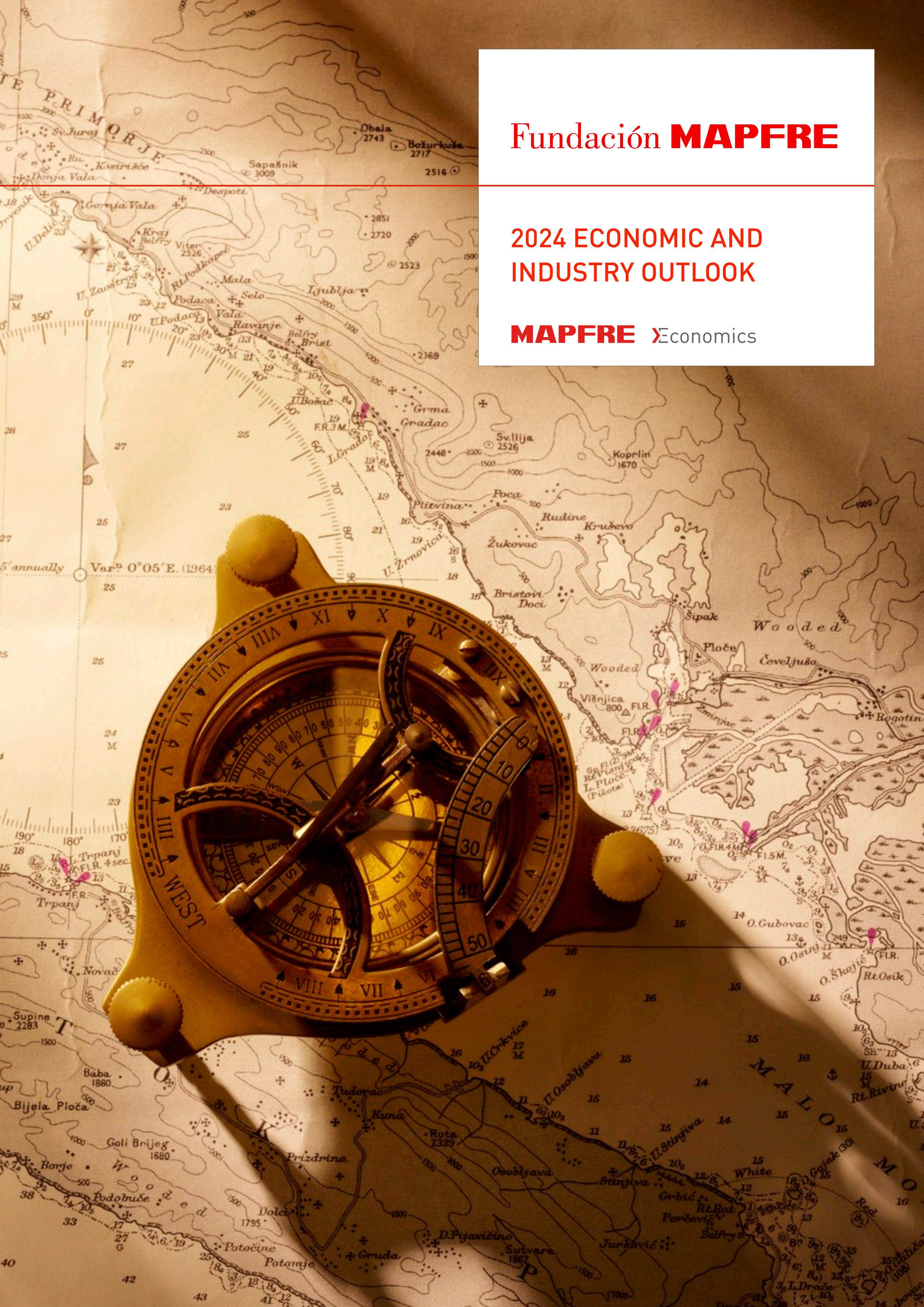

Fundación MAPFRE

2024 ECONOMIC AND INDUSTRY OUTLOOK

MAPFRE Economics

2024 Economic and Industry Outlook

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Presentation

The analysis of the global economic situation and of a selected group of economies, its repercussions on insurance industry performance, as well as the macroeconomic and insurance forecasts for the coming years, are the focus of this new edition of the *2024 Economic and Industry Outlook* report drafted by MAPFRE Economics and published by Fundación MAPFRE.

According to this report, in 2023, economic activity was more resilient than initially anticipated, despite the heightened uncertainty with which the year began. Thus, 2023 was a challenging year in terms of prediction, with both macroeconomic and other risks, subject to the constant rebalancing of uncertainties. Looking to 2024, the report anticipates weaker global economic growth for most of the year, reactivating its momentum toward the end of this year or the start of 2025. In relation to inflation, it warns of the risk that price increases will again gain traction due to geopolitical tensions.

In the current context of economic activity, inflation, and financing costs, the outlook for the insurance industry has the Life insurance segment maintaining visible momentum during 2024–2025, although less than in the last two years, while in the Non-Life segment, the average nominal growth expected for these years will land slightly below 5%.

Fundación MAPFRE publishes the annual *Economic and Industry Outlook* report and its updates, thereby maintaining its commitment to the dissemination of economic and industry knowledge. In addition, it has an extensive catalog of publications that address key topical issues, which may be freely consulted in the Fundación Mapfre's source of documents, available to all those interested in its Documentation Center.

Fundación MAPFRE

Introduction

With this version of our *2024 Economic and Industry Outlook* report, MAPFRE Economics presents its annual analysis of economic outlooks both globally and of the main economies, and on that basis, offers a review of the performance context for the insurance industry. Generally, geopolitical tensions and other key risks of the past are expected to remain through 2024, while monetary policy is expected to enter a phase of moderation subject to validation of the effectiveness of the measures taken so far. In reference to economic activity, global performance is expected to be weaker than last year, with a gradual slowdown of growth that could bottom out in the final stretch of 2024 or early in 2025. Inflation will still need to be brought under control, but there is a renewed risk that, in the short term, it could pick up again with the geopolitical issues and less favorable base effects.

Thus, some decline in economic growth is expected in 2024, followed by a moderate recovery in 2025. In the *baseline scenario*, global activity is forecast to grow by around 2.3% and 2.6% in 2024 and 2025, respectively, while in terms of prices, average inflation of 4.4% and 3.3%, respectively, is expected. The *stressed scenario* forecasts weaker global economic growth of 1.4% and 1.5% in 2024 and 2025, with average inflation of around 4.8% and 2.9% for each of these years.

In most economies, the effects of tighter financing conditions and the credit squeeze on activity will continue to be passed on to the real economy in the form of lower growth, thus creating a scenario of moderate growth in business volume for the insurance business, especially for those segments most closely linked to the economic cycle. All in all, the profitability of the insurance industry, which has suffered in the last two years from the sharp rebound in inflation, is expected to improve due to upward revisions in insurance premiums and moderating growth in insurance companies' costs as price increases are brought under control.

MAPFRE Economics

Executive summary

2024 Economic and Industry Outlook

Economic outlook

In early 2023, the context was one of heightened uncertainty, the unequivocal transition toward a phase marked by a slowdown of economic growth and generalized risk events that could lead to "hard landing" scenarios in developed and emerging economies. With respect to price dynamics, inflation figures continue to show unanticipated persistence that is somewhat incompatible with the relative passivity of the central banks. However, despite renewed concerns in the financial sector, developments at the beginning of the year gradually softened the pessimistic outlook, giving way to moderate optimism, but "with caution," as financial instability persisted.

Over the following quarters, the positive tone broadened as economic activity proved to be more resilient than initially anticipated, in a more benign inflationary context, largely thanks to the normalization of energy prices and the drop in raw material prices. The foregoing, despite the fact that the scenario is not exempt from risk catalysts, such as the banking crisis, the United States rating downgrade, tensions in the Middle East, and the ongoing war in Ukraine, among others.

In short, 2023 was a challenging year in terms of forecasting, with all types of risks (macro-financial, geopolitical, technological, etc.), and subject to a constant rebalancing of uncertainties, with shocks fading, conflicts crystallizing, and tensions emerging.

In 2024, the geopolitical difficulties and other key risks of the past are expected to remain in place, while monetary policy enters a moderation phase pending validation of the effectiveness of the measures taken so far, and fiscal policy is expected to cease being an additional support as it has been in the past. Thus far, the geopolitical uncertainties seem to be contained, although the complexity of the supply chains and their interconnection, as well as the presence of tail risks that did not manifest in 2023, could cause them to resurface and test the resilience of world trade after the global economic realignments (nearshoring and friendshoring).

In relation to economic activity, global performance is expected to be weaker than last year, with a gradual slowdown of growth that could bottom out in the final stretch of 2024 or early in 2025. Inflation will still need to be brought under control, but there is a renewed risk that, in the short term, it could pick up again with the geopolitical issues and less favorable base effects.

In short, the global economy is heading towards a short-term adjustment, seeking a balance between supply and less active demand, with new prices yet to be defined. This scenario suggests a mid-cycle adjustment, in which supply continues to advance gradually and positively, while demand remains at weaker or stagnant levels. Central banks around the world are waiting for this process, seeking to establish a new equilibrium rate or neutral interest rate that adapts to the new price levels. Central bank decisions will play a

crucial role in determining whether the adjustment has been precise enough to prolong the current expansionary cycle, or whether, on the contrary, the cumulative effects of monetary policy indicate a classic end-of-cycle break.

Thus, some decline in economic growth is expected in 2024, followed by a moderate recovery in 2025. The *baseline scenario* considered in this report shows an upward scenario for the global economy (2.3% and 2.6% in 2024 and 2025), while in terms of prices, average inflation of 4.4% and 3.3% is anticipated for these years, respectively. Meanwhile, the *stressed scenario* (alternatively) forecasts weaker global economic growth of 1.4% and 1.5% in 2024 and 2025, with average inflation of around 4.8% and 2.9% for each of these years.

Industry outlook

The effects of tighter financing conditions and the credit squeeze in most of the world's economies on economic activity will continue to be passed on to the real economy in the form of lower growth, thus creating a scenario of moderate growth in business volume for the insurance business. This will especially impact those segments most closely linked to the economic cycle and credit volume, like Motors, those related to construction and business investment, or Life Protection insurance.

On the other hand, expectations of future interest rate cuts by the main central banks are generating downward movements in interest rate curves. However, the high interest rate levels compared to those of the last decade, as well as the expectation that they may continue to drop, will further favor the savings-linked Life insurance business. The environment remains marked by inverted risk-free yield curves in the main markets, particularly in the United States and the Eurozone, which compels us to adapt supply to a situation in which a positive term premium cannot be offered on longer-duration products, due to the negative slope of the interest rate curve.

In terms of credit risk, the rising cost of financing in an environment of high indebtedness and high fiscal deficits of governments, many in the midst of elections, could put pressure on risk premiums in the coming months. Meanwhile, equities performed well in 2023, aided by expectations of lower interest rates. This environment continues to favor the development of Life insurance products in which the policyholder assumes the investment risk, which could shift the composition of the reference assets towards a higher weight of fixed income in the combination of products offered in the market.

Finally, the profitability of the insurance industry, which has suffered in the last two years from the sharp rebound in inflation, is expected to improve due to upward revisions in insurance premiums and moderating growth in insurance companies' costs as price increases are brought under control. On the other hand, the higher financial income of insurance companies' investment portfolios will also contribute to this expected improved profitability. However, the increasing frequency and severity of catastrophic natural events as a result of climate change and, in some markets, more litigation in claims, could push in the opposite direction, putting pressure on profitability and coverage offerings and gradually widening the insurance protection gap.

1. Economic outlook

1.1 The world economic outlook

1.1.1 From a bumpy landing to calm amid the turbulence

In retrospect, 2023 began in a context of heightened uncertainty, the unequivocal transition toward a phase of slowed economic growth and generalized risk events that could lead to "hard landing" scenarios in developed and emerging economies, although with divergences between them[1]. The economies most closely linked to cyclical sectors (industry, manufacturing, and raw materials) started to show the first signs of weakness as compared to the consolidation phase of the service sector-oriented economies. In terms of prices, inflation figures remained unexpectedly persistent and incompatible with the relative passivity of central banks, which are positioned to further tighten financial conditions, albeit sporadically. However, despite renewed concerns in the financial sector, developments at the beginning of the year gradually softened the pessimistic outlook, giving way to moderate optimism, but "with caution," as financial instability persisted.

Over the following quarters[2], the positive tone persisted and broadened as economic activity proved to be more resilient than initially anticipated, in an even more benign inflationary context, thanks to the base effect of 2022, normalization of energy prices, and drop in the price of raw materials. Although not free of risk catalysts (banking crises, U.S. rating downgrades, tensions in the Middle East, the ongoing war in Ukraine, etc.), this unexpectedly more benign scenario allowed for a low-profile reaction in both markets and financial transmission channels, enabling the main central banks to offer a more leisurely, data-dependent roadmap that is generally compatible with the view of the end of the monetary tightening cycle.

Some recessions did occur in several European and Latin American countries towards the end of 2023 and the beginning of 2024, but they were less severe than anticipated. However, recovery from these tenuous recessions has also been modest, showing that growth catalysts have been stagnating and even drying up in some cases. The foregoing situation is also taking place in a fluid and persistent environment of global geopolitical uncertainty, and in a multi-polar context of struggle for regional and global dominance. In short, 2023 was a challenging year in terms of forecasting, with macroeconomic and other types of risks, and subject to a constant rebalancing of uncertainties, with shocks fading, conflicts crystallizing, and tensions emerging.

Short-term vision: is the glass half empty or half full?

In 2024, the geopolitical difficulties and other key risks of the past are expected to remain in place, while monetary policy enters a moderation phase pending validation of the effectiveness of the measures taken so far, and fiscal policy is expected to cease being an additional support as it has been in the past. In relation to economic activity, global performance is expected to be weaker, with a gradual slowdown of growth that could bottom out in the final stretch of 2024 or early in 2025, although the cyclical recovery is expected to be very moderate. Inflation will still need to be brought under control, but there is a renewed risk that, in the short term, it could pick up again as a result of geopolitical tensions and issues (Red Sea) and less favorable base effects.

It should be noted that, to date, geopolitical uncertainties appear to be contained, or at least have proven compatible with the positive development of supply in its rebalancing process with demand. However, the complexity of supply chains and their interconnectedness, as well as the presence of tail risks that did not manifest in 2023, may cause them to re-emerge and test the resilience of world trade following global economic realignments (nearshoring and friendshoring) and test whether the central banks view the demand adjustment as "de facto."

During this phase of the cycle, supply has evolved consistently with demand, so far allowing both to gradually adjust and consolidate inflation (along with economic activity) into a soft landing. However, these processes rarely completely evade an abrupt adjustment throughout their history, so a return to a low-inflation expansion most often ends up being a low-probability event. Specifically, only 5 of these so-called "soft landings" have been identified from 1965 to the present[3], which managed to prolong the expansion of the cycle, most notably in 1995 with Alan Greenspan at the Federal Reserve, which registered what, to date, has been the softest landing. In addition to this dichotomy in the outlook, 2024 may open the door to a scenario with almost 60 global conflicts (Russia-Ukraine, Israel-Hamas, Sahel, Novgorod, India-Pakistan, etc.) and with approximately half of the world's population going to the polls in the coming months to decide the pieces of the global political chessboard.

Taking all these variables into account, the reading[4] is that there is still additional turbulence, which implies the need for a sustained effort to lower inflation, resulting in below-potential growth. This picture (more fragmented in emerging markets due to their domestic vulnerabilities and the various cyclical moments they face) brings a certain skepticism (as opposed to the new optimism) to the *central scenario*, in which the reasoning of a "hard landing" cannot yet be ruled out.

Viewing the horizon: adjustment or end of cycle?

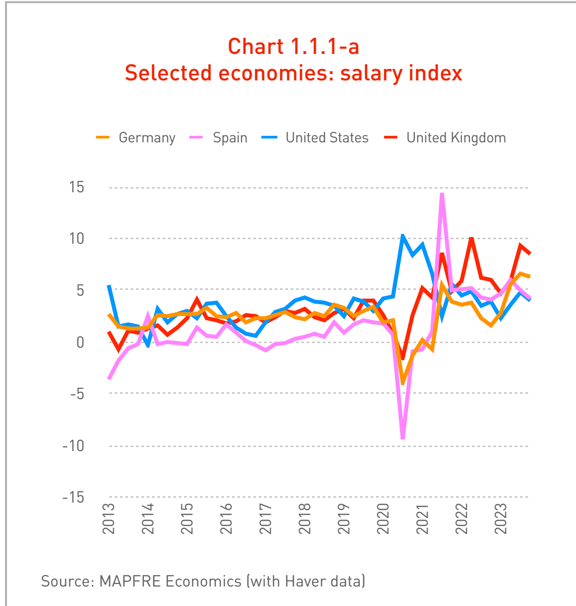
The economy is heading towards a short-term adjustment, seeking a balance between supply and less active demand, with new prices yet to be defined. This scenario suggests a mid-cycle adjustment, in which supply continues to advance gradually and positively, while demand remains at weaker or stagnant levels. In the meantime, central banks around the world are awaiting this process, seeking to establish a new equilibrium rate or neutral interest rate that adapts to the new price and productivity levels. These future decisions will play a crucial role in determining whether the adjustment has been precise enough to prolong the current expansionary cycle, or whether, on the contrary, the cumulative effects of monetary policy indicate a classic end-of-cycle break.

From the demand perspective, consumer behavior is remarkably positive, displaying unexpected resistance and resilience. This resilience has been supported by an unusual "savings cushion" (strengthened during the pandemic), a strong labor market, and expansionary fiscal and monetary policies. Despite these strengths, we anticipate a downward trend due to the challenges and measures adopted to moderate consumer behavior.

Although there is no clear consensus on the current status of accumulated savings, it should stop acting as a positive catalyst[5], especially in the lower income quintiles, which could indicate a final phase of the economic cycle. However, this trend could change in the event of a recovery in real wages (which would allow the savings accumulation phase to resume), or if financial conditions were to ease in the short term, facilitating the flow of credit and contributing to a mid-cycle adjustment.

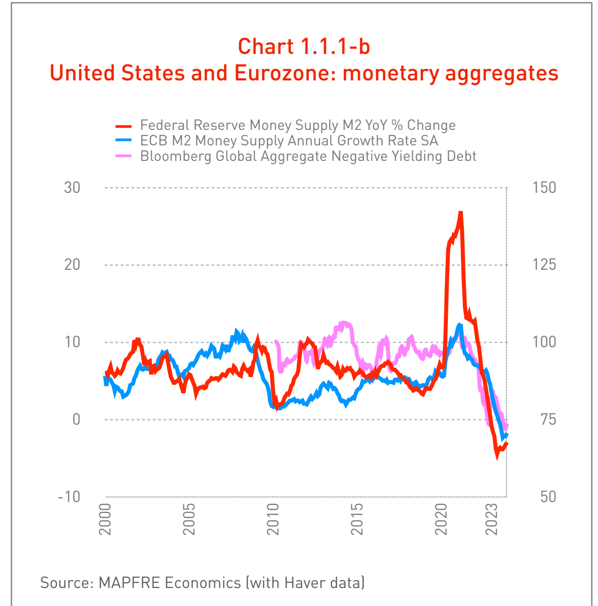
In terms of the strength of the labor market, unemployment rates are currently edging

Chart 1.1.1-a
Selected economies: salary index



Source: MAPFRE Economics (with Haver data)

Chart 1.1.1-b
United States and Eurozone: monetary aggregates

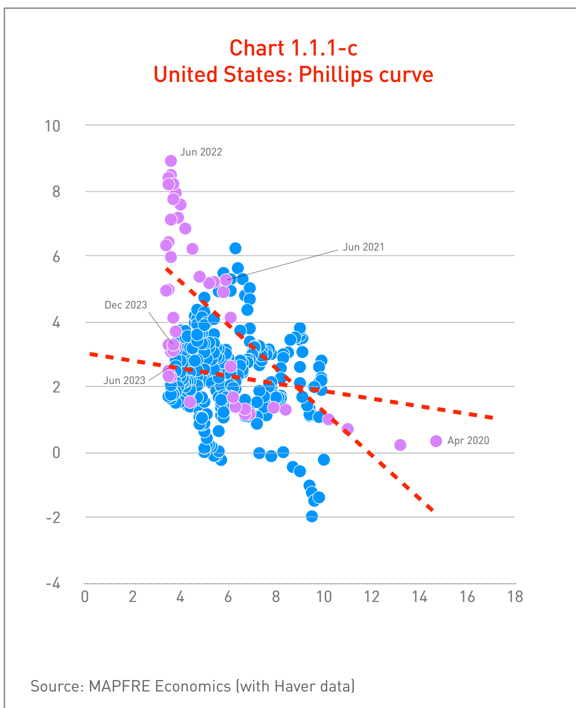


Source: MAPFRE Economics (with Haver data)

towards levels considered natural (NAIRU), statistically suggesting an end-of-cycle stage. However, due to the current situation and structural challenges, as indicated by the Beveridge and Phillips curves (which point to a mismatch in labor skills), these factors could be affecting supply recovery and accelerating wage demand. Taken together, these elements contribute to an adjustment outlook in the middle of the economic cycle (see Charts 1.1.1-a to 1.1.1-d).

