Fundación MAPFRE

2021 ECONOMIC AND INDUSTRY OUTLOOK: FOURTH QUARTER PERSPECTIVES

MAPFRE Economics

2021 Economic and industry outlook: fourth quarter perspectives

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Economic outlook

The most recent data obtained in relation to world economic activity paints a picture of greater tension in global consumer pricing, in particular in emerging countries, thus dampening growth expectations. In this context, we are also seeing, among other effects, signs of deceleration in China's economy, as a result of adjustments in the real estate market (at the local level) caused by the Evergrande situation. We are also seeing an acceleration of inflation caused by a rise in global demand and energy restrictions, combined with supply disruptions derived from the negative effects of the COVID-19 pandemic on global value chains. This seems to be especially true in industries producing components which, general speaking, affect the capacity to meet the existing demand for manufactured goods.

In the base scenario considered in this report, the world will grow by 5.9% in 2021 (compared to the 6.0% forecast three months ago), with an increase in the contribution of developed markets compared to emerging markets. The latter will face important challenges, such as the penetration of the vaccine, the impact of the Chinese slowdown on raw material imports, financing conditions, the unequal impact of inflation and the variety of public policies undertaken, to name but a few. As a result, the global recovery capacity may extend into 2023, due to bottlenecks and supply constraints attributable to geopolitical tensions, the energy crisis and port logistics problems, in addition to others that may affect trade and global manufacturing output.

Despite this, in the base scenario, it would seem that the global economy is facing transitory inflation that will not affect the "*forward guidance*" issued by the central banks in developed countries, preserving the flexible monetary conditions into 2022, and slowing down the pace of asset purchases, without this having an impact on interest rate expectations, thus helping to keep liquidity abundant. In emerging markets, however, with a pricing mechanism that is different on account of low interest rates and low inflation not having been maintained for a prolonged period, central banks have started to raise interest rates, making it more difficult to reactive the economy.

In terms of the alternative scenario (stressed) considered in this report, the market may be surprised by a more aggressive monetary reaction, caused by the more persistent nature of inflation, which would result in a worsening of financing conditions and some nominal volatility. Against this backdrop, domestic demand may be seriously affected by consumers having to fight to maintain real income in response to an increase in prices. Thus, the global GDP growth rate may fall by half a percent.

Generally speaking, the global geopolitical framework will remain stable, subject to upward or downward adjustments. As regards global debt, developed economies will continue to maintain net levels above those registered before the pandemic, thanks to the support received from an accommodating monetary policy, while in emerging economies, the risk is more evident on account of a more advanced monetary tightening process as a result of greater inflationary pressure and where debt sustainability remains conditional on a permissive monetary policy. In terms of economic policy, the inflationary outlook of the main central banks still rests on a limited, transitory upturn; however, these may be limited by the obstacles that the global supply chain continues to come across. Furthermore, progress with vaccination campaigns may make it possible to significantly alleviate global restrictions in developed countries, and at a slower pace in emerging countries.

Industry Outlook

Outlooks on the insurance markets at the worldwide level continue to follow a clear upward trend, in line with the expectations for an economic recovery that will take global GDP above the level it had before the pandemic. This is supported by strong growth in the USA and in Asian countries with developing and emerging economies. The predictions for Latin America are improving as well, given the strong performance shown by some of the region's largest economies, and this is having favorable repercussions on the primary markets for its insurance industry. However, many economies will have to wait until 2022 before regaining the levels they were experiencing before the crisis, which means that their insurance markets could show an uneven recovery that takes longer to emerge.

On the other hand, the claim ratios of insurers is up due to the higher number of claims resulting from the reopening process (with a particular impact on the auto and health businesses) and the increase in costs that can occur as a result of the inflationary pressure being experienced in many markets. These factors, combined with the drop in the profitability of investments on account of the ultra accommodating monetary policies implemented, may adversely affect the profitability of insurers, putting pressure on the cost of insurance as a result.

The central banks of many economies have started to consider the possible removal of these ultra lax monetary policies faced with the upturn in inflation and an improvement in the economic situation, reflected in the risk-free rate curves produced by the European Insurance and Occupational Pensions Authority (EIOPA), which has shown an increase in all rates in all sections of the curves analyzed, with notable exceptions, as in the case of China. Some emerging countries have already had to withdraw some of the economic support measures they had implemented. In some cases, there has even been a change in orientation toward a restrictive monetary policy, with sharp rises in interest rates, to counter inflation that has proven to be more persistent than expected while also substantially exceeding inflation targets, such as in Brazil and Mexico. These rate increases are generating a more favorable environment for development of the Life line of business, for savings products and traditional lifetime annuities. In this sense, the life insurance markets in Brazil and Mexico are seeing important growth in their business volume, which can also be attributed to greater demand for protection against the risk of death as a result of the pandemic.

It is also worth noting that having overcome the significant uncertainty caused by economic agents shifting toward liquidity positions during the most acute phases of the pandemic, there has been an increase in the appetite of households and companies to seek protection against the risk of death and financial products that allow them to protect themselves against inflation and obtain a return on their savings. This has facilitated the development of life insurance products in which the policyholder assumes the risk of investment.

In the Eurozone, the economic growth prospects have improved (although we do not expect GDP in 2021 to reach the levels seen before the pandemic), helping the insurance business to recover, in particular the Life business, which was seriously affected by the shift toward liquidity, which combined with the extended period of low interest rates. The Euro Stoxx 50 index has experienced a slight upturn in volatility, although it continues to perform well, facilitating the development of life insurance products in which the policyholder assumes the risk of investment, in particular in negative interest rate environments like those we are currently seeing. The disruption seen in supply chains, however, is particularly affecting the automotive sector, given the scarcity of chips needed for vehicle manufacturing, holding back new registrations and negatively affecting the auto insurance business.

In Spain, the insurance industry continues to show significant growth, for both life and non-life products. However, for life insurance the basic effects of the pandemic are quite notable, with pre-crisis figures still seeming a long way off. Equities are beginning to be seen as an alternative form of protection against an environment of low interest rates and rising inflation, and this is encouraging development of life insurance products where the policyholder assumes the investment risk. Products of this type are gaining importance, with a wide range of offerings now being launched onto the market. For the non-life segment, the levels seen before the crisis were never lost, and it is now showing significant year-on-year growth as economic recovery continues (except for some specific lines of business).

In Argentina and Turkey, the outlook for the insurance industry is improving in view of economic recovery forecasts that have become more optimistic than previously, especially in the case of Turkey. However, while Argentina's central bank has decided to maintain its interest rates, in Turkey rates were cut during October despite the sharp rise in inflation, which is making it difficult to market life insurance savings products in a scenario of negative real interest rates.

1. Economic outlook

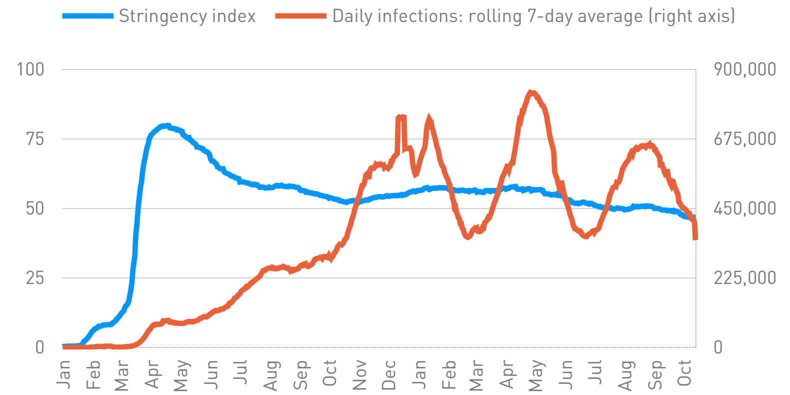
1.1. The world economic outlook

1.1.1 Recovery scenarios

Since our last report[1], the global situation has experienced a series of shocks whose effects on growth in 2021, despite having being anticipated in advance, may have been underestimated On the one hand, global data on the evolution of the Covid-19 pandemic seems to indicate that the third wave has come to an end, both in developed countries and emerging countries, resulting in the gradual lifting of measures to contain the spread of the pandemic (see Charts 1.1.1-a and 1.1.1-b)[2]. At the same time, progress has been made with the vaccination campaign, with a total of 6.76 billion doses having been administered, meaning that we are quickly approaching herd immunity. However, this progress has been unequal, with developed countries having achieved average vaccination rates of almost 80%, meaning they have been able to lift restrictions on economic activity subject to certain health safety measures (see Chart 1.1.1-c).

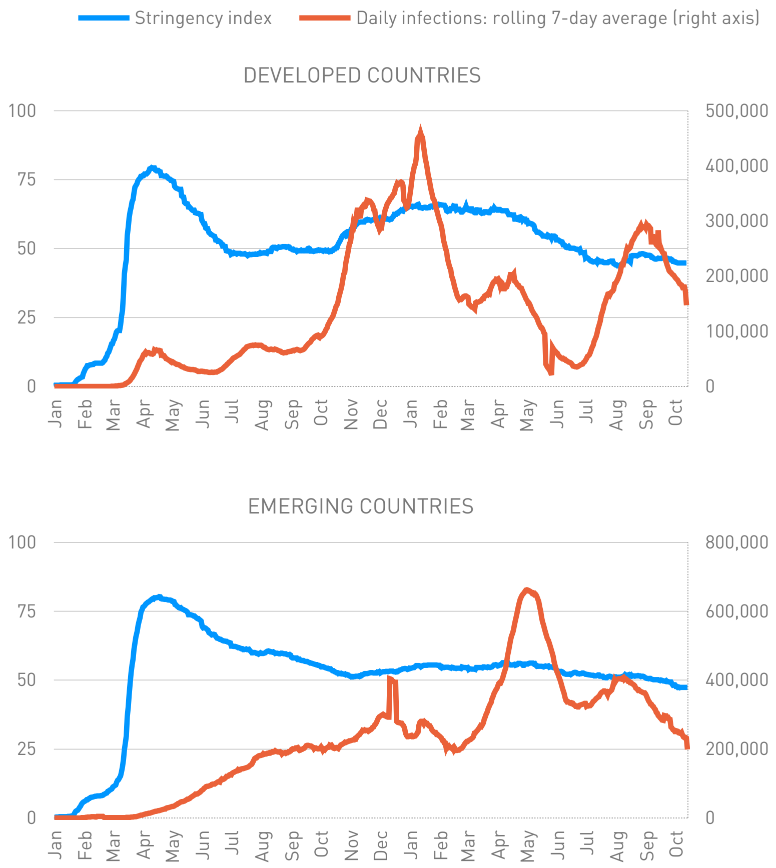
On the other hand, however, we find expectations and activity data, which, in view of the most recent global and regional measurements (see Chart 1.1.1-d) and the persistent levels of significant uncertainty regarding the evolution of the pandemic, suggest we need to revise growth forecasts downwards and prepare for a backdrop of greater tension, especially as regards consumer prices globally, although in emerging countries in particular. In this sense,

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 7/12/2021)

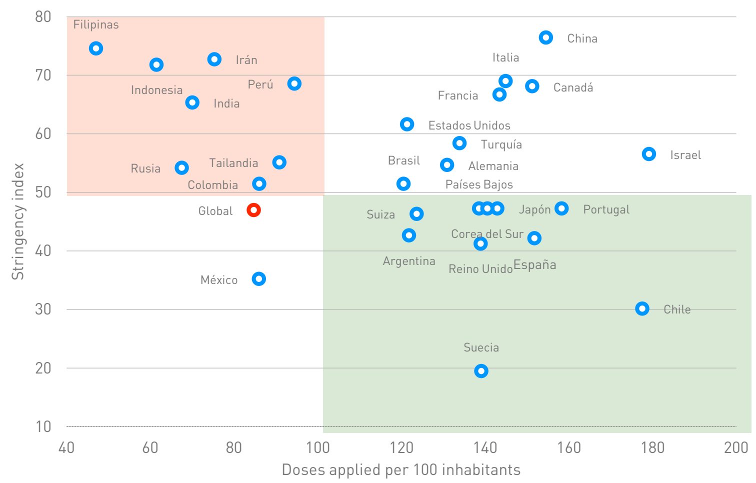
Chart 1.1.1-b
Developed and emerging: daily COVID-19 infections vs. restriction index



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 7/12/2021)

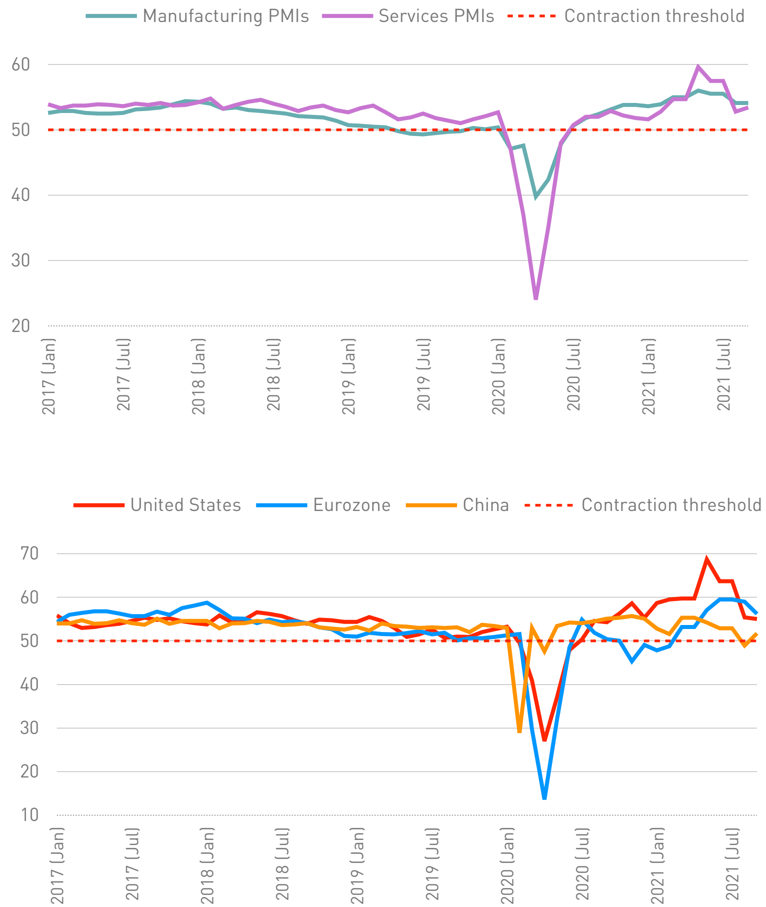
we are seeing three phenomena, one of which is having asymmetric effects globally. The first of which is the disruption in supply felt in global supply chains as a result of the Covid-19 pandemic, in particular amongst component industries and global logistics, which has affected the ability to respond to the demand for manufactured goods The second is the acceleration in inflation as a result of the above, combined with the upturn in global demand and energy restrictions (see Charts 1.1.1-e and 1.1.1-f). The third is the slowdown in the Chinese economy as a result of the slump in the property market (which at the moment remains local), attributable to the giant, Evergrande, and its actual impact on raw materials and emerging markets. Finally, the additional factor ("+1") remains an uncertainty as regards the evolution of the pandemic, in addition to the associated restrictions and scarring it has caused; as indicated above, the outlook of this

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

Chart 1.1.1-d
Global: PMI performance



Source: MAPFRE Economics (based on JP Morgan data)

factor is positive thanks to the vaccination rates and achievement of herd immunity, although on the negative side, mutations of the virus may still emerge.

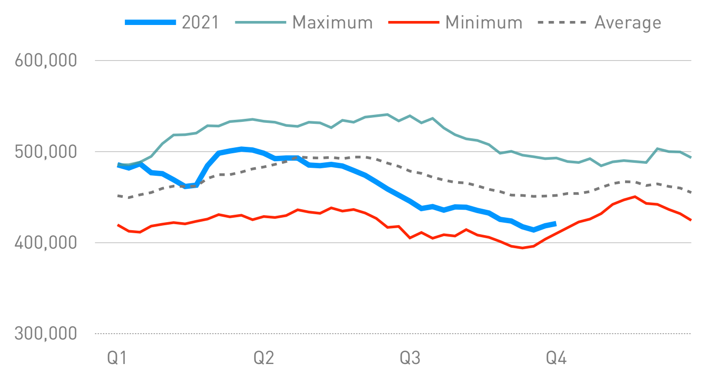
Base scenario

In the base scenario of this report, it is considered that the global economy will grow during 2021 and 2022 by 5.9% and 4.9%, respectively; this is 0.1 and 0.5 percentage points fewer than we believed three months ago, in each case. Furthermore, this scenario assumes that the biggest contribution to global economic growth will come from developed markets, while emerging markets will face significant challenges as a result of the international context and the unequal evolution of the pandemic.

The most significant challenges faced by emerging markets include those indicated below: (i) the slow progress made with vaccinations; (ii) the uneven impact of inflation and the difference in public policies used to overcome this; (iii) the impact of the slowdown of the Chinese economy on the import of raw materials and the financing conditions of some of them; (iv) the incomplete unwinding of portfolio investment flows embarked upon as a result of the pandemic, which could affect exchange rates in these countries and, as a result, exchange relationships (see Charts 1.1.1-g and 1.1.1-h) and, (v) unsurprisingly, the imbalances and vulnerabilities accumulated over the past half decade, as reflected in our Emerging Risk Index (ERI) (see Box 1.1.1-a).

Against the backdrop of global recovery, we are seeing bottlenecks and supply constraints as a result of the energy crisis. Furthermore, there are persistent problems with port logistics, geopolitical tensions (Russia, gas, Taiwan, semiconductors) and the depletion of stocks without these being replenished in time following the relative return to normal of global trade as the restrictions imposed to contain the pandemic have now been lifted to some extent. This combination of factors will have an impact on trade, although it will also have an impact on global manufacturing output, weighing down the recovery capacity and postponing part of the recovery until 2023.

Chart 1.1.1-e
Global: crude oil inventories compared to historical levels, 2016-2021

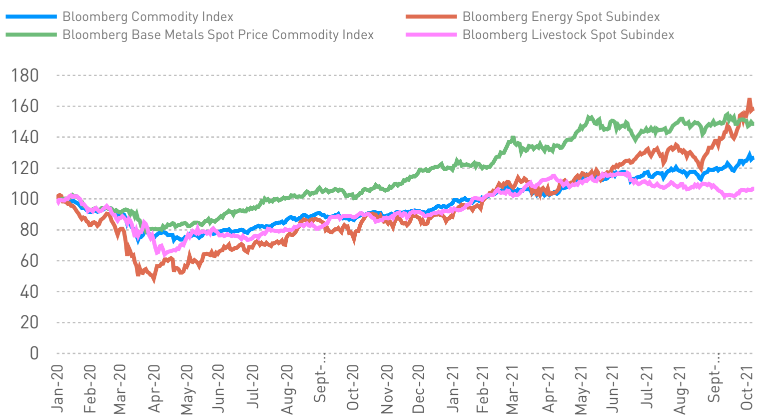


Source: MAPFRE Economics (based on data from the International Energy Agency)

Furthermore, and despite the recent increase in risk aversion levels (see Chart 1.1.1-i), the collapse of real-estate giant Evergrande is not another Lehman Brothers. Although the case is high profile in China, all the evidence seems to suggest its impact would not be systemic, like Lehman Brothers in 2008. Undoubtedly, its collapse would have a financial impact locally (on credit spreads, ratings and bonds), requiring an intervention and an orderly default managed by the Chinese government, although it is hard to see this affecting the rest of the world as some seem to suggest. This is because Evergrande's offshore debt of 300 billion euros accounts for less than 10% of its total debt. And although a default in China may be cause for concern further afield, many analyses suggest that the main connection between the Chinese financial system and the rest of the world is limited to the emerging countries with which it maintains trade relations (imports of raw materials) and financial relations (issuance of credit and portfolio flows); in other words, relatively small countries in the emerging world, with a limited capacity to generate the impact required to trigger a global financial crisis. Furthermore, consideration should also be given to the fact that the world is now nothing like it was in 2008, as liquidity is abundant and growth is much stronger than before.

Thus, the base scenario of this report is supported by four main factors:

Chart 1.1.1-f
Commodity indexes
(Jan 2020 index = 100)



Source: MAPFRE Economics (based on Bloomberg data)

Box 1.1.1-a
Emerging vulnerability analysis:
evolution of the Emerging Risk Index (ERI)

Analysis of the emerging vulnerability

In the first half of 2021, the world economy slowed down on account of the spread of new strains of the coronavirus and the need for more restrictive measures to contain it, including in the more developed economies. Against this backdrop, the unequal progress made with vaccination campaigns between developed and emerging countries during the first half of the year, with the former making better progress, has allowed the gradual reopening of some important economies, thus providing the world economy with some respite.

Last year was strongly influenced by the Covid-19 pandemic. However, the quick monetary and tax accommodation in response to the shock made it possible to mitigate its impact. Thus, having overcome the first epidemiological phase, the recovery capacity of countries with a lower reliance on funding in their financial account balance and a surplus trade account was stronger, invigorated by the upturn in commodity prices. This created in a discrepancy between countries with less control over the pandemic and more reliance on external flows, resulting in a slower return to economic activity.

Against this backdrop, countries with a higher degree of integration in global supply chains were benefited by their reactivation, in addition to a slight improvement in external demand. In this sense, the factors prior to the pandemic (such as macroeconomic strength and tax savings) are distinguishing factors when it comes to the performance of countries, as they are responsible for the ability of the different economies to face high levels of public spending and indebtedness caused by the Covid-19 crisis, as even countries benefiting from the upturn in the price of commodities have seen an increase in the Emerging Risk Index (ERI) given the lack of solidity in their fiscal accounts.

It is worth noting that, although the analysis collected in the ERI uses data from 2020, it is very much forward-looking, as it highlights weaknesses that affected the development of nominal stability in emerging countries throughout 2021 and 2022, and shows the differential effects attributable to the economic disruption caused by the pandemic.

Main conclusions from the analysis

As reflected in Charts A to G of this Box, by studying the vulnerabilities of a series of emerging markets selected from the construction of the ERI, it is possible to extract the following general conclusions, classifying economies as *very high risk* (ERI between 70 and 40), *high risk* (ERI between 40 and 30) and *moderate risk* (ERI between 20 and 10):

- In the case of Argentina (with an ERI of 67.89), there is a slight improvement in the indicator, with the following worth particular note: (i) recovery of economic activity; (ii) promising renegotiation of foreign debt; (iii) accumulation of positive results in the current account, and (iv) more contained tax dynamics. However, certain structural vulnerabilities remain evident: (i) limited access to external indebtedness; (ii) instability of the local currency; (iii) the

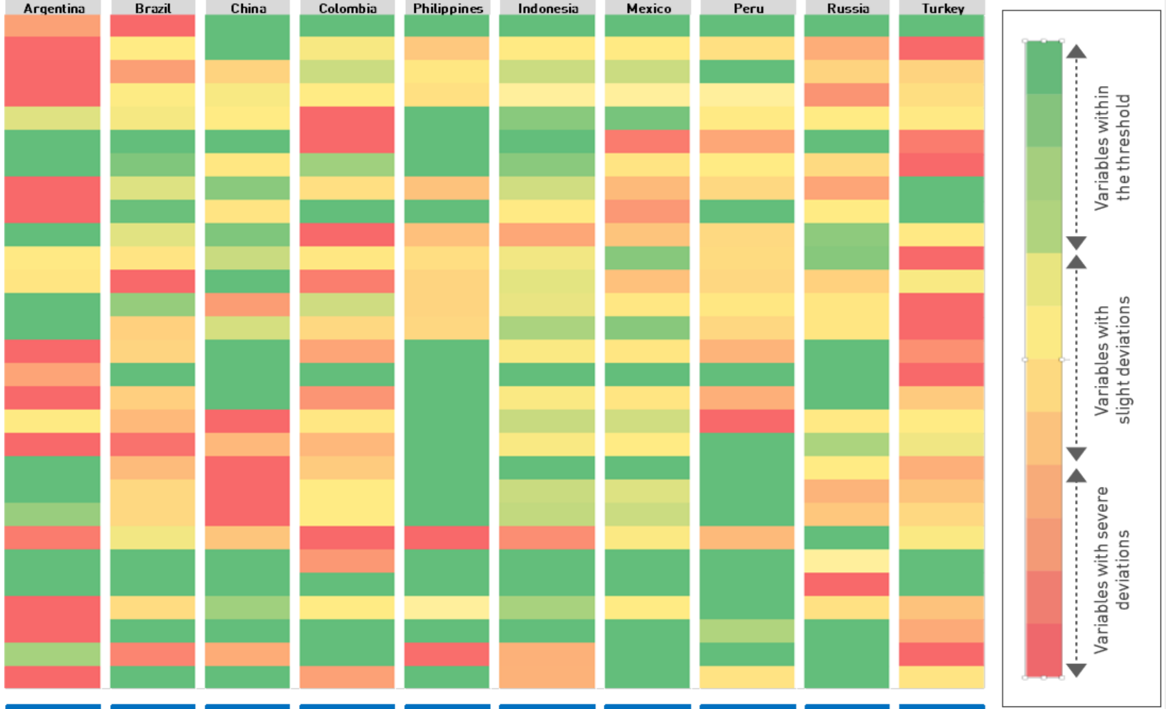
Box 1.1.1-a (continued)
Vulnerability analysis: evolution of the Emerging Risk Index (ERI)

Chart A.
Selected markets: risk profiles and emerging risk index (ERI) estimation*

	Thresholds: Emerging	Thresholds: Developed
2027 potential GDP growth	3	1.5
Potential inflation	10	2
EMBI	8%	
CDS	20%	10%
CA % GDP	1	1
NIIP % GDP	-40	-40
External Debt CB ST % GDP	4%	4%
External Debt CB LT % GDP	1%	1%
External Debt Governments ST % GDP	2%	2%
External Debt Governments LT % GDP	34%	34%
External Debt Corporate ST % GDP	8%	8%
External Debt Corporate LT % GDP	27%	27%
External Debt Banks ST % GDP	12%	12%
External Debt Banks LT % GDP	12%	12%
External Debt Total % GDP	30%	30%
External Debt Total ST % GDP	6%	6%
External Debt Total LT % GDP	24%	24%
Total Lending to Non-Financial Sector	20	90
Lending to Government	20	90
Lending to Households	20	90
Lending to Non-Financial Corporations	20	90
Lending to Non-Financial Private Sector	20	90
Leverage	10	8
LC GDP Growth (Nominal)	3	1.5
NPL	7	7
CPI	3	1.5
CB Rate (benchmark interest rate)	6	3
Money supply/Reserves	3	6
External debt/Exports	1	3

Thresholds

	Argentina	Brazil	China	Colombia	Philippines	Indonesia	Mexico	Peru	Russia	Turkey
ERI 2020	67.89	35.26	28.01	7.92	29.89	10.12	18.03	10.12	24.31	46.44
ERI 2019	71.35	32.07	26.29	8.52	30.48	11.85	22.35	11.85	19.99	42.04



Source: MAPFRE Economics (estimates based on data from OEF, Haver, IMF, BIS, Bloomberg and World Bank)

* The variables used to construct this index are assessed in relation to certain sustainability thresholds. Deviations from these thresholds result in imbalances and are weighted to construct an index ranging from 0 to 100.

Click here to access the interactive version of this information

Box 1.1.1-a (continued)
Emerging vulnerability analysis:
evolution of the Emerging Risk Index (ERI)

Chart B.
Argentina: ERI vs. EMBI

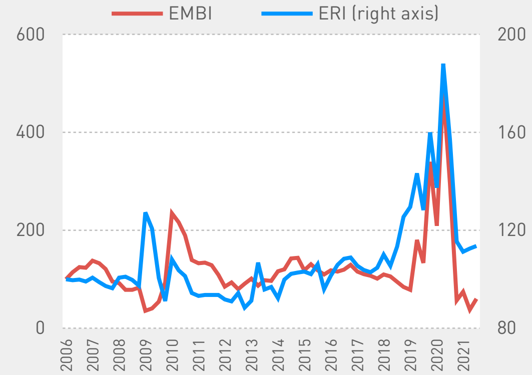


Chart C.
Peru: ERI vs. EMBI

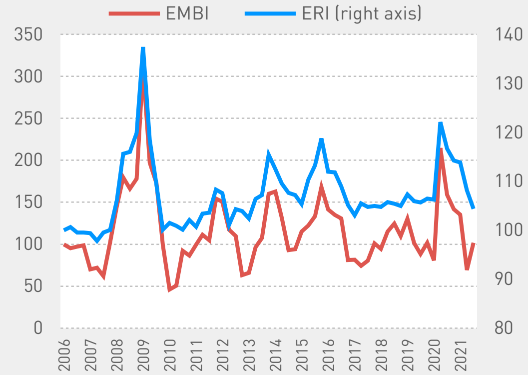


Chart D.
Indonesia: ERI vs. EMBI

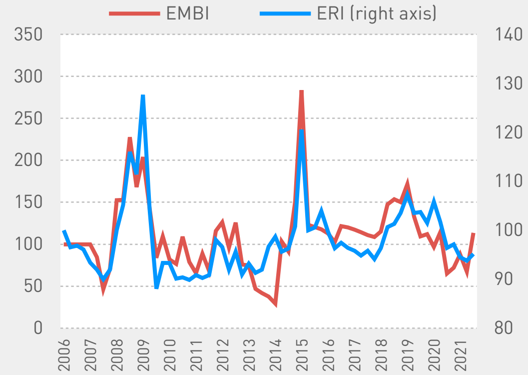


Chart E.
Turkey: ERI vs. EMBI

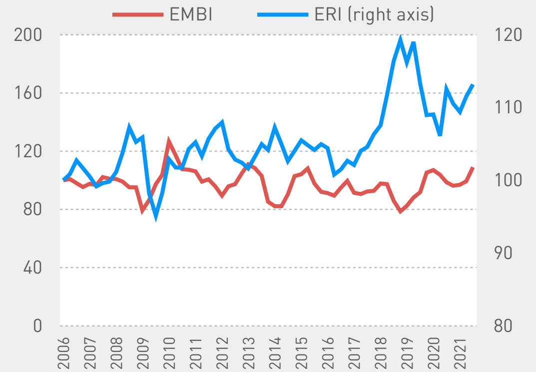


Chart F.
Russia: ERI vs. EMBI

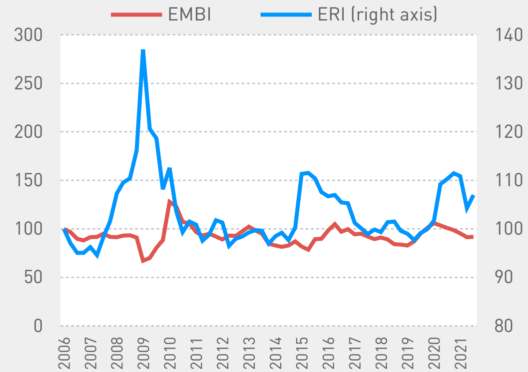
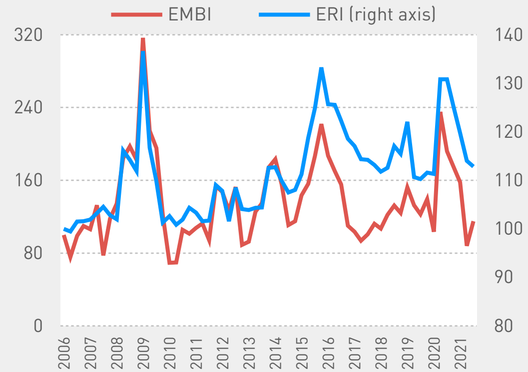


Chart G.
Colombia: ERI vs. EMBI



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

Click here to access the interactive version of this information

Box 1.1.1-a (continued)
Vulnerability analysis:
evolution of the Emerging Risk Index (ERI)

- in its balance of payments. In the case of Turkey (ERI of 46.46), the indicator continues to suffer, with an escalation in the following imbalances: (i) the current account; (ii) high external debt, mainly in dollars; (iii) high rates of inflation, and (iv) the finance sector and its ability to channel toward the private non-finance sector.

- There has been a slight decrease in the indicator for the Russian economy compared to the previous report, although to a lesser extent than reflected in the EMBIs. In Peru (with an ERI of 10.12), the increase in risk can in large part be attributed to the external debt acquired during the pandemic, the reduction in coverage of tax savings and the high credit guarantees offered by the government for relatively short terms. In Russia (ERI of 24,31), the main cause for concern is the deterioration of average lending in the country's financial system in terms of NPLs (Non Performing Loans), although at present, this impact is being offset by its improved external position on account of the recovery in global energy demand and oil prices that have had a positive impact on its balance of payments.

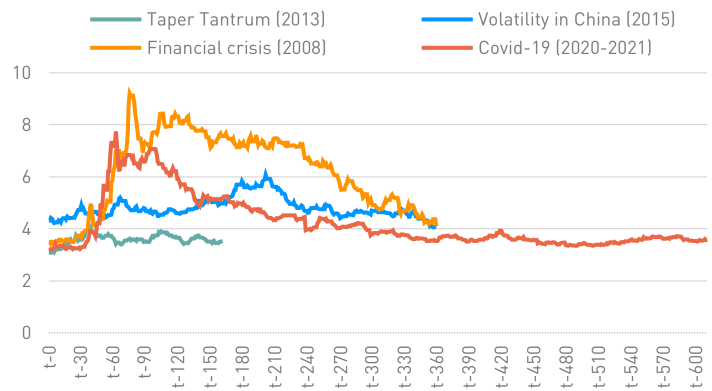
- Finally, as regards the economies of Indonesia and Colombia, although the levels of risk remain similar to the year before the pandemic, there has been an upturn in vulnerabilities in Colombia and some resilience in Indonesia, which has seen a slight improvement in its position. The Colombian economy (ERI of 28.01) continues to be affected by a high current account deficit, despite the impact of higher commodity prices; furthermore, its failures as regards tax matters, in particular the tax reforms undertaken, means that the gap between the EMBI and ERI remain significant. In the case of Indonesia (ERI of 29.89), lending to the non-finance sector and the high levels of external debt continued to increase over the course of 2020, although at a moderate rate; against this backdrop, the risk of contagion due to the worsening conditions in China is more significant, exposing the economy to higher risk premiums, the impact of which can be seen in the EMBI.

Source: MAPFRE Economics

First, inflation is persistent but not permanent (see Box 1.1.1-b). Even so, although transitory in nature, it will take some time to overcome inflation, and more than anticipated a year ago. However, everything seems to suggest that this will not alter the monetary policy "forward guidance" of the global central banks, and therefore, we are not going to see a monetary shakeup like the 'taper tantrum' of 2013 or the ECB's easing of monetary policy in 2011.

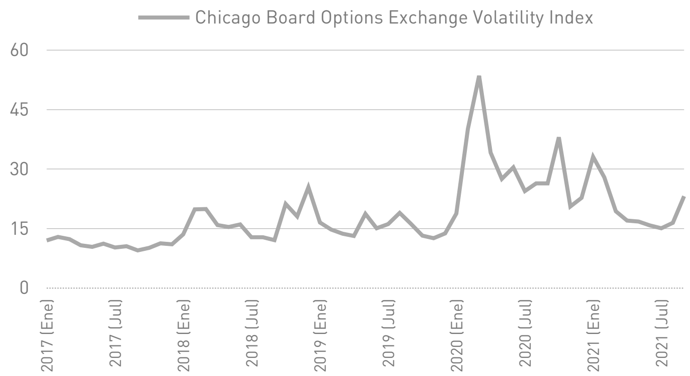
Secondly, the effects of inflation on disposable income, and therefore on consumption, will be partially offset by the savings freed up thanks to the generalized improvement in expectations as regards the evolution of Covid-19 and reduction of restrictions imposed to control the pandemic. Particularly significant will be the return to normal of services and especially the opening of the United States and Europe to tourism in 2022, one of the main factors for drawing high global income that will help the return to normality.

Chart 1.1.1-g
Emerging markets: emerging risk premium



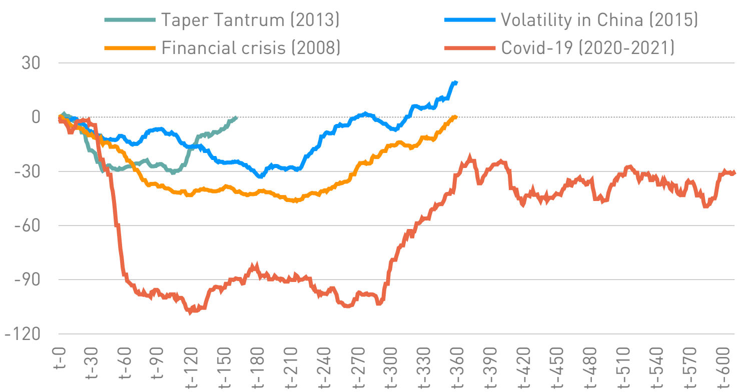
Fuente: MAPFRE Economics (con datos de Bloomberg)

Chart 1.1.1-i
Global: risk aversion (VIX)



Fuente: MAPFRE Economics (con datos de Bloomberg)

Chart 1.1.1-h
Emerging markets: portfolio investment flows
(billions of USD)



Fuente: MAPFRE Economics (con datos del IIF)

Thirdly, global monetary conditions (see Box 1.1.1-c) will remain accommodative throughout 2022. The central banks of developed countries will limit monetary normalization, initially to relax asset acquisition rates and to not affect interest rate expectations (which are not expected to increase until the end of 2022 in the United States), meaning that liquidity will remain abundant in developed countries. In emerging countries, in turn, the approach to monetary policy will be more varied, and reliant in many cases on the political economy and not on economic policy (Turkey has cut its benchmark rate by 200 basis points despite inflation being at historic maximums).

And fourth, fiscal support, although lower in 2022 on account of the depletion of pandemic-related programs, will benefit from the absence of plans to introduce austerity programs to avoid repeating past mistakes. Furthermore, inflation will see to some of the problem of debt, releasing pressure as regards the short-term fiscal balance.

Box 1.1.1-b
Energy crisis and inflation:
a permanent or transitory relationship?

