



Fundación **MAPFRE**

2025 ECONOMIC AND
INDUSTRY OUTLOOK:
PERSPECTIVES FOR
THE SECOND HALF

MAPFRE Σeconomics

**2025 Economic
and Industry Outlook:
Perspectives for
the Second Half**

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Executive summary

2025 Economic and Industry Outlook: Perspectives for the Second Half

Economic outlook

During the first half of 2025, the global economy has shown a notable capacity to adapt amid an environment of uncertainty shaped by geopolitical and trade tensions. In the trade arena, signs are starting to emerge suggesting possible relief and a relative easing of uncertainty. The first trade agreements have been signed, including those with the United Kingdom, Vietnam, Indonesia, and Japan. Although the United States' effective tariff rate today remains higher than it was at the start of the year, future economic conditions are expected to be less disruptive and frictional.

From a geopolitical standpoint, both the ongoing conflict in Ukraine, and in the Middle East with Israel's recent offensive against Iran's nuclear facilities, the United States' direct involvement in the conflict, and Tehran's subsequent response, have reignited fears of potential disruptions to the global oil supply. This has caused a sharp spike in prices, heightening energy-related risks that appear to be contained thanks to a fragile and temporary truce, and OPEC's decision to increase the supply of crude, reinforcing the expectation that prices could remain under control in the near future.

At the fiscal level, concerns about recurring deficits and the long-term unsustainability of public debt remain present, prompting a reassessment of risk. In this context, central banks face a complex landscape with diverging monetary policies. The U.S. Federal Reserve maintains a restrictive stance as a means of containing the implications of upcoming economic data, while the European Central Bank is in a more comfortable position. The lower impact of tariffs on inflation in the Eurozone has permitted a progressive advance toward neutrality, although still without clear conditions to guarantee the step toward accommodation. Meanwhile, in the emerging economies, interest rate cuts predominate, supported by lower concerns over debt compared to developed economies, with growth exceeding expectations and a disinflation process that, overall, is progressing steadily.

Despite the uncertainty, the global economy has remained stable, with hopes that the future will bring a gradual normalization similar to the pre-pandemic equilibrium, with more synchronized cycles, broad-based improvements in inflation, and converging fiscal and monetary policies. By region, in the United States, following the imposition of tariffs during the first quarter of the year, both consumption and investment saw gains, which are therefore expected to show less dynamism in the short term. GDP growth forecasts show a moderate slowdown in 2025 and a slight improvement in 2026. The Eurozone shows a temporary improvement, yet still faces structural challenges that limit the capacity to achieve sustained growth. Spain is displaying stronger economic momentum than

the major Eurozone economies, a trend likely to continue in the short to medium term thanks to the boost from European NGEU funds, a dynamic labor market, and steady, resilient activity in services and manufacturing.

Emerging markets continue to show significant economic momentum, with changes in the global economic order potentially positioning these countries to play a more prominent role in global growth. Their economic activity remains robust, with favorable macroeconomic foundations and contained inflation. Although growth remains moderate, forecasts for Latin America are improving, with Argentina, Brazil, and Peru as the main drivers. With economic targets approaching the expected range and monetary policies still restrictive, governments have room to respond to a slowdown in economic activity.

In Asia, India and Southeast Asia are gaining prominence as drivers of global economic growth, although they face challenges to competitiveness due to trade concessions. Low inflation and stronger currencies give them sufficient leeway to implement monetary and fiscal policies that will enable them to adjust downward and cushion the impact. Finally, China shows an upward revision in its economic growth forecasts due to a more flexible regulatory environment, although deflationary pressures and vulnerabilities to trade and geopolitical tensions persist.

Global macroeconomic forecasts have been revised slightly upwards, with 2.9% growth for 2025 and 3.0% for 2026, while inflation is expected to stand at 3.4% and 2.9%, respectively, for the same years. It appears the global economy could be approaching a sort of *general equilibrium*, where central banks play a less active role, with less monetary intervention and clearer synchronization between production, consumption, and prices. However, uncertainty persists, which could lead to a different global dynamic, maintaining the possibility of an alternative scenario subject to more permanent *shocks* and the manifestation of structural changes.

Industry outlook

The easing of uncertainty following the sharp spike caused by the trade war leaves the global insurance industry facing a moderate economic slowdown and some disparity between the major regions. In any case, the relative economic deceleration is due more to external demand than to internal consumption, which continues to hold up well amid a more complex geopolitical context. Along with a favorable interest rate environment, this will continue to support the overall development of the insurance industry, both in the Life and Non-Life segments. The latter is expected to slow slightly, but with solid prospects for profitability thanks to more moderate inflation and the contribution of its investment portfolio yields.

Economic growth forecasts for the Eurozone have improved slightly, as the effects of lower interest rates implemented by the European Central Bank are transferred to the real economy, in a controlled inflation environment. This environment still offers good prospects for the insurance industry, with interest rates now out of restrictive territory, which is reviving lending to the private sector, coupled with a foreseeable fiscal boost from increased infrastructure and defense spending. In the United States, however, inflation remains above the target set by the Federal Reserve, which has kept its monetary policy in restrictive territory. Nevertheless, domestic consumption continues to show resilience, creating an environment of positive real interest rates that is favorable for marketing Life Savings insurance products. Consequently, expectations for the U.S. insurance industry point to a moderate slowdown.

On the other hand, the main equities indexes have performed well, especially in Europe, where they have outpaced U.S. indexes and experienced less volatility. This environment remains favorable for the development of Life insurance products in which the policyholder assumes the investment risk, which can also benefit from fixed-income

interest rates that exceed inflation expectations, especially in the longer segments of the yield curve.

Finally, the insurance industry in emerging markets continues to withstand the economic slowdown, which has led to improved growth estimates for both Non-Life and Life insurance activities. The latter benefits from high interest rates that significantly exceed inflation, positively impacting Life Savings insurance and the profitability of the insurance industry.

1. Economic outlook

1.1 The world economic outlook

1.1.1 Living with uncertainty

The first half of the year has been overshadowed by a layer of global uncertainty stemming from two fronts: trade policy and geopolitics. However, both variables have recently softened, and although they remain at elevated levels, they are so far "reasonably innocuous" at the macroeconomic level. To that extent, they have built up a dynamic that allows the above forecasts to be placed under the prism of a global economy seemingly learning to live with uncertainty.

On the trade front, manageable certainty has yet to emerge. However, despite the still high level of noise, some early signs of relief are beginning to appear, suggesting a climate of apparently lower uncertainty. On the one hand, the first trade agreements have been signed between the United States and some of its trade partners, whether complete or partial, as seen with the United Kingdom, Vietnam, and Japan. This suggests a narrower spectrum of protectionism. On the other hand, with the exception of China, there is a general expectation that there will be no retaliatory measures from the other partners, reducing the risk of an escalating tariff war and limiting the likelihood of a more adverse scenario. Additionally, a second extension granted by the United States until August creates a constructive environment to resolve

the most contentious issues, while offering flexibility in terms of deadlines and timelines for now. Therefore, although the effective tariff rate in the United States is now considerably higher than in January, expectations converge toward a scenario in which the final outcome will be less damaging and frictional for the economy than originally anticipated.

On the geopolitical front, it is surprising that the conflict between Russia and Ukraine has remained somewhat encapsulated, with no agreement in sight, but no major triggers for escalation. This suggests that signing a truce remains a plausible scenario, but also that future peace dividends will entail greater concessions on Ukraine's part. So far, Russia's demands to end the war are a "written" promise not to expand NATO, the lifting of some sanctions, and maintaining control of the territory already taken, although the latter is increasingly ambiguous as advances extend toward the Sumy region.

Equally concerning, a new inflationary risk has emerged from the Middle East, with Israel's recent offensive on Iranian nuclear facilities, the direct involvement of the United States in the conflict, and Tehran's subsequent response. Originally, these actions sparked fears of disruptions in the global supply (given the strategic importance of the Strait of Hormuz for crude transportation) and triggered a sharp surge in prices. However, the risk seems to be contained under a fragile and temporary truce, backed by President Trump's desire for it to be lasting. Similarly, for Iran, the

Strait of Hormuz represents the route for its own oil exports (on which a significant portion of its income depends), in addition to its importance for its trading partners, such as China. Lastly, as a counterweight to the geopolitical risk premium on oil, OPEC+'s unexpected decision to boost supply puts the world in a far more comfortable position than in the past, reinforcing the idea that prices could remain contained in the future.

At the same time, bond markets continue to reflect some unease about fiscal imbalances, recurring deficits, and unsustainable long-term debt in the United States and other Western countries. This trend is currently limited to longer maturities, but it is still cause for concern, as it could end up prompting a shift in private investment. The focus is currently on U.S. fiscal policy as the "One Big Beautiful Bill Act" moves forward (see Box 1.1.1-a), on Europe's fiscal efforts to strengthen the defense sector and strategic autonomy, and on the Japanese government's struggle to cope with the new environment of interest rates, rising inflation, and low growth. Assuming no change in economic growth or productivity fundamentals, or in the neutral interest rates estimated by the major central banks, the warning signs continue to suggest that the rise in nominal yields is due to an increase in the term premium—that is, a reassessment of risk.¹

The current environment is proving particularly demanding and challenging for central banks, which are confirming a divergence in monetary policies in response to conflicting trends. On the U.S. Federal Reserve side, members of the Federal Open Market Committee (FOMC) are still deciphering the impact of a higher-tariff economy domestically. The symptoms of slower growth seem undeniable, but in terms of inflation, the signs are still unclear, as reflected in the disagreement among the committee members themselves. This uncertainty continues to limit the room for maneuver, making it necessary to keep things tight while waiting for more data. In Europe, however, concerns about economic growth and the low impact of tariffs on inflation, which currently hovers around the European Central Bank's (ECB) target of 2%,

have allowed for a gradual and less contentious move toward monetary neutrality. Nevertheless, the path ahead is still not clear enough to guarantee a move toward accommodation, so a prolonged pause is therefore expected until there are compelling reasons to change course (see Box 1.1.1-b).

In emerging economies, meanwhile, the net balance to date has generally been one of interest rate cuts, thanks to the inertial orthodoxy of the rate hike cycle, but also to the convenience of lower concerns about debt growth compared to developed economies. This is because, although debt *stock* also increased during the pandemic years, lower debt holdings by central banks reduce the likelihood of abrupt adjustments and allow attention to focus on fiscal challenges and internal idiosyncrasies. At the same time, monetary policy decisions have been accompanied by economic growth figures that have generally exceeded expectations, as well as a disinflation process that, while slightly stagnant in recent months, remains well defined on the horizon.

Box 1.1.1-a
Economic and fiscal implications of the OBBBA

On July 4, the U.S. Congress passed the “One Big Beautiful Bill Act” (OBBBA), a tax law promoted by President Donald Trump. This law reverses the focus of the “Inflation Reduction Act” (IRA), eliminating green incentives and prioritizing reindustrialization, traditional energy production, and fiscal sovereignty. In general, it includes permanent tax cuts, subsidies for heavy industry, increased defense spending, and stricter immigration measures. In this regard, although it seeks to boost growth and reduce external dependence, several analysts warn of long-term fiscal imbalances, given a possible disconnect between the magnitude of tax cuts and adjustments in public spending.

General content of the OBBBA

On the tax front, the central component of the OBBBA is the extension of many of the provisions of the 2017 Tax Cuts and Jobs Act (TCJA), including the continuation of personal income tax cuts, the expansion of the standard deduction, and the higher threshold for the estate tax exemption starting in fiscal year 2026. It also expands tax credits per child, and creates new tax deductions on tips, overtime, car loan interest, and for individuals over 65 on their taxable income. Also, the cap on State and Local Tax (SALT) deductions is temporarily raised.

In terms of investment incentives, immediate and permanent deductions are established for investments in short-lived assets and R&D; this measure is considered one of the elements with the greatest positive structural effect on growth. It also promotes tax benefits for strategic sectors, such as metallurgical coal (classified as a “critical mineral”), in order to encourage production, and the application of a tax on methane emissions has been delayed by ten years. Along the same lines, IRA tax credits for renewable energy projects are being phased out.

On the expenditure side, the OBBBA provides for increases in defense and immigration control. Spending on social programs, such as Medicaid and the Supplemental Nutrition Assistance Program (SNAP), is reduced, although this measure is postponed until 2027, after the mid-term elections. Finally, the debt ceiling is raised by 5 trillion dollars, bringing it to 41.1 trillion dollars and avoiding a new budget negotiation until at least 2027.

Tax and debt implications

The Congressional Budget Office (CBO) estimates that the OBBBA will add around 3.8 trillion dollars to the federal deficit over the next ten years, and up to 4.5 trillion if associated debt interest is included. Accordingly, privately held debt is expected to grow to 118% of GDP by 2034 (see Charts A and B). This increase in the deficit and debt is explained by the extension of TCJA tax provisions and the new deductions introduced. Conversely, spending cuts will be deferred until 2027, reflecting the political strategy of immediate stimulus and postponed fiscal consolidation ahead of midterm elections, despite the increased risk of structural imbalance in the medium term. There is also a risk that the OBBBA's temporary measures (such as expanded deductions) will be renewed in future election cycles, further contributing to fiscal deterioration.

In financial markets, the OBBBA has raised expectations for net debt issuing and pushed Treasury yields higher. In this regard, the interest burden, which already exceeds defense spending, casts doubt on the sustainability of the debt. In addition, measures to limit commercial banks' exposure to public debt (which stands at around 20% of their total assets) have been limited, and there is still a risk that foreign investors may diversify away from the dollar, despite the elimination of tax penalties following the repeal of Section 899 of the Internal Revenue Code.

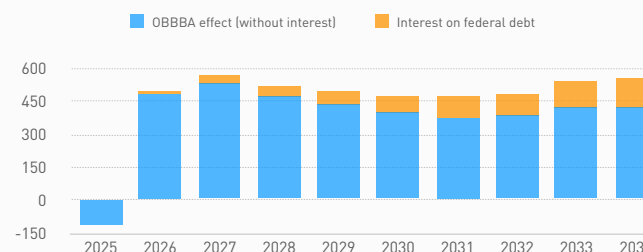
Box 1.1.1-a (continued)
Economic and fiscal implications of the OBBBA (continued)

Beyond the immediate impacts of short-term fiscal stimulus, the rising interest costs associated with public debt point to a troubling dynamic. Some analysts believe this marks a structural turning point, where high debt levels and a sustained increase in real interest rates could trigger a crisis of confidence if the necessary corrective measures are not taken to balance the debt-to-deficit ratio.

Conclusion

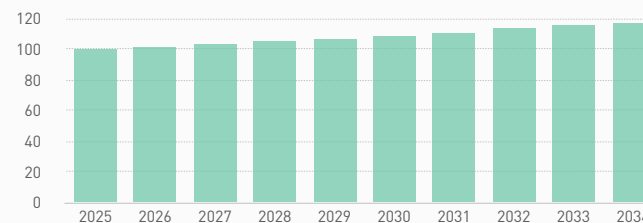
The OBBBA represents a major legislative win for the Trump administration's agenda, cementing several campaign promises on tax relief and reindustrialization. However, the fiscal cost is significant, and its design compromises future budgetary sustainability to a large extent. In an environment of rising real interest rates, increasing debt-servicing costs, and geopolitical fragmentation, U.S. fiscal credibility could deteriorate. As a result, the country may be approaching the critical point of a debt cycle, where servicing costs outweigh budgetary flexibility. Although a fiscal crisis is not inevitable, avoiding one will require higher revenues and a rationalization of public spending, which does not appear to be in the current administration's plans for now.

Chart A.
United States: effects of the OBBBA on the fiscal deficit
 (billions of dollars)



Source: MAPFRE Economics (based on Congressional Budget Office data)

Chart B.
United States: federal debt
 (% GDP)



Source: MAPFRE Economics (based on Congressional Budget Office data)

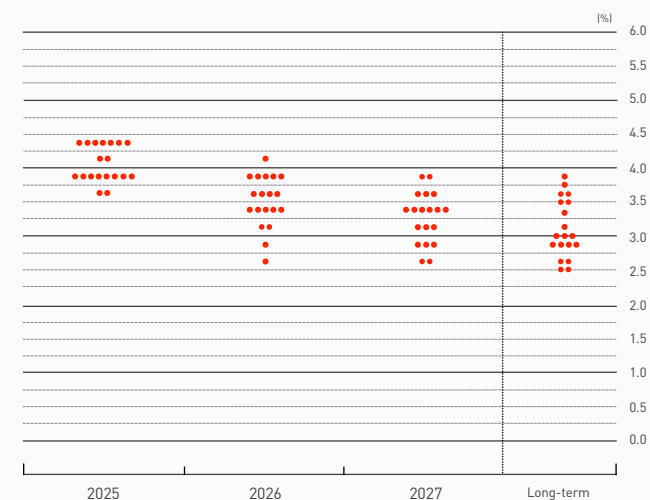
Box 1.1.1-b Monetary policy update

Federal Reserve

The United States Federal Reserve held benchmark interest rates steady in the 4.25%-4.50% range for the fourth consecutive time, although with less consensus among members of the Federal Open Market Committee (FOMC). Regarding the balance sheet, no changes were announced, so the pace of quantitative tightening (QT) will continue as planned, with 5 billion dollars in asset sales per month. Alongside the monetary policy decision, the Fed released an updated interest rate projection via the dot plot, which maintains the perspective of 50 basis points (bps) in rate cuts for 2025, 25 bps in 2026 (one fewer cut), and 25 bps in 2027, with a long-term interest rate that remains at about 3% (see Chart A).

The Federal Reserve also released an updated set of macroeconomic forecasts, which reflect some influence from tariffs. Specifically, they show a downward revision in economic growth projections (now 1.4% for 2025 and 1.6% for 2026, down from 1.7% and 1.8% previously), along with higher inflation forecasts (3.0% and 2.4%, respectively, compared to 2.8% and 2.2% in its previous statement). In subsequent remarks, the Committee emphasized the need to maintain a patient and watchful stance as the best approach for monetary policy amid the current climate of uncertainty, with future adjustments to be made as appropriate (see Chart B). With economic growth remaining solid, a labor market that “is not crying out for a rate cut,” and inflation continuing to decline though still elevated, uncertainties focus on the need for greater clarity regarding trade policy and the potential future impacts of the tariff policy. Indeed, the Committee reiterated the argument that “ultimately, the cost of the tariff has to be paid,” which will end up affecting economic activity and price levels. However, until the actual effects are clearer, it is not appropriate to commit to any future decisions.

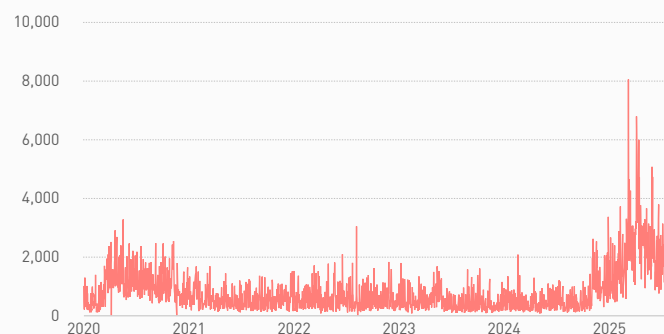
Chart A.
United States: Federal Reserve *Dot Plot*



Source: MAPFRE Economics (based on Federal Reserve data)

Box 1.1.1-b (continued)
Monetary policy update

Chart B.
United States: trade uncertainty index



Source: MAPFRE Economics (based on Economic Policy Uncertainty data)

Assessment

The most recent data on growth and employment do not suggest an immediate need to alter the course of U.S. monetary policy; in fact, the economy appears to have adapted to a relatively high interest rate environment. Although inflation continues to trend downward, it remains elevated and surrounded by tariff-related uncertainty, factors further compounded by the recent rebound in oil prices driven by renewed geopolitical risk in the Middle East. Against this backdrop, coupled with other effects related to fiscal and immigration policy, a cautious approach remains the most consistent stance in light of the potential for preemptive moves.

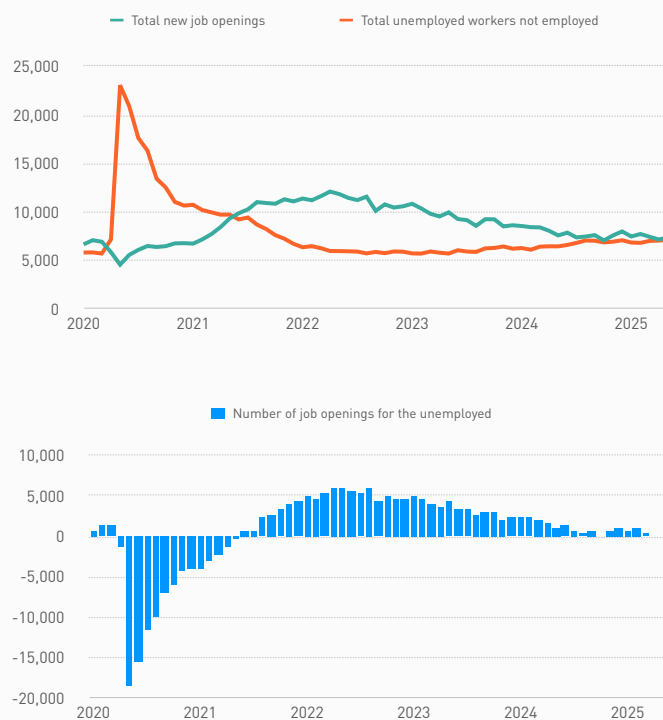
May's employment data showed a relatively stable unemployment rate (4.2%) and continued job creation (139,000 new jobs), figures aligned with long-term targets and therefore not altering the Federal Reserve's projections. Although the weekly reports for June showed a slight deterioration (with an increase of continuing jobless claims to 1.9 million), the figures remain far from concerning; in fact, they may reflect a return to equilibrium. Similarly, the JOLTS report showed stabilization in the labor market trend, with the number of job openings per unemployed person holding steady at 1.0. In other words, supply and demand in the labor market have leveled out (see Chart C).

As for economic activity, recent data suggest that the economy continues to grow at a healthy pace, but that growth may have lost a bit of momentum. On the positive side, as shown in Chart D, the services PMI rose to 53.7 points in May (up from 52.3), while the manufacturing PMI increased to 52.0 (from 50.2). Conversely, retail sales fell by 0.9% in May (the second consecutive monthly decrease), and industrial production was also down by 0.2%. This combination led the Atlanta Federal Reserve's GDPNow forecast for the second quarter to edge down slightly to an annualized rate of 3.5% (from the previous 3.8%).

Regarding inflation (see Chart E), the general CPI was up by a decimal point in May, reaching 2.4% YoY. This was due largely to the decline in the energy index (-1.0% MoM and -3.5% YoY), stable goods prices (0.1% MoM), and a further moderation in services (0.2% MoM) and housing (0.3% MoM). Core inflation also recorded a month-on-month rise of 0.1% (2.8% year-on-year), continuing to reflect increasingly moderate price pressures. While inflationary pressure has not completely subsided, inflation is reaching new lows since the inflationary cycle began, and it has yet to show any impact from the new tariff framework. However, as the June uptick to 2.7% YoY shows, it would be premature to rule out such effects entirely, as the advance

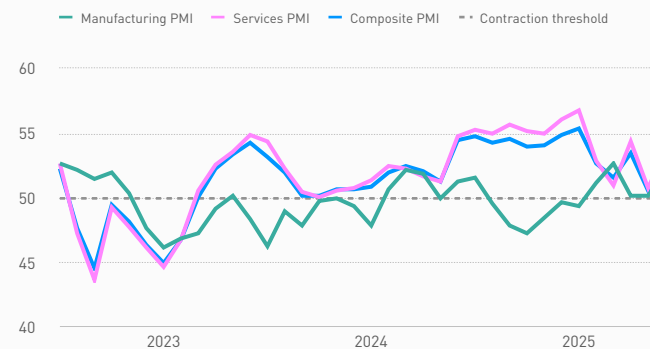
Box 1.1.1-b (continued)
Monetary policy update

Chart C.
United States: JOLTS employment report data



Source: MAPFRE Economics (based on Haver data)

Chart D.
United States: PMIs

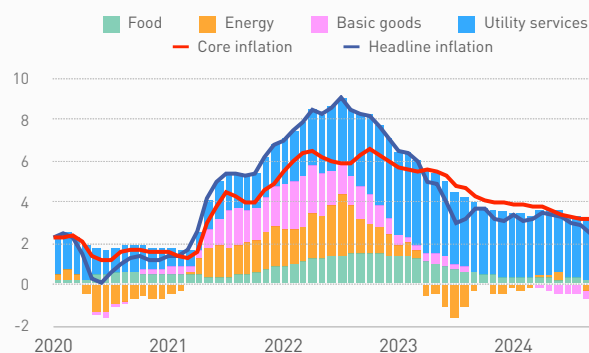


Source: MAPFRE Economics (based on Haver data)

accumulation of inventories and persistent uncertainty about tariffs may be delaying their pass-through to final prices.

Box 1.1.1-b (continued) Monetary policy update

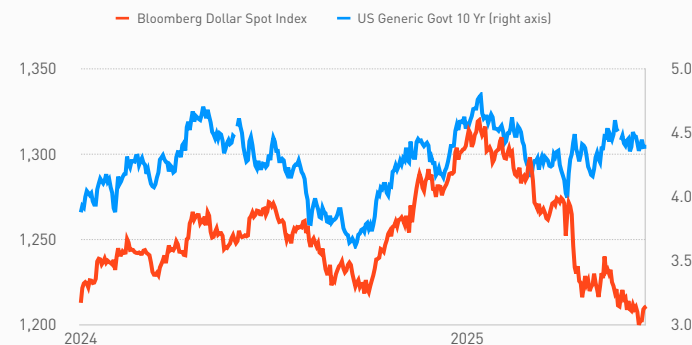
Chart E.
United States: inflation by components
(%)



Additionally, it is worth highlighting Moody's recent downgrade of the U.S. credit rating, citing debt levels near historic highs and deficits on an unsustainable long-term trajectory. This situation contrasts with the Trump administration's current intentions to launch a new fiscal stimulus under the OBBBA. As reflected in the rise in bond yields, this underscores the Federal Reserve's growing challenge in balancing risks with political decisions—a complicated scenario that will likely continue to worsen any future understanding between fiscal and monetary policy. Indeed, questions surrounding how the U.S. plans to overcome this deficit through economic growth, alongside a decline in capital inflows to finance it, are forming a growing risk dynamic—reflected in both the dollar's performance and real yields (see Chart F).

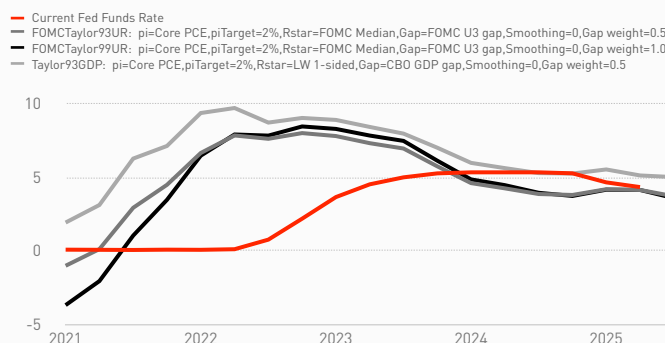
In summary, recent macroeconomic data suggest the U.S. economy remains broadly balanced, with inflation still on track toward the target. However, there is a relative lack of clarity across most domestic and international policy fronts. This equilibrium is also reflected in the theoretical interest rate range provided by the Taylor Rule in its various versions, currently indicating that the effective rate remains within the theoretically appropriate range (see Chart G). Therefore, the Federal Reserve finds itself needing to extend its wait-and-see approach until the actual effects become clearer, especially in light of the lack of consensus among its members. Until that changes, predictability will remain low. But the fact that the new dot plot is not far off

Chart F.
United States: USD exchange rate vs. 10-year bond



Box 1.1.1-b (continued) Monetary policy update

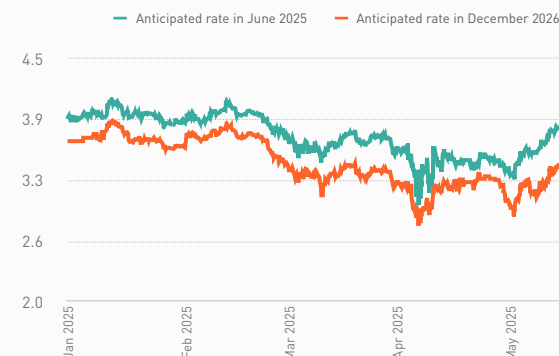
Chart G.
United States: current interest rate and Taylor rule estimates



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

market expectations provides some reassurance that both its credibility and independence in monetary policy remain intact (see Chart H).

Chart H.
United States: interest rates implied by swaps



Source: MAPFRE Economics (based on Bloomberg data)

European Central Bank

At its June meeting, the European Central Bank (ECB) announced, for the eighth consecutive time, a cut in interest rates of 25 bps, placing the rate at 2.15% for the marginal lending facility, 2.40% for main refinancing operations, and 2.00% for the deposit facility. Regarding its balance sheet, no additional guidance was provided beyond the December outlook, meaning it will continue to be managed on autopilot for the time being. At the macroeconomic level, new projections were presented with few but positive changes. For GDP, the revisions were practically the same as in March, with estimates of 0.9% for 2025, 1.1% for 2026 (compared to 1.2% previously) and

Box 1.1.1-b (continued) Monetary policy update

1.3% in 2027. In inflation, the revisions were downward (0.3 percentage points for 2025 and 2026), and virtually unchanged for 2027, with the forecast for the three years being 2.0%, 1.6% and 2.0%, respectively.

After virtually confirming its previous forecasts, a clear narrative was presented: “the ECB is in a good position to navigate the current conditions and face the future.” Calibrating the next step will take some time and, therefore, flexibility and caution are maintained, given the margin of comfort from having achieved two milestones: returning inflation to the goal and simultaneously reaching a neutral interest rate as the basis for taking action in the future. In addition, this pause serves to buy time to decide how to respond to a potential shock which could be either negative or positive, depending on the outcome of the negotiations.

Assessment

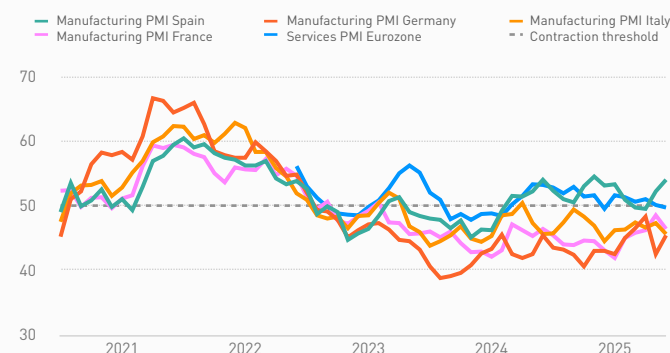
The data for the last interest rate decrease were favorable. The recovery of economic activity remains fragile, inflation has exceeded the ECB’s target and, in practice, tariff pressure as a catalyst for macroeconomic deterioration is now on pause. Looking ahead, the scope of action is starting to narrow, and is subject to discussions on the advisability of keeping monetary policy anchored to the neutral interest rate (1.75-2.25%), or taking small steps toward a slightly accommodative policy; considerations that perhaps should be put on pause until more up-to-date data become available.

With regard to economic activity levels, Eurozone GDP data showed an acceleration of 0.4% QoQ (1.2% YoY), with positive contributions both in terms of consumer spending and investment and, to a lesser extent, an increase in exports. The private sector support could be justified, at least in part, by the internal relief of lower interest rates, while that relating to trade may be atypical, influenced by external factors related to the bringing forward of

imports in the face of the new U.S. tariff framework (a trend opposite to that observed in U.S. GDP).

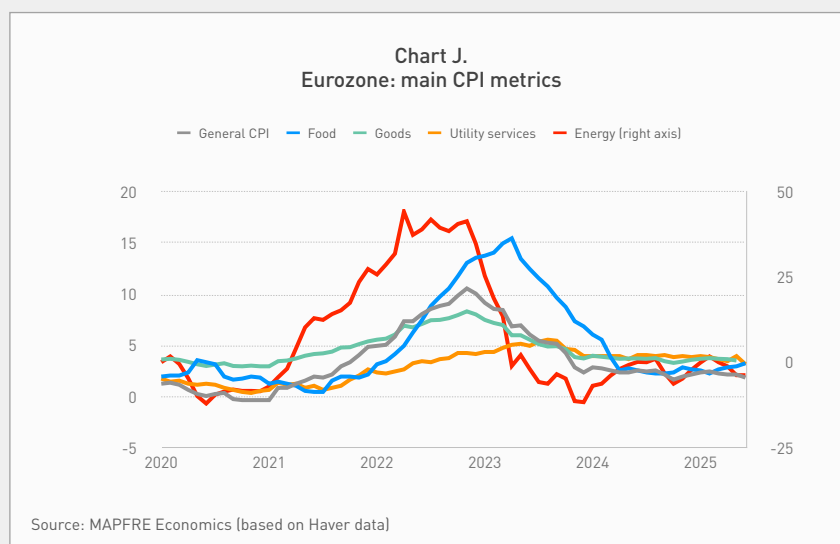
However, based on the most recent high-frequency data (see Chart I), the PMI indicators prevented the onset of contraction, despite the deterioration of the service sector, thanks to the upturn in the manufacturing sector, which is beginning to materialize and showing signs of a more balanced recovery in the future. In support of this hypothesis, other consumer sentiment indicators (such as ESI and GFK) revealed a boost in confidence, which could lend support to this expectation.

Chart I.
Eurozone: PMIs



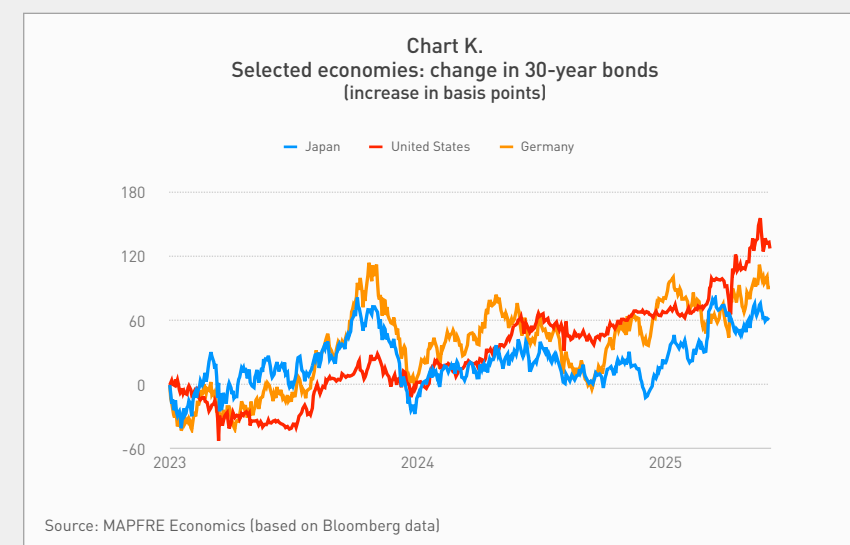
Source: MAPFRE Economics (based on Haver data)

Box 1.1.1-b (continued) Monetary policy update



With respect to inflation (see Chart J), the preliminary data for the last month confirmed a rate drop below 2.0%, thanks to steady increases in the goods sector (0.6% YoY) and a drop in service inflation, to 3.2% YoY. Core inflation also eased to 2.3% YoY (compared to 2.7% previously). This reflects the lower capacity of companies to pass on prices (seen in PMI surveys) and the influence of a stronger euro. However, and from a more neutral perspective, part of the decrease in services is due to the calendar effect of a delayed Easter vacation period and exchange rate behavior that appears to have eased.

Another factor to consider is future fiscal guidance. After being slightly contractive in 2024, it could become expansionary with the activation of national escape clauses and renewed interest in strengthening the areas of infrastructure and defense. This shifts the risk to the side of the balance sheet of smaller interest rate cuts, given that, as can be seen in other parts of the world, there are signs that investment appetite is not quite as ready to finance new issues, at least not at the longest maturities (see Chart K). As we noted at the beginning of the year, these signals remain latent in bond markets and are reflected in the breadth and, to a certain extent, disconnection between the short and longest ends of the interest rate curves.



Box 1.1.1-b (continued) Monetary policy update

There are also doubts about the tax multiplier that this spending will have, at least for the first few years. In addition, it is unknown what effects higher bond yields might have on private investment, as there is a risk of being *crowding-out*: that is, a new level of public investment could raise the risk-free interest rate to levels that depress the private sector, while also fostering a consumption pattern that does not match the levels wished for by economic actors.

In short, the binomial of economic growth and inflation seems to be stabilizing due to the *mix* of more balanced growth and restrained price pressures. In addition, it opens the door to renewed fiscal stimulus, particularly focused on defense, infrastructure and industrial policy, to encourage public investment and consumption to actively participate in such expansion. With regard to the external environment, trade uncertainty remains high, and with no clarifying signs of progress in negotiations, a clearer picture cannot be expected in the near term. Both factors, internal and external, underpin the ECB's current lack of commitment to signaling the future direction of interest rates.

