Fundación MAPFRE

ECONOMIC AND INDUSTRY OUTLOOK 2020

MAPFRE Economic Research

Economic and Industry Outlook 2020

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MAPFRE Economic Research

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Presentation

Following a period of easing that confirmed exhaustion of the global economic cycle, in 2020 world economic activity may stabilize at even lower levels, albeit establishing a platform from which a reversal could begin in late 2021. Global economic growth of 3.1% is expected in 2020, which may then gain traction to around 3.4% in 2021. So indicates the new *Economic and Industry Outlook* report from MAPFRE Economic Research.

In line with previous editions, the report is divided into two main sections. The first sets out the global economic outlook and examines forecasts and risk assessments for selected economies, while the second section evaluates how the economic climate could shape demand for insurance. This analysis comes alongside forecasts for the 2020-2021 period, both for headline macroeconomic variables and for demand for insurance in the Non-Life segment, which is the segment most affected by general economic trends.

The *Economic and Industry Outlook* report is published annually in Spanish and English, and it is updated quarterly to include any key aspects related to economic trends and the insurance business worldwide. Publication of this report sees Fundación MAPFRE honor its pledge to support insight into economics and insurance, as a means of driving the further development of these areas for the benefit of society.

Fundación MAPFRE

Introduction

Once again, we publish our *Economic and Industry Outlook* report, intended to provide an overview of prospects for economic trends globally and for the world's major economies. This is then used to offer analysis of the climate the insurance industry is facing.

The report points to global economic activity stabilizing at relatively low levels in 2020, establishing a platform from which a reversal may gradually begin in the second half of the following year, converging with the trend seen toward the end of the last decade. However, amid a scenario of easing economic growth with sustained vulnerabilities and risks, both globally and for specific countries, this eventual recovery is set to be slow, fragile and elusive.

The dynamics of the global economy continue to shape development in the insurance industry, and in the Non-Life and Life Protection segments in particular. Deployment of expansionary monetary policies to stimulate economic activity is helping to curb this trend. However, monetary policy has also anchored interest rates at low levels (in absolute terms in developed countries and relatively low levels for emerging economies), limiting development of the traditional Life segments of savings and annuities, while indicating significant challenges for the insurance industry in 2020.

We trust that this report will help to drive a better understanding of general economic trends and the climate that the insurance industry will be facing in the coming year.

MAPFRE Economic Research

Executive summary

Economic outlook

This latest edition of the *Economic and Industry Outlook* report from MAPFRE Economic Research points to global economic activity stabilizing at relatively low levels in 2020. However, the proactive monetary and fiscal policies generally being implemented around the world, together with growing contributions from emerging markets, mean there may be a gradual reversal for the global economy, converging toward the end of 2021 with the trend observed in the latter stages of the previous decade, at around global potential.

Generally speaking, this central scenario is one of more sluggish economic growth, managing to avert a recession but still facing multiple vulnerabilities and risks, both global and specific, meaning that the eventual recovery is likely to be slow, fragile and elusive. Meanwhile, many developed economies appear to be exhausting their economic policy options and are now seeking alternative measures. The eurozone is a case in point, with the European Central Bank potentially readying for a new era in terms of economic policy in the region, albeit one that will not be free of challenges and difficulties.

Insurance markets

The slowdown currently gripping the global economy is affecting trends in the insurance business, particularly the Non-Life and Life Protection segments, which are slowing at the aggregate level. The widespread introduction of accommodative monetary policies is helping to curb this trend and could drive a reversal of the situation. However, it has left interest rates anchored at low levels (in absolute terms in developed countries and at relatively low levels in emerging economies) compared to the rates posted in previous years. Together with more sluggish economic growth, this situation has hampered development of the traditional Life savings and annuities businesses. However, buoyant stock markets have proved a stimulus for Life insurance products in which policyholders assume investment risk, in those countries where such products have gained a significant foothold.

Economic growth in Spain continues to outpace that of the other major eurozone economies, but is currently facing a slowdown, which is prompting an easing in the insurance market. The traditional Life savings and annuities businesses have also been hampered by the low-rate environment across the eurozone and have seen premiums decline, with little prospect of the situation improving in the foreseeable future.

The outlook for emerging economies is generally beginning to look more upbeat. The economic scenario in Brazil and Mexico is improving, benefiting their respective insurance markets. In Argentina, however, the economic recession remains unchecked and the insurance market faces a challenging environment, while prospects in Turkey continue to improve. However, the regulatory climate in these countries has posed considerable obstacles to the development of their insurance markets, meaning greater uncertainty in terms of their future growth.

1. Economic outlook

1.1 The global economic outlook

As a new decade begins, the story looks largely unchanged.

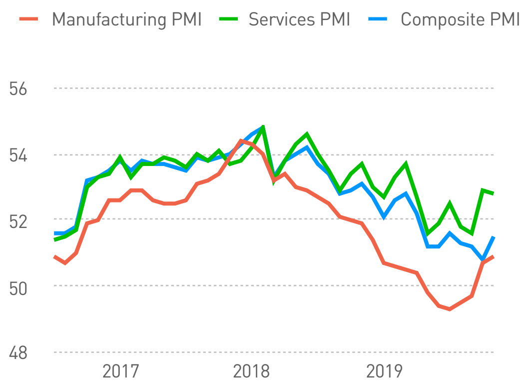
In general terms, the global economy remains stable, albeit posting a rather modest performance, shaped by accumulated impairment of the manufacturing sector, trade frictions and weakening of the services sector (see Charts 1.1-a and 1.1-b). By 2020, average global growth is expected to stand at 3.1%, which may accelerate in the following years and converge with the average of the second half of the last decade, close to global potential.

The baseline scenario indicated in this report is one of easing economic growth, avoiding a recession for now (unless risks not seen to date cause systemic economic change). However, a multitude of global and specific vulnerabilities and risks remain unabated, meaning the anticipated recovery is likely to be slow, fragile and elusive.

Advanced economies are not expected to make significant contributions to the projected growth for 2020, with said economies facing downturns and falling short of potential growth, posting expansion of 2% or less on average over the next biennium. Although these economies are set to benefit from expansionary monetary policy from the major central banks, they will also be subject to weak foreign demand.

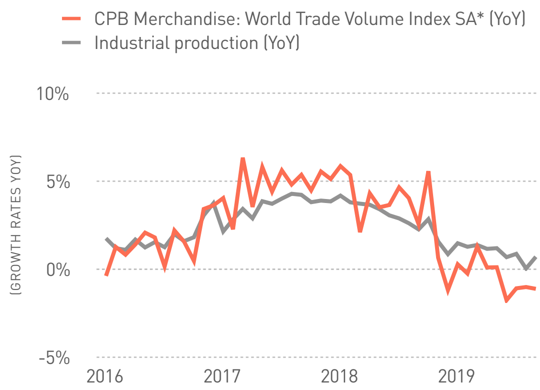
Emerging economies, meanwhile, are set to make more significant contributions to global activity, growing steadily by about 4.5% on average over the coming years thanks to more benign financial conditions, improving terms of trade for commodity-producing countries, a recovery from some economies in recession (Turkey and Iran) and certain economies that faced considerable downturns during 2019 gaining traction (Brazil, Mexico, India and Russia), as well as a likely easing of socio-political issues that are triggering uncertainty and disruption in several emerging economies (Andean countries, Hong Kong, etc.).

Chart 1.1-a
Global: PMIs, 2016–2019



Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.1-b
Global: trade and industrial production, 2016–2019



Source: MAPFRE Economic Research (based on data from the CPB World Trade Monitor)
*Seasonally adjusted

Box 1.1-a
Economic policy and the global cycle

The global climate

Since mid-2018, global economic growth forecasts have been consistently lowered due to exhaustion of the manufacturing cycle, rising trade tensions and their impact on expectations, as well as flareups of socio-political and geopolitical volatility, causing a tightening of financial conditions and economic activity constraints. The slowdown became firmly evident in 2019, although for the time being no recession is envisaged in the global central scenario. Global economic policy approaches have consequently been altered since the last edition of this report was published in January 2019. While public policy has taken an accommodative turn and continues to look counter-cyclical (albeit in a reverse direction to a year ago), whether this is sufficient to prevent the slowdown in economic activity from intensifying is yet to be seen.

Economic policy in the United States remains counter-cyclical, but has shifted from a restrictive monetary policy position and neutral fiscal policy stance (to accompany a positive output gap in late 2018) to a neutral/accommodative monetary policy position (a cut of 75 basis points) and neutral fiscal policy (albeit with some inertia) to accommodate the self-inflicted slowdown felt as of the fourth quarter of 2018, causing closure of the output gap.

The slowdown came earlier in the eurozone (starting in mid-2018) and was cyclical (manufacturing-based), being compounded by global trade tensions. The positive output gap generated by the region over six quarters between 2017 and 2018 evaporated rapidly. *De facto* monetary policy never stopped being accommodative, although management of expectations led to a shift ("as long as it takes") when the region's real and nominal weakness became freshly evident, while there was growing permissiveness regarding national fiscal rules, even for those countries verging on a breach of deficit targets. Thus, economic policy shifted from a tacit and brief pro-cyclical approach to a more counter-cyclical climate at present.

The ultra-accommodative monetary policy in Japan remains in place, aiming to keep long-term rates in negative territory. From a fiscal point of view, Japan has moved from neutrality in 2018–2019 toward a strongly expansionary stance today (with a fiscal program in excess of 100 billion dollars). Therefore, the counter-cyclical approach is set to be sustained and emphasized in 2020.

Emerging markets, particularly Latin America due to its dependence on foreign saving (see Box 1.1-c), are permanently affected by the financial conditions generated in developed countries based on their monetary policy. Having accumulated serious imbalances and vulnerabilities in the pro-cyclical period prior to 2018 (due to inflows being re-channeled to seek returns on the basis of the Fed's loose monetary approach up until the start of that year), in 2018, global financial conditions were squeezed, causing national monetary authorities to respond by tightening monetary policy. Thus, for the second time, emerging economies faced a considerably pro-cyclical climate, but now geared toward a slowdown. The easing of the Fed's monetary stance in 2019 – and the consequent improvement in global financial conditions – only partially attenuated the slowdown, which now seems to have stabilized. Other factors, such as the commodity cycle and geopolitical uncertainty, have shaped the cycle phase positioning of these economies; monetary authorities have relaxed their monetary and forward stances, which are set to remain in neutral/favorable terrain during 2020. This has supported opinions that, in terms of activity, the worst is over for emerging economies.

Box 1.1-a (continued)
Economic policy and the global cycle

In short, by 2020 the effects of easing global financial conditions may again provide support to global growth, alleviating the fears of recession that were triggered by the correction of 2019. However, central banks now have less leeway to take monetary stimulus action, with fissures showing among those in charge of monetary policy (European Central Bank strategy review, lack of consensus at the Federal Reserve and the Bank of England, incipient but growing questioning regarding the effectiveness of negative interest rates), which may lead to an examination of the limits of monetary policy and encourage a dialog with regard to monetary and fiscal policies (see Box 1.1-b).

United States

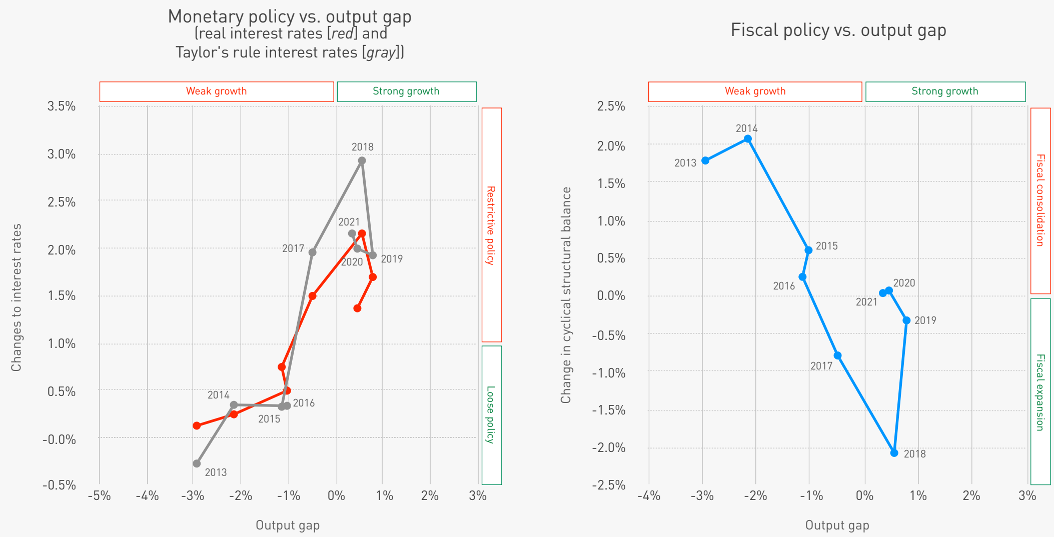
The US economy began 2012 with a negative output gap, counteracted via ultra-loose monetary policy (interest rate cuts and Federal Reserve balance sheet increases), as per the accepted theories on counter-cyclical policies. Similarly, fiscal policies were expansionary to accompany monetary stimulus, marking a return to a more adjusted structural balance as the gap narrowed (see Charts A and B).

However, the fiscal reforms implemented by the Trump administration meant a distancing from the anticipated restrictive fiscal policy trends, acting as a stimulus for the economy. At the same time, monetary policy, as per Taylor's rule, indicates a certain lag in normalization, signaling that monetary normalization is incomplete and preventing interest rates from reaching equilibrium. In short, the originally stabilizing nature of economic policies in the United States has taken something of a pro-cyclical attitude, amplifying the cyclical momentum.

Eurozone

Although an overall study of the data conceals the divergences in terms of fiscal policies implemented by each member state of the Economic and Monetary Union (EMU), a series of common patterns can be inferred. Firstly, it should be noted that the idiosyncrasy of the eurozone renders any examination of fiscal policy within the bloc particularly challenging.

Chart A.
United States: monetary and fiscal policies vs. output gap*

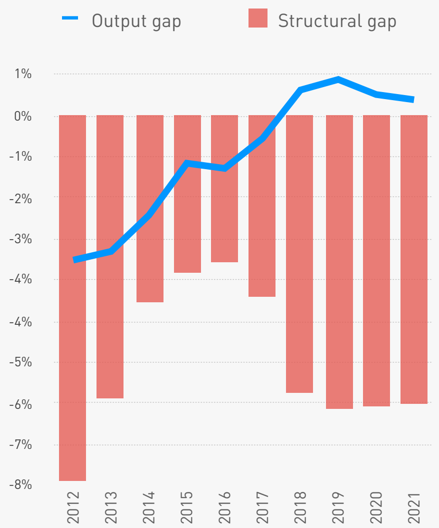


Source: MAPFRE Economic Research

* Variables expressed as differences
Interactive version

Box 1.1-a (continued)
Economic policy and the global cycle

Chart B.
United States: output gap and structural gap

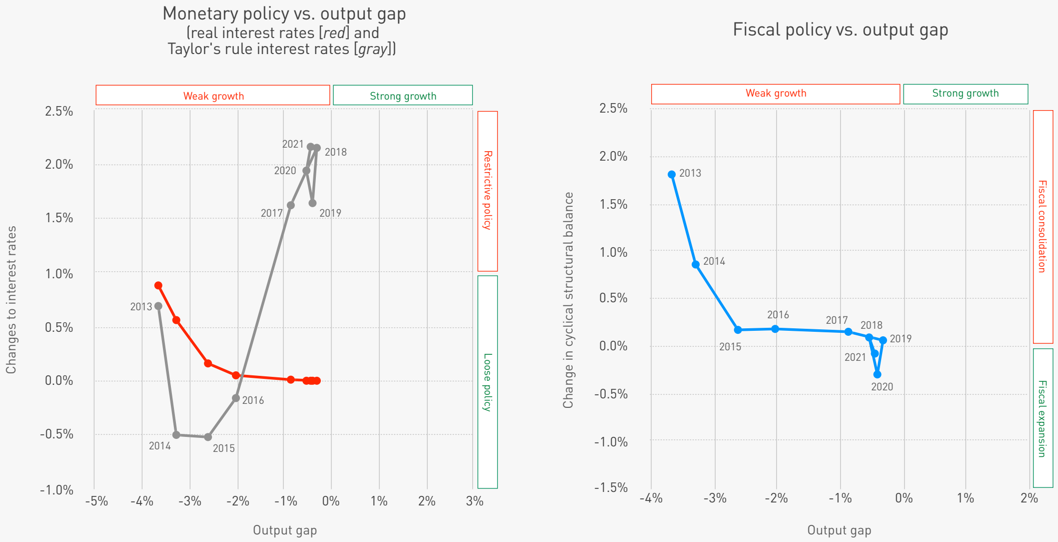


Source: MAPFRE Economic Research

The EMU is far from being regarded as a supranational entity with policymaking power, in which member countries retain their sovereignty in fiscal and public spending matters. The eurozone began 2012 with a strongly negative structural balance, below tendential levels (counter-cyclical expansionary fiscal policies), which came alongside an output gap of close to -3.5%. In subsequent years, however, this trend was reversed by means of "austerity measures", with spending reined in and tax revenues strengthened. Nonetheless, despite the gradual convergence with tendential growth levels, fiscal policies remained neutral (2016–2018).

Charts C and D illustrate how the monetary policy decisions made by the European Central Bank have been overly conservative. The ideal nominal rate, based on Taylor's rule, suggests interest rates should have been cut more sharply in periods of economic stagnation, with these levels being feasible in real terms taking into account the impact had by asset purchase programs, as indicated by the Wu-Xia shadow

Chart C.
Eurozone: monetary and fiscal policies vs. output gap*



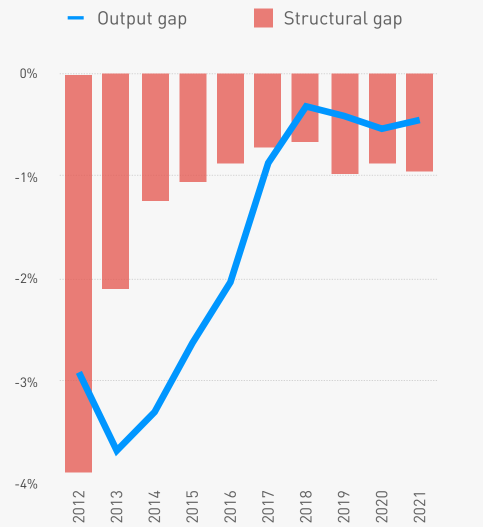
Source: MAPFRE Economic Research

* Variables expressed as differences

Interactive version

Box 1.1-a (continued)
Economic policy and the global cycle

Chart D.
Eurozone: output gap and structural gap



Source: MAPFRE Economic Research

interest rate index. In 2012–2015, public policies were designed and implemented to be counter-cyclical, but were probably insufficient.

In contrast, when the GDP trend was clearly approaching its tendential level (2017–2018), monetary policy normalization would have been justified in order to replenish the region's leeway for action, which is currently limited. With economic activity and prices in the European Union again looking weak (caused in particular by the manufacturing sector), together with the current global cycle and economic and trade uncertainty associated with the US administration, monetary policies in the EMU again look set to be loosened (purchases, monetary stance, deposits, etc.), while timid derivative and uncoordinated fiscal stimulus initiatives are implemented at the domestic level (a more permissive European Commission in terms of excessive deficit procedures), but on a purely cyclical basis. In short, the EMU's economic policy is currently counter-cyclical, but is still having a very limited impact.

Emerging markets (exc. China)

Historically, macroprudential policies in emerging markets have been pro-cyclical. This has helped to exacerbate the effects of the economic cycle in the form of imbalances and vulnerabilities, creating an additional source of volatility and weakness, especially in those regions with low levels of formal savings mediated by the non-banking finance sector.

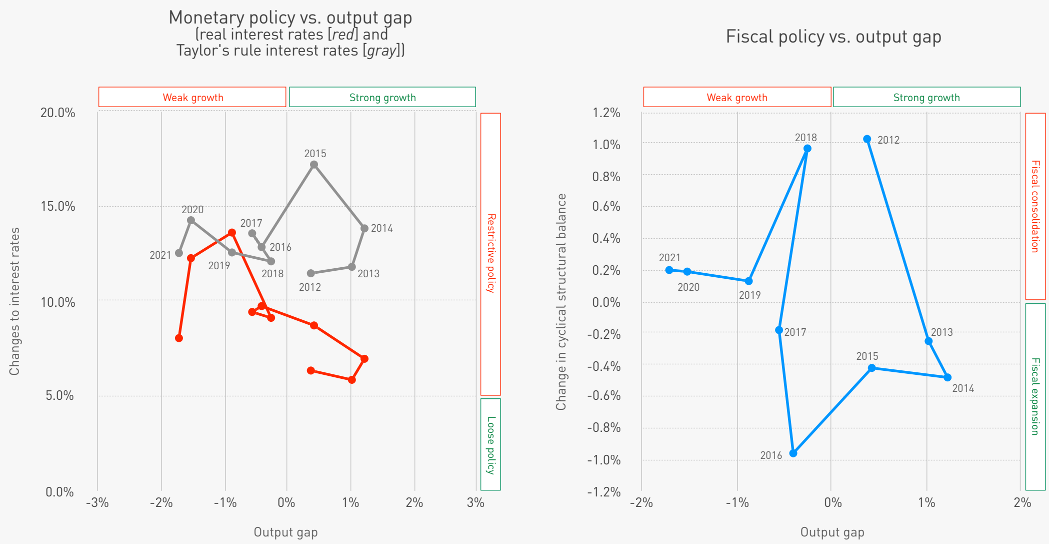
Between 2012 and 2015, many emerging economies, especially in Latin America and Eastern Europe, showed strong current account deficits amid robust inflows and large positive output gaps. The resulting pro-cyclicality caused multiple nominal imbalances (credit, dollar debt, real estate price bubbles, etc.) that would then develop into vulnerabilities. On the fiscal side, the commodity-cycle bonanza, country risk compressed by excessive liquidity and low debt levels also allowed for fiscal stimuli that acted only on current transfers and not on the investment side. This meant a pro-cyclical stance, serving to accrue serious imbalances that would then be catalyzed by exchange rates. The main such imbalances were the twin deficits shown by some economies, dollar leverage in others, and asset and credit inflation in most.

All of the above came amid low levels of formal domestic savings (therefore leaving little room to cushion the decline of 2016–2018, when the US tightened its monetary policy, having a knock-on effect on emerging economies via restrictive financial conditions), a deteriorating commodity cycle and emerging vulnerabilities, resulting in large negative output gaps (see Charts E and F). This meant another pro-cyclical position, but this time negative.

Looking at monetary policy, the widespread shift seen today among central banks in major developed economies toward loose policy has allowed emerging economies, mainly those most penalized for their exposures in 2018, to again make use of monetary policy to establish

Box 1.1-a (continued)
Economic policy and the global cycle

Chart E.
Emerging Markets (exc. China): monetary and fiscal policies vs. output gap*

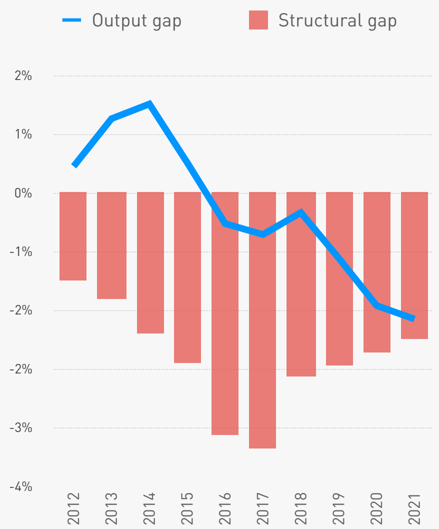


Source: MAPFRE Economic Research

* Variables expressed as differences

Interactive version

Chart F.
Emerging markets (exc. China):
Output gap and structural gap



Source: MAPFRE Economic Research

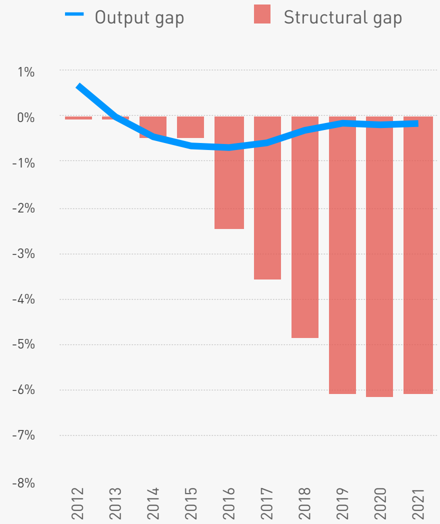
more flexible financial conditions. As a result, the scenario is now neutral or counter-cyclical in some cases. In the medium-term, it may be expedient to converge interest rates with the equilibrium levels indicated by Taylor's rule. However, easing pressure to make the necessary adjustments may see authorities disinclined to engage in such efforts, leading to further complacency and a return to the previous habit of building up future imbalances.

China

Chinese monetary policy during the period was characterized by relatively stable interest rates, ranging between 2% to 4%. However, the changes to interest rates have been more tenuous than those recommended under Taylor's rule, which were not fully aligned until the 2015 Shanghai Stock Exchange correction, although this convergence toward counter-cyclicality has eased since 2018.

Box 1.1-a (continued)
Economic policy and the global cycle

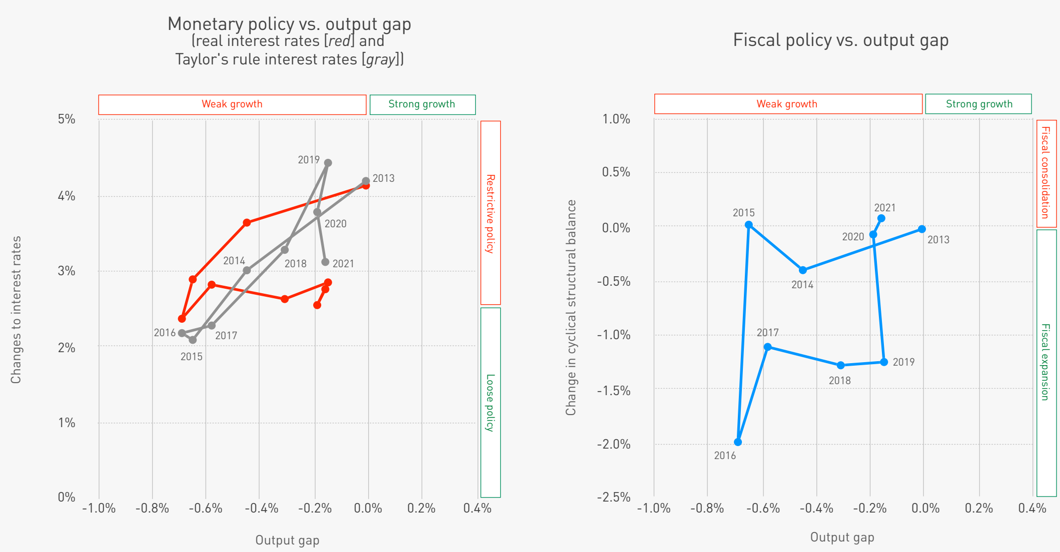
Chart G.
China: output gap and structural gap



Source: MAPFRE Economic Research

During the last year, as the economy cooled sharply, China's central bank has been aligning monetary policy with the accommodative trend adopted by major central banks, distancing itself from the goal of normalizing private interest rates as Taylor's rule indicates and encouraging deleveraging. The relaxation of bank reserve ratios, the devaluation of the renminbi to above seven dollars, frequent liquidity injections and the latest interest rate cuts (LSR) have helped shore up the economy against the slowdown and avoid excessive turbulence, all while adjustment of the growth model is in full swing and under the burden of the trade war with the United States (see Charts G and H). However, the central bank's initiative could stir up concerns regarding the Chinese financial system (Harbin Bank became the fifth bank to receive a bail out) by putting off the necessary restructuring of excessively leveraged balance sheets.

Chart H.
China: monetary and fiscal policies vs. output gap*



Source: MAPFRE Economic Research

* Variables expressed as differences

Interactive version

Box 1.1-a (continued)
Economic policy and the global cycle

In fiscal terms, the largely neutral tone was concordant until the great expansion that took place in 2015. In subsequent years, efforts were made to correct imbalances and replenish fiscal leeway. However, as indicated in the above paragraph, recent measures to ramp up spending and ease the corporate tax burden reveal the expansionary and counter-cyclical nature of fiscal policy, which, should it endure over time, could become pro-cyclical given the current phase of the economic cycle.

The current cycle phase and economic policy options

The current cycle phase for the global economy is one of activity stabilizing at low levels, as illustrated in Box 1.1-a, and this has forced authorities to rethink and reshape public policies. In the United States, GDP growth has stabilized below 2%, mainly underpinned by domestic demand thanks to support from the Federal Reserve's monetary policy. The eurozone, meanwhile, has again shown considerable frailty, forcing an extended period of loose monetary policy, with debate as to whether this should be supported by significant fiscal stimulus (see Box 1.1-b).

China, on the other hand, has posted sustained activity momentum and, despite high-frequency data indicating some loss of buoyancy, continues to grow steadily (according to official data). Looking at emerging markets, while many vulnerabilities have been mitigated by the Federal Reserve's monetary policy shift, reliance on foreign saving mean these economies are highly sensitive to external conditions and corrections, with exposure to regional financial disruptions via confidence (see Boxes 1.1-c and 1.1-d). Therefore, while such markets are set to move into more buoyant phases of the economic cycle, they are also likely to be more fragile.

The risk scenario

As indicated in our previous report[1], our alternative (risk) scenario is one of recession, which would fuel geopolitical trends such as protectionism[2] and growing social discontent. On the other hand, the known risks set out in our report for the last quarter are essentially unchanged, and the alternative recession scenario described in this report[3] would necessitate certain risks coming to fruition and resulting in confidence and/or supply shocks on the liquidity side or as a result of productive and commodity factors. The multiple risks inherent in such an alternative scenario include a temporary drop in financing on interbank markets, potential balance sheet difficulties for holders of low covenant debt, sudden corrections in fixed income and equity markets, and corporate and sovereign debt problems.

Box 1.1-b
The current economic policy debate: the eurozone

The current cycle phase

The weakness that had undermined economic trends during the first half of the decade re-emerged in 2019, leading to depletion of the global cycle phase, particularly in manufacturing. All of this has been compounded by uncertainty triggered by US trade policy. Although recession never seemed imminent, this was sufficient for public policy to resume its counter-cyclical and demand-supporting stance.

Monetary policy

In the case of monetary policy, this scenario triggered a shift from policy that was globally neutral with a certain restrictive bias (in the United States) to a position likewise close to neutrality but with a contrary bias.

Three benchmark interest rate cuts took place during 2019 in the United States, returning monetary policy to neutral/accommodative terrain, averting a recession and, more importantly, rendering forthcoming monetary policy decisions contingent on future economic activity and inflation data. The current consensus has generated certain *predictability* regarding the neutral interest rate level envisaged by the Federal Reserve's Federal Open Market Committee in the present climate until 2021 at least (1.5%–1.75%).

Changes to the monetary stance in the eurozone mainly took place between September and November 2019, while in December, when the new President of the European Central Bank (ECB), Christine Lagarde, took up her role, the central bank signaled continuity with past economic policy decisions and the debate regarding monetary policy options over the rest of the year began. In the three most recent ECB meetings, the last of Mario Draghi's mandate, we saw the purchasing program reactivated. This will add 20 billion euros in assets each month (with no distinct limit) to the ECB's balance sheet, which currently amounts to 2.6 trillion euros. In addition, the deposit facility rate was cut further (to -0.5%), albeit modulated by tiering. Similarly, fresh impetus was given to conditional liquidity provisioning, via LTROs (Long-Term Refinancing Operations), but without clarifying where the necessary high-quality liquid assets will come from. Accommodative monetary policy expectations (dovish guidance) were reinforced through to 2022 at least.

