Fundación MAPFRE

2021 ECONOMIC AND INDUSTRY OUTLOOK: SECOND QUARTER PERSPECTIVES

MAPFRE Economics

2021 Economic and industry outlook: Second quarter perspectives

This study has been prepared by MAPFRE Economics.
Publication rights have been granted to Fundación MAPFRE.

Cite as:
MAPFRE Economics (2021), *2021 Economic and industry outlook: second quarter perspectives*, Madrid, Fundación MAPFRE.

April 2021.

MAPFRE Economics

Manuel Aguilera Verduzco
General Director
avmanue@mapfre.com

Gonzalo de Cadenas Santiago
Director of Macroeconomics and Financial Analysis
gcaden1@mapfre.com

Ricardo González García
Director of Analysis, Sectoral Research and Regulation
ggricar@mapfre.com

José Brito Correia
jbrito@mapfre.com

Begoña González García
bgonza2@mapfre.com

Isabel Carrasco Carrascal
icarra@mapfre.com

Fernando Mateo Calle
macafee@mapfre.com

Rafael Izquierdo Carrasco
rafaizq@mapfre.com

Eduardo García Castro
gcedua1@mapfre.com

Daniel Santos Torres
Clara Soutullo Rodríguez
Lourdes Sánchez Iza
David Esteban Montes Rojas
Jaime Rebolledo Gutiérrez

Contents

Executive summary

2021 Economic and industry outlook: Second quarter perspectives

Economic outlook

The COVID-19 crisis has impacted the global economy, which recorded a -3.3% decline in GDP in 2020 and caused an output gap estimated to exceed 3% of global potential. China is the only major global economy that recorded positive growth in 2020, as it focused its economy on technological competence, sustainable domestic development, integration into regional value chains (with Europe), and promoting its sovereign governance model.

The economic decline resulting from the pandemic represents the largest recorded loss in GDP since World War II. However, this contraction was much lower than initially projected thanks to the deployment of fiscal and monetary stimuli, and higher tolerance to the pandemic observed throughout the second half of last year. In this regard, global fiscal stimuli are estimated to total around 3.5% in 2020, particularly due to the actions taken by the United States, the European Union and China.

Within this context, markets like China and the United States are leading the way toward a cyclical recovery. However, on a global scale, recovery is asynchronous and asymmetrical, with other markets like Latin America showing weak momentum that could become structural. Moreover, this recovery is taking place against a backdrop of increased risk appetite, with a financial market buoyed by tremendous levels of liquidity. It is also set in a context of considerable differences in monetary policy between developed and emerging markets, caused by the resurgence of global inflationary pressures.

The *baseline scenario* considered in this report assumes a moderate and temporary upswing in inflation, the continuation of monetary and fiscal support policies that guarantee liquidity and stability in asset valuation, and a stable financial environment free of volatility in asset values, with low real interest rates and moderately high profit levels.

By contrast, the *stressed scenario* assumes a rise in inflation that is considered somewhat more structural in nature, as well as problems with vaccine effectiveness and rollout. This leads to a situation characterized by a loss of consumer and producer confidence, a monetary policy marked by pressure from market expectations on the Federal Reserve, and a fall in public and private fixed income as a result of real interest rate increases, among other factors. All of these factors lead to liquidity problems—despite efforts by central banks (TLTROs)—thereby triggering a risk off mood that hinders portfolio investment flows toward emerging countries and affects local exchange rates (which depreciate sharply), as well as a rise in unemployment and a decline in wages.

Industry outlook

We are now beginning to see improved economic prospects around the world, both in general and specifically for insurance markets. Financial markets, governments, businesses and households all continue to receive much higher levels of support than those seen during previous economic crises, with broadscale intervention by central banks to implement extremely accommodative monetary policies, along with extensive fiscal packages. This has prevented a greater decline than initially expected and is sustaining recovery in consumption and investment, as confidence in the world's large economies is beginning to recover. Insurance markets are proving to be solvent and resilient, with less pronounced declines in business levels than in previous global crises. However, low interest rates and the increased loss experience in some segments, such as Life Protection insurance, health insurance, business interruption insurance and reinsurance, will negatively affect profitability and may exert pressure on the price of these coverages.

The outlook for both the insurance industry and the economy in general is improving thanks to a return to global economic growth in 2021 and reduced uncertainty following encouraging news in terms of vaccines and their rollout in an effort to achieve herd immunity (despite some experiencing temporary setbacks). However, recovery is set to be unequal as many emerging (and some developed) countries still remain in an acute phase of the crisis, with healthcare systems overrun and vaccination rollout remaining slow. The consequent need to implement new partial lockdown measures and restrictions on mobility—amid a practically exhausted fiscal and monetary environment—is therefore curbing both economic recovery and the insurance industry's development.

Among emerging countries, the Turkish insurance market continues to show improved performance in line with the country's economy, despite Turkey being in the midst of a new wave of the pandemic. The Mexican and Brazilian insurance markets have experienced real-term falls in premiums according to figures at the close of the previous year. The prospect of resumed economic growth may aid recovery in both countries. The first quarter of the year saw a generalized upswing in market risk-free interest rates globally, with a steeper gradient being observed in interest rate curves (as can be seen in the graphs produced by EIOPA [the European Insurance and Occupational Pensions Authority]). This has created an improved environment for Life savings and annuity insurance, due to the ability to offer guaranteed rates in the medium- to long-term that are higher than short-term rates (term premium).

In Spain in particular, the Non-Life business showed certain signs of year-on-year recovery in the first quarter, thanks to the good performance of the health and homeowners segments, which continue to prove highly resilient in the current situation. By contrast, the Life segment continued to suffer, as the sharp decline in Life Savings moderated and Life Protection insurance saw further decline. Nevertheless, it should be highlighted that savings managed through Life insurance have not declined, despite the fall in business levels.

1. Economic outlook

1.1 The global economic outlook

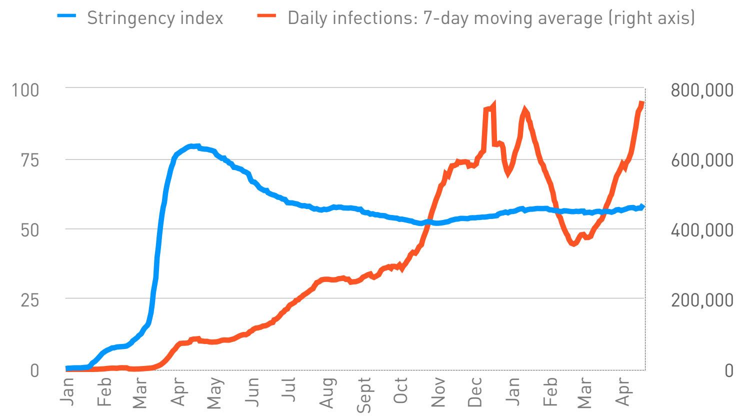
1.1.1 Year 1 after COVID-19

Taking stock

As predicted in our previous report[1], the economic crisis caused by the COVID-19 pandemic that erupted a year ago is still in its containment phase, as a result of the continued spread of infections (which has been particularly rapid in emerging countries) and restrictions on mobility and social contact needing to remain in place in order to contain the pandemic. Gradual recovery has, however, been observed since the third quarter of last year. This recovery was driven by vaccine rollout, which has been deployed at different speeds within the various regions of the world (see Charts 1.1.1-a to 1.1.1-c).

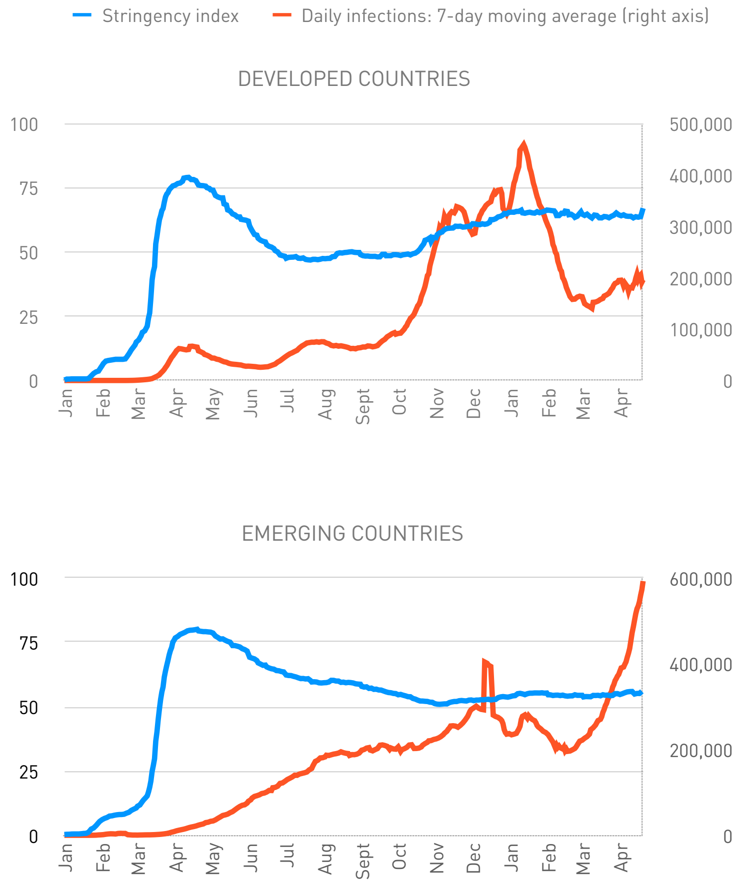
A preliminary analysis of the crisis shows that global GDP contracted by -3.3% in 2020 — the largest recorded loss since World War II. This has caused an output gap that is estimated to exceed 3% of global potential. The emerging world has contributed disproportionally to this gap, even though said gap was negative in both emerging and developed regions. China was the only country to record positive growth in 2020, which enabled it to expedite its income convergence with the West, as set out in its five-year plan (see Box 1.1.1-a).

Chart 1.1.1-a
Global: daily COVID-19 infections vs. stringency index



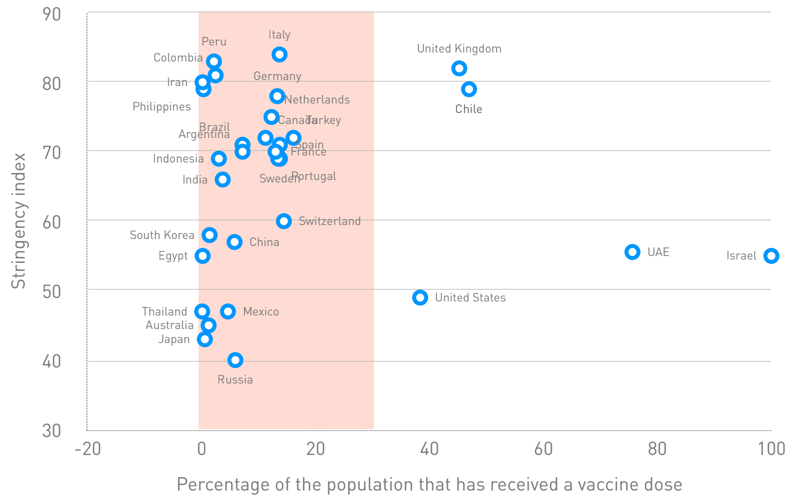
Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford)

Chart 1.1.1-b
Developed and emerging: daily COVID-19 infections vs. stringency index



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

Chart 1.1.1-c
Selected countries: stringency index vs. vaccine administration



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

Although extremely severe, global economic decline was much lower than initially expected, thanks to greater "tolerance" to the pandemic seen in the second half of last year and the widespread deployment of fiscal and monetary stimuli (see Box 1.1.1-b). According to early national accounting data and short-term indicators (see Charts 1.1.1-d and 1.1.1-e), recovery has been highly asynchronous and asymmetric around the world; markets such as China and the US are spearheading the cyclical exit, while others such as Latin America saw a downturn that is at risk of becoming structural.

Box 1.1.1-a
China: toward a tripolar world

A multipolar world

Especially as a result of the COVID-19 pandemic, and in light of global uncertainty and dysfunctionality, China seems to have emerged as the winner in the third decade of the 21st Century. This is not just about the speed at which it converges[1] with the income and wealth standards of developed countries, especially the US, but about how its secular ambitions have materialized, allowing China to become the heir to the position held by the former Soviet Union, thus creating a new edition of the multipolar world. This is also true in a context in which China has already shifted toward a new economy now focused on technological competence, sustainable (domestic) development, integration into regional value chains (with Europe), and promotion (and now not so much defense) of its sovereign governance model.

The best example of this new program is twofold. On the one hand, there is the message from the most recent edition of the Communist Party assembly and the establishment of its new five-year plans, 100 years after the Chinese Communist Party was created and after a long history of development plans. On the other, there is the push to establish international alliances that exclude the US, with the Comprehensive Agreement on Investment (CAI) currently expected to be signed. Thus, as China emerges rapidly and forcefully from the pandemic, President Biden's administration promises a continuation of the Trump administration's hard line, yet with a more multilateral yet predictable approach.

For its part, Brussels defines China as a cooperation, negotiation and economic partner, as well as a systemic rival. This is particularly true because the EU and US differ with regard to China in one fundamental respect: the US can afford a relative decoupling from the Chinese market, but the EU cannot due to its important economic ties. This degree of economic dependence is creating challenges for countries struggling to balance their own values with those of Beijing, but without closing the door on matters of security and human rights. Thus, the third decade of the century will feature a new "cold war" that will pivot on technology, but which will have the legitimacy of being broad, multilateral and value-based, especially in light of recent events such as China's handling of the pandemic, its treatment of ethnic minorities and its proven military and technological ambitions.

For the past two decades, China has seen Europe as the third, albeit weaker, hub in a multi-polar world. Its approach to the strategic interests of the European Union has been threefold: First, to target the European Union's main institutions; second, to align itself with its most powerful

1/ Suffice it to say that the Chinese economy grew by around 2.0% in 2020, while the United States recorded a decline of -3.5%, the eurozone declined by -6.8% and countries in the Organisation for Economic Co-operation and Development (OECD) generally saw decline of around -4.6%. The difference in GDP between China and developed economies as a whole therefore continues to close rapidly.

Box 1.1.1-a (continued)
China: toward a tripolar world

members; and third, to establish links with its smaller states. At times, Beijing has even used its economic and strategic power to play one member against another, and play the European Union against the US. But its goal has been constant: To ensure that the European Union is deeply committed to China and its well-being.

As regards Washington, Beijing is suspicious of a multilateral approach that seeks to isolate it. President Biden's government has already contacted China's neighbors, such as Australia, India, South Korea, Japan, and New Zealand, in order to address various aspects of China's conduct. Biden has also promised to assert America's values more strongly, as a way to restore its reputation overseas. Beijing, for its part, understands this as a veiled threat and the beginning of more extensive criticism to come.

As pointed out earlier, this new stage of tension will pivot around technology, trade relations, and dissent among allies — a weakness capitalized on by China. The United States and the European Union have different approaches toward the use of Chinese technology companies. While the US considers Chinese technology both a threat to national security and a source of competition in key areas, the European Union offers a much friendlier environment to Chinese technology companies, to the extent that countries in the European Union have purchased Chinese technology with a view to make it part of their infrastructure, something which would be unthinkable across the Atlantic.

If Washington extended its sanctions against Chinese companies beyond its own borders, the European Union and its member states could cease to cooperate with the US with regard to security. Thus, a new "cold war" precipitated by a rapid deterioration in relations between the European Union, China, and the United States is far from inevitable, though not a rarity among relations between allies in defending the values of liberal democracies.

The Comprehensive Agreement on Investment (CAI)

The ratification by the European Parliament of the Comprehensive Agreement on Investment between the European Union and China (ISC), agreed upon at the end of 2020, is now up in the air, having been called into question as a result of mutual tensions and sanctions due to human rights issues in the country. In any case, it is worth briefly commenting on what this agreement means, especially in geopolitical terms.

Theoretically, this agreement creates a level playing field for Chinese and European companies, opens up new investment opportunities, improves the conditions of consumer and worker protections and brings clarity regarding certain sectors open to cross-border investors. Ideally, the CAI will allow Chinese investment flows to major European (strategic) sectors, such as air transport, cloud computing and financial services, in exchange for supposedly increased European access to the Chinese market. Ultimately, the goal is to reduce uncertainty for European investors in China. The CAI also introduces instruments to call for more transparency in relation to subsidies and the overall behavior of Chinese state-owned enterprises.

Regardless of its formal purposes, the agreement also proposes two intentions: (i) facilitating an equal economic relationship between the two trading partners, while also serving as an instrument for (ii) enforcing the

Box 1.1.1-a (continued)
China: toward a tripolar world

principles governing the European strategy for sustainability and social rights. However, neither the level of commitment nor the revenues are what the European Union is presumably expecting.

While it is noteworthy that China has committed itself to international standards on climate change and labor rights, at the same time, it must be recognized that it did so through an agreement that makes it difficult to force it to adopt international standards in the field of human and labor rights. It is therefore to be expected that, true to what is becoming its form, it will not budge an inch on what it considers a sovereign right; namely, to reaffirm its own values within its borders, particularly when it comes to its own minorities.

In this regard, it is hardly difficult to predict that in an investment agreement, however beneficial it may be, China will yield to the premises of the deal for superficial purposes, simply to close the deal without any real intention to adhere to its terms, as the country did when it joined the World Trade Organization (WTO). This idea does not mean to say that China doesn't have a strong interest in closing a deal with the European Union, but rather that perhaps its reasons go beyond those that have been articulated.

For China, the CAI is much more than an economic agreement, as its ratification may be a hindrance to fostering closer ties between the European Union and the US. These ties are already shrouded by tension given the Biden administration's insistence on a review of the agreement in the multilateral spirit promoted by the new US administration. In fact, Germany (the main and distinguished promoter of the CAI, and China's largest trading partner in the European Union by far) has clarified, in an example of *strategic autonomy,* that it does not require Washington's approval.

China's economic strategy

On March 5, 2021, the Chinese National People's Congress began, whereby the country's executive met to discuss and announce the path forward in economic, political and social matters for the coming years. The main ideas were as follows:

1. *Growth targets*: The most important announcement was its growth target for 2021, which the Premier and Secretary of the Communist Party in the Chinese State Council set at 6%. This forecast has been classed as modest by international analysts, given the fact that it was the only economy to maintain positive growth in 2020 and also factoring in the success with which the COVID-19 pandemic is being contained within its borders. The International Monetary Fund, for example, predicted growth of 8.4% for China in 2021, and MAPFRE Economics has raised this to around 8.9%.

2. *Employment targets*: China has set a target for urban unemployment to be at 5.5% or below in 2021, compared to the target of around 6% in 2020. This would mean a return to pre-pandemic unemployment target levels. The Chinese government also intends to create 11 million urban jobs in 2021, after having created 11.9 million in 2020.

Box 1.1.1-a (continued)
China: toward a tripolar world

3. *Deficit, sovereign debt, inflation and defense spending*: The Chinese executive aims to reduce the deficit in 2021 from 3.6% of GDP to 3.2% of GDP. Sovereign debt will be another target for reduction after soaring to 270% of GDP in 2020. The government also forecasts inflation of 3% for 2021, which is even lower than the target set for 2020 (3.5%). Defense spending, however, will increase by 6.8%, in line with the military policy that is characteristic of the Asian giant.

4. *Financial stability*: Announcements of growth temporarily raised the share prices in Chinese stock markets, but they subsequently fell again. The Chinese executive has no intention of making abrupt or disruptive changes to its macroeconomic policy, so as to remain on this path of sustainable growth. This is a good sign for the financial market, as are the following economic policy announcements, so a greater and constant flow of capital from abroad to China is expected in the coming years. However, one of China's top government officials (Guo Shuqing) warns against the potential creation of bubbles in the country's financial and real-estate markets. Macro-prudential policies must therefore be adopted to mitigate bubble risks.

5. *Technological independence*: The Chinese executive set out the main objectives of the 14th five-year plan to be implemented from 2021. This five-year plan is a statement of intent by the Asian giant, prioritizing achieving the goal of technological independence and making room for environmental sustainability measures. On the first point, technological independence, China will focus on developing the hi-tech and artificial intelligence industry, with the goal of increasing spending on research and development by 7% per year during the five-year plan.

6. *Environmental sustainability*: The idea of transitioning toward a greener economy also features in the five-year plan, with the goal being for carbon dioxide emissions to peak by 2030 (the target of carbon dioxide emissions per unit of GDP growth was set at 18% for 2025) and zero net emissions in 2060. They also plan for the afforestation rate to stand at 24.1% by 2025.

7. *More inclusive growth*: By the year 2025, average education is expected to reach 11.3 years of schooling, while average life expectancy is bound to increase an additional year too. In line with these proposals, the Chinese government also said it will improve the social security system at various levels and increase basic pension coverage to 95%.

8. *Forging closer ties abroad*: China states that it will expedite efforts to implement the Regional Comprehensive Economic Partnership and to sign an investment agreement (CAI) with the European Union in 2021.

9. *Hong Kong controversy*: The Beijing executive caused fierce controversy over an electoral law enacted to reduce the power of Hong Kong's pro-democracy supporters. Critics of the government argue that this is merely an instrument to increase Beijing's control over the semi-autonomous city.

Box 1.1.1-a (continued)
China: toward a tripolar world

In conclusion, the ideas set out at the National People's Congress in 2021 represent a clear statement of intent by China to become a modern nation in economic and social terms this decade (and in this post-pandemic period), claiming its absolute right to be included as one of the world's most advanced nations.

Recovery has thus far been underpinned by consumption and is globally impacting the price of raw materials, especially crude oil, which has rebounded over the last three months, up from 45 US dollars per barrel in December 2020 to 67 US dollars per barrel in April (see Chart 1.1.1-f). It should be noted that the rapid convergence toward long-term values in oil prices (around 68 US dollars per barrel) is the result of continued consumption of fixed and floating crude stock since all-time lows were hit last year, and not so much as the result of a narrowing of the spread between crude oil supply and demand. This rebound is therefore expected to be followed by moderation that will bottom out in mid-2022 before then resuming its path to long-term values (see Charts 1.1.1-g and 1.1.1-h).

Recovery is also currently occurring against a backdrop of increased risk appetite within a financial market both buoyed by the tremendous liquidity available before the pandemic and fueled by unprecedented expansionary monetary policies implemented by central banks virtually everywhere in the world. Global risk aversion (see Chart 1.1.1-i) is now back at pre-pandemic levels, which has also resulted in regional risk with widespread declines in EMBIs and a partial-yet-early return on portfolio investment flows (see Charts 1.1.1-j and 1.1.1-k).

This is happening within a monetary policy environment in which clear differences between the developed and emerging world are beginning to become apparent. While the former are flourishing by maintaining extremely benevolent monetary and financial conditions, some major emerging countries (Brazil, Turkey and Mexico) have either tightened their monetary policy in light of accelerating inflation, or are about to do so in the short-term. Despite this, emerging countries are maintaining manageable financial conditions for the time being, thanks to a real effective exchange rate that has appreciated in relative terms against the dollar and is free from short-term pressures, and thanks to the entry/return of portfolio investment flows. Furthermore, the balance of payments for most emerging countries also appears free from pressure at the moment.

In fiscal terms, 2020 marked a turning point in terms of public deficits (see Chart 1.1.1-l). Global fiscal stimuli are estimated to total around 3.5% in 2020, particularly due to the actions taken by the United States, the European Union and China. Said stimuli are expected to be significantly lower in 2021, though still generous, primarily seeing as fiscal space appears to be depleting.

Box 1.1.1-b
Monetary policy update

European Central Bank

On March 11, the European Central Bank (ECB) announced that interest rates will remain constant (0% in loan facility and -0.5% in deposit facility). It also noted that it will accelerate the pace of the Pandemic Emergency Purchase Program (PEPP), which could grow to around 20 billion euros per week from the current 12 billion euros, extending the commitment to at least March 2022, and extending the reinvestment of bonds with maturities at least until the end of 2023. Finally, and under the institution's emphasized holistic point of view in which the transmission of the monetary policy is examined for all actors, the ECB highlighted the importance of its TLTRO lines as a tool for properly channeling credit to the real economy.

Table A.
Eurozone: GDP and inflation

	December 2020		
	2021	2022	2023
GDP	3.9%	4.2%	2.1%
HIPC	1.0%	1.1%	1.4%
	March 2021		
	2021	2022	2023
GDP	4.0%	4.1%	2.1%
HIPC	1.5%	1.2%	1.4%

Source: MAPFRE Economics (based on ECB data)

As a result of this decision, macroeconomic forecasts were presented with a minimum revision in terms of GDP and more importantly in expected inflation, which went from 1% to 1.5% in 2021 and from 1.1% to 1.2% in 2020 due to technical and temporary factors (see Table A).

Assessment

Despite recent turbulence in debt markets, which has led to widespread increases in bond yields and hikes in the slope of the rate curve, the rise in the pace of asset purchases announced by the ECB and the still low inflation expectations projected allow for concerns about early monetary tightening to be relaxed.

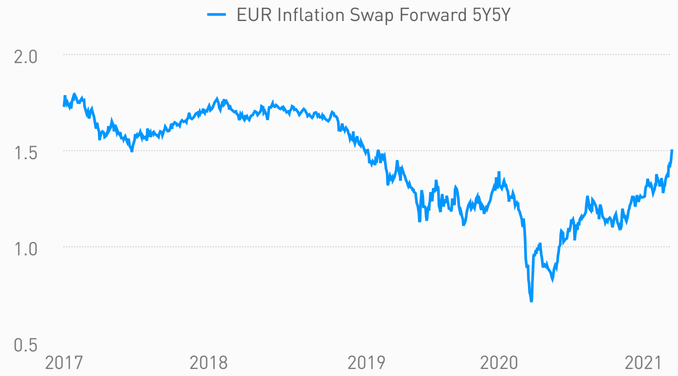
In this regard, the rise in inflation prospects in the eurozone presents a relatively asymmetric scenario, with latent short-term pressures (reversal of VAT reduction in Germany, changes in weightings of the IAPC and the base effect), while in the medium- and long-term, they will remain stable with a consensus of rates below the target of 2% (see Chart A).

Looking ahead

Given this scenario, the accommodative orientation and intensification of asset purchases continue to convey their commitment to short-term recovery by seeking to make mild and severe scenarios more symmetrical. In the short-term, the ECB's heightened firepower would allow for a greater balance and continue underpinning the pillars of recovery.

Box 1.1.1-b (continued)
Monetary policy update

Chart A.
Eurozone: expected inflation



Source: MAPFRE Economics (based on Bloomberg data)

However, given the single mandate of price stability and the rejection of the control of the yield curve, the monetary policy orientation continues to show a certain lack of long-term arguments in which the current emphasis on maintaining favorable conditions in the most immediate future penalizes the stance in the longer term. In this regard, less credibility regarding the ECB's forward looking, more complacency regarding price-consistent pressures and inelastic reactions to private agents' credit demand in light of lax financial conditions could lead to renewed volatility events and unwanted bond tensions.

The Federal Reserve

At its March meeting, the US Federal Reserve kept its monetary policy unchanged, keeping interest rates in the range of 0–0.25%, and maintained the monthly pace and composition of asset purchases. As such, and under a widely expected moderate message, dot plot interest rate projections continue to show no increases until at least 2023 (see Chart B). In terms of the balance sheet, the ECB mitigated expectations of a reduction in purchases by anchoring future decisions to stronger data entry showing significant additional progress.

At the macroeconomic level, GDP estimates for the United States were revised upward, the most notable of which were the 6.5% in 2021 (previously 4.2%), and an unemployment rate of 4.5% in 2021 and below 4% in 2022–2023. As for inflation, after incorporating PCE, this is expected to stand at 2.2% in 2021, 2.0% in 2022 and 2.1% in 2023.

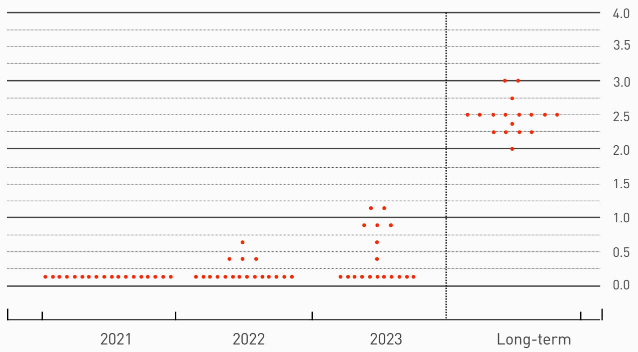
Assessment

In response to bond tensions, J. Powell used a more robust forward guidance, underpinned by more advanced recovery prospects and faster achievement of his inflation and full-employment objectives, leaving open the possibility of extending available monetary-policy tools under the scenario of disorderly and persistent pressures on financial conditions.

With regard to the expected rising inflation, he noted the new policy framework, which allows for rates of above the 2% target, temporarily and on average. However, this target continues to create some confusion among actors as to the flexibility threshold. While current concerns may be

Box 1.1.1-b (continued)
Monetary policy update

Chart B.
United States: Federal Reserve dot plot



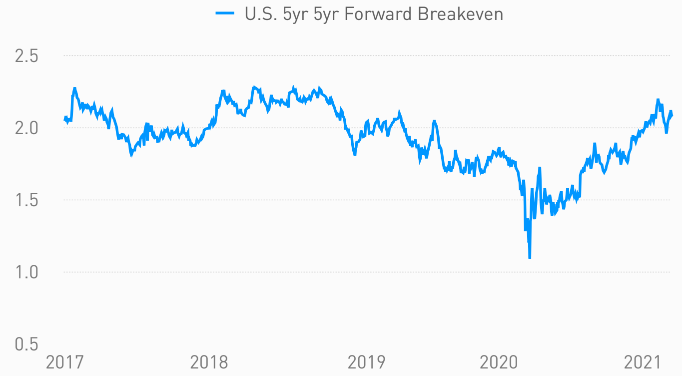
Source: MAPFRE Economics (based on Federal Reserve data)

excessive within the eurozone, such inflationary pressures could be more justified in the US market. Given the increased fiscal effort, the profile of direct aid, and an excess of savings expected to be spent in light of the advanced pace of vaccination, the arguments for a stronger economic revival reflected in the form of solid data could force a tightening of the monetary policy envisaged (see Chart C).

Looking ahead

Improving prospects invite the thought of a more intense acceleration in activity, tied to the pace of vaccine rollout, whereby, despite vulnerability and uncertainty requiring that current stimuli be kept in place, arguments for sustaining the stimulus along the Federal Reserve's projected horizon have diminished, compounding fears that excessive stimulating economic policies will end in overheating.

Chart C.
United States: expected inflation



Source: MAPFRE Economics (based on Bloomberg data)

Box 1.1.1-b (continued)
Monetary policy update

Given the asymmetric path of recovery of its European counterpart, the Federal Reserve faces the difficult task of clearly conveying both its maximum employment and inflation flexibility objectives in the short-term.

In this sense, and in the medium- and long-term, the renewed attempt to revive a Phillips curve, whose ratio between unemployment and inflation remains flat, through a combination of monetary and fiscal levers that, in excess, tend toward a pro-cyclical bias, could increase the risks of overheating, thereby causing in a sharp shift toward restrictive policies, with a consequent transmission to financial markets and leading to a risk of financial stability.

Source: MAPFRE Economics (based on ECB and Federal Reserve data)

Looking ahead

In the short-term, four elements will catalyze the performance of macroeconomic variables that define the corridor toward more or less optimistic short-term scenarios considered in this report:

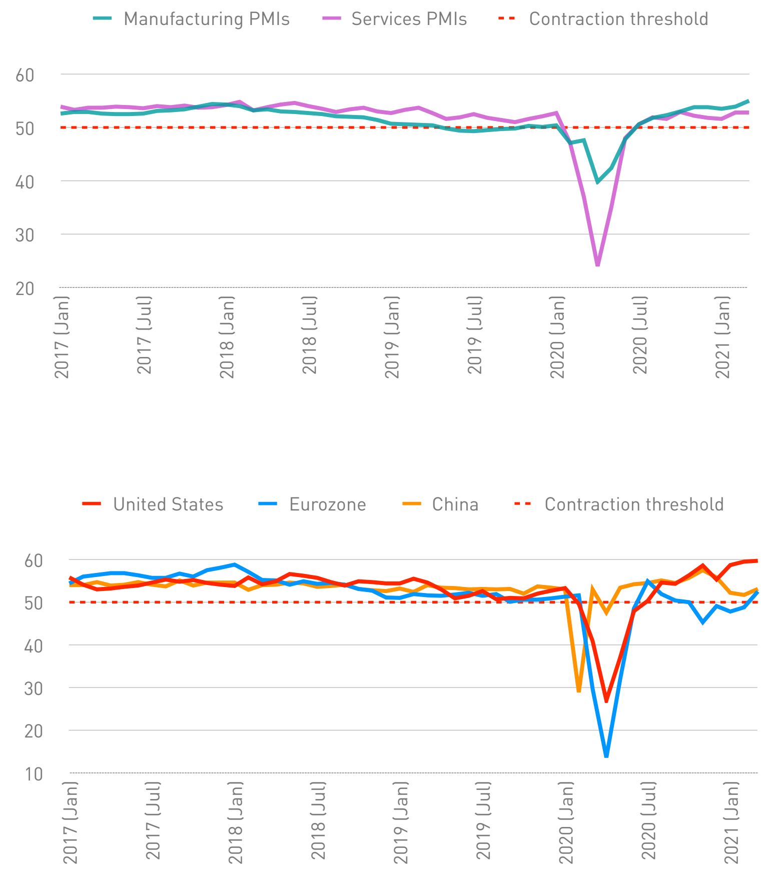
1) The evolution of the pandemic and the time required to achieve herd immunity (see Chart 1.1.1-c above), which will depend on vaccine effectiveness and rollout, on its impact on easing lockdown measures[2] and on the sectoral production structure of each market (in particular, the relative weight of the services sector and its contribution to GDP).

2) The scarring effect of the crisis, which seem to be smaller than those inflicted in the Lehman Brothers crisis (2008) albeit for the time being, will have semi-permanent effects on the labor market (unemployment, underemployment, erosion of salary income), on the fall in disposable income (which is expected to be between 10% for developed markets, and 20% for emerging markets), and will also result in greater inequality (income, skills, etc.).

3) With regard to the balance of risks, although this has improved in terms of the likelihood of these risks materializing and despite vaccines mitigating long-term risks, it does suggest the emergence of new risks that will cast a shadow over the most immediate horizon, including inflation, which is the new risk for which the market has begun to factor.

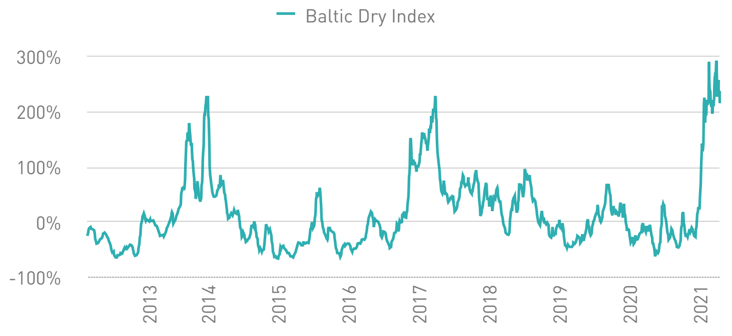
4) It is yet to be determined whether the nature of the current surge in prices is temporary or structural. This will be key to determining developments in real income, asset valuation, financial stability, the monetary policy signal, among other such factors (see Box 1.1.1-c).

