Fundación MAPFRE

2019 ECONOMIC AND INDUSTRY OUTLOOK: SECOND QUARTER PERSPECTIVES

MAPFRE Economic Research

2019 Economic and Industry Outlook: Second Quarter Perspectives

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Executive Summary

2019 Economic and Industry Outlook: Second Quarter Perspectives

The change of cycle and the slowdown of economic activity are a fact. The baseline scenario presented in this report is that, after leaving behind the cyclical peak of 2018 (3.6%), the world economy is entering a phase of controlled deceleration that will put growth at an average of around 3.3% through 2019 and 2020. This growth is in line with the potential, which is, however, visibly lower than it was 10 years ago due to the decline in productivity, population aging and the effects of monetary policy on a global scale.

Three facts characterize the lower growth that the world economy will face: (i) the eurozone is running out of steam again, and this is now especially concerning given the environment of indebtedness and little room for public stimulus policies; (ii) the growth of China's economy was hampered by the economic and financial normalization measures implemented in 2018, to the point that it had to modulate that initiative so as not to remove momentum from the economy, and (iii) the protectionist dialectic between the United States and the rest of the world (especially, but not exclusively, China) will end up affecting not only trade, but also investment at global level via the expectations channel.

Although in the short term there are prospects of a moderate upturn in levels of activity (as suggested by some early indicators) and steps are being taken to normalize the trade tensions between the United States and China, the expectations are not high. In this regard, the risk assessment is downward. The risks that were identified in our previous report (geopolitical, economic policy and governance, among others) persist, but their likelihood is now greater, as is the potential damage, especially given the low reactive capacity of most of the world's economies.

Additionally, account must be taken of a risk that is acquiring increasing importance: the leverage levels of the developed and emerging economies alike. This risk takes three forms: (i) the large sovereign debt of the developed economies and the smaller emerging economies (frontier economies), which have very little scope for reaction and are increasingly vulnerable to a tightening of financial or foreign exchange conditions; (ii) the emerging corporate leverage, especially in dollars, in a context marked by a downward cycle for commodities and low revenues for company self-financing; and (iii) the revival of an old acquaintance, "corporate structured debt", which is ultimately corporate debt with visibility and risk conditions that are difficult to measure, and which moreover is located outside the banking sector (in the "shadow banking" system).

This constellation of risks makes it necessary to outline a negative alternative scenario. Without being comparable to the situation preceding the Lehman crisis (the tools and the state of the agents are better today), a crisis could be brought about by similar triggers (crisis of liquidity, confidence, etc.) and affect prices via expectations. This mechanism, for the purposes of the alternative scenario outlined in this report, has been modulated through a stock-market and confidence correction that would significantly reduce global growth until we are very nearly (but not quite) in recession. Although we consider the baseline scenario to be more probable, the likelihood of the alternative scenario is non-negligible.

Insurance markets

The expected slowdown in global growth, the curbing of the monetary normalization process and the return to more accommodative monetary policies by some of the world's major economies point to a slowing of growth for the insurance business at global level. The monetary and fiscal policy measures being adopted by some countries could soften the impact on the economy and therefore on the insurance industry, but for the moment a slowdown is what is expected.

In the eurozone, the downward revision of growth forecasts has been even more marked, and this could translate into a greater slowing of Non-Life and Life risk insurance business, closely linked to the behavior of the economic cycle. In addition, these expectations of a slowdown and low inflation have led the European Central Bank (ECB) to adopt a more accommodative tone in its statements on monetary policy. No rise in interest rates is expected until 2020, and for the time being the ECB has not made any decision regarding the normalization of deposit rates, which are still negative. Thus, this environment of low interest rates will continue to damage the development of the Life Savings and annuities segments of the insurance market.

In Spain, we are seeing a continuation of the trend toward a smooth slowdown of the economy, although to a lesser extent than expected for the eurozone as a whole, so that expectations remain positive regarding the development of the Non-Life and Life risk business lines, albeit with a slowing trend. As for Life savings insurance and traditional annuity insurance, the low interest rate outlook persists and continues to weigh on this business, as in the rest of the eurozone.

Finally, a positive aspect worth noting is the control of inflation and currency depreciation achieved in recent months by some emerging economies such as Brazil and Mexico, which is good news for the development of their respective insurance markets. Other economies such as Argentina and Turkey are either in the process of tackling or have yet to tackle the structural reforms needed to control those factors in the medium term.

1. Economic outlook

1.1 The global economic outlook

1.1.1 The current environment and beyond

As anticipated in the 2019 annual report prepared by MAPFRE Economic Research[1], the strong growth recorded between 2017 and the first half of 2018 was followed by a marked slowdown of economic activity during the second half of the past year, mainly due to the confluence of three factors that impacted the world's main economies:

a) Firstly, the growth of China's economy fell due to a combination of the regulatory adjustments required to curb shadow banking and the increases in trade tensions with the United States.

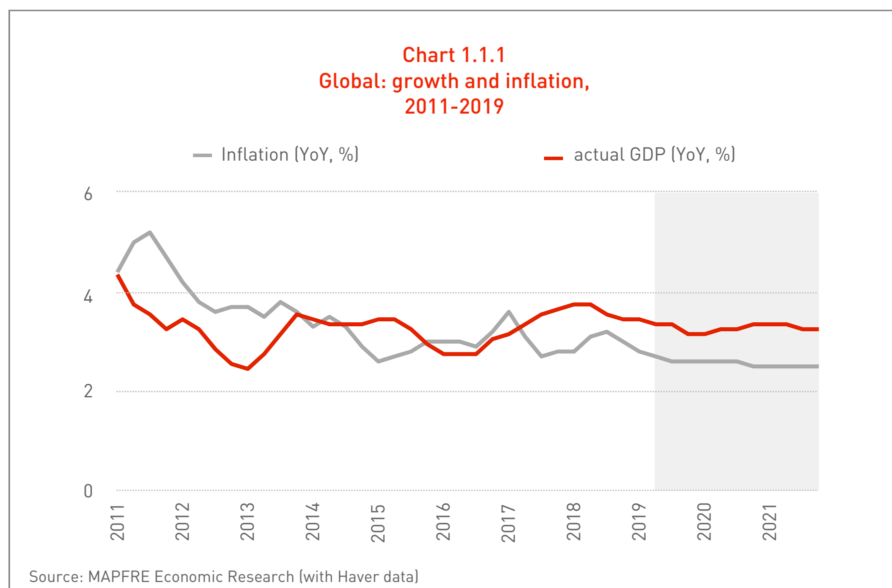
b) Secondly, the economy of the eurozone lost more impetus than expected, due to the confluence of several factors: (i) the weakening of confidence among consumers and businesses; (ii) the disturbance of automobile production in Germany due to the introduction of new emission standards; (iii) the decline in investment in Italy as sovereign risk differentials increased; and (iv) the weakening of external demand, especially from the emerging countries of Asia.

c) And finally, the trade tensions increasingly undermined the confidence of businesses and therefore of the financial markets, with a hardening of financial conditions for the vulnerable emerging markets in the spring of 2018 and, subsequently, in the advanced economies over the year, impacting global demand.

Global financial conditions eased in 2019 as the US Federal Reserve signaled a more accommodative monetary policy and the markets became more optimistic about a trade agreement between the USA and China. At the same time, there was a return of the pro-stimulus narrative in China, while some expectation of monetary normalization filtered through in the eurozone. Despite all of this, the financial and real conditions prevailing thus far in 2019 remain more restrictive than they were at the peak of the previous cycle, at the end of the second quarter of 2018.

Given this trend, we are confirming the forecast we made at the start of the year, namely that the growth of the world economy will fall from the 3.6% reached in 2018 to 3.3% in 2019 and 2020, on the principle of a baseline scenario of orderly adjustment (see Chart 1.1.1).

Chart 1.1.1
Global: growth and inflation, 2011-2019



Source: MAPFRE Economic Research (with Haver data)

Retracing our general view by geographical area (which is examined in greater detail in the next section of this report), the dynamic of global economic activity was influenced by different factors. In the eurozone, it is expected that the pace of growth will slow. The emerging markets, meanwhile, have been playing a significant role, with regard both to the gradual stabilization of conditions in certain economies in difficulties (Argentina and Turkey) and to the renewed impetus that China's expansionary policy and the return of a slack monetary policy in the United States could bring to the developing economies. These conditions are expected to persist beyond 2019. Conversely, activity in the advanced economies is expected to continue declining gradually as the impact of the USA's fiscal stimulus fades away and growth tends toward the modest potential of this group of economies.

Beyond 2020, world growth is expected to stabilize around 3.3-3.4%, supported by the increase in the relative size of economies such as those of China and India, which projections suggest will see robust growth in comparison with the slower-growing developed and emerging economies (although China's growth will slow down over time). Additionally, income and population growth and financial deepening will cause a continuing increase in the potential of these countries.

The long-term growth mentioned above is in line with a new global potential that is visibly lower than it was considered to be a few years ago, mainly due to population dynamics, the total global debt burden, and technological advances and their impact on productivity, among other factors. Thus, the weak growth of labor productivity and the slowing of the expansion of the workforce amid population aging will drag the growth of the advanced economies to a lower level over the projection horizon. The above is consistent with the thesis of "secular stagnation" that we have been advancing in the *Economic and Industry Outlook* reports since the end of 2016.

Against this backdrop, it is expected that growth in the emerging market and the developing economies will stabilize at slightly below 5%, albeit with variations by region and country. The reference outlook for the emerging markets of Asia remains favorable, and it is anticipated that China's growth will gradually slow to sustainable levels, with the frontier economies converging toward higher revenue levels.

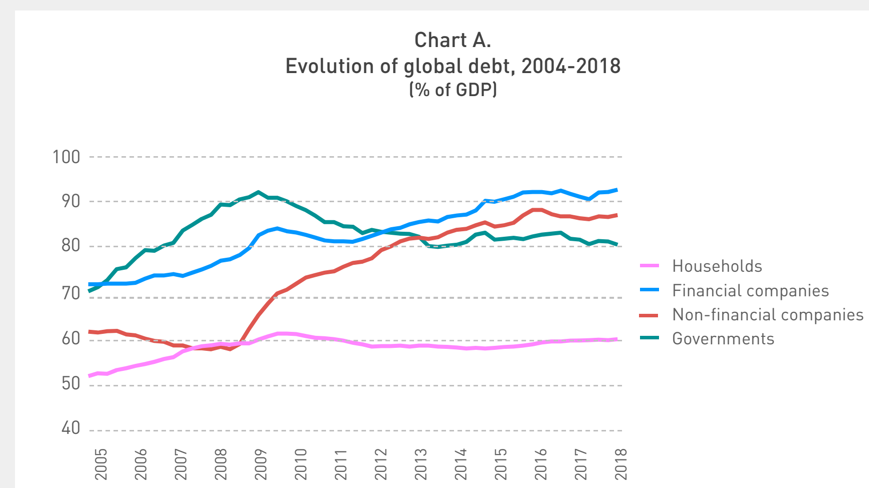
In the case of other regions, the outlook is complicated by a combination of structural constrictions, slower growth in the advanced economies, and, in some cases, a high level of debt (see Box 1.1.1), as well as tighter financial conditions. These factors, together with the moderation of prices of basic

Box 1.1.1
Global debt

Context

After the 2008 crisis, the governments and central banks of the developed countries assumed an important role in the world economy, implementing a series of counter-cyclical expansionary measures aimed at halting the liquidity problems in the financial system and boosting economic growth. As a result, the generation of deficits and liquidity injections were accumulating in the actors' balance sheets in the form of low-interest debt. Subsequently, the positive evolution of the world economy, which translated into synchronized global growth, made it possible to establish greater fiscal discipline (accompanied by favorable sources of financing) with a view to correcting the generated imbalances.

However, as the output gap closed, economic policies ceased to be accompanied by economic normalization, abandoning their stabilizing character and tending instead toward a pro-cyclical approach. As a result, global debt levels rose considerably, reaching USD 244 billion (318% of global GDP) in the third quarter of 2018, with a notable increase in the indebtedness of governments and non-financial corporations (see Chart A). This expansionary leverage dynamic was a global phenomenon, albeit with a clearly different nature between the developed and emerging economies. However, although the nature of the risks and their triggers have different origins, together they form a global risk.



Developed economies

In the years following the financial crisis of 2008-2009, and due to the very nature of that crisis, the developed economies went through a process of deleverage of the financial and household sector, as a direct consequence of the excesses accumulated in the preceding decade. At the same time, the use of cyclical stabilizers made it possible to resume the expansionary economic path. The simultaneous application of slack fiscal policies (generating deficits) and accommodative monetary policies

Box 1.1.1 (continued)
Global debt

allowed deferred payment of these financing arrangements, and therefore the gestation and accumulation of high stocks of low-cost debt (see Charts B to D).

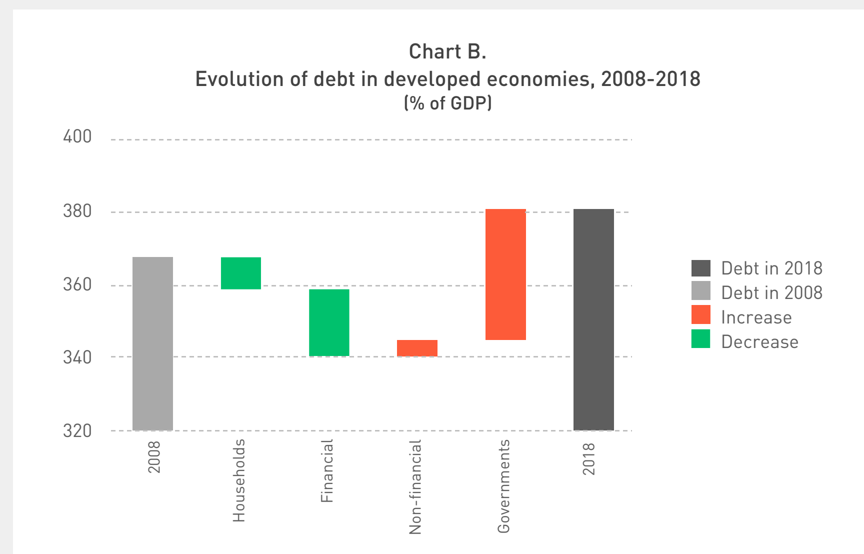
Scenario

The dynamic of public debt is based on maintaining or increasing current spending levels on the guarantee of future recuperation of the expenditure through taxes. In this regard, the underlying risk is the sustainability of such debt in a scenario of global slowdown and reduced monetary support from the central banks in the developed countries, which raises various challenges in both the short and the long term.

On the one hand, in the short term, despite the fact that financial conditions continue to be favorable, the developed economies are facing a growing political current of short-term vision supported by the most economically afflicted social strata, which could undermine the fragile fiscal discipline with spending increases and tax reductions (see Charts E and F).

And on the other hand, in the longer term, the increase in public debt could trigger distortions in private consumption. From the point of view of *Ricardian Equivalence*, this phenomenon could distort the behavior of the actors and their expectations in consumption, since the replacement of public financing through taxes with financing through debt suggests a possible curtailment of current private consumption and an incentive for saving as a reaction on the actors' part to the perception of higher taxes in the future. Meanwhile, the reconciliation of the current spending pressures with the need for a future discipline that corrects the imbalances generated could increasingly be supported by new monetary policy strategies, as indicated by the Federal Reserve's recent repositioning with regard to exposure to sovereign debt, or the European Central Bank's relaxed outlook with regard to the normalization of interest rates, which increases the risk of "Japanization" of the economy.

Chart B.
Evolution of debt in developed economies, 2008-2018
(% of GDP)



Box 1.1.1 (continued)
Global debt

Chart C.
Developed economies: household debt, 2008-2018
(% of GDP)

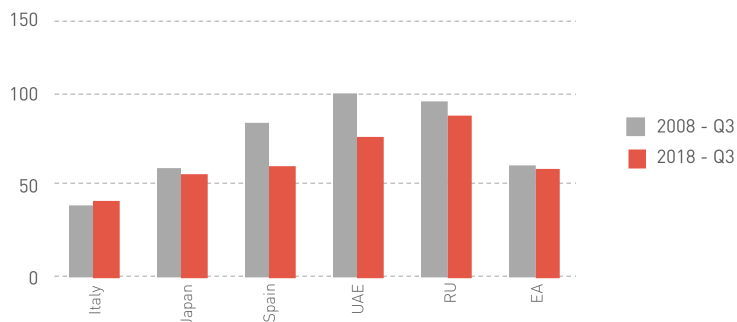


Chart D.
Developed economies: public debt, 2008-2018
(% of GDP)

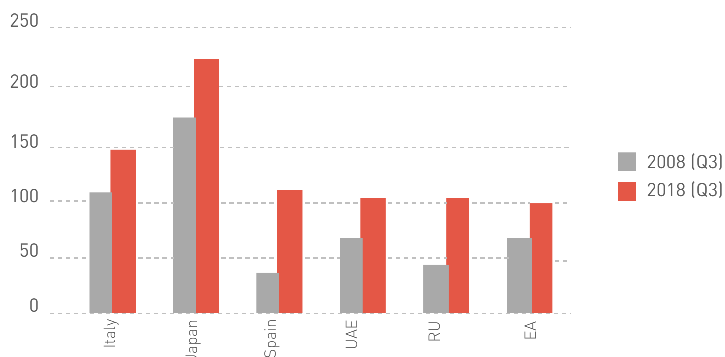


Chart E.
Forecasts of fiscal sustainability in the G7, 2010-2023

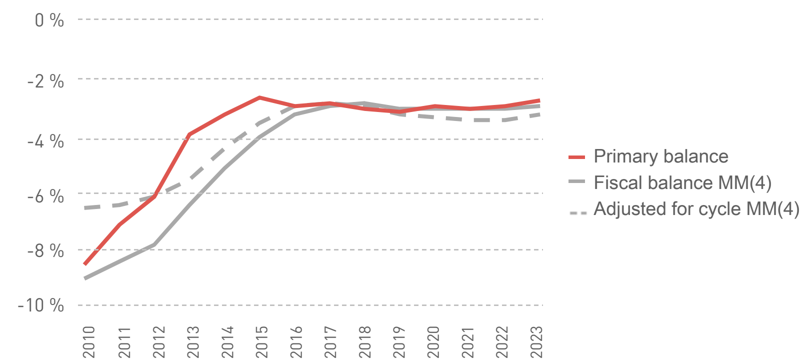
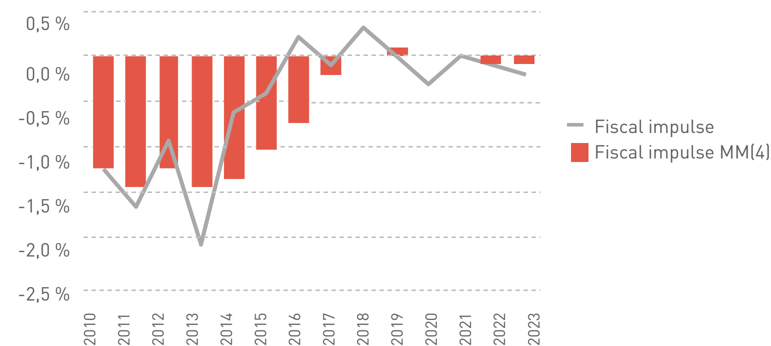


Chart F.
Forecasts of fiscal impulse (+) / resistance (-) in the G7, 2010-2023



Box 1.1.1 (continued)
Global debt

Emerging economies

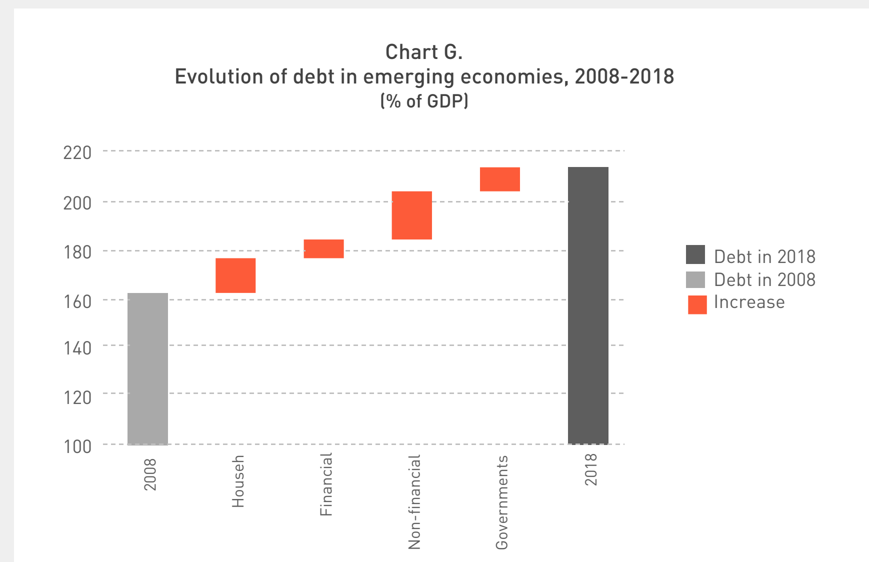
The evolution of debt in the emerging economies has shown more significant values than in the case of the developed economies, and this is a process supported by practically all economic actors (governments, financial and non-financial companies, and households). However, the non-financial sector stands out as the main contributor to the debt-to-GDP ratio. The reason for this is that as interest rates fell and liquidity was restored in the developed economies, the search for yield (faced with the flight to quality) favored the rapid expansion of issues (see Charts G to I).

During that period of capital inflows, the local currencies were strengthened relative to stronger currencies, giving rise to the rapid expansion of leverage. The stock of debt (added to the authorities' difficulties in channeling the flows), the frequent indebtedness through external debt and the denomination of issues in dollars created a series of imbalances and vulnerabilities liable to trigger volatility events such as those seen in Argentina and Turkey.

Scenario

As stressed in previous reports, the high levels of external debt (mainly in strong currencies and with relatively short terms) are channeled via the banking system to all economic actors. Specifically, the risk of this

Chart G.
Evolution of debt in emerging economies, 2008-2018
(% of GDP)



leverage increases when the recipients are actors focused on non-marketable sectors with little natural coverage (such as non-financial corporations) and households (assets and liabilities denominated in the same currency), where there is an underlying currency risk that could eventually produce a liquidity risk.