Finally, emerging and savings-importing countries absorbed the shift in monetary policy direction in both regions, seeing a moderation of interest rates to levels that likewise converge with neutrality. Financial conditions are expected to be more favorable going forward, not only due to inflows (portfolio flows seem exhausted), but also because of waning interest rate and exchange rate pressure. Generally speaking, inflation stands within the comfort zone ranges set out by central banks, meaning no significant action looks necessary.

Limits of current monetary policy

Although monetary policy is fulfilling its role by acting counter-cyclically against the deterioration of economic activity and inflation, many observers now agree on two issues.

The first is that monetary policy has reached its furthest extent in most developed markets. This is made evident by the following:

- Most markets have no leeway to cut reference rates further in the event of additional deterioration of economic activity.
- Monetary policy has failed to end the perverse dynamic linking it to price and activity expectations (see analysis of inflation expectations and the Phillips Curve at: MAPFRE Economic Research (2018), *Economic and Industry Outlook 2018*, Fundación MAPFRE, Madrid), while inflation expectations in the eurozone seem to be anchored in the region of 0%–1.5%, rather than standing close to the inflation target (2%).
- Monetary multipliers have lost relevance amid interest rates at the depths of the zero lower bound, leading to liquidity hoarding rather than investment.

The second issue is that monetary policy, especially in the eurozone, is having undesirable effects on the finance sector, eroding basic functions such as the transformation of terms (credit) and long-term financing (investment),

Box 1.1-b (continued)
The current economic policy debate: the eurozone

leading to negative consequences for the system. The following are worth noting in this regard:

- The transmission capacity of monetary demand trends is weakening and becoming globally more asymmetric.

- The climate of negative deposit rates and credit rates practically at zero has eroded Net Interest Margin in favor of Non-Interest Margin, not only undermining profitability but also resulting in: (i) alteration of the basic function of banking, which is the transformation of credit terms, (ii) limits on access to wholesale financing, (iii) solvency problems in stress scenarios and overcapitalization in ordinary situations, and (iv) incentives for financial disintermediation, and consequently the transfer of risk to unregulated or unsupervised sectors, sometimes even outside the financial system.

- The provided liquidity does not flow into the financial system but migrates to emerging markets to seek out returns ("search for yield"), or is relocated to less liquid assets (real estate, low priority/liquidity assets, etc.), causing not only the opposite effect (illiquidity) but also irrational overvaluation, duration risk, adverse selection problems for ratings, and increasing market and counterparty risk in the financial system, often without the knowledge of the prudential supervisor.

- Conditional liquidity provision initiatives (LTROs) reduce the supply of high-quality liquid assets in the market, compressing the temporary premium even to negative levels, thus generating problems in terms of remunerating the liabilities of entities engaged in the provision of guaranteed annuities (Life insurance and pensions), with obvious effects on pension supplementation, risk dilution and the investment function of this segment of the finance sector.

Challenges for Lagarde

Although the current optimism surrounding Lagarde's mandate is understandable given her evident skills in communication and conciliation, as well as the technical reassurance offered by Chief Economist Philip R. Lane, the challenges facing the new ECB President are monumental. First, to maintain the credibility and determination of Mario Draghi's legacy speech ("as long as it takes"). Second, to stabilize the economic cycle in real and nominal terms, while re-anchoring expectations with sustainable inflation paths. Third, to drive monetary and regulatory progress in a comprehensive approach to improve macroprudential management and eliminate the latent procyclicality of liquidity regulation. And finally, to reform monetary policy to render it consummate with the times, which means: (i) linking it to sustainability (without altering interaction between financial agents and without violating sovereign decisions), (ii) aligning interests between the new European institutions and new political spectrum, (iii) continuing the leadership of her predecessor in uncertain times (Brexit, Poland, France, etc.), and (iv) seeking a consensus to consolidate the European project (helping to cement the banking, fiscal and capital-markets union).

At her first meeting, Christine Lagarde offered some insight into how her leadership of the ECB would look. On one hand, she stands ready to continue the existing approach, offering unconditional monetary support for as long as is necessary and until the desirable nominal and real conditions can be assured. However, she also indicated an awareness of the limitations of monetary policy. She therefore pointed to two measures. The first is a revision of the Monetary Policy Strategy Framework during 2020 (linking it for the first time in the institution's history to safeguarding environmental sustainability). The measures will focus on reforming key elements of the current monetary policy suite: (i) balance sheet expansion (duration, size, asset eligibility), (ii) liquidity, via LTROs (conditionality, duration, rates, targets), (iii) deposit facility (interest rates and tiering), (iv) guidance (inflation target, communication and signals), and (v) links between monetary policy and prudential regulation (pro-cyclical effects on liquidity). The second measure is to reassert the idea (which is emerging but already has some consensus) that fiscal policy must play a larger role, given the opportunities (fiscal multipliers in the current interest rate context), the urgency of the matter (the eurozone's significant external sensitivity) and its strategic value in building the European framework.

Box 1.1-b (continued)
The current economic policy debate: the eurozone

Fiscal policy's time may have come

Monetary policy fatigue is forcing a rethink of cyclical and structural economic policy. Fiscal policy toward the end of 2018 still benefited from some inertia resulting from fiscal stimuli of the past, but these initiatives were sparse, fragmented, discretionary (derivative and uncoordinated sovereign programs) and highly limited (focusing on public spending in the eurozone and corporate tax breaks in the United States, both offering very minor fiscal multipliers). In any case, this represented *nominally* counter-cyclical but *de facto* innocuous near-term fiscal policy, largely ineffective in the long-term for the common economic strategy of mature economies.

However, for some time the consensus has backed the position set out in the speech, indicating the need for *structural and institutional reforms* and with fresh demands that *fiscal policy play a greater role*, at least in those countries where there is sufficient fiscal leeway to circumvent situations of "fiscal dominance" (when fiscal sustainability loses credibility in a country and monetary policy must act to accommodate the budgetary misalignment, which ultimately generates inflation, acting as a generalized tax) as have been witnessed in the past.

At present, amid extremely depressed interest rates, low availability of formal long-term private savings, as well as unmet investment demand in much of the developed world, fiscal multipliers are estimated to stand in a range of 0.6%–1.1% of GDP. With the current fiscal leeway in Europe, this could lead to average impetus of 0.4% of GDP (which we forecast for the region during 2019–2020 in this report). It should be noted that this fiscal leeway could be expanded by relaxing certain national restrictions (such as the German budgetary cap), without adjusting the limits imposed under the Maastricht Treaty, which could quadruple the impact had by fiscal stimuli on eurozone growth. The problem, however, is that this would require national consensus which in the current political fragmentation would be difficult to achieve, particularly when it requires constitutional reforms, as would be the case in Germany.

One complimentary or even alternative option would be to reform European fiscal rules deriving from the Stability and Growth Pact (SGP) under the Maastricht Treaty (deficit not in excess of 3% and debt not in excess of 60%), rendering these consistent with the current circumstances (these are no longer convergence programs) and with the facts on the ground (the rules were, in part, poorly designed and have not always been adhered to). These rules have not been strictly respected, with various countries posting debt above the 60% mark. However, the rules are highly restrictive for most member states, given that the same structural deficit limits are applicable to countries with public debt levels of 100% of GDP and those with debt levels of 15% of GDP.

Instead of a single rule applicable to all members, one potential reform, and one that looks to be gathering support, could be to establish a more flexible and highly binding system that would restrict countries with high public debt levels (over the 60% limit imposed under the SGP) to the structural deficit limit stipulated under the SGP (0.5% of GDP), with degrees of freedom allowing greater fiscal expansiveness for countries with lower public debt levels. This flexibility would help to finance the expansion of net assets (investment beyond the replenishment of depreciated capital). In other words, such a rule would generate public savings/net investment and thus support long-term growth, while it should be subject to supervision by an independent and non-partisan institution (such as the Independent Authority for Fiscal Responsibility in Spain).

The deeper debate, however, goes beyond fiscal policy; as well as the cyclical and structural benefits that reforms to European fiscal policy might have, such initiatives could represent a catalyst to drive the structural and institutional maturity of the eurozone, shaping stronger potential growth linked to investment and technological transformation, securing the institutional consolidation of the region and acting as a fundamental driver for the current strategy linked to sustainability.

Box 1.1-b (continued)
The current economic policy debate: the eurozone

There would be several milestones on any roadmap for such a transformation. The first two could be approached as part of the coordination of national public policies and reforms of the fiscal rules described above. The milestones would be to bolster fiscal stimulus capacity in the near term and to ensure the net saving capabilities of fiscal policy in the longer term, seeing it co-finance the investment required to buoy productivity and potential growth under the sustainability framework.

In the medium-term, the required instruments would lay the foundations for cohesion, perhaps by implementing common unemployment insurance systems and a reserve fund to act as a stabilizing mechanism at first (such as the ESM), but that over time would act as a driver of convergence and stability in the mold of the BICC (budgetary instrument for convergence and competitiveness) and/or as a lender of last resort in EMU, something that the ECB by definition cannot do, particularly to finance sector and technological transformation.

The fiscal impetus needed to implement these measures would come in the form of debt. Therefore, the consensus is that it would be expedient to set up *a risk-free European asset* that is unique to the eurozone (Eurobonds). The idea of a single risk-free asset has its detractors among eurozone creditor countries, which believe it could undermine national fiscal sovereignty and potentially lead to free riding by less disciplined economies. However, supporters of the concept identify a number of substantial benefits: (i) it would function as a single benchmark, uncoupling financial risk from sovereign risk (as in Italy), while being eligible as collateral for cross-border transactions (at a lower cost); (ii) it would ease the current pressure on high-quality liquid assets (sovereign AAAs that act as a safe haven and collateral for the ECB), easing the pressure on interest rates and ameliorating financial system problems, in addition to supporting the balance sheets of financial institutions that need long-term assets in order to honor their liabilities; (iii) it would be a good instrument for financing long-term public investment (whether in sustainability, infrastructure or technology), as well as an additional asset with higher returns that would be eligible for inclusion in the financial system balance sheet with a long-term perspective; and (iv) it would give the euro a stronger international standing and therefore diversify sources of monetary policy conditionality for emerging markets.

Finally, such an initiative would pave the way for centralization of an EU fiscal authority, with a single ministry and common fiscal policy, precisely because its implementation would also require that the matter of the capital-markets and banking union be addressed. In short, fresh fiscal impetus not only looks necessary, but also expedient to cement the institutional union of the eurozone.

Box 1.1-c
Saving in Latin America

Avoiding another lost decade

Over the past decade the prospects for Latin American growth have systematically been revised down, which is consistent with what we consider to be the region's declining economic growth potential.

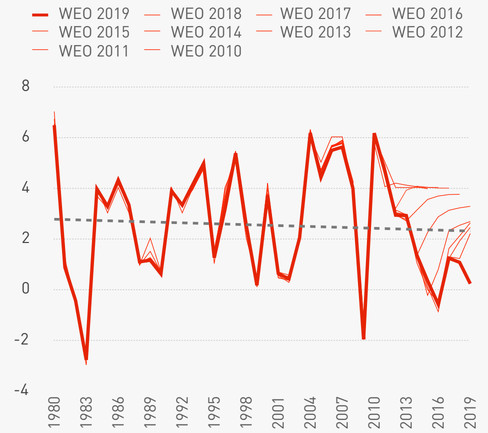
Chart A illustrates how the International Monetary Fund (IMF) has consistently revised down growth expectations for Latin America in its global and regional reports, shifting toward what seems to be increasing lower tendential growth for the region. GDP growth forecasts have shown a sustained recovery, going from convergence with a 4% tendential rate estimated a decade ago to the current scenario that we put at 2% year-on-year.

Looking beyond the causal factors (such as the global cycle phase, trade tensions, impaired terms for commodity trade, as well as idiosyncratic socio-geopolitical aspects), which end up impacting financing costs in the region via exchange rates and regional risk premiums (to which the current weak growth may be attributed), there are a couple of clear structural elements that determine trends for the Latin American region.

Firstly, the growth in disposable income in Latin America, seeing the middle classes expand from 21% of the population to 33%, while fertility and life expectancy data converged with levels consistent with this income growth. The outcome is rapid progress in the region in terms of the demographic dividend and, therefore, a rising dependency ratio, particularly in the mature segment. While the ratio remains low, in 2020 it will match levels in several developed economies of Asia and Emerging Europe (see Chart B).

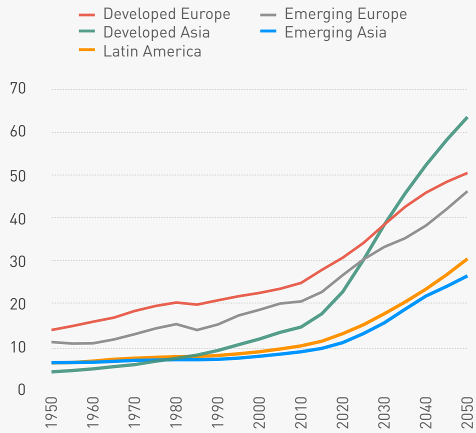
Secondly, low levels of capital intensity and the absence of structural reforms are causing bottlenecks in the factor market and subsequently in the productive system. The consequences are best expressed as the impairment of total productivity for the factors, especially the labor factor, given shortcomings in terms of skills and human capital construction (see Chart C).

Chart A.
Expected and registered GDP growth in Latin America (%, YoY) and tendential growth, 1980-2019



Source: MAPFRE Economic Research (based on data from the WEO/IMF)

Chart B.
Comparison of mature dependency ratios in different regions of the world, 1950–2050



Source: United Nations – Population Division – Department of Economic and Social Affairs (2017)

Box 1.1-c (continued)
Saving in Latin America

The Inter-American Development Bank (IDB) estimates that in order for the region to reach the capital output ratios of advanced economies (close to 25%), between 5% and 8% of GDP would have to be added to investment, particularly in infrastructure and skills construction. Converging with these levels in a manner consistent with a maturing demographic dividend would require a far higher rate of investment growth than seen at present, to prevent this from being a lost decade in terms of growth and well-being.

Saving is the problem

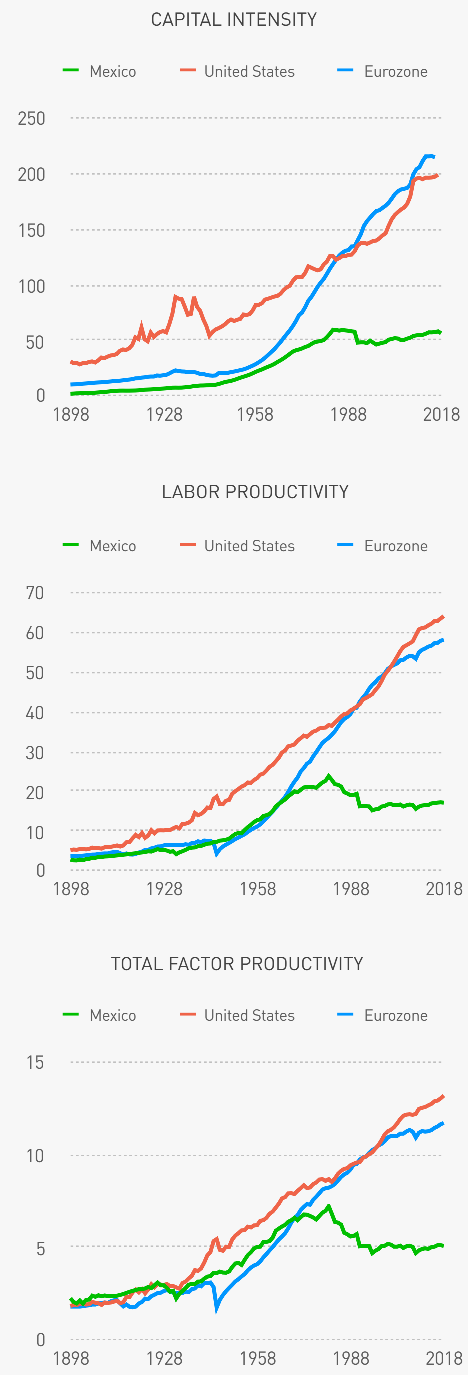
A lack of investment, deteriorating productivity and the constraints imposed by the current demographic structure all share the common problem of inadequate saving, specifically *national private saving*. Furthermore, the problem is compounded by the current demographic transition, since it is while the demographic dividend is maturing and during income convergence when societies need to generate saving capacity, according to the Life-Cycle Hypothesis and Permanent Income Hypothesis, something that is not happening in Latin America.

Saving levels are low

Saving in Latin America is low based on all metrics. Table A offers a comparison of this parameter against other economic regions. The data shows that saving in Latin America is insufficient to finance the sustained rates of investment that would drive the investment ratio up to the 25% mark observed in advanced economies, and which would guarantee replenishment of capital stock in a mature market. For this to happen, investment rates as a percentage of GDP would temporarily need to match those of Southeast Asian economies (30%), which, in terms of construction, would require equivalent gross saving that Latin America lacks (see Charts D and E).

Meanwhile, saving in Latin America is also low compared to levels in countries with average disposable income. As the data in Chart F indicates, saving capacity in the region has been lost compared to the start of the 90s.

Chart C
Capital intensity, labor productivity and total factor productivity



Source: MAPFRE Economic Research (based on data from the Long Term Productivity Database)

Box 1.1-c (continued)
Saving in Latin America

Table A
Breakdown of saving (in % GDP, average data), 2018

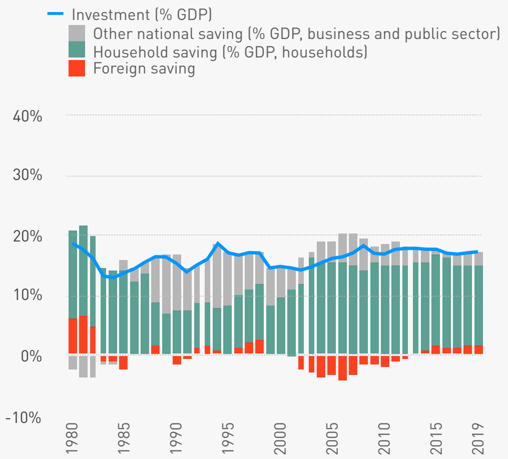
Asset types	Latin America	Emerging Asia	Developed countries
Gross National Saving (GNS)	16%	34%	23%
Public GNS	-2%	9%	-3%
Private GNS	18%	25%	26%
Foreign saving	3%	-4%	1%
Total national saving	**19%**	**30%**	**24%**

Source: MAPFRE Economic Research (based on data from the World Bank)

Finally, given the Latin American demographic structure (and setting aside the assumptions and abstractions required for this exercise), gross national savings in the region are likewise insufficient to soften consumption during the average population life-cycle. Chart G shows saving derived from the Modigliani relationship (see Box 1.1-d and online analytics for further information) and the saving that, *de facto*, exists in Latin America. Moreover, Chart H illustrates saving in countries that have secured medium demographic dividend transitions versus the situation in Latin America, where saving is visibly lower.

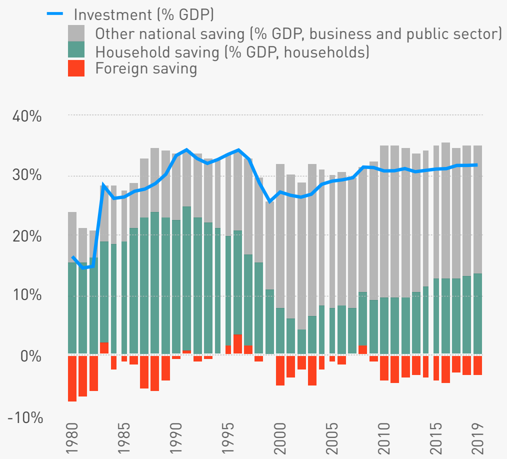
As can be seen, gross national saving in the Latin American region stands almost 10% lower than the demographic structure would predict (losing, moreover, the ability to generate the same), which also correctly anticipates the expected saving in regions with similar income levels.

Chart D.
Saving and investment
(Latin America region average)



Source: MAPFRE Economic Research (based on data from national statistics institutes)

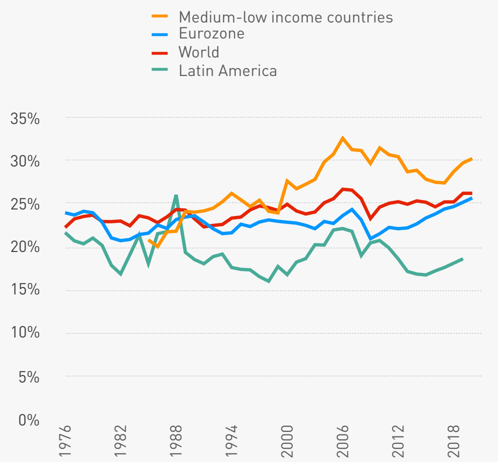
Chart E.
Saving and investment
(ASEAN region average)



Source: MAPFRE Economic Research (based on data from national statistics institutes)

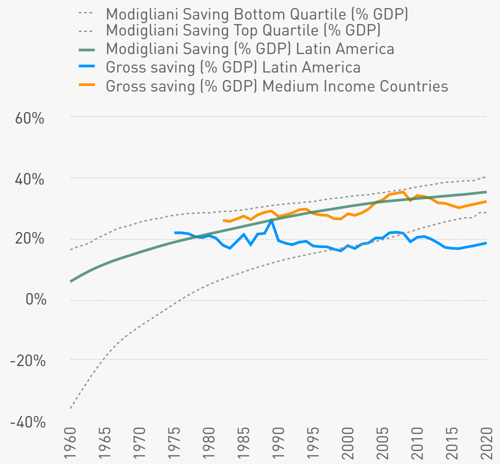
Box 1.1-c (continued)
Saving in Latin America

Chart F.
Gross national saving (% GDP)



Source: MAPFRE Economic Research (based on data from the World Bank)

Chart G.
Modigliani Saving* Latin America and comparables



Source: MAPFRE Economic Research (based on data from the UN Population Database), **Modigliani Saving* (see explanation Box).

Saving is inadequate

To ensure investment, productivity gains, coverage of pension systems and certain leeway for independence relative to foreign saving (meaning greater resilience to global shocks), the relevant savings are private, formal and finance-sector-mediated national savings, preferably in the long-term and in the local currency. These are precisely the savings that pension funds and insurance companies generally manage.

Such savings are scarce in Latin America. A few facts: one in six Latin Americans hold bank deposits (compared to one in three in Asia and one in two in the eurozone), and yet banking industry intermediation is still far higher than in the rest of the financial system in Latin America. Deposits account for approximately 75% of asset value in the region, a figure that compares to the 45% average in developed countries. For example, Chart I shows the distribution of financial saving in Latin America (average figures) compared to the same distribution in Spain.

This seems to suggest that the scarcity of formal saving is due, on the demand side, to weak growth in disposable personal income in the region (especially since the 90s), an undeveloped financial culture and the low engagement of institutional investors, together with adverse fiscal treatment, a shortage of profitable investment instruments in real terms, uncertainty and a lack of confidence in financial institutions in the region. On the supply side, formal saving could be affected by regulatory constraints and a financial market lacking in depth.

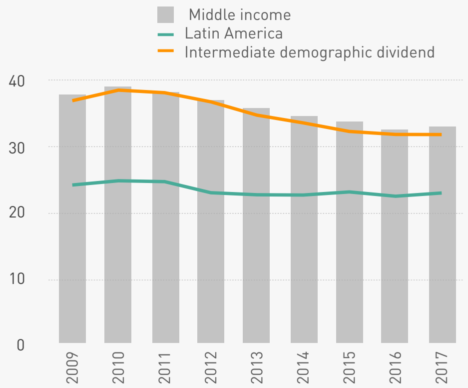
The insurance industry as an example

Measured in terms of managed assets, the insurance industry accounts for about one tenth of the global financial system, although Latin America accounts for less than 1% of the global total.

On the liabilities side of the financial system (and the assets associated with coverage thereof), there are huge differences between the amount of saving managed by the Latin American and European insurance industries (see Chart J). On average, the savings managed by the insurance industry in Latin America represent, in terms of

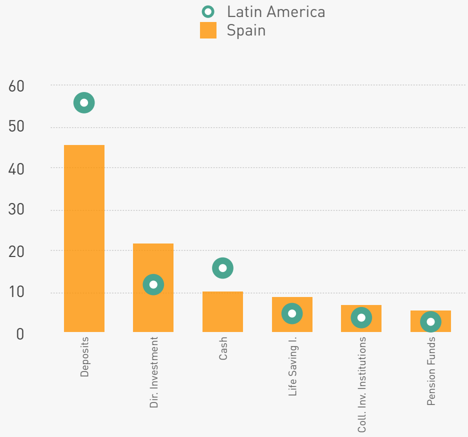
Box 1.1-c (continued)
Saving in Latin America

Chart H.
Private domestic saving:
Latin America vs. comparables
(% of GDP)



Source: MAPFRE Economic Research (based on data from the World Bank)

Chart I.
Distribution of financial saving:
Spain vs. Latin America



Source: MAPFRE Economic Research (based on data from central banks)

GDP, one third of those managed in the United States and one tenth of those managed in the eurozone and the United Kingdom. This smaller relative standing is particularly visible when comparing penetration rates for the Life business in Latin America with the situation in more advanced insurance markets. Chart K shows how the Insurance Protection Gap (IPG) in the Latin American Life insurance segment more than doubles the average in developed markets.

Not only are the saving volumes managed in Latin America far lower, but the bias toward fixed income assets, such as Treasury bonds and major corporate bonds, is also greater (see Table B). Although this is associated with the insurance business model and the need to guarantee implicit interest rates in insurance products, it also seems to transcend said model and reveal a particularly strong bias in Latin America, possibly to guarantee greater balance sheet stability due to the volatility of certain asset types in those markets.

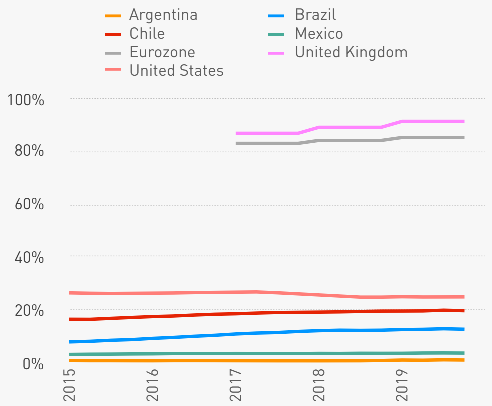
Table B
Assets on insurance system balance sheet

Asset types	Eurozone	United States	United Kingdom	Spain	Brazil	Mexico
Fixed income	64%	65%	55%	75%	91%	83%
Equity	16%	14%	16%	5%	8%	12%
Loans	5%	10%	9%	1%	0%	3%
Treasury and deposits	5%	4%	10%	8%	0%	1%
Real estate	2%	1%	3%	3%	0%	1%
Other investments	8%	7%	7%	6%	0%	0%

Source: MAPFRE Economic Research (based on data from regulators and supervisory bodies)

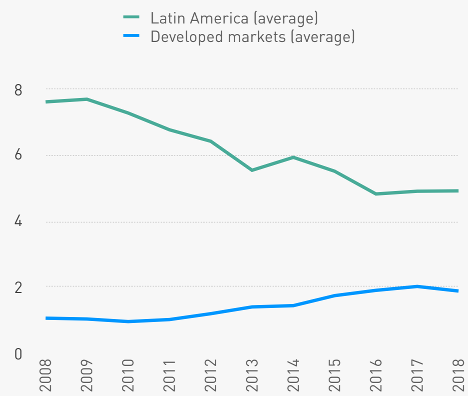
Box 1.1-c (continued)
Saving in Latin America

Chart J.
Life insurance technical provisions
(% GDP)



Source: MAPFRE Economic Research (based on data from regulators and supervisory bodies)

Chart K.
Insurance Protection Gap (Life)
(times national market size)



Source: MAPFRE Economic Research (2019), *MAPFRE GIP 2019*, Madrid, Fundación MAPFRE.

The consequences of low saving

As noted above, low saving levels are behind depressed productivity and growth. However, there are additional consequences of insufficient saving. Some of the key consequences are as follows.

Firstly, low levels of saving lead to strong dependence on foreign saving, which has an impact on the current account, exchange rates and general financial conditions. This creates room for imbalances to develop (credit, inflation, etc.) and for greater sensitivity to sharp current account corrections. It likewise compounds nominal vulnerabilities to global shocks arising from monetary policy in developed countries, deteriorating terms of trade and investment outflows.

Chart L illustrates how dependence on foreign saving affects exchange rate vulnerability. The average exchange rate against the USD (baseline 2013) deteriorates in line with impairment of the current account and financing of the same, whether due to lower portfolio flows or exhaustion of export revenue.

Secondly, insufficient saving means the absence of the required means of financing the pension system and social coverage, with all the implications already evaluated in our report on the economic and industry effects of population aging (MAPFRE Economic Research [2019], *Population aging,* Madrid, Fundación MAPFRE).

Thirdly, low saving undermines investment, with multiple short- and long-term consequences. In the short-term, insufficient saving has immediate effects on economic activity, the cycle phase and employment. In the long-term, the effects are deeper, rendering the growth of capital stock insufficient to replenish the effects of depreciation, meaning capital intensity is undermined, with the consequences identified above: (i) bottlenecks and inefficiencies that curb productivity and stagnate growth (see Chart C); (ii) breaking the virtuous circle between saving, investment (in infrastructure and human capital) and the increased productivity needed to increase potential growth, thus driving up capital requirements and future saving requirements, as well as increasing the term premium; and (iii) low income level in the long-term, preventing convergence with developed countries and causing lower levels of consumption, saving and well-being in the long-term.

Box 1.1-c (continued)
Saving in Latin America

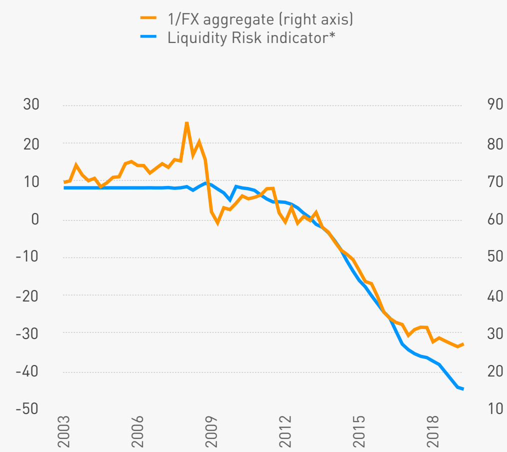
Some economic policy considerations to encourage saving

Given that saving is key to underpinning pension systems and ensuring that they are sustainable (either through individual saving or intergenerational subsidies), offsetting the effects of aging, activating the virtuous cycle with productivity and long-term growth, and by extension to guarantee greater levels of social well-being, countries need to pursue comprehensive policies to encourage saving. Potential measures include the following:

More optimal fiscal policies aimed at:

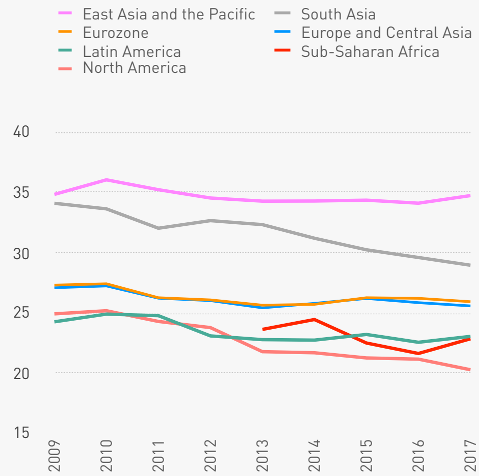
- Driving public engagement in saving, combating the informal economy and enhancing tax revenue capacity.
- Promoting private saving with appropriate tax incentives, such as eliminating double taxation on saving due to the taxation of capital and income, or applying incentives that promote Life insurance as an alternative medium- and long-term saving mechanism (see: MAPFRE Economic Research [2017], *Elements for insurance expansion in Latin America,* Madrid, Fundación MAPFRE).
- Giving prominence to public investment financing (and optimal spending on health and long-term care), seeking to activate the virtuous relationship with productivity, growth in capital requirements and the greatest possible saving.
- Promoting a larger and deeper financial system that allows:
- Greater engagement from institutional investors and unsatisfied middle classes unable to find investment products or profitability beyond residential investments.
- Greater financial market depth in the local currency and with additional instruments (such as infrastructure).
- Promoting counter-cyclical and macro-prudential mechanisms that help to drive financial stability (reduction of imbalances and sensitivity to shocks).