In recent months, the global economy has experienced an increase in upward pressure in relation to energy prices as a result of several factors, both on the side of supply (gas, materials, supply chain disruptions, etc.) and on the side of demand (lack of inventories and the upturn in demand as a result of the alleviation of the pandemic in developed countries). This upturn in the price of energy and non-energy commodities are quickly being reflected in the acceleration of global inflation, as a result of the passthrough of industrial prices and commodity prices to general price indexes (see Charts A and B).

In the Eurozone, inflation has reached a 10-year high, standing at 3.0% in August, mainly on account of the increase in the price of fuel, gas and electricity, although there are significant differences between countries, with certain one-off phenomena affecting prices (tax reform in Germany, storm Filomena in Spain and the taxation on CO2 in general)

In the United States, general inflation reached 5.3 % in August–but the core inflation was 4.0%–due to eventual demand factors (Trump/Biden stimuluses), the base effect of 2020, and the effects of the inflation of certain assets dominating the market since the start of the pandemic.

In turn, in the emerging markets, inflation has been constantly on the rise for some time (Brazil at 10.4% in August 2021, Mexico at 6.0% in September), due to the unpinning of expectations and the continuous depreciation of their exchange rates, which transmits imported inflation to production prices (see Chart D).

Depending on the region in question, some upturns in price have had a more structural impact (as is the case of the actual values of certain income in Latin America, although the differences in these values compared to developed countries serve only to ratify the effectiveness of the expectations of the central banks, in particular the Federal Reserve and the European Central Bank). However, generally speaking, the upturn has been accompanied by other signs that make the diagnosis more complicated. The GDP deflator slowed in the second quarter of 2021 globally, indicating a lack of any generalized inflationary force. At the same time, the real interest rates in most economies remained more or less stable. However, in 2021 there has been a significant increase in prices.

These signs are now the subject of debate in the global conversation about the nature of inflation, as depending on whether they are temporary or permanent in nature, the type of monetary policy and performance of financial markets will differ, with a significant impact on activity and financial stability which, ultimately, mark the boundary between our base scenario (business as usual) and the stressed scenario (low activity, return of inflation and activism of central banks with an impact on nominal variables such as the depreciation of emerging currencies, a drop in the value of fixed income and volatility in equity, as business revenue and profits take a hit, in addition to the foreseeable decrease in activity that could also curtail the recovery).

This backdrop, as per our report corresponding to the second quarter of the year (*2021 Economic and Industry Outlook: perspectives on the second quarter*),

Box 1.1.1-b (continued)
Energy crisis and inflation:
a permanent or transitory relationship?

Chart A.
Global: growth in the average prices of energy and metal *commodities*

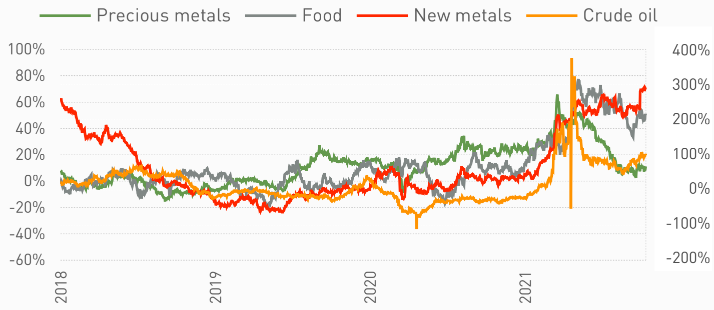


Chart B.
United States and United Kingdom: CPI inflation

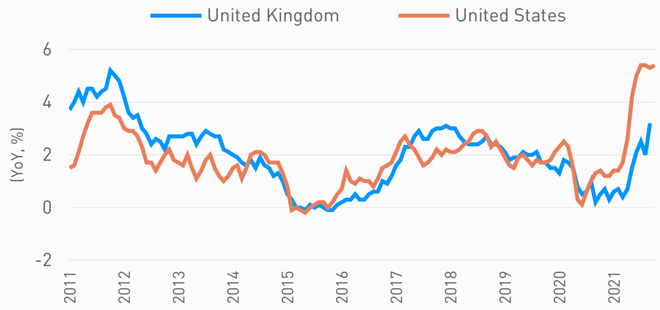


Chart C.
Eurozone: core and CPI inflation

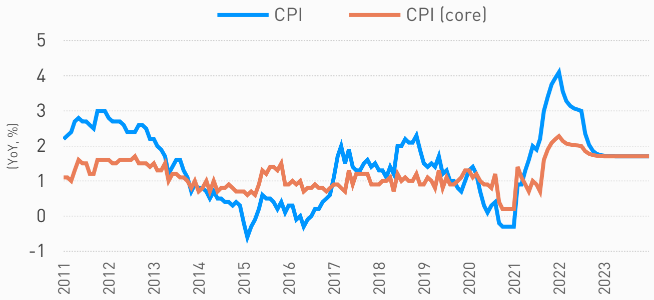
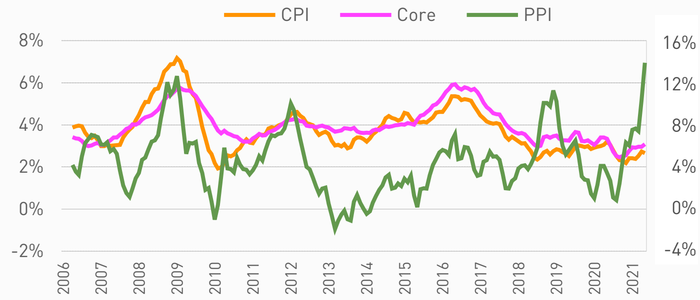


Chart D.
Latin America: core and CPI inflation and industrial prices



Source: MAPFRE Economics (based on Bloomberg data)

Box 1.1.1-b (continued)
Energy crisis and inflation:
a permanent or transitory relationship?

has revived the debate about the nature of the upturn in inflation. Below is a summary of the main arguments supporting the perspectives of inflation being both temporary and more permanent.

The debate: a temporary upturn in inflation

Following the surge in the price index in the United States and other parts of the world (see Charts E and F), followed by a continuation of the previous situation, with significantly higher inflation rates than those proposed by the central banks on both sides of the Atlantic and, in general, by the symptoms of secular stagnation, as described in our report *2017 Economic and industry outlook*. The global Phillips curves remain flat, resuscitating the debate about a global stagnation (as referred to in our report *2018 Economic and Industry Outlook*), the role of central banks and the generation of expectations.

This perspective would confirm that the upturn in inflation is being caused by:

1) An upturn in the price of raw materials.

2) The base effect of the drop in prices recorded between February and May 2020.

3) Temporary effects of the restricted supply caused by the pandemic

In general, we are faced with a situation in which the potential volatility of the price index is concerning, more so than a change in the growth trajectory, as the latter is unlikely in a context dominated by:

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

b) Perpetual contained consumption, with savings not translating into consumption (lower income, wealth, expectations, low elasticity to income impulses derived from aid, population aging, in addition to other factors).

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

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

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

The debate: a more permanent upturn in inflation

On the other hand, reasons have been suggested for believing that a new prolonged phase of higher inflation is actually here. These factors include:

1) Conceptual cases prevailing in recent years are now erroneous. For example:

- The increased price of crude is not temporary, rather the reversion to the previous trajectory of the past five years, consistent with the supply and demand margin existing today.

Box 1.1.1-b (continued)
Energy crisis and inflation:
a permanent or transitory relationship?

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

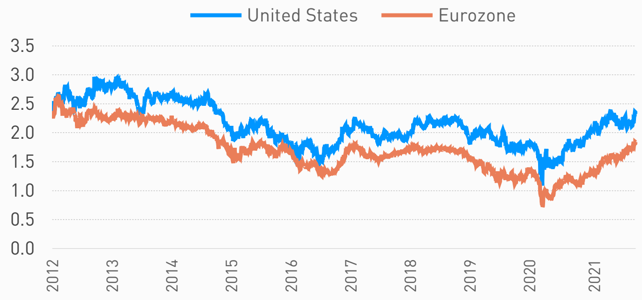


Chart F.
Developed markets: GDP deflator growth

Source: MAPFRE Economics (based on Bloomberg data)

- The deflationary force of China is running out as the country has started to change its growth model to one based on consumption, with greater exports of high added value goods. As a result, its terms of trade increase, its currency appreciates compared to the rest of the world and, therefore, it starts to export inflation.

- The validity of some claims as regards the so-called *global stagnation* start to disappear, in particular the connection between potential growth and the type of balance increases again, even if there are no gains in productivity.

2) Changes to the production structure.

- "Reshoring" of plants to the countries of origin due to problems of value chain disruption and adopting automation (increases in prices due to assuming sunk costs and higher salary costs).

- Repricing of production externalities, incorporation of costs through Pigouvian taxes (Carbon Border adjustment tax, Financial Tobin tax, Digital Tax, etc.)

Box 1.1.1-b (continued)
Energy crisis and inflation:
a permanent or transitory relationship?

- Energy transition (with greater costs in early adoption than hydrocarbon-based production).

3) Changes in the demographic and social structure: high rates of underemployment coexist with unmet demand for skilled workers in new technologies.

4) Effects of seigniorage, with the implicit monetization of the deficit causing inflation and inflation expectations to rise.

This situation provides central banks with a dilemma (whether to tighten monetary policy or not), which is reflected in the decision between the alternative of *"limiting a regressive tax like inflation, which disproportionately affects lower incomes (quickly tightening monetary policy)*, or *contributing to the recovery of activity and the recovery of income seen before Covid-19 (maintaining the current monetary policy)"*, and the decision to *"take action in good time and avoid a period of high inflation and the erosion of income as seen at the start of the 70s if the decision made is correct and this was as required by inflation"* or *"the possibility of making a mistake and tightening monetary policy too early and without justification, as per the mistakes made by the European Central Bank in 2011"*.

We are therefore faced with signs of inflation that may condition (depending on the temporary or permanent nature of said inflation) the type of macro-economic scenario in which we find ourselves during the coming months. However, the scales will tilt depending on the weight of the five core factors that will shape the monetary bias:

1) The aforementioned interpretation of inflation being *transitory or permanent*.

2) The *economic policy* priorities of certain countries that will promote stability over activity depending on the harm caused by Covid-19 (for example, Brazil and Mexico decided some months ago to tighten their monetary policy).

3) The conditioning factors of the *political economy* of other markets (for example, the recent reduction in rates in Turkey).

4) The *intellectual bias* of the monetary policy committees of central banks around the world, which to date has been slanted toward the belief that activity is globally low and that there is some level of transitivity between activity and inflation that must be encouraged (compared to the previous approach that a more general monetary vision was linked to a more reactive attitude toward inflation).

5) The *depletion of other monetary measures* on account of the scarring caused by the Covid-19 crisis.

Box 1.1.1-b (continued)
Energy crisis and inflation:
a permanent or transitory relationship?

Using the evidence available to date, we believe that inflation is transitory, and this has been reflected in the base scenario used in our report. Furthermore, we believe that the untimely tightening of monetary policy would result in a negative scenario (like the one described at the end of this box), which is why we believe the European Central Bank's approach will be maintained until well into 2024, whereas the approach taken by the Federal Reserve will be reversed toward the end of 2022.

A monetary policy scenario generated by the incorrect interpretation of inflation as transitory or permanent

The incorrect interpretation of inflation as transitory or permanent could have negative impacts on the global economic recovery and different regions of the world. This scenario would be negative, as the financial markets and real economy would be shaken by the significant deterioration in inflation expectations. Consumer prices would skyrocket due to the increase in the cost of raw materials, the increase in expectations as regards inflation and the disappointing recovery of participation in the labor market.

The outcome would be strong sales on bond markets, amidst growing expectations of an imminent tightening of monetary policy and an adjustment in the securities market. With consumers fighting to retain real income in light of the hike in prices, domestic demand would suffer significantly. World growth would slow down to 3.5% in 2022 and the pace of recovery would be disappointing through the entire scenario.

The assumptions behind a scenario like this would be as follows:

- *Supply would be affected in three ways.* World oil production would initially fall more than 1% below the benchmark. Inflation expectations persistently increase across the globe under this scenario by 100 basis points. Participation in the labor market recovers more slowly than in the base scenario.

- *Bond markets sell more quickly, as inflation perspectives take a turn for the worse.* The scale of the short-term increase in bond yields is comparable to the taper tantrum in 2014. The corporate debt risk premiums increase by more than half the quarterly high seen during the global financial crisis. Equity is adjusted and the relative size of drops across different countries reflects the level of overestimation.

- *Household income fails to keep pace with the increase in prices.* Real income in the United States falls by 2% and 3% during the final half of the scenario.

- *Public health restrictions follow the trend included in the benchmark scenario*. Interest rates in developed economies also remain in line with our benchmark scenario, despite the increase in inflation and expectations of a faster tightening of monetary policies.

Box 1.1.1-c
Monetary policy update

European Central Bank

September 9, the European Central Bank (ECB) announced that interest rates will remain unchanged (0% for loan facilities and -0.5% for deposit facilities). In terms of asset purchases, it reported plans to moderately slow the pace of the Pandemic Emergency Purchase Program (PEPP), which could be positioned at approximately 60- 70 billion euros per month (previously 80 billion euros). With this, the ECB remains committed to continuing the PEPP until at least March 2022, while the reinvestment of maturing bonds could be extended until at least the end of 2023 (see Chart A). As for the Asset Purchase Program (APP), the pace of purchases will continue at 20 billion euros per month for as long as necessary to strengthen the accommodative impact.

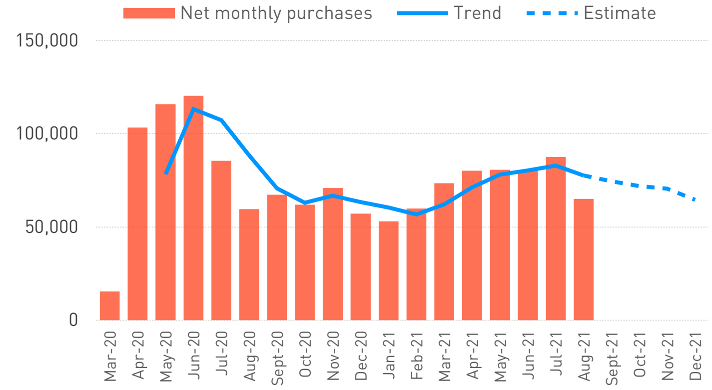
The ECB also presented new macroeconomic forecasts, with an upward revision in terms of GDP to 5.0% for this year and 4.6% next year (compared to the June forecasts of 4.6% and 4.7%, respectively). Additionally, the ECB once again forecast new upturns in inflation, anticipated to be 2.2% this year and 1.7% next year (compared to the previous estimations of 1.9% and 1.5%, respectively).

In this context, and amid higher market-based inflation forecasts, the scenario initially viewed as transitory could either be prolonged, should the supply bottlenecks derived from the pandemic continue, or even lead to persistent increases if the impact is transferred to wages (see Chart B).

Assessment

The most advanced phase of economic recovery, supported by vaccination rates above 70% and reduced restrictions that generate more confidence in the private sector, allows growth and inflation prospects to be revised slightly upwards. At this stage, although uncertainty remains high, a central scenario has emerged in which the support of monetary policy gradually starts to decline.

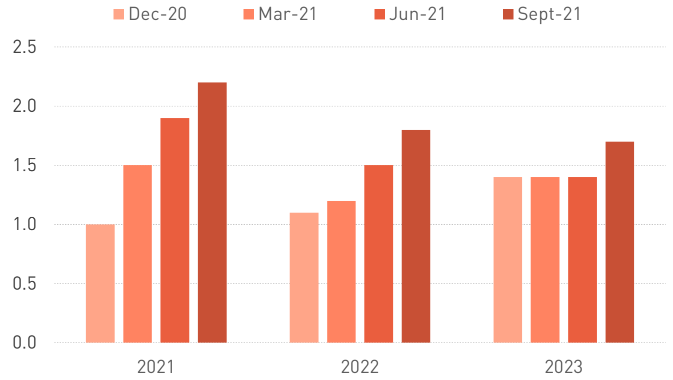
Chart A.
Eurozone: PEPP monthly purchases
(millions of euros)



Source: MAPFRE Economics (based on BCE data)

Box 1.1.1-c (continued)
Monetary policy update

Chart B.
Eurozone: inflation forecasts
(%)



Source: MAPFRE Economics (based on BCE data)

However, the stronger driving force of consumption not accompanied by supply chains, which remain subject to turbulence, could continue to cause imbalances between supply and demand. This instability, whether temporary or persistent, continues to result in higher inflation rates that, if transmitted to wages, could feed back into the process.

In this sense, with a still expansionary fiscal policy, significant recovery in employment levels, consumers' increased sensitivity to inflation, and evidence of a supply shock that is unlikely to disappear in the short term, the risk of reactivating the Phillips curve could cause a change in monetary policy bias not anticipated by agents.

The Federal Reserve

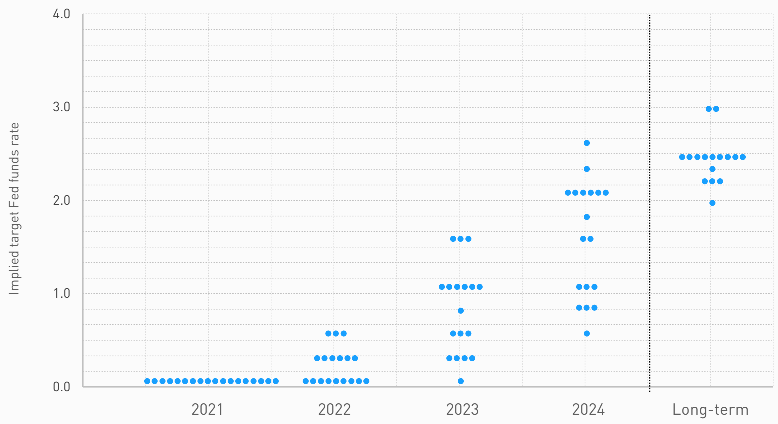
Meanwhile, the U.S. Federal Reserve kept its monetary policy unchanged, unanimously fixing interest rates in the 0%–0.25% range, as well as the monthly pace and composition of asset purchases (120 billion dollars per month for bond purchases).

As for interest rates, the dot plot projections by members of the Federal Open Market Committee (FOMC) moved toward a median favoring a rate hike in 2022, with two more participants (compared to the previous vote) seeing the case for this possibility. This was especially due to inflation (underlying inflation was revised up to 3.7% in 2021) and more stable unemployment rates in the medium term (see Chart C).

Meanwhile, Federal Reserve Chair Jerome Powell indicated that clear progress has been made on inflation and unemployment targets and that, should this rate of convergence continue, the pace of purchases will start to decrease gradually, probably with an official announcement in November. The Fed could wrap up the tapering of purchases by the middle of next year, he estimated.

Box 1.1.1-c (continued)
Monetary policy update

Chart C.
Federal Reserve dot plot

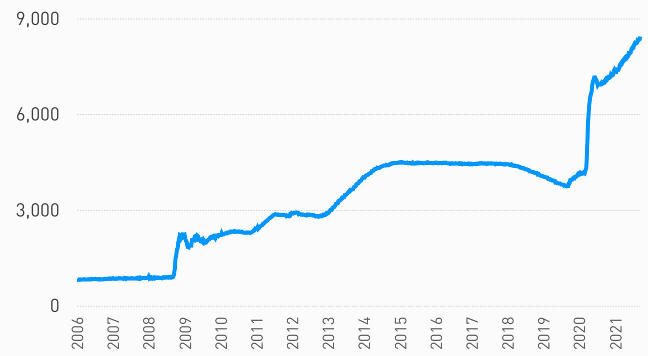


Source: MAPFRE Economic Research (based on Federal Reserve data)

Assessment

As mentioned in the monetary policy update in our previous quarterly report, as the data confirms a substantial improvement in the U.S. economy, the foundations are laid for a less accommodative monetary policy, something that, in the words of J. Powell himself, "could soon be justified." While the FOMC's dominant narrative continues to make the start of the process contingent on the expected recovery in employment, less transitory and more persistent inflation forecasts are reducing the

Chart D.
United States: total Federal Reserve assets
(billions of USD)



Source: MAPFRE Economics (based on Federal Reserve data)

After the announcement was postponed at the Jackson Hole Symposium, as we predicted, a decision justified by the negative job report from August, the official confirmation is expected to come at the December meeting and should be conditional on an improvement in the September employment data. As for the pace of asset purchases, the cut could be around 15- 20 billion dollars per month (see Chart D).

Box 1.1.1-c (continued)
Monetary policy update

underlying fundamentals after the tolerance to its flexible average inflation targeting. This is partially compromising its dual mandate and encouraging us to reconsider the possibility of higher inflation expectations and increased friction in wage negotiations expanding to more sectors.

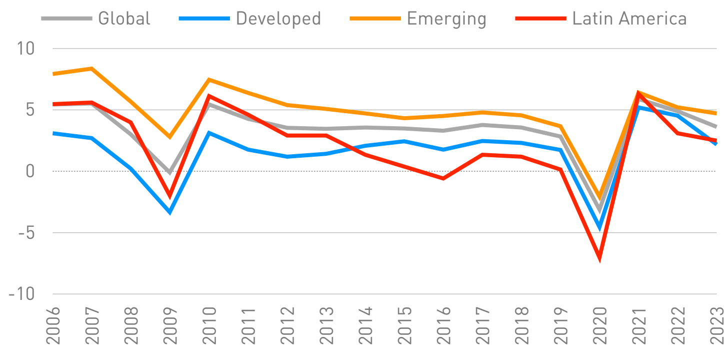
Thus, and despite a risk map where the attention is shifting back to China, in the short term, the job market would continue to absorb the excess capacity with the support of inflation data still on the rise, allowing a gradual withdrawal of stimulus measures through lower purchases on the balance sheet. In the longer term, efforts to end quantitative easing and regain some maneuvering room could face a scenario in which the normalization of rates leads to a neutral interest rate and a balance sheet with a range of different portfolio assets compared to the pre-pandemic period, a result of profound structural changes.

The alternative scenario

On the other hand, the alternative scenario (*stressed scenario*) to the one described above, is the scenario in which inflation is so persistent that the market is taken aback by the more aggressive monetary policy, leading to nominal volatility, a worsening of lending conditions and, in turn, countless problems for consumers and, therefore, activity, with global GDP growth falling by approximately half a percent. However, it should be noted that this does not pose a risk of recession, and much less a risk of stagflation.

Based on the risk assessment described in the next section of this report, the likelihood of this alternative scenario is pitched too low; the solvency problems experienced by the Chinese economy have been partially reflected in Evergrande, persistent inflation that is eroding income; financial risks are higher in a scenario of non-banking financing like the one we are currently seeing; and geopolitical tensions, despite being lower, remain abundant and recurring. In the context of the weaknesses,

Chart 1.1.1-j
Global: real GDP growth
(%, YoY)



Source: MAPFRE Economics (based on IMF data) vulnerabilities, slowdown in growth and inflation, Latin America is in a vulnerable position on account of its weak monetary, fiscal and private savings margin, which requires close observation (see Chart 1.1.1-j).

1.1.2 Risk assessment

Chart 1.1.2 shows the updated risk map for the global economy. The details of this analysis are presented below, in terms of the seven main risks identified on the international horizon: global governance, global debt, sovereign-financial crisis in China, economic policy, geopolitical crisis, climate change and vaccine against Covid-19.

Global governance

In the United States, the Biden administration is pursuing a line of soothing foreign relations, launching talks with those who had experienced greatest tension with his predecessor (the disorderly departure from Afghanistan aside), with an outlook in China that would appear to suggest the pursuit of diplomatic coordination despite growing tension between the two powers, relations with Russia stabilizing under mutual interests and a foreign policy with Europe that, despite remaining favorable, seems to have deteriorated somewhat. In the European Union, despite the Brexit dispute remaining ongoing and tension arising with Poland and Hungary which pose a challenge in terms of the established relations, the political program remains stable and focused on making progress with the *Next Generation EU* program and the release of funds.

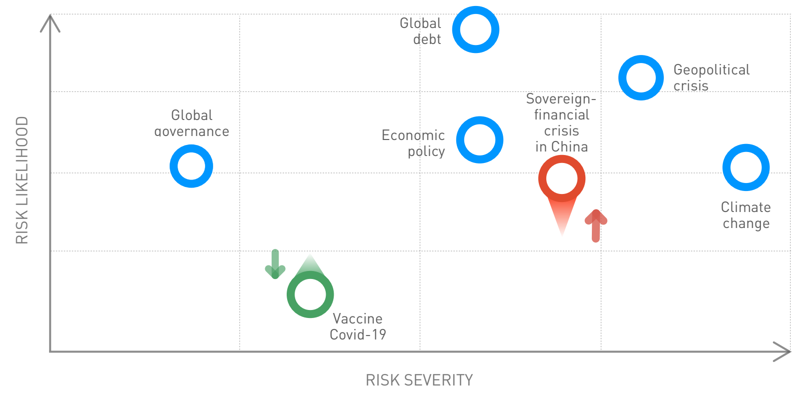
In terms of emerging countries, mainly in Latin America, the social unrest, uprisings and protests that were commonplace prior to the pandemic persist, with events in Brazil and Cuba adding to existing tensions (Chile, Ecuador, Bolivia and Colombia) demonstrating the institutional vulnerability in the region.

Global debt

Having hit a global high in 2020 (the highest seen since World War II) at $290.5 trillion (359.4% of world GDP), debt figures in the second quarter of 2021 fell again slightly in GDP percentage terms, to 353.4%, thanks to the strong economic rally and despite the $4.8 trillion of additional debt compared to the previous quarter. It is worth noting that this increase was led by the emerging economies, where an increase of $3.5 trillion brought the total to $91.5 trillion, compared to the increase of $1.3 trillion for developed economies.

In developed markets, the significant tax and monetary stimulus that have seen the public sector lead the leveraging process continue to increase; in terms of the private sector, households drove indebtedness, with financial and non-financial corporations recording less debt. In turn, in emerging markets, the higher volume of leveraging persisted in the non-

Chart 1.1.2
Global risks and vulnerabilities*



Source: MAPFRE Economics

*The arrow indicates the observed bias of the risk financial private sector (corporate and, to a lesser extent, households), followed by governments and, to a lesser extent, the finance sector.

Generally speaking, net debt in developed economies remains above the levels seen before the pandemic, supported by a highly accommodative monetary policy. However, with signs of a gradual return to normal, sensitivity to the process could result in some turbulence, with greater fiscal discipline required leading to a reduction in accumulated debt. In emerging economies, in turn, the risk is more evident as the process of tightening monetary policy is more advanced given the higher level of inflationary pressure that, in the case of reliance on external debt, could worsen on account of the association with the monetary policy of developed economies. Faced with this scenario, the sustainability of debt remains contingent upon a loose monetary policy, an economic recovery showing some signs of fatigue that could hamper the leveraging process and the slow reversal of deficits.

Finally, in the United States, as well as in several European Union countries, prospects for the corporate debt segment of the CLO's (Collateralized Debt Obligations) remain prudent. Despite the concern of Chinese contagion being low, the lack of action by the government could affect other local industries in a way that is more difficult to manage and with a disorganized impact on the financial system, with the effects potentially being felt abroad.

Sovereign-financial crisis in China

In the macroeconomic context, the Chinese economy continues to show the initial signs of fragility, due in part to the tightening of mobility restrictions during July and August, but also on account of the more complex national and international environment. Internationally, supply problems (with energy sources the main course for concern) continue to have a negative impact on company margins, the costs of which are not being felt by end consumers and have resulted in manufacturing GDP having contracted.

Nationally, concern over asset bubbles has finally materialized, encompassing the real-estate sector (the estimated weight of which accounts for around 20% of GDP) on account of Evergrande and Fantasia defaulting on payments. In this sense, and given the potentially systemic nature of the risk that this sector poses in relation to the local finance sector and the lesser known risk it poses in terms of its repercussions on shadow banking, the Chinese government is expected to intervene directly in the formal restructuring process and thus stabilize the real-estate sector. However, and despite the possibility of the government intervening to prevent a financial crisis, given the structure of production in the country and the high proportion of real-estate savings set aside by households, the adverse impact on potential growth could be significant and accelerated by a more wider reaching process of deleveraging and restructuring.

Economic policy

The outlook of the main central banks in terms of inflation continue to rest upon the idea that there will be a limited, transitory upturn. However, the likelihood of this scenario occurring are limited as global supply chains continue to come up against obstacles, bottlenecks are becoming more frequent and the scarcity of certain goods is spreading to the initial production phases consisting of raw materials and energy.

Although the recent shift in strategy seen amongst central banks seems to indicate a less relaxed approach in the guise of fewer asset purchases, with a gradual decrease in emergency support for the economy, the risk of making mistakes with monetary policy is on the up. This could be due to the risk of second-round effects that feed into the inflationary spiral and cause substantial changes in unanticipated monetary planning by agents or due to the anticipated process for returning to normal, with a view to gaining room to maneuver for the coming adjustment cycle, but for which the tightening and sensitivity capacity may be different to the capacity seen before the pandemic.

Geopolitical crisis

The global geopolitical framework will remain relatively stable, subject to some upward or downward adjustments. On the one hand, mitigating factors can mainly be attributed to: (i) progress with the Covid-19 vaccination campaign; (ii) the risk of fragmentation in the Eurozone that continues to recede, despite renewed tension with the United Kingdom, following the elections in Germany that, despite the coalition's policies yet to become clear, given the variety of ideas, could offer a relatively neutral political panorama, and thanks to the stability in Italy that continues to take strength under Mario Draghi; (iii) a decrease in tensions with Iran with conversations regarding a nuclear agreement having been restored, even though some fault lines remain, and (iv) a willingness in Russia to stabilize EU energy prices that could also speed up *Nord Stream 2*. On the other, the negative factors continue to focus on: (i) governance risks in different Latin American countries that seem to be on the up now that the worst of the pandemic is behind us; (ii) global supply chains that increase the risk of separation, and (iii) the risk of conflict in Taiwan, with the main stakeholders continuing to increase military intensity.

Climate change

Despite the spotlight being placed on sustainability as the main pillar of the public-private strategy to combat climate change, deeper regulations are still required, in particular in relation to the definition of green labels and taxonomies when it comes to naming and control to prevent cases of fraud in labeling as has occurred with different investment vehicles in recent months. In this sense, and as the current gas crisis demonstrates, the approach to the correct allocation of resources to clean energy, making it possible to reach zero emissions, needs to be long term, although without overlooking the needs arising during the transition phase given current energy consumption requirements and the a high reliance on traditional sources.

Covid-19 vaccine

The significant progress made with vaccinations (more than 6.76 billion doses worldwide, covering almost half the population with at least one dose), has made it possible to lift some global restrictions, in particular in developed countries, although the pace has been more gradual in emerging countries. Although less effective at combating new strains, the administration of a booster (which is gradually becoming more commonplace) is helping to make progress toward herd immunity, while new medication for the most serious cases offers additional support in fighting the pandemic. However, the risk scenario continues to reflect the latent risk of new strains that adversely affect their effectiveness, lower acceptance of boosters amongst the general public or the delay in its massive administration, highlighting the current imbalance between countries.

1.2 Forecasts and risk assessment in selected economies

1.2.1 United States

Having reached a high in the recovery process, there are now signs of a slowdown in inflation.

With 65% of the population having at least one dose (and 56.2% fully vaccinated), activities should be on the verge of returning to normal, although restrictions remain comparatively high. The stringency index[3] is once again above 60 due to the upturn in cases in September (see Chart 1.2.1-c).

Against this backdrop, the US economy grew by 1.6% QoQ (12.2% YoY) in the second quarter of 2021. However, it is expected that during the third and fourth quarters, the economy will slow down, in essence, on account of difficulties in the supply chain. Despite this, demand is strong thanks to fiscal and monetary stimuli, and the same can be said of the job market. This combination of demand with supply and industrial production difficulties will contribute further still to inflation (which is already tense on account of energy prices). Based on the foregoing, we have therefore adjusted our estimate downwards by eight tenths to 5.8% (from 6.6%) in 2021 and 4.3% (from 4.5%) in 2022 (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b).

Growth expectations are expected to contract on account of tension in the supply chain. Transportation bottlenecks are the greatest point of tension, but the limited excess capacity of domestic production, low inventory levels, sharp increases in the cost of goods (most notably in the case of raw materials), all added to employment challenges, are making it increasingly difficult for supply to keep up with the pace of demand.

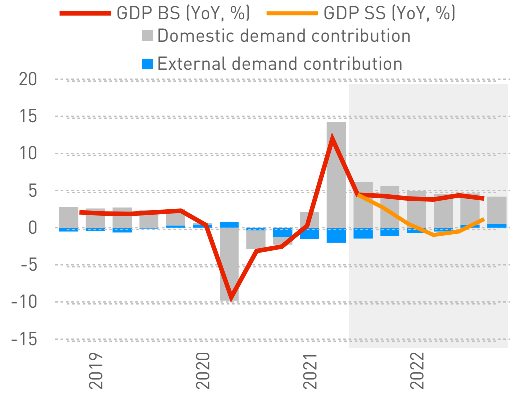
In terms of activity indicators, industrial production slowed down slightly in August (+5.9% from 6.6%), whereas orders picked up by 1.2%. The job market is strong, with unemployment dropping to 4.8% in September. The advanced Conference Board indicators continue to improve (+0.9% MoM in August). Retail sales were up by 1.8% MoM (without autos) in August and 0.7% in total, the difference being attributable to difficulties with factory deliveries. There are mixed signals when it comes to consumer confidence, with the Conference Board index down (109.3 points) and the University of Michigan index up (71.4 points) in October.

- **Some industries are experiencing difficulties with supplies, although demand remains strong.**
- **Inflationary pressure is starting to build and the Federal Reserve is adopting a change in tone, showing signs that tapering will begin in the near future.**
- **Expected interest-rate increases in 2022.**
- **The indicators are mixed, with strong employment but PMIs moderate.**
- **Our growth outlook for 2021 has been revised downward to 5.8%.**

In 2021, the economy will remain solid, although the impact of the scarcity of semiconductors in the automotive and electronics industry will contain expectations. Supply-chain problems in various sectors will constrict supply, just when demand is at its strongest. The foregoing, combined with the fact that the job market remains strong and energy prices are stressed, will be a factor that sees inflation take hold.

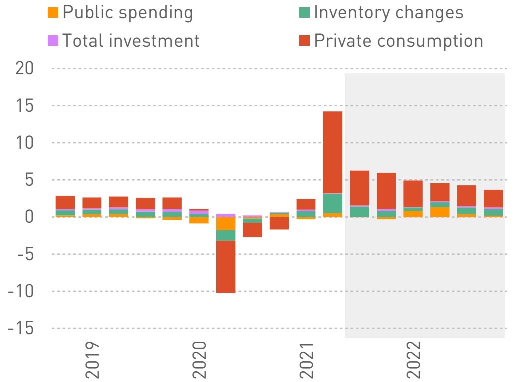
Inflation stood at 5.4% in September, with underlying inflation at 4.0% and PCE inflation, used by the Federal Reserve, at 4.3%. Inflationary pressure can mainly be seen in fuel, gas and electricity, in addition to other commodities. This tension, which may not be as transitory as originally believed, could result in tapering and an increase in interest rates. As expected, at the September meeting of the Federal Reserve, it was decided that in the short term, a reduction in asset purchases (tapering) might begin, with a formal announcement to be made in November prior to this starting in January or February. The signs suggest that this process would end in mid-2022, with a reduction of $15 billion per month. Another

Chart 1.2.1-a
United States: GDP breakdown and forecasts



Source: MAPFRE Economics (based on Federal Reserve data)

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



Source: MAPFRE Economics (based on Federal Reserve data)

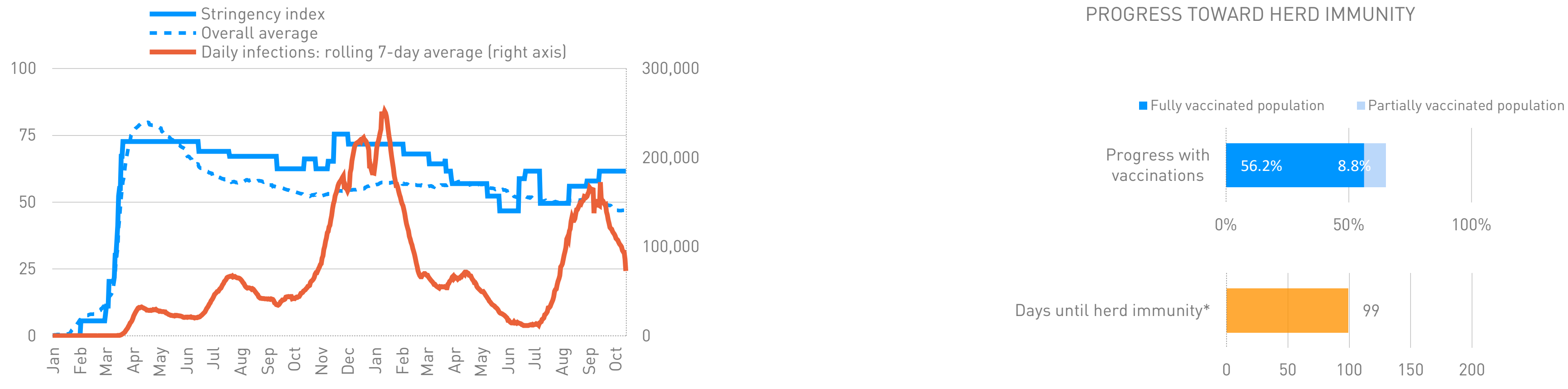
Table 1.2.1
United States: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY)	1.7	2.3	2.9	2.3	-3.4	5.8	4.3	5.0	0.3
Domestic demand contribution	1.8	2.5	3.3	2.5	-3.3	7.2	4.3	6.5	-0.1
External demand contribution	-0.1	-0.2	-0.3	-0.2	-0.1	-1.4	-0.1	-1.6	0.4
Private consumption contribution	1.7	1.7	2.0	1.5	-2.6	5.7	2.8	5.2	0.2
Total investment contribution	0.4	0.8	0.9	0.7	-0.3	1.5	0.7	1.3	-0.6
Public spending contribution	0.3	0.0	0.2	0.3	0.3	0.2	0.1	0.2	0.1
Private consumption (% YoY)	2.5	2.4	2.9	2.2	-3.8	8.0	4.0	7.4	0.3
Public consumption (% YoY)	1.9	0.0	1.2	2.0	2.0	1.2	1.0	1.1	1.0
Total investment (% YoY)	2.1	3.8	4.4	3.1	-1.5	6.4	3.4	5.9	-2.7
Exports (% YoY)	0.4	4.1	2.8	-0.1	-13.6	4.4	8.5	3.9	4.8
Imports (% YoY)	1.5	4.4	4.1	1.1	-8.9	13.6	4.9	13.2	-0.0
Unemployment rate (%, last quarter)	4.8	4.1	3.8	3.6	6.8	4.5	3.9	4.7	4.7
Inflation (% YoY, last quarter)	2.1	2.1	1.9	2.3	1.4	5.2	2.6	5.8	2.8
Fiscal balance (% of GDP)	-5.4	-4.2	-6.1	-6.3	-15.3	-11.9	-6.2	-12.0	-7.5
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Trade balance (% of GDP)	-4.1	-4.2	-4.3	-4.1	-4.3	-4.8	-4.5	-4.8	-4.3
Current account balance (% of GDP)	-2.1	-1.9	-2.1	-2.2	-2.9	-3.5	-3.3	-3.5	-3.0
Official interest rate (end of period)	0.75	1.50	2.50	1.75	0.25	0.25	0.50	0.25	0.00
3-month interest rate (end of period)	1.00	1.69	2.81	1.91	0.24	0.14	0.52	0.21	0.35
10-year interest rate (end of period)	2.45	2.40	2.69	1.92	0.93	1.82	2.63	2.00	2.68
Exchange rate vs. US dollar (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate vs. euro (end of period)	1.05	1.20	1.15	1.12	1.23	1.15	1.20	1.15	1.17
Private lending (% YoY, average)	3.3	6.9	4.6	5.3	6.0	15.0	4.2	14.7	1.1
Household lending (% YoY, average)	2.1	3.4	3.5	3.0	3.4	6.8	7.9	6.8	7.7
P.S. non-financial lending (% YoY, average)	5.2	6.1	9.1	6.6	8.7	2.1	5.2	2.1	5.2
P.S. financial lending (% YoY, average)	4.3	2.9	2.2	2.2	5.5	3.9	2.2	3.9	3.1
Savings rate (% avg. disp. income)	7.0	7.3	7.6	7.6	16.4	12.5	7.5	12.7	9.3

Source: MAPFRE Economics (based on Federal Reserve data)
Forecast end date: October 18, 2021.