In addition, this source of financing means that the needs of the economic actors are dependent on the external context. Specifically, the fact that

Box 1.1.1 (continued)
Global debt

most of this debt is denominated in strong currencies means that the monetary spaces of the emerging economies are subordinated to the monetary policies of countries in which the cyclical momentum may not coincide, with the implications that this has in terms of the pro-cyclicality and exacerbation of cyclical momentum mentioned in previous reports (see Charts J to M).

Strictly speaking, an analysis of the sustainability of the debt should be performed in relation to a series of sustainability thresholds, which vary according to the idiosyncrasies of each country. However, in order to have a parameter that allows comparisons between economies, the International Monetary Fund classifies the debt stress level in three categories, generically and for all the emerging markets: (i) for an external debt/GDP ratio of 30% or less, the sustainability risk is low; (ii) for a ratio of 40%, the risk is moderate, and (iii) for a ratio of 50%, the sustainability risk of the debt is considered to be high (see Chart N).

Conclusions

The current economic momentum was favored and stimulated by a battery of economic policies adopted to put an end to the crisis of 2008-2009. However, once growth was restored, the function of the automatic stabilizers was reoriented toward a pro-cyclical path. As a result, the levels of global debt multiplied to hit new historic highs (for public debt in the developed economies and for private debt in the emerging economies), under the perception of an artificially low risk.

Chart H.
Emerging economies: public debt, 2008-2018
(% of GDP)

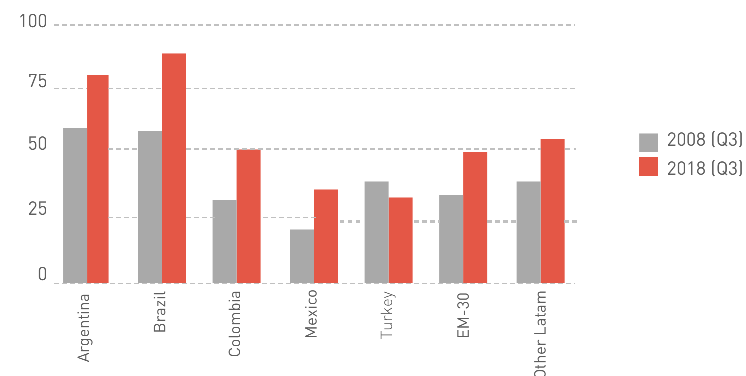
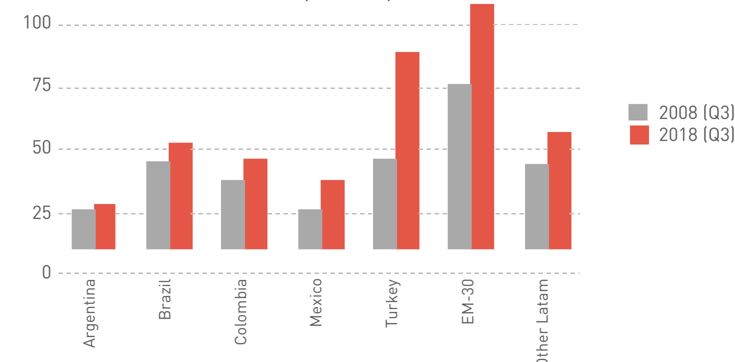


Chart I.
Emerging economies: debt of non-financial companies, 2008-2018
(% of GDP)



Box 1.1.1 (continued)
Global debt

Chart J.
Mexico: maturities of public debt, 2019-2023
(USD billions)

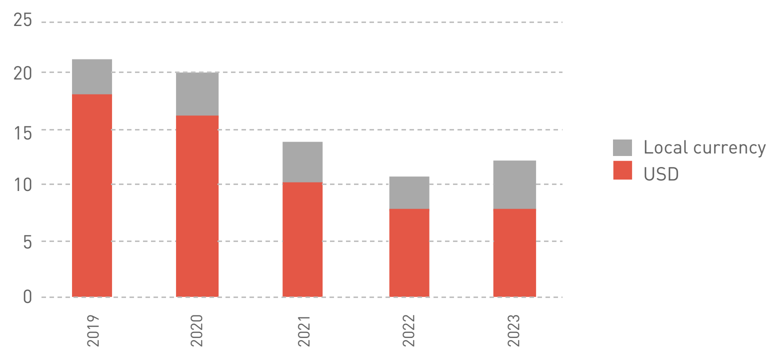


Chart K.
Mexico: maturities of debt of non-financial companies, 2019-2023
(USD billions)

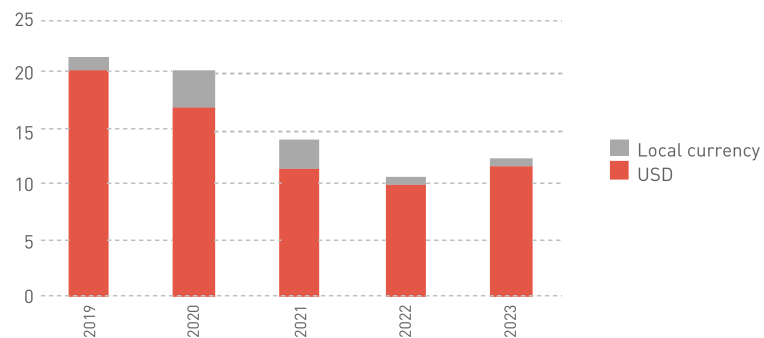


Chart L.
Turkey: maturities of public debt, 2019-2023
(USD billions)

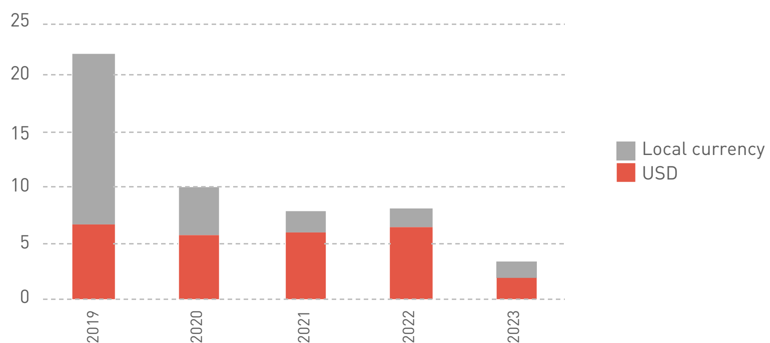
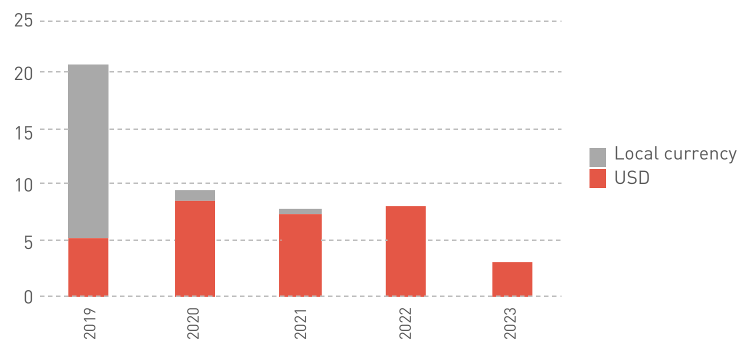
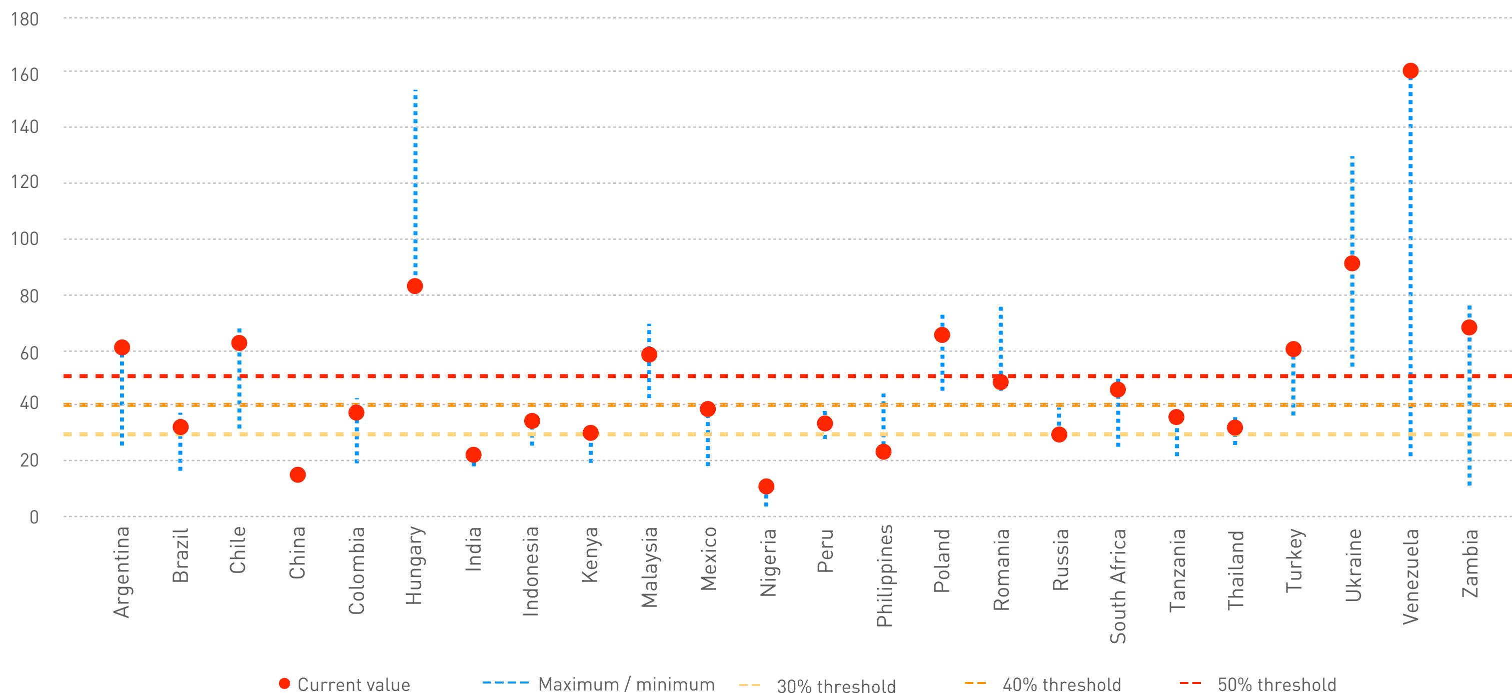


Chart M.
Turkey: maturities of debt of non-financial companies, 2019-2023
(USD billions)



Box 1.1.1 (continued)
Global debt

Chart N.
External debt as % of GDP
(bar chart showing maximum and minimum values, thresholds and current value)



Box 1.1.1 (continued)
Global debt

Thus, as monetary normalization advanced, some symptoms of weakness and fragility that pose challenges at global level began to appear.

In the emerging economies, the lower prospects of monetary tightening could alleviate the situation and restore, in part, the confidence lost in 2018. However, in the longer term, the risks arising from nominal variables remain latent, mainly those that entail greater imbalances. The sensitivity to future shocks will continue to depend on the development of financial stability mechanisms that reverse its pro-cyclical history.

In the developed economies, meanwhile, the main central banks have been obliged to go back to balancing their macroeconomic scenarios, give up their pretenses of monetary normalization and assume a more cautious posture, analyzing the tools and strategies available for aiding financial stability. The most immediate pressures are driven by political risk and the rise in protectionist tendencies. In the longer term, the necessary fiscal impulse could return to signaling the need to resume the implementation of structural reforms, mainly in those countries where such reforms have not achieved the envisaged depth.

Source: MAPFRE Economic Research (with IIF, IMF Fiscal Monitor, World Bank, IMF and BIS data)

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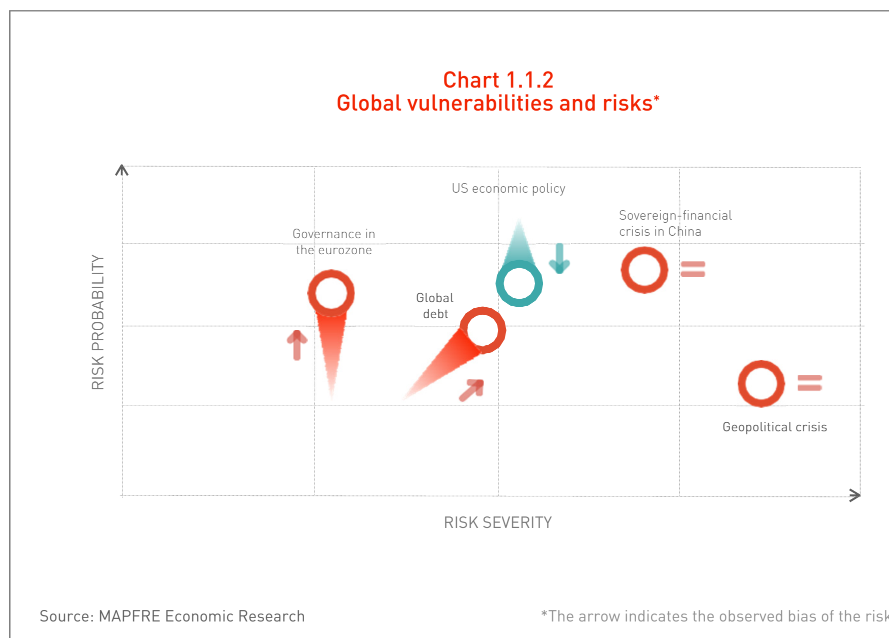
products (and socio-political tensions in some cases), will contribute to a moderation of the medium-term outlook especially for Latin America, the Middle East and North Africa (MENA).

1.1.2 Risk assessment

Global risks

Although global growth could present an agreeable surprise if trade differences are resolved quickly, allowing a recovery of business confidence and a further strengthening of sentiment among investors, the risk assessment remains downward (see Chart 1.1.2). In this regard, we reiterate the risks highlighted in our previous report: (i) risk relating to governance in the eurozone, which appears to be increasingly likely but without any increase in severity, with the United Kingdom's participation in the European elections and the possible contagion of populism in both Finland and Poland; (ii) the risk arising from economic policy in the United States, which has filtered through thanks to the "wait and see" stance of the Federal Reserve, and (iii) the macro-financial adjustment in China, regardless of the fact that its current counter-cyclical fiscal policies are working and the geopolitical problems and global relationships are being maintained (the trade agreement between the United States and China is making progress, while the United States is setting its sights on the eurozone as a new economic policy objective).

Chart 1.1.2
Global vulnerabilities and risks*



Source: MAPFRE Economic Research

*The arrow indicates the observed bias of the risk

In addition to these risks, given the dominance in the narrative of the global economic policy agenda, it is essential to take account of the potential relevance for levels of global leverage, both public (in some developed countries as well as emerging/frontier economies) and private (in the case of the emerging corporate sector with high levels of indebtedness in strong currencies), of the resurgence of the credit markets (Sponsor Leverage Loans and Lite Covenant Loans) with their main niche in shadow banking. These are unknown markets, huge and strongly dependent on a rise in the cost of financing (via risk aversion or interest rates).

Alternative scenario

As in previous reports, an alternative scenario has been designed that takes account of the likeliest possible dynamics. In any event, these continue to follow those of a risk scenario. For the purposes of this report, the alternative scenario would be delineated by a fresh escalation in trade tensions ansd the consequent increase in political uncertainty, which could weaken global economic growth even more. There remains the possibility of a sharp deterioration of market confidence, which would involve portfolio reallocations outside of risk assets, higher margins on haven securities and some stricter financial conditions, especially in the case of the vulnerable economies.

Against a backdrop of generalized economic slowdown (more pronounced in Europe but with fears of a sharp change of cycle in the United States), after the markets issued warnings with marked falls in December, the Federal Reserve and the European Central Bank decided to change the tone of monetary policy to a more accommodative note. In this regard, it can be said that things are in a holding pattern in the United States until the direction of the activity data becomes visible, while in Europe there is clearly a need to act to avoid a fall into recession following Italy's entry into recession and Germany's narrow escape. At the same time, China is using policies of macroeconomic support (tax reductions) and financial support (increase in lending to the private sector) to avoid a sharp slowdown. Thus, the alternative (risk) scenario would not be a slowdown caused by an excessive tightening of interest rates and the rise in oil prices, but rather a scenario produced by an upturn in volatility and risk aversion together with a crisis of confidence.

Some of the possible triggers for an episode of this nature are as follows: the persistence of weak economic data pointing to a prolonged situation of

crisis; a rapid reassessment by the markets of the orientation of US monetary policy, which could tighten global financial conditions; the withdrawal of the United Kingdom from the European Union without an agreement; and prolonged fiscal uncertainty in an environment of high debt and fiscal space asymmetry for public policies, especially if combined with a more profound recession.

1.1.3 Economic policy considerations

Notwithstanding the decline in the momentum of global growth and a limited policy space, the main priority should be to avoid policy errors that could undermine economic activity.

In this regard, the aim of macroeconomic and financial policies should be to avoid a greater slowdown in cases where production might remain below its potential and to provide a smooth landing in cases where it is necessary to remove the supports. This requires a monetary policy that ensures that inflation is kept on track toward the central banks' target (or, if it is close to the target rate, that it stays there) and that inflation expectations remain anchored. It also requires the fiscal policy to manage the balancing act between supporting demand and ensuring that public debt is maintained on a sustainable path.

Should the current economic slowdown turn out to be more severe and prolonged than anticipated, the macroeconomic policies would need to be more flexible, particularly when production remains below potential and financial stability is not in peril. Thus, in all the economies, the imperative is to take measures that boost the potential growth of production, improve inclusion and strengthen resilience. When fiscal consolidation is necessary and monetary policy is limited, its pace should be calibrated to ensure stability, while simultaneously avoiding any undermining of growth in the short term or starving of the programs that protect the most vulnerable.

1.2 General perspectives and risk assessment in selected economies

1.2.1 United States

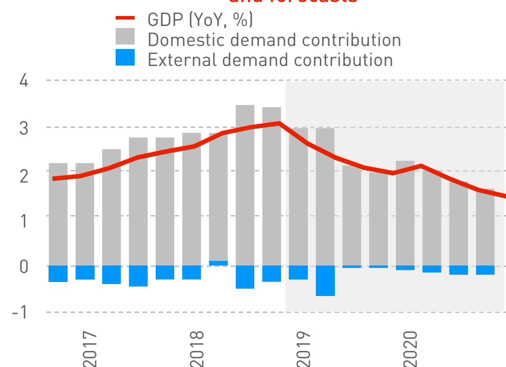
With the slowdown confirmed, the Federal Reserve adjusts its monetary posture

- **Controlled slowing of economic activity with downward risks. Change in the bias of monetary policy toward slackness.**
- **Change in the bias of monetary policy toward slackness.**

The US economy grew by 3.1% YoY in the fourth quarter of 2018, putting the annual average at 2.9%. The growth seen in the final quarter of the year was supported by the good performance of private consumption (2.7%) and investment (4.5%), although a degree of moderation was already apparent. Employment creation remained buoyant, with an increase of 196,000 jobs in March, putting the unemployment rate at frictional levels (3.8%) and pushing wage growth to its highest since the crisis of 2008-2009 (3.3% YoY). The latter figure is added to the evidence provided by the situation in terms of production levels and manufacturing orders, the purchasing managers' indices (PMIs), and the reversal of the interest-rate curve on its medium-term segments, all of which indicate that the anticipated change of cycle is a fact.

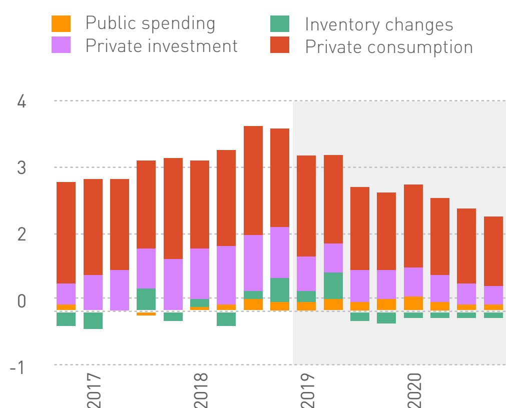
Consistent with this behavior, we expect a slightly less marked slowdown of economic activity in 2019 (2.3% YoY) than anticipated three months ago, although we do not believe that the baseline scenario is a recessionary environment (the implied probability of recession is below 35% before 2021).

Chart 1.2.1-a
United States: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on Federal Reserve data)

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



Source: MAPFRE Economic Research (based on Federal Reserve data)

Table 1.2.1
United States: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	2.4	2.9	1.6	2.2	2.9	2.3	1.8
Domestic demand contribution	2.2	3.7	1.8	2.6	3.2	2.5	2.0
External demand contribution	0.2	-0.8	-0.3	-0.3	-0.3	-0.3	-0.2
Private consumption contribution	2.0	2.5	1.9	1.8	1.8	1.6	1.4
Private investment contribution	0.6	0.7	0.3	0.8	1.0	0.6	0.5
Public spending contribution	-0.1	0.2	0.2	0.0	0.2	0.2	0.2
Domestic demand (% YoY, average)	2.6	3.6	1.7	2.5	3.0	2.4	1.9
Total consumption (% YoY, average)	2.3	3.4	2.5	2.1	2.4	2.2	2.0
Private investment (% YoY, average)	4.9	3.3	1.7	4.0	4.9	2.8	2.1
Exports (YoY in %)	4.3	0.6	-0.1	3.0	4.0	2.5	2.7
Imports (YoY in %)	5.1	5.5	1.9	4.6	4.6	3.4	3.2
Unemployment rate (%, last quarter)	5.7	5.0	4.8	4.1	3.8	3.5	3.6
Inflation (% YoY, last quarter)	1.2	0.4	1.8	2.1	2.2	1.8	1.9
Fiscal balance (% of GDP)	-5.2	-4.8	-5.3	-4.1	-6.4	-6.5	-6.9
Trade balance (% of GDP)	-4.4	-4.4	-4.2	-4.3	-4.4	-4.5	-4.5
Fiscal impulse (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-2.1	-2.2	-2.3	-2.3	-2.3	-2.6	-2.7
Official interest rate (end of period)	0.25	0.50	0.75	1.50	2.50	2.50	2.50
Short-term rate (end of period)	0.26	0.61	1.00	1.69	2.81	3.08	3.03
Long-term rate (end of period)	2.17	2.27	2.45	2.40	2.69	2.90	3.06
Exchange rate vs. USD (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Exchange rate vs. euro (end of period)	1.21	1.09	1.05	1.20	1.15	1.16	1.19
Private lending (% YoY, average)	7.7	2.3	3.5	5.3	3.9	4.0	3.9
Household lending (% YoY, average)	1.8	1.8	2.3	3.5	3.5	3.8	5.1
P.S. non-financial lending (% YoY, average)	4.8	5.7	5.4	6.4	8.9	5.4	3.8
P.S. financial lending (% YoY, average)	2.7	2.1	4.3	2.9	2.4	2.4	1.5
Savings rate (%, average)	7.3	7.6	6.7	6.7	6.7	6.6	6.6

Source: MAPFRE Economic Research (based on Federal Reserve data)
Forecasting end date: April 17, 2019.