Chart 1.1.1-d
Global: PMI performance



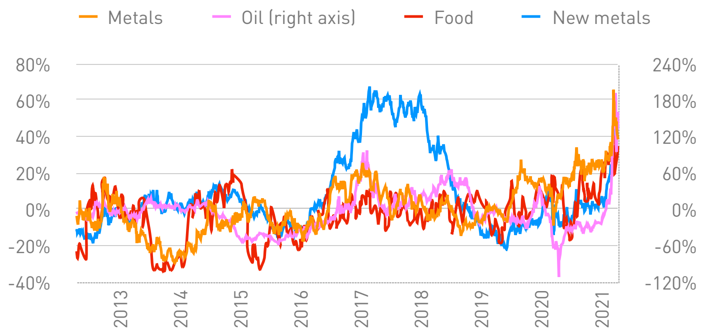
Source: MAPFRE Economics (based on JP Morgan data)

Chart 1.1.1-e
Global: global trade (average transport cost index)
(year-on-year variation)



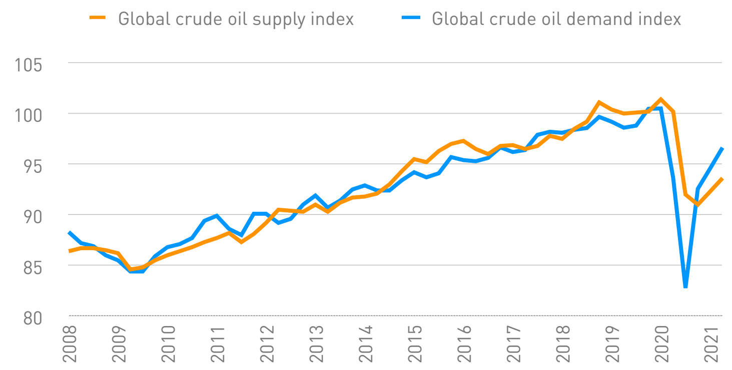
Source: MAPFRE Economics (based on data from IHS Markit and Baltic Exchange in London)

Chart 1.1.1-f
Global: change in the price of raw materials
(%, YoY)



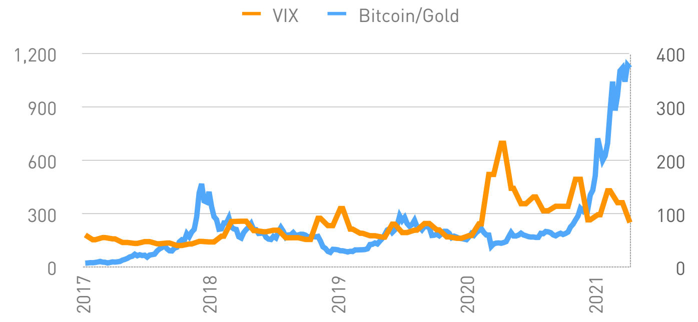
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.1-g
Global: crude oil supply and demand



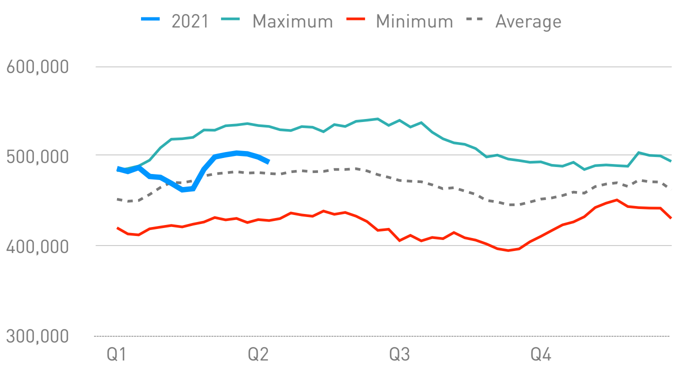
Source: MAPFRE Economics (based on data from the International Energy Agency)

Chart 1.1.1-i
Global: risk aversion (VIX) and speculation (Bitcoin)
(VIX vs. Bitcoin/Gold, 1/1/2019=100)



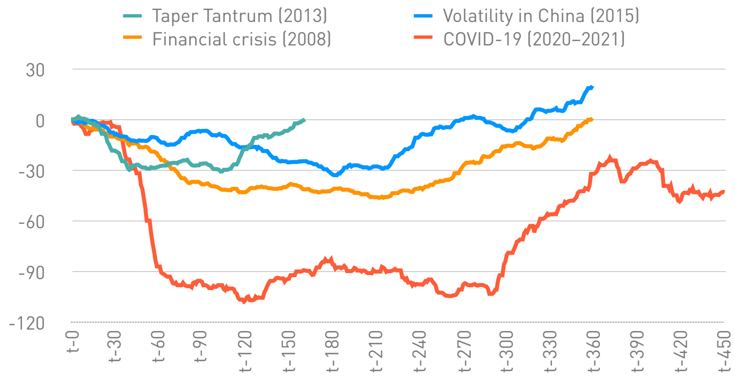
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.1-h
Global: crude oil inventories com-



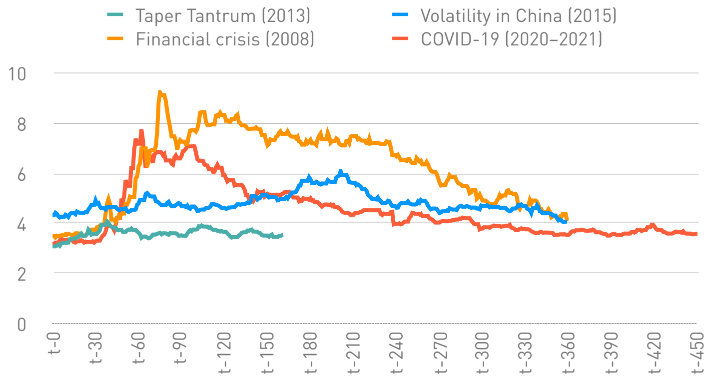
Source: MAPFRE Economics (based on data from the International Energy Agency)

Chart 1.1.1-j
Emerging markets: portfolio investment flows
(billions of US Dollars)



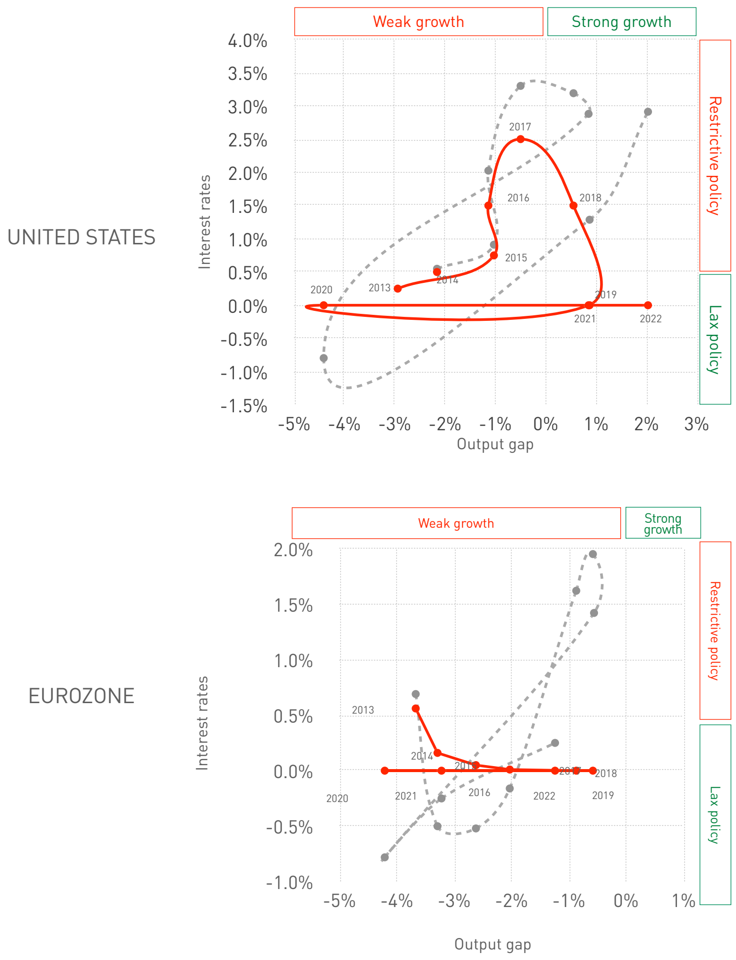
Source: MAPFRE Economics (based on IIF data)

Chart 1.1.1-k
Emerging markets: emerging risk premium



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.1-l
United States and eurozone: economic policy and cycle



Source: MAPFRE Economics

Analysis scenarios

Baseline scenario

For the purposes of this report, in the *baseline scenario,* herd immunity is expected to be achieved in developed countries in the transition from the second to the third quarter of 2021, while emerging countries will achieve herd immunity a year later on average. This scenario does not envisage any issues in terms of vaccine effectiveness and rollout, and the restrictions on mobility and social contact will gradually ease back to normal by the end of 2021 (see Chart 1.1.1-c above).

Furthermore, the upturn in inflation is expected to be temporary and moderate, as a result of a base effect and a surge in the price of raw materials (see Chart 1.1.1-f), which is not conducive to a change in monetary policy signal. Under this baseline scenario, support for monetary

Box 1.1.1-c
The return of inflation: temporary or structural rebound?

Signs began to emerge at the end of last year that a change in global price dynamics could be taking place. For the time being, these signs relate more to the volatile aspect of the consumer basket and less so to a change in long-term inflation expectations. The current surge in the price index is mainly explained by energy and unprocessed food, and less so by the elements traditionally associated with the long-term (core inflation) (see Charts A and B). However, it is clear that the current surge has a base effect with respect to February/April of last year, and that the commodity cycle appears to have embarked on an upward trend thanks to the boost in demand from China.

In the US, overall inflation stood at 2.6% in March (though core inflation stood at only 1.6%) as a result of temporary demand factors (Trump/Biden stimuli), the 2020 base effect, the effects of certain asset inflation that has dominated the market since the pandemic began, and perhaps even changes in the Federal Reserve's inflation target, though it is still too early to know (see Chart C). In the eurozone, the general price index grew

Chart A.
United States: inflation measures
(YoY, %)

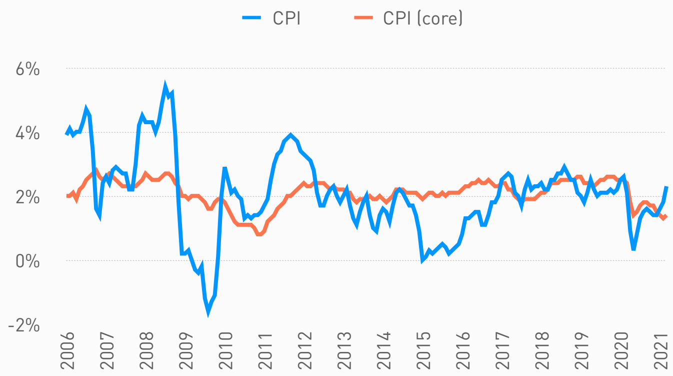
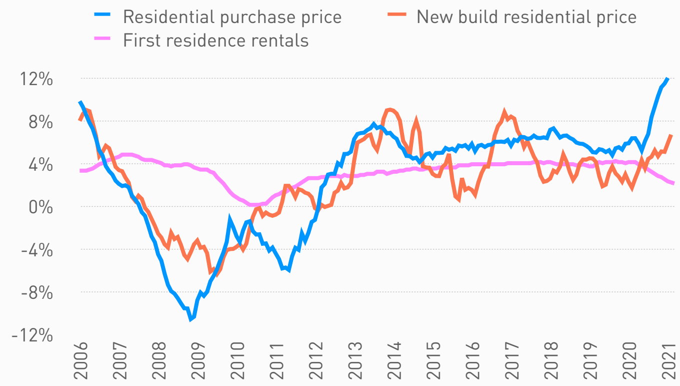


Chart B.
United States: asset inflation measures vs. inflation due to activity



Source: MAPFRE Economics (based on Federal Reserve data)

Box 1.1.1-c (continued)
The return of inflation: temporary or structural rebound?

at around 1.3% in March, with vast differences between countries that have experienced some specific events that have had an effect on prices (tax reform in Germany, the effect of Storm Filomena in Spain, taxes on CO2 in general, etc.). With regard to emerging markets, inflation appears to have embarked on a long-standing upward trend, as a result of the de-anchoring of expectations and the continued depreciation of exchange rates, which transmits imported inflation to production prices (See Chart D).

These indications are, however, accompanied by other indicators that make the diagnosis more complicated. First, the GDP deflator slowed sharply in the last quarter of 2020 globally, thereby indicating a lack of any generalized inflationary force. Second, the real interest rates in most economies remained more or less stable. These signs are now points for discussion in the global conversation on the nature of inflation. This is because the temporary or permanent nature of inflation is what will induce a certain type of monetary policy and financial market performance with widespread implications for financial activity and stability, which will

Chart C.
United States and eurozone: inflation expectations
(5y5y inf. swap)

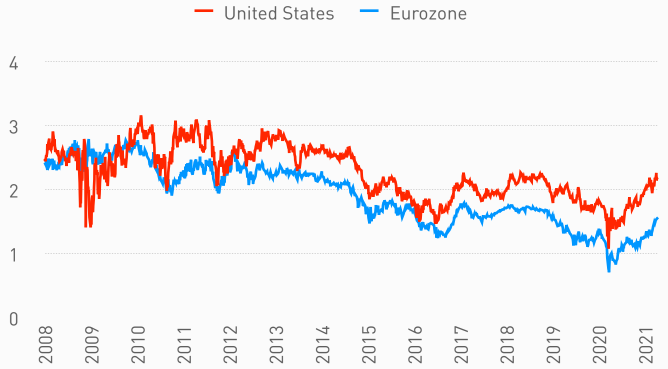
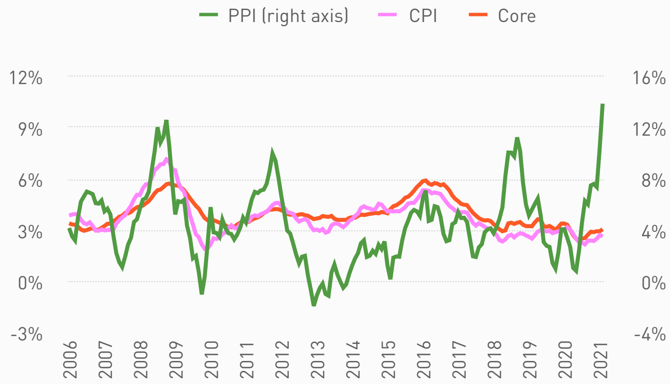


Chart D.
Emerging markets: Industrial and passthrough inflation prices



Source: MAPFRE Economics (based on data from the Federal Reserve, ECB and Bloomberg)

Box 1.1.1-c (continued)
The return of inflation: temporary or structural rebound?

ultimately be defined by the two scenarios described above (see Charts E and F).

The temporary surge scenario

Following the temporary surge in the price index in the United States and other parts of the world, the current environment would be followed by a continuation of the previous situation characterized by significantly lower inflation rates than those proposed by the central banks on both sides of the Atlantic and, in general, by the symptoms of secular stagnation, as described in our report *Economic and industry outlook 2017*. In this scenario, the global Phillips curves are still flat, sparking the debate we described in our report *Economic and industry outlook 2018* on secular stagnation, the role central banks play, and the formation of expectations.

In this situation, the upturn in prices would be caused by: (i) an increase in the price of raw materials; (ii) the base effect of the price drop recorded in February and May 2020; and (iii) the temporary effects of restrictions on

Chart E.
Developed markets: GDP deflator growth
(%, YoY)

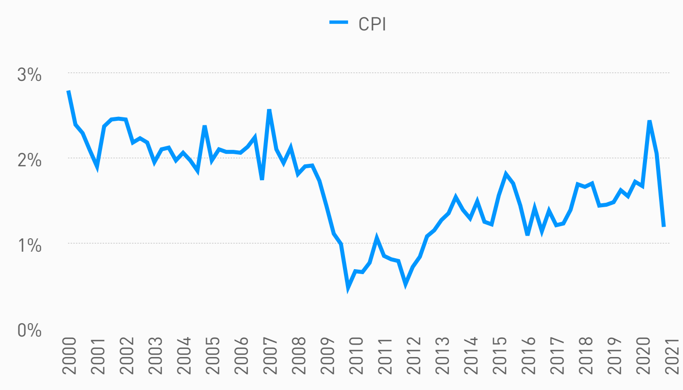
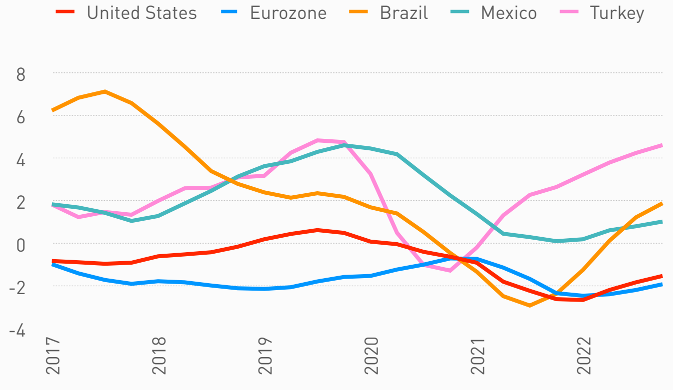


Chart F.
Developed and emerging markets: real interest rate
(STBond yield-inflation, 4-quarter average)



Source: MAPFRE Economics (based on data from national statistical institutes of the G7 and Bloomberg)

Box 1.1.1-c (continued)
The return of inflation: temporary or structural rebound?

supply arising from the pandemic. This scenario would therefore depict a situation in which the potential volatility of the price index would be concerning, though a change in its growth trajectory would be less concerning, as the latter is difficult in a context dominated by factors such as:

a) Weak demand in the context of wide output gaps.

b) Contained consumption, as savings are not translating into consumption (lower income, wealth, expectations, low elasticity to income impulses derived from aid, population aging).

c) Low salary bargaining power and a fall in the weight of salary income over GDP.

d) Liquidity hoarding and a vast supply of real balances.

e) Effects of monetary policy on expectations that keep the Phillips curve flat and far from its long-term values.

The structural surge scenario

Conversely, there are a number of reasons to believe we are approaching a new, prolonged phase of higher inflation. This scenario would occur as a result of several factors. First, the determination that *several conceptual assumptions that prevailed in recent years are now wrong*: (i) the increase in the price of crude oil is not temporary, and will revert to its trajectory before the last five years, in line with the current supply and demand margin; (ii) China's deflationary strength is exhausted because its growth model is shifting toward one that is underpinned more by consumption and the export of high-value-added goods (thereby increasing its terms of trade and appreciating its currency relative to the world, moving on to "export inflation"), and (iii) the validity of some postulates of secular stagnation is lost, especially the link between potential growth and the equilibrium interest rate, which is once again rising, despite the lack of productivity gains.

Secondly, *certain changes operated in the productive structure of the global economy*; transformations, such as: (i) reshoring production facilities to their countries of origin due to disrupted value chains and the adoption of automation (price increases due to the assumption of sunk costs and higher salary costs); (ii) repricing of productive externalities and incorporation of costs through Pigouvian taxes (Carbon Border adjustment tax, Financial Tobin tax, Digital Tax, etc.), and (iii) the energy transition, with higher costs in early adoption than in hydrocarbon-based production.

Thirdly, *changes in the demographic and social structure* that enable high rates of underemployment to coexist with unmet demand for skilled workers in new technologies. Finally, *the effects of seigniorage*, the implicit monetization of the deficit that causes inflation and inflation expectations to rise.

We are therefore faced with new signs of inflation that may condition (depending on the temporary or permanent nature of said inflation) the type of macro-economic scenario in which we find ourselves during the coming months.

and fiscal policy is also maintained, albeit to a lesser extent than in 2020, thereby ensuring liquidity, stability in asset valuation and improved consumer expectations.

The overall financial situation is stable, and families and businesses alike are not facing solvency problems (there is no stress on default nor on the risk premium of corporate credit). Likewise, asset values remain stable, real interest rates remain low, and returns remain moderately high. Emerging markets are not experiencing reversed portfolio investment flows with tightened financial conditions toward them, and their currencies are not experiencing widespread sharp depreciations. Financial normalization is also gradual in developed countries, whereby financial bubbles are bursting without causing systemic damage. The baseline scenario therefore essentially consists of a situation very similar to the situation that prevailed at the end of 2019, just before the pandemic broke out.

Stressed scenario

By contrast, this report considers an alternative scenario of a more pessimistic nature (*stressed scenario*), which is defined by two main milestones: (i) the rise in inflation is interpreted by the market as somewhat more structural in nature[3], and (ii) the existence of problems in vaccine effectiveness (resulting from rollout, side effects, skepticism and mutations in the virus).

The above is conducive to a scenario that presupposes a deep and widespread deterioration in consumer and producer confidence. Monetary policy reacts ambivalently, but is mostly marked by pressure from market expectations on the Federal Reserve, which has kept interest rates unchanged in 2020/2021, but has indeed changed its monetary stance (forward guidance). As a result, the entire interest-rate curve will steepen despite activity languishing.

The stressed scenario also accounts for financial corrections of equities (around 20%), and increases in real interest rates that deteriorate public and private fixed income, especially non-investment grade. The corporate credit risk premium is under significant stress, resulting in calls for additional capital (margin calls) and liquidity problems despite efforts by central banks (TLTROs).

This alternative scenario also considers that the financial situation and deteriorating confidence will trigger a risk off mood that will suddenly halt portfolio investment flows to emerging countries, balance-of-payments problems with twin deficits (whether inherited from the pandemic or not), and strong depreciations in exchange rates.

The problems associated with scarring become real and obvious: Unemployment and underemployment are increasing, and salary incomes are deteriorating (disposable income is significantly lower as a result of both deteriorating income and the rise in inflation). The liquidity problems experienced by families and small businesses turn into solvency problems, the rate of default and bankruptcies among small businesses increases; the banking industry restricts credit and the problem intensifies. Domestic demand therefore falls as a result of deteriorating income, deteriorating trust and worsening financial conditions. Investment contracts and is not replaced by public investment. Private consumption collapses.

The crisis is nevertheless overcome, but recovery to pre-pandemic levels will take an additional 12 to 18 months. This exit from the pandemic comes with lower global potential growth as a result of scarring from the crisis. Lower potential bodes for greater price tightening in the future as the output gap will tend to grow cyclically, which is something that monetary policy must take into account.

As such, the *baseline scenario* forecasts strong growth during 2021 and 2022 (5.2% on average), driven strongly but not exclusively by developed markets, with a relatively stable and depreciated dollar, lax financial and monetary conditions, and an orderly adjustment of financial markets conducive to the long-term growth to which we were accustomed, whereas the *stressed scenario* forecasts a delayed and weakened exit (with average growth of just 2.5% between 2020 and 2021), whereby we enter a volatile financial environment that is particularly harmful to emerging markets (see Charts 1.1.1-m and 1.1.1-n).

1.1.2 Risk assessment

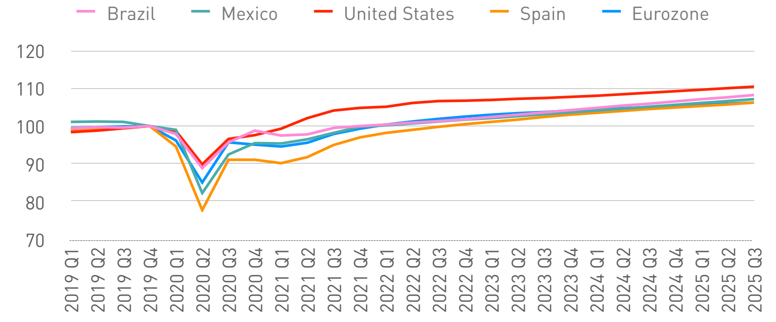
Chart 1.1.2 shows the updated risk map for the global economy. This analysis is detailed below.

Global governance

Despite the fact that the United States is currently experiencing a greater period of institutional calm under the Biden Administration, foreign relations appear to bear the risk of becoming more uncertain in light of the pending approval of the Comprehensive Agreement on Investment (CAI) between the European Union and China, leaving the United States out of the agreement. China is reaffirming its commitments to open up to foreign markets, but diplomatic tensions still exist with the European Union and other parts of the world, especially in light of the threat that the CAI will not be approved by the European Parliament due to the human rights issues that have recently occurred in China.

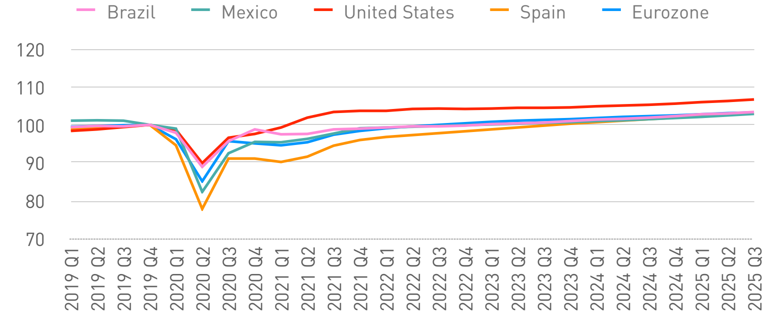
With regard to emerging countries, the situation remains relatively calm due, in part, to maintained social distancing measures in light of a pandemic yet to be brought under control, and due to economic relief from the rising price of raw materials and resilient exports. In these regions, governance remains focused on local cases of institutional fragility against a backdrop of corruption, low social protection during the restrictions caused by the pandemic and high levels of informal employment.

Chart 1.1.1-m
Selected economies: GDP recovery by quarter, baseline scenario
(2019 Q1=100)



Source: MAPFRE Economics

Chart 1.1.1-n
Selected economies: GDP recovery by quarter, stressed scenario
(2019 Q1=100)



Source: MAPFRE Economics

Global debt

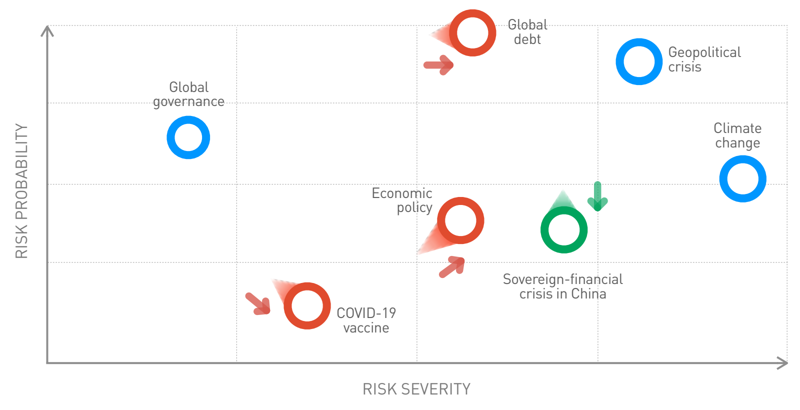
Aggressive fiscal support measures aimed at mitigating the effects of the economic recession caused by the COVID-19 pandemic pushed the global debt/GDP ratio to a new all-time high of 355% in 2020, up by 35 percentage points from 2019. The first signs of stabilization emerged in late 2020. In developed markets, massive fiscal and monetary stimuli have resulted in the public sector leading the leverage process, followed by the private sector and by increases in the finance sector, albeit to a lesser extent. For emerging markets, the largest leverage was recorded in the private non-financial sector (corporate and, to a lesser extent, households), followed by governments and finance companies, as a result of a more limited fiscal response.

Overall, public debt has experienced unprecedented growth in the past year, more so in developed economies, under fiscal expansion programs to support a thwarted private sector and underpinned by financial conditions supported by central banks' accommodative policies. However, as the first signs that the pandemic is coming to an end are beginning to be felt, these financial conditions also point to reversal and indicate that prospects for inflation, growth, and employment could reach pre-pandemic levels earlier than expected. This steepening of interest rate curves reactivates the risk of reinvestment and debt sustainability, based on the need to support the burden at higher levels. In this sense, another latent risk arises from the sudden need to resume fiscal discipline against a backdrop of unequal recovery. In this case, recovery could become tighter as the gap widens between economies undergoing a lengthy recovery process and economies in more advanced stages.

The greatest risk to emerging economies still lies in economies with high levels of external debt and strong currency-denominated debt profiles. The backdrop of a stable dollar and less favorable financial conditions could lead to major shocks in the event of impaired credibility (such as the recent event involving the Turkish lira), global risk aversion events due to changes in the evolution of the pandemic and/or local and selective instances of instability such as those in Argentina in the summer of 2018.

Finally, both in the United States and in several European Union countries, prospects for the corporate debt segment of CDOs (Collateralized Debt Obligations) remain negative. This is despite successful recovery in credit spreads throughout the year underpinned by favorable financial conditions. Tightening these spreads could normalize the risk-return binomial and cause new asymmetric changes in certain low-credit-rating segments.

Chart 1.1.2
Global risks and vulnerabilities*



Source: MAPFRE Economics

*The arrow indicates the observed bias of the risk

Sovereign-financial crisis in China

The Chinese economy continues to spearhead global recovery, consolidating sound recovery underpinned by its strong manufacturing industry, surges in investment, and good exports performance. However, such growth requires a still-lagging boost from private consumption. In turn, the continuation of its macroeconomic policies in the more immediate future could continue to support proper economic growth, as evidenced by the most recent annual National Congress of the Chinese Communist Party in 2021. In this sense, and given the intended purpose of boosting domestic consumption as a source of growth, problems that occurred in the supply chain during the pandemic could result in globally expedited change toward a system in which chain links rely less on China, thereby forcing the Asian economy to expedite reforms aimed at alleviating imbalances in self-sufficiency in a highly leveraged environment that could exacerbate financial risk (see Box 1.1.1-a).

Economic policy

Recent turbulence in debt markets indicates stronger recovery prospects, higher inflation expectations, and an early recovery of employment levels. However, this prediction exerts unwanted or premature stress on financial conditions. Given this effect, as a beacon of expectations, the central banks' communication tool continues to show their commitment to the early recovery phase, delaying possible monetary-policy tightening over time and thus reducing the negative consequences of early normalization. In this sense, the monetary pillar will continue to face a delicate communication process under more flexible objectives, the mandated limitation (dual or single) of which could limit its countercyclical effectiveness.

In terms of the fiscal aspect, the approach remains expansionary and favored by lax monetary policy. However, prolonged, unwanted tightening of financial conditions could compromise the stability of such policies, and some of the current measures could be abandoned to move toward a phase focused on fiscal consolidation for the sake of debt sustainability.

Geopolitical crisis

Vaccine nationalism, whereby countries press for access to current limited stocks, poses a global risk based on competition between countries that could prolong the current pandemic. This recent phenomenon continues to widen the gap between more advanced countries and emerging countries with less access, thereby fueling institutional decline. With regard to tensions between the United States and China, despite less hostile political language, protectionist stances persist and the United States continues to distance itself from the Chinese economy. In the European Union, however, the block is setup more *cooperatively* under the approach of a cooperative partnership and systemic rivalry, partly due to greater dependence on its manufacturing production and lagging technology. As far as Brexit is concerned, as expected, despite the minimum agreement reached at the end of the year, the transition process could continue to be marked by pending negotiations whose process still lacks consensus. Finally, global tensions over the reorientation of supply chains are compounded by the blockade in the Suez Canal, whose relevance to maritime traffic raises further doubts surrounding Asia's manufacturing dominance and its current dependence.

Climate change

In light of the crisis caused by the COVID-19 pandemic, the need to strengthen international bodies against global threats in order to respond to emergencies such as climate change has become evident. At the same time, and from the perspective of an interconnected system, the importance of the financial sector, and therefore of the insurance sector, as trend accelerators such as those under the acronym ESG, allow for additional efforts in the same direction through investment and financing of sustainability-based matters. The insurance industry is consolidated as an industry that promotes sustainable and responsible business.

COVID-19 vaccine

As vaccination plans gain pace around the world, countries with the most advanced processes are beginning to ease restrictions, thereby allowing them to pave the way for economic recovery. However, delayed campaigns within the European Union, Japan and other developed nations, coupled with the low rate of rollout in countries with fewer resources and limited access to different vaccines, could put current progress at risk. As COVID-19 mutates and new variants emerge, the effectiveness of vaccines developed today may require updates, putting some current performance at risk and dilating a scenario of still-incomplete and unequal herd immunity.

1.2 Forecasts and risk assessment in selected economies

1.2.1 United States

Prospects improved thanks to huge monetary and fiscal stimuli.

The United States economy will experience extraordinary growth, which is expected to stand at 6.6% in 2021 and 3.3% in 2022; this is all thanks to record stimulus unlike anything seen since the post-war period (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b). The Rescue Plan, totaling 1.9 trillion dollars, was approved in March. This plan, in addition to the 900 billion dollars made available at the end of 2020, represents a strong fiscal boost in 2021 equating to around 4.3 pp of GDP. This aid in the form of direct checks to families is having an immediate impact on consumption and savings.

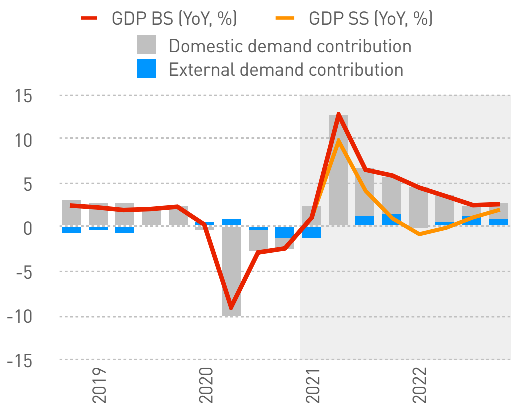
The development of the pandemic is still the main source of uncertainty, with an incidence level of 200 cases/100,000 inhabitants at the end of March, which could foreshadow the onset of a fourth wave. There is, however, a certain sense of optimism, as the rate of vaccination means that 67.5% of the population have already received at least one dose. The level of restrictions varies by state, but the United States aggregate indicator shows a stringency index of around 60%, which is lower than in European countries (see Chart 1.2.1-c).

- 64% of the population has already received at least their first vaccine dose.
- The leading confidence, purchasing and manufacturing indicators are improving.
- The Federal Reserve is waiting for concrete indicators of improvement before changing its monetary policy stance. Expectations suggest interest rate hikes in 2023.
- The forecast for US GDP growth in 2021 has been revised upward to 6.6%.

At the activity level, industrial production stood at -4.2% YoY in February, down from the previous year. By contrast, retail sales rose to 6.3% YoY in February, thanks to stimuli in the form of checks sent to families. The March Purchasing Managers' Indices (PMIs) all stood above 50 points (i.e. in the expansion zone), with the composite index at 59.7, the manufacturing index at 59.1 and the services index at 60.4 points. The Conference *Board Consumer* Confidence Index consequently rose to 109.7.

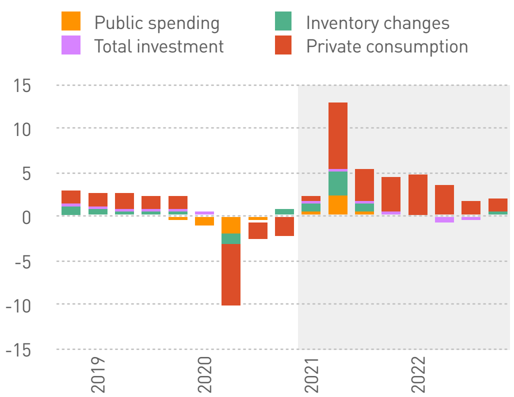
Overall inflation increased to 2.6% in March, with core inflation at 1.6% YoY, and the PCE, the indicator followed most by the Federal Reserve, at 1.6% (February). Inflation is expected to increase in the coming months, mainly caused by oil prices, while fiscal aid for household spending will also contribute to this upward pressure to some extent, though this will be

Chart 1.2.1-a
United States: GDP breakdown and forecasts



Source: MAPFRE Economics (based on Federal Reserve data)

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



Source: MAPFRE Economics (based on Federal Reserve data)

Table 1.2.1
United States: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY, average)	1.7	2.3	3.0	2.2	-3.5	6.6	3.3	4.0	0.6
Domestic demand contribution	1.9	2.6	3.3	2.4	-3.5	6.2	2.6	3.5	-0.2
External demand contribution	-0.2	-0.2	-0.3	-0.2	-0.0	0.3	0.6	0.5	0.7
Private consumption contribution	1.9	1.8	1.9	1.7	-2.7	3.9	2.7	1.8	0.1
Total investment contribution	0.4	0.7	1.0	0.5	-0.2	1.2	0.3	0.8	0.3
Public spending contribution	0.3	0.1	0.2	0.2	0.0	0.2	-0.2	0.2	-0.2
Private consumption (% YoY, average)	2.8	2.6	2.7	2.4	-3.9	5.6	4.0	2.6	0.1
Public consumption (% YoY, average)	1.8	0.6	1.5	1.8	0.3	1.6	-1.7	1.6	-1.7
Total investment (% YoY, average)	1.8	3.5	4.8	2.3	-0.8	5.7	1.2	3.7	1.3
Exports (YoY in %)	0.3	3.9	3.0	-0.1	-13.0	5.3	7.2	2.7	2.8
Imports (YoY in %)	1.6	4.7	4.1	1.1	-9.2	9.4	-0.3	6.3	-3.8
Unemployment rate (%, last quarter)	4.8	4.1	3.8	3.6	6.8	4.8	4.3	5.6	5.0
Inflation (% YoY, last quarter)	2.1	2.1	1.9	2.3	1.4	2.7	1.5	3.5	2.3
Fiscal balance (% of GDP)	-5.4	-4.2	-6.2	-6.6	-15.8	-12.2	-6.5	-13.1	-8.4
Primary fiscal balance (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance (% of GDP)	-4.1	-4.3	-4.4	-4.1	-4.3	-4.2	-3.5	-4.2	-3.4
Current account balance (% of GDP)	-2.1	-1.9	-2.2	-2.2	-3.1	-3.1	-2.2	-3.1	-2.4
Official interest rate (end of period)	0.75	1.50	2.50	1.75	0.25	0.20	0.20	0.94	3.10
3-month interest rate (end of period)	1.00	1.69	2.81	1.91	0.24	0.16	0.20	0.90	3.10
10-year interest rate (end of period)	2.45	2.40	2.69	1.92	0.93	1.82	2.08	2.58	3.83
Exchange rate vs. US dollar (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Exchange rate vs. euro (end of period)	1.05	1.20	1.15	1.12	1.23	1.17	1.19	1.17	1.15
Private lending (% YoY, average)	3.3	7.0	4.7	5.4	5.6	15.2	0.9	15.7	2.1
Household lending (% YoY, average)	2.1	3.4	3.6	3.2	3.5	6.2	6.0	6.0	5.4
P.S. non-financial lending (% YoY, average)	5.4	6.7	9.0	6.5	8.6	-0.3	3.9	-0.3	3.9
P.S. financial lending (% YoY, average)	4.3	2.9	2.2	2.2	1.9	1.2	1.8	1.5	3.3
Savings rate (as % pers. disp. income, avg.)	6.9	7.2	7.8	7.5	16.1	14.4	8.8	16.0	11.9

Source: MAPFRE Economics (based on Federal Reserve data)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

temporary until activity stabilizes. In the longer-term, the Federal Reserve's balance-sheet expansion effect and government stimuli come into play, and markets are already discounting a gradual rise in interest rates over the next 5 years as reflected in the 5-year inflation swap (now at 2.4%).

At its March meeting, the Federal Reserve kept its monetary policy unchanged, keeping interest rates in the range of 0–0.25%, and maintained the monthly pace and composition of asset purchases. As such, and under the message of moderation, interest rate projections from committee members continue to show no increases at least until 2023, as expected. In terms of the balance sheet, the committee mitigated expectations of a reduction in purchases by anchoring future decisions to the publication of economic data evidencing significant progress.

The risks to the US economy in the short-term are focused on further waves of the pandemic and their subsequent restrictions on activity. Progress is being made in the vaccination campaign, with a significant percentage of the population having already received at least one dose. At the fiscal level, unprecedented direct aid to families represents paramount financial support, but also calls into question the monetary effect on inflation and market interest rate levels and their impact on issues in dollars in emerging countries. At the geopolitical level, the current administration shows greater tolerance for Chinese trade practices (see Box 1.1.1-a), with a greater "green" approach and a return to the Paris agreement, an anti-fossil-fuel policy, and greater cooperation with supranational bodies.

Chart 1.2.1-c
United States: daily COVID-19 infections, stringency index and progress toward herd immunity

Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

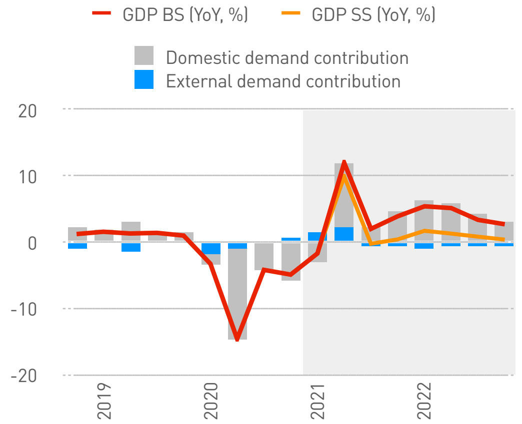
1.2.2 Eurozone

Restrictions remain in place and vaccine rollout is slow.

The rate of infection remained very high during the first few months of 2021, which has led to strict restrictions in many eurozone countries. As already indicated in our previous report[4], we predicted that economic activity would contract in the first quarter as a result of restrictions on mobility and social contact, and because, at the start of 2020, the pandemic had not yet fully manifested itself until February/March in most countries. The start to 2021 was also marked by the commencement of vaccine rollout, which increased optimism, but the current rate is slower than expected (an average of 28.9% of the population has received at least one dose). Questions surrounding the effectiveness of vaccines in preventing the spread of infections have prevented countries from lifting restrictions; on average, countries have a stringency index of around 69% (see Chart 1.2.2-c).