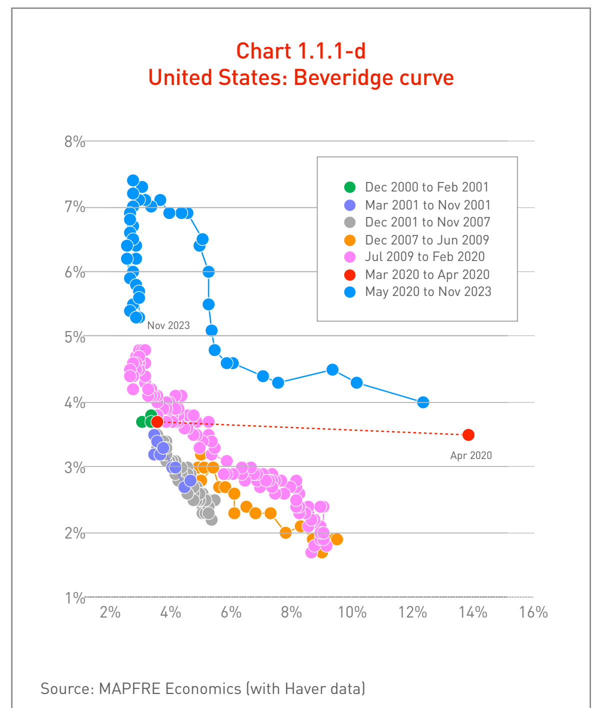
However, from a supply-side perspective, predictability becomes quite complex in the current economic cycle. The supply chain crisis triggered by the pandemic has revealed global vulnerabilities, dependencies, and interconnections. Currently, public and private attention is focused worldwide on addressing these challenges, with special emphasis on the nearshoring and friendshoring process, whose advances have been beneficial for inflation control.

Chart 1.1.1-c
United States: Phillips curve



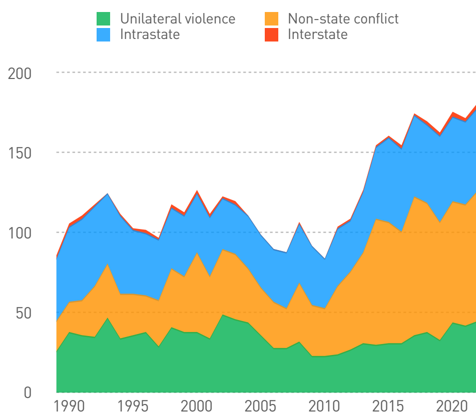
Source: MAPFRE Economics (with Haver data)

Chart 1.1.1-d
United States: Beveridge curve



Source: MAPFRE Economics (with Haver data)

Chart 1.1.1-e
Global: armed conflicts in progress



Source: MAPFRE Economics (with Uppsala Conflict Data Program data)

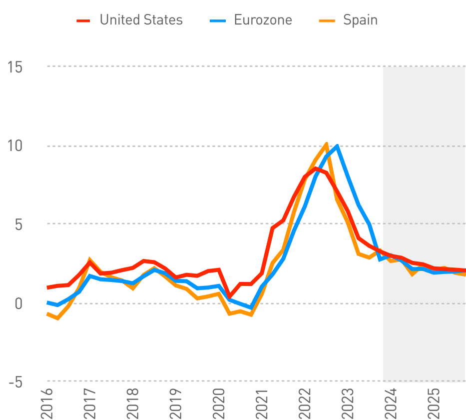
The recent conflict in the Middle East and events in the Red Sea add a new rift to a multipolar world, increasing the threat of a definitive rupture (see Chart 1.1.1-e). This serves as an unfortunate reminder of history and poses new challenges for global economic stability (see Box 1.1.1-a).

In terms of inflation, the results to date have also shown positive momentum, overcoming the persistence stage and shaping a phase of moderation that is more agile than initially expected. This drop in price growth momentum has been caused by lower pressure from supply factors (mainly energy and raw materials) and, to a lesser extent, by the weakening of the economy.

From a cyclical adjustment perspective, we would expect a short term, non-durable pickup in inflation, with the end of base effects in energy and raw material prices, wages not leading to second-round effects, and headwinds from tight fiscal and monetary policies, which, if unchallenged, would help consolidate deflationary forces, anchor the available supply, and allow for a more stable price phase.

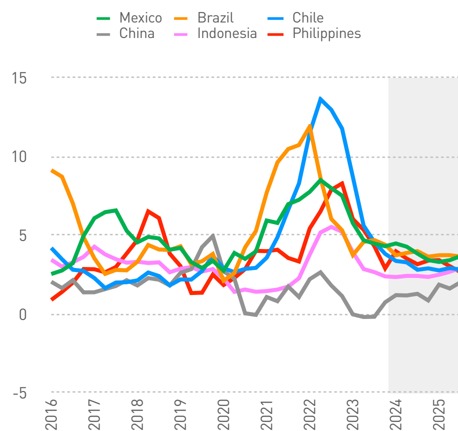
Meanwhile, these price dynamics, far from being synchronized, seem to respond to increasingly divergent movements, associated with a combination of endogenous and exogenous forces, and with the specific channeling mechanisms for these pressures (there is less control over supply development than over demand development). These elements appear both in the comparison between emerging and developed markets (with the former responding earlier and moving faster and more nimbly to control inflation), and within the blocs themselves (due to both vulnerabilities to supply-side factors and greater sensitivity of demand to monetary policies). As a result, divergences will continue to be a differentiating factor in the process (see Charts 1.1.1-f to 1.1.1-i).

Chart 1.1.1-f
Developed markets: inflation
(%)



Source: MAPFRE Economics (with Haver data)

Chart 1.1.1-g
Emerging markets: inflation



Source: MAPFRE Economics (with Haver data)

Box 1.1.1-a
Comparative analysis of global risks

Global risks

An analysis has been conducted to assess the correct framing of risks that could trigger a transition between a central scenario and a tail-risk scenario. In this analysis, a review of risks considered by the global consensus, as expressed in the World Economic Forum (WEF) reports, has been conducted, categorizing and scoring these risks according to the subjective assessment made in these reports, and contrasting these risks against those selected by MAPFRE Economics in its short-term risk balance sheet (see Chart 1.1.4 of this report). The purpose of this analysis is to verify whether the risks identified by MAPFRE Economics are comparable with those of the consensus in terms of: *validity* (term of occurrence), *probability* of occurrence, *severity* (expected cost), and *centrality* (relationship with other risks). An analytical tool (www.gephi.org) was used to create networks of relationships between risks and analyze their structure. Using the taxonomy and valuation of the risks included in the WEF Global Risk Report, a structure of relationships between risks was created to analyze the aforementioned dimensions, superimposing these risks with those identified by MAPFRE Economics.

Chart A represents the risk interconnectedness map the WEF considers in its reports, including the recently published 2024 report. The system was assigned a score that summarizes the *severity, validity*, and *expected cost* of each of the risks. The *direction* and *intensity* of the relationship of each of these risks with the other risks considered by the WEF was also attributed. The risks were not categorized, but rather the Gephi analysis tool was used to find the risk clusters or groupings most consistent with the topological shape revealed by their nodes and connections.

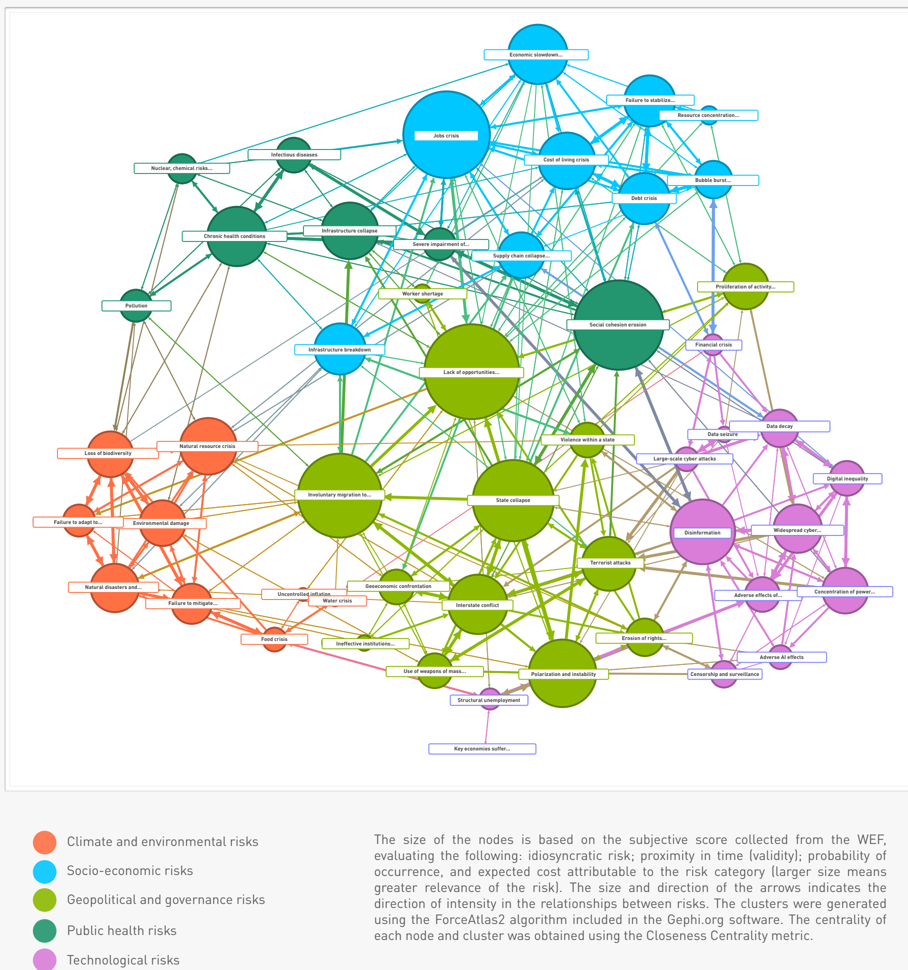
The analysis shows the existence of five categories. First, dark green, which contains social and health (*socio-sanitary*) nodes. Second, light green, which groups *geopolitical and governance*. Third, blue, which includes the *socio-economic* nodes. Fourth, purple, which mostly deals with technological issues and their effect on society (*technological*). And finally, orange, which covers *climate* issues. These make up the five risk groupings included by the WEF, reflecting both the structure of the interrelationship between them (connecting lines) and the importance of each in terms of severity, validity, and probability (node size).

Clearly the tool has considered the socioeconomic, socio-sanitary, and geopolitical clusters as central (they are at the center of the structure), and they present higher values (severity, validity, and probability) than the rest, alerting us to the importance of these risks. Technological risks are further removed from the center of the structure, although visibly related to the previous groupings, while ecological risks are not only further removed, but apparently smaller. Also, ecological risks have weaker links with other risks (although strong links with each other), something that can be attributed to a perception bias about the importance of climate and health risks.

However, focusing on one of the measures of centrality par excellence, closeness centrality (which measures the inverse of a node's average distance from all other nodes), the nodes with the highest score, i.e., the most central and therefore the easiest to propagate their effects, are the erosion of social cohesion, collapse of states, and large-scale involuntary migration, which seem to have strong implications for other risks, in addition to being relevant elements per se. It is equally striking that, if the top ten nodes are ordered in terms of their closeness centrality score, only large-scale cyberattacks and natural disasters, in eighth and tenth place, respectively, break the dominance of the geopolitical and socioeco-

Box 1.1.1-a (continued)
Comparative analysis of global risks

Chart A.
Global: interconnected risk map based on reports from the World Economic Forum (2018–2024)



The size of the nodes is based on the subjective score collected from the WEF, evaluating the following: idiosyncratic risk; proximity in time (validity); probability of occurrence, and expected cost attributable to the risk category (larger size means greater relevance of the risk). The size and direction of the arrows indicates the direction of intensity in the relationships between risks. The clusters were generated using the ForceAtlas2 algorithm included in the Gephi.org software. The centrality of each node and cluster was obtained using the Closeness Centrality metric.

Source: MAPFRE Economics

nomic group that occupies the rest of the top ten places.

Therefore, the analysis of the WEF 2018–2024 risk universe reveals that the groupings of socio-economic, governance, and geopolitical risks are the most relevant in terms of probability, cost, interaction, and duration; a conclusion shared by MAPFRE Economics' risk analysis.

Box 1.1.1-a (continued)
Comparative analysis of global risks

Comparison versus the MAPFRE Economics short-term risk analysis

The risks MAPFRE Economics considers in its analyses are examined below under the same prism used for the risks identified by the WEF. The risks identified by the WEF corresponding to the MAPFRE Economics' *Economic and Industry Outlook* risk chart have been marked in the above-mentioned chart.

Energy markets. Several risks within this category stand out for their influence on the economic environment. Oil and gas prices, war tensions in the Middle East, OPEC production cuts, supply shock, and inflation are intertwined from 2018 (economic risks), 2019 (geopolitical risks), and into 2020 (inflation). These elements make up a complex network of challenges that directly affect the dynamics of energy markets, and therefore the global economy. Consequently, these are economic risks which are the most prevalent subjective risks at present.

Inflation. Inflation, considered and mentioned since 2020, is linked to past monetary policy, the spike in energy prices, and wage renegotiations. It emerges as a persistent risk rooted in factors identified as early as 2018 (such as the trade war initiated by the Trump Administration, among others) and has contributed to the complexity of the global economic scenario, influencing monetary policy decisions and financial stability. As with the foregoing, it is a risk with maximum validity, probability, and cost in the short-term. The overall subjective assessment is very high.

Financial risk and global debt. Global debt, rising interest rates, balance sheet reduction policies, and geopolitical conflicts form a set of risks that have been in place since 2018 and 2019, and can be categorized as economic and geopolitical risks. These intricately interrelated elements have shaped the trajectory of global financial markets and pose challenges to global economic stability. Their validity and prevalence is high.

Economic policy. On the policy front, the combination of tight monetary policy, government stimulus policies, access to credit, and real estate risks has been present since 2018 (economic risks) and 2019 (geopolitical risks). These variables have defined governments' response to economic challenges and have impacted risk management at a global level. Again, these are global economic and geopolitical risks of maximum prevalence in the global psyche.

Financial and real estate tension in China. Financial and real estate tension in China, linked to economic growth, monetary policy, and real estate risks, has been a persistent concern since 2018 (economic risks) and 2019 (geopolitical risks). This phenomenon highlights the importance of the Chinese economy on the global stage and its influence on financial stability. It is a risk of high validity and probability with a considerable real cost, but its centrality is not as great as one might assume, given that the Chinese economy is relatively isolated (financially speaking) from the world.

Real estate markets. Risks related to rising interest rates, construction and new buildings, and monetary policy transmission, as well as real estate risks, have been a constant since 2018 (economic risks). These elements highlight the sensitivity of real estate markets to economic and financial factors, contributing to global risk dynamics. This is a current economic risk, very probable, and with high severity, although less severe than that experienced in the 2008 crisis (thanks to the reorganization of the financial system and household balance sheets). It computes, therefore, at a middle level lower than what our reference taxonomy would indicate.

Box 1.1.1-a (continued)
Comparative analysis of global risks

Climate change. The risk associated with climate change, manifested in extreme weather events, energy transition, and impact on competitiveness, has been present since 2019 (environmental risks). This risk highlights the need to address environmental vulnerabilities and their connection to global economic activity. Despite having an enormous implicit cost and being a proven fact, the global psyche (according to the WEF) perceives it as a distant, and therefore relatively minor risk.

Geopolitical environment. The crisis in the Middle East, support for Israel and Ukraine, and conflicts in Europe and Asia have influenced global governance since as early as 2019 (geopolitical risks). The interrelationship of these events reflects the geopolitical complexity and the importance of addressing risks holistically. The implicit consensus valuation is very high, but always less compelling than the global economic risks. In short, these risks, present since 2018, have evolved and demonstrated their interconnectedness over time, underscoring the need to address economic and geopolitical challenges in a holistic manner. The historical analysis provides a contextualized view that highlights the changing dynamics of the global environment and the importance of effective risk management for global economic stability.

The fundamental conclusion of this comparative analysis of what the consensus considers to be relevant and urgent in terms of risks, based on the described metrics, is equally applicable to the risks that MAPFRE Economics identifies as potential catalysts for a change of scenario, facilitating the transition from a central scenario to a negatively biased tail-risk scenario.

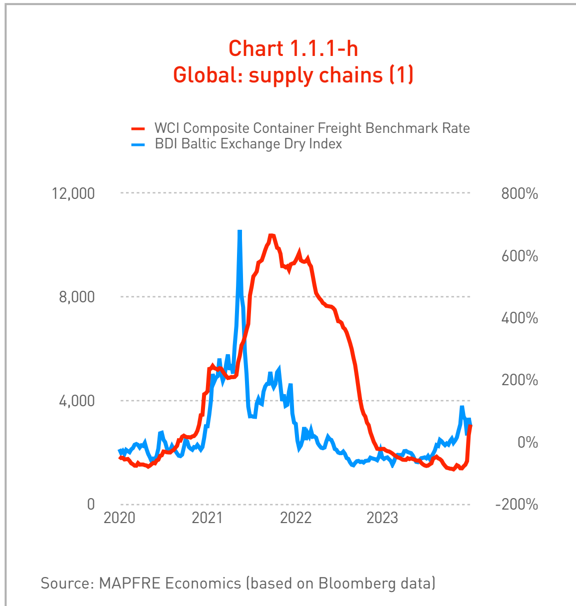
Source: MAPFRE Economics

Due to the current uncertainty in the supply-demand balance, the developing cyclical phase, and global disparities, monetary policy presents a still-unclear and diverse roadmap. Some central banks in emerging countries are cutting interest rates (including Brazil, Chile, and Peru), while others, such as the United States and Australia, are more accommodative and closer to a possible change of direction. Meanwhile, some central banks, such as those of Europe, Canada, and the United Kingdom, adopt a more reflective stance, without reaching definitive conclusions.

There are some exceptions, however. Such is the case of the Bank of Japan, which is to some extent removed from the global economic cycle, and of countries that are debating the recovery of monetary orthodoxy and the credibility and independence of their monetary authorities (Argentina and Turkey).

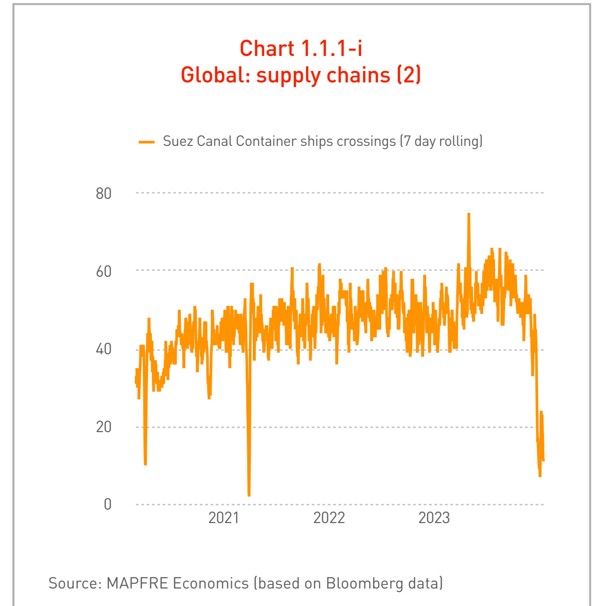
A priori, the dichotomy between economic activity and prices maintains a reading more biased towards cuts, given the expected weakness of the former and the absence of second-round effects of the latter (a more accommodative group of central banks). However, the reality is that caution is warranted, as it is still unclear which way inflation will gravitate, and also because the port of entry to new pressures is once again vulnerable to supply shocks (a group of central banks declaring that it is too early to let their guard down). An additional variable is that several monetary policy rules are beginning to point to the appropriateness of eliminating certain constraints (the Taylor Rule would indicate the need for interest rate cuts). This would favor the position of the more complacent group of central banks while fulfilling the expectation of a soft landing that would give way to an ongoing cycle, as opposed to the prudent group, fearful of an error that would lead to a break in the cycle.

Chart 1.1.1-h
Global: supply chains (1)



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.1.1-i
Global: supply chains (2)

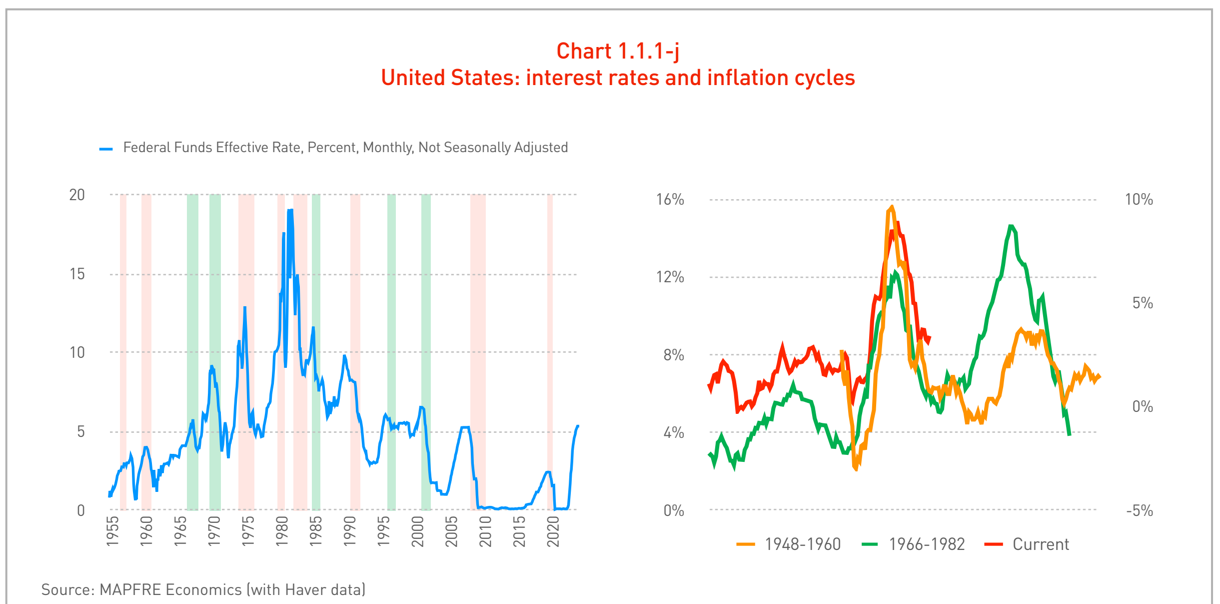


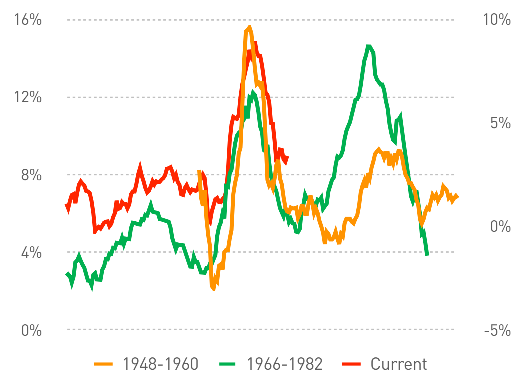
Source: MAPFRE Economics (based on Bloomberg data)

This difficulty in determining the terminal rate is also justified from a historical point of view, since, looking at the culmination of past cycles, central banks have been wrong more times than right. Major mistakes include that of the 1970s, when a looser monetary policy during the 1972 presidential campaign and OPEC oil price increases in 1973 ended with an inflationary shock, as well as the mistake of the 1980s, where Federal Reserve Chairman Paul Volcker raised interest rates to nearly 20%, causing a deep economic recession. In any case, the certainties are once again focused on the fact that inflation has not decreased enough to solve the problem and that markets will remain impatient for solutions to be adopted by central banks. History suggests that recessions with a turn of the cycle lead to sharp rate cuts, but also reveals that, even in the absence of a recession, rate cuts may still be warranted to adjust the neutral rate to a new economic situation (see Chart 1.1.1-j).