Chart L.
External vulnerability, liquidity risk and exchange rates in Latin America



Source: MAPFRE Economic Research (based on data from central banks)
* Reserves and income from exports/Short-term financial account liabilities

Chart M.
Private saving by geographic area
(% of GDP)



Source: MAPFRE Economic Research (based on data from the World Bank)

Box 1.1-c (continued)
Saving in Latin America

Improvement of the regulatory environment, seeking:

- Homogenization of the regional regulatory environment.
- Optimization of regulatory capital requirements, adapting regulatory capital to risk profiles.

In conclusion, the age-old growth deterioration in Latin America is due to structural factors that share the commonality of inadequate formal private saving. This inadequacy leads to problems in terms of productivity, the convergence of income, stability and the sufficiency of pension systems amid an aging population. Formal saving needs to be supported in a comprehensive approach that addresses the problem from the fiscal, regulatory and industry perspectives. Otherwise, Latin America is likely headed for another lost decade in terms of growth and well-being.

Overall risk overview

An overview of the global economic risk environment (see Chart 1.1.1-c), factoring in the probability and severity of risks, again points to five major global risks.

Global governance

First of all, for Europe the primary challenge in terms of governance is to ensure greater internal cohesion and secure a broad consensus for addressing the overall geopolitical risks facing the eurozone. Progress remains hindered by internal dynamics and social discontent (new symptoms of political discontent in Italy, or the new focus of the protests in France). However, the new configuration of European institutions (European Commission, European Council, European Central Bank, etc.) has apparently laid to rest, for the time being at least, concerns over the European Union's institutional future. Likewise, the United Kingdom's election result dispelled uncertainties surrounding Brexit going forward, albeit without fully precluding fresh political demands.

In contrast with Europe, where the governance situation looks unchanged, unrest has flared up in several countries across Latin America (Chile and Bolivia in particular), as well as in Asia (Hong Kong), which may herald a challenging period in terms of governance in these regions.

Economic policy in the United States

Secondly, the 75 basis point (bps) cut in the reference interest rate suggests that the US Federal Reserve believes the risk of recession has waned sufficiently, while consensus among members of the Federal Open Market Committee (FOMC) means stronger visibility for the rate path throughout 2020 at least. Moreover, preliminary trade agreements (signed with China, Canada and Mexico) have allayed but not eradicated concerns over fresh global economic turmoil, which may resurface as President Trump attempts to overshadow impeachment proceedings in the run-up to elections. The latent threat of further turbulence in the repo market remains in place and there are concerns that this may represent a partially perceived structural matter.

Box 1.1-d
Demographics and savings: the *Modigliani Savings* concept

The Modigliani Savings concept

The demographic structure of society is one of the factors that determines *gross national saving*, especially private domestic saving. This statement is grounded on Franco Modigliani's Life-cycle hypothesis, which states that individuals have life-cycle stages consistent with their age and ability to generate income, dis-saving when they are not earning, saving during the mature stage and dis-saving during old age. This is expressed as the following relationship:

$$S_t = (1 - \frac{VRA_t}{VRT_t}) * Y_t$$

Where S_t is the saving, Y_t is the disposable income, VRA_t is the active life left to each individual at time *t*, which depends positively on the retirement age, and VRT_t is the total remaining life left to the same agent, which is positively dependent on life expectancy. Therefore, the ratio between the two is the proportion of the *active life* to *the entire life-cycle*.

We call the saving expressed in these terms the *Modigliani Saving*. It is the saving consistent with each individual's life-cycle, which depends positively on their disposable income and life expectancy at any given time, and negatively on their age and time to retirement at any given time. By construction, the saving ratio on income gives us the *Modigliani Saving Ratio*, or ideal proportion of saving needed to cover the entire lifetime. It should be noted that this view of the saving ratio is closely linked with the Permanent Income Hypothesis, in which the above ratio becomes a parameter that correlates consumption with income at any given time, so that, in equilibrium and discounted to the relevant factor, it serves as an approximation of wealth.

Although this relationship is intended as an abstraction for agents, it can be processed at the aggregate level. Based on United Nations (UN) global population data, the *Average Active Residual Life* registered between 1950 and 2020 (estimated) has been calculated for each country and for various regional economic and demographic groupings. In this case, the average retirement age for the world's population has been assumed to be 65 years. Likewise, the *Average Total Residual Life* for the same regions has been calculated, using the life expectancy series for each region and year, also provided by the UN.

Using both sets of data, the *Modigliani Saving Ratio* has been calculated for each country/region as *(1-VRA(t)/VRT(t))*, and saving ratios have been obtained for the years 1950 to 2020 that are consistent with the Life-Cycle Hypothesis. The aggregate result for the world is represented in Chart A.

As can be seen, given the population structure, the proportion of active residual life globally over time predicts a gross saving ratio that broadly coincides with that actually registered globally (with the exception being that saving has fallen since the Lehman crisis and not yet recovered), which offers a good benchmark for calculating how much each country's gross saving should be based on their particular demographic structure.

Moreover, the sequence of Charts B to F shows the gross saving for each region divided by the demographic dividend transition status (closely linked with the aging and fertility of each region, as our *Modigliani Saving* measure). This information provides a good means of identifying what the Life-Cycle Hypothesis predicts would underlie the saving reading proposed here. Starting with countries with high birth rates, low life expectancy and low income (notably in Africa), the gross saving that the countries are able to generate is very low, albeit consistent with the lower band identified by the *Modigliani Saving* reading, at around 18% (see Chart B).

The next demographic state is when population aging begins, with the active population still growing but only slightly. The difference between the previous group of countries and this corresponds to a proportional increment in the average residual life that ties in with the maturing demographic dividend (more people becoming active, with longer life expectancy) and, therefore, with a higher saving ratio.

Box 1.1-d (continued)
Demographics and savings: the *Modigliani Savings* concept

Chart A.
World: gross saving vs. *Modigliani Saving*

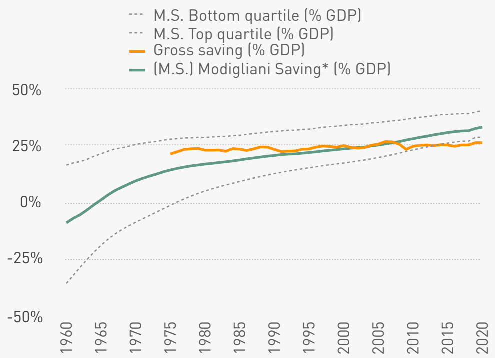


Chart B.
Total saving: pre-demographic dividend countries
(% of GDP)

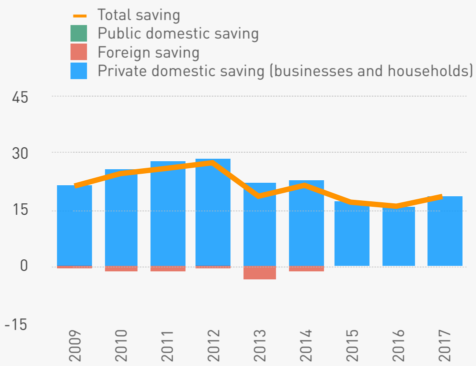


Chart C.
Total saving: initial demographic dividend countries
(% of GDP)

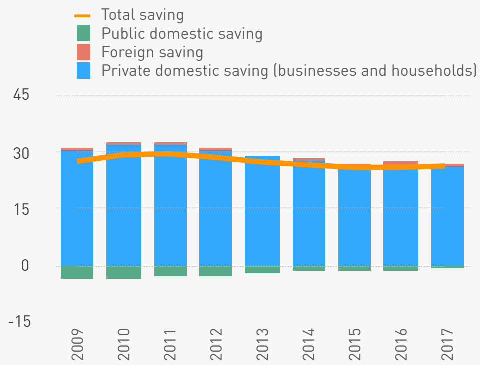


Chart D.
Total saving: advanced demographic dividend countries
(% of GDP)

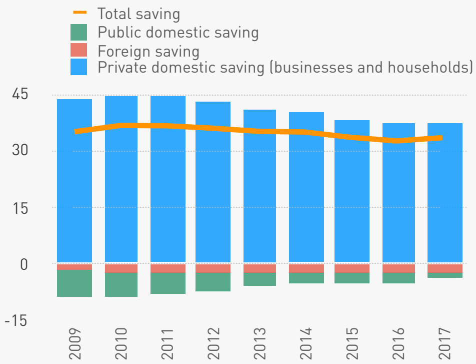


Chart E.
Total saving: post-demographic dividend countries
(% of GDP)

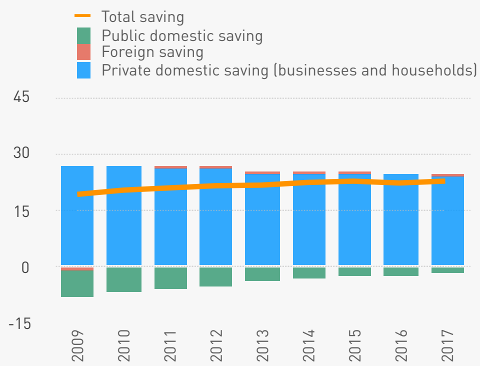
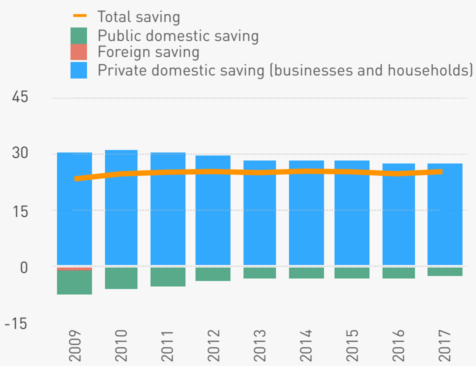


Chart F.
Total saving: global
(% of GDP)

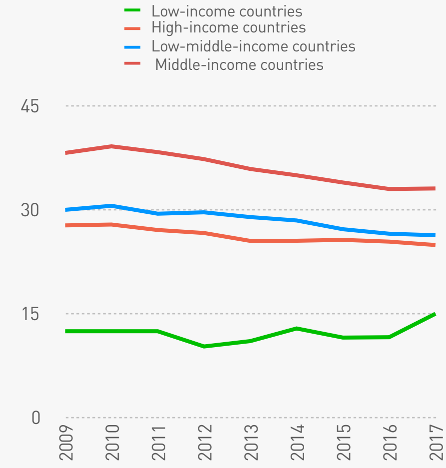


Source: MAPFRE Economic Research (based on data from the World Bank and the United Nations)

Box 1.1-d (continued)
Demographics and savings: the *Modigliani Savings* concept

Charts C and D show said increase and the consequent rise in saving, standing at 27% and 37% respectively (early and advanced demographic dividend). The relationship, however, is lost in the more advanced stages of the demographic dividend, i.e. where life expectancy is longer and the distance to the so-called "baby boom" is largest (see Chart E). These are the most developed countries where income is highest. Standout examples are the eurozone and Japan.

Chart G
Gross national saving by income levels
(% GDP)



Source: MAPFRE Economic Research (based on data from the World Bank)

Macro-financial adjustment in China

Thirdly, following a sharp downturn during 2019, fears regarding the Chinese economy may have been tempered by recent signals of economic stabilization and upbeat indications surrounding trade negotiations with the US. Prospects have also been improved by sustained expansionary monetary and fiscal policies, as well as adjustment to lower global growth rates. This easing of pressure outweighs certain resistance to the Asian giant in the medium-term. Structural problems and accumulated vulnerabilities, in contrast, remain potential catalysts for an abrupt adjustment. The Chinese economic model continues to shift toward internal equilibrium supported by domestic sources of growth and external equilibrium driven by flexibilization and the opening up of the country's economy. The ability to offer stimulus via economic policy could become pro-cyclical and prove inadequate in the face of high debt levels accumulated by the country and liquidity-transmission mechanisms that remain insufficient.

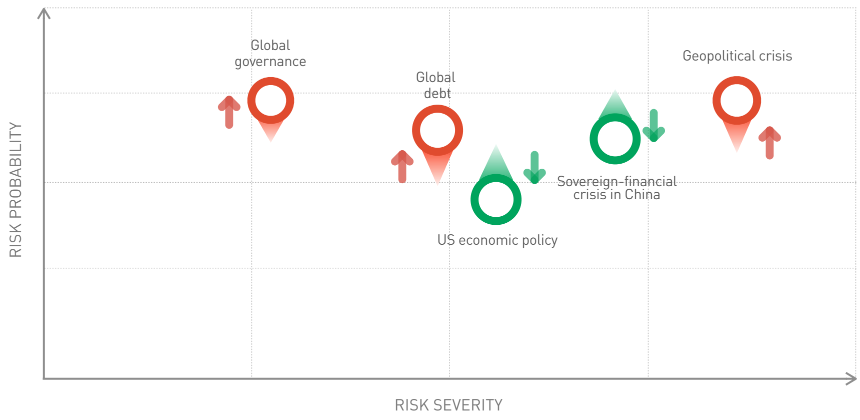
Debt

Fourthly, vulnerability associated with global debt levels remains on the rise, with debt reaching over 250 trillion dollars (220% GDP). Greater global monetary flexibility has meant further easing of financial conditions by restricting short-term financing costs. However, prolonged low interest rates have buoyed risk-taking and debt accumulation, while problems in repo markets and indications of illiquidity in certain sectors (such as corporate non-finance sectors) and certain associated products (such as CLOs) are beginning to trigger warning signs and caution with regard to credit ratings, which have deteriorated further.

Geopolitics

Finally, while the outcome of the UK election and progress in trade negotiations between China and the US have eased the geopolitical tensions that had been shaping the international landscape, global growth remains threatened by political uncertainty, rising protectionism, widespread social discord and,

Chart 1.1-c
Vulnerabilities and global risks*



Source: MAPFRE Economic Research

*The arrow indicates the observed bias of the risk

more recently, instability in the Persian gulf. Joining the already persistent social unrest in Hong Kong are waves of protests across other countries, including Iraq, Lebanon, Iran and India, while social upheaval is also spreading through Latin America. It seems evident that anti-government sentiment is beginning to play a major role on the world stage. At the same time, a rapid escalation of tensions between the United States and Iran has brought relations to a critical situation that might tip over into a larger conflict.

1.2 General forecasts and risk assessment in selected economies

1.2.1 United States

Progress toward a trade agreement with China is driving optimism

The US economy is gradually slowing, with growth of 2.1% in the third quarter of 2019, buoyed by sustained strong private consumption (2.9% QoQ annualized), but with investment weakening (-0.1% QoQ annualized). On the other hand, exports shrank -1.4% YoY in October. Growth in 2020 is expected to stand at around 1.6%, slowing from 2.3% YoY estimated in 2019 (see Table 1.2.1 and Charts 1.2.1-a and 1.2.1-b).

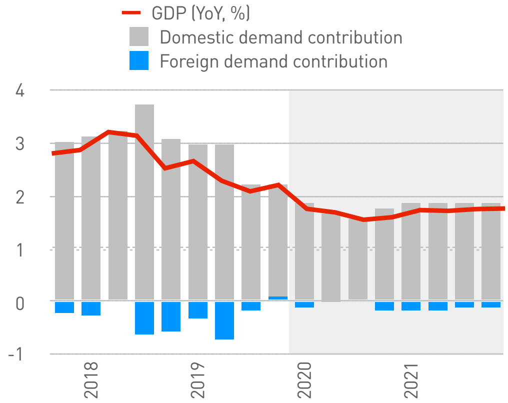
Leading indicators (PMIs) rebounded in November, in contrast with the manufacturing ISM (see Charts 1.2.1-c and 1.2.1-d). However, according to the University of Michigan survey, consumer confidence is set for 4 months of improvement. With low unemployment and salaries rising faster than inflation, the outlook for 2020 is upbeat.

Inflation (CPI) rose to 2.1% in November, with core inflation at 2.3% due to higher salaries and tariffs. At its December meeting, the US Federal Reserve left interest rates unchanged at the 1.50–1.75% range. Following three rate cuts since last July, members of the Federal Reserve Board deemed existing levels to be appropriate. In view of interest rate forecasts from both members of the Federal Open Market Committee (FOMC) and market analysts, a soft landing for the economy is

United States

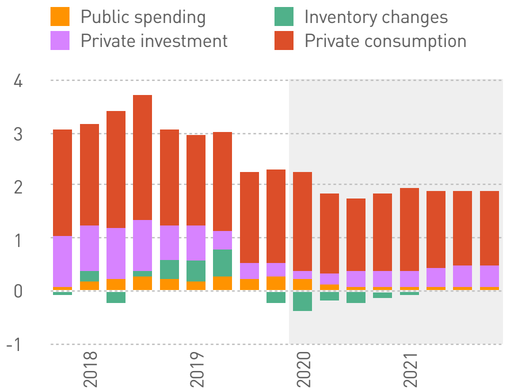
- Growth of 2.1% in the third quarter confirms a smooth slowdown.
- The Federal Reserve leaves interest rates unchanged, deeming them appropriate based on activity and inflation expectations.
- Signing of a phase one trade agreement with China should happen soon, with implementation of a new raft of tariffs being suspended.

Chart 1.2.1-a
United States: GDP breakdown and forecasts



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

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



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

Table 1.2.1
United States: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	2.9	1.6	2.4	2.9	2.3	1.6	1.7
Domestic demand contribution	3.7	1.9	2.7	3.3	2.6	1.7	1.9
Foreign demand contribution	-0.8	-0.3	-0.3	-0.3	-0.3	-0.1	-0.1
Private consumption contribution	2.5	1.9	1.8	2.1	1.8	1.6	1.5
Private investment contribution	0.7	0.4	0.8	0.9	0.4	0.2	0.4
Public spending contribution	0.3	0.3	0.1	0.2	0.2	0.1	0.1
Domestic demand (% YoY, average)	3.6	1.8	2.6	3.1	2.5	1.6	1.8
Total consumption (% YoY, average)	3.4	2.6	2.3	2.8	2.4	2.0	1.8
Private investment (% YoY, average)	3.3	1.9	3.7	4.1	1.8	1.1	1.7
Exports (YoY in %)	0.5	-0.0	3.5	3.0	-0.2	0.4	2.3
Imports (YoY in %)	5.3	2.0	4.7	4.4	1.2	0.7	2.7
Unemployment rate (%, last quarter)	5.0	4.8	4.1	3.8	3.6	3.6	3.7
Inflation (% YoY, last quarter)	0.4	1.8	2.1	2.2	2.0	1.7	2.0
Fiscal balance (% of GDP)	-4.8	-5.4	-4.2	-6.5	-6.9	-6.5	-6.4
Trade balance (% of GDP)	-4.4	-4.2	-4.3	-4.4	-4.2	-4.0	-4.0
Fiscal impulse (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-2.2	-2.3	-2.3	-2.4	-2.4	-2.5	-2.6
Official interest rate (end of period)	0.50	0.75	1.50	2.50	1.75	1.50	1.50
Short-term rate (end of period)	0.61	1.00	1.69	2.81	1.89	1.63	1.72
Long-term rate (end of period)	2.27	2.45	2.40	2.69	1.75	1.79	1.95
Exchange rate vs. USD (end of period)	1	1	1	1	1	1	1
Exchange rate vs. euro (end of period)	1.09	1.05	1.20	1.15	1.09	1.09	1.13
Private credit (% YoY, average)	2.4	3.1	6.7	4.3	5.2	5.5	3.7
Household credit (% YoY, average)	1.9	2.2	3.5	3.5	4.0	7.0	7.1
Non-financial priv. sect. credit (% YoY, average)	5.7	5.3	6.3	8.9	6.6	3.7	3.6
Financial private sector credit (% YoY, average)	2.1	4.3	2.9	2.2	2.0	1.3	1.5
Savings rate (%, average)	7.6	6.8	7.0	7.7	8.0	7.4	7.0

Source: MAPFRE Economic Research (based on data from the Federal Reserve)
Forecast end date: January 7, 2020.

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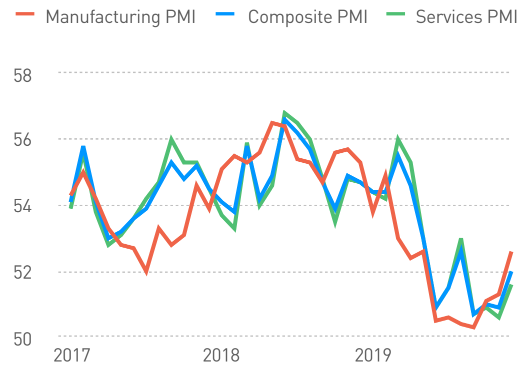
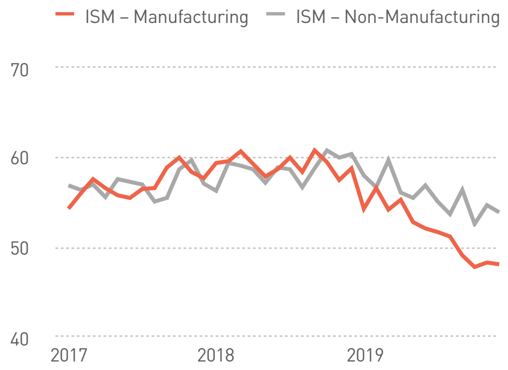
Chart 1.2.1-c
United States: PMIs, 2017–2019



Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.1-d
United States: ISM, 2017–2019



Source: MAPFRE Economic Research (based on data from Markit)

expected, together with interest rates remaining virtually unchanged until at least 2021 (with a reference rate of 1.50% expected at year-end 2020), at which point a return to the rate hikes of 2018 may be deemed appropriate.

In mid-December, President Donald Trump approved a phase one trade deal with China, with the official signing expected shortly. This should avert a fresh wave of US tariffs on some 160 billion dollars in Chinese consumer goods. Global equities marked record highs and bond yields rose thanks to trade optimism. In 2020, a year of presidential elections in the United States, the current administration will hope to secure further phases of the trade deal.

1.2.2 Eurozone

Expectations improve slightly despite the slowdown

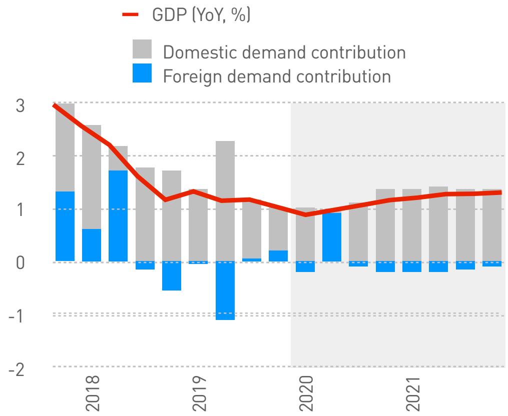
The eurozone continues to decelerate, with annual growth of 1.2%. Industrial production shrank (-2.2% YoY in October), while the construction sector recorded its first negative figure since 2017 (-0.7%). PMIs (purchasing managers' indices) have accumulated two years of declines and in December were down again, with the exception of services (52.4), putting the composite indicator at 50.6, while the manufacturing index was in clear contraction territory at 45.9. Similarly, the ZEW index of economic expectations for the eurozone bottomed out in August and has posted several consecutive months of gains, indicating a smooth improvement (see Charts 1.2.2-c and 1.2.2-d). Thus, the growth forecast for 2020 stands at 1.0% compared with 1.2% estimated for the close of 2019 (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b).

Last November, inflation rebounded slightly to 1.0%, while core inflation rose to 1.3%, temporarily relieving some pressure on the European Central Bank (ECB). Despite low unemployment, the cooling of the labor market will ensure that the ECB weighs up all indicators even though its mandate is restricted to controlling inflation. At the December meeting, the ECB opted to hold the deposit rate at -0.50%. The Governing Council expects official interest rates to remain at or below current figures until inflation prospects converge with levels of 2%, with core inflation

Eurozone

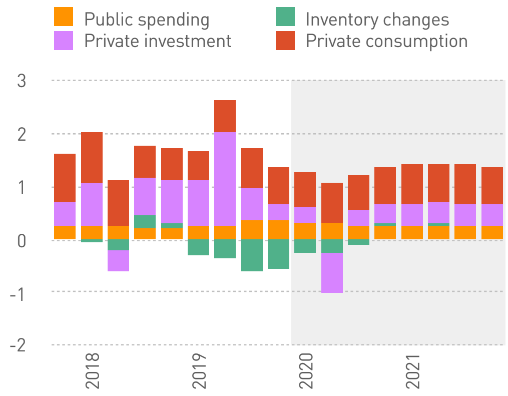
- Economic activity continues to slow.
- Sentiment indices have been in decline for two years, but there are signs of improvement in some countries.
- Monetary easing and fiscal stimulus expectations cause an end-of-cycle rebound.
- Following the elections, the United Kingdom's departure from the European Union now seems fully factored in.

Chart 1.2.2-a
Eurozone: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the ECB)

Chart 1.2.2-b
Eurozone: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the ECB)

Table 1.2.2
Eurozone: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	2.0	1.9	2.7	1.9	1.2	1.0	1.3
Domestic demand contribution	2.1	2.3	2.2	1.5	1.4	0.9	1.4
Foreign demand contribution	-0.1	-0.4	0.5	0.4	-0.2	0.1	-0.1
Private consumption contribution	1.0	1.0	1.0	0.7	0.7	0.7	0.7
Private investment contribution	0.9	0.8	0.8	0.5	0.9	0.0	0.4
Public spending contribution	0.3	0.4	0.3	0.2	0.3	0.3	0.3
Domestic demand (% YoY, average)	2.2	2.4	2.3	1.6	1.5	0.9	1.5
Total consumption (% YoY, average)	1.7	1.9	1.7	1.3	1.3	1.3	1.3
Private investment (% YoY, average)	4.5	4.0	3.7	2.4	4.3	0.2	1.9
Exports (YoY in %)	6.4	2.9	5.8	3.3	2.3	1.5	2.1
Imports (YoY in %)	7.5	4.2	5.2	2.7	3.1	1.3	2.6
Unemployment rate (%, last quarter)	10.5	9.7	8.7	7.9	7.4	7.3	7.2
Inflation (% YoY, last quarter)	0.3	0.7	1.4	1.9	1.0	1.1	1.4
Fiscal balance (% of GDP)	-2.0	-1.4	-0.9	-0.5	-0.6	-0.8	-0.8
Trade balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal impulse (% of GDP)	0.3	0.7	1.0	1.3	1.7	1.4	1.3
Current account balance (% of GDP)	2.8	3.2	3.1	3.1	2.6	2.6	2.5
Official interest rate (end of period)	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Short-term rate (end of period)	-0.13	-0.32	-0.33	-0.31	-0.39	-0.39	-0.36
Long-term rate (end of period)	1.26	0.93	1.13	1.17	0.18	0.34	0.75
Exchange rate vs. USD (end of period)	1.09	1.05	1.20	1.15	1.09	1.09	1.13
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household credit (% YoY, average)	0.9	1.5	2.3	2.7	3.2	3.5	3.7
Non-financial priv. sect. credit (% YoY, average)	8.9	2.8	2.2	2.7	2.3	2.9	2.7
Financial private sector credit (% YoY, average)	17.0	3.3	0.9	1.0	0.5	1.4	1.8
Savings rate (%, average)	12.4	12.3	12.1	12.2	13.0	13.0	13.0

Source: MAPFRE Economic Research (based on data from the ECB)
Forecast end date: January 7, 2020.

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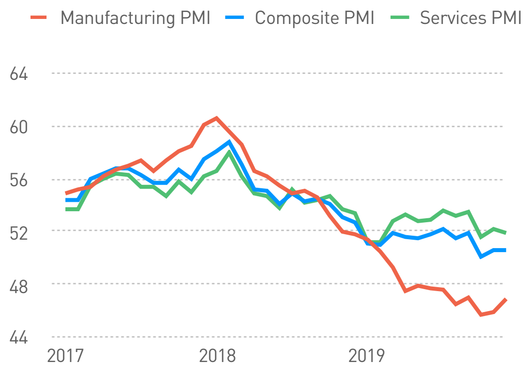
Chart 1.2.2-c
Eurozone: PMIs, 2017–2019



Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.2-d
Eurozone: ZEW growth expectations Index, 2017–2019

Source: MAPFRE Economic Research (based on data from Markit)

trends indicating an improvement in this regard. It is also important to note that net purchases under the Governing Council's asset acquisition program (APP) resumed on November 1 at a monthly rate of 20 billion euros. These purchases are due to continue for as long as necessary to reinforce the accommodative impact of official interest rates, coming to an end shortly before the ECB begins lifting interest rates.

The UK elections handed the Conservative Party a robust victory, ensuring an easier passage through Parliament for the European Union withdrawal agreement. This has brought some clarity to the situation, while the United Kingdom will need to secure a trade agreement with the EU by the end of 2020. It will also have to revise or renew the agreements that it has benefited from hereto as a result of its EU membership.

The risks to the eurozone in terms of growth are the absence of any reforms to spur economic activity, as well as the budgetary and solvency constraints facing member states, chiefly Italy. Unexpected strains on sovereign bond or banking markets could again spook investors, trigger a contagion effect and impair financial conditions across the eurozone. Moreover, the monetary policy instruments currently available to the ECB are considerably more limited than during the previous mandate.

1.2.3 Spain

The Spanish economy remains in a gradual slowdown

The Spanish economy grew 2.0% YoY and 0.4% QoQ in the third quarter of 2019, keeping pace with the previous quarter, but indicating a sustained gradual slowdown going forward. Private consumption grew 1.5% YoY (1.1% QoQ), investment 2.0% YoY (1.3% QoQ) and exports 2.3% YoY (-0.8% QoQ).

Similarly, consumer confidence surveys are beginning to reveal deteriorating sentiment, owing to the evident inability of political parties to form a government and little prospect of the problem being resolved in the near term.

Industrial production again posted a negative figure in October (-1.4% YoY), while the manufacturing PMI, despite a rebound in November (47.5), was down for the second consecutive year. The services PMI and composite indicator, meanwhile, remain in positive territory (53.2 and 51.9 respectively). The unemployment rate fell to 13.92%, but the pace of job creation, an aspect that shapes consumption growth, is slowing (see Charts 1.2.3-a and 1.2.3-b).

Spain

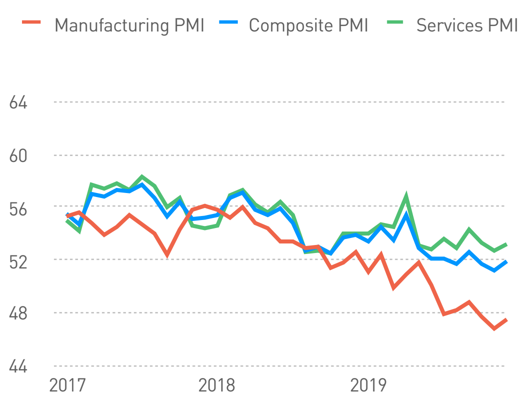
- **The Spanish economy is losing traction, as is job creation.**
- **Consumer and investor sentiment is showing signs of impairment.**
- **Loose financial conditions and positive indications for some EU partners should cushion the slowdown.**

Spain's economy is expected to grow 1.7% in 2020, meaning the slowdown will gain traction, albeit smoothly, in particular as the ECB's monetary stimulus and accommodative policies from the world's central banks begin to take effect (see Table 1.2.3 and Charts 1.2.3-c and 1.2.3-d). Loose financial conditions thanks to the ECB's sustained expansionary monetary policy, as well as positive signals from some EU partners, especially Germany, should keep the slowdown in check.

