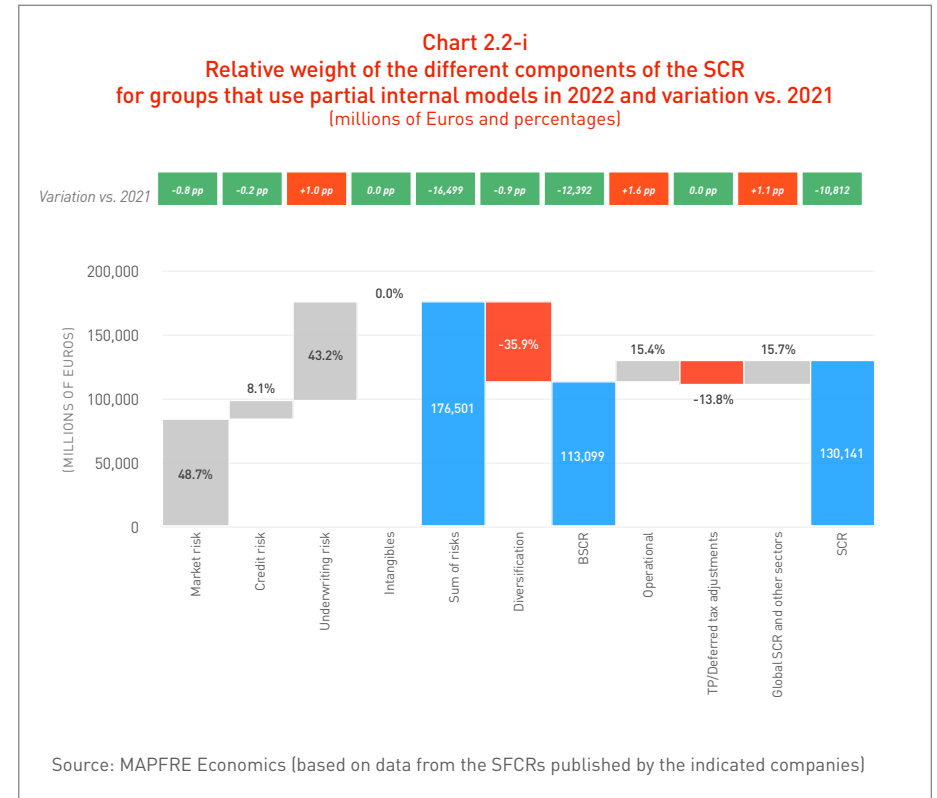
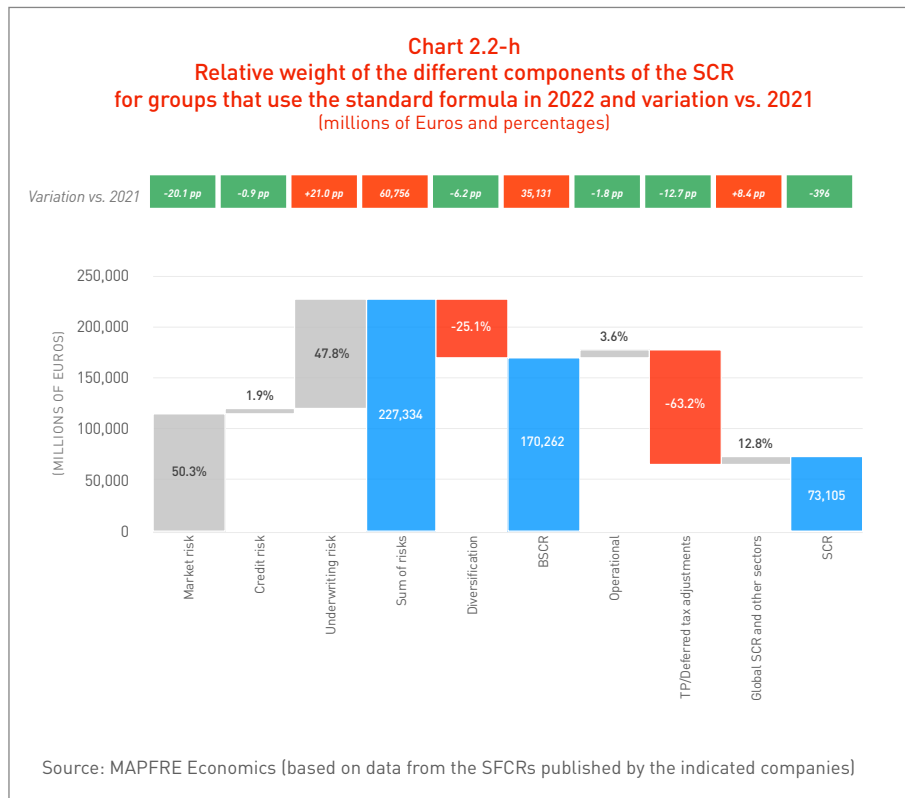
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)
 * Negative variation implies increased impact of adjustment.