Another great unknown for 2024 centers on the fiscal policy framework. As spending options become more constrained in many economies and incomes become more limited, moderation emerges as a central

Chart 1.1.1-j
United States: interest rates and inflation cycles





Source: MAPFRE Economics (with Haver data)

Chart 1.1.1-k
Global: the fiscal conundrum

Source: MAPFRE Economics

scenario. Generally speaking, however, concerns are not expected to disappear, at least in the short term and as long as the need for financing large deficits remains (see Chart 1.1.1-k).

This factor does not negate the assumptions described above (expecting a limited impact), but further overshooting could sterilize some of the gains made by central banks and add stress along the yield curve. The image of below-potential economic growth, a restrictive policy that limits budgets, and somewhat less support required in certain sectors of the economy, suggests a more responsible and less expansive fiscal policy, also in line with the cyclical moment (see Box 1.1.1-b). However, it is plausible that the prediction may not come true, considering the global election year ahead, the trends of an increasingly widespread populist political phenomenon in the world, and the need to offer solutions to structural challenges.

In conclusion

It is safe to say that much more precise progress on inflation is still needed, so unfortunately this macroeconomic chapter cannot be considered closed. This leaves a monetary policy that cannot end the cycle (extension stage), or reject the idea of cuts in 2024. Therefore, there remains a more "wait and see" posture dependent on new data, especially regarding the health of supply and the latest developments in the Red Sea, as they could dictate the speed of change more significantly than demand (with prospects of continued stagnation).

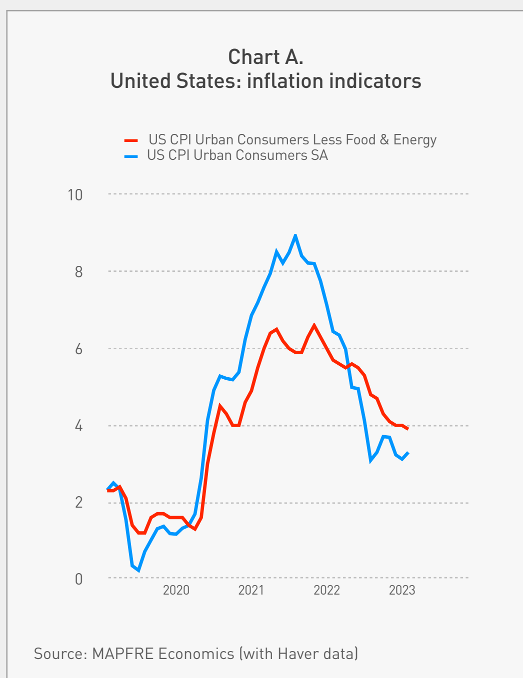
In the meantime, fiscal policy is facing record debt levels, high interest rates, and a macroeconomic picture highly influenced by local idiosyncrasies, and above all, geopolitics, which are currently decisive for essential issues such as: the new global industrial policy, strategies to cover local vulnera-

Box 1.1.1-b
Monetary policy update

Federal Reserve

At its December meeting, the U.S. Federal Reserve kept the benchmark interest rate in the range of 5.25%-5.50%, as it had at its two previous meetings. In terms of projections regarding the future path of monetary policy easing, the Federal Open Market Committee (FOMC) dot plot anticipates further rate cuts in 2024 and 2025 compared to the previous quarter. This involves following a progressive decline to reach a *terminal rate* of 4.6% in 2024 (50 basis points lower than the rate agreed at the September meeting), and a *final rate* of 3.6% at the end of 2025 (30 basis points lower than in September) and 2.9% by the end of 2026 (unchanged). Regarding balance sheet reduction, the Federal Reserve remains on track to reduce securities holdings over time at the rate established in September 2022, of 95 billion dollars per month, through 60 billion dollars in Treasury Bonds and the remainder in the maturity of Mortgage Backed Securities (MBS). It should be noted that no changes were announced in this amount or in the composition of the portfolio for sale.

Chart A.
United States: inflation indicators



Source: MAPFRE Economics (with Haver data)

In addition, although the dot plot points to a reduction of up to three 25-basis-point cuts in 2024, it does not exclude the possibility of an interest rate hike if the macroeconomic and risk environment so demands. Similarly, it considers a slowdown in the economic growth trend with respect to Q3, as well as a decrease in inflation with respect to last year, but which remains at relatively high levels that do not ensure price control, with the risk of a wage-price spiral still in place (see Chart A).

Meanwhile, Chart B illustrates the monetary bias, which has not readjusted since the pandemic as inflationary pressures grew and the output gap narrowed. A change in bias is expected with the first cuts in 2024 (with only their start in question, given the Federal Reserve's data-dependent posture), with more controlled inflation (2.4% in 2024 and 2.2% in 2025), an output gap close to 0%, and the narrowing of the rate gap dictated by the Taylor Rule in 2023, after a historically accelerated and aggressive monetary cycle.

In terms of fiscal policy, fiscal expansion is expected to decrease compared to 2023, when the deficit went from 5.4% of GDP in 2022 to 6.3% in 2023 (fiscal years). This level of public deficit was only surpassed in recent years after the crisis surrounding the COVID-19 pandemic and the 2008 global financial crisis, so its development will be closely monitored, not only because of the necessary consequences of the change in monetary bias, but also because of its implications for the financial markets. Political polarization, the resulting disagreements over the debt ceiling, and the lack of fiscal measures to reduce the public deficit maintain uncertainty over fiscal policy.

Thus, both balance sheet and liquidity measures deepened the contractionary monetary bias in the United States in 2023, where there was also a fiscal expansion to try to offset the recessionary effects of monetary tightening. With the change in the monetary bias expected in 2024, and given the high level

Box 1.1.1-b (continued)
Monetary policy update

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

Source: MAPFRE Economics

* Variables expressed as differences

of fiscal deficit in 2023, a lower fiscal policy stance is expected due to the political deadlock and with presidential elections looming.

European Central Bank

At its December meeting, the European Central Bank (ECB) kept official interest rates unchanged, holding the marginal lending rate at 4.75%, the rate on main refinancing operations at 4.50%, and the deposit facility at 4.00%. This continues the trend demonstrated at the October meeting where, for the first time, interest rates were maintained after the period of monetary tightening. On the balance sheet side, the ECB did not provide any update on the Asset Purchase Programme (APP), so it expects to maintain the balance sheet reduction path, on average, of 15 billion euros per month. However, with respect to the Pandemic Emergency Purchase Programme (PEPP), the bank has announced a gradual reduction in reinvestment six months earlier than planned. It will reinvest the principal of purchased securities maturing during the first half of 2024, and it expects to reduce the portfolio by 7.5 billion euros per month during the second half, ceasing reinvestments at the end of 2024. This gradual reduction seeks to mitigate the risks of financial instability in the debt markets.

Chart C shows how the restrictive monetary policy was activated in 2021, given the impossibility of keeping the refi rate at 0.0% due to growing inflation consolidated by the energy component and aggravated by the Russian invasion of Ukraine. In this sense, given the ECB's inflation expectations, which forecast a downturn by 2024, a shift in monetary bias towards an expansionary policy to help close the negative output gap is warranted. Thus, the gap with respect to the Taylor interest rate is expected to be close to zero by the end of 2024.

Meanwhile, European fiscal policy has so far followed an expansionary path, mainly in view

Box 1.1.1-b (continued)
Monetary policy update

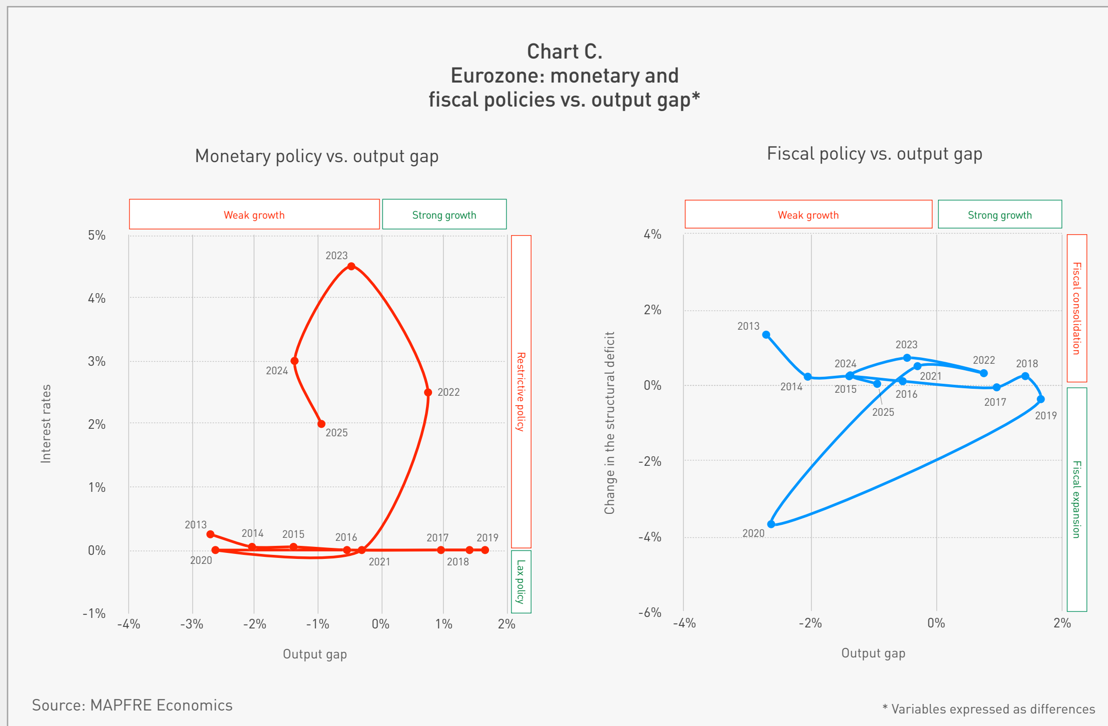


Chart C.
Eurozone: monetary and fiscal policies vs. output gap*

Source: MAPFRE Economics

of the need to promote policies that decrease its energy dependence while encouraging digital transformation and sustaining the European economies most impacted by the COVID-19 pandemic in previous years. Against this backdrop, the different economies of the region have maintained divergent paths with respect to fiscal deficits in 2023 (Italy, France and Belgium with -4.0%, -4.5%, and -4.8%, respectively, and the Netherlands, Germany, and Portugal with -1.9%, -1.7%, and -0.1%, in each case). However, a decrease in public debt in the Eurozone is expected, and in fact, there are already signs in this direction following the announcement that the European Council and Parliament are beginning negotiations on the Stability Pact. The latter promotes a series of reforms to the fiscal rules in member countries while maintaining the maximum limit of a 3% YoY deficit and a public debt ceiling of 60%, and whose achievement plans will be adaptable to the heterogeneity of the European economies, this being the main difficulty for the negotiations.

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

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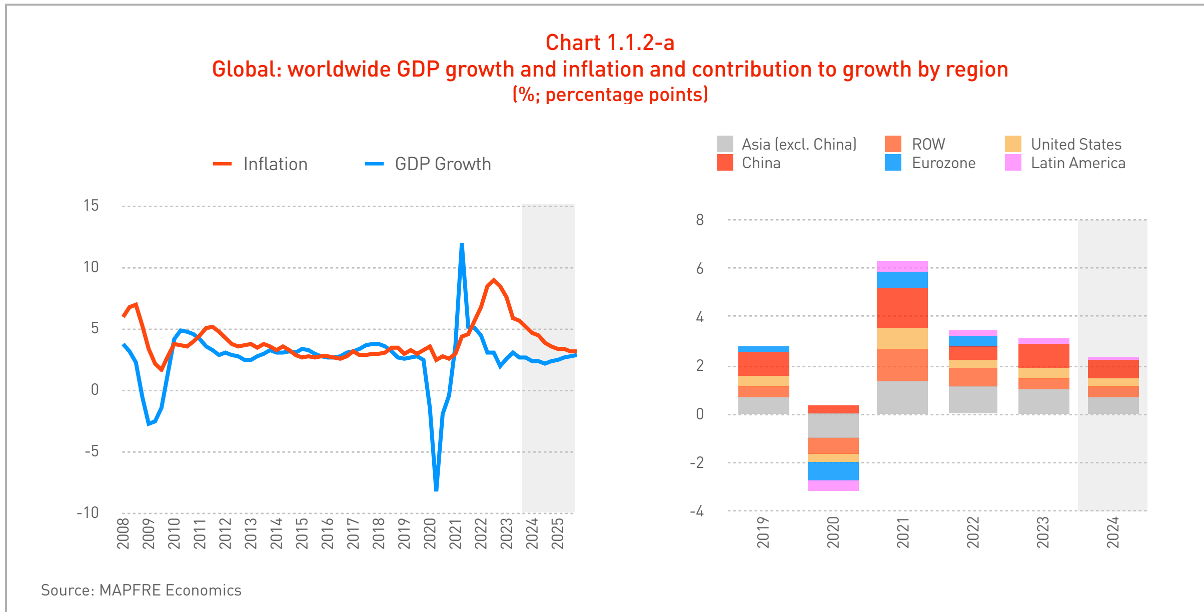
bilities (energy and non-energy raw material dependence in Europe) and diversification policy, increased defense spending, energy transition, and the rising financial costs of debt in an environment of strong private and public leverage on a global scale.

1.1.2 Regional perspectives and dynamics

Overall, some decline in global growth is expected in 2024, followed by a moderate recovery in 2025, which would mean global GDP growth of 2.3% and 2.6%, respectively, thereby reflecting some weakness below both potential and the average of recent decades. Inflation remains on a path of

Chart 1.1.2-a
Global: worldwide GDP growth and inflation and contribution to growth by region
(%; percentage points)

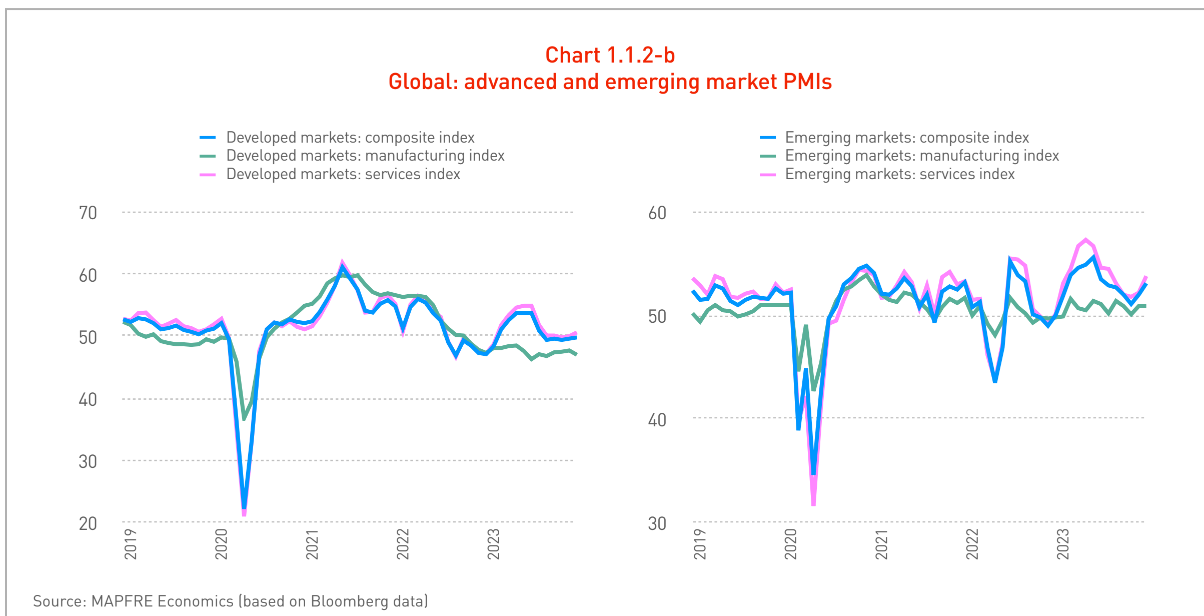


Source: MAPFRE Economics

sustained disinflation through 2024 (averaging 4.4%), although still characterized by unsynchronized behavior, while by 2025 the dominant dynamic will be rates within the central banks' control zone (which could bring it to an average of around 3.3%). In short, lower activity combined with lower price pressures offers a less stagflationary picture, with more balanced risks, and in a sense, more controlled by central banks, dynamics that offer a more fragmented picture in the breakdown, in line with the current geopolitical context and the most recent developments (see Chart 1.1.2-a and Table 1.1.2).

In the United States, the contribution to growth decreases in 2024, with a slowdown expected throughout the year (postponed from 2023), which will nevertheless allow it to maintain a leading role within the group of developed economies. At the same time, further progress in inflation is expected as demand slows and there is less reliance on supply-side issues. In response, the Federal Reserve is expected to begin lowering interest rates in June, possibly accompanied either by a slowdown in the balance sheet reduction program following the expiration of the BTFP (Bank Term Funding Program), which keeps the regional banking sector on

Chart 1.1.2-b
Global: advanced and emerging market PMIs



Source: MAPFRE Economics (based on Bloomberg data)

Table 1.1.2
Selected economies: manufacturing PMIs

	06/30/2022	07/31/2022	08/31/2022	09/30/2022	10/31/2022	11/30/2022	12/31/2022	01/31/2023	02/28/2023	03/31/2023	06/30/2023	05/31/2023	06/30/2023	07/31/2023	08/31/2023	09/30/2023	10/31/2023	11/30/2023	12/31/2023
Austria	51.2	51.7	48.8	48.8	46.6	46.6	47.3	48.4	47.1	44.7	42.0	39.7	39.0	38.8	40.6	39.6	41.7	42.2	42.0
Brazil	54.1	54.0	51.9	51.1	50.8	44.3	44.2	47.5	49.2	47.0	44.3	47.1	46.6	47.8	50.1	49.0	48.6	49.4	48.4
Canada	54.6	52.5	48.7	49.8	48.8	49.6	49.2	51.0	52.4	48.6	50.2	49.0	48.8	49.6	48.0	47.5	48.6	47.7	45.4
China	51.7	50.4	49.5	48.1	49.2	49.4	49.0	49.2	51.6	50.0	49.5	50.9	50.5	49.2	51.0	50.6	49.5	50.7	50.8
Czech Republic	49.0	46.8	46.8	44.7	41.7	41.6	42.6	44.6	44.3	44.3	42.8	42.8	40.8	41.4	42.9	41.7	42.0	43.2	41.8
Developed markets	52,5	51.2	50.2	50.1	48.8	47.8	47.3	48.1	48.1	48.4	48.5	47.6	46.3	47.1	46.8	47.4	47.5	47.7	47.0
Emerging markets	51.7	50.8	50.2	49.3	49.8	49.7	49.8	49.9	51.6	50.7	50.5	51.4	51.1	50.2	51.4	50.9	50.1	50.9	50.9
European Union	51.6	49.3	49.1	48.1	46.1	46.7	47.5	48.6	48.3	47.3	45.8	44.9	43.4	42.7	43.4	43.4	43.2	44.4	44.5
Eurozone	52.1	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.4	42.7	43.5	43.4	43.1	44.2	44.4
France	51.4	49.5	50.6	47.7	47.2	48.3	49.2	50.5	47.4	47.3	45.6	45.7	46.0	45.1	46.0	44.2	42.8	42.9	42.1
Germany	52.0	49.3	49.1	47.8	45.1	46.2	47.1	47.3	46.3	44.7	44.5	43.2	40.6	38.8	39.1	39.6	40.8	42.6	43.3
Greece	51.1	49.1	48.8	49.7	48.1	48.4	47.2	49.2	51.7	52.8	52.4	51.5	51.8	53.5	52.9	50.3	50.8	50.9	51.3
India	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5	56.0	54.9
Indonesia	50.2	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7	50.3	52.5	53.3	53.9	52.3	51.5	51.7	52.2
Ireland	53.1	51.8	51.1	51.5	51.4	48.7	48.7	50.1	51.3	49.7	48.6	47.5	47.3	47.0	50.8	49.6	48.2	50.0	48.9
Italy	50.9	48.5	48.0	48.3	46.5	48.4	48.5	50.4	52.0	51.1	46.8	45.9	43.8	44.5	45.4	46.8	44.9	44.4	45.3
Japan	52.7	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5	48.7	48.3	47.9
Mexico	52.2	48.5	48.5	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1	50.5	50.9	53.2	51.2	49.8	52.1	52.5	52.0
The Netherlands	55.9	54.5	52.6	49.0	47.9	46.0	48.6	49.6	48.7	46.4	44.9	44.2	43.8	45.3	45.9	43.6	43.8	44.9	44.8
Poland	44.4	42.1	40.9	43.0	42.0	43.4	45.6	47.5	48.5	48.3	46.6	47.0	45.1	43.5	43.1	43.9	44.5	48.7	47.4
Russia	50.9	50.3	51.7	52.0	50.7	53.2	53.0	52.6	53.6	53.2	52.6	53.5	52.6	52.1	52.7	54.5	53.8	53.8	54.6
South Korea	51.3	49.8	47.6	47.3	48.2	49.0	48.2	48.5	48.5	47.6	48.1	48.4	47.8	49.4	48.9	49.9	49.8	50.0	49.9
Spain	52.6	48.7	49.9	49.0	44.7	45.7	46.4	48.4	50.7	51.3	49.0	48.4	48.0	47.8	46.5	47.7	45.1	46.3	46.2
Taiwan	49.8	44.6	42.7	42.2	41.5	41.6	44.6	44.3	49.0	48.6	47.1	44.3	44.8	44.1	44.3	46.4	47.6	48.3	47.1
Turkey	48.1	46.9	47.4	46.9	46.4	45.7	48.1	50.1	50.1	50.9	51.5	51.5	51.5	49.9	49.0	49.6	48.4	47.2	47.4
United Kingdom	52.8	52.1	47.3	48.4	46.2	46.5	45.3	47.0	49.3	47.9	47.8	47.1	46.5	45.3	43.0	44.3	44.8	47.2	46.2
United States	52.7	52.2	51.5	52.0	50.4	47.7	46.2	46.9	47.3	49.2	50.2	48.4	46.3	49.0	47.9	49.8	50.0	49.4	47.9
Vietnam	54.0	51.2	52.7	52.5	50.6	47.4	46.4	47.4	51.2	47.7	46.7	45.3	46.2	48.7	50.5	49.7	49.6	47.3	48.9
Global	52.2	51.1	50.3	49.8	49.4	48.8	48.7	49.1	49.9	49.6	49.6	49.6	48.8	48.6	49.0	49.1	48.8	49.3	49.0

Source: MAPFRE Economics (based on Bloomberg data)

life support, or by a new program with new acronyms to replace it (offsetting part of the maturities).