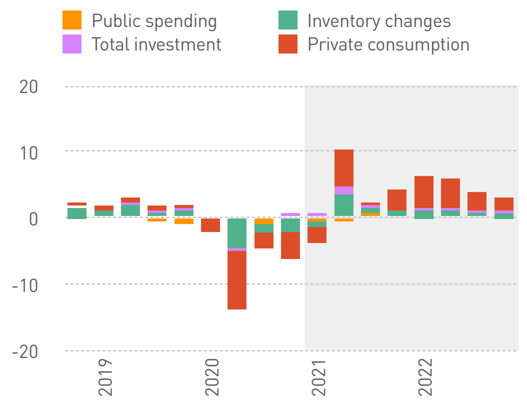
The Next Generation EU (NGEU) fund program, which could be deployed in June this year, will play a key role in reviving eurozone economies. In mid-April, the German Federal Constitutional Court unblocked the financing mechanism for European funds in time for funds to start flowing this summer. The issuing of debt to finance the funds had already been approved by the German parliament, but that decision was filed before the court due to doubts regarding its constitutionality. The issuance has now been unblocked and no further delays are expected,

Chart 1.2.2-a
Eurozone: GDP breakdown and forecasts



Source: MAPFRE Economics (based on ECB data)

Chart 1.2.2-b
Eurozone: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on ECB data)

Table 1.2.2
Eurozone: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY, average)	1.8	2.7	1.9	1.3	-6.8	4.0	4.1	2.1	1.0
Domestic demand contribution	2.3	2.3	1.8	1.8	-6.2	3.3	4.8	1.7	1.8
External demand contribution	-0.4	0.4	0.1	-0.5	-0.6	0.7	-0.7	0.4	-0.8
Private consumption contribution	1.0	1.0	0.8	0.7	-4.3	1.7	3.6	0.4	1.2
Total investment contribution	0.8	0.8	0.7	1.2	-1.9	1.1	0.8	0.7	0.1
Public spending contribution	0.4	0.2	0.2	0.4	0.2	0.6	0.3	0.6	0.3
Private consumption (% YoY, average)	1.9	1.9	1.5	1.3	-8.1	3.3	6.9	0.8	2.4
Public consumption (% YoY, average)	1.9	1.1	1.2	1.8	1.1	2.7	1.5	2.7	1.5
Total investment (% YoY, average)	3.9	4.2	3.3	5.7	-8.3	5.1	3.7	3.4	0.5
Exports (YoY in %)	2.9	5.9	3.6	2.5	-9.8	8.2	4.8	5.6	0.4
Imports (YoY in %)	4.3	5.4	3.6	3.9	-9.3	7.2	6.8	5.1	2.2
Unemployment rate (%, last quarter)	9.8	8.7	7.9	7.4	8.3	9.0	8.6	10.0	10.1
Inflation (% YoY, last quarter)	0.7	1.4	1.9	1.0	-0.3	2.2	0.9	2.9	2.2
Fiscal balance (% of GDP)	-1.4	-0.9	-0.5	-0.6	-6.9	-6.6	-4.0	-7.6	-6.6
Primary fiscal balance (% of GDP)	0.6	1.0	1.4	1.0	-5.1	-4.9	-2.3	-5.8	-4.9
Trade balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance (% of GDP)	3.0	3.1	2.9	2.3	2.2	2.4	2.2	2.3	2.0
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)	-0.32	-0.33	-0.31	-0.38	-0.55	-0.73	-0.92	0.42	0.63
10-year interest rate (end of period)	0.93	1.14	1.17	0.32	-0.19	0.25	0.38	2.18	2.51
Exchange rate vs. US dollar (end of period)	1.05	1.20	1.15	1.12	1.23	1.17	1.19	1.17	1.15
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	1.5	2.3	2.7	3.3	2.9	3.5	4.0	3.0	1.0
P.S. non-financial lending (% YoY, average)	2.9	1.4	3.5	2.0	2.7	-2.2	0.6	-2.7	-0.1
P.S. financial lending (% YoY, average)	3.8	2.5	-1.1	1.5	-0.2	1.3	3.3	1.3	3.7
Savings rate (as % pers. disp. income, avg.)	12.3	12.2	12.4	12.8	19.6	17.3	12.6	18.5	15.6

Source: MAPFRE Economics (based on ECB data)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

unless new political discussions arise. European funds are the key element of fiscal stimuli, especially for southern countries where public finances are very tight and because these countries have been severely hit by the decline in tourism. Employment aid will remain in place for as long as necessary until activities can resume as normal. These plans have enabled the rise in unemployment—which stood at 8.3% in February—to be contained.

With regard to economic activities, industrial production is showing positive signs and recovering compared to 2020. This is a sign that business investment and consumption has somewhat adapted to pandemic conditions and restrictions. This has been reflected in the Purchasing Managers' Indices (PMIs), with the March manufacturing index rebounding to 62.4 points, while the contraction in the services index remained constant (48.8) and the composite index saw an upturn (52.5) for the first time since the summer of 2020. Car registrations fell by around 20% during February, not only due to the economic crisis caused by the pandemic, but also due to uncertainty surrounding the future of fossil fuels. Our forecast for eurozone GDP growth has therefore been updated to 4.0% for 2021 and 4.1% for 2022, taking into account prolonged restrictions, vaccination issues and the successive waves of the pandemic that are persisting in some countries, but also the first installments of EU funds, which are set to arrive in the second half of 2021 (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b).

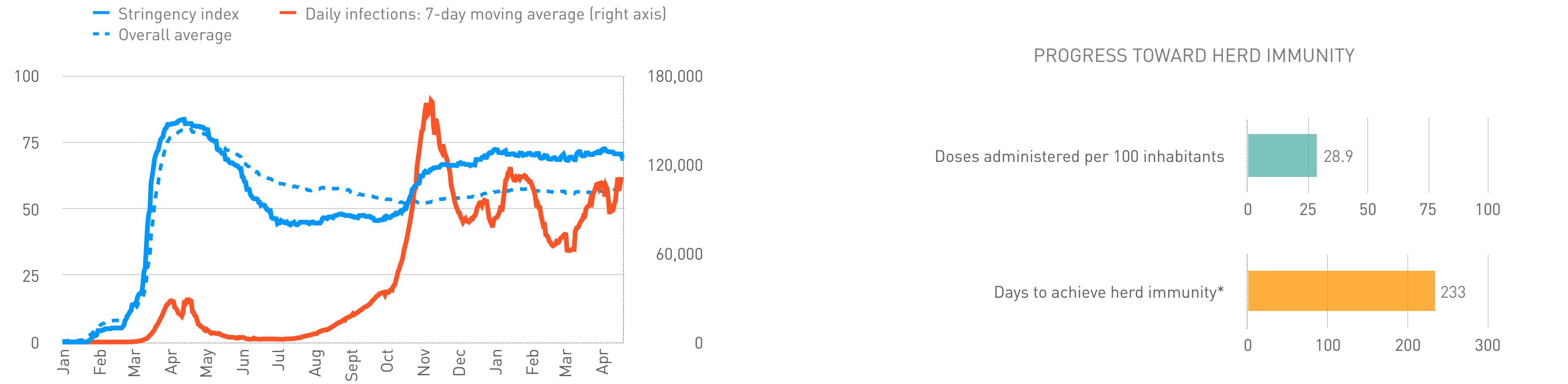
Furthermore, aggregate inflation in the eurozone stood at around 1.3% in March, with the core inflation at 0.9%. We expect inflation to rise in the coming quarters mainly due to the effect of the price of oil and other raw materials, to around 2.2% by year-end. In the long-term, inflation performance will depend on the recovery in consumption, the evolution of unemployment, and wages. Our central vision predicts that the surge in inflation will be temporary, though we cannot rule out that it may be an incipient long-term structural trend (see Box 1.1.1-c).

- **Vaccination rollout in the eurozone has been slower than expected.**
- **Funds from the European Union will be deployed in the second half of 2021, once resistance spearheaded by Germany has been overcome.**
- **The European Central Bank is increasing the pace of the purchase program to offset increases in market interest rates and tightening financial conditions in general.**
- **GDP growth in 2021 is expected to be 4.0%, subject to developments in restrictions.**

At its meeting on March 11, the European Central Bank (ECB) decided to increase the pace of purchases under the PEPP (Pandemic Emergency Purchase Program)—though it did not indicate to what extent—in order to counteract the negative impact of this crisis on inflation. The program will run until March 2022 with the purpose of maintaining favorable financing conditions and a smooth monetary policy transmission. This increase in purchases seeks to offset the recent surge in interest rates that had emerged in various debt markets. Official interest rates have been maintained: 0% for main financing operations and -0.50% for deposit facilities. The ECB expects to keep interest rates at or below current levels until convergence of around 2% is observed and this is felt in core inflation. The ECB has also extended financial sector financing operations (TLTRO III) until June 2022, with the aim of ensuring attractive financing conditions for the banking sector that support bank lending to businesses and households.

Risks in the eurozone at the sovereign economic and financial level appear to be under control as a result of ample liquidity, low interest rates, ECB support and government stimulus programs. The main risk currently lies in the pandemic and its subsequent restrictions persisting, which would set recovery back even further. In terms of the level of financial risk in the corporate and household sectors, this may rise at any time as insolvencies increase, resulting in the consequent surge in late payments for banks,

Chart 1.2.2-c
Eurozone: daily COVID-19 infections, stringency index and progress toward herd immunity



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

and will continue to increase if the pandemic persists. Another risk lies in that NGEU funds may be misused and may not lead to an increase in repayment capacity, which would only increase the debt level problem.

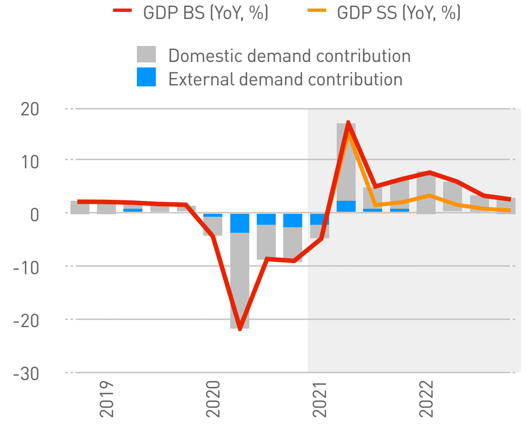
1.2.3 Spain

NGEU management and recovery in tourism are key to economic revival.

Spain's GDP fell by -10.8% in 2020 according to the INE's final data, falling -8.9% YoY in the last quarter of the year. Exports fell by -20.1% in 2020, with services being the worst affected, and non-resident spending suffering a fall of around 90%. Private consumption fell by -12.2%, while public consumption grew by 3.8%. Investment contracted by -11.4% and imports by -15.8%. Vehicle sales also fell in 2020 by 32.3%, down to 851,211 registrations. Sales in 2021 are again expected to decline, and this dynamic is partly explained by the rise in the registration tax. In January and February these falls stood at -51.5% and -38.4%. However, sales could stabilize at around 80,000 vehicles/month in the coming months; in 2019 sales stood at around 100,000 vehicles/month.

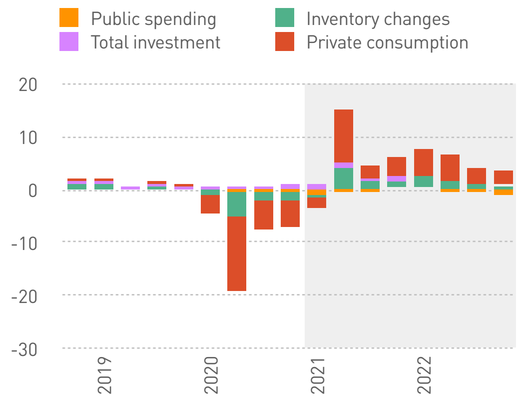
The end of the pandemic remains distant, and new waves of infection may still occur as long as the virus continues to circulate. As in the eurozone as a whole, vaccine rollout is progressing slower than anticipated, with 30.5% of the population receiving at least one dose. Moreover, in light of the spread of infections and the rate of vaccine rollout, restriction measures remain in place (see Chart 1.2.3-c).

Chart 1.2.3-a
Spain: GDP breakdown and forecasts



Source: MAPFRE Economics (based on INE data)

Chart 1.2.3-b
Spain: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on INE data)

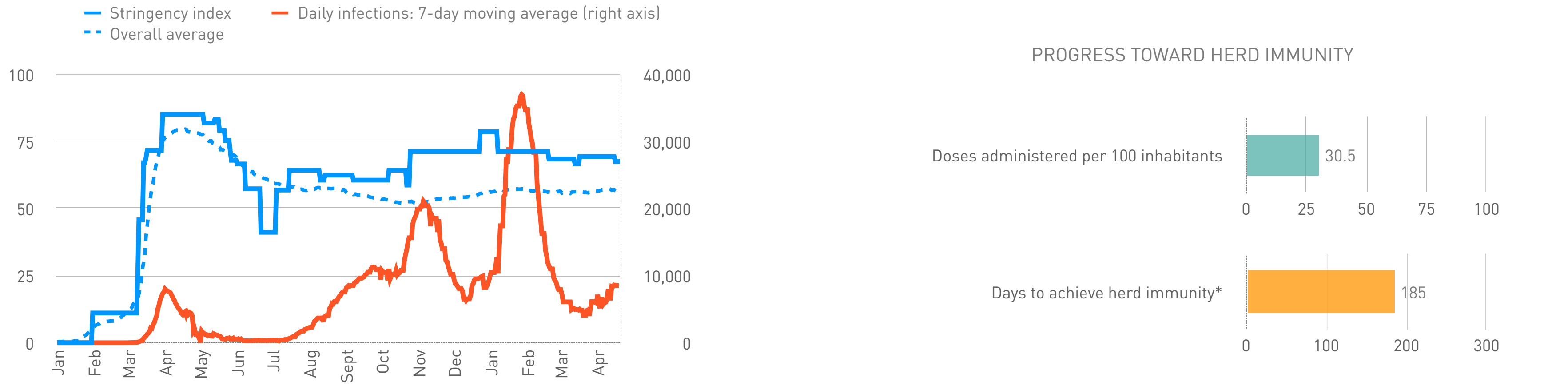
Table 1.2.3
Spain: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY, average)	3.0	3.0	2.4	2.0	-10.8	6.0	5.0	3.6	1.7
Domestic demand contribution	2.0	3.1	3.0	1.4	-8.7	5.5	5.0	3.0	1.2
External demand contribution	1.0	-0.2	-0.5	0.6	-2.1	0.5	-0.0	0.5	0.5
Private consumption contribution	1.6	1.8	1.0	0.5	-7.0	3.5	3.8	2.4	1.9
Total investment contribution	0.4	1.2	1.1	0.5	-2.2	1.5	1.3	0.5	0.1
Public spending contribution	0.2	0.2	0.5	0.4	0.7	0.9	0.3	0.9	0.3
Private consumption (% YoY, average)	2.7	3.0	1.8	0.9	-12.2	6.3	6.8	4.3	3.4
Public consumption (% YoY, average)	1.0	1.0	2.6	2.3	3.8	3.9	1.2	3.9	1.2
Total investment (% YoY, average)	2.4	6.8	6.1	2.7	-11.4	7.9	6.4	2.8	0.5
Exports (YoY in %)	5.4	5.5	2.3	2.3	-20.1	11.4	8.2	9.1	4.0
Imports (YoY in %)	2.7	6.8	4.2	0.7	-15.8	11.0	7.3	8.3	1.3
Unemployment rate (%, last quarter)	18.6	16.6	14.5	13.8	16.1	16.6	15.6	18.4	17.8
Inflation (% YoY, last quarter)	1.6	1.1	1.2	0.8	-0.5	1.6	0.9	2.3	2.0
Fiscal balance (% of GDP)	-4.3	-3.0	-2.5	-2.9	-11.0	-8.3	-6.1	-9.5	-8.8
Primary fiscal balance (% of GDP)	-1.5	-0.5	-0.1	-0.6	-8.8	-6.3	-4.3	-7.3	-6.5
Trade balance (% of GDP)	-1.3	-1.9	-2.5	-2.1	-0.8	-1.1	-2.5	-1.0	-2.0
Current account balance (% of GDP)	3.2	2.8	1.9	2.1	0.7	0.9	1.8	1.0	2.3
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)	-0.32	-0.33	-0.31	-0.38	-0.55	-0.73	-0.92	0.42	0.63
10-year interest rate (end of period)	1.37	1.57	1.42	0.47	0.06	0.65	0.86	2.81	3.25
Exchange rate vs. US dollar (end of period)	1.05	1.20	1.15	1.12	1.23	1.17	1.19	1.17	1.15
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	-2.5	-1.4	-0.3	-0.2	-0.4	3.0	2.9	2.5	-0.1
P.S. non-financial lending (% YoY, average)	-2.7	-1.1	-1.4	-0.6	2.3	1.6	-0.6	-3.3	-4.8
P.S. financial lending (% YoY, average)	-16.4	-7.9	-0.5	-4.9	2.0	5.4	3.2	5.6	3.9
Savings rate (as % pers. disp. income, avg.)	7.5	6.1	5.9	6.6	15.4	11.4	6.5	11.6	7.3

Source: MAPFRE Economics (based on INE data)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

Chart 1.2.3-c
Spain: daily COVID-19 infections, stringency index and progress toward herd immunity



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

As was the case in 2020, it is therefore expected that certain mitigation measures will remain in place accompanied by lax financial conditions, monetary expansion by the ECB, increased public spending, temporary unemployment support and the eventual receipt of European Union (NGEU) funds for investment. Effectively managing and selecting projects to receive these funds will be crucial to achieving future productivity gains in the economy, which is also key to fiscal sustainability.

Outlook surveys improved in March, with the services, manufacturing, and composite Purchasing Managers' Indices (PMIs) improving by 48.1, 56.9, and 50.1 points respectively. Furthermore, the consumer confidence indicator remains low at -17. Retail sales in February stood -5.9% lower than in the previous year, and industrial production stood -7% lower.

As such, taking into account the extent to which the Spanish economy is dependent on incoming tourists, full recovery will be unachievable until the inflow of tourists returns to normal. In fact, following a prolonged period of restrictions on mobility and hospitality services, the long-term economic damage must be assessed. Thus, our new estimate for Spain's economic growth in 2021 is 6.0% YoY and 5.0% YoY for 2022 (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b).

Inflation will rise from the second quarter of 2021 to 1.5–2.0% due to recovery in the price of oil, while core inflation must remain low as long as constraints on demand and household aggregate income persist. The risks to the Spanish economy stem mainly from a delay in restoring freedom of movement and full access to services in general. If this delay does indeed occur, the return of tourism will also be delayed. In the medium-term, an excessive delay in the return to normal will result in more business insolvencies and a greater burden in sovereign debt, and taxpayers having to subsequently foot the bill. Funds from the European Union must be channeled to projects that boost productivity and facilitate curbing the debt increase.

- **Effective management of Next Generation EU funds is key to productivity gains. Ineffective management would cause a deterioration of public finance.**
- **Hopes rest on exports and investment.**
- **Recovery in tourism is essential to recovery of the Spanish economy.**
- **The GDP growth forecast for 2021 stands at 6.0%.**

1.2.4 Germany

Exports and investment are the main driving forces for 2021, pending the restoration of mobility.

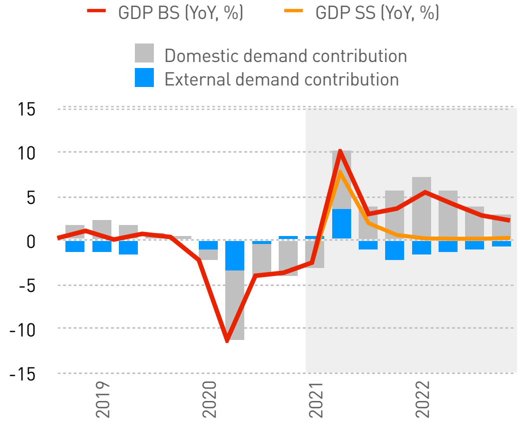
During the first quarter, the German economy will still suffer an estimated contraction of -0.8% QoQ as a result of the restrictions imposed (29.6% of the population has been vaccinated and the stringency index stood at around 75%), and due to the restoration on January 1 of the VAT rate applicable to private consumption (see Chart 1.2.4-c). Looking ahead to the coming quarters, prospects are improving thanks to the stimuli, external recovery, and expectations that restrictions will be lifted. The April GfK Consumer Confidence Index improved again, up to -6.2. The European Commission's industry survey is at its highest level since 2018. PMIs (Purchasing Managers' Indices) continue to improve, with the composite index at 57.3 points, the manufacturing index at 66.6 and the services index at 51.5 (March), a promising level not seen since last summer.

Exports (9.0%) and investment (4.0%) were the main drivers of growth in 2021, supported to a lesser extent by private consumption (2.1%) (even though free movement is yet to be fully restored). Public consumption should grow by around 1%, bringing the deficit to 3.4%. We therefore estimate Germany's economic growth to stand at 3.5% YoY in 2021, compared to the -5.3% decline in 2020, and at 3.7% in 2022 (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b).

- **The industrial and export sectors show optimism, thanks to global recovery.**
- **Consumer expectations and confidence are also improving, given the prospect of achieving herd immunity.**
- **The federal elections in September will result in volatility.**
- **The GDP growth forecast for 2021 stands at 3.5%.**

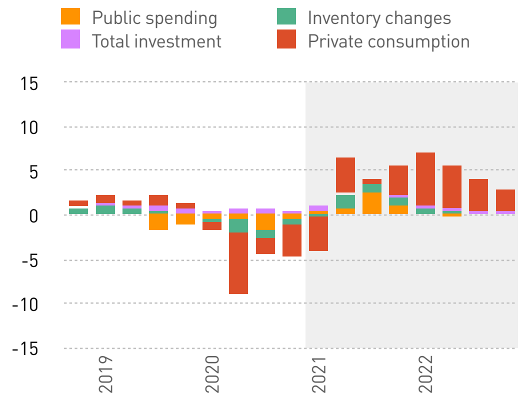
Germany will hold a super election cycle in 2021, with federal and state elections in several regions. It will be an intense year on the political front and will involve debate over who will bear the costs of the fiscal stimuli, among other matters. The risks are concentrated in persistently weak domestic demand, at least until restrictions on mobility are lifted and services re-open. Export activity is key to the German economy, and the strength of external demand depends on currency stability and financing costs, showing an upward trend.

Chart 1.2.4-a
Germany: GDP breakdown and forecasts



Source: MAPFRE Economics (based on DESTATIS data)

Chart 1.2.4-b
Germany: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on DESTATIS data)

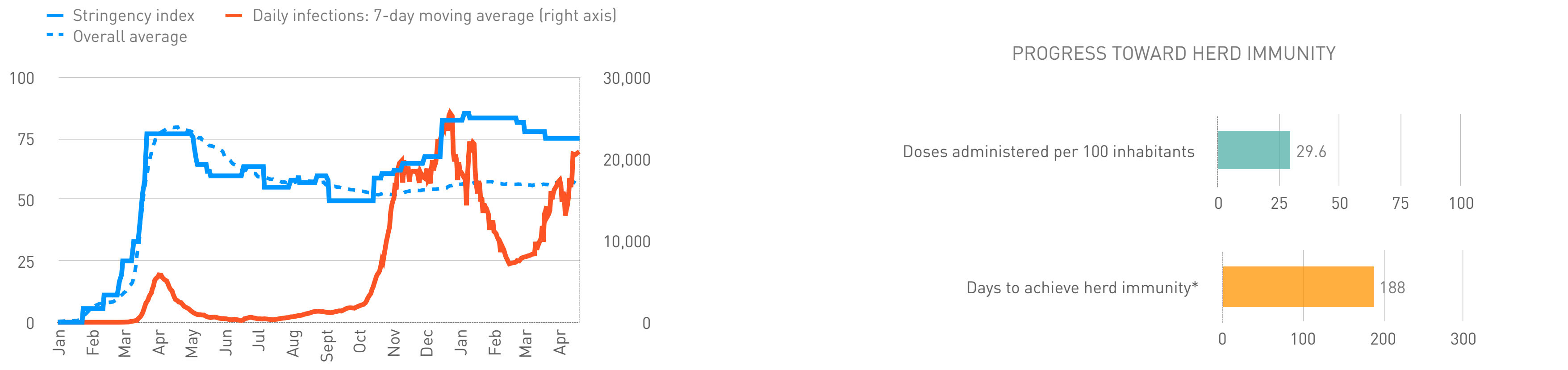
Table 1.2.4
Germany: main macroeconomic aggregates

	2016	2017	2018	2019	2020(e)	Baseline (BS) 2021(f)	Baseline (BS) 2022(f)	Stressed (SS) 2021(f)	Stressed (SS) 2022(f)
GDP (% YoY, average)	2.1	2.9	1.3	0.6	-5.3	3.5	3.7	1.9	0.2
Domestic demand contribution	2.8	2.7	1.7	1.2	-4.2	3.3	4.8	2.3	1.8
External demand contribution	-0.7	0.2	-0.4	-0.6	-1.1	0.3	-1.2	-0.4	-1.5
Private consumption contribution	1.2	1.0	0.8	0.8	-3.3	1.1	4.2	0.1	1.8
Total investment contribution	0.7	0.6	0.7	0.5	-0.8	0.9	0.5	0.9	0.2
Public spending contribution	0.8	0.3	0.2	0.5	0.7	0.2	0.2	0.2	0.2
Private consumption (% YoY, average)	2.2	1.8	1.5	1.6	-6.3	2.1	8.2	0.2	3.5
Public consumption (% YoY, average)	4.1	1.6	1.2	2.7	3.3	0.9	1.0	0.9	1.0
Total investment (% YoY, average)	3.6	3.2	3.6	2.6	-3.9	4.0	2.2	4.1	0.9
Exports (YoY in %)	2.3	5.4	2.5	1.0	-10.2	9.0	3.7	6.1	-1.2
Imports (YoY in %)	4.4	5.8	3.8	2.6	-9.1	9.1	6.7	7.4	2.2
Unemployment rate (%, last quarter)	6.0	5.5	5.0	5.0	6.1	5.8	5.7	6.5	7.1
Inflation (% YoY, last quarter)	1.5	1.4	1.6	1.5	-0.3	2.8	1.1	3.6	2.5
Fiscal balance (% of GDP)	1.2	1.4	1.8	1.5	-4.2	-4.7	-2.0	-5.5	-4.6
Primary fiscal balance (% of GDP)	2.4	2.4	2.7	2.3	-3.5	-4.2	-1.5	-4.9	-3.9
Trade balance (% of GDP)	8.0	7.9	6.8	6.3	5.7	5.0	4.4	4.5	3.5
Current account balance (% of GDP)	8.4	7.8	8.0	7.7	6.8	6.2	5.2	5.7	4.5
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)	-0.32	-0.33	-0.31	-0.38	-0.55	-0.73	-0.92	0.42	0.63
10-year interest rate (end of period)	0.21	0.43	0.25	-0.19	-0.58	-0.18	-0.17	1.17	1.58
Exchange rate vs. US dollar (end of period)	1.05	1.20	1.15	1.12	1.23	1.17	1.19	1.17	1.15
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	2.8	3.2	3.6	4.4	4.2	5.5	7.3	5.1	4.1
P.S. non-financial lending (% YoY, average)	3.8	5.2	7.5	5.4	4.0	0.7	4.7	0.7	4.9
P.S. financial lending (% YoY, average)	2.2	0.7	3.9	6.3	6.2	1.4	7.1	1.6	8.3
Savings rate (as % pers. disp. income, avg.)	10.4	10.5	10.9	10.8	16.3	14.8	9.8	15.7	12.4

Source: MAPFRE Economics (based on DESTATIS data)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

Chart 1.2.4-c
Germany: daily COVID-19 infections, stringency index and progress toward herd immunity



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

1.2.5 Italy

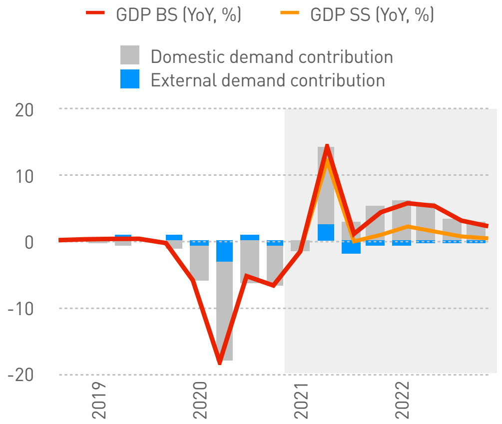
The economy recovered in 2021, driven by the industrial sector and exports.

Economic recovery began to take shape for Italy in 2021. However, as in many countries, new waves of the pandemic and restrictions on mobility prevented consumption from being the true driver of recovery. Progress was made in terms of vaccine rollout with 28.9% of the population having received at least one dose, while the stringency index stood at 79% (see Chart 1.2.5-c). Recovery in 2021 will therefore be underpinned by exports and investment and, to a lesser extent, private consumption. Private consumption is expected to grow by 3.9%, after falling by -10.7% last year.

Another positive aspect comes from the industrial sector, which is recovering thanks to the positive trend in exports benefiting from global recovery. This is accompanied by an improvement in prospects, as reflected in manufacturing PMIs, which stood at 59.8 points in March. PMIs for services are improving, but remain in the contraction zone (48.6 points in March). In light of these conditions, we have therefore adjusted our growth projection to 4.7% YoY for 2020 and 4.2% for 2022 (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b). Naturally, these projections must be reviewed in light of the many factors inherent to the pandemic that come into play.

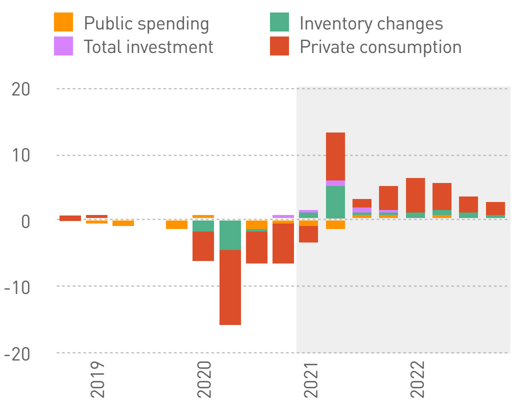
Widespread expectations surround the formation of a new government led by Mario Draghi and the administration's ability to implement reforms that will increase the productivity of the economy. Although faced with political

Chart 1.2.5-a
Italy: GDP breakdown and forecasts



Source: MAPFRE Economics (based on ISTAT data)

Chart 1.2.5-b
Italy: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on ISTAT data)

Table 1.2.5
Italy: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY, average)	1.4	1.7	0.8	0.3	-8.9	4.7	4.2	3.0	1.3
Domestic demand contribution	1.9	1.7	1.1	-0.4	-8.1	4.6	4.6	3.3	1.9
External demand contribution	-0.5	0.0	-0.3	0.7	-0.8	0.0	-0.4	-0.4	-0.6
Private consumption contribution	0.7	0.9	0.6	0.2	-6.5	2.3	3.5	1.0	1.0
Total investment contribution	0.7	0.6	0.5	0.2	-1.7	2.0	0.6	2.0	0.4
Public spending contribution	0.1	-0.0	0.0	-0.2	0.3	0.5	0.1	0.5	0.1
Private consumption (% YoY, average)	1.2	1.5	1.0	0.3	-10.7	3.9	5.9	1.6	1.8
Public consumption (% YoY, average)	0.7	-0.1	0.1	-0.8	1.6	2.6	0.4	2.6	0.4
Total investment (% YoY, average)	4.2	3.4	2.9	1.1	-9.2	11.3	3.4	11.5	2.1
Exports (YoY in %)	1.9	6.1	1.6	1.9	-14.4	11.5	6.6	8.5	1.7
Imports (YoY in %)	4.1	6.6	2.9	-0.5	-13.1	11.7	8.4	9.9	3.8
Unemployment rate (%, last quarter)	11.8	11.0	10.5	9.5	9.1	10.1	9.8	10.8	10.7
Inflation (% YoY, last quarter)	0.5	0.9	1.1	0.5	-0.2	2.0	0.7	2.8	1.9
Fiscal balance (% of GDP)	-2.4	-2.4	-2.2	-1.6	-9.5	-9.0	-5.2	-10.0	-7.7
Primary fiscal balance (% of GDP)	1.5	1.4	1.4	1.8	-6.0	-5.8	-2.1	-6.6	-4.2
Trade balance (% of GDP)	3.5	3.1	2.7	3.5	4.1	3.9	3.4	3.6	2.9
Current account balance (% of GDP)	2.6	2.6	2.7	3.4	3.7	3.1	2.6	2.8	2.0
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)	-0.32	-0.33	-0.31	-0.38	-0.55	-0.73	-0.92	0.42	0.63
10-year interest rate (end of period)	1.82	2.00	2.77	1.43	0.52	1.00	1.49	3.33	4.16
Exchange rate vs. US dollar (end of period)	1.05	1.20	1.15	1.12	1.23	1.17	1.19	1.17	1.15
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	0.5	1.2	1.8	2.1	1.3	2.5	3.2	2.1	0.6
P.S. non-financial lending (% YoY, average)	-2.1	-3.0	-0.4	-1.1	2.6	3.7	1.1	5.4	1.8
P.S. financial lending (% YoY, average)	-3.9	-13.2	25.1	-5.7	13.1	6.9	0.2	5.8	-1.7
Savings rate (as % pers. disp. income, avg.)	10.2	9.7	9.5	9.5	17.1	13.8	9.9	15.0	13.3

Source: MAPFRE Economics (based on ISTAT data)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

resistance, we can reasonably expect success in public administration and justice reforms, and European funds are likely to be channeled into sectors that need productivity improvements. The expected inflow of European funds (NGEU) could contribute an additional 0.5% to GDP in 2021.

- **The Italian industrial sector and exports benefited from global recovery; however, consumption still depends on mobility restrictions.**
- **Long-term growth and fiscal sustainability are dependent on NextGenEU and the necessary reforms.**
- **The growth forecast for Italian GDP stands at 4.7% for 2021.**

With regard to risks for the Italian economy, the level of sovereign debt is once again a primary concern, given the inflow of funds from the European Union which, to a large extent, must be repaid. The question of whether or not these funds will be properly allocated to increasing the economy's productivity and implementing structural reforms is also key. If these funds are not used well, this may simply result in increasing the debt burden in the medium- to long-term. Another doubt circulating in the markets regards who will replace the ECB in terms of demand for Italian bonds once the Pandemic Emergency Purchase Program comes to an end.

Chart 1.2.5-c
Italy: daily COVID-19 infections, stringency index and progress toward herd immunity

Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

1.2.6 United Kingdom

It is the beginning of a complex year, but confidence is recovering as a result of the prospects for improvement.

- **Restrictions were particularly stringent at the beginning of the year, but are beginning to ease.**
- **Vaccination rollout is progressing in a satisfying manner, keeping hopes high that this will spur on recovery.**
- **Exports were impacted by the effect of Brexit.**
- **The GDP growth forecast for 2021 has been revised to 5.1%.**

The United Kingdom is the European country that has made the most progress in terms of vaccine rollout, with more than 67.1 doses per 100 inhabitants. Restrictions on mobility and social contact—which currently imply a stringency index of around 66%—are therefore expected to be eased shortly (See Chart 1.2.6-c). However, many uncertainties still persist surrounding the correlation between vaccine efficacy and whether or not being vaccinated prevents infection, given that the return to normal will depend on this. As observed in all countries, controlling the number of cases at one given time does not prevent successive waves and their corresponding closures. Furthermore, this is all occurring with the emergence of new variants of the virus.

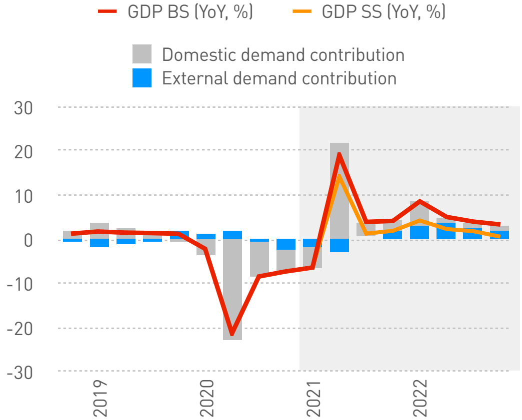
Activity data reveal a complicated start of the year—though better than expected by the consensus—and strict restrictions were in place on mobility, which were only eased at the end of February. Retail sales in February were down from 2020 and vehicle registrations decreased by -35.5%. Industrial production has recovered from 2020, but remains -5% below the figure recorded in 2019. Consumer confidence (GfK) has improved since the beginning of the year, bolstered by hopes of an early return to normal, reaching -16 in March. Our growth estimate for 2021 and 2022 is therefore 5.1% and 5.2% respectively. The recovery was underpinned moderately by private consumption (+1.8%), and substantially so by government expenditure (+14.4%) and investment (+6.4%), while the foreign sector is not yet seen as a driver of recovery (see Table 1.2.6 and Charts 1.2.6-a and 1.2.6-b).

Furthermore, inflation remained low at the beginning of this year, reaching 0.4% in February and core inflation at 0.9%. However, a temporary increase approaching 2% is expected throughout the year, driven by the price of oil exceeding 60 US dollars per barrel, compared to 30–40 US dollars per barrel in 2020.

At its meeting on March 17, 2021, the Bank of England decided to keep the interest rate at 0.1% and keep stocks of purchases of investment-grade non-financial corporate bonds at 20 billion pounds sterling (financed by the issuance of central bank reserves). It will also continue with its current government bond purchase program, whose target is 875 billion pounds sterling and, as such. the total target stock of asset purchases would stand at 895 billion pounds sterling. The central bank does not intend to tighten monetary policy, at least not until there are signs that significant progress is being made to eliminate excess capacity and sustainably achieve the 2% inflation target.

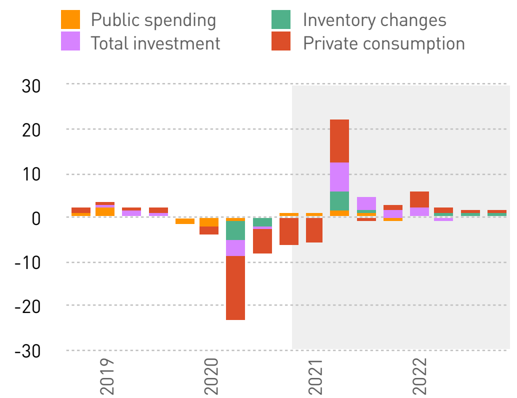
With regard to risks, exports have been slow to resume as a result of Brexit disruptions. However, if the government can maintain employment levels until the crisis comes to an end, and British citizens decide to spend some of the savings they accumulated during this period of restrictions, the economy may see a faster return to growth.

Chart 1.2.6-a
United Kingdom: GDP breakdown and forecasts



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

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



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

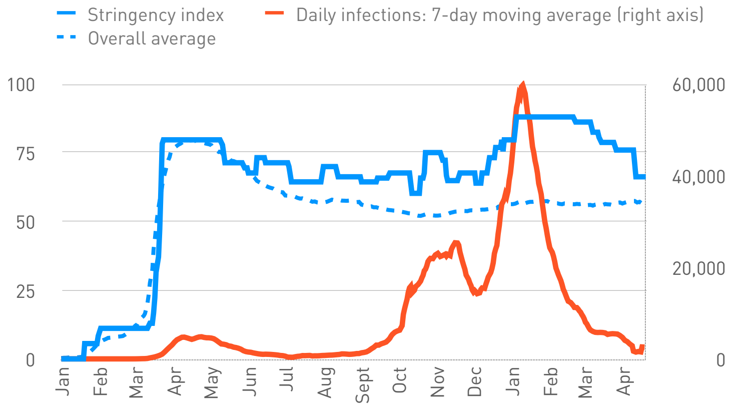
Table 1.2.6
United Kingdom: main macroeconomic aggregates

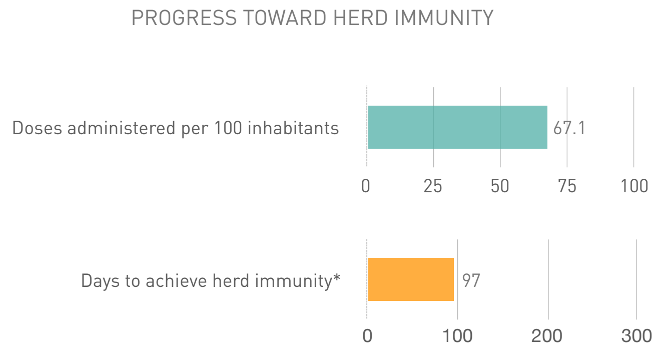
	2016	2017	2018	2019	2020(e)	Baseline (BS) 2021(f)	Baseline (BS) 2022(f)	Stressed (SS) 2021(f)	Stressed (SS) 2022(f)
GDP (% YoY, average)	1.7	1.7	1.3	1.4	-9.8	5.1	5.2	2.7	2.2
Domestic demand contribution	3.1	1.5	0.3	1.8	-9.9	5.7	2.4	3.1	-0.8
External demand contribution	-1.4	0.2	0.9	-0.4	0.1	-0.6	2.8	-0.4	3.0
Private consumption contribution	2.3	0.6	0.8	0.7	-6.6	1.1	1.6	-1.2	-1.2
Total investment contribution	0.8	0.5	0.1	0.3	-1.6	1.1	0.8	0.9	0.5
Public spending contribution	0.2	0.1	0.1	0.7	-1.2	2.9	0.1	2.9	0.1
Private consumption (% YoY, average)	3.7	1.0	1.3	1.1	-10.6	1.8	2.6	-1.9	-2.1
Public consumption (% YoY, average)	1.0	0.7	0.6	4.0	-6.4	14.4	0.7	14.4	0.7
Total investment (% YoY, average)	4.5	2.8	0.4	1.5	-8.8	6.4	4.5	5.0	2.6
Exports (YoY in %)	2.7	5.5	3.0	2.6	-15.7	-0.6	8.4	-2.4	5.1
Imports (YoY in %)	4.0	2.7	2.7	2.8	-17.8	3.0	2.4	0.4	-1.7
Unemployment rate (%, last quarter)	4.7	4.4	4.0	3.8	5.1	7.1	6.0	8.1	7.7
Inflation (% YoY, last quarter)	1.8	2.7	2.0	1.3	0.8	1.8	1.5	2.6	2.8
Fiscal balance (% of GDP)	-3.3	-2.4	-2.2	-2.4	-12.4	-13.5	-6.6	-14.4	-8.6
Primary fiscal balance (% of GDP)	-0.6	0.5	0.5	0.1	-10.3	-12.1	-4.7	-12.9	-6.5
Trade balance (% of GDP)	-6.6	-6.5	-6.4	-5.9	-5.5	-5.7	-4.6	-5.6	-4.3
Current account balance (% of GDP)	-5.5	-3.8	-3.7	-3.1	-3.5	-3.5	-1.8	-3.4	-1.5
Official interest rate (end of period)	0.25	0.50	0.75	0.75	0.10	-0.15	-0.50	-0.28	-0.09
3-month interest rate (end of period)	0.37	0.52	0.91	0.79	0.03	-0.01	-0.02	-0.01	-0.02
10-year interest rate (end of period)	1.24	1.19	1.27	0.83	0.20	0.83	0.96	1.90	2.47
Exchange rate vs. US dollar (end of period)	1.23	1.35	1.28	1.32	1.37	1.37	1.40	1.35	1.32
Exchange rate vs. euro (end of period)	1.17	1.13	1.12	1.18	1.11	1.18	1.18	1.15	1.15
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	3.7	4.0	3.1	2.1	2.8	2.5	2.3	2.3	1.5
P.S. non-financial lending (% YoY, average)	4.5	9.4	7.1	-2.6	5.6	0.1	1.1	0.1	1.1
P.S. financial lending (% YoY, average)	7.7	8.4	5.3	2.7	10.7	-1.2	4.9	-0.8	6.9
Savings rate (as % pers. disp. income, avg.)	7.6	5.7	6.1	6.5	15.8	14.2	13.0	15.9	16.4

Source: MAPFRE Economics (based on data from the Office for National Statistics)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

Chart 1.2.6-c
United Kingdom: daily COVID-19 infections, stringency index and progress toward herd immunity





Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

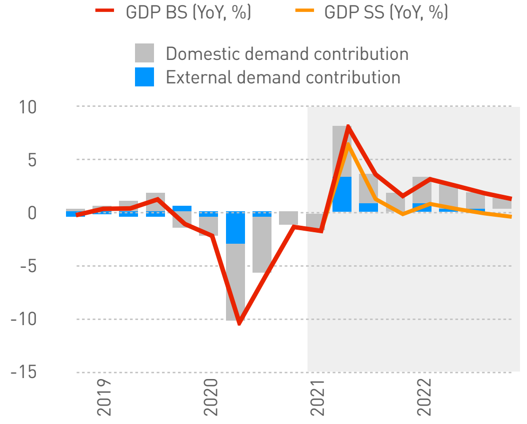
1.2.7 Japan

Recovery underpinned by exports.