Click here to access the interactive version of this information

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

*Based on vaccinating 75% of the total population

conclusion reached at the meeting was to increase the interest rateforecast curve, bringing forward the first increase to the end of 2022 despite initially being planned for June 2023. For now, the interest rate on Federal Funds remains between 0% and 0.25%.

The US Senate has approved increasing the debt ceiling by $480 billion and the Chamber of Representatives is expected to approve the draft law in the near future. Once President Biden signs the draft law, this will help avoid the Treasury defaulting on its payments, which would be cause for concern on the financial markets. However, this increase in debt ceiling freedom should only last until the beginning of December, meaning that the obstacle posed by the debt ceiling will only have been dodged for two months. As a result, as the beginning of December approaches, Congress and the Senate will once again have to address the topic; it may be a case of them being taken back to square one, where the danger of a government shutdown persists.

1.2.2 Eurozone

The recovery will continue, although it faces major headwinds.

The Eurozone better than expected experienced growth of 2.2% QoQ in the second quarter of 2021 (+14.3%, YoY), in a gradual context of activities resuming from May onwards as a result of a drop in infection rates, the vaccination campaign reaching 68.3% of the population (with 64.2% fully vaccinated) and the lifting of restrictions on activities (see Chart 1.2.2-c). However, it is worth noting that this figure may be affected by the downward revision of Spanish GDP in the second quarter. The main drivers of growth were private consumption, up by 3.7%, government spending, up by 7.2%, and investment, up by 1.1%. Good progress was also made with industrial production in summer (+7.7% in July) and construction (+3.3%).

Analyzing surveys, it can be seen that in August, there were general contractions in the indexes , although some stabilized in September (Economic Sentiment and Industrial Confidence). The Purchasing Managers' Index (PMI) for September was down slightly compared to August, with the composite index at 54.3 points, manufacturing at 58.5 and services at 54.7. Confidence in retail trade was also down in September. Automotive production, in turn, faces difficulties as regards the supply of microchips, resulting in a decrease in production and sales. Against this backdrop, we have increased our GDP growth forecast to 5.0% (from 4.5%) for 2021, thanks to strong data in the second and third quarters, despite the slowdown. For 2022, expected GDP growth has been reduced by two tenths to 4.3% (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b).

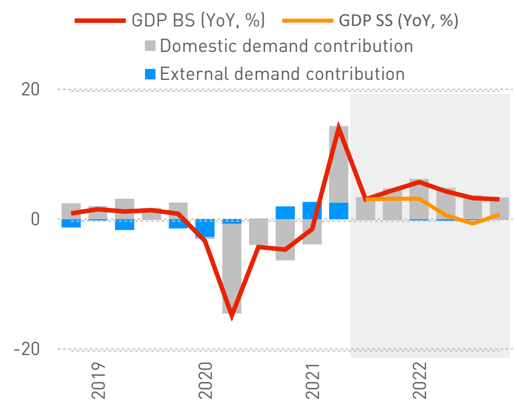
The Recovery Plan funds (*NextGenEU*), coming to a total of €750 billion, are now being distributed. This plan consists of direct aid and loans, which complement the EU budget (*Multiannual Financial Framework*) of €1.074 trillion. Adding these two amounts together, the total comes to €1.824 trillion. These funds will be paid out subject to the submission of specific investment projects, with priority given to those related to infrastructures, clean energy, digitalization and sustainability.

- **Strong second quarter of the year and the third is also expected to have been strong, although slowing down somewhat.**
- **Now, the Eurozone faces headwinds on account of the energy crisis and inflation.**
- **Private consumption is strong thanks to accumulated savings, although the expected levels of inflation will take the wind out of its sails.**
- **The supply chain crisis will have an impact on industrial production and sales.**
- **The GDP growth forecast for 2021 has been increased to 5.0%, down to 4.3% in 2022.**

Inflation in the Eurozone reached 3.4% in September, mainly due to the increase in fuel (+26.8%), gas (+15.1%) and electricity (+9.4%), with underlying inflation standing at 1.9%. This situation will continue to increase toward the end of the year, as the tension in terms of their prices will persist and as winter draws near. The moderation of these prices will depend on the price of gas and fuel on the international markets, and in the case of electricity, the production mix in each country and the price of CO2 emissions rights.

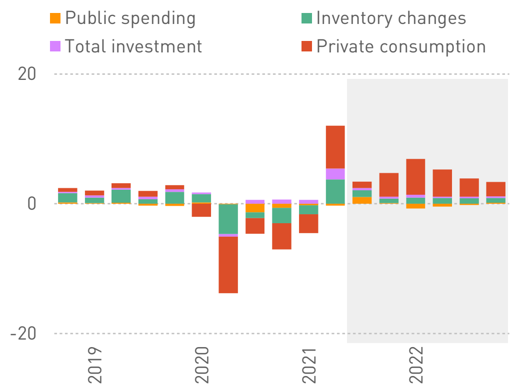
At its meeting on September 9, the European Central Bank (ECB) kept interest rates at 0% for the main financing operations and at -0.50% for the deposit facility, and is not expected to change them until inflation reaches 2% and remains the same into the future. The ECB will also continue to make net asset purchases in the framework of PEPP, with a total allocation of €1.85 billion until at least the end of March 2022 and, in any case, until it is deemed that the coronavirus crisis has ended. The conditions of the Asset Purchase Program (before the pandemic) and TLTRO III program (long-term financing for companies) will remain. The aim is to maintain favorable financing conditions for all sectors of the economy that are necessary for a sustained economic recovery and to safeguard price stability.

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)

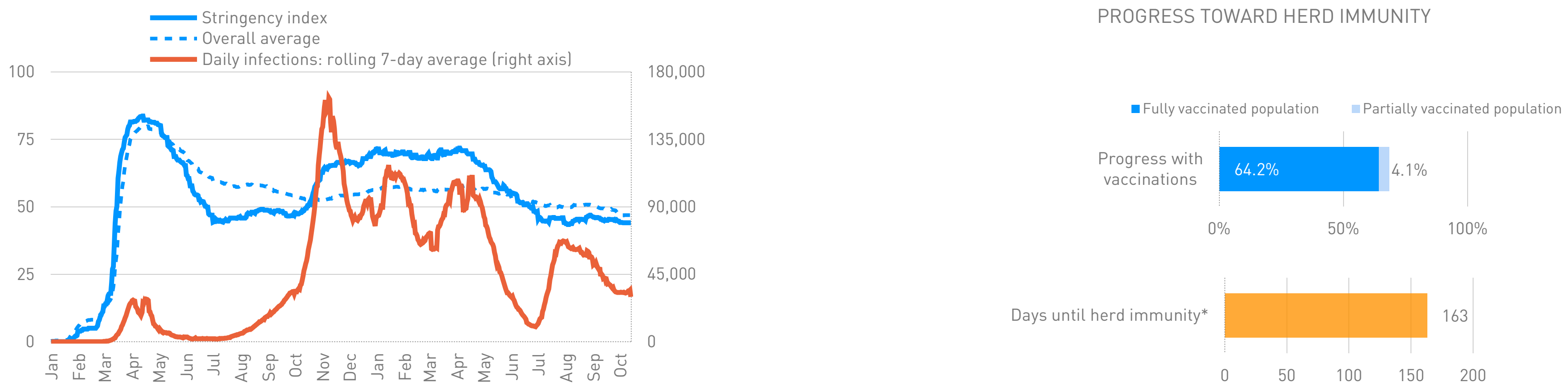
Table 1.2.2
Eurozone: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY)	1.8	2.8	1.8	1.5	-6.5	5.0	4.3	4.7	1.2
Domestic demand contribution	2.3	2.3	1.7	2.4	-6.1	3.7	4.5	3.4	1.5
External demand contribution	-0.4	0.5	0.1	-0.9	-0.4	1.3	-0.2	1.3	-0.3
Private consumption contribution	1.0	1.0	0.8	0.7	-4.2	1.9	3.7	1.7	2.2
Total investment contribution	0.8	0.9	0.6	1.4	-1.6	0.9	0.9	0.9	-0.3
Public spending contribution	0.4	0.2	0.2	0.4	0.3	0.7	0.3	0.7	0.3
Private consumption (% YoY)	1.9	1.9	1.5	1.4	-8.0	3.7	7.0	3.3	4.2
Public consumption (% YoY)	1.9	1.1	1.1	1.8	1.4	3.2	1.3	3.2	1.3
Total investment (% YoY)	3.9	4.2	3.1	6.4	-7.5	4.3	4.0	4.0	-1.2
Exports (% YoY)	2.9	6.0	3.6	2.5	-9.3	9.1	6.0	8.8	2.6
Imports (% YoY)	4.3	5.4	3.7	4.6	-9.2	6.9	6.9	6.7	3.4
Unemployment rate (%, last quarter)	9.8	8.7	7.9	7.4	8.2	7.7	7.8	8.0	8.7
Inflation (% YoY, last quarter)	0.7	1.4	1.9	1.0	-0.3	3.7	1.4	4.7	1.1
Fiscal balance (% of GDP)	-1.5	-0.9	-0.5	-0.6	-7.3	-6.5	-3.9	-6.6	-5.3
Primary fiscal balance (% of GDP)	0.6	1.0	1.4	1.0	-5.7	5.4	7.2	5.3	6.1
Trade balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance (% of GDP)	3.0	3.2	3.1	2.4	1.9	2.4	2.1	2.3	2.1
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (end of period)	-0.32	-0.33	-0.31	-0.38	-0.55	-0.54	-0.47	-0.52	-0.58
10-year interest rate (end of period)	0.93	1.13	1.17	0.32	-0.19	0.27	0.79	1.04	1.92
Exchange rate vs. US dollar (end of period)	1.05	1.20	1.15	1.12	1.23	1.15	1.20	1.15	1.17
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	1.5	2.3	2.8	3.3	2.9	3.7	4.9	3.6	3.8
P.S. non-financial lending (% YoY, average)	2.9	1.2	2.7	1.7	2.4	2.5	2.5	2.4	0.8
P.S. financial lending (% YoY, average)	3.8	1.7	0.0	1.1	-2.4	1.4	2.9	1.4	3.4
Savings rate (% avg. disp. income)	12.4	12.3	12.5	13.0	19.5	17.4	12.7	17.6	13.9

Source: MAPFRE Economics (based on ECB data)
Forecast end date: October 18, 2021.

Click here to access the interactive version of this information

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

*Based on vaccinating 75% of the total population

Risks in the Eurozone are on the up, as was expected as a result of the upturn in inflation, but now more so on account of the energy crisis, the exposure to gas prices, hikes in fuel price, the refusal of OPEC to increase production at a time at which there is an increase in demand; as winter draws near, inflation will set in at higher levels, posing an obstacle to the continued recovery. In turn, with the high vaccination rates seen, it is expected that restrictions will continue to be rolled back, and we expect that deployment of NGEU funds will have a long-lasting multiplier effect on the economy, by producing structural reforms and investment in infrastructure," they explain.

1.2.3 Spain

Risks increase: energy, inflation, automotive industry supplies and the real-estate industry

- **Tourism is recovering very slowly; in August, the figures were half the pre-Covid figures.**
- **2021 has gone well to date, with consumption, exports and public spending satisfying expectations.**
- **The energy crisis will pose an obstacle in the final quarter of the year and in 2022, unless corrective action is taken soon.**
- **The gradual withdrawal of pandemic aid, the increase in energy costs and the slow return of tourists will impact the hotel industry.**

The National Statistics Institute (INE) revised GDP for the second quarter of the year, down to 17.5% YoY and 1.1% QoQ (from 19.8% and 2.8%, respectively). This revision can be attributed to the fact that the data for June was not definitive in the previous publication. For the third quarter, growth of 3.3% YoY and 2.5% QoQ is expected; these estimates reflect that activity will for the most part have recovered with the easing of restrictions (stringency index of around 42%), thanks to the very significant reduction in the number of cases and the vaccination campaign having reached 81% of the population (see Chart 1.2.3-c).

Hospitality and tourism activities have reopened subject to conditions, which has contributed to a visible recovery, although down on 2019 (overnight stays of domestic tourists was down by 26% in August, and foreign tourists by 50% on 2019). Exports have recovered, although they are yet to meet pre-Covid levels and may increase by 10%, having contracted in 2020 by 20.2%. It is expected that in the third quarter, the rate of recovery will be better than in the second quarter (having been revised to +1.1% QoQ), as per Social Security affiliation data. The results of the Bank of Spain's Survey on Economic Activity suggest that companies believe that their revenues will increase in the third quarter.

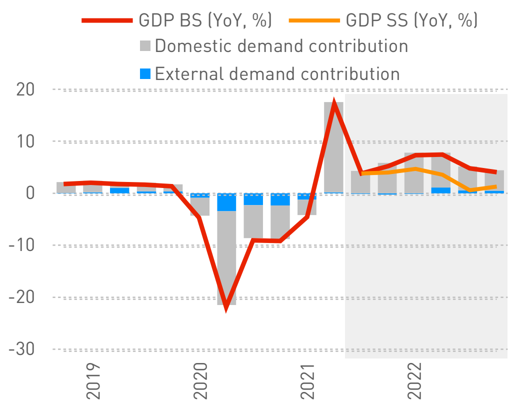
The EU's Economic Sentiment indicator has increased to 109.4, and consumer confidence (8.6 in September) is now at pre-Covid levels. The Purchasing Managers' Index (PMI) for September was down slightly, with the composite index at 57.0 points, manufacturing at 58.1 and services at 56.9. Furthermore, retail sales were also down slightly in August (-1.2%), and industrial production increased by 1.6% YoY. In turn, the rollout of projects associated with the NextGenEU program will help activity to recover. This will be reflected in an increase in GDP, which, in terms of growth rates, will be particularly significant up until mid-2022, as this is the period in which expenditure associated with NextGenEU is expected to increase most. Against this backdrop, we have adjusted our estimate for GDP growth to 5.7% in 2021 and 6.2% in 2022 (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b).

As regards inflation, it reached 4.0% YoY in September (leading indicator, and +0.8% MoM), driven by fuel, gas and unprocessed food. Underlying inflation increased to 1.0%, and the general CPI could end the year at an estimated average of 2.7%.

The risks faced in the final quarter of the year and into next year have increased, in particular inflation on account of rising energy bills due to increased gas, electricity and fuel prices The number of foreign tourists visiting Spain in August came to 5.1 million, practically half the figure recorded in a normal August.

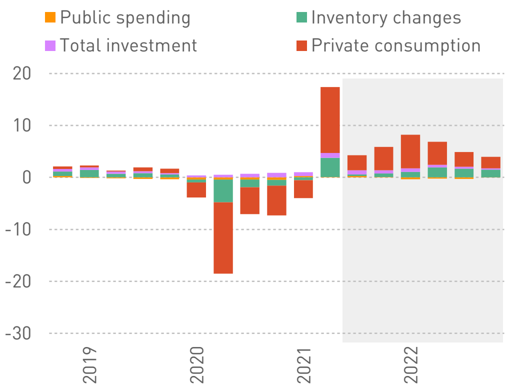
The effective harnessing of European Union funds is key to the recovery, whilst the withdrawal of temporary support offered to combat the pandemic will reveal which companies remain solvent. Small businesses, especially in the catering industry, are reeling from the drop in tourists and the rise in energy prices may increase pressure on them.

Chart 1.2.3-a
Spain: GDP breakdown and forecasts



Source: MAPFRE Economics (based on INE data)

Chart 1.2.3-b
Spain: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on INE data)

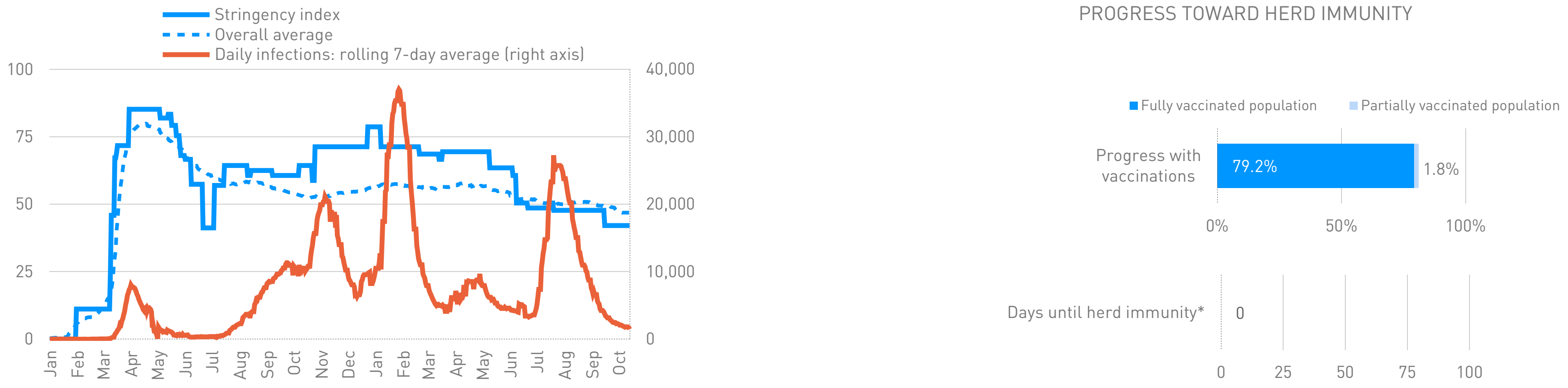
Table 1.2.3
Spain: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY)	3.0	3.0	2.3	2.1	-10.8	5.7	6.2	4.9	2.9
Domestic demand contribution	2.0	3.2	2.9	1.6	-8.8	5.8	5.7	5.3	2.0
External demand contribution	1.0	-0.2	-0.7	0.5	-2.1	-0.1	0.5	-0.4	0.9
Private consumption contribution	1.6	1.8	1.0	0.6	-6.8	4.0	4.0	3.5	2.2
Total investment contribution	0.4	1.3	1.2	0.9	-1.9	1.0	1.6	0.8	0.3
Public spending contribution	0.2	0.2	0.4	0.4	0.7	0.8	0.4	0.8	0.4
Private consumption (% YoY)	2.7	3.0	1.7	1.0	-12.0	7.0	6.9	6.2	3.8
Public consumption (% YoY)	1.0	1.0	2.3	2.0	3.3	3.7	2.0	3.6	2.0
Total investment (% YoY)	2.4	6.8	6.3	4.5	-9.5	4.5	7.8	4.2	1.7
Exports (% YoY)	5.4	5.5	1.7	2.5	-20.2	9.8	8.3	9.6	5.2
Imports (% YoY)	2.7	6.8	3.9	1.2	-15.2	11.5	6.9	11.2	2.6
Unemployment rate (%, last quarter)	18.6	16.6	14.5	13.8	16.1	14.3	14.7	14.6	15.7
Inflation (% YoY, last quarter)	1.6	1.1	1.2	0.8	-0.5	4.7	1.0	5.4	0.5
Fiscal balance (% of GDP)	-4.3	-3.0	-2.5	-2.9	-11.0	-7.6	-5.9	-7.8	-7.4
Primary fiscal balance (% of GDP)	-1.5	-0.5	-0.1	-0.6	-8.8	-5.5	-4.0	-5.6	-5.4
Trade balance (% of GDP)	-1.3	-1.9	-2.4	-2.2	-0.8	-2.4	-3.4	-2.5	-3.0
Current account balance (% of GDP)	3.2	2.8	1.9	2.1	0.8	1.0	1.3	0.9	1.8
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (end of period)	-0.32	-0.33	-0.31	-0.38	-0.55	-0.54	-0.47	-0.52	-0.58
10-year interest rate (end of period)	1.37	1.57	1.42	0.47	0.06	0.55	1.27	1.58	2.63
Exchange rate vs. US dollar (end of period)	1.05	1.20	1.15	1.12	1.23	1.15	1.20	1.15	1.17
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	-2.5	-1.4	-0.3	-0.2	-0.9	-0.5	2.6	-0.5	1.2
P.S. non-financial lending (% YoY, average)	-2.7	-1.1	-1.4	-0.6	2.4	2.1	2.4	1.7	-4.6
P.S. financial lending (% YoY, average)	-16.4	-7.9	-0.5	-4.9	3.1	5.5	3.0	5.6	3.9
Savings rate (% avg. disp. income)	7.5	6.2	5.9	8.6	15.8	9.5	5.2	9.7	6.1

Source: MAPFRE Economics (based on INE data)
Forecast end date: October 18, 2021.

Click here to access the interactive version of this information

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

*Based on vaccinating 75% of the total population

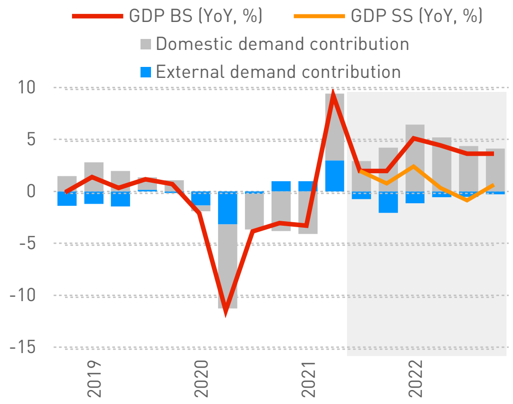
Furthermore, the crisis as regards the supply of chips is affecting automotive production, which will be reflected in a reduction of exports this year compared to the forecast.

1.2.4 Germany

Difficulties in the supply chain are undermining the recovery.

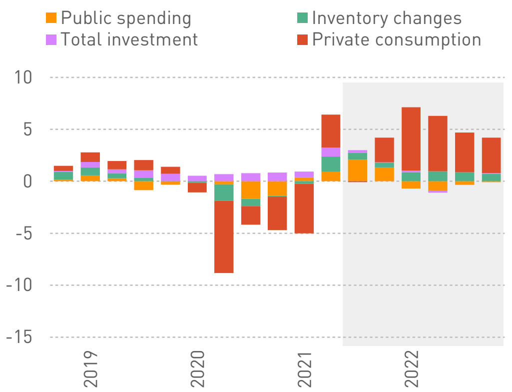
German GDP grew by 1.6% QoQ during the second quarter of the year (+9.8% YoY). Consumption was up by 3.2% QoQ (+5.3% YoY), investment by 0.5% QoQ (+11.8% YoY) and exports by 0.5% QoQ (+26.5% YoY). This upturn in activity followed the lifting of restrictions (stringency index at 55%), after the spread of the Delta strain saw restrictions remain high during the first quarter of the year. From September onwards, the number of infections has fallen again and the vaccination campaign has reached 68.3% of the population (65.2% fully vaccinated), meaning that restrictions on activities are expected to be eased (see Chart 1.2.4-c).

Gráfica 1.2.4-a
Germany:GDP breakdown and forecasts



Source: MAPFRE Economics (based on DESTATIS data)

Gráfica 1.2.4-b
Germany: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on DESTATIS data)

Tabla 1.2.4
Germany: main macroeconomic aggregates

	2016	2017	2018	2019	2020(e)	Base (EB) 2021(p)	Base (EB) 2022(p)	Estresado (EE) 2021(p)	Estresado (EE) 2022(p)
GDP (% YoY)	2.1	3.0	1.1	1.1	-4.9	3.1	4.4	2.2	0.8
Domestic demand contribution	2.8	2.7	1.6	1.8	-4.0	2.7	5.0	2.0	1.6
External demand contribution	-0.7	0.3	-0.5	-0.7	-0.9	0.4	-0.7	0.2	-0.8
Private consumption contribution	1.2	0.9	0.7	0.9	-3.2	0.5	4.8	-0.1	3.4
Total investment contribution	0.7	0.7	0.7	0.4	-0.6	0.8	0.9	0.5	-0.3
Public spending contribution	0.8	0.3	0.2	0.6	0.8	0.4	-0.0	0.4	-0.0
Private consumption (% YoY)	2.2	1.7	1.4	1.6	-6.1	0.6	9.1	-0.2	6.2
Public consumption (% YoY)	4.0	1.7	1.0	3.0	3.5	2.1	-0.0	1.9	-0.0
Total investment (% YoY)	3.6	3.3	3.5	1.9	-3.0	2.7	4.0	2.4	-1.7
Exports (% YoY)	2.3	5.6	2.5	1.1	-10.1	7.9	5.3	7.6	1.6
Imports (% YoY)	4.4	5.7	4.0	2.9	-9.2	8.2	7.4	8.0	3.6
Unemployment rate (%, last quarter)	6.0	5.5	5.1	5.0	6.2	5.4	5.2	5.5	6.4
Inflation (% YoY, last quarter)	1.5	1.4	1.6	1.5	-0.2	4.5	1.5	5.5	1.2
Fiscal balance (% of GDP)	1.2	1.3	1.9	1.5	-4.3	-4.5	-1.7	-4.6	-3.3
Primary fiscal balance (% of GDP)	2.4	2.4	2.7	2.3	-3.6	-4.0	-1.2	-4.1	-2.8
Trade balance (% of GDP)	8.0	7.8	6.8	6.3	5.6	4.6	4.5	4.6	4.2
Current account balance (% of GDP)	8.4	7.8	8.0	7.6	6.8	6.0	5.4	6.0	5.2
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (end of period)	-0.32	-0.33	-0.31	-0.38	-0.55	-0.54	-0.47	-0.52	-0.58
10-year interest rate (end of period)	0.21	0.43	0.25	-0.19	-0.58	-0.12	0.30	0.19	0.95
Exchange rate vs. US dollar (end of period)	1.05	1.20	1.15	1.12	1.23	1.15	1.20	1.15	1.17
Exchange rate vs. euro (end of period)	n,a,	n,a,	n,a,	n,a,	n,a,	n,a,	n,a,	n,a,	n,a,
Private lending (% YoY, average)	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,
Household lending (% YoY, average)	2.8	3.2	3.6	4.4	4.2	4.8	6.7	4.8	5.3
P.S. non-financial lending (% YoY, average)	2.4	3.9	7.3	4.6	3.5	2.7	3.9	2.7	3.5
P.S. financial lending (% YoY, average)	1.6	-1.6	3.4	11.1	9.1	8.9	6.1	8.9	7.2
Savings rate (% avg. disp. income)	10.4	10.6	11.3	10.7	16.2	15.1	9.6	15.3	10.7

Source: MAPFRE Economics (based on ISTAT data)
Forecast end date: October 18, 2021.

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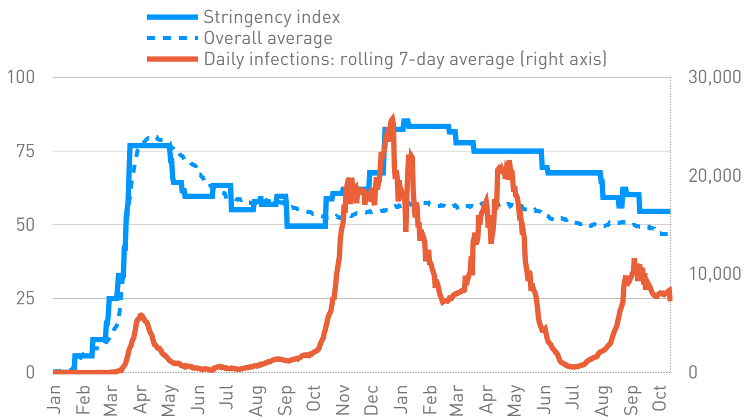
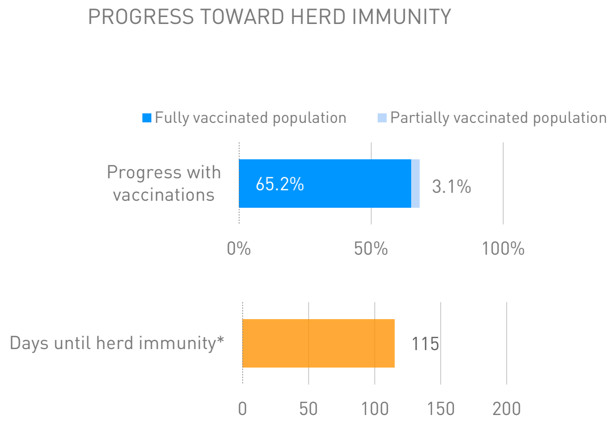
- **The GDP forecast has been revised for 2021 to 3.1%, with the forecast for 2022 remaining at 4.4%.**
- **Factory orders are up significantly, although industry is unable to keep pace on account of the supply difficulties faced.**
- **The increase in the cost of electricity is a proving to be a huge burden on industry.**

The GFK Consumer Confidence indicator improved to +0.3 for October, with the indicator for economic outlook bouncing back to 48.5 in September after falling to 40.8 points in August. Factory orders fell in August (-7.7% MoM), although they have increased for the year overall (+11.7%), and industrial production fell in August (-4.0% MoM, worse than expected, +1.7% YoY) due to supply problems. The Purchasing Managers' Indexes (PMI) for October were all down, with the composite index at 52.0 points, manufacturing at 58.2 and services at 52.4. Furthermore, the IFO business climate indexes have consistently fallen since June, and the ZEW economic outlook index have fallen consistently since May on account of the circumstances indicated above. Against this backdrop, we have reduced our GDP growth outlook for 2021 to 3.1%, and maintained the outlook for 2022 at 4.4%%, based on the assumption that the supply chain will return to normal and that industrial production and exports will resume (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b).

Inflation reached 4.0% in September, with the harmonized CPI at 4.1% and the CPI excluding energy at 3.1%. Since the start of the year, this increase has also been seen in food (+4.1%), although electricity, gas and other

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





Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

*Based on vaccinating 75% of the total population

fuels (+14.3%) and motor-vehicle fuels (+26.7%) account for the largest part of this increase. Industrial production is expected to bounce back and the supply problems faced by industries are expected to be resolved, in particular those faced by the automotive industry. This will allow manufacturing to close the gap to factory orders. As the use of capacity is also high, it is expected that investment in 2022 will be fortified. The main risk is that the cost of energy will remain high, with the subsequent impact on consumption by industry and, in turn, rising prices. However, if inflation and inflation expectations take root, a vicious cycle of inflation may ensue, with higher interest rates hampering the recovery.

At a political level, the September 26 elections were won by the SPD, securing 25.7% of the votes, against the 24.1% obtained by the CDU/CSU. Germany is potentially headed for a "traffic-light coalition", which will see the Social Democrats (SPD) join an alliance with the Greens and the Liberals (FDP). However, the negotiations may be difficult. A possible coalition between the conservative CDU/CSU, the Greens and the Liberals is not off the table just yet.

1.2.5 Italy

A strong second quarter has been a good omen for 2021, although a slowdown is on the horizon.

Italian economic growth in the second quarter of 2021 was better than expected, up by 2.7% QoQ (+17.2% YoY), thanks to the significant reduction in the spread of the coronavirus and a stringency index that remained relatively high (69%). The Italian government has set its sights on controlling the pandemic this autumn and winter, with 76.6% of the population now vaccinated (at least one dose), and it remains one of the strictest countries in Europe as regards use of the Covid passport to access public spaces (see Chart 1.2.5-c).

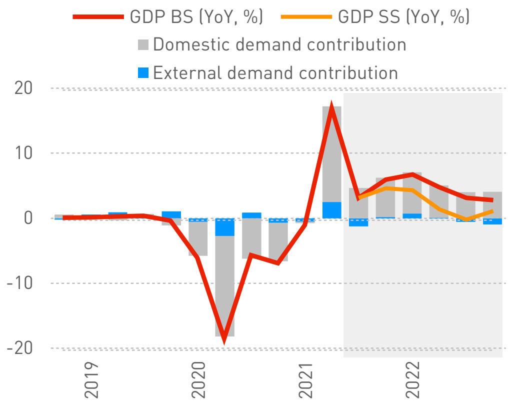
Private consumption, investment, exports and imports have all performed strongly, with government spending down. Industrial production in August stalled at -0.2% MoM (+0.0% YoY) after strong data in July (+1.0 MoM, +7.2% YoY). Exports grew by 3.2% QoQ (+38% YoY). The Purchasing Managers' Indexes (PMIs) receded slightly in September, although they remain in the expansion zone, with the composite index at 56.6 points, the manufacturing index at 59.7 and the services index at 55.5. We have therefore improved the private consumption, investment and export forecasts for the rest of the year and estimate that 2021 will close with growth of 6.2% (up from 4.9%); for 2022, we have maintained our estimate of 4.6% (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b).

The government has also focused its attention on reforms, having completed the justice reforms before summer. In October, the framework of ambitious fiscal reform encompassing almost all aspects of the fiscal system was approved. In it, simplification is the main objective, rather than the total reduction of fiscal pressure. However, it should have a positive impact on the operating environment of companies and, therefore, productivity. Short term tax breaks for employees could drive consumption in 2022-23. Furthermore, the way in which to use *NextGenEU* funds poses another challenge, as does the approval of the budgets, which contain some tax consolidation measures, although the EU fiscal rules have been temporarily suspended on account of the crisis.