Meanwhile, the Eurozone continues to offer a stagnant outlook, with demand weakness that may partly offset supply volatility, thus offering a somewhat rougher path back to 2% inflation. If disinflation is confirmed (and in the absence of relevant shocks), the European Central Bank (ECB) would be in a position to follow the Federal Reserve, both in its race to reduce interest rates and in balance sheet policy, providing some relief in financing, in a way that would address the structural challenges facing the bloc. In short, in 2024, European economic activity is expected to remain weak and lacking clear growth drivers, but could begin a gradual recovery in the final stretch of the year or early 2025.

The outlook for emerging markets in terms of economic activity and prices remains virtually unchanged, consolidating the trend of providing a positive tone in terms of growth contribution and more comfortable inflation rates that will allow them to continue leading the global easing cycle, but maintaining certain local vulnerabilities, divergences, and gaps that are still far from being closed. Latin America will continue to consolidate winners and losers in this new multipolar world; however, reduced foreign demand will be felt in the 2024 figures, reinforcing the need for a satisfactory exit from restrictive monetary policies to date. The general tone will remain positive, with the countries benefiting from nearshoring and friendshoring continuing to lead regional growth, with the exception of Argentina, where a sharp adjustment is expected. The inflation outlook will continue to become more moderate, allowing for a return in most cases toward central bank target ranges in 2024, a process that will reaffirm monetary policy progress and support additional interest rate cuts later in the year.

As for Asia, although the region shows less comfortable inflation dynamics, it will remain compatible with acceptable growth rates, maintaining its position as the main buffer to global growth, overcoming the region's hotspots of stress. China, however, shows marginal gains from the last review, with the growth range settling at a new potential that could be below 5% and deflation risk not dissipating (government supports remain cautious). This combination, together with the unresolved real estate crisis and its reduced presence in supply chains, translates into a lower overall contribution to growth, but also a lower deflationary force that is difficult to replace.

Therefore, in the short term, the global economy will continue to move towards a slowdown environment controlled by central banks until there is confirmation that the inflationary chapter has been overcome. If the price stability script is followed, their initiative is expected to pivot to providing more balanced monetary policies and allowing interest rate sensitive portions of the economy to begin to recover in the run-up to 2025. The most likely scenario of rejecting this hypothesis is a stage in which geopolitical tensions lead to more stagflation, under new supply shocks that reject the current price dynamics and lead to interest rates that remain at the top of the cycle for longer periods of time. Under this framework of scenarios, the different positions of central banks are based on the conventional wisdom that supply shocks cannot be solved on the demand side, and on the historical review of past events that reveal the risks involved in each monetary cycle.

1.1.3 Scenarios and forecasts

Baseline scenario

The *baseline scenario* considered in this report presents a generalized decline in global growth, to below potential in 2024, and a gradual recovery by 2025, showing a soft landing. Factors behind this projection include the constraints of a still-tight monetary policy, a weaker consumer, as well as a combination of more prolonged weakness in the manufacturing sector and less expansion in the services sector, which is leaving its cyclical peaks behind.

In terms of inflation, this scenario projects moderation supported by reduced pressure from services, a contribution that will remain *sub-par* in goods, and more stable energy and food prices. Specifically, the oil price forecast has been revised downward (75 dollars per barrel vs. 80 dollars per barrel in the previous report), due to rising U.S. production, OPEC+ plans to extend voluntary cuts in daily production until Q1 2024, and the subdued response of raw material markets to geopolitical conflicts. These elements facilitate both inflation's return to long-term averages and central banks' attainment of their targets, although they remain slightly higher in 2024, without allowing the inflationary chapter to close until 2025.

In terms of monetary policy, improved inflation makes it more likely that the Federal Reserve and other central banks in developed economies will begin to ease their monetary policies towards more favorable conditions, while emerging countries are strengthened to continue with the stage that has already begun. In more detail, a sharp turnaround in the Fed's monetary stance is not expected, but rather a moderation in the second half of the year. Thus, the first Fed cut is now expected to take place in June, providing 150 basis points of easing through the end of the year. Even with this revision, our view under the baseline scenario remains somewhat less aggressive than the prevailing market view. In 2025, the adjustment pace is expected to remain gradual and consistent with a neutral rate in line with inflation within target ranges. The same downward scenario is envisaged for the European Central Bank, but with a slight delay compared to the Federal Reserve, pending confirmation of the development of tensions in the shipping and energy markets.

Thus, the baseline scenario forecasts some decline in economic growth during 2024, followed by a moderate recovery in 2025, with positive overall economic activity (2.3% and 2.6% in 2024 and 2025), while price inflation for these years is forecast to average 4.4% and 3.3%, respectively (see Tables A-1 and A-2 in the Appendix of this report).

Stressed scenario

For the *stressed scenario* (alternative risk scenario), we assume a prolonged supply shock caused by an amplification of geopolitical risks that materializes in higher inflation. Energy is the main component (due to the escalation of the Israel-Hamas war and the conflicts in the Red Sea), which reaches a peak above 120 dollars per barrel, remaining under stress during the first half of 2024 and returning to more balanced prices in the medium term (in the range of 90-95 dollars per barrel). On the economic activity side, this scenario forecasts the erosion of purchasing power, which hampers consumption capacity while damaging confidence channels, resulting in a weakness that will last until 2025.

Thus, the dichotomy between economic activity and prices reappears, with a significant imbalance in the pair that ends up weighing on the central banks' roadmap. In this alternative risk model, while there are no additional interest rate hikes, no declines are identified throughout 2024, while 2025 offers a path of moderate easing and positive real interest rates in most countries, both developed and emerging.

This has had the effect on government bond yields of a tightening along the curve, in excess of 150 basis points, as the perception of tighter monetary policy for a longer period of time and uncertainty about inflation combine with levels of bond issuing subject, in turn, to greater uncertainty regarding the fiscal response and sustainability plans. This effect is transmitted to the financial markets, affecting both credit and equity spreads, amplifying the deterioration of confidence channels.

Meanwhile, in the housing market, the impact is less severe than in previous editions, with an overall shock of less than 10%, but with a broader base. On the currency front, the dollar strengthens again to 1.05 (in terms of exchange with the euro), but returns to the path of the central scenario by the end of 2024. The result is overall economic growth of only 1.4% in 2024 and 1.5% 2025, subtracting one percentage point on average from the baseline scenario, while inflation moves up by 0.4 percentage points in 2024. However, inflation turns more benign in 2025, given the base effect of the shock and the deterioration in activity (see Tables A-1 and A-2 in the Appendix of this report).

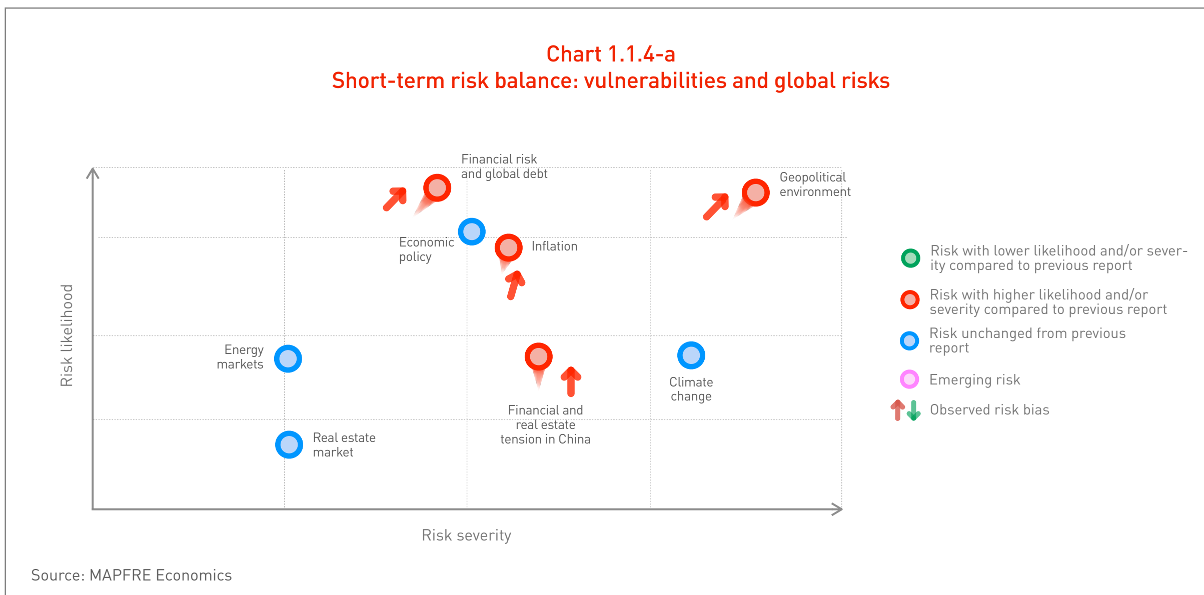
1.1.4 Risk assessment

With regard to the balance of short-term risks, the following aspects could affect the performance of the global economy in 2024 and 2025, as illustrated in the risk map shown in Chart 1.1.4-a.

Energy markets

The Israel-Hamas conflict finally had repercussions beyond its borders, with the indiscriminate attack by Houthi rebels (proxies of Iran) on commercial cargo ships and U.S. involvement in a special security mission (not the already highlighted one), as well as Iran's threat of a coercive response, which was not significant. Despite the initial surge in the prices of safe-haven assets like gold and oil, the markets have since stabilized, even with indications from the Organization of the Petroleum Exporting Countries (OPEC) of potential new supply restrictions. Presently, the price of oil sits at 78 dollars per barrel, and futures markets anticipate a moderation towards the 70-75 dollars per barrel range. The price of natural gas, which had initially risen by 20% to 50 euros per megawatt-hour, appears unlikely to continue its rally and remains considerably below the peak observed in 2022 at 292 euros. Strategic reserves and increased capacity for importing liquefied gas from

Chart 1.1.4-a
Short-term risk balance: vulnerabilities and global risks



Source: MAPFRE Economics

the United States, unaffected by maritime transit issues, sustain consistently higher prices, influencing long-term inflation resistance without the dramatic spikes witnessed two years ago.

Inflation

The downward moderation of headline inflation data continues, but is encountering more resistance along the way as a result of some supply constraints. These are observed first in producer data and then in headline inflation, but less so in core inflation, which is more sensitive to the expected moderation in consumption as a result of both headwinds and the effects of monetary policy and reduced fiscal support. Nevertheless, inflation is still an incomplete process and subject to the risk of a rebound and causing a financial accident.

Financial risk and global debt

At the end of Q3 2023, global aggregate debt reached 307.4 trillion dollars, which is about 333% of global GDP, down by more than 4 trillion dollars in one year (see Chart 1.1.4-b). This decline is occurring in all sectors except government. This would therefore indicate that the financial sector, households, and non-financial companies have modestly cleaned up their financial accounts

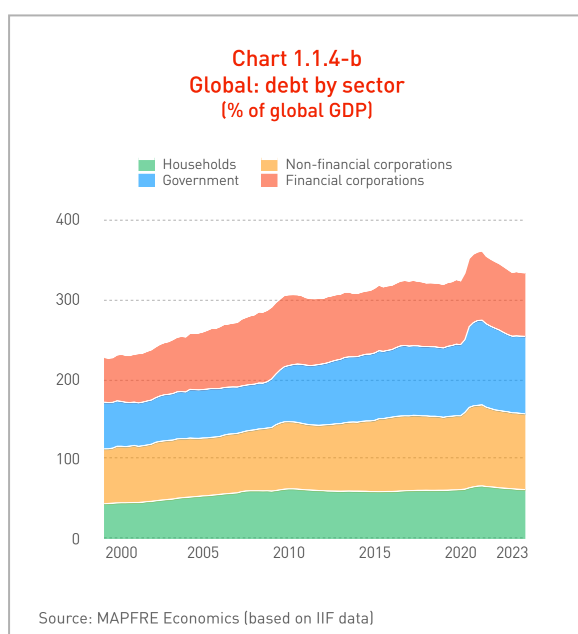


Chart 1.1.4-b
Global: debt by sector
(% of global GDP)

Source: MAPFRE Economics (based on IIF data)

and debt in the last year, which is dependent on the credit interest rate. For example, in the United States, the default rate at the end of 2023 was 1.3%, and the delinquency rate for consumer loans was 2.5%.

The ongoing impact of rising benchmark interest rates, coupled with their transmission across the financial landscape, especially in the context of diminished support from central banks, continues to exert pressure on the debt servicing costs of many nations. In certain cases, this dynamic may feedback into corporate debt. In the United States, there is also concern about the return of a potential federal government financing shutdown.

Debt issuing is a good indicator of the overall financial situation. The first U.S. 10-year bond auction confirms that, after closing at 4.024%, there are signs of tighter demand. Considering current global debt levels, the risks of a financial accident are increasing; central banks will have to weigh this factor and strike a balance between monetary restraint and the necessary financial stability.

Economic policy

The combination of more stringent monetary policies and targeted government stimulus measures remains, aiming to avert economic downturns in both the United States and the Eurozone, even in 2024. Nevertheless, the decline in lending and economic activity in key sectors remains precariously balanced, which could stress the financial health of some segments of the corporate sector. In Germany, the situation appears more challenging. Future economic stability will depend on how effective these measures are and the development of possible adverse factors, but especially on the correct translation of inflation and growth expectations from the monetary authority to the market. In the United States, however, these concerns remain focused on the health of regional banks and reduced liquidity caused by ongoing balance sheet reduction, as the lack of a roadmap on expiring

emergency programs highlights a still unresolved risk in the financial channel.

Financial and real estate tension in China

In China, growth is being maintained thanks to some industrial sectors, such as automobile production, which has overtaken Germany and Japan. The central bank has relaxed monetary policy to maintain credit flows. In turn, the government announced unexpected fiscal support in the amount of 1 billion yuan, increasing the deficit to 3.8% of GDP. The support is intended to help financially strained regional governments and attempts to address challenges in the real estate market, such as the difficulties of large developers like Country Garden, which are impacting the economy following the bankruptcy of its automotive subsidiary.

Real estate market

The rise in interest rates and tightening of access to financing continue to weaken interest in the real estate sector. So far, the price adjustments have been moderate, and in some cases, they remain stable. However, the transmission of monetary policy is already reflected in new housing starts, with notable declines in countries such as Germany (-30%), France (-24%), and the United States (-30% in residential construction, -7% overall). We are likely to see adjustments in real estate prices in the coming months, although this market is not very elastic to the downside; rather, this results in a reduction in the number of transactions. In the United States, there is stress in the commercial real estate sector (offices and trade), with office occupation rates dropping, aggravated by the trend toward remote work.

Climate change

Vulnerabilities related to climate change manifest predominantly through extreme weather events, influencing food prices and material costs, including cyclones, hurricanes, and floods. While society must intensify investments in the energy transition, there is a risk of disrupting access to affordable energy, with potential repercussions on competitiveness, productivity, and overall economic activity.

Geopolitical environment

The backdrop of heightened social volatility and bellicosity reached its highest point in decades by the close of 2023. The crisis provoked by Hamas in Israel in early October has led to institutional movement in favor of Israel, which contrasts with a partisan reading, popular in Europe and less so in the United States. Recently, the conflict has spilled over into the region with the Houthi attacks on international cargo ships and the response and counter-response by the United States and Iran, although for the time being the markets do not see a relevant risk (in the United States, the gold/copper ratio, a measure of risk aversion, only recently exceeded its historical average). However, there is still a real risk that the conflict will spread throughout the region and provoke a crisis in the Middle East similar to that of the 1970s with the Yom Kippur War. The most plausible resolution would be pressure induced by the United States, leading Israel to relent. In this regard, there is speculation that this change could occur at the beginning of the year, resulting in the transfer of control of the Gaza Strip to a military coalition involving third countries (Turkey, Gulf countries, etc.) and the Palestinian Authority.

The unconditional support of the United States raises concerns about the viability of simultaneous financial support to Ukraine, which, on the flip side, is grappling with a downturn in a conflict seemingly at a stalemate. A reshuffling of priorities by the Democrats in Congress could diminish support for Ukraine, potentially hastening a more certain resolution to the crisis. The conflict in Ukraine is not likely to be resolved without a winner being declared. Meanwhile, raw materials and gas remain in relatively moderate territory although with episodes of volatility. The base effect of the situation last year helps, as does the reduced industrial demand and global consumption that are keeping prices relatively

stable. Thus, Ukraine is prepared for a prolonged war, possibly influenced by the elections in both the U.S. and Russia.

In addition to the Ukraine conflict, Europe is influenced by the situation in the Sahel. This is not only because the coup d'état in Niger represents the umpteenth overthrow of a democratic government in favor of a military junta, but also because France is increasingly losing weight in the region to Russia and China, and the stockpiling of materials for its atomic energy industry could be jeopardized. The recent demonstration against the president of the Democratic Republic of Congo and the overthrow of the president of Gabon after his election victory are further indications that risks are imminent. There are also real risks of possible rebellions in countries such as Chad, Senegal, and Sierra Leone.

Furthermore, the standout aspect of 2024 is the global surge in elections. Nearly 4 billion people will vote over the next few months (see Chart 1.1.4-c). It is, therefore, a decisive year marked by the convergence of trends (such as governance issues), geopolitical tensions, social unrest, and electoral processes that, in many instances, lack complete transparency.

The following summarizes the main thoughts on the most relevant electoral processes:

European Parliament. The growth of the ultra-right has been observed in recent years, but Ursula von der Leyen is expected to hold her position.

United Kingdom. Predictions indicate a defeat for the Conservative Party after its 13 years in power.

India. Despite a possible loss of seats for the ruling party, the current president is expected to remain in power. The authors note the consolidation of the Indian People's Party (BJP) in key Indian states.

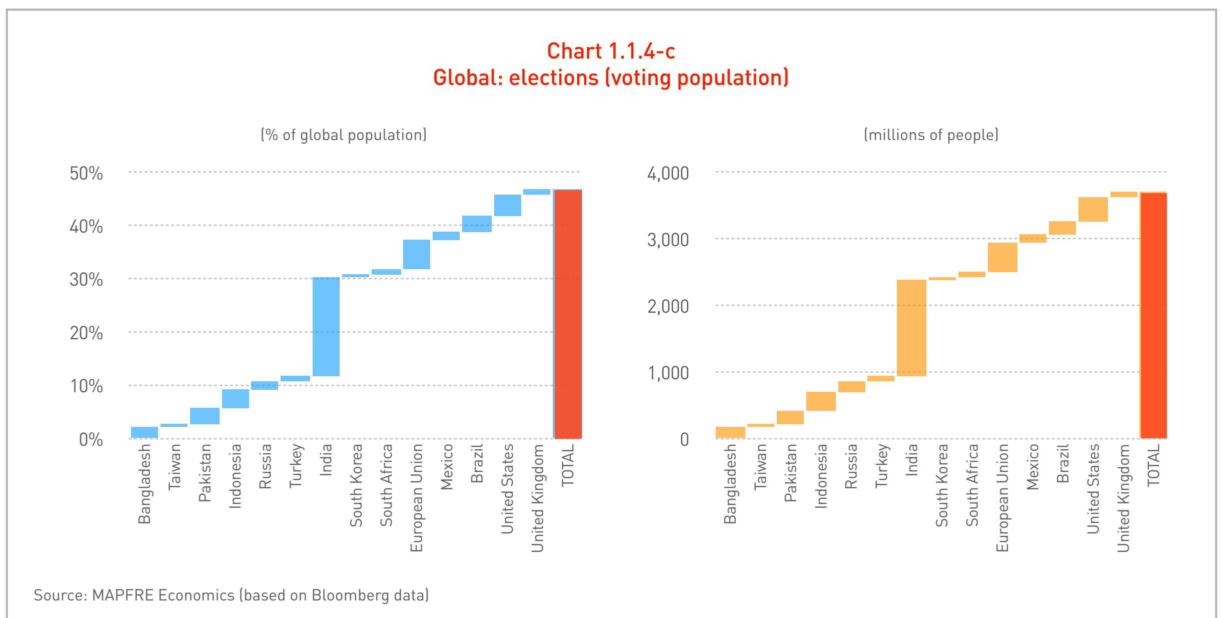
Venezuela. President Nicolás Maduro is expected to retain power, with the main goal of projecting a democratic image.