Consumption indicators show that the Japanese economy still saw a difficult start to the year, whereby retail sales were down from 2020 (-1.5%, February), as were department store sales (-4.8%, February). As such, the economy is recovering, albeit slowly, and will take two years to return to 2019 levels, i.e. in 2023. Recovery in 2021 will be driven by exports, thanks to the improved external backdrop. However, internally, consumption will not fully recover until service consumption returns to normal.

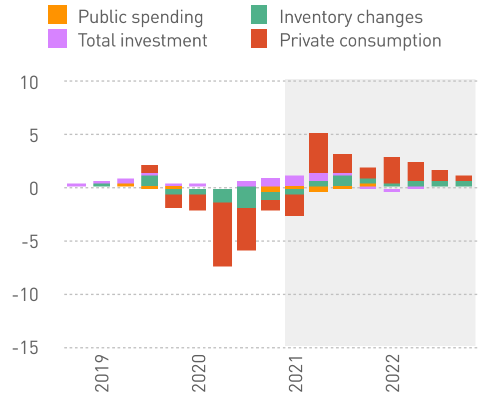
At the end of March, the state of emergency heightened in Tokyo, and the stringency index stood at 45%, one of the lowest among the countries analyzed in this report (see Chart 1.2.7-c). Japan's vaccination plan is still in the very early stages (just 2.0% of the population has received at least one dose), meaning that there are doubts as to whether prematurely lifting restrictions will lead to a new wave of the pandemic. In principle, no further extensions are expected to aid packages. The Olympic Games are expected to be held this year. Only in the event that the Olympics must be canceled due to the inability to meet health safety conditions would the government be likely to enact new aid measures to mitigate the negative impact this cancellation would entail.

Chart 1.2.7-a
Japan: GDP breakdown and forecasts



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

Chart 1.2.7-b
Japan: domestic demand breakdown and forecasts



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

Table 1.2.7
Japan: main macroeconomic aggregates

	2016	2017	2018	2019	2020(e)	Baseline (BS) 2021(f)	Baseline (BS) 2022(f)	Stressed (SS) 2021(f)	Stressed (SS) 2022(f)
GDP (% YoY, average)	0.7	1.7	0.6	0.3	-4.9	2.9	2.2	1.5	0.2
Domestic demand contribution	0.2	1.2	0.5	0.5	-3.9	1.9	1.8	0.8	0.2
External demand contribution	0.5	0.5	0.0	-0.2	-1.0	1.0	0.4	0.7	0.0
Private consumption contribution	-0.3	0.6	0.1	-0.1	-3.2	1.1	1.4	0.5	0.1
Total investment contribution	0.3	0.4	0.1	0.2	-1.1	0.4	0.5	0.1	0.2
Public spending contribution	0.3	0.0	0.2	0.4	0.5	0.5	-0.1	0.5	-0.1
Private consumption (% YoY, average)	-0.5	1.1	0.2	-0.2	-5.9	2.1	2.6	0.9	0.2
Public consumption (% YoY, average)	1.6	0.1	1.0	1.9	2.7	2.3	-0.6	2.3	-0.6
Total investment (% YoY, average)	1.2	1.7	0.2	0.9	-4.2	1.6	2.1	0.6	0.9
Exports (YoY in %)	1.6	6.6	3.8	-1.4	-12.4	11.0	3.6	7.6	-0.9
Imports (YoY in %)	-1.2	3.3	3.8	-0.3	-6.8	4.2	2.7	2.6	0.1
Unemployment rate (%, last quarter)	3.0	2.7	2.4	2.3	3.0	2.9	2.5	3.3	3.1
Inflation (% YoY, last quarter)	0.3	0.6	0.9	0.5	-0.8	-0.0	-0.1	-0.4	0.4
Fiscal balance (% of GDP)	-3.4	-2.9	-2.2	-2.5	-12.2	-10.4	-6.0	-11.0	-7.8
Primary fiscal balance (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance (% of GDP)	1.0	0.9	0.2	0.1	0.6	1.0	0.7	0.9	0.4
Current account balance (% of GDP)	3.8	4.2	3.5	3.6	3.3	3.8	4.0	3.6	3.0
Official interest rate (end of period)	-0.06	-0.06	-0.06	-0.07	-0.03	-0.34	-0.50	1.14	2.11
3-month interest rate (end of period)	-0.05	-0.02	-0.07	-0.05	-0.08	-0.33	-0.50	1.14	2.11
10-year interest rate (end of period)	0.04	0.05	0.01	-0.02	0.04	-0.14	-0.26	0.88	1.34
Exchange rate vs. US dollar (end of period)	116.80	112.90	110.83	109.12	103.54	111.49	108.23	105.64	105.58
Exchange rate vs. euro (end of period)	123.12	135.40	126.90	122.59	127.05	129.97	128.46	123.71	121.23
Private lending (% YoY, average)	2.2	4.2	2.6	2.0	5.4	3.6	-1.7	2.1	-5.1
Household lending (% YoY, average)	1.5	2.5	3.0	2.4	3.3	0.2	-1.8	-0.2	-4.5
P.S. non-financial lending (% YoY, average)	1.8	2.2	1.9	3.4	7.5	2.0	-0.6	1.9	-0.6
P.S. financial lending (% YoY, average)	-0.2	8.0	6.3	3.0	16.6	-1.0	-5.6	-0.9	-5.5
Savings rate (as % pers. disp. income, avg.)	3.3	2.6	4.3	5.3	12.2	7.3	4.9	7.8	5.1

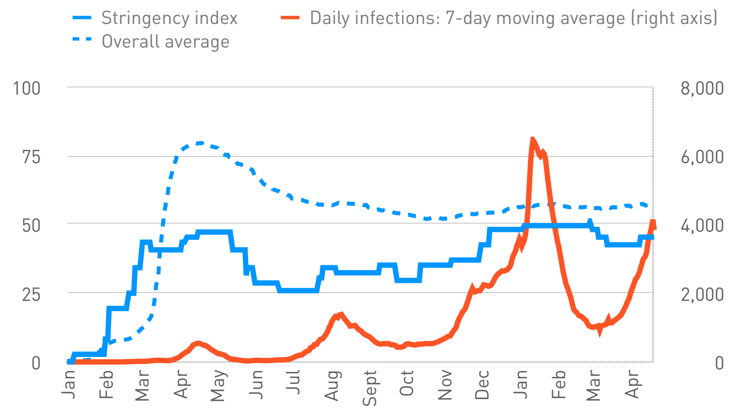
Source: MAPFRE Economics (based on data from the Statistics Bureau)
Forecast end date: April 23, 2021.

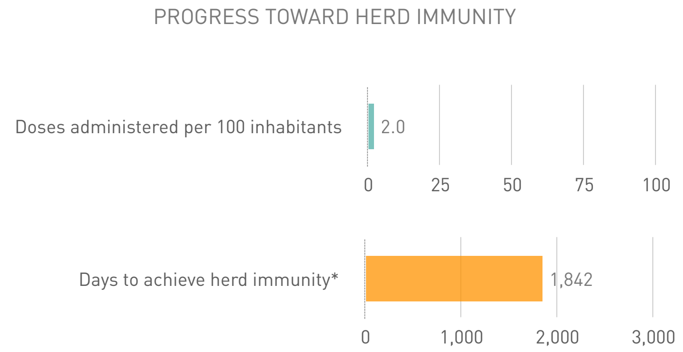
Click here to access the interactive version of this information

Industrial production is showing growth, but still remains lower than in the previous year (-2.6%, February), although vehicle production and machinery orders are improving. The PMI for manufacturing is in the expansion zone, but the PMIs for services and composite, although improving, remain in the contraction zone (<50 points). A Reuters survey of the Tankan business conditions index points to an improvement in business sentiment among manufacturing entrepreneurs. In terms of leading indicators, the latest "Coincident Index" gave mixed signals and showed no clear trend. Based on this context, we have revised our GDP growth estimate for 2021 upward to 2.9%, mainly due to the easing of restrictions from April and the normalization of activity toward the second half of 2021. For 2022, we forecast that economic growth will stand at 2.2% (see Table 1.2.7 and Charts 1.2.7-a and 1.2.7-b).

Inflation entered negative territory, -0.4% in March, with core inflation standing at +0.4%, and is expected to remain in negative territory in the coming quarters despite the rise in oil prices. At its meeting on March 18, the Bank of Japan kept interest rates unchanged at -0.10%. It did, however, introduce several changes to its framework that increase its flexibility and durability in light of prolonged efforts to reflate the economy. Adjustments were generally made in line with expectations. The benchmark public debt yield will have a little more room for maneuver, and the central bank will have more scope to cut asset purchases when market conditions so allow. The Bank of Japan has introduced a new mechanism that will allow it to intervene decisively if the 10-year JGB yield threatens to deviate from its tolerance range. The central bank therefore stated that its target range for 10-year JGB yield

Chart 1.2.7-c
Japan: daily COVID-19 infections, stringency index and progress toward herd immunity





Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

is +/- 0.25 percentage points, around 0%.

Risks for the Japanese economy could arise in terms of lower exports than expected, a delay in vaccine rollout and increased restrictions on the population's mobility. The prime minister is only in office until September 2021, which raises uncertainty as to the economic policy and the continuation of the "Abenomics" policies implemented by his predecessor.

- **2021 will see the Olympic Games and an election year.**
- **Recovery for the Japanese economy will remain slow until the services sector completely returns to normal.**
- **Exports are the element that most contributes to recovery.**
- **The growth forecast for the Japanese economy has been revised upward slightly to 2.9% for 2021.**

1.2.8 Turkey

Robust activity, albeit with inflation and a weak exchange rate.

The Turkish economy grew by 1.6% in 2020, which is more than remarkable given that most Western economies suffered sharp declines. The pandemic began mildly until the end of November, at which point cases spiked. Restrictions remain high with a stringency index of 83%. Similarly, the rate of vaccine rollout has accelerated since February, with a vaccination level of 25% (see Chart 1.2.8-c).

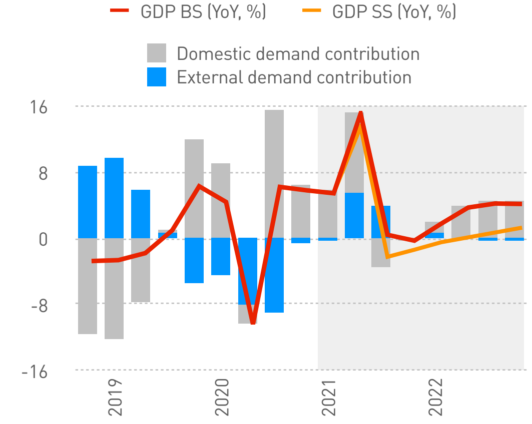
Within this context, we have raised our growth forecast for Turkish GDP to 5.2% for 2021, and to 3.5% for 2022 (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b). Private consumption is expected to grow by 8.0%, investment by 3.7% and exports by 22.3% (offsetting a decline of -15.2% in 2020). March's manufacturing PMI reached 52.6 points; industrial production rose to around 8%, and retail sales to 2%. Similarly, vehicle sales rebounded from last year by 43% in February, in contrast to data in Western countries, for example in Spain, where they fell by -40%.

Inflation rose to 16.2% in March, with core inflation at 16.9%, food by 17.4%, household equipment by 23.6%, and transport by 25%. The rise in oil and food prices will keep inflation high at least throughout the first quarter of the year, after which it will then moderate. Exchange rate depreciation is a determining factor in all imported products. The Central Bank of Turkey has raised interest rates (1-week repo) by +200 basis points to 19.00% in March, as a result of the recent rise in inflation and weakness of the Turkish lira.

The current account deficit stood at -5.3% in 2020 due to the fall in exports, but as exports recover this year, it is expected to stand closer to -4%. The Turkish economy's high external debt in dollars returned to the forefront of investors' concerns, given the interest-rate hikes in some bond markets and the recent weakness of the

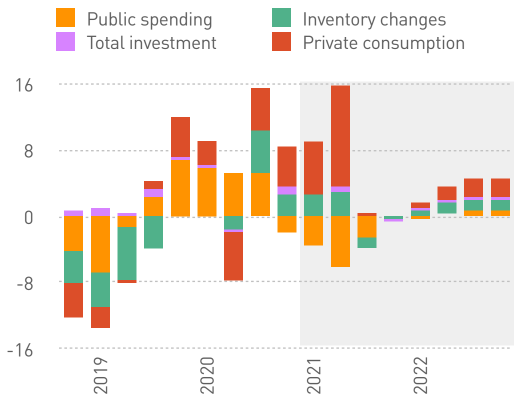
- **The growth forecast for Turkish GDP stands at 5.2% for 2021.**
- **Inflation still experienced upward pressures (+16.2%), especially in food.**
- **The Central Bank has raised interest rates back to 19.0% in response to inflation and currency weakness.**
- **Dollar borrowing was once again a primary concern, given the interest-rate hikes in markets and high renewals planned for 2021.**

Chart 1.2.8-a
Turkey: GDP breakdown and forecasts



Source: MAPFRE Economics (based on TURKSTAT data)

Chart 1.2.8-b
Turkey: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on TURKSTAT data)

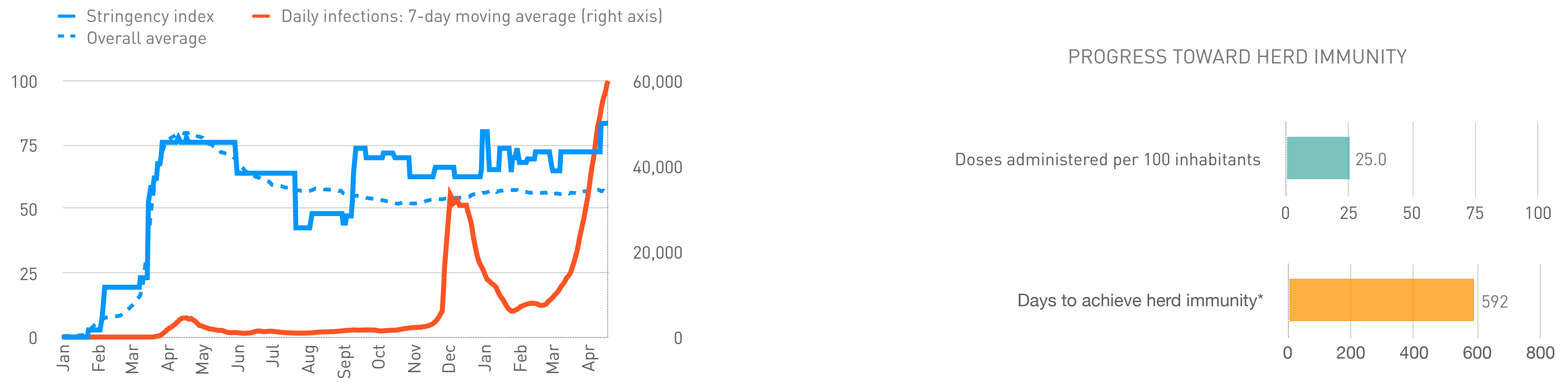
Table 1.2.8
Turkey: main macroeconomic aggregates

	2016	2017	2018	2019	2020(e)	Baseline (BS) 2021(f)	Baseline (BS) 2022(f)	Stressed (SS) 2021(f)	Stressed (SS) 2022(f)
GDP (% YoY, average)	3.4	7.4	3.3	0.8	1.6	5.2	3.5	3.9	0.5
Domestic demand contribution	4.6	7.0	0.1	-1.9	7.1	2.9	3.5	1.4	0.1
External demand contribution	-1.1	0.4	3.2	2.7	-5.5	2.4	0.0	2.5	0.4
Private consumption contribution	2.3	3.5	0.6	0.8	1.7	4.8	1.7	3.4	-1.2
Total investment contribution	0.7	2.4	0.2	-3.6	1.5	0.9	1.1	1.0	0.8
Public spending contribution	1.3	0.7	0.9	0.6	0.3	0.1	0.3	0.0	0.1
Private consumption (% YoY, average)	3.8	5.9	0.9	1.5	3.0	8.0	2.9	5.6	-2.0
Public consumption (% YoY, average)	9.8	5.2	6.6	4.6	2.1	0.6	2.3	0.1	0.9
Total investment (% YoY, average)	2.4	8.2	0.5	-12.1	6.3	3.7	4.4	3.8	3.2
Exports (YoY in %)	-1.6	12.5	8.7	5.1	-15.2	22.3	3.3	20.7	1.0
Imports (YoY in %)	3.0	10.5	-4.9	-4.2	8.2	9.0	5.8	7.0	1.6
Unemployment rate (%, last quarter)	12.1	10.3	12.3	13.3	12.9	12.2	11.1	12.5	11.8
Inflation (% YoY, last quarter)	8.5	11.9	20.3	11.8	14.6	14.9	9.2	20.2	11.9
Fiscal balance (% of GDP)	-1.3	-1.6	-1.9	-2.9	-3.5	-3.4	-3.4	-3.7	-4.8
Primary fiscal balance (% of GDP)	0.7	0.2	0.0	-0.6	-0.8	-0.1	0.5	-0.2	0.1
Trade balance (% of GDP)	-4.6	-6.8	-5.2	-2.2	-5.3	-5.1	-5.7	-5.6	-6.7
Current account balance (% of GDP)	-3.1	-4.8	-2.8	0.9	-5.1	-3.6	-3.6	-4.4	-4.9
Official interest rate (end of period)	8.31	12.75	24.06	11.43	17.03	16.92	12.03	22.42	14.44
3-month interest rate (end of period)	9.90	14.61	24.07	10.76	17.53	17.77	13.48	25.65	19.54
10-year interest rate (end of period)	11.40	11.72	16.53	11.95	12.51	14.91	12.40	18.19	14.70
Exchange rate vs. US dollar (end of period)	3.52	3.80	5.29	5.95	7.44	8.93	9.13	10.67	10.92
Exchange rate vs. euro (end of period)	3.71	4.55	6.06	6.68	9.11	10.41	10.84	12.49	12.54
Private lending (% YoY, average)	13.1	20.9	20.2	8.4	30.1	8.6	8.2	10.8	9.6
Household lending (% YoY, average)	7.1	17.5	9.8	3.3	41.8	15.8	10.6	13.6	4.1
P.S. non-financial lending (% YoY, average)	14.7	24.3	20.9	5.4	26.6	25.5	1.1	10.3	9.6
P.S. financial lending (% YoY, average)	9.0	27.2	25.1	18.3	21.2	11.5	14.0	10.8	12.4
Savings rate (as % pers. disp. income, avg.)	32.8	30.9	30.1	28.6	18.5	14.9	15.8	15.5	17.7

Source: MAPFRE Economics (based on TURKSTAT data)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

Chart 1.2.8-c
Turkey: daily COVID-19 infections, stringency index and progress toward herd immunity



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

Turkish lira, which stood at 7.5 TRY/USD at the end of March and is facing debt renewals in dollars of around 20% of its GDP in 2021. With the money supply growing above 25% and inflation above 15%, pressure on the exchange rate will persist.

1.2.9 Mexico

Slow recovery supported by the external context, but with rising inflation.

The Mexican economy continues to move forward, with the pandemic somewhat more controlled at the moment, but vaccine rollout remains slow (only 12.6% of the population have received at least one dose). Restrictions on mobility have also been eased (with the stringency index at 44%), which is more lax than in other countries (see Chart 1.2.9-c). In turn, the price of oil is recovering to the benefit of public accounts and exports. Similarly, the growth expected for the United States and its demand for manufacturing represent a favorable environment for the Mexican economy. Investments are expected to recover from the -18.3% decline recorded in the previous year, thanks to improved expectations and the currency's value remaining stable against the dollar.

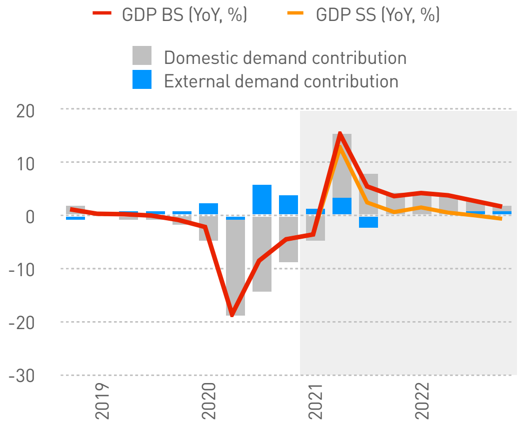
- **Activity is recovering thanks to eased restrictions, improved exports and, marginally, investment.**
- **The price of oil is recovering, while inflation is rising, including core inflation.**
- **The Bank of Mexico is prioritizing financial stability and stable prices.**
- **Aid to Pemex remains a source of concern for public accounts.**
- **The Mexican GDP growth forecast for 2021 has been revised upward to 4.9%.**

With respect to 2021, exports and to a lesser extent investment, are expected to be the most important drivers of activity. This will also be helped by recovery in consumption, which, although falling short of 2019 levels, is expected to rise as restrictions ease. Mexico's manufacturing PMI, although improving in March to 45.6 points, remains in the contraction zone, while new factory orders in March also show slight improvements. The rate of vaccination, although it has sped up in recent weeks, is still in the very early stages, with rates lower than those of other Latin American countries such as Chile, Argentina and Brazil. The return to normal in services will be very gradual. Within this context, we have revised our forecast for GDP upward to 4.9% for 2021, and to 3.1% for 2022, after recording a strong decline of -8.5% in 2020 (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

Inflation has shown an upward trend, reaching an annualized figure of 6.05% in the first half of April (core 4.13%). Its rise was notable in food (5.96%) and in other goods (5.32%), but was lower in services (2.47%), which is linked to restrictions on mobility. Inflation could rise in the coming quarters as a result of the increase in oil prices. Whether this effect will be temporary, as there is no salary inflation, or whether it will be more structural as a result of the increased money supply, remains open to debate. At its March meeting, the Bank of Mexico maintained official rates at 4.00%, and is expected to keep them at the current level until inflationary pressures increase.

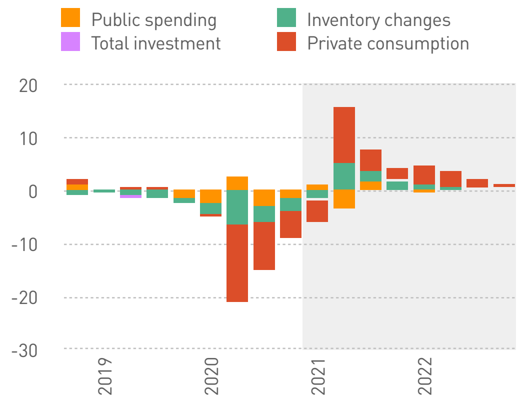
The risks to the Mexican economy are divided between a delay in achieving herd immunity to curb the pandemic, and the consequent recovery in consumption; the tremendous aid needed by oil company Pemex, which will impact public accounts; legislative changes (*see chart* on the electricity market) that can diminish investor confidence; and the apparent persistence of inflation (including core inflation) that could hinder more stable financial conditions. On a positive note, the strength of the US economic revival and the recovery in oil prices seem to work in the Mexican economy's favor.

Chart 1.2.9-a
Mexico: GDP breakdown and forecasts



Source: MAPFRE Economics (based on INEGI data)

Chart 1.2.9-b
Mexico: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on INEGI data)

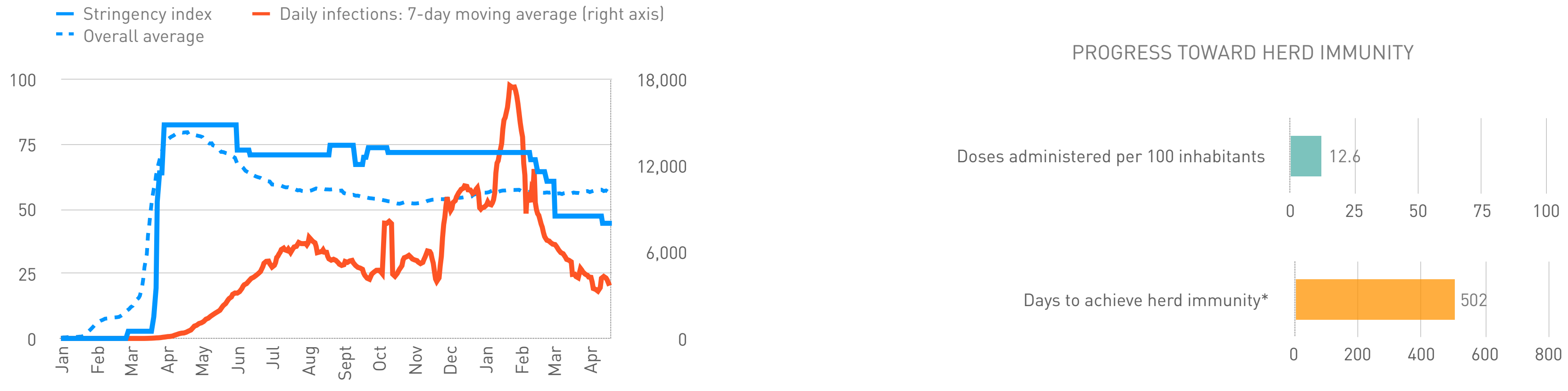
Table 1.2.9
Mexico: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY, average)	2.4	2.3	2.2	-0.1	-8.5	4.9	3.1	3.1	0.4
Domestic demand contribution	2.0	3.2	2.4	-0.9	-11.4	4.6	2.6	2.2	-0.8
External demand contribution	0.4	-0.9	-0.2	0.8	3.0	0.3	0.5	0.9	1.2
Private consumption contribution	2.3	2.3	1.7	0.4	-7.2	3.0	2.1	1.3	-0.7
Total investment contribution	0.2	-0.2	0.2	-0.9	-3.5	1.6	0.5	1.1	0.3
Public spending contribution	0.3	0.1	0.3	-0.2	0.3	0.0	0.2	0.0	0.2
Private consumption (% YoY, average)	3.5	3.4	2.5	0.6	-10.6	4.8	3.2	2.0	-1.1
Public consumption (% YoY, average)	2.6	0.7	2.9	-1.3	2.3	0.3	1.4	0.3	1.4
Total investment (% YoY, average)	0.9	-1.1	0.9	-4.6	-18.3	10.9	3.1	7.2	1.8
Exports (YoY in %)	3.6	4.3	6.0	1.5	-6.9	11.0	-0.7	7.9	-3.7
Imports (YoY in %)	2.4	6.9	6.4	-0.7	-15.1	12.1	0.4	7.1	-4.8
Unemployment rate (%, last quarter)	3.5	3.3	3.3	3.4	4.6	4.3	4.4	5.3	6.0
Inflation (% YoY, last quarter)	3.4	6.8	4.8	2.8	3.2	3.8	2.8	5.0	4.2
Fiscal balance (% of GDP)	-2.5	-1.1	-2.0	-1.7	-2.9	-3.6	-3.2	-4.0	-4.2
Primary fiscal balance (% of GDP)	-0.1	1.4	0.6	1.1	0.1	-0.8	-0.4	-1.1	-1.2
Trade balance (% of GDP)	-1.2	-0.9	-1.1	0.4	3.2	1.8	1.1	2.5	3.0
Current account balance (% of GDP)	-2.3	-1.8	-2.1	-0.3	2.5	1.1	0.3	1.6	1.8
Official interest rate (end of period)	5.75	7.25	8.25	7.25	4.25	3.76	3.64	2.63	3.71
3-month interest rate (end of period)	6.19	7.66	8.64	7.45	4.47	4.01	3.89	2.88	3.96
10-year interest rate (end of period)	7.42	7.66	8.70	6.84	5.23	6.03	6.50	6.25	7.59
Exchange rate vs. US dollar (end of period)	20.74	19.67	19.65	18.93	19.88	21.49	22.10	25.11	25.56
Exchange rate vs. euro (end of period)	21.86	23.59	22.50	21.27	24.40	25.05	26.23	29.41	29.34
Private lending (% YoY, average)	16.3	12.1	10.4	9.0	5.2	2.4	7.2	1.4	6.1
Household lending (% YoY, average)	12.8	10.0	8.4	6.2	1.6	12.7	9.0	12.7	8.3
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	3.5	1.7	-0.8	6.2	3.7	6.2	16.0	5.0	15.6
Savings rate (as % pers. disp. income, avg.)	12.8	10.7	12.4	16.4	22.6	20.8	18.4	21.7	20.9

Source: MAPFRE Economics (based on INEGI data)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

Chart 1.2.9-c
Mexico: daily COVID-19 infections, stringency index and progress toward herd immunity



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

1.2.10 Brazil

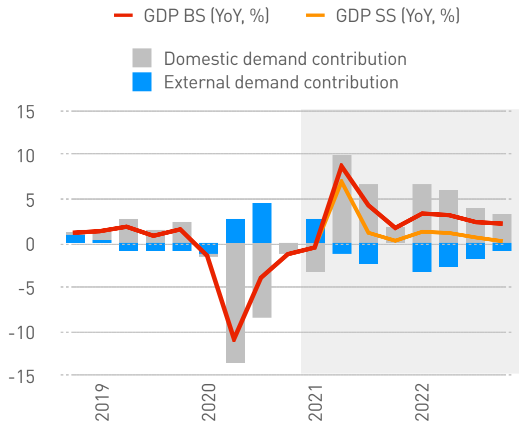
The pandemic is worsening, but the economy is recovering thanks to aid and global recovery.

The Brazilian economy continues to battle the COVID-19 pandemic in 2021. The situation is getting worse, and a record number of deaths was set in March, which resulted in restrictions on mobility being put back into place, bringing the stringency index to 71%. Vaccine rollout has also been slow, with 17.8% of the population having received at least one dose of the vaccine (see Chart 1.2.10-c).

Brazil has a volatile currency that alternates between market pressures and interventions by the central bank. Moreover, Brazil's political context is shrouded in rising uncertainty owing to recent events (such as Lula da Silva's possible return in the upcoming elections), and inflation is increasing, which represents a counter-current that may force the central bank to continue raising interest rates.

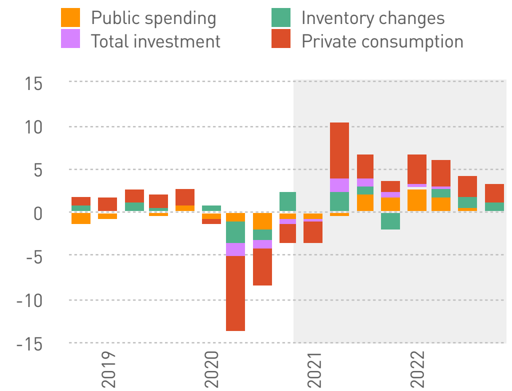
Emergency aid, which was interrupted in January, has been re-established and will contribute 40 billion reais to the economy between April and July. Similarly, global recovery spearheaded by China and the United States (especially following the latest stimulus plan) will also

Chart 1.2.10-a
Brazil: GDP breakdown and forecasts



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

Chart 1.2.10-b
Brazil: domestic demand breakdown and forecasts



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

Table 1.2.10
Brazil: main macroeconomic aggregates

	2016	2017	2018	2019	2020(e)	Baseline (BS) 2021(f)	Baseline (BS) 2022(f)	Stressed (SS) 2021(f)	Stressed (SS) 2022(f)
GDP (% YoY, average)	-3.5	1.6	1.7	1.4	-4.4	3.6	2.8	2.0	0.8
Domestic demand contribution	-5.4	2.0	2.4	2.0	-5.9	3.8	4.9	1.9	2.6
External demand contribution	1.9	-0.4	-0.7	-0.6	1.5	-0.2	-2.2	0.1	-1.8
Private consumption contribution	-2.6	1.3	1.6	1.5	-3.8	2.1	2.6	0.7	0.6
Total investment contribution	-2.3	-0.4	0.8	0.6	-0.1	0.4	0.8	-0.0	0.6
Public spending contribution	0.0	-0.1	0.1	-0.1	-0.8	0.7	0.2	0.7	0.2
Private consumption (% YoY, average)	-3.8	2.0	2.4	2.2	-5.5	3.0	3.8	1.0	0.8
Public consumption (% YoY, average)	0.2	-0.7	0.8	-0.4	-4.7	4.1	1.0	4.1	1.0
Total investment (% YoY, average)	-12.0	-2.5	5.2	3.5	-0.5	3.1	4.7	0.2	3.3
Exports (YoY in %)	1.0	5.3	3.3	-2.2	-2.1	4.9	3.4	3.0	0.2
Imports (YoY in %)	-9.7	7.3	7.1	1.1	-9.9	4.9	17.9	1.4	13.1
Unemployment rate (%, last quarter)	12.0	11.8	11.6	11.0	13.9	11.9	11.7	12.6	12.6
Inflation (% YoY, last quarter)	6.3	2.9	3.7	4.3	4.5	4.7	3.4	6.3	5.0
Fiscal balance (% of GDP)	-9.0	-7.8	-7.0	-5.8	-13.6	-7.8	-6.7	-8.3	-7.9
Primary fiscal balance (% of GDP)	-2.5	-1.7	-1.5	-0.8	-9.4	-3.6	-2.2	-4.0	-3.2
Trade balance (% of GDP)	2.5	3.1	2.8	2.2	3.0	3.6	2.2	4.0	3.6
Current account balance (% of GDP)	-1.3	-0.7	-2.2	-2.7	-0.9	-1.1	-3.0	-0.9	-2.2
Official interest rate (end of period)	13.75	7.00	6.50	4.50	2.00	5.85	6.19	6.49	8.44
3-month interest rate (end of period)	13.65	6.90	6.40	4.40	1.90	5.75	6.09	6.39	8.34
10-year interest rate (end of period)	11.42	10.21	9.24	6.81	6.98	8.12	8.76	8.92	10.66
Exchange rate vs. US dollar (end of period)	3.26	3.31	3.87	4.03	5.20	5.35	5.51	6.32	6.30
Exchange rate vs. euro (end of period)	3.44	3.97	4.44	4.53	6.38	6.23	6.54	7.40	7.23
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	4.4	4.7	7.0	10.8	10.1	14.3	11.2	14.0	10.8
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (as % pers. disp. income, avg.)	17.2	17.4	16.4	16.2	19.4	11.6	12.1	12.4	13.8

Source: MAPFRE Economics (based on data from the Brazilian Institute of Geography and Statistics (IBGE))
Forecast end date: April 23, 2021.

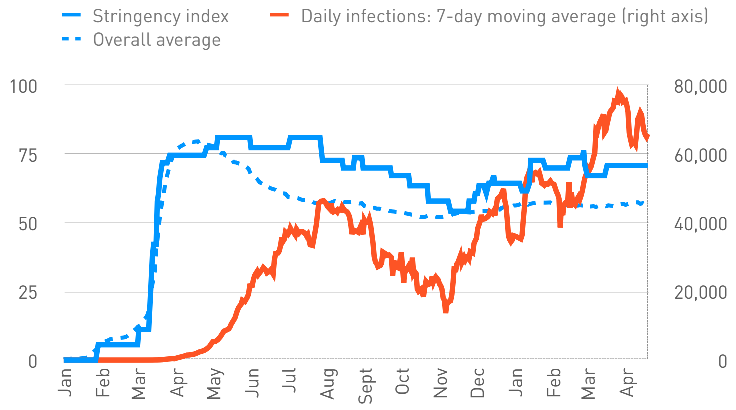
Click here to access the interactive version of this information

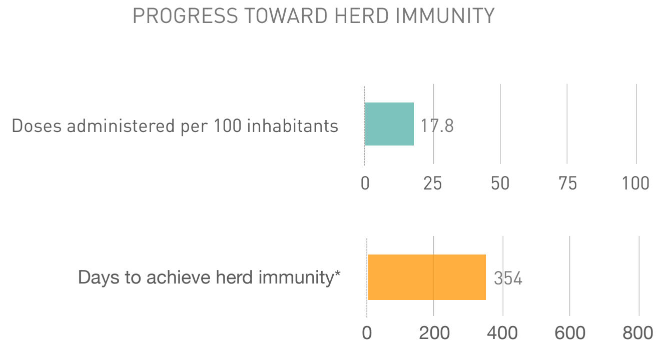
contribute positively to the Brazilian economy. Retail sales fell by -3.8% in February, while PMIs worsened in March due to the pandemic, with the composite index at 45.1, the manufacturing index at 52.8, and the services index at 44.1 points. Based on these elements, we have revised our GDP growth forecast to 3.6% and 2.8% for 2021 and 2022 respectively, following a fall of -4.4% in 2020. Consumption (+3.0%) and exports (+4.9%) are expected to recover as a result of aid for families and the effect of global recovery (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b).