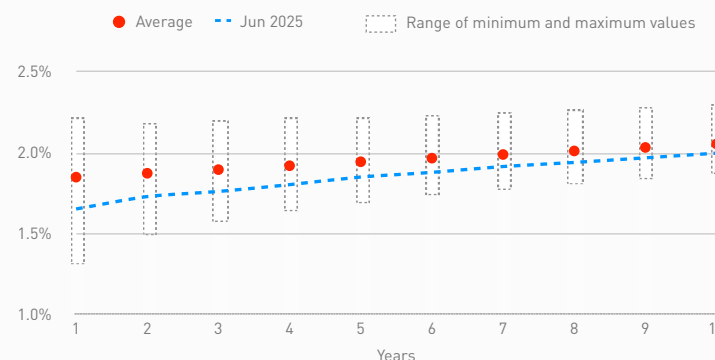
Table A.
Eurozone: probability assigned in May that average inflation
will be below or above 2% in the coming years

	Less than 2%	Above 2%
2025	40%	60%
2026	50%	50%
2027	50%	50%
2028	50%	50%

Source: MAPFRE Economics (based on ECB SMA data)

In the future, the arguments for undertaking additional rate cuts towards accommodative territory need to be more convincing. The path of economic growth is structurally low, but it has the umbrella of an expansionary fiscal policy, so an accommodative interest rate would, in part, be pro-cyclical. With regard to inflation, the likelihood of falling below the target is still insufficient to outweigh the risk of overshooting it (see Table A), particularly when considering that the fiscal multiplier also influences this side of the equation. In this regard, the differential factor that could anchor expectations would be to clear away the trade-related fog that is hindering visibility on inflation. This is shown by the wide range in which inflation *swaps* have fluctuated since the beginning of the year (see Chart L).

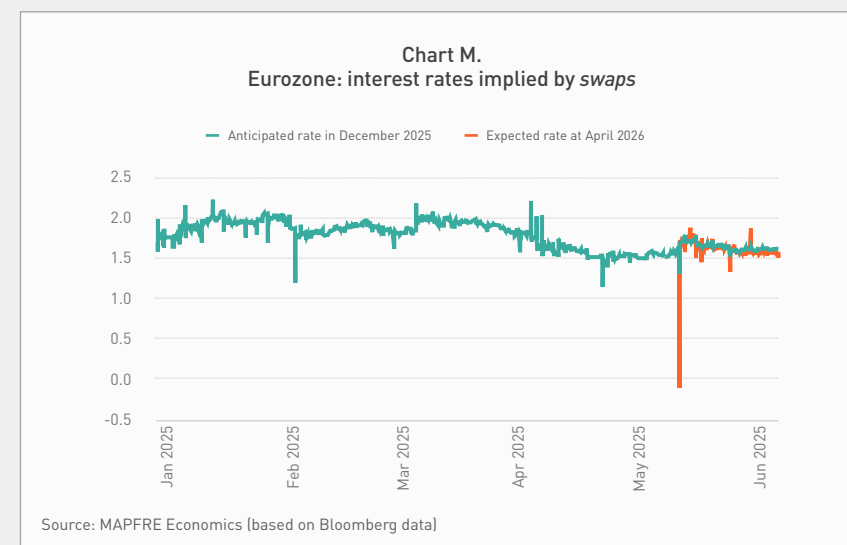
Chart L.
Eurozone: 10-year inflation expectations implied by *swaps*



Source: MAPFRE Economics (based on Bloomberg data)

Box 1.1.1-b (continued) Monetary policy update

Therefore, and with a view to future meetings, the ECB will have to analyze the data as a whole, that is, both in terms of macroeconomic developments and how trade policy is absorbed, and/or its potential impact. While awaiting confirmation that this uncertainty is temporary and for a green light to ease monetary policy, the current point of neutrality may be an appropriate position from which to wait for developments in the coming months, and from which to validate—or not—the current expectations pointing to two additional cuts in the second half of the year (see Chart M).



Overall, the global economy has so far managed to coexist with this uncertainty without showing clear signs of deterioration, without evident erosion in growth and facing relatively benign pressures on prices. In fact, while the macroeconomic outlook remains resilient, more countries and regions have continued to meet their inflation targets, with rates comfortably close to historical averages and aspirations to remain within that range. Looking ahead, the global economy is expected to continue moderating and, to some extent, resemble its pre-pandemic state of equilibrium, with more synchronized cycles, widespread improvements

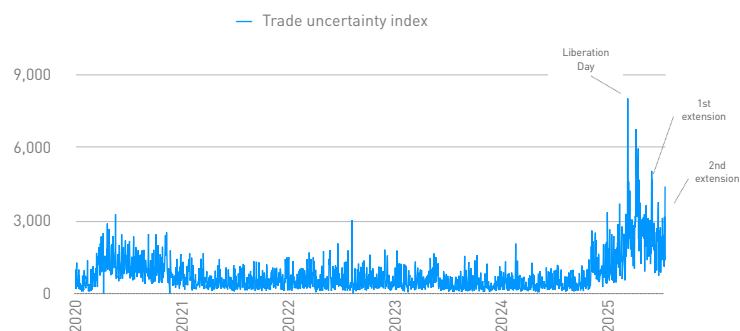
in inflation, and convergence in fiscal and monetary policies. This suggests that forecasts will remain stable, but also exposes the fragility of the balance to *shocks* that go beyond the macroeconomy and that appear likely to continue.

1.1.2 Reading the trade landscape

Since April 2, following the expiration of the initial 90-day truce proposed by the U.S. government, the overall message has been one of continued high noise and uncertainty, but with certain signs of relief, namely: (i) there is no evidence of actual disruption as a result of the tariffs; (ii) retaliatory measures have not been widespread; (iii) there is a certain pattern toward negotiation; and (iv) the effective tariff rates taking shape are, in practice, lower than those initially proposed (see Chart 1.1.2-a). Therefore, while it is clear that the outlook remains complex, there is an expectation that there will still be room for negotiation in the future. In this regard, the baseline scenario considered in this report rests on the expectation that progress will continue in the talks and that, should they fail, any re-imposition of tariffs will be selective and implemented on a phased timeline that facilitates more agreements rather than retaliation.

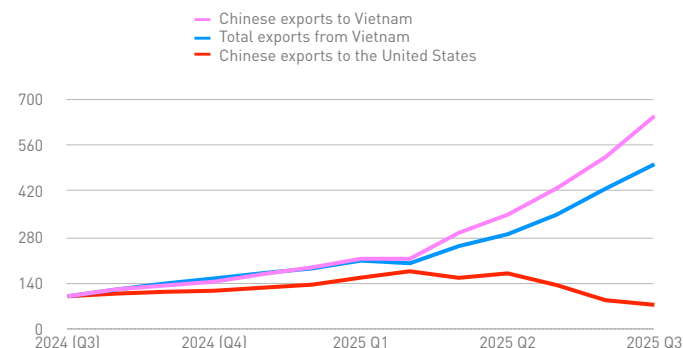
So far, the effect of the tariffs has been limited. This is due in part to preventive moves by the private sector, which responded with atypical advance purchasing and expanded inventories. This is reflected in the volatility of macroeconomic data on the trade balances of the United States and its main partners, particularly in import and export figures—distortions caused by the initial *shock* that pushed the average effective tariff rate paid above 20%. In addition, subsequent exemptions for certain sectors, combined with the arrival of the first trade agreements, have alleviated certain links in the supply chains and freed up some transshipment practices, i.e., trade movements to counteract the effects of tariffs by rerouting goods through third countries with more favorable tariff treatment (see Chart 1.1.2-b).

Chart 1.1.2-a
Global: trade uncertainty



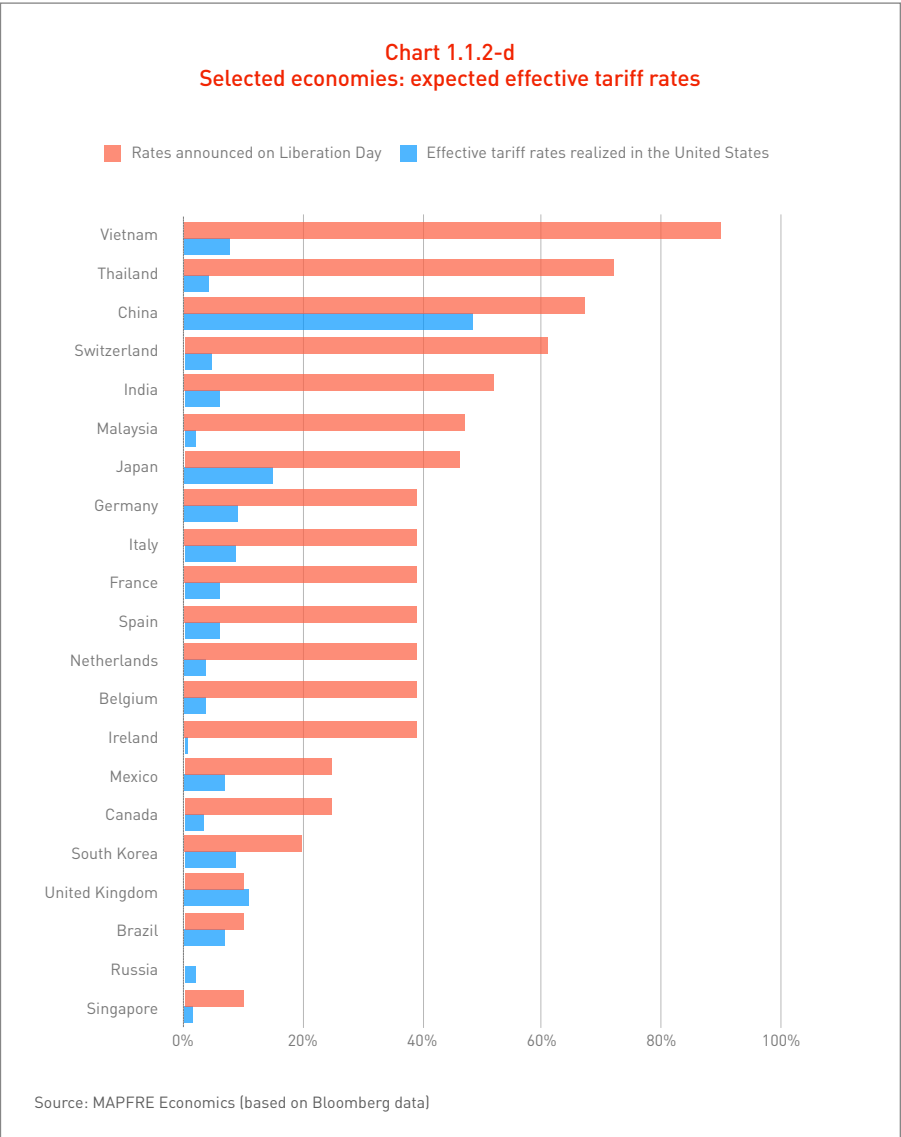
Source: MAPFRE Economics (based on Economic Policy Uncertainty data)

Chart 1.1.2-b
Selected economies: change of trade volume in Asia



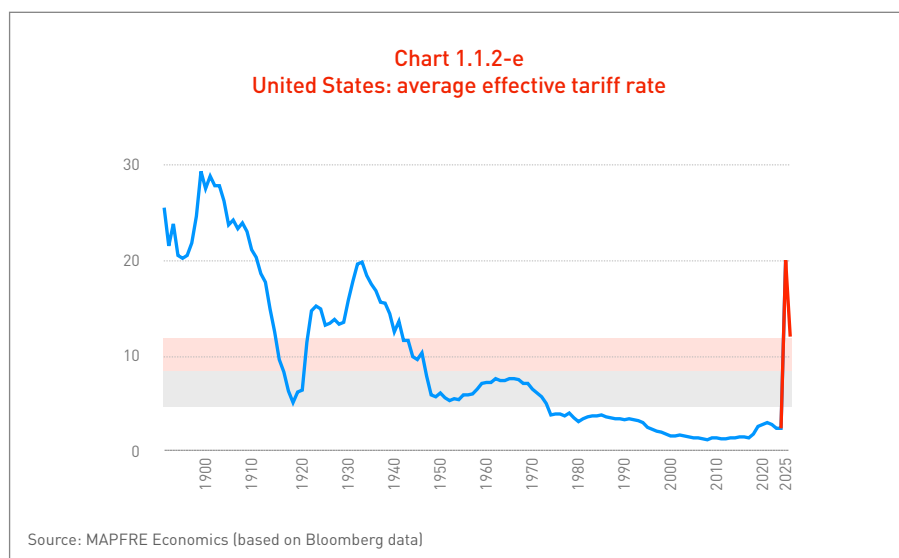
Source: MAPFRE Economics (based on Bloomberg data)

A second and third consequence have been the absence of retaliatory tariffs so far and the emergence of a certain pattern leaning toward negotiation and with the ultimate goal of reaching agreements. This involves an initial level of coercion citing preliminary tariffs, followed by the opening of a negotiation period, and finally a closing phase in which the risks are restated as a form of additional pressure, as shown in the tone of the letters sent (“These tariffs may be modified, upward or downward, depending on our relationship with your country”). Each letter also makes clear that the negotiation margin must, in any case, be favorable to the U.S. administration: “if you wish to open your heretofore closed trading markets to the United States, and eliminate your tariff, and non-tariff, policies and trade barriers, we will, perhaps, consider an adjustment to this letter,” emphasizing that “persistent trade deficits represent a significant threat to the economic and national security of the United States.” Therefore, the current assumption is that trade agreements will continue to be reached in the short term, but in their final phase, what participants will likely achieve is something closer to a



universal tariff of 10% that meets the original objective (see Chart 1.1.2-c).

Finally, the most recent reading on the trade front shows that the effective tariff rates taking shape are, in practice, lower than those initially proposed. As a result of these agreements, whether complete or partial, China's effective tariff rate on imports has fallen to around 40%, compared to 54% on April 2. The United Kingdom is maintaining rates of 10%. In Vietnam, although not yet formally accepted by the government, indications point to rates of 20% on exports and 40% on goods subject to the aforementioned transshipment policies. Although important agreements remain to be signed, there appears to be growing support for the view that the foundations are being laid for pending deals to reduce the initially anticipated burden and for tariff fatigue to ease in the coming months (see Charts 1.1.2-d and 1.1.2-e).

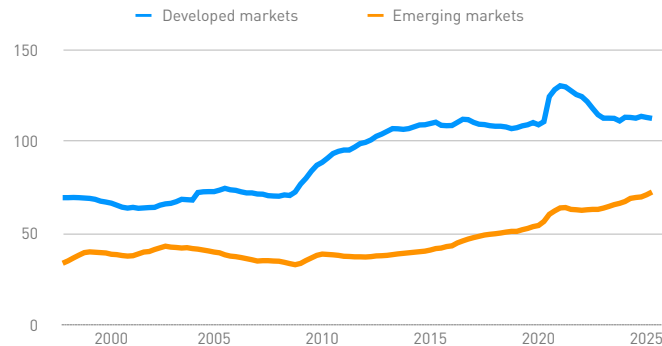


1.1.3 Institutionalization of fiscal risks

As the year progresses, debt markets in much of the developed world have continued to see highly correlated increases in longer-term bond yields. In Japan, this dynamic reflects the normalization of the Bank of Japan's monetary policies, higher inflation expectations, and an increase in the "term premium" (the additional return demanded by investors for assuming the risk of lending to the government for longer periods). This highlights greater fears about both future fiscal challenges and a more uncertain macroeconomic environment that is difficult to discount and bring to present value. Similar arguments are emerging in the United States and Europe (fiscal deficits, high debt levels, and uncertainty), compounded by the effect of the approval of the "One Big Beautiful Bill" (OB BB) and the future ReArm Europe Plan, albeit under the scrutiny of a policy environment clearly distant from the ultra-accommodative tone of the last decade. While this new context does not pose an immediate risk, it underscores the greater importance of macroeconomic fundamentals as private investors resume a more prominent role in price discovery, taking over from central banks.

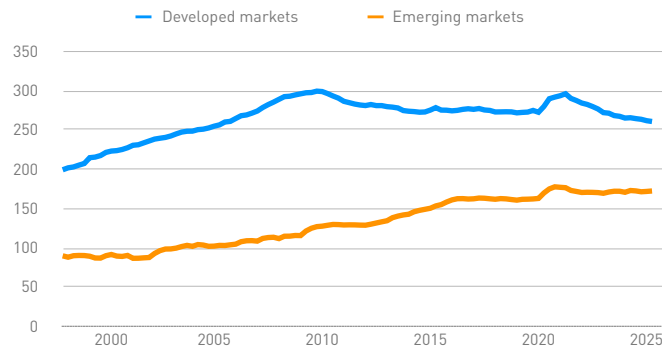
Specifically, the debt burden issue arises from the fact that the value of short-term public debt is determined by the present and future value of deficits, by certainty over the balance between economic activity and price levels, and by the interest rates on which this balance is based. All else equal, and given current high levels, the consensus view of larger deficits implies an increase in government debt in the future. Consequently, the term premium also rises, reflecting the higher compensation demanded by investors for holding long-term bonds and assuming that duration risk (see Charts 1.1.3-a and 1.1.3-b).

Chart 1.1.3-a
Global: government debt
(% of GDP)



Source: MAPFRE Economics (based on IIF data)

Chart 1.1.3-b
Global: private sector debt
(% of GDP)

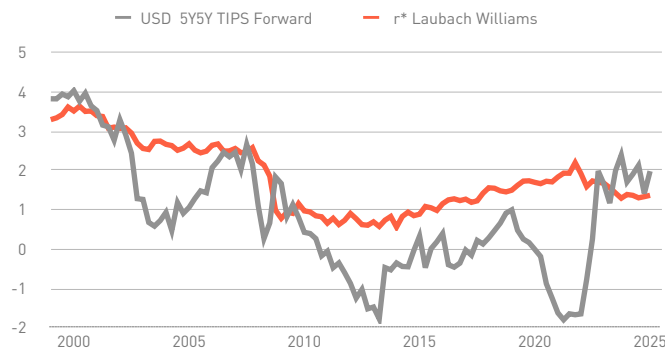


Source: MAPFRE Economics (based on IIF data)

Delving deeper into the economic factor, yields must be aligned with the macroeconomic context and its outlook, which, from an economic theory perspective, explains why this risk premium varies over time to adapt and best reflect the cyclical environment. However, today's elevated uncertainty about economic prospects and the effects of future policies could also justify the demand for higher compensation, given the additional difficulty of assessing this risk—effectively placing a higher price on uncertainty itself, particularly with respect to inflation.

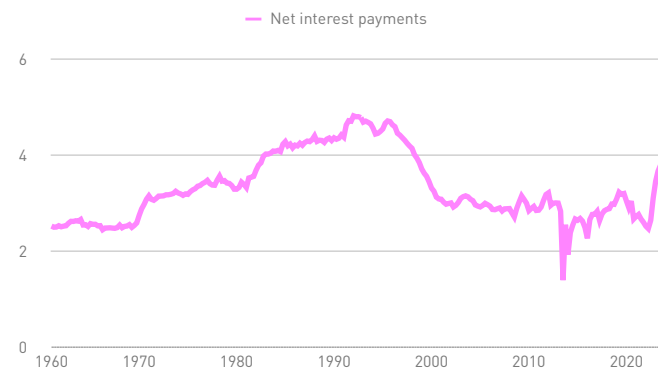
In fact, to observe how risk compensation is driven by cycles, central banks tend to monitor the so-called “real interest rate” and theoretically infer the “neutral or natural interest rate,” which serves as the basis for articulating monetary policy and balancing the short- and long-term relationship between economic growth and inflation. A clear example of a shift in this dynamic can be observed in the behavior of 5-year Treasury Inflation-Protected Securities (TIPS) and 5-year forward TIPS (real interest rate), and their close relationship with the well-known neutral or natural interest rate (r^*), i.e., the rate that neither hinders nor stimulates economic growth or inflation. Despite having maintained a historically stable and positive correlation, in recent months the *forward* yield on 5-year TIPS has been rising and deviating from its benchmark, reinforcing the idea that the increase in the term premium is being expressed as a hedge against real interest rate risk (see Charts 1.1.3-c and 1.1.3-d).

Chart 1.1.3-c
United States: real interest rates vs. estimated neutral rate (%)



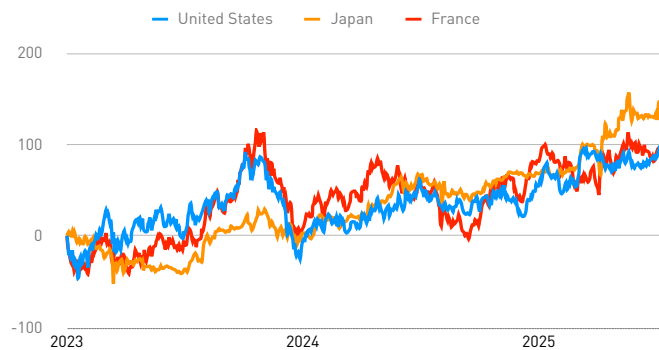
Source: MAPFRE Economics (based on data from Bloomberg and the Federal Reserve Bank of

Chart 1.1.3-e
United States: interest on federal debt (% of GDP)



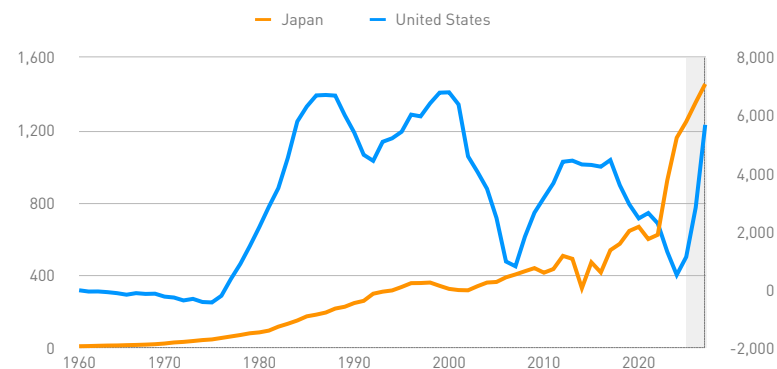
Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.3-d
Selected economies: 30-year bonds (increase in basis points)



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.3-f
United States and Japan: private sector debt (units in billions)



Source: MAPFRE Economics (with OECD data)

Therefore, by introducing fiscal policy into this reasoning and simultaneously reducing the stabilizing effect of a less active monetary policy, the market and private investors emerge, to a certain extent, as a disciplinary mechanism to prevent possible fiscal dominance. So far, the pressure has been contained in longer maturities, which are less influenced by short-term interest rates set by central banks, and by quantitative easing measures embedded in their balance sheets. However, as these debt *stocks* return to the market and governments refinance and issue new debt, a normalized repricing of risk is becoming evident—essentially, a valuation adjustment that should have taken place long ago were it not for unconventional monetary policies. This does not necessarily imply a short-term stress event, but rather a new valuation reality in which the demand for government liabilities and the supply (understood as governments' financing needs) intersect at a more neutral point. This makes it possible to gauge the capacity to continue increasing debt while managing interest costs (see Charts 1.1.3-e and 1.1.3-f).

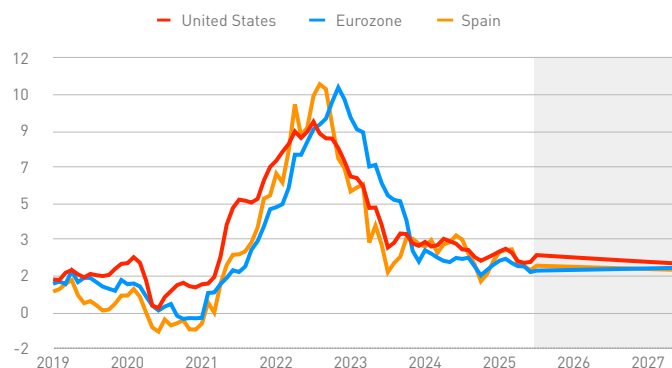
1.1.4 Inflation and central banks: credibility test

So far this year, the slowdown in inflation has remained on course with no signs that the tariffs have caused a significant economic impact. This suggests that, to date, its transfer to consumer prices is limited, and therefore, central banks' inflation targets will continue to be met in the coming months. Thus, the discomfort with restrictive monetary policies continues to gain traction for a gradual shift toward more neutral settings. However, inflation dynamics and future decisions by major central banks remain uncertain, dependent at least in part on the final shape of trade agreements regarding tariffs and on any potential escalation of geopolitical tensions—particularly developments in the Middle East and their impact on oil prices, although these appear to be contained for now. As such, a return to the *status quo* is expected to continue, but high uncertainty will keep testing the credibility of various central banks.

In the United States, inflation remains on track toward the target, but has not yet disappeared, following the constructive trend of recent months, although weighed down by doubts about the need for greater clarity on the trade front. Supporting this view, CPI-measured prices have not risen, although the Federal Reserve's Beige Book has revealed businesses' expectations of beginning to pass on the effects of tariffs in the short term. Therefore, the Fed's decision to maintain a pause on interest rate changes can be considered appropriate, while also reinforcing its role of independence, thus overcoming the political pressures currently emanating from the U.S. federal administration. However, this dynamic could well change with a more benign trade environment, triggering a series of interest rate cuts to bring them in line with a scenario of greater economic certainty and predictability.

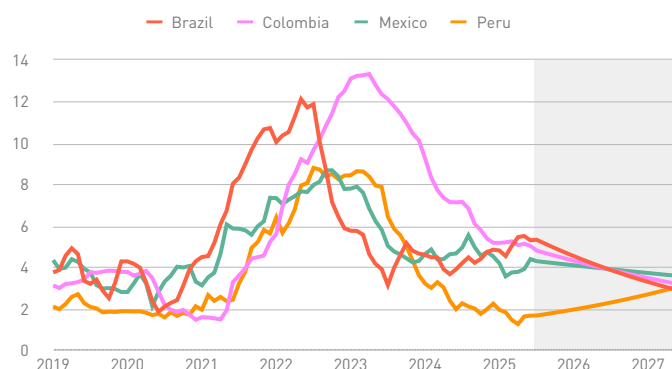
The roadmap for Europe, meanwhile, looks clearer, with inflation exceeding the 2% target and the outlook for the future appearing, *at first glance*, much less turbulent and uncertain. Certain inflationary forces remain, particularly in the services sector, but the pressures are more subdued. At the same time, some of the deflationary forces of the past are becoming visible again, so a much more predictable dynamic and behavior is expected in the future. This puts the ECB in a much more comfortable position, with a neutral interest rate, its inflation target achieved ahead of schedule, and some economic growth, so no major moves are expected, but rather slight adjustments in the future (the neutral interest rate range is estimated at 1.75-2.25%). In the medium term, although the possibility of small steps towards a slightly more accommodative policy cannot be ruled out, this remains a forward-looking idea that deserves further consideration and greater consensus among council members than currently exists.

Chart 1.1.4-a
Selected developed economies: inflation forecasts (%)



Source: MAPFRE Economics

Chart 1.1.4-b
Selected emerging economies: inflation forecasts (%)



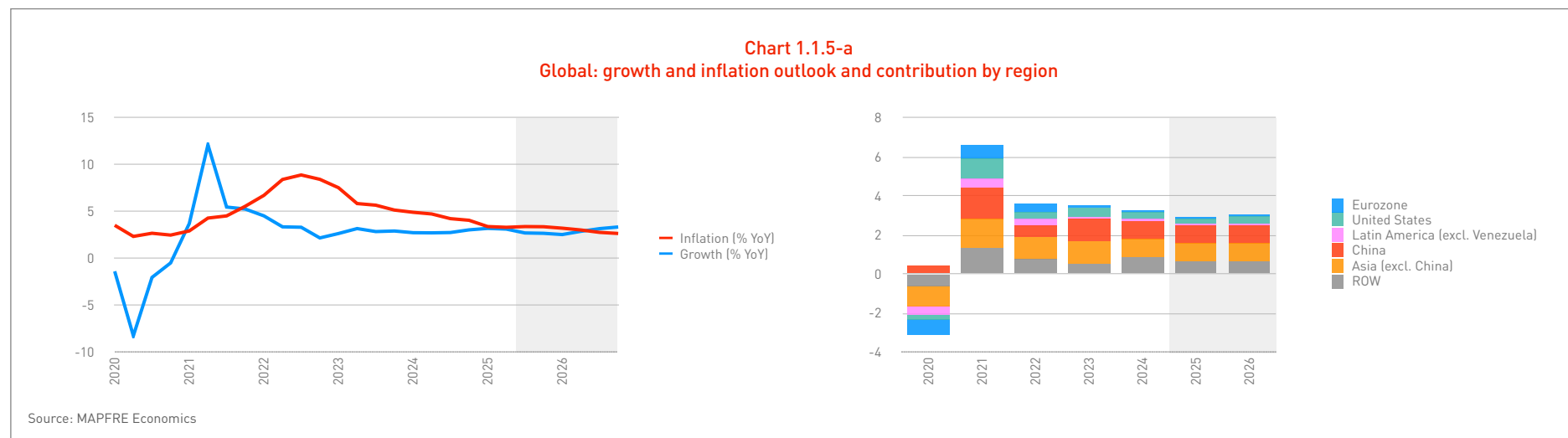
Source: MAPFRE Economics

In emerging markets, the decline in inflationary risks continues to consolidate, with disinflation advancing more rapidly in Asia than in Latin America, where many economies are already at the lower end of central banks' target ranges and, therefore, the net balance to date has been interest rate cuts (see Charts 1.1.4-a and 1.1.4-b). Key drivers include the inertial orthodoxy of the interest rate hike cycle, which helped keep expectations well anchored; the decline in raw material prices; and the recent weakening of the U.S. dollar, which has provided additional relief to countries with external liabilities. In this context, while caution will remain the prevailing stance in light of the tariff risk, further room for monetary accommodation is expected to open up going forward.

1.1.5 Forecast scenarios and regional dynamics

Baseline scenario

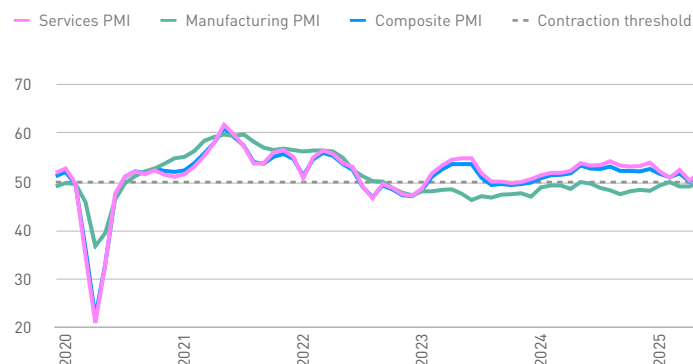
Global growth forecasts in the *baseline scenario* maintain some balance with respect to those presented in our previous report,² although with slight improvement that responds more to specific adjustments than to changes in the general dynamics. Specifically, the 2.9% advance of global GDP for 2025, and 3.0% for next year (versus the previous 2.7% and 3.0%), assumes a more benign reading in macroeconomic terms for the current year, while preserving the outlook for 2026 (see Chart 1.1.5-a). On the inflation side, aggregate forecasts remain intact and continue to draw a progressive path back to the *status quo*, showing symptoms that continue to subside and better alignment with central banks' objectives. However, a number of factors and uncertainties continue to weigh on the outlook, with the potential to undermine the reliability of the trajectory ahead.



This approach is based on the idea that the global economy seems to be settling into an equilibrium point consistent with economic theory, where production, consumption, and price formation are synchronized (see Charts 1.1.5-b and 1.1.5-c). While demand surpluses have been tempered by restrictive monetary policies, production and supply deficits have followed the opposite path toward recovery, reducing the obstacles to proper price formation that had been distorted since 2020. As a result, the economy has gradually regained its center of gravity toward its natural trend, signaling a state of equilibrium in which natural interest rates become neutral—that is, reaching an optimal outcome in which central banks play no effective role and face no need to either stimulate or restrain the economy, as it gravitates toward its own secular path.

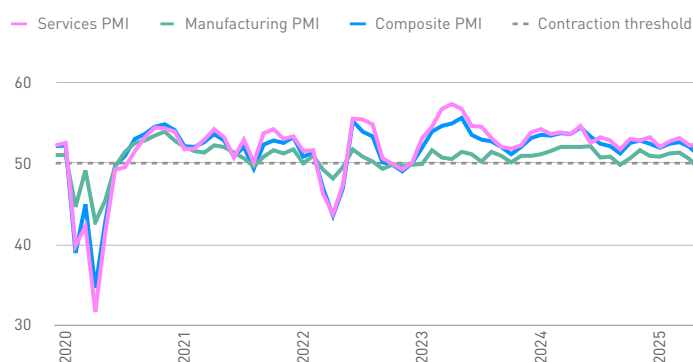
The core elements of this forecast in the central scenario are based on the assumption that changes in trade and fiscal policies, as well as geopolitical *shocks*, are not yet clearly reflected in macroeconomic data, supporting the view that the cycle is likely to remain in its current range and move closer to equilibrium. However, the uncertainty underlying all these factors extends the possibility of an alternative multipolar dynamic that threatens the durability of the current economic cycle and imposes an alternative scenario subject to more permanent *shocks* and the manifestation of deeper structural changes.

Chart 1.1.5-b
Developed markets: PMIs



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.5-c
Emerging markets: PMIs



Source: MAPFRE Economics (based on Bloomberg data)

Stressed scenario

On the other hand, the *stressed scenario* (alternative scenario) considered in the forecasts provided in this report assumes tariffs imposed by the United States as the main stress factor. Following the announced tariff imposition on April 2, the U.S. administration was forced to suspend them for 90 days and later for an additional month, due in part to the high volatility triggered in debt and equity markets. Although the final configuration of the respective agreements remains uncertain, for the purposes of considering an adverse scenario in the forecasts, it has been assumed that, in general, no moderate tariff agreements are reached and that higher tariffs ultimately come into force. Specifically, the effective aggregate tariff rate for all imports would stand at 33%; the tariff for China would remain at 120%, for Europe at 24%, for Canada at 15%, and for Mexico at 17.5%.

These tariffs would cause inflation in the United States of approximately 0.4% in 2025 and 0.2% in 2026, which would disappear once they stabilized over time. U.S. equities would be 30% below the baseline scenario level for 2026, while Treasury yields would initially rise 25 basis points (bps) above the baseline scenario and the dollar would depreciate by around an additional 5% against major currencies. In this alternative scenario, the effect on global inflation would be approximately half a percentage point over the next two years. However, the effect would not be uniform, as export flows would be reoriented in ways that, in some cases, could even be disinflationary.

Regarding oil, the effect of the Israel-Iran war has been temporary, with prices rising by more than 10 USD to 77 USD/bbl, but moderating with the truce and returning to 68 USD/bbl. Therefore, stress remains limited for the coming years, with a downward trend to USD 55/bbl, justified by weakening demand and high OPEC production. The effect on global economic activity in 2025 could be around 0.3 percentage points below the baseline activity levels in 2025 and 0.8 percentage points lower in 2026 than projected in the baseline scenario. Likewise, in this alternative scenario, central banks would maintain higher interest rates given the expectation of higher inflation. Thus, financial conditions contain increased stress limited to 1.5 standard deviations and a response from risk assets similar to previous years, with an average correction of 15% for global equities (except the U.S.) and a widening of spreads by 150 basis points, triggering a *flight to quality* that favors safer and more stable assets.

Regional dynamics

Growth forecasts in the United States reflect a slowdown to a more moderate environment in 2025 and a modest improvement in 2026. Consumption and investment are expected to contribute less to the short-term dynamic, because both companies and consumers made advance purchases before the tariffs took effect in the first quarter of the year. The external contribution could also weaken, continuing to show atypical fluctuations due to changes in the direction of U.S. trade policy. The final status of agreements will clear up a crucial variable for the forecasts. Meanwhile the tax bill has already been incorporated into the forecasts, so unless additional packages are approved, no significant effects beyond those previously considered are assumed. On the inflation side, our tariff assumptions maintain the view of higher future price pressures. However, in the absence of concrete evidence, it is prudent to maintain the current range as the most probable scenario, adjusting cost-pass-through effects only in the alternative scenario.

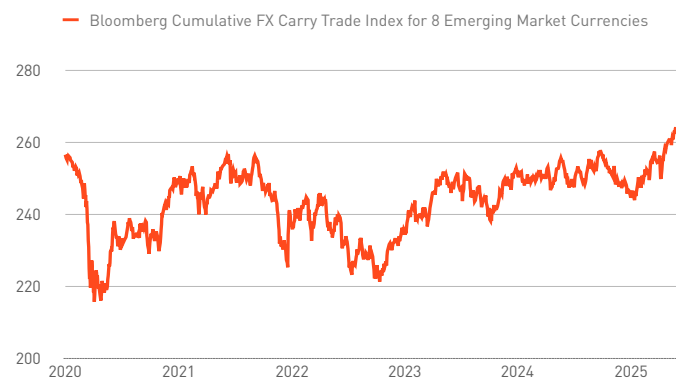
For the Eurozone, growth has slightly exceeded expectations so far this year, but weakness and sluggishness remain the more frequent patterns. Structural challenges remain on the horizon, limiting the capacity for the cyclical acceleration to become structural. The current context is favorable for an open economy like Europe's to step forward, filling the gap left by U.S. protectionism and increasing its potential growth, also with the backing of lower interest rates and in tune with a looming fiscal stimulus. However, implementation risk remains significant in the absence of progress on internal fragmentation, capital market integration, and greater regulatory flexibility—key factors for improving productivity, competitiveness, and strategic autonomy if properly calibrated and executed. Furthermore, the latest inflation data suggests a firm return to the 2% *status quo*, which, combined with a much stronger euro, mitigates the risks of both fiscal expansion and a trade agreement that falls short of expectations. With this in mind, the central view remains that a worse tariff framework would have a disinflationary effect in Europe, at least in the short term, due to the combination of a negative demand *shock* on exports and a likely positive supply *shock* from Asian imports.

Focusing on Spain, its relatively strong performance should continue in the short to medium term, driven by NGEU funds, labor market dynamism, and resilient productive activity in both the services and manufacturing sectors. In addition, the Spanish economy may be less sensitive to the trade challenge (only 5% of its goods exports go to the United States), although changes in the external environment could reduce part of its contribution to growth.