On the other hand, year-on-year inflation in November stood at 0.4% (flash), with fuel, food and non-alcoholic beverage prices showing stability compared to the declines posted in 2018.

The formation of a new government in Spain is a step forward in terms of stability and overcoming the previous political deadlock. It is still too soon to evaluate the impact of the new government's policies, which are yet to be specified. However, there is uncertainty regarding the design and implementation of economic policy, which could undermine consumer and investor confidence and, ultimately, the future performance of the Spanish economy.

Chart 1.2.3-a
Spain: PMIs, 2017–2019

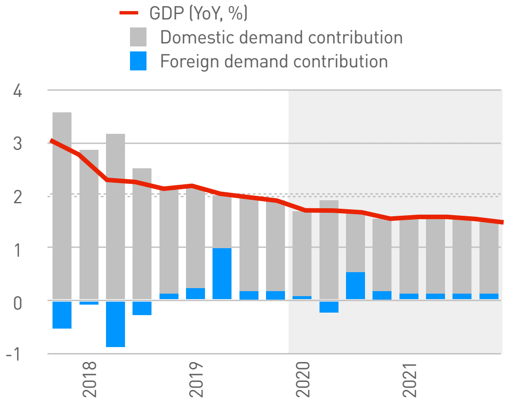


Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.3-b
Spain: unemployment rate, 2017–2019

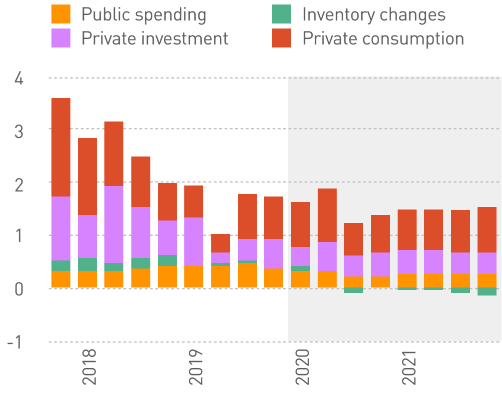
Source: MAPFRE Economic Research (based on data from the INE)

Chart 1.2.3-c
Spain: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the INE)

Chart 1.2.3-d
Spain: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the INE)

Table 1.2.3
Spain: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	3.8	3.0	2.9	2.4	2.0	1.7	1.5
Domestic demand contribution	3.9	2.0	3.0	2.6	1.6	1.5	1.4
Foreign demand contribution	-0.1	1.0	-0.1	-0.3	0.4	0.2	0.1
Private consumption contribution	1.7	1.6	1.7	1.1	0.7	0.8	0.8
Private investment contribution	0.9	0.4	1.1	1.0	0.5	0.4	0.5
Public spending contribution	0.4	0.2	0.2	0.3	0.4	0.3	0.3
Domestic demand (% YoY, average)	4.1	2.1	3.1	2.7	1.7	1.6	1.5
Total consumption (% YoY, average)	2.7	2.3	2.5	1.9	1.4	1.4	1.4
Private investment (% YoY, average)	4.9	2.4	5.9	5.3	2.6	2.2	2.4
Exports (YoY in %)	4.3	5.4	5.6	2.2	1.9	2.3	2.4
Imports (YoY in %)	5.1	2.7	6.6	3.3	0.8	2.0	2.3
Unemployment rate (%, last quarter)	20.9	18.6	16.6	14.5	13.7	13.0	12.6
Inflation (% YoY, last quarter)	-0.3	1.0	1.4	1.7	0.5	1.0	1.5
Fiscal balance (% of GDP)	-5.3	-4.4	-3.0	-2.5	-2.3	-1.9	-1.7
Trade balance (% of GDP)	-1.9	-1.3	-1.9	-2.4	-2.3	-2.0	-1.9
Fiscal impulse (% of GDP)	-2.2	-1.5	-0.5	-0.1	0.1	0.4	0.5
Current account balance (% of GDP)	2.0	3.2	2.7	1.9	1.7	1.2	1.1
Official interest rate (end of period)	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Short-term rate (end of period)	-0.13	-0.32	-0.33	-0.31	-0.39	-0.39	-0.36
Long-term rate (end of period)	1.77	1.35	1.51	1.41	0.48	0.70	1.28
Exchange rate vs. USD (end of period)	1.09	1.05	1.20	1.15	1.09	1.09	1.13
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household credit (% YoY, average)	-3.7	-2.5	-1.4	-0.3	0.6	2.7	3.3
Non-financial priv. sect. credit (% YoY, average)	-3.0	-2.6	-1.1	-1.5	2.4	3.9	2.5
Financial private sector credit (% YoY, average)	-9.3	-15.5	-7.3	-6.5	-3.6	2.6	3.0
Savings rate (%, average)	7.6	7.4	5.9	6.2	8.5	8.7	8.9

Source: MAPFRE Economic Research (based on data from the INE)
Forecast end date: January 7, 2020.

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1.2.4 Germany

Germany has managed to stem impairment of the economy and avert a recession

The deterioration of the German economy seems to have bottomed out and prospects are now beginning to improve. Germany managed to avert a recession, with 0.5% YoY growth thanks to robust private consumption (1.8% YoY in the third quarter), public spending expanding 2.4% and exports marking a return to growth after contraction in the second quarter (1.6%).

If forecasts for the final quarter of 2019 are unchanged at levels seen in the previous quarter, our annual forecast would remain at 0.6% YoY. Thus, our estimate for 2020 stands at 0.6% YoY, although this may be revised upward over the course of the year (see Table 1.2.4 and Charts 1.2.4-c and 1.2.4-d). While there is still uncertainty over the potential fallout from Brexit and the possibility of the US imposing tariffs on EU vehicle imports, the shift toward accommodative policies adopted by most central banks is beginning to bear fruit in the international context, notably on expectations for Germany, a major exporting economy.

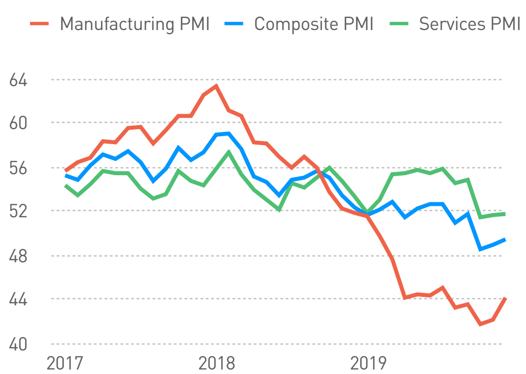
Expectations surveys are showing signs of moderate optimism. The ZEW survey in December offered the third positive reading in four months (12.8). Similarly, the IFO business climate survey bottomed out in September. Although the composite and manufacturing PMIs remain in negative territory, they were down again in December, standing at 49.4 and 43.4 respectively. The services sector, meanwhile, was in positive territory at 52 points (see Charts 1.2.4-a and 1.2.4-b).

In addition, November inflation stood at 1.1%, while core inflation was at 1.2%. With an unemployment rate of 5.0% and salary compensation (unit labor costs) rising above 3.0%, we expect inflation to climb to around 1.4% in 2020.

Germany

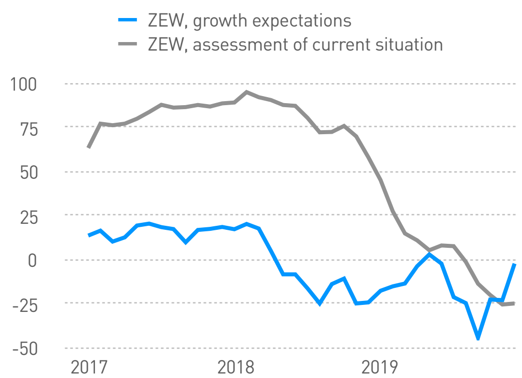
- **The ZEW growth expectations survey showed a third positive reading in four months.**
- **The IFO business expectations survey also bottomed out in September.**
- **The purchasing managers' index rallied in October and November.**

Chart 1.2.4-a
Germany: PMIs, 2017–2019



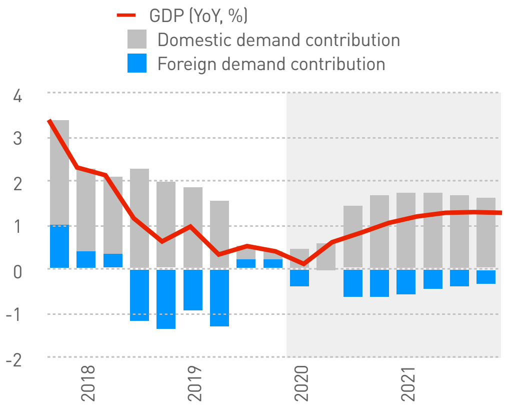
Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.4-b
Germany: ZEW growth expectations index and current situation, 2017–2019



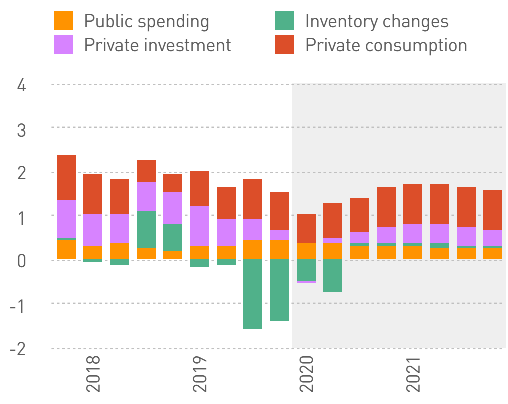
Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.4-c
Germany: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on data from DESTATIS)

Chart 1.2.4-d
Germany: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on data from DESTATIS)

Table 1.2.4
Germany: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	1.5	2.1	2.8	1.6	0.6	0.6	1.3
Domestic demand contribution	1.3	2.8	2.4	2.0	1.0	1.0	1.7
Foreign demand contribution	0.2	-0.6	0.3	-0.4	-0.4	-0.4	-0.4
Private consumption contribution	1.0	1.1	0.9	0.7	0.8	0.8	0.9
Private investment contribution	0.2	0.7	0.6	0.7	0.5	0.2	0.4
Public spending contribution	0.5	0.8	0.5	0.3	0.4	0.4	0.3
Domestic demand (% YoY, average)	1.4	3.0	2.6	2.1	1.1	1.1	1.8
Total consumption (% YoY, average)	2.1	2.6	1.9	1.3	1.7	1.6	1.6
Private investment (% YoY, average)	1.2	3.6	3.1	3.5	2.6	0.8	2.0
Exports (YoY in %)	4.9	2.2	5.5	2.3	1.1	1.1	2.0
Imports (YoY in %)	5.4	4.2	5.7	3.8	2.3	2.2	3.3
Unemployment rate (%, last quarter)	6.3	6.0	5.5	5.0	5.0	5.0	5.0
Inflation (% YoY, last quarter)	0.2	1.5	1.4	1.6	1.3	1.4	1.5
Fiscal balance (% of GDP)	0.9	1.2	1.2	1.9	1.6	0.6	0.3
Trade balance (% of GDP)	8.1	8.0	7.8	6.7	7.0	6.6	6.2
Fiscal impulse (% of GDP)	2.3	2.4	2.3	2.8	2.5	1.8	1.3
Current account balance (% of GDP)	8.6	8.4	8.1	7.5	7.7	6.8	6.2
Official interest rate (end of period)	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Short-term rate (end of period)	-0.13	-0.32	-0.33	-0.31	-0.39	-0.39	-0.36
Long-term rate (end of period)	0.63	0.21	0.43	0.25	-0.35	-0.27	0.03
Exchange rate vs. USD (end of period)	1.09	1.05	1.20	1.15	1.09	1.09	1.13
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household credit (% YoY, average)	1.9	2.8	3.2	3.6	4.4	5.2	6.0
Non-financial priv. sect. credit (% YoY, average)	2.8	2.9	4.5	7.6	5.3	1.8	2.8
Financial private sector credit (% YoY, average)	5.0	0.5	-1.2	4.1	7.5	2.2	2.8
Savings rate (%, average)	10.0	10.3	10.3	10.9	10.8	10.9	10.7

Source: MAPFRE Economic Research (based on data from DESTATIS)
Forecast end date: January 7, 2020.

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Now that the risk of recession in the near term has been chased away by a rebound in business expectations and loose financial conditions, the biggest risks to the German economy are the possibility of the US imposing tariffs on car exports and the potential consequences of a hard Brexit. Manufacturing accounts for 20% of the country's GDP, so there is some vulnerability to the global manufacturing recession.

Italy

- **Growth is stagnating in the Italian economy, chiefly due to structural problems.**
- **2020 budget scraps the value added tax increase.**
- **With regional elections coming in 2020, further political instability may be in store.**

1.2.5 Italy

Stagnation, high debt, a fiscal deficit and regional elections

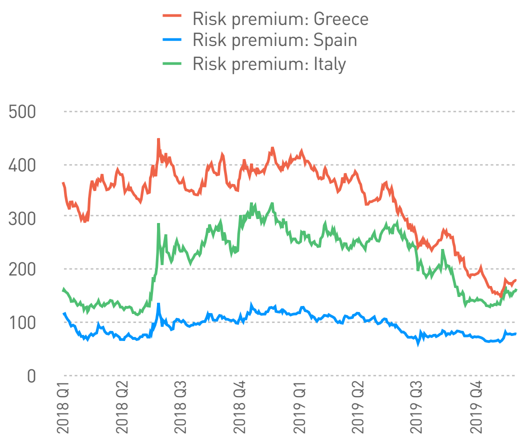
Economic growth in Italy is stagnating largely as a result of structural problems, notably high sovereign debt, which reached 133% of GDP. Growth in 2019 is estimated to stand at 0.2% YoY, a rate that we expect to be sustained into 2020 due to the lack of any catalysts that might drive a recovery (see Table 1.2.5 and Charts 1.2.5-c and 1.2.5-d). In view of this situation, the Italian government is no longer considering any hike in value added tax (VAT) in 2020.

Based on the composition of growth, we are unlikely to see the economy enjoy a robust recovery. Exports look fairly resilient (1.2% YoY in the third quarter), as do private consumption (0.8% YoY) and investment (which rallied 2.5% in the third quarter). However, the effects of labor reforms, which saw temporary contracts converted to permanent contracts in recent months, are beginning to taper off, as indicated by company hiring prospects. Likewise, the government has little budgetary leeway for fiscal stimulus. In fact, it needs to find ways to drive down sovereign debt (see Chart 1.2.5-a).

Meanwhile, November inflation stood at 0.4% YoY, a common phenomenon in developed economies due to slow salary growth (+0.8% YoY in September). Inflation is expected to remain below 1% over the next two years.

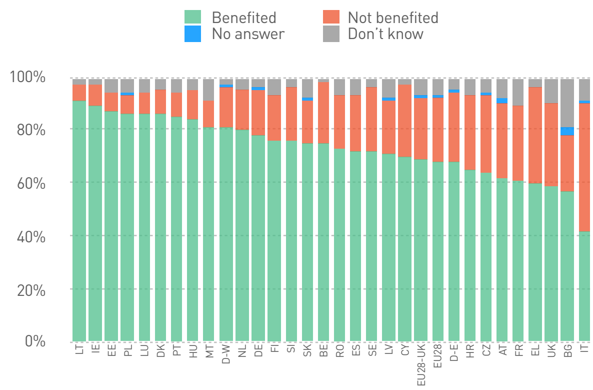
The new government's more pro-European stance has alleviated budgetary tensions with Brussels. However, concerns still linger as to whether the government will be able to remain united and implement the reforms required to boost growth (see Chart 1.2.5-b). Differences between the four coalition parties are beginning to reveal the fragile nature of the government. Deteriorating economic prospects could ramp up pressure on the government. The coming regional elections may represent a key test.

Chart 1.2.5-a
Italy: risk premium comparison



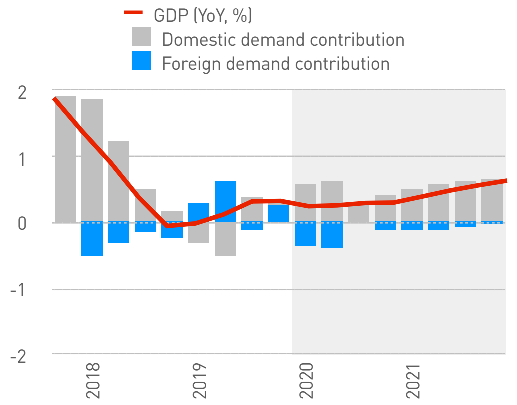
Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.5-b
Italy: Eurobarometer, assessment of membership of the European Union



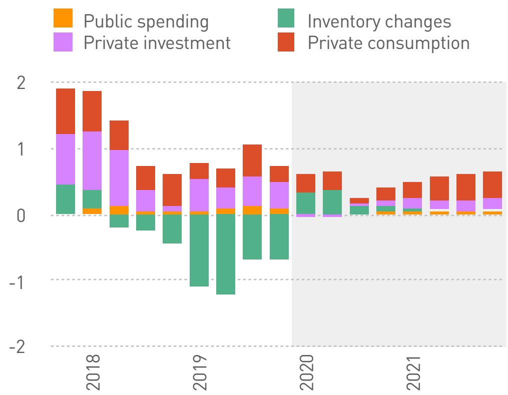
Source: European Parliament

Chart 1.2.5-c
Italy: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on data from ISTAT)

Chart 1.2.5-d
Italy: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on data from ISTAT)

Table 1.2.5
Italy: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	0.7	1.4	1.8	0.7	0.2	0.3	0.5
Domestic demand contribution	1.1	1.9	1.6	0.9	-0.1	0.5	0.6
Foreign demand contribution	-0.4	-0.5	0.1	-0.3	0.3	-0.2	-0.1
Private consumption contribution	1.1	0.7	0.9	0.5	0.3	0.2	0.4
Private investment contribution	0.3	0.7	0.6	0.5	0.4	0.0	0.1
Public spending contribution	-0.1	0.1	-0.0	0.1	0.1	0.0	0.1
Domestic demand (% YoY, average)	1.1	2.0	1.7	1.0	-0.1	0.5	0.6
Total consumption (% YoY, average)	1.3	1.1	1.1	0.7	0.5	0.3	0.5
Private investment (% YoY, average)	1.6	4.2	3.5	3.0	2.3	0.1	0.8
Exports (YoY in %)	4.1	2.0	6.5	1.3	1.7	1.4	1.7
Imports (YoY in %)	6.3	4.2	6.6	2.4	0.9	2.1	2.1
Unemployment rate (%, last quarter)	11.5	11.8	11.0	10.5	9.7	9.9	9.9
Inflation (% YoY, last quarter)	0.2	0.1	0.9	1.4	0.4	0.8	1.1
Fiscal balance (% of GDP)	-2.6	-2.4	-2.4	-2.2	-2.2	-2.5	-2.1
Trade balance (% of GDP)	2.5	2.9	2.8	2.2	2.8	2.7	2.7
Fiscal impulse (% of GDP)	1.5	1.5	1.4	1.5	1.4	1.1	1.4
Current account balance (% of GDP)	1.4	2.6	2.7	2.6	3.0	2.7	2.8
Official interest rate (end of period)	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Short-term rate (end of period)	-0.13	-0.32	-0.33	-0.31	-0.39	-0.39	-0.36
Long-term rate (end of period)	1.61	1.82	2.00	2.77	1.37	1.62	2.18
Exchange rate vs. USD (end of period)	1.09	1.05	1.20	1.15	1.09	1.09	1.13
Exchange rate vs. euro (end of period)	n/r	n/r	n/r	n/r	n/r	n/r	n/r
Private credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household credit (% YoY, average)	-0.3	0.4	1.3	1.8	2.6	4.2	4.1
Non-financial priv. sect. credit (% YoY, average)	-1.9	-2.0	-2.9	-0.3	-1.5	-0.3	2.1
Financial private sector credit (% YoY, average)	-3.0	-3.9	-11.5	25.7	13.4	-4.2	-0.7
Savings rate (%, average)	10.2	10.2	9.6	9.4	9.7	9.7	10.4

Source: MAPFRE Economic Research (based on data from ISTAT)
Forecast end date: January 7, 2020.

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Heavy losses for the Democratic Party and the Five-Star Movement (two coalition parties) could have consequences in terms of the stability of the government.

1.2.6 United Kingdom

A comfortable election victory ensures a Brexit as envisaged by the Conservative Party

The United Kingdom posted growth in the third quarter of 2019, putting the year-on-year rate at 1.0%. Private consumption has expanded by 1.2% YoY, while investment continues to show a negative trend (-0.4%) and exports grew just 0.2% YoY adjusted for seasonality. We forecast weak growth of 1.0% in 2020 (see Table 1.2.6 and Charts 1.2.6-c and 1.2.6-d).

Economic surveys have not been very encouraging. All PMIs are in contraction territory (<50 points) and deteriorated in November (see Chart 1.2.6-a). Consumer sentiment (GfK), which has been in negative since 2016, also weakened slightly, standing at -14 points in November. Industrial production declined at a rate of -1.3% YoY according to the October figure.

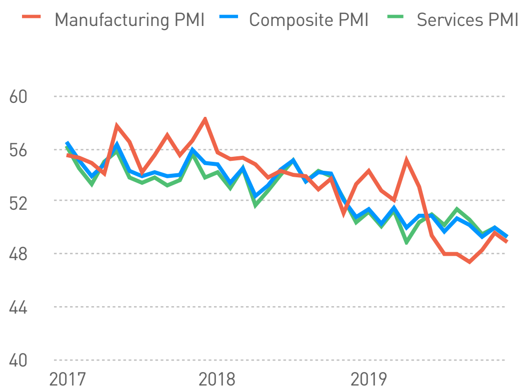
United Kingdom

- **The majority secured by the Conservative Party will allow it to pass the Brexit agreement, although the January 31 deadline still looks challenging.**
- **The pound sterling rose powerfully thanks to uncertainty being dispelled.**
- **Leaving the European Union will force the United Kingdom to negotiate its own trade agreements.**

Inflation stood at 1.5% in October, with core inflation at 1.7%. We estimate a figure of around 1.6% in 2020, amid a strong labor market, with ILO unemployment at 3.9% in October and salary growth of 3.6% in September.

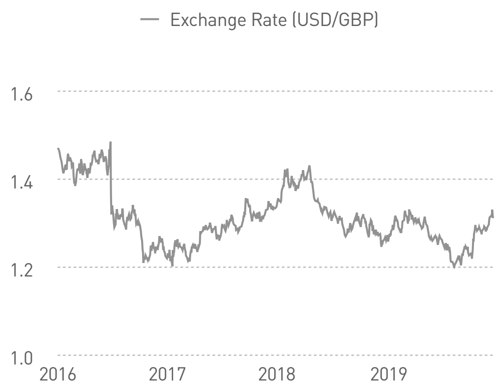
At its December meeting, the Bank of England left interest rates at 0.75%. The central bank's monetary policy stance will be guided by the Brexit scenario. If the economic slowdown gains traction, coupled with appreciation of the pound sterling and smoother inflation, the Bank of England may be inclined to cut interest rates. For now, our forecast is for stable interest rates during 2020.

Chart 1.2.6-a
United Kingdom: PMIs, 2017–2019



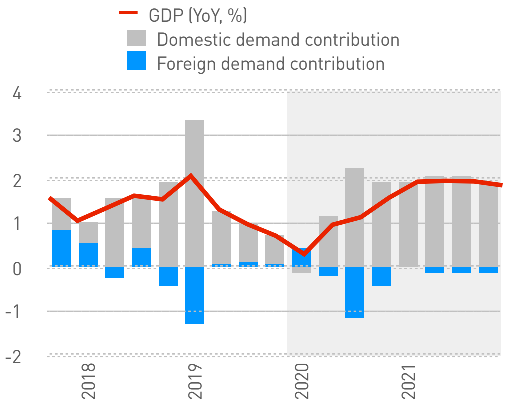
Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.6-b
United Kingdom: exchange rate, 2016–2019



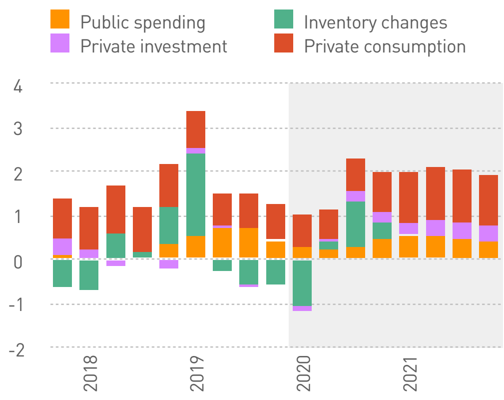
Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.6-c
United Kingdom: GDP breakdown and forecasts



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

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



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

Table 1.2.6
United Kingdom: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	2.4	1.9	1.9	1.4	1.3	1.0	1.9
Domestic demand contribution	2.5	2.5	1.1	1.3	1.5	1.3	2.0
Foreign demand contribution	-0.1	-0.6	0.7	0.1	-0.3	-0.3	-0.1
Private consumption contribution	1.8	2.4	1.4	1.0	0.8	0.8	1.2
Private investment contribution	0.6	0.6	0.3	-0.0	0.0	0.1	0.3
Public spending contribution	0.3	0.2	0.0	0.1	0.6	0.3	0.5
Domestic demand (% YoY, average)	2.5	2.6	1.2	1.3	1.5	1.3	2.0
Total consumption (% YoY, average)	2.7	3.2	1.8	1.4	1.7	1.3	2.0
Private investment (% YoY, average)	3.7	3.6	1.6	-0.1	0.2	0.6	2.1
Exports (YoY in %)	3.8	2.7	6.2	-0.8	0.4	1.7	2.2
Imports (YoY in %)	5.5	4.4	3.5	0.7	3.5	1.4	2.4
Unemployment rate (%, last quarter)	5.1	4.7	4.4	4.0	3.8	3.8	3.7
Inflation (% YoY, last quarter)	0.1	1.2	3.0	2.3	1.6	1.6	1.6
Fiscal balance (% of GDP)	-4.5	-3.2	-2.4	-2.2	-2.0	-2.1	-1.9
Trade balance (% of GDP)	-6.1	-6.7	-6.6	-6.6	-6.8	-6.5	-6.5
Fiscal impulse (% of GDP)	-2.2	-0.9	0.2	0.2	0.2	0.1	0.3
Current account balance (% of GDP)	-4.9	-5.2	-3.5	-4.3	-4.3	-3.7	-3.5
Official interest rate (end of period)	0.50	0.25	0.50	0.75	0.75	0.75	1.00
Short-term rate (end of period)	0.59	0.37	0.52	0.91	0.79	0.81	1.01
Long-term rate (end of period)	2.02	1.28	1.25	1.33	0.70	1.14	1.52
Exchange rate vs. USD (end of period)	1.48	1.23	1.35	1.28	1.33	1.35	1.35
Exchange rate vs. euro (end of period)	1.36	1.17	1.13	1.11	1.20	1.21	1.20
Private credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household credit (% YoY, average)	2.9	4.0	3.9	3.4	3.5	3.3	3.3
Non-financial priv. sect. credit (% YoY, average)	-1.9	6.2	9.5	1.7	1.3	2.5	2.5
Financial private sector credit (% YoY, average)	-13.9	7.3	9.4	5.1	5.0	5.0	5.1
Savings rate (%, average)	10.0	7.2	5.3	6.1	6.3	6.1	6.1

Source: MAPFRE Economic Research (based on data from the Office for National Statistics)
Forecast end date: January 7, 2020.

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The December 12 elections handed a clear victory to the Conservative Party, which is now set to drive its Brexit agreement through Parliament. However, doing so before January 31, 2020, looks a challenge, and the United Kingdom may have to request a further delay from the European Union. The British pound has reacted positively to Brexit uncertainty being dispelled, gaining value in the run-up to the elections and reaching 1.35 USD/GBP once the results were confirmed (see Chart 1.2.6-b).

The risks facing the British economy are associated with companies potentially relocating following the country's withdrawal from the European Union, a cooling real estate market and the pound sterling rising in value, which would further ease inflation and hinder exports. The likely signing of a withdrawal agreement should clarify the UK's relationship with the European Union, but marks the start of a new set of challenges, in which the country will have to negotiate its own trade agreements outside the EU.

1.2.7 Japan

Fiscal stimulus in 2020 to counter the slowdown

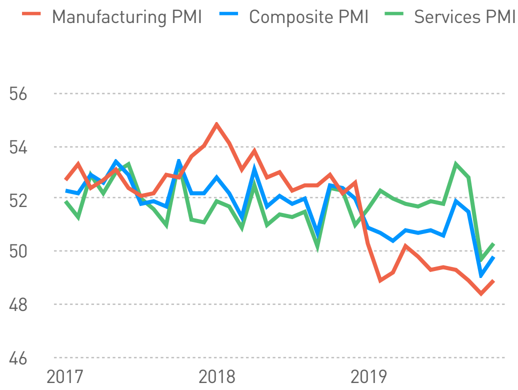
Japanese GDP grew 1.7% YoY in the third quarter, largely the result of a surge in consumption ahead of a value added tax (VAT) hike on October 1. A slowdown is anticipated in the final quarter of the year for the same reason. Proportionally, private consumption is the element that contributed most to this rally (2.1%), while public spending posted the fastest growth (2.8%). Exports have shrunk (-1.1% YoY) amid trade tensions, while investment rebounded (4.9% vs. 0.8% in the previous quarter).

Components of the Coincident Indicator for October show that the fourth quarter slowdown made itself felt (industrial production -7.4%, shopping mall sales -19%, wholesale sales -10%). Meanwhile, December purchasing managers' indices (PMIs) pointed to a deterioration mainly in the industrial sector, with the indicator standing at 48.9, while the services sector remains in positive territory, albeit at a low 50.6, and the composite index was marginally in negative territory at 49.8 (see Chart 1.2.7-a). In this context, growth of the Japanese economy in 2019 is expected to stand

Japan

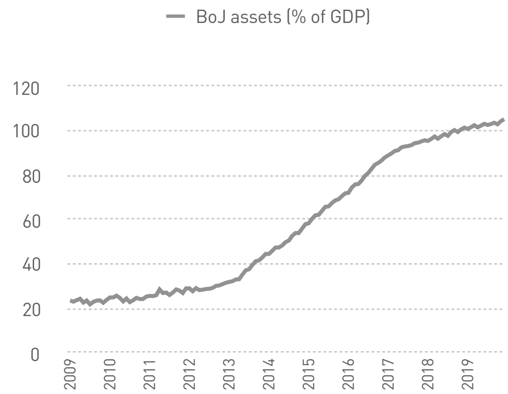
- The value added tax hike in early October and adverse weather conditions point to a fourth quarter of weak growth.
- The announced fiscal stimulus plan will be critical to preventing further economic deceleration.
- Exports are being hampered by various trade tensions.