Inflation rose to 6.1% (general IPCA) in March and is above the target of 3.25%, thereby confirming an upward trend largely due to the increased demand related to the aid program for families. This has impacted the price of food and drink (+14% YoY), transport (+8.6%) and fuels (+18.0%). The continuing rise in inflation will force the central bank to raise interest rates, which may be inappropriate at the moment, as the economy is not recovering. At its March meeting, the central bank raised SELIC interest rates by 75 basis points to 2.75% in response to inflationary pressures, which are also pressing Brazil's currency. It should be noted that some central bank officials have indicated that the bank is willing to do whatever is necessary to protect the currency.

Risks to the Brazilian economy may arise from successive waves of the pandemic, slow vaccine rollout that delays the return to normal, recent political

Chart 1.2.10-c
Brazil: daily COVID-19 infections, stringency index and progress toward herd immunity





Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

events and fiscal support measures that, although positive, are not sustainable in the long-term given that they are at risk of deteriorating sovereign solvency. The pandemic and the need for accommodative policies are also in danger of delaying the structural reforms needed to enable the Brazilian economy to perform better.

- **Aid for families has been restored to prevent a deeper economic downturn.**
- **Recovery is occurring, but is yet to reach 2019 levels.**
- **The political struggle is intensifying and a factor of volatility.**
- **Inflationary pressures are igniting a new upward cycle of interest rates.**
- **The forecast for Brazilian GDP growth in 2021 has been revised upward to 3.6%.**

1.2.11 Argentina

Backdrop marked by the increase in money supply, currency depreciation and inflation, in an election year.

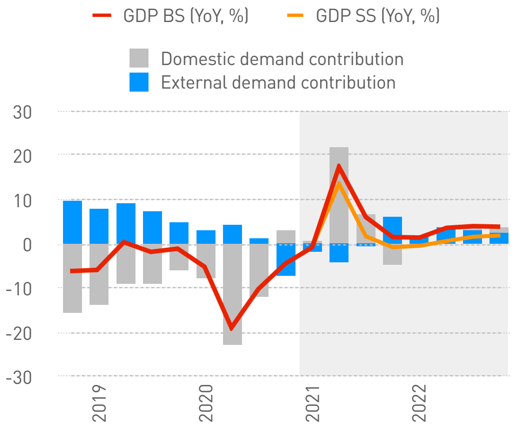
Argentina will hold mid-term legislative elections on October 24, 2021, in which 127 of the 257 Congress deputies will be elected, as will 24 of the 72 senators, representing 8 of their provinces. The primaries would have taken place on August 8, but according to most governors, they are in the process of being canceled due to the pandemic. Policies are not usually reform-oriented in an election year, and instead are generally more stimulus-oriented. However, in this case, there is little room to maneuver. The government will therefore focus on containing inflation, which should stand at around 45% in 2021, by controlling certain key prices, and on ensuring currency stability by maintaining exchange controls. Global external conditions of low interest rates and high liquidity provide Argentina with a benign context that allows it to move forward with the necessary structural reforms. However, said reforms will be difficult to implement in an election year.

In March, the COVID-19 pandemic showed moderate indicators of less than 150 cases per million, thanks to very stringent restrictions. However, a new wave of infections began in April, which caused the stringency index to remain rigid at around 72%. Similarly, the rate of vaccination has been relatively slow, as only 15.5% of the population has received at least one dose of the vaccine (see Chart 1.2.11-c). Within this environment, the economy is expected to recover in 2021 with growth of 6.0% in 2021, and 3.2% in 2022, following a steep decline of -9.7% in 2020 (see Table 1.2.11 and Charts 1.2.11-a and 1.2.11-b). Similar to the rest of the world, recovery will be dependent upon mobility levels returning to normal.

Moreover, inflation stood at 40.7% in February and should rebound over the course of the year due to rising energy prices, specifically due to Brent oil approaching 70 US dollars per barrel. At its meeting on March 5, the central bank lowered the low range of the 7-day LELIQ benchmark interest rate by two points, from 40% to 38%, effective as of the auction on March 10. With this reduction, the benchmark rate in effective terms stood at 45.4% YoY, which kept real interest rates in positive ground. This margin seems sufficient enough to promote savings in pesos and to restructure the credit situation of families and

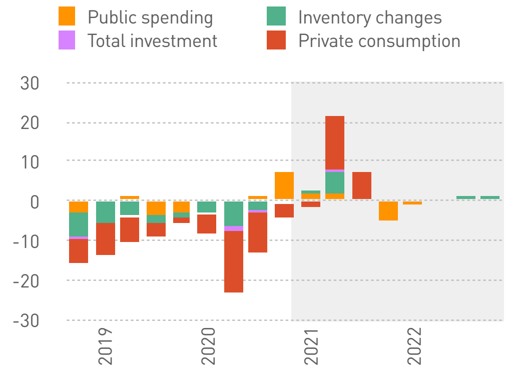
- **The Argentine peso continues on its depreciation trajectory, with money supply growing above 60%.**
- **Austerity and structural reforms are not expected in the election year (mid-term).**
- **Inflation is expected to reach 45% in 2021, but is stabilizing. The accommodative external context provides benevolent conditions for delaying structural reforms until after the election.**
- **The Argentine GDP growth forecast stands at 6.0% for 2021.**

Chart 1.2.11-a
Argentina: GDP breakdown and forecasts



Source: MAPFRE Economics (based on INDEC data)

Chart 1.2.11-b
Argentina: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on INDEC data)

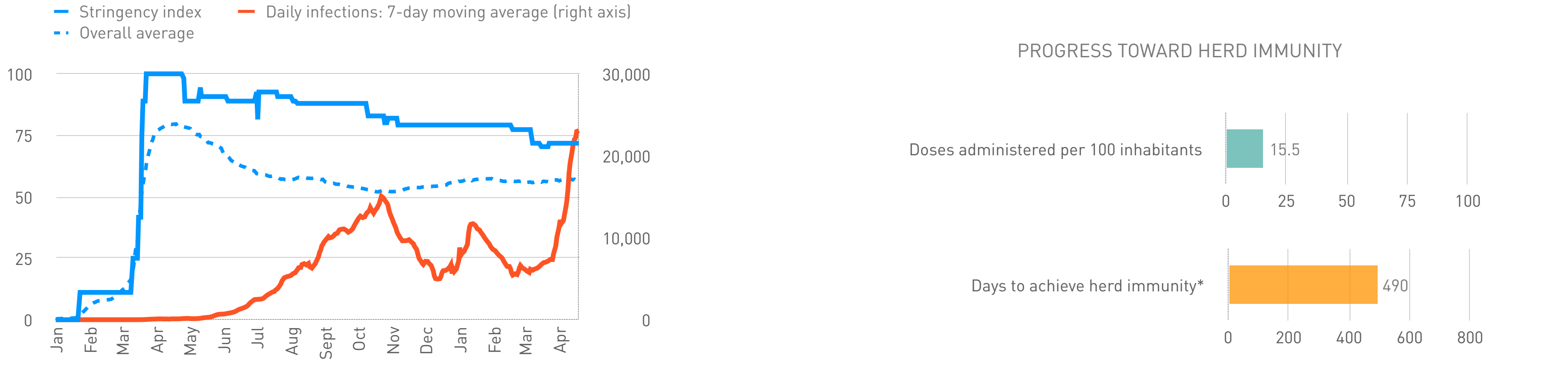
Table 1.2.11
Argentina: main macroeconomic aggregates

	2016	2017	2018	2019	2020(e)	Baseline (BS) 2021(f)	Baseline (BS) 2022(f)	Stressed (SS) 2021(f)	Stressed (SS) 2022(f)
GDP (% YoY, average)	-2.0	2.8	-2.4	-2.1	-9.7	6.0	3.2	3.4	0.9
Domestic demand contribution	-1.6	6.4	-3.9	-9.4	-10.0	6.0	0.6	2.4	-2.7
External demand contribution	-0.4	-3.6	1.5	7.3	0.3	0.0	2.7	1.1	3.6
Private consumption contribution	-0.5	3.0	-1.6	-4.8	-8.7	4.6	0.1	1.7	-2.7
Total investment contribution	-1.1	2.5	-1.2	-3.2	-3.0	1.3	0.7	0.5	0.3
Public spending contribution	-0.1	0.4	-0.2	-0.1	-0.6	0.4	0.2	0.4	0.2
Private consumption (% YoY, average)	-0.7	4.2	-2.4	-6.3	-12.2	6.8	0.1	2.5	-3.9
Public consumption (% YoY, average)	-0.5	2.7	-1.6	-1.0	-4.2	3.0	1.6	3.0	1.6
Total investment (% YoY, average)	-5.7	13.2	-4.8	-15.5	-17.5	10.7	4.3	5.3	1.6
Exports (YoY in %)	6.0	2.6	0.8	9.1	-16.2	6.6	2.7	5.3	-1.6
Imports (YoY in %)	6.1	15.5	-3.6	-18.5	-17.2	9.8	0.4	3.8	-7.7
Unemployment rate (%, last quarter)	7.6	7.2	9.1	8.9	11.2	9.2	7.4	10.0	8.6
Inflation (% YoY, last quarter)	37.5	23.3	47.4	52.2	36.1	44.5	29.9	50.8	31.6
Fiscal balance (% of GDP)	-5.8	-5.9	-5.0	-3.8	-8.7	-5.9	-4.0	-6.6	-5.2
Primary fiscal balance (% of GDP)	-4.2	-3.8	-2.3	-0.4	-6.6	-4.5	-2.5	-5.1	-3.6
Trade balance (% of GDP)	0.8	-0.8	-0.1	4.1	3.8	4.2	4.3	5.2	6.1
Current account balance (% of GDP)	-2.7	-4.8	-5.0	-0.9	1.0	1.5	1.2	1.9	2.5
Official interest rate (end of period)	24.75	28.75	59.25	55.00	38.00	37.88	23.85	35.56	24.22
3-month interest rate (end of period)	26.23	27.44	56.76	45.13	29.54	30.88	22.55	31.32	23.55
10-year interest rate (end of period)	7.00	5.91	10.86	19.36	14.61	9.88	7.29	11.78	9.43
Exchange rate vs. US dollar (end of period)	15.89	18.65	37.70	59.89	84.15	117.88	145.98	145.58	171.55
Exchange rate vs. euro (end of period)	16.75	22.37	43.17	67.28	103.26	137.41	173.26	170.51	196.97
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (as % pers. disp. income, avg.)	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: April 23, 2021.

Click here to access the interactive version of this information

Chart 1.2.11-c
Argentina: daily COVID-19 infections, stringency index and progress toward herd immunity



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

companies through the reactivation of credit. With the M3 money base growing at 63% (March), the currency continues to depreciate, despite the weakness of the dollar compared to other currencies. This indicates that depreciation maintains a high correlation with inflation and money supply expansion.

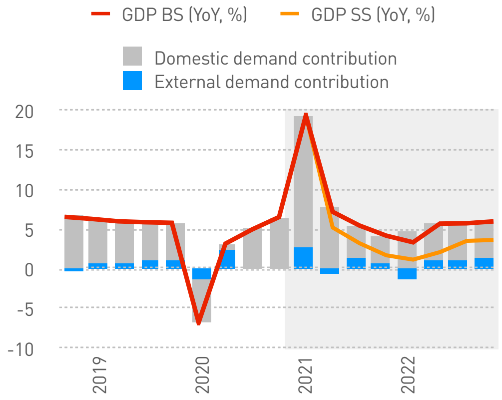
Argentina needs a fiscal consolidation plan and a curb on monetary expansion. These objectives will be very difficult to achieve, especially in the midst of a pandemic and during an election year, so macroeconomic stability remains a high risk. On a positive note, however, energy prices and the price of other raw materials are recovering, as they can work in favor of exports, tax revenues and reduce macroeconomic imbalances.

1.2.12 China

The strongest of the large economies, strongly underpinned by exports and stimulus measures.

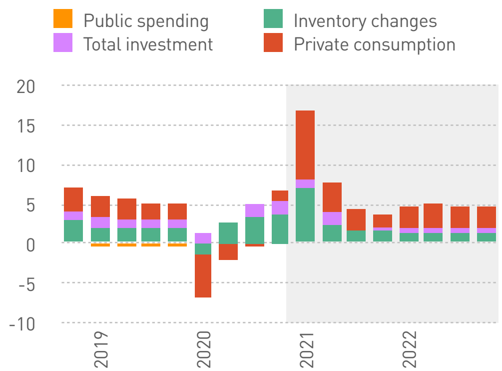
The Chinese economy has been surprisingly resilient. Of the large economies, it appears to have overcome the pandemic best, recording the smallest number of infections over a period of one year. As ground zero for the pandemic outbreak, it was controlled from the outset with stringent restrictions and immediate control over outbreaks. However, the level of restrictions remains high, with an index of 78% (see Chart 1.2.12-c).

Chart 1.2.12-a
China: GDP breakdown and forecasts



Source: MAPFRE Economics (based on BoPRC data)

Chart 1.2.12-b
China: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on BoPRC data)

Table 1.2.12
China: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY, average)	6.9	7.0	6.8	6.0	2.0	8.9	5.2	7.3	2.6
Domestic demand contribution	7.6	6.6	7.2	5.1	1.7	7.8	4.6	6.4	2.0
External demand contribution	-0.8	0.3	-0.5	0.9	0.3	1.1	0.6	0.9	0.6
Private consumption contribution	3.3	3.6	3.2	2.4	-1.6	4.1	2.7	3.0	0.6
Total investment contribution	3.1	2.6	3.1	1.9	2.0	3.3	1.4	2.8	0.8
Public spending contribution	1.2	0.3	1.1	1.2	1.2	0.7	0.7	0.7	0.7
Private consumption (% YoY, average)	8.7	9.4	8.2	5.9	-3.7	10.8	7.2	7.9	1.7
Public consumption (% YoY, average)	7.3	1.6	7.1	7.6	7.4	4.4	4.2	4.4	4.2
Total investment (% YoY, average)	7.3	6.2	7.3	4.6	4.8	7.6	3.2	6.5	2.0
Exports (YoY in %)	1.8	7.0	4.5	2.4	1.7	13.0	0.9	10.3	-3.3
Imports (YoY in %)	3.2	8.3	6.9	-0.9	-1.9	7.6	6.5	5.1	1.4
Unemployment rate (%, last quarter)	3.8	3.8	3.7	4.5	4.9	4.3	3.6	4.9	5.1
Inflation (% YoY, last quarter)	2.2	1.8	2.2	4.3	0.1	2.6	1.9	3.7	3.3
Fiscal balance (% of GDP)	-4.3	-4.8	-4.7	-5.6	-8.6	-7.9	-7.7	-8.4	-9.3
Primary fiscal balance (% of GDP)	-1.6	-1.8	-1.5	-2.2	-5.0	-4.6	-4.6	-5.1	-5.9
Trade balance (% of GDP)	4.4	3.9	2.7	2.8	3.5	3.8	2.9	3.8	3.0
Current account balance (% of GDP)	1.7	1.5	0.2	0.7	1.9	2.6	1.3	2.6	1.4
Official interest rate (end of period)	3.00	3.25	3.30	3.25	2.95	2.69	2.50	2.94	3.68
3-month interest rate (end of period)	4.25	5.53	3.70	3.20	3.03	2.77	2.61	3.01	3.74
10-year interest rate (end of period)	3.01	3.88	3.23	3.14	3.14	2.66	3.18	4.29	5.02
Exchange rate vs. US dollar (end of period)	6.94	6.51	6.88	6.99	6.52	6.57	6.55	6.72	6.81
Exchange rate vs. euro (end of period)	7.32	7.80	7.87	7.85	8.00	7.66	7.77	7.87	7.82
Private lending (% YoY, average)	13.8	13.1	12.9	13.1	13.1	12.7	9.0	9.5	2.7
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 (as % pers. disp. income, avg.)	39.3	38.7	37.9	38.0	41.9	40.7	39.9	41.8	42.4

Source: MAPFRE Economics (based on BoPRC data)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

The economy grew by 2.0% in 2020, at a time when all of the world's large economies contracted. China has benefited from being viewed as the world's factory, in that its exports component has been very strong with an estimated growth of over 20% in the first quarter of 2021. The main exports were computers, microprocessors and electronic equipment, in addition to steel and aluminum. Exports for 2021 as a whole could therefore grow above 12%.

Domestic demand was quite strong despite limitations on mobility and restrictions on businesses. Within its growth strategy (see Box 1.1.1-a), the Chinese government maintained an ambitious infrastructure investment plan. Online sales grew above 10% nationally, and March's PMI indices point to a slowdown, but, even so, all PMIs are within the expansion zone above 50 points: composite 51.7; services 51.5; and manufacturing 50.9. Based on these elements, we have revised our growth forecast for the Chinese economy upward by 8.9% for 2021, whereby pre-pandemic levels will be reached this year ahead of other countries around the world (see Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

Inflation continued to fall into negative territory during January and February (-0.3% and -0.2% respectively), and rose to 0.4% in March. Unlike in 2020, food prices have been more moderate, meaning that inflation is expected to fall in the first half of the year and show an upward trend in the second half of the year. With regard to monetary policy, interest rates are expected to remain stable in the second half of the year. With the economy on the path to recovery, there seems to be no

Chart 1.2.12-c
China: daily COVID-19 infections, stringency index and progress toward herd immunity

Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

need for the central bank to further relax monetary policy. Fiscal policy remains expansionary with deficits above -7% of GDP in the coming years (-7.9% forecast for 2021).

- The Chinese economy remains dynamic, with growth of 8.9% expected for 2021, after being one of the few economies to grow in 2020 (2.0%).
- The foreign sector and stimulus measures will form the basis for dynamism in 2021.
- Fiscal policy will remain expansionary in the coming years, with deficits exceeding 7% of GDP.

The risks to the Chinese economy include a prolonged weakness of the dollar affecting its exports, although the rebound in market rates may reverse this situation; and financial instability related to a possible upturn in delinquency, both internally and in the economies to which China made various loans, both private and state-owned.

1.2.13 Indonesia

The measures imposed limit the strength of recovery.

Prospects for Indonesia's economic activity are highly uncertain. Activity is expected to recover in all areas, but economic activities that are more vulnerable to restrictions and infection (such as tourism) will continue to be thwarted by slow recovery. Infection rates have been declining since the peak in late January; however, stringency levels remain at 69%. In particular, mobility rates indicate 18% less mobility than usual in small business and leisure. Similarly, vaccine rollout is progressing slowly, with only 6.7% of the population having received at least one dose (see Chart 1.12.13-c).

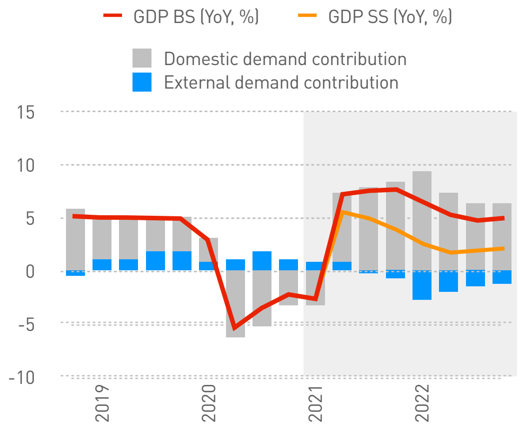
Exports figures will depend on recovery in external markets, as investment and the confidence begin to pick up. While the plan to invest in infrastructure and moving administrative capital to another location may be driving revival in Indonesia, the domestic and external funding involved presents a challenge. The March manufacturing PMI remained in the positive zone, though only marginally (50.2 points). We forecast that GDP will grow by 5.0% in 2021, and by 5.4% in 2022 (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b). This forecast will depend on the extent of free mobility based on pandemic data, and on the number of infections and vaccine rollout. The impact of the pandemic has been much lower in Indonesia than in Western countries, but this does not imply that prevention is done in the same way as other restrictions.

Inflation stood at 1.4% in March, with core inflation at 1.2%, and should remain moderate in the low range of the target range (2–4%) due to weak demand, unless oil prices see an unexpected surge. At its March meeting, the Central Bank of Indonesia kept interest rates at 3.50%, after having lowered these rates by 25 basis points in February. Official rates are expected to remain accommodative for a quite some time, probably until 2023, when recovery is clearly evident.

In addition to the pandemic and tourism, the risks to the Indonesian economy arise from recovery in foreign markets and thus exports, together with investment confidence. Indonesia has substantial external financing, and if markets see a deterioration in solvency conditions, this could jeopardize the country's financial stability and exchange rate.

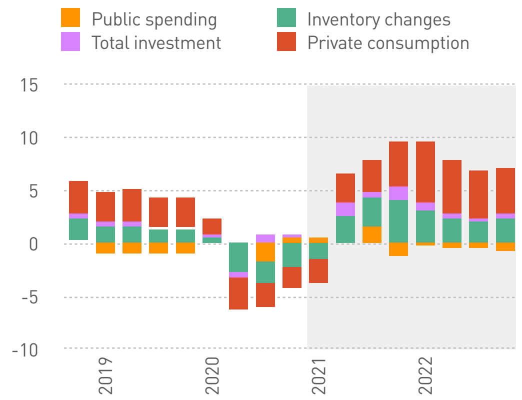
- The impact of the pandemic is less severe, but restrictions are similar to other countries.
- Mobility in business and leisure is 18% down from normal levels.
- Economic recovery will be gradual and depends on easing of mobility restrictions, the external markets and the return of tourism.
- Indonesia's GDP growth forecast stands at 5.0% for 2021.

Chart 1.2.13-a
Indonesia: GDP breakdown and forecasts



Source: MAPFRE Economics (based on BPS data)

Chart 1.2.13-b
Indonesia: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on BPS data)

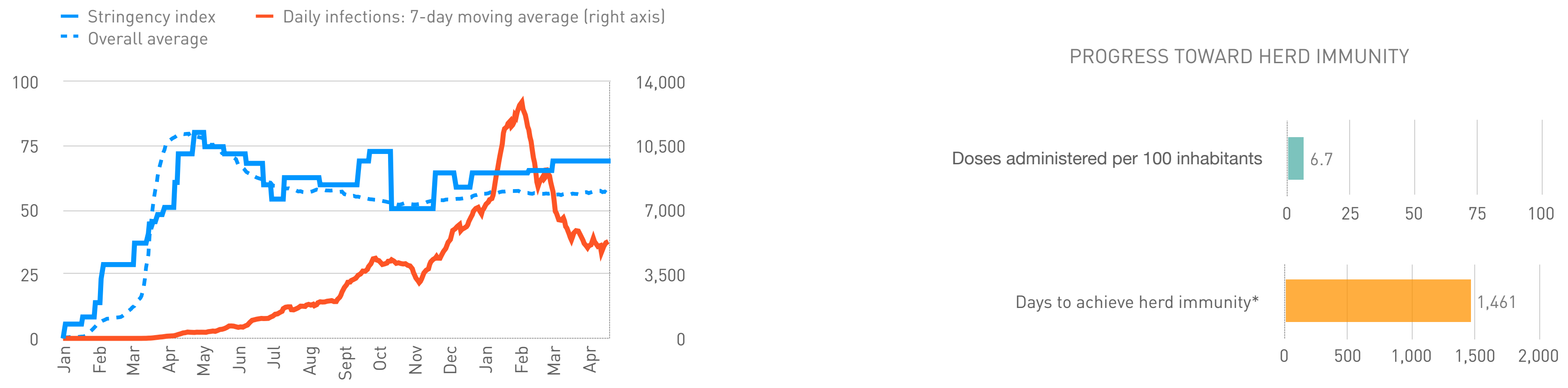
Table 1.2.13
Indonesia: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY, average)	5.0	5.1	5.2	5.0	-2.0	5.0	5.4	3.0	2.1
Domestic demand contribution	4.9	4.8	6.2	3.7	-3.1	4.9	7.4	2.8	4.1
External demand contribution	0.1	0.3	-1.0	1.4	1.1	0.1	-2.0	0.1	-2.0
Private consumption contribution	2.8	2.8	2.8	2.9	-1.4	1.9	4.9	0.5	2.6
Total investment contribution	1.5	2.0	2.2	1.5	-1.6	1.9	2.5	1.3	1.5
Public spending contribution	0.0	0.2	0.4	0.3	0.1	0.8	0.5	0.8	0.5
Private consumption (% YoY, average)	5.0	5.0	5.1	5.2	-2.6	3.5	9.0	1.0	4.9
Public consumption (% YoY, average)	0.7	2.0	4.7	3.7	2.1	9.1	6.6	9.1	6.6
Total investment (% YoY, average)	4.5	6.1	6.7	4.5	-4.9	6.0	7.7	4.0	4.5
Exports (YoY in %)	-1.6	9.0	6.5	-0.9	-7.6	7.8	4.1	5.2	0.2
Imports (YoY in %)	-2.4	8.1	12.3	-7.4	-14.6	9.9	9.5	6.7	5.1
Unemployment rate (%, last quarter)	5.5	5.3	5.2	5.1	7.0	6.4	5.8	7.3	7.6
Inflation (% YoY, last quarter)	3.3	3.5	3.3	2.7	1.6	2.6	2.5	4.5	4.6
Fiscal balance (% of GDP)	-2.5	-2.6	-1.7	-2.2	-6.2	-6.2	-4.5	-6.6	-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
Trade balance (% of GDP)	1.6	1.9	-0.0	0.3	2.7	2.2	1.2	2.3	1.0
Current account balance (% of GDP)	-1.8	-1.6	-2.9	-2.7	-0.4	-1.4	-2.2	-1.4	-2.5
Official interest rate (end of period)	4.75	4.25	6.00	5.00	3.75	3.56	2.59	5.08	4.12
3-month interest rate (end of period)	7.46	5.48	7.70	5.51	4.06	3.81	2.84	5.33	4.38
10-year interest rate (end of period)	7.94	6.31	7.98	7.10	6.10	6.23	6.46	7.82	8.53
Exchange rate vs. US dollar (end of period)	13,525	13,484	14,380	13,883	14,050	14,476	14,287	16,444	16,266
Exchange rate vs. euro (end of period)	14,257	16,171	16,465	15,596	17,241	16,874	16,957	19,257	18,676
Private lending (% YoY, average)	7.8	8.2	10.8	8.8	1.3	6.6	15.2	8.2	16.7
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)	10.1	15.1	5.6	-3.0	-5.6	16.1	10.1	14.8	9.1
Savings rate (as % pers. disp. income, avg.)	22.9	23.6	24.0	22.8	21.4	21.3	20.6	22.1	21.0

Source: MAPFRE Economics (based on BPS data)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

Chart 1.2.13-c
Indonesia: daily COVID-19 infections, stringency index and progress toward herd immunity



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

1.2.14 Philippines

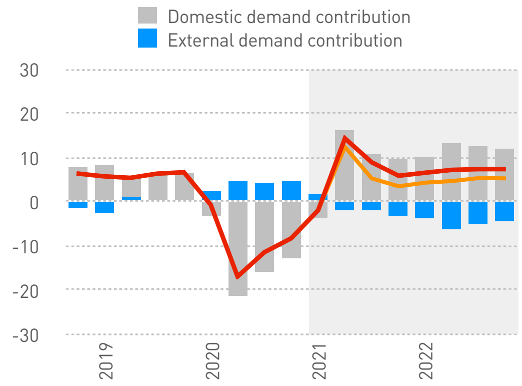
Recovery is dependent on controlling the pandemic and resuming mobility.

The performance of the Philippine economy in 2021 will depend mostly on the extent to which restrictions on mobility are eased. The rate of infections during March and April grew out of control, which has prevented an easing of restrictions. The level of these restrictions has increased over the last two months and hovers at around 81%. It should be noted that the Philippine economy is 70% dependent on private consumption. As such, keeping restrictions in place, together with a vaccination rollout that has barely even begun (1.5% of the population has received at least one dose), makes it possible to forecast delayed recovery (see Chart 1.2.14-c).

GDP data for the fourth quarter of 2020 showed a decline of -8.3%, representing a decline of -9.3% throughout the year. On the one hand, this drop shows that the economy is not recovering as strongly as expected. On the other, it shows that public spending (the only item that showed growth) alone is not enough to boost growth. With the fiscal deficit exceeding 7% of GDP, the government appears to lack any further scope to expand fiscal aid.

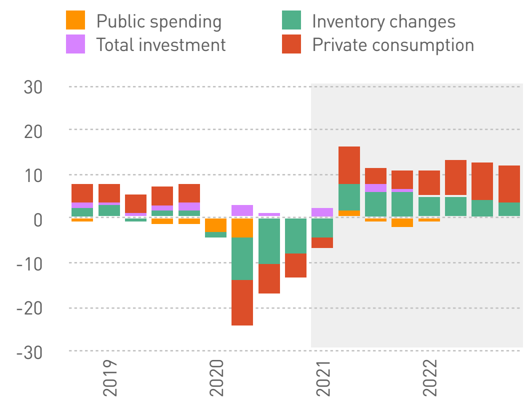
The Philippine economy lacks drivers for consumption, such as employment, rising salaries, consumer confidence, foreign remittances

Chart 1.2.14-a
Philippines: GDP breakdown and forecasts



Source: MAPFRE Economics (based on PSA data)

Chart 1.2.14-b
Philippines: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on PSA data)

Table 1.2.14
Philippines: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY, average)	7.2	6.9	6.3	6.0	-9.3	6.8	7.1	4.8	4.9
Domestic demand contribution	10.9	7.8	8.6	6.1	-13.2	8.0	11.9	5.5	9.6
External demand contribution	-3.8	-0.9	-2.3	-0.1	3.9	-1.2	-4.8	-0.7	-4.7
Private consumption contribution	5.3	4.4	4.2	4.3	-5.6	3.3	7.4	1.5	5.2
Total investment contribution	4.6	2.6	3.3	1.1	-7.2	3.5	4.1	2.9	3.9
Public spending contribution	1.0	0.7	1.5	1.1	1.3	1.1	0.3	1.1	0.3
Private consumption (% YoY, average)	7.2	5.9	5.8	5.9	-7.8	4.6	10.2	2.1	7.3
Public consumption (% YoY, average)	9.1	6.7	13.5	9.8	9.8	8.2	1.8	8.2	1.8
Total investment (% YoY, average)	21.1	10.6	12.9	4.1	-26.6	18.1	18.0	15.1	17.3
Exports (YoY in %)	9.2	17.4	11.9	2.4	-16.3	11.8	12.8	9.8	9.4
Imports (YoY in %)	18.9	15.1	14.6	2.0	-21.7	13.1	18.4	10.1	15.6
Unemployment rate (%, last quarter)	4.7	5.0	5.1	4.6	8.7	8.1	6.8	8.7	7.8
Inflation (% YoY, last quarter)	2.0	3.0	5.9	1.5	3.1	3.6	2.3	6.1	4.0
Fiscal balance (% of GDP)	-2.3	-2.1	-3.1	-3.4	-7.6	-6.3	-6.2	-7.0	-7.6
Primary fiscal balance (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance (% of GDP)	-11.2	-12.2	-14.7	-13.1	-8.8	-9.8	-10.7	-10.1	n/a
Current account balance (% of GDP)	-0.4	-0.7	-2.6	-0.8	3.6	2.2	1.5	2.0	0.7
Official interest rate (end of period)	3.00	3.00	4.75	4.00	2.00	2.01	2.00	4.30	3.95
3-month interest rate (end of period)	2.50	3.22	5.03	3.97	2.00	2.10	2.16	4.40	4.07
10-year interest rate (end of period)	4.63	5.70	7.05	4.44	2.97	3.97	4.66	5.75	6.56
Exchange rate vs. US dollar (end of period)	49.81	49.92	52.72	50.74	48.04	48.50	47.67	55.18	53.88
Exchange rate vs. euro (end of period)	52.51	59.87	60.37	57.01	58.95	56.54	56.57	64.62	61.86
Private lending (% YoY, average)	15.3	17.6	16.8	9.5	3.9	4.8	20.7	6.4	22.6
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)	8.5	9.4	10.3	6.9	-7.8	10.5	13.1	9.0	12.8
Savings rate (as % pers. disp. income, avg.)	9.3	9.7	9.3	8.4	6.2	6.2	4.8	6.9	4.9

Source: MAPFRE Economics (based on PSA data)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

Chart 1.2.14-c
Philippines: daily COVID-19 infections, stringency index and progress toward herd immunity

Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 4/27/2021)

*Based on vaccinating 70% of the total population

and moderate inflation. Exports and investment also need to recover, and that will depend on the economic recovery of trading partners and investors' confidence in resuming activity. Mobility levels in March still stood 30% below normal in the commerce, leisure and workplace sectors.

The manufacturing PMI in March discounts an improvement in activity (52.2 points), but did not offset weak circumstances for consumption, investment and exports. Despite lower interest rates and ample liquidity conditions, consumer loans are contracting sharply as a result of restricted mobility and the expectation that family solvency will deteriorate. Within this context, mainly due to the delay in activity fully opening up again, the growth forecast stands at 6.8% for 2021 (following a fall of -9.3% last year), and 7.1% for 2022 (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

Inflation stood at 4.5% in March as its upward momentum slowed. The government maintained its goal of containing inflation between 2–4% and intensified efforts to combat food inflation, which reached 5.8% last month. These pressures are due, among other factors, to increases in the price of pork and meat in general, which increased by 20.9%, and of vegetables (8.3%) and fruit (3.9%). The Central Bank of the Philippines has kept interest rates (Overnight Repo) stable at 2.00% since November. Real interest rates are negative, and seem to exacerbate this trend as inflation remains high. The central bank therefore no longer has scope for further cuts and is expected to try to postpone rate increases as long as possible. As such, we expect that the new cycle of increases will commence in 2022, provided inflation does not push this forward. Financial conditions are already lax and the M3 money supply is growing at 9.4%.

- Unless mobility recovers, private consumption, the economy's main driver, will remain repressed.
- Poor progress in vaccination rollout is delaying economic normalization.
- Additional space for fiscal and monetary policies is lacking.
- With inflation on the rise, the central bank is running out of room for interest-rate cuts.
- The Philippine GDP growth forecast stands at 6.8% for 2021.

The main risks to the Philippine economy lie in the prolonged implementation of mobility restrictions and the scare progress in vaccine rollout, both of which will impact the weak recovery in consumption, investment and exports.

2 Industry outlook

2.1 The economic environment and its impact on insurance demand

2.1.1 Global markets

Global economic growth in 2021 is estimated to range from 6% (baseline scenario) to 3.7% (stressed scenario), following an estimated decline of around -3.3% in 2020; these estimates have improved compared to those forecast in the previous report. The forecast range for global growth in 2021 is indicative of the level of uncertainty, but has been reduced due to encouraging news in terms of vaccine rollout, despite some experiencing temporary setbacks in terms of their effectiveness. However, many countries are now in an acute phase of the health crisis, and the rate of vaccination remains slow with some notable exceptions such as Israel, the United States, and the United Kingdom, whose progress is increasing confidence in their results. Many emerging countries are currently finding that their healthcare systems are overrun, forcing new measures with partial closures and restrictions on mobility to be adopted, thereby jeopardizing their economies and, consequently, the development of their insurance industry.

Widespread intervention by central banks through their extremely accommodative monetary policies and extensive fiscal aid packages continue to support the global economy and financial markets, enabling governments, households and businesses to continue financing at reduced costs, thereby sustaining consumption and investment. At the same time, confidence is slowly increasing in some of the world's major economies. Insurance markets are proving to be resilient and have experienced fewer business declines than in previous economic crises, although low interest rates and the increase in the loss experience for some lines of business (such as Life protection insurance, health insurance and other insurance related to mobility) will negatively affect their profitability.

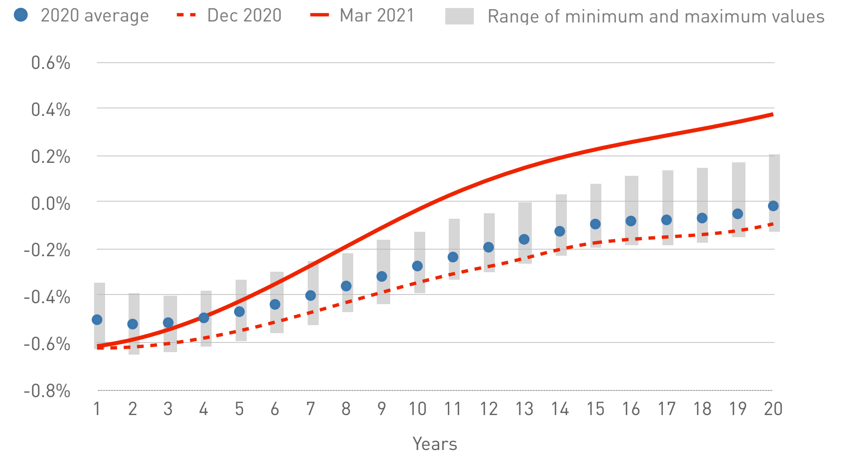
2.1.2 Eurozone

Economic growth for the eurozone is estimated to range from 4.0% (baseline scenario) to 2.1% (stressed scenario) in 2021, following an estimated decline of around -6.8% in 2020, which represents an improvement from the forecasts made at the beginning of the year. However, vaccine rollout has been slower than expected (mainly due to vaccine supply problems), meaning that several months will still be required to vaccinate a high percentage of the population, which could be achieved in the second half of the year. The region's economy continues to receive support in aid to people who are still covered by temporary unemployment, while the evolution of the pandemic has forced the implementation of restrictive mobility measures, which are now beginning to ease. The substantial fiscal plans for aid through the European Union's Next Generation EU reconstruction fund will take some time to implement, with the resulting negative effects on both employment and viability of small and medium-sized enterprises. However, the economic recovery envisioned for this year will favor recovery in the insurance industry, which, based on the information available in the eurozone markets for 2020, was affected by moderate setbacks in the Non-Life and Life Protection business, and by more severe setbacks in Life Savings and annuities, which are also affected by the low interest rate environment negatively affecting the insurance industry, though they experienced a slight rebound in the first quarter.

The European Central Bank (ECB) kept short-term interest rates at current levels (0% for main refinancing operations and -0.5% for deposit facilities). However, the curves produced by the European Insurance and Occupational Pensions Authority (EIOPA) show a shift in the quarter, with a rise in the risk-free interest rate in all sections, gaining a certain trend and with positive rates from maturities exceeding four years (when in the previous quarter they remained negative up to maturities exceeding twenty years). This increases the cost of financing for economic agents and could jeopardize recovery if this trend continues and persists over time (see Chart 2.1.2[5]). However, the ECB announced that it will accelerate unconventional asset-purchase measures to secure financing through sovereign and corporate bond markets, ensuring their liquidity with low risk premiums in response to this interest rate movement against a backdrop in which inflation is experiencing a slight rebound, but remains weak. It therefore reinforces its message of strongly supporting favorable lending conditions and financial markets in the eurozone, in which insurance companies are large institutional investors.

Despite the slight rebound in risk-free interest rates, levels remain low, thereby favoring economic recovery and insurance activity, especially for its more cyclical lines of business. This does, however, damage the traditional Life business and the profitability of insurance

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

companies. The Euro Stoxx 50 index is still performing well, which supports the development of Life insurance products where the policyholder assumes the risk of investment. In addition, improving economic expectations can help this business, which is adversely affected by the preference of economic agents to remain in liquidity positions.

2.1.3 Germany

Economic growth for the German economy is estimated to range from 3.5% (baseline scenario) to 1.9% (stressed scenario) in 2021, following an estimated decline of around -5.3% in 2020, which represents a slight improvement on expectations. The expansionary fiscal measures adopted continue to partly offset the economic effects of new outbreaks that have occurred, while vaccine rollout is progressing more slowly than expected. In any case, economic sentiment indicators continue to improve, and a return to economic growth can help moderate the negative effects of the crisis on the insurance business.

The environment remains complicated for the traditional Life Savings and annuities business, due to the low interest rates in which Germany and the entire eurozone economy have been mired. However, the yield on Germany's sovereign bond increased in the last quarter, rising from negative levels in maturities exceeding ten years, gaining a certain trend toward thirty years, which is beginning to reflect recovery of sorts toward its pre-COVID levels. The German DAX continues on its path of strong recovery, which can stimulate the development of Life investment insurance products in which the policyholder assumes the risk of investment.