Elsewhere, inflation in September stood at 3.0%

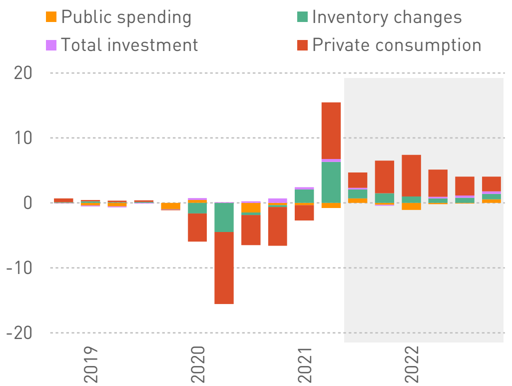
- **Industrial production and exports remain strong.**
- **We have revised our GDP growth forecast upward to 6.2% in 2021, keeping the 2022 forecast at 4.6%.**
- **Administrative and fiscal reforms are the next objectives when it comes to achieving more long-term fiscal consolidation.**
- **A slowdown is inevitable, with the subsidies made available to overcome the pandemic coming to an end, the increase in inflation and possible tightening of financing conditions.**

Chart 1.2.5-a
Italy: GDP breakdown and forecasts



Source: MAPFRE Economics (based on ISTAT data)

Chart 1.2.5-b
Italy: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on ISTAT data)

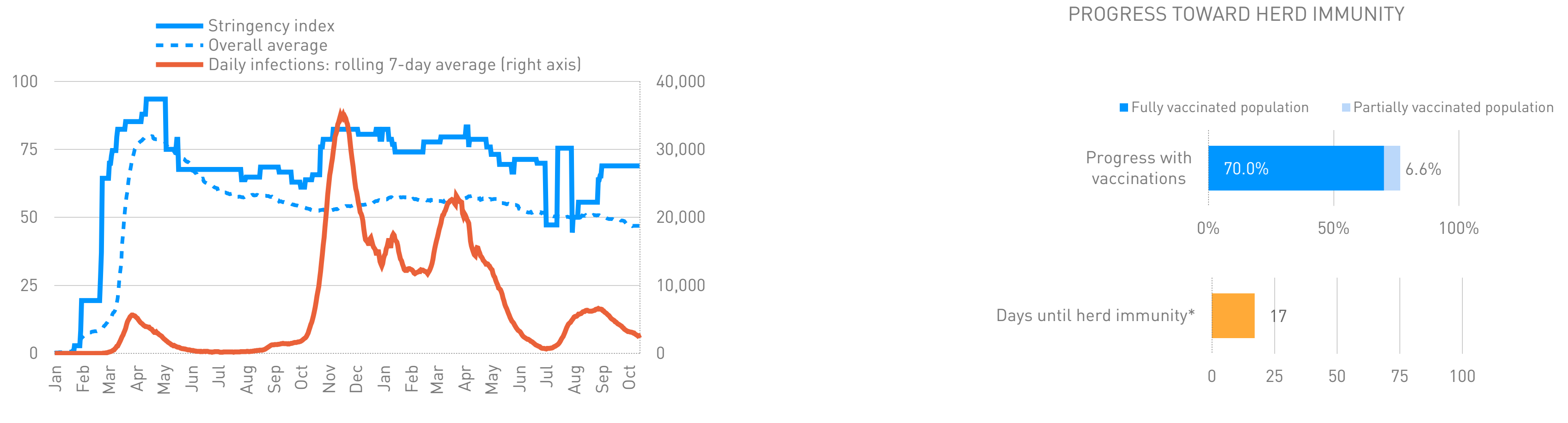
Table 1.2.5
Italy: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY)	1.4	1.7	0.8	0.4	-9.0	6.2	4.6	5.8	1.9
Domestic demand contribution	2.7	3.3	1.9	0.0	-11.7	10.2	7.8	5.7	2.1
External demand contribution	-1.3	-1.6	-1.1	0.4	2.7	-4.0	-3.2	0.1	-0.2
Private consumption contribution	0.7	0.9	0.6	0.1	-6.4	3.2	4.0	3.0	2.2
Total investment contribution	1.1	1.9	0.8	-0.1	-3.7	4.1	2.8	2.9	-0.1
Public spending contribution	0.1	-0.0	0.0	-0.1	0.4	0.2	0.2	0.2	0.2
Private consumption (% YoY)	1.2	1.5	1.0	0.2	-10.8	5.5	6.6	5.0	3.7
Public consumption (% YoY)	0.7	-0.1	0.1	-0.5	1.9	1.0	1.2	1.0	1.2
Total investment (% YoY)	4.2	6.5	2.8	-0.5	-13.4	13.9	9.1	14.7	-0.4
Exports (% YoY)	1.9	6.0	1.6	1.8	-14.7	13.4	7.8	13.1	4.3
Imports (% YoY)	-1.7	-1.9	-3.4	5.2	19.4	-2.2	-3.2	13.6	5.3
Unemployment rate (%, last quarter)	11.8	11.0	10.6	9.8	9.9	9.3	9.2	9.5	9.9
Inflation (% YoY, last quarter)	0.5	0.9	1.1	0.5	-0.2	3.8	1.0	4.6	0.2
Fiscal balance (% of GDP)	-2.4	-2.4	-2.2	-1.5	-9.6	-9.4	-5.7	-9.5	-7.1
Primary fiscal balance (% of GDP)	1.5	1.4	1.4	1.9	-6.1	-6.2	-2.6	-6.3	-3.9
Trade balance (% of GDP)	3.5	3.1	2.6	3.4	4.1	3.3	2.0	3.3	2.2
Current account balance (% of GDP)	2.6	2.6	2.6	3.3	3.8	2.6	1.3	2.5	1.4
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (end of period)	-0.32	-0.33	-0.31	-0.38	-0.55	-0.54	-0.47	-0.52	-0.58
10-year interest rate (end of period)	1.82	2.00	2.77	1.43	0.52	0.96	1.71	1.95	3.04
Exchange rate vs. US dollar (end of period)	1.05	1.20	1.15	1.12	1.23	1.15	1.20	1.15	1.17
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	0.5	1.2	1.8	2.2	1.2	3.7	5.1	3.7	3.9
P.S. non-financial lending (% YoY, average)	-2.1	-3.0	-0.4	-0.6	2.7	0.1	0.7	-0.3	-4.9
P.S. financial lending (% YoY, average)	-3.9	-13.2	25.1	-5.8	-6.9	13.6	1.6	13.3	-0.7
Savings rate (% avg. disp. income)	10.2	9.7	9.6	9.5	17.0	13.6	9.3	13.8	11.2

Source: MAPFRE Economics (based on ISTAT data)
Forecast end date: October 18, 2021.

Click here to access the interactive version of this information

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



*Based on vaccinating 75% of the total population

Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

YoY (harmonized), +1.1% MoM (underlying inflation, +1.5% YoY). This rise can be attributed to fuel, electricity and transport, although the clothing and hotel industries are also helping to speed up these increases.

In terms of upward risks, consumption may be driven by accumulated savings and the strong performance of exports. Downward risks include the impact of the energy crisis on inflation, the possible tightening of financial conditions and the gradual impact of the withdrawal of support to overcome the pandemic, revealing the real harm done to small and medium companies by the pandemic. How the *NextGenEU* funds are managed will also be key to the continued recovery. Finally, presidential elections will take place in February 2022, and consideration must be given to their potential impact on politics and the economy in general.

1.2.6 United Kingdom

Growth and inflation revised upward in anticipation of a possible increase in interest rates.

- The revised GDP growth for the second quarter sees estimated growth for 2021 increase to 6.9%.
- Inflation has taken root, and the Bank of England may bring forward interest rate rises to the final quarter of 2021.
- There are signs of a slowdown in activity, which will become more evident if financing conditions are tightened.
- High energy prices and problems with the logistics chain will contribute to the slowdown.

The final GDP figure for the second quarter of 2021 was revised upward to 5.5% QoQ, from 4.4% QoQ (the YoY figure, on account of the base effect, stood at +23.6%). Furthermore, consumption has grown by +7.2% QoQ, government spending by +8.1% QoQ, investment by +0.8%, exports by +6.2% QoQ and imports by +2.4% QoQ. All of this comes against a backdrop of resilience in the number of coronavirus infections, vaccination figures coming to 72.4% of the population (66.5% fully vaccinated) and restrictions that have gradually been eased over the course of the year (see Chart 1.2.6-c).

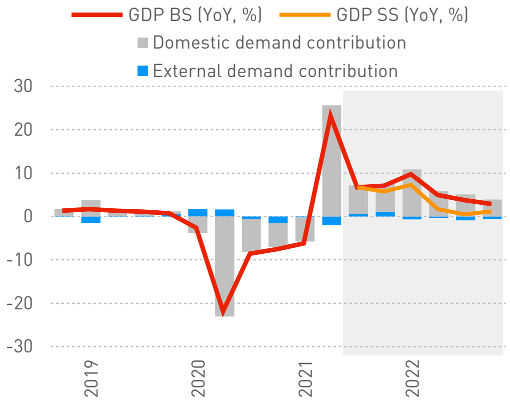
At the end of September and start of October, the United Kingdom was suffering from supply problems, both in terms of fuel and in the logistics network in general, due to a lack of truck drivers, which can be attributed to the withdrawal of residence permits for foreign truck drivers. This resulted in the government drafting in army drivers and promising to review residence permits for truck drivers. In relation to the energy crisis triggered by gas prices, projects may be launched to enhance investment in renewable and nuclear energy; this announcement came in the run up to the COP26 climate conference to be held in Scotland in November.

Thus, given the problems faced with logistics, supply (in particular, electronic chips to manufacture vehicles) and fuel, there is expected to be a slowdown in activity in the third and fourth quarters of the year. Retail sales fell in July (-3.2% MoM) and August (-1.2% MoM). Furthermore, new vehicle registrations fell in July and August, before appearing to return to normal in September. Consumer confidence (GFK) fell once again in October to -17, and the Purchasing Manager Indexes (PMIs) in October remained stable, with the composite index at 56.8 and the services index at 58.0, although manufacturing was up 0.6 points to 57.7. Against this mixed backdrop, our GDP growth estimate has been revised up to 6.9% for 2021 (essentially due to the GDP revision in the second quarter), although slowing down to +5.5% in 2022 (see Table 1.2.6 and Charts 1.2.6-a and 1.2.6-b).

Turning to inflation, it continued to grow, reaching 3.2% in August, with underlying inflation standing at 3.1%; fuel is up by 36.2% YoY, electricity by 5.8% YoY and transport by 7.8% YoY. In its meeting on September 22, the Bank of England held its interest rates at 0.10%. Recent comments from the Bank of England have seen expectations on the first interest rate increase to pushed forward drastically this year. Although high inflation is related to energy and food price pressures (which will end up dissipating), the expectation that inflation will peak at between 4% and 5% this year means that the impact on salaries and expected inflation may be long lasting.

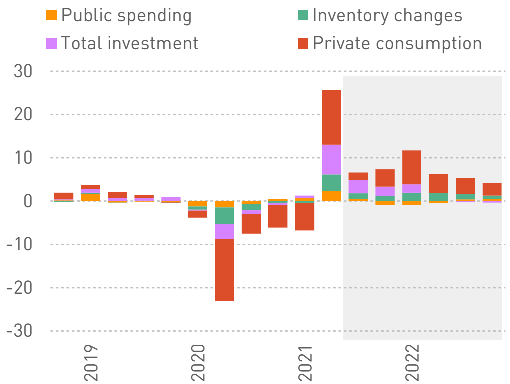
The risks faced by the UK economy have increased. Logistical problems in relation to the lack of truck drivers have been compounded by the rise in fuel, gas and electricity prices. Inflation appears to be setting in, with the Bank of England expected to bring forward interest rate rises as a result. If inflation takes root, with financing conditions being tightened as a result, activity may end up slowing down. Furthermore, tension with the European Union seems to be on the up.

Chart 1.2.6-a
United Kingdom: GDP breakdown and forecasts



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

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



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

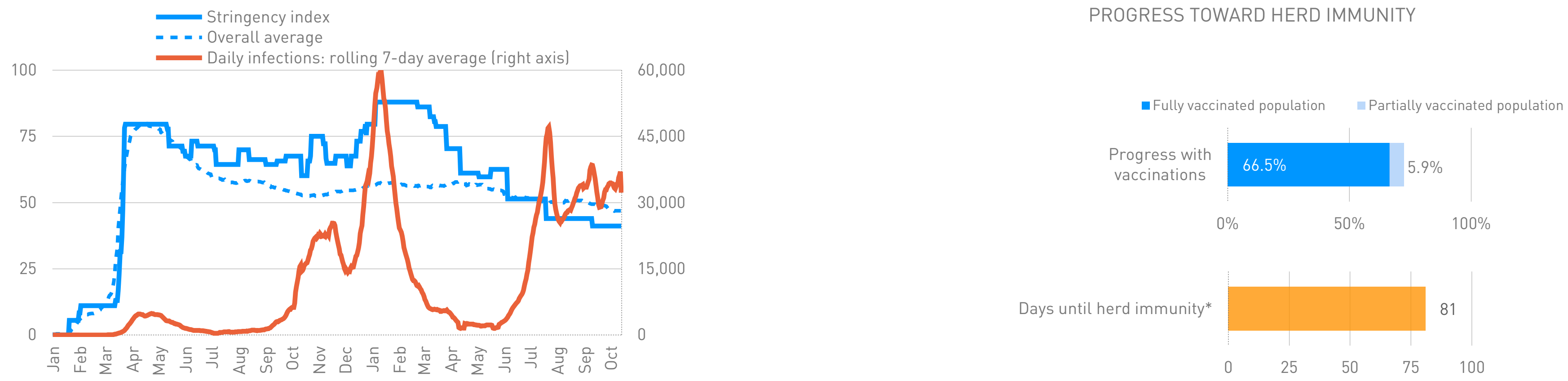
Tabla 1.2.6
United Kingdom: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(p)	2022(p)	2021(p)	2022(p)
GDP (% YoY)	2.3	2.1	1.7	1.7	-9.7	6.9	5.5	6.5	2.6
Domestic demand contribution	4.5	2.6	2.3	2.6	-14.4	6.7	9.4	6.6	3.1
External demand contribution	-2.2	-0.4	-0.7	-0.9	4.7	0.2	-3.9	-0.1	-0.5
Private consumption contribution	2.5	1.0	1.3	0.8	-6.4	2.4	4.5	1.7	2.4
Total investment contribution	1.1	0.9	1.0	0.9	-4.9	0.4	3.4	1.2	0.7
Public spending contribution	0.1	0.1	0.1	0.8	-1.2	3.2	0.3	3.3	0.3
Private consumption (% YoY)	3.9	1.6	2.1	1.2	-10.5	4.1	7.6	2.8	4.0
Public consumption (% YoY)	0.5	0.6	0.4	4.2	-6.3	14.0	1.5	15.4	1.5
Total investment (% YoY)	3.5	2.9	3.1	2.9	-16.8	1.3	11.4	6.8	4.1
Exports (% YoY)	3.3	5.7	2.8	3.4	-14.7	-0.4	9.5	-0.7	6.6
Imports (% YoY)	-0.2	-0.8	-0.8	-0.8	22.0	0.6	-2.0	1.1	8.1
Unemployment rate (%, last quarter)	4.7	4.4	4.0	3.8	5.2	4.8	4.5	4.9	5.5
Inflation (% YoY, last quarter)	1.8	2.7	2.0	1.3	0.8	4.0	2.7	4.6	2.9
Fiscal balance (% of GDP)	-3.3	-2.4	-2.2	-2.3	-12.9	-9.3	-4.2	-9.3	-5.1
Primary fiscal balance (% of GDP)	-0.6	0.4	0.4	0.0	-10.7	-7.1	-2.1	-7.1	-2.9
Trade balance (% of GDP)	-6.9	-6.7	-6.5	-6.1	-6.0	-6.1	-6.3	-6.1	-6.2
Current account balance (% of GDP)	-5.3	-3.6	-3.9	-2.7	-2.6	-1.9	-3.1	-1.9	-3.0
Official interest rate (end of period)	0.25	0.50	0.75	0.75	0.10	0.10	0.35	0.10	0.20
3-month interest rate (end of period)	0.37	0.52	0.91	0.79	0.03	0.10	0.38	0.07	0.22
10-year interest rate (end of period)	1.24	1.19	1.27	0.83	0.20	1.10	1.65	1.24	2.23
Exchange rate vs. US dollar (end of period)	1.23	1.35	1.28	1.32	1.36	1.36	1.41	1.34	1.37
Exchange rate vs. euro (end of period)	1.17	1.13	1.11	1.18	1.11	1.18	1.18	1.17	1.17
Private lending (% YoY, average)	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,
Household lending (% YoY, average)	3.7	4.0	3.1	2.1	2.1	2.4	3.5	2.4	3.3
P.S. non-financial lending (% YoY, average)	4.5	9.4	2.7	1.6	5.2	-3.6	1.5	-3.6	1.3
P.S. financial lending (% YoY, average)	7.7	8.5	5.5	2.2	9.7	-6.9	4.5	-6.9	5.6
Savings rate (% avg. disp. income)	6.4	4.8	4.8	4.6	13.4	11.7	6.3	11.9	7.6

Source: MAPFRE Economics (based on Office for National Statistics)
Forecast end date: October 18, 2021.

Click here to access the interactive version of this information

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

*Based on vaccinating 75% of the total population

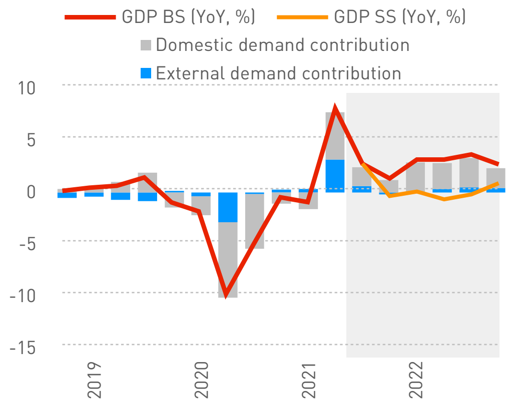
1.2.7 Japan

Policies to support the recovery are set to continue.

In Japan, the vaccination campaign started late, but in three months, vaccination rates are now in line with other developed countries, with 75.6% of the population having received at least one dose (67.3% fully vaccinated). Currently, the number of infections has been cut dramatically, following the peak seen at the end of August, with the stringency index starting to fall, standing at 47% in October (see Chart 1.2.7-c).

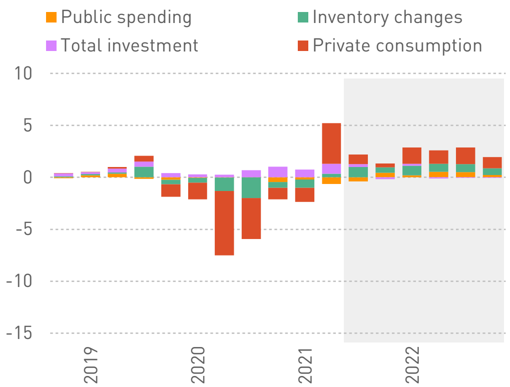
The Japanese economy grew by 1.9% QoQ (+7.6% YoY) in the second quarter of 2021, on account of the strong performance of consumption (+7.3% YoY), government spending (+3.4%) and exports (+26.4%). Retail sales in August were down once again, in the midst of a upturn in coronavirus infections. In September, consumer confidence rebounded after a brief fall in August. Industrial production fell in July and August, with automotive production falling by -8.2%. The Purchasing Manager Indexes (PMIs) for September stood at 47.9 points as regards the composite index, 51.5 for manufacturing and 47.8 for services; although the figure for services has improved, it continues to shrink. In turn, the Tankan business conditions indexes continue to improve.

Chart 1.2.7-a
Japan: GDP breakdown and forecasts



Source: MAPFRE Economics (based on Statistics Bureau data)

Chart 1.2.7-b
Japan: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on Statistics Bureau data)

Table 1.2.7
Japan: main macroeconomic aggregates

	2016	2017	2018	2019	2020(e)	Baseline (BS) 2021(f)	Baseline (BS) 2022(f)	Stressed (SS) 2021(f)	Stressed (SS) 2022(f)
GDP (% YoY)	0.7	1.7	0.6	0.0	-4.7	2.4	2.8	1.9	-0.3
Domestic demand contribution	0.1	1.6	1.1	0.7	-5.1	2.8	3.2	1.0	-0.5
External demand contribution	0.6	0.1	-0.5	-0.6	0.5	-0.5	-0.4	0.9	0.1
Private consumption contribution	-0.3	0.6	0.1	-0.1	-3.2	0.9	1.4	0.6	0.1
Total investment contribution	-0.2	0.6	0.7	0.2	-1.3	1.3	1.1	0.1	-0.5
Public spending contribution	0.3	0.0	0.2	0.4	0.6	0.4	-0.0	0.4	-0.0
Private consumption (% YoY)	-0.5	1.1	0.2	-0.2	-5.9	1.7	2.6	1.2	0.3
Public consumption (% YoY)	1.6	0.1	1.0	1.9	2.8	2.1	-0.0	2.1	-0.0
Total investment (% YoY)	-1.2	3.3	3.8	1.1	-7.3	6.8	5.5	0.6	-2.0
Exports (% YoY)	1.6	6.6	3.8	-1.5	-11.8	12.7	7.1	12.1	2.7
Imports (% YoY)	2.8	-0.0	0.6	0.9	7.8	2.4	-0.4	6.5	1.9
Unemployment rate (%, last quarter)	3.0	2.7	2.4	2.3	3.0	2.7	2.4	2.9	3.1
Inflation (% YoY, last quarter)	0.3	0.6	0.9	0.5	-0.9	0.9	-0.4	0.6	-0.6
Fiscal balance (% of GDP)	-3.6	-3.1	-2.5	-2.9	-11.1	-10.3	-6.0	-10.4	-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
Trade balance (% of GDP)	1.0	0.9	0.2	0.0	0.6	0.8	0.4	0.8	0.5
Current account balance (% of GDP)	3.8	4.2	3.5	3.4	3.2	3.6	3.4	3.7	3.5
Official interest rate (end of period)	-0.06	-0.06	-0.06	-0.07	-0.03	-0.05	-0.02	-0.05	-0.03
3-month interest rate (end of period)	-0.05	-0.02	-0.07	-0.05	-0.08	-0.04	-0.01	-0.05	-0.04
10-year interest rate (end of period)	0.04	0.05	0.01	-0.02	0.04	0.08	0.10	0.20	0.33
Exchange rate vs. US dollar (end of period)	116.80	112.90	110.83	109.12	103.54	111.83	110.78	102.82	108.22
Exchange rate vs. euro (end of period)	123.12	135.40	126.90	122.59	127.05	128.61	132.92	117.82	126.41
Private lending (% YoY, average)	2.2	4.2	2.6	2.0	5.3	3.6	1.9	3.4	-1.9
Household lending (% YoY, average)	1.5	2.2	2.5	2.3	2.4	2.1	0.8	2.1	-0.4
P.S. non-financial lending (% YoY, average)	1.9	2.4	2.3	3.4	8.1	3.2	-1.1	3.2	-1.2
P.S. financial lending (% YoY, average)	-0.2	8.0	6.3	2.9	17.0	5.0	-8.7	5.0	-8.2
Savings rate (% avg. disp. income)	1.9	1.6	1.7	2.7	9.9	5.4	2.4	5.9	3.5

Source: MAPFRE Economics (based on Statistics Bureau data)
Forecast end date: October 18, 2021.

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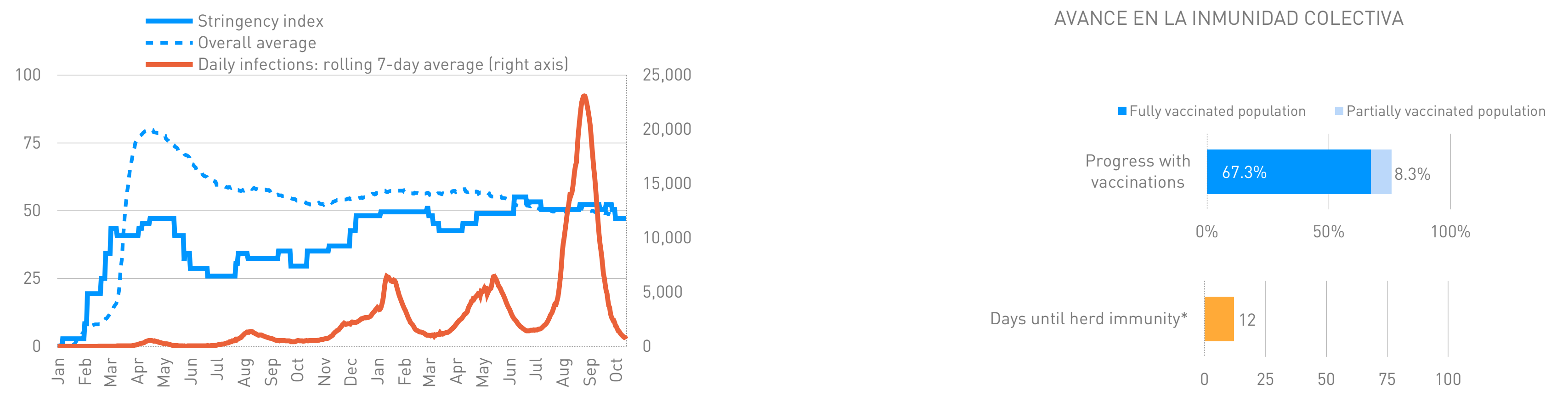
- **The economic recovery in Japan remains weak and supply chain problems are adversely affecting industry.**
- **Exports remain strong, benefiting from the reactivation of foreign economies.**
- **Inflation remains low, with inflation abroad making it possible to close in on the 2% target.**

It is expected that the new prime minister, Fumio Kishida, will implement economic support policies and policies to absorb the impact of the Covid-19 crisis, tolerating a fiscal deficit until target inflation of 2% is achieved. However, it is difficult to know which policies will be implemented to achieve this, as lower house elections are due to take place in November. As a result, the Japanese economic recovery remains week, although we have estimated GDP growth of 2.4% this year and 2.8% in 2022 (see Table 1.2.7 and Charts 1.2.7-a and 1.2.7-b).

Inflation stands at 0.2% in September, although Tokyo inflation in September stood at 0.3%, and underlying inflation at 0.1%. Energy prices will drive inflation in the coming months. Food returned to growth in September (+1.1%, Tokyo) as did electricity (+4.8%), with fuels up by 10.4%. At its meeting in September, the Bank of Japan held interest rates at -0.10% and has deemed it appropriate to maintain the current monetary policy measures in place, including the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (Covid-19). It is expected that it will take some time to reach the objective of price stability. Therefore, the central bank will continue to

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

*Based on vaccinating 75% of the total population

pursue the quantitative and qualitative monetary easing (QQE), controlling the income curve, whose sustainability and speed have been enhanced by the assessment performed in March.

The risks to the Japanese economy could be traced to the loosening of fiscal discipline and the increase in the taxpayer burden as the aging population puts pressure on the country's social security. Supply chain disruption may also affect industrial production and exports.

1.2.8 Turkey

The economic revival remains strong, although a slowdown is on the horizon.

- **Economic activity in Turkey this year has been better than expected.**
- **Although there are signs of a slowdown, the starting point is strong.**
- **Inflation is on the up again, although the central bank has lowered interest rates; this counterintuitive decision has seen markets penalize the country's currency.**

Infection rates in Turkey show no signs of improving, once again surpassing 300 cases/100,000 inhabitants in September, despite more than 55.6% of the population fully vaccinated and a further 8.9% partially vaccinated. Restrictions on activities, that had dropped to 30% in summer, have had to be increased to 58% in October (see Chart 1.2.8-c).

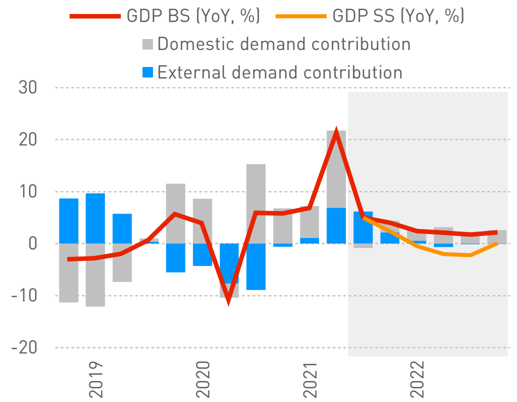
The Turkish economy expanded by 0.9% QoQ (seasonally adjusted) in the second quarter (+21.9% YoY due to the base effect), slowing down from 2.2% YoY the previous quarter. It is expected that the third quarter will close with growth of 1% QoQ, slowing down in the final quarter of the year to 0.3% YoY due to the impact of the increase in energy prices and general inflation. Private consumption and exports have performed well in the second quarter (+1.6% QoQ and +2.2% QoQ, and +22.9% YoY and +60% YoY, respectively), making it possible to revise the growth outlook for the year as a whole, although looking to the fourth quarter and beyond, this is expected to slow down.

In this regard, industrial production in July was already starting to slow down and the Purchasing Manager Index (PMIs) for manufacturing dropped to 52.5 points in September, with the expected demand for services also in the red for the past two months (-1.1% and -2.1% MoM in September and August, respectively). As regards retail sales for the coming 3 months, an improvement is expected (+5.0% in September), and the same goes for consumer confidence (+79.3). As a result, our growth estimate for 2021 has been revised to 9.0% (from 5.2%), thanks to the strong performance this year to date in terms of consumption and exports and the upward revision of the investment contribution. On the other hand, we have adjusted the outlook for 2022 down to 3.% (from 3.4%), in part on account of the base effect and the effect of inflationary pressure on consumption (see Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b).

Inflation increased once again in September to 19.6% (1.3% MoM), with underlying inflation standing at 17%, which means it will be difficult to avoid this becoming persistent. By components, the most significant elements in the measurement were food (+28.9%), housing (+19.3%), electricity (+23%) and transport (+21,8%), with the price of vehicles worth particular note (+28%). Currency depreciation, with the TRY/USD exchange rate surpassing 9.50, represents a weakness for the economy that is highly reliant on foreign financing in dollars.

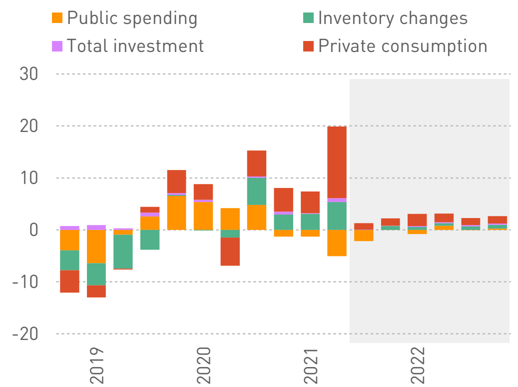
At its last meeting, the Central Bank of Turkey lowered interest rates by 200 basis points (1-week repo) to 16%. Justifying this measure, the central bank asserted that, based on current conditions, the interest rate cut could even benefit inflation, relaxing the conditions for obtaining commercial loans. The bank willing to tolerate some depreciation in the currency, although this is risky strategy considering the exposure of companies to financing in dollars.

Chart 1.2.8-a
Turkey: GDP breakdown and forecasts



Source: MAPFRE Economics (based on TURKSTAT data)

Chart 1.2.8-b
Turkey: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on TURKSTAT data)

Table 1.2.8
Turkey: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY)	3.3	7.5	3.0	0.9	1.8	9.0	3.0	8.5	-0.8
Domestic demand contribution	4.9	9.2	-0.3	-3.2	5.8	6.4	4.4	4.2	-0.9
External demand contribution	-1.6	-1.7	3.3	4.1	-4.0	2.6	-1.4	4.3	0.1
Private consumption contribution	2.3	3.5	0.3	0.9	1.9	4.6	1.7	4.2	-0.6
Total investment contribution	0.7	2.6	-1.4	-1.1	1.7	-0.3	1.4	1.9	-0.6
Public spending contribution	1.3	0.7	0.9	0.6	0.3	0.2	0.2	0.2	0.2
Private consumption (% YoY)	3.8	5.9	0.6	1.5	3.2	7.8	3.2	7.1	-1.1
Public consumption (% YoY)	9.5	5.0	6.5	4.1	2.2	1.4	1.8	1.4	1.8
Total investment (% YoY)	3.0	10.6	-6.2	-5.4	7.6	-1.3	7.0	7.5	-2.2
Exports (% YoY)	-1.7	12.4	8.8	4.6	-14.8	17.7	5.7	17.4	3.2
Imports (% YoY)	0.3	-3.3	1.5	8.4	16.7	-12.4	-21.8	-1.9	3.0
Unemployment rate (%, last quarter)	12.1	10.3	12.3	13.3	12.9	12.3	11.8	12.6	12.4
Inflation (% YoY, last quarter)	8.5	11.9	20.3	11.8	14.6	18.3	13.8	20.1	14.2
Fiscal balance (% of GDP)	-1.3	-1.6	-1.9	-2.9	-3.5	-1.7	-2.0	-1.7	-2.7
Primary fiscal balance (% of GDP)	0.7	0.2	0.0	-0.6	-0.8	1.3	1.4	1.3	0.9
Trade balance (% of GDP)	-4.6	-6.8	-5.2	-2.2	-5.3	-4.3	-5.4	-4.3	-5.5
Current account balance (% of GDP)	-3.1	-4.7	-2.8	0.9	-5.2	-3.3	-3.4	-3.3	-3.4
Official interest rate (end of period)	8.31	12.75	24.06	11.43	17.03	16.00	14.00	20.00	13.25
3-month interest rate (end of period)	9.90	14.61	24.07	10.76	17.53	17.72	14.22	20.59	13.81
10-year interest rate (end of period)	11.40	11.72	16.53	11.95	12.51	16.72	14.19	17.04	14.62
Exchange rate vs. US dollar (end of period)	3.52	3.79	5.29	5.95	7.44	9.03	9.51	9.56	10.48
Exchange rate vs. euro (end of period)	3.71	4.55	6.06	6.68	9.11	10.39	11.41	10.97	12.24
Private lending (% YoY, average)	13.1	20.9	20.2	8.4	30.1	17.3	9.4	17.7	10.8
Household lending (% YoY, average)	7.1	17.5	9.8	3.3	41.8	18.2	8.0	17.9	6.7
P.S. non-financial lending (% YoY, average)	14.7	24.3	20.9	5.4	26.7	17.2	13.7	16.7	7.6
P.S. financial lending (% YoY, average)	9.0	27.2	25.1	18.3	21.2	24.0	17.9	23.7	16.0
Savings rate (% avg. disp. income)	34.2	32.3	32.0	30.4	21.0	21.6	18.6	21.8	19.3

Source: MAPFRE Economics (based on TURKSTAT data)
Forecast end date: October 18, 2021.

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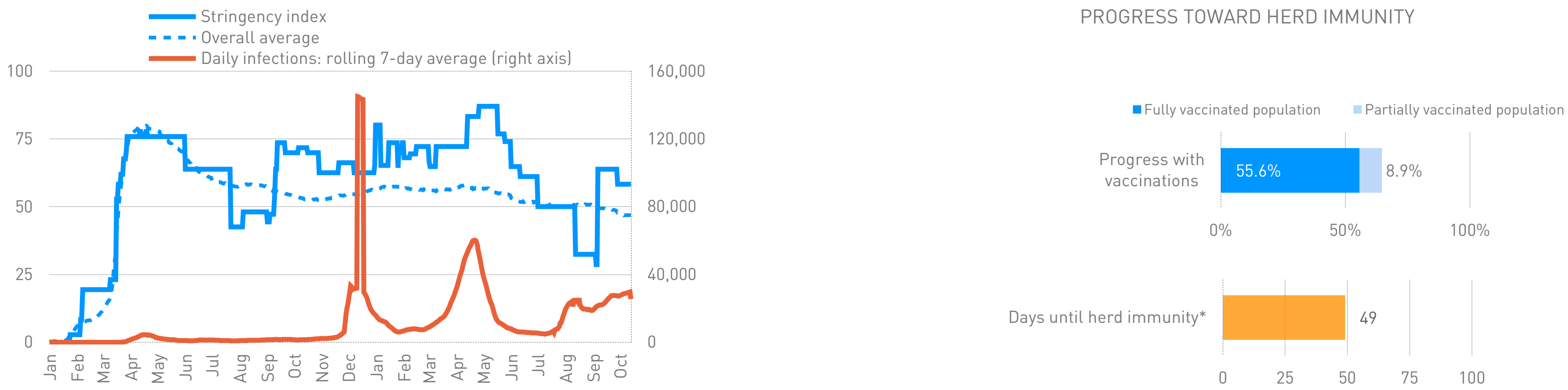
From a risk perspective, the high foreign debt in dollars is one of the main

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

*Based on vaccinating 75% of the total population

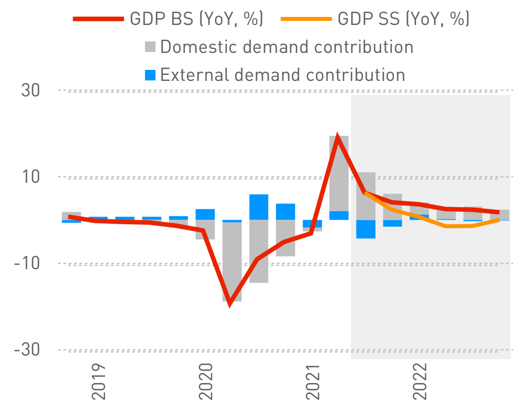
weaknesses of the Turkish economy. The more the lira depreciates, the more vulnerable borrowers in dollars are, with the exception of those who export in a strong currency. The main risk, despite the improvement in the current account balance (-3.8% GDP in July), is a sudden reversal in foreign investment flows.

1.2.9 Mexico

Progress is made with the recovery, although pre-Covid levels are yet to be achieved.

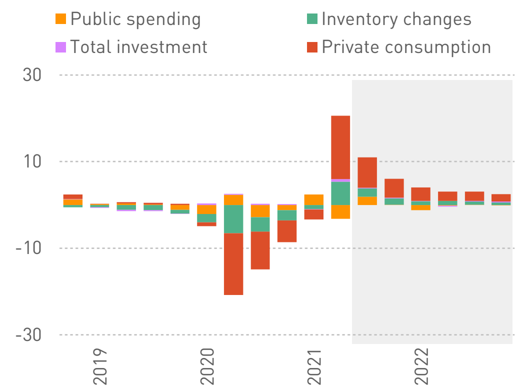
Infection rates in Mexico are down (less than 50 cases/100,000 inhabitants), having peaked in September. In turn, almost 53% of the population has been vaccinated, although only 39.6% are fully vaccinated, with the stringency index having fallen significantly in October to 35% (having stood at around 64% over summer). This may lead to a new boost in private consumption and the services sector in general (see Chart 1.2.9-c).

Chart 1.2.9-a
Mexico: GDP breakdown and forecasts



Source: MAPFRE Economics (based on INEGI data)

Chart 1.2.9-b
Mexico: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on INEGI data)

Table 1.2.9
Mexico: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020 (e)	2021 (f)	2022 (f)	2021 (f)	2022 (f)
GDP (% YoY)	2.4	2.3	2.2	-0.2	-8.5	6.2	3.0	6.0	-0.1
Domestic demand contribution	3.6	4.5	4.6	-1.1	-15.5	12.6	5.6	7.5	-0.7
External demand contribution	-1.2	-2.1	-2.4	0.9	6.9	-6.4	-2.6	-1.5	0.7
Private consumption contribution	2.3	2.3	1.7	0.3	-7.0	5.5	2.3	5.2	0.1
Total investment contribution	0.8	2.4	2.4	-0.3	-5.2	5.4	2.5	1.7	-0.2
Public spending contribution	0.3	0.1	0.3	-0.1	0.3	0.2	0.1	0.2	0.1
Private consumption (% YoY)	3.5	3.4	2.6	0.4	-10.7	8.2	3.4	7.8	0.2
Public consumption (% YoY)	2.6	0.7	2.9	-1.3	2.3	1.3	0.5	1.3	0.5
Total investment (% YoY)	2.4	6.8	6.4	-0.7	-15.0	14.2	6.4	9.8	-0.9
Exports (% YoY)	3.6	4.2	5.9	1.5	-7.1	9.4	6.8	9.0	2.0
Imports (% YoY)	8.9	-5.1	-0.1	-0.2	15.5	-3.3	-2.1	13.9	0.2
Unemployment rate (%, last quarter)	3.5	3.3	3.3	3.4	4.6	4.1	4.0	4.3	4.9
Inflation (% YoY, last quarter)	3.4	6.8	4.8	2.8	3.2	6.4	3.7	7.0	4.6
Fiscal balance (% of GDP)	-2.5	-1.1	-2.0	-1.7	-2.8	-3.1	-3.1	-3.2	-3.6
Primary fiscal balance (% of GDP)	-0.1	1.4	0.6	1.1	0.1	-0.4	-0.5	-0.4	-1.0
Trade balance (% of GDP)	-1.2	-0.9	-1.1	0.4	3.1	-0.4	0.1	-0.4	0.9
Current account balance (% of GDP)	-2.3	-1.8	-2.1	-0.3	2.4	0.3	-0.1	0.3	0.5
Official interest rate (end of period)	5.75	7.25	8.25	7.25	4.25	5.25	5.27	5.88	5.11
3-month interest rate (end of period)	6.19	7.66	8.63	7.45	4.47	5.50	5.52	6.13	5.36
10-year interest rate (end of period)	7.42	7.66	8.70	6.84	5.23	7.56	7.45	8.20	7.83
Exchange rate vs. US dollar (end of period)	20.74	19.67	19.65	18.93	19.88	20.74	21.63	22.20	23.56
Exchange rate vs. euro (end of period)	21.86	23.59	22.50	21.26	24.40	23.85	25.95	25.50	27.52
Private lending (% YoY, average)	16.3	12.1	10.4	8.9	5.2	0.8	9.3	0.3	7.2
Household lending (% YoY, average)	12.8	9.9	8.4	6.2	1.6	5.1	8.5	4.9	7.5
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	3.5	1.7	-0.8	6.2	3.7	17.8	15.4	17.3	14.0
Savings rate (% avg. disp. income)	12.8	10.7	12.3	16.4	22.4	22.7	20.5	22.9	21.3

Source: MAPFRE Economics (based on INEGI data)
Forecast end date: October 18, 2021.