Chart 1.2.7-a
Japan: PMIs, 2017–2019



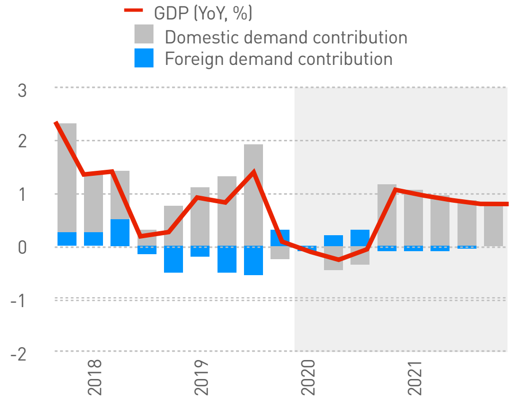
Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.7-b
Japan: central bank assets, 2009–2019



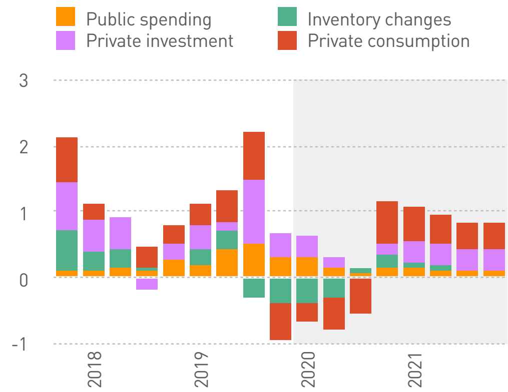
Source: MAPFRE Economic Research (based on data from the Bank of Japan)

Chart 1.2.7-c
Japan: GDP breakdown and forecasts



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

Chart 1.2.7-d
Japan: domestic demand breakdown and forecasts



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

Table 1.2.7
Japan: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	1.3	0.6	1.9	0.8	0.8	0.2	0.9
Domestic demand contribution	0.9	0.0	1.4	0.8	1.0	0.1	0.9
Foreign demand contribution	0.4	0.6	0.6	0.0	-0.2	0.1	-0.1
Private consumption contribution	-0.1	-0.1	0.6	0.2	0.2	-0.2	0.4
Private investment contribution	0.4	-0.1	0.7	0.2	0.5	0.2	0.3
Public spending contribution	0.3	0.3	0.1	0.2	0.4	0.2	0.1
Domestic demand (% YoY, average)	0.9	0.0	1.3	0.8	1.0	0.1	0.9
Total consumption (% YoY, average)	0.3	0.3	0.9	0.5	0.8	0.0	0.7
Private investment (% YoY, average)	1.7	-0.3	3.0	1.1	2.0	0.7	1.4
Exports (YoY in %)	3.0	1.7	6.8	3.5	-1.9	0.9	2.6
Imports (YoY in %)	0.7	-1.6	3.4	3.3	-0.7	0.3	2.7
Unemployment rate (%, last quarter)	3.3	3.0	2.7	2.4	2.4	2.4	2.4
Inflation (% YoY, last quarter)	0.2	0.3	0.6	0.9	0.9	0.3	0.6
Fiscal balance (% of GDP)	-3.6	-3.5	-3.0	-2.4	-2.7	-3.2	-2.9
Trade balance (% of GDP)	-0.2	1.0	0.9	0.2	0.1	0.1	0.0
Fiscal impulse (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	3.1	3.9	4.2	3.5	3.5	3.3	3.2
Official interest rate (end of period)	0.04	-0.06	-0.06	-0.06	-0.03	-0.06	-0.04
Short-term rate (end of period)	0.08	-0.05	-0.02	-0.07	-0.10	-0.07	-0.04
Long-term rate (end of period)	0.27	0.04	0.05	0.01	-0.10	-0.20	-0.11
Exchange rate vs. USD (end of period)	120.50	116.80	112.90	110.83	109.00	106.00	105.98
Exchange rate vs. euro (end of period)	131.19	123.12	135.40	126.90	118.70	115.66	119.42
Private credit (% YoY, average)	2.0	2.2	4.2	2.9	2.1	1.2	2.3
Household credit (% YoY, average)	1.1	1.3	2.2	2.8	1.5	0.1	0.0
Non-financial priv. sect. credit (% YoY, average)	0.4	1.8	2.4	1.9	3.2	1.5	1.7
Financial private sector credit (% YoY, average)	7.8	-0.2	8.0	5.9	0.8	1.7	1.7
Savings rate (%, average)	1.2	2.9	2.5	4.3	4.6	5.0	4.9

Source: MAPFRE Economic Research (based on data from the Statistics Bureau)
Forecast end date: January 7, 2020.

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close to 0.8% and ease in 2020 to around 0.2% (see Table 1.2.7 and Charts 1.2.7-c and 1.2.7-d).

Moreover, inflation in Japan is stagnating at very low levels (0.2% in October), which, together with the current fourth quarter slowdown, could represent an argument in favor of fiscal stimulus and eventually new monetary stimulus. Indeed, in early December 2019, Prime Minister Shinzō Abe announced a stimulus package worth 26 trillion yen (5% of GDP), including increased public spending, seeking to reduce downside risks following the consumer tax hike in October.

The Bank of Japan kept official interest rates unchanged at its last meeting in December, at -0.10%, with a balance sheet showing assets that now exceed 105% of GDP (see Chart 1.2.7-b).

The global slowdown and accommodative monetary policies adopted by central banks around the world mean that the Japanese economy does not stand out in any negative way. This has meant some stability for the yen, moving in a range of 105-109 JPY/USD.

1.2.8 Turkey

Recovery in 2020, but structural weaknesses and risks persist

In the third quarter of 2019, Turkey's economy grew 0.95% YoY. All elements of GDP recovered except investment (-12.5%), due to the risk associated with large external borrowing in dollars, which remains strong. Consumption recovered (+1.5%) after three quarters of rapid contraction, with individuals and businesses cutting debt levels. Exports grew 5.1% and imports 7.6%. The current account balance moved into a surplus in the second half of the year, following currency devaluation.

As a result of low interest rates and improving domestic consumption, we expect the Turkish economy to grow 2.8% in 2020, moving fully into an economic recovery (See Table 1.2.8 and Charts 1.2.8-a and 1.2.8-b).

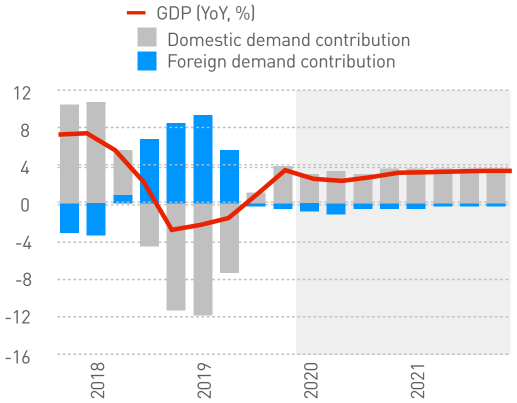
Inflation, meanwhile, has fallen steadily over the past 12 months, from 25% to 8.6% in October. However, due to the recovery in domestic demand and currency stability, as well as a waning base effect, inflation rallied to 10.6% in November. In the absence of structural reforms, however, lower levels are set to be elusive. We therefore expect inflation to hold stable at around 11% during 2020. Global accommodative policies and lower inflation led the central bank to cut interest rates by a further 200 basis points (bps) in December, putting rates at 12.0% (accumulated reduction of 1,200 bps in one year). The Turkish lira showed stability in 2019, fluctuating in a range of 5.60–5.80 TRY/USD (see Charts 1.2.8-c and 1.2.8-d).

The risks to the Turkish economy lie, first and foremost, in the large external debt held in dollars, mainly by companies. Moreover, a lack of investor confidence in Turkey's economic stability could exert further pressure on the currency, inflation and interest rates. For the time being, the external context and the government's economic program have reassured markets.

Turkey

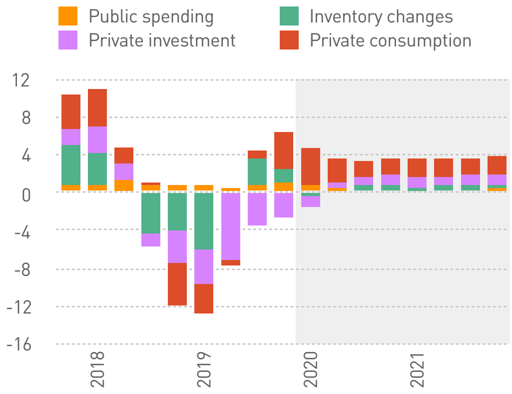
- **Interest rates being cut from 24% to 12% underpins consumer sentiment.**
- **Domestic demand is recovering, an important factor in galvanizing activity.**
- **High foreign debt and the balance sheet adjustments required at companies mean investment is curbed.**

Chart 1.2.8-a
Turkey: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on data from TURKSTAT)

Chart 1.2.8-b
Turkey: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on data from TURKSTAT)

Table 1.2.8
Turkey: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	6.0	3.3	7.4	3.1	0.2	2.8	3.4
Domestic demand contribution	5.5	4.6	7.1	-0.0	-3.5	3.4	3.7
Foreign demand contribution	0.5	-1.3	0.3	3.2	3.6	-0.7	-0.3
Private consumption contribution	3.4	2.2	3.8	0.3	0.3	2.5	2.0
Private investment contribution	2.7	0.7	2.4	0.0	-4.1	0.2	1.1
Public spending contribution	0.5	1.3	0.7	0.9	0.8	0.4	0.3
Domestic demand (% YoY, average)	5.4	4.5	7.0	0.1	-3.3	3.6	3.9
Total consumption (% YoY, average)	5.1	4.7	6.0	1.6	1.5	3.9	3.1
Private investment (% YoY, average)	9.1	2.4	8.2	0.1	-14.0	0.9	4.5
Exports (YoY in %)	4.3	-1.7	12.0	7.6	7.2	5.9	1.8
Imports (YoY in %)	1.8	3.7	10.2	-6.3	-6.9	11.2	3.8
Unemployment rate (%, last quarter)	10.5	12.1	10.3	12.3	13.9	12.5	11.6
Inflation (% YoY, last quarter)	8.2	7.6	12.3	22.4	10.3	10.8	10.5
Fiscal balance (% of GDP)	-1.1	-1.3	-1.6	-1.9	-2.5	-2.3	-2.3
Trade balance (% of GDP)	-5.6	-4.7	-6.9	-5.4	-2.2	-2.5	-3.1
Fiscal impulse (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-3.7	-3.8	-5.6	-3.5	0.3	-0.9	-1.5
Official interest rate (end of period)	8.81	8.31	12.75	24.00	12.00	12.00	12.00
Short-term rate (end of period)	11.47	9.90	14.61	24.07	12.81	12.28	11.68
Long-term rate (end of period)	10.74	11.40	11.72	16.53	12.02	11.53	11.10
Exchange rate vs. USD (end of period)	2.92	3.52	3.79	5.29	5.82	5.91	5.96
Exchange rate vs. euro (end of period)	3.18	3.71	4.55	6.06	6.34	6.45	6.72
Private credit (% YoY, average)	23.0	12.8	20.6	18.3	8.7	9.5	9.9
Household credit (% YoY, average)	12.5	7.1	17.5	9.8	0.9	11.8	12.3
Non-financial priv. sect. credit (% YoY, average)	29.9	14.7	24.3	20.9	-3.0	-0.1	18.0
Financial private sector credit (% YoY, average)	26.4	9.0	27.2	25.1	18.9	8.4	15.3
Savings rate (%, average)	28.3	32.8	30.9	30.0	28.6	27.2	26.3

Source: MAPFRE Economic Research (based on data from TURKSTAT)
Forecast end date: January 7, 2020.

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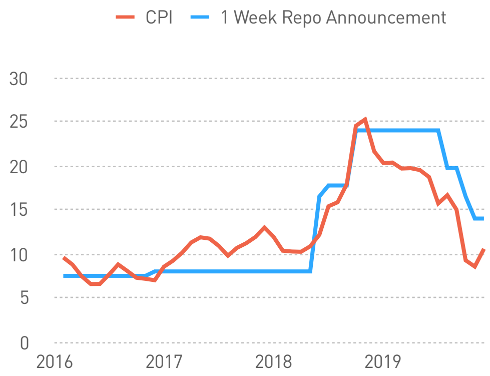
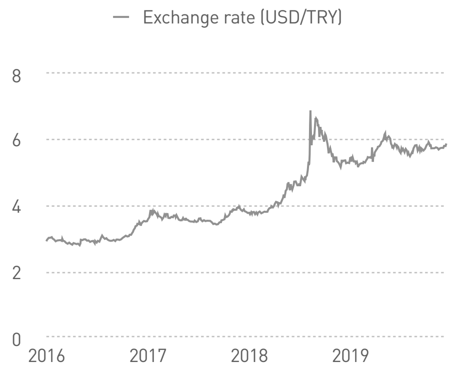
Chart 1.2.8-c
Turkey: inflation and interest rates, 2016–2019



Source: MAPFRE Economic Research (based on data from the CBRT)

Chart 1.2.8-d
Turkey: exchange rate, 2016–2019



Source: MAPFRE Economic Research (based on data from the CBRT)

1.2.9 Mexico

Growth in 2020 following a recession in 2019

The Mexican economy remained stagnant in the third quarter of 2019, putting year-on-year growth at 0% (adjusted for seasonality) and -0.3% (not seasonally adjusted). This weak performance from the economy stems from the fact that all GDP items are in contraction with the exception of exports, which grew 2.5%. Private consumption declined (-0.3% YoY), government spending was down (-2.3% YoY) and investment likewise fell (-7.3% YoY). Consumer confidence has also cooled, with the manufacturing PMI in contraction at 48 points (see Chart 1.2.9-c) and industrial production declining -1.8%. GDP growth in 2019 could therefore reach 0%.

After a period of five years in decline, a recovery in terms of investment looks unlikely. With a final addendum now having been signed, the trade agreement between the United States, Mexico and Canada (USMCA) has been ratified by the Mexican Senate and is now set to be passed by US and Canadian lawmakers. Mexico is expected to return to growth in 2020 of around 0.9% (see Table 1.2.9 and Charts 1.2.9-a and 1.2.9-b).

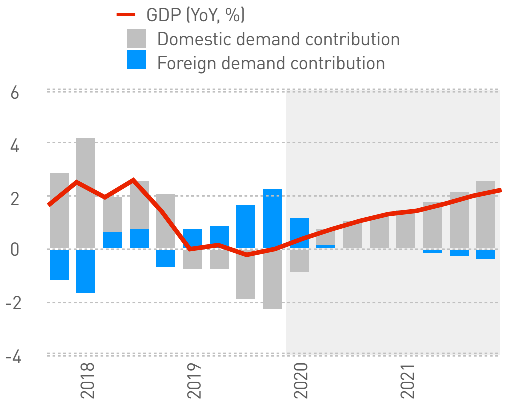
In October, inflation stood at 3.0%, with core inflation at 3.7% and interest rates holding at relatively high levels (see Chart 1.2.9-d). We expect a slight increase in 2020 due to rising nominal salaries (4% in October). The Bank of Mexico cut interest rates by a total of 100 basis points (bps) in 2019. Interest rate policy in 2020 will be shaped by factors such as monetary trends in the United States, foreign exchange fluctuations, inflationary control and the pace of economic activity. An additional cumulative cut of 75 bps to interest rates by the end of 2020 therefore seems feasible.

Mexico

- **The Mexican economy is expected to post YoY growth of 0% in 2019.**
- **Investment fell 7.3% in the third quarter of the year.**
- **Nonetheless, GDP is expected to recover gradually through 2020 to 0.9%.**

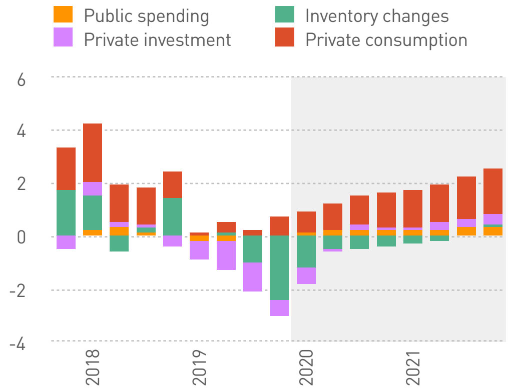
The main risks facing Mexico's economy at present include failure to drive through the economic and institutional reforms and measures required to ensure a significant revival of the country's economy.

Chart 1.2.9-a
Mexico: GDP breakdown and forecasts



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

Chart 1.2.9-b
Mexico: domestic demand breakdown and forecasts



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

Table 1.2.9
Mexico: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	3.3	2.6	2.4	2.1	0.0	0.9	1.8
Domestic demand contribution	2.5	2.2	3.3	2.4	-1.4	0.5	2.0
Foreign demand contribution	0.8	0.4	-0.9	-0.2	1.4	0.3	-0.2
Private consumption contribution	1.8	2.3	2.3	1.5	0.4	1.1	1.6
Private investment contribution	1.1	0.2	-0.3	0.1	-0.9	-0.1	0.3
Public spending contribution	0.2	0.3	0.1	0.2	-0.1	0.2	0.3
Domestic demand (% YoY, average)	2.5	2.2	3.3	2.4	-1.4	0.5	2.0
Total consumption (% YoY, average)	2.6	3.4	3.0	2.1	0.4	1.6	2.3
Private investment (% YoY, average)	5.1	1.1	-1.6	0.6	-4.3	-0.5	1.4
Exports (YoY in %)	8.6	3.6	4.3	5.6	3.1	1.6	1.8
Imports (YoY in %)	6.0	2.4	6.9	6.2	-0.7	0.7	2.3
Unemployment rate (%, last quarter)	4.2	3.5	3.3	3.3	3.8	3.9	4.0
Inflation (% YoY, last quarter)	2.3	3.2	6.6	4.8	2.9	3.3	3.4
Fiscal balance (% of GDP)	-3.4	-2.5	-1.1	-2.0	-2.0	-2.5	-2.6
Trade balance (% of GDP)	-1.2	-1.2	-0.9	-1.1	0.4	-0.8	-0.7
Fiscal impulse (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-2.6	-2.2	-1.7	-1.8	-0.0	-0.9	-0.7
Official interest rate (end of period)	3.25	5.75	7.25	8.25	7.25	6.50	6.25
Short-term rate (end of period)	3.50	6.02	7.56	8.50	7.45	6.54	5.73
Long-term rate (end of period)	6.28	7.42	7.66	8.70	6.83	6.79	6.72
Exchange rate vs. USD (end of period)	17.20	20.74	19.67	19.65	19.47	19.39	19.53
Exchange rate vs. euro (end of period)	18.73	21.86	23.59	22.50	21.20	21.16	22.00
Private credit (% YoY, average)	13.6	16.3	12.1	10.4	12.0	7.9	5.3
Household credit (% YoY, average)	8.4	12.8	10.0	8.4	6.8	6.9	8.4
Non-financial priv. sect. credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Financial private sector credit (% YoY, average)	-11.4	3.5	1.7	-0.8	6.6	17.5	12.0
Savings rate (%, average)	14.6	12.8	10.7	12.5	16.3	16.8	16.7

Source: MAPFRE Economic Research (based on data from INEGI)
Forecast end date: January 7, 2020.

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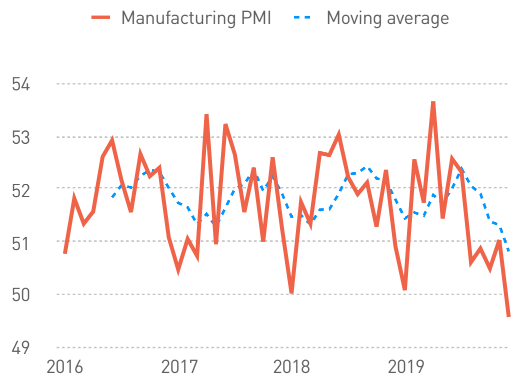
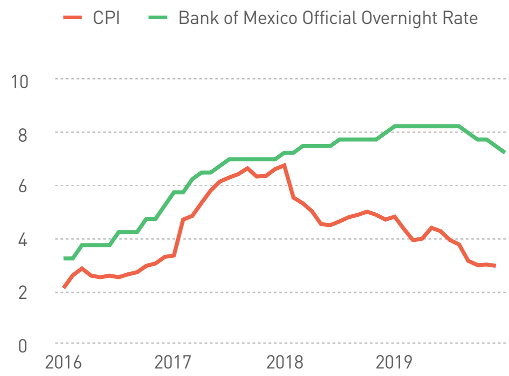
Chart 1.2.9-c
Mexico: manufacturing PMI, 2016–2019



Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.9-d
Mexico: inflation and interest rates, 2016–2019



Source: MAPFRE Economic Research (based on data from the Bank of Mexico and INEGI)

1.2.10 Brazil

New reforms planned to follow the overhaul of pensions

The Brazilian economy grew in the third quarter of 2019, putting the year-on-year growth rate at 1.2%, representing a slight acceleration.

Private consumption was up to 1.9% and investment to 2.9%. Exports contracted (-5.5%), while imports expanded 2.2% thanks to strong domestic demand. Government spending slipped 1.4%, in line with efforts to shore up fiscal consolidation. Moreover, recent industrial output data (showing growth of 1.0%) confirmed that the recovery is digging in. The current account balance expanded again in October to -3.0%, driven by robust domestic demand (see Chart 1.2.10-c).

Based on the above, 2019 is expected to end with growth of 1.1% and 2020 with expansion of 2.0% (see Table 1.2.10 and Charts 1.2.10-a and 1.2.10-b).

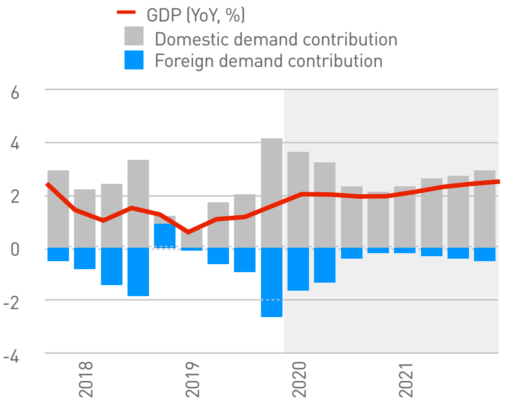
Inflation, meanwhile, remains on a downward trajectory, pointing to average inflation of 3.6% in 2019 (see Chart 1.2.10-d). The inflation figure is likely to hold at similar levels over the next two years. In December, the central bank cut Selic rates by 50 basis points (bps) to 4.50%, based on inflation being under control and a relatively stable external scenario. Thanks to low inflation and despite recent exchange rate weakness, we believe the central bank could cut rates by an additional 50 bps during 2020 to stimulate growth.

Brazil

- **The growth of 1.1% forecast for 2019 means consolidation of the Brazilian economic recovery.**
- **According to the latest data, industrial production expanded by 1.0%.**
- **The Brazilian government has announced a new series of reforms to drive progress toward budgetary equilibrium.**

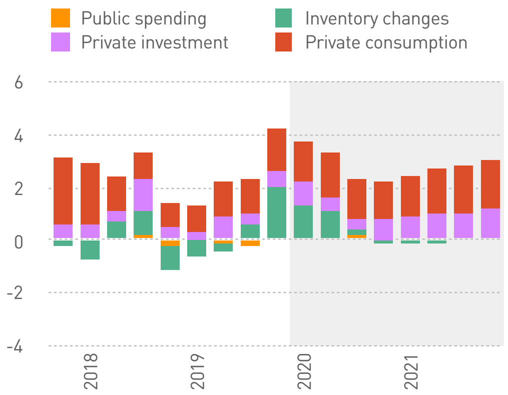
The pension reforms that have already been passed are expected to secure savings of 700 billion reals over 10 years. The current administration has already announced a fresh raft of reforms aimed at achieving fiscal equilibrium and accountability at all levels of the administration. The primary deficit should stand close to 1.0% in 2019 and 0.7% in 2020, with a total deficit of 6.2% and 5.8% respectively.

Chart 1.2.10-a
Brazil: GDP breakdown and forecasts



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

Table 1.2.10
Brazil: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	-3.6	-3.3	1.3	1.3	1.1	2.0	2.3
Domestic demand contribution	-7.1	-5.1	1.7	2.1	2.2	2.9	2.7
Foreign demand contribution	3.6	1.9	-0.4	-0.8	-1.1	-0.9	-0.3
Private consumption contribution	-2.2	-2.6	1.3	1.4	1.3	1.5	1.7
Private investment contribution	-2.9	-2.3	-0.4	0.6	0.5	0.6	1.0
Public spending contribution	-0.2	0.0	-0.1	0.1	-0.1	0.1	0.0
Domestic demand (% YoY, average)	-6.7	-4.9	1.7	2.1	2.1	2.8	2.6
Total consumption (% YoY, average)	-2.8	-3.0	1.4	1.7	1.4	1.9	2.0
Private investment (% YoY, average)	-14.0	-11.9	-2.5	3.9	3.3	3.7	5.7
Exports (YoY in %)	6.9	0.9	5.4	3.3	-3.8	-1.4	3.4
Imports (YoY in %)	-14.1	-9.7	7.3	7.5	2.6	3.5	4.4
Unemployment rate (%, last quarter)	8.9	12.0	11.8	11.6	11.3	10.1	9.7
Inflation (% YoY, last quarter)	10.4	7.0	2.8	4.1	2.9	3.7	3.7
Fiscal balance (% of GDP)	-10.2	-9.0	-7.8	-7.1	-6.1	-5.7	-4.9
Trade balance (% of GDP)	1.0	2.5	3.1	2.8	2.0	1.8	1.7
Fiscal impulse (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-3.0	-1.3	-0.7	-2.2	-3.0	-3.0	-2.8
Official interest rate (end of period)	14.25	13.75	7.00	6.50	4.50	4.00	6.00
Short-term rate (end of period)	14.15	13.65	6.90	6.40	4.37	3.93	5.41
Long-term rate (end of period)	16.10	11.36	10.24	9.28	6.86	6.83	7.28
Exchange rate vs. USD (end of period)	3.90	3.26	3.31	3.87	4.15	4.16	3.95
Exchange rate vs. euro (end of period)	4.25	3.43	3.97	4.44	4.52	4.54	4.45
Private credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household credit (% YoY, average)	10.1	4.3	4.6	6.8	10.5	14.3	15.7
Non-financial priv. sect. credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Financial private sector credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (%, average)	18.5	17.2	17.4	16.1	16.5	15.3	15.1

Source: MAPFRE Economic Research (based on data from the Brazilian Institute of Geography and Statistics, IBGE)
Forecast end date: January 7, 2020.

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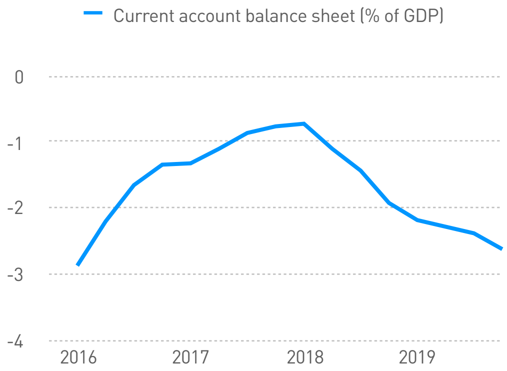
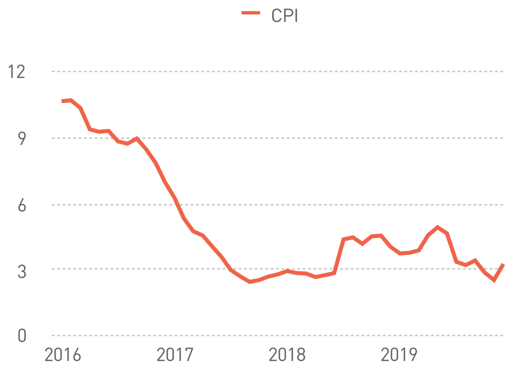
Chart 1.2.10-c
Brazil: current account balance sheet, 2016–2019



Source: MAPFRE Economic Research (based on data from the Central Bank of Brazil)

Chart 1.2.10-d
Brazil: inflation, 2016–2019



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

1.2.11 Argentina

Economic prospects remain poor

The economic outlook for Argentina over the coming years remains weak. In the third quarter the Argentinian economy shrank 1.5% YoY seasonally adjusted, with a significant slump in private consumption (-6%) and investment (-17% YoY). Nonetheless, the real adjustment and currency depreciation have underpinned export growth (13% in the third quarter). The Argentinian economy is expected to decline 3.0% in 2019, with contraction in 2020 of 1.3% YoY, while a recovery is set to begin as of 2021 (see Table 1.2.11 and Charts 1.2.11-a and 1.2.11-b).

Inflation remains rampant (49% in November), compounded by sharp currency depreciation. We estimate inflation of around 35% in 2020 and 24% in 2021. The central bank's benchmark interest rate (the seven-day LELIQ) stands at 63% (see Chart 1.2.11-c). Official rates are set to remain high in an effort to control exchange rates. Easing domestic consumption and declining imports should help to secure equilibrium for the current account balance, which may move into surplus in 2020 and 2021.

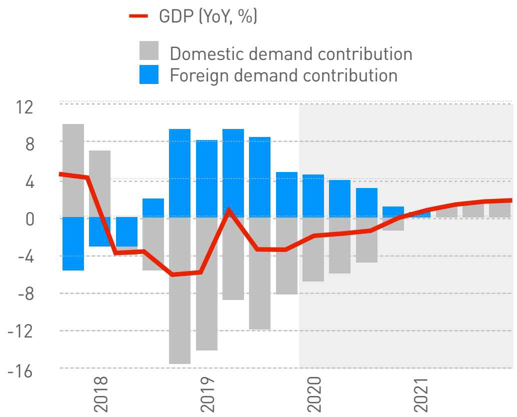
The Argentinian peso failed to return to the levels seen prior to the primary elections of August. At the close of 2019, the peso seemed to have stabilized in the region of 60 ARS/USD (see Chart 1.2.11-d). However, continuation of the crisis over the next year could trigger further depreciation in 2020 and 2021.

Argentina

- **GDP is expected to shrink -3% in 2019.**
- **Economic activity will decline further in 2020, by 1.3%.**
- **Inflation is set to stand at 55% in 2019 and around 35% in 2020.**

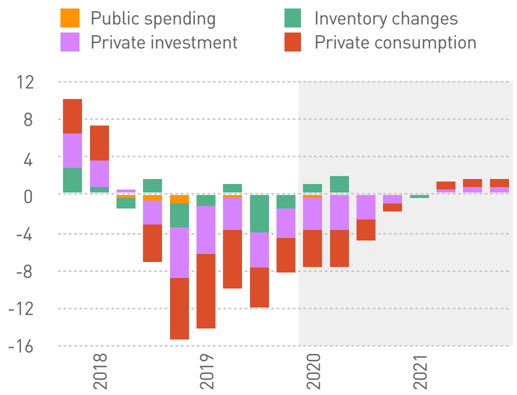
With the country being propped up by the International Monetary Fund (IMF), the government's priorities will be to secure fiscal balance equilibrium in the medium-term and to cut public debt. We estimate a fiscal deficit of 4.3% of GDP in 2019 and 4.5% in 2020. The country will only be able to reduce public debt in the medium-term via revenue from privatizations and by cutting public spending to steady the fiscal balance.

Chart 1.2.11-a
Argentina: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on data from INDEC)

Chart 1.2.11-b
Argentina: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on data from INDEC)

Table 1.2.11
Argentina: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	2.7	-2.0	2.7	-2.4	-3.0	-1.3	1.3
Domestic demand contribution	4.4	-1.6	6.4	-3.6	-10.7	-4.6	1.1
Foreign demand contribution	-1.7	-0.4	-3.7	1.3	7.7	3.3	0.2
Private consumption contribution	2.5	-0.5	2.9	-1.7	-5.5	-2.8	0.7
Private investment contribution	0.7	-1.1	2.3	-1.1	-3.9	-2.6	0.3
Public spending contribution	0.9	-0.1	0.4	-0.4	-0.1	0.1	0.3
Domestic demand (% YoY, average)	4.2	-1.5	6.0	-3.2	-9.9	-4.5	1.2
Total consumption (% YoY, average)	4.1	-0.7	3.8	-2.6	-6.3	-3.2	1.2
Private investment (% YoY, average)	3.4	-5.7	12.0	-4.5	-19.3	-15.8	2.0
Exports (YoY in %)	-2.8	6.0	1.7	-0.4	8.2	4.1	3.6
Imports (YoY in %)	4.9	6.1	15.3	-3.8	-20.9	-9.7	3.1
Unemployment rate (%, last quarter)	7.0	7.6	7.2	9.1	9.9	9.3	8.6
Inflation (% YoY, last quarter)	26.0	37.5	23.3	47.4	52.0	35.1	23.9
Fiscal balance (% of GDP)	-5.9	-5.8	-5.9	-5.0	-4.3	-4.5	-3.5
Trade balance (% of GDP)	-0.1	0.8	-0.9	-0.2	4.2	6.3	6.2
Fiscal impulse (% of GDP)	-3.9	-4.1	-3.7	-2.2	-0.5	-0.5	0.3
Current account balance (% of GDP)	-2.7	-2.7	-4.9	-5.1	-1.4	0.4	0.4
Official interest rate (end of period)	33.00	24.75	28.75	59.25	73.75	54.00	26.00
Short-term rate (end of period)	23.50	26.23	27.44	56.76	53.06	26.08	21.18
Long-term rate (end of period)	6.65	7.00	5.91	10.86	24.79	8.99	7.70
Exchange rate vs. USD (end of period)	13.04	15.89	18.65	37.70	60.47	82.19	101.72
Exchange rate vs. euro (end of period)	14.20	16.75	22.37	43.17	65.86	89.68	114.61
Private credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Household credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-financial priv. sect. credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Financial private sector credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (%, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: MAPFRE Economic Research (based on data from INDEC)
Forecast end date: January 7, 2020.