2.1.4 Italy

The forecast for the Italian economy in 2021 is for GDP growth in the range of 4.7% (baseline scenario) to 3.0% (stressed scenario), compared to an estimated drop in 2020 of -8.9% as a result of the pandemic. The Italian economy is somewhat recovering, albeit rather cautiously, but key sectors such as hospitality, catering and tourism are not expected to fully recover until mobility is fully restored. Fiscal measures to support the economy are helping, though the level of public debt continues to rise. The extension of the quantitative easing measures adopted by the ECB (which are country-flexible) have allowed it to continue financing in the markets without an excessive surge in the risk premium, which is facilitating the implementation of fiscal measures with controlled low costs. The expected return to economic growth this year will help business development in the insurance market, especially in the Non-Life business, which experienced strong setbacks in 2020 (around 4%) as a result of the sharp economic contraction experienced in 2020, especially during the most stringent phases of lockdown, with a gradual recovery in insurance premiums during the second half of the year, which is expected to continue this year in line with the partial recovery expected for its economy in 2021.

Meanwhile, the ECB's strong intervention in bond markets has kept the risk premium and the term premium of Italian sovereign debt low, making the interest-rate environment less favorable to the Life business. However, the first quarter of 2021 saw moderate growth in the yield spread over the ten-year German bond, which, together with positive stock market performance, could also help this business to recover.

2.1.5 Spain

Economic growth for Spain is estimated to range from 6.0% (baseline scenario) to 3.6% (stressed scenario) in 2021, following an estimated decline of around -10.8% in 2020. This represents an improvement for estimates in the stressed scenario and (only slightly) for the sharp drop in GDP in 2020. This drop was one of the most severe around the world due to the productive structure of the Spanish economy, which was hit particularly hard by the effects of mobility restrictions on consumption, trade, hospitality and tourism-related businesses. Recovery expected for 2021 will depend to a large extent on the increase in the still-slow pace of vaccination, which will allow for measures taken as a result of new outbreaks to be eased and allow activity in these sectors to largely recover.

The impact of the crisis on employment, business and the solvency of households and companies continues to shift to the insurance market unevenly across business lines. Based on the latest data available for

Box 2.1.5
Spanish insurance industry performance: forecasts for premium growth

Evolution of the environment

Since our previous forecasts were published, we have witnessed a third wave of COVID-19 infections in Spain. This new stage has been marked by the onset of vaccine rollout and recalibrating lockdown measures in light of the increasing number of cases following the holiday period and recalibrating logistical difficulties in vaccine administration (see the MAPFRE Economics interactive section "Institutional response to the COVID-19 crisis and effects on expected growth"). These measures have seen different levels of stringency and easing in the various different parts of the country, but all of them started from the baseline restrictions established due to the state of emergency. The stringency index therefore increased throughout the first quarter of 2021 (see Chart A). Surprisingly, this increase had a very limited effect on the perception of uncertainty surrounding current economic policy, when compared to a year earlier. However, this effect is attributable to some "information fatigue" surrounding developments relating to the virus and decisions on economic governance[1]. The effect was more visible on the other channels that determine our prospects for growth in insurance premiums on the Spanish market (expectations, demand and finance sector).

The development of the restrictions continued to have a negative effect on private sector confidence, particularly on retail and service sectors, whose indices deteriorated again, remaining at very low levels (see Chart B). Although consumers saw some improvement in employment prospects and economic and financial prospects at the start of the quarter, the implementation of new restrictions and problems in vaccination again deteriorated all the aspects observed in consumer confidence. Only savings prospects improved, obviously due to precautionary reasons (see Chart C). In the real sector, following recovery in the second half of last year, automobile production deteriorated once again with declines exceeding 20% through February (see Chart D).

The inflow of tourists continued to deteriorate compared to the previous year, with a contraction exceeding 80% through February. On the financial level, the effect on consumption was evident, with increases in deposits and falls in consumer loans consistent with the deterioration of expectations explained above. Mortgage loans and corporate loans grew as a result of the public guarantee mechanisms implemented (see Chart E). And finally, during this new wave of the pandemic, we are witnessing a global acceleration in inflation expectations for reasons that are still up for economic debate (long-term vs. short-term, structural vs. temporary), but that have had an effect on real interest rates and, in the latter case, on the slope of the risk-free rate curve and consequently for insurance production (see Chart F and Box 1.1.1-c).

1/ The economic policy uncertainty index is a synthesis of the tone and number of mentions of economic policy elements, in this case linked to COVID-19. Baker Bloom & Davis (2013).

Box 2.1.5 (continued)
Spanish insurance industry performance: forecasts for premium growth

Chart A
Spain: stringency index vs. economic policy uncertainty

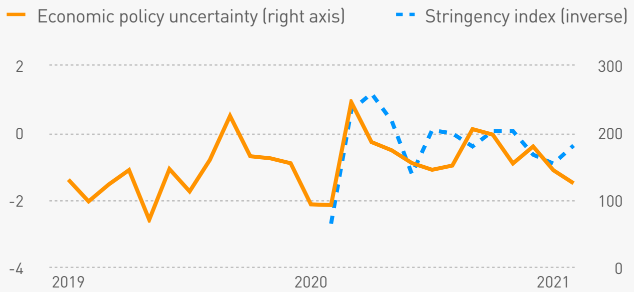
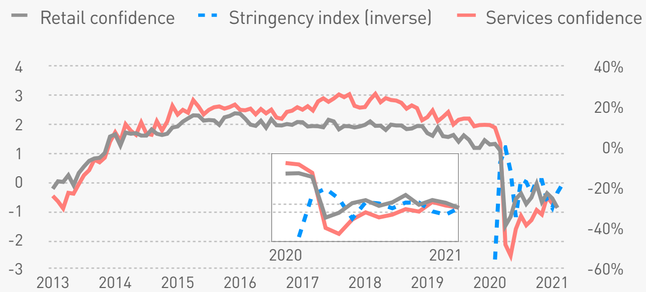


Chart B
Spain: retail and services confidence vs. stringency index



Source: MAPFRE Economics (based on data from Oxford Economics and EPU Bloom 2013)

Chart C
Spain: consumer confidence
(savings, economic, financial and employment situation)

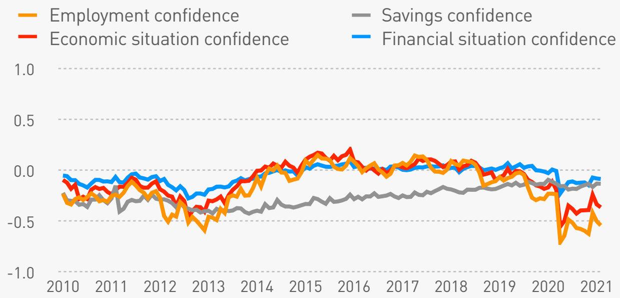
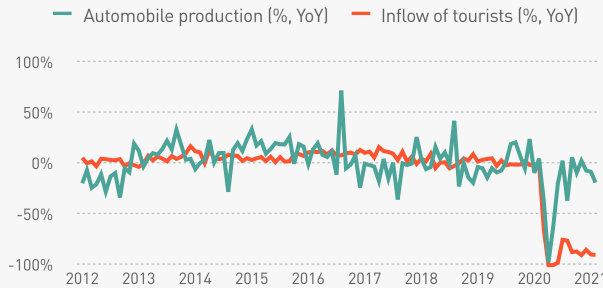


Chart D
Spain: automobile production and inflow of tourists at annual rate



Source: MAPFRE Economics (based on Haver data)

Box 2.1.5 (continued)
Spanish insurance industry performance: forecasts for premium growth

Ultimately, the financial, real, and expectations channels echoed an environment that remains unfavorable, although the deterioration suffered was to a much smaller extent than in the recent past. Activity continued against a strongly sub-par backdrop, while financial variables and expectations echoed uncertainty. Furthermore, within this framework, the market began to factor expectations of higher inflation with effects on long-term interest rates.

Premium growth forecasts

Non-Life segment

In this overall context, Non-Life business premiums extended the dynamics recorded at the end of 2020, growing again at around 1.5% in the first quarter of the year, which is close to the *optimistic scenario* we set out three months ago on the vaccination strategy and exiting from the crisis.

Looking forward, as the underlying variables (expectations, financial and real variables) have remained changed (in so far as we have maintained both views of the pandemic's development), our vision of what could happen in the short- and long-term remains virtually unchanged, as do the forecasts for the Non-Life business components (see Charts G and H). As such, it is considered that, in the long-term, nominal premiums grow as consumption (around 3.5% YoY nominal), and that consumption converges at speeds inherent to two possible scenarios, one *optimistic* whereby herd immunity is achieved by the end of 2021, and one *pessimistic* whereby herd immunity is achieved in the second half of 2022. This impacts confidence and other short-term variables, whereby, in the *optimistic scenario,* insurance premiums in the Non-Life segment

Chart E
Spain: evolution of credit and deposits at annual rate

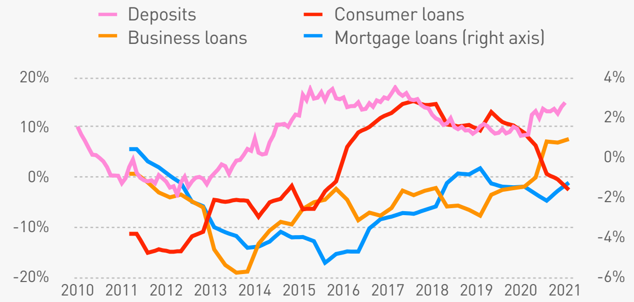
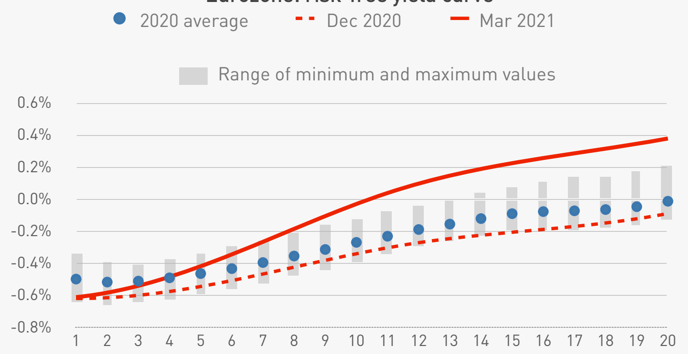


Chart F
Eurozone: risk-free yield curve



Source: MAPFRE Economics (based on Haver and EIOPA data)

Box 2.1.5 (continued)
Spanish insurance industry performance: forecasts for premium growth

Chart G
Spain: contribution to growth by Non-Life lines (optimistic scenario)
(%)

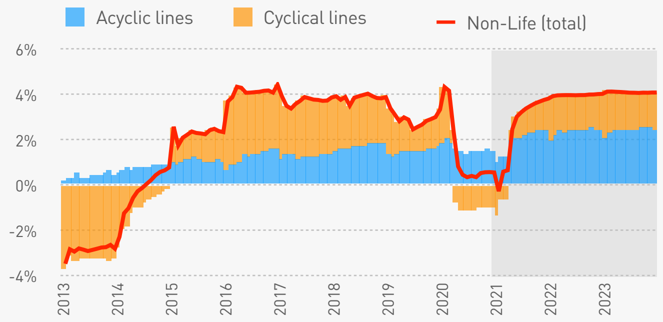
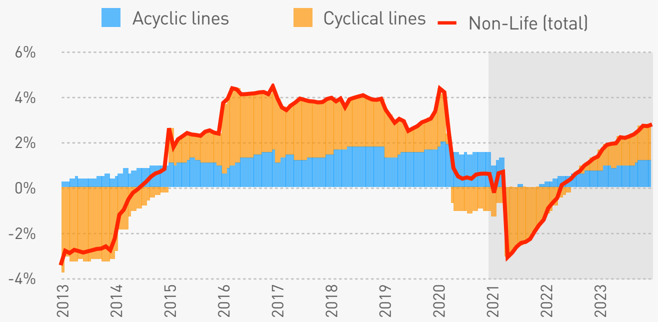


Chart H
Spain: contribution to growth by Non-Life lines (pessimistic scenario)
(%)



Source: MAPFRE Economics

grow by around 3.3% in the second quarter of 2021, and in the *pessimistic scenario*, they contract by around -2.6%. Business performance in the Non-Life segment will be defined by dominance of one over the other.

Life segment

The evolution of premiums in the Life business segment has differed from expectations in our previous estimate. After contracting 20.7% at the end of 2020, regardless of the scenario we were in, more structural forces were expected to have maintained (or accelerated) the rate of contraction recorded to date. These forces were fundamentally the temporary premium drop and decisions made by the insurance business itself. However, during the first quarter of the year, premiums contracted by -3.2%, which was lower than originally expected in the optimistic scenario. This means that the Life business is impaired, but to a much lesser extent than originally envisioned. The reason for this divergence can be seen in the explicit stimulus given to the insurance business in which the policyholder assumes the investment risk (unit-linked), and perhaps also at a slower rate, destruction of the Life Savings business in light of the change in the interest rate trajectory and concerns surrounding consumer liquidity.

This decisive (but still-difficult-to-explain) change requires that a new forecast be proposed for premiums in the Life Savings line. Although the trajectories defined by the optimistic and pessimistic scenarios remain, the change experienced in the last two months has led us to believe that this improvement will continue in an optimistic scenario. The trajectory for this scenario has therefore been altered to converge to neutrality at the end of 2024, guided by the stabilization of the Life Savings business. Within this

Box 2.1.5 (continued)
Spanish insurance industry performance: forecasts for premium growth

Chart I
Spain: contribution to growth by Life Protection and Life Savings (optimistic scenario)
(%)

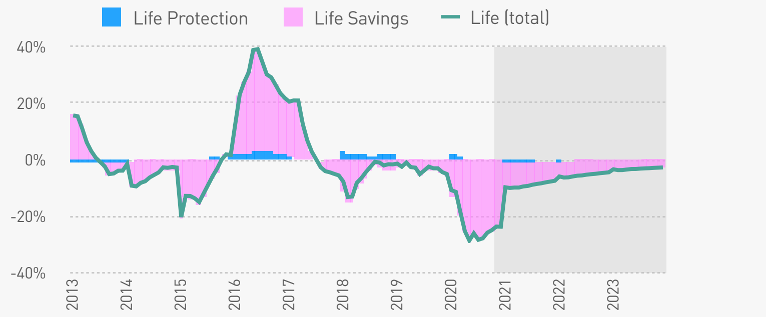
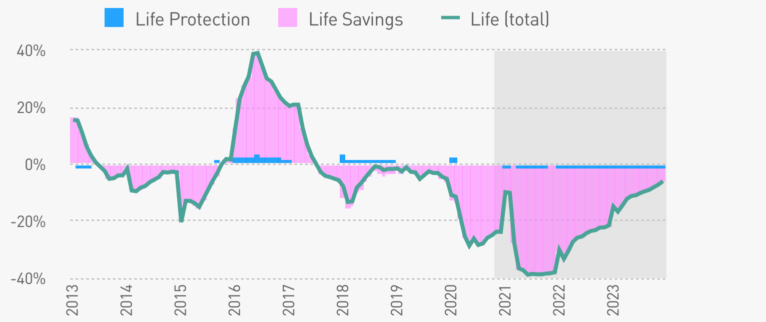


Chart J
Spain: contribution to growth by Life Protection and Life Savings (pessimistic scenario)
(%)



Source: MAPFRE Economics

context, we expect that the Life business will contract in the second quarter by close to 12% in the *optimistic scenario* (a third of previous forecasts), thanks to the consolidation of the forces observed in the first quarter of the year. In the *pessimistic scenario*, however, the improvement is marginal and the deterioration is pronounced as projected, at around -50% (see Charts I and J).

Analysis by elements vs. analysis by fundamentals

Forecasts for premium growth in the Spanish insurance market evaluated by element reveal that short-term performance depends heavily on expectations and the effect of the restrictions. This aspect is not captured by models based on fundamentals and supported by income and consumption paradigms. These models, however, are useful for checking the consistency of the central forecasts of the component models. Note that the long-term forecasts for both types of models must converge as shown in Charts K and L, and are summarized in Tables A and B.

Considering inflation:
real growth forecasts for the Non-Life segment

By examining the performance table of each of the lines that make up the Non-Life segment in the Spanish insurance market, the optimistic and pessimistic scenarios are confirmed to be fundamentally distinguished by: (i) the dynamics of more cyclical lines, such as Automobiles and other Non-Life lines, and (ii) the stability of lines that do not depend on cycles, especially the health line. In the optimistic scenario, there is cyclical improvement of the Automobiles, Commercial Multirisk lines (Commercial Multirisk and Industrial Multirisk) and the other lines, together with a

Box 2.1.5 (continued)
Spanish insurance industry performance: forecasts for premium growth

Table A
Non-Life: forecasts for premium growth, model by elements vs. models of fundamentals
(year-on-year rate, %)

Period	Model of fundamentals[1]	Optimistic scenario						Pessimistic scenario					
		Total	Automobiles	MRC*	Other	MRP**	Health	Total	Automobiles	MRC*	Other	MRP**	Health
Q2	0.4%	0.4%	-2.9%	5.2%	-1.7%	2.0%	5.0%	0.4%	-2.9%	5.2%	-1.7%	2.0%	5.0%
Q3	0.6%	0.6%	-2.0%	3.8%	-2.2%	2.6%	4.9%	0.6%	-2.0%	3.8%	-2.2%	2.6%	4.9%
2020 Q4	**0.6%**	**1.1%**	**-2.0%**	**2.8%**	**-2.5%**	**4.0%**	**5.1%**	**1.1%**	**-2.0%**	**2.8%**	**-2.5%**	**4.0%**	**5.1%**
Q1	2.7%	1.5%	-1.8%	4.3%	1.2%	3.7%	3.9%	1.5%	-1.8%	4.3%	1.2%	3.7%	3.9%
Q2	3.1%	3.3%	0.4%	7.7%	2.1%	4.9%	5.9%	-2.6%	-4.4%	-2.9%	-4.8%	-0.4%	0.6%
Q3	3.7%	3.7%	0.0%	7.7%	3.6%	5.4%	6.1%	-2.2%	-4.5%	-4.4%	-2.8%	-0.9%	0.7%
2021 Q4	**3.4%**	**3.9%**	**0.0%**	**7.7%**	**4.1%**	**5.9%**	**6.2%**	**-1.4%**	**-3.5%**	**-3.5%**	**-1.1%**	**-0.8%**	**0.9%**
Q1	3.5%	4.0%	0.0%	7.7%	4.3%	6.0%	6.3%	-0.4%	-2.3%	-1.9%	0.0%	-0.1%	1.5%
Q2	3.8%	4.0%	0.1%	7.7%	4.4%	5.9%	6.3%	0.4%	-1.2%	-1.6%	1.1%	0.4%	2.0%
Q3	3.8%	4.1%	0.1%	7.7%	4.4%	5.9%	6.3%	1.0%	-0.1%	-1.6%	1.9%	0.4%	2.2%
2022 Q4	**3.7%**	**4.1%**	**0.2%**	**7.7%**	**4.5%**	**5.8%**	**6.3%**	**1.4%**	**0.4%**	**-0.4%**	**2.0%**	**1.1%**	**2.5%**
Q1	3.5%	4.2%	0.2%	7.7%	4.5%	5.8%	6.3%	2.0%	0.8%	0.7%	2.7%	1.6%	2.9%
Q2	3.5%	4.1%	0.3%	7.7%	4.5%	5.8%	6.3%	2.2%	1.2%	0.2%	3.4%	1.5%	3.1%
Q3	3.4%	4.1%	0.3%	7.7%	4.5%	5.8%	6.3%	2.5%	1.6%	1.4%	3.7%	1.6%	3.2%
2023 Q4	**3.4%**	**4.1%**	**0.3%**	**7.7%**	**4.5%**	**5.8%**	**6.3%**	**2.8%**	**1.9%**	**1.5%**	**4.0%**	**1.9%**	**3.5%**

Source: MAPFRE Economics
1/ Median scenarios according to the model of macroeconomic fundamentals

*Commercial Multirisk
**Private Multirisk

Box 2.1.5 (continued)
Spanish insurance industry performance: forecasts for premium growth

Table B
Life: forecasts for premium growth, model by elements vs. models of fundamentals
(year-on-year rate, %)

Period	Model of funda-mentals[1]	Optimistic scenario			Pessimistic scenario		
		Total	Savings	Risk	Total	Savings	Risk
Q2	-26.0%	-26.0%	-32.0%	0.1%	-26.0%	-32.0%	0.1%
Q3	-25.8%	-25.8%	-31.3%	-0.2%	-25.8%	-31.3%	-0.2%
2020 Q4	**-23.6%**	**-20.7%**	**-25.0%**	**-0.4%**	**-20.7%**	**-25.0%**	**-0.4%**
Q1	-3.2%	-3.2%	-3.7%	-1.9%	-3.2%	-3.7%	-1.9%
Q2	-2.9%	-11.5%	-11.8%	-2.0%	-49.0%	-50.4%	-3.8%
Q3	-1.0%	-10.2%	-10.4%	-1.7%	-48.2%	-49.5%	-3.6%
2021 Q4	**-0.9%**	**-9.0%**	**-9.3%**	**-1.4%**	**-46.9%**	**-48.2%**	**-3.4%**
Q1	0.8%	-8.0%	-8.2%	-1.2%	-43.7%	-45.0%	-3.2%
Q2	2.1%	-7.1%	-7.3%	-0.9%	-38.8%	-39.9%	-3.0%
Q3	2.6%	-6.3%	-6.5%	-0.7%	-34.3%	-35.3%	-2.8%
2022 Q4	**2.8%**	**-5.6%**	**-5.8%**	**-0.4%**	**-31.1%**	**-32.0%**	**-2.6%**
Q1	2.9%	-5.0%	-5.2%	-0.2%	-25.4%	-26.2%	-2.0%
Q2	3.0%	-4.5%	-4.6%	0.0%	-19.6%	-20.1%	-2.0%
Q3	2.9%	-4.0%	-4.1%	0.0%	-14.8%	-15.2%	-2.0%
2023 Q4	**2.9%**	**-3.6%**	**-3.7%**	**0.0%**	**-8.9%**	**-9.1%**	**-2.0%**

Source: MAPFRE Economics
1/ Median scenarios according to the model of macroeconomic fundamentals

Chart K
Spain: comparison of forecasts for Non-Life models
(YoY, %)

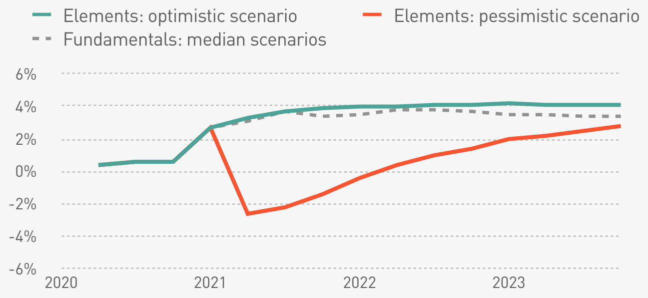
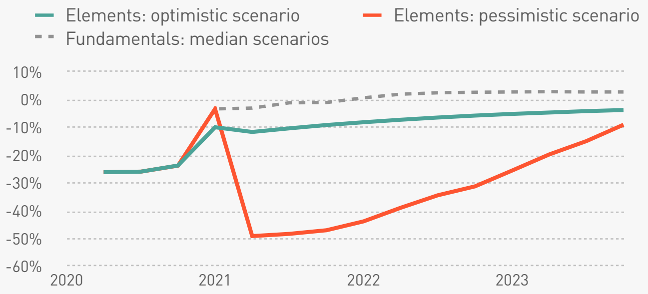


Chart L
Spain: comparison of forecasts for Life models
(YoY, %)



Source: MAPFRE Economics

Box 2.1.5 (continued)
Spanish insurance industry performance: forecasts for premium growth

Chart M
Spain: CPI evolution and projections vs. CPI Insurance and its lines
(YoY, %)

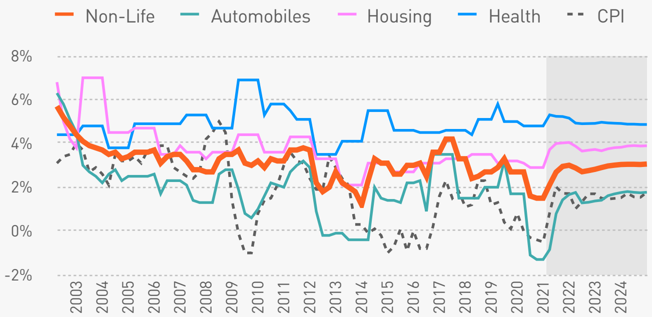
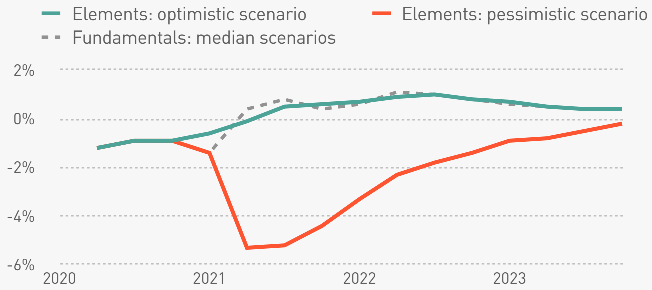


Chart N
Spain: actual quarterly forecasts for Non-Life premiums
(YoY, %)



Source: MAPFRE Economics (based on INE data)

Chart O
Spain: quarterly forecasts for Non-Life premiums (optimistic scenario)
(YoY, %)

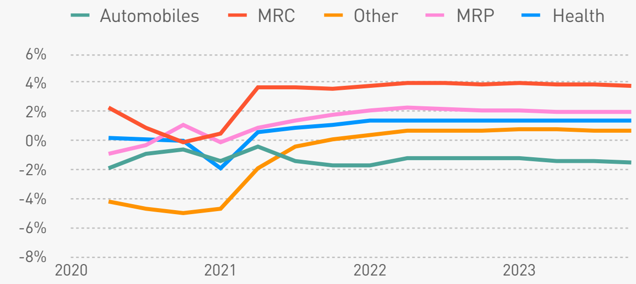
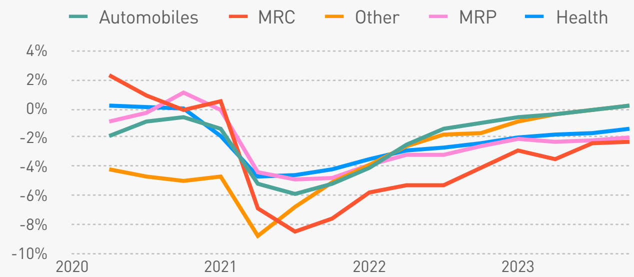


Chart P
Spain: quarterly forecasts for Non-Life premiums (pessimistic scenario)
(YoY, %)



Source: MAPFRE Economics

Box 2.1.5 (continued)
Spanish insurance industry performance: forecasts for premium growth

Table C
Non-Life and Life: actual forecasts for premium growth, model by elements vs. models of fundamentals
(year-on-year rate, %)

Period	Model of fundamentals[1]	Optimistic scenario						Pessimistic scenario					
		Total	Automobiles	MRC*	Other	MRP**	Health	Total	Automobiles	MRC*	Other	MRP**	Health
Q2	-1.2%	-1.2%	-1.9%	2.3%	-4.2%	-0.9%	0.2%	-1.2%	-1.9%	2.3%	-4.2%	-0.9%	0.2%
Q3	-0.9%	-0.9%	-0.9%	0.9%	-4.7%	-0.3%	0.1%	-0.9%	-0.9%	0.9%	-4.7%	-0.3%	0.1%
2020 Q4	**-0.9%**	**-0.9%**	**-0.6%**	**-0.1%**	**-5.0%**	**1.1%**	**0.0%**	**-0.9%**	**-0.6%**	**-0.1%**	**-5.0%**	**1.1%**	**0.0%**
Q1	-1.4%	-1.4%	-1.4%	0.5%	-4.7%	-0.1%	-1.9%	-1.4%	-1.4%	0.5%	-4.7%	-0.1%	-1.9%
Q2	0.4%	0.6%	-0.4%	3.7%	-1.9%	0.9%	0.6%	-5.3%	-5.2%	-6.9%	-8.8%	-4.4%	-4.7%
Q3	0.8%	0.7%	-1.4%	3.7%	-0.4%	1.4%	0.9%	-5.2%	-5.9%	-8.5%	-6.8%	-4.9%	-4.6%
2021 Q4	**0.4%**	**0.9%**	**-1.7%**	**3.6%**	**0.1%**	**1.8%**	**1.1%**	**-4.4%**	**-5.2%**	**-7.6%**	**-5.1%**	**-4.8%**	**-4.2%**
Q1	0.6%	1.2%	-1.7%	3.8%	0.4%	2.1%	1.4%	-3.3%	-4.1%	-5.8%	-3.9%	-3.9%	-3.5%
Q2	1.1%	1.3%	-1.2%	4.0%	0.7%	2.3%	1.4%	-2.3%	-2.5%	-5.3%	-2.6%	-3.2%	-2.9%
Q3	1.0%	1.3%	-1.2%	4.0%	0.7%	2.2%	1.4%	-1.8%	-1.4%	-5.3%	-1.8%	-3.2%	-2.7%
2022 Q4	**0.8%**	**1.3%**	**-1.2%**	**3.9%**	**0.7%**	**2.1%**	**1.4%**	**-1.4%**	**-1.0%**	**-4.1%**	**-1.7%**	**-2.6%**	**-2.4%**
Q1	0.6%	1.3%	-1.2%	4.0%	0.8%	2.1%	1.4%	-0.9%	-0.6%	-2.9%	-0.9%	-2.1%	-2.0%
Q2	0.5%	1.2%	-1.4%	3.9%	0.8%	2.0%	1.4%	-0.8%	-0.4%	-3.5%	-0.4%	-2.3%	-1.8%
Q3	0.4%	1.1%	-1.4%	3.9%	0.7%	2.0%	1.4%	-0.5%	-0.1%	-2.4%	-0.1%	-2.2%	-1.7%
2023 Q4	**0.4%**	**1.1%**	**-1.5%**	**3.8%**	**0.7%**	**2.0%**	**1.4%**	**-0.2%**	**0.2%**	**-2.3%**	**0.2%**	**-2.0%**	**-1.4%**

Source: MAPFRE Economics
1/ Median scenarios according to the model of macroeconomic fundamentals

*Commercial Multirisk
**Private Multirisk

Box 2.1.5 (continued)
Spanish insurance industry performance: forecasts for premium growth

maintained growth rate of the Health and Private Multirisk line (Homeowners Multirisk and Condominium Multirisk), provided that the solvency situation of the agents does not deteriorate. In the pessimistic scenario, the cyclical contraction is linked to zero (or almost zero) input from the acyclical lines (see Table C).

Chart M shows the outlooks for the Consumer Price Index (CPI) and the Non-Life business lines that make up the insurance service costs element of the basket itself. We expect that the insurance CPI will return to its average of around 3% in the long-term projected horizon, which leads to real Non-Life insurance growth in Spain hovering around 1% in that period (see Chart N).

By de-constructing the relationship between prices and the cycle, we impose the price forecasts of different insurance lines on their performance in both scenarios. This leads to expectations of Non-Life business performance that can sit within a positive range in real terms, but below 1% in the *optimistic scenario*, and within a negative range and below -4% in the *pessimistic scenario* at the end of 2021. The key to one scenario or the other will lie in the rate of deterioration of the Automobiles business (due to its weight in the Non-Life business category). Although it will be contracted in real terms in both cases, against a backdrop of strong cyclical contraction, this deterioration could exceed 5% in the fourth quarter of 2021 (see Charts O and P).

March 2021[6], growth in Non-Life premiums would recover year-on-year in the first three months, growing by around 1.5% at an aggregate level compared to premiums in the first quarter of 2020 (compared to 1.1% growth in 2020 throughout the year as a whole). The health line is growing at around 4% (5.1% in 2020) and multirisk, both from homeowners at 3.9% (2.7% in 2020) and from condominiums at 2.9% (2.8% in 2020), continue proving to be highly resilient. The Non-Life business is particularly suffering in the Automobiles line, with a fall in the first quarter of 2021 of -1.8% (-2% in 2020). Other smaller lines that continue to be strongly impacted by the crisis were travel assistance insurance and, to a lesser extent, trade multirisk.

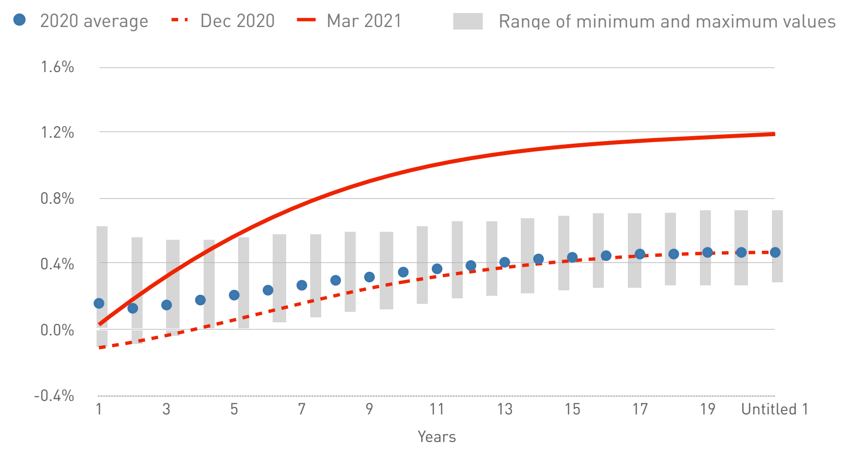
The sharp decline in Life business premiums is moderating at -3.2% year-on-year in the first three months of the year (compared to the -20.7% drop in 2020, for the year as a whole), as a result of the decline in Life Savings insurance premiums of -3.7% (-25.0% in 2020), and the decline in Life Protection premiums of -1.9%, which has intensified (-0.4% in 2020). However, despite the fall in business, savings managed through Life insurance have not declined, and even experienced slight growth at the end of the first quarter of 2021, totaling 194.9 billion euros (compared to 192.1 billion at the end of the same quarter in the previous year). Box 2.1.5 shows the short- and medium-term forecast exercise for the Spanish insurance industry, both in the Life and Non-Life segments.

2.1.6 United Kingdom

The forecast for the UK economy expects GDP growth in the range of 5.1% (baseline scenario) to 2.7% (stressed scenario) in 2021, compared to the -9.8% decline seen in 2020 — one of the highest in the world. The unemployment rate has increased once again, but the United Kingdom applied stringent mobility restrictions in the first two months of the year and has made significant progress in terms of vaccine rollout, with the number of deaths as a result of the pandemic dropping dramatically[7], which is positively affecting the level of consumer confidence. Expectations for the performance of the Non-Life and Life Protection insurance business in 2021 have therefore improved in line with the onset of economic recovery.

In terms of traditional Life Savings and annuity insurance, the EIOPA risk-free interest rate curves (see Chart 2.1.6) show rising interest rates across all sections of the curve compared to the previous quarter, and a significant positive trajectory is beginning to emerge, which could act as an incentive when marketing medium- and long-term products to take advantage of the term premium to offer higher rates than short-term rates. It is also worth noting the positive effect that the return to economic growth and the recovery of FTSE 100—one of the few stock markets not showing signs of recovery following the sharp falls experienced during the crisis—can have on business. All these factors work in favor of traditional Life insurance and insurance where the policyholder assumes the risk of investment, which is widely spread in the British market, thereby improving the outlook over the previous quarter.

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



Source: MAPFRE Economics (based on EIOPA data)

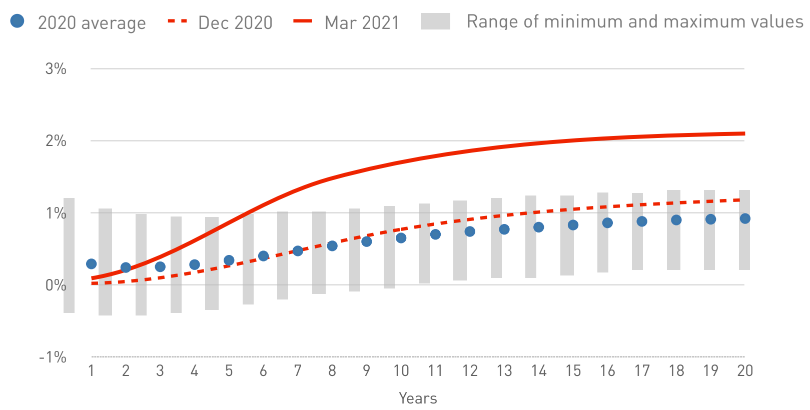
Click here to access the interactive version of this information

2.1.7 United States

In the United States, economic growth is estimated to range from 6.6% (baseline scenario) to 4.0% (stressed scenario) in 2021, which represents a significant improvement in expectations, following a decline in GDP of around -3.5% in 2020. Generous fiscal packages of direct aid to businesses and the unemployed continue to expand, which is reflected in the substantially improved confidence indicators. Vaccine rollout is progressing rapidly and restrictions on mobility have been eased. The expected strong economic recovery will aid recovery in premiums for the Non-Life and Life Protection insurance business, especially Automobile insurance, which was hit by the sharp drop in GDP in the previous year.

At its last meeting in December, the Federal Reserve kept monetary policy unchanged by leaving interest rates in the range of 0–0.25%, and also maintained the monthly pace of its sovereign and corporate bond-purchasing program. However, the latest EIOPA-produced rate curves (see Chart 2.1.7) show a significant surge in interest rates in all sections of the curve over the previous quarter, especially in the larger sections, with a marked increase in their upward slope, which could act as an incentive when marketing of medium- and long-term products to take advantage of the term premium to offer higher rates than short-term rates. This could mitigate the negative effect of the depressed interest-rate level, by offering a medium- and long-term interest rate that is higher than short-term rates (term premium), combined with

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

the positive effect of the economic recovery predicted. = The securities markets also continue to perform well, which together with the good prospects for economic recovery, may favor the business of Life insurance for which the policyholder assumes the risk of the investment, which is very common in this market. The main equity indices continue to set all-time highs, but are beginning to undergo occasional corrections, which may lead more conservative investors to target their investments toward lower risk products, given the rise in interest rates.

2.1.8 Brazil

Economic forecasts for Brazil estimate GDP growth in the range of 3.6% (baseline scenario) to 2.0% (stressed scenario) in 2021, compared to an estimated real drop of -4.4% in 2020. Government aid to families has been renewed to combat the worsening pandemic in light of a record number of infections and deaths in March and April. Despite this, the economy has been impacted to a lesser extent than other countries in the region, and the insurance industry's Non-Life business is recovering from the sharp falls experienced in the second quarter of 2020, showing significant year-on-year growth in the first two months of 2021, compared to the same period the previous year (which were pre-pandemic levels). The only exception is the Automobiles business line, which is still in decline. The partial economic recovery expected improves prospects and may help mitigate the negative impact that the sharp fall in GDP had on its insurance industry, which suffered a significant decline in real terms the previous year. Box 2.1.8 shows the short- and medium-term forecast exercise for the Brazilian insurance industry, both for the Life and Non-Life segments.