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Growth in 2019 and 2020 will be mainly determined by domestic demand and, increasingly, by the consumption contribution, especially as the effects of the fiscal impulse felt during 2017 and 2018 (mainly in the corporate sector) are diluted and investment loses traction. The external sector, strongly dependent on the results of the trade negotiations with China (where an agreement in principle can be glimpsed) and the eventual ratification of the trade agreement between the United States, Mexico and Canada (USMCA), will entail a manageable reduction in growth in the baseline scenario (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b).

General inflation at the start of the year was moderate (below 2% during the first quarter), but the underlying level is already above 2.0%, meeting the Federal Reserve's twofold target for inflation and growth and, to some extent, easing fears regarding the Phillips curve which, in its wage version, is returning to form.

The controlled slowdown of economic activity, the need to accommodate the foreseeable fiscal normalization, the absence of inflationary pressures and the existence of strong short- and medium-term tail risks have created the necessary conditions for the Powell-Clarida-Williams triumvirate to concur in the open expression of a return to a more slack monetary policy bias, yielding somewhat to the market's expectations.

Thus, interest-rate rises during 2019 and 2020 are being ruled out for the time being, while the brakes are being applied to the reduction of the Federal Reserve's balance sheet (renewing maturities in a switch to a path involving a reduction of USD 15 billion instead of the previous 30 billion), which will stop completely in September. To some extent, this measure supports the controlled slowdown and is welcome if it helps to filter the effects of a necessary fiscal normalization. In addition, the change in the Federal Reserve's monetary policy posture toward an accommodative tone will allow other central banks to similarly review their own monetary policy approach with a view to combating a generalized slowdown of economic activity with low inflation.

The relationship between the euro and the dollar will hardly be affected, given the low pressure on interest rates in the United States. The emerging currencies, meanwhile, will go through a period of some volatility until their central banks align themselves with the Federal Reserve's new tone, although in general financial conditions can be expected to improve during 2019, both for interest rates and for exchange rates.

The risk assessment for the US economy is downward. The three most relevant risks are as follows: (i) in the very short term, the possibility of a nominal adjustment initiated with a crisis of confidence regarding the exhaustion of the cycle; (ii) the occurrence of fresh mishaps in US trade policy (e.g. failure of the agreement in principle recently reached with China, the re-creation of similar tensions with the European Union, or non-ratification of the USMCA by the US Congress), and (iii) in the longer term, but no less important for that, problems arising from the current US fiscal situation that is currently at the heart of the debate, especially due to its own and derivative effects on the cost of servicing debt in an environment of lower global growth.

1.2.2 Eurozone

Risks of "Japanization" of the economy

- **The cyclical weakness in economic activity and prices is appearing again.**
- **The eurozone: a possible case of stagnation, with debt and deflation of assets.**

Over the last quarter, the Organization for Economic Cooperation and Development (OECD), the European Central Bank (ECB), the International Monetary Fund (IMF) and the European Commission have noticeably lowered their forecasts for economic growth in the eurozone. The average cutback in outlook for 2019 was approximately 0.6% year-on-year.

We have also revised our outlook, now predicting that the region will grow somewhere in the area of 1.2% in 2019, slightly below its potential. The reason for this revision has been the protracted sluggish growth recorded starting from the second half of 2018, which is predicted to drag on into the second quarter of 2019[2] (see Table 1.2.2 and the Charts 1.2.2-a and 1.2.2-b).

Despite the above evidence, the latest indicators foresee a slight recovery. Net exports have rebounded, investment in equipment is keeping up its pace and several leading indicators (industrial orders, surveys and family borrowing) are displaying satisfactory metrics for the next six months, so a moderate recovery can be expected in the second half of this year, reflected in an improvement in the annual growth rate.

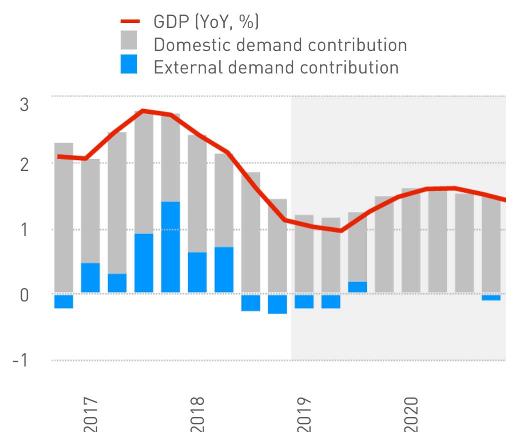
This short-term view is supported by the presumption that employment and wages will maintain their trend, that external factors will not have a greater effect than what is expected (hard Brexit, commercial tension with the United States, European elections, the current situation in Italy and Germany), and that the new efforts by the ECB to support credit and liquidity for the corporate sector and consumers materialize.

In line with the sluggish economic activity and despite the general upswing in wage growth, inflation was weak and cooled down in line with the global situation (1.4% in March), far from the ECB target of 2.0%. Underlying inflation was at 0.8% as well, showing that agency expectations are pinned to a low growth environment.

The recurrence of this environment of low inflation and feeble growth together with the manifest increase in leverage (private or public, depending on the country under analysis), the increase in mature dependency and the declining trend in the investment deflator sum up the signs in the narrative dominating economic policy. That means that the idea is taking hold in the eurozone that, despite potential signs of recovery, the region is heading down a path of structural weakness, subflation and increased debt: the stigma of "Japanization" of the economy.

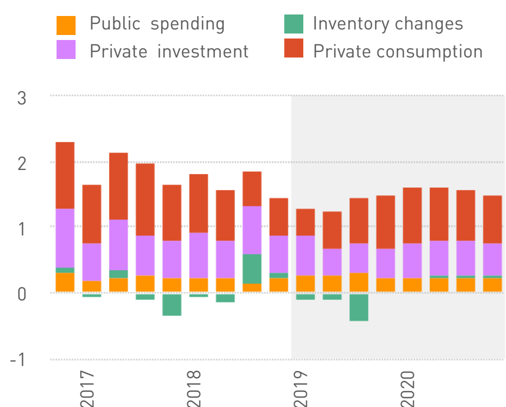
This concern was evident in the statement of the ECB in March and in the recent comments of its president, Mario Draghi, about the aging of the workforce. At its meeting in March, the ECB lowered its economic forecasts and retreated to a more accommodating tone, postponing interest rate increases to 2020 and indicating that it will continue investing in bonds that reach maturity for as long as necessary, and that it will launch a new purchasing program (TLTRO III) starting in September 2019 and ending in March 2021. There are further indications that the ECB may decide over the short term to ramp up standardization of deposit rates to partly counteract the effects of the new measures on the slope of the interest rate curve and provide some further support to the financial sector.

Chart 1.2.2-a
Eurozone: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with ECB data)

Chart 1.2.2-b
Eurozone: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (with ECB data)

Table 1.2.2.
Eurozone: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	1.4	2.0	1.9	2.5	1.8	1.2	1.5
Domestic demand contribution	0.8	2.2	2.3	1.7	1.6	1.2	1.6
External demand contribution	0.6	-0.2	-0.4	0.8	0.2	0.0	0.0
Private consumption contribution	0.5	1.0	1.0	1.0	0.7	0.6	0.8
Private investment contribution	0.1	0.9	0.8	0.6	0.6	0.5	0.5
Contribution made by public spending	0.2	0.3	0.4	0.2	0.2	0.3	0.2
Domestic demand (% YoY, average)	1.3	2.3	2.4	1.8	1.7	1.3	1.6
Total consumption (% YoY, average)	0.9	1.6	1.8	1.6	1.2	1.2	1.4
Private investment (% YoY, average)	1.7	4.6	4.0	2.9	3.1	2.2	2.4
Exports (YoY in %)	4.7	6.4	3.0	5.4	3.1	2.0	2.8
Imports (YoY in %)	4.8	7.5	4.2	4.1	2.9	2.3	3.1
Unemployment rate (%, last quarter)	11.4	10.5	9.7	8.7	7.9	7.6	7.4
Inflation (% YoY, last quarter)	0.2	0.3	0.7	1.4	1.9	1.4	1.7
Fiscal balance (% of GDP)	-2.5	-2.0	-1.6	-1.0	-0.4	-1.1	-1.1
Trade balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax boost (% GDP)	0.1	0.3	0.6	1.0	1.4	0.7	0.7
Current account balance (% of GDP)	2.5	2.9	3.2	3.2	3.0	2.6	2.6
Official interest rate (end of period)	0.05	0.05	0.00	0.00	0.00	0.00	0.25
Short-term rate (end of period)	0.08	-0.13	-0.32	-0.33	-0.31	-0.30	0.10
Long-term rate (end of period)	1.34	1.20	1.04	0.91	1.09	1.25	1.76
Exchange rate vs. USD (end of period)	1.21	1.09	1.05	1.20	1.15	1.16	1.19
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	-0.2	0.9	1.7	2.7	2.7	3.4	3.3
P.S. non-financial lending (% YoY, average)	2.0	8.4	1.7	1.2	1.9	2.5	2.8
P.S. financial lending (% YoY, average)	6.3	17.2	3.9	-1.6	1.9	2.8	2.1
Savings rate (%, average)	12.6	12.5	12.3	11.9	12.1	12.5	12.2

Source: MAPFRE Economic Research (based on data of the ECB)
Forecast end date: April 17, 2017.

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As we stated in the previous report, we expect that the euro will remain low against the dollar (1.16 USD/EUR), due to the persistence of the differentials in growth and interest rates. Even considering the current account and tax problems that the US economy is facing, this situation should revert to equilibrium levels (1.25 USD/EUR).

In terms of balance of risk, the most immediate concerns in the eurozone are limited to: (i) the United States imposing tariffs on automobile exports from the European Union; (ii) deceleration occurring in the pace of economic activity of its main business partners, including China; (iii) the consequences of a Brexit without agreements; and (iv) the sustainability of the public finances of member countries (Italy).

Finally, in May elections will be held to the European Parliament, which will be a bellwether for measuring the degree of influence of populism in its various manifestations and the popular will to move toward greater European integration, as well as providing an indicator of local political trends in some countries (*e.g.*, the general elections may be moved up in Italy if the "Lega" has strong support).

1.2.3 Spain

Differential growth continues in the eurozone

- **The forces driving demand are starting to taper off.**
- **The correction in confidence might appear after the general elections in April.**

In 2018, the Spanish economy grew 2.6% (YoY) for the entire year, and 2.3% (YoY) in the last quarter, demonstrating a decreasing trend. Weakness in activity levels is to a large extent confined to manufactures due to the cooling off of world trade, with exports growing only 1.0%. Domestic demand continues to be robust (up 2.5% YoY in the fourth quarter of the year), with increases in investment (4.4%) and particularly in construction (6.3%). This relative strength contrasts with the signs of weakness that can be seen in the bigger European exporters like Germany and Italy.

The most recent PMIs for Spain for both services and in general are showing positive data (54.7 and 54.5 respectively). Employment, too, continues to increase, with 469,000 new jobs (equivalent or full-time), resulting in an increase in total employment of 2.6% in the latest data.

It is expected that Spain will maintain its growth differential with the eurozone over the short term, resulting in double the zone's figure for 2019. This means that growth will be at around its potential throughout 2019 and 2020. The short-term growth will be 2.3%, which will help create approximately 650,000 new jobs and reduce the unemployment rate to 13.2% (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b). Growth will be strongly based on domestic demand, especially on consumption, and will be supported by the creation of employment, the acceleration of wage income, the effects of the extension of the primary deficit with pre-election transfers, and the continued use of credit; although these are forces that will weaken in the medium term. So, it is foreseeable that both fiscal expansion and the use of savings and income will reach its limits in 2020; the current primary deficit does not appear sustainable; unemployment, albeit elevated, will be in the frictional area; and the savings rate will be the lowest since 2008.

On the other hand, investments will increase (absent serious commercial disruptions), floated by credit flowing to certain corporate segments and the residential sector, as well as thanks to foreign demand for industrial goods. However, foreign trade will not recover the prominence it had in

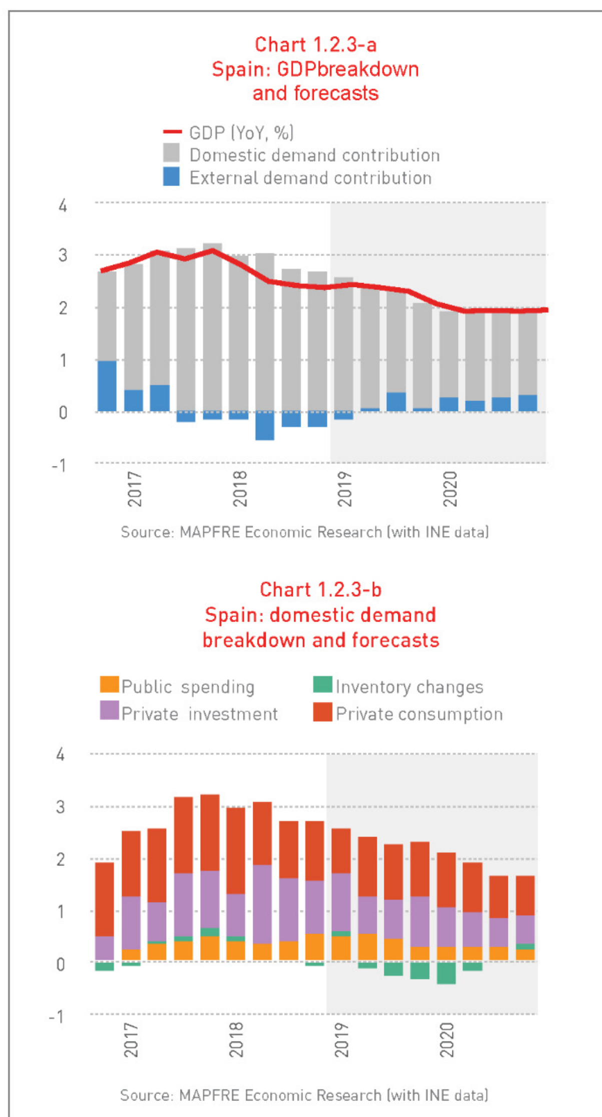

Table 1.2.3.
Spain: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	1.4	3.6	3.2	3.0	2.6	2.3	1.9
Domestic demand contribution	1.3	3.8	2.3	2.8	2.9	2.2	1.7
External demand contribution	0.1	-0.2	0.8	0.1	-0.3	0.1	0.3
Private consumption contribution	0.8	1.7	1.6	1.4	1.3	1.0	0.9
Private investment contribution	0.5	1.4	0.6	1.0	1.1	0.9	0.6
Contribution made by public spending	-0.1	0.4	0.2	0.4	0.4	0.5	0.3
Domestic demand (% YoY, average)	1.9	4.0	2.4	3.0	3.0	2.3	1.8
Total consumption (% YoY, average)	1.0	2.8	2.4	2.4	2.4	2.0	1.6
Private investment (% YoY, average)	4.7	6.7	2.9	4.8	5.2	3.9	2.7
Exports (YoY in %)	4.3	4.2	5.2	5.2	2.2	2.6	3.1
Imports (YoY in %)	6.6	5.4	2.9	5.6	3.7	2.7	2.6
Unemployment rate (%, last quarter)	23.7	20.9	18.6	16.6	14.5	13.2	12.3
Inflation (% YoY, last quarter)	-0.5	-0.3	1.0	1.4	1.7	1.9	1.9
Fiscal balance (% of GDP)	-6.0	-5.3	-4.5	-3.1	-2.7	-2.3	-2.0
Trade balance (% of GDP)	-2.2	-2.0	-1.4	-1.9	-2.5	-2.2	-2.0
Tax boost (% GDP)	-2.5	-2.2	-1.7	-0.5	-0.2	0.1	0.3
Current account balance (% of GDP)	1.0	1.1	2.3	1.9	0.8	0.7	0.8
Official interest rate (end of period)	0.05	0.05	0.00	0.00	0.00	0.00	0.25
Short-term rate (end of period)	0.08	-0.13	-0.32	-0.33	-0.31	-0.30	0.10
Long-term rate (end of period)	1.61	1.77	1.35	1.51	1.41	1.54	2.05
Exchange rate vs. USD (end of period)	1.21	1.09	1.05	1.20	1.15	1.16	1.19
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	-4.9	-3.6	-2.2	-1.5	-0.2	0.9	2.7
P.S. non-financial lending (% YoY, average)	-4.6	-2.8	-2.6	-0.5	-2.7	2.1	2.2
P.S. financial lending (% YoY, average)	-1.4	-6.6	-27.5	-12.2	0.7	2.7	5.5
Savings rate (%, average)	9.3	8.8	8.0	5.7	4.9	4.6	4.2

Source: MAPFRE Economic Research (based on INE data)
Forecast closing date: April 17, 2019.

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previous years before the loss of traction from tourism and global uncertainties (Brexit and possible disruptions in the automobile sector). In this context, it is anticipated that inflation will continue to rise by under 2% (a desirable objective), with underlying inflation close to that of the eurozone at around 1%.

Elections will be held on April 28 in Spain, and the government that will be formed will depend on different combinations of alliances that the political forces will have to reach, as the spectrum is more diffuse than in previous elections. Their economic agendas are quite incompatible, so we will have to see how the interplay of alliances will work out. In any event, the general elections will reduce some domestic uncertainties such as the budget (the state has had no general budget for three years now) and issues regarding domestic territorial policy.

1.2.4 Germany

Dodging recession and declining prospects

- **The German economy is facing some strong headwinds.**
- **Investment and the foreign trade sector in view of greater penalization.**
- **Domestic demand remains robust in a full employment environment.**

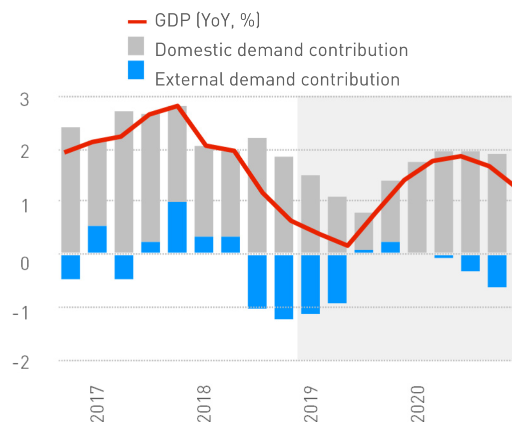
The German economy avoided recession in the fourth quarter 2018. Quarter-on-quarter growth was 0.0%, after -0.2% in the third quarter of the year. This leaves the year-on-year rate for the last quarter of the year at 0.6%, and a battery of indicators confirm the slowdown in economic activity; wholesale activity dropped by 3.7% year-on-year in December, and retail sales were down -1.6% YoY, while automobile sales have been severely handicapped since September. In line with this data, manufacturing PMI fell to its lowest level in six years, to (47.6 in February). The industrial data also contrast with consumer data, as is evident from the GfK consumer confidence index at 10.8. Overall, the composite PMI has remained in positive territory (52.8 in February), but with signs of deterioration.

The labor market is continuing its convergence toward full employment, with an unemployment rate in the neighborhood of 3.2% in February, based on the ILO indicator from the Federal Office of Statistics. Wages have developed favorably, by 2.1% year-on-year in the fourth quarter 2018, a good harbinger of the trend in inflation, moving closer to the target of the central bank.

Germany is facing strong crosswinds, both from the global economic environment and from domestic policy. On one hand, in addition to short-term challenges (such as the potential economic fallout from Brexit), potential relevant problems can be discerned in other quarters, between those faced with the economic downturn in China, the persistent problems in the eurozone, the loss of purchasing power in export market and a turn toward "green" industries. And on the other, the domestic political disarray also constitutes a serious risk that may play out in the slowdown of the German economy.

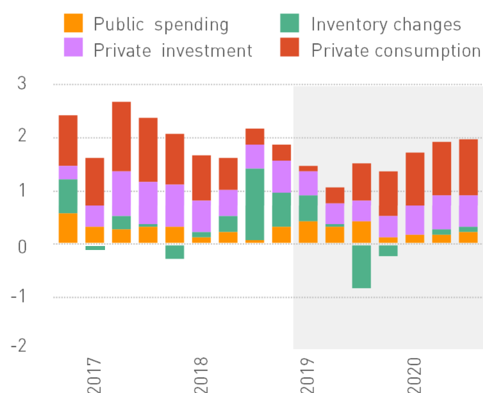
In this context, it was forecast that domestic demand would remain robust in 2019 due to strong wage growth and a possible greater contribution from the public sector. These elements come together in a scenario where an increase of 0.7% is expected at the close of 2019, reverting toward better interest rates in 2020 up to 1.6% (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b).