Mexico. The opposition is perceived as not being able to present a convincing political proposal, which will predictably lead to the victory of the ruling party's candidate.

El Salvador. Efforts are underway to reform legislation to allow Nayib Bukele to run again to stay in power.

Taiwan. This is a central issue in the dispute between the United States and China. With the recent victory of the party already in power, the status quo with respect to China (in contrast with the oppo-

Chart 1.1.4-c
Global: elections (voting population)



Source: MAPFRE Economics (based on Bloomberg data)

sition, which is more inclined to negotiation) is likely to be maintained, but open conflict is ruled out for the time being, as it is not in the interest of either party.

United States. Joe Biden having consolidated his candidacy for the 2024 elections, along with Donald Trump as the Republican candidate, the result remains uncertain, with attention focused on Trump's legal problems and the possibility of reduced aid to Ukraine.

Russia. The elections leave no room for debate. When Vladimir Putin finishes his next term, he will have been in power longer than Joseph Stalin.

1.2 Forecasts and risk assessment in selected economies

1.2.1 United States

Key monetary policy in the economic direction for 2024.

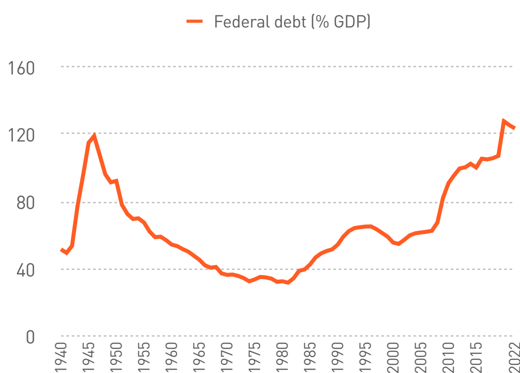
The U.S. economy grew by 2.9% YoY in Q3 2023, surprising on the upside, especially in consumption, which increased by 3.1% QoQ. Government investment and spending were also solid. However, a slowdown is expected in the coming quarters, although the data suggest that a soft landing has been achieved, provided that no unexpected financial events occur.

United States

- **The market discounts 6 interest rate cuts in 2024, compared to only 3 by the Federal Open Market Committee of the Federal Reserve.**
- **The Fed will be monitoring the slowing trend in credit, manufacturing, and job creation.**
- **Liquidity lines to banks should be extended after March.**
- **GDP is expected to grow by around 1.1% in 2024 and 1.5% in 2025.**

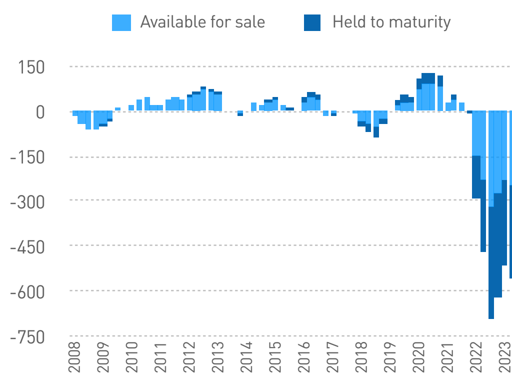
The Conference Board's leading indicators are negative (-8.0), showing a relative downturn in credit, construction, and manufacturing. The Fed will watch these indicators closely, as strong consumption without a response from production could result in a pickup in inflation. Although consumer confidence is improving, it is still below 2018–2019 levels. Likewise, the December PMIs remained weak, with the composite at 50.9, manufacturing at 47.9, and services at 50.1 points. While the labor market remains strong with stable participation and unemployment rates, job creation is slowing, according to the bank manager survey. Also, demand for business

Chart 1.2.1-a
United States: federal debt
(% GDP)



Source: MAPFRE Economics (based on Office of Management and Budget data)

Chart 1.2.1-b
United States: unrealized capital losses by banks from security investments
(billions of USD)



Source: MAPFRE Economics (based on FDIC data)

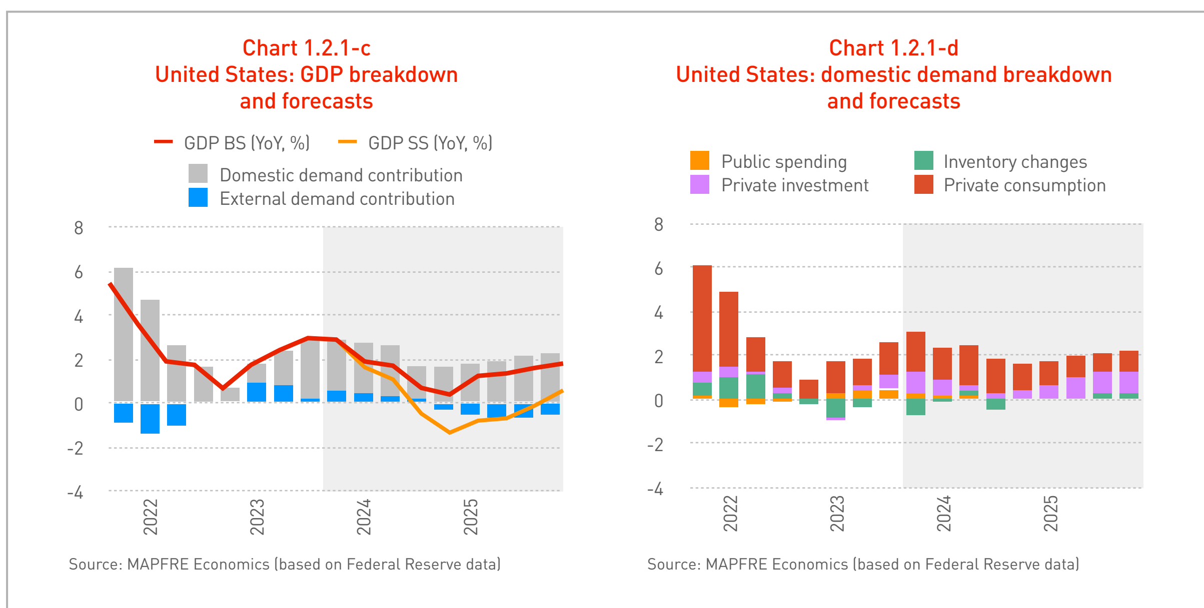


Table 1.2.1
United States: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	2.5	-2.2	5.8	1.9	2.5	1.1	1.5	0.2	-0.3
Domestic demand contribution	2.6	-2.0	7.1	2.4	1.8	1.0	2.0	0.2	0.3
External demand contribution	-0.1	-0.2	-1.3	-0.5	0.6	0.2	-0.6	0.1	-0.5
Private consumption contribution	1.4	-1.7	5.6	1.7	1.5	0.6	1.0	0.2	0.2
Total investment contribution	0.6	-0.2	1.2	0.2	0.4	0.4	0.9	0.1	0.1
Public spending contribution	0.5	0.4	0.0	-0.1	0.4	0.1	0.0	0.1	0.1
Private consumption (% YoY)	2.0	-2.5	8.4	2.5	2.2	2.2	1.4	1.5	0.3
Public spending (% YoY)	3.9	2.9	0.3	-0.9	2.6	0.8	0.4	0.8	0.4
Total investment (% YoY)	2.9	-1.0	5.3	0.9	1.9	1.8	4.2	0.3	0.4
Exports (% YoY)	0.5	-13.1	6.3	7.0	2.7	2.1	3.6	1.0	1.7
Imports (% YoY)	1.2	-9.0	14.5	8.6	-2.2	0.1	6.6	-0.8	4.7
Unemployment rate (%, last quarter)	3.6	6.7	4.2	3.6	3.7	4.1	4.2	4.6	4.9
Inflation (% YoY, average)	1.8	1.3	4.7	8.0	4.2	2.7	2.2	3.0	1.8
Inflation (% YoY, last quarter)	2.0	1.2	6.8	7.1	3.3	2.5	2.1	2.6	1.8
Fiscal balance (% of GDP)	-6.6	-14.7	-11.4	-4.3	-7.8	-7.0	-6.9	-7.4	-7.8
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-2.1	-2.8	-3.5	-3.8	-3.1	-2.9	-3.2	-2.6	-2.8
Official interest rate (end of period)	1.75	0.25	0.25	4.50	5.50	4.00	3.00	5.50	3.50
3-month interest rate (end of period)	1.91	0.24	0.21	4.77	5.59	5.12	4.11	5.58	3.76
10-year interest rate (end of period)	1.92	0.93	1.52	3.88	3.88	3.79	3.46	4.60	4.23
Exchange rate vs. U.S. dollar (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate vs. euro (end of period)	1.12	1.23	1.13	1.07	1.11	1.09	1.11	1.08	1.11
Private lending (% YoY, average)	5.0	6.3	14.8	2.1	-3.1	3.0	4.5	1.5	2.8
Household lending (% YoY, average)	3.4	3.3	7.9	7.5	3.8	6.4	7.7	6.0	6.7
P.S. non-financial lending (% YoY, average)	5.7	8.7	4.4	10.9	4.3	4.0	3.6	4.0	3.3
P.S. financial lending (% YoY, average)	2.4	6.7	4.9	9.8	5.6	0.0	1.2	0.1	1.6
Savings rate (% pers. disp. income, avg.)	7.4	15.2	11.2	3.3	4.6	4.7	5.8	5.1	7.0

Source: MAPFRE Economics (based on Federal Reserve data)
Forecast end date: 19 January 2024.

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loans has declined in all sectors, which the Federal Reserve should take into account. Therefore our estimates point to 2023 closing with 2.5% growth, and increases of 1.1% and 1.5% in 2024 and 1.5% in 2025 (see Table 1.2.1 and Charts 1.2.1-c and 1.2.1-d).

In addition, inflation (CPI) stood at 3.4% in December, with core inflation at 3.9%. This situation, and the fact that the last monthly figure was 0.3% MoM, indicate that it will be difficult to continue the downward adjustment in price growth dynamics, even more so with the new geopolitical shocks affecting inputs and energy. The future performance of inflation will depend on the balance of downward demand and upward supply forces.

At its December meeting, the Federal Reserve left interest rates untouched at 5.50% (upper band). Now, the Federal Open Market Committee (FOMC) is assumed to be discussing the pace of declines in 2024, with the council members' forecasts predicting only 3 declines to 4.75% (upper band) by the end of 2024 at the earliest. However, the markets are discounting much more aggressive downgrades, with 6 downgrades through the end of the year, placing the upper band at 4.00%. In our report, more aligned with the market outlook, we expect 4.00% by year-end, but with a slower implementation schedule. The Fed will have to weigh many factors in making its decisions this year: renewed inflation with rising expectations and wage revisions in a context of base effects running out of steam, leading indicators, weak industrial production and credit demand, a still inverted interest rate curve, and key uncertainties linked to the U.S. election year. The Federal Reserve is expected to continue its current pace of balance sheet reduction (85 billion dollars per month).

In short, the economic slowdown seems to have been managed smoothly, thanks to the efforts of the Federal Reserve and the U.S. Treasury. The impact of the quake in the banking sector in March 2023 has been contained by using liquidity lines. In addition, fundamental challenges remain, such as unrealized losses on debt securities that may affect the stability of the financial system. With its term expiring in March, it is likely that the "life support line" will have to be extended to ensure stability.

1.2.2 Eurozone

Inflection in monetary policy in 2024, given an economy already showing signs of fatigue.

The Eurozone economy contracted 0.1% QoQ in Q3 2023 (0.0% YoY), mainly due to the recession in Germany. Domestic demand and investment are declining, while exports and imports are also contracting. Only public spending increased (0.5% YoY). The leading activity indicators (PMIs) for December indicate contraction in all sectors, with the composite at 47.6 points. European industrial production is in recession, with declines in all aggregates. Other leading indicators, such as the volume of orders and the inverted interest rate curve, suggest a possible worsening.

Eurozone

- **The transmission of monetary policy to financial conditions has been strong and has dampened demand.**
- **There is a recession in the industry with direct effects on investment.**
- **Inflation has moderated, although there are signs of persistence towards the end of the year.**
- **The Eurozone's GDP is expected to grow 0.6% in 2024, accelerating to 1.6% in 2025.**

In this context, economic growth of 0.5% is forecast in the Eurozone for 2023, 0.6% in 2024, and 1.6% in 2025 (see Table 1.2.2 and Charts 1.2.2-a and 1.2.2-b). Although the economy is already showing signs of slowing, markets are reacting positively to the European Central Bank's (ECB) interest rate cut narrative. Additionally, as much as

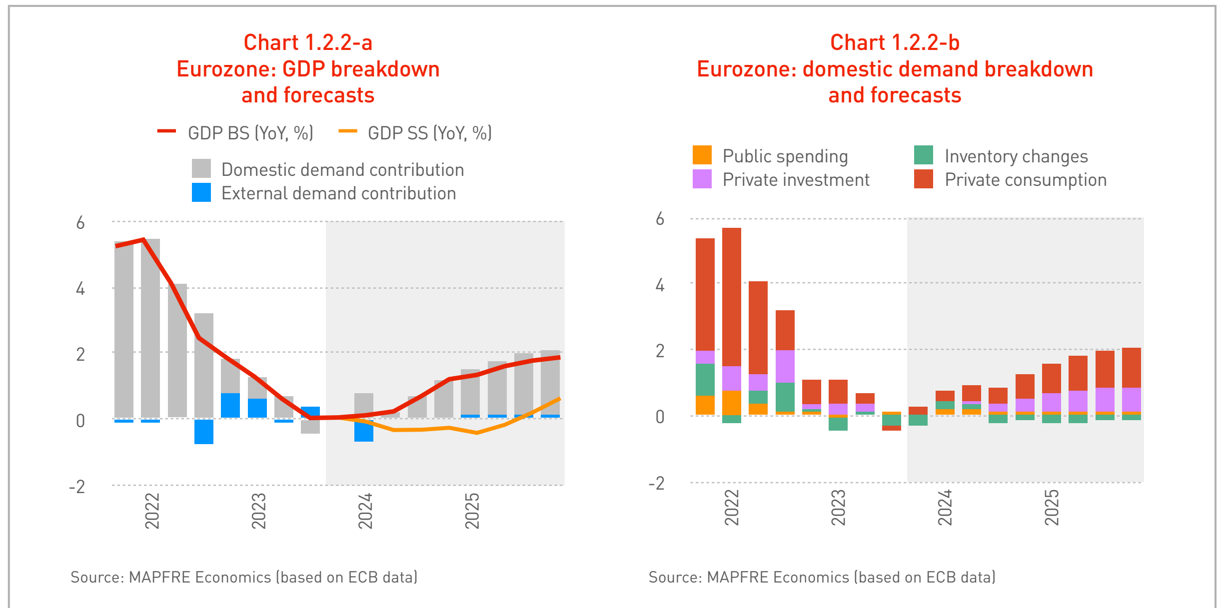

Table 1.2.2
Eurozone: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	1.6	-6.2	5.9	3.4	0.5	0.6	1.6	-0.3	0.1
Domestic demand contribution	2.3	-5.6	4.5	3.4	0.2	0.7	1.5	-0.1	0.1
External demand contribution	-0.7	-0.6	1.4	0.0	0.3	-0.1	0.1	-0.2	0.1
Private consumption contribution	0.7	-4.2	2.3	2.2	0.2	0.5	0.9	0.1	0.3
Total investment contribution	1.4	-1.3	0.8	0.6	0.2	0.2	0.6	-0.1	-0.1
Public spending contribution	0.4	0.2	0.9	0.3	0.0	0.1	0.1	0.1	0.1
Private consumption (% YoY)	1.4	-7.8	4.4	4.2	0.5	0.9	2.1	0.3	1.0
Public spending (% YoY)	1.8	1.0	4.2	1.6	0.1	0.7	0.7	0.7	0.7
Total investment (% YoY)	6.5	-6.2	3.7	2.8	0.7	0.8	2.9	-0.7	-0.4
Exports (% YoY)	3.3	-9.4	11.4	7.4	-0.7	1.3	3.6	0.5	2.0
Imports (% YoY)	5.0	-8.8	9.1	8.0	-1.3	1.7	3.6	1.0	1.9
Unemployment rate (%, last quarter)	7.5	8.3	7.1	6.7	6.5	6.5	6.4	7.0	7.4
Inflation (% YoY, average)	1.2	0.3	2.6	8.4	5.5	2.5	2.0	2.9	1.9
Inflation (% YoY, last quarter)	1.0	-0.3	4.6	10.0	2.8	2.2	2.1	2.4	1.9
Fiscal balance (% of GDP)	-0.6	-7.1	-5.2	-3.6	-3.0	-2.8	-2.3	-3.1	-3.3
Primary fiscal balance (% of GDP)	1.0	-5.5	-3.8	-1.9	-1.2	-1.0	-0.5	-1.3	-1.4
Current account balance (% of GDP)	2.5	1.7	2.8	-0.6	1.9	2.4	2.4	2.3	2.8
Official interest rate (end of period)	0.00	0.00	0.00	2.50	4.50	3.00	2.00	4.50	2.50
3-month interest rate (end of period)	-0.38	-0.55	-0.57	2.13	3.91	2.28	1.60	3.79	2.10
10-year interest rate (end of period)	0.32	-0.19	0.32	3.39	2.79	2.74	2.72	3.84	3.67
Exchange rate vs. U.S. dollar (end of period)	1.12	1.23	1.13	1.07	1.11	1.09	1.11	1.08	1.11
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	3.3	3.0	3.9	4.2	2.0	3.9	4.7	3.3	3.0
P.S. non-financial lending (% YoY, average)	1.0	3.0	2.8	5.3	0.7	4.5	5.4	4.1	4.1
P.S. financial lending (% YoY, average)	3.4	0.2	1.1	8.7	0.2	1.0	1.7	0.9	1.5
Savings rate (% pers. disp. income, avg.)	13.1	19.7	17.7	13.6	14.4	14.4	14.1	14.6	15.1

Source: MAPFRE Economics (based on ECB data)
Forecast end date: 19 January 2024.

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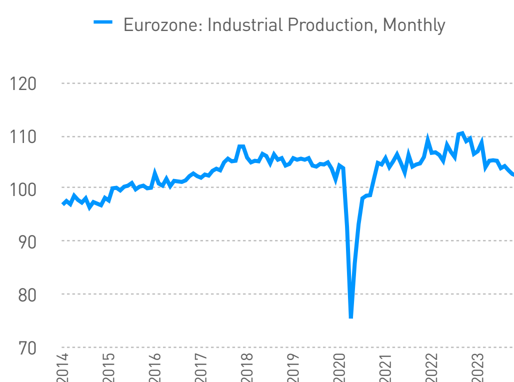
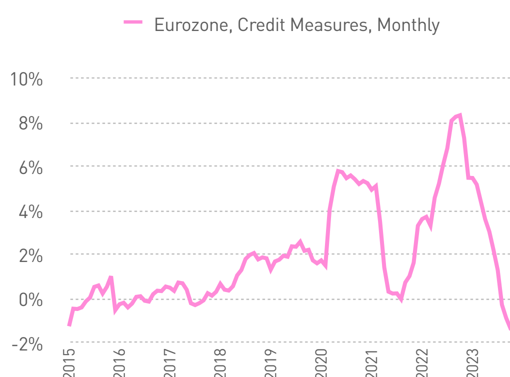
Chart 1.2.2-c
Eurozone: industrial production index



Source: MAPFRE Economics (based on Eurostat data)

Chart 1.2.2-d
Eurozone: loans to non-financial companies
(% YoY)



Source: MAPFRE Economics (based on ECB data)

financial conditions will loosen, it will take time to reach the final lenders. In this sense, despite some uncertainty about inflation, the aim is to avoid a hard landing, and fiscal and monetary policies seem to be aligned to achieve this.

Meanwhile, inflation in the Eurozone reached 2.9% YoY in December. The ECB kept its interest rates steady at its December meeting, expecting inflation to gradually decline to the 2% target by 2025. According to the ECB President, the transmission of monetary policy to financial conditions is sound, and this can be seen in the behavior of demand and inflation. Despite previous interest rate hikes, as well as tighter financial conditions that have dampened demand and contributed to lower inflation, a turning point is expected in 2024. However, a weak economic recovery is expected in the short term, with a rebound projected beyond 2024.

1.2.3 Spain

Despite greater resilience compared to its European peers, the slowdown in the Spanish economy is already evident.