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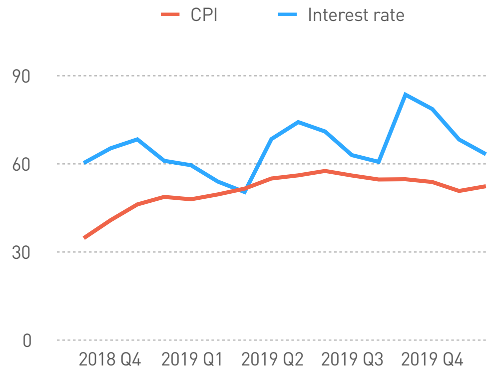
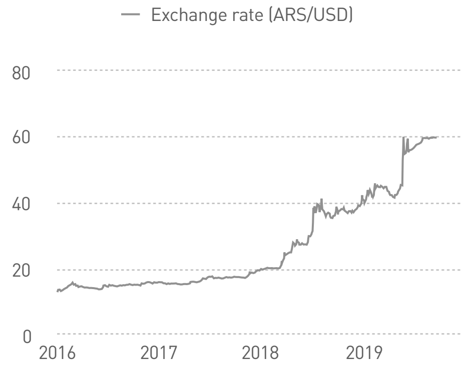
Chart 1.2.11-c
Argentina: inflation and interest rates, 2016–2019



Source: MAPFRE Economic Research (based on data from the Central Bank of the Argentine Republic)

Chart 1.2.11-d
Argentina: exchange rate, 2016–2019



Source: MAPFRE Economic Research (based on data from the Central Bank of the Argentine Republic)

1.2.12 China

A trade agreement with the United States is a first step toward more balanced trade

Growth in China slowed to 6.1% in 2019 (estimated) from 6.6% the previous year. This was partly due to a rapid slowdown in exports (from 4.4% to 1.5%) and the government's sharper focus on controlling domestic risks. Consumption remains strong (6.8% YoY in 2019 estimated), partly thanks to the raft of measures aimed at stimulating domestic demand and to counter the foreign sector slowdown (tax cuts and boosting credit to the private sector).

The Chinese government is expected to sustain monetary and fiscal stimulus with the aim of shoring up the desired level of growth, supported by inflation controlled at around 2.0% in 2020 and interest rates commensurate with such price growth (see Chart 1.2.12-c). It should be noted that the government is now more focused on risk control and limiting any short-term stimulus that might exacerbate economic imbalances, with an emphasis on fiscal measures. Meanwhile, the 2019 current account balance showed a surplus of just 0.3% of GDP, triggering debate as to whether China may begin to run a deficit going forward.

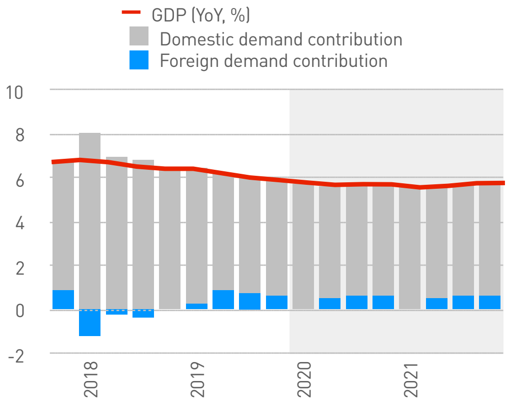
We expect Chinese economic growth to slow further (5.7% in 2020 and 2021), the drivers being private consumption and public spending, as well as exports that may potentially mark a return to accelerating levels (see Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b).

China

- Chinese economic growth remains in a controlled slowdown.
- Foreign trade may regain moderate traction in 2020.
- Signing of the phase one agreement with the United States is pending.

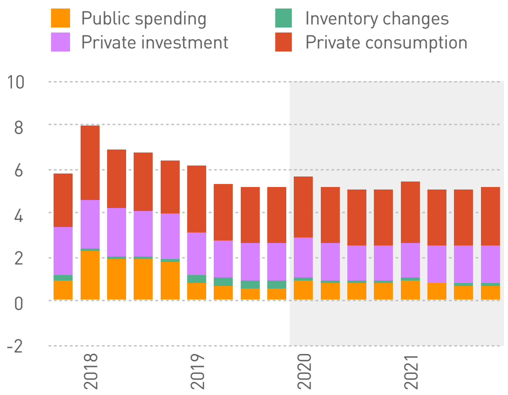
The main short-term uncertainty for the Chinese economy is the outcome of the trade war with the United States. This uncertainty may begin to dissipate thanks to the so-called "Phase 1" trade negotiation agreement, which envisages a reduction in tariffs in September. Signing this agreement would help reduce the tariff burden on exports and boost market sentiment, and would likely result in the yuan stabilizing at around 7.0 CNY/USD over the next few months (see Chart 1.2.12-d).

Chart 1.2.12-a
China: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the BoPRC)

Chart 1.2.12-b
China: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the BoPRC)

Table 1.2.12
China: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	6.9	6.7	6.8	6.6	6.1	5.7	5.7
Domestic demand contribution	6.9	7.3	6.1	7.1	5.5	5.3	5.2
Foreign demand contribution	0.0	-0.6	0.6	-0.5	0.6	0.4	0.5
Private consumption contribution	3.1	3.1	2.6	2.9	2.7	2.6	2.6
Private investment contribution	3.3	3.1	2.2	2.1	1.8	1.7	1.7
Public spending contribution	0.9	1.1	1.1	2.0	0.7	0.9	0.8
Domestic demand (% YoY, average)	7.1	7.5	6.2	7.2	5.6	5.4	5.3
Total consumption (% YoY, average)	8.0	8.5	7.2	9.4	6.5	6.6	6.3
Private investment (% YoY, average)	7.3	6.7	4.8	4.7	4.0	3.9	4.0
Exports (YoY in %)	0.4	1.9	6.9	4.4	1.6	1.4	2.8
Imports (YoY in %)	0.4	3.3	8.3	6.7	-1.5	2.6	4.2
Unemployment rate (%, last quarter)	4.1	4.0	3.9	3.8	3.6	3.6	3.6
Inflation (% YoY, last quarter)	1.5	2.2	1.8	2.2	3.9	2.0	2.1
Fiscal balance (% of GDP)	-3.4	-3.8	-3.7	-4.2	-4.4	-4.8	-4.3
Trade balance (% of GDP)	5.3	4.4	3.9	2.9	3.3	3.0	2.9
Fiscal impulse (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	2.8	1.8	1.6	0.4	1.2	0.8	0.8
Official interest rate (end of period)	2.32	2.59	3.09	3.07	2.53	2.53	2.75
Short-term rate (end of period)	3.05	4.25	5.53	3.70	3.16	2.89	3.16
Long-term rate (end of period)	2.82	3.05	3.91	3.26	3.23	3.41	3.56
Exchange rate vs. USD (end of period)	6.49	6.94	6.51	6.88	7.06	7.07	6.92
Exchange rate vs. euro (end of period)	7.07	7.32	7.80	7.87	7.69	7.72	7.80
Private credit (% YoY, average)	14.8	13.3	10.5	12.0	12.4	11.0	9.4
Household credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-financial priv. sect. credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Financial private sector credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (%, average)	39.3	38.3	38.6	38.3	38.3	38.2	38.5

Source: MAPFRE Economic Research (based on data from the BoPRC)
Forecast end date: January 7, 2020.

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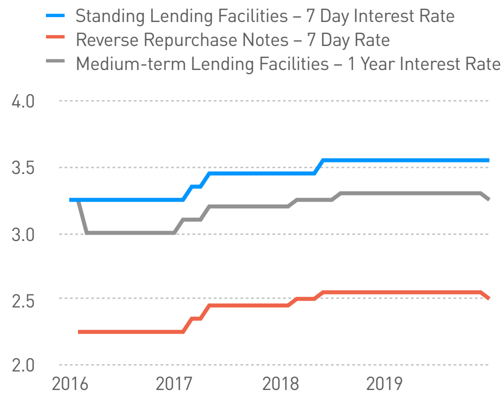
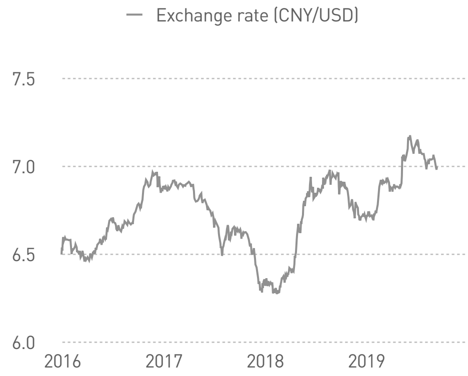
Chart 1.2.12-c
China: interest rates, 2016–2019



Source: MAPFRE Economic Research (based on data from the PBOC)

Chart 1.2.12-d
China: exchange rate, 2016–2019



Source: MAPFRE Economic Research (based on data from the PBOC)

1.2.13 Indonesia

Economic growth should remain buoyant during 2020

Indonesia's economy grew 5.0% in the third quarter of 2019 amid a global slowdown, stagnant exports and imports shrinking 8.9%. Private demand and public spending are the two factors making the strongest contributions to growth. The global trend of interest rate reductions should support growth, with Indonesia cutting interest rates 4 times (100 basis points) in 2019 to 5.0%. Thus, the economy is expected to grow 4.9% in 2020 and 5.2% in 2021 (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

Inflation stood at 3.0% in November, within the central bank's target range (2.0%–4.0%). Inflation is set to climb in 2020 due to certain regulated prices rising, such as electricity and diesel, but also driven by stronger food price inflation as a result of dry weather in the second half of 2019.

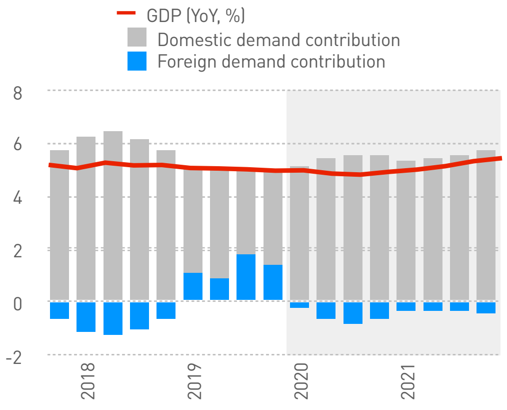
The Indonesian central bank lowered interest rates on four consecutive occasions to 5.0% in October (see Chart 1.2.13-c). The authority is expected to pause the rate decline path, although continuation of its loose monetary policy cannot be ruled out. At the November meeting, the central bank also lowered the mandatory primary reserve ratio for commercial banks from 6.0% to 5.50% and the secondary reserve ratio to 3.0%, with the aim of boosting liquidity in the system. With positive real interest rates (5%–3%), the authority hopes to maintain a differential that will attract direct foreign investment and finance a current account deficit that is set to hold at around 3%. The aim therefore is to establish slightly looser financial conditions internally without tarnishing the economy's appeal to foreign investors (see Chart 1.2.13-d).

Indonesia

- **Domestic demand and public spending are the growth drivers.**
- **Exports are suffering as a result of the global slowdown, albeit to a lesser extent than other countries in the region.**
- **Seeking loose financial conditions internally, while remaining attractive to foreign financing.**

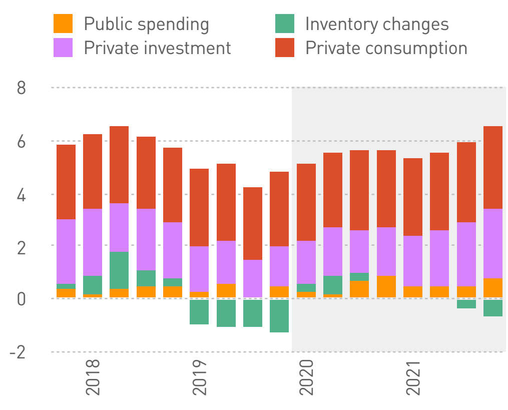
Global trade tensions have resulted in lower foreign sector activity due to the global slowdown. However, the direct impact on Indonesia has been eased by the country's lower level of integration in global supply chains compared to other Asian countries.

Chart 1.2.13-a
Indonesia: GDP breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the BPS)

Chart 1.2.13-b
Indonesia: domestic demand breakdown and forecasts



Source: MAPFRE Economic Research (based on data from the BPS)

Table 1.2.13
Indonesia: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	4.9	5.0	5.1	5.2	5.0	4.9	5.2
Domestic demand contribution	3.9	4.9	4.8	6.2	3.7	5.4	5.5
Foreign demand contribution	0.9	0.1	0.3	-1.0	1.3	-0.6	-0.3
Private consumption contribution	2.7	2.8	2.8	2.8	2.9	2.9	3.0
Private investment contribution	1.6	1.5	2.0	2.2	1.5	1.7	2.3
Public spending contribution	0.5	-0.0	0.2	0.4	0.4	0.5	0.5
Domestic demand (% YoY, average)	4.0	5.0	4.8	6.3	3.7	5.6	5.6
Total consumption (% YoY, average)	4.9	4.4	4.6	5.1	5.1	5.4	5.6
Private investment (% YoY, average)	5.0	4.5	6.1	6.7	4.6	5.3	6.9
Exports (YoY in %)	-2.1	-1.6	9.0	6.5	-1.2	0.5	3.5
Imports (YoY in %)	-6.2	-2.4	8.1	12.2	-7.5	3.6	5.5
Unemployment rate (%, last quarter)	5.8	5.5	5.3	5.2	4.8	4.5	4.2
Inflation (% YoY, last quarter)	4.8	3.3	3.5	3.2	3.0	3.2	2.9
Fiscal balance (% of GDP)	-2.6	-2.5	-2.6	-1.7	-2.1	-2.4	-2.0
Trade balance (% of GDP)	1.6	1.6	1.9	-0.0	0.2	0.1	0.3
Fiscal impulse (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	-2.0	-1.8	-1.6	-2.9	-2.7	-2.6	-2.5
Official interest rate (end of period)	6.25	4.75	4.25	6.00	5.00	5.00	4.75
Short-term rate (end of period)	8.86	7.46	5.48	7.70	5.45	5.80	6.45
Long-term rate (end of period)	8.81	7.85	6.30	7.90	7.00	7.12	7.38
Exchange rate vs. USD (end of period)	13,836	13,525	13,484	14,380	14,121	14,055	13,863
Exchange rate vs. euro (end of period)	15,063	14,257	16,171	16,465	15,379	15,335	15,620
Private credit (% YoY, average)	10.6	7.8	8.2	10.8	9.6	10.3	10.2
Household credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-financial priv. sect. credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Financial private sector credit (% YoY, average)	32.0	10.1	15.1	5.6	0.3	8.0	8.5
Savings rate (%, average)	17.0	17.0	17.0	17.1	17.2	16.8	16.9

Source: MAPFRE Economic Research (based on data from the BPS)
Forecast end date: January 7, 2020.

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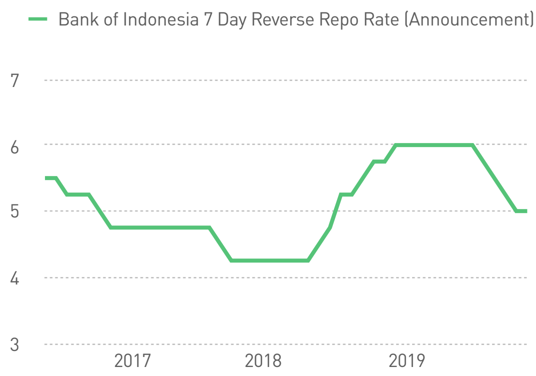
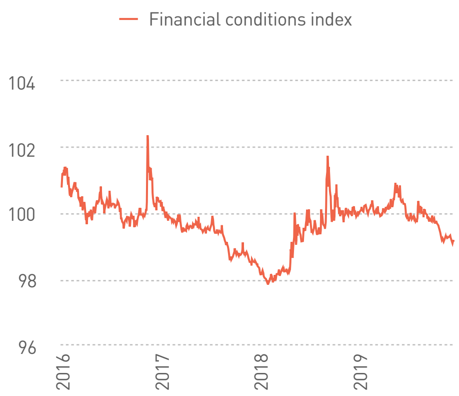
Chart 1.2.13-c
Indonesia: interest rates, 2016–2019



Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.13-d
Indonesia: financial conditions index, 2016–2019



Source: MAPFRE Economic Research (based on data from Bloomberg)

1.2.14 Philippines

Growth recovery driven by strong domestic demand

The Philippine economy grew at a rate of 6.2% YoY in the third quarter of 2019, accelerating following a more sluggish start to the year, with the manufacturing sector showing a positive trend throughout 2019 (see Chart 1.2.14-c).

Public spending was revitalized following the May elections (9.6% in the third quarter), while private consumption remained strong (6.2%), although investment failed to recover in the quarter. There were improvements to consumer sentiment (4.6) and business confidence (56.1) in the third quarter, with the exception being the construction sector (30.6). This suggests a potential recovery in economic activity.

The trade balance held in positive territory during 2019 thanks to imports (-10.5% YoY as per September) shrinking faster than exports (-2.6%), while both had posted double-digit growth in previous years. However, in the medium-term we continue to project a current account deficit in excess of 2%. In this context, we expect economic growth to re-accelerate from 5.8% in 2019 to 6.0% in 2020. Nonetheless, this remains short of the government target of 6.5%–7.5% (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

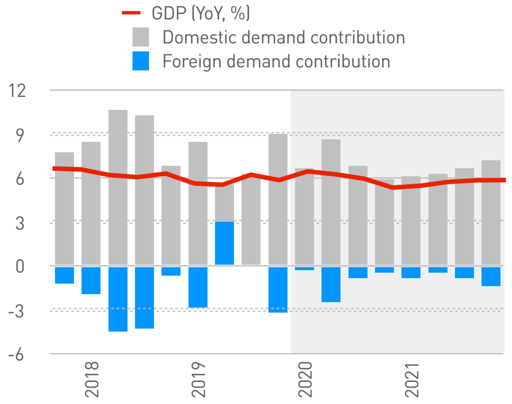
As far as inflation is concerned, in the third quarter the figure slipped to 0.8%, albeit largely due to base effects caused by price growth the previous year. Once these underlying effects dissipate, inflation is expected to return to 3.0% in 2020 and 3.2% in 2021.

Philippines

- **The Philippine economy is set to gain buoyancy in 2020.**
- **Private consumption is growing at a rate of 6.2% while public spending is being reinvigo-rated, but exports and imports are in decline.**
- **The central bank cut interest rates to 4.0% and bank reserve requirements to 14%.**

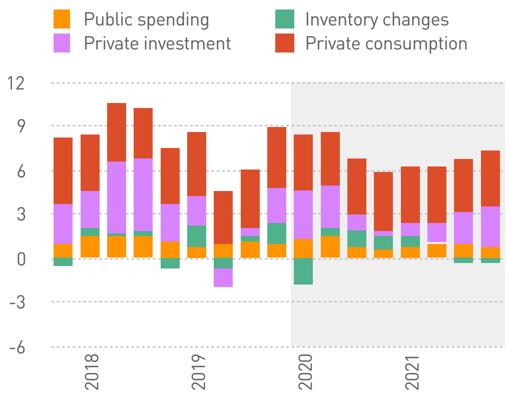
The central bank of the Philippines cut interest rates 3 times in 2019 to 4% in September, a cumulative decrease of 75 basis points (see Chart 1.2.14-d). In December, the central bank again lowered the reserve requirement ratio (RRR) for banks by 100 bps to 14%, accumulating a 400 bps drop this year. We expect interest rates to be cut by 25 bps in 2020 to 3.75%.

Chart 1.2.14-a
Philippines: GDP breakdown and forecasts, 2015–2019



Source: MAPFRE Economic Research (based on PSA data)

Chart 1.2.14-b
Philippines: domestic demand breakdown and forecasts, 2015–2019



Source: MAPFRE Economic Research (based on PSA data)

Table 1.2.14
Philippines: main macroeconomic aggregates

	2015	2016	2017	2018	2019(e)	2020(f)	2021(f)
GDP (% YoY, average)	6.0	6.9	6.7	6.2	5.8	6.0	5.7
Domestic demand contribution	9.1	11.9	7.4	9.0	6.5	7.0	6.5
Foreign demand contribution	-3.0	-5.0	-0.7	-2.8	-0.7	-1.0	-0.8
Private consumption contribution	4.4	4.9	4.1	3.8	4.0	3.9	3.8
Private investment contribution	3.6	6.2	2.7	3.7	0.9	1.9	1.8
Public spending contribution	0.8	0.9	0.6	1.4	0.9	1.0	0.9
Domestic demand (% YoY, average)	9.0	11.5	6.8	8.4	5.9	6.3	5.9
Total consumption (% YoY, average)	6.5	7.4	5.9	6.6	6.2	6.1	5.8
Private investment (% YoY, average)	16.6	26.6	9.4	13.2	2.9	6.4	6.1
Exports (YoY in %)	8.7	11.7	19.7	13.4	2.9	5.9	5.2
Imports (YoY in %)	14.6	20.5	18.2	16.0	3.6	6.6	5.6
Unemployment rate (%, last quarter)	5.6	4.7	5.0	5.1	5.5	5.3	4.9
Inflation (% YoY, last quarter)	0.3	2.0	3.0	5.9	1.5	3.0	3.2
Fiscal balance (% of GDP)	-0.9	-2.4	-2.2	-3.2	-2.6	-3.0	-3.0
Trade balance (% of GDP)	-8.0	-11.7	-12.8	-15.4	-14.2	-14.5	-14.7
Fiscal impulse (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current account balance (% of GDP)	2.5	-0.4	-0.7	-2.6	-1.6	-1.9	-1.9
Official interest rate (end of period)	4.00	3.00	3.00	4.75	4.00	3.75	4.00
Short-term rate (end of period)	3.03	2.50	3.22	5.03	4.08	3.92	4.28
Long-term rate (end of period)	4.10	4.63	5.70	7.05	4.38	4.17	4.95
Exchange rate vs. USD (end of period)	47.17	49.81	49.92	52.72	50.99	51.15	50.24
Exchange rate vs. euro (end of period)	51.35	52.51	59.87	60.37	55.53	55.81	56.60
Private credit (% YoY, average)	13.2	15.3	18.0	17.0	9.5	13.5	12.1
Household credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-financial priv. sect. credit (% YoY, average)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Financial private sector credit (% YoY, average)	2.6	8.7	9.2	10.2	6.9	9.2	8.8
Savings rate (%, average)	7.7	7.8	8.1	7.7	7.0	8.6	8.9

Source: MAPFRE Economic Research (based on PSA data)
Forecast end date: January 7, 2020.

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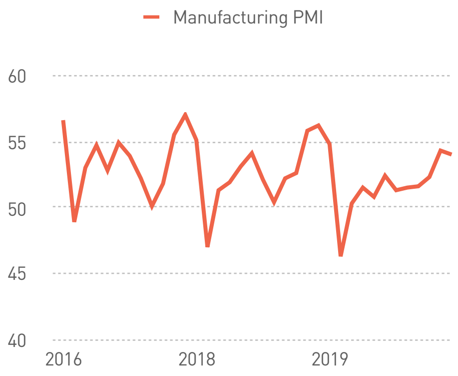
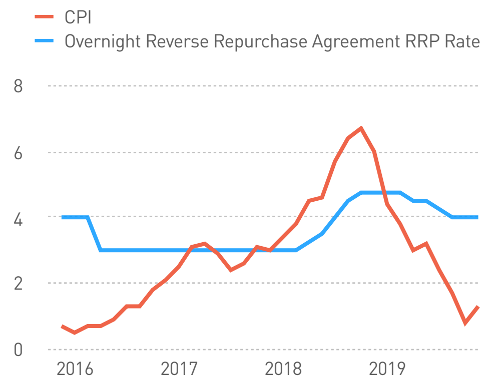
Chart 1.2.14-c
Philippines: manufacturing PMI, 2016–2019



Source: MAPFRE Economic Research (based on data from Markit)

Chart 1.2.14-d
Philippines: inflation and interest rates, 2016–2019



Source: MAPFRE Economic Research (based on data from the Philippines Central Bank)

2. Industry outlook

2.1 The economic environment and its impact on demand for insurance

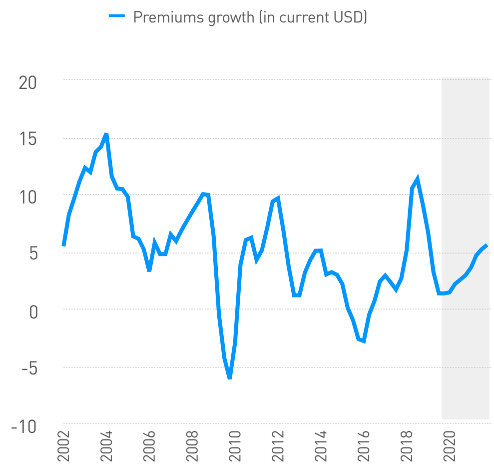
2.1.1 Global markets

The current economic situation is one of a confirmed slowdown in global growth, which is estimated to stand at 3% in 2019 compared to 3.6% in 2018. This economic deceleration has undermined the expansion of global insurance premiums, particularly in the Non-Life business.

However, forecasts of economic growth at around 3.1% in 2020 suggest stabilization of the global economy, with a stronger performance from emerging markets. This indicates a recovery in premiums growth in the Non-Life insurance segment worldwide, possibly at around 3.7% (measured in USD) during 2020[4], with a trend shift toward a more robust recovery in subsequent years as prospects of stronger global economic activity materialize (see Table 2.1.1 and Chart 2.1.1).

Meanwhile, the accommodative monetary policies adopted by most monetary authorities in an effort to bolster growth have seen interest rates stabilize at relatively low levels. Messages conveyed by major central banks suggest that this situation will continue for as long as weak economic growth persists, which would be detrimental to development of the traditional

Chart 2.1.1
Global markets: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

Life savings and annuity insurance business lines. However, in many emerging markets interest rates remain significantly higher than in developed markets. Combined with likely economic improvements, this scenario indicates that such countries offer business opportunities for these types of products.

Table 2.1.1
Global markets: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
USD: current prices						
Global Total USD	3.0	5.2	6.8	1.5	3.7	6.0

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

Table 2.1.2
Eurozone: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
Euros: current prices	0.9	3.6	2.6	2.2	2.0	2.1
USD: current prices	0.6	5.6	7.4	-3.5	-0.4	3.9
Euros: constant prices	0.2	2.3	0.7	0.8	0.8	0.6

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

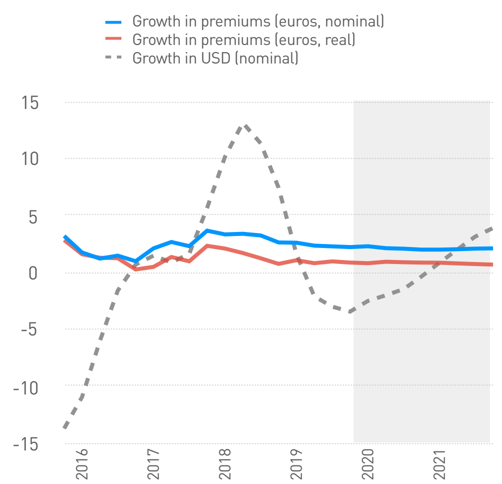
2.1.2 Eurozone

As noted in the first part of this report, the 2020 forecast for real GDP growth in the eurozone is around 1%, slowing slightly compared to the growth estimated for 2019 (1.2%). However, prospects point to a slight improvement in the region's economic performance in 2021 (1.3%).

Growth in the Non-Life and Life Protection insurance business is expected to remain relatively weak, at around 2% in 2020 (0.8% in real terms), with real growth falling short of real eurozone GDP growth, as has been the tendency in recent years (see Table 2.1.2 and Chart 2.1.2-a). It should be noted that this is affected by the weight of major insurance markets in the region, where the maturity of the above business lines is strong.

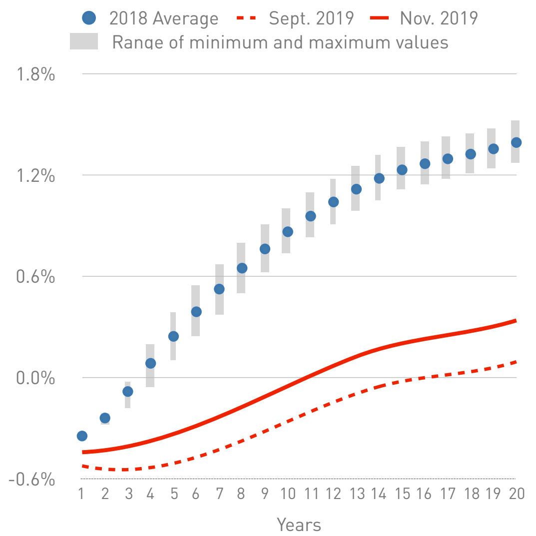
Moreover, inflation in the eurozone remains low but is gradually rising, leading the European Central Bank (ECB) to leave official interest rates unchanged in its last meeting. Furthermore, as anticipated, the net asset purchase program was resumed on November 1, as part of the asset acquisition program, to the tune of 20 billion euros per month. The risk-free yield curves produced by the European Insurance and Occupational Pensions Authority (EIOPA) indicate a slight recovery from interest rates across the curve, albeit still standing well below the minimum levels of 2018. Chart 2.1.2-b shows the minimum, average and maximum levels posted in 2018, as well as the levels indicated by the latest curves published by EIOPA for the months of September and November 2019 (the interactive version of this information can be found via the link at the bottom right of Chart 2.1.2-b). As this information shows, the interest rate curve remains in negative values, affecting all curve

Chart 2.1.2-a
Eurozone: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

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



Source: MAPFRE Economic Research (based on data from EIOPA)

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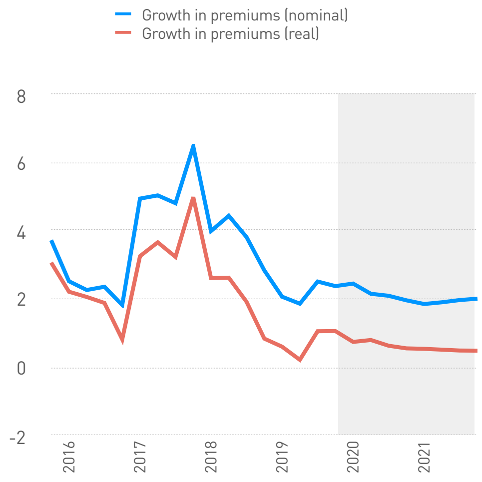
terms of under 10 years, which in practice hinders the insurance industry from developing the Life business lines of savings and annuities insurance. However, the Euro Stoxx 50 index has risen by 25.8% over the year to date (through to December 21), which amid low interest rates may support the development of Life insurance products in which the policyholder assumes the investment risk.

2.1.3 Germany

Forecasts for the German economy point to 2020 GDP growth of around 0.6% in real terms, matching the estimated growth for 2019 (compared to 1.6% in 2018). However, it is important to note that expectations for Germany's economic performance have changed compared to the previous year. The economy is no longer expected to slow further, as had been the case, thus averting the risk of a movement into recession. The main growth driver is domestic private consumption, while the labor market and salaries remain robust, expanding faster than inflation. Improving disposable income should therefore be conducive to growth in Non-Life and Life Protection business lines in the German insurance market.