Chart 2.2-g
Effect of transitional and adjustment measures on SCR, 2022
 (millions of Euros)

■ TP transitional adjustment ■ Volatility adjustment ■ Matching adjustment



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



Tables: macroeconomic forecast scenarios

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2019	2020	2021	2022	2023(p)	2024(p)	2019	2020	2021	2022	2023(p)	2024(p)
United States	2.3	-2.8	5.9	2.1	1.3	0.5	2.3	-2.8	5.9	2.1	1.2	-0.4
Eurozone	1.6	-6.2	5.3	3.5	0.6	1.0	1.6	-6.2	5.3	3.5	0.5	0.8
Germany	1.1	-4.1	2.6	1.9	-0.3	1.0	1.1	-4.1	2.6	1.9	-0.4	0.8
France	1.9	-7.7	6.4	2.5	0.5	0.7	1.9	-7.7	6.4	2.5	0.4	0.5
Italy	0.5	-9.0	7.0	3.8	1.2	0.7	0.5	-9.0	7.0	3.8	1.1	0.4
Spain	2.0	-11.3	5.5	5.5	2.2	1.9	2.0	-11.3	5.5	5.5	2.1	0.8
United Kingdom	1.6	-11.0	7.6	4.1	0.4	0.7	1.6	-11.0	7.6	4.1	0.4	0.4
Japan	-0.4	-4.3	2.2	1.0	1.1	1.1	-0.4	-4.3	2.2	1.0	0.8	0.6
Emerging markets	3.6	-1.8	6.9	4.0	4.1	3.8	3.6	-1.8	6.9	4.0	3.8	3.3
Latin America	0.2	-6.8	7.0	4.0	1.2	1.4	0.2	-6.8	7.0	4.0	1.0	0.7
Mexico	-0.2	-8.2	4.9	3.0	1.8	1.5	-0.2	-8.2	4.9	3.0	1.7	0.5
Brazil	1.2	-3.6	5.3	3.0	1.8	1.4	1.2	-3.6	5.3	3.0	1.7	0.7
Argentina	-2.0	-9.9	10.4	5.2	-1.5	0.2	-2.0	-9.9	10.4	5.2	-1.8	-0.4
Colombia	3.2	-7.3	11.0	7.3	1.0	1.9	3.2	-7.3	11.0	7.3	0.2	1.4
Chile	0.7	-6.3	11.9	2.5	-0.4	1.9	0.7	-6.3	11.9	2.5	-0.7	1.6
Peru	2.3	-11.0	13.4	2.7	1.5	2.9	2.3	-11.0	13.4	2.7	1.4	2.9
Emerging markets, Europe¹	2.5	-1.6	7.3	0.8	1.2	2.5	2.5	-1.6	7.3	0.8	1.0	2.1
Turkey	0.8	1.9	11.4	5.6	1.9	1.5	0.8	1.9	11.4	5.6	1.7	1.1
Asia Pacific	5.9	1.6	8.0	3.3	5.2	4.7	5.9	1.6	8.0	3.3	4.9	4.2
China	6.0	2.2	8.5	3.0	5.3	4.7	6.0	2.2	8.5	3.0	4.9	4.2
Indonesia	5.0	-2.1	3.7	5.3	4.5	4.9	5.0	-2.1	3.7	5.3	4.4	4.2
Philippines	6.1	-9.5	5.7	7.6	5.1	4.9	6.1	-9.5	5.7	7.6	5.0	4.2
Global	2.8	-2.8	6.3	3.4	2.6	2.3	2.8	-2.8	6.3	3.4	2.4	1.7

Source: MAPFRE Economics

¹ Eastern Europe
Forecast end date: July 5, 2023.