The Spanish economy showed resilience, although a slowdown has already been observed due to the tightening of financial conditions. In Q3 2023, the economy grew by 0.3% QoQ (1.8% YoY), following a Q2 with 0.4% QoQ growth. Household consumption continues to grow (1.1% YoY), as does public spending (4.3% QoQ) thanks to expansionary fiscal policies and the impact of the Recovery Fund. Investment, however, lost momentum (0.2% YoY, -2.5% QoQ), as a result of more expensive financing, and construction slowed (-11% YoY), driven by a decline in mortgages (-23% YoY). Industrial production was also slightly down (-1.5% YoY in October).

With respect to leading activity indicators, the PMIs for December were positive, except for manufacturing (46.2 points). Retail sales were up 5.2% YoY (0.9% MoM) in November, the consumer confidence

Spain

- **The granting of mortgages and construction activity are slowing down.**
- **Inflation remains on track, leading to the withdrawal of fiscal support.**
- **The eventual easing of monetary policy in 2024 and 2025 may provide additional support to economic activity.**
- **Spanish GDP growth is estimated at 1.4% for 2024 and 1.8% for 2025.**

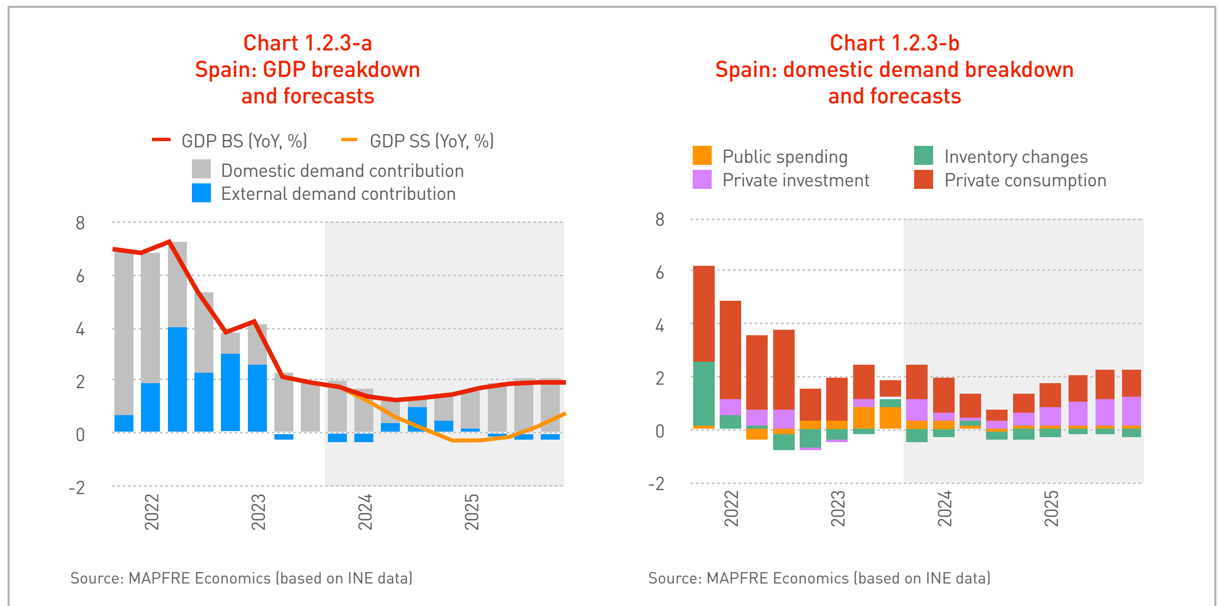


Table 1.2.3
Spain: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	2.0	-11.2	6.4	5.8	2.5	1.4	1.8	0.4	0.1
Domestic demand contribution	1.6	-8.9	6.7	3.0	1.9	1.0	1.9	0.0	-0.1
External demand contribution	0.4	-2.3	-0.3	2.8	0.5	0.4	-0.1	0.4	0.1
Private consumption contribution	0.6	-7.0	4.0	2.7	1.2	0.8	1.0	0.2	-0.1
Total investment contribution	0.9	-1.8	0.6	0.5	0.3	0.3	0.9	-0.1	0.0
Public spending contribution	0.4	0.7	0.7	0.0	0.6	0.1	0.2	0.1	0.2
Private consumption (% YoY)	1.1	-12.3	7.1	4.7	2.1	1.4	1.7	0.4	-0.1
Public spending (% YoY)	1.9	3.6	3.4	-0.2	3.0	0.7	0.9	0.7	0.9
Total investment (% YoY)	4.5	-9.0	2.8	2.4	1.4	1.7	4.9	-0.3	0.2
Exports (% YoY)	2.2	-20.1	13.5	15.2	1.2	2.3	3.4	1.6	1.8
Imports (% YoY)	1.3	-15.0	14.9	7.0	-0.1	1.4	4.1	0.4	1.7
Unemployment rate (%, last quarter)	13.8	16.1	13.3	12.9	11.7	11.4	11.4	12.3	13.0
Inflation (% YoY, average)	0.7	-0.3	3.1	8.4	3.6	2.4	2.0	2.5	1.0
Inflation (% YoY, last quarter)	0.4	-0.7	5.8	6.6	3.4	2.5	1.8	2.3	0.6
Fiscal balance (% of GDP)	-3.1	-10.1	-6.7	-4.7	-4.2	-4.0	-3.1	-4.6	-4.6
Primary fiscal balance (% of GDP)	-0.8	-7.8	-4.5	-2.3	-1.7	-1.6	-0.7	-2.0	-1.9
Current account balance (% of GDP)	2.1	0.6	0.8	0.6	2.7	3.2	3.4	3.1	4.3
Official interest rate (end of period)	0.00	0.00	0.00	2.50	4.50	3.00	2.00	4.50	2.50
3-month interest rate (end of period)	-0.38	-0.55	-0.57	2.13	3.91	2.28	1.60	3.79	2.10
10-year interest rate (end of period)	0.47	0.06	0.60	3.66	3.00	3.15	3.15	4.31	4.27
Exchange rate vs. U.S. dollar (end of period)	1.12	1.23	1.13	1.07	1.11	1.09	1.11	1.08	1.11
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	-0.2	-1.0	0.1	0.6	-0.8	0.6	1.6	0.1	0.1
P.S. non-financial lending (% YoY, average)	-0.1	1.8	3.9	1.9	-3.0	3.1	4.0	1.1	-2.3
P.S. financial lending (% YoY, average)	7.6	11.0	-0.1	-11.9	-2.8	1.5	2.8	1.5	2.6
Savings rate (% pers. disp. income, avg.)	8.2	17.7	13.8	7.6	10.6	9.7	8.9	10.1	10.5

Source: MAPFRE Economics (based on INE data)
Forecast end date: 19 January 2024.

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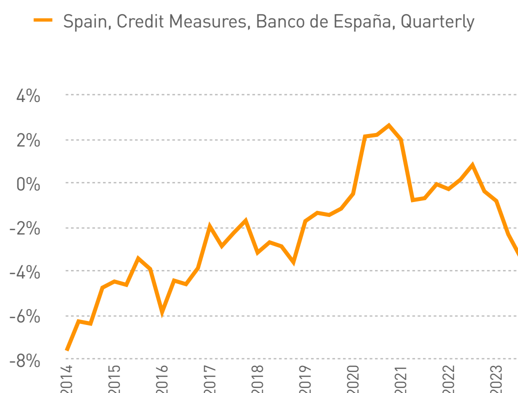
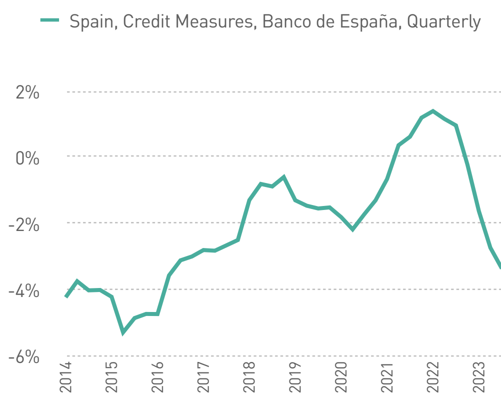
Chart 1.2.3-c
Spain: bank loans to the private sector
(% YoY)



Source: MAPFRE Economics (with Haver data)

Chart 1.2.3-d
Spain: loans for mortgages and renovations
(% YoY)



Source: MAPFRE Economics (with Haver data)

index rebounded somewhat to -18.6, and the retail survey was in slightly negative territory (-1.0 in December). In this context, growth is expected to moderate in 2024. Consumption and investment will slow until financial conditions again become more benign, and exports will recover only as European economies recover from their own sluggishness. Thus, growth is expected to be 2.5% in 2023, 1.4% in 2024, and 1.8% in 2025 (see Table 1.2.3 and Charts 1.2.3-a and 1.2.3-b).

Meanwhile, December inflation stood at 3.1% (0% MoM); harmonized inflation grew at 3.3% YoY (0% MoM), and core inflation rose by 3.8% YoY. Food continued to rise at 9.0%, while inflation dampening measures enacted in 2022 will be phased out.

Short-term risks to the Spanish economy include tighter financial conditions stemming from the ECB's monetary policy, a slowdown in construction and mortgage lending, a slowdown in industrial investment, and the need for growth via tourism and exports. Spending plans and the stability of the coalition government are also factors to watch.

1.2.4 Germany

The economic recession is visible in many indicators, and GDP contracted again in the latter part of the year.

Germany's economy contracted again in Q3 2023, at -0.1% QoQ and -0.4% YoY, continuing the trend of economic contraction seen throughout the year. Private consumption decreased by 2.0% YoY, and both exports and imports declined, with the latter showing the most pronounced loss of momentum. Public spending was adjusted (-1.6% YoY) following the Supreme Court's refusal to use COVID funds for other purposes. Industrial production and factory orders dropped significantly, reflecting the pressure on the sector. Construction also experienced a contraction, es-

Germany

- German industrial production is in contraction.
- Factory and export orders are also in decline.
- Construction volume is 20% less than in 2021, and retail sales (excluding automobiles) dropped 2.4%.
- The economic growth forecast for Germany is barely 0.3% for 2024, with recovery to 1.5% in 2025.

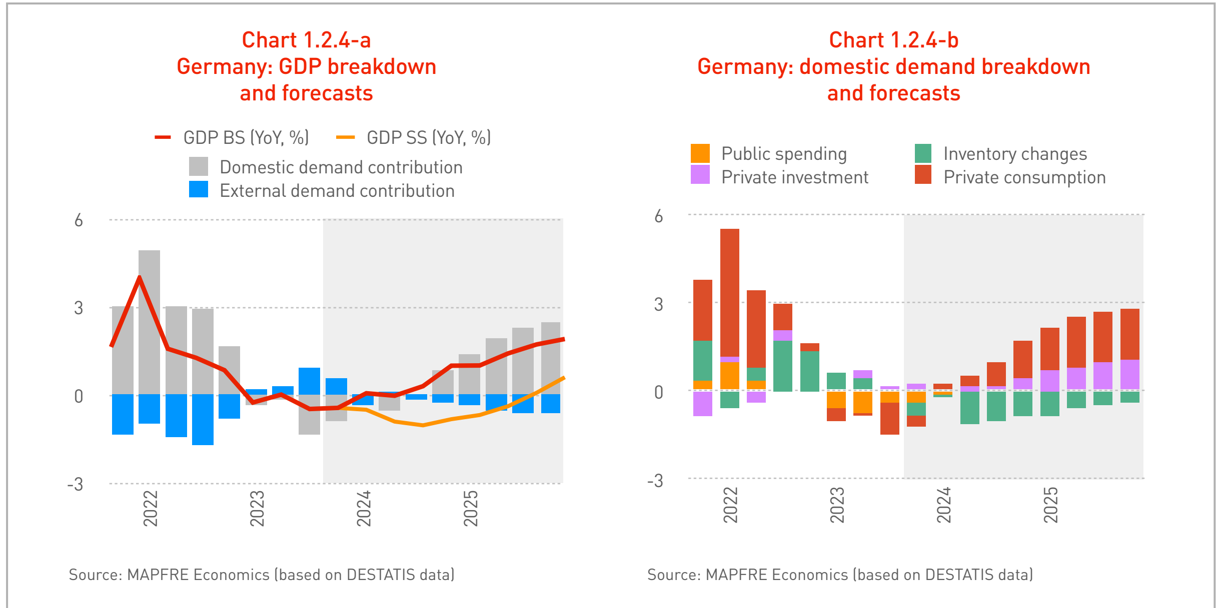


Table 1.2.4
Germany: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	1.1	-4.2	3.1	1.9	-0.3	0.3	1.5	-0.8	-0.1
Domestic demand contribution	1.4	-3.1	2.3	3.1	-0.7	0.5	2.0	-0.5	0.5
External demand contribution	-0.3	-1.1	0.8	-1.3	0.5	-0.2	-0.5	-0.3	-0.6
Private consumption contribution	0.9	-3.2	0.8	2.0	-0.5	0.7	1.7	0.4	1.2
Total investment contribution	0.4	-0.7	-0.1	0.1	0.1	0.2	0.9	-0.1	0.2
Public spending contribution	0.5	0.8	0.7	0.3	-0.5	0.0	0.0	0.0	0.0
Private consumption (% YoY)	1.6	-6.1	1.5	3.9	-0.9	1.3	3.2	0.8	2.3
Public spending (% YoY)	2.6	4.1	3.1	1.6	-2.2	-0.1	0.2	-0.1	0.2
Total investment (% YoY)	1.8	-3.2	-0.3	0.2	0.7	0.8	4.2	-0.5	0.8
Exports (% YoY)	2.3	-10.0	9.5	3.5	-1.5	0.6	2.8	-0.2	1.0
Imports (% YoY)	3.4	-8.9	8.8	6.8	-2.6	1.1	4.2	0.4	2.5
Unemployment rate (%, last quarter)	5.0	6.1	5.2	5.5	5.8	5.6	5.2	6.0	6.2
Inflation (% YoY, average)	1.4	0.5	3.1	6.9	6.0	2.1	1.9	2.5	0.9
Inflation (% YoY, last quarter)	1.2	-0.1	4.7	8.6	3.6	1.2	2.3	1.6	1.1
Fiscal balance (% of GDP)	1.5	-4.3	-3.6	-2.5	-1.8	-1.5	-0.7	-1.8	-1.6
Primary fiscal balance (% of GDP)	2.3	-3.7	-3.0	-1.8	-1.0	-0.6	0.3	-0.8	-0.5
Current account balance (% of GDP)	8.4	7.0	7.8	4.4	6.6	6.5	6.0	6.4	6.3
Official interest rate (end of period)	0.00	0.00	0.00	2.50	4.50	3.00	2.00	4.50	2.50
3-month interest rate (end of period)	-0.38	-0.55	-0.57	2.13	3.91	2.28	1.60	3.79	2.10
10-year interest rate (end of period)	-0.19	-0.58	-0.18	2.57	2.03	2.12	2.10	3.05	2.83
Exchange rate vs. U.S. dollar (end of period)	1.12	1.23	1.13	1.07	1.11	1.09	1.11	1.08	1.11
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	4.6	4.3	5.1	5.0	3.4	8.8	8.3	8.1	6.1
P.S. non-financial lending (% YoY, average)	4.7	4.5	3.6	7.9	4.7	3.6	4.2	3.6	3.9
P.S. financial lending (% YoY, average)	10.3	9.7	8.4	9.6	5.4	1.4	2.1	1.4	2.0
Savings rate (% pers. disp. income, avg.)	10.8	16.6	15.0	11.2	11.6	11.8	11.4	11.9	12.0

Source: MAPFRE Economics (based on DESTATIS data)
Forecast end date: 19 January 2024.

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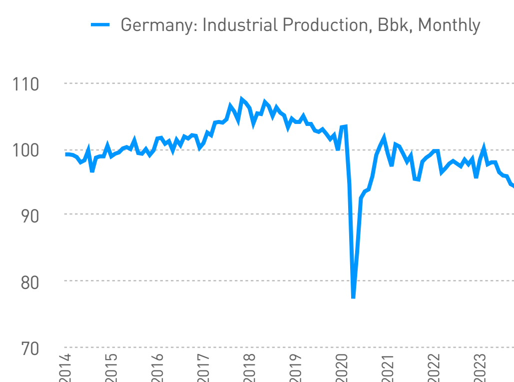
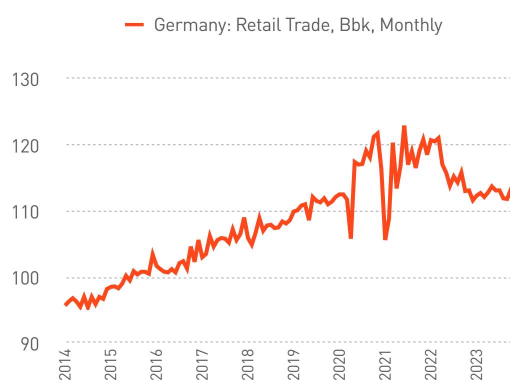
Chart 1.2.4-c
Germany: industrial production index (including construction)



Source: MAPFRE Economics (with Haver data)

Chart 1.2.4-d
Germany: retail sales index (excluding vehicles)



Source: MAPFRE Economics (with Haver data)

pecially in residential activity. Meanwhile, automotive production has halved in the last 4 years due to offshoring.

The Ifo business climate index is in negative territory, with drops in new orders and job expectations. December PMIs are below 50 points, indicating that they remain in contractionary territory. Retail sales declined (-2.0% in December), reflecting the slowdown in private consumption, and consumer confidence remains in negative territory.

The Q4 2023 advance would leave the YoY contraction in German GDP at 0.3%. Improvement is expected for the coming quarters as the foreign environment recovers and domestic conditions improve, with wage gains and financing easing, in line with the monetary policy inflection. Thus, GDP recovery is projected to be 0.3% in 2024 and 1.5% in 2025 (see Table 1.2.4 and Charts 1.2.4-a and 1.2.4-b).

Meanwhile, December inflation was 3.7% YoY, with food and hospitality showing notable increases. Short-term economic risks for the German economy include a decline in construction and industrial production, especially in the automotive industry, facing high energy costs and lower global demand. At the political level, the financing of public accounts with a deficit above 3% is sought, without increasing taxes, requiring an extended suspension of the balanced budget rule.

1.2.5 Italy

Interest rate cuts and European Union funds could arrive in time to avoid a worse scenario than the data suggests.

The Italian economy continued to show decreased momentum, growing only 0.1% YoY (0.1% QoQ) in the third quarter of 2023. Private consumption contracted slightly (-0.2% YoY), as did investment (-0.2% YoY) and exports (-0.4% YoY), which are already feeling the effects of the slowdown in destination countries. The Italian economy

Italy

- The cost of Italian public debt has moderated thanks to the expectation of lower interest rates.
- Advance activity indicators remain in the contraction zone, except construction.
- The budgetary deficit in Italy remains close to -8% of GDP.
- The Italian economy is expected to grow by around 0.5% in 2024 and 1.2% in 2025.

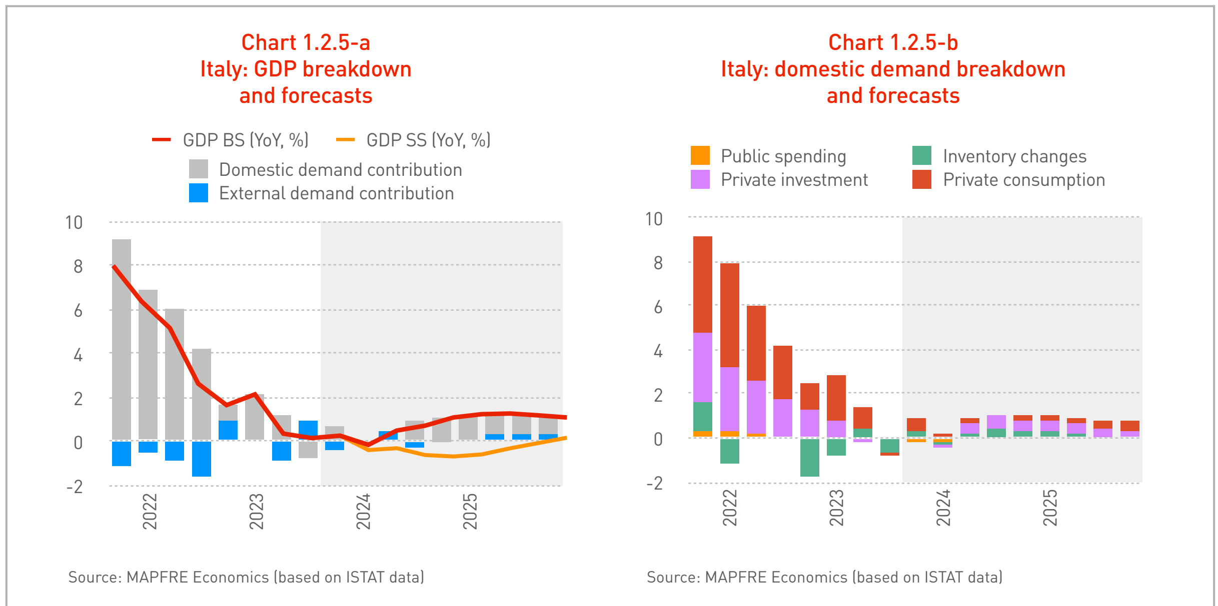


Table 1.2.5
Italy: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	0.5	-9.0	8.3	3.9	0.7	0.5	1.2	-0.5	-0.2
Domestic demand contribution	-0.3	-8.2	8.3	4.4	0.8	0.5	0.9	-0.6	-0.6
External demand contribution	0.7	-0.9	0.0	-0.5	-0.1	0.1	0.3	0.0	0.4
Private consumption contribution	0.1	-6.3	3.1	2.9	0.9	0.2	0.4	-0.4	-0.4
Total investment contribution	0.2	-1.5	3.8	2.1	0.1	0.3	0.4	-0.1	-0.3
Public spending contribution	-0.1	0.0	0.3	0.1	-0.1	0.0	0.0	0.0	0.0
Private consumption (% YoY)	0.2	-10.4	5.3	5.0	1.5	0.3	0.6	-0.6	-0.6
Public spending (% YoY)	-0.6	0.1	1.5	0.7	-0.4	-0.3	0.0	-0.3	0.0
Total investment (% YoY)	1.2	-8.0	20.7	10.1	0.6	1.6	1.9	-0.5	-1.6
Exports (% YoY)	1.8	-14.3	14.0	10.7	0.0	3.1	3.8	2.0	2.2
Imports (% YoY)	-0.5	-12.7	15.2	13.1	0.3	3.0	3.0	2.0	1.0
Unemployment rate (%, last quarter)	9.7	9.8	9.0	7.8	7.5	7.9	8.1	8.4	8.9
Inflation (% YoY, average)	0.6	-0.1	1.9	8.2	5.7	2.1	1.7	2.5	0.9
Inflation (% YoY, last quarter)	0.3	-0.2	3.5	11.7	1.0	2.1	1.8	2.1	0.8
Fiscal balance (% of GDP)	-1.5	-9.6	-8.8	-8.0	-5.3	-4.5	-3.8	-5.0	-5.0
Primary fiscal balance (% of GDP)	1.9	-6.1	-5.3	-3.7	-1.5	-0.2	0.5	-0.7	-0.5
Current account balance (% of GDP)	3.4	3.9	2.4	-1.4	0.4	1.3	1.4	0.9	2.0
Official interest rate (end of period)	0.00	0.00	0.00	2.50	4.50	3.00	2.00	4.50	2.50
3-month interest rate (end of period)	-0.38	-0.55	-0.57	2.13	3.91	2.28	1.60	3.79	2.10
10-year interest rate (end of period)	1.43	0.52	1.19	4.72	3.69	4.00	4.03	5.31	5.33
Exchange rate vs. U.S. dollar (end of period)	1.12	1.23	1.13	1.07	1.11	1.09	1.11	1.08	1.11
Exchange rate vs. euro (end of period)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	2.2	1.2	3.0	3.5	0.3	1.2	2.7	0.7	1.2
P.S. non-financial lending (% YoY, average)	-0.6	3.7	1.0	2.1	-1.3	0.5	3.0	-1.6	-1.9
P.S. financial lending (% YoY, average)	-5.8	-10.3	22.7	20.4	-0.8	0.3	2.2	-0.4	0.6
Savings rate (% pers. disp. income, avg.)	9.5	17.0	15.2	9.5	8.4	9.9	10.2	10.3	12.3

Source: MAPFRE Economics (based on ISTAT data)
Forecast end date: 19 January 2024.