We therefore expect Non-Life insurance premiums in the German insurance industry to end 2019 with nominal growth of 2.4% (1.1% in real terms) and to post 2020 nominal growth of around 2.0% (0.6% in real terms), standing close to GDP growth (see Table 2.1.3 and Chart 2.1.3). Looking at the traditional Life segments of savings and annuity insurance, interest rates are expected to remain low and continue to weigh on this business, as in the rest of the eurozone and particularly in Germany, where sovereign debt offers the lowest interest rates in the region.

Chart 2.1.3.
Germany: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

2.1.4 Italy

The forecast for the Italian economy is for GDP growth of around 0.3% in 2020 in real terms, in line with the low growth of 0.2% estimated for 2019 (0.7% in 2018). Italian investment and consumption have grown slightly during the year, while the foreign sector has also contributed toward growth as a result of declining imports and improved exports. However, economic growth remains weak and high levels of public debt continue to be the chief vulnerability.

Table 2.1.3
Germany: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
Euros: current prices	1.8	6.5	2.8	2.4	2.0	2.0
Euros: constant prices	0.8	5.0	0.8	1.1	0.6	0.5

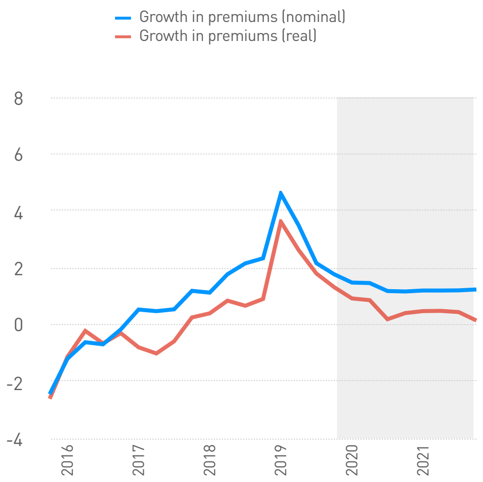
Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

Table 2.1.4
Italy: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
Euros: current prices	-0.2	1.2	2.3	1.8	1.2	1.3
Euros: constant prices	-0.3	0.3	0.9	1.3	0.4	0.2

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

Chart 2.1.4
Italy: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

This climate of sluggish economic growth hinders development of the Non-Life insurance and Life Protection business lines of the insurance market. The insurance industry is expected to post growth in Non-Life insurance premiums of 1.8% in nominal terms during 2019 (1.3% in real terms), while the growth forecast for 2020 stands at around 1.2% in nominal terms (0.4% in real terms), slightly outstripping GDP growth (see Table 2.1.4 and Chart 2.1.4).

As for the traditional Life savings and annuity insurance businesses, the Italian sovereign debt risk premium has eased following implementation of new unconventional monetary policy measures by the ECB. The new government's attitude seems to have alleviated tensions with Brussels concerning budgets, given the Italian economy's high public debt levels, although there are still uncertainties as to whether the reforms required to rein in public debt may be implemented without hampering economic activity growth. Although Italian sovereign debt with long maturities continues to offer positive term premiums, higher than other major eurozone economies, these premiums have declined sharply, meaning the interest rate environment will again not be conducive to development of the traditional Life savings and annuities insurance products in the Italian insurance market.

2.1.5 Spain

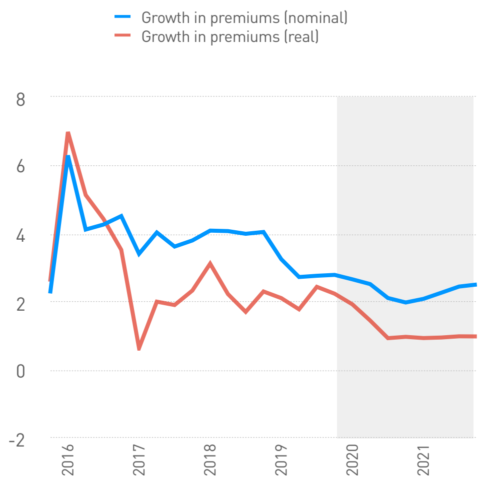
The Spanish economy continues to slow, with real GDP growth in 2020 expected to stand at around 1.7%, compared to estimated growth of 2% in 2019 (2.4% in 2018). The unemployment rate remains in decline, but the pace of job creation has slackened. This economic deceleration is affecting the development of the Non-Life and Life Protection business lines in the insurance market, which are likewise slowing, with moderate growth expected to continue next year.

Table 2.1.5
Spain: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
Euros: current prices	4.5	3.8	4.1	2.8	2.0	2.5
Euros: constant prices	3.5	2.3	2.3	2.2	1.0	1.0

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

Chart 2.1.5
Spain: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

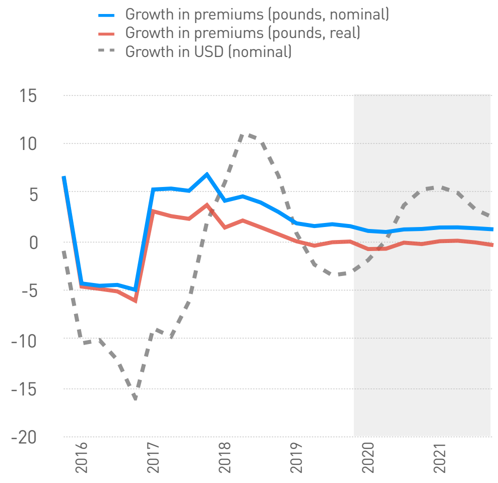
We expect Non-Life insurance premiums to expand by around 2.0% in 2020, or 1.0% in real terms. This growth stands below the 2019 forecast of 2.8% in nominal terms and 2.2% in real terms (see Table 2.1.5 and Chart 2.1.5).

As for the traditional Life insurance businesses of savings and annuity insurance, the business remains handicapped by the low interest rate environment, as in the rest of the eurozone. This situation is set to endure based on the latest monetary policy messages from the ECB, meaning it will remain a structural factor limiting growth in this market.

2.1.6 United Kingdom

The forecast for the UK economy is for GDP growth of around 1% in 2020 in real terms, compared to the estimated 1.3% in 2019 (1.4% in 2018). The recent election in the country handed a robust victory and absolute majority to the Conservative Party, paving the way for approval of the European Union withdrawal agreement. However, there are ongoing uncertainties as to its impact. Business and consumer sentiment indicators point to an economic slowdown. Nonetheless, the unemployment rate remains at low levels of around 3.8%. This general climate is having a negative bearing on the development of the Non-Life and Life Protection business in the UK insurance market, which is slowing and is expected to decelerate further next year. We estimate that insurance premiums in the Non-Life business will grow at around 1.3% in 2020,

Chart 2.1.6-a
United Kingdom: Non-Life premiums growth
(quarterly change, %)



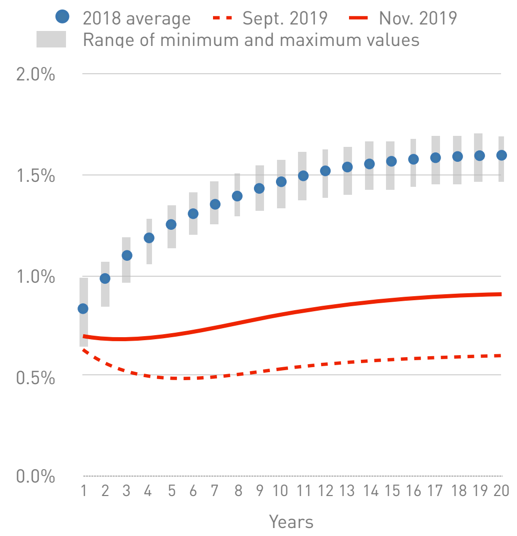
Source: MAPFRE Economic Research

Table 2.1.6
United Kingdom: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
Pounds: current prices	-5.0	6.8	3.0	1.5	1.3	1.2
USD: current prices	-16.1	2.0	6.7	-3.2	5.3	2.4
Pounds: constant prices	-6.1	3.7	0.7	0.0	-0.3	-0.4

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

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



Source: MAPFRE Economic Research (based on data from EIOPA)

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meaning a decline in real terms of -0.3%, discounting the inflation effect, compared to 1.5% nominal estimated in 2019, meaning nil growth in real terms in that year (see Table 2.1.6 and Chart 2.1.6-a).

As for the traditional Life savings and annuity insurance lines, interest rates likewise remain low in the UK, which is set to weigh on the business going forward. November EIOPA risk-free interest rate curves (see Chart 2.1.6-b) showed a slight uptick in rate levels across all tranches of the curve compared to the previous September, albeit still well below the minimums posted in 2018, except for the one-year interest rate. The curve remains inverted in the initial tranche up to three years. It subsequently shows a slight positive slope, although there is no term premium for short-term rates and levels are at minimums, so the environment remains unfavorable for the development of these types of insurance products. In contrast, a securities market recovery, following declines in late 2018, may benefit results for insurance products in which the policyholder assumes the investment risk, which are common in this market.

2.1.7 United States

The 2020 forecast for real GDP growth in the United States stands at 1.6%, compared to the estimated 2.3% in 2019 (2.9% in 2018). The main factors shaping the slowdown in activity are private investment and exports. Private consumption remains strong, supported by a low unemployment rate and real salary growth above inflation, which continues to underpin disposable income.

The mild slowdown in the US economy since 2018 has also meant more sluggish growth in the Non-Life and Life Protection businesses of the insurance industry, with this gradual slowdown expected to continue next year. In this framework, we estimate that Non-Life insurance premiums will grow 2.2% in nominal terms in 2020, implying real growth of 0.5% compared to the 2.4% nominal figure estimated in 2019, representing real growth of 0.4% (see Table 2.1.7 and Chart 2.1.7-a).

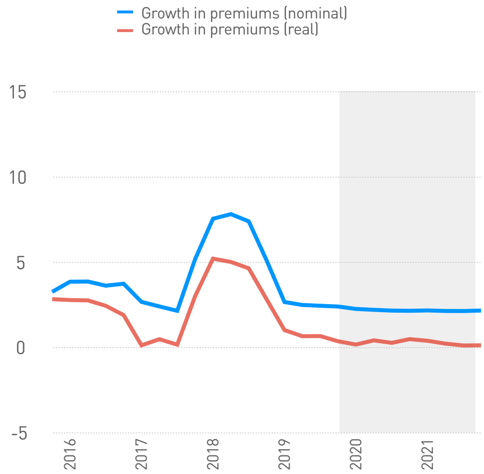
Looking at the Life products of savings and annuity insurance, the Federal Reserve agreed at its most recent meeting to leave interest rates at current levels, which it considers appropriate for the economic situation based on the latest indicators that point to a smooth deceleration. The most recent risk-free rate curves for the US market produced by EIOPA for the month of November (see Chart 2.1.7-b) show a slight recovery in interest rates across all tranches of the curve, except maturities of up to two years, compared to the levels shown in September, albeit well below the minimums posted in 2018. The rate curve is losing its negative slope, which can now only be seen in

Table 2.1.7
United States: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
USD: current prices	3.7	5.2	5.1	2.4	2.2	2.2
USD: constant prices	1.9	3.0	2.8	0.4	0.5	0.1

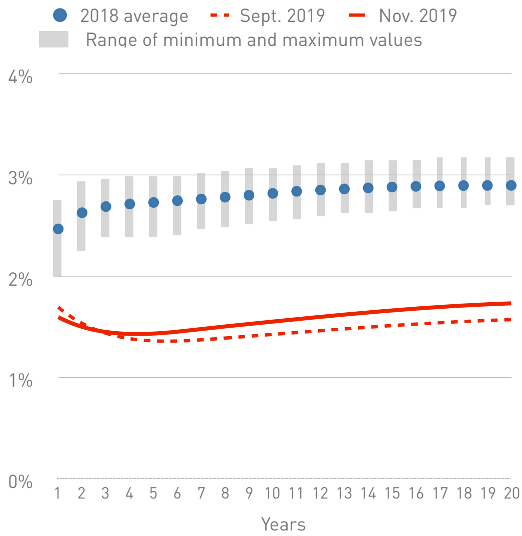
Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

Chart 2.1.7-a
United States: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

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



Source: MAPFRE Economic Research (based on data from EIOPA)

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terms of less than two years, with steepening evident in longer terms. However, declining interest rates will not benefit the Life savings business going forward, particularly in products that offer guarantees for interest rates in the medium- and long-term, despite the slight term increase in premiums.

Meanwhile, securities markets in the United States remain robust, which should support development of insurance products in which the policyholder assumes investment risk, which are very common in the US insurance market, although the current high market levels might generate some caution when investing in such products, bearing in mind the record highs posted by leading US securities markets at a time when forecasts point to a macroeconomic slowdown.

2.1.8 Brazil

Economic prospects for Brazil are improving, with 2020 GDP growth expected to stand at 2.0%, compared with estimated real growth of 1.1% in 2019. This growth forecast has been driven by improving consumption and private investment. Following the approval of pension reforms (finally ratified by the Senate at the end of October), the government is pushing forward major structural reforms to improve the severe imbalances affecting public accounts in the medium-term.

The growth prospects for the Non-Life and Life Protection insurance businesses are therefore improving. However, Provisional Measure (PM) No. 904/19, announced by the Brazilian federal government in November to eliminate Insurance for Personal Damages Caused by Land Motor Vehicles as on January 1, 2020, will negatively affect this trend, unless Congress decides not to implement the same. Inflation has been held in check and continues to fall, which is good news for these business lines. The positive impact may be offset by exchange rate depreciation, although this likewise looks set to stabilize. We estimate that the Brazilian Non-Life insurance premiums market will grow

Table 2.1.8
Brazil: Non-Life premiums growth forecasts
(YoY, %)

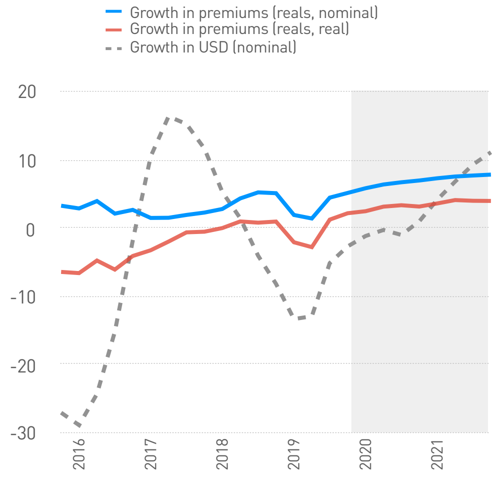
	2016	2017	2018	2019(e)	2020(f)	2021(f)
Reals: current prices	2.7	2.3	5.1	5.1	7.0	7.8
USD: current prices	-1.8	11.6	-8.2	-2.7	1.0	11.1
Reals: constant prices	-4.1	-0.5	0.9	2.2	3.1	4.0

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

around 5.1% in nominal terms in 2019 (2.2% in real terms), with growth gaining traction in 2020 to 7.0% in nominal terms, meaning real growth of 3.1% in that year (see Table 2.1.8 and Chart 2.1.8-a).

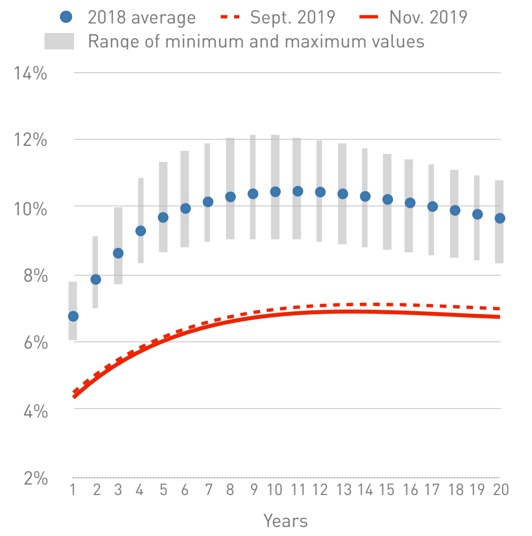
Meanwhile, curbed inflation has allowed the Brazilian central bank to implement a fresh reference interest rate cut as part of its monetary policy. November risk-free interest rate curves (see Chart 2.1.8-b) show that rates remain in decline and positive slope steepening is ongoing. This is conducive to the development of the Life insurance savings and annuity insurance businesses, thanks to guaranteed higher medium- and long-terms rates than short-term rates. Generally speaking, interest rates on all maturities are lower than in previous years, meaning fewer relative incentives to develop this insurance business line, although absolute rate levels should still permit growth in this market segment. In addition, prospects of further interest rate cuts might be an incentive to release new products for these segments.

Chart 2.1.8-a
Brazil: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

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



Source: MAPFRE Economic Research (based on data from EIOPA)

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Table 2.1.9
Mexico: Non-Life premiums growth forecasts
(YoY, %)

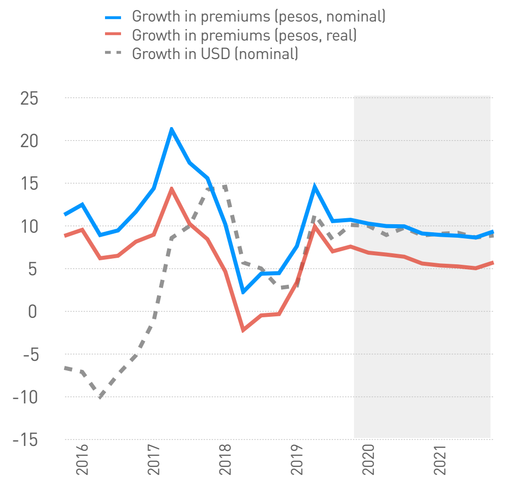
	2016	2017	2018	2019(e)	2020(f)	2021(f)
Pesos: constant prices	11.5	15.4	4.3	10.6	9.0	9.2
USD: constant prices	-5.3	14.1	2.6	10.0	8.7	8.7
Pesos: constant prices	8.0	8.3	-0.5	7.4	5.5	5.6

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

2.1.9 Mexico

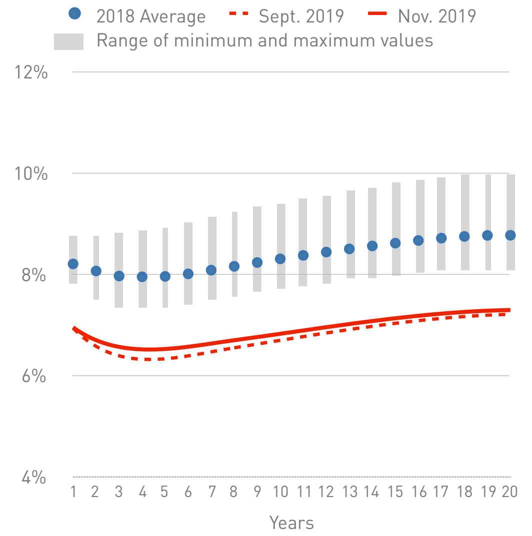
The real GDP growth forecast for the Mexican economy in 2020 stands at around 0.9%, an improvement compared to the economic stagnation of 2019 (with near zero growth expected for the full year). Inflation under control and easing pressure on exchange rates (due to looser monetary policy in the United States) has allowed the Bank of Mexico to relax its monetary policy. This will help stimulate the economy by reducing financing costs for households and businesses. Likewise, the signing of the final protocol of the US-Mexico-Canada trade agreement (USMCA), and its imminent legislative ratification, may also help to buoy investment and exports. This will ensure that the climate remains conducive to growth in the insurance market during 2020, helped by low levels of insurance penetration in the country's economy. Furthermore, easing inflation and exchange rates performing strongly against the dollar are good news for the profitability of Non-Life business lines, due to a positive impact on claims expenses and the cost of reinsurance coverage. In this context (stripping out the seasonal impact of the Petróleos Mexicanos' biannual policy), we estimate that Mexican Non-Life insurance market premiums will grow around 10.6% in nominal terms during 2019 (7.4% in real terms), with sustained strong growth in 2020 of around 9.0% in nominal terms on average, meaning real growth of 5.5% (see Table 2.1.9 and Chart 2.1.9-a).

Chart 2.1.9-a
Mexico: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

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



Source: MAPFRE Economic Research (based on data from EIOPA)

Click here to access the interactive version of this information

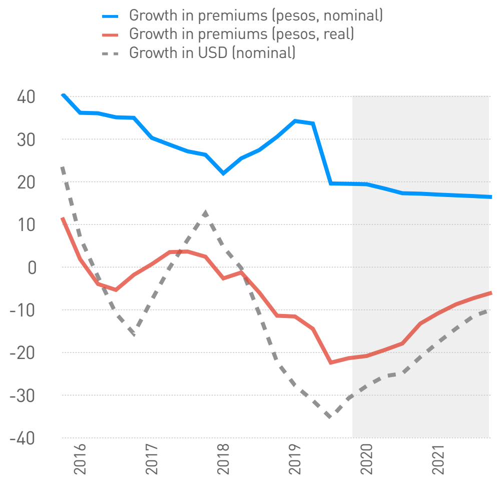
The November risk-free interest rate curves from the EIOPA (see Chart 2.1.9-b) show that the rate curve has stabilized following a decline across all curve tranches toward the end of the September 2019, standing well below the lows of 2018 in all tranches, although the curve continues to show a slight negative slope for maturities of less than three years. This climate remains favorable for Life savings and annuity products that capitalize on long-term rate levels, as well as temporary Life savings products that may be renewed for periods of less than a year, meaning the guaranteed rate can be revised upon each renewal. Additionally, the potential positive impact on the economy and prospects of interest rates being cut further in 2020 may benefit the marketing of this type of product.

2.1.10 Argentina

The forecast for the Argentinian economy is for GDP to shrink -1.3% in 2020 in real terms, compared to -3.0% estimated in 2019 (-2.4% in 2018). Private investment and consumption have suffered sharp setbacks, while falling imports and climbing exports driven by currency depreciation have helped stop GDP from shrinking further. The current account is expected to move into surplus in 2020, with Argentina possibly moving back into growth in 2021. For the time being, structural vulnerabilities continue to affect the economy, mainly as a result of foreign borrowing in dollars.

This recessive macroeconomic environment negatively affects the development of the insurance business, especially the Non-Life and Life Protection segments. Difficulties controlling exchange rates and inflation (52% YoY in the third quarter of 2019) will have a negative impact on claims costs at those insurance companies that are unable to take full advantage of the high interest rates offered by monetary policy (73.3%) in order to shore up the financial profitability of these lines of business. This is due to the regulatory limits imposed on insurance companies for investment in short-term public debt instruments.

Chart 2.1.10
Argentina: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

We expect the insurance industry to remain weak, with estimated nominal growth in Non-Life insurance premiums of 19.5% in 2019 (-21.4% in real terms), and nominal growth expected at around 17.2% in 2020. This will mean a drop of -13.3% in real terms (see Table 2.1.10 and Chart 2.1.10).

Meanwhile, the high interest rate environment could offer an opportunity to continue marketing temporary and annually renewable Life savings insurance products with short maturities, renegotiated at a guaranteed rate upon each maturity. However, the regulatory limits imposed on insurance companies for investment in short-term public debt instruments render it a challenge to develop such products.

Table 2.1.10
Argentina: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
Pesos: current prices	34.9	26.3	30.5	19.5	17.2	16.4
USD: current prices	-15.6	12.6	-22.3	-30.8	-21.1	-10.0
Pesos: constant prices	-1.9	2.4	-11.4	-21.4	-13.3	-6.0

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

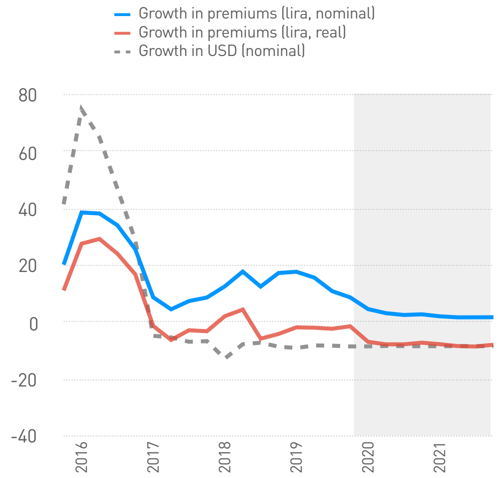
2.1.11 Turkey

The GDP growth forecast in 2020 stands at around 2.8% in real terms, compared with the estimated figure of 0.2% in 2019 (3.1% in 2018). Prospects are therefore improving, although structural vulnerabilities persist, mainly those derived from foreign private borrowing in dollars. Furthermore, such improvements are allowing a partial easing of the tight monetary policy applied by the central bank in order to shore up exchange rates.

As far as the insurance industry is concerned, weak economic growth has had a negative bearing on the development of the Non-Life and Life Protection business lines, which have likewise been affected by the price control system implemented on compulsory third-party liability insurance for motor vehicles. The inflation rate is easing, but remains high (10.3% in the last quarter of 2019), while the currency has secured a better performance thanks to restrictive monetary policy, but a depreciating trend continues, with the impairment of these two indicators subsequently having a negative bearing on claims costs at insurance companies. Meanwhile, monetary policy rates that remain high (12% in the final quarter of 2019) may help to partially offset these adverse effects, underpinning the financial profitability of these business lines.

We therefore anticipate that the insurance industry will continue to weaken, with estimated nominal growth for Non-Life insurance premiums in 2019 of 8.6% (-1.5% in real terms) and a nominal growth estimate of around 2.7% in 2020, leading to a real decline of -7.3% that year (see Table 2.1.11 and Chart 2.1.11-a). Elsewhere, as the risk-free interest rate curves prepared by the EIOPA for the Turkish market illustrate, short-term interest rates are relaxing and the curve is flattening (see Chart 2.1.11-b). This environment of slightly inverted interest rate curves is detrimental to the development of products with long-term guarantees in the Life savings and annuity insurance segments. However, still high levels of short-term interest rates continue to present a business opportunity for the marketing of renewable temporary Life savings products in short-terms, which allow for the guaranteed rate to be reviewed at each renewal.

Chart 2.1.11-a
Turkey: Non-Life premiums growth
(quarterly change, %)



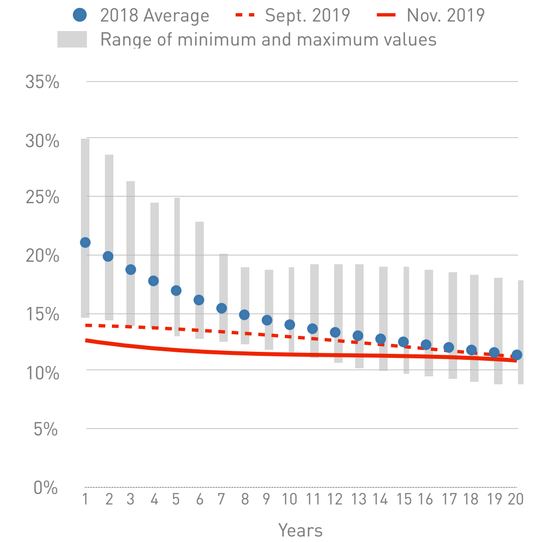
Source: MAPFRE Economic Research

Table 2.1.11
Turkey: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
Lira: current prices	25.6	8.6	17.2	8.6	2.7	1.7
USD: current prices	13.1	-10.1	-11.3	-7.8	-0.6	0.4
Lira: constant prices	16.7	-3.3	-4.2	-1.5	-7.3	-8.0

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

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



Source: MAPFRE Economic Research (based on data from EIOPA)

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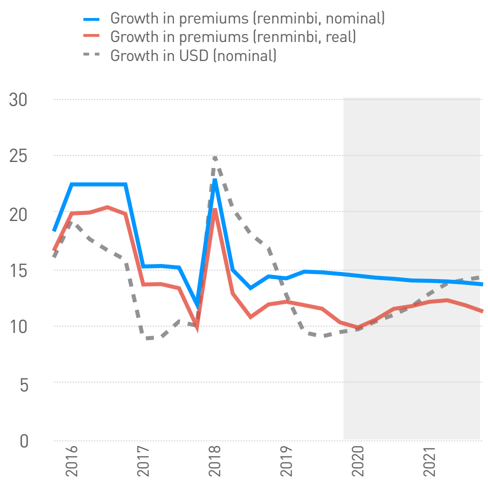
2.1.12 China

The forecast for the Chinese economy is for GDP growth of around 5.7% in 2020 in real terms, compared with estimated growth of 6.1% in 2019 and 6.6% in 2018, sustaining the shift toward a controlled slowdown for the economy. Trade tensions with the United States appear to be improving, but the slowdown in credit growth continues and prospects of more sluggish global growth point to lower real growth for the economy, which is expected to weaken further in 2020. The Chinese government's fiscal stimulus program has prevented a greater economic slowdown, but fiscal and monetary authorities are now more focused on risk control and are not implementing new short-term stimulus measures.

Despite the slowdown, growth forecasts remain positive for the Non-Life and Life Protection insurance business in China, with penetration rates still well below levels seen in more developed economies. In this context, Non-Life insurance premiums are forecast to grow nominally by around 14.6% in 2019 (10.3% in real terms), with nominal growth estimated at 14.0% by 2020, which would imply growth of 11.7% in real terms (see Table 2.1.12 and Chart 2.1.12-a).

Looking at the Life savings and annuity insurance businesses, the EIOPA risk-free yield curves (see Chart 2.1.12-b) show that interest rates hardly changed in November with regard to the September reading, following a significant decline in 2018 due to the monetary stimuli introduced to prevent an excessive economic slowdown. As Chart 2.1.12-b

Chart 2.1.12-a
China: Non-Life premiums growth
(quarterly change, %)



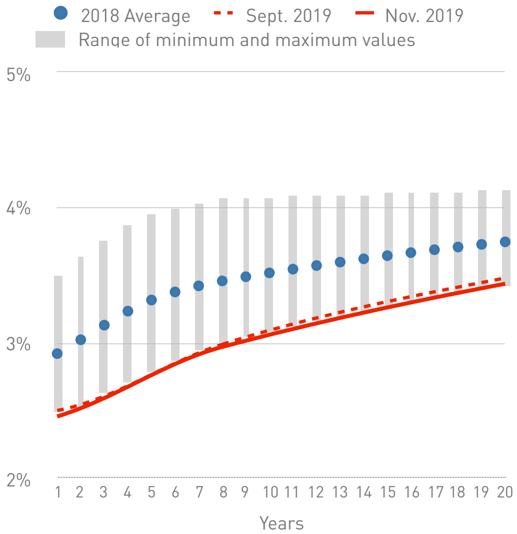
Source: MAPFRE Economic Research

Table 2.1.12
China: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
Renminbi: current prices	22.4	11.9	14.3	14.6	14.0	13.6
USD: current prices	15.8	10.0	16.8	9.4	11.7	14.3
Renminbi: constant prices	19.8	9.9	11.9	10.3	11.7	11.3

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

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



Source: MAPFRE Economic Research (based on data from EIOPA)

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illustrates, the curve is still showing a positive slope, even though rates for all maturities are at relatively low levels compared to those seen in 2018, which makes it difficult to market new products in these business segments, although the expectation that rates will be cut further to prevent the economy decelerating more rapidly, keeping inflation under control, could stimulate their development.

2.1.13 Japan

The Japanese economy will decelerate in 2020, with GDP growth forecast to stand at around 0.2% in real terms, compared to the estimated growth of 0.8% in 2019 (0.8% in 2018). Exports and industrial production have been impaired by international trade conflicts, while economic activity is expected to weaken further next year and subsequently improve in 2021.

Consumption is currently underpinning economic growth and helping to maintain moderate expansion in the Non-Life and Life Protection insurance businesses. Thus, the fiscal stimulus approved by the Japanese government to keep economic weakening in check may help buoy growth of the insurance business next year. In this context, Non-Life insurance premiums are expected to grow in nominal terms by around 1.7% in 2019 (0.8% in real terms, similar to GDP growth), with nominal growth in Non-Life premiums estimated to stand at around 1.8% in 2020, or 1.6% in real terms (see Table 2.1.13 and Chart 2.1.3-a).