Furthermore, the Bank of Brazil has been forced to tighten the accommodative monetary policy it was applying to stimulate the economy,

Box 2.1.8
Brazilian insurance industry performance: forecasts for premium growth

Brazil is one of the countries with the greatest insurance potential in the world. In our Global Insurance Potential Index (see: MAPFRE Economics (2020), *MAPFRE GIP 2020*, Madrid, Fundación MAPFRE), Brazil consistently ranks in the top five with the greatest capacity to create and close the insurance gap over the next decade. The COVID-19 pandemic, however, is not only causing immediate damage to sector's performance, but, due to the new generation of poverty (the IMF estimates that LATAM will recover to 2015 GDP per capita in 2025), the potential of this market may be significantly stunted. It is therefore important to supplement the system of analysis and forecasting for Brazil's Life and Non-Life markets with additional instruments that allow assumptions to be made on the immediate performance of the insurance industry within the uncertain context of the pandemic and its management.

To conduct this analysis, we used the same methodology as with the Spanish insurance market, which was presented in our 2021 outlook report (see: MAPFRE Economics (2021), *Economic and industry outlook 2021*, Madrid, Fundación MAPFRE). This approach was used to address the problems of uncertainty, high frequency and exogeneity of the shock we are facing, and consists of transfer models capable of shifting the constraints resulting from pandemic management (see the MAPFRE Economics interactive section "Institutional response to the COVID-19 crisis and effects on expected growth") to consumer and sector confidence, as well as to the financial and real sector. Once the shock of the restrictions is channeled up to those variables, forecasts are made of the different lines that comprise the Life and Non-Life business, conditioned to the extent of restriction and the context represented by the explanatory variables in different scenarios.

Thus, once the elements or lines that comprise the Non-Life and Life premiums have been projected, the total premiums for each business are calculated by aggregating the forecasts for those elements.

Applying the element model to the Brazilian insurance market

The variables to be used in Brazil's element models are as follows. First, among the *explanatory variables*, the most exogenous is the *stringency index on mobility* published by the University of Oxford, an indicator that is also contrasted against Google's and Apple's mobility data to corroborate its correct interpretation. This stringency index is either directly or indirectly linked to 12 explanatory variables obtained from Central Bank data, the National Institute of Statistics and the Getulio Vargas Foundation. These variables are: (i) service sector confidence (index); (ii) general economic confidence (index); (iii) consumer expectations (index); (iv) economic policy uncertainty (index); (v) current economic condition assessment (index); (vi) retail sector confidence (index); (vii) capacity used (index); (viii) service sector income (annual rate); (ix) automobile transit flow (annual rate); (x) household credit (annual rate); (xi) inflation expectations (index), and (xii) real effective exchange rate (index). All these variables are represented in Charts A and B. Within said Charts, the dynamics of the stringency index corresponding to each scenario can be contrasted with the development of these explanatory variables.

Life and Non-Life business premiums are variables that are dependent on models. The Life premiums result from the sum of the product premiums

Box 2.1.8 (continued)
Brazilian insurance industry performance: forecasts for premium growth

for *Vida Gerador de Benefício Livre (VGBL — Life Free Benefit Generator)* (which is similar to Life Savings) and *Individual and Group Life* (which is similar to Life Protection). Non-Life premiums consist of many lines. However, in examining its intertemporal nature, the Automobiles line distinguishes itself from other lines due to its strongly cyclical nature. As such, the Non-Life business is considered to be the sum of the *Automobiles* line, which accounts for slightly more than 42% of direct Non-Life premiums, and the remaining *Non-Automobiles* line (which accounts for 58%). The former has a clearly cyclical nature and the latter is relatively stable over time.

The models that relate the explanatory variables and the four elements of Life and Non-Life business premiums are ARMAX models or transfer function models. In this respect, the specifications chosen are those that relate to: *Automobiles*, with contemporary and lagging variables of confidence in the services sector, the real income of the services sector, real effective exchange rate, capacity used and automobile flow indicator; *Non-Automobile*, with credit, expectations of inflation and economic policy uncertainty; *VGBL Life*, with expectations of inflation, credit, capacity used and economic policy uncertainty; and *Individual and Group Life*, with general economic confidence, economic policy uncertainty. It should be noted that the selected models have been subjected to various tests, whereby explanatory variables have been introduced and removed based on predictive capacity outside the model sample. The models meet the conditions of non-autocorrelated residuals and follow a white noise process.

Analysis scenarios

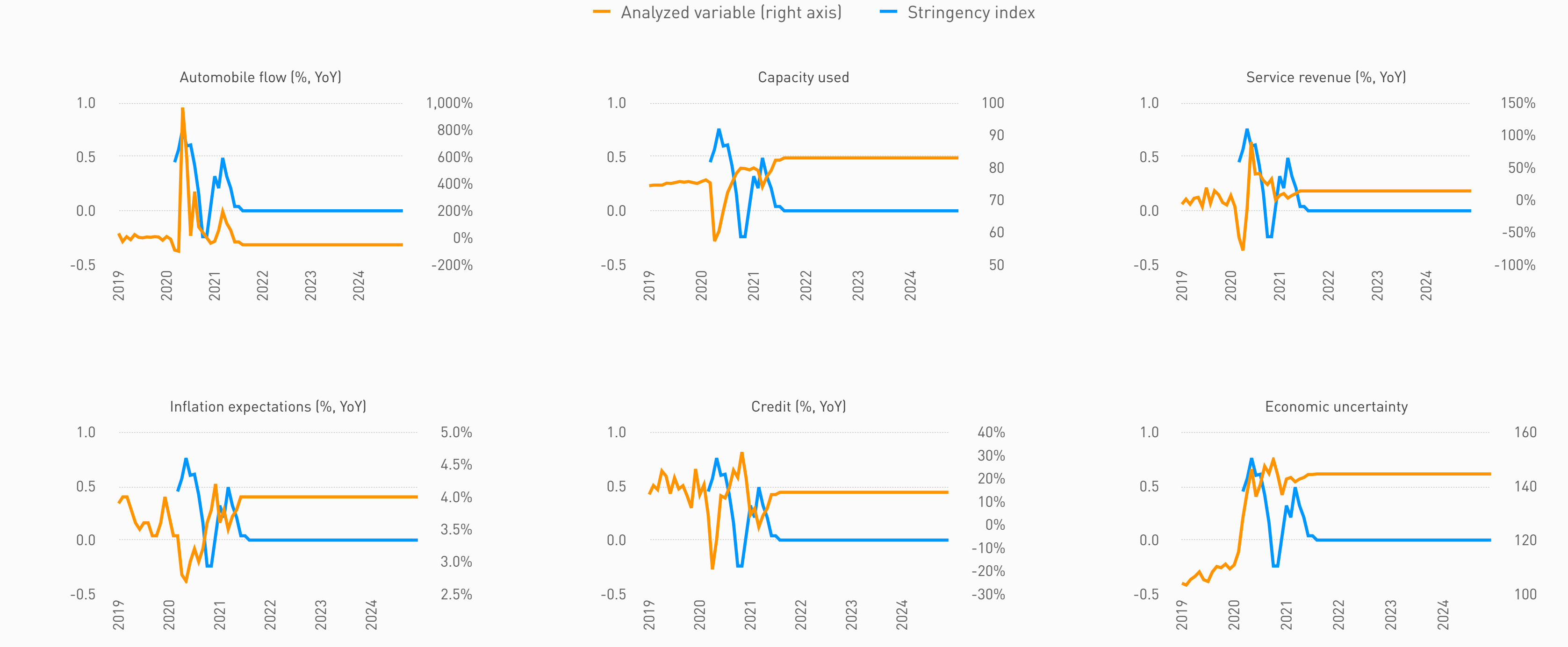
Given that two possible trajectories were proposed in resolving the pandemic that would determine the speed of a return to normality (one *optimistic* and one *pessimistic*), two possible paths were created for the stringency index. In the first (*optimistic scenario*), normality is reached in the second quarter of 2021, approximately. This brings confidence, production, road traffic and uncertainty back toward the historical average recorded in recent years, from the third quarter. Thus, our collection of explanatory variables in Chart 1 shows that these variables stabilize following the disruptions experienced into the first quarter of 2021.

In the *pessimistic scenario*, the return to normal is delayed due to the exacerbation of problems related to vaccine rollout. Thus, restrictions will increase and remain high before they start to ease in late 2022, until normalizing in early 2024, two years later than in the optimistic scenario. In this context, uncertainty soars, agent confidence plummets and expectations deteriorate. The real sector plunges into a financial crisis similar to the Lehman crisis. The damage is greater and more long-lasting, and this is reflected in premiums through the second part of 2022.

Once the models are calculated and validated, they are used to make forecasts through December 2024 in the aforementioned lines, distinguishing between the two types of scenarios established.

Box 2.1.8 (continued)
Brazilian insurance industry performance: forecasts for premium growth

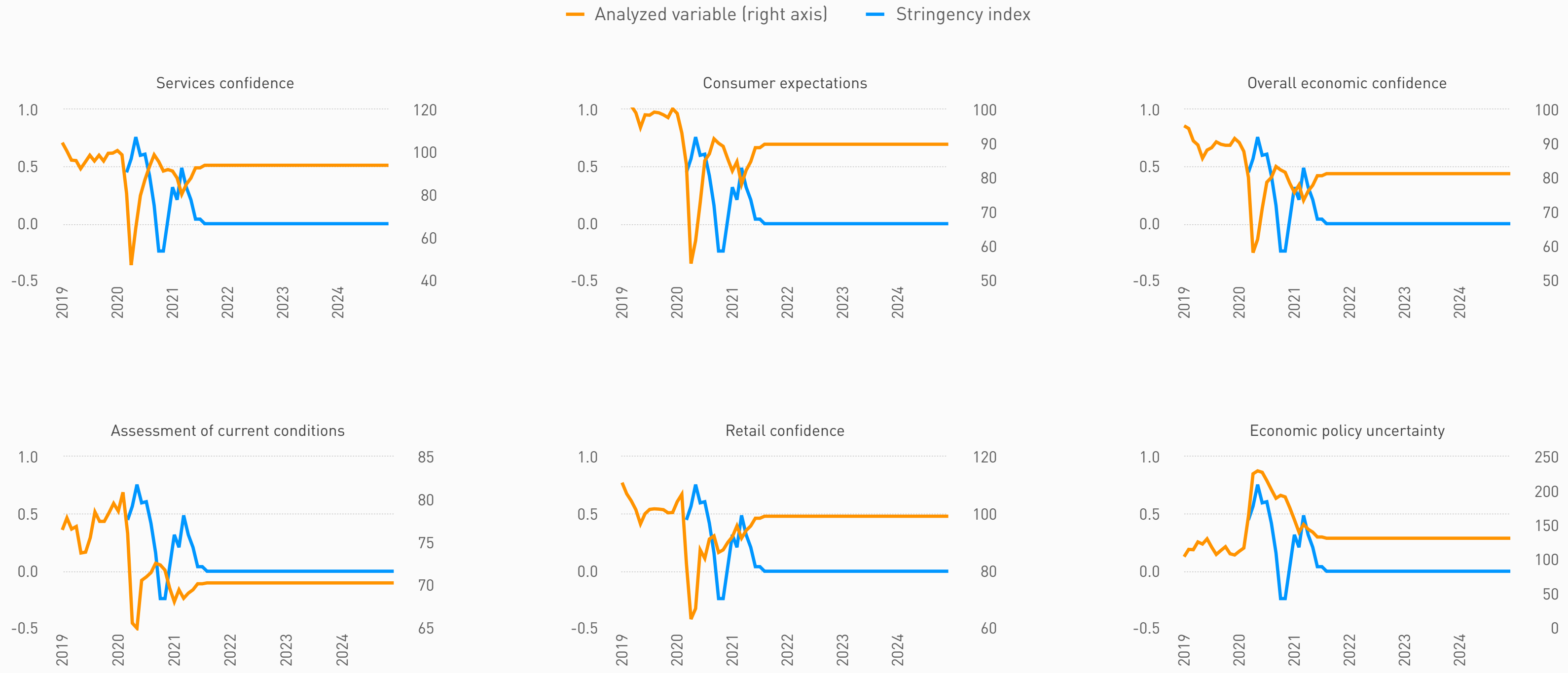
Chart A
Brazil: evolution of explanatory variables (optimistic scenario)



Source: MAPFRE Economics

Box 2.1.8 (continued)
Brazilian insurance industry performance: forecasts for premium growth

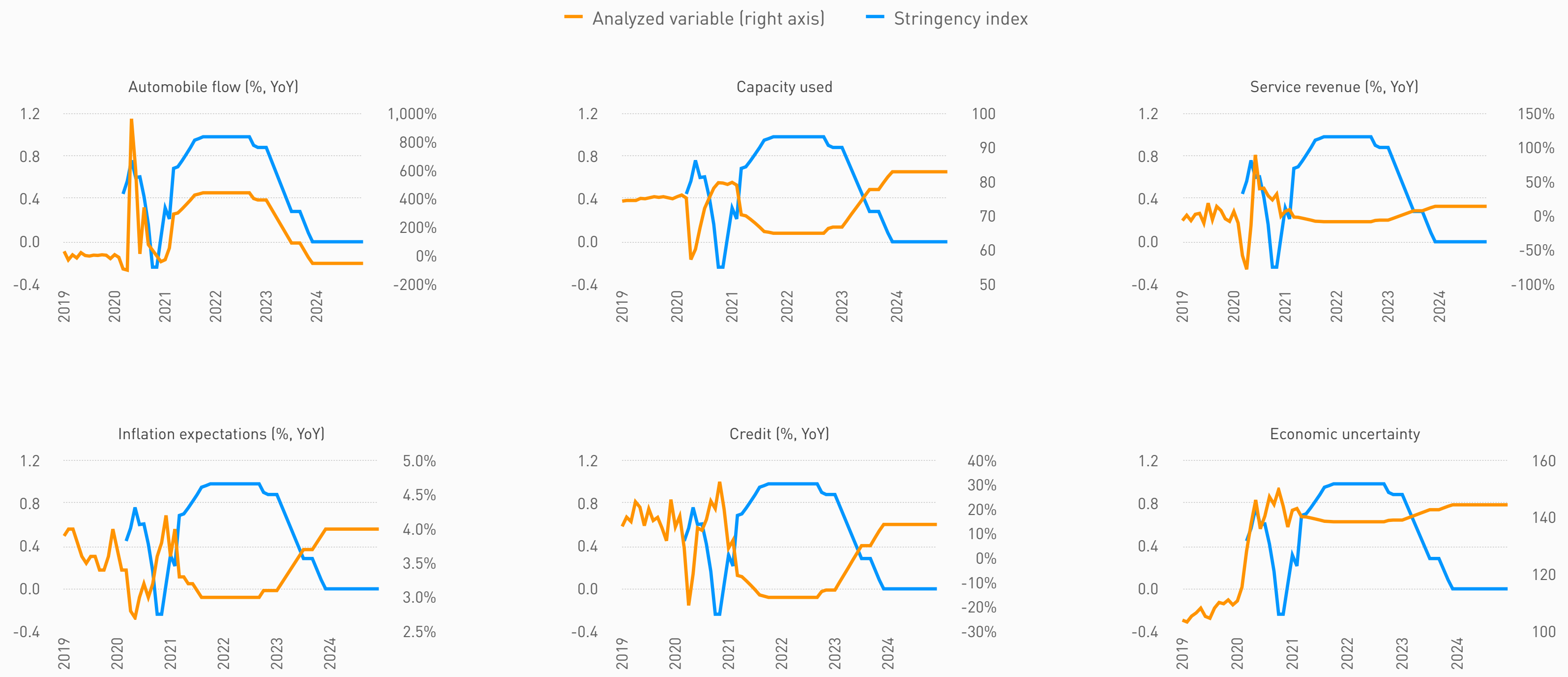
Chart A (continued)
Brazil: evolution of explanatory variables (optimistic scenario)



Source: MAPFRE Economics

Box 2.1.8 (continued)
Brazilian insurance industry performance: forecasts for premium growth

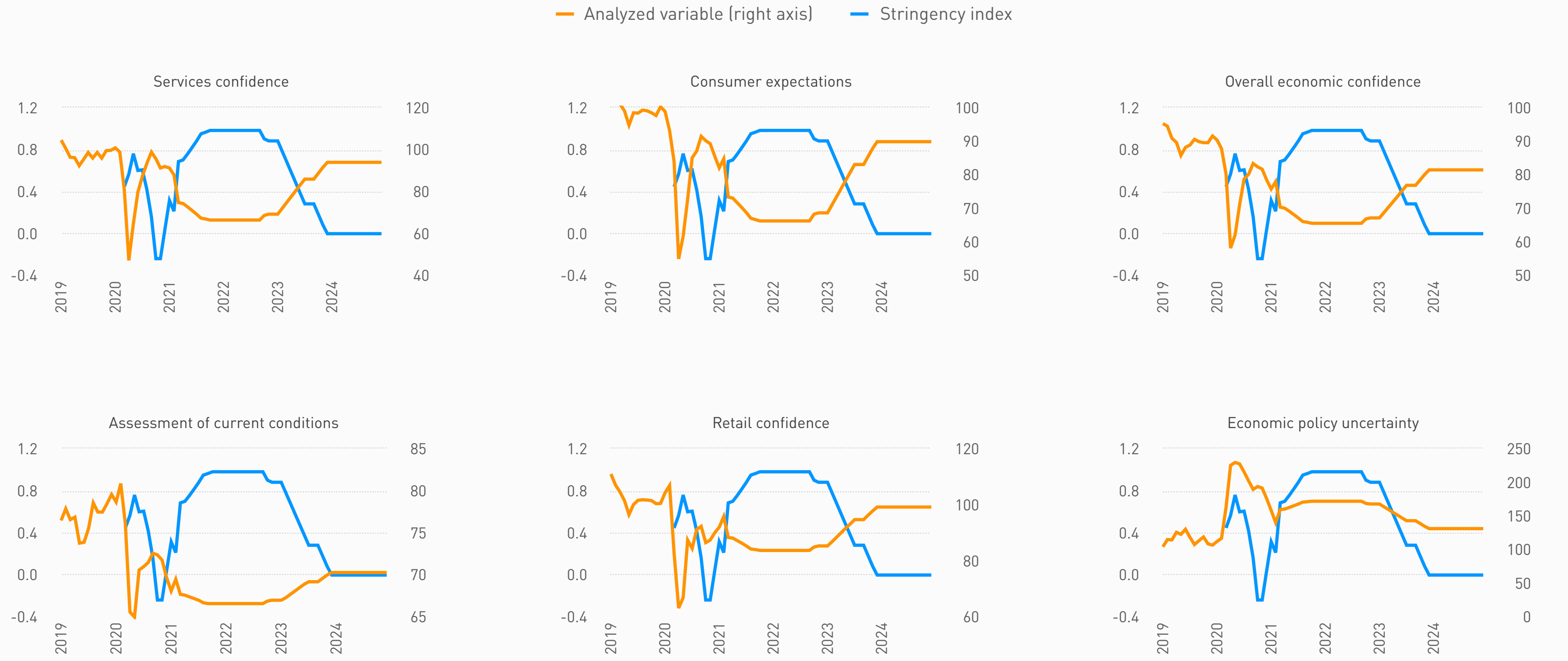
Chart B
Brazil: evolution of explanatory variables (pessimistic scenario)



Source: MAPFRE Economics

Box 2.1.8 (continued)
Brazilian insurance industry performance: forecasts for premium growth

Chart B (continued)
Brazil: evolution of explanatory variables (pessimistic scenario)



Source: MAPFRE Economics

Box 2.1.8 (continued)
Brazilian insurance industry performance: forecasts for premium growth

Forecasts in the optimistic scenario

Charts C, D, E and F, as well as Tables A and B, illustrate the results by element for both business segments (Life and Non-Life), in each of the two engineered scenarios. As shown in Chart C, in the optimistic scenario, premiums in the Non-Life business have the highly cyclical element of the Automobiles line. This line is weighted at approximately 42% of the Non-Life business, which, combined with its cyclical volatility, has gone from contributing half the premium growth up to December 2016 to subtracting half of the premium growth thereafter, coinciding with a long period of sluggishness. The other lines that comprise the aggregate Non-Automobiles, however, have been maintained recursively contributing more than half (if not all) of growth throughout the cycle.

As noted above, when modeling the optimistic scenario, a cyclical exit has been assumed with the early normalization of restrictions by the end of 2021. Accordingly, the variables that recreate the economic context are gradually recovering, portraying a recovery in producer and consumer expectations, an improvement in financial conditions and an increase in real demand in general. Consequently, the contribution of the Automobiles line shows a cyclical recovery in line with improved restrictions and, although its negative contribution persists in 2021, normalization means that its contribution returns to positive ground beginning in 2022, albeit somewhat modestly. The contribution of the Automobiles line along the projected horizon is very modest (50 basis points, on average). By contrast, the Non-Automobiles line remains strongly dynamic in this scenario throughout the cycle and contributes almost the entire growth of the Non-Life business (600 basis points, on an annual average). Thus, with contributions from both, the Non-Life business segment grows by around 6.5% on average in our projected horizon.

In this case, the Life business segment is composed of lines similar to Savings (VGBL) and Risk (Individual and Group). As can be seen, the VGBL Life line is the main contributor to growth in Life premiums, although this does not mean that other premiums should be disregarded. Traditionally, the former contributes between one-third and one-quarter of growth in these premiums, while the latter contributes the rest.

In our optimistic scenario, we have assumed that inflation expectations variables and the temporary premium are accentuated, and the appreciated real exchange rate allows for better financial conditions. This, combined with improved real activity and greater credibility with regard to economic policy, encourages the creation and demand of insurance products to intermediate savings intermediated with aspirations for rising long-term yields. As a result, after a slight phase of contraction that lasts until mid-2021 in line with restrictions, Life Savings premiums (VGBL Life) grow strongly once more, contributing more than three-quarters of average premium growth along the projected horizon. The contribution of the Individual and Group Life line, on the other hand, is a stable, non-cyclical element and contributes a third or quarter of growth throughout its history and our projected scenario. Within this context, Life premiums grow at an average rate of 9% throughout the projected scenario.

Box 2.1.8 (continued)
Brazilian insurance industry performance: forecasts for premium growth

Chart C.
Brazil: contribution to growth by Non-Life lines (optimistic scenario)
(%)

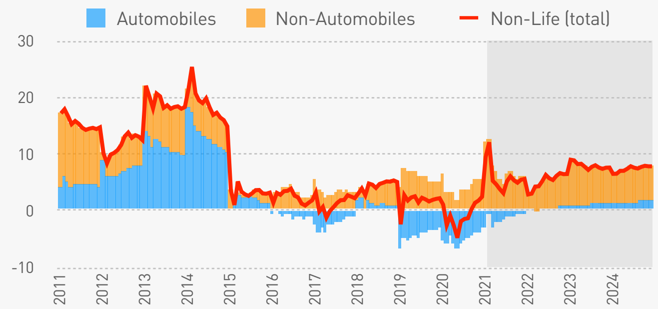
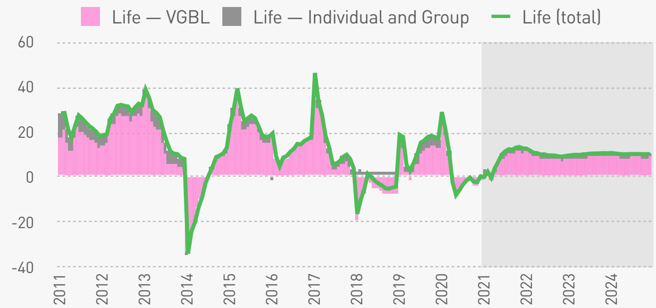


Chart D.
Brazil: contribution to growth by Life Protection and Life Savings (optimistic scenario)
(%)



Source: MAPFRE Economics

Forecasts in the pessimistic scenario

In the pessimistic scenario, the high stress transmitted through the real, financial and expectation channels is reflected in premium performance. As shown in Chart E, in the Non-Life business, the prolonged deterioration of agents' expectations and the restrictions on production and mobility depress consumption and automobile registrations for a longer period. The negative contribution of this sector is therefore prolonged until the end of 2022, causing its average contribution during the forecast period to go from positive/neutral (optimistic scenario) to a net negative of around -20 basis points of growth. The Non-Automobiles aggregate does not experience a cyclical deterioration, but the prolongation of economic and financial stress causes solvency problems in the economy that, slowly but surely, translate into a moderate, but continual, erosion of this element. Despite the above, it remains positive with a much lower contribution than it did in the previous scenario. Thus, under this scenario, average growth in the projected horizon stands at 4.5%; the Non-Automobiles line contributes positively to this forecast with 470 basis points, while the Automobiles line subtracts 20 basis points.

Moreover, as shown in Chart F, in the Life segment, the VGBL Life line remains the main contributor to growth in Life premiums. However, the deteriorating financial conditions in this scenario delay the contributions to growth from both the VGBL Life segment and the Individual and Group Life segment, although in the medium-term (2024), it ends up converging with those of the optimistic scenario reviewed earlier. Thus, the rates of growth for the VGBL Life segment become negative in 2021 and 2022 (-3.0% and -5.5% respectively), to subsequently regain traction in 2023 and 2024. The

Box 2.1.8 (continued)
Brazilian insurance industry performance: forecasts for premium growth

Chart E.
Brazil: contribution to growth by Non-Life lines (pessimistic scenario)
(%)

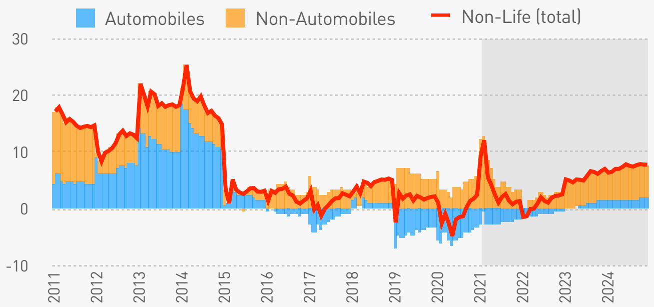
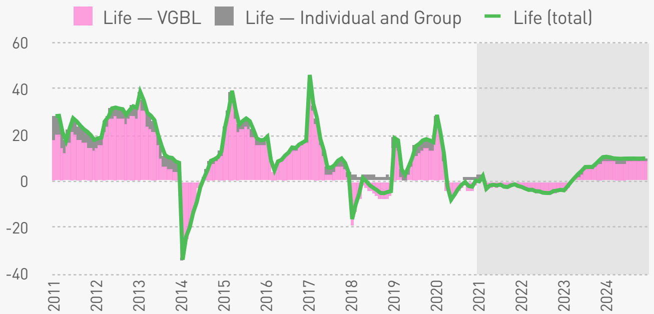


Chart F.
Brazil: contribution to growth by Life Protection and Life Savings (pessimistic scenario)
(%)



Source: MAPFRE Economics

Individual and Group Life line will see significantly reduced dynamics in the first two years (0.9% and 1.4%, in each case), and will regain dynamism from 2023 onward.

Comparison of forecasts with fundamental-based models

The purpose of this forecasting exercise is, first, to provide a granular and pandemic-conditional view of the performance of Life and Non-Life insurance premiums based on the sensitivity of their elements to the context expected to dominate and, second, to provide very short-term growth forecasts that, by design, are more accurate than using fundamental models as they are more common. But fundamental-based models are still important, as they help to envisage the medium- and long-term trend in premium growth.

As such, forecasts for the second quarter 2021 and forecasts for 2021 as a whole, are compared below against forecasts resulting from applying the fundamentals-based model. In general, the element model tells us that premiums will grow somewhere within its most extreme ranges, resulting from the dominance of events that define one scenario or the other. Thus, in the Non-Life segment, premiums are expected to grow by the end of the second quarter of 2021 in a range between 1.1% (pessimistic scenario) and 3.1% (optimistic scenario), to then slowly increase to growth that would stand in a range between 1.4% and 5.7% at the end of 2021, at which point it will then converge gradually with the values derived from the fundamental model (see Chart G and Table A).

Box 2.1.8 (continued)
Brazilian insurance industry performance: forecasts for premium growth

Table A.
Non-Life: forecasts for premium growth, model by elements vs. models of fundamentals
(year-on-year rate, %)

Period	Model of fundamentals[1]	Optimistic scenario			Pessimistic scenario		
		Total	Automobiles	Non-Automobiles	Total	Automobiles	Non-Automobiles
Q2	-1.8%	-1.8%	-12.2%	7.2%	-1.8%	-12.2%	7.2%
Q3	0.3%	0.3%	-9.3%	8.6%	0.3%	-9.3%	8.6%
2020 Q4	**2.5%**	**2.5%**	**-6.6%**	**10.4%**	**2.5%**	**-6.6%**	**10.4%**
Q1*	12.0%	12.0%	-1.2%	22.4%	12.0%	-1.2%	22.4%
Q2	15.1%	3.1%	-3.2%	7.7%	1.1%	-6.0%	6.2%
Q3	11.8%	5.4%	-1.8%	10.7%	1.4%	-5.3%	6.3%
2021 Q4	**10.0%**	**5.7%**	**-0.8%**	**10.4%**	**1.4%**	**-4.3%**	**5.6%**
Q1	11.0%	4.3%	0.1%	7.0%	0.0%	-3.5%	2.2%
Q2	11.8%	6.4%	0.8%	9.9%	2.1%	-2.7%	5.1%
Q3	12.4%	6.2%	1.5%	9.2%	2.0%	-1.8%	4.4%
2022 Q4	**13.0%**	**6.5%**	**2.1%**	**9.4%**	**2.6%**	**-1.1%**	**5.1%**
Q1	13.4%	8.3%	2.6%	11.6%	4.7%	0.5%	7.2%
Q2	13.8%	7.3%	3.1%	9.7%	5.0%	2.1%	6.8%
Q3	14.0%	7.7%	3.5%	10.2%	6.5%	2.9%	8.8%
2023 Q4	**14.1%**	**7.7%**	**3.8%**	**10.0%**	**7.1%**	**3.9%**	**9.1%**
Q1	14.1%	7.1%	4.1%	8.7%	7.1%	4.2%	8.7%
Q2	14.1%	7.9%	4.4%	9.8%	7.9%	4.5%	9.8%
Q3	14.1%	7.8%	4.6%	9.6%	7.8%	4.7%	9.5%
2024 Q4	**14.1%**	**7.9%**	**4.8%**	**9.6%**	**7.8%**	**4.8%**	**9.6%**

Source: MAPFRE Economics
(*) Figures at February 2021. 1/ Median scenarios according to the model of macroeconomic fundamentals

Table B.
Life: forecasts for premium growth, model by elements vs. models of fundamentals
(year-on-year rate, %)

Period	Model of fundamentals[1]	Optimistic scenario			Pessimistic scenario		
		Total	VGBL (Life Free Benefit Generator)	Individual and group	Total	VGBL (Life Free Benefit Generator)	Individual and group
Q2	-5.7%	-5.7%	-7.9%	0.4%	-5.7%	-7.9%	0.4%
Q3	-0.2%	-0.2%	-2.1%	5.2%	-0.2%	-2.1%	5.2%
2020 Q4	**0.4%**	**0.4%**	**-1.8%**	**7.0%**	**0.4%**	**-1.8%**	**7.0%**
Q1*	2.4%	2.4%	0.8%	7.7%	2.4%	0.8%	7.7%
Q2	3.3%	11.5%	11.7%	5.8%	-3.0%	-3.2%	1.9%
Q3	5.3%	14.1%	14.3%	5.8%	-3.5%	-3.7%	1.0%
2021 Q4	**7.4%**	**14.8%**	**15.1%**	**5.8%**	**-2.9%**	**-3.0%**	**0.9%**
Q1	9.3%	12.4%	12.6%	5.8%	-5.2%	-5.4%	0.9%
Q2	10.8%	11.5%	11.7%	5.8%	-6.2%	-6.4%	0.9%
Q3	11.9%	10.6%	10.8%	5.8%	-7.0%	-7.2%	0.9%
2022 Q4	**12.8%**	**10.3%**	**10.5%**	**5.8%**	**-5.3%**	**-5.5%**	**1.4%**
Q1	13.4%	11.2%	11.3%	5.8%	-1.1%	-1.2%	2.4%
Q2	13.8%	11.5%	11.6%	5.8%	4.9%	4.9%	3.9%
Q3	14.1%	11.7%	11.9%	5.8%	6.9%	7.0%	4.4%
2023 Q4	**14.4%**	**11.8%**	**12.0%**	**5.8%**	**12.2%**	**12.4%**	**5.8%**
Q1	14.5%	11.6%	11.7%	5.8%	11.6%	11.7%	5.8%
Q2	14.5%	11.5%	11.6%	5.8%	11.5%	11.6%	5.8%
Q3	14.5%	11.4%	11.5%	5.8%	11.4%	11.5%	5.8%
2024 Q4	**14.5%**	**11.3%**	**11.5%**	**5.8%**	**11.3%**	**11.5%**	**5.8%**

Source: MAPFRE Economics
(*) Figures at February 2021. 1/ Median scenarios according to the model of macroeconomic fundamentals

Box 2.1.8 (continued)
Brazilian insurance industry performance: forecasts for premium growth

Chart G.
Brazil: comparison of forecasts for Non-Life models
(YoY, %)

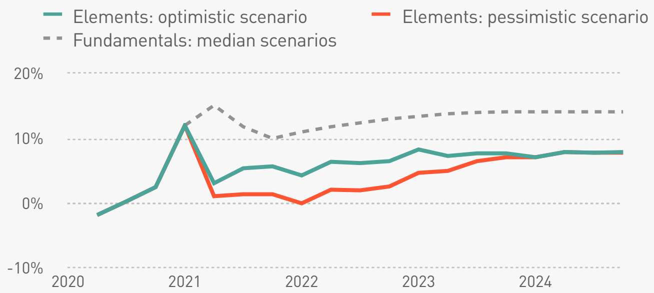
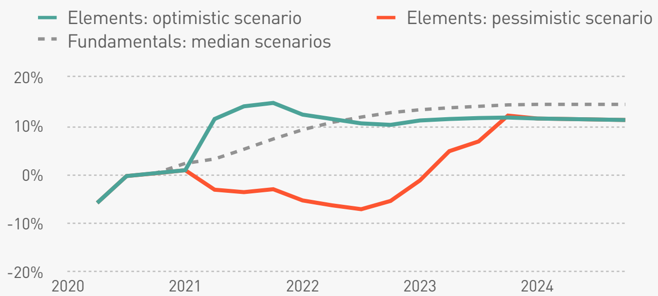


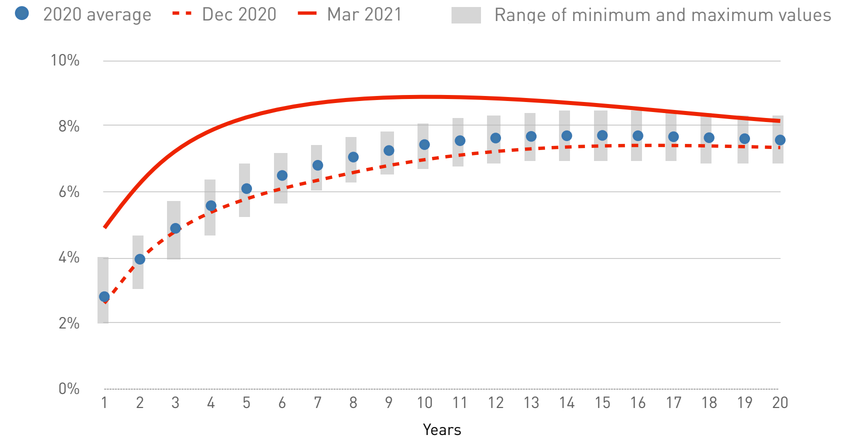
Chart H.
Brazil: comparison of forecasts for Life models
(YoY, %)



Source: MAPFRE Economics

With the Life segment, in the short-term (second quarter of 2021) the element model predicts that premiums will grow in range between -3.0% (pessimistic scenario) and 11.5% (optimistic scenario), compared to the 3.3% shown by the fundamental model. At the end of 2021, element forecasts for this business segment would range from -2.9% to 14.8% in each scenario, compared to the 7.4% shown by the fundamental model (see Chart H and Table B).

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

as a result of rising inflation. The EIOPA risk-free interest rate curve (see Chart 2.1.8) shows a significant rise from where the curve stood at the beginning of the year in all sections, especially in the short-term. The interest rate environment therefore improves, as guaranteed medium- and long-term rates that are higher than short-term rates (term premium) can be offered, which can go some way to offset the negative effect that GDP contraction has on the Life Savings and annuity insurance business, which still shows no signs of recovery, based on data from the first two months of 2021.

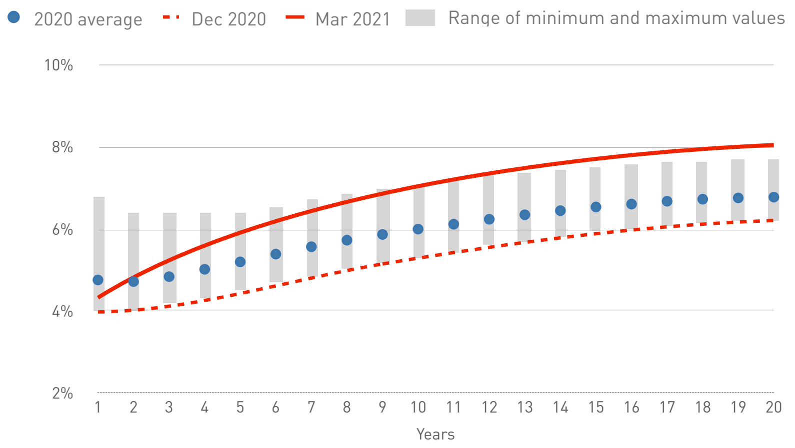
2.1.9 Mexico

In Mexico, economic growth is estimated to range from 4.9% (baseline scenario) to 3.1% (stressed scenario) in 2021, which represents a significant improvement on previous expectations, following a steep decline in GDP of around -8.5% in 2020. The pandemic is currently at a complex stage, and vaccine rollout is slow due to difficulties associated resulting from the under-development of Mexico's healthcare system, which is overrun. However, the price of oil has recovered from the lows it reached during the worst moments of the crisis, and the growth expectations of the US economy are improving as a result of the ample fiscal packages being applied, which benefits the Mexican economy as the US is its main trading partner.

The pandemic's development is damaging the volume and profitability of the insurance business. The Non-Life business suffered a nominal decline of around -1% in 2020, mainly caused by the drop in the Automobiles business, in line with what is happening virtually across the board in this crisis. However, the expected return to economic growth in 2021 will help the insurance business recover, underpinned by the relatively low level of insurance penetration in its economy, as occurred in previous economic crises. However, profitability may still be adversely affected by the increased loss experience in the Health and Life Protection businesses.

Monetary policy remains accommodative, while inflation continues to show an upward trend and the exchange rate remains stable. The Bank of Mexico therefore kept the official interest rate at 4.00% in March, following the cut of 25 basis points in February. The EIOPA curves (see Chart 2.1.9) nevertheless show a significant rise in market risk-free interest rates, with the curve gaining a positive slope in all sections. This interest rate environment is favorable for the development of the Life Savings and annuities insurance business, by increasing the term premium, and being able to offer guaranteed medium- and long-term rates that are higher than short-term rates. This could offset the negative effect of the strong economic contraction with a Life business that has slowed and has not yet experienced a decline in nominal terms, but has in real terms. The economic recovery planned for 2021 will also help this business.

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

2.1.10 Argentina

Economic forecasts for Argentina estimate GDP growth in the range of 6.0% (baseline scenario) to 3.4% (stressed scenario) in 2021, compared to an estimated drop of -9.7% in 2020 as a result of the pandemic. Forecasts have improved from the previous report, following the sharp drop in 2020, but structural imbalances persist relating to foreign debt and the weakness of its currency, which continues to depreciate. The above, coupled with the economic effects of the pandemic, leads us to predict partial recovery that is subject to a high level of uncertainty. Prospects for the development of the insurance business continue to be marked by this situation, which was already suffering from an economic recession before the pandemic hit. However, it is worth noting that it is showing resistance, and the Non-Life business has not experienced setbacks in real terms, despite the sharp drop in GDP. The economic recovery envisioned for 2021 can aid recovery in real growth (mainly in the second half of the year) if the evolution of the pandemic so allows, considering that, although the number of infections and deaths in Argentina is declining, figures remain high and the vaccination rollout remains slow. Inflation remains high (40.6% in the first quarter) and the currency continues to depreciate, which negatively affects insurance companies' profitability.