With respect to emerging markets, the conviction that they may continue to exceed expectations is strengthened, as changes in the global economic order may be driving emerging countries toward a more important role in global growth. High-frequency indicators suggest that economic activity is maintaining its momentum, and there is still considerable room for further expansion. Favorable macroeconomic fundamentals and inflation that will generally remain contained portend an easing cycle that could be less intense. However, the easing already implemented, along with a weaker dollar and a lower correlation between developed market policy rates and local funding costs, provide a more comfortable position for navigating uncertainty. Supporting this perspective, capital flows have remained positive, and unlike in the past, when traditional raw material-driven investments tended to predominate, commitments now appear to have a more structural basis in the establishment of more diversified and reliable supply chains.

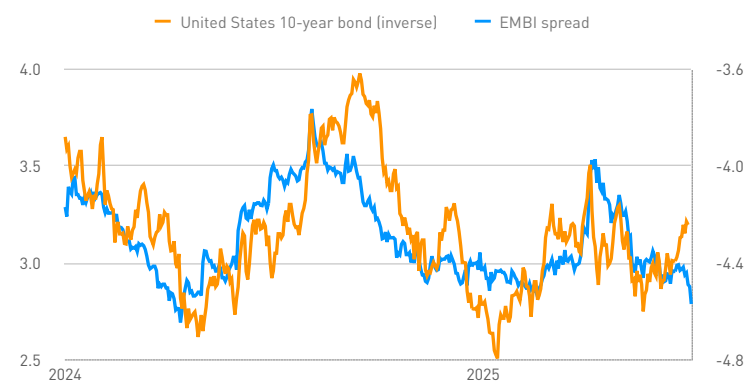
In Latin America, forecasts have been revised upward, but the underlying dynamic of moderate economic growth is maintained. Uncertainty weighs on forecasts, but there is still the conviction that there could be a positive surprise. The main drivers of this improvement are Argentina, with the most vigorous economic recovery, as well as Brazil, to a lesser degree, where the inertial impulse looks more favorable than predicted, and Peru, where signs of slowdown appear to be more moderate. With inflation targets approaching the target range and monetary policy still restrictive in most cases, authorities have room to act in response to the economic slowdown. This cyclical improvement is complemented by a less uncertain geopolitical situation, both on the trade front and in relation to conflicts in Europe and the Middle East. These factors explain the strong performance of their currencies and renewed interest in *carry trades* involving the main Latin American currencies, where investors borrow in a low-yield currency and invest in one where rates are higher (see Charts 1.1.5-d and 1.1.5-e).

Chart 1.1.5-d
Emerging markets: carry trade



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.5-e
United States: EMBI vs 10-year bond



Source: MAPFRE Economics (with Bloomberg and Haver data)

In emerging Asia, India and Southeast Asia continue to take over from China and drive growth with the relocation of manufacturing. However, trade concessions could erode the current competitiveness differential, considering that these are economies with chronic trade surpluses. This is offset by the weaker appreciation of their currencies and more moderate inflation than in the rest of the world, suggesting that monetary policy has considerable room to ease and cushion the potential impact of introducing fiscal measures.

In China, the positive momentum of recent data, a less severe tariff outlook, and the possibility of well-targeted stimulus measures point to an upward revision of the forecasts. However, deflationary pressures appear to be increasingly entrenched, among both consumers and businesses. A more flexible regulatory environment and greater credit availability are expected to act as positive catalysts, but structurally, a slower trajectory remains on the secular horizon, along with greater vulnerability to trade and geopolitical tensions.

In summary, the increased uncertainty is undeniable, but the economy seems to be adapting to this environment. Moreover, although there is no clear consensus on the ultimate effects of the tariffs, the fundamental fact is that to date there is no evidence that they are causing a representative economic slowdown or a significant increase in inflation. As a result, the economic cycle remains in an intermediate phase, with growth continuing to hold close to its potential pace and prices still on track to move in the right direction toward the monetary authorities' target level. This pairing, which creates a sort of *overall equilibrium*, outlines a theoretically optimal state that allows central banks to return to their respective neutral or natural interest rates. Unfortunately, according to George Shackle, "equilibrium refers to a world without uncertainty," and, as others like David Ricardo and Frank Knight have stated, "managing uncertainty is a specialty in itself, and therefore a competitive advantage." Thus, in a world transitioning toward a new multipolar order and more protectionist and

mercantilist rules, the *art of the deal* will continue to represent the central axis to preserve these advantages.

1.1.6 Risk assessment

With regard to the balance of short-term risks, below we present an update to the assessment of the various factors that could affect the performance of the global economy for the remainder of 2025, as illustrated in the risk map shown in Chart 1.1.6.

Financial risk and global debt

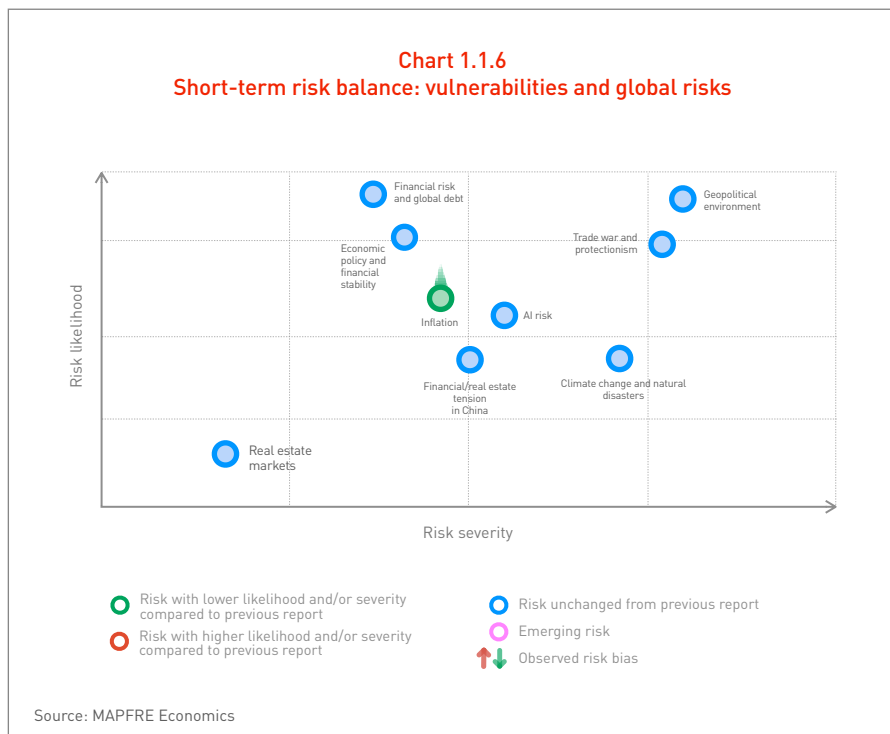
High levels of public and private debt are still one of the main risks to global financial stability. Currently, global debt exceeds 256% of global GDP, increasing in both advanced economies and emerging markets. This situation is aggravated by the recent increase in long-term government bond yields, which has led to higher debt servicing costs for many countries. In the United States, the 10-year Treasury yield in recent months has been hovering around 4.40%, a level not seen in the last fifteen years. The U.S. debt service expense this year is estimated to triple that of a couple of years ago. The problem is that if high interest rates persist, the government will have to refinance maturing debt at higher rates, significantly increasing the annual costs of debt service. This scenario puts additional pressure on the fiscal deficit, which is already around -6.5% of GDP. Although this deficit level is alarming, the new administration has made it clear it does not plan to raise direct taxes on taxpayers. Instead, it has proposed generating additional income through the imposition of tariffs on imports.

Meanwhile, in Europe, while the average public debt has fallen somewhat from the levels reached during the pandemic, the rise in yields is also affecting the financing costs for governments. Countries with higher debt, like Italy and Greece, or in the case of France with 5.8% fiscal debt and growing concerns about the sustainability of its public accounts, are seeing the cost of their debt increase given investors' lower appetite for risk. On the other hand, emerging markets are also facing difficulties, as much of their debt is denominated in U.S. dollars. The higher interest rates around the world are increasing debt servicing costs, particularly in countries like Turkey and Argentina, which are already facing structural problems in their public finances.

In summary, the rise in long-term government bond yields is placing pressure on both advanced and emerging economies. The need for fiscal consolidation and more robust debt management strategies will be key to mitigating the risks. Replenishing fiscal reserves in a way that supports growth and strengthening fiscal governance are crucial actions to ensure the sustainability of public finances and financial stability.

Trade war and protectionism

The United States' protectionist policy via tariffs aims to reduce the trade deficit while also increasing government revenues. Since the tariff announcement on April 2, they have been suspended, remaining at a generic rate of 10%, pending the conclusion of bilateral negotiations. An initial date to finalize the agreements was July 9, but everything indicates that a few more weeks have been granted after the announcement, postponing the effective date until August.



It is expected that consumers and manufacturers will assume the cost of the tariffs. The goals of reducing the trade deficit is not easy to achieve, as many imported products cannot be produced in the United States, or only at a much higher cost. However, specific industries, like steel or automobiles, are expected to move part of their manufacturing to the U.S. While the tariffs aim to revitalize U.S. industries, they carry high short-term risks, such as a slowdown in consumption in that country, as well as a deceleration of export and manufacturing industries in the countries of origin. This is particularly evident in Mexico, whose manufacturing industry is closely linked to U.S. exports, and purchasing managers' indexes (PMI) are already pointing to a manufacturing slowdown.

Inflation

Significant progress has been made in reducing global inflation, with most advanced economies showing sustained declines in price indexes. However, the 2% goal set by many central banks is turning out to be more difficult to achieve. Recent data indicate a slight rebound in inflation in some regions, which creates concerns about the persistence of inflationary pressures. This rebound is largely explained by the resilience of labor markets, which remain strong with unemployment rates close to historical lows. This strength is giving workers greater bargaining power over wages, leading to second-round effects, such as increased labor costs for companies. Central banks face the challenge of maintaining restrictive monetary policies without stifling economic growth, while carefully assessing the risks of prolonging these conditions.

Monetary policy and financial stability

Central banks in G7 countries have initiated a cycle of interest rate cuts, driven by the progress made in moderating inflation. The exception is the United States, which has maintained them in 2025 while waiting to assess the impact of tariffs. More persistent inflation and higher government bond yields increase the risk that both governments and the private sector will have to refinance their debt at higher rates; more expensive financing leads to a moderation of demand for credit and, consequently, less investment and economic activity.

Notably, inflation in Japan has risen sharply, leading to interest rate hikes (10-year Japanese government bond yields rose from negative territory in 2019 to around 1.50% currently), which has implications for global investment markets. Firstly, because Japanese financial markets provided liquidity to the whole world (through *carry trades*), which is now likely to decrease. Secondly, because domestic Japanese investment will likely remain "at home" rather than being invested abroad (impact on U.S. Treasury bonds). And thirdly, because some Japanese financial institutions (including insurance companies) have large unrealized losses in their bond portfolios, with possible implications for liquidity, which is a risk to monitor due to its implications for global financial markets. The rise in government bond yields is causing unrealized losses in many portfolios throughout the financial system, representing a potential risk to financial stability. It should be noted that this phenomenon is not limited to the United States and Japan, but rather extends to other bond markets.

Geopolitical environment

On the geopolitical scene, after the U.S. attacked Iranian nuclear facilities, oil reached five-year highs. In spite of this, a few days later, with the ceasefire (albeit precarious and without much negotiation), Brent crude returned to around 70 dollars per barrel. Meanwhile, the Gaza and Ukraine conflicts remain unresolved, continuing to cause significant human suffering, although it seems the rest of the world's economies remain on course. Europe appears to have secured alternative sources to Russian gas and oil, although it is unclear whether it will continue to buy part of it indirectly. Another aspect to watch is the growing influence of the BRICS countries, which advocate a gradual reduction in the use of the U.S. dollar in international transactions. This is shaking up the post-World War II order, with the dollar as the dominant currency, and is shifting the international "chessboard," even leading to threats of higher tariffs to defend the *status quo*.

Financial and real estate tension in China

The Chinese real estate sector faces significant challenges. New home sales have decreased, and property prices continue to fall. Some market observers expect sales to drop 12% in 2025, with a notable decrease in housing prices. The difficulties in the Chinese real estate sector could affect both the domestic economy and global financial stability. These pressures on the real estate market increase the risk of debt defaults among developers, which could impact the banking system due to the financial institutions' significant exposure to the sector. The economic slowdown in China is further aggravated by the decrease in exports to the U.S., influenced by tariff policies and weakened external demand. This combination of factors could limit China's economic growth and increase internal financial pressures.

Real estate market

In the developed markets, the residential sector has been resilient, with notable increases in housing prices. However, the commercial real estate and offices sector faces significant challenges in both the United States and Europe. The pandemic accelerated trends toward remote work, reducing the demand for office space and increasing vacancy rates. Additionally, the rise in government bond yields has raised the costs of real estate financing, which could negatively affect property valuations and increase the risk of financial instability. This environment poses risks to financial stability, as the depreciation of real estate assets could affect financial institutions exposed to the sector. Thus, it will be essential for investors and regulators to closely monitor these dynamics to mitigate possible impacts on the global financial system.

AI risks

Artificial intelligence (AI) represents a tool with enormous potential for global economic growth, but also introduces significant risks to financial and social stability. In the financial markets, the use of automatic *trading* algorithms has created concern about their ability to amplify volatility in times of stress. These algorithms, designed to execute transactions in fractions of a second, could trigger chain reactions that aggravate market drops, as occurred in events like the "*flash crash*" of 2010. The lack of oversight and transparency in programming these algorithms could intensify these risks, especially if they interact with other factors of economic instability.

Climate change and natural disasters

In 2024, global economic losses from natural disasters reached 368 billion dollars, surpassing the 21st century average by 14%. Insured losses worldwide totaled 145 billion dollars, marking the sixth costliest year in history for the insurance industry, with 78% of these losses concentrated in the United States. Climate change continues to amplify the severity of extreme weather events. In 2024, global temperatures rose an unprecedented 1.55°C above pre-industrial levels, making it the warmest year on record. This increase has intensified phenomena such as heat waves, cyclones, and floods, confirming the urgent need to strengthen adaptation measures.³

1.2 Forecasts and risk assessment in selected economies

1.2.1 United States

Uncertainty across the board, yet positive momentum persists.

The U.S. economy grew by 2.1% (YoY) (or -0.2% QoQ annualized) in the first quarter of 2025. This growth was characterized by a 13.6% increase in imports (42.6% annualized) and a change in inventories (which multiplied by 8), in anticipation of upcoming tariffs. Private consumption grew by 2.9% YoY, government expenditures rose by 2.6%, investments were up 2.7%, and exports 3.2%. The composite PMI (purchasing managers' index) stood at 52.9 points in June, signaling expansion in the private sector. The manufacturing and services PMIs both also stood at 52.9%, indicating that, for now, activity continues to grow. Meanwhile, the University of Michigan's June consumer confidence index improved to 60.7, while the *Conference Board's* advance indicators anticipate another scenario, and are in negative terrain (-4). Second-quarter GDP is expected to rebound, in contrast to the previous

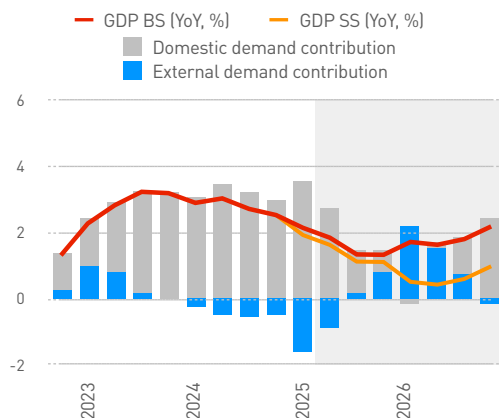
quarter, which was dampened by a surge in imports in anticipation of the tariffs coming into effect. Against this backdrop, U.S. GDP growth is expected to be around 1.7% in 2025 and 1.8% in 2026 (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b).

Meanwhile, CPI inflation stood at 2.7% in June, with core inflation at 2.9%. Inflation measured by the Personal Consumption Expenditures Price Index (PCE) in May stood at 2.3%. In the Federal Reserve's January meeting, the Federal Open Market Committee (FOMC) decided not to touch its benchmark interest rate, holding it at a target range of 4.25%-4.50%. It also maintained the balance sheet reduction at 5 billion per month. According to the committee's press release, the changes in trade, immigration, tax, and regulatory policies continue to evolve, while their effects on the economy remain uncertain. The impact of the tariffs will depend, among other things, on their final level. Expectations about this level, and therefore about related economic effects, peaked in April and have decreased since then. Even so, the tariff increase this year will probably cause a rise in prices and affect economic activity.

United States

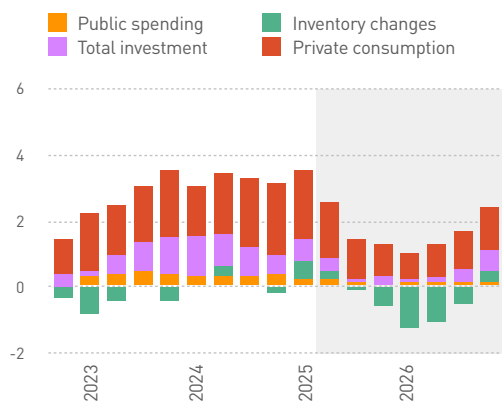
- Geopolitical tensions, oil, tariffs, and One Big Beautiful Bill.
- High interest rates pending greater certainty.
- Addressing the deficit and debt stabilization, challenges for the coming years.
- The GDP growth forecast for 2025 stands at 1.7%.

Chart 1.2.1-a
United States: GDP
breakdown and forecasts



Source: MAPFRE Economics (based on Federal Reserve data)

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



Source: MAPFRE Economics (based on Federal Reserve data)

Table 1.2.1
United States: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-2.2	6.1	2.5	2.9	2.8	1.7	1.8	1.5	0.6
Domestic demand contribution	-2.0	7.3	2.9	2.4	3.2	2.1	0.9	1.9	0.4
External demand contribution	-0.2	-1.3	-0.5	0.5	-0.4	-0.4	1.1	-0.4	0.2
Private consumption contribution	-1.7	5.9	2.1	1.7	1.9	1.5	1.0	1.4	0.3
Total investment contribution	-0.2	1.2	0.4	0.7	0.9	0.4	0.3	0.3	0.1
Public spending contribution	0.4	0.1	-0.1	0.4	0.3	0.2	0.1	0.2	0.0
Private consumption (% YoY)	-2.5	8.8	3.0	2.5	2.8	2.2	1.5	1.3	0.2
Public spending (% YoY)	3.0	0.4	-1.1	2.9	2.5	1.3	1.1	1.3	0.4
Total investment (% YoY)	-0.8	5.4	2.0	3.2	4.3	1.6	1.5	0.4	-1.5
Exports (% YoY)	-13.1	6.5	7.5	2.8	3.3	-0.2	-1.2	-0.7	-7.4
Imports (% YoY)	-9.0	14.7	8.6	-1.2	5.3	2.8	-7.6	2.0	-10.3
Unemployment rate (% , last quarter)	6.8	4.2	3.6	3.8	4.1	4.4	4.3	4.9	6.2
Inflation (% YoY, average)	1.3	4.7	8.0	4.1	3.0	3.0	2.6	3.4	2.8
Inflation (% YoY, last quarter)	1.2	6.8	7.1	3.2	2.7	3.5	2.0	4.8	2.3
Fiscal balance (% of GDP)	-14.9	-11.8	-4.0	-7.5	-7.6	-6.5	-7.1	-6.0	-7.3
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-2.8	-3.7	-3.9	-3.3	-3.9	-4.0	-2.8	-4.0	-2.4
Official interest rate (end of period)	0.25	0.25	4.50	5.50	4.50	4.00	3.25	4.25	3.50
3-month interest rate (end of period)	0.24	0.21	4.77	5.59	4.42	4.21	3.39	4.03	1.93
10-year interest rate (end of period)	0.93	1.52	3.88	3.88	4.58	4.77	4.37	4.93	4.26
Exchange rate vs. USD (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate vs. EUR (end of period)	1.23	1.13	1.07	1.11	1.04	1.14	1.14	1.19	1.18
Private lending (% YoY, average)	6.4	15.5	-1.8	5.4	8.5	4.9	6.1	4.7	4.5
Household lending (% YoY, average)	3.3	7.9	8.1	3.6	2.4	4.0	6.9	3.9	6.7
P.S. non-financial lending (% YoY,	8.6	4.4	9.7	3.1	2.0	2.9	3.9	2.9	3.6
P.S. financial lending (% YoY, average)	6.7	4.9	9.8	5.5	0.3	2.3	2.0	2.4	2.6
Savings rate (% pers. disp. income, avg.)	15.1	11.1	3.0	4.7	4.5	4.0	4.3	4.1	6.0

Source: MAPFRE Economics (based on Federal Reserve data)
Forecast end date: July 10, 2025.

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Short-term risks for the U.S. economy include an increase in financing costs due to a reduced appetite for U.S. bonds. The fiscal deficit closed 2024 at 6.9% of GDP, and in 2025, it is expected to remain at 6.5%, according to the Congressional Budget Office. The fiscal trajectory is considered unsustainable by Jerome Powell, chairman of the Federal Reserve, the Congressional Budget Office, the International Monetary Fund, and credit rating agencies. This could be behind recent rallies in bond yields. As noted, the Fed has kept rates steady, is reducing its balance sheet, and believes that we must wait to see the effects of economic policies.

Regarding tariffs, U.S. tariffs on China will remain at a general level of 10% until August 12, following an agreement reached during negotiations in Geneva in May. Since early April, the United States has imposed a 20% tariff on European imports (which is reciprocal), but this has been partially suspended, with a 10% tariff in place until July 9 (rising to 30% after the latest extension). Congress approved the fiscal package, called “One Big Beautiful Bill” (OBBB), on July 3. The package fulfills many of President Trump's fiscal policy pledges, including tax deductions for overtime, tips, social security contributions, and increased spending on defense and immigration control. Incentives for electric vehicle purchases were removed, and other tax credits from the Inflation Reduction Act (IRA) were gradually reduced. Cuts to Medicaid, the healthcare assistance program for low-income individuals, are also expected. This fiscal package has been widely criticized for increasing the deficit, reinforcing concerns about fiscal sustainability. The Congressional Budget Office calculates that the OBBB could add between 2.4 and 3 trillion dollars to the deficit over the next decade (see the aforementioned Box 1.1.1-a), while the administration argues that economic growth generated by these measures will offset the effect with an additional 4.1 trillion dollars in revenue.

1.2.2 Eurozone

Low growth due to weakness in the major economies

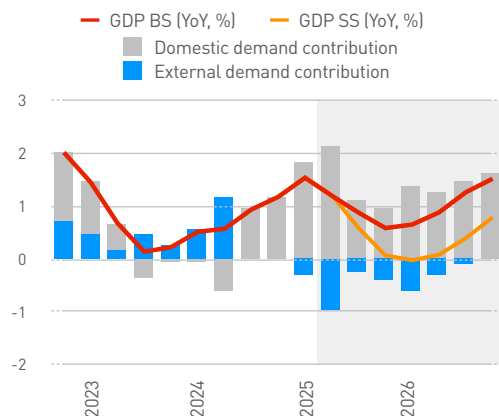
In the first quarter of 2025, the Eurozone's economy grew 1.6% YoY and 0.6% QoQ. By component, consumption was up 1.3% YoY, public consumption 2.1% YoY, investment 3.5%, exports 2.3%, and imports increased 3.2%. The June composite PMI increased slightly to 50.6 points, manufacturing stood at 49.5 (still in contraction), while services rose to 50.5. Consumer confidence dropped to -15.3, and has yet to return to 2019 levels, while retail sales in May dropped 0.7%, and industrial production was down 2.4% in April. In this context, the forecast for Eurozone GDP growth stands at 1.0% in 2025, with a marginal upturn to 1.1% in 2026 (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b).

Eurozone

- The Eurozone economy continues to experience relatively weak growth.
- Reforms are needed to enhance its competitiveness.
- High oil prices could further complicate an already difficult outlook.
- Eurozone GDP is expected to reach around 1.0% in 2025 and 1.1% in 2026.

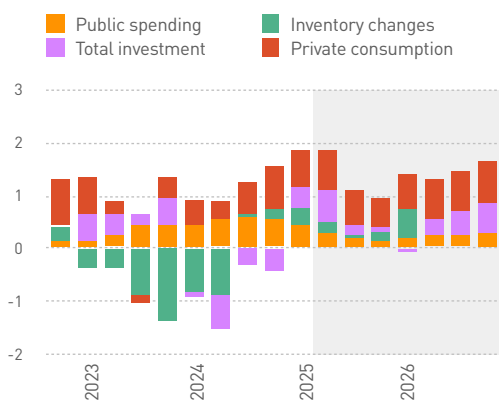
Inflation in the Eurozone in June stood at 2.0%, up 0.1 percentage points. Core inflation, which excludes food and energy prices, rose 2.4%. At its June meeting, the European Central Bank (ECB) decided to lower interest rates 25 basis points (bps), setting the deposit rate at 2.00% and the main refinancing rate at 2.15%. The ECB's asset purchase programs (APP and PEPP) will continue to decline at a measured and predictable pace, as principal reinvestments of maturing securities have ceased. In the current context of exceptional uncertainty, the ECB will adopt a data-dependent approach, making decisions at each meeting. Higher oil

Chart 1.2.2-a
Eurozone: GDP
breakdown and forecasts



Source: MAPFRE Economics (based on BCE data)

Chart 1.2.2-b
Eurozone: domestic demand
breakdown and forecasts



Source: MAPFRE Economics (based on BCE data)

Table 1.2.2
Eurozone: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-6.2	6.3	3.6	0.6	0.8	1.0	1.1	0.8	0.3
Domestic demand contribution	-5.6	4.9	3.7	0.3	0.4	1.5	1.4	1.4	0.7
External demand contribution	-0.6	1.4	0.0	0.3	0.4	-0.5	-0.3	-0.6	-0.4
Private consumption contribution	-4.2	2.4	2.6	0.3	0.5	0.7	0.7	0.7	0.4
Total investment contribution	-1.3	0.8	0.4	0.4	-0.4	0.3	0.3	0.3	0.2
Public spending contribution	0.3	1.0	0.3	0.3	0.5	0.3	0.2	0.3	0.1
Private consumption (% YoY)	-7.9	4.7	5.0	0.6	1.1	1.3	1.4	1.3	1.2
Public spending (% YoY)	1.2	4.3	1.2	1.5	2.5	1.2	1.1	1.2	1.1
Total investment (% YoY)	-6.0	3.7	2.1	1.8	-1.8	1.5	0.5	1.3	-1.5
Exports (% YoY)	-9.0	11.4	7.7	-0.5	1.0	0.6	0.2	0.3	-1.9
Imports (% YoY)	-8.5	9.0	8.6	-1.4	0.1	1.7	1.0	1.7	-0.4
Unemployment rate (% , last quarter)	8.3	7.2	6.7	6.6	6.2	6.4	6.4	6.5	6.8
Inflation (% YoY, average)	0.3	2.6	8.4	5.4	2.4	2.0	1.8	2.1	1.4
Inflation (% YoY, last quarter)	-0.3	4.6	10.0	2.7	2.2	1.9	1.8	1.8	1.6
Fiscal balance (% of GDP)	-7.0	-5.1	-3.5	-3.5	-3.1	-3.1	-3.1	-3.1	-3.4
Primary fiscal balance (% of GDP)	-5.5	-3.7	-1.8	-1.8	-1.2	-1.0	-0.9	-1.0	-1.2
Current account balance (% of GDP)	1.8	2.7	-0.2	1.6	2.7	2.6	2.5	2.6	2.5
Official interest rate (end of period)	0.00	0.00	2.50	4.50	3.25	1.75	1.75	1.75	1.50
3-month interest rate (end of period)	-0.55	-0.57	2.13	3.91	2.71	1.55	2.07	1.53	1.44
10-year interest rate (end of period)	-0.19	0.32	3.39	2.79	3.00	3.23	3.45	3.36	3.33
Exchange rate vs. USD (end of period)	1.23	1.13	1.07	1.11	1.04	1.14	1.14	1.19	1.18
Exchange rate vs. EUR (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	2.5	4.0	4.4	1.4	0.6	2.6	3.9	2.6	3.9
P.S. non-financial lending (% YoY,	4.8	4.0	6.3	2.2	1.3	3.2	3.9	3.1	3.3
P.S. financial lending (% YoY, average)	-4.0	1.4	9.3	0.2	0.5	0.9	1.8	0.9	1.9
Savings rate (% pers. disp. income, avg.)	19.4	17.3	13.6	14.2	15.3	15.0	14.8	15.0	14.9

Source: MAPFRE Economics (based on BCE data)
Forecast end date: July 10, 2025.

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prices and disruptions in supply chains raise inflation expectations and will limit the scope for further rate cuts.

The Eurozone's economic performance is currently influenced by several factors. Externally, the outbreak of war between Israel and Iran has already caused oil prices to rise by 10 USD/bbl to 75 USD/bbl, but could have an even greater impact if Iran halts oil exports or the conflict escalates and there is a threat to oil shipping in the region. In addition, Iran, as China's main oil supplier, could affect the Chinese economy, with inflationary repercussions for the rest of the world.

The tariff agreement is still being renegotiated. The European Union wants to maintain the general rate at 10%, although it is expected to be higher in certain sectors, such as steel, aluminum, and automobiles, with exemptions for some products such as pharmaceuticals and microprocessors. Continued high tariffs on Chinese exports to the United States could redirect those goods toward the European Union, which will have a deflationary effect on goods. Other internal factors limiting growth in the European Union must also be taken into account: the increasing weight of Member States in their economies relative to the private sector, high public debt limiting the capacity for infrastructure investment, an aging population, and loss of competitiveness due to heavy regulation, labor costs, and energy costs. The European Commission has high expectations for the rearmament plan as a means of economic stimulus, but for now there is no uniform view on the issue either among Member States or within them.

1.2.3 Spain

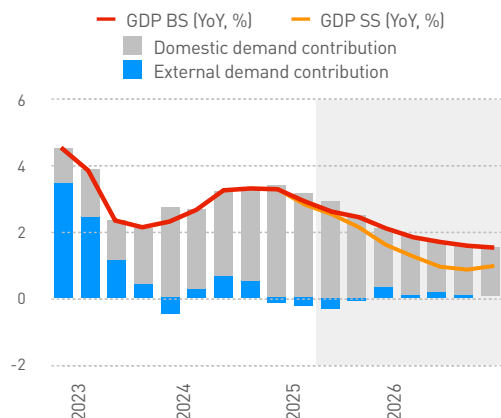
The Spanish economy continues to stand out in the European context.

In the first quarter of 2025, Spain's economy grew 2.8% YoY, 0.6% QoQ, showing a strength that contrasts with the three largest Eurozone economies, which barely grew. Private consumption increased by 3.4%, while public consumption grew by 3.1%, and investment by 4.1%. Meanwhile, exports grew by 2.1%, and imports increased 3.6%. June purchasing managers' index (PMI) data placed the composite at 52.1 points, manufacturing at 51.4, and services at 51.9. Retail sales grew 4.5% in May, while industrial production, though fluctuating, has been relatively stable since 2021 (in contrast with Germany, where it is contracting). Likewise, the Organization for Economic Cooperation and Development (OECD) index of leading indicators is in expansionary territory (100.2), with a minimal slowdown in recent months. Consumer confidence continues to recover, but remains short of 2019 levels. Considering the above factors, Spanish GDP is expected to grow 2.5% in 2025, with a slowdown in 2026 that would bring it to around 1.7% (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b). Meanwhile, in June, inflation in Spain was 2.2% YoY, with core inflation also at 2.2%, aided by

Spain

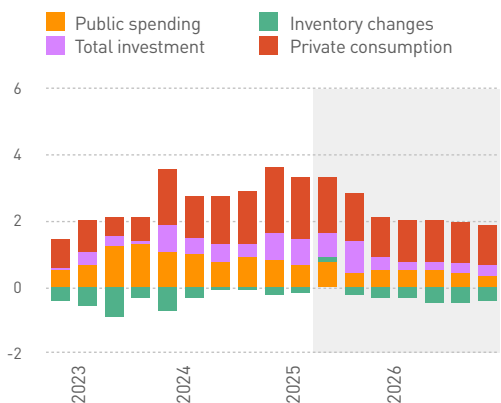
- Private consumption and investment remain strong.
- Inflation has benefited from lower fuel prices, but price pressures persist in housing costs, food, and the hotel and restaurant sectors.
- The economy shows notable resilience, with risks primarily stemming from the external environment.
- Spanish GDP growth is projected at 2.5% for 2025.

Chart 1.2.3-a
Spain: GDP
breakdown and forecasts



Source: MAPFRE Economics (based on INE data)

Chart 1.2.3-b
Spain: domestic demand
breakdown and forecasts



Source: MAPFRE Economics (based on INE data)

Table 1.2.3
Spain: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-10.9	6.7	6.2	2.7	3.1	2.5	1.7	2.3	1.0
Domestic demand contribution	-8.7	6.9	4.0	1.8	2.8	2.6	1.6	2.6	1.1
External demand contribution	-2.2	-0.3	2.2	0.9	0.3	-0.1	0.1	-0.3	-0.1
Private consumption contribution	-6.9	4.0	2.7	1.0	1.6	1.6	1.3	1.5	1.1
Total investment contribution	-1.8	0.5	0.6	0.4	0.6	0.7	0.3	0.7	0.0
Public spending contribution	0.7	0.8	0.1	1.0	0.8	0.5	0.4	0.5	0.4
Private consumption (% YoY)	-12.1	7.1	4.8	1.8	2.9	2.9	2.3	2.8	2.0
Public spending (% YoY)	3.5	3.6	0.6	5.2	4.1	2.6	2.1	2.6	2.1
Total investment (% YoY)	-8.9	2.6	3.3	2.1	3.0	3.8	1.4	3.6	0.0
Exports (% YoY)	-20.1	13.4	14.3	2.8	3.1	1.5	1.5	1.3	-0.2
Imports (% YoY)	-15.2	15.0	7.7	0.3	2.4	2.4	1.3	2.3	0.1
Unemployment rate (% , last quarter)	16.1	13.4	13.0	11.8	10.6	10.8	10.8	11.0	11.3
Inflation (% YoY, average)	-0.3	3.1	8.4	3.5	2.8	2.3	1.8	2.4	1.5
Inflation (% YoY, last quarter)	-0.7	5.8	6.6	3.3	2.4	2.2	2.0	2.2	1.7
Fiscal balance (% of GDP)	-9.9	-6.7	-4.6	-3.5	-3.2	-3.0	-3.0	-3.1	-3.2
Primary fiscal balance (% of GDP)	-7.6	-4.4	-2.2	-1.1	-0.7	-0.6	-0.4	-0.6	-0.6
Current account balance (% of GDP)	0.8	0.8	0.3	2.7	3.0	2.5	2.7	2.6	2.9
Official interest rate (end of period)	0.00	0.00	2.50	4.50	3.25	1.75	1.75	1.75	1.50
3-month interest rate (end of period)	-0.55	-0.57	2.13	3.91	2.71	1.55	2.07	1.43	1.52
10-year interest rate (end of period)	0.06	0.60	3.66	3.00	3.07	3.39	3.68	3.55	3.57
Exchange rate vs. USD (end of period)	1.23	1.13	1.07	1.11	1.04	1.14	1.14	1.19	1.18
Exchange rate vs. EUR (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	-1.0	0.2	0.8	-1.9	-0.6	1.1	2.1	1.1	2.0
P.S. non-financial lending (% YoY,	1.9	2.4	0.8	-0.2	0.7	-4.9	3.7	-5.1	1.8
P.S. financial lending (% YoY, average)	8.9	5.9	-1.6	-0.1	-4.0	-0.3	3.5	-0.2	3.7
Savings rate (% pers. disp. income, avg.)	17.8	14.3	9.0	12.0	13.6	13.2	13.2	13.3	13.2

Source: MAPFRE Economics (based on INE data)
Forecast end date: July 10, 2025.

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transportation costs. By component, housing and energy rose 4.2%, hotels and restaurants 4.1%, and the transportation sector fell 0.8%.

The Spanish economy has shown remarkable resilience in the face of the European slowdown, high energy costs, and financial conditions that, until a few months ago, were tight. The solid performance of service exports (arrival of 93.8 million tourists, a 10.1% increase) and consumption (solid compared to other countries of the European Union) have been the main drivers of recent growth. Strong economic and labor market performance, coupled with debt reduction, have put the Spanish economy in a comparatively more solvent position, which is reflected in bond yields, now lower than those of France. Risks to short-term growth could come from exports, due to both the slowdown in European partner countries and the U.S. tariff war, although Spain's exposure to U.S. exports is relatively limited. Furthermore, the government's debt has been declining since 2023 and is not a short-term concern. Medium-term risks are related to a possible impact on growth due to population aging or the availability of higher value-added labor.

1.2.4 Germany

Stagnation after two consecutive years of contraction.