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

	Baseline Scenario (BS)					
	2019	2020	2021	2022	2023(p)	2024(p)
United States	1.8	1.3	4.7	8.0	4.1	2.9
Eurozone	1.2	0.3	2.6	8.4	5.0	1.0
Germany	1.4	0.6	3.0	6.9	5.5	1.7
France	1.1	0.5	1.6	5.2	5.1	2.6
Italy	0.6	-0.1	1.9	8.2	5.8	1.9
Spain	0.7	-0.3	3.1	8.4	3.4	2.5
United Kingdom	1.8	0.9	2.6	9.1	7.8	3.0
Japan	0.5	0.0	-0.2	2.5	2.8	1.0
Emerging markets	5.1	5.2	5.9	9.8	8.6	6.5
Latin America	7.7	6.3	11.6	14.7	13.3	9.0
Mexico	3.6	3.4	5.7	7.9	5.7	4.0
Brazil	3.7	3.2	8.3	9.3	5.0	4.3
Argentina	53.5	42.0	48.4	72.4	120.0	97.9
Colombia	3.5	2.5	3.5	10.2	11.5	5.6
Chile	2.3	3.0	4.5	11.6	7.9	3.3
Peru	2.1	1.8	4.0	7.9	6.9	3.8
Emerging markets, Europe¹	6.7	5.4	9.6	27.9	19.7	13.2
Turkey	15.2	12.3	19.6	72.3	46.4	29.5
Asia Pacific	2.9	2.5	1.0	2.2	2.5	2.3
China	2.9	2.5	0.9	2.0	1.4	2.3
Indonesia	2.8	2.0	1.6	4.2	4.0	2.4
Philippines	2.4	2.4	3.9	5.8	5.6	2.8
Global	3.5	3.2	4.7	8.7	7.0	4.9

	Stressed Scenario (SS)					
	2019	2020	2021	2022	2023(p)	2024(p)
United States	1.8	1.3	4.7	8.0	4.5	3.2
Eurozone	1.2	0.3	2.6	8.4	5.2	1.2
Germany	1.4	0.6	3.0	6.9	5.2	1.2
France	1.1	0.5	1.6	5.2	5.3	2.8
Italy	0.6	-0.1	1.9	8.2	5.9	2.2
Spain	0.7	-0.3	3.1	8.4	3.9	2.8
United Kingdom	1.8	0.9	2.6	9.1	8.0	3.3
Japan	0.5	0.0	-0.2	2.5	3.0	1.1
Emerging markets	5.1	5.2	5.9	9.8	9.2	7.1
Latin America	7.7	6.3	11.6	14.7	13.7	9.4
Mexico	3.6	3.4	5.7	7.9	5.9	4.2
Brazil	3.7	3.2	8.3	9.3	5.1	4.5
Argentina	53.5	42.0	48.4	72.4	132.0	104.0
Colombia	3.5	2.5	3.5	10.2	12.1	5.9
Chile	2.3	3.0	4.5	11.6	8.0	3.0
Peru	2.1	1.8	4.0	7.9	7.0	3.4
Emerging markets, Europe¹	6.7	5.4	9.6	27.9	20.3	13.9
Turkey	15.2	12.3	19.6	72.3	46.8	32.0
Asia Pacific	2.9	2.5	1.0	2.2	2.9	2.3
China	2.9	2.5	0.9	2.0	1.5	2.2
Indonesia	2.8	2.0	1.6	4.2	4.1	2.6
Philippines	2.4	2.4	3.9	5.8	5.7	3.0
Global	3.5	3.2	4.7	8.7	7.4	5.4

Source: MAPFRE Economics

¹ Eastern Europe
 Forecast end date: July 5, 2023.

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

	Baseline Scenario (BS)					
	2019	2020	2021	2022	2023(p)	2024(p)
United States	1.92	0.93	1.52	3.88	3.28	2.81
Eurozone	0.32	-0.19	0.32	3.39	2.69	2.46

Stressed Scenario (SS)					
2019	2020	2021	2022	2023(p)	2024(p)
1.92	0.93	1.52	3.88	2.83	2.41
0.32	-0.19	0.32	3.39	2.59	2.33

Source: MAPFRE Economics
 Forecast end date: July 5, 2023.