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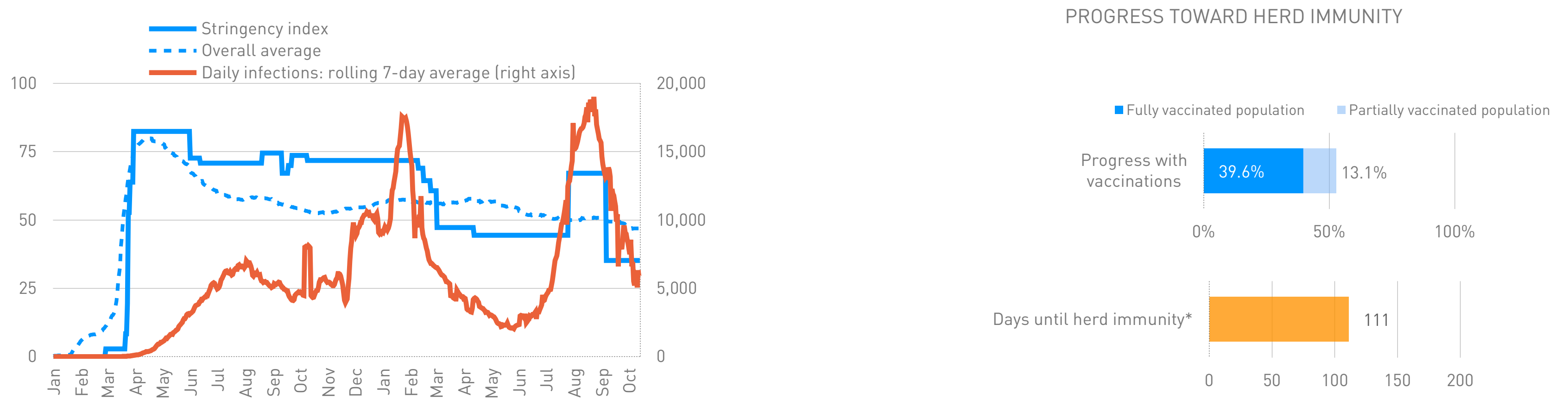
During the second quarter of the year, the Mexican economy grew by 1.5% QoQ (19.6% YoY vs -18.8% YoY the previous year). It is expected that in the third quarter, economic activity in Mexico will continue to recover, with estimated growth of 6.7% YoY (+0.7% QoQ). Furthermore, consumption (+9.0%) and exports (+12.1%) are both expected to perform well. The price of oil continues to increase, surpassing $86/bl (Brent), shoring up public accounts and exports. In the second quarter, exports were up by 42%, although the base effect of the contraction seen the previous year (-30%) must be taken into consideration. Oil exports grew to 53% in August, and industrial production continues to increase, although at more moderate rates (+7% in July). The Purchasing Manager Index (PMI) in September stood at 48.6. Industries, in particular the automotive industry, are suffering on account of the difficulty obtaining chips. As a result, GDP growth in Mexico for 2021 as a whole is forecast to stand at 6.2% and 3.0% in 2022 (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

In turn, inflation has once again increased to 6.0% in September, from 5.6% in August, with underlying inflation at 4.9%, suggesting that the impact of price pressure may be more long-lasting than originally anticipated. Inflation continues to impact agricultural produce (+9%), in particular meat (11.5%) and energy (+10%). The pressure is related to inflation abroad, attributable to raw materials, with droughts affecting agricultural produce and meat production. Against this backdrop, at its meeting on

- **Economic activity increased by 1.5% QoQ in the second quarter and will continue to do so in the quarters to come.**
- **The easing of mobility restrictions will help the recovery of the services sector.**
- **Inflation stands at 6.0%, with underlying inflation high (4.9%), which is an indication of the persistent pressure exerted by prices.**

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

*Based on vaccinating 75% of the total population

September 30, the Bank of Mexico increased interest rates by 25 basis points to 4.75%, with a view to avoiding risks as regards pricing and inflation expectations. The risks persist, and, therefore, there may be further increases at future meetings. The central bank believes that inflation is transitory, but that these adjustments are necessary to bring inflation within the target of 3% in the forecast horizon.

The risks for the Mexican economy are mainly associated with inflation and supply chain difficulties for industries, in addition to the potential impact of recent initiatives to change the legal and guidelines framework that govern electricity generation in the country. On the positive side are the restrictions, which will encourage private consumption, and the possible increase in migrant remittances associated with the recovery in the USA. Furthermore, the increase in oil prices will encourage exports and push up government revenue.

1.2.10 Brazil

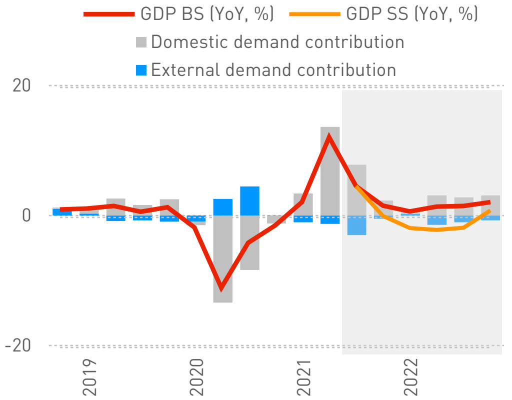
Growth is being pegged back by inflation, the energy crisis and hurdles in the path of industry.

The number of coronavirus infections has been gradually decreasing since the peak in June, the vaccination campaign has reached 73.1% of the population with at least one dose in October (49.7% fully vaccinated), and restrictions started to be eased from 70% in April to 51% in October (see Chart 1.2.10-c).

Against this backdrop, the Brazilian economy is slowing down (-0.1% QoQ in the second quarter and +12.4% YoY) due to the base effect. The drivers of growth have been consumption (+10.8% YoY), investment (+32.9%) and exports (+14.1%); exports have benefited from the global recovery and the increase in the price of raw materials. It is believed that activity has continued to stall in the third quarter, as is expected to be the case in the fourth quarter, due to the increase in inflation and, specifically, energy prices, which in Brazil have been intensified by the water crisis. A large percentage of electricity comes from water generation, and the drought is forcing the country to import energy from neighboring countries at a higher cost.

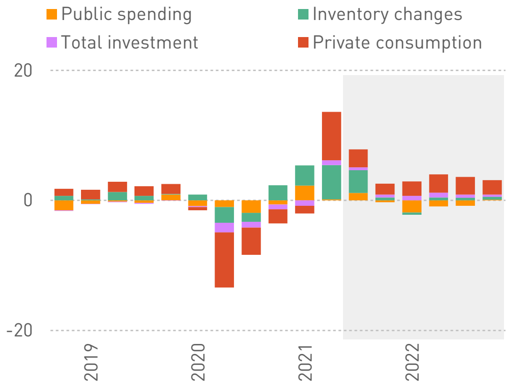
As a result, industrial activity, which showed high growth on account of the base effect, has slowed down since February due to the difficulties experienced by the automotive industry with supply chains and the increase in energy prices. Exports will remain strong on account of the price of raw materials, whereas investment, which is also strong (+33% YoY in the second quarter), will have to weaken, given that presidential elections are due to be held in 2022 (October 2), resulting in caution among foreign investors, in addition to other factors. The Purchasing Managers' Indexes (PMI) for September were all up: the composite index was at 54.7 points, manufacturing at 54.4 and services at 54.6. As a result, the outlook for 2022 is also lower, on account of inflationary pressure that will crunch consumers' available income. Therefore, we have increased our GDP growth forecast for 2021 to 5.2% and lowered it to 1.7% from 2.2% for 2022 (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b).

Chart 1.2.10-a
Brazil: GDP breakdown and forecasts



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

Chart 1.2.10-b
Brazil: domestic demand breakdown and forecasts



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

Table 1.2.10
Brazil: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY)	-3.5	1.6	1.7	1.4	-4.4	5.2	1.7	4.8	-1.0
Domestic demand contribution	-5.3	2.0	2.3	2.0	-5.8	6.7	2.4	6.2	-0.9
External demand contribution	1.8	-0.4	-0.7	-0.6	1.4	-1.5	-0.8	-1.5	-0.1
Private consumption contribution	-2.6	1.3	1.6	1.5	-3.8	2.5	2.5	2.2	0.0
Total investment contribution	-2.1	-0.4	0.9	0.6	-0.1	3.4	0.2	3.2	-0.6
Public spending contribution	0.0	-0.1	0.1	-0.1	-0.8	0.2	0.6	0.2	0.6
Private consumption (% YoY)	-3.9	1.9	2.4	2.2	-5.5	3.7	3.6	3.2	0.1
Public consumption (% YoY)	0.2	-0.7	0.8	-0.4	-4.7	1.0	3.5	1.0	3.5
Total investment (% YoY)	-12.2	-2.6	5.2	3.4	-0.7	17.1	1.2	16.4	-3.2
Exports (% YoY)	0.7	5.4	3.5	-2.3	-2.3	10.0	2.2	9.7	-0.6
Imports (% YoY)	-10.3	7.3	6.9	1.1	-10.4	17.7	5.9	17.0	0.1
Unemployment rate (%, last quarter)	12.0	11.8	11.6	11.0	13.9	12.0	11.9	12.3	12.7
Inflation (% YoY, last quarter)	6.3	2.9	3.7	4.3	4.5	8.5	4.6	9.3	5.8
Fiscal balance (% of GDP)	-9.0	-7.8	-7.0	-5.8	-13.6	-5.1	-6.2	-5.2	-7.1
Primary fiscal balance (% of GDP)	-2.5	-1.7	-1.5	-0.8	-9.4	-1.2	-1.0	-1.3	-1.8
Trade balance (% of GDP)	2.5	2.8	2.3	1.4	2.2	3.7	3.3	3.9	4.7
Current account balance (% of GDP)	-1.4	-1.1	-2.7	-3.5	-1.8	-0.3	-1.5	-0.2	-0.5
Official interest rate (end of period)	13.75	7.00	6.50	4.50	2.00	8.25	8.98	9.78	10.24
3-month interest rate (end of period)	13.65	6.90	6.40	4.40	1.90	8.15	8.88	9.68	10.17
10-year interest rate (end of period)	11.42	10.21	9.24	6.81	6.98	11.65	12.72	11.97	13.74
Exchange rate vs. US dollar (end of period)	3.26	3.31	3.87	4.03	5.20	5.46	5.54	5.79	6.11
Exchange rate vs. euro (end of period)	3.43	3.97	4.44	4.53	6.38	6.28	6.64	6.63	7.14
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	4.4	4.7	7.0	10.8	10.1	15.1	9.0	15.1	8.5
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% avg. disp. income)	17.2	17.4	16.4	16.2	19.4	16.4	9.4	16.7	11.2

Source: MAPFRE Economics (based on data from the Brazilian Institute of Geography and Statistics (IBGE))
Forecast end date: October 18, 2021.

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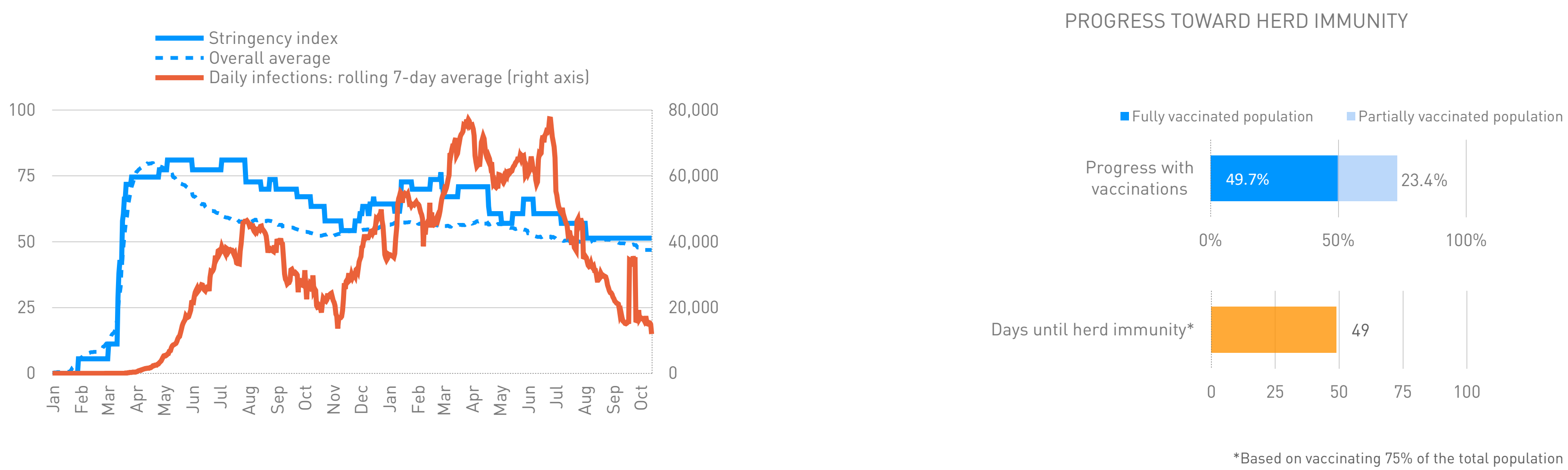
Inflation was up by 10.3% (general HICP) in September, on account of energy prices, with electricity (+28%) and gas canisters (+35%) both up and motor-vehicle fuel up by more than 42%. The cost of food increased by 12.5% (household food by +14.7%); worth particular note was the cost of meat (+25% YoY), oil (+27.5%) and cereal (+10%). At its meeting on September 22, the central bank raised SELIC interest rates by 100 basis points to 6.25%, on account of rising inflation, and has announced that there will be a further 100-point increase to 7.25% at its October meeting. The central bank believes that these rises are necessary to bring inflation in line with the target. Interest rates are therefore due to end the year at 8.25%, stabilizing at 9.0% in 2022.

As regards risks, inflation and the impact of droughts on electricity prices, the increase in food prices and interest rate hikes are going to have an impact on available income and consumption. The difficulties experienced by industry (for example, supply of chips, expensive energy) may also result in a delay in investment. On a positive note, progress is being made with public authorities and taxation reforms, although the approaching elections will hinder further progress.

- **Inflation was up by 10.3% in September, with pressure on electricity, gas, fuels and food.**
- **The central bank has increased interest rates to 6.25%**
- **Industrial activity, particularly in the automotive industry, continues to be affected by the lack of microchips and high energy prices.**

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

1.2.11 Argentina

Macroeconomic imbalances, new conversations with the IMF and tension in the government.

- The markets are focused on the mid-term elections in November, following the blow suffered by the governing coalition in September's primaries.
- Inflation stands at 46.5%, despite utility prices being "managed".
- The currency will continue to depreciate, with the M3 monetary mass growing to 46%.
- The GDP growth forecast has been revised upward for 2021 and marginally down for 2022.

In Argentina, the pandemic peaked in June, with more than 700 cases/million, and fell drastically to less than 31 cases/million by September. Restrictions, which remained very high until September (above 75%), were eased in October (stringency index of 43%) as progress was made with the vaccination campaign in the last quarter, with 68.4% of the population having been administered a single dose and 53.8% now fully vaccinated (see Chart 1.2.11-c).

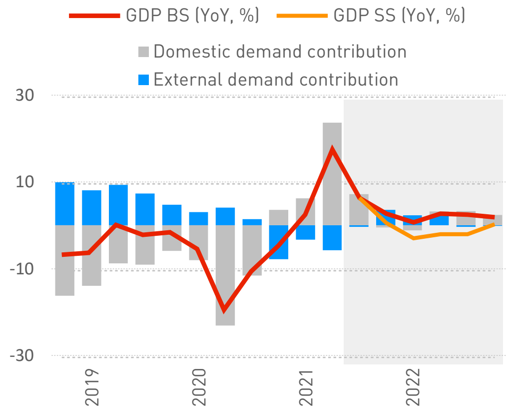
The Argentine economy shrunk by 1.4% QoQ in the second quarter (+17.9% YoY, due to the base effect), with consumption still highly affected by mobility restrictions (+1.1% QoQ) and public consumption on budget limitations (+0.5% QoQ), while exports are on the up (+5.7% QoQ). The leading indicators index is down slightly (-0.7% MoM in August), while consumer confidence has bounced back somewhat, although remains low (39.8). Against this backdrop, we have increased our GDP growth forecast for 2021 to 7.6% (from 5.8%) and cut the forecast for 2022 to 2.4% (from 2.6%) This improvement can be attributed to the second quarter having gone better than expected and, if growth is maintained in the second half of the year, it will be possible to reach this level. This compares to a decrease of 9.9% in 2020, i.e. without achieving a return to 2019 figures, see Table 1.2.11 and Charts 1.2.11-a and 1.2.11-b).

Inflation stood at 46.5% in August. The increase in prices is being seen across all segments, including food, clothing and transport in particular on account of fuel prices. Electricity and gas are up less (+29.1%) on account of price regulations. Therefore, it is impossible to rule out blackouts like those being seen in China, in particular if power plants are unable to pass on the increase in costs to end consumers.

The 7-day LELIQ benchmark interest rate has remained at 38% since March, while the 7-day repo effective rate is close to 43%. These translate to negative real interest rates. With the M3 monetary base growing at 46% per year (August), the currency continues to gradually depreciate and has surpassed the threshold of 98.7 pesos/USD.

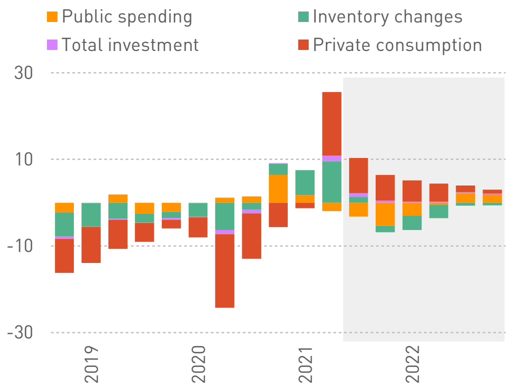
In the political sphere, the primary elections in Argentina were a harsh blow to the governing coalition, which secured 30.9% of the vote, compared to the 40.2% secured by "Juntos por el Cambio". Despite the low turnout, the gap is so wide that it is unlikely to be bridged before the midterm elections on November 14. It is worth noting that Argentina is working toward fiscal consolidation, although this target may be compromised by political pressure. The Minister of Economy has kept his position in the latest cabinet reshuffle, although this does not mean he will not have to make concessions as regards consolidation as the November elections approach and after the governing coalition's defeat in the primary elections.

Chart 1.2.11-a
Argentina: GDP breakdown and forecasts



Source: MAPFRE Economics (based on INDEC data)

Chart 1.2.11-b
Argentina: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on INDEC data)

Table 1.2.11
Argentina: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2016	2017	2018	2019	2020(e)	2021(f)	2022(f)	2021(f)	2022(f)
GDP (% YoY)	-2.1	2.8	-2.6	-2.0	-9.9	7.6	2.4	7.0	-1.3
Domestic demand contribution	-1.7	6.6	-4.0	-8.8	-10.2	9.1	1.3	8.4	-3.0
External demand contribution	-0.4	-3.8	1.4	6.8	0.3	-1.5	1.1	-1.4	1.7
Private consumption contribution	-0.6	3.1	-1.7	-5.1	-9.3	6.9	2.9	6.4	-0.4
Total investment contribution	-1.1	2.8	-1.2	-2.7	-2.2	4.2	-1.7	4.1	-2.6
Public spending contribution	-0.1	0.4	-0.3	-0.2	-0.5	0.6	0.2	0.6	0.3
Private consumption (% YoY)	-0.8	4.2	-2.2	-7.3	-13.8	10.1	4.2	9.3	-0.5
Public consumption (% YoY)	-0.5	2.6	-1.9	-1.2	-3.3	4.3	1.7	4.3	1.7
Total investment (% YoY)	-5.8	13.4	-5.7	-15.9	-12.9	22.4	-10.3	21.5	-16.0
Exports (% YoY)	5.3	2.6	0.6	9.1	-17.3	6.7	5.2	6.5	1.7
Imports (% YoY)	5.8	15.6	-4.5	-19.0	-17.9	12.8	0.1	12.1	-6.0
Unemployment rate (%, last quarter)	7.6	7.2	9.1	8.9	11.0	9.3	8.1	9.7	9.0
Inflation (% YoY, last quarter)	37.5	23.3	47.4	52.2	36.4	50.8	37.6	51.7	40.7
Fiscal balance (% of GDP)	-5.8	-5.9	-4.9	-3.8	-8.3	-4.8	-3.5	-5.0	-4.1
Primary fiscal balance (% of GDP)	-4.2	-3.8	-2.3	-0.4	-6.4	-3.4	-1.9	-3.5	-2.6
Trade balance (% of GDP)	0.8	-0.8	-0.1	4.0	3.8	3.7	3.8	3.8	4.7
Current account balance (% of GDP)	-2.7	-4.8	-4.9	-0.8	0.9	1.4	0.8	1.3	1.3
Official interest rate (end of period)	24.75	28.75	59.25	55.00	38.00	38.00	30.03	38.42	30.59
3-month interest rate (end of period)	26.23	27.44	56.76	45.13	29.55	31.00	33.61	33.03	22.89
10-year interest rate (end of period)	7.00	5.91	10.86	19.36	14.61	16.35	15.26	17.95	16.38
Exchange rate vs. US dollar (end of period)	15.89	18.65	37.70	59.89	84.15	120.56	163.99	133.80	182.53
Exchange rate vs. euro (end of period)	16.75	22.37	43.17	67.28	103.26	138.65	196.76	153.73	213.26
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% avg. disp. income)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: MAPFRE Economics (based on INDEC data)
Forecast end date: October 18, 2021.

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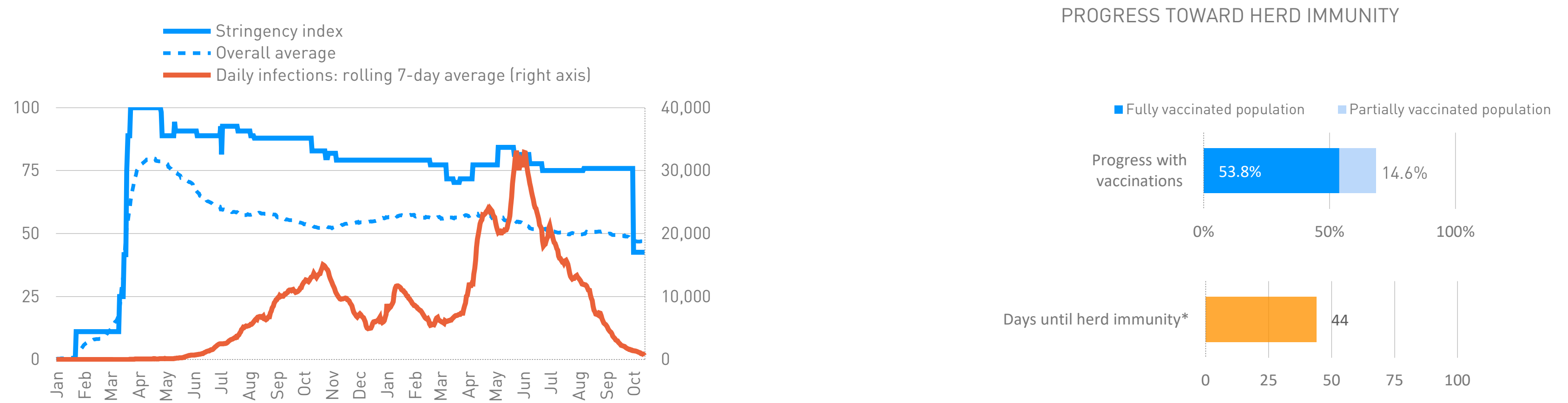
Gráfica 1.2.11-c
Argentina: daily COVID-19 infections, stringency index and progress toward herd immunity



*Based on vaccinating 75% of the total population

Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

1.2.12 China

The economic recovery is hampered by the increase in energy costs.

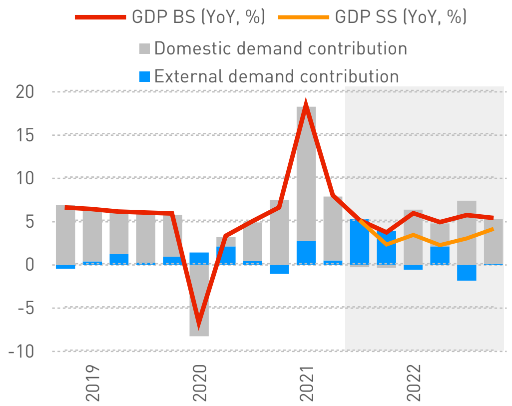
Despite China containing new coronavirus infections, the restrictions remain relatively high, above 75% on account of the aggressive policy for fighting the epidemic. Furthermore, 76.2% of the population has now been vaccinated, with 70.8% fully vaccinated (see Chart 1.2.12-c).

The Chinese economy has grown by 9.7% (YoY, seasonally adjusted) in the second quarter of the year (+2.4% QoQ). The third quarter appears to present a more complicated challenge on account of increasing energy costs, adding to the uncertainty as regards the third quarter of 2021.

The increase in coal and gas prices, as China looks to reduce its reliance on coal, resulted in blackouts in several parts of the country toward the end of September, adversely affecting industrial output. The fact that the price of electricity is fixed means that power plants cannot pass on the increase in costs to the end consumer.

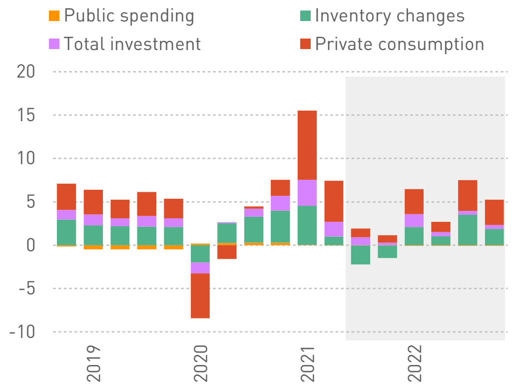
Exports remain strong and could potentially be up by around 16% as China fills the gap in supply left by other countries suffering from supply-chain problems. However, for the fourth quarter of the year, the effect of the energy crisis on industrial production and exports must be factored in. This aside, it is expected that other countries will gradually return to normal export levels as the pandemic subsides. As regards the leading indicators that provide us with a sign of economic performance in the coming months, the Purchasing Manager Indexes (PMIs) were up in September, with the composite index at 51.4, manufacturing at 50.0 and

Chart 1.2.12-a
China: GDP
breakdown and forecasts



Source: MAPFRE Economics (based on BoPRC data)

Chart 1.2.12-b
China: domestic demand
breakdown and forecasts



Source: MAPFRE Economics (based on BoPRC data)

Table 1.2.12
China: main macroeconomic aggregates

	2016	2017	2018	2019	2020(e)	Baseline (BS) 2021(f)	Baseline (BS) 2022(f)	Stressed (SS) 2021(f)	Stressed (SS) 2022(f)
GDP (% YoY)	6.9	6.9	6.7	6.0	2.3	8.0	5.4	7.6	3.1
Domestic demand contribution	7.8	6.7	7.3	5.2	1.6	4.7	5.4	4.3	3.2
External demand contribution	-0.9	0.2	-0.6	0.8	0.7	3.4	-0.0	3.3	-0.1
Private consumption contribution	3.4	3.7	3.2	2.5	-0.9	3.3	2.7	3.1	1.7
Total investment contribution	3.1	2.6	3.1	2.2	1.9	0.2	2.1	0.0	0.9
Public spending contribution	1.3	0.3	1.2	1.1	0.5	1.3	0.7	1.3	0.7
Private consumption (% YoY)	8.8	9.4	8.1	6.3	-2.4	8.7	6.9	8.1	4.4
Public consumption (% YoY)	7.4	1.9	7.1	6.6	2.8	8.0	4.1	8.0	4.1
Total investment (% YoY)	7.3	6.2	7.3	5.1	4.5	0.4	5.3	0.0	2.2
Exports (% YoY)	1.7	6.7	4.4	2.3	2.1	16.3	5.2	15.9	1.2
Imports (% YoY)	3.2	7.8	6.5	-0.8	-2.0	8.9	7.9	8.5	3.0
Unemployment rate (%, last quarter)	2.8	2.8	2.9	3.0	3.4	3.3	3.2	3.5	3.9
Inflation (% YoY, last quarter)	2.2	1.8	2.2	4.3	0.1	2.5	2.9	3.3	3.4
Fiscal balance (% of GDP)	-4.3	-4.8	-4.7	-5.6	-8.6	-7.1	-6.9	-7.3	-7.7
Primary fiscal balance (% of GDP)	-1.6	-1.8	-1.5	-2.2	-5.0	-3.9	-3.9	-4.1	-4.6
Trade balance (% of GDP)	4.4	3.9	2.7	2.8	3.5	2.9	2.8	2.8	3.0
Current account balance (% of GDP)	1.7	1.5	0.2	0.7	1.9	1.6	1.5	1.6	1.7
Official interest rate (end of period)	3.00	3.25	3.30	3.25	2.95	2.95	3.01	2.95	2.98
3-month interest rate (end of period)	4.25	5.53	3.70	3.20	3.03	2.53	3.04	2.56	2.53
10-year interest rate (end of period)	3.01	3.88	3.23	3.14	3.14	2.95	3.71	4.03	4.93
Exchange rate vs. US dollar (end of period)	6.94	6.51	6.88	6.99	6.52	6.42	6.36	6.64	6.44
Exchange rate vs. euro (end of period)	7.32	7.80	7.87	7.85	8.00	7.39	7.63	7.62	7.52
Private lending (% YoY, average)	13.8	13.1	12.9	13.1	13.1	12.5	11.8	12.2	6.0
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% avg. disp. income)	31.2	29.8	29.1	29.3	32.7	32.2	30.9	32.5	31.7

Source: MAPFRE Economics (based on BoPRC data)
Forecast end date: October 18, 2021.

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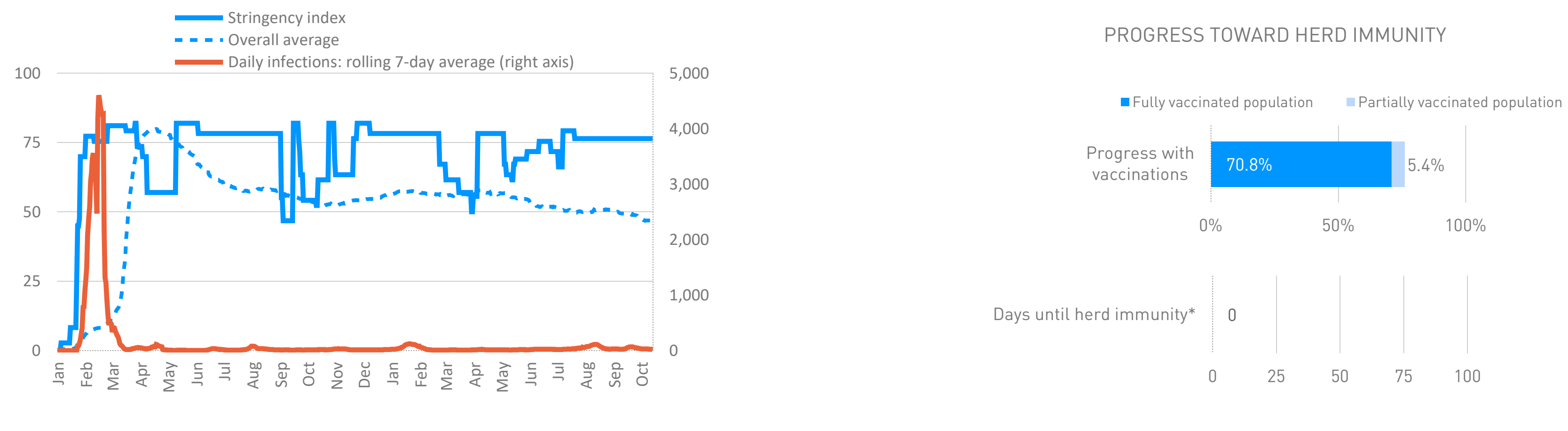
- **Exports will remain strong, although they will slow down once other countries resolve their supply problems.**
- **Stable monetary and fiscal policies, although regulators must keep an eye on systemic risks.**
- **The currency is exposed to risk on account of the evolution of exports and the systemic risks posed by Evergrande.**

services at 53.4 points. In turn, industrial production grew by 11.8% and retail sales by 16.4%, both between January and September. Based on the foregoing, we have therefore adjusted our GDP growth estimate to 8.0% in 2021 and 5.4% in 2022 (see Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

In turn, general inflation was very low in September, at +0.7%, on account of consumer goods and, apparently, the fall in food prices (-5.2% in September). Excluding food, inflation stood at 2.0% and services increased by 1.4%; electricity was up by 15% and fuel by 19%. Underlying inflation stood at 1.2%, and, in contrast, producer prices increased by 9.5% in August due to the increase in the price of raw materials.

As regards interest rates, no changes to the benchmark interest rate are expected, at least until the second half of 2022. The Central Bank of China (PBoC) has ruled out relaxing monetary policy for the rest of the year and will use different structural monetary policy tools to support extending credit to small and medium sized companies. The PBoC also mentioned that it is prepared for the tapering to be performed by the Federal Reserve and that its cyclical monetary policy framework is appropriate as regards how it manages the impact of the main economies' monetary policies returning to normal.

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



Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

In terms of real-estate developer Evergrande, given its systemic nature it must be rescued to curtail risk to banks. The risk is more closely related to the real-estate sector (impact of contagion for other developers, sentiment and real-estate market activity, suppliers, those purchasing property, investors in asset management products), and therefore, its macroeconomic impact on growth may be more notable. Risk aversion in the real-estate industry will increase, with an impact on the availability of financing and investment. It has been reported that Evergrande has 800 construction projects under way; of this total, around 500 have been suspended and 300 run the risk of being suspended due to the lack of funds to pay suppliers and workers. The firm needs to be restructured by selling assets, and it is expected that both the central government and local authorities will come under pressure to assume these assets.

Short-term risks for the Chinese economy are related to a slowdown in investment in the real-estate and construction sector, as it accounts for 20% of GDP (with all the repercussions that this would have on employment, construction material, transport, energy and banking). A 10% slowdown in that area would cause growth to fall by two percentage points. It can be expected that under the current conditions, financing terms will become more restrictive in this sector.

1.2.13 Indonesia

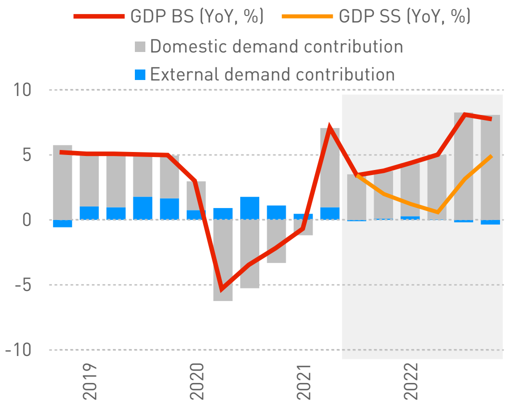
Domestic demand slows down on account of the peak in cases in July, while restrictions remain high.

Activity slowed down in the third quarter due to an upturn in cases, not just in Indonesia, but in other East Asian countries, attributed to the Delta variant. These circumstances combine with the supply chain difficulties experienced around the world. Mobility suffered in July and August, although by the end of September this had returned to normal, which is a positive sign for the country's economic performance in the fourth quarter. The vaccination process, however, remains slow, with just 38.9% of the population having received at least one dose (22.7% fully vaccinated) and the stringency index stands at 72% (see Chart 1.2.13-c).