Chart 1.2.4-a
Germany: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with DESTATIS data)

Chart 1.2.4-b
Germany: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (with DESTATIS data)

Table 1.2.4.
Germany: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	2.2	1.5	2.2	2.5	1.5	0.7	1.6
Domestic demand contribution	1.0	1.3	2.8	2.1	1.8	1.1	1.9
External demand contribution	1.2	0.2	-0.6	0.3	-0.4	-0.4	-0.2
Private consumption contribution	0.6	0.9	1.0	1.1	0.5	0.5	1.0
Private investment contribution	0.4	0.2	0.7	0.7	0.5	0.4	0.6
Contribution made by public spending	0.3	0.5	0.8	0.3	0.2	0.3	0.2
Domestic demand (% YoY, average)	1.6	1.4	3.0	2.3	2.0	1.2	2.0
Total consumption (% YoY, average)	1.2	1.9	2.4	1.9	1.0	1.1	1.7
Private investment (% YoY, average)	3.9	1.0	3.4	3.6	2.7	2.0	2.8
Exports (YoY in %)	4.6	4.8	2.1	5.3	2.2	0.8	2.7
Imports (YoY in %)	3.6	5.2	4.0	5.3	3.4	1.8	3.6
Unemployment rate (%, last quarter)	6.6	6.3	6.0	5.5	5.0	5.1	5.1
Inflation (% YoY, last quarter)	0.2	0.3	1.7	1.7	1.7	1.3	1.6
Fiscal balance (% of GDP)	0.6	0.8	0.9	1.0	1.7	0.6	0.3
Trade balance (% of GDP)	7.8	8.5	8.4	8.2	7.2	6.6	6.3
Tax boost (% GDP)	2.2	2.2	2.0	2.0	2.6	1.7	1.3
Current account balance (% of GDP)	7.5	8.9	8.5	8.0	7.5	6.9	6.6
Official interest rate (end of period)	0.05	0.05	0.00	0.00	0.00	0.00	0.25
Short-term rate (end of period)	0.08	-0.13	-0.32	-0.33	-0.31	-0.30	0.10
Long-term rate (end of period)	0.54	0.63	0.11	0.42	0.17	0.37	0.85
Exchange rate vs. USD (end of period)	1.21	1.09	1.05	1.20	1.15	1.16	1.19
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	1.1	1.9	2.8	3.2	3.9	6.1	5.6
P.S. non-financial lending (% YoY, average)	2.7	1.8	2.1	4.3	7.7	3.5	3.5
P.S. financial lending (% YoY, average)	-7.6	8.4	1.9	-1.2	3.2	3.7	3.6
Savings rate (%, average)	9.4	9.7	10.0	9.8	10.4	10.9	10.5

Source: MAPFRE Economic Research (with DESTATIS data)
Forecast closing date: April 17, 2019.

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Nevertheless, there are still some questions regarding developments over the most recent months, seeing as the German economy is heavily dependent on exports and the international environment is slowing down and protectionist tensions are not easing. Government spending and investments have managed to resist the onset of recession in the past quarter, but the private consumption required to stimulate growth has been missing. Germany currently has sufficient fiscal space to attempt spending policies to stimulate economic growth; measures that are now at the center of debate.

1.2.5 Italy

After the recession: stagnation and sovereign risk

- **Structural reforms need to be implemented in Italy in order to see any improvement in sovereign risk.**
- **Foreign trade will make up for some of the slowdown in levels of economic activity.**

The Italian economy went into recession in the fourth quarter of 2018, contracting 0.1% YoY for the second quarter in a row, with growth at 0.8% for all of 2018. The slowdown in international business and the drop in industrial production all over Europe added to already ailing private consumption. Specifically, Italian industrial production decreased for three months in a row, until recovering in February (up 0.9%). All the same, composite PMI remained in recession territory in purchasing management surveys.

It is our forecast that the Italian economy will pull out of recession starting in the second half of the year, with growth at -0.1% during 2019. Domestic demand will remain feeble, although it is possible that we can expect better performance in foreign trade[3], given the positive replacement effect of tourism and the low friction in value chains worldwide, which may be affected by tariff escalation by the United States against China and the European Union (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b).

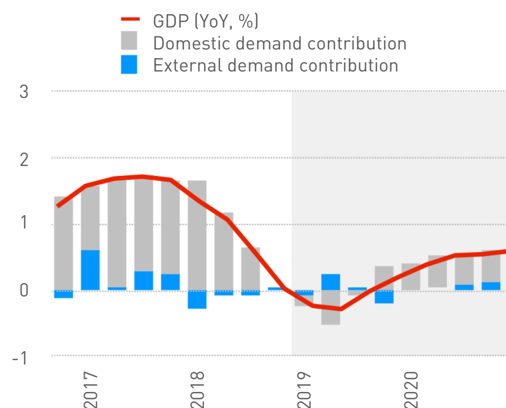
This lethargy in levels of activity coupled with the moderate trend in energy prices has resulted in inflation starting to reduce in Italy, coming in at around 1.0% during the first quarter of this years, with particular weakness in underlying inflation.

Furthermore, country risk has declined for Italy in the past few months, with the 10-year sovereign *spread* dropping by 120 base points since October (currently 2.5%). The markets are rewarding Italy for exercising some fiscal restraint after the threat of the excessive deficit proceedings at the end of 2018, postponing political promises made during the electoral campaign.

Although the fear of a public debt crisis over the short term has temporarily receded, structural problems remain; low growth was a determining factor in the size of the fiscal deficit and public debt in a context in which demographic problems are weighing on the sustainability of the social security system. For this reason and despite the fact that a long or severe recession is not contemplated, prospects for the economy are hardly encouraging, as prolonged stagnation is expected that may send mounting debt on an unsustainable trajectory. The recommendations of the ECB for making reforms that would promote growth, make the economy more competitive and support deleveraging appear to be futile in a governmental situation with no strong parliamentary majorities[4].

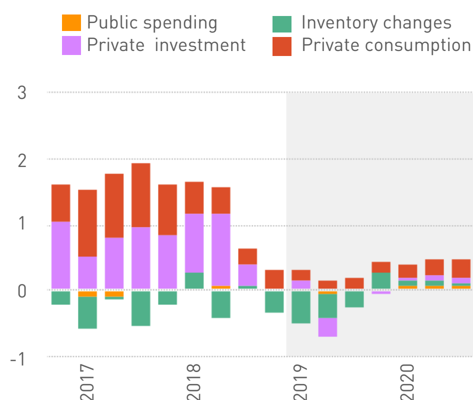
The next focal point for Italian politics will be in the European elections, which will be a bellwether for identifying the strength of the various political parties. With possible signs of a change in forces,

Chart 1.2.5-a
Italy: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with ISTAT data)

Chart 1.2.5-b
Italy: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (with ISTAT data)

Table 1.2.5.
Italy: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	0.2	0.8	1.2	1.7	0.8	-0.1	0.5
Domestic demand contribution	-0.1	1.3	1.6	1.4	0.9	-0.1	0.5
External demand contribution	0.3	-0.5	-0.4	0.3	-0.1	0.0	0.1
Private consumption contribution	0.1	1.1	0.8	0.9	0.4	0.2	0.3
Private investment contribution	-0.4	0.3	0.6	0.8	0.6	-0.1	0.1
Contribution made by public spending	-0.1	-0.1	0.0	0.0	0.0	0.0	0.1
Domestic demand (% YoY, average)	0.3	1.4	1.7	1.4	0.9	-0.1	0.5
Total consumption (% YoY, average)	0.0	1.3	1.0	1.1	0.5	0.2	0.4
Private investment (% YoY, average)	-2.1	1.9	3.7	4.5	3.3	-0.3	0.5
Exports (YoY in %)	2.4	4.2	2.3	6.4	1.4	2.5	2.7
Imports (YoY in %)	3.0	6.7	3.8	5.8	1.8	2.7	2.7
Unemployment rate (%, last quarter)	12.7	11.5	11.8	11.0	10.6	10.5	10.4
Inflation (% YoY, last quarter)	0.1	0.2	0.1	0.9	1.4	1.0	1.3
Fiscal balance (% of GDP)	-3.0	-2.6	-2.5	-2.4	-2.1	-2.6	-2.6
Trade balance (% of GDP)	2.6	2.5	2.9	2.8	2.3	2.4	2.5
Tax boost (% GDP)	1.6	1.5	1.4	1.4	1.6	1.1	1.0
Current account balance (% of GDP)	1.9	1.5	2.5	2.8	2.6	2.6	2.7
Official interest rate (end of period)	0.05	0.05	0.00	0.00	0.00	0.00	0.25
Short-term rate (end of period)	0.08	-0.13	-0.32	-0.33	-0.31	-0.30	0.10
Long-term rate (end of period)	1.88	1.61	1.82	2.00	2.77	3.39	3.88
Exchange rate vs. USD (end of period)	1.21	1.09	1.05	1.20	1.15	1.16	1.19
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	-1.0	-0.3	0.4	1.3	2.0	3.9	3.9
P.S. non-financial lending (% YoY, average)	-2.5	-1.9	-2.1	-2.6	-1.0	1.4	3.9
P.S. financial lending (% YoY, average)	-30.2	-1.4	-0.9	-8.8	-7.3	2.5	6.5
Savings rate (%, average)	11.0	10.3	10.2	9.3	9.6	10.7	10.5

Source: MAPFRE Economic Research (based on ISTAT data)
Forecast closing date: April 17, 2019.

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it would be quite probably that it will result in forcing early general elections.

1.2.6 United Kingdom

Brexit continues to be the focus of uncertainty

- Growth of the British economy stabilized in the uncertainty of Brexit.
- Monetary policy remains in standby mode.

The economy of the United Kingdom recorded an increase of 1.4% YoY in the fourth quarter of 2018, the same as it averaged in the year, and it has slowed down since 2014. We are maintaining our growth estimate of 1.2% for 2019, but with variations regarding its composition, predicting greater domestic consumer strength (1.5% YoY) while exports will show less of an increase (1.2%) and investment will continue on its downward trend (-0.1%) resulting from the uncertainty of Brexit (see Table 1.2.6 and Charts 1.2.6-a and 1.2.6-b). This means that deterioration is expected in various predictive indicators like the service and consumer confidence PMIs, which have both been decreasing for several quarters.

As for inflation, it was 1.9% in February and tending lower since the beginning of 2018, assisted by the recovery of the pound. In its meeting on March 21, the Bank of England held its interest rates at 0.75%. In justification, the central bank stated that while there is no clarity regarding the way out of the European Union, it makes no sense to adopt a different monetary posture. The fact is that while the uncertainty regarding Brexit persists, investment will remain in a holding pattern, with businesses preparing themselves for all possible outcomes. For that matter, with regard to monetary policy no changes are predicted for official interest rates in 2019, and we are forecasting a drop in 2020 in a context of low inflation and stable exchange rates - a position that may change based on economic performance over the next few months and the final results of Brexit.

The European Union accepted the petition of the United Kingdom to extend the departure period to October 31, but with flexible dates, preferably before the agreed date. The agreement was approved with the expectation that the British government would renegotiate a format with Labor and within its own party that would result in a parliamentary majority. Although it is expected that both parties will do whatever is possible to avoid a Brexit without any agreement (which would be commercially and economically very disruptive), the factions in the United Kingdom do not appear to be reaching a consensus and are headed toward early elections[5].

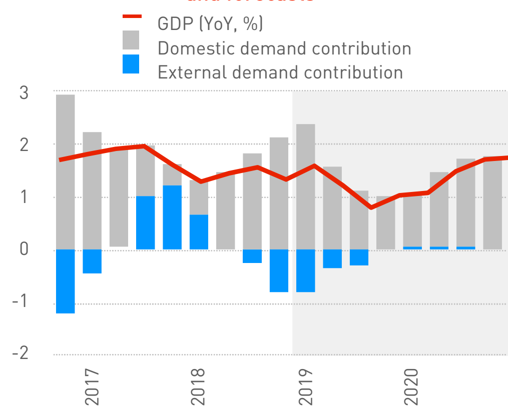
1.2.7 Japan

Continued stagnation in growth

- The continued stagnation in economic activity levels in Japan bolsters monetary laxity.
- Problems with asset deflation and debt continue.

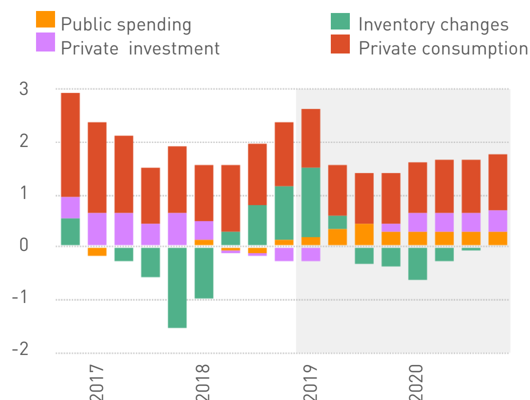
The Japanese economy grew 1.9% YoY (annualized) in the fourth quarter 2018, reversing the contraction of -2.4% YoY recorded in the previous quarter. This results in average growth for 2018 at 0.8%, representing a significant drop from 1.9% in 2017. Given the sluggishness in domestic demand and the problems faced with external markets (tariffs, global deceleration and the electronic consumer cycle), growth in the region of 0.6% is predicted for 2019 and 0.2% in 2020 (see Table 1.2.7 and Chart 1.2.7-a and 1.2.7-b).

Chart 1.2.6-a
United Kingdom: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with data of the Office for National Statistics)

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



Source: MAPFRE Economic Research (with data of the Office for National Statistics)

Table 1.2.6
United Kingdom: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	2.9	2.4	1.8	1.8	1.4	1.2	1.5
Domestic demand contribution	2.6	2.3	2.4	1.4	1.5	1.5	1.5
External demand contribution	0.3	0.0	-0.6	0.5	-0.1	-0.4	0.1
Private consumption contribution	1.3	1.7	2.0	1.4	1.2	1.0	1.0
Private investment contribution	0.7	0.6	0.4	0.6	0.0	0.0	0.4
Contribution made by public spending	0.4	0.3	0.1	0.0	0.0	0.3	0.3
Domestic demand (% YoY, average)	3.6	2.4	2.4	1.4	1.5	1.5	1.5
Total consumption (% YoY, average)	2.1	2.4	2.7	1.6	1.5	1.6	1.6
Private investment (% YoY, average)	7.3	3.4	2.3	3.5	0.0	-0.1	2.2
Exports (YoY in %)	2.3	4.5	1.0	5.7	0.2	1.2	1.9
Imports (YoY in %)	3.8	5.5	3.3	3.5	0.8	2.4	1.7
Unemployment rate (%, last quarter)	5.7	5.1	4.7	4.4	4.0	4.1	4.2
Inflation (% YoY, last quarter)	0.9	0.1	1.2	3.0	2.3	1.9	1.4
Fiscal balance (% of GDP)	-5.4	-4.2	-2.9	-1.8	-1.4	-1.3	-1.1
Trade balance (% of GDP)	-6.6	-6.2	-6.7	-6.7	-6.6	-6.7	-6.8
Tax boost (% GDP)	-2.7	-2.0	-0.5	0.8	1.0	1.2	1.3
Current account balance (% of GDP)	-4.9	-4.9	-5.2	-3.3	-4.1	-4.0	-3.6
Official interest rate (end of period)	0.50	0.50	0.25	0.50	0.75	0.75	0.50
Short-term rate (end of period)	0.56	0.59	0.37	0.52	0.91	0.81	0.67
Long-term rate (end of period)	1.82	2.02	1.28	1.25	1.33	1.53	1.72
Exchange rate vs. USD (end of period)	1.56	1.48	1.23	1.35	1.28	1.36	1.40
Exchange rate vs. euro (end of period)	1.28	1.36	1.17	1.13	1.11	1.17	1.18
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	2.1	3.3	4.4	4.6	3.5	3.4	3.5
P.S. non-financial lending (% YoY, average)	-3.3	-1.9	6.2	9.4	4.9	2.7	2.2
P.S. financial lending (% YoY, average)	-9.1	-13.6	7.4	10.5	0.2	2.9	5.1
Savings rate (%, average)	8.6	9.4	6.8	4.2	4.3	4.3	4.2

Source: MAPFRE Economic Research (based on ISTAT data)
Forecast closing date: April 17, 2019.

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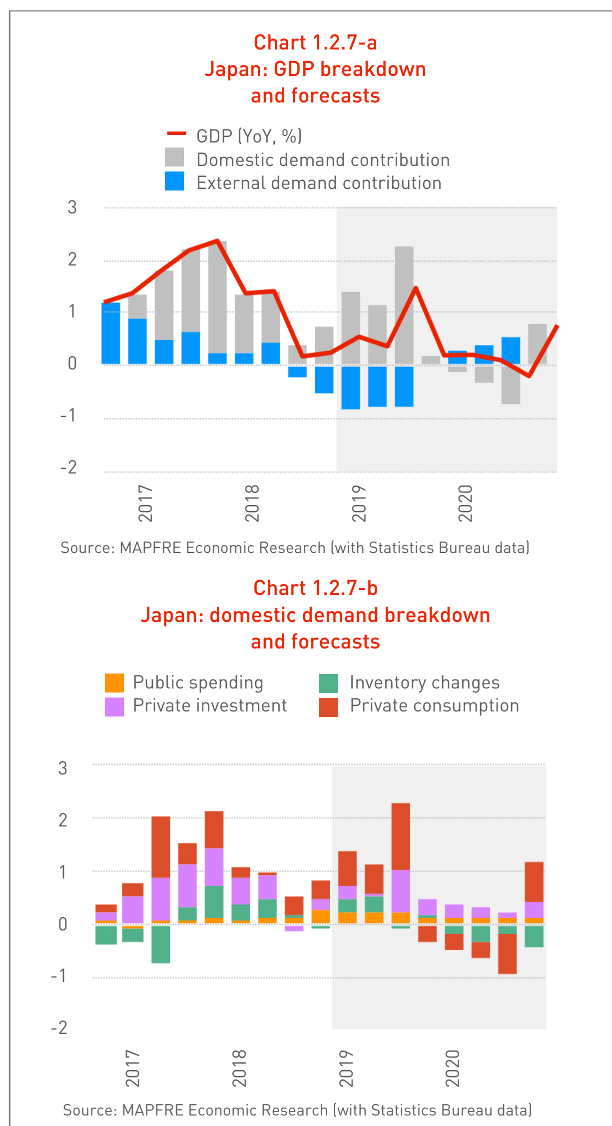

Table 1.2.7.
Japan: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	0.3	1.3	0.6	1.9	0.8	0.6	0.2
Domestic demand contribution	-0.3	0.9	0.0	1.4	0.8	1.2	-0.1
External demand contribution	0.6	0.4	0.6	0.6	0.0	-0.6	0.3
Private consumption contribution	-0.5	-0.1	-0.1	0.6	0.2	0.6	-0.1
Private investment contribution	0.4	0.4	-0.1	0.7	0.3	0.3	0.2
Contribution made by public spending	0.1	0.3	0.3	0.1	0.2	0.2	0.1
Domestic demand (% YoY, average)	0.3	0.9	0.0	1.3	0.8	1.2	-0.1
Total consumption (% YoY, average)	-0.6	0.3	0.3	0.9	0.5	1.0	0.0
Private investment (% YoY, average)	3.0	1.7	-0.3	3.0	1.1	1.5	0.8
Exports (YoY in %)	9.3	3.0	1.7	6.8	3.2	-0.7	3.1
Imports (YoY in %)	8.4	0.7	-1.6	3.4	3.3	2.5	1.0
Unemployment rate (%, last quarter)	3.5	3.3	3.0	2.7	2.4	2.3	2.4
Inflation (% YoY, last quarter)	2.5	0.2	0.3	0.6	0.9	1.7	0.5
Fiscal balance (% of GDP)	-5.4	-3.6	-3.4	-3.7	-3.4	-3.5	-3.2
Trade balance (% of GDP)	-2.0	-0.2	1.0	0.9	0.2	-0.7	-0.2
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	0.8	3.1	3.9	4.1	3.5	2.5	2.9
Official interest rate (end of period)	0.10	0.00	-0.10	-0.10	-0.10	0.00	0.00
Short-term rate (end of period)	0.11	0.08	-0.05	-0.02	-0.07	0.01	0.01
Long-term rate (end of period)	0.33	0.27	0.04	0.05	0.01	0.13	0.16
Exchange rate vs. USD (end of period)	119.90	120.30	116.80	112.70	109.70	110.40	109.70
Exchange rate vs. euro (end of period)	145.50	130.90	123.10	135.10	125.61	127.80	130.90
Private lending (% YoY, average)	2.2	2.1	2.2	4.6	3.0	3.0	2.1
Household lending (% YoY, average)	0.8	1.2	1.3	1.8	2.3	0.3	0.2
P.S. non-financial lending (% YoY, average)	0.4	0.5	2.1	2.6	2.1	2.3	1.7
P.S. financial lending (% YoY, average)	8.5	7.7	-0.3	7.9	6.6	4.6	1.8
Savings rate (%, average)	-0.4	0.8	2.6	3.0	4.3	3.9	4.4

MAPFRE Economic Research (with Statistics Bureau data base)
Forecast closing date: April 17, 2019.

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Only a better perspective for public spending on infrastructures due to the 2020 Olympics and the possibility that the application for increasing VAT (from 8% to 10% in October 2019) may be withdrawn would predicate risks of rises in this forecast.

National inflation in January was 0.2%, while the February indicator for Tokyo was 0.6%, both values in consonance with the ongoing flat structural environment in levels of economic activity. Inflation is expected to pick up somewhat for 2019 but driven by tax increase and not so much by the effect of the labor market, despite near full employment, given wage restraint.

In addition, the Bank of Japan is maintaining its official interest rates at -0.10%, as expected. In its last meeting in March, the central bank lowered its expectations for exports and production but did not change its overall economic outlook. The governor of the bank has indicated caution regarding some less positive recent data that he associates with foreign deceleration, but he remains positive about the economy overall, and so has moderated expectations regarding whether there would be any additional monetary expansion. The lack of inflationary pressures and the provision of monetary stimulus through expansion of the balance sheet (with the accumulation of purchases exceeding the country's GDP in December) could result in the decision to make no further changes throughout 2019.

The yen has gradually depreciated against the dollar throughout 2018, except when it was suddenly revalued in December and January of this year in response to the behavior of world markets in those months, but it then returned to levels around 111 JPY/USD. Due to the rate differential with the United States, the yen may continue to depreciate slowly in 2019 down to a level of 105-110 JPY/USD.

2019 will be a year with a full agenda; parliament elections in July, the coronation of the new emperor on May 1, local elections in April, the G20 meeting in June in Osaka and visits by the presidents of the United States and China.

1.2.8 Turkey

Only pulling out of recession at the end of the year

- The descent of the Turkish economy into recession territory is confirmed.
- Political uncertainty renewed after the local elections.