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

	Baseline Scenario (BS)					
	2019	2020	2021	2022	2023(p)	2024(p)
USD-EUR	0.89	0.81	0.88	0.94	0.89	0.85
EUR-USD	1.12	1.23	1.13	1.07	1.12	1.18
GBP-USD	1.32	1.36	1.35	1.20	1.30	1.37
USD-JPY	109.12	103.54	115.00	132.65	135.36	126.46
USD-CNY	6.99	6.52	6.35	6.90	7.00	6.48

Stressed Scenario (SS)					
2019	2020	2021	2022	2023(p)	2024(p)
0.89	0.81	0.88	0.94	0.93	0.91
1.12	1.23	1.13	1.07	1.08	1.10
1.32	1.36	1.35	1.20	1.26	1.27
109.12	103.54	115.00	132.65	132.25	124.78
6.99	6.52	6.35	6.90	7.08	6.53

Source: MAPFRE Economics
 Forecast end date: July 5, 2023.

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

	Baseline Scenario (BS)					
	2019	2020	2021	2022	2023(p)	2024(p)
United States	1.75	0.25	0.25	4.50	5.50	4.25
Eurozone	0.00	0.00	0.00	2.50	4.50	3.25
China	3.25	3.00	3.00	2.75	2.50	3.00

Stressed Scenario (SS)					
2019	2020	2021	2022	2023(p)	2024(p)
1.75	0.25	0.25	4.50	5.75	4.50
0.00	0.00	0.00	2.50	4.75	3.50
3.25	3.00	3.00	2.75	2.50	2.75

Source: MAPFRE Economics
 Forecast end date: July 5, 2023.

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1/ See: MAPFRE Economics (2023), *2023 Economic and Industry Outlook: Second-Quarter Perspectives*, Madrid, Fundación MAPFRE.

2/ See: 2023 Federal Reserve Stress Test Results, at: <https://www.federalreserve.gov/publications/files/2023-dfast-results-20230628.pdf>

3/ The Dutch TTF reached 250 dollars, in its equivalent in barrels of oil, while Brent, the world's crude oil benchmark, was supported by prices within the average range of recent years (spot price of 75 dollars per barrel, and less than 70 on the futures curve).

4/ OPEC made its most recent decision to slash production by more than one million barrels per day in April.

5/ Chart 2.1.2 shows the minimum, average and maximum levels reached in 2022, along with the level of the latest curves published by EIOPA for March and June 2023. As in other reports, these curves can be viewed for other months and currencies in the interactive graphic available at the link provided at the bottom of each chart.

6/ The Solvency and Financial Condition Reports (SFCR) for 2022 that are used as the basis for the preparation of this report were consulted as required at the following links:

Allianz: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/investor-relations/en/results-reports/sfcr/2023/en-Allianz-Group-SFCR-2022.pdf

Axa: https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/08a76734-1071-4a91-8bd4-2aabd901549a_AXA_SA_SFCR_FY22_VA.pdf

CNP: <https://www.cnp.fr/en/cnp/content/download/10950/file/SFCR-CNP-Assurances-Groupe-20230405-EN.pdf>

Generali: https://www.generali.com/doc/jcr:ef20c7ab-9d97-4037-881d-d225d9acf3a1/Group%20SFCR%202022%20ENG_.pdf/lang:en/Group_SFCR_2022_ENG_.pdf

Crédit Agricole: <https://www.ca-assurances.com/previewPDF/31472/CAA%20-%20RN%20-%20SFCR%202022.pdf>

Aviva: <https://static.aviva.io/content/dam/aviva-corporate/documents/investors/pdfs/regulatoryreturns/2022/31%20Dec%2022%20Aviva%20plc%20Group%20SFCR.pdf>

BNP: https://www.bnpparibascardif.com/c/document_library/get_file?uuid=01a968d7-3a3a-8a9b-08a8-34cc911faa2f&groupId=348001