In the first quarter of 2025, Germany's economy grew 0.0% YoY, seasonally adjusted, and -0.2% not adjusted. By component, private consumption was up 1.2% YoY, public consumption grew 2.6%, investment rose 1.7%, exports decreased 1.1%, and imports increased 2.5%. The latest PMIs from June place the composite at 50.4 points, manufacturing at 49.0, still in contraction, and services at 49.7. Retail sales were up 3.6% in May, and industrial production recovered 1.2%, apparently trying to break the downward trend initiated in 2017. Meanwhile, GfK consumer confidence stood at -20.3, and remains very much below 2019 levels. Against this backdrop, German GDP growth is expected to be just 0.2% in 2025, with only a modest recovery to 0.9% in

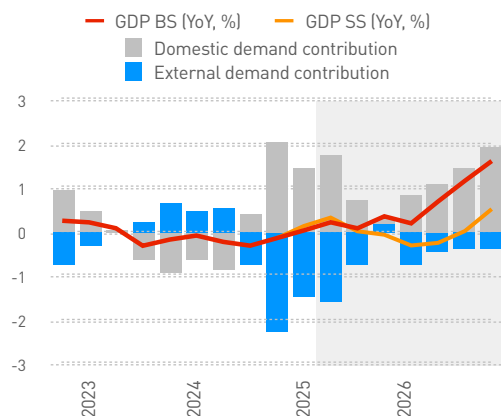
2026 (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b). Meanwhile, inflation stood at 2.0% in June (2.1% in May) and inflation not including energy at 2.5%. By component, food and transport increased 2.7% and 1.6%, while energy fell 2.8% (fuel, -8.2%). The drop in household energy and fuel prices helped ease headline inflationary pressures.

Germany

- Industrial production in Germany has been in decline since 2017.
- Tariffs imposed by the United States are cause for uncertainty in 2025.
- There is a focus on investment in infrastructure and defense.
- German GDP is projected to grow by 0.2% in 2025.

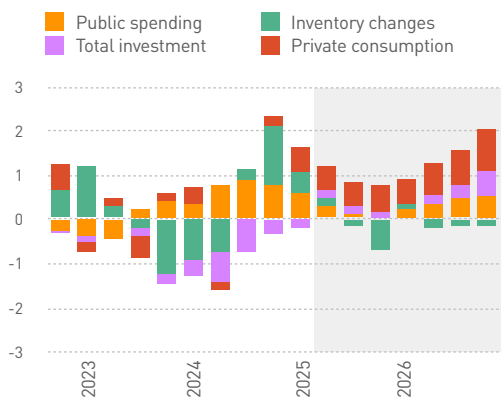
The German economy contracted in 2023 and 2024, and for 2025, all indications are that it will remain practically stagnant. The dismantling of nuclear centers, the last in April 2023, and the gradual closure of coal-fired plants have taken a toll on electricity prices. This is compounded by rising gas prices following explosions in the Nord Stream 2 gas pipeline. This has led to a loss of competitiveness in German exports, which are energy-intensive (such as chemicals and automobile manufacturing). For the automotive industry, competitiveness is being further challenged by the rapid rise of Chinese brands. The short-term risks are high, especially given the uncertainty over the application of U.S. tariffs on the European Union, as Germany is a major exporter of automobiles. The government intends to revive the economy by investing in infrastructure and weapons. In the short and medium term, the main risks to the German economy are deindustrialization due to the relocation of industries to countries with cheaper energy and labor, and demographic pressures from an aging population that will erode growth potential in the coming years.

**Chart 1.2.4-a
Germany: GDP
breakdown and forecasts**



Source: MAPFRE Economics (based on DESTATIS data)

**Chart 1.2.4-b
Germany: domestic demand
breakdown and forecasts**



Source: MAPFRE Economics (based on DESTATIS data)

**Table 1.2.4
Germany: main macroeconomic aggregates**

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-4.5	3.6	1.4	-0.1	-0.2	0.2	0.9	0.1	0.0
Domestic demand contribution	-3.3	2.8	2.7	-0.2	0.3	1.0	1.3	1.0	0.4
External demand contribution	-1.2	0.8	-1.2	0.2	-0.5	-0.9	-0.4	-1.0	-0.4
Private consumption contribution	-3.7	1.1	2.8	-0.1	0.1	0.6	0.7	0.6	0.5
Total investment contribution	-0.8	0.1	0.0	-0.1	-0.5	0.1	0.3	0.0	-0.2
Public spending contribution	1.0	0.8	0.0	0.0	0.7	0.3	0.4	0.3	0.1
Private consumption (% YoY)	-7.0	2.3	5.6	-0.2	0.2	1.1	1.4	1.1	1.1
Public spending (% YoY)	4.9	3.4	0.1	-0.1	3.2	1.2	1.8	1.2	1.8
Total investment (% YoY)	-3.8	0.5	0.0	-0.7	-2.5	0.4	1.3	0.2	-0.9
Exports (% YoY)	-10.3	9.8	3.2	0.2	-1.7	-1.2	-0.5	-1.5	-2.8
Imports (% YoY)	-8.7	8.9	7.1	-0.3	-0.6	1.0	0.7	1.0	-0.9
Unemployment rate (% , last quarter)	6.1	5.2	5.5	5.8	6.1	6.3	5.8	6.4	6.2
Inflation (% YoY, average)	0.6	3.1	6.9	5.9	2.3	2.1	1.8	2.2	1.5
Inflation (% YoY, last quarter)	-0.1	4.7	8.6	3.5	2.3	1.9	1.8	1.9	1.5
Fiscal balance (% of GDP)	-4.4	-3.2	-2.2	-2.5	-2.7	-2.3	-2.7	-2.3	-3.1
Primary fiscal balance (% of GDP)	-3.7	-2.6	-1.4	-1.6	-1.7	-1.2	-1.5	-1.2	-1.9
Current account balance (% of GDP)	6.3	7.0	3.9	5.6	5.7	5.5	5.1	5.5	4.9
Official interest rate (end of period)	0.00	0.00	2.50	4.50	3.25	1.75	1.75	1.75	1.50
3-month interest rate (end of period)	-0.55	-0.57	2.13	3.91	2.71	1.55	2.07	1.43	1.52
10-year interest rate (end of period)	-0.58	-0.18	2.57	2.03	2.36	2.73	2.91	2.69	2.70
Exchange rate vs. USD (end of period)	1.23	1.13	1.07	1.11	1.04	1.14	1.14	1.19	1.18
Exchange rate vs. EUR (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	3.7	5.2	5.0	1.9	0.5	1.6	5.1	1.6	5.1
P.S. non-financial lending (% YoY,	5.2	5.2	9.3	4.4	2.1	3.5	4.8	3.5	4.7
P.S. financial lending (% YoY, average)	10.1	10.0	12.7	6.3	9.3	-2.1	2.4	-2.0	2.8
Savings rate (% pers. disp. income, avg.)	16.1	14.3	10.4	10.4	11.3	10.8	11.2	10.8	11.2

Source: MAPFRE Economics (based on DESTATIS data)
Forecast end date: July 10, 2025.

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1.2.5 Italy

Slight economic growth, partly boosted by recovery funds.

In the first quarter of 2025, Italy's economy grew 0.7% YoY and 0.3% QoQ. Private consumption increased 0.6% YoY and public consumption 0.7% YoY, while investment was up 1.4%, aided by Recovery and Resilience Funds. Exports increased by 0.8%, while imports rose by 4.3%. The composite PMI in June stood at 51.1 points, manufacturing dropped to 48.4, and services to 52.1 points. Retail sales were down 0.4% in May, with a 1.1% drop in food, and no change in other retail sales. Industrial production decreased 0.7%, and the leading indicators index has stabilized at around 100. In this context, the estimate for Italian GDP growth stands at 0.5% in 2025 and 0.7% in 2026 (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b). Cumulative inflation since 2019 has been 19%. In June, inflation was 1.7% YoY, with core inflation at 2.1%. By component, food, transportation, and energy grew 3.7%, -0.9%, and 0.6%, respectively.

Italy

- The recovery and resilience funds are key to sustaining economic growth.
- Lower inflation should be viewed in the context of households reducing their spending on food.
- High debt is a risk, although the deficit has improved significantly.
- Italian GDP is expected to grow 0.5% in 2025 and 0.7% in 2026.

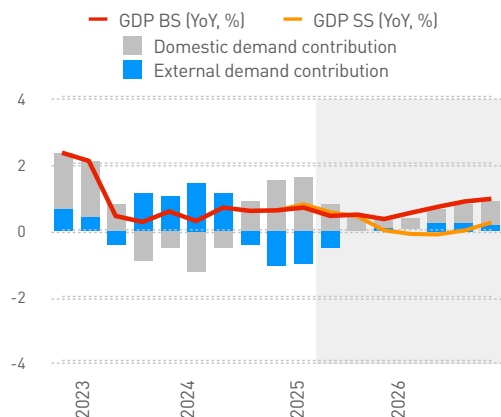
The Italian economy grew modestly and, in part, with the help of recovery funds from the European Union. Employment increased along with real activity, and financial conditions have eased slightly, but remain restrictive. Investment is expected to continue growing under the EU-funded Recovery and Resilience Plan (RRP). Nonetheless, Italy still needs structural adjustments to moderate the risks of high public debt, which reached 135% of GDP in 2024. Italian bond yields have eased to 3.50%, after peaking at 4.0% in March. The budget deficit moderated significantly in 2024, from -7.2% in 2023 to 3.5% in 2024, and is expected to continue improving. To sustain growth and dispel fears of a debt crisis, the economy must increase productivity, fully and timely implement the RRP, with a follow-up plan for critical public investments in infrastructure, and improve the overall business climate.

1.2.6 France

Bond yields highlight fiscal concerns.

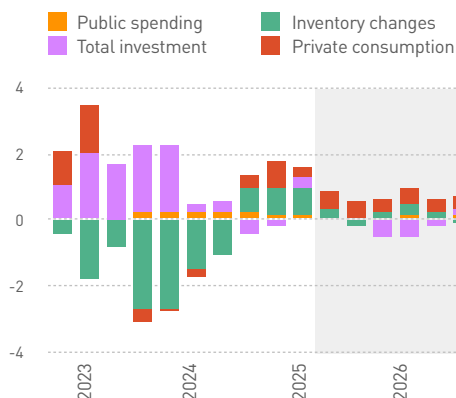
France's economy grew 0.6% YoY and a modest 0.1% QoQ in the first quarter of the year. Private consumption grew by 0.7%, while public consumption rose by 1.2%. Investment fell 0.6%, exports dropped 0.4%, and imports were up 2.1%. The composite PMI in June stood at 49.2 points, manufacturing climbed to 48.1, and services increased to 49.6 points. Retail sales have been gradually increasing since 2023, and industrial production dropped 0.9% in May. Consumer confidence is declining and has remained below 100 since 2021 (100 = long-term average). Considering these factors, French GDP growth is projected at 0.5% in 2025, with a slight acceleration in 2026 to around 0.8% (see Table 1.2.6 and Charts 1.2.6-a and 1.2.6-b). Cumulative inflation in France since 2019 was 15%. It stood at 0.9% in June, versus 0.7% in May, largely thanks to the drop in regulated electricity prices (-14%). Inflation is expected to remain stable in 2025, supported by falling energy prices.

Chart 1.2.5-a
Italy: GDP
breakdown and forecasts



Source: MAPFRE Economics (based on ISTAT data)

Chart 1.2.5-b
Italy: domestic demand
breakdown and forecasts



Source: MAPFRE Economics (based on ISTAT data)

Table 1.2.5
Italy: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-9.0	8.8	5.0	0.8	0.5	0.5	0.7	0.4	0.0
Domestic demand contribution	-8.0	8.8	5.4	0.3	0.2	0.8	0.5	0.7	0.1
External demand contribution	-1.0	0.0	-0.5	0.5	0.3	-0.3	0.2	-0.3	-0.1
Private consumption contribution	-6.2	3.4	3.0	0.2	0.2	0.5	0.4	0.5	0.2
Total investment contribution	-1.3	3.9	1.6	1.9	0.0	0.0	-0.1	-0.1	-0.2
Public spending contribution	0.1	0.5	0.2	0.1	0.2	0.1	0.1	0.1	0.1
Private consumption (% YoY)	-10.6	5.8	5.3	0.4	0.4	0.8	0.7	0.9	0.7
Public spending (% YoY)	0.3	2.3	0.8	0.6	1.1	0.4	0.7	0.4	0.7
Total investment (% YoY)	-7.3	21.5	7.7	9.2	0.0	-0.1	-0.3	-0.3	-3.6
Exports (% YoY)	-14.4	14.2	10.6	0.5	-0.3	1.5	1.2	1.1	-1.2
Imports (% YoY)	-13.0	16.0	13.6	-1.3	-1.5	2.8	0.7	2.7	-0.5
Unemployment rate (% , last quarter)	9.8	9.0	7.9	7.5	6.1	6.4	6.3	6.5	6.6
Inflation (% YoY, average)	-0.1	1.9	8.2	5.6	1.0	1.8	1.7	1.9	1.4
Inflation (% YoY, last quarter)	-0.2	3.5	11.7	1.0	1.2	1.9	1.7	1.6	1.5
Fiscal balance (% of GDP)	-9.4	-8.9	-8.1	-7.2	-3.5	-3.3	-3.1	-3.3	-3.5
Primary fiscal balance (% of GDP)	-6.0	-5.5	-4.0	-3.6	0.5	0.8	1.0	0.8	0.8
Current account balance (% of GDP)	3.8	2.1	-1.7	0.1	1.2	1.6	1.9	1.6	1.8
Official interest rate (end of period)	0.00	0.00	2.50	4.50	3.25	1.75	1.75	1.75	1.50
3-month interest rate (end of period)	-0.55	-0.57	2.13	3.91	2.71	1.55	2.07	1.43	1.52
10-year interest rate (end of period)	0.52	1.19	4.72	3.69	3.52	3.83	4.18	4.00	4.09
Exchange rate vs. USD (end of period)	1.23	1.13	1.07	1.11	1.04	1.14	1.14	1.19	1.18
Exchange rate vs. EUR (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	1.2	3.0	3.4	0.2	-0.5	1.5	2.3	1.5	2.0
P.S. non-financial lending (% YoY,	3.8	1.1	2.9	-2.2	-2.8	0.9	3.5	0.6	0.4
P.S. financial lending (% YoY, average)	-10.3	22.7	19.6	3.5	-8.3	-1.2	8.0	-1.4	6.8
Savings rate (% pers. disp. income, avg.)	17.5	15.5	11.0	10.8	11.3	11.1	11.3	11.2	11.6

Source: MAPFRE Economics (based on ISTAT data)
Forecast end date: July 10, 2025.

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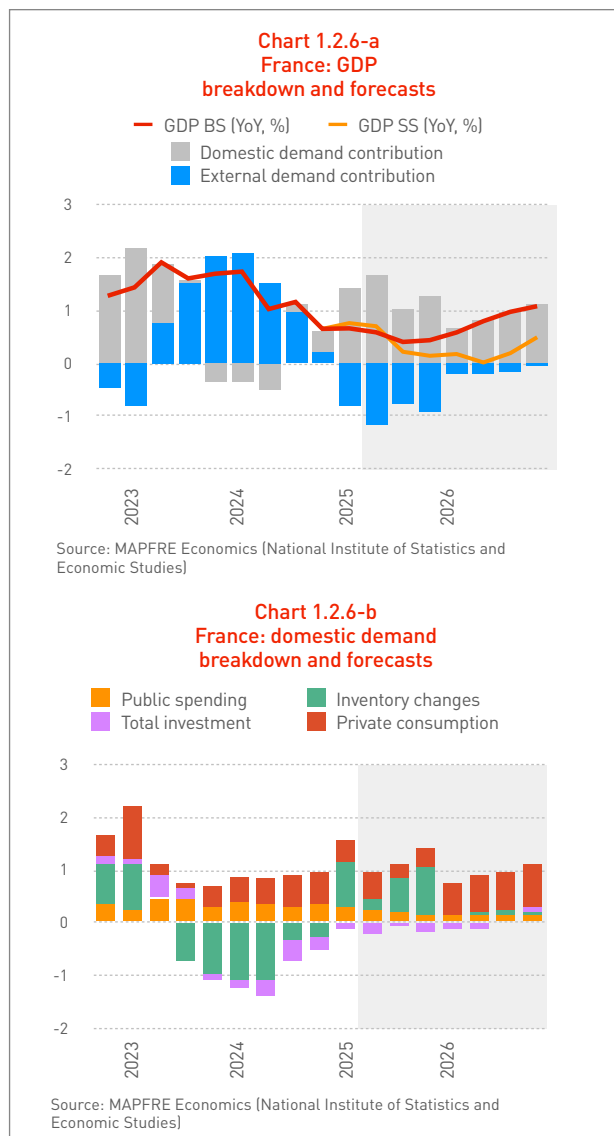


Table 1.2.6
France: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-7.6	6.8	2.8	1.6	1.1	0.5	0.8	0.4	0.2
Domestic demand contribution	-6.3	6.1	2.9	0.7	-0.1	1.3	0.9	1.3	0.3
External demand contribution	-1.3	0.7	-0.1	0.9	1.2	-0.9	-0.1	-1.0	-0.1
Private consumption contribution	-3.5	2.8	1.7	0.4	0.5	0.4	0.7	0.4	0.4
Total investment contribution	-1.4	2.2	-0.1	0.2	-0.3	-0.1	0.0	-0.2	-0.3
Public spending contribution	-1.1	1.7	0.7	0.4	0.4	0.2	0.1	0.2	0.1
Private consumption (% YoY)	-6.5	5.3	3.3	0.8	1.0	0.7	1.3	0.7	1.1
Public spending (% YoY)	-4.4	6.6	2.7	1.5	1.4	0.9	0.5	0.9	0.5
Total investment (% YoY)	-6.2	9.6	-0.2	0.7	-1.3	-0.6	-0.2	-0.8	-1.8
Exports (% YoY)	-16.9	11.0	9.3	2.8	2.4	-0.9	1.0	-1.2	-1.0
Imports (% YoY)	-12.5	8.0	9.3	0.1	-1.3	1.9	1.4	1.8	0.2
Unemployment rate (% , last quarter)	7.8	7.2	6.9	7.3	7.1	7.8	7.9	7.9	8.2
Inflation (% YoY, average)	0.5	1.6	5.2	4.9	2.0	1.0	1.7	1.1	1.1
Inflation (% YoY, last quarter)	0.1	2.7	6.1	3.7	1.3	1.5	1.8	1.5	1.4
Fiscal balance (% of GDP)	-8.9	-6.6	-4.8	-5.4	-5.8	-5.5	-5.5	-5.5	-5.7
Primary fiscal balance (% of GDP)	-7.7	-5.2	-2.8	-3.5	-3.7	-3.2	-2.9	-3.2	-3.1
Current account balance (% of GDP)	-2.0	0.3	-1.1	-1.0	0.4	-0.1	0.2	-0.1	0.3
Official interest rate (end of period)	0.00	0.00	2.50	4.50	3.25	1.75	1.75	1.75	1.50
3-month interest rate (end of period)	-0.55	-0.57	2.13	3.91	2.71	1.55	2.07	1.43	1.52
10-year interest rate (end of period)	-0.33	0.10	3.02	2.54	3.21	3.49	3.63	3.71	3.56
Exchange rate vs. USD (end of period)	1.23	1.13	1.07	1.11	1.04	1.14	1.14	1.19	1.18
Exchange rate vs. EUR (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	4.9	5.4	5.5	2.6	0.0	3.6	3.1	3.6	3.2
P.S. non-financial lending (% YoY,	7.5	3.3	7.5	4.5	2.9	5.3	4.1	5.3	4.0
P.S. financial lending (% YoY, average)	9.0	17.0	16.7	2.9	12.3	2.3	3.2	2.4	3.6
Savings rate (% pers. disp. income, avg.)	16.7	15.2	12.8	13.0	14.3	14.2	12.9	14.2	12.9

Source: MAPFRE Economics (based on National Institute of Statistics and Economic Studies data)
Forecast end date: July 10, 2025.

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In terms of risks, high public deficits, which are forecast to reach -5.6% of GDP in 2025 and -5.3% in 2026, are driving up public debt. The widening deficit reflects sluggish tax revenues compared with economic activity, mainly due to the corporate tax shortfall and the indexation of social benefits (pensions) to inflation in 2023, as well as strong public consumption growth and local government investment. In turn, interest payments on public debt increased by 0.2% of GDP. The budgetary law for 2025, which was finally adopted in February, includes significant fiscal consolidation measures aimed at curbing public spending and raising additional revenue. After rising to 113% of GDP in 2024, public debt should continue to increase to 116.0% in 2025, and to 118.4% in 2026. If not corrected, these levels may alarm the markets in the form of even higher bond yields.

France

- France has a structural fiscal deficit and requires reforms.
- High levels of social spending and taxes make fiscal consolidation difficult.
- In the medium term, population aging is a challenge for economic growth.
- The growth forecast for French GDP stands at 0.5% in 2025.

1.2.7 Portugal

Sovereign debt reduction—a major achievement.

Portugal's GDP grew by 1.6% YoY but contracted 0.5% QoQ in the first quarter of 2025. By component, household consumption grew 3.4% and government consumption by 1.3%; exports rose 1.5%, while imports were up 5.7%. Investment grew 6.0% YoY, boosted by construction, machinery, and intangible assets (possibly recovery and resilience fund grants and goodwill on business purchases). The National Statistics Institute's May economic sentiment survey

shows a positive situation, consistent with the economic momentum recorded. Consumer confidence (according to the INE) has rebounded, but remains negative (-16); however, it has greatly improved from the lows of 2022. Industrial production is stable, and retail sales suggest that the Portuguese economy should remain resilient in the coming quarters. Against this backdrop, Portuguese GDP growth is expected to reach 2.0% in 2025 and 1.9% in 2026 (see Table 1.2.7 and Charts 1.2.7-a and 1.2.7-b). Cumulative inflation since 2019 has been 20%. In June, it rebounded slightly to 2.4%, and stood at 2.3% in May. However, cumulative inflation is particularly high for hotels and restaurants, where the cumulative price increase over five years stands at 35%, with food at 35% and lodging at 27.0%.

Portugal

- Economic growth is taking hold thanks to full employment, immigration, and foreign investment.
- The reduction of government debt reflects fiscal discipline.
- Portugal has achieved a fiscal surplus for two years in a row.
- Portuguese GDP growth is projected at 2.0% for 2025 and 1.9% for 2026.

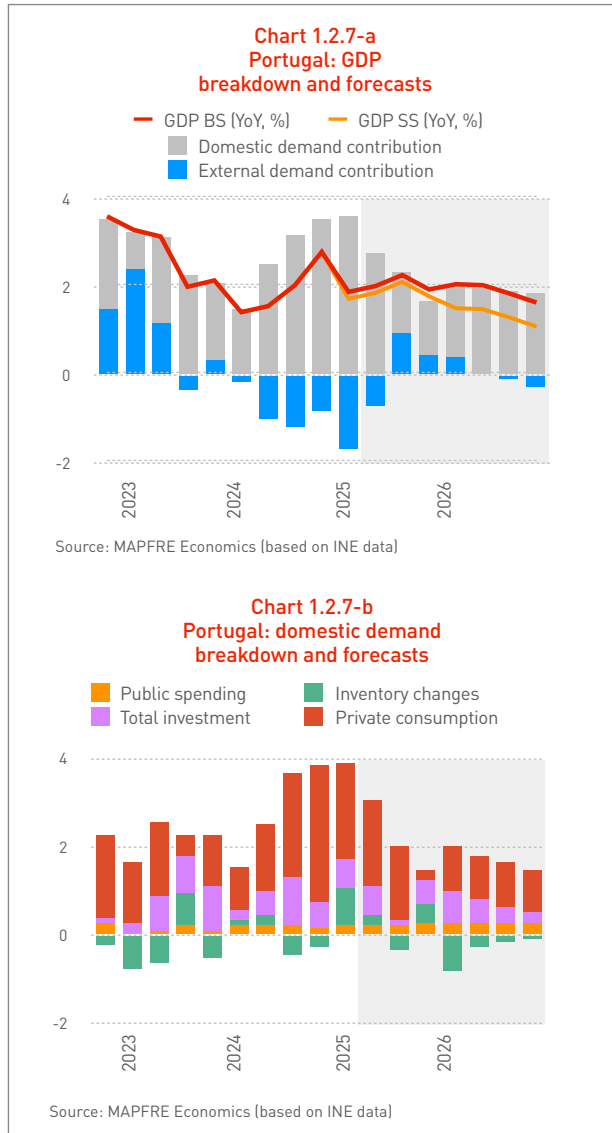


Table 1.2.7
Portugal: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-8.2	5.6	7.0	2.6	1.9	2.0	1.9	1.8	1.3
Domestic demand contribution	-5.2	6.0	4.9	1.7	2.7	2.2	1.8	2.0	1.2
External demand contribution	-3.1	-0.4	2.1	0.9	-0.8	-0.2	0.0	-0.2	0.0
Private consumption contribution	-4.2	3.1	3.5	1.2	2.0	1.5	1.0	1.4	0.7
Total investment contribution	-0.4	1.6	0.7	0.7	0.6	0.5	0.5	0.5	0.2
Public spending contribution	0.1	0.7	0.3	0.1	0.2	0.2	0.3	0.2	0.3
Private consumption (% YoY)	-6.8	4.9	5.6	1.9	3.2	3.1	1.6	2.9	1.1
Public spending (% YoY)	0.4	3.8	1.7	0.6	1.1	1.4	1.6	1.4	1.6
Total investment (% YoY)	-2.3	7.8	3.3	3.6	3.1	2.7	2.3	2.4	0.9
Exports (% YoY)	-18.3	12.0	17.2	3.8	3.3	1.7	1.7	1.5	0.8
Imports (% YoY)	-11.6	12.3	11.3	1.8	5.0	2.1	1.6	1.9	0.7
Unemployment rate (% , last quarter)	7.3	6.3	6.5	6.5	6.5	6.2	6.1	6.4	6.6
Inflation (% YoY, average)	0.0	1.3	7.8	4.3	2.4	2.1	2.1	2.2	1.5
Inflation (% YoY, last quarter)	-0.1	2.4	9.9	1.7	2.6	2.1	2.0	1.8	1.7
Fiscal balance (% of GDP)	-5.8	-2.8	-0.3	1.2	0.7	0.4	-0.2	0.4	-0.4
Primary fiscal balance (% of GDP)	-2.9	-0.5	1.6	3.3	2.8	2.6	2.0	2.6	1.7
Current account balance (% of GDP)	-0.7	-0.7	-2.0	0.6	2.2	1.0	1.1	1.0	1.5
Official interest rate (end of period)	0.00	0.00	2.50	4.50	3.25	1.75	1.75	1.75	1.50
3-month interest rate (end of period)	-0.55	-0.57	2.13	3.91	2.71	1.55	2.07	1.43	1.52
10-year interest rate (end of period)	0.06	0.49	3.59	2.80	2.85	3.21	3.45	3.32	3.34
Exchange rate vs. USD (end of period)	1.23	1.13	1.07	1.11	1.04	1.14	1.14	1.19	1.18
Exchange rate vs. EUR (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	1.8	3.1	4.0	0.0	1.7	6.8	7.2	6.8	7.2
P.S. non-financial lending (% YoY,	0.2	1.3	0.8	-1.8	-2.9	1.2	3.8	1.0	1.6
P.S. financial lending (% YoY, average)	-13.0	-1.9	5.3	-5.2	-5.3	8.2	12.3	8.1	11.5
Savings rate (% pers. disp. income, avg.)	12.1	11.0	7.3	8.3	12.2	13.0	12.6	13.0	12.8

Source: MAPFRE Economics (based on INE data)
Forecast end date: July 10, 2025.

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Portugal improved its macroeconomic indicators thanks to the services sector (tourism in particular) and immigration. Employment reached an historic high of 64.1% in 2024, in the 16-74 year age range. Consumer confidence has recovered in the last three years, and growth exceeded the Eurozone average. Inflation slowed rapidly, while fiscal accounts improved markedly, achieving a substantial surplus in 2023 and a sharp reduction in public debt—down 42 percentage points of GDP since 2020, to 95% of GDP. The external position also strengthened, driven by robust exports, including tourism, European Union funds, and more recently, improved terms of trade. Financial stability indicators also improved, reflecting a reduction in systemic risks. However, weak growth in productivity, an aging population, and low investment are still the main obstacles to greater medium-term growth.

1.2.8 United Kingdom

Public finance under pressure.

In the first quarter of 2025, the United Kingdom's economy grew 1.3% YoY and 0.7% QoQ, a stronger-than-expected performance. Private consumption slowed 0.7% (YoY), while public consumption was up 1.3%. Fixed investment maintained strong momentum, growing by 4.4%, while exports fell by 0.3% and imports grew by 7.6%. The latest PMI data from June place the composite at 52.0 points, manufacturing at 47.7, and services at 52.8. Retail sales dropped 1.3% in May, and industrial production fell 0.3% YoY in April. Consumer confidence stood at -18 in June. Thus, the forecast for GDP growth in 2025 stands at 1.1%, and 1.2% in 2026 (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b).

Meanwhile, inflation was 3.4% in May, with core inflation at 3.7%. Analyzed by component, food was up 4.4%, transportation 0.7%, while liquid fuels dropped 19.5%. At its last meeting in June, the Bank of England decided to hold interest rates at 4.25%. The bank noted that inflation remains above the 2% target, but has been falling. It expects a temporary uptick before inflation converges back to target and will carefully study how and when to cut interest rates further, guaranteeing that inflation remains low and stable.

The imposition of tariffs and heightened uncertainty about trade policies have introduced a new source of risk for the global economy. The impact on the United Kingdom is unclear, as the reorientation of Chinese exports to Europe could have a deflationary effect. In this way, it may be more disinflationary than inflationary. In terms of public accounts, the main medium-term challenge for fiscal policy will be meeting rising public spending needs while stabilizing public debt. Without a substantial boost to growth, stabilizing public debt will require difficult tax and spending decisions.

United Kingdom

- British bond yields reflect concern for public finances.
- The public deficit stood at -5.2% of GDP in 2024.
- The Bank of England is holding interest rates at 4.25%.
- Rising inflation limits the central bank's room to cut rates further.
- UK GDP growth is projected at around 1.1% in 2025.

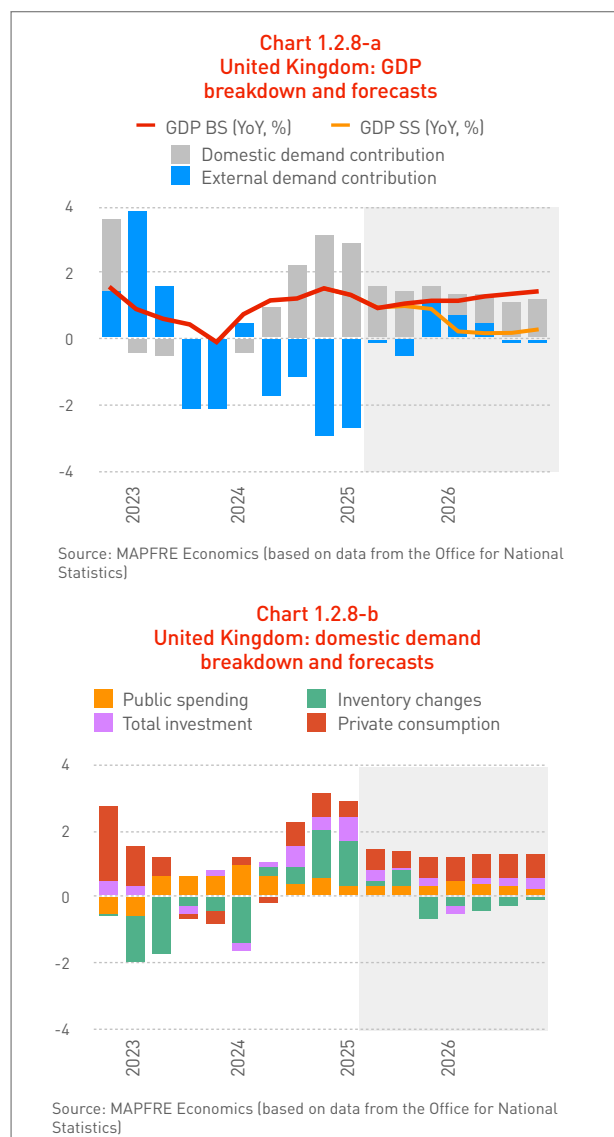


Table 1.2.8
United Kingdom: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-10.3	8.6	4.8	0.4	1.1	1.1	1.2	1.0	0.2
Domestic demand contribution	-11.1	8.5	6.1	-0.2	1.5	1.6	1.0	1.6	0.5
External demand contribution	1.8	-0.9	-0.3	0.3	-1.3	-0.6	0.2	-0.6	0.0
Private consumption contribution	-8.1	4.2	4.3	0.3	0.4	0.6	0.7	0.5	0.5
Total investment contribution	-1.7	1.4	0.9	0.1	0.3	0.4	0.1	0.3	-0.1
Public spending contribution	-1.3	2.9	0.1	0.3	0.6	0.3	0.4	0.3	0.4
Private consumption (% YoY)	-13.0	7.0	7.3	0.5	0.6	0.9	1.2	0.9	0.8
Public spending (% YoY)	-6.8	14.3	0.6	1.6	3.0	1.5	1.7	1.5	1.7
Total investment (% YoY)	-9.7	7.6	5.1	0.3	1.5	2.0	0.8	1.9	-0.5
Exports (% YoY)	-11.8	3.2	12.6	-0.4	-1.2	1.0	-0.6	0.8	-2.4
Imports (% YoY)	-15.9	5.8	13.0	-1.2	2.7	2.5	-1.1	2.4	-2.2
Unemployment rate (% , last quarter)	5.3	4.2	3.9	3.9	4.4	4.8	4.9	4.9	5.3
Inflation (% YoY, average)	0.9	2.6	9.1	7.3	2.5	3.1	2.3	3.2	2.2
Inflation (% YoY, last quarter)	0.6	4.9	10.8	4.2	2.5	3.1	2.1	3.3	2.1
Fiscal balance (% of GDP)	-13.0	-7.1	-4.3	-5.2	-5.1	-4.3	-3.6	-4.2	-3.6
Primary fiscal balance (% of GDP)	-11.1	-5.0	0.1	-1.4	-1.6	-0.6	0.1	-0.5	0.1
Current account balance (% of GDP)	-3.0	-0.4	-2.3	-3.5	-2.6	-3.1	-2.9	-3.1	-2.7
Official interest rate (end of period)	0.00	0.25	3.50	5.25	4.75	3.75	3.25	3.75	2.75
3-month interest rate (end of period)	0.03	0.26	3.87	5.32	4.71	3.71	3.10	3.70	2.73
10-year interest rate (end of period)	0.20	0.97	3.67	3.54	4.57	4.55	4.06	4.54	3.91
Exchange rate vs. USD (end of period)	1.36	1.35	1.20	1.27	1.25	1.35	1.35	1.38	1.38
Exchange rate vs. EUR (end of period)	1.11	1.19	1.13	1.15	1.21	1.19	1.19	1.16	1.17
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	2.5	3.2	3.0	2.6	2.2	3.0	2.9	3.0	2.8
P.S. non-financial lending (% YoY, average)	10.2	0.5	1.1	3.5	-2.4	4.3	3.8	4.3	3.8
P.S. financial lending (% YoY, average)	11.7	-1.5	10.6	2.1	6.7	1.5	4.4	1.5	4.8
Savings rate (% pers. disp. income, avg.)	16.8	12.8	6.1	7.4	10.1	10.1	9.5	10.1	9.6

Source: MAPFRE Economics (based on data from the Office for National Statistics)
Forecast end date: July 10, 2025.

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1.2.9 Japan

Japanese bond yields are now in their fourth consecutive year of increases.

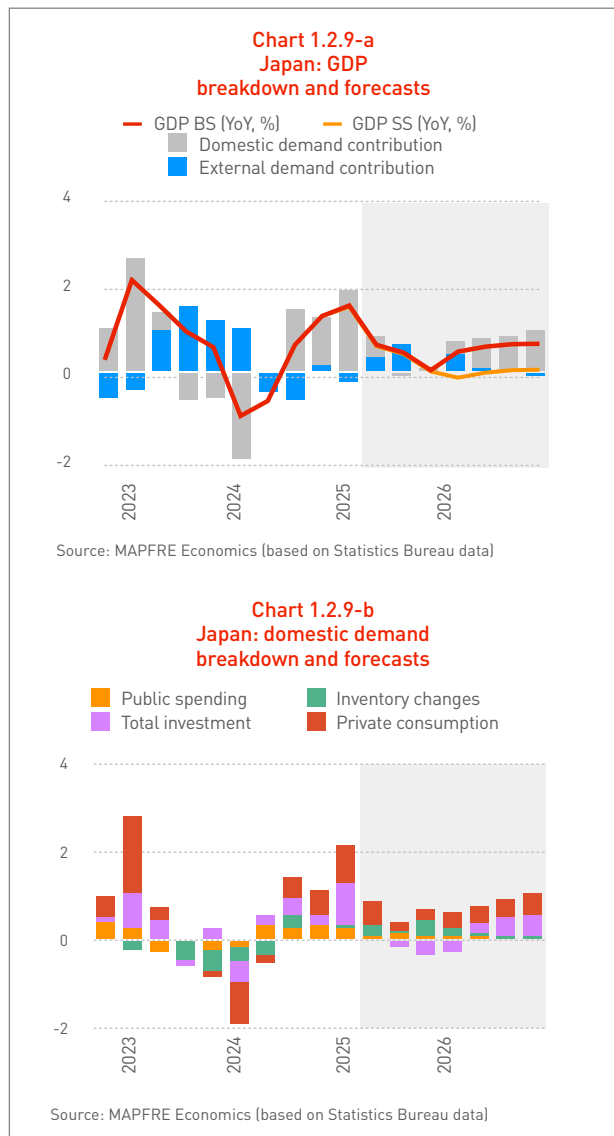
Japan's economy grew 1.7% YoY (not seasonally adjusted) in the first quarter of the year. Private consumption rose by 2.4% YoY, benefiting from tourist spending, which increased by 30%. Meanwhile, public consumption grew by 1.0%, and investment rose 3.1% in both residential and non-residential sectors. Exports increased 3.8% YoY, a rise that would have been unlikely without the advance shipments ahead of U.S. tariff impositions. In June, the composite PMI stood at 51.5 points, the manufacturing PMI at 50.1, and the services PMI at 51.7. Retail sales increased 2.2% in May, while industrial production dropped 0.1%. In this context, the estimate for Japanese GDP growth stands at 0.8% in 2025 and 0.7% in 2026 (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

Japan

- High bond yields are causing losses in investment portfolios.
- Public financing is more expensive, affecting private financing, equity markets, and the overall economy.
- Inflation, which has not been negligible for the past three years, will likely require the central bank to continue raising interest rates.
- Japanese GDP is projected to grow around 0.8% in 2025.