GDP for the fourth quarter 2018 confirms that the Turkish economy has entered into recession terrain, with the economy contracting for the second consecutive quarter (-2.4% QoQ), with year-on-year contraction of 3.0% (un-adjusted). Domestic demand registered a contraction of 8.9%, while private investment in imports display the same, with declines of 12.9% and 24.4% YoY respectively.

The physical commercial sector continues to show signs of slowdown, with the main indicators of activity registering contractions in December. Industrial production (-9.8% YoY), automobile sales (-43.4% in January), the manufacturing PMI (46.4 in February) and consumer confidence (57.9 compared to an average of 69 for the last five years) clearly show that the context continues to be recessive. In the same way, the labor market has weakened, and the unemployment rate stood at 13.5% in December 2018, compared with 9.6% the previous April. As a result, we predict that the recession will only end by the last quarter of 2019, estimating that growth of the GDP for all of 2019 will be -1.9% (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b).

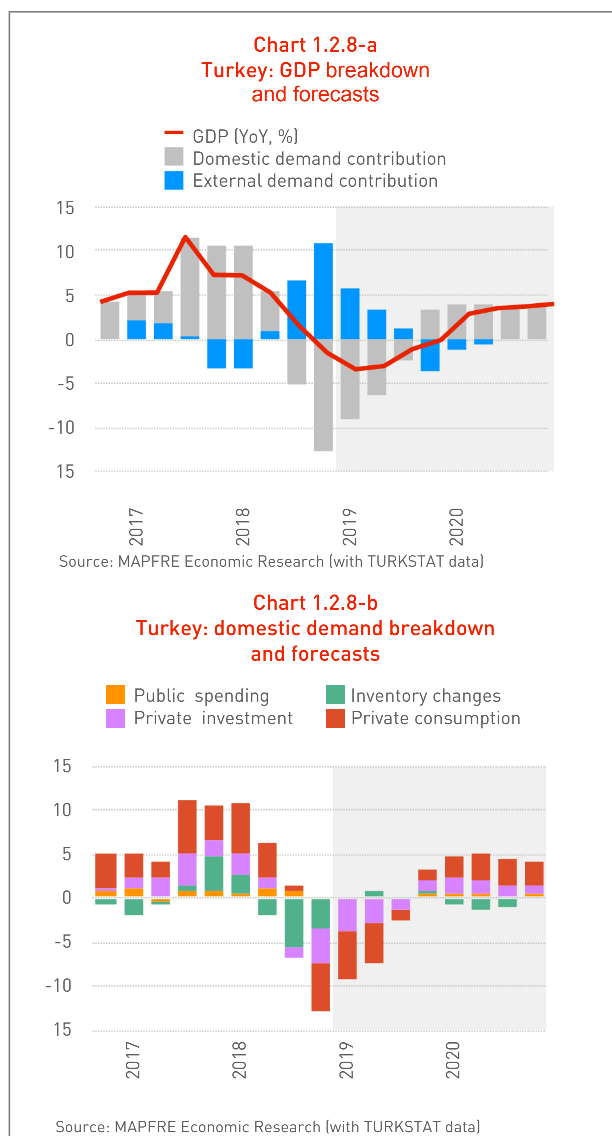

Table 1.2.8.
Turkey: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	5.3	6.0	3.3	7.4	2.9	-1.9	3.5
Domestic demand contribution	3.4	5.5	4.6	7.1	-0.7	-3.6	3.9
External demand contribution	1.9	0.5	-1.3	0.3	3.8	1.7	-0.4
Private consumption contribution	1.9	3.4	2.2	3.7	1.2	-2.5	2.8
Private investment contribution	1.3	2.7	0.7	2.3	-0.3	-1.6	1.4
Contribution made by public spending	0.4	0.5	1.3	0.7	0.6	0.2	0.4
Domestic demand (% YoY, average)	3.2	5.4	4.5	7.0	-0.5	-3.5	4.1
Total consumption (% YoY, average)	3.0	5.1	4.7	5.9	2.5	-3.0	4.4
Private investment (% YoY, average)	5.5	9.1	2.4	7.7	-1.2	-5.4	5.2
Exports (YoY in %)	8.3	4.3	-1.7	12.0	7.3	8.4	5.3
Imports (YoY in %)	-0.3	1.8	3.7	10.2	-6.4	-0.9	8.0
Unemployment rate (%, last quarter)	10.7	10.5	12.1	10.3	12.3	12.7	12.0
Inflation (% YoY, last quarter)	8.8	8.2	7.6	12.3	22.4	14.5	10.4
Fiscal balance (% of GDP)	-1.1	-1.1	-1.3	-1.6	-1.9	-2.2	-2.4
Trade balance (% of GDP)	-6.8	-5.6	-4.7	-6.9	-5.3	-2.2	-1.6
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-4.7	-3.7	-3.8	-5.6	-3.5	0.1	0.3
Official interest rate (end of period)	8.51	8.81	8.31	12.75	24.00	20.00	17.50
Short-term rate (end of period)	9.79	11.47	9.90	14.61	24.07	22.50	17.74
Long-term rate (end of period)	7.96	10.74	11.40	11.72	16.53	15.02	14.42
Exchange rate vs. USD (end of period)	2.33	2.92	3.52	3.79	5.29	5.49	5.56
Exchange rate vs. euro (end of period)	2.83	3.18	3.71	4.55	6.06	6.25	6.54
Private lending (% YoY, average)	23.2	23.0	12.8	20.6	18.3	8.6	10.2
Household lending (% YoY, average)	16.3	12.5	7.1	17.5	9.8	6.2	15.2
P.S. non-financial lending (% YoY, average)	30.1	29.9	14.7	24.3	20.9	2.8	18.4
P.S. financial lending (% YoY, average)	22.4	26.4	9.0	27.2	25.1	0.9	16.4
Savings rate (%, average)	26.2	28.3	32.8	31.0	28.4	29.4	24.2

Source: MAPFRE Studies Service (with TURKSTAT data base)
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We will need to wait for the public policy plan and the correction of imbalances to restore confidence for credit to start flowing to the private sector again. Currently, it appears that the public banks are inclined to extend credit to businesses and homes to compensate for the pullback from private banking, which may bear fruit but is still a strategy not totally free of risk, after so many years of economic growth fueled by credit. Public bank participation in overall lending is 43%.

In prices, inflation reached 19.7% in March, although moderating from the 25.4% YoY it reached in October. The increase in prices was mainly explained by the pass-through effect of the exchange rate and inflationary trends in food prices. The latest data suggest that the October data were a maximum, and that prices should continue to moderate, unless oil prices experience an unexpected spike. Overall, and taking basic effects into account, our forecasts show that inflation should stay at high levels until the second half of 2019.

Thanks to a more restrictive monetary policy, structural pressure on the currency has slackened with the adjustment to the current account and over the last six months, but the major need for financing in dollars is a weak spot for the economy, and the pressure on the currency does not allow much leeway for drops in interest rates. Thus, if new risks were perceived to affect the Turkish lira, it is highly likely that the central bank will be obliged to implement new rate hikes. Nevertheless, our basic scenario assumes that this will not be the case, and that the official interest rate should slowly move toward levels below 20%.

Pressure has resumed on the exchange rate and on corporate bond yields of late, due to the political uncertainty experienced with the local election results, where the government party (after ratification of the recount by the high commission) not only lost Ankara (and Izmir), but possibly also Istanbul as well.

1.2.9 Mexico

More heightened deceleration than expected

- **Greater deceleration than expected leading to a moderate increase but with some room for improvement.**
- **Financing conditions for the economy are still affected by its restrictive monetary posture.**

The Mexican economy grew 1.7% year-on-year in the fourth quarter 2018 (displaying deceleration in activity levels greater than expected), resulting in an annual average in the area of 2.0%, below the potential of the economy and the average observed in the previous years. Investments and exports are enduring the effects of the commercial uncertainty due to the pending ratification of the USMCA as well as the adaptation of the economic policy by the new federal administration, although it is expected that both factors will dissipate, making way for a new contribution to growth.

It can be expected that the greater part of the growth will devolve on domestic demand, particularly on consumption[6] over the next few months, given the strength of the labor market and the credit impulse. Foreign trade, on the other hand, may offset growth due to an increase in imports after the appreciation in the currency (the Mexican peso is the currency that has appreciated the most so far in 2019). Given the environment, an increase in GDP of 1.5% is expected in 2019, with possibility for improvement in the following years based on the conclusion of the

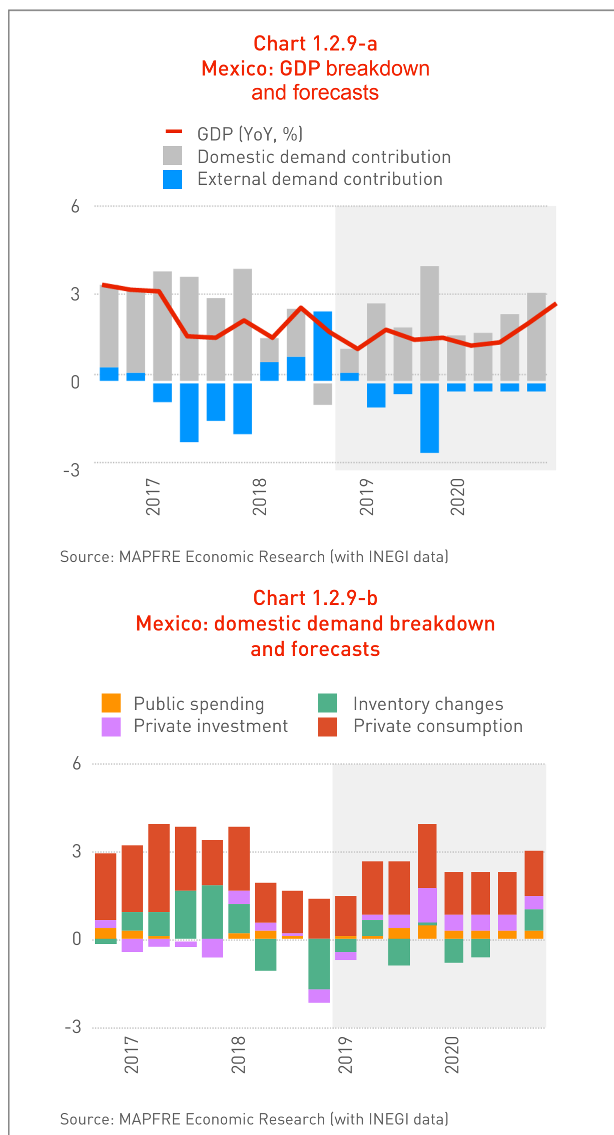

Table 1.2.9
Mexico: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	2.8	3.3	2.7	2.3	2.0	1.5	1.8
Domestic demand contribution	2.0	2.5	2.2	3.3	1.4	2.3	2.2
External demand contribution	0.8	0.8	0.4	-0.9	0.6	-0.8	-0.3
Private consumption contribution	1.4	1.8	2.3	2.2	1.6	1.8	1.5
Private investment contribution	0.3	1.1	0.2	-0.3	0.1	0.4	0.5
Contribution made by public spending	0.3	0.2	0.3	0.1	0.2	0.3	0.3
Domestic demand (% YoY, average)	2.5	2.5	2.2	3.3	1.4	2.3	2.2
Total consumption (% YoY, average)	2.2	2.6	3.4	3.0	2.2	2.6	2.2
Private investment (% YoY, average)	3.0	5.1	1.1	-1.6	0.5	2.2	2.6
Exports (YoY in %)	6.9	8.6	3.7	4.0	5.8	5.3	3.9
Imports (YoY in %)	5.9	6.0	2.4	6.7	6.1	5.5	4.7
Unemployment rate (%, last quarter)	4.4	4.2	3.5	3.3	3.3	3.9	3.7
Inflation (% YoY, last quarter)	4.2	2.3	3.2	6.6	4.8	3.8	3.4
Fiscal balance (% of GDP)	-4.5	-4.0	-2.8	-1.1	-2.3	-2.2	-2.5
Trade balance (% of GDP)	-0.2	-1.2	-1.2	-0.9	-1.1	-2.6	-2.8
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-1.9	-2.6	-2.3	-1.7	-1.8	-2.6	-2.9
Official interest rate (end of period)	3.00	3.25	5.75	7.25	8.25	8.25	7.25
Short-term rate (end of period)	2.92	3.29	5.87	7.31	8.50	8.53	8.43
Long-term rate (end of period)	5.79	6.28	7.42	7.66	8.70	8.18	7.96
Exchange rate vs. USD (end of period)	14.74	17.20	20.74	19.67	19.65	19.23	19.37
Exchange rate vs. euro (end of period)	17.90	18.73	21.86	23.59	22.50	22.25	23.12
Private lending (% YoY, average)	10.8	13.6	16.3	12.1	10.7	2.9	4.8
Household lending (% YoY, average)	8.1	8.4	12.8	10.0	8.3	4.3	3.8
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	9.8	-11.4	3.5	1.7	-1.3	14.7	15.5
Savings rate (%, average)	13.8	14.6	12.8	10.7	12.0	9.4	9.1

Source: MAPFRE Economic Research (based on INEGI data base)

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recent North American trade agreement as well as the direction that the economic policy of the new government is taking (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

With inflation at 4.0% (March) and underlying inflation at 3.55%, both in the target range of 3-4% of the Bank of Mexico, and the US Federal Reserved taking a more accommodating posture, room for lowering interest rates by the end of 2019 can be discerned. Despite this, up to now the central bank has been cautious about changing its monetary posture. The funding rate is at 8.25%, resulting in the real rate being in the area of 4%, twice neutral.

The monetary policy has been linked to the monetary and real cycle of the United States, along with stabilization of portfolio flows that have contributed to the appreciation of the peso. The exchange rate closed March at 19.42 MXN/USD, appreciating slightly from 19.65 MXN/USD. As mentioned above, the Mexican peso is the emerging currency that has appreciated the most in 2019.

The country risk premium is heavily affected by the needs for financing from Petróleos Mexicanos (PEMEX). The announcement of possible support from the Oil Revenue Stabilization Fund has lowered the tension for now, although the markets are maintaining their posture in that there is a need for a more extensive business plan for the petroleum company that will guarantee its long-term financial viability, while in addition contributing to stability of public finances, given their extensive dependence on oil revenue.

1.2.10 Brazil

Revised downward expectations

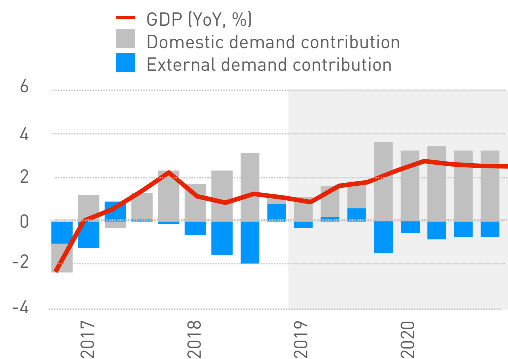
- **Activity in the Brazilian private sector will have to make up for the drop in public spending.**
- **Structural reforms remain distant, a fact which may affect the sustainability of public accounts.**

The Brazilian economy grew 1.1% in 2018 (0.1% in the last quarter); a drop caused not just by a foreign context to the drop but also due to internal weaknesses. Reduction in the rate of activity in the fourth quarter of 2018 was due primarily to investment and the Cost of government, which must be compensated with higher private consumption and exports.

As a result of the deceleration, we have adapted our expectations, lowering our project to 1.7% in 2019 from the 2.3% indicated in our previous report (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b). Hence, private consumption (up 1.5% in the fourth quarter 2018), investment (up 3.0%) and exports (up 12%) are the factors where the economy must find support, given the current tendency to decrease public spending.

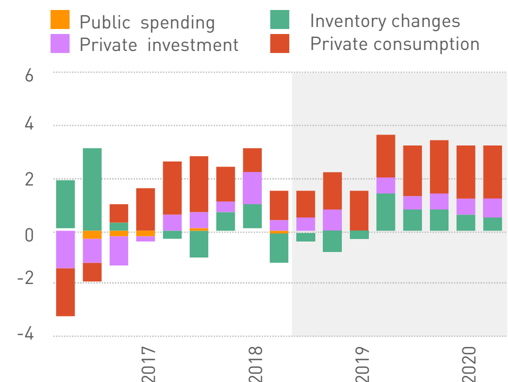
As for inflation, it does not appear to be a worry at this point in time, coming in at 3.9% in February, a relatively low level compared to historical standards. And so, the Brazilian central bank set its Selic rates at 6.5% in its meeting of 20 March, unchanged. Interest rates are expected to remain at this level throughout 2019, in a context of lowered inflationary pressures where the other central banks are also maintaining a holding pattern.

Chart 1.2.10-a
Brazil: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with data of the Brazilian Institute of Geography and Statistics (IBGE)

Chart 1.2.10-b
Brazil: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (with data of the Brazilian Institute of Geography and Statistics (IBGE)

Table 1.2.10
Brazil: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	0.5	-3.6	-3.3	1.1	1.1	1.7	2.6
Domestic demand contribution	0.5	-7.1	-5.1	1.1	1.9	1.9	3.3
External demand contribution	0.0	3.6	1.9	-0.1	-0.8	-0.2	-0.7
Private consumption contribution	1.5	-2.2	-2.7	0.9	1.3	1.4	2.0
Private investment contribution	-0.8	-2.9	-2.3	-0.4	0.7	0.5	0.6
Contribution made by public spending	0.1	-0.2	0.0	-0.2	0.0	0.0	0.0
Domestic demand (% YoY, average)	0.2	-6.7	-4.9	1.1	1.9	1.8	3.2
Total consumption (% YoY, average)	2.0	-2.8	-3.1	0.9	1.5	1.6	2.3
Private investment (% YoY, average)	-4.1	-14.0	-12.0	-2.5	4.1	2.9	3.8
Exports (YoY in %)	-1.3	6.8	0.8	5.8	3.5	3.4	3.8
Imports (YoY in %)	-2.3	-14.1	-9.7	5.6	7.7	4.1	6.9
Unemployment rate (%, last quarter)	6.5	9.0	12.0	11.8	11.6	10.4	9.5
Inflation (% YoY, last quarter)	6.5	10.4	7.0	2.8	4.1	3.7	4.0
Fiscal balance (% of GDP)	-6.0	-10.2	-9.0	-7.8	-7.1	-6.4	-5.7
Trade balance (% of GDP)	-0.3	1.0	2.5	3.1	2.9	2.7	2.1
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-4.1	-3.0	-1.3	-0.4	-0.8	-1.1	-1.3
Official interest rate (end of period)	11.75	14.25	13.75	7.00	6.50	6.50	8.00
Short-term rate (end of period)	11.65	14.15	13.65	6.90	6.40	6.42	7.99
Long-term rate (end of period)	12.25	16.10	11.36	10.24	9.28	8.73	8.87
Exchange rate vs. USD (end of period)	2.66	3.90	3.26	3.31	3.87	3.89	3.91
Exchange rate vs. euro (end of period)	3.22	4.25	3.43	3.97	4.44	4.50	4.67
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	14.1	10.1	4.3	4.6	6.8	15.1	16.0
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (%, average)	20.3	18.2	17.3	18.3	18.5	18.6	18.2

Source: MAPFRE Economic Research (based on data of the Brazilian Institute of Geography and Statistics, IBGE) Forecast end date: April 17, 2018.

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The Brazilian government has presented its social security reform plan to Congress, with increases in retirement age and benefit calculation periods, but the approval of these measures entails a constitutional change, making them difficult to bring about. Other domestic weaknesses are the poor state of regional public accounts, increasing debt and a public sector payroll that is high and getting higher. To achieve this, the government will have to promote and manage to advance structural reforms while the markets will still give them the benefit of the doubt.

The Brazilian real has remained relatively stable. In this context, it is predicted to move within a range of 3.80-3.90 USD/BRL over the next few months.

1.2.11 Argentina

Macroeconomic adjustment and elections in 2019

- **A severe recession that appears to be working itself out in 2019 with the implementation of severe adjustments.**
- **Argentina will need to refinance its foreign commitments or receive additional assistance from the IMF.**

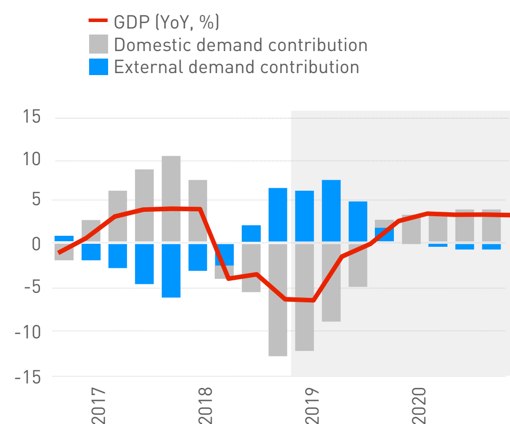
Recession deepened in the Argentine economy in the fourth quarter of 2018, recording further contraction (-1.2% QoQ). However, it is expected that this additional decline represents a turning point, and from here on it will gradually return to normal, reaching positive terrain starting from the fourth quarter of the year. Based on this, the outlook for all of 2019 is a contraction of 1.4%, raising the unemployment rate to approximately 10% (see Table 1.2.11 and the Charts 1.2.11-a and 1.2.11-b).

The contraction in the level of economic activity basically originates in the correction of serious imbalances that have accumulated over recent years: the required adjustment of the twin deficit (fiscal and current account) and the effort to deleverage in foreign currency to accept IMF help in 2018 (for approximately 50 billion dollars).

For this, the public deficit must be corrected to 0.5% of the GDP in accordance with the commitments agreed to, meaning that the adjustment in public spending will have to be quite considerable. Likewise, foreign currency leverage is over 75% of the GDP, and the effects of high inflation (over 49% in February) and currency depreciation (over 100% since the correction started) make this task highly complex. Furthermore, in order to continue with the adjustments Argentina will need to refinance its foreign commitments or receive addition IMF assistance in 2021, of which the latter option seems most likely.