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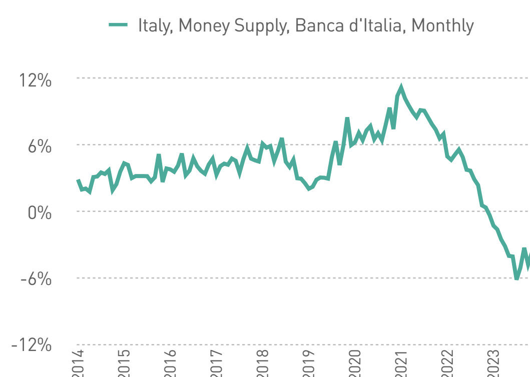
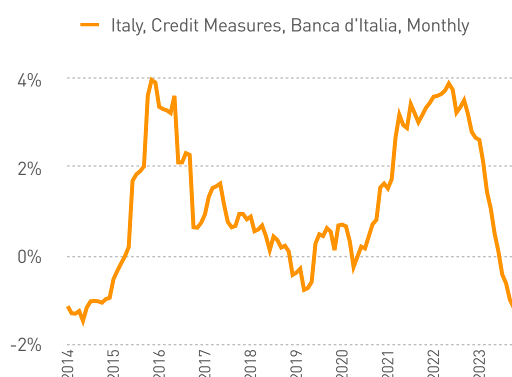
Chart 1.2.5-c
Italy: money supply (M2)
(% YoY)



Source: MAPFRE Economics (with Haver data)

Chart 1.2.5-d
Italy: loans to households
(% YoY)



Source: MAPFRE Economics (with Haver data)

depends heavily on tourism and industrial production, tranches that represent around 20% of GDP and are vulnerable to the global slowdown. Retail sales were down 3.2% in October, and consumer confidence (at 106.7 points) rebounded in December, but remains below 2018 levels. The December purchasing managers' indexes (PMIs) are negative, except construction: manufacturing at 45.3, the composite at 48.6, services at 49.8 points, and construction at 55.2 points.

A difficult start to the year is still expected for 2024, due to tight financial conditions, with financing to companies less affordable, which will be reflected in investment. Public consumption will remain moderate due to the need to bring the deficit, which has been very high since 2020, back on track, while private consumption will also be dampened by inflation and lower household disposable income, and exports should recover, in line with the recovery of the foreign environment. It should be noted that Italy, the largest beneficiary of the Recovery Fund, received a third tranche of financing in October, and the European Commission approved a fourth tranche on November 28. This should be enough of a boost for the economy to continue to grow in this high interest rate environment. Thus, our forecasts place GDP growth at 0.7% for the close of 2023, 0.5% in 2024, and 1.2% in 2025 (see Table 1.2.5 and Charts 1.2.5-a and 1.2.5-b).

Meanwhile, December inflation was very low (0.6% YoY), although this is due to the base effect, as it was 11.6% in the previous year. On a month-over-month basis, inflation was up 0.2% MoM, core inflation stood at 3.2%, and harmonized inflation at 0.5%, while producer prices fell 16.3% YoY. Food was up 5.9%, while household supplies were down 19%, and motor fuels were up 1.4%.

The main short-term risk remains the government's level of debt, with fiscal deficits still very high (around 8% of GDP). The Italian Treasury will have to meet funding needs (approximately 15 billion euros/month) in a context of higher interest rates and the ECB in the process of balance-sheet reduction. The cost of 10-year bond financing has moderated, and the bond yield has fallen by 1 percentage point to 3.8%. However, fiscal consolidation will remain a challenge to control the debt trajectory. On the positive side, interest rates are expected to fall, and therefore financial conditions are expected to improve in the coming years. However, the conflict in the Middle East is already posing a problem for shipping in the Suez Canal, and this may affect the supply chains of European countries.

1.2.6 United Kingdom

The third quarter of last year showed a slight contraction, looking to regain momentum in the 2024 election year.

U.K. GDP contracted in Q3 2023 (-0.1% YoY), although it registered modest YoY growth of 0.3%. Consumption and investment are shrinking, reflecting a generalized slowdown in the economy. Changes in mortgage interest rates have affected household disposable income, with a notable increase in the last two years, which has weighed on consumption and investment.

Despite the low unemployment rate (4.3%), retail sales have been contracting for 18 months, indicating pressure on consumption. To compensate, the government has announced tax cuts and other incentives to stimulate growth. PMIs improved slightly in December, but consumer confidence remained below pre-2019 levels.

In this context, around 0.5% growth is expected for 2023, while for 2024 and 2025, estimated economic growth is placed around 0.4% and 1.3%, respectively (see Table 1.2.6 and Charts 1.2.6-c and 1.2.6-d). Inflation, in turn, increased to 4.0% in December, with core inflation holding at 5.1%. Against this backdrop, the Bank of England has kept interest rates at 5.25%, although a possible reduction is expected in the second half of 2024.

The general election in 2024 is approaching, with the Labor party leading in the polls. On a related note, the stimulus measures seek to revitalize the economy and close the gap in voter intentions. The pressure on households' pocketbooks is reflected in retail sales and imports, as a result of the restrictive monetary policy, however, expansionary fiscal policies are being maintained to avoid a severe contraction.

United Kingdom

- The slowdown in economic activity in the United Kingdom can be seen in retail sales and imports.
- Inflation remains high in food, beverages, and health.
- The Bank of England maintains interest rates, while the market expects interest rates to fall by mid-2024.
- GDP is estimated to grow 0.4% in 2024 and 1.3% in 2025.

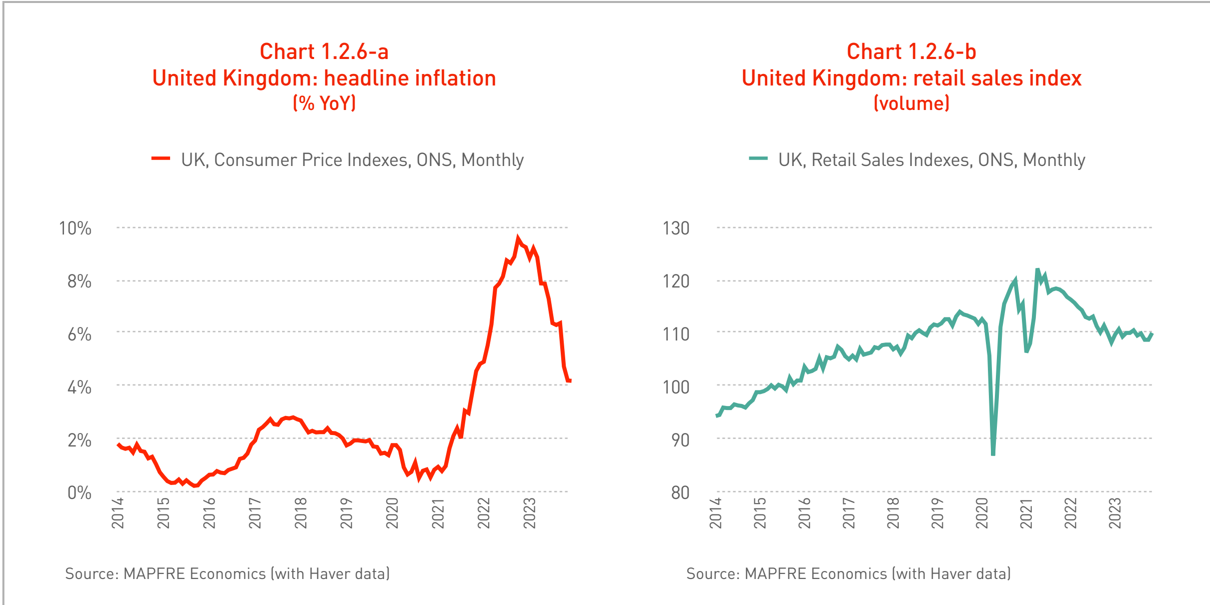
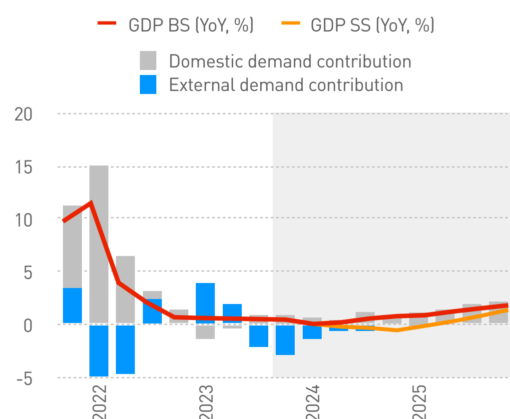
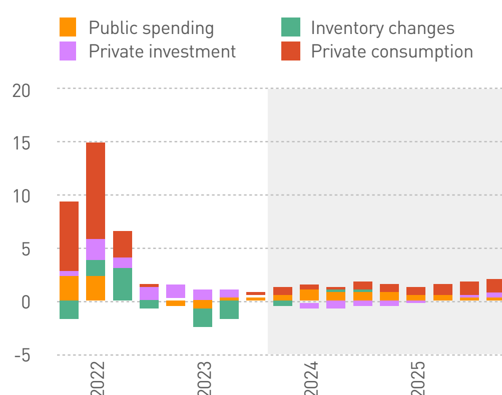


Chart 1.2.6-c
United Kingdom: GDP breakdown and forecasts



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

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



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

Table 1.2.6
United Kingdom: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2019	2020	2021	2022	2023(e)	2024(p)	2025(p)	2024(p)	2025(p)
GDP (% YoY)	1.6	-10.4	8.7	4.3	0.5	0.4	1.3	-0.3	0.5
Domestic demand contribution	1.8	-11.4	8.5	5.7	0.2	0.9	1.4	-0.1	0.4
External demand contribution	-0.3	1.7	-0.4	-1.7	0.2	-0.7	-0.1	-0.6	0.1
Private consumption contribution	0.7	-8.0	4.5	2.8	0.3	0.5	1.1	-0.1	0.3
Total investment contribution	0.4	-2.0	1.3	1.4	0.4	-0.6	0.1	-0.9	-0.3
Public spending contribution	0.7	-1.5	2.9	0.5	0.1	0.9	0.4	0.9	0.4
Private consumption (% YoY)	1.1	-13.0	7.5	4.8	0.5	0.9	1.8	-0.2	0.1
Public spending (% YoY)	4.0	-7.9	14.9	2.3	0.6	4.3	2.1	4.3	2.1
Total investment (% YoY)	2.2	-10.8	7.4	8.0	2.3	-3.2	0.5	-4.6	-2.5
Exports (% YoY)	2.0	-11.5	4.9	9.0	-0.5	0.4	2.8	-0.1	1.4
Imports (% YoY)	2.7	-16.0	6.1	14.6	-1.1	2.5	2.9	1.7	1.0
Unemployment rate (%, last quarter)	3.8	5.2	4.0	3.7	4.3	4.5	4.2	4.8	5.1
Inflation (% YoY, average)	1.8	0.9	2.6	9.1	7.4	3.2	2.1	3.5	1.9
Inflation (% YoY, last quarter)	1.4	0.6	4.9	10.8	4.1	2.7	2.3	2.8	2.1
Fiscal balance (% of GDP)	-2.5	-13.0	-7.9	-4.6	-6.1	-3.9	-3.4	-4.1	-4.5
Primary fiscal balance (% of GDP)	0.0	-10.9	-5.0	0.3	-1.2	0.3	0.4	0.1	-0.5
Current account balance (% of GDP)	-2.7	-2.9	-0.5	-3.2	-2.8	-2.7	-2.7	-2.8	-2.2
Official interest rate (end of period)	0.75	0.00	0.25	3.50	5.25	4.25	3.25	5.25	3.50
3-month interest rate (end of period)	0.79	0.03	0.26	3.87	5.32	4.39	3.50	5.32	3.49
10-year interest rate (end of period)	0.83	0.20	0.97	3.67	3.54	3.59	3.37	4.32	3.97
Exchange rate vs. U.S. dollar (end of period)	1.32	1.36	1.35	1.20	1.27	1.26	1.28	1.23	1.27
Exchange rate vs. euro (end of period)	1.18	1.11	1.19	1.13	1.15	1.16	1.15	1.15	1.15
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	2.2	2.5	3.3	3.1	2.3	2.4	3.4	2.3	2.8
P.S. non-financial lending (% YoY, average)	1.2	10.2	0.5	1.1	3.1	3.0	3.5	2.9	3.3
P.S. financial lending (% YoY, average)	1.9	11.8	-1.5	10.9	1.1	3.8	3.8	3.9	4.1
Savings rate (% pers. disp. income, avg.)	5.5	16.8	12.5	8.4	9.2	9.0	8.4	9.1	9.9

Source: MAPFRE Economics (based on data from the Office for National Statistics)
Forecast end date: 19 January 2024.

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1.2.7 Japan

Monetary policy will remain accommodative to support the economy and avoid deflation.

In Q3 2023, the Japanese economy grew by 1.5% YoY, although private consumption declined by 0.6%, exports increased by 2.3%, and imports fell by 4.7% due to the depreciation of the yen. Investment also contracted, both in the residential and non-residential sectors. However, the current account balance was positive, improving by 2.9% of GDP. In terms of retail sales, some depletion was observed with a decrease of 1.7% MoM, but remaining at 4.1% growth YoY.

The leading activity indicators (PMIs) for December showed some weakness, with the composite at 50.0, manufacturing at 47.9, and services at 51.5 points. Although consumer confidence recovered slightly, it remains in negative territory (-42.5). Therefore, our growth projections for the Japanese economy in 2023, 2024, and 2025 are 2.0%, 0.9%, and 1.0%, respectively (see Table 1.2.7 and Charts 1.2.7-c and 1.2.7-d).

Inflation moderated to 2.7% in November (2.4% in December in Tokyo), with a notable decrease in electricity and gas, but with an increase in automotive fuels (3.5%). Meanwhile, core inflation was 2.5%, with producer prices slowing to 0.3% YoY. However, food prices rose by 7.3%, putting pressure on consumers. In line with these trends, the Bank of Japan maintained interest rates at -0.10% and will continue to purchase bonds to control the interest rate curve and keep the 10-year bond yield close to zero. The commitment is to maintain these policies until price stability is near, to avoid deflation and ensure financial stability.

The potential for sovereign debt problems and the possible slowdown in the U.S. economy are underscored when assessing short-term risks to the Japanese economy. Moreover, uncertainty persists as to whether emerging raw material exporting economies will achieve price stability and economic

Japan

- The sluggish foreign environment will influence Japan's macroeconomic outlook.
- Inflation continues to drop, mainly in producer prices.
- The exchange rate improves from the U.S. interest rate pivot.
- Japanese GDP is projected to grow 0.9% in 2024 and 1.0% in 2025.

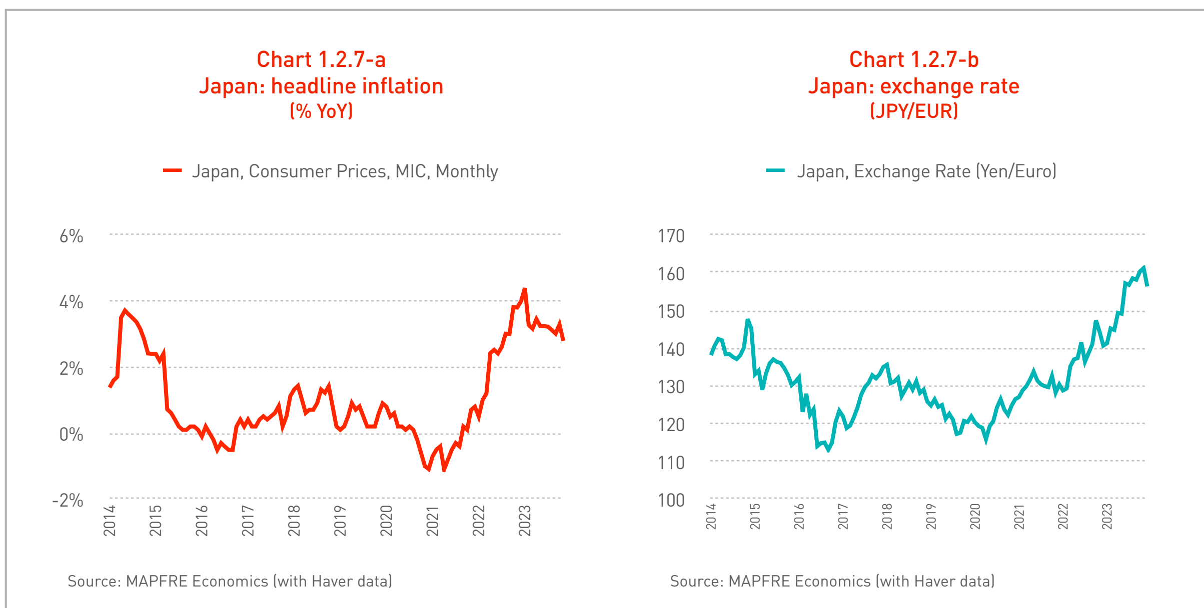
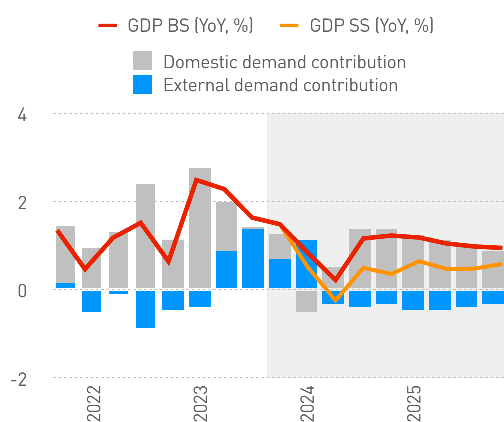
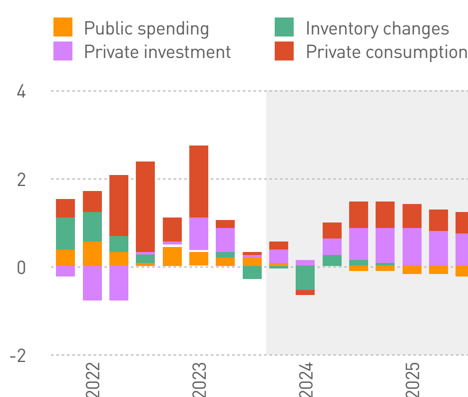


Chart 1.2.7-c
Japan: GDP breakdown and forecasts



Source: MAPFRE Economics (based on Statistics Bureau data)

Chart 1.2.7-d
Japan: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on Statistics Bureau data)

Table 1.2.7
Japan: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	-0.4	-4.2	2.6	0.9	2.0	0.9	1.0	0.3	0.5
Domestic demand contribution	0.1	-3.3	1.6	1.5	1.1	0.9	1.3	0.4	0.8
External demand contribution	-0.5	-0.9	1.1	-0.5	0.7	0.0	-0.4	-0.1	-0.3
Private consumption contribution	-0.3	-2.4	0.4	1.1	0.5	0.4	0.5	0.3	0.6
Total investment contribution	0.1	-0.9	0.0	-0.3	0.4	0.5	0.8	0.3	0.4
Public spending contribution	0.4	0.5	0.7	0.4	0.2	0.0	-0.2	0.0	-0.2
Private consumption (% YoY)	-0.6	-4.5	0.8	2.1	0.9	0.7	0.9	0.5	0.6
Public spending (% YoY)	1.9	2.4	3.4	1.7	0.9	-0.2	-0.9	-0.2	-0.9
Total investment (% YoY)	0.5	-3.7	0.0	-1.4	1.7	2.0	3.1	1.3	1.8
Exports (% YoY)	-1.5	-11.7	12.0	5.3	2.1	1.3	1.2	0.4	-0.5
Imports (% YoY)	1.1	-6.8	5.1	7.9	-1.3	1.3	3.3	0.8	2.3
Unemployment rate (%, last quarter)	2.3	3.0	2.7	2.5	2.6	2.4	2.3	2.5	2.6
Inflation (% YoY, average)	0.5	0.0	-0.2	2.5	3.2	2.2	1.7	2.6	1.5
Inflation (% YoY, last quarter)	0.5	-0.9	0.5	3.9	2.5	1.6	1.7	1.9	1.2
Fiscal balance (% of GDP)	-3.0	-9.0	-6.2	-5.8	-5.1	-4.3	-3.2	-4.4	-3.6
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	3.4	2.9	3.9	1.8	3.4	3.0	2.6	2.9	2.8
Official interest rate (end of period)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (end of period)	0.07	0.08	0.07	0.06	0.08	0.08	0.08	0.08	0.08
10-year interest rate (end of period)	-0.02	0.04	0.09	0.45	0.65	0.72	0.66	1.28	1.19
Exchange rate vs. U.S. dollar (end of period)	109.12	103.54	115.00	132.65	141.91	135.45	126.74	137.35	127.57
Exchange rate vs. euro (end of period)	122.59	127.05	130.25	141.48	156.81	147.32	141.08	147.80	141.48
Private lending (% YoY, average)	1.9	5.2	3.2	2.8	3.6	0.6	-0.6	0.6	-1.3
Household lending (% YoY, average)	2.2	3.2	3.8	1.9	1.7	-0.3	0.0	-0.8	-1.3
P.S. non-financial lending (% YoY, average)	3.6	7.9	3.5	2.8	2.1	-3.0	-1.1	-3.0	-1.1
P.S. financial lending (% YoY, average)	2.9	17.1	7.3	7.5	3.4	-0.7	0.7	-0.6	1.0
Savings rate (% pers. disp. income, avg.)	3.3	11.4	7.7	5.4	2.5	2.3	2.2	2.3	2.5

Source: MAPFRE Economics (based on Statistics Bureau data)
Forecast end date: 19 January 2024.