- **The economic growth outlook for 2021 has been revised downward to 3.3%.**
- **The peak of the epidemic in July has adversely affected activity, although by September this had receded.**
- **Restrictions remain high as the vaccination campaign gains pace.**
- **Inflation remains stagnant, making it possible to maintain an accommodative monetary policy.**

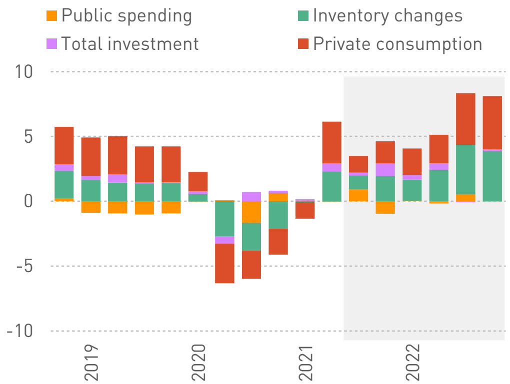
The Purchasing Manager Indexes (PMI) for manufacturing stood at 52.2 points in September, rebounding from 43.7 points in August, which is a strong reflection of the extent of the slowdown. It is expected that consumption will recover in the final quarter of the year (+3.0% YoY), although even so, this is down from our previous forecasts. As regards GDP growth for 2021, we have now estimated it will stand at 3.3% (rather than 4.7% as stated previously), although it has been revised upward for 2022 to 6.3% (from the 5.5% stated previously). Furthermore, we have revised the investment estimate down to 9.0% from 21.5%, although we have increased exports to 18.8% from 16.5%. It is worth noting that exports were up by 29% in July and 64% in August (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

Chart 1.2.13-a
Indonesia: GDP breakdown and forecasts



Source: MAPFRE Economics (based on BPS data)

Chart 1.2.13-b
Indonesia: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on BPS data)

Table 1.2.13
Indonesia: main macroeconomic aggregates

	2016	2017	2018	2019	2020(e)	Baseline (BS) 2021(p)	Baseline (BS) 2022(p)	Stressed (SS) 2021(p)	Stressed (SS) 2022(p)
GDP (% YoY)	5.0	5.1	5.2	5.0	-2.1	3.3	6.3	2.9	2.5
Domestic demand contribution	3.7	6.5	7.9	3.0	-5.5	6.6	6.8	2.5	2.2
External demand contribution	1.4	-1.4	-2.8	2.1	3.5	-3.3	-0.5	0.4	0.3
Private consumption contribution	2.8	2.8	2.8	2.9	-1.5	1.2	3.1	0.9	0.9
Total investment contribution	-0.5	1.6	2.6	-1.4	-2.4	4.0	0.5	1.1	0.9
Public spending contribution	-0.0	0.2	0.4	0.3	0.2	0.5	0.2	0.5	0.2
Private consumption (% YoY)	5.0	5.0	5.1	5.2	-2.7	2.2	5.7	1.6	1.7
Public consumption (% YoY)	-0.1	2.1	4.8	3.3	1.9	5.9	2.7	5.9	2.7
Total investment (% YoY)	-2.4	8.1	12.1	-7.4	-14.7	21.3	2.8	3.5	2.9
Exports (% YoY)	-1.7	8.9	6.5	-0.9	-7.7	19.5	2.1	19.1	-1.5
Imports (% YoY)	5.8	6.7	2.0	3.4	25.3	7.1	0.5	20.4	-3.2
Unemployment rate (%, last quarter)	5.5	5.3	5.1	5.1	6.7	6.8	6.0	7.1	7.3
Inflation (% YoY, last quarter)	3.3	3.5	3.3	2.7	1.6	2.3	3.4	2.8	5.8
Fiscal balance (% of GDP)	-2.5	-2.6	-1.7	-2.2	-6.2	-5.4	-4.4	-5.5	-4.9
Primary fiscal balance (% of GDP)	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,
Trade balance (% of GDP)	1.6	1.9	-0.0	0.3	2.7	3.1	2.7	3.2	3.2
Current account balance (% of GDP)	-1.8	-1.6	-2.9	-2.7	-0.4	-0.6	-0.7	-0.5	-0.3
Official interest rate (end of period)	4.75	4.25	6.00	5.00	3.75	3.50	3.83	4.73	4.18
3-month interest rate (end of period)	7.46	5.48	7.70	5.51	4.06	3.75	4.02	4.98	4.51
10-year interest rate (end of period)	7.94	6.31	7.98	7.10	6.10	6.56	7.28	7.52	8.01
Exchange rate vs. US dollar (end of period)	13,525	13,484	14,380	13,883	14,050	14,470	14,199	15,583	15,330
Exchange rate vs. euro (end of period)	14,257	16,171	16,465	15,596	17,241	16,642	17,037	17,884	17,905
Private lending (% YoY, average)	7.8	8.2	10.8	8.8	1.3	0.9	12.8	1.2	15.0
Household lending (% YoY, average)	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,
P.S. non-financial lending (% YoY, average)	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,	n,d,
P.S. financial lending (% YoY, average)	10.1	15.1	5.6	-3.0	-6.0	11.3	15.9	10.9	13.9
Savings rate (% avg. disp. income)	22.9	23.6	24.0	22.8	21.4	22.9	22.7	23.2	23.5

Fuente: MAPFRE Economics (con base en datos del BPS)
Fecha de cierre de previsiones: 18 octubre 2021.

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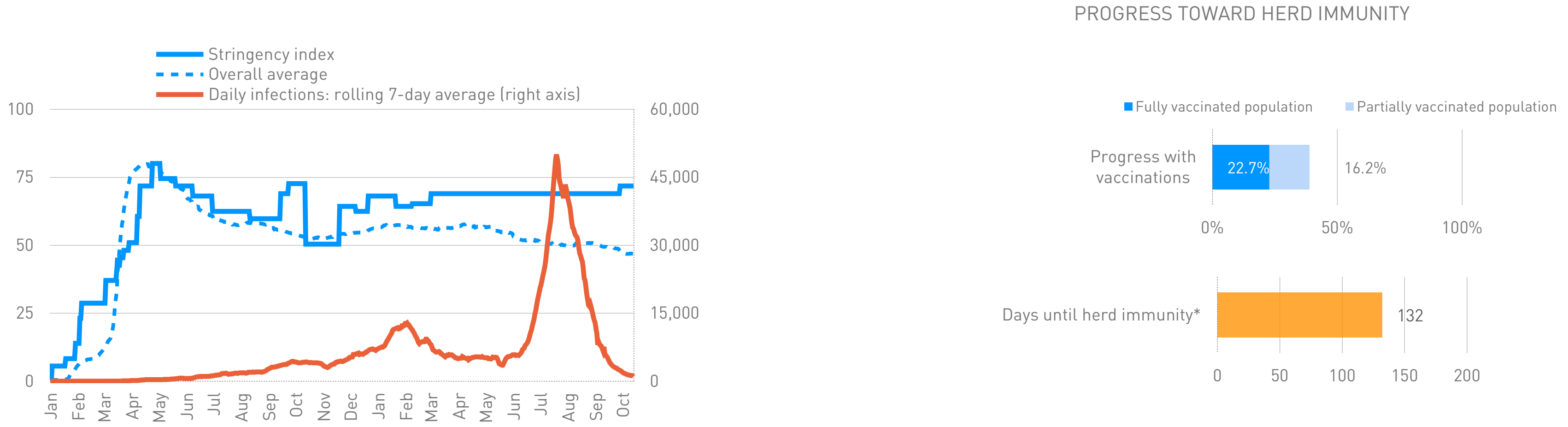
In turn, inflation stood at 1.6% in August, with underlying inflation standing at 1.3%, which is very moderate when compared to elsewhere in the world. However, inflation will have to increase in the coming quarters on account of energy costs, raw materials and supply chain disruptions, in addition to the strengthening of demand. At its meeting on October 19, the Central Bank of Indonesia kept interest rates at 3.50%, and they are not expected to increase in 2021. The central bank is focusing its efforts on the stability of the currency and the financial system against a backdrop of rising interest rates in many emerging countries and the imminent tapering to be performed by the Federal Reserve.

The risks faced by the Indonesian economy can be traced to its significant reliance on external financing. An increase in interest rates on global bonds would affect the way it finances its high public deficit. Therefore, should central bank interest rates fail to reflect the general increase in interest rates seen elsewhere in emerging countries, the exchange rate could be affected.

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



*Based on vaccinating 75% of the total population

Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

1.2.14 Philippines

The recovery is being undermined by mobility being lower than normal.

- **Despite the reduction in coronavirus infections following the peak in September, restrictions remain high.**
- **There is tension in food and energy prices.**
- **Despite this, the central bank has kept rates stable as part of its commitment to supporting the recovery.**
- **The exchange rate has suffered on account of the central bank's position, although it believes this depreciation could benefit domestic demand.**

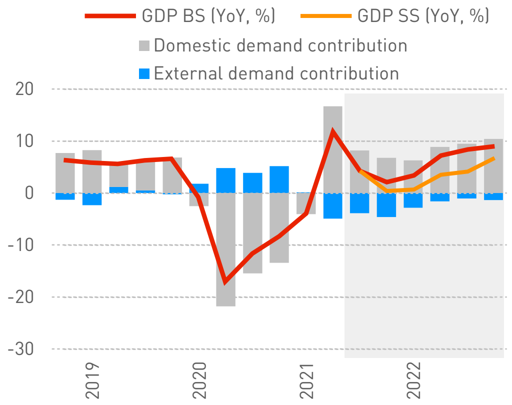
In September, the Philippines peaked in terms of number of cases since the start of the Covid-19 pandemic, with 200 cases per million inhabitants, although by October this had started to recede (see Chart 1.2.14-c). The stringency index remains high, above 75%, although the government has chosen not to employ stricter measures. The strategy is now to let natural immunity and the vaccination campaign do their job (25% of the population has at least one dose and 19.2% is fully vaccinated). The Google mobility index in terms of hospitality and leisure is 26% lower than the normal rate.

The Purchasing Manager Index (PMI) for manufacturing in September recovered to 50.9 points from 46.4 points in August. However, the economic recovery is losing force as the services sector has so far been unable to return to normal due to the significant restrictions on mobility that have weighed down internal demand. Furthermore, financing conditions have been tightened in recent months on account of concern about how long the recovery is taking and because they have tightened elsewhere in the world. The trade balance is suffering due to import prices, and the balance of payments also dipped into the red between January and August. Against this backdrop, our GDP growth forecast for the Philippines for 2021 has been cut to 3.4% (from 5.4%) and increased to 7.1% in 2022, as the recovery is likely to be postponed in large part until next year (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

Inflation was up by 4.8% in September, in the midst of problems in the food supply chain and increases in food prices (+6.5%), in particular meat (15.6%) on account of outbreaks of disease at pig farms. Furthermore, the government has placed limits on price hikes, and electricity, gas and other fuels also under pressure (+10.0%). The price of oil is once again under pressure and will push general inflation upwards. At its meeting in September, the Central Bank of the Philippines kept interest rates a 2.00% (Overnight Repo). It is expected that monetary policy will remain accommodative, as was indicated by the committee at its latest meeting, despite inflation being under pressure on account of the cost of energy and food, surpassing the target range of 2- -4% (4.9% in August), which is expected to be temporary. This decision underscores the approach to support the recovery. In this regard, the central bank has upped its inflation forecast to 4.4% in 2021, 3.3% in 2022 and 3.3% in 2023.

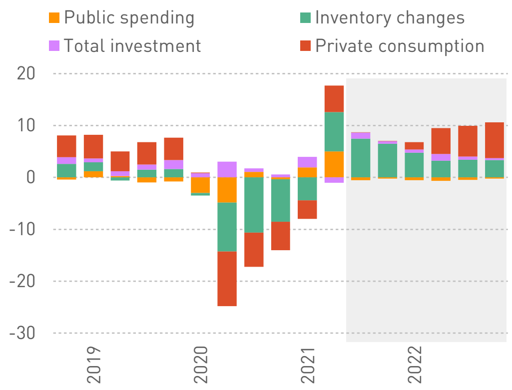
The risks for the Philippine economy stem from inflationary pressure and the monetary stance adopted by the central bank, which has left interest rates untouched and has resulted in currency depreciation in recent weeks. The central bank has shown tolerance for greater depreciation, as this may boost internal demand in a country where migrant remittances are comparatively important. However, a delay in the recovery that sees the public deficit extend over time and increase public debt may end up affecting the country's investment grade credit rating.

Chart 1.2.14-a
Philippines: GDP breakdown and forecasts



Source: MAPFRE Economics (based on PSA data)

Chart 1.2.14-b
Philippines: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on PSA data)

Table 1.2.14
Philippines: main macroeconomic aggregates

	2016	2017	2018	2019	2020(e)	Baseline (BS) 2021(f)	Baseline (BS) 2022(f)	Stressed (SS) 2021(f)	Stressed (SS) 2022(f)
GDP (% YoY)	7.1	6.9	6.3	6.1	-9.6	3.4	7.1	2.9	3.9
Domestic demand contribution	17.8	13.5	15.2	7.3	-19.6	10.2	14.1	6.3	5.0
External demand contribution	-10.7	-6.6	-8.9	-1.2	10.0	-6.8	-7.0	-3.3	-1.1
Private consumption contribution	5.3	4.3	4.2	4.2	-5.8	0.3	4.9	-0.2	2.1
Total investment contribution	6.8	5.9	6.1	0.9	-7.6	5.1	4.7	4.8	2.8
Public spending contribution	1.1	0.7	1.6	1.1	1.6	0.7	0.7	0.7	0.7
Private consumption (% YoY)	7.1	6.0	5.8	5.9	-7.9	0.4	6.8	-0.2	2.9
Public consumption (% YoY)	9.4	6.5	13.4	9.1	10.5	4.6	4.6	4.6	4.6
Total investment (% YoY)	18.8	15.1	14.6	2.3	-21.6	13.2	11.8	19.2	10.5
Exports (% YoY)	9.2	17.4	11.8	2.6	-16.3	4.9	10.3	4.6	7.0
Imports (% YoY)	-5.8	-0.2	-0.6	-0.8	37.8	17.7	-1.5	12.5	7.7
Unemployment rate (%, last quarter)	4.7	5.0	5.1	4.6	8.7	7.2	6.3	8.0	7.2
Inflation (% YoY, last quarter)	2.0	3.0	5.9	1.5	3.1	4.5	3.0	5.4	4.8
Fiscal balance (% of GDP)	-2.3	-2.1	-3.1	-3.4	-7.6	-8.3	-6.8	-8.4	-7.8
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Trade balance (% of GDP)	-11.2	-12.2	-14.7	-13.1	-9.3	-12.7	-12.6	-12.8	N/A
Current account balance (% of GDP)	-0.4	-0.7	-2.6	-0.8	3.1	-0.6	-0.7	-0.6	-0.9
Official interest rate (end of period)	3.00	3.00	4.75	4.00	2.00	2.00	2.34	3.15	4.20
3-month interest rate (end of period)	2.50	3.22	5.03	3.97	2.00	2.00	2.35	3.15	4.19
10-year interest rate (end of period)	4.63	5.70	7.05	4.44	2.97	4.77	5.30	5.31	6.68
Exchange rate vs. US dollar (end of period)	49.81	49.92	52.72	50.74	48.04	50.96	48.97	53.60	52.45
Exchange rate vs. euro (end of period)	52.51	59.87	60.37	57.01	58.94	58.61	58.75	61.50	61.26
Private lending (% YoY, average)	15.3	17.6	16.8	9.5	4.0	0.6	6.2	0.8	8.3
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	8.5	9.4	10.3	6.9	-8.0	6.5	11.6	6.1	9.5
Savings rate (% avg. disp. income)	13.5	14.1	13.0	12.1	11.3	11.6	14.5	12.0	15.6

Source: MAPFRE Economics (based on PSA data)
Forecast end date: October 18, 2021.

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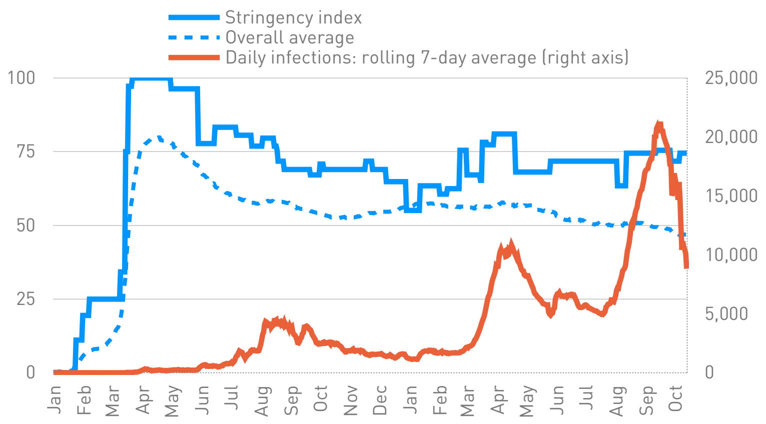
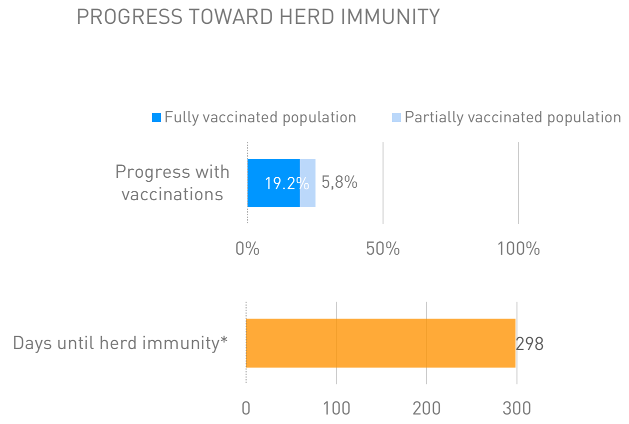
Chart 1.2.14-c
Philippines: daily COVID-19 infections, stringency index and progress toward herd immunity





Source: MAPFRE Economics (based on data from the Coronavirus Government Response Tracker, University of Oxford and DeepAI, updated 10/18/2021)

*Based on vaccinating 75% of the total population

2. Industry Outlook

2.1 The economic environment and its impact on insurance demand: update

2.1.1 Global markets

The outlook for the global insurance market continues to improve thanks to global economic growth that, in 2021, has been estimated as coming to 5.9% for the year (having fallen by 3.1% in 2020). This represents a slight decrease on estimates, although expectations remain that the recovery will take global GDP to pre-pandemic levels, supported by strong growth in the United States and emerging economies and developed Asian economies (in particular, China and India). The predictions for Latin America are improving as well, given the strong performance shown by some of the region's largest economies, and this is having favorable repercussions on its insurance industry.

However, many economies will have to wait until 2022, and some longer still, before regaining the levels they were experiencing before the crisis, which means that their insurance markets could show an uneven recovery. Progress with vaccination campaigns is helping to significantly reduce the number of Covid-related deaths and admissions to hospitals, reducing global uncertainty. However, uncertainty has increased somewhat due to the upturn in commodity and energy prices caused by resumed activity and supply-chain disruption, with the inflationary impact that all of this entails against a backdrop of high liquidity. This means that the claim ratios of insurers is up due to the higher number of claims resulting from the reopening process (with a particular impact on the auto and health businesses) and the increase in costs that may occur as a result of the increase in inflation. These factors, combined with the drop in the profitability of investments, may adversely affect the profitability of insurers and put pressure on the cost of insurance as a result.

Elsewhere, central banks have started to consider the possible removal of these ultra loose monetary policies faced with the upturn in inflation and an improvement in the economic situation, reflected in the risk-free interest rate curves produced by the European Insurance and Occupational Pensions Authority (EIOPA), which has shown an increase in all rates in all sections of the curves analyzed, with notable exceptions, as in the case of China. There are also significant differences in the individual situations of the various economies, with certain developed and emerging countries having had to withdraw some of the economic support measures they had implemented. In some cases, there has even been a change in orientation in monetary policy, with sharp rises in interest rates, to counter inflation that has proven to be more persistent than expected while also substantially exceeding inflation targets.

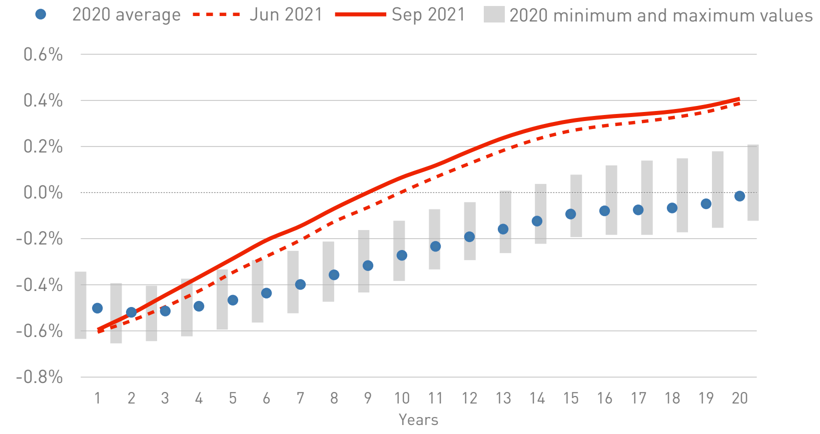
The interest-rate rises seen in some emerging economies are creating more favorable interest-rate environments for the Savings Life business and traditional lifetime annuities, which were seriously affected during the crisis due to the significant cuts in interest rates made by central banks to support their respective economies. This had a major impact on the sale of these products, as interest rates available in new policies launched had to be reduced. It would also appear that the serious uncertainty that saw households and businesses shift toward liquidity positions during the most acute phases of the crisis is now behind us. As a result, there is an increased appetite for financial products that make it possible to protect inflation and obtain returns on savings, which favors Life insurance products where the policyholder assumes the risk of the investment. The appeal of these products increases in line with strong performance that is generally being seen in the world's main stock markets. These factors, along with the return to economic growth, are driving the recovery of the Life business, which contracted the most of all businesses during the crisis across practically all markets and that, based on the available information to date, is showing signs of a speedy recovery.

2.1.2 Eurozone

Estimated economic growth in 2021 for the Eurozone stands at around 5% (following the sudden contraction of -6.5% seen in 2020), surpassing the forecasts made throughout the year. However, this is only a partial recovery, with pre-Covid GDP not expected to be achieved until 2022, when it is expected that economic growth will come to 4.3% (subject to increased uncertainty over the increase in energy prices and the difficulties in production levels keeping pace with the strong increase in demand following the reopening of practically all economies in the region).

The disruption seen in supply chains is particularly affecting the automotive sector, given the scarcity of chips needed for the production of vehicles, which is holding back new registrations. However, the economic reactivation continues to support the recovery of business across the insurance industry in the Eurozone. However, the higher loss ratio seen in

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



Source: MAPFRE Economics (based on EIOPA data)

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some business lines as a result of increased activity (in particular, in the auto and health segments) and the upturn in inflation as a result of the significant increase in energy prices and the bottlenecks in production, have increased the frequency and cost of claims (above the forecast made during the pricing process), which may temporarily undermine the profitability of the insurance industry, consequently putting pressure on insurance prices.

At its September meeting, the European Central Bank (ECB) decided to keep its asset purchase programs and other non-conventional measures in place, in addition to keeping short-term interest rates at current levels (0% for the main financing transactions and -0.5% for deposit facilities), despite the upturn in inflation and until there are clearer signs of an economic recovery. As a result, the risk-free yield curves produced by the

European Insurance and Occupational Pensions Authority (EIOPA) show a new increase in all risk-free interest rates, which combine with the positive rates seen in the past two quarters for maturities of more than eight years. The other interest rates remain negative, and, for maturities of less than two years, they are considerably lower than the highs seen in 2020. Chart 2.1.2 reflects this, showing the minimum, average and maximum levels reached in 2020, along with the level of the latest curves published for June and September 2021. However, despite a new rebound in risk-free interest rates, levels remain low, thereby favoring economic recovery and insurance activity, especially for its more cyclical lines of business. This does, however, damage the traditional Life business and the profitability of insurance companies. Elsewhere, the Euro Stoxx 50 index has experienced a slight upturn in volatility, although it continues to perform well, facilitating the development of life insurance products in which the policyholder assumes the risk of investment. This is seen particularly in negative interest rate environments in which the Eurozone currently finds itself in the short and medium term.

2.1.3 Germany

The growth forecast for the German economy in 2021 stands at 3.1% (compared to the significant contraction of -4.9% in 2020 on account of the pandemic). This represents a notable downward revision of the growth estimate for this year on account of supply chain problems and the strong upturn in energy prices, meaning Germany will have to wait to return to pre-pandemic production levels until 2022, when the country's economy is expected to grow by 4.4%. Consumption will continue on its path to recovery, and the return to growth may help to reverse the negative impact of the crisis on the insurance business, which, in 2020, experienced a marked slowdown in its growth of more than four percent, as a result of the significant contraction of the Life business. The environment remains complicated for the traditional Savings Life and annuities business, due to the low interest rates in which Germany and the entire eurozone economy have been mired. However, it is worth noting that the return on German sovereign debt has increased significantly compared to the second quarter and is positive for all terms of more than ten years again. The German DAX, in turn, has shown volatility during the third quarter, potentially adversely affecting the performance of Life insurance products, where policyholders assume the risk of investment, in particular in relation to the sale of this type of product to savers with a more conservative profile. Nevertheless, the environment remains positive for these products.

2.1.4 Italy

The outlook for the Italian economy in 2021 foresees GDP growth of 6.2%, compared to the sudden contraction seen in 2020 of -9.0%, one of the biggest in the world on account of the pandemic. This has meant a significant upward revision of the growth estimate for this year, based on economic indicators that continue to improve following the reopening of businesses, in particular private consumption and investment. This comes in contrast to what is being seen in other advanced economies, where forecasts are being adjusted downward. However, there is a high base effect, and Italy will not recover its pre-crisis level of production until 2022, when its economy is expected to grow by 4.6%. The return to economic growth forecast for this year will continue to support the performance of its insurance market, which was hit hard in 2020 (around -2.7% in Non-Life premiums and -6.3% in Life premiums).

Elsewhere, despite the strong intervention of the ECB on bonds markets, the risk premium and term premium of Italian sovereign debt are on the up, in line with inflation which has surpassed 3%. This means that rates are slightly better for the Life business, although interest rate levels remain seriously deflated. In the third quarter of 2021, the yield spread on 10-year German bods has increased and is currently at around one hundred basis points. The FTSE MIB is performing well, encouraged by the strong business data, and equity is now seen as an alternative form of protection against the upturn in inflation, which could help the performance of Life insurance products that have gained such importance in the Italian market in recent years in which the policyholder assumes the risk of investment.

2.1.5 Spain

The economic growth forecast for Spain for 2021 stands at 5.7% (compared to the abrupt contraction of -10.8% in 2020, amongst the biggest in the world). This represents a scaling down of growth estimates as a result, in essence, of the upturn in energy prices, combined with the supply difficulties that are hampering production in certain sectors, such as the automotive industry, dragging export levels and new vehicle registrations down. This partial recovery of the Spanish economy has been underpinned by internal demand, although this will not return to pre-pandemic levels until 2022, when economic growth is expected to hit 6.2%, with support from the European recovery funds. The return to economic growth and the improvement in expectations are been reflected on the insurance market, which has seen year-on-year growth and is showing a favorable growth forecast for the coming years (see Table 2.1.5).

Based on the most recent data for September 2021[4], on aggregate, premium growth in the Spanish insurance industry stood at 4.1%, compared to the same period the previous year (-7.4% when comparing 2021 to the same nine-month period of 2019, eliminating the base effect). Life business premiums have grown by 5.7% year on year during the first nine months of the year (-21.8% when compared to 2019), with growth both in Savings Life premiums up by 6.0% (-27.5% compared to the same period in 2019) and in Risk Life up by 5.0% (4.7% compared to 2019), meaning that Life insurance connected to savings is still some way from pre-pandemic levels. Equities are beginning to be seen as an alternative form of protection against an environment of low interest rates and rising inflation, and this is encouraging development of life insurance products where the policyholder assumes the investment risk, which at present remains immaterial. However, products of this type are gaining importance, with a wide range of offerings now being launched onto the market in terms of the level of risk that policyholders may decide to take on and the additional guarantees of protection in case of death that these policies include. Furthermore, it is worth noting that the partial recovery of the economy expected this year could help the Risk Life business, as its performance is strong and it could benefit from greater demand for protection against the risk of death as a result of the pandemic.

In turn, the growth in Non-Life premiums has also recovered during the first nine months, year on year, growing by 3.2% on aggregate compared to the premiums for the same period last year (3.7% when compared to the same period in 2019). The health division has seen growth of 5.0% (9.8% when compared to the same period in 2019), as has multirisk, with homes up by 5.0% (7.6% compared to 2019) and homeowners associations up by 2.9% (5.9% compared to 2019). Also worth significant note is the strong recovery of industry multirisk premiums, up by 8.5% (14.6% compared to the same period in 2019).

Box 2.1.5
Spain: updated forecasts for premium growth

The forecast model by components

As indicated in the update in our most recent report, in light of the fast-changing context, conditioned by the restrictions imposed on account of the Covid-19 pandemic and its impact on mobility, expectations and liquidity, a more up-to-date instrument is required with accurate conditions that also give priority to these factors (mobility, expectations and liquidity) over macroeconomic variables (as is the case when traditional predictive methodologies are employed and as will be the case again when there is a complete return to normality and this interim approach is abandoned).

On the other hand, the decision to use this approach was also supported by the fact that the Non-Life insurance business showed itself to be resilient despite the significant impact on liquidity, income and activity, in which some lines of business maintained momentum, more than making up for the ground lost by others. This opened the door for the analysis of insurance performance by lines of business, which revealed clearly different dynamics. On the one hand, *cyclical lines*, which expand and contract depending on the performance of the economic cycle and, therefore, suffer under circumstances like those arising from the pandemic (e.g., auto and other lines of business linked to consumption) and, on the other, *acyclical lines*, the insured underlying of which would appear to be a "superior asset" capable of resisting real and financial contractions and, therefore, remaining stable (if not growing) at times of crisis, as is currently the case (e.g., the Health and Personal Multirisk lines).

Chart A
Spain: stringency index vs. economic policy uncertainty

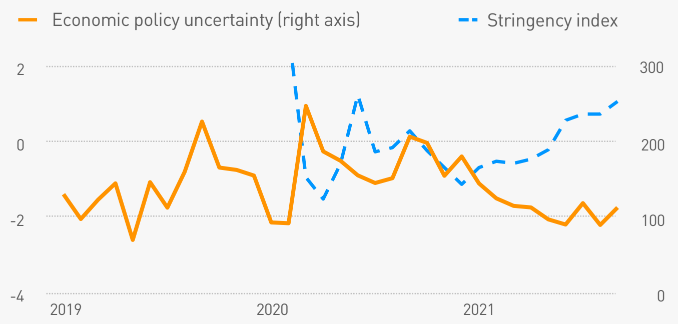
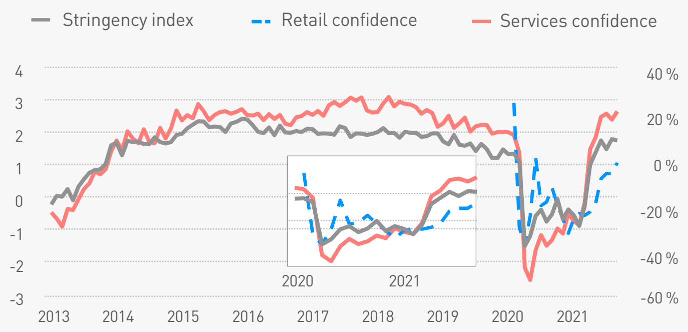


Chart B
Spain: retail and services confidence vs. stringency index



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

Box 2.1.5 (continued)
Spain: updated forecasts for premium growth

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

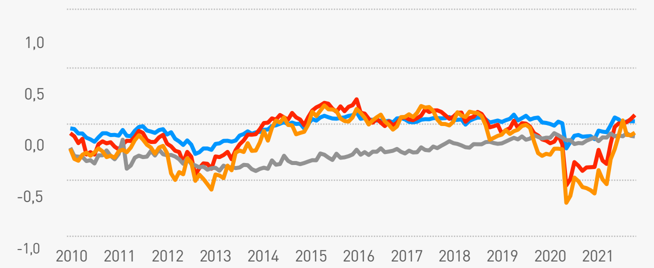
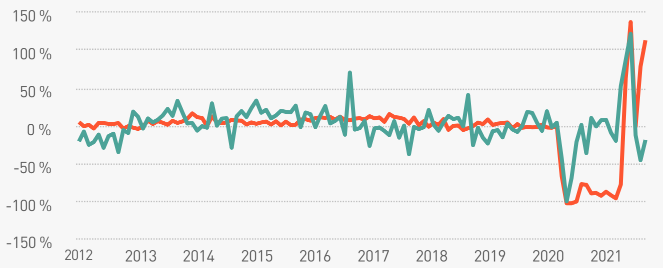


Chart D
Spain: automobile production and inflow of tourists at annual rate



Source: MAPFRE Economics (based on Haver data)

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

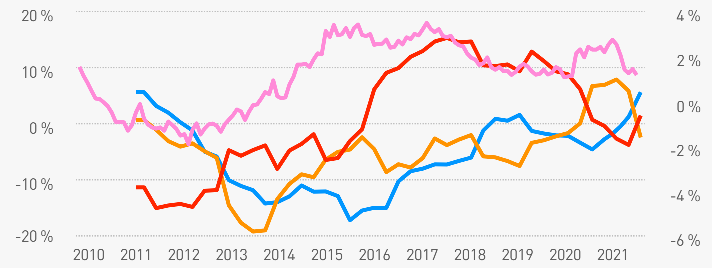
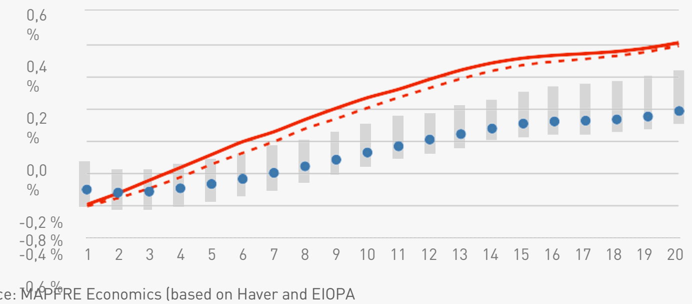


Chart F
Eurozone: risk-free yield curve



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

Box 2.1.5 (continued)
Spain: updated forecasts for premium growth

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

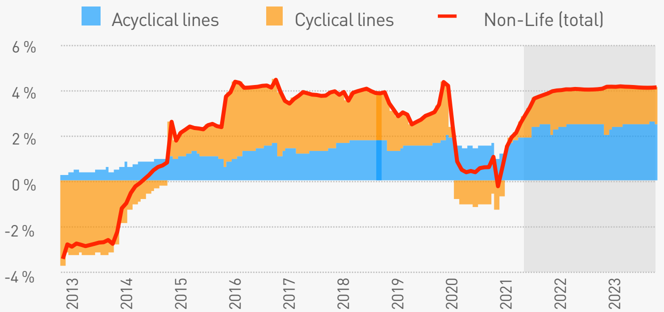
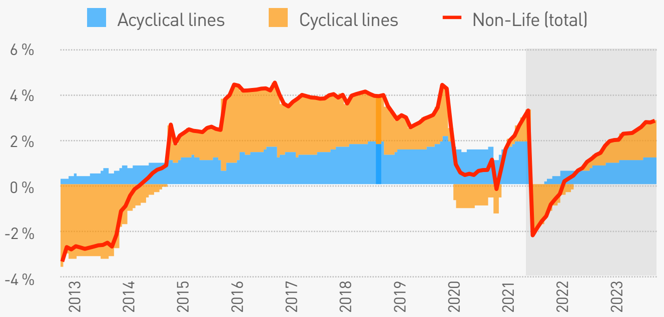


Chart H
Spain: contribution to growth by Non-Life lines (pessimistic scenario)
(%)



Source: MAPFRE Economics

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

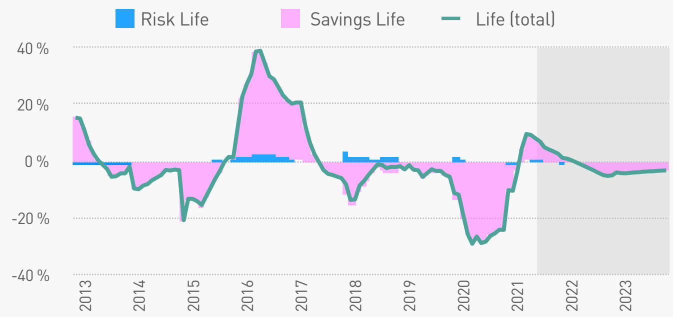
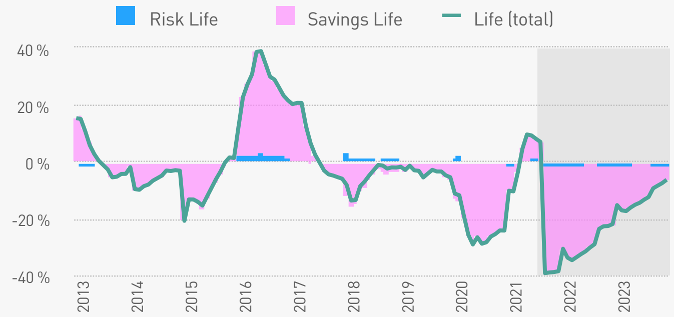


Chart J
Spain: contribution to growth by Risk Life and Savings Life (pessimistic scenario)
(%)



Source: MAPFRE Economics

Box 2.1.5 (continued)
Spain: updated forecasts for premium growth

Table A
Non-Life: nominal premium growth forecasts,
model of components vs model of fundamentals.
(year-on-year rate, %)

Period	Model of fundamentals[1]	Optimistic scenario						Pessimistic scenario					
		Total	Auto	MRC*	Other	MRP**	Health	Total	Auto	MRC*	Other	MRP**	Health
Q2	0.4 %	0.4 %	-3.0 %	5.2 %	-1.7 %	2.0 %	5.0 %	0.4 %	-3.0 %	5.2 %	-1.7 %	2.0 %	5.0 %
Q3	0.6 %	0.6 %	-2.2 %	3.8 %	-2.2 %	2.6 %	4.9 %	0.6 %	-2.2 %	3.8 %	-2.2 %	2.6 %	4.9 %
2020 Q4	**1.1 %**	**1.1 %**	**-1.9 %**	**2.8 %**	**-0.7 %**	**4.0 %**	**5.1 %**	**1.1 %**	**-1.9 %**	**2.8 %**	**-0.7 %**	**4.0 %**	**5.1 %**
Q1	1.5 %	1.5 %	-1.8 %	4.3 %	1.2 %	3.7 %	3.9 %	1.5 %	-1.8 %	4.3 %	1.2 %	3.7 %	3.9 %
Q2	3.4 %	3.4 %	-0.1 %	3.8 %	3.8 %	4.5 %	4.8 %	3.4 %	-0.1 %	3.8 %	3.8 %	4.5 %	4.8 %
Q3[e]	3.2 %	3.2 %	-0.9 %	7.7 %	4.5 %	5.4 %	5.0 %	3.2 %	-0.9 %	7.7 %	4.5 %	5.4 %	5.0 %
2021 Q4[f]	**3.5 %**	**3.9 %**	**0.0 %**	**7.7 %**	**4.1 %**	**5.9 %**	**6.2 %**	**-1.4 %**	**-3.5 %**	**-3.5 %**	**-1.1 %**	**-0.8 %**	**0.9 %**
Q1[f]	4.0 %	4.0 %	0.0 %	7.7 %	4.3 %	6.0 %	6.3 %	-0.4 %	-2.3 %	-1.9 %	0.0 %	-0.1 %	1.5 %
Q2[f]	4.4 %	4.0 %	0.1 %	7.7 %	4.4 %	5.9 %	6.3 %	0.4 %	-1.2 %	-1.6 %	1.1 %	0.4 %	2.0 %
Q3[f]	4.3 %	4.1 %	0.1 %	7.7 %	4.4 %	5.9 %	6.3 %	1.0 %	-0.1 %	-1.6 %	1.9 %	0.4 %	2.2 %
2022 Q4[f]	**4.1 %**	**4.1 %**	**0.2 %**	**7.7 %**	**4.5 %**	**5.8 %**	**6.3 %**	**1.4 %**	**0.4 %**	**-0.4 %**	**2.0 %**	**1.1 %**	**2.5 %**
Q1[f]	4.0 %	4.2 %	0.2 %	7.7 %	4.5 %	5.8 %	6.3 %	2.0 %	0.8 %	0.7 %	2.7 %	1.6 %	2.9 %
Q2[f]	3.9 %	4.1 %	0.3 %	7.7 %	4.5 %	5.8 %	6.3 %	2.2 %	1.2 %	0.2 %	3.4 %	1.5 %	3.1 %
Q3[f]	3.9 %	4.1 %	0.3 %	7.7 %	4.5 %	5.8 %	6.3 %	2.5 %	1.6 %	1.4 %	3.7 %	1.6 %	3.2 %
2023 Q4[f]	**3.8 %**	**4.1 %**	**0.3 %**	**7.7 %**	**4.5 %**	**5.8 %**	**6.3 %**	**2.8 %**	**1.9 %**	**1.5 %**	**4.0 %**	**1.9 %**	**3.5 %**

Source: MAPFRE Economics

(f) Forecasts from Q3 2021 onward.
1/ Based scenario of the model of macroeconomic fundamentals

*Commercial Multirisk
**Private Multirisk

Box 2.1.5 (continued)
Spain: updated forecasts for premium growth

Table B
Life: nominal premium growth forecasts, model of components vs model of fundamentals.
(year-on-year rate, %)

Period	Model of funda-mentals[1]	Optimistic scenario			Pessimistic scenario		
		Total	Savings	Risk	Total	Savings	Risk
Q2	-26.0 %	-26.0 %	-32.0 %	0.1 %	-26.0 %	-32.0 %	0.1 %
Q3	-25.8 %	-25.8 %	-31.3 %	-0.2 %	-25.8 %	-31.3 %	-0.2 %
2020 Q4	**-20.7 %**	**-20.7 %**	**-25.0 %**	**-0.4 %**	**-20.7 %**	**-25.0 %**	**-0.4 %**
Q1	-3.2 %	-3.2 %	-3.7 %	-1.9 %	-3.2 %	-3.7 %	-1.9 %
Q2	9.2 %	9.2 %	10.6 %	5.2 %	9.2 %	10.6 %	5.2 %
Q3[e]	5.7 %	5.7 %	6.0 %	5.1 %	5.7 %	6.0 %	5.1 %
2021 Q4[f]	**4.1 %**	**4.4 %**	**4.6 %**	**-1.4 %**	**-37.9 %**	**-48.2 %**	**-3.4 %**
Q1[f]	4.1 %	2.1 %	2.2 %	-1.2 %	-28.8 %	-45.0 %	-3.2 %
Q2[f]	4.6 %	0.1 %	0.1 %	-0.9 %	-25.3 %	-39.9 %	-3.0 %
Q3[f]	4.4 %	-2.1 %	-2.2 %	-0.7 %	-23.1 %	-35.3 %	-2.8 %
2022 Q4[f]	**4.4 %**	**-4.5 %**	**-4.6 %**	**-0.4 %**	**-21.4 %**	**-32.0 %**	**-2.6 %**
Q1[f]	4.6 %	-3.8 %	-3.9 %	-0.2 %	-13.5 %	-26.2 %	-2.0 %
Q2[f]	4.7 %	-3.4 %	-3.5 %	0.0 %	-10.9 %	-20.1 %	-2.0 %
Q3[f]	4.6 %	-3.1 %	-3.2 %	0.0 %	-8.9 %	-15.2 %	-2.0 %
2023 Q4[f]	**4.6 %**	**-2.8 %**	**-2.9 %**	**0.0 %**	**-5.9 %**	**-9.1 %**	**-2.0 %**

Source: MAPFRE Economics

(f) Forecasts from Q3 2021 onward.
1/ Based scenario of the model of macroeconomic fundamentals

Applying this approach, and based on the macroeconomic scenarios proposed a year ago (the base and stressed scenarios varying depending on the severity of the pandemic), premium growth forecasts were prepared based on the future performance (until 2023) of activity restrictions and their impact on business and consumer confidence, manufacturing and service activities, liquidity and mobility. These elements helped to define the possible outlook for the insurance industry in the months to come, depending on the different pandemic scenarios (see Charts A to F).