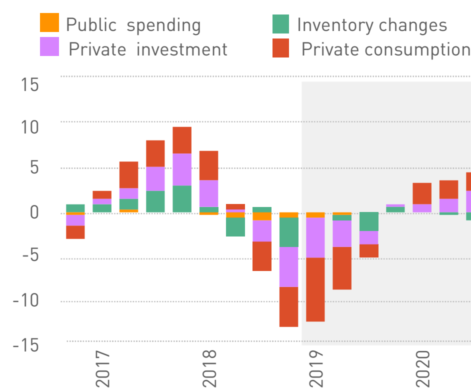
The severe adjustment that the country still needs to undergo, the deterioration of income levels in general (especially for public sector employees), the still persistent inflation (which is not expected to drop below 30% throughout 2019) and the grueling financial conditions expected for both this year and next (with an exchange rate close to 45 ARS/USD and the LELIQ funding rate over 25%) will present a challenge to the reelection of President M. Macri in 2019; and even more so if, on top of all this, the Argentine government has to ask for help from the IMF again. Despite this complex environment, the polls are in favor of Mauricio Macri, and in any event, whoever takes over the Casa Rosada will be in the middle of a macroeconomic adjustment that has already commenced.

Chart 1.2.11-a
Argentina: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with INDEC data)

Chart 1.2.11-b
Argentina: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (with INDEC data)

Table 1.2.11
Argentina: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	-2.5	2.7	-1.7	2.8	-2.5	-1.4	3.2
Domestic demand contribution	-4.2	4.4	-1.4	6.7	-3.2	-6.3	3.7
External demand contribution	1.7	-1.7	-0.4	-3.9	0.7	4.9	-0.5
Private consumption contribution	-3.1	2.5	-0.7	2.5	-1.0	-3.4	2.2
Private investment contribution	-1.2	0.7	-0.9	2.1	-0.8	-2.2	1.8
Contribution made by public spending	0.4	0.9	0.0	0.3	-0.4	-0.1	0.2
Domestic demand (% YoY, average)	-3.8	4.2	-1.3	6.3	-2.9	-5.6	3.5
Total consumption (% YoY, average)	-3.2	4.1	-0.8	3.3	-1.7	-4.0	2.8
Private investment (% YoY, average)	-6.6	3.4	-4.8	10.8	-3.2	-10.7	10.1
Exports (YoY in %)	-6.8	-2.8	6.0	0.4	-1.5	9.2	4.5
Imports (YoY in %)	-11.2	4.9	6.0	14.9	-2.6	-10.3	5.5
Unemployment rate (%, last quarter)	6.9	7.0	7.6	7.2	8.3	9.0	8.5
Inflation (% YoY, last quarter)	44.2	26.0	39.3	23.3	47.4	30.6	20.6
Fiscal balance (% of GDP)	-4.8	-5.9	-5.8	-6.0	-5.1	-3.6	-3.5
Trade balance (% of GDP)	1.0	-0.1	0.8	-0.9	-0.3	3.0	2.7
Tax boost (% GDP)	-3.2	-3.9	-4.1	-3.7	-2.3	-0.3	0.5
Current account balance (% of GDP)	-1.6	-2.7	-2.7	-5.0	-5.5	-2.4	-2.5
Official interest rate (end of period)	25.33	33.00	24.75	28.75	59.25	35.00	25.00
Short-term rate (end of period)	16.00	26.00	26.75	30.75	74.83	37.13	26.94
Long-term rate (end of period)	9.36	6.65	7.00	5.91	10.86	8.99	8.46
Exchange rate vs. USD (end of period)	8.60	13.00	15.90	18.60	37.70	47.70	54.40
Exchange rate vs. euro (end of period)	10.40	14.20	16.70	22.40	43.17	55.20	64.90
Private lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (%, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: MAPFRE Economic Research (with INDEC data base)
Forecast closing date: April 17, 2019.

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1.2.12 China

The macroeconomic policy is managing to stabilize growth

- A new growth stimulus is supporting expansion, with fiscal incentives for the private sector.
- What's more, the growth may benefit from the resolution of commercial conflicts.

The Chinese economy ended 2018 with GDP growth of 6.4% in the fourth quarter, reaching an annual average of 6.6%. Based on this, the current outlook is deceleration in the rate of activity to an area approximately 6% on average for all of 2019 and 2020 (See Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

Deceleration in the rate of economic activity came from various sources: the exhaustion of the global cycle, a pronounced cooling off in the residential sector, greater economic uncertainty, and especially the reduction in public stimulus (credit) that came about in the past year (putting the economy on the *fast track* to normalization). In fact, there has been a reduction in these stimuli that, as per the *Government Work Report 2019*, has involved a certain disarray in the adjustment and has activated the protocol for its relaxation. Therefore, it is expected that over the coming months the economic policy will seek to maintain a certain equilibrium between macro-prudential stability and growth that in any event is now enshrined in a somewhat lower target (between 6% and 6.5%, according to the report.

This balanced adjustment predicates a greater fiscal imbalance through infrastructure expenses and promotion of credit now concentrated on small and midcap enterprises, as well as one-off tax rebates for the small size corporate sector and families. The fiscal stimulus that this entails will be approximately an additional 1.5% over the GDP, seeing as the public deficit will be above 6% in the middle of 2020. This renewed fiscal stimulus will adapt to the normalization of the monetary policy currently focusing on achieving neutrality after 2018, spearheaded by aggressive reductions in the monetary posture through reserve requirements and key interest rates.

The yuan is currently stable, although it may strengthen slightly over the course of the year in a context of still strong economic growth, controlled inflation and with the Federal Reserve's '*on hold*' monetary policy.

Risks to economic activity in China are balanced, so we accord equal probability to deviations for both greater and less growth. The possible commercial agreement with the United States (and its compliance) reduces short-term tensions and risks but sets the stage for commercial challenges in the more distant future.

1.2.13 Indonesia

Toward the change in interest rate cycles by 2019

- Indonesia has been maintaining a consistent rate of growth, thanks to stimulus from domestic demand.
- Its macroeconomic policy will be centered on stability.

The Indonesian economy grew 5.2% in the fourth quarter of 2018 (sustained pace over the last three years), although the cooling of the foreign environment now has to be taken into consideration. It is expected that growth in 2019 and 2020 will manage to continue at the rate of previous years (averaging about 5%), supported in all components of the GDP, with private consumption increasing to 5.1% and investment at 6.0% (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

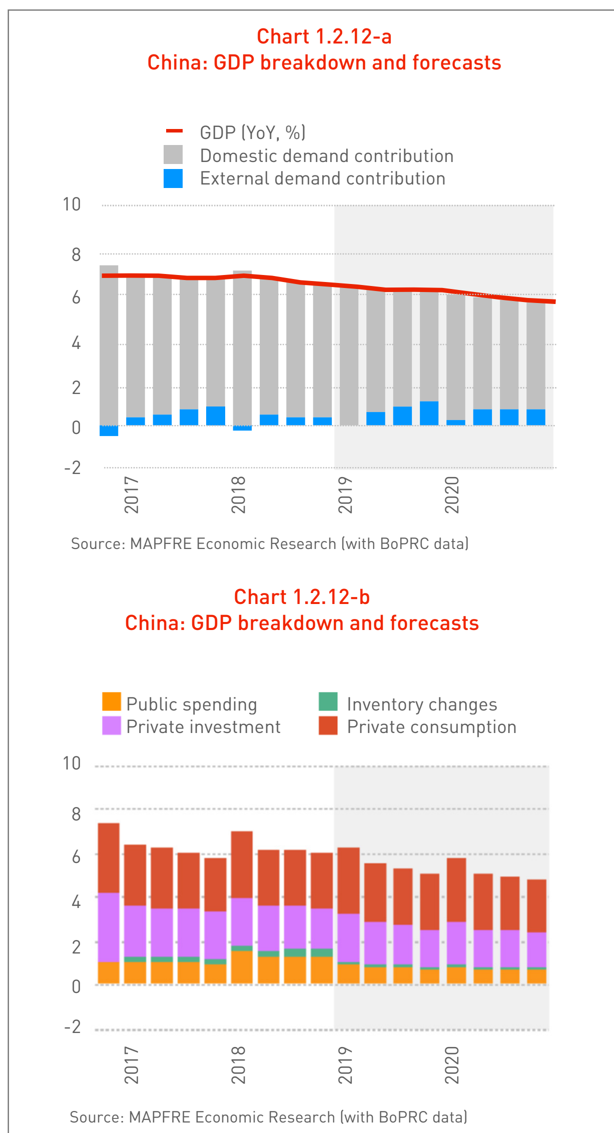

Table 1.2.12
China: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	7.3	6.9	6.7	6.8	6.6	6.2	5.8
Domestic demand contribution	5.7	6.9	7.3	6.1	6.3	5.5	5.1
External demand contribution	1.6	0.0	-0.6	0.6	0.3	0.7	0.6
Private consumption contribution	3.1	3.1	3.1	2.6	2.6	2.7	2.5
Private investment contribution	2.2	3.3	3.1	2.2	2.0	1.9	1.7
Contribution made by public spending	0.4	0.9	1.1	1.1	1.4	0.9	0.8
Domestic demand (% YoY, average)	7.1	7.1	7.5	6.2	6.5	5.7	5.3
Total consumption (% YoY, average)	7.1	8.0	8.5	7.2	7.8	6.8	6.3
Private investment (% YoY, average)	6.9	7.3	6.7	4.8	4.4	4.4	4.0
Exports (YoY in %)	5.4	0.5	1.8	6.6	4.8	2.1	4.1
Imports (YoY in %)	7.7	0.6	3.2	8.2	7.0	3.1	4.8
Unemployment rate (%, last quarter)	4.1	4.1	4.0	3.9	3.8	3.8	3.8
Inflation (% YoY, last quarter)	1.5	1.5	2.2	1.8	2.2	2.5	2.3
Fiscal balance (% of GDP)	-1.8	-3.4	-3.8	-3.7	-4.2	-4.2	-4.2
Trade balance (% of GDP)	4.2	5.3	4.4	3.9	2.9	2.8	2.7
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	2.3	2.8	1.8	1.4	0.4	0.2	0.3
Official interest rate (end of period)	4.96	2.32	2.59	3.09	3.04	3.34	3.35
Short-term rate (end of period)	5.75	3.05	4.25	5.53	3.70	3.65	3.59
Long-term rate (end of period)	3.63	2.82	3.05	3.91	3.26	3.81	3.96
Exchange rate vs. USD (end of period)	6.20	6.49	6.94	6.51	6.88	6.58	6.47
Exchange rate vs. euro (end of period)	7.53	7.07	7.32	7.80	7.87	7.62	7.73
Private lending (% YoY, average)	13.41	4.81	3.3	10.5	12.0	13.3	9.6
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (%, average)	39.7	39.3	38.3	38.6	38.5	38.3	38.1

Source: MAPFRE Economic Research (based on BoPRC data)
Forecast closing date: April 17, 2019.

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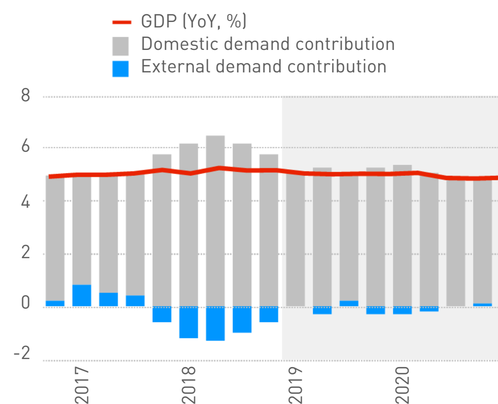
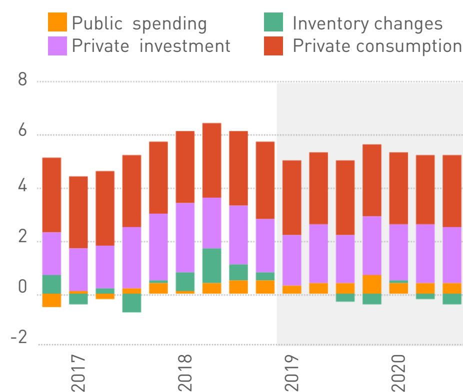
Chart 1.2.13-a
Indonesia: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with BPS data)

Chart 1.2.13-b
Indonesia: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (with BPS data)

Table 1.2.13
Indonesia: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	5.0	4.9	5.0	5.1	5.2	5.0	4.9
Domestic demand contribution	4.6	3.9	4.9	4.8	6.2	5.1	5.0
External demand contribution	0.4	0.9	0.1	0.3	-1.0	-0.1	-0.1
Private consumption contribution	2.9	2.7	2.8	2.8	2.8	2.8	2.7
Private investment contribution	1.0	1.6	1.5	2.0	2.2	2.0	2.1
Contribution made by public spending	0.1	0.5	0.0	0.2	0.4	0.5	0.5
Domestic demand (% YoY, average)	5.3	4.0	5.0	4.8	6.3	5.2	5.0
Total consumption (% YoY, average)	4.7	4.9	4.4	4.6	5.1	5.1	5.1
Private investment (% YoY, average)	4.5	5.0	4.5	6.1	6.7	6.2	6.3
Exports (YoY in %)	1.3	-2.1	-1.6	9.0	6.5	2.9	6.2
Imports (YoY in %)	2.2	-6.2	-2.4	8.1	12.2	3.3	6.8
Unemployment rate (%, last quarter)	5.9	5.8	5.5	5.3	5.3	4.9	4.6
Inflation (% YoY, last quarter)	6.5	4.8	3.3	3.5	3.2	4.1	3.5
Fiscal balance (% of GDP)	-2.2	-2.6	-2.5	-2.6	-1.7	-1.9	-2.1
Trade balance (% of GDP)	0.8	1.6	1.6	1.9	0.0	0.2	0.6
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-3.1	-2.0	-1.8	-1.6	-3.0	-2.70	-2.30
Official interest rate (end of period)	6.50	6.25	4.75	4.25	6.00	6.25	6.25
Short-term rate (end of period)	7.17	8.86	7.46	5.48	7.70	8.01	7.98
Long-term rate (end of period)	7.86	8.81	7.85	6.30	7.90	8.54	8.63
Exchange rate vs. USD (end of period)	12,427	13,836	13,525	13,484	14,380	13,853	13,856
Exchange rate vs. euro (end of period)	15,088	15,063	14,257	16,171	16,465	16,033	16,537
Private lending (% YoY, average)	15.2	10.6	7.8	8.2	10.8	8.2	9.7
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	4.4	32.0	10.1	15.1	4.2	3.3	9.2
Savings rate (%, average)	17.0	17.0	17.0	17.0	17.1	17.9	18.1

Source: MAPFRE Economic Research (based on data of the BPS)
Forecasting end date: April 17, 2019.

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The trade balance came in as a surprise in February, with a surplus of 300 million dollars, compared to a deficit of 1.1 billion dollars in January. This was due to a 14% drop in imports (YoY), of which the major contributors were petroleum (-30%), consumer goods (-27%) and raw materials for processing (-15%). Exports also decreased by 11% (YoY), led by petroleum and gas products (-21%). Foreign deceleration confirmed this situation, with a greater incidence in Asian commercial partners.

As for inflation, it continued at its moderate level (2.6% in February), consistent with the restrictive monetary policy and an increase in money supply, which grew although dropping off since the third quarter 2017. Although a slight increase in inflation is expected in 2019 as a result of the removal of certain subsidies, it should remain in the target range of 2.5-4.5%.

The macro-prudential policy continues to focus on macroeconomic stability. The central bank maintained interest rates unchanged at 6.0% in its last meeting on March 21. The significant new feature was the change in tone and the signals sent out. With a stabilized trade balance and foreign risks to the rupiah declining, the monetary authorities have a greater margin to support growth.

With inflation under control and with the risk of economic slowdown, it is expected that the central bank will begin to concern itself more with risks of economic deceleration and, consequently, initiate a cycle of interest rate decreases in 2019. With the US Federal Reserve taking a more accommodating tone and the rupiah being more stable, the conditions seem to be right for this. Hence, two interest rate decreases are expected in 2019, ending at 5.50% in December 2019.

Presidential and parliamentary elections were held in Indonesia on April 17. Joko Widodo was re-elected president. The structural transformation agenda that the country needs is now in his hands. The topics on the economic agenda will relate mainly to the liberalization of energy prices and equilibrium in its external balance.

1.2.14 Philippines

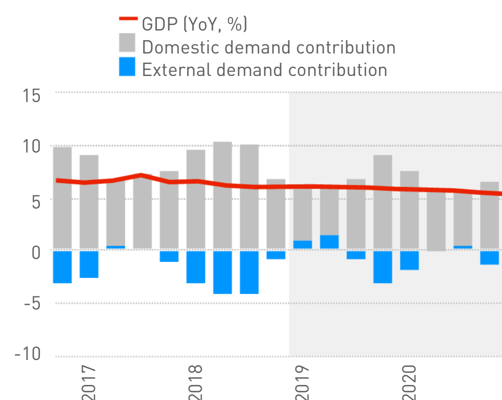
Strong growth and moderating inflation

The Philippine economy has maintained a strong pace of growth (6.1% in the fourth quarter of 2018), thanks to sustained domestic demand (private, 5.4%, public, 11.9%), investment (5.5%) and exports (13.2%). Despite the global downward trend, the Philippine economy will maintain a growth rate of around 6% in 2019, lower than the government target of 6.5% (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

- **The growth of the Philippine economy is strong and based on stimulus in domestic demand, but below the government target.**
- **A more restrictive bias is expected in their monetary policy, affecting the exchange rate.**

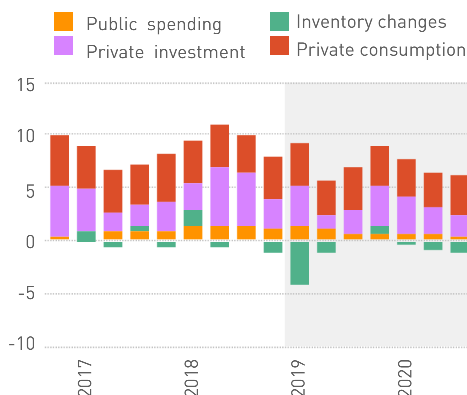
The trade deficit improved slightly in the last quarter of 2018 thanks to the drop in price of oil imports, but displays a basically worsening trend, with imports growing faster than exports due to a strong internal market and weakening foreign demand. Consumer confidence has also been dropping visibly since June 2017, going into negative territory in the second quarter of 2018. As for business confidence, it has been deteriorating slowly for five years, but this drop has picked up speed starting from the first quarter of 2018.

Chart 1.2.14-a
Philippines: GDP breakdown and forecasts



Source: MAPFRE Economic Research (with PSA data)

Chart 1.2.14-b
Philippines: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (with PSA data)

Table 1.2.14
Philippines: main macroeconomic aggregates

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY, average)	6.1	6.0	6.9	6.7	6.2	6.0	5.6
Domestic demand contribution	4.8	9.1	11.9	7.5	9.2	6.4	6.2
External demand contribution	1.3	-3.0	-5.0	-0.8	-3.0	-0.4	-0.7
Private consumption contribution	3.9	4.4	4.9	4.1	3.8	3.8	3.6
Private investment contribution	1.1	3.6	6.2	2.7	4.0	2.7	2.5
Contribution made by public spending	0.3	0.8	0.9	0.7	1.4	1.0	0.5
Domestic demand (% YoY, average)	5.0	9.0	11.5	6.9	8.5	5.7	5.6
Total consumption (% YoY, average)	5.2	6.5	7.4	6.0	6.5	6.1	5.2
Private investment (% YoY, average)	7.2	16.6	26.6	9.5	14.3	8.7	7.9
Exports (YoY in %)	12.6	8.7	11.7	19.6	11.4	9.4	7.3
Imports (YoY in %)	10.1	14.6	20.5	18.2	14.5	8.5	7.2
Unemployment rate (%, last quarter)	6.0	5.6	4.7	5.0	5.1	4.7	4.4
Inflation (% YoY, last quarter)	2.9	0.3	2.0	3.0	5.9	3.1	3.9
Fiscal balance (% of GDP)	-0.6	-0.9	-2.4	-2.2	-3.0	-3.0	-3.0
Trade balance (% of GDP)	-6.1	-8.0	-11.7	-12.9	-15.4	-15.5	-14.9
Tax boost (% GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	3.8	2.5	-0.4	-0.7	-2.8	-3.0	-2.6
Official interest rate (end of period)	4.00	4.00	3.00	3.00	4.75	4.75	5.00
Short-term rate (end of period)	3.09	3.03	2.50	3.22	5.03	5.38	5.46
Long-term rate (end of period)	4.37	4.10	4.63	5.70	7.05	6.31	6.69
Exchange rate vs. USD (end of period)	44.60	47.20	49.80	49.90	52.72	51.60	50.90
Exchange rate vs. euro (end of period)	54.20	51.30	52.50	59.90	60.37	59.70	60.70
Private lending (% YoY, average)	18.0	13.2	15.3	18.0	16.2	10.2	9.9
Household lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. non-financial lending (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.S. financial lending (% YoY, average)	8.8	2.6	8.7	9.2	10.2	10.3	9.9
Savings rate (%, average)	9.3	7.7	7.8	8.1	7.6	7.9	8.1

MAPFRE Economic Research (based on data of the PSA) Forecasting end date: October 11, 2018.

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Inflation has substantially moderated (3.8% in February 2019 compared to 6.7% in September 2018), thanks to lower pressure on food and fuel prices. Despite this, it is expected that inflation will be even higher than the central bank's target range (2-4%) for all of 2019. For this reason, and despite the fact that the Philippine monetary authority has been one of those that has maintained a more restrictive monetary posture among emerging markets (rates rose 175 base points), it currently has no incentive to relax it. In fact, it has maintained interest rates stationary since February (4.75%), expecting inflation and the exchange rate to develop. Despite more restrained inflation data, looking forward to 2019 it is estimated that the Philippine central bank will raise interest rates another 25 base points in the second half of the year, while the following decisions will be contingent on inflation performance and lending momentum.

It should be noted that interest rate increases in 2018 translated into interest rates applied by commercial banks, leading to a slowdown in credit growth from levels over 20% in 2017 to levels closer to 10% today.

2. Industry outlook

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

2.1.1 Global markets

The economic situation anticipates global growth for 2019 somewhere around 3.3% (3.6% in 2018), which entails significant deceleration in global demand, far away from the robust, coordinated growth of 2017 (3.8%). This slowdown will translate into premium growth for insurance worldwide, especially in the Non-Life and Life risk lines, given their strong conformance with the behavior of the economic cycle.