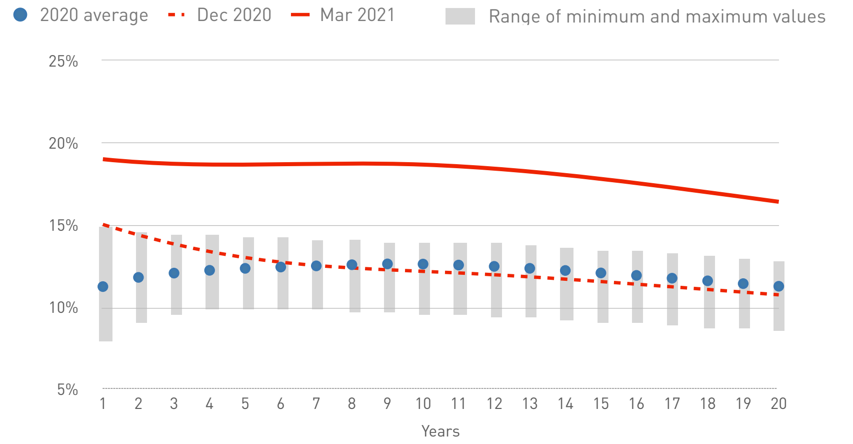
The central bank's benchmark interest rate remains unchanged at 38% with the aim of controlling inflation and currency depreciation. This interest rate environment could be an opportunity to market annual temporary Life Savings insurance products that are renewable with short maturity terms, offering a renegotiation of the guaranteed rate for each maturity term. However, as noted in previous reports, regulatory limits on investments complicates developing this kind of product. The partial economic recovery envisioned for this year could help the Life Protection segment and lead to recovery of sorts in the Life business, which proved resilient in 2020 and only suffered a slight decline in real terms despite the difficult economic context.

2.1.11 Turkey

The Turkish economy once again posted surprisingly positive results, with better performance than expected following the easing of measures adopted to curb the pandemic. Economic forecasts expect GDP growth in the range of 5.2% (baseline scenario) to 3.9% (stressed scenario) for 2021, compared to estimated real growth of 1.6% in 2020, which is even higher than estimates in the previous report, making Turkey one of the few countries in the world whose economy has not shrunk as a result of the pandemic. Turkey is in an acute phase of the pandemic in terms of infections and deaths, which has forced it to impose restrictions on mobility, but is making relatively rapid progress in terms of vaccine rollout. However, certain structural imbalances persist in its economy (mainly its foreign private debt in dollars), making it vulnerable to depreciation in its currency, which remains weak. However, economic growth has been observed in the development of the insurance industry, which experienced positive real growth in 2020 in the Non-Life business and, to a greater extent, in the Life business. Inflation remains high, but is stabilizing. The central bank raised interest rates again for control purposes and to bolster its currency, which is helping to underpin the financial profitability of the insurance business.

The EIOPA curves (see Chart 2.1.11) show a rise in short-term risk-free interest rates with a rate curve that has flattened out, with a slight negative slope in its long stretches. This interest rate scenario remains favorable for marketing Life Savings insurance products with renewable short-term guaranteed rates that enable the guaranteed rates to be revised at each renewal. The change in the economic growth trend that is starting to emerge also favors the Life business, which experienced significant real growth in its premium volume in 2020 (over 10%, after adjusting for inflation).

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



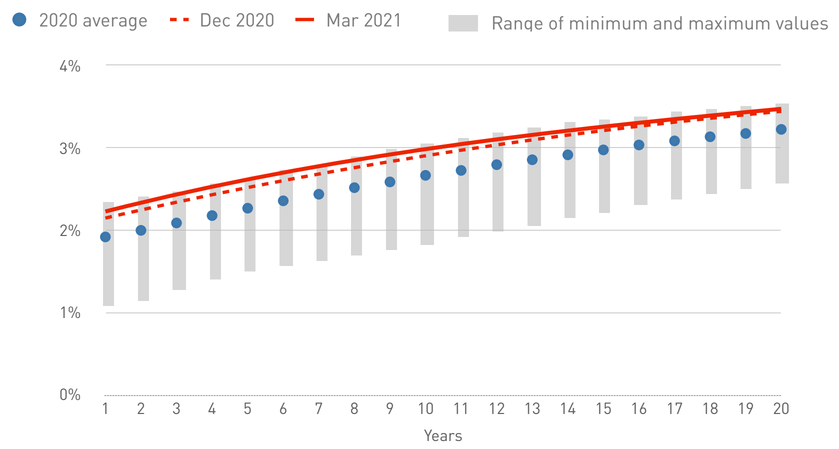
Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

2.1.12 China

Economic forecasts for China estimate GDP growth in the range of 8.9% (baseline scenario) to 7.3% (stressed scenario) for 2021, compared to estimated growth of 2.0% in 2020, which represents an improvement in expectations in light of minimal impact in terms of pandemic infections and deaths in the last quarter. The slowdown in its economy in the previous year equated to four percentage points of its GDP, but China one of the few countries in the world whose economy grew that year. The strong economic growth expected in 2021 will favor the insurance industry, whose business could return to double-digit premium growth underpinned by the low level of insurance penetration in the Chinese economy. A slight rise in inflation is expected, which could reduce the profitability of the Non-Life business, albeit very moderately. The Life insurance business, which in previous crises proved more sensitive to the economic cycle, will also benefit from this recovery.

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

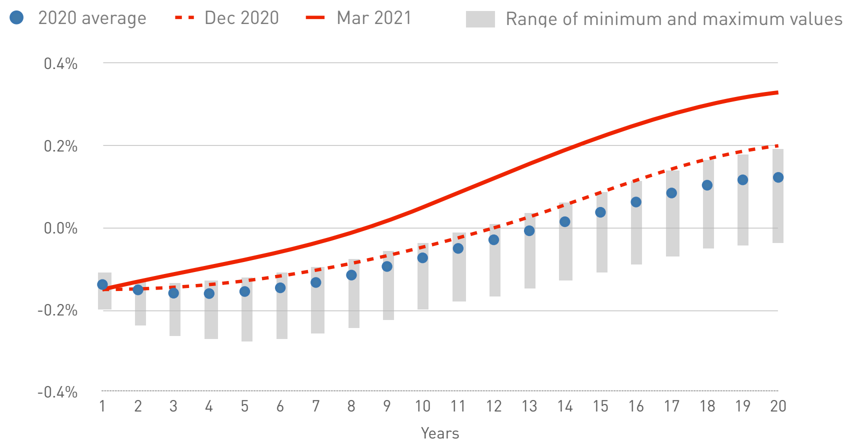
The EIOPA curves (see Chart 2.1.12) still show some recovery in interest rates, as was the case in previous quarters, following the sharp fall at the peak of the pandemic, with an upward trend. This interest rate environment continues to work in favor of the Life Savings and annuity insurance businesses, by being able to offer guaranteed medium- and long-term rates that are higher than short-term rates. This is in addition to the positive effect that the recovery of the expected high rates of economic growth has on this type of business.

2.1.13 Japan

Economic forecasts for Japan estimate GDP growth in the range of 2.9% (baseline scenario) to 1.5% (stressed scenario) for 2021, depending on the evolution of the pandemic, which has seen a lower infection rate and fewer deaths than in other countries, but has picked up from mid-March. This growth contrasts with the estimated sharp economic contraction of -4.9% in 2020. In light of this outlook, Japanese authorities are continuing to expand the ample packages of fiscal expansion measures, which, together with the monetary expansion measures already taken, could expedite recovery faster than initially anticipated. Improving economic expectations will help the insurance industry's recovery, which may begin to recover throughout the year, in line with the economic upturn.

The EIOPA curves (see Chart 2.1.13) show an increase in interest rates in all sections of the curve over levels recorded in the previous quarter, and continue to show negative values for maturities up to eight years (compared to thirteen years in the previous quarter), and an increase in the term premium for these maturities, which could favor the marketing of Life Savings and annuities products, although rates still remain very low.

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

This sustained low-interest-rate environment, which is expected to continue for a long time, continues to be detrimental to the development of the aforementioned lines of business, although there has been a slight improvement this quarter. The increase in interest rates on US Treasury bonds, which Japanese Life insurance companies have been using as an alternative investment to increase the profitability of their portfolios, may benefit them in terms of developing this business.

2.1.14 Philippines

Economic forecasts for the Philippines estimate GDP growth in the range of 6.8% (baseline scenario) to 4.8% (stressed scenario) for 2021, depending on the evolution of the pandemic, which, earlier this year, recorded the country's worst data in terms of the health crisis, and vaccine rollout remains very low. This growth contrasts with the estimated sharp economic contraction of -9.3% in 2020, among the biggest in the world. However, expectations for economic recovery in 2021 are improving, which will help the insurance industry, particularly the Non-Life and Life Protection business, whose performance is closely linked to the economic cycle.

With regard to Life insurance, the Central Bank of the Philippines maintained the monetary policy benchmark rate at 2% (following three cuts in 2020, down from 4%) and the yield on the ten-year sovereign bond stood at 2.97% at the end of December (down from above 4%). The interest rate curve has therefore drastically flattened, which hinders the marketing of Life Savings and annuities products until the situation begins to normalize.

2.1.15 Reinsurance

According to initial estimates, losses from natural and man-made disasters amounted to 202 billion dollars in 2020 (150 billion in 2019), of which around 89 billion was covered by reinsurance companies. These losses were caused by extreme weather events that particularly affected the United States as a result of storms, hurricanes and fires, but also Australia and Asia as a result of catastrophic monsoon floods[8]. The above, together with the situation caused by the pandemic, highlighted the importance of insuring against catastrophic risks and put pressure on reinsurance prices on the market.

2.2 Regulatory and supervisory trends

Solvency and Financial Condition Reports for the Spanish market

In recent weeks, many of the major insurance companies operating in the Spanish market published their fifth annual public Solvency and Financial Condition Report, required pursuant to Solvency II[9] regulations. For general descriptive purposes, the ratios published by the main insurers operating in the Spanish insurance market are shown below. The information is presented as follows:

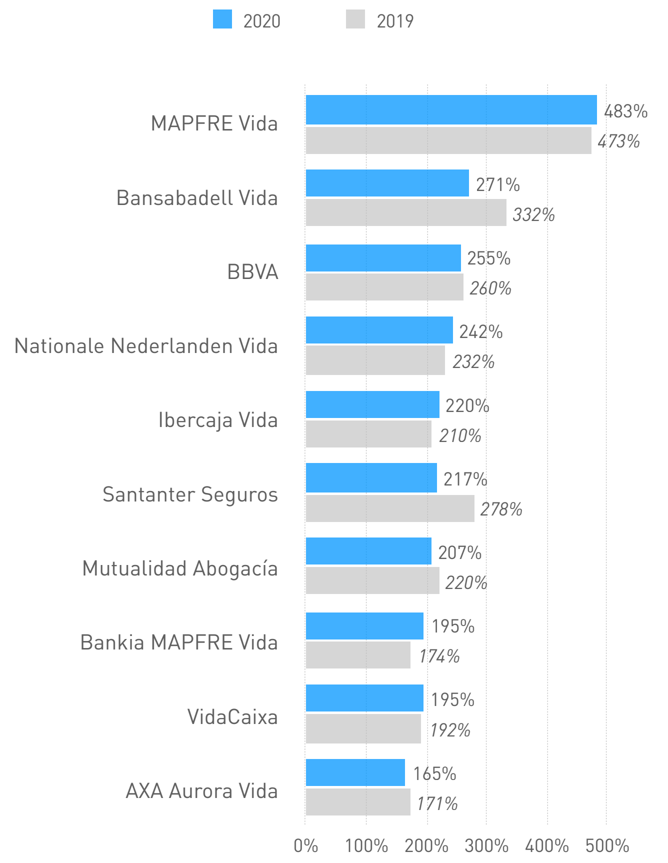
a) Insurance companies operating the Life business (see Chart 2.2-a and 2.2-b);

b) Composite insurance companies operating both in Life and Non-Life (see Chart 2.2-c and 2.2-e), and

c) Insurance companies operating mainly in the Non-Life line (see Chart 2.2-d).

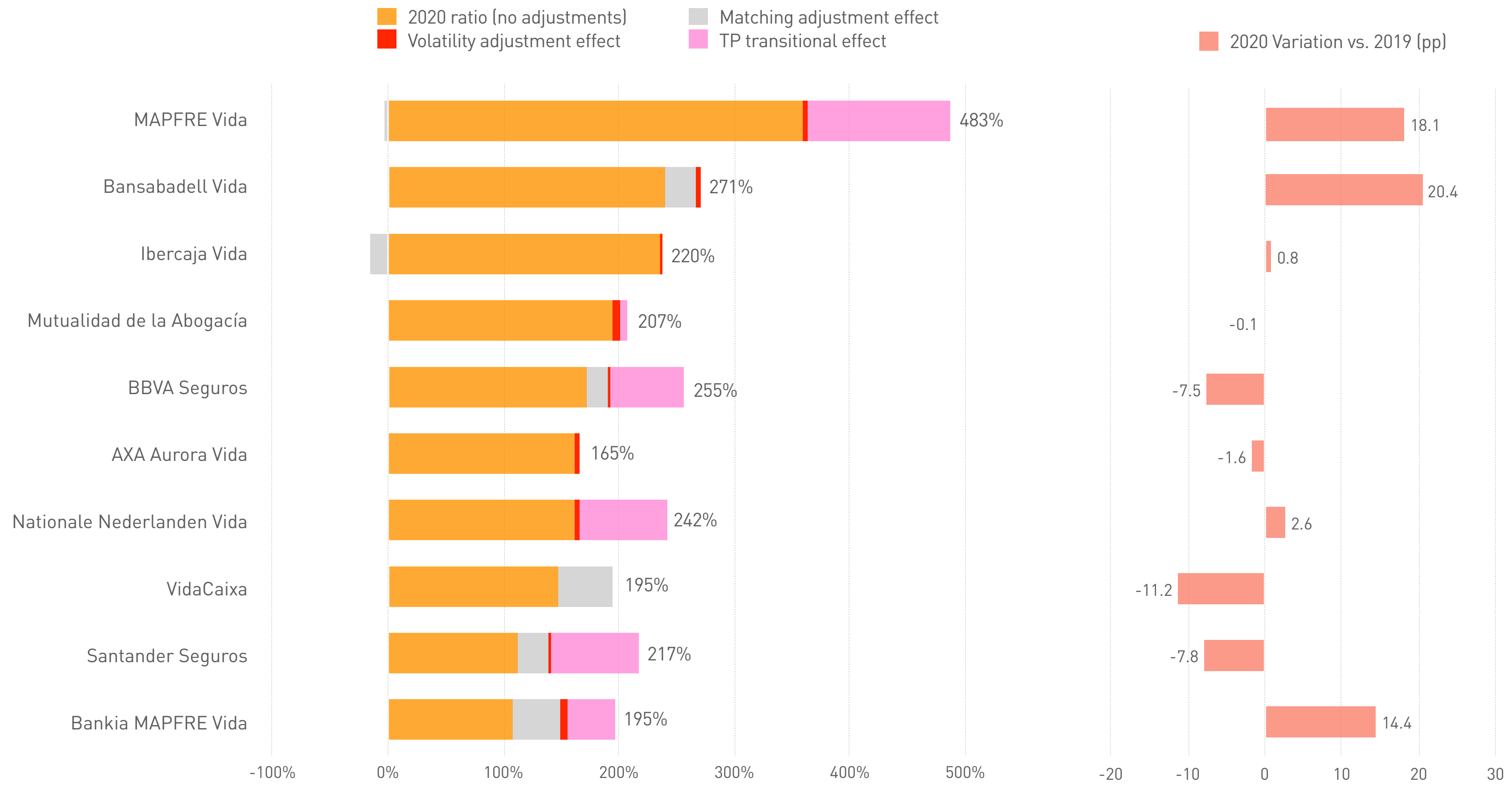
For Life and Composite insurance companies, an idea of the weight that the use of transitional measures carries in the solvency ratio, as well as the volatility and matching adjustments provided for in the Solvency Directive II, are also shown. Insurance companies operating primarily in the Non-Life line are not shown as their weight was practically irrelevant or null.

Chart 2.2-a
Life: solvency ratios 2019–2020



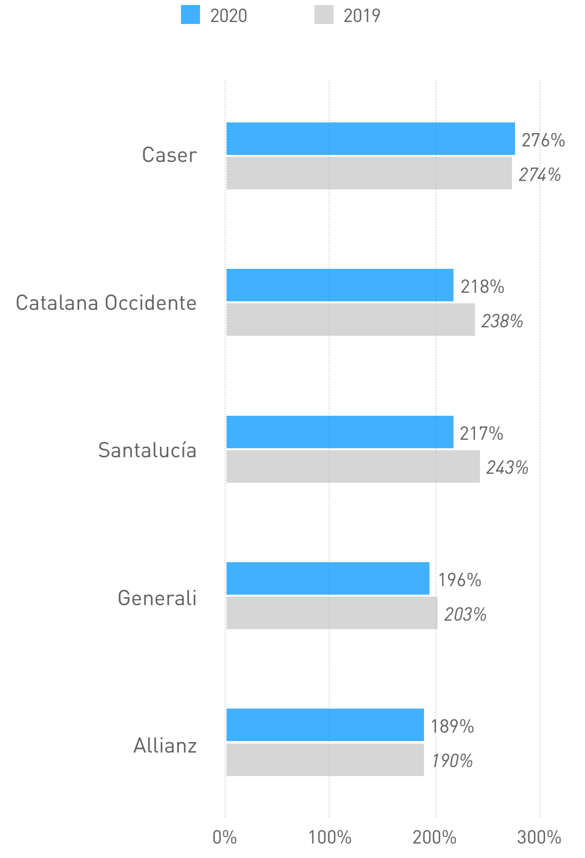
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-b
Life: effect of LTG measures on 2020 solvency ratios and variation vs. 2019



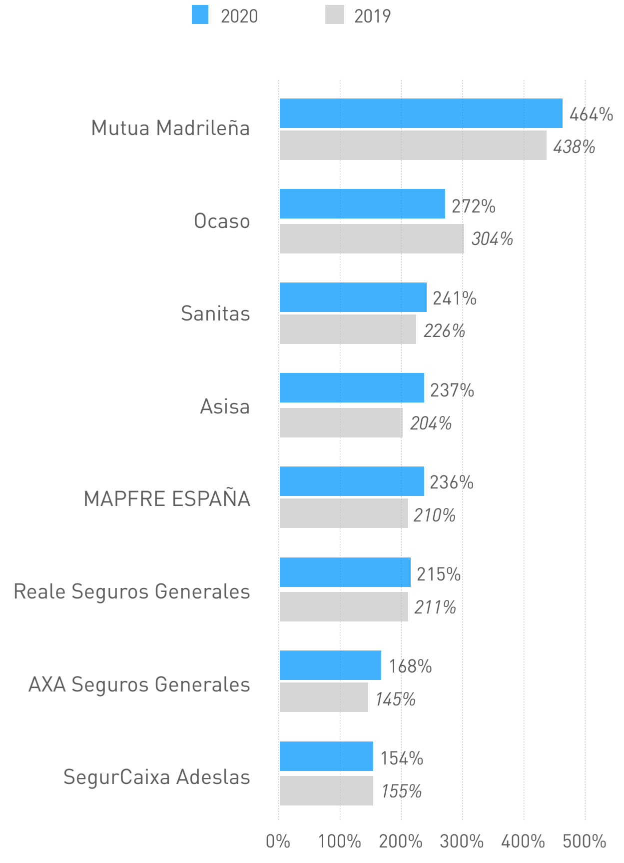
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-c
Composites: solvency ratios 2019–2020



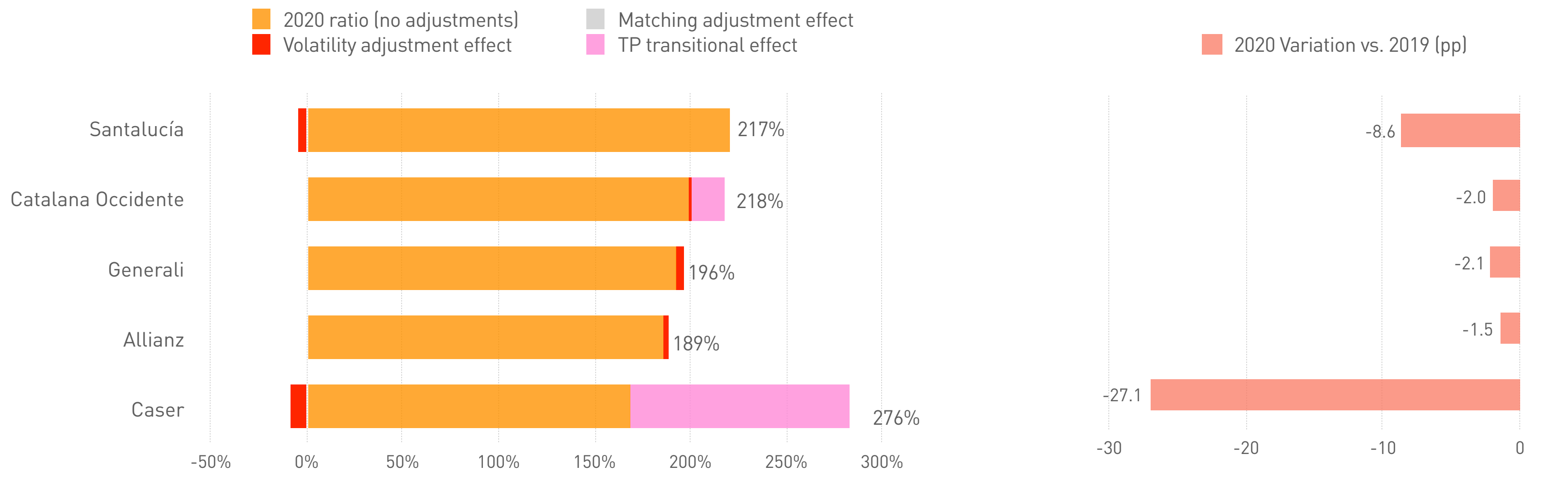
Source: MAPFRE Economics (based on data from the SFCRs published by the indicated companies)

Chart 2.2-d
Non-Life: solvency ratios 2019–2020



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

Chart 2.2-e
Composite: effect of LTG measures on 2020 solvency ratios and variation vs. 2019



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

Tables: macroeconomic forecast scenarios

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

	Baseline scenario (BS)						Stressed scenario (SS)					
	2017	2018	2019	2020(e)	2021(f)	2022(f)	2017	2018	2019	2020(e)	2021(f)	2022(f)
United States	2.3	3.0	2.2	-3.5	6.6	3.3	2.3	3.0	2.2	-3.5	4.0	0.6
Eurozone	2.7	1.9	1.3	-6.8	4.0	4.1	2.7	1.9	1.3	-6.8	2.1	1.0
Germany	2.9	1.3	0.6	-5.3	3.5	3.7	2.9	1.3	0.6	-5.3	1.9	0.2
France	2.3	1.8	1.5	-8.1	5.6	4.0	2.3	1.8	1.5	-8.1	2.6	1.4
Italy	1.7	0.8	0.3	-8.9	4.7	4.2	1.7	0.8	0.3	-8.9	3.0	1.3
Spain	3.0	2.4	2.0	-10.8	6.0	5.0	3.0	2.4	2.0	-10.8	3.6	1.7
United Kingdom	1.7	1.3	1.4	-9.8	5.1	5.2	1.7	1.3	1.4	-9.8	2.7	2.2
Japan	1.7	0.6	0.3	-4.9	2.9	2.2	1.7	0.6	0.3	-4.9	1.5	0.2
Emerging markets	4.8	4.5	3.6	-2.2	6.7	5.0	4.8	4.5	3.6	-2.2	4.7	2.0
Latin America[1]	1.3	1.2	0.2	-7.0	4.6	3.1	1.3	1.2	0.2	-7.0	3.8	1.7
Mexico	2.3	2.2	-0.1	-8.5	4.9	3.1	2.3	2.2	-0.1	-8.5	3.1	0.4
Brazil	1.6	1.7	1.4	-4.4	3.6	2.8	1.6	1.7	1.4	-4.4	2.0	0.8
Argentina	2.8	-2.4	-2.1	-9.7	6.0	3.2	2.8	-2.4	-2.1	-9.7	3.4	0.9
Emerging Europe[2]	4.1	3.4	2.4	-2.0	4.4	3.9	4.1	3.4	2.4	-2.0	1.5	1.1
Turkey	7.4	3.3	0.8	1.6	5.2	3.5	7.4	3.3	0.8	1.6	3.9	0.5
Asia Pacific[3]	6.6	6.4	5.3	-1.0	8.6	6.0	6.6	6.4	5.3	-1.0	4.9	1.8
China	7.0	6.8	6.0	2.0	8.9	5.2	7.0	6.8	6.0	2.0	7.3	2.6
Indonesia	5.1	5.2	5.0	-2.0	5.0	5.4	5.1	5.2	5.0	-2.0	3.0	2.1
Philippines	6.9	6.3	6.0	-9.3	6.8	7.1	6.9	6.3	6.0	-9.3	4.8	4.9
World	3.8	3.6	2.8	-3.3	6.0	4.4	3.8	3.6	2.8	-3.3	3.7	1.3

Source: MAPFRE Economics

[1]Argentina, Brazil, Chile, Colombia, Mexico and Peru; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

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

	Baseline scenario (BS)						Stressed scenario (SS)					
	2017	2018	2019	2020(e)	2021(f)	2022(f)	2017	2018	2019	2020(e)	2021(f)	2022(f)
United States	2.1	1.9	2.3	1.4	2.7	1.5	2.1	1.9	2.3	1.4	3.5	2.3
Eurozone	1.4	1.9	1.0	-0.3	2.2	0.9	1.4	1.9	1.0	-0.3	2.9	2.2
Germany	1.4	1.6	1.5	-0.3	2.8	1.1	1.4	1.6	1.5	-0.3	3.6	2.5
France	1.2	2.1	1.3	0.5	1.3	1.1	1.2	2.1	1.3	0.5	1.9	2.1
Italy	0.9	1.1	0.5	-0.2	2.0	0.7	0.9	1.1	0.5	-0.2	2.8	1.9
Spain	1.1	1.2	0.8	-0.5	1.6	0.9	1.1	1.2	0.8	-0.5	2.3	2.0
United Kingdom	2.7	2.0	1.3	0.8	1.8	1.5	2.7	2.0	1.3	0.8	2.6	2.8
Japan	0.6	0.9	0.5	-0.8	-0.0	-0.1	0.6	0.9	0.5	-0.8	-0.4	0.4
Emerging markets	4.4	4.9	5.1	5.1	4.9	4.4	4.4	4.9	5.1	5.1	5.4	5.8
Latin America[1]	6.3	6.6	7.7	6.4	7.2	6.6	6.3	6.6	7.7	6.4	13.3	11.2
Mexico	6.8	4.8	2.8	3.2	3.8	2.8	6.8	4.8	2.8	3.2	5.0	4.2
Brazil	2.9	3.7	4.3	4.5	4.7	3.4	2.9	3.7	4.3	4.5	6.3	5.0
Argentina	23.3	47.4	52.2	36.1	44.5	29.9	23.3	47.4	52.2	36.1	50.8	31.6
Emerging Europe[2]	5.6	6.4	6.6	5.4	6.5	5.4	5.6	6.4	6.6	5.4	5.6	5.9
Turkey	11.9	20.3	11.8	14.6	14.9	9.2	11.9	20.3	11.8	14.6	20.2	11.9
Asia Pacific[3]	2.4	2.7	3.3	3.1	2.3	2.7	2.4	2.7	3.3	3.1	2.8	4.0
China	1.8	2.2	4.3	0.1	2.6	1.9	1.8	2.2	4.3	0.1	3.7	3.3
Indonesia	3.5	3.3	2.7	1.6	2.6	2.5	3.5	3.3	2.7	1.6	4.5	4.6
Philippines	3.0	5.9	1.5	3.1	3.6	2.3	3.0	5.9	1.5	3.1	6.1	4.0
World	3.2	3.6	3.5	3.2	3.5	3.2	3.2	3.6	3.5	3.2	4.0	3.8

Source: MAPFRE Economics

[1]Argentina, Brazil, Chile, Colombia, Mexico and Peru; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

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

	Baseline scenario (BS)						Stressed scenario (SS)					
	2017	2018	2019	2020(e)	2021(f)	2022(f)	2017	2018	2019	2020(e)	2021(f)	2022(f)
United States	2.40	2.69	1.92	0.93	1.82	2.08	2.40	2.69	1.92	0.93	2.58	3.83
Eurozone	1.13	1.17	0.32	-0.19	0.25	0.38	1.13	1.17	0.32	-0.19	2.18	2.51

Source: MAPFRE Economics
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

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

	Baseline scenario (BS)						Stressed scenario (SS)					
	2017	2018	2019	2020(e)	2021(f)	2022(f)	2017	2018	2019	2020(e)	2021(f)	2022(f)
USD-EUR	0.83	0.87	0.89	0.81	0.86	0.84	0.83	0.87	0.89	0.81	0.85	0.87
EUR-USD	1.20	1.15	1.12	1.23	1.17	1.19	1.20	1.15	1.12	1.23	1.17	1.15
GBP-USD	1.35	1.28	1.32	1.36	1.37	1.40	1.35	1.28	1.32	1.36	1.35	1.32
USD-JPY	112.90	110.83	109.12	103.54	111.49	108.23	112.90	110.83	109.12	103.54	105.64	105.58
USD-CNY	6.51	6.88	6.99	6.52	6.57	6.55	6.51	6.88	6.99	6.52	6.72	6.81

Source: MAPFRE Economics
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

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

	Baseline scenario (BS)						Stressed scenario (SS)					
	2017	2018	2019	2020(e)	2021(f)	2022(f)	2017	2018	2019	2020(e)	2021(f)	2022(f)
United States	1.50	2.50	1.75	0.25	0.20	0.20	1.50	2.50	1.75	0.25	0.99	2.90
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
China	3.25	3.30	3.25	2.95	2.69	2.50	3.25	3.30	3.25	2.95	2.82	3.66

Source: MAPFRE Economics
Forecast end date: April 23, 2021.

Click here to access the interactive version of this information

Index of charts, tables and boxes

Charts

Tables

Boxes

References

1/ See: MAPFRE Economics (2021), *2021 Economic and industry outlook*, Madrid, Fundación MAPFRE.

2/ See the interactive section Institutional response to the COVID-19 crisis and effects on expected growth prepared by MAPFRE Economics, at: https://app.klipfolio.com/published/ca635768cc1b32264d33836fc491e79c/institucional-response-to-the-covid19-crisis-and-effects-on-expected-growth

3/ This is interpreted "a la Frederic Mishkin (1973)"; i.e., it does not really need to come to fruition as such.

4/ MAPFRE Economics (2021), *2021 Economic and industry outlook*, Madrid, Fundación MAPFRE, pg. 38–41.

5/ Chart 2.1.2 shows the minimum, average and maximum levels reached in 2020, along with the level of the latest curves published by EIOPA for December 2020 and March 2021. These risk-free interest yield curves can be displayed in other months and currencies in the interactive chart produced by MAPFRE Economics based on information from EIOPA.

6/ ICEA data, taken from a sample of 143 companies with a market share of 96.2%.

7/ According to data collected by Johns Hopkins University as on April 22, 2021 (Coronavirus Resource Center, by Region) https://coronavirus.jhu.edu/ ; https://coronavirus.jhu.edu/region/united-kingdom

8/ Based on Swiss Re data, at: https://www.swissre.com/institute/research/sigma-research/sigma-2021-01.html

9/ The Solvency and Financial Condition Reports referred to in this report were consulted at the following links. 2019 reports:

VidaCaixa: https://www.vidacaixa.es/documents/51066/149093/ISFS+VidaCaixa+Individual+2019.pdf/b7825860-ad3e-3702-6185-9ad207aec9d4

MAPFRE Vida: https://www.mapfre.com/media/accionistas/2019/2019-sfcr-mapfre-vida.pdf

Bankia MAPFRE Vida: https://www.mapfre.com/media/accionistas/2019/2019-sfcr-bankia-mapfre-vida.pdf

BBVA Seguros: http://www.bbvaseguros.com/informacion-societaria/situacion-financiera-y-de-solvencia/

Zurich Vida (Sabadell): https://www.zurich.es/es-es/conocenos/grupo-zurich/informes

Ibercaja Vida: https://www.ibercaja.com/accionistas-e-inversores/informacion-economico-financiera

AXA Aurora Vida: https://www.axa.es/axa-espana/informes-sfcr

AXA Vida: https://www.axa.es/axa-espana/informes-sfcr

Mutualidad de la Abogacía: https://www.mutualidadabogacia.com/wp-content/uploads/2016/11/informe-de-gestion-2016.pdf

Nationale Nederlanden Vida: https://www.nnseguros.es/mas-info/informe-situacion-financiera-y-solvencia

Allianz: https://www.allianz.com/en/investor_relations/results-reports/sfcr.html#tabpar_7217_3Tab

Generali España: https://www.generali.es/quienes-somos/espana/datos-economicos

Caser: https://www.caser.es/conocenos/informacion-legal

Catalana Occidente: https://www.seguroscatalanaoccidente.com/esp/informacion-corporativa

Santalucía: http://www.santalucia.es/situacion-financiera-solvencia-santalucia.pdf

MAPFRE ESPAÑA: https://www.mapfre.com/media/accionistas/2019/2019-sfcr-mapfre-espana.pdf

AXA Seguros Generales: https://www.axa.es/axa-espana/informes-sfcr

SegurCaixa Adeslas: https://www.segurcaixaadeslas.es/es/informacion-corporativa/informe-de-solvencia

Sanitas: http://corporativo.sanitas.es/sala-de-comunicacion/informes-y-publicaciones/

Asisa: https://www.asisa.es/informacion/solvencia

Mutua Madrileña: https://www.grupomutua.es/corporativa/informes-regulatorios.jsp

Reale Seguros Generales: https://www.reale.es/es/quienes-somos/la-compania/informacion-economica

Ocaso: https://www.ocaso.es/es/corporativa/datos-economicos/2019

Santander Seguros Generales: https://www.santanderseguros.es/san/sanseguros/informacion-financiera-solvencia/!ut/p/z1/
jZFtT8IwEMc_zfoO2skENGnMQJkDIiE6NvbGdF3XjYwW2201fno75Y2JT00uvfvfXe6XO5jCBKaCdBUnTSUFqW28T8fPYXAVBnPPfdhMVrfI323Xi2Xw6KKJC-
NfCxCC6X_60Q_P_7N_CVNey-
wT1RfZaMphqljBFFPDVlm5bJqTvnaQg4wxQy4lr9mQaQfZ7I0muAGKNvgAXjBgWlGsgZatogwblgGaY3cKKMmxOhDQEls5BR3LMSJltLozB1p7KvK8p8wv4_XmUq7uk8lyJkJvX
vrxPAjNzAA7CH9QOO7Id9yLRW89jCaiISJnSjPeKql7LJuy8vk7631UiUKqI6H2LoOiEkTQiiky0LLumPUtnObY33Q7YtDVltP8uGPeWI2rVy320akYfLegUuoGJl_2Ak_HKHlbs_gdtE
4d6w!!/

The following links refer to 2020 reports:

- VidaCaixa: https://www.vidacaixa.es/informacion-corporativa/informe-de-situacion-financiera-y-de-solvencia
- MAPFRE Vida: https://www.mapfre.com/solvencia/
- MAPFRE Bankia Vida: https://www.mapfre.com/solvencia/
- BBVA Seguros: http://www.bbvaseguros.com/informacion-societaria/situacion-financiera-y-de-solvencia/
- Zurich Vida (Sabadell): https://www.zurich.es/conocenos
- Ibercaja Vida: https://www.ibercajavida.com/
- AXA Aurora Vida: https://www.axa.es/axa-espana/informes-sfcr
- AXA Vida: https://www.axa.es/axa-espana/informes-sfcr
- Mutualidad de la Abogacía: https://www.mutualidadabogacia.com/institucional/empresa/informe-gestion/
- Nationale Nederlanden Vida: https://www.nnseguros.es/mas-info/informe-situacion-financiera-y-solvencia
- Allianz: https://www.allianz.es/descubre-allianz/allianz-seguros
- Generali España: https://www.generali.es/quienes-somos/espana/datos-economicos
- Caser: https://www.caser.es/conocenos/informacion-legal
- Catalana Occidente: https://www.seguroscatalanaoccidente.com/esp/informacion-corporativa
- Santalucía: https://www.santalucia.es/sobre-santalucia/publicaciones
- MAPFRE ESPAÑA: https://www.mapfre.com/solvencia/
- AXA Seguros Generales: https://www.axa.es/axa-espana/informes-sfcr
- SegurCaixa Adeslas: https://www.segurcaixaadeslas.es/es/informacion-corporativa/informe-de-solvencia
- Sanitas: http://corporativo.sanitas.es/sala-de-comunicacion/informes-y-publicaciones/
- Asisa: https://www.asisa.es/informacion/solvencia
- Mutua Madrileña: https://www.grupomutua.es/corporativa/informes-regulatorios.jsp
- Reale Seguros Generales: https://www.reale.es/es/quienes-somos/la-compania/informacion-economica

Ocaso: https://www.ocaso.es/es/corporativa/datos-economicos

Santander Seguros Generales: https://www.santanderseguros.es/san/sanseguros/informacion-financiera-solvencia/!ut/p/z1/
jZFtT8IwEMc_zfoO2skENGnMQJkDIiE6NvbGdF3XjYwW2201fno75Y2JT00uvfvfXe6XO5jCBKaCdBUnTSUFqW28T8fPYXAVBnPPfdhMVrfI323Xi2Xw6KKJC-
NfCxCC6X_60Q_P_7N_CVNey-
wT1RfZaMphqljBFFPDVlm5bJqTvnaQg4wxQy4lr9mQaQfZ7I0muAGKNvgAXjBgWlGsgZatogwblgGaY3cKKMmxOhDQEls5BR3LMSJltLozB1p7KvK8p8wv4_XmUq7uk8lyJkJvX
vrxPAjNzAA7CH9QOO7Id9yLRW89jCaiISJnSjPeKql7LJuy8vk7631UiUKqI6H2LoOiEkTQiiky0LLumPUtnObY33Q7YtDVltP8uGPeWI2rVy320akYfLegUuoGJl_2Ak_HKHlbs_gdtE4
d6w!!/

Other MAPFRE Economics reports

MAPFRE Economics (2021), *Pension systems from a global perspective*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2021), *Insurance industry investment*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2021), *Economic and industry outlook 2021*, Madrid, Fundación MAPFRE.

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

MAPFRE Economics (2020), *2019 Ranking of insurance groups in Latin America*, Madrid, Fundación MAPFRE.

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

MAPFRE Economics (2020), *2019 Ranking of the largest European insurance groups*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2020), *Elements for the development of Life insurance*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2020), *Financial inclusion in insurance*, Madrid, MAPFRE Economics.

MAPFRE Economics (2019), *Population aging*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2018), *Health systems: a global analysis*, Madrid, Fundación MAPFRE.

MAPFRE Economics (2018), *Insurance solvency regulation systems*, Madrid, Fundación MAPFRE.

Fundación
MAPFRE

www.fundacionmapfre.org
Paseo de Recoletos, 23
28004 Madrid

Fundación MAPFRE

www.fundacionmapfre.org

Paseo de Recoletos, 23
28004 Madrid