Meanwhile, national inflation stood at 3.5%, significantly higher than levels observed in the previous decade. This increase appears driven by an increase in the money supply rather than population growth, as Japan's population has been declining since 2010. As long as it persists, population decline will be a factor that hinders economic growth. Core inflation stood at 1.6% (national) and 2.1% (Tokyo); the prices that rose the most were food (6.5%), electricity (13.5), and other fuels (9.5%). At its June meeting, the Central Bank of Japan decided to raise interest rates by 25 bps to 0.50%, citing the need to support economic growth while controlling inflation. Interest rates, with inflation above 3.0%, remain deeply negative in real terms. With recent increases and plans to raise rates further, there is a risk to global investment flows, as the appeal of the *carry trade* (borrowing in yen to invest elsewhere) is partly eroded. The yen has recovered against the dollar so far this year, from 158 JPY/USD in January to the current 146 JPY/USD, and more recently against the euro to 171 JPY/EUR.

Risks of a slowdown in Japanese economic growth are materializing due to the global economic slowdown (trade war, decline in global trade), weak domestic consumption, and tighter financial conditions in a context of high public debt. The upside risks to inflation are rising food and energy prices, as well as higher-than-expected wage growth. High public debt, rising bond yields, and the resulting unrealized losses in bond portfolios (in pension funds and insurance companies) pose significant risks to financial stability. Rising bond yields in many developed countries are expanding the supply available to bond buyers. With this in mind, Japan recently held a debt auction that saw weak demand.



**Table 1.2.9
Japan: main macroeconomic aggregates**

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(t)	2026 ^(t)	2025 ^(t)	2026 ^(t)
GDP (% YoY)	-4.2	2.8	0.9	1.4	0.2	0.8	0.7	0.7	0.1
Domestic demand contribution	-3.3	1.8	1.4	0.5	0.2	0.6	0.7	0.5	0.1
External demand contribution	-0.9	1.1	-0.5	0.8	0.0	0.2	0.1	0.1	0.0
Private consumption contribution	-2.4	0.4	1.1	0.5	0.0	0.5	0.4	0.4	0.1
Total investment contribution	-0.9	0.2	-0.1	0.3	0.1	0.1	0.2	-0.2	0.1
Public spending contribution	0.5	0.7	0.3	-0.1	0.2	0.1	0.0	0.1	0.0
Private consumption (% YoY)	-4.5	0.8	2.0	0.9	-0.1	0.9	0.7	0.8	0.4
Public spending (% YoY)	2.4	3.4	1.4	-0.3	0.9	0.7	0.1	0.7	0.1
Total investment (% YoY)	-3.7	0.6	-0.5	1.4	0.3	-0.5	-0.4	-0.8	-1.9
Exports (% YoY)	-11.8	12.1	5.6	3.3	1.1	0.7	-1.6	0.5	-2.9
Imports (% YoY)	-6.8	5.2	8.3	-0.9	1.0	0.1	-0.6	-0.3	-1.4
Unemployment rate (% , last quarter)	3.1	2.7	2.5	2.6	2.5	2.4	2.3	2.5	2.7
Inflation (% YoY, average)	0.0	-0.2	2.5	3.3	2.7	2.8	1.8	2.9	1.3
Inflation (% YoY, last quarter)	-0.9	0.5	3.9	2.9	2.9	2.1	1.8	2.2	1.2
Fiscal balance (% of GDP)	-9.1	-6.2	-4.2	-3.8	-4.0	-4.5	-4.3	-4.4	-4.4
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	2.9	3.9	2.0	3.8	4.8	4.8	4.6	4.9	5.1
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.25	0.75	1.00	0.75	0.75
3-month interest rate (end of period)	0.08	0.07	0.06	0.08	0.62	0.91	1.15	0.75	0.49
10-year interest rate (end of period)	0.04	0.09	0.45	0.65	1.11	1.53	1.68	1.51	1.48
Exchange rate vs. USD (end of period)	103.54	115.00	132.65	141.91	156.65	152.16	146.15	145.04	141.87
Exchange rate vs. EUR (end of period)	127.05	130.25	141.48	156.81	162.74	173.11	166.93	172.84	167.99
Private lending (% YoY, average)	5.5	3.6	2.8	4.4	4.0	1.7	0.1	1.7	-1.3
Household lending (% YoY, average)	3.1	3.7	1.8	2.1	2.6	0.4	-0.8	0.4	-0.6
P.S. non-financial lending (% YoY,	8.2	3.6	2.8	3.4	3.0	-2.5	-0.8	-2.5	-0.8
P.S. financial lending (% YoY, average)	16.7	7.1	7.7	5.2	9.4	-3.4	-1.9	-3.4	-1.7
Savings rate (% pers. disp. income, avg.)	11.3	7.2	4.0	3.6	3.3	1.9	2.4	1.9	2.8

Source: MAPFRE Economics (based on Statistics Bureau data)
Forecast end date: July 10, 2025.

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1.2.10 Turkey

Moderate slowdown in growth.

In the first quarter, Turkey's economy grew 2.7% YoY and 1.0% QoQ. Private consumption rose 2.0% YoY, while public consumption grew only 0.3% YoY. Investment was up 2.0% YoY, driven by the construction sector and recovery of the tourism sector, while exports stagnated (0% YoY), and imports were up 3.0%. In June, the manufacturing PMI (purchasing managers' index) stood at 46.7 points, indicating a expected deterioration in sector activity. Retail sales increased 2.8% YoY in April, and industrial production grew 1.6% YoY. Consumer confidence is improving and stands at 85 points. Against this backdrop, GDP growth is expected to be 2.8% in 2025, accelerating to 3.3% in 2026 (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b).

Inflation in Turkey eased to 35.1% in June, with upward pressure on food prices (30.0%) and housing costs (65.5%). Core inflation, which excludes fresh food and fuel prices, stood at 36.00%. In its June meeting, the Central Bank of Turkey kept interest rates at 46.00%. The bank reiterated that it would set the official interest rate to maintain the necessary restrictive stance to support the planned disinflation path, keeping in mind both actual and expected inflation.

Turkey

- Tighter financial conditions are weighing on domestic demand.
- Inflation has moderated to 35%.
- The central bank is holding interest rates at 46.00%.
- Turkish GDP growth is forecast to stand at about 2.8%.

The economic policies of the last two years have substantially reduced the risks of crisis for the Turkish economy. Tighter financial conditions are weighing on domestic demand, but inflation has come down. Market confidence has improved, and investors have turned to local-currency instruments, while lower raw material prices, strong exports, and reduced gold imports have strengthened the current account balance and increased international reserves. Turkey's sovereign ratings have improved, and the country's risk premiums have been halved. Although inflation expectations remain high, they indicate that monetary policy still appears insufficiently restrictive to bring inflation down to target.

1.2.11 Mexico

Economy on a path of slowdown.

Mexico's economy grew 0.6% YoY in the first quarter and 0.2% QoQ, following a predictable deceleration even before the tariffs came into effect, with consumption and, primarily, investment weakening. In terms of leading activity indicators, the June manufacturing PMI stood at 46.3 points, signaling contraction. Retail sales (although published with some lag) are growing, but with contraction in some components such as food, shopping center sales, and recreational goods, a symptom of less disposable income. Industrial production data, still pre-tariff, grew 1.9% in March. In this environment, Mexican GDP is projected to grow 0.4% in 2025, with a recovery to around 1.5% in 2026, although highly dependent on the result of trade negotiations with the United States (see Table 1.2.11 and Charts 1.2.11-a and 1.2.11-b).

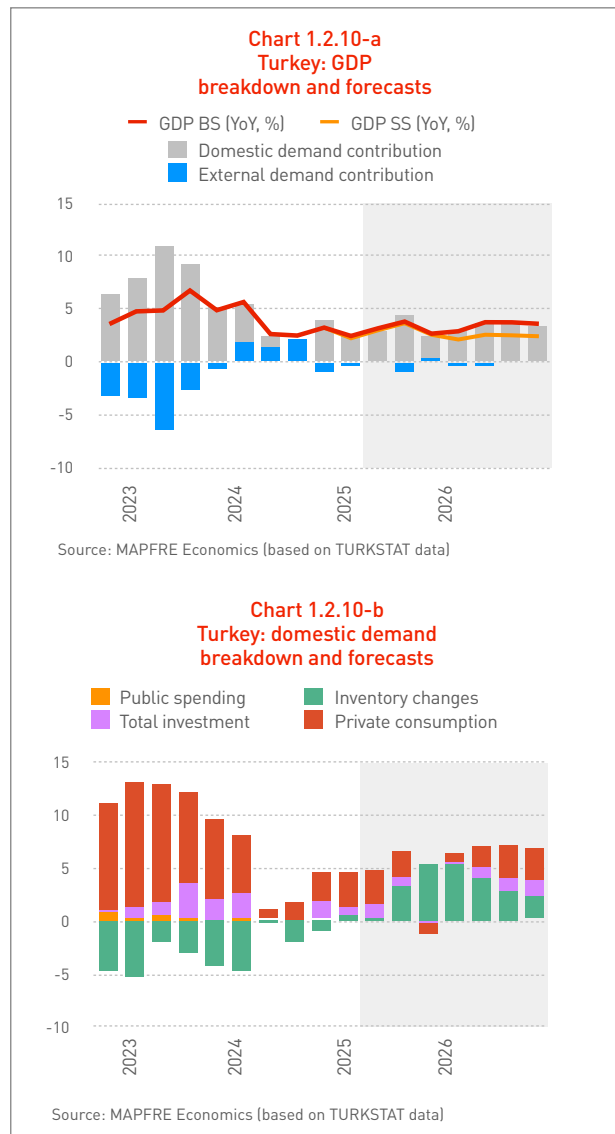


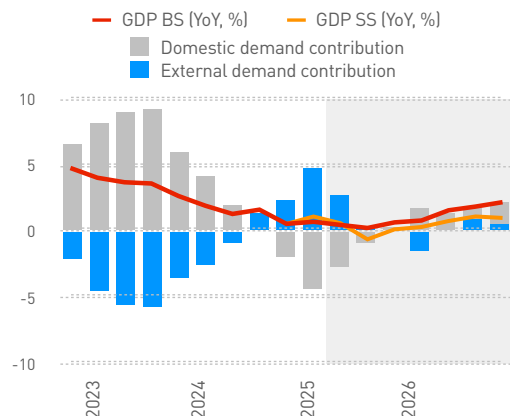
Table 1.2.10
Turkey: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025(f)	2026(f)	2025(f)	2026(f)
GDP (% YoY)	1.9	11.4	5.5	5.1	3.2	2.8	3.3	2.6	2.2
Domestic demand contribution	7.0	6.4	4.8	8.2	2.1	2.9	3.4	3.0	2.9
External demand contribution	-5.2	5.0	0.7	-3.1	1.1	-0.1	-0.2	-0.3	-0.7
Private consumption contribution	1.9	9.2	11.7	9.5	2.7	2.0	2.2	0.3	-0.7
Total investment contribution	1.8	1.9	0.3	2.0	1.0	0.7	1.1	0.2	0.1
Public spending contribution	0.3	0.4	0.6	0.3	0.2	0.1	0.1	0.1	0.1
Private consumption (% YoY)	3.2	15.4	18.9	13.6	3.7	0.4	0.6	0.4	-1.0
Public spending (% YoY)	2.2	3.0	4.2	2.4	1.2	1.1	1.0	1.1	1.0
Total investment (% YoY)	7.3	7.2	1.3	8.4	3.9	0.7	2.3	0.8	0.5
Exports (% YoY)	-14.6	25.1	9.9	-2.8	0.9	1.3	0.4	1.3	0.1
Imports (% YoY)	6.8	1.7	8.6	11.8	-4.1	3.1	4.1	3.1	3.4
Unemployment rate (% , last quarter)	12.9	11.0	10.1	8.6	8.5	9.4	9.4	9.3	9.7
Inflation (% YoY, average)	12.3	19.6	72.3	53.9	58.5	33.0	20.5	34.8	20.1
Inflation (% YoY, last quarter)	13.5	25.8	77.4	62.7	46.6	28.4	17.1	30.3	17.1
Fiscal balance (% of GDP)	-3.5	-2.8	-0.9	-5.2	-5.2	-3.8	-2.0	-3.8	-2.1
Primary fiscal balance (% of GDP)	-0.9	-0.3	1.1	-2.7	-2.3	-0.6	0.8	-0.6	0.7
Current account balance (% of GDP)	-4.3	-0.8	-5.2	-3.6	-0.8	-2.0	-2.2	-1.9	-1.5
Official interest rate (end of period)	17.00	14.00	9.00	42.50	48.25	35.00	22.00	40.00	25.00
3-month interest rate (end of period)	17.25	16.32	10.35	44.97	51.50	35.14	24.43	35.47	23.80
10-year interest rate (end of period)	12.51	22.99	9.50	23.65	27.15	26.38	19.10	26.87	19.08
Exchange rate vs. USD (end of period)	7.44	13.32	18.69	29.48	35.35	42.73	46.07	42.87	46.64
Exchange rate vs. EUR (end of period)	9.11	15.23	19.96	32.65	36.74	48.62	52.62	51.09	55.23
Private lending (% YoY, average)	30.1	23.9	54.8	57.6	43.3	29.2	11.5	29.3	11.3
Household lending (% YoY, average)	41.8	20.3	28.8	50.1	28.5	28.8	10.8	28.8	11.1
P.S. non-financial lending (% YoY,	29.0	23.2	56.3	55.6	43.9	187.2	18.9	187.4	17.3
P.S. financial lending (% YoY, average)	21.1	31.6	105.5	77.0	67.5	34.6	19.2	34.7	18.9
Savings rate (% pers. disp. income, avg.)	20.6	22.2	10.0	20.6	31.8	29.1	24.9	29.1	24.9

Source: MAPFRE Economics (based on TURKSTAT data)
Forecast end date: July 10, 2025.

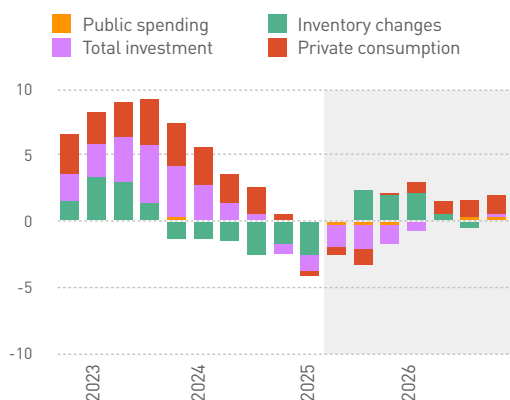
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Chart 1.2.11-a
Mexico: GDP
breakdown and forecasts



Source: MAPFRE Economics (based on INEGI data)

Chart 1.2.11-b
Mexico: domestic demand
breakdown and forecasts



Source: MAPFRE Economics (based on INEGI data)

Table 1.2.11
Mexico: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-8.6	6.3	3.7	3.4	1.2	0.4	1.5	0.2	0.7
Domestic demand contribution	-10.7	9.7	3.5	8.1	1.1	-1.8	1.4	-2.4	0.6
External demand contribution	2.1	-3.4	0.2	-4.8	0.1	2.0	0.1	2.2	0.1
Private consumption contribution	-6.8	5.8	3.3	2.9	1.9	-0.5	1.1	-0.8	0.4
Total investment contribution	-3.8	2.1	1.5	3.6	0.8	-1.5	-0.1	-1.8	-0.2
Public spending contribution	-0.1	-0.1	0.2	0.2	0.2	-0.3	0.2	-0.3	0.3
Private consumption (% YoY)	-10.0	8.6	4.8	4.2	2.7	-0.7	1.6	-1.1	0.5
Public spending (% YoY)	-0.7	-0.5	2.0	1.8	1.6	-2.3	1.9	-2.3	1.9
Total investment (% YoY)	-17.3	10.5	7.4	16.6	3.4	-6.1	-0.6	-7.4	-3.2
Exports (% YoY)	-7.2	7.3	9.6	-7.2	2.8	2.3	-2.8	1.6	-8.2
Imports (% YoY)	-12.3	16.2	8.6	3.7	2.2	-2.3	-2.7	-3.5	-7.4
Unemployment rate (% , last quarter)	4.5	3.7	3.0	2.7	2.6	3.4	3.9	3.7	4.6
Inflation (% YoY, average)	3.4	5.7	7.9	5.5	4.7	3.9	3.7	4.0	3.5
Inflation (% YoY, last quarter)	3.5	7.0	8.0	4.4	4.5	4.0	3.5	4.9	2.9
Fiscal balance (% of GDP)	-2.7	-2.9	-3.2	-3.4	-4.9	-3.4	-3.1	-2.3	-1.0
Primary fiscal balance (% of GDP)	0.1	-0.3	-0.4	-0.1	-1.5	0.2	0.5	1.4	2.5
Current account balance (% of GDP)	2.4	-0.3	-1.2	-0.3	-0.3	-0.4	-0.3	-0.2	0.3
Official interest rate (end of period)	4.25	5.50	10.50	11.25	10.00	7.50	7.00	7.75	7.25
3-month interest rate (end of period)	4.47	5.86	10.97	11.48	10.63	7.98	6.71	8.06	7.49
10-year interest rate (end of period)	5.23	7.57	9.02	8.99	10.46	8.62	8.31	9.13	8.28
Exchange rate vs. USD (end of period)	19.88	20.50	19.49	16.97	20.83	20.59	21.02	22.44	23.06
Exchange rate vs. EUR (end of period)	24.40	23.22	20.79	18.75	21.64	23.43	24.01	26.74	27.31
Private lending (% YoY, average)	5.1	-1.3	7.5	5.8	7.8	7.6	5.0	7.8	4.6
Household lending (% YoY, average)	1.6	4.4	9.2	10.1	9.5	7.5	7.5	7.4	6.9
P.S. non-financial lending (% YoY,	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	3.7	18.3	8.7	-2.6	6.2	7.5	10.5	7.7	11.2
Savings rate (% pers. disp. income, avg.)	17.1	18.2	18.8	23.9	26.3	26.5	25.6	26.2	24.9

Source: MAPFRE Economics (based on INEGI data)
Forecast end date: July 10, 2025.

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Meanwhile, inflation stood at 4.3% in June, with core inflation at 4.2% (+0.2 pp). Prices for food, transportation, and energy rose 4.9%, 5.2%, and 3.5%, respectively, while restaurant services increased 8.1%. At its June monetary policy meeting, the Bank of Mexico decided to lower the interest rate to 8.00%. The bank considers the inflationary episode to be behind it, and despite upside risks, expects inflation to approach the 3% target by the third quarter of 2026. A lower benchmark interest rate is deemed consistent with the current phase of the economy. The environment of uncertainty and trade tensions poses significant downside risks, and while the inflation risk balance remains tilted upward, it is considered to have improved. Nevertheless, changes in economic policy by the new U.S. administration remain a source of uncertainty.

Mexico continues to face significant external risks, especially those related to trade with the United States and the cost of government financing associated with risk aversion toward emerging market economies. The rise in U.S. bond yields, a global benchmark, affects the yields of emerging economies. Restrictive monetary policy continues to weigh on economic activity and, together with tariffs, could lead to a significant slowdown in 2025. The 4.9% fiscal deficit in 2024, which is high, will require some efforts for fiscal consolidation in 2025.

Mexico

- **Uncertainty over the final configuration of U.S. tariff rates weighs on economic performance.**
- **The Bank of Mexico cut interest rates to 8.00% at its June meeting.**
- **Mexican GDP growth is projected at 0.4% in 2025, with a moderate recovery in 2026.**

1.2.12 Brazil

The economy is performing well, but exports are suffering.

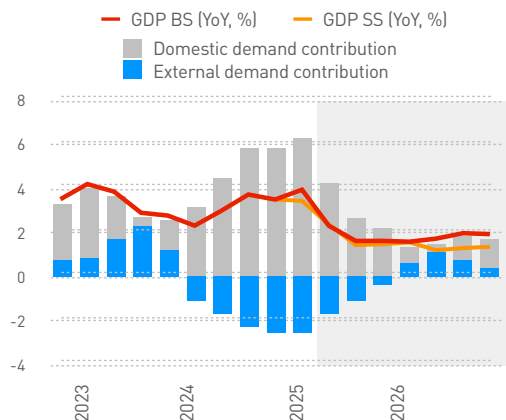
In the first quarter, Brazil's economy grew 2.9% YoY and 1.4% QoQ. By component, private consumption was up 2.6%, public consumption 1.1%, investment 9.1%, exports 1.2%, while imports increased 14.0%. In terms of advance economic indicators,

the June composite PMI stood at 48.7 points, in contraction territory, with manufacturing at 48.3, and services at 49.3 points. Retail sales increased 2.1% in May, and industrial production was up 3.3%, while consumer confidence, measured by the Getulio Vargas Foundation (FGV), increased to 85.9 in June. Against this backdrop, the forecast for economic growth stands at 2.2% for 2025 and 1.6% for 2026 (see Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

Brazil

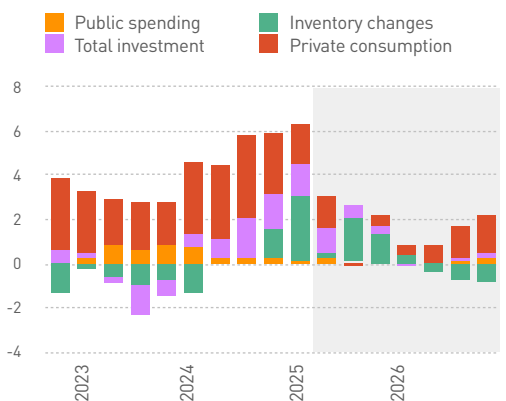
- **The interest rate tightening cycle may be approaching its end, but this will depend on inflation data.**
- **The currency is losing ground against the euro but gaining against the dollar.**
- **Exports are beginning to be affected by the impact of tariffs.**
- **Brazilian GDP growth is projected at 2.2% in 2025.**

Chart 1.2.12-a
Brazil: GDP
breakdown and forecasts



Source: MAPFRE Economics (based on data from the Instituto Brasileiro de Geografia e Estatística, IBGE)

Chart 1.2.12-b
Brazil: domestic demand
breakdown and forecasts



Source: MAPFRE Economics (based on data from the Instituto Brasileiro de Geografia e Estatística, IBGE)

Table 1.2.12
Brazil: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-3.6	5.1	3.1	3.2	3.0	2.2	1.6	2.0	1.2
Domestic demand contribution	-4.9	6.8	2.5	1.7	4.9	3.8	0.9	3.4	0.5
External demand contribution	1.4	-1.7	0.6	1.5	-1.9	-1.4	0.7	-1.4	0.6
Private consumption contribution	-3.2	2.1	2.8	2.2	3.3	0.9	1.1	0.9	0.7
Total investment contribution	-0.3	2.3	0.2	-0.5	1.3	0.9	0.1	0.7	-0.3
Public spending contribution	-0.6	0.7	0.4	0.6	0.3	0.1	0.1	0.1	0.1
Private consumption (% YoY)	-4.6	3.0	4.1	3.3	4.8	1.3	1.6	1.3	1.1
Public spending (% YoY)	-3.7	4.2	2.1	3.8	1.9	0.8	0.7	0.8	0.7
Total investment (% YoY)	-1.7	13.0	1.0	-2.9	7.2	5.1	0.4	5.4	-1.8
Exports (% YoY)	-2.7	4.9	6.1	8.9	2.2	1.0	-1.4	0.8	-3.8
Imports (% YoY)	-9.8	14.4	1.5	-1.1	13.2	8.2	-4.7	8.3	-6.2
Unemployment rate (% , last quarter)	14.9	11.7	8.3	7.8	6.5	6.8	7.5	6.6	7.7
Inflation (% YoY, average)	3.2	8.3	9.3	4.6	4.4	5.3	4.4	5.5	4.0
Inflation (% YoY, last quarter)	4.3	10.5	6.1	4.7	4.8	5.2	4.0	5.6	4.7
Fiscal balance (% of GDP)	-13.5	-4.1	-4.4	-8.2	-6.6	-8.7	-9.9	-8.7	-10.2
Primary fiscal balance (% of GDP)	-9.3	0.7	1.2	-2.3	-0.3	-0.2	-0.3	-0.2	-0.6
Current account balance (% of GDP)	-1.7	-2.4	-2.2	-1.3	-2.8	-3.2	-2.5	-3.3	-3.3
Official interest rate (end of period)	2.00	9.25	13.75	11.75	12.25	15.00	12.25	15.00	13.50
3-month interest rate (end of period)	1.90	9.15	13.65	11.65	12.15	13.82	10.79	13.70	11.97
10-year interest rate (end of period)	6.98	10.31	12.76	10.35	15.15	13.62	12.58	14.11	12.58
Exchange rate vs. USD (end of period)	5.20	5.58	5.22	4.84	6.19	5.65	5.66	5.85	5.82
Exchange rate vs. EUR (end of period)	6.38	6.32	5.56	5.35	6.43	6.43	6.47	6.97	6.89
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	10.1	17.6	20.3	13.1	11.8	12.1	9.7	12.1	9.8
P.S. non-financial lending (% YoY,	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	19.1	22.0	20.0	19.2	18.5	18.7	19.3	18.8	19.1

Source: MAPFRE Economics (based on data from the Brazilian Institute of Geography and Statistics - IBGE)
Forecast end date: July 10, 2025.

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June inflation (IPCA-15) stood at 5.4%; by component, food, transportation, and automotive fuel increased 6.7%, 5.1%, and 6.9%, respectively. The central bank's monetary policy committee decided in June to raise the interest rate 0.5 bps, to 15.00%, considering that this decision is consistent with the strategy of converging inflation toward the target. While maintaining its primary objective of ensuring price stability, this decision also aims to smooth fluctuations in the level of economic activity and promote full employment. For the next meeting, the scenario of high uncertainty, combined with the advanced stage of the cycle and its cumulative impacts yet to be observed, requires additional caution in monetary policy actions and flexibility to incorporate data on inflation dynamics.

Risks to Brazil's economy center on the external front, the trade war with the United States, and more restrictive monetary policies both domestically and in the major world economies, as well as volatility in raw material prices. However, upside risks stem from stronger-than-expected household consumption and faster-than-anticipated implementation of reforms that improve productivity. Economic strength is supported by a sound financial system, adequate foreign exchange reserves, low dependence on foreign currency debt, large government cash reserves, and a flexible exchange rate.

1.2.13 Argentina

Growth accelerates while inflation continues to fall.

Argentina's economy grew 5.8% YoY, and 0.8% QoQ in the first quarter of 2025. Private consumption increased 11.6%, public consumption continues its moderation (-0.8%), investment grew 31.8%, exports 7.2%, and imports 42.8%. In terms of the most recent economic indicators, retail sales increased 9% in supermarkets and 17.5% in shopping centers, while industrial production rose 8% in April. Consumer confidence, as measured by

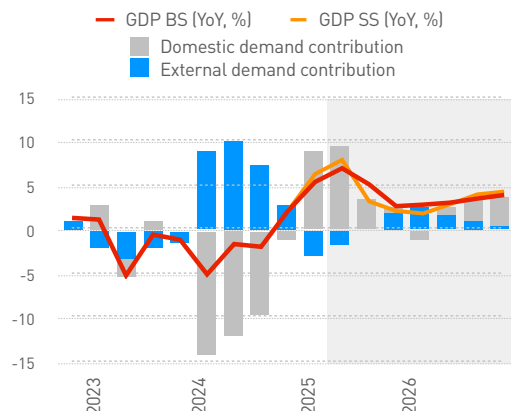
Torcuato Di Tella University, rose to 45.5 in June. Against this backdrop, Argentine GDP growth is forecast to be 5.0% in 2025 and 3.3% in 2026 (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

Meanwhile, inflation in Argentina continues to fall, reaching 44.5% in June (Buenos Aires), from 292% in April 2024. By component, food, transport, and electricity and gas increased 35.5%, 32.6%, and 86.9%, respectively. The Central Bank of Argentina held its benchmark interest rate (Leliq) at 29%, which it has sustained since January. This monetary stance is supported by expectations of continued moderation of inflation.

Argentina

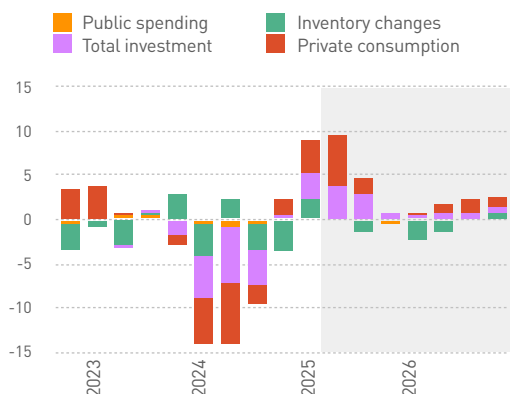
- The Argentine economy grew 5.8% in the first quarter of the year.
- Inflation dropped to 1.5% MoM, 43.5% YoY.
- The exchange rate remains volatile and is losing against the euro and the dollar.
- Argentine GDP is projected to grow 5.0% in 2025 and 3.3% in 2026.

Chart 1.2.13-a
Argentina: GDP
breakdown and forecasts



Source: MAPFRE Economics (based on INDEC data)

Chart 1.2.13-b
Argentina: domestic demand
breakdown and forecasts



Source: MAPFRE Economics (based on INDEC data)

Table 1.2.13
Argentina: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-9.9	10.4	5.3	-1.6	-1.7	5.0	3.3	4.8	3.2
Domestic demand contribution	-10.0	12.8	8.6	0.4	-9.2	5.5	1.5	5.2	1.4
External demand contribution	0.1	-2.3	-3.3	-2.0	7.5	-0.5	1.5	-0.4	1.7
Private consumption contribution	-8.7	6.6	6.4	0.7	-3.1	2.8	1.0	2.7	1.0
Total investment contribution	-2.2	5.6	2.2	-0.4	-3.7	2.6	0.5	2.3	0.3
Public spending contribution	-0.3	1.0	0.4	0.2	-0.4	-0.2	0.1	-0.2	0.2
Private consumption (% YoY)	-12.2	9.5	9.4	1.0	-4.2	3.9	1.2	3.8	1.2
Public spending (% YoY)	-2.0	7.1	3.0	1.5	-3.2	-1.1	1.2	-1.1	1.2
Total investment (% YoY)	-13.1	34.0	11.2	-2.0	-17.4	14.4	1.6	12.7	0.9
Exports (% YoY)	-17.4	8.5	4.6	-7.5	23.2	-2.8	-0.9	-2.7	-1.1
Imports (% YoY)	-17.2	18.6	17.8	1.7	-10.6	2.1	-7.0	1.5	-7.9
Unemployment rate (% , last quarter)	11.0	7.0	6.3	5.7	6.4	6.0	6.0	6.5	6.5
Inflation (% YoY, average)	42.0	48.4	72.4	133.5	219.9	39.0	20.0	45.0	35.0
Inflation (% YoY, last quarter)	36.4	51.4	91.8	172.8	154.4	28.8	16.4	34.7	31.6
Fiscal balance (% of GDP)	-8.4	-3.6	-3.8	-4.4	0.3	0.2	-0.8	0.2	-0.9
Primary fiscal balance (% of GDP)	-6.4	-2.1	-2.0	-2.7	1.8	1.7	1.3	1.7	1.2
Current account balance (% of GDP)	0.7	1.4	-0.6	-3.2	1.0	0.4	1.5	0.4	2.3
Official interest rate (end of period)	38.00	38.00	75.00	100.00	32.00	25.00	20.00	32.00	28.00
3-month interest rate (end of period)	29.55	31.49	67.61	93.72	37.69	30.86	37.68	30.75	37.10
10-year interest rate (end of period)	14.74	18.65	26.69	24.36	10.91	20.34	20.14	20.94	19.97
Exchange rate vs. USD (end of period)	84	103	177	808	1,032	1,501	2,068	1,553	2,149
Exchange rate vs. EUR (end of period)	103	116	189	893	1,072	1,708	2,362	1,851	2,545
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	22.9	34.6	60.4	108.6	217.2	133.9	48.4	133.4	47.9
P.S. non-financial lending (% YoY,	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: MAPFRE Economics (based on INDEC data)
Forecast end date: July 10, 2025.

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The Argentine government has implemented a stabilization plan focused on fiscal consolidation, an initial large-magnitude devaluation (followed by a floating exchange rate), and an ambitious liberalization program. The result has been rapid disinflation, the first primary surplus in nearly two decades, an initial recovery of reserves, and the strengthening of the central bank's balance sheet, all of which has contributed to a significant reduction in sovereign interest rates. Despite the adjustment, the economy and real wages have recovered since mid-2024, supporting rapid improvements in social indicators. The vulnerabilities and challenges for Argentina are considerable, as the external reserves remain very weak, inflation is still high, and many structural obstacles to investment and employment persist.

1.2.14 Colombia

The economy recovers with strong momentum in the first quarter.

In the first quarter of 2025, Colombia's economy grew 2.7% YoY and 0.8% QoQ. Private consumption increased by 3.8% and government consumption by 4.3%, while investment rose 1.8%. Exports grew by 2.4%, and imports increased 11.9%. In terms of leading activity indicators, the manufacturing PMI stood at 51.0 points in June, reflecting an improvement in manufacturing prospects. Retail sales increased 11.4% in April, and industrial production dropped 3.3% in the same month.

Colombia

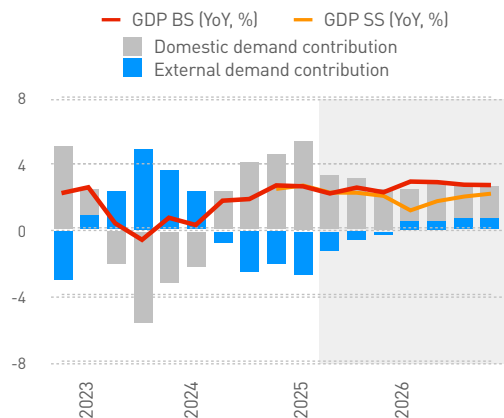
- **Inflation is stable, although it remains at high levels.**
- **The projected fiscal deficit is -5.6% in 2025.**
- **The government has announced an increase in corporate tax withholding.**
- **Colombian GDP growth is projected at 2.4% in 2025.**

Accordingly, the growth forecast for Colombian GDP stands at 2.4% for 2025 and 2.8% for 2026 (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

Meanwhile, inflation reached 4.8% in June, with food, transport, and housing and supplies rising 4.3%, 5.3%, and 5.2%, respectively. At its June meeting, the Bank of the Republic held interest rates at 9.25%. Inflation continued to decline, but remains above the 3% target. Economic activity is recovering gradually, with strong momentum observed in the first quarter of the year. The current benchmark rate is still compatible with inflation convergence toward the target in the next two years, with a gradual recovery of economic growth. However, recent international events have significantly increased the uncertainty about the future path of inflation and economic activity.

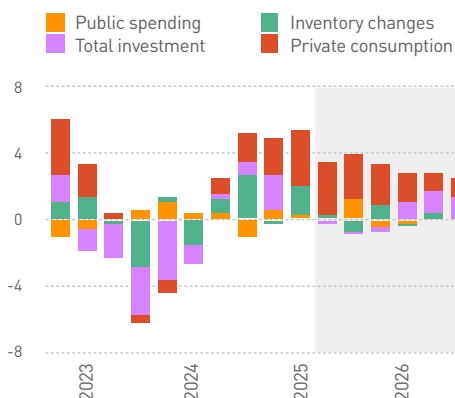
Among the risks to the Colombian economy, public deficit and debt stand out, having risen more than expected. The central government's overall budget deficit increased to 6.7% of GDP in 2024, versus 4.2% of GDP in 2023, and 1.1 percentage points of GDP above the deficit target set by the authorities under the medium-term budget framework (5.6%). The government announced an increase in corporate tax withholding, but this does not address the structural deficit. In 2024, the Congress did not approve a fiscal reform aimed at reducing the gap in the government budget. Higher deficits, along with a slightly weaker peso, brought the gross public debt to 61.3% of GDP at the end of 2024. As a result, Colombian spreads have widened, especially relative to its peers, who are also affected by the tightening of global financial conditions.