Updating of premium growth forecasts

Based on data from August 2020, the year was expected to end on 1.6% nominal growth in the optimistic scenario or down by 11.1% in the stressed scenario. The intermediary result would have seen premium growth of just above 0.5%, on account of the dominance of the Health and Multirisk lines (*acyclical*) compared to the Auto and other lines (*cyclical*). Growth of the Non-Life segment in 2020 was 1.1% YoY, underpinning the belief that its dominance would alleviate other factors.

TheCovid-19 vaccine was announced on December 8, 2020, meaning the impact of this announcement was not included in the premium growth forecast for 2020, although this was consistent with our optimistic scenario, which anticipated that, thanks to the vaccination campaign in Spain, there would be growth of 3.8% in the final quarter of 2021, consistent with the objective of achieving the long-term growth rate set at around 4% by the end of 2023 (the lower band was set as part of the pessimistic scenario, which

Box 2.1.5 (continued)
Spain: updated forecasts for premium growth

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

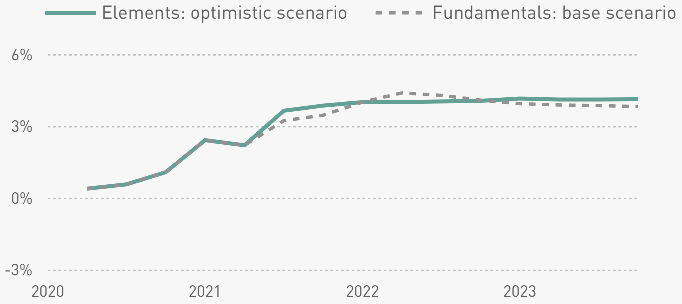


Chart M
Spain: comparison of nominal forecasts for Life models
(YoY, %)

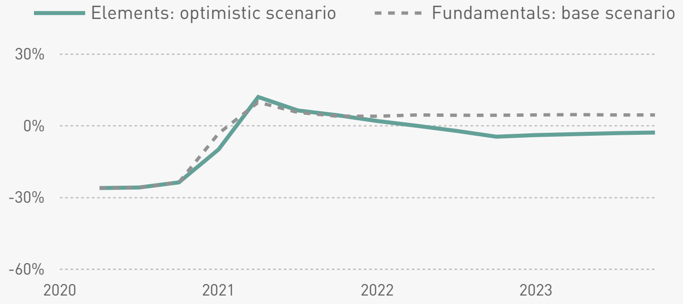
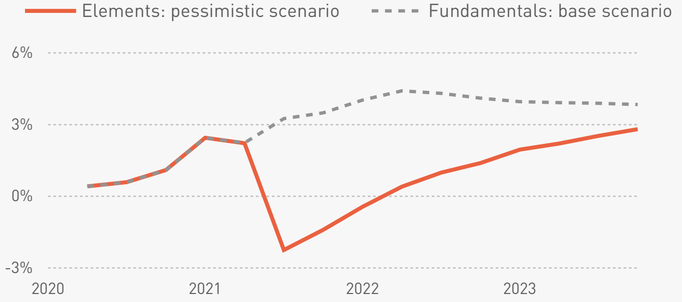
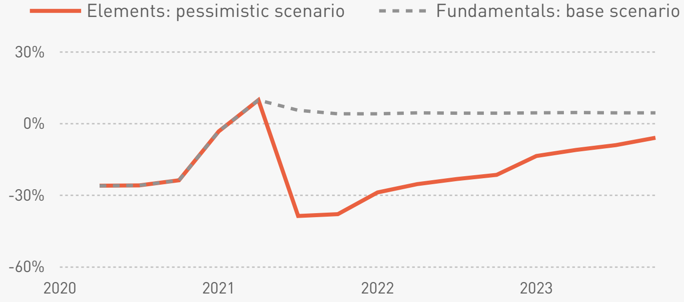


Chart L
Spain: comparison of nominal forecasts for Non-Life models
(YoY, %)



Source: MAPFRE Economics

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



Source: MAPFRE Economics

Box 2.1.5 (continued)
Spain: updated forecasts for premium growth

Chart O
Spain: actual quarterly forecasts for Non-Life premiums model of components vs model of fundamentals
(YoY, %)

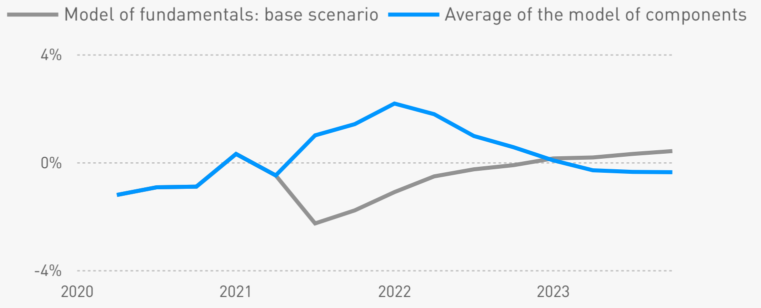
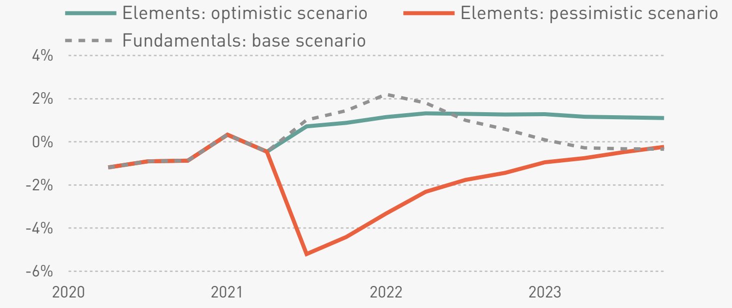


Chart P
Spain: actual quarterly forecasts for Non-Life premiums
(YoY, %)



Source: MAPFRE Economics (based on INE data)

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

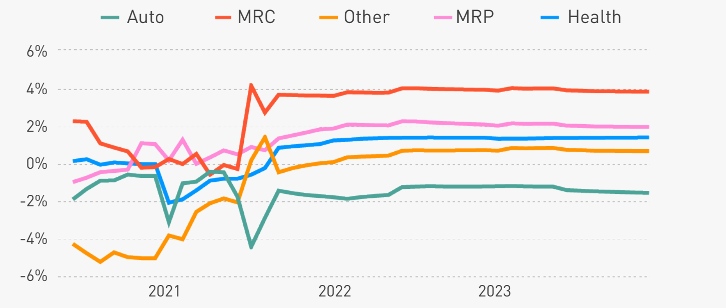
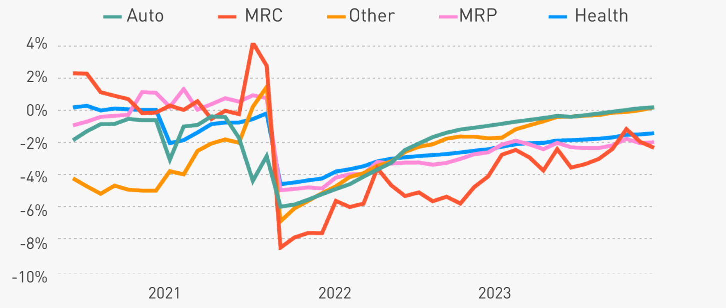


Chart R
Spain: actual quarterly forecasts for Non-Life premiums (pessimistic scenario)
(YoY, %)



Source: MAPFRE Economics

Box 2.1.5 (continued)
Spain: updated forecasts for premium growth

Table C
Non-Life: real premium growth forecasts, model of components vs model of fundamentals.
(year-on-year rate, %)

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

Source: MAPFRE Economics

(e) Estimated with data up until May.
(f) Forecasts from Q3 2021 onward.
1/ Based scenario of the model of macroeconomic fundamentals

*Commercial Multirisk
**Private Multirisk

Box 2.1.5 (continued)
Spain: updated forecasts for premium growth

continues to be reflected despite it now being unlikely in light of the circumstances).

The updated forecast, assuming that the optimistic scenario is consolidated (hence the projections of the variables remain the same as a year ago), is consistent with the forecast from one year ago, hitting growth of around 3.7% or 3.9% at the end of 2021 and reaching a long-term nominal rate most likely before the end of 2023 (see Table A). The data for September (3.2%) back up this vision.

In 2020 and 2021, analyzing the real growth of premiums has also been very important considering the strong upswing in inflation, which, in turn, has masked the performance of the Non-Life insurance segment (given that traditionally it is depicted nominally). Discounting the increase in inflation in different lines, it can be seen that, by the end of 2020, it was in the red (-0.9% YoY), although it was anticipated that the Non-Life segment would grow in real terms during 2021, supported by all lines with the exception of autos, converging toward a real rate of around 1% in the long-term (see Table C). We now know that inflation will make the forecast difficult to achieve in the short term, as inflation is higher than expected.

It has been precisely the return of inflation that has meant that forecasts for the Life insurance business were incorrect. In view of the significant deterioration seen in 2020 (when Life premiums contracted by almost 21%), we assumed that the drain on liquidity and the financial repression applied by the European Central Bank, against a backdrop of low interest rates and inflation, would see the same mood maintained, and we expected the Life business to be hit hard.

The upturn in inflation seen from the first quarter onwards has affected medium-term interest rates and insurance output as a result. Thus, the upswing has resulted in the figure of 9% being surpassed in the second quarter of 2021. However, we believe that this will be temporary, and once the effect on the interest-rate curves is diluted, insurance output will be limited again and the business will return to negative territory in mid-2022 (see Chart F).

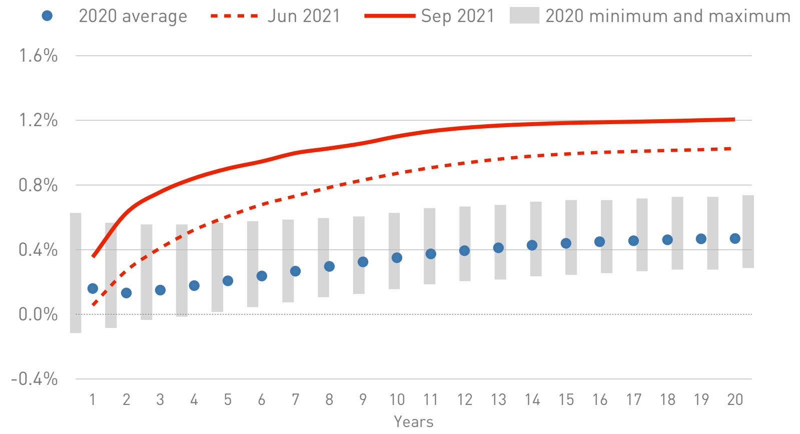
A breakdown of premium forecasts under the optimistic scenario can be consulted in Tables A and B and Charts G to P. In these charts, it is also possible to see the difference in our traditional forecasts (by macroeconomic fundamentals) and those made based on short-term variables and lines of business. Furthermore, the real growth forecasts for the cyclical and acyclical lines can be consulted in Charts Q to R for both scenarios.

2.1.6 United Kingdom

The forecast for the UK economy predicts GDP growth of 6.9% in 2021 (compared to the sharp drop of 9.7% in 2020, amongst the biggest in the world). This upward revision of economic growth expectations is based on the recovery of private consumption and strong support from public spending. However, the base effect remains significant and the British economy will be unable to return to pre-crisis levels of production until 2022, when growth of 5.5% is expected. However, the economy is subject to increased uncertainty due to problems with supply chains and the upturn in energy prices. In any case, the outlook continues to improve for the insurance market in 2021, in line with the start of the economic recovery; the pandemic hit the business hard in 2021, affecting the Life segment in particular.

As regards the Savings Life business and the traditional annuities business, the EIOPA's risk-free yield curves (see Chart 2.1.6) are up significantly for all interest rates; this can be attributed to the expectations of monetary policy being tightened by the Bank of England, as a result of the upturn in inflation. This represents an improvement in the environment for the Savings Life and the traditional annuities business on account of the upturn in interest rates and the increase in the term premium. Nevertheless, expectations remain that they may continue to increase, and the fact that they do not appear to be peaking is a burden on this business. However, the potential positive impact on the Life business that the return to economic growth and the strong performance of the FTSE 100 may have, although somewhat more erratic in terms of its recovery, represents a favorable environment for Life insurance where the policyholder assumes the risk of investment, which is very deep rooted in this market. This combines with the fact that equity is starting to be seen as an alternative to obtain protection against the upturn in inflation.

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



Source: MAPFRE Economics (based on EIOPA data)

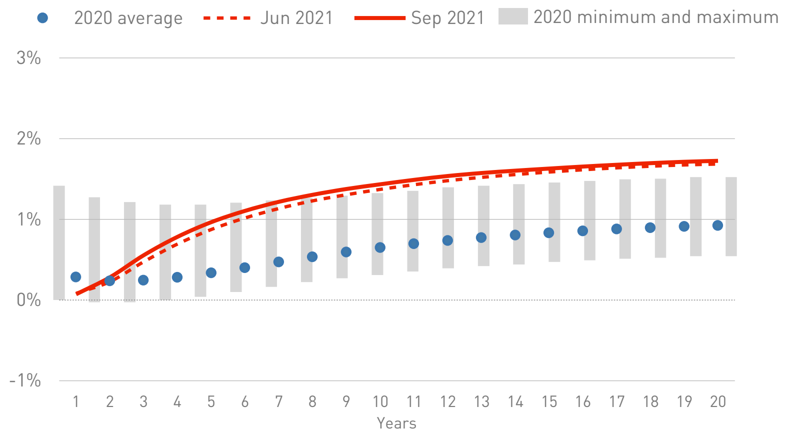
Click here to access the interactive version of this information

2.1.7 United States

The economic growth forecast for the United States in 2021 stands at 5.8% (compared to the contraction of -3.4% in 2020) and at 4.3% in 2022, which is down on the original growth forecast; however, this does mean that the economic effects of the pandemic would be righted this year, thanks to far-reaching packages of aid implemented by the tax and monetary authorities (some of the biggest in the world). The expected economic recovery will help premiums in the Non-Life insurance business to recover, having experienced a significant slowdown when compared to the growth seen the previous year. However, the upturn in inflation consistently beyond expectations may have an adverse impact on the business' profitability, on account of the increase in the cost of claims beyond expectations when setting the price of insurance.

In terms of the Life business (which bore the brunt of the 2020 coronavirus crisis), the favorable impact of the economic recovery and the strong performance of financial markets may be eclipsed by the monetary policy decisions adopted by the Federal Reserve in view of the upturn in inflation that is affecting the economy. As a result, at its most recent meeting in September, the Federal Reserve decided to hold firm with its monetary policy, maintaining the monthly pace of its sovereign and corporate bond purchase program (mainly mortgage-backed bonds) and keeping interest

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



Source: MAPFRE Economics (based on EIOPA data)

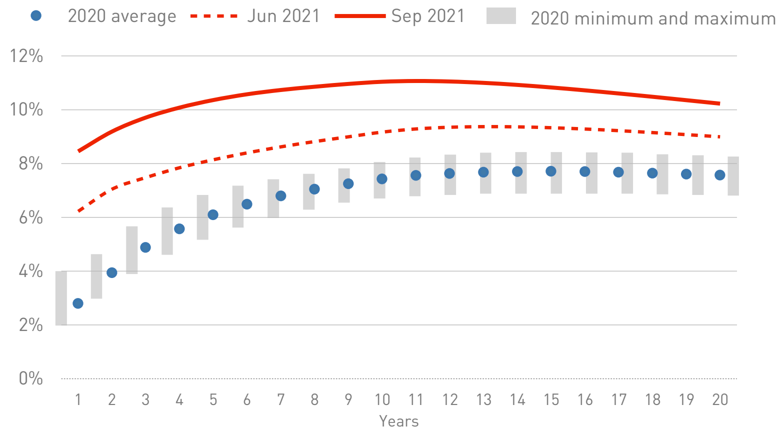
Click here to access the interactive version of this information

rates in the range of 0%-0.25%, despite recent statements about monetary policy representing a clear shift in tone that may result in the withdrawal of stimuli reducing the pace of monthly net bond purchases at its November meeting and proposing an increase in interest rates earlier than was originally envisaged, potentially in 2022. This shift in tone was reflected in the recent EIOPA interest-rate curves for the month of September (see Chart 2.1.7), in which there is a slight increase in all sections of the curve, although earlier maturities remain well below the highs seen the previous year, which is indicative that significant amounts of monetary stimuli remain. There has also been a slight upturn in interest rates in the medium and long sections of the curve, which are well above the highs seen the previous year. In any case, the interest rate environment remains unfavorable for the sale of savings products on account of the low short-term interest rates and the expectation that there may be new increases affecting all sections of the curve. Elsewhere, the stock markets continue to perform well, although they may be starting to show signs of exhaustion having hit historic highs and the impact that an increase in interest rates would have (both in the risk-free component and the risk premium component on account of the reduction in asset purchase programs) on the value of bond portfolios. These factors could water down the favorable impact of the strong outlook in terms of the economic recovery on the Life insurance business, where the policyholder assumes the risk of investment, which is very common in this market, resulting in more conservative investors directing their investments toward lower risk or other types of investments.

2.1.8 Brazil

The estimated growth of the Brazilian economy in 2021 stands at 5.2%, compared to the estimated real contraction of 4.4% in 2020 (deseasonalized data), which entails a slight improvement in the growth outlook. This would make the Brazilian economy one of the few economies to return to its pre-pandemic GDP before the end of the year. In turn, estimated growth for 2022

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



Source: MAPFRE Economics (based on EIOPA data)

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stands at 1.7%, down on the original estimation on account of the upturn in inflation that has seen the central bank tighten its monetary policy, reversing the expansive measures adopted to fight the economic impacts generated by the pandemic.

In any case, the Brazilian economy's return to growth continues to support the recovery of its insurance industry, both in terms of Non-Life, primarily, and the Life business, which was hardest hit by the crisis. In the first half of 2021, premiums in both segments were up on those registered before the coronavirus crisis (compared to the first half of 2019), meaning that growth has been solid, beyond any base effect, and it is estimated that this will extend into the coming years (see Box 2.1.8). The Non-Life segment has seen notable growth in the premium volume, with a significant reactivation of all business lines above the rate of inflation. However, the significant upturn in inflation and depreciation of the Brazilian real during the third quarter of the year may have an adverse impact on the business' profitability, on account of the increase in the cost of claims beyond expectations when setting the price of insurance.

Elsewhere, the aggressive tightening of monetary policy by the central bank in view of the sharp upturn in inflation has seen interest rates increase once again in September (the fourth increase in rates in 2021), reaching levels significantly higher than those seen at the start of the coronavirus crisis. The EIOPA's risk-free yield curve (see Chart 2.1.8) reflects a new parallel shift with a significant increase on the curve seen in June, well beyond the maximums seen in all sections the previous year. This interest rate environment, with higher levels and a significant, positive term premium (making it possible to offer guaranteed higher medium and long-term rates than is the case for short-term rates) is a major asset when it comes to the performance of the Life-savings business and the traditional annuities business, which is experiencing significant growth in business volume and has now surpassed pre-pandemic levels.

Box 2.1.8
Brazil: updated forecasts for premium growth

General backdrop for the update

To update the analysis of the premium growth forecasts for the Brazilian insurance industry, the same method used for the Spanish market has been used (see Box 2.1.5), with a view to sidestepping the problems of uncertainty, high frequency and exogeneity of the shock caused by the Covid-19 pandemic, which is even greater in emerging markets.

As a result, transfer models have been used that are capable of transferring the restrictions imposed in response to the pandemic to consumer and sectoral confidence, in addition to the real and financial sector. Once the shock of the restrictions is channeled up to those variables, forecasts are made of the different lines that comprise the Life and Non-Life business, conditioned to the extent of restriction and the context represented by the explanatory variables in different scenarios. Thus, once the elements or lines that make up the Non-Life and Life premiums have been projected, the total premiums for each business are calculated by aggregating the forecasts for those elements.

The variables included in the model are as follows. Among the explanatory variables (as reflected in Charts A and B, for the optimistic and pessimistic scenarios), the most exogenous is the stringency index on mobility published by the University of Oxford, an indicator that is also contrasted against Google's and Apple's mobility data to corroborate its correct interpretation. The stringency index has been linked, directly or indirectly, to *n* explanatory variables obtained from the central bank and the national statistics institute; the most relevant are: services sector, retail and consumer confidence (indexes); consumer expectations (index); uncertainty surrounding economic policy (index); the assessment of current economic conditions (index); the capacity used (index); service sector income (annual rate); car traffic flow (annual rate); household lending (annual rate); inflation expectations (index), and the real exchange rate, REER (index).

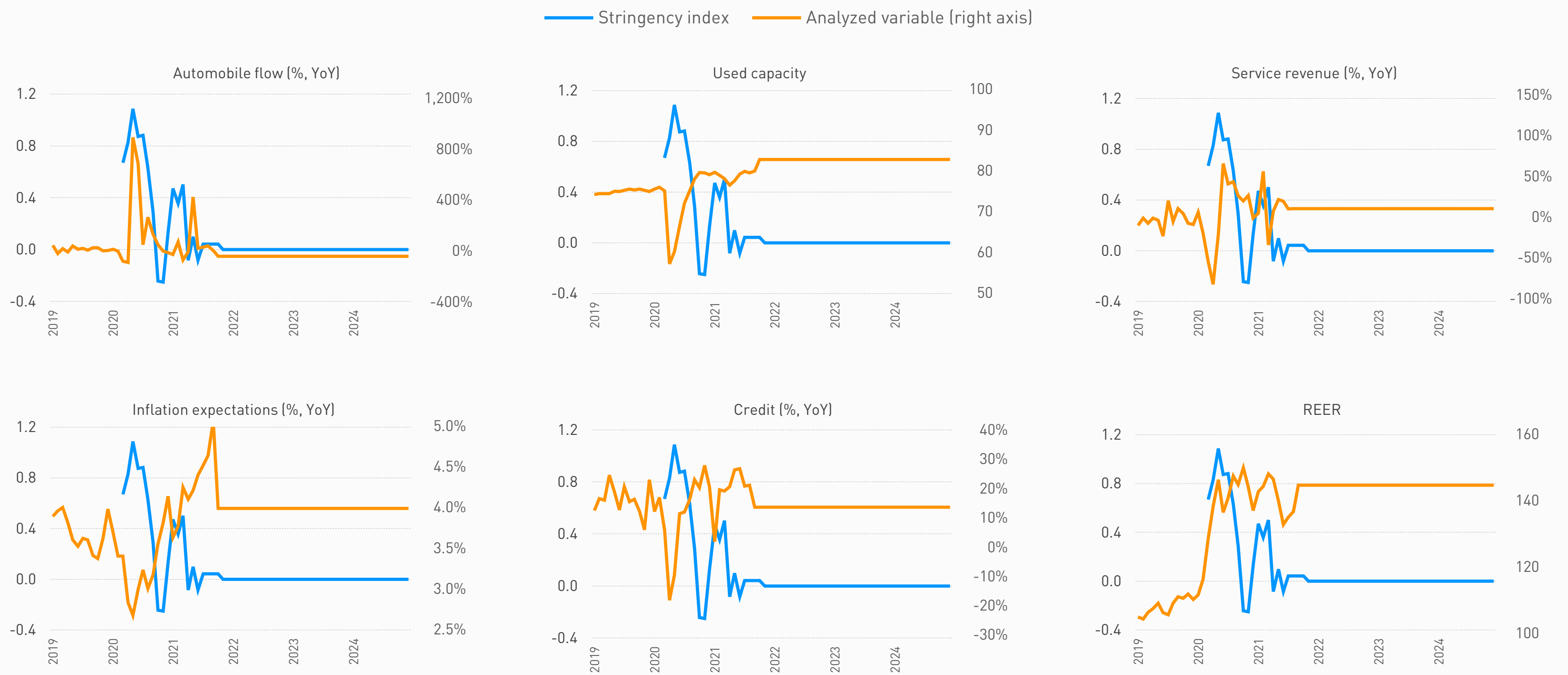
Life and Non-Life business premiums are the variables that are dependent on models. In the case of Brazil, Life premiums consist of the combination of *Vida Gerador de Benefício Livre* (VGBL), which equates to Savings Life, and *Vida Individual y Colectivo*, which equates to Risk Life. Non-Life premiums consist of many lines. As in the case of the Spanish insurance market, we have grouped them together based on their *cyclical* and *acyclical* nature. As the former accounts for between 60% and 85% of Non-Life premiums, it would be expected that the restrictions imposed to fight Covid-19 will have had a significant impact on demand for Non-Life insurance.

Updating of premium growth forecasts

Charts C to H detail the contribution of premiums in each set of lines (cyclical and acyclical) to the growth of Non-Life and Life premiums, in addition to the forecast of the model of components and the model of macroeconomic fundamentals in both scenarios. Given that two possible trajectories were proposed in resolving the pandemic that would determine the speed of a return to normality (one optimistic and one pessimistic), two possible paths were created for the stringency index. In the first (optimistic), normality is reached in the second quarter of 2021, approximately. This brings confidence, production, road traffic and uncertainty back toward the historical average recorded in recent years, from the third quarter of 2021.

Box 2.1.8 (continued)
Brazil: updated forecasts for premium growth

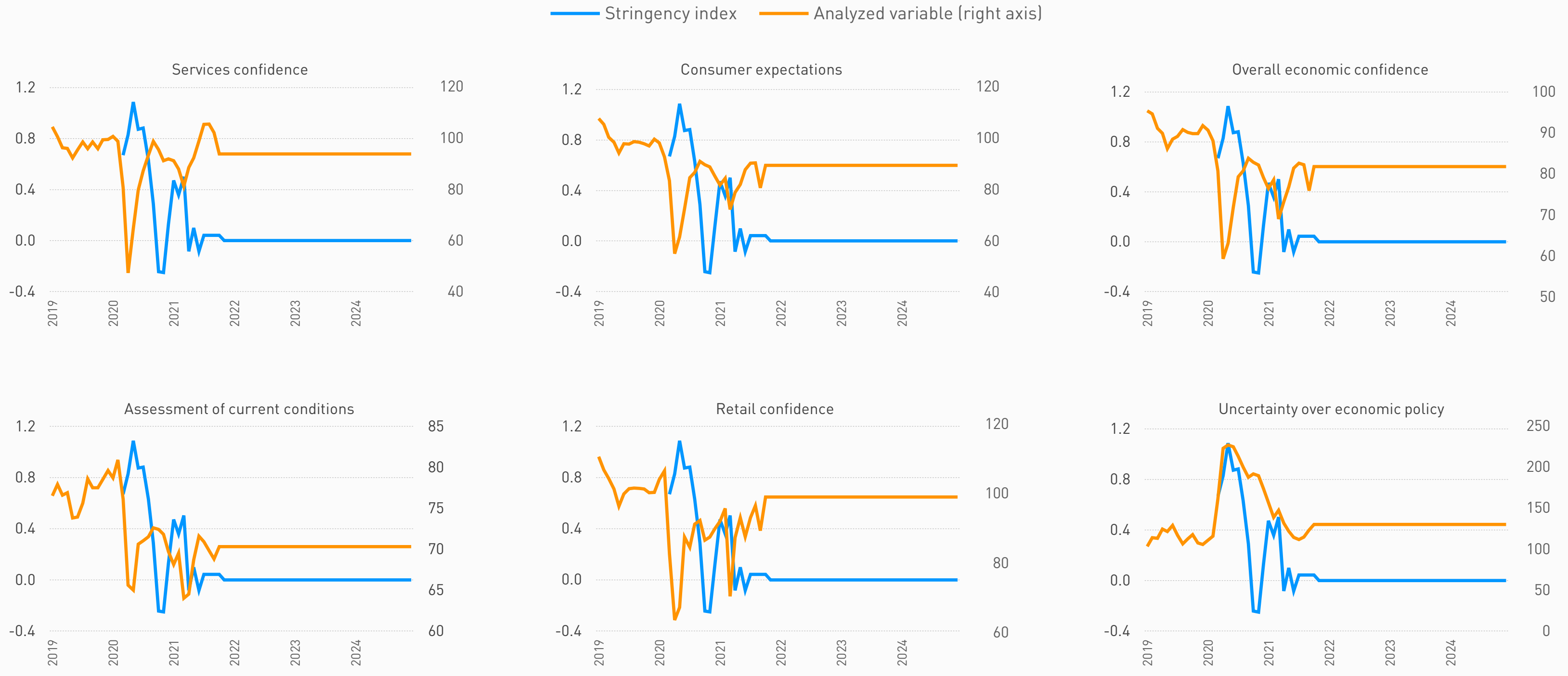
Chart A
Brazil: evolution of explanatory variables (optimistic scenario)



Source: MAPFRE Economics

Box 2.1.8 (continued)
Brazil: updated forecasts for premium growth

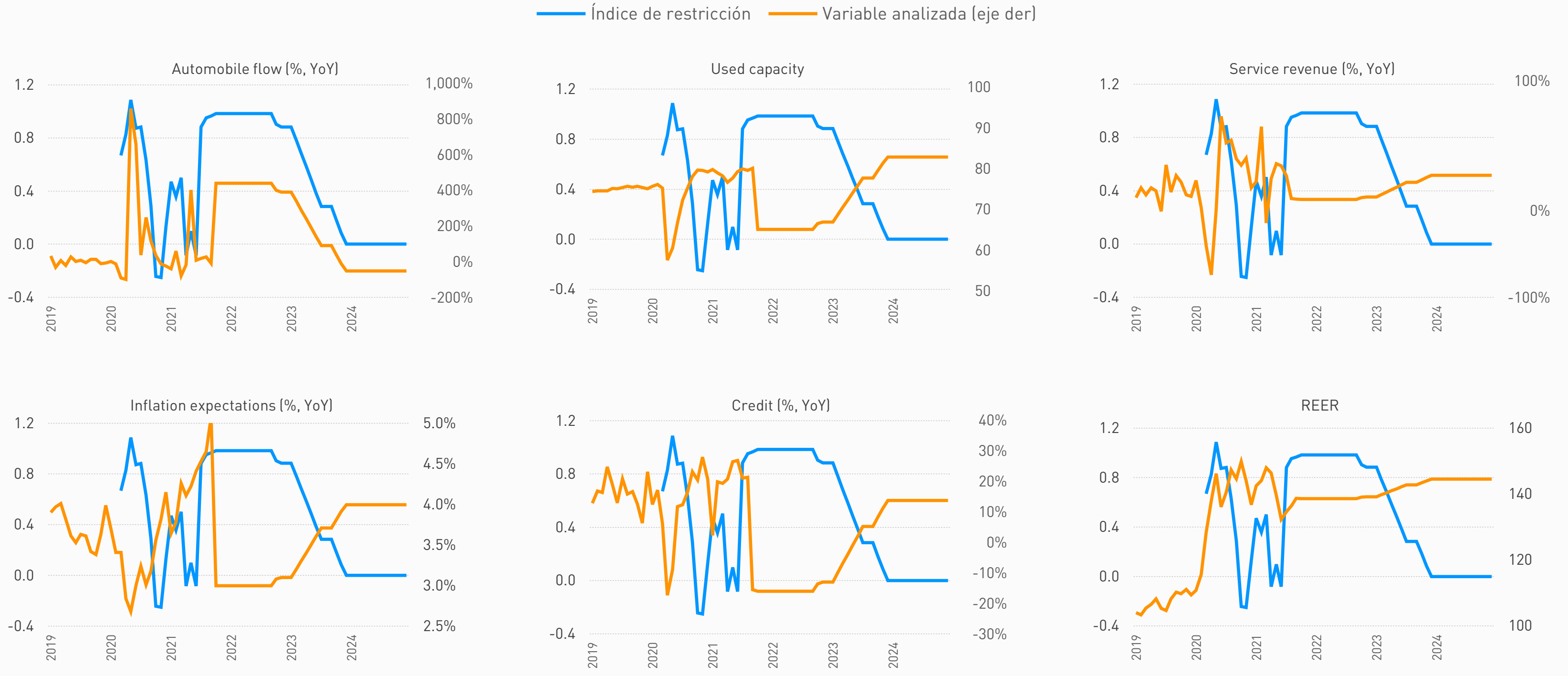
Chart A (continued)
Brazil: evolution of explanatory variables (optimistic scenario)



Source: MAPFRE Economics

Box 2.1.8 (continued)
Brazil: updated forecasts for premium growth

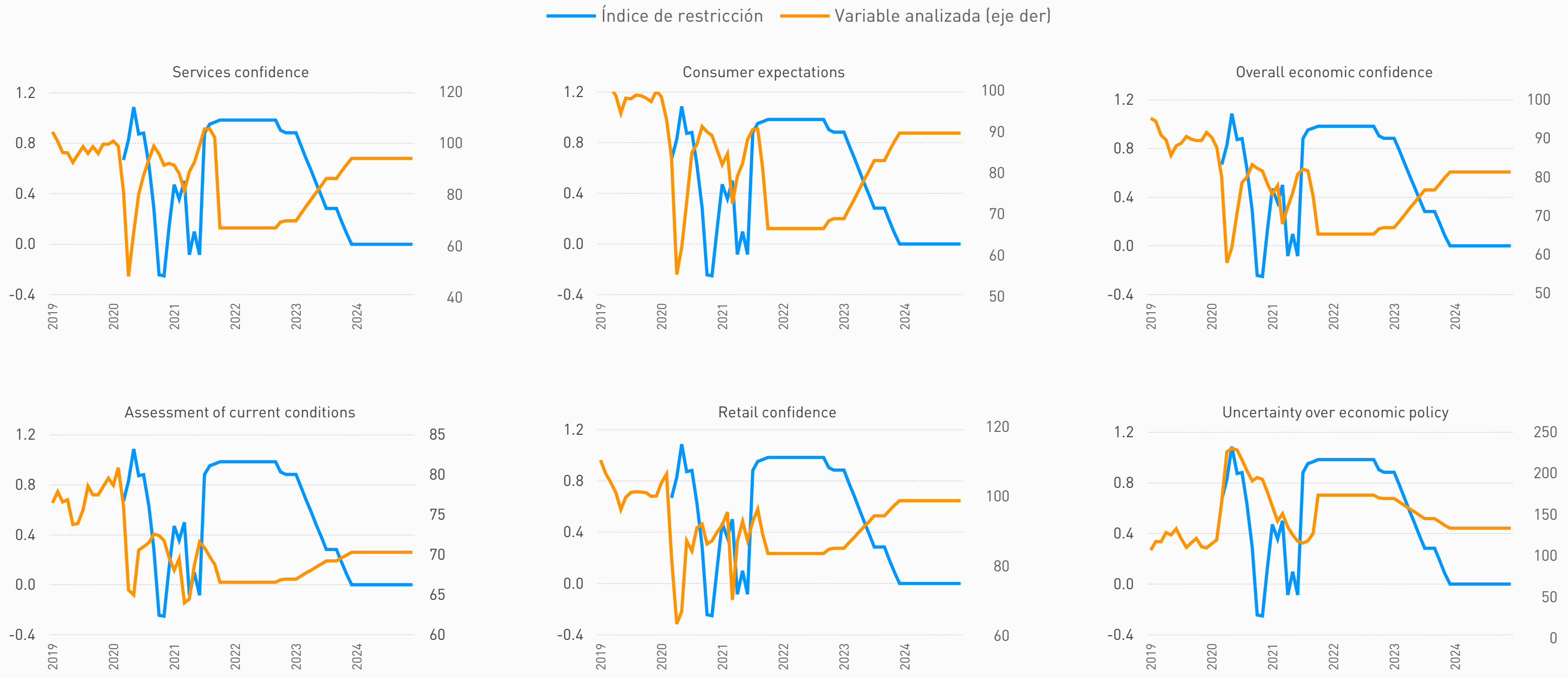
Chart B
Brazil: evolution of explanatory variables (pessimistic scenario)



Source: MAPFRE Economics

Box 2.1.8 (continued)
Brazil: updated forecasts for premium growth

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



Source: MAPFRE Economics

Box 2.1.8 (continued)
Brazil: updated forecasts for premium growth

In the high-risk scenario (pessimistic), the economy suffers a sudden stop that affects the exchange rate, inflation, expectations and activity. This sudden stop is exogenous on account of the inability to control the pandemic and, therefore, the return of mobility restrictions. In essence, it is considered that production indicators improve and this is expected to have a carry-over effect on consumption, investment and exports and, in this context, also due to external factors. We have found that inflation would remain at consistently high levels, in particular due to the pressure on food, electricity and fuel, seeing monetary and financing conditions tightened and compromising a more enthusiastic recovery.