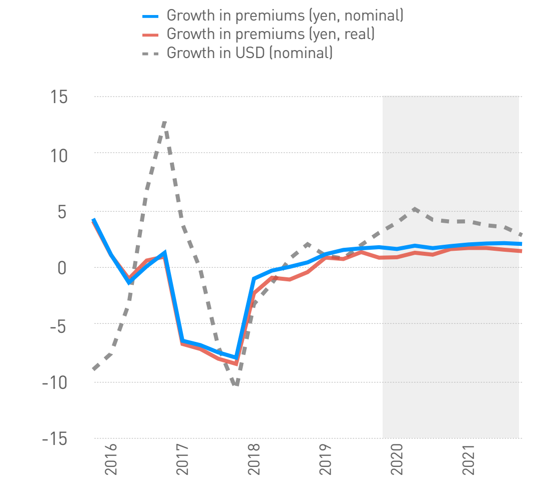
On the other hand, looking at the EIOPA interest rate curves for the Japanese market (see Chart 2.1.13-b), despite a recovery in November compared to the September reading, the data shows negative values for maturities of up to 11 years and in term premiums beyond these maturities, rendering it very challenging to market Life savings and annuity insurance products. This shows that the sustained context of low interest rates continues to be detrimental to the development of the specified insurance business lines.

Table 2.1.13
Japan: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
Yen: current prices	1.3	-8.0	0.4	1.7	1.8	2.0
USD: current prices	12.8	-10.7	2.0	3.0	4.0	2.8
Yen: constant prices	0.9	-8.5	-0.4	0.8	1.6	1.4

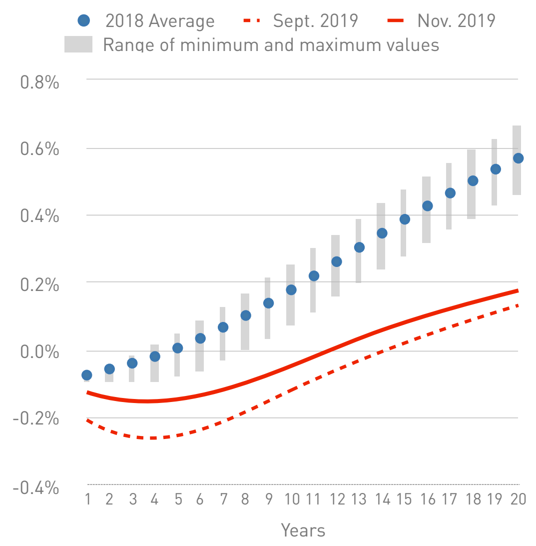
Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

Chart 2.1.13-a
Japan: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

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



Source: MAPFRE Economic Research (based on data from EIOPA)

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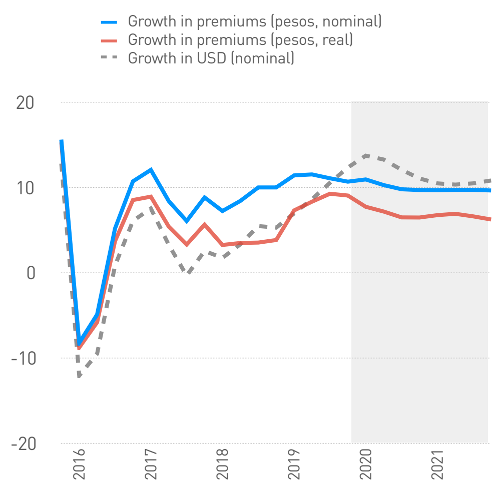
2.1.14 Philippines

The forecast GDP growth for the Philippine economy stands at about 6% in 2020 in real terms, compared to estimated growth of 5.8% in 2019 (6.2% in 2018). Growth is being driven by domestic demand, mainly via private consumption that remains strong, as investment posted little growth in the last few quarters. The central bank pursued accommodative monetary policy throughout 2019, with three interest rate cuts, which may help restore investment growth. However, despite a better performance in the third quarter, the trade deficit continues to deteriorate as this is a net importer economy.

In any case, the Philippine economic growth outlook is favorable for the prospects of the Non-Life and Life Protection insurance business, supported by still low rates of insurance penetration in the country. Inflation is under control, which should support the profitability of these business lines, as the growth of claims costs has eased for insurance companies. In this context, it is estimated that Non-Life insurance premiums will grow during 2019 by around 10.6% in nominal terms (9.0% in real terms), estimating nominal growth for 2020 of around 9.6%, or 6.4% in real terms (see Table 2.1.14 and Chart 2.1.14).

Chart 2.1.14
Philippines: Non-Life premiums growth
(quarterly change, %)



Source: MAPFRE Economic Research

Table 2.1.14
Philippines: Non-Life premiums growth forecasts
(YoY, %)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
Pesos: current prices	10.7	8.8	9.9	10.6	9.6	9.6
USD: current prices	6.0	2.5	5.2	12.3	11.0	10.8
Pesos: constant prices	8.5	5.6	3.8	9.0	6.4	6.2

Source: MAPFRE Economic Research
Forecast end date: January 8, 2020.

In addition, the easing of restrictive monetary policies applied by the central bank has left the monetary policy benchmark rate at 4% (down from 4.75% at the start of the year), while the 10-year sovereign bond yield, which stood at 7% in December 2018, is forecast to decline to levels of around 4.4% by late 2019. This interest rate environment, with rate decreases expected and now materializing, along with flattening of the risk-free yield curve, may complicate subsequent development of the traditional Life savings and annuity insurance business lines.

2.1.15 Reinsurance

Major reinsurers estimate economic losses from natural disasters in the first half of 2019 of around 40 billion dollars, of which 15 billion dollars are insured damages, a figure short of the 21 billion dollars posted in the first half of 2018. Developing countries have been hardest hit by catastrophic events in 2019, where insurance for such risks remains low. Cyclone Idai, which brought strong winds and severe flooding to Mozambique, Malawi, Zimbabwe and Madagascar, was the deadliest catastrophe during the period.

As for insured losses, most of the damages were caused by electrical storms and flooding across several of the world's regions, including a more active than usual tornado season in the United States, a heat wave and severe electrical storms and violent hailstorms in Europe, as well as flooding in Australia.

Other major natural disasters took place in the second half of 2019, including Hurricane Dorian, which struck the Bahamas in September, and typhoons Faxai and Hagibis, which battered Japan during September and October. The latter two events are expected to cost the insurance industry over 20 billion dollars.

As for Spain, several atypical cyclonic storms and heavy flooding took place during July, August and September of 2019. Following the flooding between September 11 and 15, which mainly struck the southeast of Spain, the Insurance Compensation Consortium (CCS) received 63,034 applications for compensation from policyholders, at an estimated cost of 426 million euros. The CCS expects to receive nearly 65,000 indemnification claims, with an estimated cost of around 435 million euros.

2.2 Regulatory trends

2.2.1 Global trends

IAIS common frameworks for oversight of groups

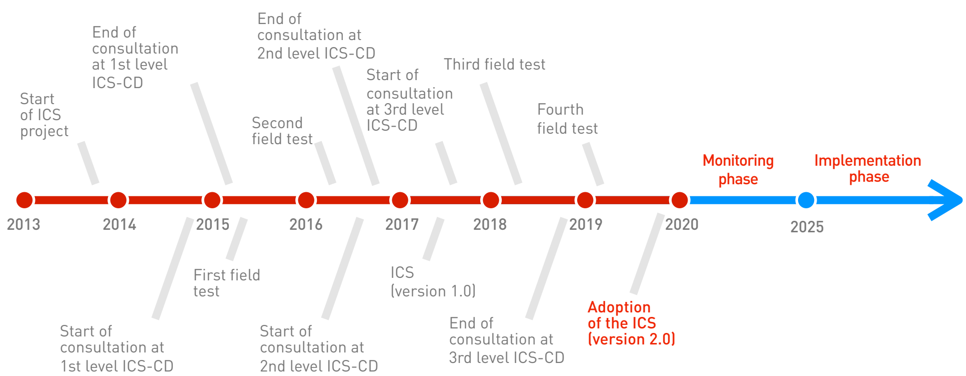
On November 14, 2019, the International Association of Insurance Supervisors (IAIS) approved reforms to the common framework for cross-border solvency supervision of Internationally Active Insurance Groups (IAIGs)[5].

The Common Framework (ComFrame) is intended to provide guidance and a common language for the supervision implemented by supervisory authorities in the various countries where IAIGs operate. The ComFrame includes a number of Insurance Core Principles (ICPs) applicable to the supervision of IAIGs and an International Capital Standard (ICS, Version 2.0) for these insurance groups. The standard is applicable to IAIGs that meet minimum international activity volume requirements, based on three criteria: (i) they have at least 50 billion dollars in assets or 10 billion dollars in premiums, (ii) they operate in at least three jurisdictions, and (iii) at least 10% of premiums are underwritten outside the original jurisdiction.

Implementation of this common supervisory framework will happen in two phases: a first monitoring phase lasting five years, which should take place between 2020 and 2025, to be followed by an implementation phase from 2026 onward (see Chart 2.2.1). In the monitoring phase, the minimum solvency capital calculation for IAIGs will be used for discussion by supervisory colleges on a confidential basis and will not lead to supervisory action based on the results of the standard being applied. The information provided by supervisors during the process will help to drive additional improvements prior to implementation of the standard as a Prescribed Capital Requirement (PCR).

Finally, as part of the regulatory and supervisory measures aimed at safeguarding global financial stability, the IAIS adopted the so-called "Holistic Framework" for systemic risk assessment and mitigation, to be implemented as of the start of 2020. This framework consists of a series of reinforced supervisory policy measures and powers of intervention, an annual monitoring exercise run by IAIS, as well as a collective discussion of the results of the exercise, appropriate responses and their implementation.

Chart 2.2.1
Progress through the IAIS timeline for the ICS project



Source: MAPFRE Economic Research (based on data from the IAIS)

2.2.2 European Union

Solvency II: review of the guidelines framework planned for 2020

Under the anticipated timeline for reforms of the Solvency II guidelines framework, a reform proposal will be drawn up by the European Commission toward the end of 2020. The Commission will base the reform proposal on technical advice prepared by the European Insurance and Occupational Pensions Authority (EIOPA), which is to be forwarded to the Commission next June. Once the Commission has readied its proposal, it will be debated and approved by the co-legislators (European Council and Parliament), with publication of the reform in the Official Journal of the European Union potentially having to wait until 2022.

The EIOPA opened a public consultation on October 15, 2019, prior to referral to the European Commission and preparation of its final technical advice**6/**. Interested parties have until January 15, 2020, to submit their comments. Following an evaluation of the responses, as well as any additional data collected over the coming months with regard to quantitative impacts, the EIOPA will draw up the final report to be sent to the Commission in June 2020.

In addition, on December 16 the EIOPA published another document to support the European Commission in the drafting of its reform proposal, featuring an analysis of asset and liability management by insurance firms in relation to the liquidity of their liabilities**7/**. This report had been requested by the Commission from the EIOPA in April 2018, with a view to using it as an additional technical document ahead of the preparation of the 2020 Solvency II reform.

Finally, it is also worth noting that on December 17 the EIOPA published its fourth annual report, which will be referred to the European Parliament, Council and Commission, on the impact had by implementation of long-term guarantee and equity risk measures, with the aim of providing additional information on how the Solvency II guidelines framework operates, applicable to insurance companies in the European Union and their groups, for the purposes of future reforms[8].

2019 Stress Test on Institutions for Occupational Retirement Provisions

On December 17, the EIOPA released the results of its stress test study on Institutions for Occupational Retirement Provisions (IORPs), which it conducts on a biennial basis. On this occasion, 176 IORPs from 19 countries, covering more than 60% of national defined benefit plans (DBs) and 50% of defined contribution plans (DCs), were evaluated based on asset volumes. It should be noted that no defined or hybrid benefit plans from the United Kingdom were included in this exercise, as was the case in the previous year. Such UK plans manage around 1.6 trillion in assets, approximately half of the defined benefit fund assets in the current European Economic Area employment system.

The baseline (or pre-stress) scenario uses year-end 2018 balances, reflecting current market conditions. The adverse scenario simulates a drop in European Union stock markets (-40% on average), combined with declining prices for fixed income (yields and spreads rising) and other risky assets.

The European IORPs with DB/hybrid plans from the sample have, on aggregate in the baseline scenario, sufficient assets to cover their pension commitments with 102% coverage (compared to a shortfall of -3% in 2017). The surplus, equivalent to 2% of assets, amounted to 19 billion euros. In the adverse (stress) scenario, said coverage fell to 82% (compared to 79% in 2017), meaning a shortfall of 18% against commitments, valued at 180 billion euros according to national methodologies and 216 billion euros according to the common methodology.

In the EIOPA exercise, the financial situation for defined and hybrid benefit employment plans would be significantly affected in the short-term. This would put promoter firms under significant strain within a few years from the crisis, as well as having potential long-term effects on beneficiary retirement income for decades (should the short-term effects become permanent). Based on the assumptions of the common methodology, shortfalls in the adverse scenario would undermine aggregate profits by around 173 billion euros, while sponsor companies would have to provide financial support of 49 billion euros.

Finally, for the first time, the exercise also included an analysis of ESG factors (environmental, social and governance) applied by IORPs. The analysis indicates a large carbon footprint among the sample's capital investment, in relation to the European Union economy. Most IORPs state that they factor in ESG aspects, but less than 20% of the sample currently evaluate such impacts as part of the risk and return assessment.

Appendix 1: macroeconomic forecasts

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

	Baseline scenario					
	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	1.6	2.4	2.9	2.3	1.6	1.7
Eurozone	1.9	2.7	1.9	1.2	1.0	1.3
Germany	2.1	2.8	1.6	0.6	0.6	1.3
France	1.1	2.3	1.7	1.2	1.3	1.3
Italy	1.4	1.8	0.7	0.2	0.3	0.5
Spain	3.0	2.9	2.4	2.0	1.7	1.5
United Kingdom	1.9	1.9	1.4	1.3	1.0	1.9
Japan	0.6	1.9	0.8	0.8	0.2	0.9
Emerging markets	4.6	4.8	4.5	3.9	4.6	4.8
Latin America[1]	-0.6	1.2	1.0	0.2	1.8	2.4
Mexico	2.6	2.4	2.1	0.0	0.9	1.8
Brazil	-3.3	1.3	1.3	1.1	2.0	2.3
Argentina	-2.0	2.7	-2.4	-3.0	-1.3	1.3
Emerging European[2]	4.8	3.3	6.0	3.6	0.8	2.8
Turkey	3.3	7.4	3.1	0.2	2.8	3.4
Asia Pacific[3]	6.2	6.2	6.0	5.6	5.5	5.5
China	6.7	6.8	6.6	6.1	5.7	5.7
Indonesia	5.0	5.1	5.2	5.0	4.9	5.2
Philippines	6.9	6.7	6.2	5.8	6.0	5.7
World	3.4	3.8	3.6	3.0	3.1	3.4

	Risk scenario					
	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	1.6	2.4	2.9	2.3	1.4	1.2
Eurozone	1.9	2.7	1.9	1.2	-0.2	-0.6
Germany	2.1	2.8	1.6	0.6	-0.4	-0.6
France	1.1	2.3	1.7	1.2	-0.2	-0.5
Italy	1.4	1.8	0.7	0.2	-1.0	-1.2
Spain	3.0	2.9	2.4	2.0	-0.1	-0.5
United Kingdom	1.9	1.9	1.4	1.3	-0.1	0.6
Japan	0.6	1.9	0.8	0.8	0.0	0.5
Emerging markets	4.6	4.8	4.5	3.9	4.3	3.9
Latin America[1]	-0.6	1.2	1.0	0.2	0.9	2.0
Mexico	2.6	2.4	2.1	0.0	0.8	1.5
Brazil	-3.3	1.3	1.3	1.1	1.9	2.3
Argentina	-2.0	2.7	-2.4	-3.0	-1.6	0.9
Emerging European[2]	4.8	3.3	6.0	3.6	0.7	2.6
Turkey	3.3	7.4	3.1	0.2	2.6	2.8
Asia Pacific[3]	6.2	6.2	6.0	5.6	5.3	4.8
China	6.7	6.8	6.6	6.1	5.5	4.7
Indonesia	5.0	5.1	5.2	5.0	4.8	4.7
Philippines	6.9	6.7	6.2	5.8	5.8	5.0
World	3.4	3.8	3.6	3.0	2.5	1.4

Source: MAPFRE Economic Research (based on data from national statistics centers and the IMF)

[1]Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: January 8, 2019.

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

	Baseline scenario					
	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	1.8	2.1	2.2	2.0	1.7	2.0
Eurozone	0.7	1.4	1.9	1.0	1.1	1.4
Germany	1.5	1.4	1.6	1.3	1.4	1.5
France	0.5	1.1	1.9	1.1	1.2	1.3
Italy	0.1	0.9	1.4	0.4	0.8	1.1
Spain	1.0	1.4	1.7	0.5	1.0	1.5
United Kingdom	1.2	3.0	2.3	1.6	1.6	1.6
Japan	0.3	0.6	0.9	0.9	0.3	0.6
Emerging markets	4.3	4.3	4.8	4.7	4.7	4.6
Latin America[1]	5.6	6.0	6.2	7.2	5.6	4.9
Mexico	3.2	6.6	4.8	2.9	3.3	3.4
Brazil	7.0	2.8	4.1	2.9	3.7	3.7
Argentina	37.5	23.3	47.4	52.0	35.1	23.9
Emerging European[2]	5.5	5.4	6.2	6.8	8.3	7.4
Turkey	7.6	12.3	22.4	10.3	10.8	10.5
Asia Pacific[3]	2.6	2.6	3.0	3.0	3.3	2.8
China	2.2	1.8	2.2	3.9	2.0	2.1
Indonesia	3.3	3.5	3.2	3.0	3.2	2.9
Philippines	2.0	3.0	5.9	1.5	3.0	3.2
World	2.8	3.0	3.3	3.7	3.4	3.2

	Risk scenario					
	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	1.8	2.1	2.2	2.0	1.6	1.6
Eurozone	0.7	1.4	1.9	1.0	1.0	0.4
Germany	1.5	1.4	1.6	1.3	1.4	0.8
France	0.5	1.1	1.9	1.1	1.2	1.4
Italy	0.1	0.9	1.4	0.4	0.5	-0.1
Spain	1.0	1.4	1.7	0.5	0.7	0.0
United Kingdom	1.2	3.0	2.3	1.6	1.6	1.2
Japan	0.3	0.6	0.9	0.9	0.3	0.2
Emerging markets	4.3	4.3	4.8	4.7	4.6	4.5
Latin America[1]	5.6	6.0	6.2	7.2	5.4	4.6
Mexico	3.2	6.6	4.8	2.9	3.0	3.1
Brazil	7.0	2.8	4.1	2.9	4.4	3.6
Argentina	37.5	23.3	47.4	52.0	35.0	23.2
Emerging European[2]	5.5	5.4	6.2	6.8	8.1	7.2
Turkey	7.6	12.3	22.4	10.3	10.4	9.8
Asia Pacific[3]	2.6	2.6	3.0	3.0	3.1	3.1
China	2.2	1.8	2.2	3.9	2.1	1.7
Indonesia	3.3	3.5	3.2	3.0	3.3	2.8
Philippines	2.0	3.0	5.9	1.5	3.2	2.7
World	2.8	3.0	3.3	3.7	2.5	2.0

Source: MAPFRE Economic Research (based on data from national statistics centers and the IMF)

[1]Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: January 8, 2019.

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

	Baseline scenario					
	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	2.45	2.40	2.69	1.75	1.79	1.95
Eurozone	0.93	1.13	1.17	0.18	0.34	0.75

	Risk scenario					
	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	2.45	2.40	2.69	1.75	1.60	1.33
Eurozone	0.93	1.13	1.17	0.18	0.42	0.81

Source: MAPFRE Economic Research (based on data from national statistics centers and the IMF)
Forecast end date: January 8, 2019.

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

	Baseline scenario					
	2016	2017	2018	2019(e)	2020(f)	2021(f)
USD-EUR	0.95	0.83	0.87	0.92	0.92	0.89
EUR-USD	1.05	1.20	1.15	1.09	1.09	1.13
GBP-USD	1.23	1.35	1.28	1.33	1.35	1.35
USD-JPY	116.80	112.90	110.83	109.00	106.00	105.98
USD-CNY	6.94	6.51	6.88	7.06	7.07	6.92

	Risk scenario					
	2016	2017	2018	2019(e)	2020(f)	2021(f)
USD-EUR	0.95	0.83	0.87	0.92	0.92	0.89
EUR-USD	1.05	1.20	1.15	1.09	1.09	1.13
GBP-USD	1.23	1.35	1.28	1.33	1.33	1.35
USD-JPY	116.80	112.90	110.83	109.00	105.90	106.21
USD-CNY	6.94	6.51	6.88	7.06	7.02	6.96

Source: MAPFRE Economic Research (based on data from national statistics centers and the IMF)
Forecast end date: January 8, 2019.

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

	Baseline scenario					
	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	0.75	1.50	2.50	1.75	1.50	1.50
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00
China	2.59	3.09	3.07	2.53	2.53	2.75

	Risk scenario					
	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	0.75	1.50	2.50	1.75	2.25	2.50
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00
China	2.59	3.09	3.07	2.53	2.59	2.21

Source: MAPFRE Economic Research (based on data from national statistics centers and the IMF)
Forecast end date: January 8, 2019.

Appendix 2: Non-Life premiums growth forecasts

Table A-6
Forecasts for growth in Non-Life premiums: local currency and current prices
(%)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	3.7	5.2	5.1	2.4	2.2	2.2
Australia	3.7	4.4	3.7	2.4	2.1	1.7
Canada	3.0	5.1	6.7	2.7	1.9	1.4
Denmark	2.8	2.8	4.6	1.4	1.0	0.9
Japan	1.3	-8.0	0.4	1.7	1.8	2.0
United Kingdom	-5.0	6.8	3.0	1.5	1.3	1.2
Average Other Developed Markets	1.2	2.2	3.7	2.0	1.6	1.4
France	1.1	1.0	2.0	1.6	2.0	2.0
Germany	1.8	6.5	2.8	2.4	2.0	2.0
Italy	-0.2	1.2	2.3	1.8	1.2	1.3
The Netherlands	-2.7	2.5	1.8	2.5	2.4	2.5
Portugal	5.8	7.0	7.3	1.7	1.4	1.6
Spain	4.5	3.8	4.1	2.8	2.0	2.5
Eurozone average	0.9	3.6	2.6	2.2	2.0	2.1
Poland	13.1	15.7	6.7	16.0	13.9	12.6
Russia	7.9	-2.0	8.5	21.3	19.1	17.8
Turkey	25.6	8.6	17.2	8.6	2.7	1.7
Czech Republic	-3.7	4.2	6.6	13.9	12.5	11.7
Hungary	12.7	13.6	10.5	18.7	15.2	13.2
Saudi Arabia	1.0	-1.2	-2.9	5.9	7.1	8.1
South Africa	-9.2	17.8	4.8	-0.4	3.6	6.9
EEMEA* average	6.8	8.1	7.3	12.0	10.6	10.3
Argentina	34.9	26.3	30.5	19.5	17.2	16.4
Brazil	2.7	2.3	5.1	5.1	7.0	7.8
Chile	6.0	4.8	9.5	8.2	8.7	7.5
Colombia	7.8	7.2	6.6	9.2	9.9	11.6
Ecuador	-7.2	-0.8	1.2	9.8	11.2	11.2
Mexico	11.5	15.4	4.3	10.6	9.0	9.2
Peru	0.6	-2.3	10.3	10.1	10.4	10.5
Uruguay	2.5	9.7	5.6	10.7	10.6	10.4
Latin America average	7.4	7.8	9.1	10.4	10.5	10.6
China	22.4	11.9	14.3	14.6	14.0	13.6
Hong Kong	0.3	3.6	6.3	7.3	9.2	9.5
Philippines	10.7	8.8	9.9	10.6	9.6	9.6
South Korea	5.3	4.6	3.1	8.1	9.9	9.8
Thailand	2.1	4.0	6.6	9.1	10.0	9.8
Indonesia	4.5	3.3	8.8	9.1	10.5	9.9
Emerging Asia total (ex-China)	4.6	4.9	6.9	8.8	9.8	9.7
Overall average	5.8	6.3	7.1	8.6	8.3	8.2

Source: MAPFRE Economic Research
Forecast end date: January 8, 2019.

* For the purposes of this analysis: Poland, Russia, Turkey, Czech Republic, Hungary, Saudi Arabia and South Africa.

Table A-7
Forecasts for growth in Non-Life premiums: local currency and constant prices
(%)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	1.9	3.0	2.8	0.4	0.5	0.1
Australia	2.2	2.4	1.9	0.6	0.4	-0.3
Canada	1.5	3.2	4.5	0.6	0.1	-0.7
Denmark	2.4	1.5	3.7	0.6	0.3	-0.2
Japan	0.9	-8.5	-0.4	0.8	1.6	1.4
United Kingdom	-6.1	3.7	0.7	-0.0	-0.3	-0.4
Average Other Developed Markets	0.2	0.5	2.1	0.5	0.4	-0.0
France	0.6	-0.2	0.1	0.5	0.7	0.6
Germany	0.8	5.0	0.8	1.1	0.6	0.5
Italy	-0.3	0.3	0.9	1.3	0.4	0.2
The Netherlands	-3.3	1.2	-0.2	1.4	1.6	1.1
Portugal	5.0	5.5	6.5	1.4	0.6	0.2
Spain	3.5	2.3	2.3	2.2	1.0	1.0
Eurozone average	0.2	2.3	0.7	0.8	0.8	0.6
Poland	12.8	13.1	5.1	13.0	10.9	9.8
Russia	0.8	-4.6	4.2	17.9	14.9	13.6
Turkey	16.7	-3.3	-4.2	-1.5	-7.3	-8.0
Czech Republic	-5.1	1.6	4.4	11.6	10.4	9.5
Hungary	11.3	11.1	7.1	14.7	11.7	9.6
Saudi Arabia	-2.2	-7.3	-7.4	2.9	3.6	4.5
South Africa	-9.2	17.8	4.8	-0.4	3.6	6.9
EEMEA* average	3.6	4.0	2.0	8.3	6.8	6.6
Argentina	-1.9	2.4	-11.4	-21.4	-13.3	-6.0
Brazil	-4.1	-0.5	0.9	2.2	3.1	4.0
Chile	3.1	2.7	6.9	5.6	5.7	4.4
Colombia	0.3	2.8	3.3	5.5	5.9	7.9
Ecuador	-8.8	-1.2	1.4	9.5	10.4	10.2
Mexico	8.0	8.3	-0.5	7.4	5.5	5.6
Peru	-2.9	-4.9	8.8	7.7	8.2	7.9
Uruguay	-6.5	3.3	-1.9	2.8	3.1	3.6
Latin America average	-1.6	1.6	1.0	2.4	3.6	4.7
China	19.8	9.9	11.9	10.3	11.7	11.3
Hong Kong	-0.9	1.9	3.6	4.0	7.3	7.4
Philippines	8.5	5.6	3.8	9.0	6.4	6.2
South Korea	3.8	3.1	1.3	8.0	8.5	7.7
Thailand	1.4	3.1	5.7	8.5	8.8	8.4
Indonesia	1.1	-0.2	5.5	5.8	7.0	6.7
Emerging Asia average (ex-China)	2.8	2.7	4.0	7.1	7.6	7.3
Overall average	1.8	2.6	2.4	4.5	4.6	4.7

Source: MAPFRE Economic Research
Forecast end date: January 8, 2019.

* For the purposes of this analysis: Poland, Russia, Turkey, Czech Republic, Hungary, Saudi Arabia and South Africa.

Table A-8
Non-Life premiums growth forecasts: USD (current prices)
(%)

	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	3.7	5.2	5.1	2.4	2.2	2.2
Australia	2.7	7.6	1.1	-4.9	0.0	2.8
Canada	-0.7	7.4	6.8	0.2	3.1	3.0
Denmark	2.7	4.8	9.3	-4.3	-1.3	2.8
Japan	12.8	-10.7	2.0	3.0	4.0	2.8
United Kingdom	-16.1	2.0	6.7	-3.2	5.3	2.4
Other Developed Markets total	-1.1	-0.7	4.5	-0.8	3.5	2.7
France	0.8	2.9	6.7	-4.1	-0.4	3.8
Germany	1.5	8.5	7.7	-3.3	-0.4	3.8
Italy	-0.4	3.2	7.1	-3.9	-1.2	3.0
The Netherlands	-3.0	4.5	6.6	-3.2	0.1	4.3
Portugal	5.5	9.1	12.4	-3.9	-0.9	3.4
Spain	4.2	5.8	8.9	-2.9	-0.4	4.3
Eurozone total	0.6	5.6	7.4	-3.5	-0.4	3.9
Poland	8.1	20.9	11.6	8.3	12.6	16.0
Russia	-1.9	12.7	1.0	17.3	19.2	20.2
Turkey	13.1	-10.1	-11.3	-7.8	-0.6	0.4
Czech Republic	-3.1	9.0	14.7	7.4	11.5	16.1
Hungary	11.8	16.5	12.3	9.8	9.0	15.3
Saudi Arabia	1.0	-1.2	-2.9	5.9	7.1	8.1
South Africa	-9.2	17.8	4.8	-0.4	3.6	6.9
EEMEA* total	1.8	7.8	2.1	6.7	10.6	13.2
Argentina	-15.6	12.6	-22.3	-30.8	-21.1	-10.0
Brazil	-1.8	11.6	-8.2	-2.7	1.0	11.1
Chile	2.4	9.3	10.8	-2.0	-4.1	12.3
Colombia	-9.5	5.3	7.9	2.1	2.8	13.2
Ecuador	-7.2	-0.8	1.2	9.8	11.2	11.2
Mexico	-5.3	14.1	2.6	10.0	8.7	8.7
Peru	-7.0	-2.2	11.2	8.6	9.4	10.1
Uruguay	-9.1	9.2	3.0	-1.2	-0.9	3.4
Latin America total	-6.8	10.9	-5.6	-3.9	0.3	8.4
China	15.8	10.0	16.8	9.4	11.7	14.3
Hong Kong	0.2	3.2	5.7	7.3	9.5	10.1
Philippines	6.0	2.5	5.2	12.3	11.0	10.8
South Korea	2.6	7.4	6.0	1.3	5.7	12.1
Thailand	-1.0	8.2	11.9	13.6	11.7	8.3
Indonesia	3.7	6.0	10.5	0.9	4.5	12.0
Emerging Asia total (ex-China)	3.2	6.3	9.3	1.4	5.1	11.9
World	3.0	5.2	6.8	1.5	3.7	6.0

Source: MAPFRE Economic Research
Forecast end date: January 8, 2019.

* For the purposes of this analysis: Poland, Russia, Turkey, Czech Republic, Hungary, Saudi Arabia and South Africa.

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References

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

2/ In this risk scenario, economic agents would be directly affected by the outcomes of such policies and uncertainty regarding issues such as higher trade barriers, fewer free trade agreements and the inability to coordinate multilateral responses to issues such as migration, climate change and international security crises. Such a scenario could create a situation in which economic agents have to perpetually adapt to protectionist reactions and arbitrary restrictions in the supply chain or access to the market imposed by radical policies seeking immediate responses without considering the long-term effects.

3/ Characterized by a strong increase in aversion to global risk and corrections in the variable and fixed income markets, especially in the United States, the response to which is the collapse of the term premium and renewal of ultra-accommodative monetary conditions on a global scale.

4/ The technical specifications of the model to forecast premiums growth included in this section can be found at: MAPFRE Economic Research (2019), *Growth forecasts for insurance markets: Non-Life,* Madrid, Fundación MAPFRE.

5/ https://www.iaisweb.org/page/news/press-releases//file/87183/media-release-iais-adopts-first-global-frameworks-for-supervision-of-internationally-active-insurance-groups-and-mitigation-of-systemic-risk-in-the-insurance-sector

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