Chart 1.2.14-a
Colombia: GDP
breakdown and forecasts



Source: MAPFRE Economics (based on data from the National Administrative Department of Statistics, DANE)

Chart 1.2.14-b
Colombia: domestic demand
breakdown and forecasts



Source: MAPFRE Economics (based on data from the National Administrative Department of Statistics, DANE)

Table 1.2.14
Colombia: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025(f)	2026(f)	2025(f)	2026(f)
GDP (% YoY)	-7.2	10.8	7.3	0.7	1.6	2.4	2.8	2.3	1.7
Domestic demand contribution	-8.4	14.2	11.1	-2.3	2.3	3.6	2.1	3.5	1.5
External demand contribution	1.2	-3.4	-3.8	3.0	-0.7	-1.2	0.7	-1.2	0.3
Private consumption contribution	-3.5	10.5	8.0	0.3	1.2	3.0	1.3	2.9	0.5
Total investment contribution	-5.2	3.0	2.2	-2.5	0.5	-0.2	1.2	-0.2	1.0
Public spending contribution	-0.1	1.7	0.2	0.3	0.1	0.3	0.0	0.2	0.0
Private consumption (% YoY)	-5.0	14.7	10.8	0.4	1.6	3.9	1.0	3.9	0.7
Public spending (% YoY)	-0.8	9.8	1.0	1.6	0.7	1.6	-0.1	1.4	-1.0
Total investment (% YoY)	-23.6	16.7	11.5	-12.7	3.2	-0.9	7.4	-1.2	6.3
Exports (% YoY)	-22.5	14.6	12.5	3.1	2.5	0.2	-0.2	0.3	-0.9
Imports (% YoY)	-20.1	26.7	24.0	-9.9	4.4	5.3	-2.0	5.0	-3.3
Unemployment rate (% , last quarter)	15.4	12.5	10.7	10.3	9.6	9.7	9.9	9.7	10.1
Inflation (% YoY, average)	2.5	3.5	10.2	11.7	6.6	4.9	3.8	5.2	3.5
Inflation (% YoY, last quarter)	1.6	5.2	12.6	10.0	5.3	4.9	3.5	5.2	3.4
Fiscal balance (% of GDP)	-7.8	-7.0	-5.3	-4.2	-6.7	-5.6	-3.4	-5.7	-4.1
Primary fiscal balance (% of GDP)	-5.4	-4.0	-1.0	-0.3	-2.4	-0.5	1.4	-0.6	0.8
Current account balance (% of GDP)	-3.4	-5.6	-6.0	-2.3	-1.7	-2.9	-2.6	-3.0	-3.1
Official interest rate (end of period)	1.75	3.00	12.00	13.00	9.50	8.25	7.00	8.50	6.25
3-month interest rate (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10-year interest rate (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate vs. USD (end of period)	3,433	3,981	4,810	3,822	4,409	4,154	4,242	4,276	4,352
Exchange rate vs. EUR (end of period)	4,212	4,509	5,131	4,223	4,581	4,727	4,845	5,095	5,153
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	-25.8	82.1	5.0	-32.9	14.2	28.7	21.1	28.8	21.2
P.S. non-financial lending (% YoY,	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: MAPFRE Economics (based on data from the National Administrative Department of Statistics, DANE)
Forecast end date: July 10, 2025.

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1.2.15 Chile

Moderate growth, with high inflation and neutral interest rates.

Chile's economy grew 2.4% YoY and 0.7% QoQ in the first quarter of 2025. Private consumption grew 1.9% YoY, while public consumption was down 1.7%, investment improved 3.7%, and exports were up 2.4%. In terms of economic activity indicators, retail sales increased 4.5%, and industrial production rose 3.8% in April. Meanwhile, although consumer confidence has fallen in recent months, it has been on an upward trend over the last three years. Considering the foregoing, the Chilean GDP growth forecast stands at 2.2% in 2025, with a slight acceleration in 2026 to around 2.3% (see Table 1.2.15 and Charts 1.2.15-a and 1.2.15-b).

Meanwhile, inflation reached 4.1% in June, with food up 2.3% and transportation 0.8%, although electricity, gas, and other fuels rose 24.2%. At its June meeting, the Central Bank of Chile decided to keep the benchmark interest rate unchanged at 5.00%. Inflation remains relatively high, and expectations of rising inflation in the United States due to higher tariffs have weighed on financial markets, especially on long-term U.S. yields. These factors have influenced interest rate decisions in various countries and also affect Chile, which, for this reason and due to domestic inflation, has little room left to ease monetary policy further.

Chile

- The Chilean economy grew 2.4% in the first quarter of the year.
- Inflation stood at 4.1% YoY in June.
- Interest rates remain at 5.00%.
- Chilean GDP is projected to grow 2.2% in 2025 and 2.3% in 2026.

External risks and uncertainty remain high. The volatility of raw material prices is linked to the economic outlook of Chile's main trading partners. Uncertainty over monetary and fiscal policies in advanced economies could lead to tighter financial conditions for longer periods and greater financial market volatility. Domestically, political polarization is hindering progress on structural reforms.

1.2.16. Peru

The economy grows, supported by investment and exports.

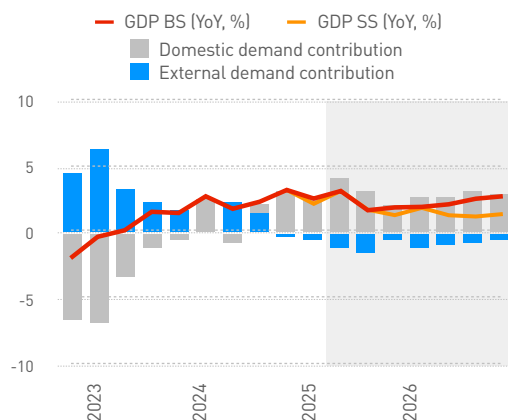
In the first quarter of the year, Peru's economy showed solid growth (3.9%). Private consumption increased 3.8%, while public consumption grew 4.7%. Investment increased 13.7%, as exports grew 14.2%, and imports were up 15.5%. In terms of economic activity indicators, surveys on the current economic situation stood at 53.9 (above 50 points reflects a good situation) and 61.6 for the outlook for the next three months. Accordingly, Peruvian GDP is expected to grow 3.0% in 2025 and 2.8% in 2026 (see Table 1.2.16 and Charts 1.2.16-a and 1.2.16-b).

Inflation in Peru was 1.7% in June, stable from the previous month, while core inflation stood at 1.7%. The Central Reserve Bank of Peru maintained its benchmark interest rate at 4.50% in July. This rate is close to the estimated neutral level, so future adjustments to the

Peru

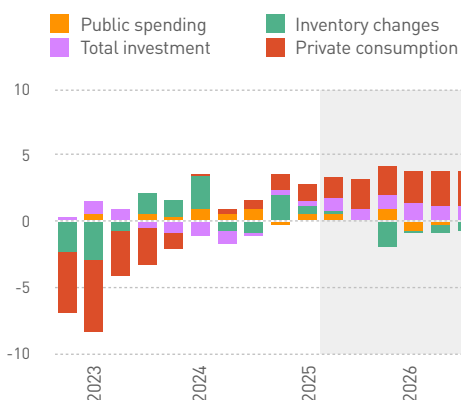
- Peruvian GDP grew 3.9% during the first quarter of 2025.
- Inflation stood at 1.7% and remains stable.
- Rising mineral prices are benefiting Peruvian exports.
- Peru's GDP growth forecast for 2025 stands at 3.0%.

Chart 1.2.15-a
Chile: GDP
breakdown and forecasts



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

Chart 1.2.15-b
Chile: domestic demand
breakdown and forecasts



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

Table 1.2.15
Chile: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-6.4	11.6	2.2	0.6	2.4	2.2	2.3	2.0	1.4
Domestic demand contribution	-9.7	20.5	2.5	-2.9	1.4	3.1	3.0	3.1	1.1
External demand contribution	3.3	-8.9	-0.4	3.5	1.0	-0.8	-0.7	-1.1	0.3
Private consumption contribution	-4.7	12.9	1.0	-3.2	0.6	1.8	2.5	1.8	1.3
Total investment contribution	-2.6	3.6	1.1	0.1	-0.4	0.8	1.2	0.8	0.5
Public spending contribution	-0.5	2.0	1.0	0.4	0.5	0.5	-0.2	0.5	-0.2
Private consumption (% YoY)	-7.5	21.0	1.6	-4.8	1.0	2.9	4.1	2.9	2.1
Public spending (% YoY)	-3.4	13.2	6.7	2.4	3.2	3.1	-1.5	3.1	-1.5
Total investment (% YoY)	-11.0	15.9	4.9	0.3	-1.8	3.4	5.0	3.6	2.1
Exports (% YoY)	-1.4	-1.3	0.9	0.5	6.2	0.7	-1.6	0.6	-3.5
Imports (% YoY)	-12.6	31.6	1.9	-10.6	1.9	3.5	0.9	3.4	-1.7
Unemployment rate (% last quarter)	10.9	7.6	8.3	8.9	8.5	8.1	7.2	8.0	7.3
Inflation (% YoY, average)	3.0	4.5	11.6	7.3	3.9	4.4	3.0	4.5	2.6
Inflation (% YoY, last quarter)	2.9	6.6	13.0	4.0	4.5	4.0	2.6	4.3	3.0
Fiscal balance (% of GDP)	-7.3	-7.7	1.1	-2.4	-2.8	-1.9	-1.1	-1.9	-1.9
Primary fiscal balance (% of GDP)	-6.3	-6.9	2.1	-1.3	-1.6	-0.6	0.7	-0.6	0.1
Current account balance (% of GDP)	-1.9	-7.3	-8.8	-3.1	-1.5	-1.4	-2.2	-1.9	-9.0
Official interest rate (end of period)	0.50	4.00	11.25	8.25	5.00	4.75	4.25	4.75	4.00
3-month interest rate (end of period)	-0.32	4.04	9.54	7.99	4.93	4.61	3.78	4.97	4.84
10-year interest rate (end of period)	2.65	5.65	5.32	5.30	5.95	5.91	5.62	6.50	5.71
Exchange rate vs. USD (end of period)	711	850	860	885	992	939	903	972	933
Exchange rate vs. EUR (end of period)	873	963	917	977	1,031	1,068	1,031	1,158	1,105
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	4.9	6.3	13.2	9.1	5.7	4.9	8.0	4.8	7.2
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	12.3	7.7	-0.9	8.3	9.3	5.1	9.0	5.2	8.8

Source: MAPFRE Economics (based on data from the National Statistics Institute)
Forecast end date: July 10, 2025.

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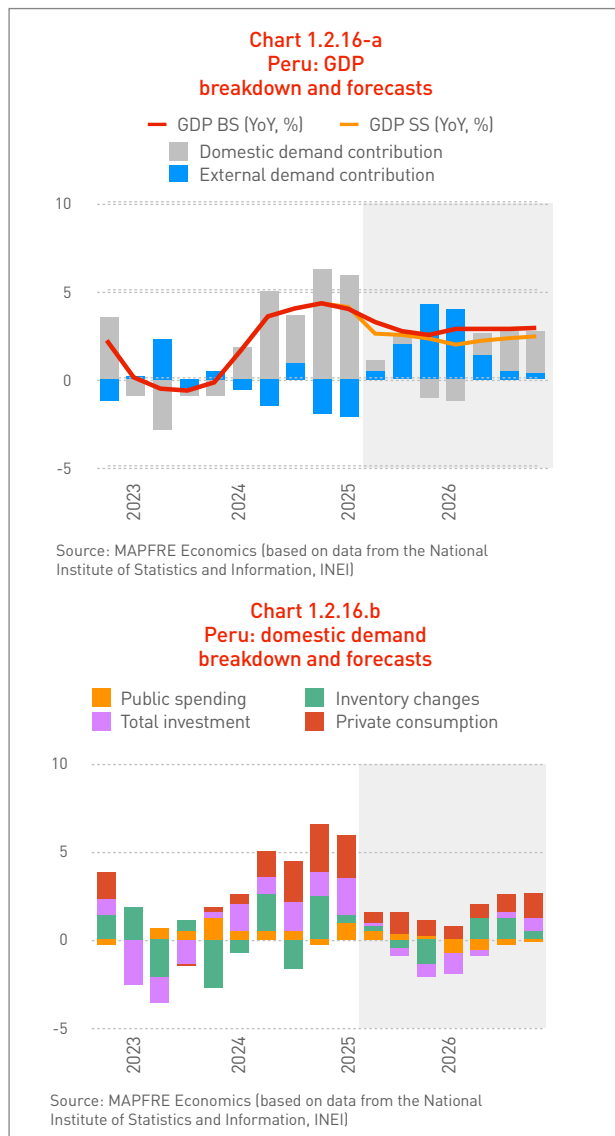


Table 1.2.16
Peru: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-10.9	13.4	2.8	-0.4	3.3	3.0	2.8	2.8	2.1
Domestic demand contribution	-9.7	14.8	2.4	-1.2	4.0	1.5	1.1	1.4	0.5
External demand contribution	-1.7	-0.7	0.4	0.7	-0.7	1.2	1.6	1.3	1.6
Private consumption contribution	-6.3	8.2	2.3	0.0	1.8	1.3	1.0	1.2	0.7
Total investment contribution	-4.2	7.9	0.2	-1.3	1.3	0.3	-0.1	0.2	-0.1
Public spending contribution	0.9	0.8	0.0	0.6	0.3	0.5	-0.4	0.5	0.0
Private consumption (% YoY)	-9.7	12.4	3.6	0.0	2.7	1.9	1.6	1.8	1.1
Public spending (% YoY)	7.2	5.4	-0.1	4.7	2.3	3.5	-2.0	3.5	-0.5
Total investment (% YoY)	-18.0	36.7	0.9	-5.0	5.4	1.2	-0.6	0.8	-0.5
Exports (% YoY)	-20.2	13.2	5.7	4.1	5.8	5.8	1.1	5.7	0.0
Imports (% YoY)	-13.7	15.0	3.6	1.2	8.3	1.2	-2.7	0.9	-5.8
Unemployment rate (% , last quarter)	13.9	7.9	7.1	6.4	5.5	6.0	6.2	6.0	6.4
Inflation (% YoY, average)	1.8	4.0	7.9	6.3	2.4	1.9	2.3	2.0	1.8
Inflation (% YoY, last quarter)	1.9	6.0	8.4	3.7	2.1	2.5	2.2	2.6	1.8
Fiscal balance (% of GDP)	-8.7	-2.5	-1.7	-2.8	-3.5	-2.2	-1.3	-2.3	-2.3
Primary fiscal balance (% of GDP)	-7.2	-1.0	-0.1	-1.1	-1.8	-0.5	0.5	-0.7	-0.4
Current account balance (% of GDP)	0.8	-2.2	-4.0	0.3	2.2	0.7	-1.5	0.7	-1.6
Official interest rate (end of period)	0.25	2.50	7.50	6.75	5.00	4.25	4.25	4.50	4.00
3-month interest rate (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10-year interest rate (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate vs. USD (end of period)	3.60	4.02	3.89	3.78	3.76	3.76	3.84	3.82	3.90
Exchange rate vs. EUR (end of period)	4.42	4.56	4.15	4.18	3.90	4.28	4.38	4.55	4.62
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	2.4	1.3	14.9	9.9	2.1	6.1	8.7	N/A	N/A
P.S. non-financial lending (% YoY,	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: MAPFRE Economics (based on data from the National Institute of Statistics and Information, INEI)
Forecast end date: July 10, 2025.

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benchmark interest rate will depend on the evolution of inflation and its determining factors.

The main risks to Peru's economy include political uncertainty, social unrest, and volatility in raw material prices. Externally, risks include weak growth in trading partners and a sharp tightening of global financial conditions. The Peruvian economy has ample reserves to cope with adverse shocks, but the outlook remains uncertain. Peru's proven macroeconomic resilience is bolstered by very solid macroeconomic fundamentals that include relatively low public debt, abundant international reserves, and access to international capital markets on favorable terms.

1.2.17 China

High uncertainty in the export sector.

China's economy grew by 5.4% YoY and 1.2% QoQ in the first quarter of 2025. Private consumption is estimated to have grown 5.2%, public consumption 4.1%, and investment 2.8%, while exports are estimated to have increased 11.4% (in anticipation of the tariffs taking effect) and imports 2.6%. In terms of leading activity indicators, the manufacturing PMI was 50.4 points in June, improving on the previous month. The composite stood at 51.3, and the services PMI reached 50.6. Other indicators, such as retail sales, grew 6.4% (May), while industrial production was up 5.8%. Against this backdrop, Chinese GDP growth is forecast to reach 4.4% in 2025 and 4.2% in 2026 (see Table 1.2.17 and Charts 1.2.17-a and 1.2.17-b).

Price developments highlight a deflationary problem in the Chinese economy. Inflation has been negative since February, although it rose by one tenth of a percentage point (0.1% YoY) in June, reflecting a slowdown in demand. Core inflation, meanwhile, was 0.7%. Monetary policy in China is primarily controlled through the reserve requirements for banks, currently at 9.00%, after the central bank reduced this parameter by 50

bps on May 7. In terms of equivalent rates to those seen in the West, the deposit rate stands at 1.50% and the 7-day repo rate is 1.54%. The government has also implemented stimulus measures to stabilize the housing market and regional finances and to prevent a possible contagion to banks and markets. These measures include reducing mortgage rates, increasing financing for financial institutions, and supporting local state-owned enterprises to acquire unsold commercial properties.

China's economy has remained resilient despite continued weakness in the real estate sector. The authorities have taken measures to support that sector and prevent contagion to the financial sector. Inflation is marginally negative, and it can be said that China has faced deflationary conditions since 2023, raising concerns about the strength of domestic consumption. Immediate priorities are to facilitate a more efficient and less costly adjustment of the real estate sector and to provide adequate macroeconomic support amid continued weakness and elevated downside risks. Addressing excessive debt, preventing the accumulation of new risks, and promoting balanced economic growth, prioritizing domestic consumption, requires reforms. The tariff war with the United States, despite ongoing negotiations, remains difficult to resolve. It is already taking its toll on exporters, especially small and medium-sized enterprises, as reflected in the manufacturing PMI, which signals a slowdown.

China

- Negotiations with the United States over tariffs may take time to reach a conclusion.
- Meanwhile, the export sector has advanced sales in anticipation of the imposition of tariffs.
- The purchasing managers' index (PMI) for manufacturing points to a slowdown.
- Chinese GDP is projected to grow around 4.4% in 2025.

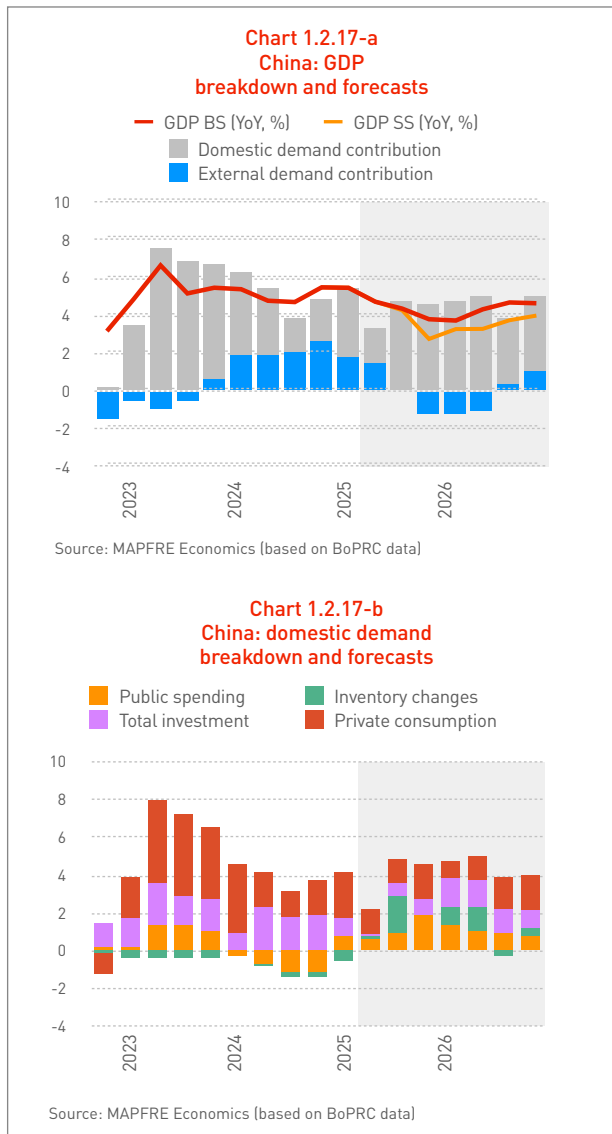


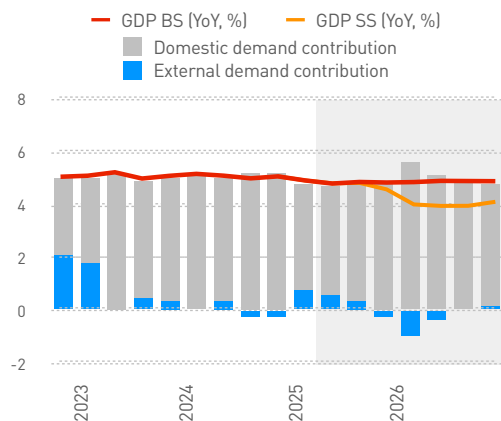
Table 1.2.17
China: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ⁽¹⁾	2026 ⁽¹⁾	2025 ⁽¹⁾	2026 ⁽¹⁾
GDP (% YoY)	2.3	8.6	3.1	5.4	5.0	4.4	4.2	4.1	3.5
Domestic demand contribution	1.7	6.9	2.7	6.1	2.9	3.7	4.3	3.6	4.0
External demand contribution	0.7	2.2	0.7	-0.3	2.2	0.5	-0.2	0.5	-0.5
Private consumption contribution	-1.1	5.0	0.6	3.7	2.2	1.7	1.4	1.6	1.3
Total investment contribution	1.4	1.0	1.3	1.7	1.7	0.7	1.3	0.5	1.0
Public spending contribution	1.0	0.2	0.9	1.0	-0.8	1.1	1.0	1.1	1.0
Private consumption (% YoY)	-2.6	13.0	1.5	9.5	5.3	4.1	3.6	4.0	3.0
Public spending (% YoY)	5.6	1.3	5.7	6.0	-4.7	6.8	6.6	6.8	6.6
Total investment (% YoY)	3.5	2.5	3.3	4.4	4.3	1.8	3.4	1.4	0.1
Exports (% YoY)	1.9	18.9	-0.5	2.3	13.7	-1.6	-4.8	-2.0	-9.4
Imports (% YoY)	-1.9	7.8	-5.2	5.0	2.8	-0.2	0.5	-0.4	-3.7
Unemployment rate (% , last quarter)	3.5	3.2	3.5	3.4	4.2	3.8	3.6	3.9	4.1
Inflation (% YoY, average)	2.5	0.9	2.0	0.2	0.2	0.2	0.8	0.3	0.7
Inflation (% YoY, last quarter)	0.1	1.8	1.8	-0.3	0.2	0.7	0.9	0.7	0.8
Fiscal balance (% of GDP)	-8.4	-5.1	-7.3	-6.8	-8.6	-9.4	-9.2	-9.4	-9.3
Primary fiscal balance (% of GDP)	-7.5	-4.2	-6.3	-5.9	-7.6	-8.5	-8.3	-8.5	-8.4
Current account balance (% of GDP)	1.7	1.9	2.4	1.4	2.3	1.9	0.9	2.0	1.5
Official interest rate (end of period)	3.00	3.00	2.75	2.50	2.00	1.50	1.25	1.25	1.25
3-month interest rate (end of period)	2.76	2.50	2.42	2.53	1.69	1.58	1.62	1.42	0.87
10-year interest rate (end of period)	3.14	2.78	2.84	2.56	1.68	1.71	2.06	1.78	1.78
Exchange rate vs. USD (end of period)	6.52	6.35	6.90	7.10	7.30	7.35	7.25	7.37	7.32
Exchange rate vs. EUR (end of period)	8.00	7.19	7.36	7.84	7.58	8.37	8.28	8.78	8.67
Private lending (% YoY, average)	13.1	12.3	11.1	11.4	8.1	5.0	4.8	4.5	4.5
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY,	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	31.6	28.3	29.1	26.9	28.5	26.3	26.4	26.3	26.3

Source: MAPFRE Economics (based on BoPRC data)
Forecast end date: July 10, 2025.

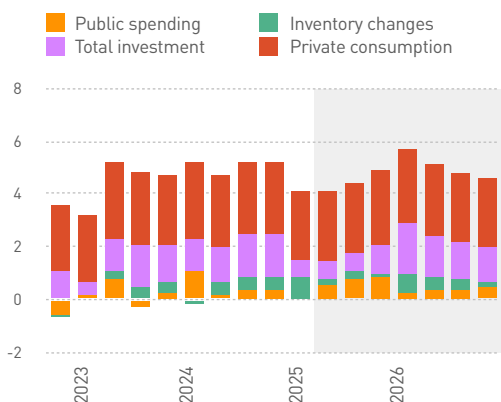
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Chart 1.2.18-a
Indonesia: GDP
breakdown and forecasts



Source: MAPFRE Economics (based on BPS data)

Chart 1.2.18-b
Indonesia: domestic demand
breakdown and forecasts



Source: MAPFRE Economics (based on BPS data)

Table 1.2.18
Indonesia: main macroeconomic aggregates

	2020	2021	2022	2023	2024	Baseline (BS)		Stressed (SS)	
						2025 ^(f)	2026 ^(f)	2025 ^(f)	2026 ^(f)
GDP (% YoY)	-2.1	3.7	5.3	5.0	5.0	4.8	4.8	4.7	4.0
Domestic demand contribution	-3.6	4.1	4.6	4.4	5.0	4.4	5.0	4.4	4.3
External demand contribution	1.5	-0.4	0.8	0.7	0.0	0.4	-0.2	0.4	-0.3
Private consumption contribution	-1.5	1.1	2.7	2.7	2.8	2.7	2.7	2.7	2.7
Total investment contribution	-1.6	1.2	1.2	1.2	1.4	0.8	1.5	0.8	0.7
Public spending contribution	0.2	0.3	-0.4	0.2	0.5	0.5	0.4	0.5	0.3
Private consumption (% YoY)	-2.7	2.0	5.0	4.9	5.1	5.0	5.0	5.0	5.0
Public spending (% YoY)	2.1	4.3	-4.4	3.0	6.6	7.3	4.8	7.3	4.5
Total investment (% YoY)	-5.0	3.8	3.9	3.8	4.6	2.6	5.0	2.5	4.0
Exports (% YoY)	-8.4	18.0	16.2	1.3	6.5	4.2	2.3	4.0	1.4
Imports (% YoY)	-17.6	24.9	15.0	-1.6	7.9	2.9	4.0	2.9	3.3
Unemployment rate (% , last quarter)	6.7	6.2	5.6	5.1	4.9	5.0	4.8	5.0	5.0
Inflation (% YoY, average)	2.0	1.6	4.1	3.7	2.3	2.0	2.5	2.1	2.2
Inflation (% YoY, last quarter)	1.6	1.8	5.5	2.8	1.6	2.9	2.0	2.9	1.9
Fiscal balance (% of GDP)	-6.2	-4.6	-2.4	-1.7	-2.3	-2.6	-2.1	-2.7	-2.3
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.5	-1.1	-0.3	-0.4
Official interest rate (end of period)	3.75	3.50	5.50	6.00	6.00	5.25	5.00	5.00	4.75
3-month interest rate (end of period)	4.06	3.75	6.62	6.95	6.92	6.30	5.82	5.92	4.74
10-year interest rate (end of period)	6.10	6.38	6.93	6.49	7.03	6.80	6.61	7.26	6.54
Exchange rate vs. USD (end of period)	14,050	14,253	15,568	15,389	16,267	16,332	16,304	15,974	16,062
Exchange rate vs. EUR (end of period)	17,241	16,143	16,605	17,005	16,900	18,582	18,622	19,036	19,019
Private lending (% YoY, average)	1.4	1.0	9.6	9.2	10.8	6.6	8.8	6.5	8.6
Household lending (% YoY, average)	2.1	2.2	7.8	9.1	10.4	6.9	4.6	6.9	5.1
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	-9.0	-12.6	15.3	29.8	17.7	5.2	5.1	5.2	5.0
Savings rate (% pers. disp. income, avg.)	21.4	25.7	29.2	27.4	26.1	25.3	23.9	25.4	24.1

Source: MAPFRE Economics (based on BPS data)
Forecast end date: July 10, 2025.

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1.2.18 Indonesia

Economic momentum continues with controlled inflation.

In the first quarter of the year, Indonesia's economy grew 4.9% YoY although contracting 1.0% QoQ versus the previous quarter. The slowdown has affected all components. Private consumption increased 4.9%, while public consumption dropped 1.4%. Investment only increased 2.1% (vs. 4.2% previously), while exports rose 6.8% and imports 4.0%. This slowdown of GDP, while only a tenth lower than in the last quarter of 2024, was greater than expected. The manufacturing PMI stood at 46.9 points in June, having worsened since April, while the PMI compiled by the Bank of Indonesia improved in almost all components. Other indicators, such as retail sales, were up 2.6% in May. Accordingly, the forecast for GDP growth in Indonesia stands at 4.8% in both 2025 and 2026 (see Table 1.2.18 and Charts 1.2.18-a and 1.2.18-b).

Indonesia

- The Indonesian economy grew 4.9% in the first quarter of 2025.
- Inflation, at 1.9%, has returned to normal values.
- Investment is moderating but still growing at 2.1%.
- Indonesian GDP is projected to grow around 4.8% in 2025.

Meanwhile, inflation returned to a normal level of 1.9% in June, after having fallen to 0% in February. Core inflation, meanwhile, was 2.4%. The Central Bank of Indonesia lowered interest rates 25 bps at its May meeting (7-day inverse repo) to 5.50%. The decision is consistent with the low inflation forecast for 2025 and 2026, within the target band of 3.0±1%. Maintaining the rupiah exchange rate remains aligned with economic fundamentals to keep inflation within the target band and

support economic growth. The weakening of the U.S. dollar in recent months may give the central bank room for further rate cuts.

Indonesia's growth remains strong, despite the slight slowdown in the last quarter. Inflation is low, and the financial sector is resilient. The authorities have been pursuing an ambitious growth agenda to achieve high-income country status by 2045. This includes public spending, institutional reforms, and industrial policy. The risks are balanced, although some persist, such as volatility in raw material prices due to geopolitical shocks and an abrupt slowdown in the economies of major trading partners.

2. Industry outlook

2.1 The economic environment and its impact on insurance demand

2.1.1 Global markets

In 2025, following a continuity in economic trends from late 2024, the announcement of a trade war on April 2 (“Liberation Day”) triggered a sharp rise in uncertainty due to its potential impact on consumption and investment decisions, inflation expectations, interest rates, and exchange rates, all of which are closely related to the performance of the insurance business. The strong surge in uncertainty over the trade war, coupled with the escalation of the conflict in the Middle East, has moderated over the following months. However, it has prompted a revision of the economic outlook, with global growth expected to slow to 2.9% in 2025 (3.3% in 2024) while remaining at 3.0% for 2026.

The performance of major economies in the coming quarters will be decisive for the evolution of the insurance market, influencing both growth and the sector’s ability to adapt to a complex global economic environment. The analysis of the evolution of the global insurance market, based on the data presented in Chart 2.1.1-a (and supplemented by Table B-1 in the Appendix), reveals a divergence in growth trends between the Life and Non-Life insurance segments. Projections for 2025 point to a 6.2% increase in the Life segment and 5.2% in Non-Life, correlated with

the performance of the global macroeconomic environment. For 2026, despite a landscape characterized by easing inflationary pressures and a more flexible financial context, a slight slowdown is expected in the Life segment, with estimated growth rates of 6.0%, and around 5.3% for the

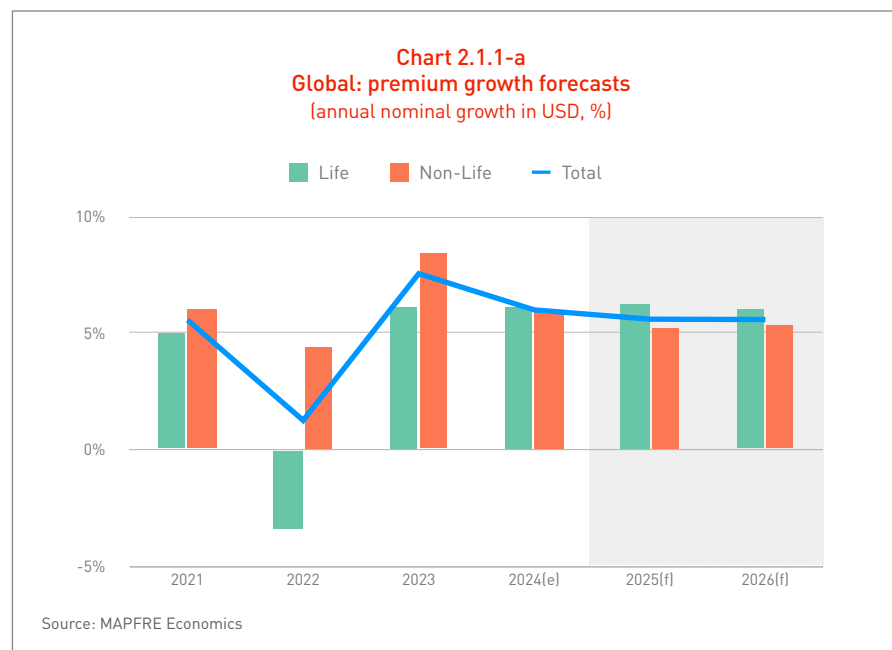
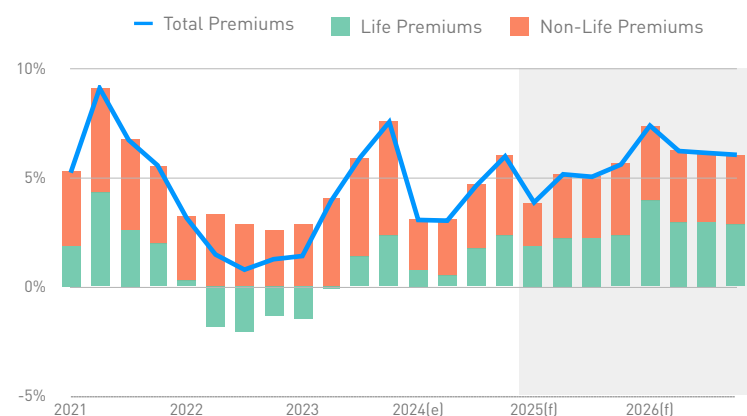


Chart 2.1.1-b
Global: quarterly contributions to premium growth
 (annual nominal growth in USD, %)



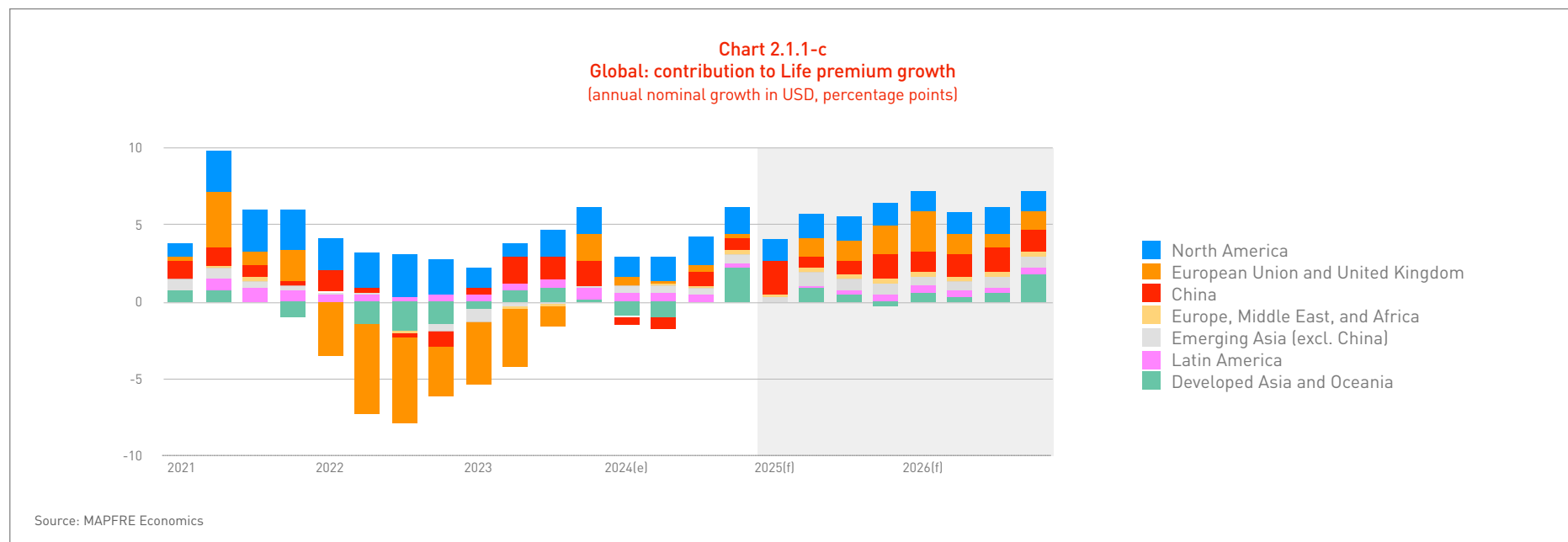
Source: MAPFRE Economics

Non-Life insurance segment. This adjustment would be a response to the persistence of geopolitical uncertainties and the evolution of economic policies in major economies—factors that directly influence the risk perception of economic agents and the dynamics of their insurance decisions.

A quarterly analysis of global insurance market trends (see Chart 2.1.1-b and Table B-1 in the Appendix), regarding contributions to global premium growth, projects sustained global growth in 2025, with an estimated average increase of 2.2 percentage points (pp) in the Life segment and 2.7 pp in Non-Life, resulting in a combined 4.9% growth in total premiums. For 2026, expansion rates are expected to rise to 3.2 pp in Life and 3.3 pp in Non-Life, leading to an overall impact of 6.5%.

In the analysis of economic regions driving global Life insurance market growth (see Chart 2.1.1-c and Table B-1 in the Appendix), North America is expected to lead in 2025–2026 with a contribution of 1.5 pp. China follows closely with 1.4 pp, while the European Union and the United Kingdom contribute 1.3 pp. Emerging Asia (excluding China) adds 0.6 pp, Developed Asia and Oceania together contribute 0.5 pp, and Latin America as well as Europe, the Middle East, and Africa each contribute 0.3 pp.