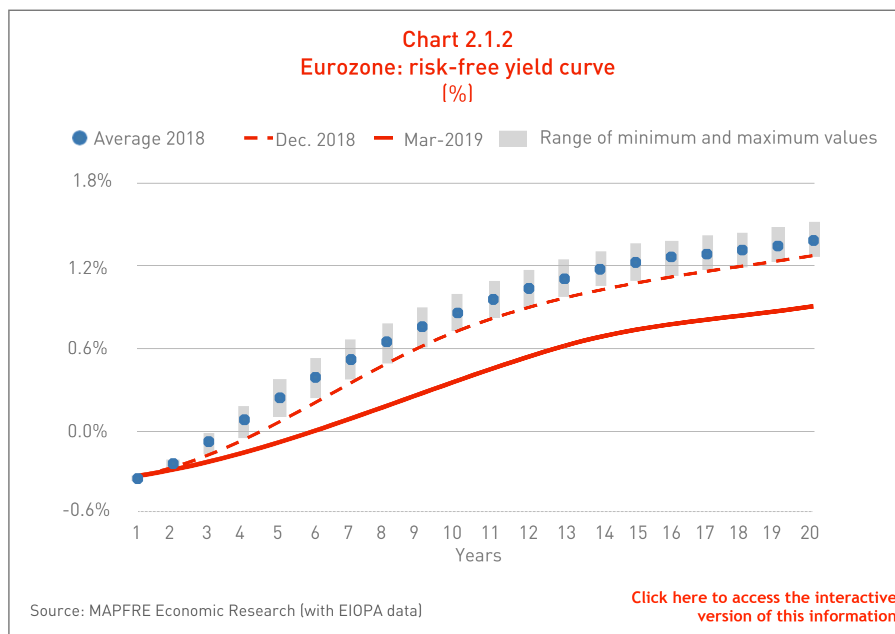
The brake on monetary normalization and the return to more accommodating monetary policies also may slow the development of Life savings and annuity business. However, the situation may improve by the end of the year if the monetary and fiscal policy measures being adopted by some of the major economies worldwide take effect to deal with slowdown in activity, and some of the uncertainties affecting the markets and global trade clear up.

2.1.2 Eurozone

The forecasts for real GDP growth in the eurozone for 2019 are at around 1.2%, which imply a slowdown compared to 2018 growth (1.8%) growth in line with the slowdown trend started in 2017 (2.5%). The weak growth displayed in the second half of 2018, especially in Germany and Italy, together with the persisting uncertainty affecting the eurozone (such as trade tensions or a Brexit without agreement) has led to a general downward revision in growth forecasts. However, the most recent indicators foresee a slight recovery, possibly materializing in the second half of 2019. Spain continues to lead growth in the region, although her economy is also slowing down. This weakened environment in economic activity could translate into a slowdown in insurance business, especially for anything related to Non-Life and Life risk business.

Furthermore, weak underlying inflation and the drop in economic growth forecasts has led the ECB to adopt a more accommodating stance in its declarations on monetary policy, announcing a new two-year liquidity program for the bank (TLTRO III). It finished its net sale of assets in December 2018 without announcing any change in this regard, and it will continue reinvestment of the principal of the amounts that reached

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



Source: MAPFRE Economic Research (with EIOPA data)

Click here to access the interactive version of this information

maturity for as long as necessary to maintain favorable liquidity conditions. Interest rates under the monetary policy will remain at their current levels (0.0% rate for refinancing and -0.4% for deposit rates) and the first increase in rates is not expected before 2020. The ECB is proposing the initiation of an easing of deposit rates, currently in negative territory, although it is still evaluating the effect that this may have on the economy and profitability of the financial sector in the eurozone. The risk free interest rate curves prepared by the European Insurance and Occupational Pensions Authority (EIOPA) indicate a new drop in interest rates throughout the curve, ending lower than the minimum levels of 2018. The curve continues to indicate a positive slope, with higher rates for longer maturities, which might provide stimulus for the development of annuities, but the low interest rate levels continue to hobble their placement. The short segment of the curve continues to display negative values (see Chart 2.1.2). This shows that the sustained context of low interest rates continues to be detrimental to the development of the specified business lines.

Chart 2.1.2 shows the minimum, average and the maximum levels reached in 2018, along with the level of the last curves published by EIOPA for December 2018 and March 31, 2019. It should be noted that other months and currencies can be displayed on the interactive chart, which can be accessed via the hyperlink in the lower part of the indicated Table.

2.1.3 Germany

Real GDP growth for Germany is predicted to be in the area of 0.7% in 2019, to recover to 1.6% in 2020. The principal reasons for the downward revision in the predictions for 2019 are based on foreign trade, due to the trade tensions at the international level and the slowdown in markets to which Germany exports, principally the Chinese and eurozone economies. This atmosphere of economic deceleration may negatively affect growth of Non-Life and Life risk business in the insurance market. Nevertheless, the German labor market remains strong, with a rate of unemployment around 3.2% and year-on-year wage growth of about 2.1% in the last quarter of 2018. Currently, the slowdown in activity is affecting the industrial and manufacturing sector, but not domestic consumption, so the effect on growth in insurance demand may be less marked.

As for Life savings insurance and traditional annuity insurance, the low interest rate outlook persists, which will continue to weigh on this business particularly in Germany, where sovereign debt is at levels lower than interest rates for all of the eurozone.

2.1.4 Italy

Growth of the Italian economy for 2019 is estimated at about -0.1% (0.8% in 2018), involving a recession that it technically is already in. The high level of public debt is its greatest weakness, and the political situation makes it hard to implement the necessary reforms to make the economy more dynamic and competitive. This low, even recessive, economic growth environment is unfavorable for development of Non-Life and Life risk business in the insurance market.

In relation to conventional Life savings insurance and annuities, the decision to manage public accounts more prudently and in accordance with the sustainability requirements of debt and agreements for adhesion to the euro have eased the risk premium for sovereign Italian debt, for which the 10-year bond has seen significant drops in yield over recent months, sitting at about 2.5% compared to occasional yields close to 3.7% reached in 2018. Even so, this is significantly higher than the yield on sovereign bonds for the major eurozone economies. These circumstances may provide a stimulus for products with medium and long-term guarantees, notwithstanding the weaknesses that may accumulate in the balance sheets of insurers that take advantage of the high risk premium level of sovereign Italian debt.

2.1.5 Spain

The trend toward smooth deceleration continues in the Spanish economy, with real GDP growth predicted at about 2.3% for 2019 (2.6% in 2018), supported by domestic demand, and especially by consumption. Despite the predicted slowdown, the Spanish economy continues to be one of the growth engines in the eurozone, and the outlook is favorable for development in the Non-Life and Life risk lines of business in the insurance market, albeit with a tendency to slow down at the same rate as economic activity. Predicted growth in domestic demand in 2019 is supported by the good performance in the labor market, but also by credit use and the significant drop in the rate of savings (the lowest in the past decade), making it more vulnerable. Because of this, it is predicted that the Spanish economy, and the insurance sector, will continue to slow down in 2020.

With regard to Life savings and conventional annuities, both in the eurozone and overall, the low interest rate outlook persists, which is hobbling this business, and which will continue, based on the latest monetary policy indications of the ECB. Furthermore, it appears that the securities markets have recovered from the losses and the increased volatility sustained at the end of the year that were making placement difficult for products in which the policyholder assumes the investment risk. In any event, a certain reserve persists, making placement of these sorts of products difficult, which will not stop taking root in the Spanish insurance market.

2.1.6 United Kingdom

Real economic growth predicted for the United Kingdom may come in at around 1.2% (1.4% in 2018), far from the growth experienced in the years prior to the referendum on exiting the European Union, which at the moment has been postponed to October 31 of this year. The slowdown in the pace of activity and the postponement of decisions on consumption and private investment are predicted to hobble growth due to the uncertainty created due to Brexit. However, the unemployment rate remains low, at about 4%, and increases in real wages continue to be

data. This environment will exert influence on performance in the insurance sector, which may resist the slowdown in the economy, although uncertainty regarding growth is considerable.

As for Life savings insurance and traditional annuity insurance, the low interest rate outlook also persists in the United Kingdom, which will continue to weigh on this business. EIOPA's risk-free interest rate curves display a general drop in the interest rate levels for all segments of the curve for the previous quarter, even coming in below the minimum levels for 2018, except for the shortest term rates (see Chart 2.1.6). Although the curve has a slightly positive slope, the term premium continues to drop, with some levels at the lowest, indicating that the environment continues

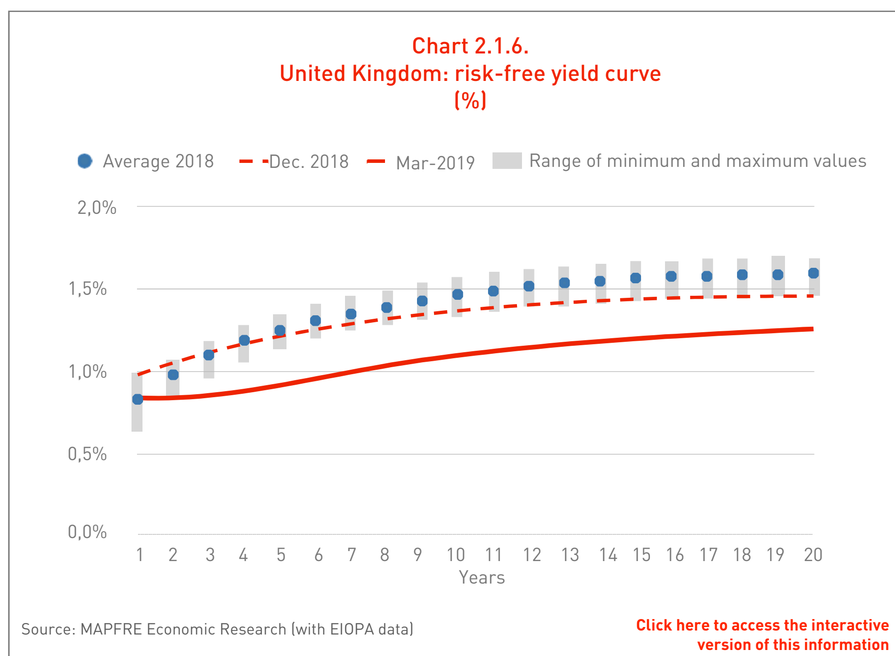


Chart 2.1.6.
United Kingdom: risk-free yield curve
(%)

Source: MAPFRE Economic Research (with EIOPA data)

Click here to access the interactive version of this information

to be unfavorable for performance in these products. Furthermore, recovery in securities markets after the drop at the end of 2018 may favor the results for insurance products in which the policyholder assumes the investment risk (*unit-linked*), highly common in this market.

2.1.7 United States

The outlook for growth in the United States for 2019 indicates a slowdown in its economy, estimated at about 2.3% (compared to 2.9% in 2018). The US economy experienced considerable growth in the fourth quarter of 2018 (3.8%), supported by good performance in private consumption and investment, with an unemployment rate that remains low and growth in real wages of about 3.3%, which continues to support disposable income and private consumption. The environment thus continues to be favorable for Non-Life and Life risk business in the insurance industry. However, some indicators confirm cycle change and point to a gradual slowdown in the level of activity throughout this year, which might also translate into slower growth in these lines of business.

As for Life savings and annuity products, the favorable effect of economic growth may be negatively offset by interest rate behavior. The Federal Reserve has halted the monetary normalization process, rejecting new interest rate increases in 2019. In this regard, the latest EIOPA risk-free interest rate curves show a significant drop in all segments of the curve compared to the level at the close of the last quarter, even below the minimum for 2018, with the sole exception of rates with the shortest periods to maturity (around one year). The curve even shows a negative bias in the first segment up to five years (see Chart 2.1.7). These drops may cut short the demand for savings products, especially ones that offer guaranteed

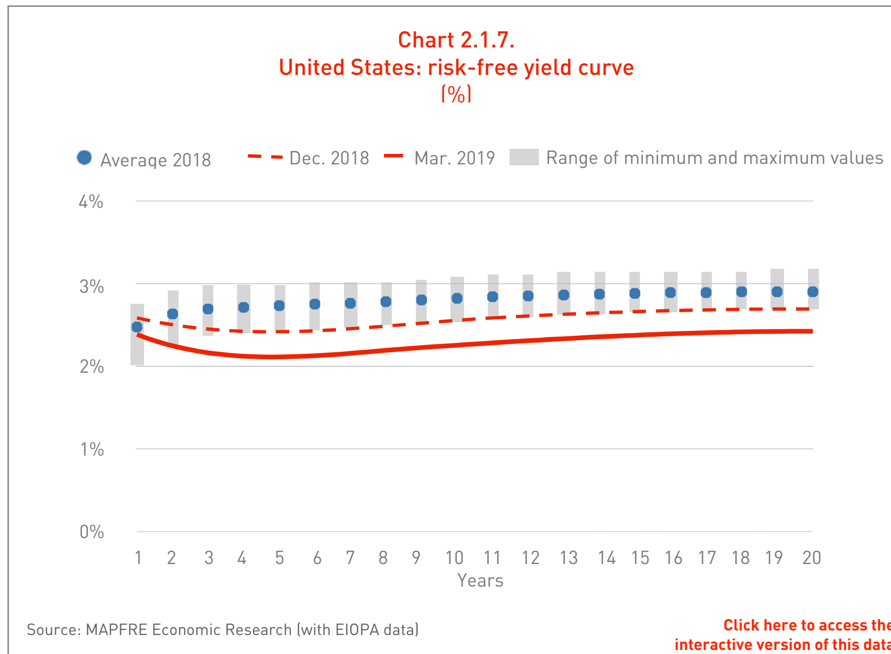


Chart 2.1.7.
United States: risk-free yield curve
(%)

Source: MAPFRE Economic Research (with EIOPA data)

medium and long-term interest rates. In this environment, the greatest business opportunity would be in marketing short-term term renewable Life savings products that allow the guaranteed interest rate to be revised at every renewal, for those insurance companies that have the necessary agility to adjust their product offerings in this environment.

Furthermore, the securities markets seem to have recovered from the losses sustained at the end of 2018, which is good news for development in insurance products where the policyholder assumes the investment risk, although the high current levels and the experience of the last quarter of 2018 indicates that a certain caution may exist when investing in these types of products.

2.1.8 Brazil

In Brazil, it is envisaged that real GDP growth will be around 1.7% (1.1% in 2018). This forecast is made primarily due to the improvement in private consumption and investment behavior. However, the expectations for a global slowdown, the persistent strong imbalance in public accounts and the difficulties confronting the new government that is trying to undertake the structural reforms required to correct them, especially in the pension system, is leading to a significant lowering of expectations for growth.

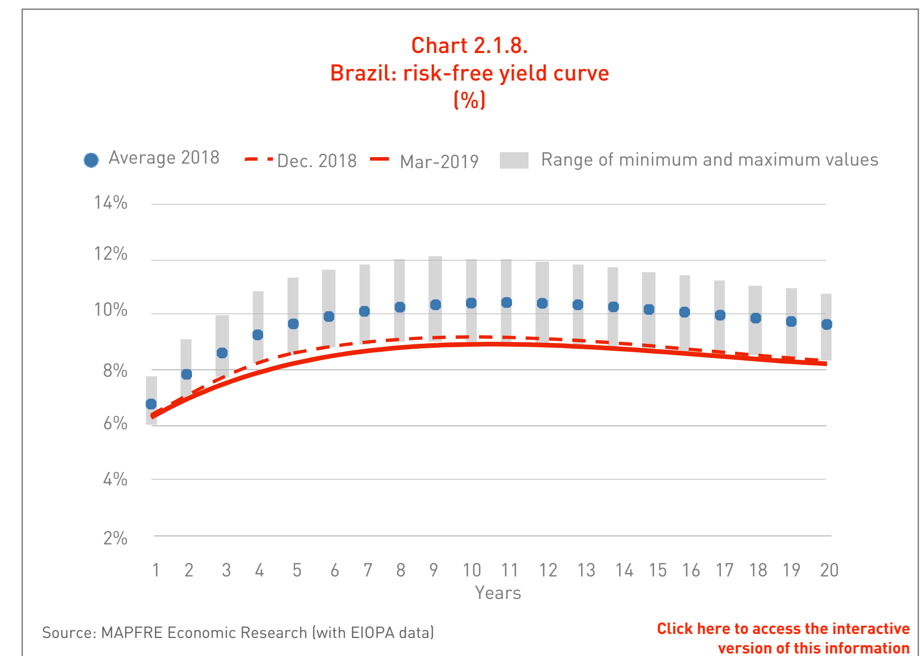


Chart 2.1.8.
Brazil: risk-free yield curve
(%)

Source: MAPFRE Economic Research (with EIOPA data)

The outlook currently continues to be positive despite downward revisions, so the environment will continue to be favorable for Non-Life and Life risk business in the insurance industry. As for inflation, it appears that it is under control and some stability is forecast for exchange rates, which is also good news for development in these lines of business.

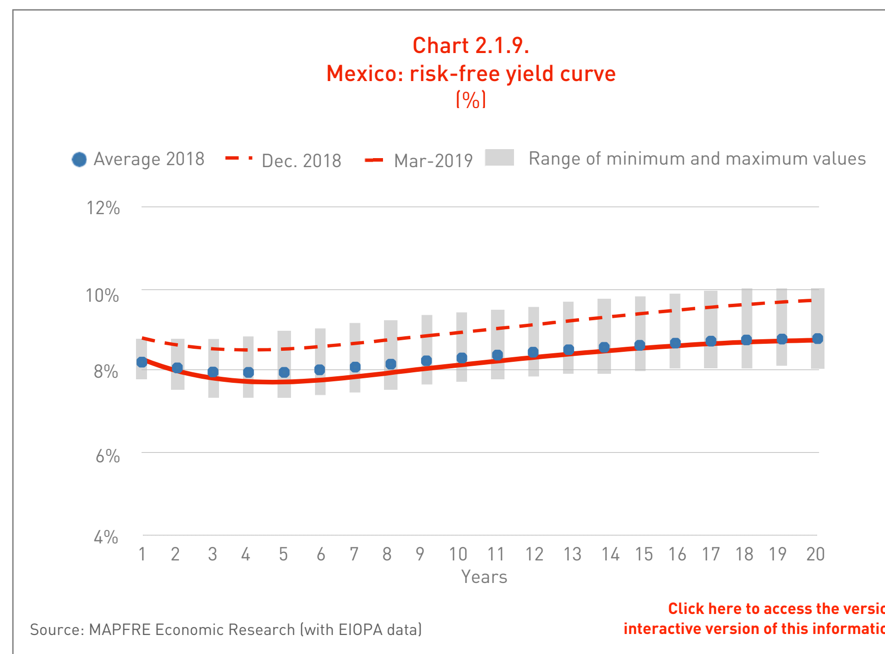
Also, there is no sign that the central bank will continue to reduce the monetary policy benchmark interest rate. The EIOPA interest rate curves indicated that risk-free interest rates have stabilized in the past quarter, compared to the significant drop experienced in 2018 (see Chart 2.1.8). The curve is maintaining a positive bias in the short and medium term segments and is negative in the longer terms, favoring development in Life savings and annuity business, despite the fact that the interest rates for all maturity levels are relatively low compared with those reached in previous years, making placement of new products in these business lines difficult.

2.1.9 Mexico

Real growth for the Mexican economy in 2019 is placed at about 1.5% (2% in 2018). Growth rate in the level of activity has slowed down more than expected, and the Mexican economy continues to display growth below its potential. Hardening of monetary policy to control inflation and depreciation of the currency appear to have taken effect, albeit entailing some slowdown in growth.

This slowdown, combined with the surge in public spending by the new federal administration, may end up having an impact on growth in the insurance market in 2019, although the positive environment resulting for economic activity based primarily on consumption and the strength of the labor market continues to provide a favorable atmosphere for development of the Non-Life and Life risk business segments. Both control of inflation and currency depreciation are positive factors for profitable performance in Non-Life lines of business, which were negatively affected by the rebound in these variables in the prior months by the increase in loss-related expenses and the cost of reinsurance, where contracts are normally negotiated in dollars.

A drop in all segments can be observed for the end of March 2019 in the risk-free interest rate curves compared to the level in December of last



year, with levels close to the average values for 2018 (see Chart 2.1.9). The curve shows a slight negative bias in maturities under five years resulting from the restrictive monetary policy implemented by the Bank of Mexico. This environment continues to be favorable for Life savings and annuity products, making the most of the long-term rate levels, as well as term Life savings products, renewable for periods of less than a year, which allow for a review of the guaranteed rate at each renewal.

2.1.10 Argentina

The growth forecast for the Argentine economy in 2019 is a GDP drop in real terms of -1.4% (-2.5% in 2018). However, economic recovery with real growth of around 3.2% is predicted for 2020. The combination of a variety of adverse circumstances in 2018 (hardening of the US monetary policy and serious droughts) together with structural weaknesses that affect the current account (high short-term foreign debt in dollars, reduced reserves in that currency and high inflation) brought about a sharp drop in the Argentine peso, forcing the request for financial assistance from the IMF. The IMF aid program is taking effect as regards currency stabilization, and points to an improvement in the medium-term outlook.

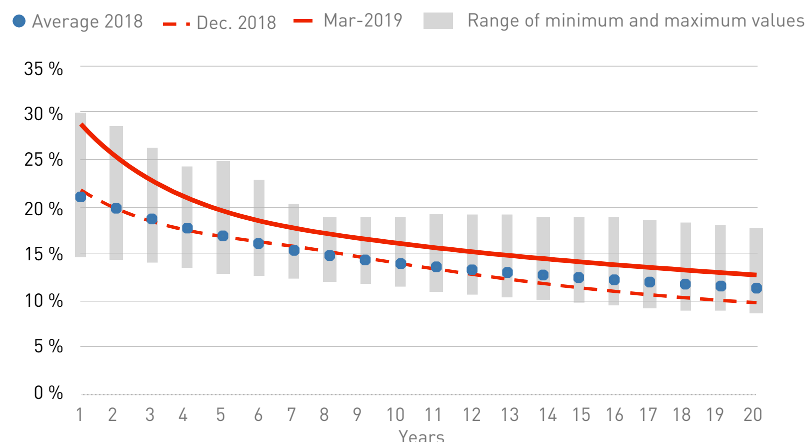
Nevertheless, Argentina has to continue applying the adjustment measures to reduce the macroeconomic imbalances that were the cause of the crisis starting in the first quarter of 2018. The currently ongoing high interest rates and fiscal tightening lead to the prediction that the recessionary environment will continue this year, and recovery will come in 2020. This recessionary environment will negatively affect the development of Non-Life and Life risk business in the insurance industry. Difficulties controlling inflation, which remains high (47.4% average in the last quarter of 2018) will negatively affect loss expenses for insurance companies that cannot fully benefit from the high interest rates under the monetary policy to support the financial profitability of these lines of business, due to the regulatory limits imposed on insurance companies on investment in short-term public debt instruments. This interest rate environment could also be an opportunity to market annual savings Life insurance products that are term and renewable with short maturity terms, offering a renegotiation of the guaranteed rate for each maturity term, but the aforementioned regulatory limits make the development of this kind of product difficult.