Aegon: <https://www.aegon.com/sites/default/files/file/2023-05/aegon-group-sfcr-2022.pdf>

Poste Vita: https://www.poste.it/files/1476586704112/RelazioneUnicaSolvibilita_CondizioneFinanziaria_31122022.pdf

Sogecap: https://www.assurances.societegenerale.com/uploads/tx_bisgnews/%E2%80%A2VF_SOGECAP_RSSF_2022_03.pdf

HDI: <https://www.talanx.com/media/Files/investor-relations/pdf/geschaeftsberichte/risikoberichte/2022-SFCR-HDI-GRUPPE-EN.pdf>

R+V: <https://www.ruv.de/dam/jcr:41b53b1f-9f4a-497b-b856-6e3b7f7945ac/2022-SFCR-Gruppe.pdf>

Covéa: https://www.covea.com/sites/default/files/2023-05/sfcr_covea_2022.PDF

Nationale Nederlanden: <https://www.nn-group.com/article-display-on-page-no-index/nn-group-solvency-and-financial-condition-report-2022.htm>

Unipol: https://www.unipol.it/sites/corporate/files/document_attachments/sfcr_ug_2022_en.pdf

MAPFRE: <https://www.mapfre.com/media/accionistas/2022/2022-sfcr-grupo-mapfre.pdf>

And those relating to 2021, against which the data is compared, were consulted at the following links:

Allianz: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/investor-relations/en/results-reports/sfcr/2022/en-Allianz-Group-SFCR-2021.pdf

Axa: https://www.axa-com.cdn.axa-contento-118412.eu/www-axa-com/671c9b43-1d97-4f94-b64c-ff4150dfa8ec_axa_sfcr_2021_va.pdf

CNP: <https://www.cnp.fr/en/cnp/content/download/10431/file/CNP-Assurances-SFCR-Groupe-2021-EN.pdf>

Generali: https://www.generali.com/doc/jcr:b69ae136-4c01-443c-a141-db6d8b68c623/SFCR%20GRUPPO%202021%20ENG.pdf/lang:en/SFCR_GRUPPO_2021_ENG.pdf

Crédit Agricole: https://www.ca-assurances.com/previewPDF/26596/CAA%20-%20SFCR_2021_FR.pdf

Aviva: <https://static.aviva.io/content/dam/aviva-corporate/documents/investors/pdfs/regulatoryreturns/2021/31%20Dec%2021%20Aviva%20plc%20Group%20SFCR.pdf>

BNP: https://www.bnpparibascardif.com/c/document_library/get_file?uuid=201104b1-4b10-b7e3-dbd0-53ba4c64edb8&groupId=348001

Aegon: <https://www.aegon.com/contentassets/db4477ad6df34e1fa80a1cf928169d4f/2021-sfcr-aegon-group.pdf>

Poste Vita: https://www.poste.it/files/1476561715657/RelazioneUnicaSolvibilita_CondizioneFinanziaria_31122021.pdf

Sogecap: https://www.assurances.societegenerale.com/uploads/tx_bisgnews/SFCR_SOGECAP_2021_VF.pdf

Talanx: <https://www.talanx.com/media/Files/investor-relations/pdf/geschaeftsberichte/risikoberichte/2021-SFCR-HDI-GRUPPE-EN.pdf>

R+V: <https://www.ruv.de/dam/jcr:cae3f48d-41ec-4fcb-be19-458be4184770/2021-SFCR-Gruppe.pdf>

Covéa: https://www.covea.eu/sites/default/files/2022-06/sfcr_covea_2021_synthese_bilingue_anglais_italien.pdf

Nationale Nederlanden: <https://www.nn-group.com/nn-group/file?uuid=b20d6f94-e5ba-4e0f-a0fc-1cfffabd1540&owner=84c25534-c28a-4a64-9c78-5cc1388e4766&contentid=11878>

Unipol: https://www.unipol.it/sites/corporate/files/document_attachments/sfcr_ug_2021_en.pdf

MAPFRE: <https://www.mapfre.com/media/accionistas/2022/2021-sfcr-grupo-mapfre.pdf>

7/ It should be noted that the transitional measure on technical provisions is only applicable to portfolios that existed at the time the new Solvency II system came into force, on January 1, 2016.

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