Meanwhile, in the Non-Life insurance market, forecasts for the 2025-2026 period highlight North America as the main driver of global premium growth. According to the data presented in Chart 2.1.1-d and Table B-1 of the Appendix, this region is expected to contribute 2.9 pp to industry growth, albeit with a mild slowdown compared to 2024 (when its contribution reached 3.3 pp). This behavior reflects the robustness of the North American market, but also the signs of maturity in its expansion dynamic. In contrast, Europe and the United Kingdom will see a reduction in their share, going from 0.9 pp in 2024 to 0.7 pp in 2025, evidence of a more moderate economic environment and structural challenges in the insurance industry in these regions. China, on the other hand, will increase its prominence, raising its contribution to Non-Life premium growth 0.6 pp, consolidating its position as a key market on the global scale. Conversely, emerging economies still have a limited impact on growth in Non-Life insurance. Thus, Developed Asia and Oceania will contribute 0.3 pp of global growth in this segment, while Latin America will contribute 0.2 pp. Regions like Europe (excluding the European Union), the Middle East, and Africa will continue to have a marginal contribution of just 0.1 pp each, reflecting the need for greater stimulus to energize their insurance markets.

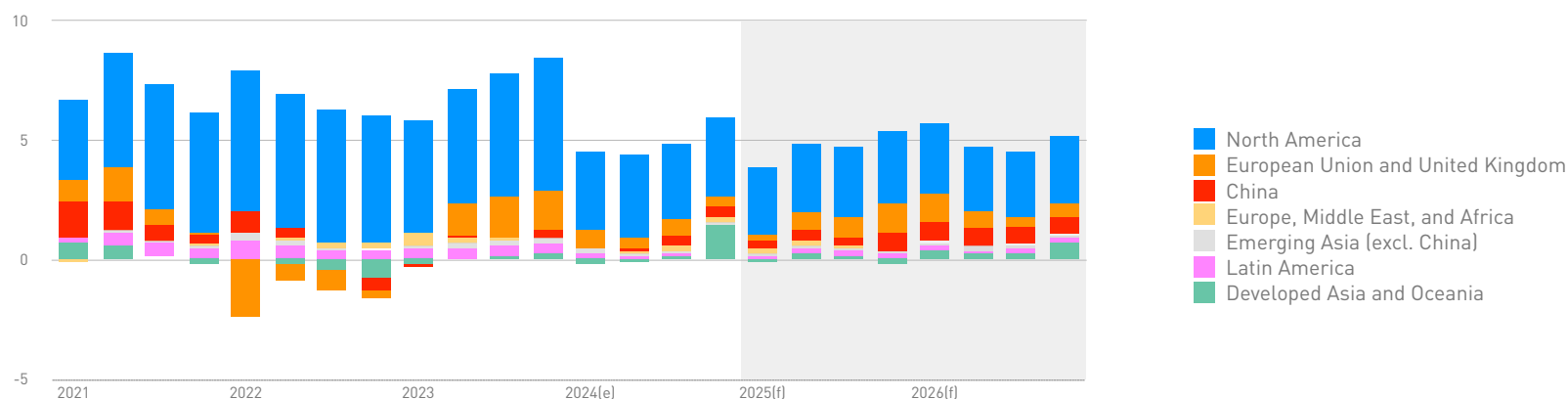


Premium growth forecasts by country, detailed in Table B-1 of the Appendix, reflect a close relationship between the economic performance of each and their contribution to the advancement of the insurance market, both regionally and globally. In this context, the United States and China emerge as the main drivers of insurance growth, underpinning their leadership in the most dynamic segments of the global insurance industry.

2.1.2 Eurozone

In the Eurozone, the economic growth forecast has improved slightly to 1.0% in 2025 (0.8% in 2024) and 1.1% in 2026, as the effects of the interest rate cuts implemented by the European Central Bank (ECB) continue to filter through to the real economy in an environment of controlled inflation, which could even fall below the monetary policy target next year. This modest improvement in the economic outlook, mainly due to the upward revision of Germany's growth for this year, continues to support a positive outlook for the insurance industry. Interest rates are no longer restrictive, helping to reactivate private-sector lending, and a likely fiscal boost from increased defense spending is expected to further support growth.

Chart 2.1.1-d
Global: contribution to Non-Life premium growth
 (annual nominal growth in USD, percentage points)

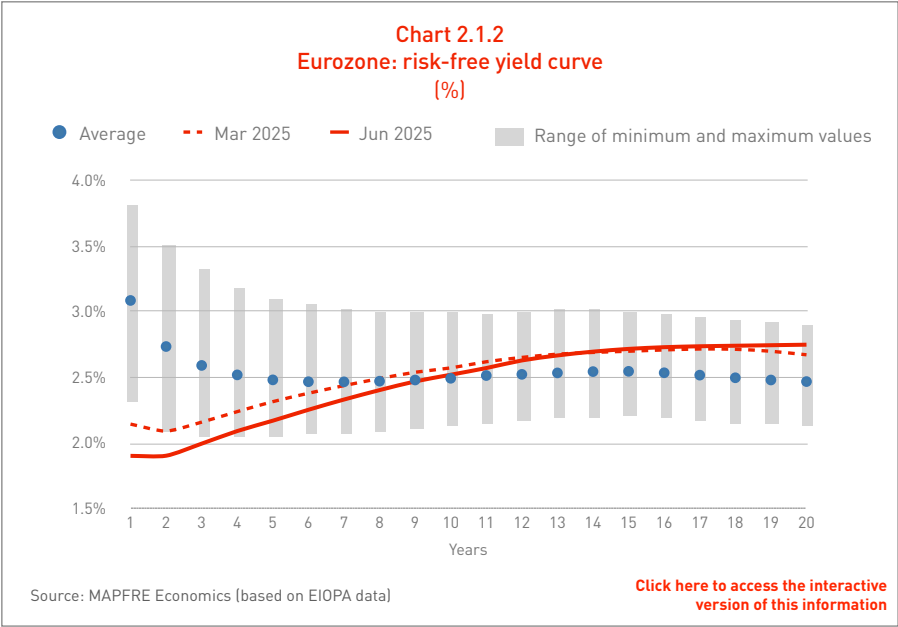


Source: MAPFRE Economics

Inflation has continued to moderate, falling one tenth of a percentage point below the monetary policy target in May and standing at 2.0% in June (compared to an average inflation rate of 2.4% in 2024). This allowed the ECB to cut monetary policy interest rates by 25 basis points (bps) again at its June 2025 meeting, marking the eighth reduction since June 2024. Rates now stand at 2.0% for the deposit facility, 2.15% for the main refinancing operations, and 2.4% for the marginal lending facility. The ECB also decided to continue its gradual, moderate reduction of its balance sheet by ceasing to fully reinvest the principal of maturing bonds held by the institution.

Market risk-free yield curves at the end of June produced by the European Insurance and Occupational Pensions Authority (EIOPA) reflect the new interest rate scenario. The curve has normalized, showing a clear positive slope, with short-term risk-free rates even below the ECB's inflation target and longer-term rates above inflation forecasts (see Chart 2.1.2).

Economic growth forecasts, combined with a risk-free interest rate curve offering a positive term premium—with rates above inflation expectations in the longer maturities—remain favorable for marketing Life savings insurance products with guaranteed rates and longer maturities.



Meanwhile, unlike the previous year, the Eurostoxx outperformed U.S. indexes, rising 8.4% in the first half of 2025 (8.5% in 2024). This performance may favor the development of Life insurance products in which the policyholder assumes the investment risk, which can also benefit from fixed income interest rates above inflation expectations, especially in the longer maturities of the curve.

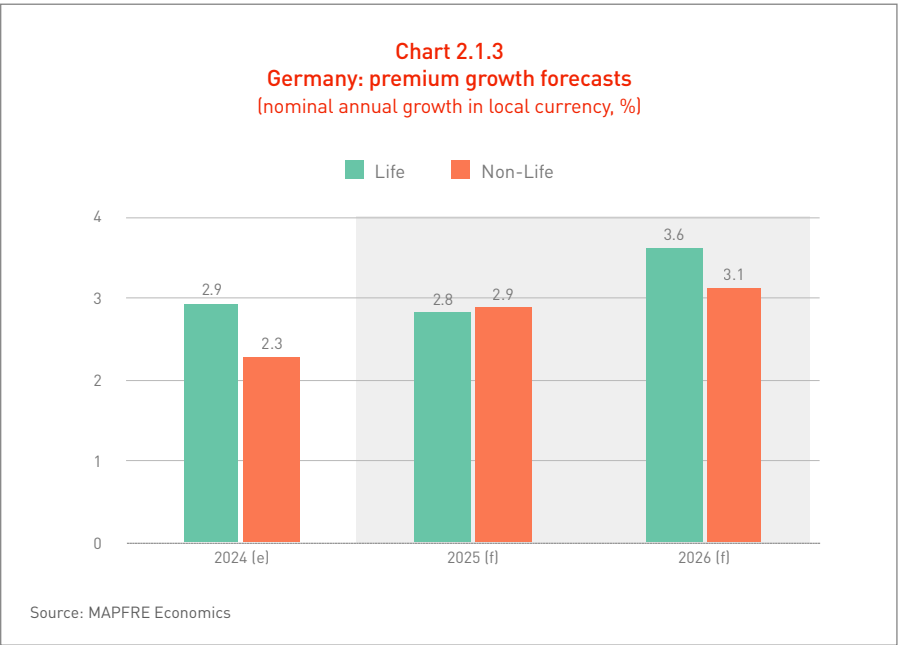
2.1.3 Germany

Macroeconomic forecasts for Germany continue to paint a picture of low growth, with a slight improvement this year thanks to the fiscal expansion planned through increased infrastructure and defense spending, which may offset the effects of the trade war. Thus, economic growth is expected to be 0.2% in 2025 (-0.2% in 2024), followed by a slight acceleration in

2026, when GDP growth is expected to be 0.9%. Inflation fell throughout the first half of the year to 2.0% YoY in June 2025 (compared to an average inflation rate of 2.3% in 2024).

In this economic context, moderate growth is expected for Non-Life premiums in the insurance industry in 2025, which could stand at 2.9%, and accelerate in 2026, as the economic outlook improves, to 3.1% [see Chart 2.1.3]. Controlled inflation and returns on investment portfolios thanks to the strong performance of financial markets will continue to support the profitability of insurance companies.

With regard to additional variables that may affect Life insurance activity, it should be noted that the German sovereign bond yield curve has

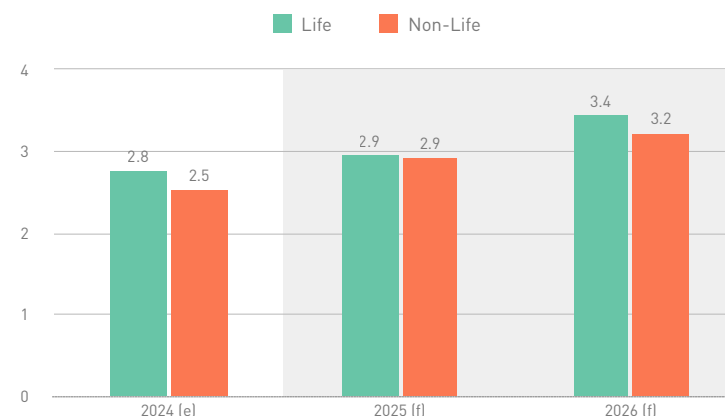


normalized, showing a positive slope with a term premium that allows interest rate guarantees above inflation to be offered for longer maturities in Life savings insurance products. On the other hand, the German DAX performed exceptionally well, rising 20.5% in the first half of 2025 (18.7% in 2024), outperforming the major global indexes, which experienced more moderate growth. This environment of interest rates and risk-asset returns also favors the development of Life insurance products in which the policyholder assumes the investment risk. For these products, the composition of reference assets can be expanded toward a higher proportion of fixed-income instruments for policyholders with greater risk aversion. In this context, Life insurance premiums could grow by 2.8% in 2025 and up to 3.6% in 2026, also taking into account the prospects for improved economic growth next year.

2.1.4 Italy

In Italy's case, low economic growth forecasts are maintained at 0.5% in 2025, the same as the previous year, and 0.7% in 2026. Inflation has risen slightly, to 1.7% YoY in June 2025, but it remains by far the weakest among the major Eurozone economies, averaging 1.0% in 2024 and staying below the ECB's target for more than twenty consecutive months. In this economic context, insurance activity is expected to experience moderate growth of 2.9% and 3.2% in 2025 and 2026, respectively, in the case of Non-Life insurance premiums (see Chart 2.1.4).

Chart 2.1.4
Italy: premium growth forecasts
(nominal annual growth in local currency, %)



Source: MAPFRE Economics

Regarding the interest rate environment for Life insurance, the Italian sovereign debt curve shows a profile similar to that of other major Eurozone economies, though with higher levels. It is inverted at the short end, with maturities up to one year, and has a positive slope in the longer maturities, allowing long-term products to offer substantially higher returns than short-term rates (a positive term premium), above inflation. This provides an adequate environment for traditional Life savings and annuity products with longer durations. Meanwhile, the main Italian equity index (FTSE MIB) rose by 15.8% in the first half of 2025 (12.0% in 2024).

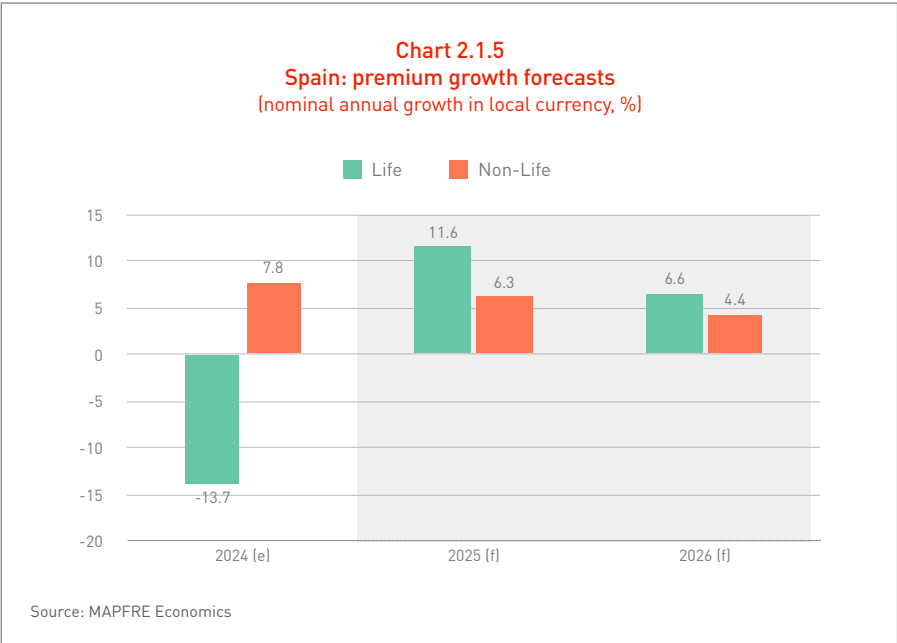
The performance of Italian and European equities, together with the high yields offered by Italian sovereign fixed income, continues to support the development of Life insurance products in which the policyholder assumes the investment risk, which are widespread in the Italian market. In this context, Life insurance premiums are expected to grow around 2.9% and 3.4% in 2025 and 2026, respectively.

2.1.5 Spain

Growth forecasts for the Spanish economy remain around 2.5% in 2025 (3.1% in 2024) and 1.7% in 2026. This projected economic growth will continue to be supported by private consumption, a strong labor market, and private-sector credit in a lower interest rate environment. These

factors will continue to sustain insurance activity, with estimated growth for Non-Life premiums of 6.3% in 2025 (7.8% in 2024), followed by a slowdown to 4.4% in 2026 (see Chart 2.1.5), both exceeding projected inflation of 2.3% and 1.8%, respectively. Moderating inflation and the financial performance of investment portfolios will continue to support profitability in the Spanish insurance industry.

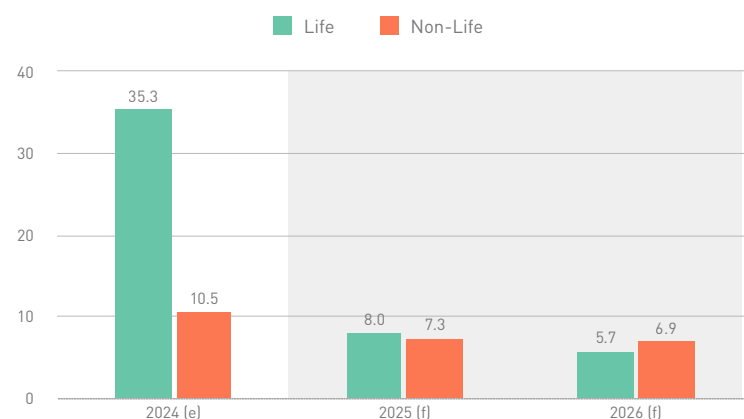
Regarding the interest rate environment, the Spanish sovereign debt yield curve has steepened across almost all maturities, offering returns above inflation forecasts for 2025 and 2026 on maturities beyond four years. This may support the development of savings insurance with longer-term guarantees, with Life insurance premiums projected to rebound 11.6% in 2025 (after a decline of 13.7% in 2024), before moderating in 2026 to 6.6%, in line with slower economic growth and lower interest rates.



2.1.6 Portugal

The growth outlook for Portugal's economy puts GDP growth at 2.0% for 2025 (1.9% in 2024) and 1.9% in 2026, strongly supported by private consumption. This solid economic performance will be transferred to the Portuguese insurance industry (see Chart 2.1.6), with the Non-Life line continuing to grow above inflation at 7.3% and 6.9% in 2025 and 2026, respectively. Inflation has picked up again in the last three months, reaching 2.4% YoY in June, which could affect the profitability of the insurance industry, although forecasts suggest that it will continue to moderate, with average inflation of 2.1% for 2025 and 2026.

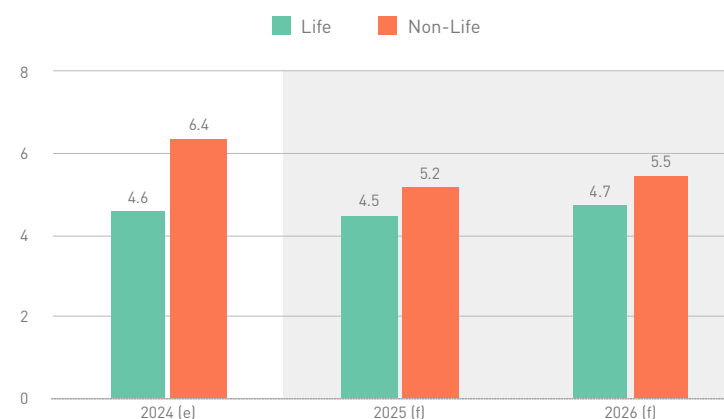
Chart 2.1.6
Portugal: premium growth forecasts
 (nominal annual growth in local currency, %)



Source: MAPFRE Economics

As for Life insurance, the Portuguese sovereign debt yield curve continues to perform similarly to Spanish sovereign bonds and those of other Eurozone countries, with market rates declining following ECB rate cuts, steepening across almost all maturities except for those up to one year, where the curve remains slightly inverted. This environment of European sovereign debt interest rates, which offers yields above expected inflation for longer-term maturities, is favorable for the development of savings-linked insurance activity, with Life insurance premiums estimated to grow around 8.0% and 5.7% in 2025 and 2026, respectively.

Chart 2.1.7-a
United Kingdom: premium growth forecasts
 (nominal annual growth in local currency, %)

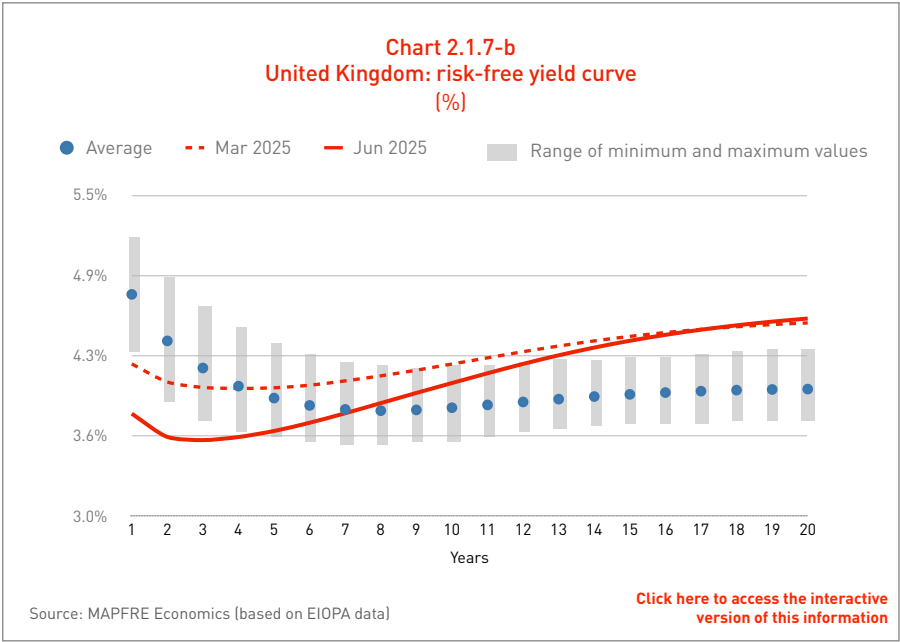


Source: MAPFRE Economics

2.1.7 United Kingdom

In the United Kingdom, the economic growth forecast points to 1.1% in 2025, the same as the previous year, and 1.2% in 2026. Inflation continues to rise, remaining above 3% in the last three months and reaching 3.6% YoY in June (compared to an average inflation rate of 2.5% in 2024). This economic context of moderate growth with higher inflation has led to an upward revision of growth forecasts for premiums in the Non-Life segment to 5.2% in 2025 and 5.5% in 2026 (see Chart 2.1.7-a).

In response to rising inflation, the Bank of England decided to keep its policy interest rate at 4.25% at its June meeting. The EIOPA risk-free yield curve at the end of June (see Chart 2.1.7-b) shows a relaxation in market



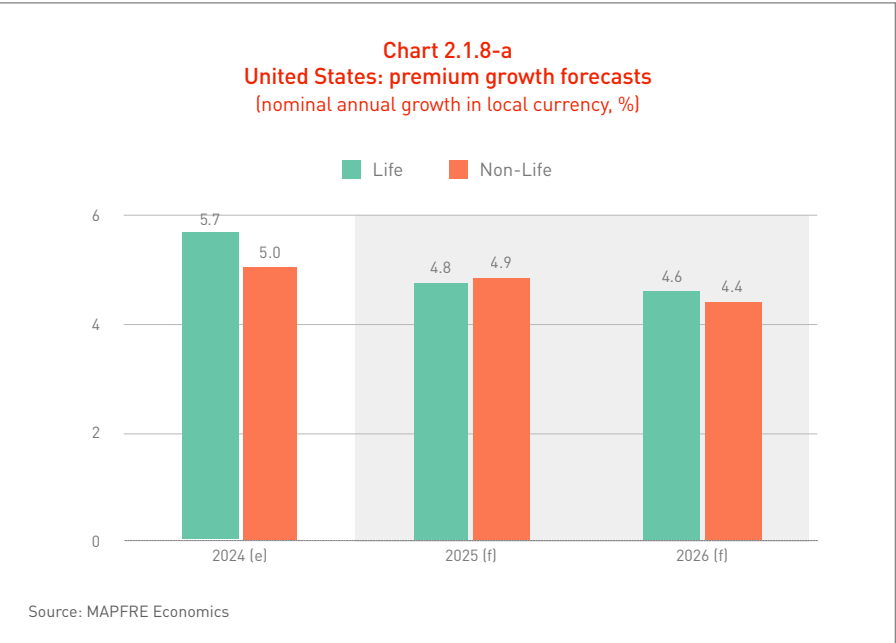
interest rates at the short end of the curve, which appears inverted, anticipating potential further actions by the Bank of England to exit restrictive territory. The curve continues to steepen at the longer maturities. In terms of equities, the FTSE 100 in London grew by 9.2% in the first half of 2025 (5.8% in 2024).

High short-term interest rates and the inverted yield curve create a favorable environment for savings-linked Life insurance products with short-term guarantees and rate resets at each renewal. Longer-term guaranteed products are also becoming more attractive by offering a positive term premium and returns clearly above the latest inflation readings. This interest rate environment, as well as the improved performance of equities, continues to support the development of Life

insurance products in which the policyholder assumes the investment risk, which are widespread in the British market. As a result, premiums in this segment are expected to grow by around 4.5% and 4.7% in 2025 and 2026, respectively.

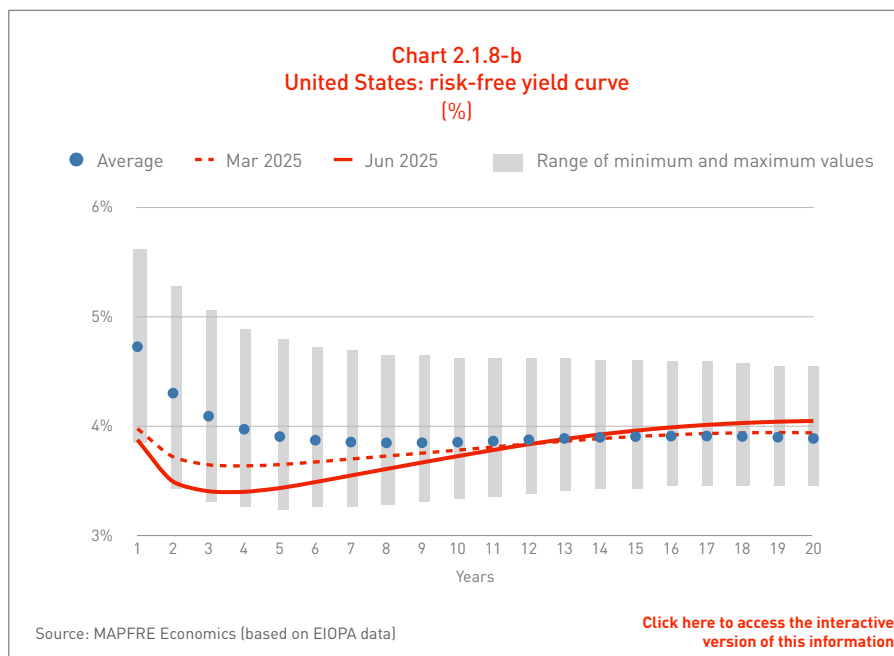
2.1.8 United States

In the United States, estimates point to a somewhat greater slowdown in GDP growth than previously expected, with 1.7% growth in 2025 (2.8% in 2024) and 1.8% in 2026. Inflation moderated throughout the first half of the year but is still above the Federal Reserve's target, at 2.7% YoY in June (compared to an average annual inflation rate of 3.0% in 2024). This slowdown in the U.S. economy is driven by weaker external demand, while



domestic consumption forecasts are improving. As a result, expected insurance premium growth for this year has been slightly revised upward to 4.9% for the Non-Life business, while projections for 2026 remain at 4.4% (see Chart 2.1.8-a). Profitability prospects are also positive, supported by moderating inflation and financial income from high interest rates, especially at the short and long ends of the U.S. sovereign debt curve.

However, inflation has not yet subsided and remains above the Federal Reserve's target, prompting the Fed to maintain a restrictive monetary policy, keeping interest rates unchanged at 4.25% to 4.5% following its June meeting. In the risk-free market yield curve for June, produced by EIOPA (see Chart 2.1.8-b), there is a slight easing in rates along the curve

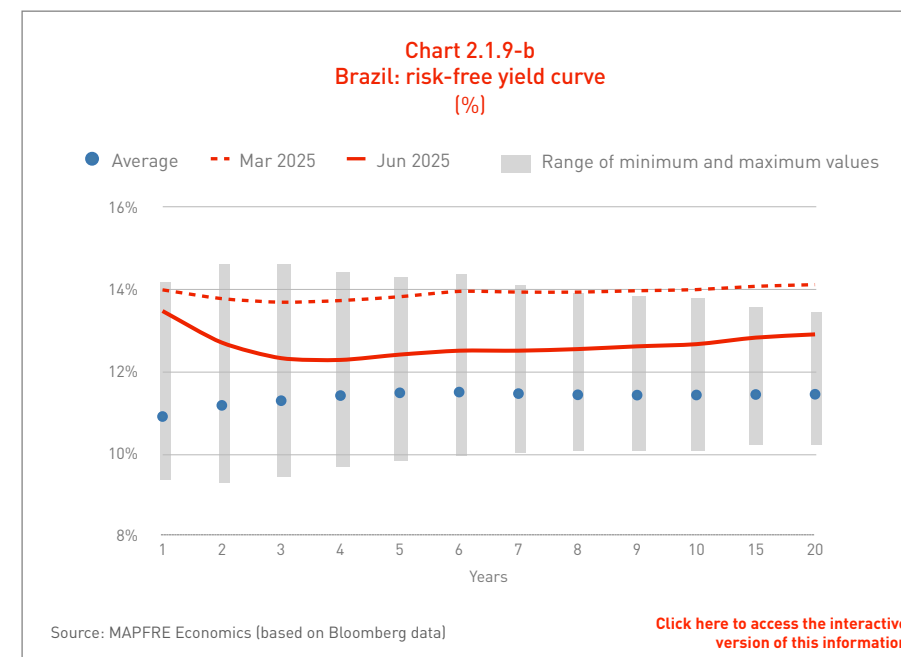
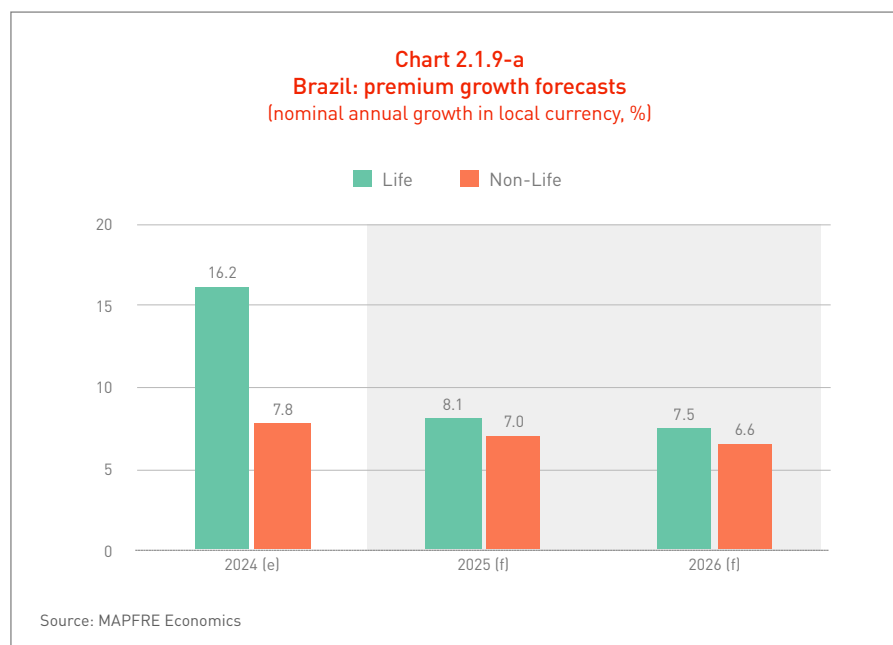


up to 12 years, with a negative slope in the short end for maturities up to three years. This reflects the expectation that the Federal Reserve may delay interest rate cuts in the coming quarters, depending on inflation data and the slowdown in economic growth. Interest rates remain above inflation across all maturities, particularly at the short and long ends of the curve.

This environment of positive real interest rates continues to create favorable conditions for the sale of Life savings insurance products with guaranteed rates for shorter durations and rate adjustments at each renewal, as well as products with guaranteed rates for longer durations, which maintain their appeal. Meanwhile, the Nasdaq Composite Index underperformed the main European indexes by 6.8% in the first half of 2025 (30.8% in 2024). The S&P 500 performed similarly, although with slightly lower growth than the Nasdaq, at 6.1% in the first half of 2025 (24.0% in 2024). This economic and financial environment is somewhat less favorable but will continue to benefit the development of Life insurance products in which the policyholder assumes the investment risk. These products can also benefit from high fixed-income rates, especially those with longer maturities such as 10-year Treasury bonds, for policyholders with a more conservative profile, bearing in mind that equity indexes remain close to their historic highs. In this context, Life insurance premiums in the United States could grow by 4.8% in 2025 and 4.6% in 2026.

2.1.9 Brazil

Forecasts for the Brazilian economy in 2025 point to 2.2% economic growth [3.0% in 2024], signaling a slight slowdown, though less pronounced than projected in the previous quarter. The deceleration is expected to deepen in 2026, with growth forecast at 1.6%, against a backdrop of restrictive monetary policy conditions implemented by the Central Bank of Brazil in its fight against rising inflation. In this context, Non-Life premiums are expected to grow 7.0% in 2025, with a slight deceleration expected in 2026 to 6.6%. This growth is above the average inflation forecasts of 5.3% and 4.4%, respectively (see Chart 2.1.9-a). High interest rates will continue to have a positive impact on the insurance sector's profitability, offsetting the upturn in inflation in recent months.



Inflation has been above 5% for five consecutive months (exceeding the monetary policy target of 4.5%), prompting the Central Bank of Brazil to raise its benchmark interest rate by 25 basis points to 15% at its June meeting. Estimates suggest that inflation will gradually ease toward 2026, when it is expected to fall back within the policy target range. This outlook is reflected in the market risk-free yield curves at the end of June (see Chart 2.1.9-b), which show a decline across all maturities—less pronounced at the short end—with a negative slope in maturities up to four years. This interest rate environment continues to favor the development of Life savings products (VGBL and PGBL) and annuities, which can continue to deliver returns well above the latest inflation data, taking advantage of the high level of short-term rates. Against this

backdrop, Life insurance premiums could grow 8.1% in 2025 (16.2% in 2024), with growth projected at 7.5% in 2026.

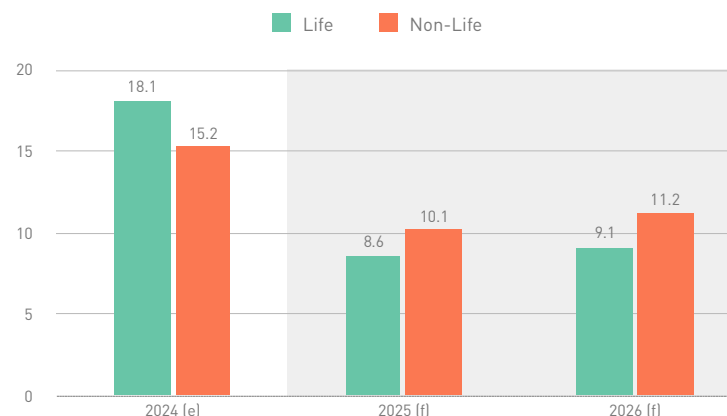
2.1.10 Mexico

In Mexico, forecasts point to an economic slowdown in 2025, with growth expected at 0.4% (down from 1.2% in 2024), followed by a recovery in 2026 with projected GDP growth of 1.5%. This outlook unfolds against a backdrop of heightened uncertainty, stemming from the potential impact of new U.S. tariff measures, still under negotiation. Inflation has continued to moderate, and insurance activity has been holding up well in the economic slowdown, improving growth estimates for insurance activity, with Non-Life premiums forecast to grow 10.1% in 2025, and 11.2% in 2026 (see Chart 2.1.10-a), significantly higher than the inflation forecasts for these two years of 3.9% and 3.7%, respectively.

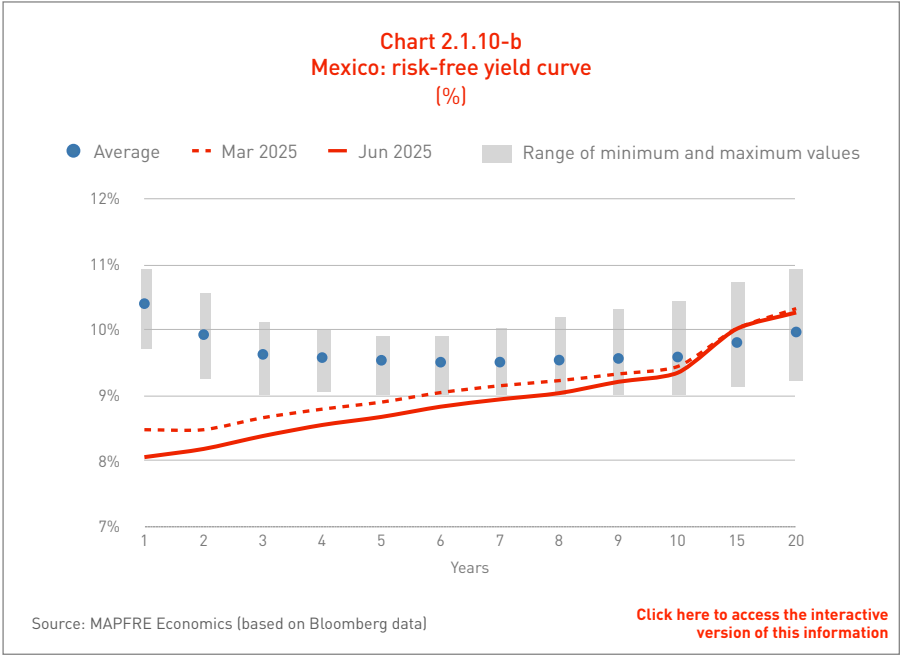
The inflation rate remained within the Bank of Mexico's target range during the first four months of the year (between 2% and 4%), prompting the central bank to further reduce its policy rate to 8.0% at its June meeting, despite the modest rebound in inflation in May and June of 4.42% and 4.32%, respectively. The risk-free yield curve (see Chart 2.1.10-b) shows a slight easing in market rates, significantly below the lows recorded in 2024 at the short end of the curve, with maturities of up to six years, and a normalization as the slope becomes positive across all segments.