2.1.11 Turkey

In Turkey it is predicted that the GDP will fall by -1.9% in 2019 in real terms. 2018 growth was about 2.9% (7.4% in 2017), lower than originally forecast, due to the recession into which the country's economy entered in the second quarter of 2018. The recessionary environment and persisting weaknesses arising from excessive stimuli leading to excessive demand and throwing off its balance of payments caused the tension over the lira to rebound, despite the hardening of the monetary policy and the presentation by the government of a three-year economic loan to attempt to control the situation. Principal production and confidence indicators have dropped, and the labor market has suffered, with a notable increase in the unemployment rate in the last quarter of 2018.

This environment negatively affects the development of the Non-Life and Life risk business lines of the insurance industry, which was also affected by the price control system in mandatory third-party liability automobile insurance. The rate of inflation remains high, although it appears to be moderating and the currency has performed better due to the monetary

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



Source: MAPFRE Economic Research (with EIOPA data)

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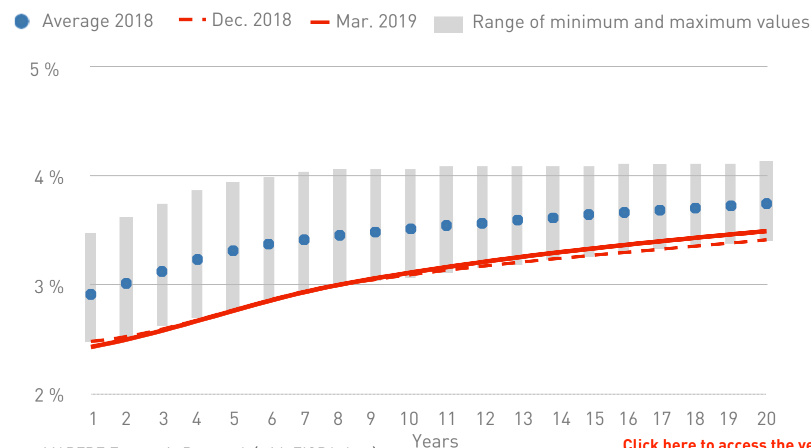
policy measures that have been adopted, moderating the negative influence that the drop in these indicators entails in loss expenses for insurance companies. The monetary policy high interest rates may help compensate for these adverse effects, underpinning the financial profitability of these lines of business. However, the risk of volatility in the currency exchange rate is still high.

Furthermore, and as can be observed in the EIOPA curves, volatility in risk-free interest rate behavior remains high, with a curve that remains stubbornly inverted (see Chart 2.1.11). In this regard, it can be noted that the curve at the end of March 2019 has started to rise again for all maturities, and especially in the most short-term segments. This high volatility environment and the inverted interest rate curve is detrimental to the development of products with long-term guarantees in Life savings and annuity business. Despite this, in this context of high short-term interest rates, an opportunity may arise for the marketing of temporary Life savings products renewable for short terms, which allow for a review of the rate guaranteed at each renewal.

2.1.12 China

Growth forecasts for the Chinese economy in 2019 place it at about 6.2% (6.6% in 2018). Investment and consumption remain the major drivers of

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



Source: MAPFRE Economic Research (with EIOPA data)

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growth, but the increase in trade tensions with the United States, the slowdown in credit growth and the deceleration predicted for global activity point to a fall in the real growth rate of its economy, which will intensify in 2020. However, the slowdown may be less pointed than originally forecast, due to the monetary stimuli applied in 2018 and the decision by the Chinese government to increase infrastructure spending and reduce taxes to provide the economy with a tax stimulus.

The economic slowdown may have fallout on the performance of the insurance industry in China, but in any event the growth forecasts remain favorable for Non-Life and Life risk business prospects, assisted by the still low insurance penetration rate in China leading to greater flexibility of premium growth given the GDP increases. Predictions of moderate (2.5%) inflation and stability of its currency also favor development of this business. It should be noted, as was mentioned in previous reports, that the Chinese government's specific objectives include increasing the penetration rate of insurance activity.

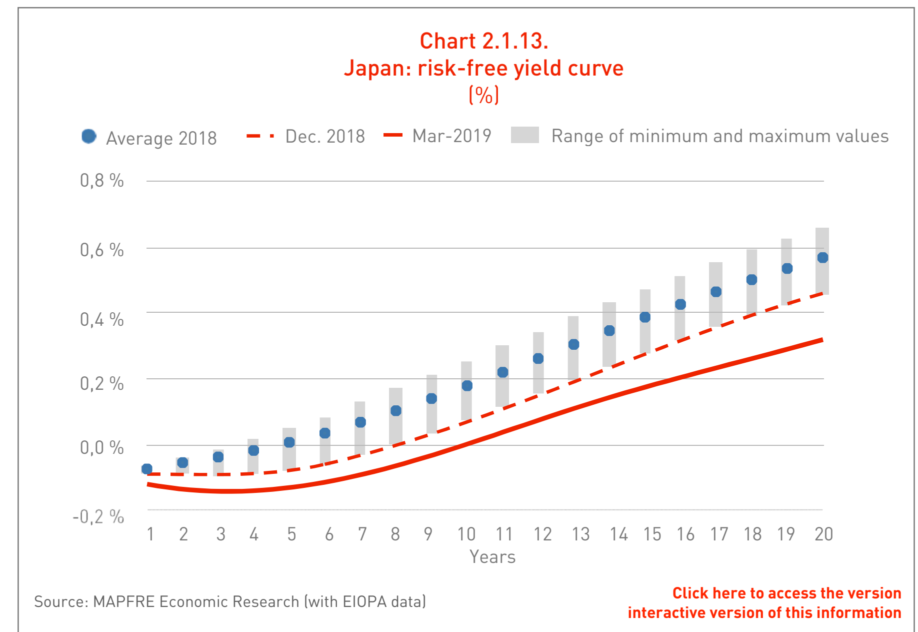
As for Life savings and annuity business, the EIOPA curves show that risk-free interest rates appear to have stabilized after the significant drop that they sustained in 2018 due to implementation of monetary stimuli to avoid excessive slowdown of the economy (see Chart 2.1.12). The curve is maintaining a positive bias, although the interest rates for all maturities are low compared to those reached on the average in 2018, which may make placement of new products in these lines difficult.

2.1.13 Japan

The Japanese economy is expected to show growth of about 0.6% in 2019 (0.8% in 2018). The economy recovered in the final quarter of 2018 from the severe contraction in the third quarter due to natural disasters and the weakened foreign trade environment. Nevertheless, economic development will continue to be weak, and it is predicted to continue weakening for the next two years, which will also mean weak performance in terms of growth in Non-Life and Life risk business.

The EIOPA curves indicate the depth of the drop in risk-free interest rates along the entire curve in March compared with the levels in December 2018, which were the

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



Source: MAPFRE Economic Research (with EIOPA data)

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lowest of the year. The curve indicates negative values for maturities up to ten years, and the term premium for these maturities continues to be depressed, making placement of Life savings and annuities very difficult (see Chart 2.1.13).

This context of low interest rates continues to be detrimental to the development of the indicated lines of business. Furthermore, the securities markets appear to have recovered from the drop sustained at the end of 2018, which may stimulate development in insurance products where the policyholder assumes the risk of investment.

2.1.14 Philippines

In the case of the Philippine economy, the growth forecast for 2019 is in the area of 6% (6.2% in 2018); this slight slowdown in the pace of activity will be somewhat higher in 2020 (5.6%). In any event, it indicates a robust economic trend, despite the global deceleration and downward revision of growth.

In the case of the Philippine economy, the domestic market is the growth driver, with important contributions from investment and private consumption. The trade deficit has improved over the last few months but shows a tendency to decline. In any event, the economic growth outlook is favorable for the prospects of the Non-Life and Life risk insurance business, with the help of the still low rate of penetration of insurance in the Philippines In turn, moderation in inflation results in the forecast for 2019 being around 3.1%, far from the high rates of inflation recorded in 2018 (5.9%), which is a positive factor for the development for these lines of business in moderating increased loss expenses paid by insurance companies.

Furthermore, the central bank has been raising monetary policy benchmark interest rates in the interest of controlling inflation; they were 3% in May 2018 and are now 4.75%, and the yield on the ten year sovereign bond, which was 7% in December 2018, is estimated to be about 6.3% at the end of 2019. This interest rate environment with a positive term premium combined with predicted economic growth will be favorable for the development of Life savings and annuity business.

2.2 Regulatory trends:

2.2.1 Global trends

IAIS

On April 4, 2019, the International Association of Insurance Supervisors (IAIS) released comments received on the new version of the future International Capital Standard, "ICS Version 2.0". The IAIS will release a new field analysis to evaluate the various options and questions that remain unanswered, including regarding valuations of assets and liabilities[7], consideration of the benefits of diversification in the aggregation of capital charges[8] and treatment of tax effects[9], among other items.

The deadline for submission of information by groups participating in this project is July 31, 2019. It should be noted that the adoption of "ICS Version 2.0"[10] is planned for November 2019.

2.2.2 European Union:

Solvency II

2019 Reform of Delegated Regulation (EU) 2015/35 of Solvency II

On March 8, 2019, the European Commission adopted the modification of Delegated Regulation (EU) of Solvency II, affecting several elements used in the calculation of mandatory solvency capital under the standard formula[11]. The European Parliament and Council have three months to address objections. If they do not do so, the modification will enter in force twenty days from its publication in the Official Diary of the European Union.

The principal changes under consideration affect capital charges under the standard formula for debt without credit rating and for unlisted shares that insurance companies invest in, which are reduced under certain eligibility requirements. In addition, a special regime is established for certain investments with limited long-term availability in shares, which will benefit from the reduced capital charges that apply to strategic holdings, provided they meet certain requirements in terms of risk management of asset-liability and the investments themselves.

Exclusions to the mandatory application of focusing on transparency in investment funds and exceptions in the use of external credit ratings are introduced as proportionality measures. Along the same lines, the sub-module on human caused catastrophe risks is simplified.

Furthermore, various inconsistencies in banking standards are eliminated, to the extent that their alignment is considered proportionate to the differences in the business model of both types of entities. They affect the classification of equity, the treatment of risk in exposures with central counterparties and exposure to regional administrations and local authorities. They also affect the treatment of derivatives, which is adjusted after the adoption of the market infrastructure regulation (EMIR).

Finally, it should be noted that certain parameters based on additional data that have become available since the last adjustment have been updated, including premium risks, Non-Life and catastrophic reserves and health risks, and a number of additional principles that affect the supervision process have been introduced to ensure a common playing field between Member States in recognizing the loss absorption ability of deferred taxes, which cannot be justified based on different tax regimes.

2020 Reform of Solvency Directive II

On February 11, 2019, the European Commission sent a formal request to EIOPA asking for a technical committee to prepare the revisions of the Solvency II Directive planned for next year[12]. The request of the European Commission warns that the fundamental principles of the Directive are not to be questioned, expressly mentioning the underlying confidence level for the calibration of the mandatory solvency risk and for valuation consistent with the market. With this proviso, the technical committee should facilitate performance of a comprehensive and in-depth valuation of the regulatory market.

Solvency Directive II itself covers various areas that need to be reviewed by the 2020 commission. Specifically, it refers to long-term guarantee measures, methods, hypotheses and parameters for the calculation of mandatory solvency capital under the standard formula, minimum mandatory capital, supervision of groups and management of capital within them, among other issues.

It also refers to other aspects under Solvency II that it is believed deserve revaluation, such as the supervision of cross-border activities or the need to strengthen principles of proportionality, including the obligation to provide information.

Pan-European individual pension product

On April 4, 2019, the European Parliament formally adopted the text of the Regulation for a pan-European individual pension product (the PEPP Regulation)[13]. However, there is still a long way to go before products of this type even begin to be marketed, which may be another two and a half years, according to the calculations of the European Commission[14].

After its adoption by the Parliament, the text must next be adopted by the Council, after which it will be sent for publication in the Official Diary of the European Union. After it is published, it is planned that it will enter in force 20 days after its publication, but its effective application will be delayed until the European Commission adopts a series of delegated acts indicated in the PEPP Regulation itself. After publication of these delegated acts in the Official Diary, the Regulation will enter in force within the twelve months following its publication.

Tables: macroeconomic forecast scenarios

Table A.1
Baseline and risk scenarios: gross domestic product
Annual growth (percent)

	Baseline						Risk scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
United States	2.9	1.6	2.2	2.9	2.3	1.8	2.9	1.6	2.2	2.9	2.1	1.3
Eurozone	2.0	1.9	2.5	1.8	1.2	1.5	2.0	1.9	2.5	1.8	1.1	1.2
Germany	1.5	2.2	2.5	1.5	0.7	1.6	1.5	2.2	2.5	1.5	0.6	1.4
France	1.1	1.2	2.2	1.5	1.3	1.4	1.1	1.2	2.2	1.5	1.2	1.2
Italy	0.8	1.2	1.7	0.8	-0.1	0.5	0.8	1.2	1.7	0.8	-0.2	0.2
Spain	3.7	3.2	3.0	2.6	2.3	1.9	3.6	3.2	3.0	2.5	2.1	1.5
United Kingdom	2.4	1.8	1.8	1.4	1.2	1.5	2.4	1.8	1.8	1.4	1.0	0.9
Japan	1.3	0.6	1.9	0.8	0.7	0.2	1.3	0.6	1.9	0.8	0.6	-0.1
Emerging markets	4.3	4.6	4.8	4.6	4.4	4.8	4.3	4.6	4.8	4.5	4.3	4.6
Latin America[1]	0.3	-0.6	1.2	1.1	1.4	2.4	0.3	-0.6	1.2	1.0	1.3	2.3
Mexico	3.3	2.7	2.3	2.0	1.5	1.8	3.3	2.7	2.3	2.0	1.3	1.5
Brazil	-3.6	-3.3	1.1	1.1	1.7	2.6	-3.6	-3.3	1.1	1.1	1.7	2.5
Argentina	2.7	-1.7	2.8	-2.5	-1.4	3.3	2.7	-1.7	2.8	-2.5	-1.5	3.1
Emerging European[2]	4.8	3.3	6.0	3.6	0.8	2.8	4.8	3.3	6.0	3.6	0.8	2.6
Turkey	6.0	3.3	7.4	2.9	-1.9	3.5	6.0	3.3	7.4	2.9	-2.0	3.4
Asia Pacific[3]	6.0	6.2	6.2	6.0	5.7	5.4	5.9	6.2	6.2	6.0	5.6	5.1
China	6.9	6.7	6.8	6.6	6.2	5.8	6.9	6.7	6.8	6.6	6.1	5.4
Indonesia	4.9	5.0	5.1	5.2	5.1	4.9	4.9	5.0	5.1	5.2	4.9	4.5
Philippines	6.0	6.9	6.7	6.2	6.0	5.6	6.0	6.9	6.7	6.2	5.9	5.3
World	3.4	3.4	3.8	3.6	3.3	3.3	3.4	3.4	3.8	3.6	3.2	3.1

Source: MAPFRE Economic Research

[1]Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: April 17, 2019.

Table A.2
Baseline and risk scenarios: inflation
(end of period, %)

	Baseline						Risk scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
United States	0.4	1.8	2.1	2.2	1.8	1.9	0.4	1.8	2.1	2.2	1.8	1.9
Eurozone	0.3	0.7	1.4	1.9	1.4	1.7	0.3	0.7	1.4	1.9	1.4	1.5
Germany	0.3	1.7	1.7	1.7	1.3	1.6	0.3	1.7	1.7	1.7	1.3	1.4
France	0.1	0.3	1.2	2.1	1.3	1.5	0.1	0.3	1.2	2.1	1.2	1.4
Italy	0.2	0.1	0.9	1.4	1.0	1.3	0.2	0.1	0.9	1.4	0.9	1.1
Spain	-0.3	1.0	1.4	1.7	1.9	1.9	-0.3	1.0	1.4	1.7	1.8	1.8
United Kingdom	0.1	1.2	3.0	2.3	2.0	1.4	0.1	1.2	3.0	2.3	1.9	1.2
Japan	0.2	0.3	0.6	0.9	1.7	0.5	0.2	0.3	0.6	0.9	1.7	0.3
Emerging markets	4.6	4.2	4.5	5.0	4.7	4.6	4.6	4.2	4.5	5.0	4.6	4.5
Latin America[1]	6.2	4.6	5.9	7.1	5.6	4.9	6.2	4.6	5.9	7.1	5.4	4.6
Mexico	2.3	3.2	6.6	4.8	3.8	3.4	2.3	3.2	6.6	4.8	3.7	3.2
Brazil	10.4	7.0	2.8	4.1	3.7	4.0	10.4	7.0	2.8	4.1	3.9	3.9
Argentina	26.0	39.4	23.3	47.4	30.6	20.6	26.0	39.3	23.3	47.4	30.6	20.5
Emerging European[2]	3.9	4.2	6.8	10.2	8.3	7.5	3.9	4.2	6.8	10.2	8.1	7.2
Turkey	8.2	7.6	12.3	22.4	14.5	10.4	8.2	7.6	12.3	22.4	14.4	10.5
Asia Pacific[3]	2.2	2.5	2.8	3.8	3.2	3.2	2.2	2.5	2.8	3.8	3.1	3.1
China	1.5	2.2	1.8	2.2	2.5	2.3	1.5	2.2	1.8	2.2	2.4	2.0
Indonesia	4.8	3.3	3.5	3.2	4.1	3.5	4.8	3.3	3.5	3.2	4.2	3.6
Philippines	0.3	2.0	3.0	5.9	3.1	3.9	0.3	2.0	3.0	5.9	3.1	3.9
World	2.9	3.0	3.3	3.7	3.6	3.5	2.8	3.0	3.3	3.7	3.4	3.2

Source: MAPFRE Economic Research

[1]Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; [2]Russia, Turkey, Commonwealth of Independent states (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: April 17, 2019.

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

	Baseline						Risk scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
United States	2.27	2.45	2.40	2.69	2.91	3.06	2.27	2.45	2.40	3.15	2.79	2.57
Eurozone	1.20	1.04	0.91	1.09	1.25	1.76	1.20	1.04	0.91	1.19	1.22	1.35

Source: MAPFRE Economic Research
Forecast closing date: April 17, 2019.

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

	Baseline						Risk scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
USD-EUR	0.92	0.95	0.83	0.87	0.86	0.84	0.92	0.95	0.83	0.88	0.87	0.84
EUR-USD	1.09	1.05	1.20	1.15	1.16	1.19	1.09	1.05	1.20	1.14	1.16	1.19
GBP-USD	1.48	1.23	1.35	1.28	1.36	1.40	1.48	1.23	1.35	1.35	1.35	1.40
USD-JPY	120.27	116.78	112.69	109.70	110.39	109.70	120.27	116.78	112.69	112.51	110.18	109.32
USD-CNY	6.49	6.94	6.51	6.88	6.58	6.47	6.49	6.94	6.51	6.91	6.57	6.45

Source: MAPFRE Economic Research
Forecast closing date: April 17, 2019

Table A.5
Baseline and risk scenarios: benchmark interest rate
(end of period, %)

	Baseline						Risk scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
United States	0.50	0.75	1.50	2.50	2.50	2.50	0.50	0.75	1.50	2.50	2.25	2.00
Eurozone	0.05	0.00	0.00	0.00	0.00	0.25	0.05	0.00	0.00	0.00	-0.02	-0.17
China	2.30	2.50	2.40	2.70	2.90	3.10	2.30	2.50	2.40	3.20	3.27	3.03

Source: MAPFRE Economic Research
Forecast closing date: April 17, 2019.

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1/ See: MAPFRE Economic Research (2019), *2019 Economic and Industry Outlook*, Madrid, Fundación MAPFRE.

2/ Economic slowdown in the eurozone is mainly at the industrial level, with the PMI manufacturing index dropping since December 2017 (47.5 in March), while the construction index remains in positive territory (52.2) and services rebounded in February and March (53.3 in March). This affords some hope that domestic consumption will at least provide some support to avoid a slowdown worse than expected. The Sentix investor sentiment index for the eurozone in April was -0.3 compared to the forecast of -2.0, although it's still too early to say if it has reached bottom. Furthermore, retail expenses rebounded in February to 2.8%, which is in line with a strong labor market and confirms the health of domestic demand compared with the current contraction in the manufacturing sector, which is sensitive to exports.

3/ In fact, performance overall in exports shows that the trend is positive.

4/ Reforms that require constitutional amendment, such as ex-Prime Minister Mateo Renzi attempted unsuccessfully.

5/ Primer Minister Theresa May accepted the offer of April 11 of the European Union (EU) to postpone the exit of the United Kingdom to October 31. Based on the terms of the latest postponement, the United Kingdom can leave the EU before that date if Parliament approves the withdrawal agreement. European leaders agreed to review the agreement at the end of June. In a press conference after a long night of negotiations, Donald Tusk, President of the European Council, said that both parties had agreed to what he called a "flexible extension". The ruling Conservative Party is holding talks with the Labor opposition to reach a bilateral solution to the Brexit stalemate, but both parties state that the other party is not disposed to reaching an agreement.

6/ The consumer confidence index rebounded strongly in February to 52.4.

7/ https://www.iaisweb.org/page/supervisory-material/insurance-capital-standard/file/81188/section-91-gaap-with-adjustments-public/05.04.2019

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