Despite recent data, the pandemic is far from being brought under control, meaning that the recent easing of measures may be reversed. The pessimistic scenario sees the return of restrictions over the next six months that remain in place until at least the end of 2022, which has an inevitable impact on activity and expectations.

Based on the series of variables indicated above, there are two possible scenarios are regards the performance of premiums. This is the rationale underpinning the explanatory variable forecasts in the model shown in Tables A and B. Depending on these scenarios, it is expected that, following a sharp upturn in growth during the first half of 2021 as a result of the base effects and inflation, there is a gradual return to normal premium growth, driving rates to around 6% by the end of 2021, mainly thanks to the impact of the acyclical component (non-Auto). The long-term growth of premiums in Brazil would stand at around 8% and 9%, indicative of nominal growth that is consistent with long-term growth in consumption.

Chart C
Brazil: contribution to growth
of the Non-Life business (optimistic scenario)
(%)

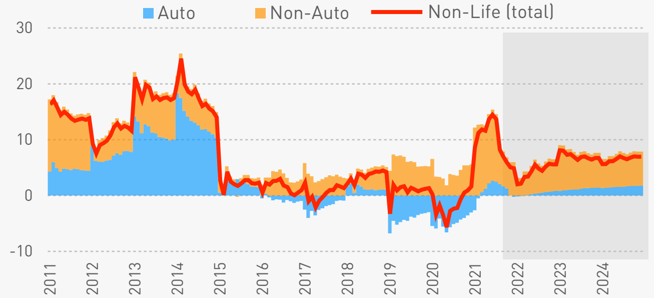
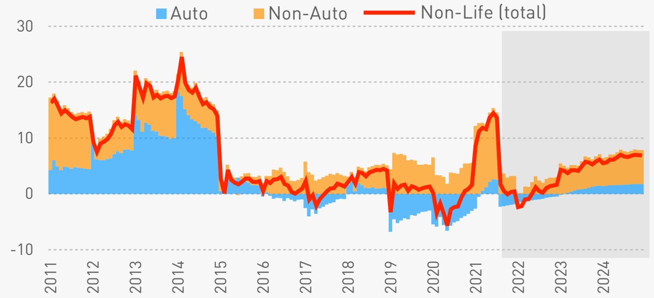


Chart D
Brazil: contribution to growth
of the Non-Life business (pessimistic scenario)
(%)



Source: MAPFRE Economics

Box 2.1.8 (continued)
Brazil: updated forecasts for premium growth

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

Period	Model of fundamentals[1]	Optimistic scenario			Pessimistic scenario		
		Total	Auto	Non-Auto	Total	Total	Non-Auto
Q2	-1.8 %	-1.8 %	-12.2 %	7.2 %	-1.8 %	-12.2 %	7.2 %
Q3	0.3 %	0.3 %	-9.3 %	8.6 %	0.3 %	-9.3 %	8.6 %
2020 Q4	**2.5 %**	**2.5 %**	**-6.6 %**	**10.4 %**	**2.5 %**	**-6.6 %**	**10.4 %**
Q1	12.7 %	12.7 %	1.3 %	21.4 %	12.7 %	1.3 %	21.4 %
Q2	15.4 %	15.4 %	6.3 %	21.9 %	15.4 %	6.3 %	21.9 %
Q3	12.8 %	6.9 %	1.6 %	10.7 %	1.4 %	-5.3 %	6.3 %
2021 Q4	**13.7 %**	**5.8 %**	**-0.5 %**	**10.4 %**	**1.4 %**	**-4.3 %**	**5.6 %**
Q1	13.3 %	4.3 %	0.1 %	7.0 %	0.0 %	-3.5 %	2.2 %
Q2	13.0 %	6.4 %	0.8 %	9.9 %	2.1 %	-2.7 %	5.1 %
Q3	12.6 %	6.2 %	1.5 %	9.2 %	2.0 %	-1.8 %	4.4 %
2022 Q4	**12.3 %**	**6.5 %**	**2.1 %**	**9.4 %**	**2.6 %**	**-1.1 %**	**5.1 %**
Q1	12.2 %	8.3 %	2.6 %	11.6 %	4.7 %	0.5 %	7.2 %
Q2[e]	12.0 %	7.3 %	3.1 %	9.7 %	5.0 %	2.1 %	6.8 %
Q3[f]	11.9 %	7.7 %	3.5 %	10.2 %	6.5 %	2.9 %	8.8 %
2023 Q4	**11.7 %**	**7.7 %**	**3.8 %**	**10.0 %**	**7.1 %**	**3.9 %**	**9.1 %**
Q1	11.7 %	7.1 %	4.1 %	8.7 %	7.1 %	4.2 %	8.7 %
Q2	11.7 %	7.9 %	4.4 %	9.8 %	7.9 %	4.5 %	9.8 %
Q3	11.7 %	7.8 %	4.6 %	9.6 %	7.8 %	4.7 %	9.5 %
2024 Q4	**11.7 %**	**7.9 %**	**4.8 %**	**9.6 %**	**7.8 %**	**4.8 %**	**9.6 %**

Source: MAPFRE Economics

(e) Estimated with data up until April.
(f) Forecasts from Q3 2021 onward.
1/ Based scenario of the model of macroeconomic fundamentals

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

Period	Model of fundamentals[1]	Optimistic scenario			Pessimistic scenario		
		Total	VGBL	Individual and group	Total	VGBL	Individual and group
Q2	-5.7 %	-5.7 %	-7.9 %	0.4 %	-5.7 %	-7.9 %	0.4 %
Q3	-0.2 %	-0.2 %	-2.1 %	5.2 %	-0.2 %	-2.1 %	5.2 %
2020 Q4	**0.4 %**	**0.4 %**	**-1.8 %**	**7.0 %**	**0.4 %**	**-1.8 %**	**7.0 %**
Q1	12.1 %	12.9 %	13.0 %	9.6 %	12.9 %	13.0 %	9.6 %
Q2	26.6 %	29.4 %	29.7 %	18.3 %	29.4 %	29.7 %	18.3 %
Q3	19.2 %	14.1 %	14.3 %	5.8 %	-3.5 %	-3.7 %	1.0 %
2021 Q4	**22.0 %**	**14.8 %**	**15.1 %**	**5.8 %**	**-2.9 %**	**-3.0 %**	**0.9 %**
Q1	20.7 %	12.4 %	12.6 %	5.8 %	-5.2 %	-5.4 %	0.9 %
Q2	19.6 %	11.5 %	11.7 %	5.8 %	-6.2 %	-6.4 %	0.9 %
Q3	18.6 %	10.6 %	10.8 %	5.8 %	-7.0 %	-7.2 %	0.9 %
2022 Q4	**17.8 %**	**10.3 %**	**10.5 %**	**5.8 %**	**-5.3 %**	**-5.5 %**	**1.4 %**
Q1	17.0 %	11.2 %	11.3 %	5.8 %	-1.1 %	-1.2 %	2.4 %
Q2e	16.3 %	11.5 %	11.6 %	5.8 %	4.9 %	4.9 %	3.9 %
Q3f	15.7 %	11.7 %	11.9 %	5.8 %	6.9 %	7.0 %	4.4 %
2023 Q4	**15.2 %**	**11.8 %**	**12.0 %**	**5.8 %**	**12.2 %**	**12.4 %**	**5.8 %**
Q1	15.1 %	11.6 %	11.7 %	5.8 %	11.6 %	11.7 %	5.8 %
Q2	15.1 %	11.5 %	11.6 %	5.8 %	11.5 %	11.6 %	5.8 %
Q3	15.1 %	11.4 %	11.5 %	5.8 %	11.4 %	11.5 %	5.8 %
2024 Q4	**15.1 %**	**11.3 %**	**11.5 %**	**5.8 %**	**11.3 %**	**11.5 %**	**5.8 %**

Source: MAPFRE Economics

(e) Estimated with data up until April.
(f) Forecasts from Q3 2021 onward.
1/ Based scenario of the model of macroeconomic fundamentals

Box 2.1.8 (continued)
Brazil: updated forecasts for premium growth

Chart E
Brazil: contribution to growth
Risk Life and Savings Life (optimistic scenario)
(%)

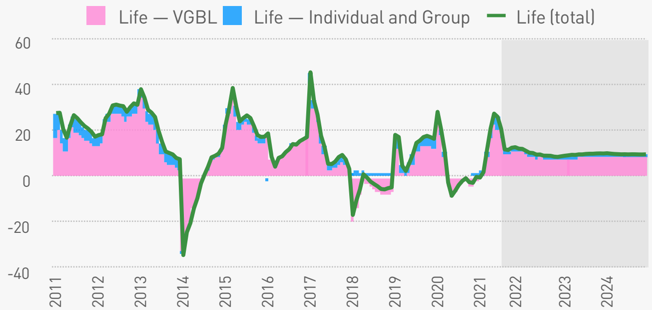
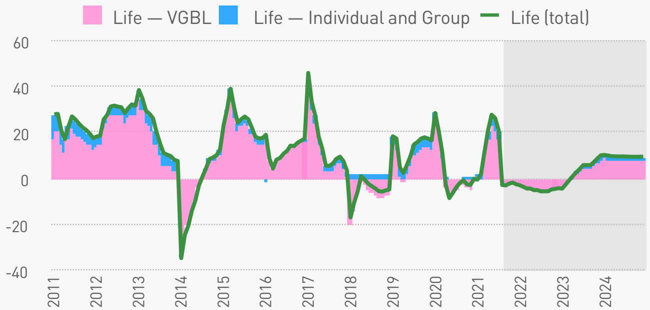


Chart F
Brazil: contribution to growth
Risk Life and Savings Life (pessimistic scenario)
(%)



Source: MAPFRE Economics

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

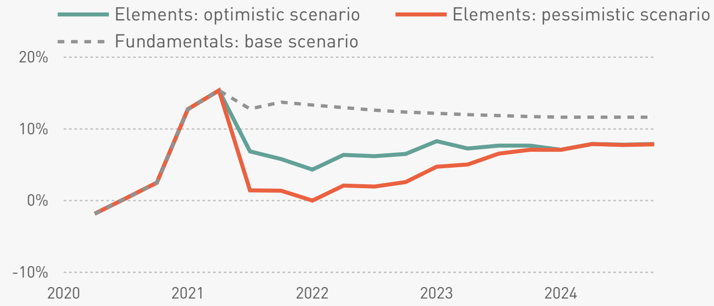
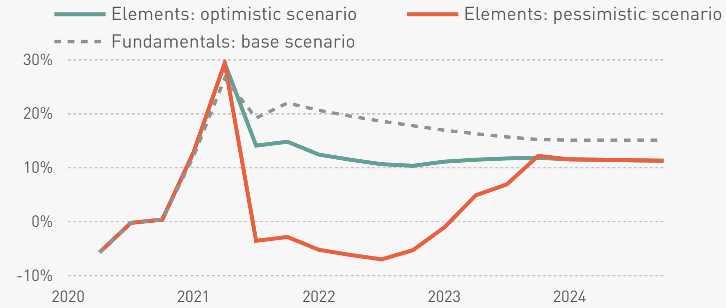


Chart H
Brazil: comparison of forecasts for Life models
(YoY, %)



Source: MAPFRE Economics

Box 2.1.8 (continued)
Brazil: updated forecasts for premium growth

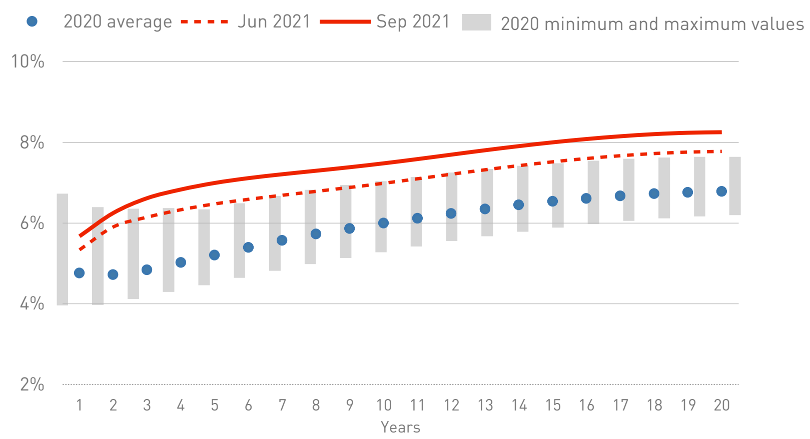
If the pandemic cannot be brought under control, we would see the cyclical component sink even further, which, combined with the reduction in enthusiasm for acyclical lines of business (non-Auto), would see Non-Life premium growth at rates slower than inflation, therefore resulting in a real contraction in the business. The same dynamic applies to the Life business, where the search for liquidity has been significant in 2020 (total redemptions have tripled), meaning that in the central scenario, we are still seeing sustained growth, standing at almost 11%, whereas in the alternative scenario, the drain on liquidity and the sinking of term premiums would see the nominal growth of premiums fall into negative territory.

2.1.9 Mexico

The economic growth forecast for Mexico in 2021 envisages an increase in GDP of 6.2% (following the sharp downturn in 2020 of -8.5%), which means that the country will fail to return to pre-pandemic activity levels until 2022, when real GDP growth of 3.0% is expected. The price of oil continues to hit historic highs, benefiting the Mexican economy both from the perspective of exports and public accounts, combined with the recovery of the US economy, its main trade partner. The Non-Life business continues to be underpinned by the strong performance of health insurance, while the auto business is starting to show signs of a recovery as the economic revival takes shape, although it is not expected that pre-pandemic levels of business will be seen just yet. However, the upturn in inflation and higher loss ratio in health and auto insurance as the economy reopens may increase the frequency and cost of claims, adversely affecting their profitability.

Elsewhere, the upturn in inflation shows no signs of easing, resulting in the Bank of Mexico raising the official interest rate for a third time this year to 4.75% in September, following the increases to 4.50% in August and 4.25% in

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



Source: MAPFRE Economics (based on EIOPA data)

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June. The risk-free yield curve produced by EIOPA (see Chart 2.1.9) shows an increase in interest rates in all sections and becomes steeper in maturities of up to six years. This interest-rate environment is very positive for the performance of the Savings Life and traditional annuities businesses, which are recovering well, as they are able to offer higher rates at different maturities and a positive term premium for medium and long-term products. This is combined with the impact of the economic recovery on Risk Life insurance, which have experienced a greater loss ratio during the most acute phases of the pandemic, although now they may benefit from greater protection against the risk of death.

2.1.10 Argentina

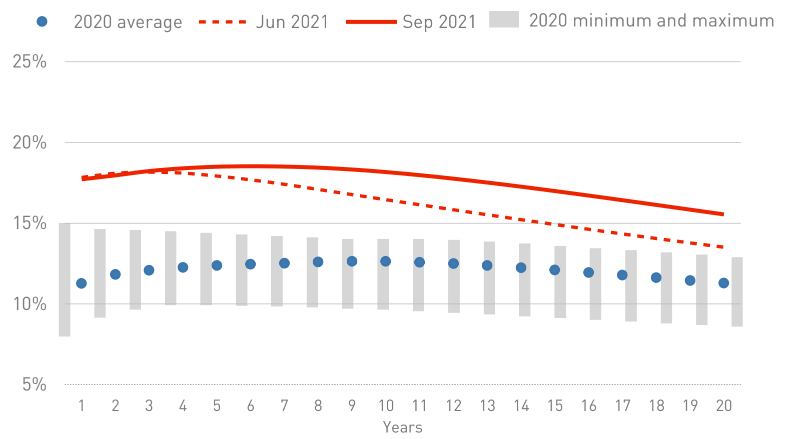
In Argentina, the economic outlook for 2021 anticipates real GDP growth of around 7.6%, compared to the estimated contraction of -9.9% in 2020, which represents an important improvement on the original estimates. This partial recovery follows a sharp fall as a result of the pandemic, with the expectation that pre-pandemic levels will be seen once again in 2022 (with real estimated GDP growth of around 2.4%). There are signs that the conditions caused by the pandemic are starting to improve and the pace of vaccinations has sped up, encouraging private consumption and investment (two of the main driving forces of the country's recovery), which may help with the performance of an insurance market that is heavily reliant on economic performance. Inflation continues to increase (52.1% in the first quarter), and the currency continues to depreciate, which is negatively affecting insurance companies' profitability.

The central bank's benchmark interest rate remains unchanged at 38%, despite the upturn in inflation, compromising the sale of Savings Life insurance products against a backdrop of negative real interest rates. This means that the traditional financial assets in which insurance companies tend to invest to support their Life insurance are unable to offset the loss of purchasing power as a result of high inflation. However, the partial recovery of the economy expected to take place this year could serve as a factor that helps the Risk Life business, which suffered a higher loss ratio during the worst phases of the pandemic, and may now benefit from greater demand for protection against the risk of death and help the Life business to recover somewhat.

2.1.11 Turkey

The forecast for the Turkish economy for 2021 has improved, with real GDP growth expected to come in at around 9.0% compared to 1.8% in 2020 (one of the few economies that continued to grow despite the pandemic). This represents a major upward revision thanks to the strong performance of

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



Source: MAPFRE Economics (based on EIOPA data)

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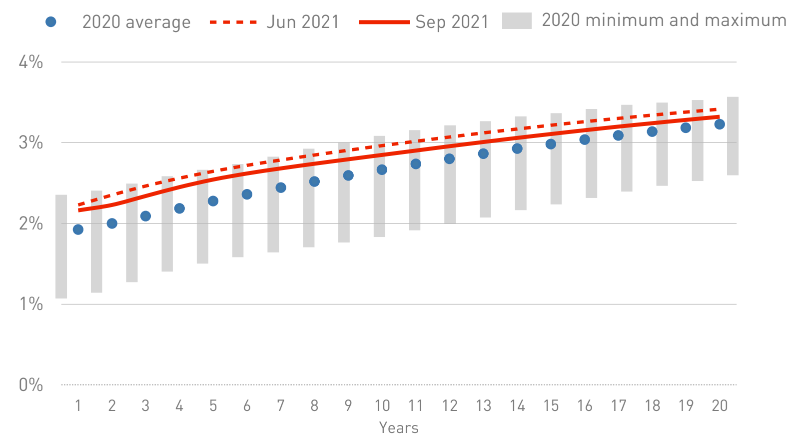
the Turkish economy in recent quarters, underpinned by domestic consumption and exports. Nevertheless, the forecast for 2022 has been revised down, with growth of around 3.0%, on account of problems associated with the structural imbalances of the country's economy (mainly its external private debt in dollars), making the country vulnerable to the depreciation of the Turkish lira, which has fallen sharply in recent months. The strong economic growth outlook favor the Non-Life business, which experienced notable growth in the first months of the year.

The central bank cut the official interest rate at its most recent meeting, despite the upturn in inflation. However, the EIOPA curves (see Chart 2.1.11) reflect an increase in risk-free interest rates for maturities of more than three years, with the curve a little steeper in the middle part of the curve. This leads to a complex interest-rate scenario when it comes to selling Savings Life insurance products, on account of the uncertainty in terms of short-term rates and the scarcity of term premiums that may be offered for products with a longer term, adversely affecting the performance of this business. This combines with the backdrop of negative real interest rates, where the traditional financial assets in which insurers tend to invest to support Life insurance policies cannot offset the loss of purchase power on account of high inflation. However, the strong recovery of the Turkish economy forecast for this year may help the Risk Life business and invigorate the Life business.

2.1.12 China

In China, the economic outlook for 2021 foresees GDP growth of around 8.0%, following a estimated drop of 2.3% in 2020. This represents a downward revision of expectations when it comes to economic activity on account of the slowdown of the real-estate market and the upswing in energy prices, which is expected to last into 2022, when economic growth of around 5.4% is forecast (which represents a significant slowdown when compared to the growth forecast for this year). In any case, the expectations

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



Source: MAPFRE Economics (based on EIOPA data)

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are that economic growth will be strong in 2021, supported both by internal demand (in particular in terms of private consumption and public spending) and the significant rallying of exports. Furthermore, the economic growth forecast for 2021 will favor the insurance industry, which saw a slowdown in business in 2020, affecting both Non-Life and Life insurance (which grew at around half the rate seen in the previous year).

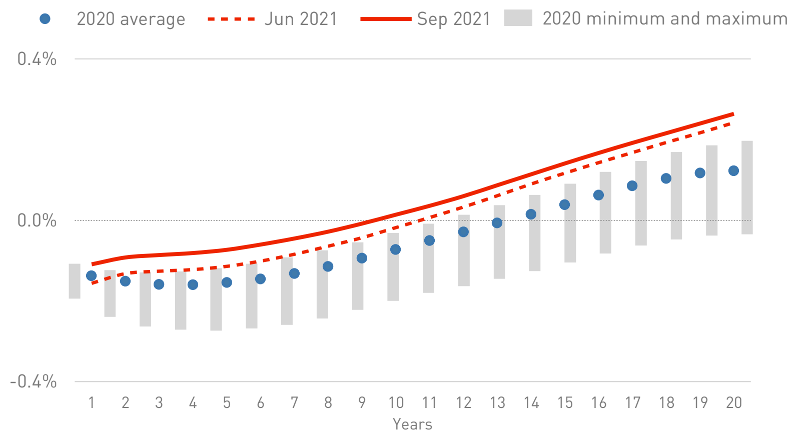
In terms of the interest-rate environment, inflation in China is weak and the Central Bank of China is expected to hold firm with its accommodative monetary policy. In the risk-free yield curve created by EIOPA (see Chart 2.1.12), interest rates are somewhat more relaxed, although they remain on a positive slope. This interest rate environment works in favor of the Savings Life and annuity insurance businesses, as it is able to offer guaranteed medium- and long-term rates that are higher than short-term rates. This is in addition to the positive effect that the recovery of the expected high rate of economic growth has on this type of business. In turn, the economic recovery forecast for this year could help the Risk Life business, which suffered a higher loss ratio during the worst phases of the pandemic; however, it could benefit now from greater demand for protection against the risk of death.

2.1.13 Japan

The forecast for the Japanese economy in 2021 entails GDP growth of around 2.4%, compared to the significant contraction of -4.7% experienced by the Japanese economy in 2020; it is therefore believed that the country will have to wait until 2022 to return to pre-crisis figures, when forecast GDP growth is 2.8%. The Japanese authorities have intensified vaccination efforts, which now encompass large swathes of the population, allowing mobility restrictions to be eased. The expected return to economic growth will help the recovery of the insurance industry which, in 2020, contracted sharply, affecting the Life business in particular.

The EIOPA risk-free yield curves (see Chart 2.1.13) show a slight upswing in risk-free interest rates in all sections of the curve; however, the figures remain negative for maturities of more than nine years (down from ten years in the last quarter. Despite the above, the positive slope for term premiums over longer periods may facilitate the sale of Life saving and traditional annuities products. However, interest rates remain deflated against a backdrop of sustained low interest rates which is expected to persist over time. This which remains an obstacle in terms of the performance of the business lines indicated above. On the other hand, the interest rates of US Treasury bonds (which Japanese Life insurers use as an alternative investment to increase the profitability of their portfolios) are

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



Source: MAPFRE Economics (based on EIOPA data)

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up, although they main relatively low, meaning they fail to ignite interest as regards the performance of this business.

2.1.14 Philippines

In the Philippines, the economic outlook for 2021 involves GDP growth of 3.4%, compared to the sharp fall of -9.6% in 2020. This represents a new downturn in the forecast, with the situation expected to improve in 2022, when economic growth is estimated to hit 7.1%. This revision bears in mind the impact of the rebound in oil prices on the economy and the fact that the most recent acute phase of the pandemic has yet to be brought fully under control, in a country where vaccination rates remain low. The outlook of a partial economic recovery in 2021 may help the insurance industry, which has been hard hit by the sharp economic contraction suffered in 2020.

As regards Life insurance, the Central Bank of the Philippines has kept the benchmark rate for monetary policy low, at 2% (following three cuts in 2020 from 4%), despite the upturn in inflation. The return on the ten-year sovereign bond stood at 4.68% at the end of September, with the interest rate curve becoming steeper, bolstering the sale of Savings Life and traditional annuities products, as it is possible to guarantee higher medium and long-term rates than is the case in the short term.

2.2 Regulatory and supervisory trends

Solvency II: revision of the guidelines framework

On September 22, 2021, the European Commission published its proposed reform of the Solvency II guidelines framework[5]. It sets out the proposed modification of Directive 2009/138/EC (Solvency II Directive)[6] which has been sent to the colegislators (the Council and the European Parliament), and must now be subject to debate and approval by these bodies. As a result, the definitive publication of the reform in the Official Journal of the European Union containing the proposed amendments arising from this process may still take a number of months.

The reform proposed by the European Commission is far reaching, introducing significant changes as regards the application of the criteria of proportionality, information requirements, the measurement of products with long-term guarantees, risk as regards the sustainability and quality of supervision, including group and cross-border supervision.

In addition to the amendment of the Directive, the proposed reformation takes into consideration the need to amend the delegated legislation that makes up the guidelines framework, in particular Delegated Regulation (EU) 2015/35, emphasizing that given the close relationship between the Solvency II Directive and its Delegated Regulation, both instruments will need to be changed to achieve all the goals of the revision. However, the Commission will have to wait until the end of the legislative process before adopting the necessary amendments to the Delegated Regulation. Given the importance of the aspects subject to reform, which will require the introduction of amendments in this delegated legislation, the Commission is committed to collaborating with the Member States, the European Parliament and the other interested parties to start discussions about the possible content of these amendments without delay.

Tables: macroeconomic forecast scenarios

Table A-1
Baseline and Stressed Scenarios: Gross Domestic Product
(annual growth, %)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2017	2018	2019	2020(e)	2021(f)	2022(f)	2017	2018	2019	2020(e)	2021(f)	2022(f)
United States	2.3	2.9	2.3	-3.4	5.8	4.3	2.3	2.9	2.3	-3.4	5.0	0.3
Eurozone	2.8	1.8	1.5	-6.5	5.0	4.3	2.8	1.8	1.5	-6.5	4.7	1.2
Germany	3.0	1.1	1.1	-4.9	3.1	4.4	3.0	1.1	1.1	-4.9	2.2	0.8
France	2.3	1.8	1.8	-8.0	6.3	3.9	2.3	1.8	1.8	-8.0	6.0	3.0
Italy	1.7	0.8	0.4	-9.0	6.2	4.6	1.7	0.8	0.4	-9.0	5.8	1.9
Spain	3.0	2.3	2.1	-10.8	5.7	6.2	3.0	2.3	2.1	-10.8	4.9	2.9
United Kingdom	2.1	1.7	1.7	-9.7	6.9	5.5	2.1	1.7	1.7	-9.7	6.5	2.6
Japan	1.7	0.6	0.0	-4.7	2.4	2.8	1.7	0.6	0.0	-4.7	1.9	-0.3
Emerging markets	4.8	4.5	3.7	-2.1	6.4	5.1	4.8	4.5	3.7	-2.1	6.0	2.5
Latin America[1]	1.3	1.2	0.2	-7.0	6.3	3.1	1.3	1.2	0.2	-7.0	5.9	1.8
Mexico	2.3	2.2	-0.2	-8.5	6.2	3.0	2.3	2.2	-0.2	-8.5	6.0	-0.1
Brazil	1.6	1.7	1.4	-4.4	5.2	1.7	1.6	1.7	1.4	-4.4	4.8	-1.0
Argentina	2.8	-2.6	-2.0	-9.9	7.6	2.4	2.8	-2.6	-2.0	-9.9	7.0	-1.3
Emerging markets, Europe[2]	4.1	3.4	2.5	-2.0	6.0	3.6	4.1	3.4	2.5	-2.0	5.0	1.1
Turkey	7.5	3.0	0.9	1.8	9.0	3.0	7.5	3.0	0.9	1.8	8.5	-0.8
Asia-Pacific[3]	6.6	6.4	5.4	-0.9	7.2	6.3	6.6	6.4	5.4	-0.9	6.8	4.3
China	6.9	6.7	6.0	2.3	8.0	5.4	6.9	6.7	6.0	2.3	7.6	3.1
Indonesia	5.1	5.2	5.0	-2.1	3.3	6.3	5.1	5.2	5.0	-2.1	2.9	2.5
Philippines	6.9	6.3	6.1	-9.6	3.4	7.1	6.9	6.3	6.1	-9.6	2.9	3.9
Global	3.8	3.6	2.8	-3.1	5.9	4.9	3.8	3.6	2.8	-3.1	5.5	4.6

Source: MAPFRE Economics

[1]Argentina, Brazil, Chile, Colombia, Mexico and Peru; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: October 18, 2021.

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2017	2018	2019	2020(e)	2021(f)	2022(f)	2017	2018	2019	2020(e)	2021(f)	2022(f)
United States	2.1	1.9	2.3	1.4	5.2	2.6	2.1	1.9	2.3	1.4	5.8	2.8
Eurozone	1.4	1.9	1.0	-0.3	3.7	1.4	1.4	1.9	1.0	-0.3	4.7	1.1
Germany	1.4	1.6	1.5	-0.2	4.5	1.5	1.4	1.6	1.5	-0.2	5.5	1.2
France	1.2	2.1	1.3	0.5	2.0	1.6	1.2	2.1	1.3	0.5	2.2	2.1
Italy	0.9	1.1	0.5	-0.2	3.8	1.0	0.9	1.1	0.5	-0.2	4.6	0.2
Spain	1.1	1.2	0.8	-0.5	4.7	1.0	1.1	1.2	0.8	-0.5	5.4	0.5
United Kingdom	2.7	2.0	1.3	0.8	4.0	2.7	2.7	2.0	1.3	0.8	4.6	2.9
Japan	0.6	0.9	0.5	-0.9	0.9	-0.4	0.6	0.9	0.5	-0.9	0.6	-0.6
Emerging markets	4.4	4.9	5.1	5.1	5.5	4.9	4.4	4.9	5.1	5.1	5.6	5.3
Latin America[1]	6.3	6.6	7.7	6.4	9.3	7.8	6.3	6.6	7.7	6.4	11.0	9.0
Mexico	6.8	4.8	2.8	3.2	6.4	3.7	6.8	4.8	2.8	3.2	7.0	4.6
Brazil	2.9	3.7	4.3	4.5	8.5	4.6	2.9	3.7	4.3	4.5	9.3	5.8
Argentina	23.3	47.4	52.2	36.4	50.8	37.6	23.3	47.4	52.2	36.4	51.7	40.7
Emerging markets, Europe[2]	5.6	6.4	6.6	5.4	8.4	7.1	5.6	6.4	6.6	5.4	8.6	7.5
Turkey	11.9	20.3	11.8	14.6	18.3	13.8	11.9	20.3	11.8	14.6	20.1	14.2
Asia-Pacific[3]	2.4	2.7	3.3	3.1	2.3	2.7	2.4	2.7	3.3	3.1	2.8	3.0
China	1.8	2.2	4.3	0.1	2.5	2.9	1.8	2.2	4.3	0.1	3.3	3.4
Indonesia	3.5	3.3	2.7	1.6	2.3	3.4	3.5	3.3	2.7	1.6	2.8	5.8
Philippines	3.0	5.9	1.5	3.1	4.5	3.0	3.0	5.9	1.5	3.1	5.4	4.8
Global	3.2	3.6	3.5	3.2	4.4	3.8	3.2	3.6	3.5	3.2	4.6	4.0

Source: MAPFRE Economics

[1]Argentina, Brazil, Chile, Colombia, Mexico and Peru; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: October 18, 2021.

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2017	2018	2019	2020(e)	2021(f)	2022(f)	2017	2018	2019	2020(e)	2021(f)	2022(f)
United States	2.40	2.69	1.92	0.93	1.82	2.63	2.40	2.69	1.92	0.93	2.00	2.68
Eurozone	1.13	1.17	0.32	-0.19	0.27	0.79	1.13	1.17	0.32	-0.19	1.04	1.92

Source: MAPFRE Economics
Forecast end date: October 18, 2021.

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2017	2018	2019	2020(e)	2021(f)	2022(f)	2017	2018	2019	2020(e)	2021(f)	2022(f)
USD-EUR	0.83	0.87	0.89	0.81	0.87	0.83	0.83	0.87	0.89	0.81	0.87	0.86
EUR-USD	1.20	1.15	1.12	1.23	1.15	1.20	1.20	1.15	1.12	1.23	1.15	1.17
GBP-USD	1.35	1.28	1.32	1.36	1.36	1.41	1.35	1.28	1.32	1.36	1.34	1.37
USD-JPY	112.90	110.83	109.12	103.54	111.83	110.78	112.90	110.83	109.12	103.54	102.82	108.22
USD-CNY	6.51	6.88	6.99	6.52	6.42	6.36	6.51	6.88	6.99	6.52	6.64	6.44

Source: MAPFRE Economics
Forecast end date: October 18, 2021.

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

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2017	2018	2019	2020(e)	2021(f)	2022(f)	2017	2018	2019	2020(e)	2021(f)	2022(f)
United States	1.50	2.50	1.75	0.25	0.25	0.50	1.50	2.50	1.75	0.25	0.25	0.00
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
China	3.25	3.30	3.25	2.95	2.95	3.01	3.25	3.30	3.25	2.95	2.85	2.73

Source: MAPFRE Economics
Forecast end date: October 18, 2021.

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References

1) See: MAPFRE Economics (2021), *Panorama económico y sectorial 2021: perspectivas hacia el tercer trimestre*, (2021 Economic and Industry Outlook: Third Quarter Perspectives), Madrid, Fundación MAPFRE.

2) See the interactive section"Respuesta institucional a la crisis Covid-19 y efectos en el crecimiento esperado" (Institutional response to the Covid-19 crisis and the impact on expected growth) prepared by MAPFRE Economics, at: https://app.klipfolio.com/published/ca635768cc1b32264d33836fc491e79c/institucional-response-to-the-covid19-crisis-and-effects-on-expected-growth

3) See: Oxford Covid-19 Government Response Tracker (OxCGRT), en: https://www.bsg.ox.ac.uk/research/research-projects/covid-19-government-response-tracker

4) ICEA data, taken from a sample of 145 companies with a market share of 95.8%.

5/ See: https://ec.europa.eu/info/publications/210922-solvency-2-communication_en

6/ See: https://eur-lex.europa.eu/resource.html?uri=cellar:da66a00c-1c51-11ec-b4fe-01aa75ed71a1.0001.02/DOC_1&format=PDF

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