Thus, real interest rates remain broadly positive across all segments of the curve, with nominal rates significantly above average inflation expectations (3.9% and 3.7% in 2025 and 2026, respectively). This is a suitable environment for savings-linked Life insurance and annuities, which can offer attractive returns across all maturities and, especially in longer-term products, as the curve offers a positive term premium. In this context, and taking into account the strong performance of this business segment in recent quarters, growth estimates for Life insurance premiums in the Mexican market have been revised upward to 8.6% in 2025 and 9.1% in 2026. Finally, it should be noted that moderate inflation, coupled with higher financial income and real interest rates that remain high, will continue to contribute to the profitability of the Mexican insurance industry.

Chart 2.1.10-a
Mexico: premium growth forecasts
(nominal annual growth in local currency, %)



Source: MAPFRE Economics



2.1.11 Argentina

Economic growth forecasts for Argentina in 2025 have been revised upward to 5.0% (-1.7% in 2024), with 3.3% growth expected in 2026. Public deficit control measures adopted by the new government and the monetary policy implemented by its central bank continue to bear fruit, with inflation continuing on a downward trend, reaching 39.4% YoY in June, compared to an average annual inflation rate of 219.9% in 2024.

These positive economic growth prospects, following the sharp adjustments that led to recession the previous year, paint an encouraging outlook for the insurance activity. Non-Life premiums are projected to grow by 44.1% in 2025, slowing to 24.1% in nominal terms in 2026. This implies healthy real growth, taking into account inflation estimates of 39.0% and 20.0% on average for 2025 and 2026, respectively (see Chart 2.1.11).

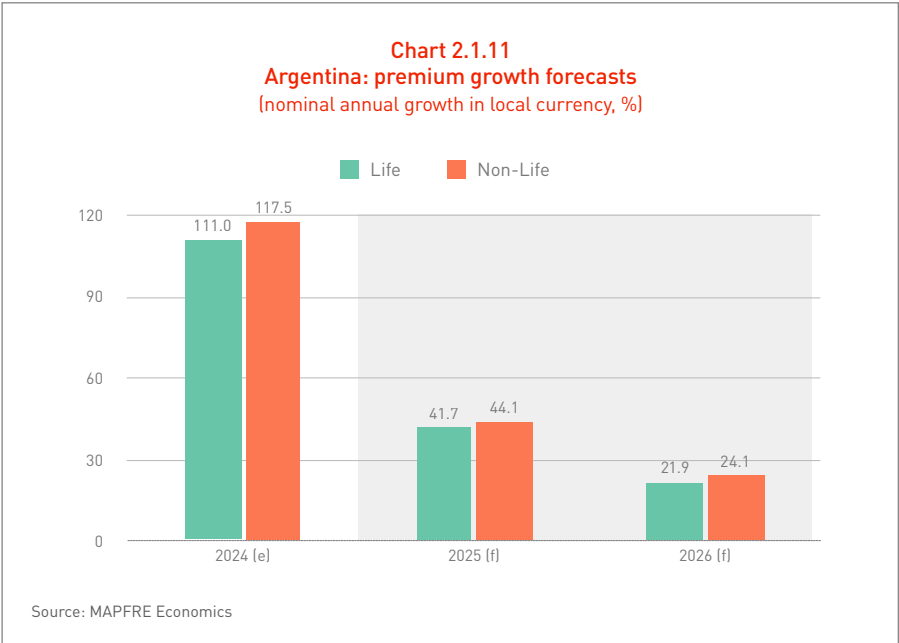
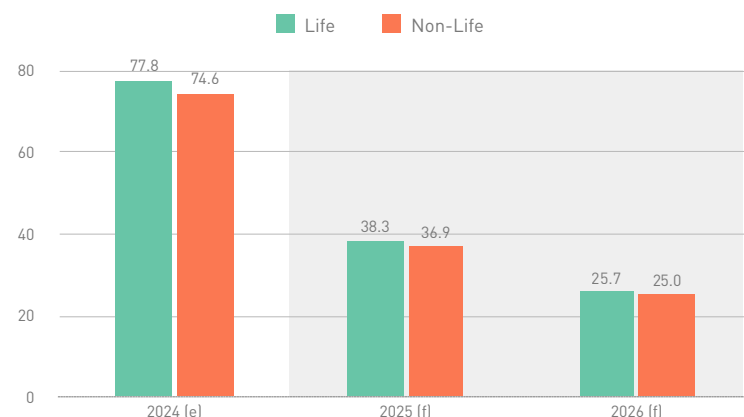


Chart 2.1.12-a
Turkey: premium growth forecasts
 (nominal annual growth in local currency, %)



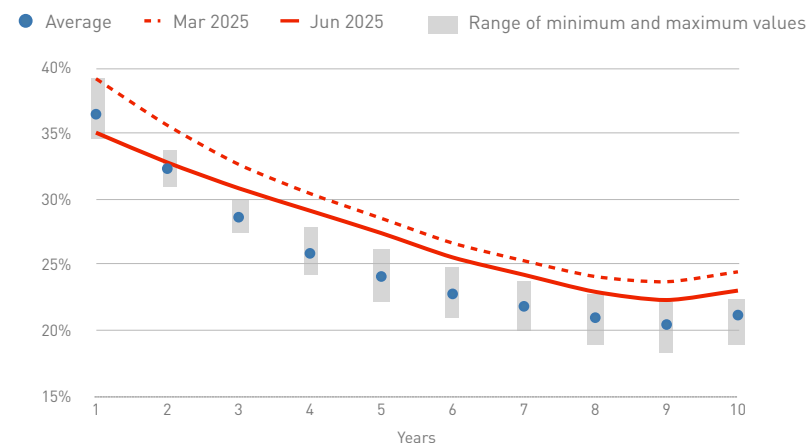
Source: MAPFRE Economics

As for variables affecting savings and credit-linked Life insurance activity, in addition to the favorable impact of economic growth, it should be noted that the Central Bank of Argentina has kept the benchmark rate at 29% since January. This paints a somewhat better but still complicated picture for savings-linked Life insurance, given the difficulties in finding high-quality credit investments that offer returns above inflation. Thus, nominal growth estimates for Life insurance premiums in the Argentine insurance industry in 2025 and 2026 stand at 41.7% and 21.9%, respectively.

2.1.12 Turkey

The outlook for the Turkish economy in 2025 has improved slightly, with growth now forecast at 2.8% (3.2% in 2024), representing a slight economic slowdown, which is expected to reverse in 2026 with growth projected at 3.3%. Inflation (still at high levels) continues to moderate following a sharp decline over the past year, reaching 35.05% YoY in June 2025 (compared to average inflation in 2024 of 58.5%), and well below the levels recorded in mid-2024 (75.4% in May). The combination of economic growth and moderating inflation continues to provide a favorable environment for insurance activity, pointing to estimated growth in Non-Life insurance premiums of 36.9% and 25.0% in 2025 and 2026, respectively (see Chart 2.1.12-a). This implies positive real growth,

Chart 2.1.12-b
Turkey: risk-free yield curve
 (%)



Source: MAPFRE Economics (based on Bloomberg data)

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considering the average inflation forecast of 33% and 20.5% in 2025 and 2026, respectively.

The Central Bank of Turkey decided to continue its restrictive monetary policy in its fight against inflation, holding the benchmark interest rate at 46% at its June meeting, after a 350-basis-point hike in April. Sovereign risk-free yield curves continue to show some stabilization, with market interest rates easing in June compared with March. The curve remains steeply inverted, with short-term rates above inflation levels (see Chart 2.1.12-b).

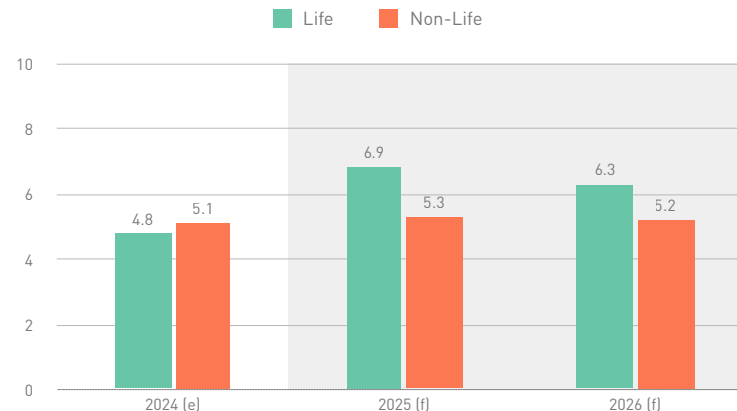
Thus, the interest rate environment continues to improve for the development of the Life savings insurance activity in the Turkish market, particularly for products offering guaranteed short-term interest rates above the latest inflation readings, with guaranteed rates being revised at each maturity. In this context, also taking into account the possible development of Life Protection insurance, nominal Life insurance premiums in Turkey are expected to grow by around 38.3% and 25.7% in 2025 and 2026, respectively. This improvement in inflation data and the high financial returns on investment portfolios in a context of high interest rates also suggest improvements in terms of the profitability of the insurance industry.

2.1.13 China

China's economy is projected to grow by 4.4% in 2025 (5.0% in 2024) and 4.2% in 2026, supported by domestic private consumption and higher public spending. These growth rates remain substantial, although they do point to a slight slowdown and are weaker than usual for this economy. Against this backdrop, growth forecasts for Non-Life insurance premiums have been revised slightly downward to 5.3% in 2025 and slightly lower in 2026 to 5.2% (see Chart 2.1.13-a).

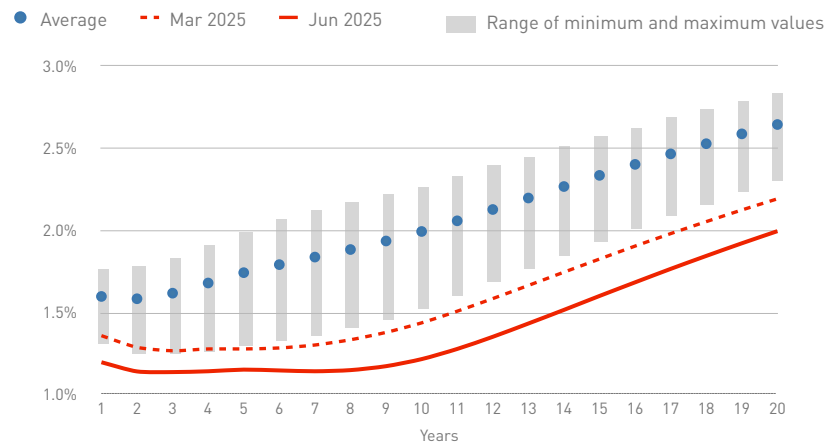
Meanwhile, inflation in China remains weak, at 0.1% YoY in June, below the 2024 average of 0.2%, after four months in deflationary territory. In this environment, the central bank continued to pursue an accommodative monetary policy, cutting its two key policy reference rates in May to 3.0% for the one-year rate and 3.5% for the five-year rate (the usual benchmark for mortgage lending). EIOPA yield curves (see Chart 2.1.13-b) show that market risk-free rates in June fell again across the entire curve, dropping below the lows reached the previous year in all segments, reflecting expectations of continued monetary easing.

Chart 2.1.13-a
China: premium growth forecasts
(nominal annual growth in local currency, %)



Source: MAPFRE Economics

Chart 2.1.13-b
China: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

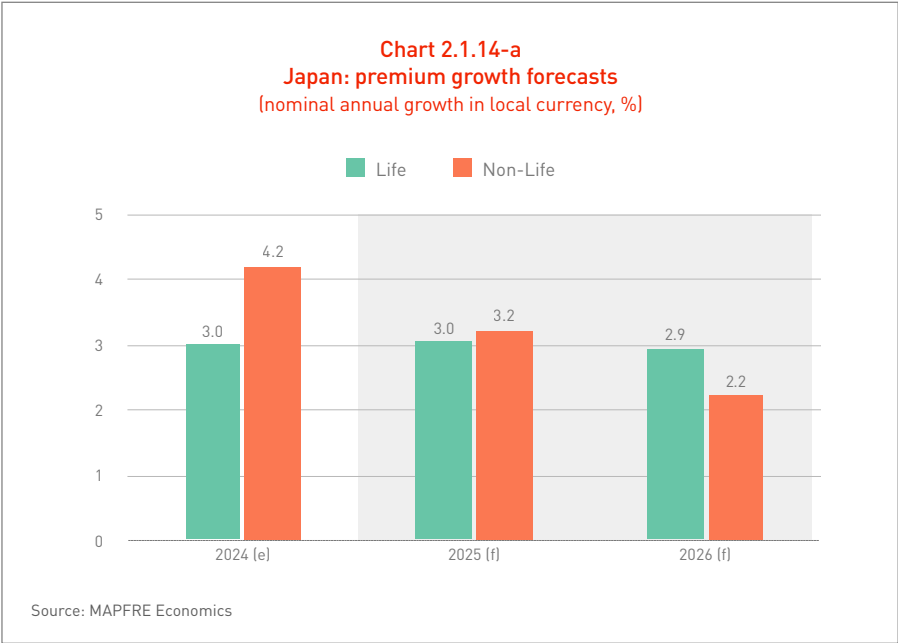
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In this regard, the environment remains favorable, albeit more complex, for the development of Life savings and annuity insurance, with long-term interest rates substantially above short-term rates in maturities beyond 10 years, offering a positive term premium and returns above inflation. However, the curve is slightly inverted at the shorter end. This may stimulate the development of products with short-term guarantees and short maturities that allow guaranteed rates to be adjusted upon renewal. In this economic and interest rate environment, Life insurance premiums are expected to grow by 6.9% in 2025 and 6.3% in 2026.

2.1.14 Japan

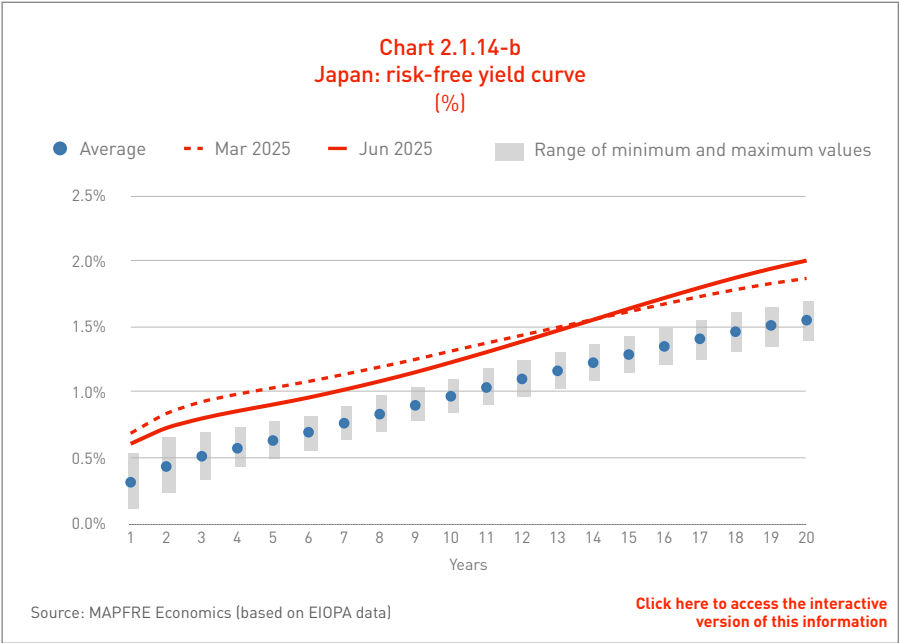
Expectations for low economic growth in Japan remain unchanged, with a forecast of 0.8% in 2025 (0.2% in 2024) and 0.7% in 2026. While inflation has been moderating throughout the year from its January peak of 4% (average for 2024: 2.7%), falling to 3.5% YoY in May, it remains high by the standards of the Japanese economy over the past few decades. This environment of accelerated economic growth, together with a higher than usual inflation rate, has led to an upward revision of the forecasts for growth in Non-Life insurance premiums to 3.2% for 2025 and 2.2% for 2026 (see Chart 2.1.14-a).

Meanwhile, moderate inflation data, coupled with uncertainty surrounding the geopolitical and tariff environment, led the Bank of Japan to keep its benchmark interest rates unchanged at its June meeting, holding them at 0.5%. EIOPA risk-free interest rate curves as of June 2025 (see Chart 2.1.14-b) show some easing across all segments of the market risk-free curve, except at the longer maturities. While values remain positive across the curve, they are below the latest inflation readings. This leaves real interest rates in negative territory, complicating the outlook for Life savings insurance products that cannot offer guaranteed rates to offset recent inflation readings. However, the curve's positive slope could support the development of long-term savings products with guarantees. In this economic and interest rate environment, Life insurance premiums are estimated to grow 3.0% and 2.9% in 2025 and 2026, respectively. Likewise, moderate inflation and improved financial returns on the investment portfolios of Japanese insurance companies may help to improve profitability for insurance companies.



2.1.15 Reinsurance

In 2024, insured losses from natural disasters reached 137 billion dollars. If the long-term trend of a 5-7% annual increase in real terms continues, insured losses from natural disasters could approach 145 billion dollars in 2025.⁴ Insured losses in the first quarter of 2025 were driven by the California wildfires (Palisades and Eaton Fires), which contributed approximately 37.5 billion dollars, as well as several severe thunderstorm events in the United States in February and March, and earthquakes in Myanmar and China.



The second quarter saw a slowdown in insured losses compared to the first quarter of 2025; global insured losses are estimated to have reached nearly 70 billion dollars in the first half of 2025.⁵ The National Oceanic and Atmospheric Administration (NOAA) predicts above-normal hurricane activity for the 2025 Atlantic hurricane season, which runs from June 1 to November 30. The forecast calls for 13 to 19 named storms (winds of 63 km/h or higher). Of these, between 6 and 10 are predicted to become hurricanes (winds of 119 km/h or higher), including 3 to 5 major hurricanes (Categories 3, 4, or 5; with winds of 179 km/h or higher).

Following recent adjustments to reinsurance terms and conditions, the reinsurance sector entered 2025 in a strong financial position, despite the wildfire losses in California early in the year. Sufficient capacity has led to improved prices and conditions in January 2025 reinsurance renewals, as predicted at the end of 2024 by major reinsurance brokers and credit rating agencies, which have also reported a moderation in environmental catastrophe reinsurance prices in the June 1, 2025 renewals.⁶

2.2 Regulatory and supervisory trends

2.2.1 EIOPA Financial Stability Report

The latest financial stability report published by the European Insurance and Occupational Pensions Authority (EIOPA) in June 2025⁷ highlights several growth and profitability indicators for the EU insurance industry that improved in 2024. Gross written premiums grew by 8.2% in Non-Life (to 769 billion euros) and 13.8% in Life (758 billion euros), reversing the low growth trend of previous years. *Unit-linked* business rose to 35.4% of total Life business, reflecting its appeal as a hedge against inflation.

The median solvency ratio of Life insurance companies declined after rising in recent years, but remains robust at 230% at the end of 2024 (246% in the fourth quarter of 2023). This development is mainly due to a slight decrease in interest rates during 2024. The median solvency ratio for composite and Non-Life companies also declined, albeit to a lesser extent, to 216% and 214%, respectively, compared with 225% and 217% the previous year (see Chart 2.2.1).

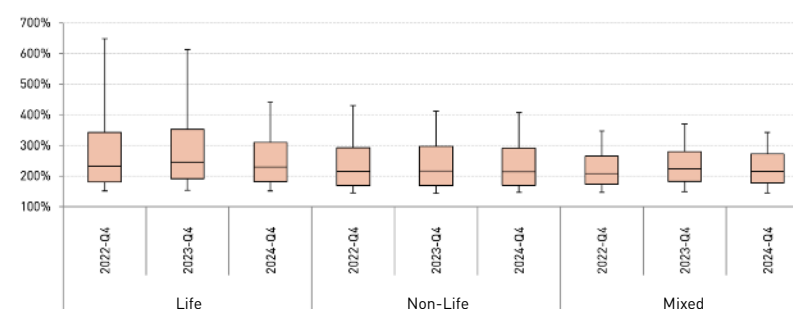
Main risks identified

The main risks with potential systemic consequences identified by EIOPA in its financial stability report are summarized below:

Geopolitical and economic risks

The European macroeconomic environment in 2025 is characterized by high uncertainty and a fragile economy. The global economy faces growing geo-economic fragmentation, with particular attention to U.S. tariff policies and increased defense and infrastructure spending in both the United States and Europe. The European Union's substantial trade surplus in goods (almost 200 billion euros) makes it vulnerable to the negative consequences of tariffs and retaliatory measures. The planned increase in fiscal spending to support defense and infrastructure development has the potential to stimulate growth, but could also lead to budget cuts in other areas or an increase in public debt.

Chart 2.2.1
European Union: solvency ratio behavior



Source: EIOPA

Financial risks

Among the most significant risks, the report also highlights the possible revaluation of credit spreads due to risks associated with debt sustainability and financial market volatility. Tariff-related news has triggered significant stock market volatility, especially in the U.S., and also affected interest rates, which remain high in the long term. The U.S. dollar exchange rate against other currencies has also been volatile, appreciating against the euro at the end of 2024 and subsequently depreciating—even in cases where the relative interest rate movements between the Federal Reserve (with a restrictive monetary policy) and the European Central Bank (advancing its monetary easing) would have suggested the opposite trend. These exchange rate fluctuations generate liquidity risks for insurers and pension funds (IORPs) with exposures to currency-hedging derivatives due to *margin calls*.

Cybersecurity and technological risks

Cyber risk remains material, fueled by geopolitical tensions and the increasing use of artificial intelligence (AI) in cyberattacks. The Digital Operational Resilience Act (DORA) has been in force since January 2025, establishing harmonized standards for managing cybersecurity risks and operational resilience in the financial sector. According to EIOPA, the European cyber insurance market reached 5.9 billion euros in premiums in 2024, with 95% of this amount concentrated in six countries (Belgium, France, Germany, Ireland, Italy, and Luxembourg), with network disruptions, cyber extortion, and *ransomware* as the main areas of coverage.

With this in mind, on July 15, the European supervisory authorities (EBA, EIOPA, and ESMA) published guidelines on supervisory activities under the Digital Operational Resilience Act. The aim is to provide an overview of the processes used by these authorities through joint supervisory teams in relation to critical third-party ICT service providers. The regulation also requires financial institutions to notify competent authorities of major ICT-related incidents and to conduct resilience testing, among other measures.

These new guidelines form part of the new regulatory framework for digital operational resilience in the European Union,⁸ which seeks to harmonize requirements across the financial sector, including insurance undertakings, ensuring the ability to maintain service continuity in the event of disruptions through the identification, protection, detection, response, and recovery from ICT risks. The framework entered into effect on January 17, 2025, following the publication in the Official Journal of Commission Delegated Regulation (EU) 2024/1774, dated March 13, 2024, supplementing Regulation (EU) 2022/2554 of the European Parliament and of the Council with regard to technical regulatory standards specifying the tools, methods, processes, and policies, as well as a simplified framework for ICT risk management.⁹

Climate risks and the impact of natural disasters

In 2024, global economic losses from natural disasters reached 320 billion dollars, of which 140 billion were insured. In Europe, total losses amounted to 31 billion dollars, with 14 billion insured, driven by severe flooding in Germany, Central Europe, and Valencia. The increasing frequency and severity of such events highlight an insurance protection gap that must be addressed. To this end, EIOPA and the European Central Bank have proposed creating a public-private reinsurance system within the EU and a European public disaster fund, contingent on Member States implementing risk mitigation measures.

EIOPA is also considering the introduction of specific prudential criteria for assets that involve environmental or social risks, requiring more capital for investments in assets linked to fossil fuels and adjustments to natural disaster risk factors in 24 regions. In terms of sustainable investments, the report notes that as of year-end 2024, green bonds represented 7.2% of insurance companies' corporate bond portfolios, reflecting the industry's growing commitment to financing sustainable projects and its progressive alignment with European Union policies, such as the Sustainable Finance Action Plan and the Taxonomy Regulation. This positions insurers as key structural investors in this market segment.

In addition to investment in green bonds labeled as such, EIOPA also analyzes exposure Taxonomy-eligible and Taxonomy-aligned activities. It highlights that 10.7% of investments in corporate bonds and equities from non-financial issuers could be classified as Taxonomy-aligned, while an additional 49.5% would be Taxonomy-eligible but do not yet fully meet the technical screening criteria to be considered sustainable. To avoid undesirable behavior such as “*greenwashing*,” EIOPA recommends the development of specific prudential frameworks for sustainable assets. These would include stricter disclosure requirements, risk-based assessments designed to prevent both undue incentives and arbitrary penalties (taking into account volatility, liquidity, and correlation with other

assets), and the integration of such investments into the overall portfolio sustainability profile, without compromising profitability or solvency.

Finally, on June 30, 2025, EIOPA published the first European supervisory report, which maps current practices and challenges in the identification, measurement, and management of biodiversity risks by (re)insurers as part of the existing Solvency II risk management framework.¹⁰

2.2.2 Solvency II Reform

In July 2025, EIOPA published several responses to the European Commission's consultations for the development of additional delegated standards supplementing Directive (EU) 2025/2 of November 27, 2024, of the European Parliament and of the Council, which amends the Solvency II Directive.¹¹

- Regulatory Technical Standards specifying factors for identifying insurance undertakings that are under dominant or significant influence, as well as those managed on a unified basis.¹²
- Regulatory Technical Standards aimed at enhancing cooperation and information exchange between home and host supervisors in the event of significant cross-border activities.¹³
- Implementing Technical Standards updating the list of regional administrations and local authorities. Insurance companies' exposures to entities on the list must be treated as exposures to central governments when calculating capital requirements, meaning they should be assigned a 0% risk factor for *spread* risk and concentration risk under the standard formula.¹⁴

This regulation is necessary to complete the review of the Solvency II regulatory framework, together with the Directive itself, whose transposition deadline into Member States' national laws is January 29, 2027.

Appendix A:

Macroeconomic forecasts

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2021	2022	2023	2024(e)	2025(f)	2026(f)	2021	2022	2023	2024(e)	2025(f)	2026(f)
United States	6.1	2.5	2.9	2.8	1.7	1.8	6.1	2.5	2.9	2.8	1.5	0.6
Eurozone	6.3	3.6	0.6	0.8	1.0	1.1	6.3	3.6	0.6	0.8	0.8	0.3
Germany	3.6	1.4	-0.1	-0.2	0.2	0.9	3.6	1.4	-0.1	-0.2	0.1	0.0
France	6.8	2.8	1.6	1.1	0.5	0.8	6.8	2.8	1.6	1.1	0.4	0.2
Italy	8.8	5.0	0.8	0.5	0.5	0.7	8.8	5.0	0.8	0.5	0.4	0.0
Spain	6.7	6.2	2.7	3.1	2.5	1.7	6.7	6.2	2.7	3.1	2.3	1.0
Portugal	5.6	7.0	2.6	1.9	2.0	1.9	5.6	7.0	2.6	1.9	1.8	1.3
United Kingdom	8.6	4.8	0.4	1.1	1.1	1.2	8.6	4.8	0.4	1.1	1.0	0.2
Japan	2.8	0.9	1.4	0.2	0.8	0.7	2.8	0.9	1.4	0.2	0.7	0.1
Emerging markets	7.0	4.1	4.7	4.3	3.5	3.4	7.0	4.1	4.7	4.3	3.2	2.7
Latin America	7.4	4.2	2.4	2.4	2.1	2.0	7.4	4.2	2.4	2.4	1.9	1.4
Mexico	6.3	3.7	3.4	1.2	0.4	1.5	6.3	3.7	3.4	1.2	0.2	0.7
Brazil	5.1	3.1	3.2	3.0	2.2	1.6	5.1	3.1	3.2	3.0	2.0	1.2
Argentina	10.4	5.3	-1.6	-1.7	5.0	3.3	10.4	5.3	-1.6	-1.7	4.8	3.2
Colombia	10.8	7.3	0.7	1.6	2.4	2.8	10.8	7.3	0.7	1.6	2.3	1.7
Chile	11.6	2.2	0.6	2.4	2.2	2.3	11.6	2.2	0.6	2.4	2.0	1.4
Peru	13.4	2.8	-0.4	3.3	3.0	2.8	13.4	2.8	-0.4	3.3	2.8	2.1
Emerging markets, Europe¹	7.1	0.5	3.6	3.4	2.1	2.1	7.1	0.5	3.6	3.4	1.9	1.7
Turkey	11.4	5.5	5.1	3.2	2.8	3.3	11.4	5.5	5.1	3.2	2.6	2.2
Asia Pacific	7.8	4.7	6.1	5.3	4.5	4.3	7.8	4.7	6.1	5.3	4.2	3.9
China	8.6	3.1	5.4	5.0	4.4	4.2	8.6	3.1	5.4	5.0	4.1	3.5
Indonesia	3.7	5.3	5.0	5.0	4.8	4.8	3.7	5.3	5.0	5.0	4.7	4.0
Global	6.6	3.6	3.5	3.3	2.9	3.0	6.6	3.6	3.5	3.3	2.6	2.2

Source: MAPFRE Economics

¹Eastern Europe

Forecast end date: July 10, 2025.

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2021	2022	2023	2024(e)	2025(f)	2026(f)	2021	2022	2023	2024(e)	2025(f)	2026(f)
United States	4.7	8.0	4.1	3.0	3.0	2.6	4.7	8.0	4.1	3.0	3.4	2.8
Eurozone	2.6	8.4	5.4	2.4	2.0	1.8	2.6	8.4	5.4	2.4	2.1	1.4
Germany	3.1	6.9	5.9	2.3	2.1	1.8	3.1	6.9	5.9	2.3	2.2	1.5
France	1.6	5.2	4.9	2.0	1.0	1.7	1.6	5.2	4.9	2.0	1.1	1.1
Italy	1.9	8.2	5.6	1.0	1.8	1.7	1.9	8.2	5.6	1.0	1.9	1.4
Spain	3.1	8.4	3.5	2.8	2.3	1.8	3.1	8.4	3.5	2.8	2.4	1.5
Portugal	1.3	7.8	4.3	2.4	2.1	2.1	1.3	7.8	4.3	2.4	2.2	1.5
United Kingdom	2.6	9.1	7.3	2.5	3.1	2.3	2.6	9.1	7.3	2.5	3.2	2.2
Japan	-0.2	2.5	3.3	2.7	2.8	1.8	-0.2	2.5	3.3	2.7	2.9	1.3
Emerging markets	5.8	9.5	8.0	7.7	4.1	3.6	5.8	9.5	8.0	7.7	4.3	3.4
Latin America	9.9	14.2	14.8	16.6	8.8	8.1	9.9	14.2	14.8	16.6	9.0	7.8
Mexico	5.7	7.9	5.5	4.7	3.9	3.7	5.7	7.9	5.5	4.7	4.0	3.5
Brazil	8.3	9.3	4.6	4.4	5.3	4.4	8.3	9.3	4.6	4.4	5.5	4.0
Argentina	48.4	72.4	133.5	219.9	39.0	20.0	48.4	72.4	133.5	219.9	45.0	35.0
Colombia	3.5	10.2	11.7	6.6	4.9	3.8	3.5	10.2	11.7	6.6	5.2	3.5
Chile	4.5	11.6	7.3	3.9	4.4	3.0	4.5	11.6	7.3	3.9	4.5	2.6
Peru	4.0	7.9	6.3	2.4	1.9	2.3	4.0	7.9	6.3	2.4	2.0	1.8
Emerging markets, Europe¹	9.0	25.2	17.1	16.8	13.5	8.7	9.0	25.2	17.1	16.8	15.0	9.0
Turkey	19.6	72.3	53.9	58.5	33.0	20.5	19.6	72.3	53.9	58.5	34.8	20.1
Asia Pacific	2.3	3.9	2.4	2.0	0.4	1.0	2.3	3.9	2.4	2.0	0.5	0.9
China	0.9	2.0	0.2	0.2	0.2	0.8	0.9	2.0	0.2	0.2	0.3	0.7
Indonesia	1.6	4.1	3.7	2.3	2.0	2.5	1.6	4.1	3.7	2.3	2.1	2.2
Global	4.7	8.6	6.6	5.7	3.4	2.9	4.7	8.6	6.6	5.7	3.6	2.8

Source: MAPFRE Economics

¹Eastern Europe

Forecast end date: July 10, 2025.

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

	Baseline Scenario (BS)					
	2021	2022	2023	2024 ^(e)	2025 ^(f)	2026 ^(f)
United States	1.52	3.88	3.88	4.58	4.77	4.37
Eurozone	0.32	3.39	2.79	3.00	3.23	3.45

Stressed Scenario (SS)					
2021	2022	2023	2024 ^(e)	2025 ^(f)	2026 ^(f)
1.52	3.88	3.88	4.58	4.93	4.26
0.32	3.39	2.79	3.00	3.36	3.33

Source: MAPFRE Economics
Forecast end date: July 10, 2025.

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

	Baseline Scenario (BS)					
	2021	2022	2023	2024 ^(e)	2025 ^(f)	2026 ^(f)
USD-EUR	0.88	0.94	0.90	0.96	0.88	0.88
EUR-USD	1.13	1.07	1.11	1.04	1.14	1.14
GBP-USD	1.35	1.20	1.27	1.25	1.35	1.35
USD-JPY	115.00	132.65	141.91	156.65	152.16	146.15
USD-CNY	6.35	6.90	7.10	7.30	7.35	7.25

Stressed Scenario (SS)					
2021	2022	2023	2024 ^(e)	2025 ^(f)	2026 ^(f)
0.88	0.94	0.90	0.96	0.84	0.84
1.13	1.07	1.11	1.04	1.19	1.18
1.35	1.20	1.27	1.25	1.38	1.38
115.00	132.65	141.91	156.65	145.04	141.87
6.35	6.90	7.10	7.30	7.37	7.32

Source: MAPFRE Economics
Forecast end date: July 10, 2025.

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

	Baseline Scenario (BS)					
	2021	2022	2023	2024 ^(e)	2025 ^(f)	2026 ^(f)
United States	0.25	4.50	5.50	4.50	4.00	3.25
Eurozone	0.00	2.50	4.50	3.25	1.75	1.75
China	3.00	2.75	2.50	2.00	1.50	1.25

Stressed Scenario (SS)					
2021	2022	2023	2024 ^(e)	2025 ^(f)	2026 ^(f)
0.25	4.50	5.50	4.50	4.25	3.50
0.00	2.50	4.50	3.25	1.75	1.50
3.00	2.75	2.50	2.00	1.25	1.25

Source: MAPFRE Economics
Forecast end date: July 10, 2025.

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Appendix B:

Premium growth forecasts

Table B-1
Baseline scenarios: growth of insurance premiums
(nominal annual growth in local currency, %)

	Non-Life					
	2021	2022	2023	2024 ^(e)	2025 ^(f)	2026 ^(f)
United States	8.2	9.1	8.7	5.0	4.9	4.4
Eurozone						
Germany	4.1	2.9	5.1	2.3	2.9	3.1
France	5.3	4.0	7.0	2.1	2.9	3.4
Italy	2.9	6.1	8.0	2.5	2.9	3.2
Spain	3.2	5.3	6.8	7.8	6.3	4.4
Portugal	4.9	6.9	10.7	10.5	7.3	6.9
United Kingdom	10.7	14.1	11.7	6.4	5.2	5.5
Latin America						
Mexico	10.9	7.7	18.5	15.2	10.1	11.2
Brazil	14.9	24.3	9.6	7.8	7.0	6.6
Argentina	51.1	89.4	215.8	117.5	44.1	24.1
Colombia	15.9	19.4	14.5	8.7	6.2	6.9
Chile	14.2	23.3	9.7	5.5	5.5	5.5
Peru	15.3	7.6	5.9	6.9	5.5	5.7
Emerging markets, Europe¹						
Turkey	29.4	137.0	111.5	74.6	36.9	25.0
Asia-Pacific emerging markets						
China	0.2	5.2	5.2	5.1	5.3	5.2
Indonesia	8.5	15.4	16.4	7.0	5.9	6.5
Japan	-0.3	0.1	2.0	4.2	3.2	2.2
Global	6.0	4.4	8.5	5.9	5.2	5.3

Source: MAPFRE Economics

¹Annual nominal growth forecasts in USD
Forecast end date: July 10, 2025.

Life					
2021	2022	2023	2024 ^(e)	2025 ^(f)	2026 ^(f)
8.6	9.9	5.6	5.7	4.8	4.6
-1.6	-6.9	-5.2	2.9	2.8	3.6
27.6	-3.5	6.0	1.8	3.2	4.4
8.3	-14.5	-2.5	2.8	2.9	3.4
7.9	4.2	36.0	-13.7	11.6	6.6
69.5	-22.3	-14.6	35.3	8.0	5.7
11.5	-6.3	10.2	4.6	4.5	4.7
9.4	1.0	15.8	18.1	8.6	9.1
12.2	12.2	9.2	16.2	8.1	7.5
53.9	77.4	194.2	111.0	41.7	21.9
16.1	67.0	-5.0	14.9	8.8	11.0
7.8	39.3	23.9	7.7	9.5	9.9
40.4	4.2	7.2	15.7	10.9	10.1
20.3	75.4	80.5	77.8	38.3	25.7
-1.7	4.0	12.8	4.8	6.9	6.3
10.1	-9.4	-7.4	6.8	7.0	6.7
2.2	12.7	9.1	3.0	3.0	2.9
5.0	-3.3	6.2	6.1	6.2	6.0

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