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growth simultaneously. Overseas developments will influence the Japanese economy, and there is uncertainty surrounding raw materials, with uncertain movements in both directions.

1.2.8 Turkey

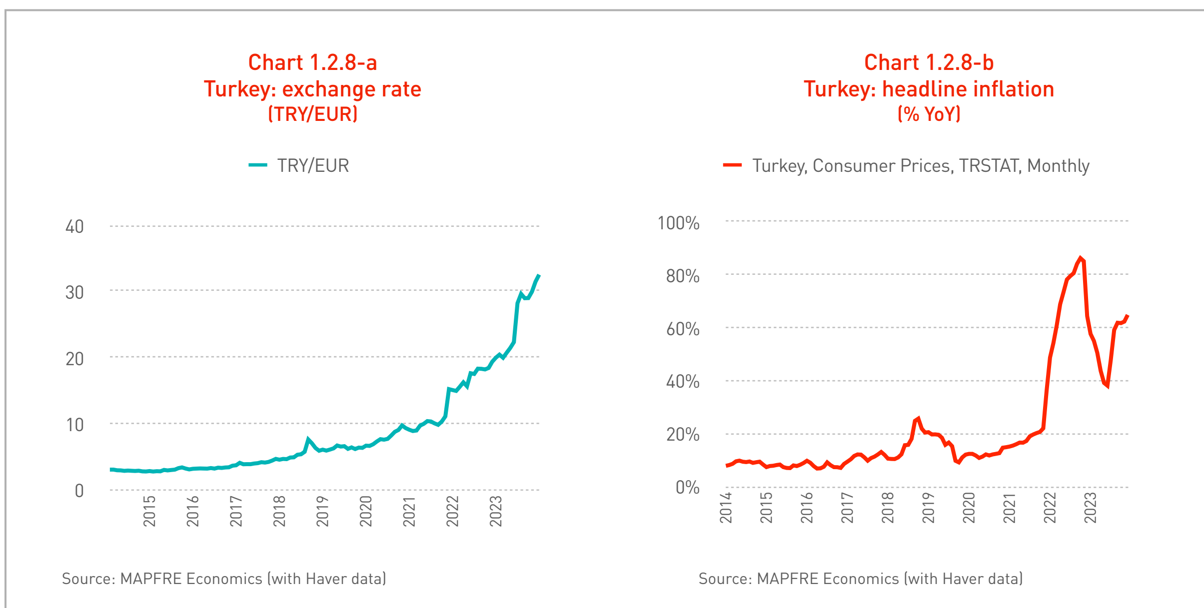
Inflation remains very high, and the currency continues to lose value.

> **Turkey**
>
> - Inflation has accelerated again, and the currency has resumed its depreciation trajectory.
> - The central bank has increased interest rates 34 percentage points this year to 42.5%
> - Nevertheless, the economy remains strong thanks to consumption, with real interest rates negative by 20 percentage points.
> - The Turkish economy is expected to grow by around 2.4% in 2024 and 2.9% in 2025.

Turkey's economy experienced robust growth of 5.9% (not seasonally adjusted) in Q3 2023. Although consumption remained strong, the growth rate slowed, reaching 11.2%. Meanwhile, investment was on the rise, possibly due to the return to monetary orthodoxy and the rise in interest rates, although for the time being they remain in negative territory in real terms. Exports again grew modestly (1.0%), while imports continued to grow solidly (14.5%), in line with the strength of consumption.

The manufacturing purchasing managers' index (PMI) for December indicated contraction, standing at 47.4 points. Retail sales grew a further 13.0% YoY in real terms, but declined on a MoM basis. Although consumer confidence rebounded to 77.4, it remained low against historical records. Record automobile sales could be due to consumer preference to invest in assets given inflation. Thus, based on the available indicators, growth for 2023 has been revised upward to 4.0%, and is expected to be around 2.4% for 2024 and 2.9% in 2025 (see Table 1.2.8 and Charts 1.2.8-c and 1.2.8-d).

However, inflation remains a concern, reaching 64.8% in December, with core inflation at 70.6%. Food, health, transportation services, and hotels registered significant increases. Despite the increase in interest rates to 42.5%, the Turkish lira continues to depreciate. In this context, in December the Turkish Central Bank raised interest rates (1-week Repo rate) by 250 basis points to 42.50%, returning to a more orthodox policy from 8.5% in May. Although real interest rates remain



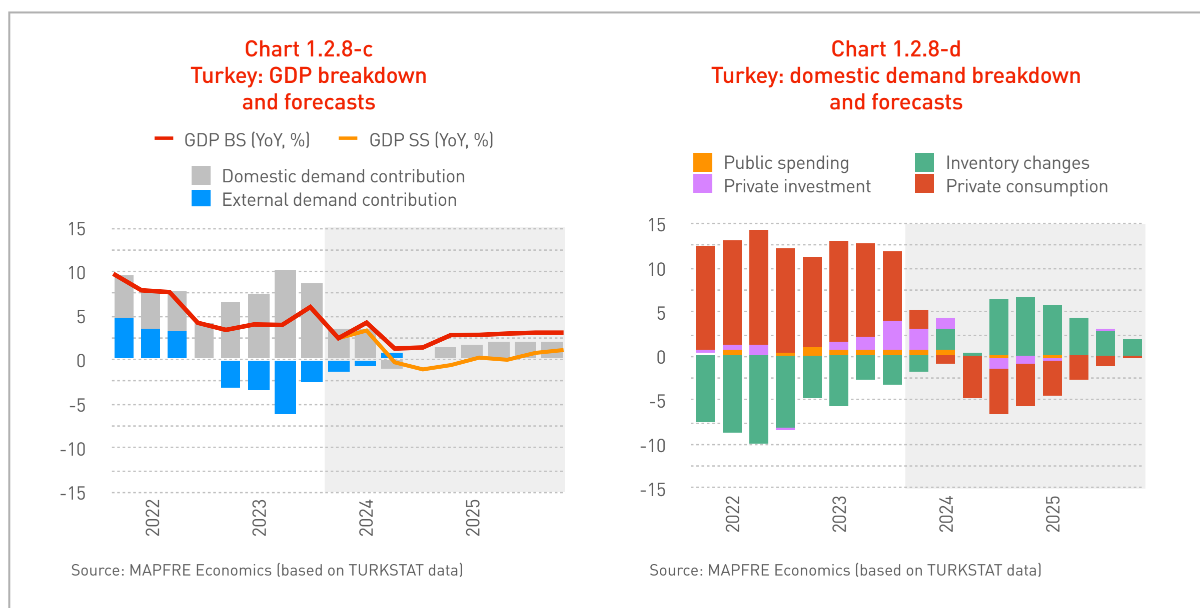


Chart 1.2.8-c
Turkey: GDP breakdown and forecasts

Source: MAPFRE Economics (based on TURKSTAT data)

Chart 1.2.8-d
Turkey: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on TURKSTAT data)

Table 1.2.8
Turkey: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	0.8	1.9	11.4	5.5	4.0	2.4	2.9	0.3	0.5
Domestic demand contribution	-1.6	7.0	6.4	4.8	7.3	1.8	2.1	-0.4	-0.1
External demand contribution	2.4	-5.2	5.0	0.7	-3.3	0.6	0.7	0.7	0.5
Private consumption contribution	0.9	1.9	9.2	11.7	7.7	-1.6	0.1	-2.4	-0.2
Total investment contribution	-3.6	1.8	1.9	0.3	2.1	-0.2	0.0	-0.5	-1.1
Public spending contribution	0.5	0.3	0.4	0.6	0.7	0.1	0.0	0.1	0.0
Private consumption (% YoY)	1.5	3.2	15.4	18.9	11.1	-5.5	-2.7	-7.3	-4.7
Public spending (% YoY)	3.9	2.2	3.0	4.2	5.3	0.7	0.0	0.7	0.0
Total investment (% YoY)	-12.5	7.3	7.2	1.3	8.7	-0.9	0.2	-5.9	-8.6
Exports (% YoY)	5.3	-14.6	25.1	9.9	-2.2	1.2	2.6	0.9	0.9
Imports (% YoY)	-5.0	6.8	1.7	8.6	13.3	0.4	1.4	-2.3	-1.4
Unemployment rate (%, last quarter)	13.3	12.9	11.0	10.1	8.9	9.8	9.7	10.8	11.6
Inflation (% YoY, average)	15.2	12.3	19.6	72.3	53.4	51.7	24.4	53.6	21.9
Inflation (% YoY, last quarter)	10.3	13.5	25.8	77.4	62.7	39.0	18.3	40.3	15.4
Fiscal balance (% of GDP)	-2.9	-3.5	-2.7	-0.9	-2.7	-3.7	-2.3	-3.9	-3.5
Primary fiscal balance (% of GDP)	-0.6	-0.8	-0.2	1.2	-0.1	-1.5	-0.9	-1.7	-1.9
Current account balance (% of GDP)	1.4	-4.4	-0.9	-5.5	-4.3	-2.6	-2.5	-2.3	-1.3
Official interest rate (end of period)	11.50	17.00	14.00	9.00	42.50	36.00	26.00	41.00	30.00
3-month interest rate (end of period)	10.35	17.25	16.32	10.35	44.97	38.00	25.12	38.83	24.34
10-year interest rate (end of period)	11.95	12.51	22.99	9.50	23.65	22.11	17.21	23.29	18.39
Exchange rate vs. U.S. dollar (end of period)	5.95	7.44	13.32	18.69	29.48	31.68	32.52	33.26	33.35
Exchange rate vs. euro (end of period)	6.68	9.11	15.23	19.96	32.65	34.46	36.20	35.79	36.98
Private lending (% YoY, average)	8.4	30.1	23.9	54.8	57.0	22.6	11.8	22.4	8.8
Household lending (% YoY, average)	-2.4	32.1	16.2	25.9	48.0	9.2	9.4	9.1	9.1
P.S. non-financial lending (% YoY, average)	5.5	29.0	23.2	56.3	55.6	182.5	17.4	171.5	7.3
P.S. financial lending (% YoY, average)	18.3	21.1	31.6	105.5	75.0	49.1	24.3	47.0	19.5
Savings rate (% pers. disp. income, avg.)	30.4	20.9	22.7	10.6	21.7	25.8	21.2	26.1	22.8

Source: MAPFRE Economics (based on TURKSTAT data)
Forecast end date: 19 January 2024.

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negative by 20 percentage points, this increase has not dampened consumption, including automobile sales. The bank has pledged to further strengthen monetary policy to reduce inflation, while seeking to increase lira deposits in order to improve monetary policy transmission. In addition, it will continue quantitative and selective credit tightening measures to support its approach to monetary policy and ensure long-term economic stability. The current account deficit and strong imports continue to affect the exchange rate. Tighter monetary and possibly fiscal policy is needed to curb consumption and make progress in moderating inflation, although this could lead to stagflation.

1.2.9 Mexico

Some slowdown in economic activity is anticipated in 2024, with inflation under control.

The Mexican economy grew by 3.3% in the first quarter of the year (1.1% QoQ,), exceeding expectations. Private consumption remains robust (4.3% YoY), thanks to improved wages and high labor participation. Investment also increased significantly, by 25.3%, driven by public spending, the "nearshoring" process, and the spillover effects of the U.S. Inflation Reduction Act.

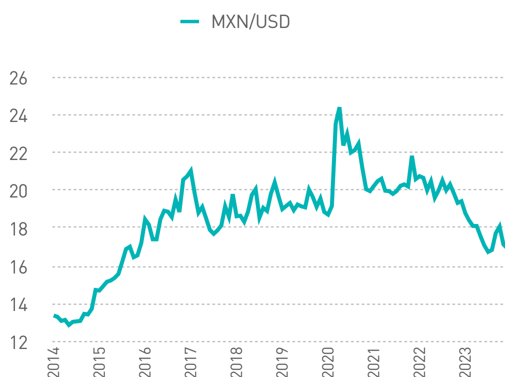
Mexico

- **Consumption maintains momentum thanks to high participation and the effect of wage revisions.**
- **Investment has recovered, boosted by public spending and the arrival of foreign investment through the "nearshoring" phenomenon.**
- **Positive real interest rates strengthen the exchange rate.**
- **The economy is expected to continue to grow, albeit at slower rates than in 2023, with growth of 2.0% and 2.1% in 2024 and 2025.**

Similarly, exports are at all-time highs. Industrial production grew nearly 5.5%, with construction (27.7%) and automotive manufacturing (12.3%) standing out. Retail sales rose 2.7% in October, and consumer confidence reached 4-year highs. The manufacturing purchasing managers' index (PMI) in December stood at 52.0 points, in expansion territory. Automobile production continued on a recovery trend. With this data, GDP growth is expected to be 3.3% in 2023, 2.0% in 2024, and 2.1% in 2025 (see Table 1.2.9 and Charts 1.2.9-c and 1.2.9-d).

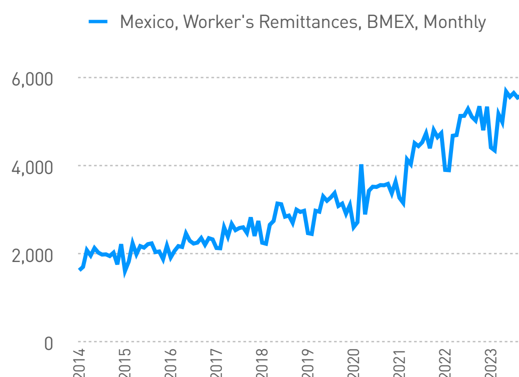
As for inflation, a slight upturn was observed in the latest measurements, registering 4.7% in December (0.7% MoM). However, core inflation dropped, standing at 5.3%. Continued moderation is expected, although upside

Chart 1.2.9-a
Mexico: exchange rate
(MXN/USD)



Source: MAPFRE Economics (based on Bloomberg data)

Chart 1.2.9-b
Mexico: migrant remittances
(million USD)



Source: MAPFRE Economics (based on Bloomberg data)

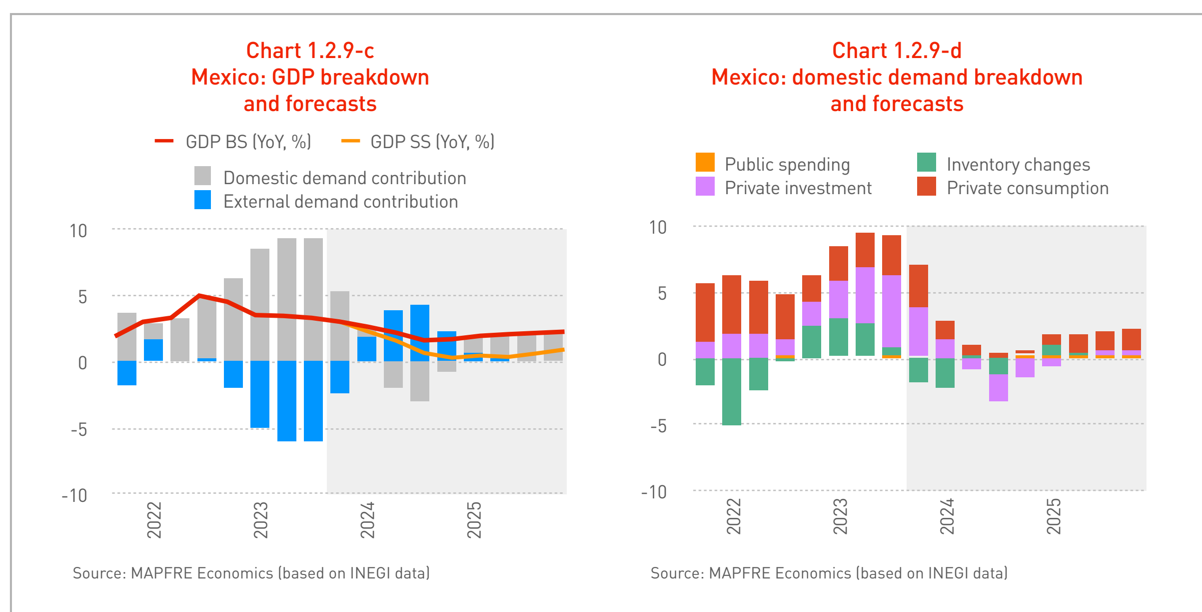


Table 1.2.9
Mexico: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	-0.2	-8.8	6.0	3.9	3.3	2.0	2.1	1.2	0.6
Domestic demand contribution	-1.2	-11.0	9.0	3.9	8.1	-1.2	1.8	-2.3	-0.1
External demand contribution	0.9	2.1	-3.1	0.0	-4.8	3.1	0.3	3.5	0.7
Private consumption contribution	0.8	-7.4	5.5	3.6	2.9	0.7	1.3	0.2	0.6
Total investment contribution	-1.0	-3.8	1.9	1.6	4.0	-0.8	0.0	-1.3	-0.9
Public spending contribution	-0.2	-0.1	-0.1	0.1	0.2	0.1	0.2	0.1	0.2
Private consumption (% YoY)	1.2	-10.8	8.2	5.2	4.1	1.0	1.9	0.3	0.8
Public spending (% YoY)	-1.8	-0.7	-0.5	1.1	1.6	1.0	2.1	1.0	2.1
Total investment (% YoY)	-4.4	-17.4	9.7	7.7	18.8	-3.1	0.2	-5.1	-3.7
Exports (% YoY)	1.3	-7.2	7.4	8.8	-5.5	7.3	5.3	6.4	3.3
Imports (% YoY)	-1.0	-12.3	15.4	8.3	5.5	-0.7	4.2	-2.2	1.6
Unemployment rate (%, last quarter)	3.4	4.5	3.7	3.0	3.1	3.8	3.9	4.1	4.7
Inflation (% YoY, average)	3.6	3.4	5.7	7.9	5.6	4.2	3.5	4.6	3.2
Inflation (% YoY, last quarter)	2.9	3.5	7.0	8.0	4.5	3.9	3.7	4.2	3.1
Fiscal balance (% of GDP)	-1.6	-2.7	-2.9	-3.2	-3.6	-4.6	-2.7	-4.7	-3.0
Primary fiscal balance (% of GDP)	1.1	0.1	-0.3	-0.4	-0.3	-1.2	0.7	-1.4	0.5
Current account balance (% of GDP)	-0.4	2.0	-0.6	-1.2	-0.7	-0.4	-0.7	-0.2	0.0
Official interest rate (end of period)	7.25	4.25	5.50	10.50	11.25	9.25	7.25	10.00	7.75
3-month interest rate (end of period)	7.45	4.47	5.86	10.97	11.48	8.25	6.25	8.41	5.40
10-year interest rate (end of period)	6.84	5.23	7.57	9.02	8.99	7.99	7.33	8.48	7.90
Exchange rate vs. U.S. dollar (end of period)	18.93	19.88	20.50	19.49	16.97	18.71	19.87	19.18	20.13
Exchange rate vs. euro (end of period)	21.26	24.40	23.22	20.79	18.75	20.35	22.12	20.64	22.33
Private lending (% YoY, average)	8.9	5.1	-1.3	7.5	7.8	6.5	5.1	5.9	3.4
Household lending (% YoY, average)	6.2	1.6	4.4	9.2	9.2	4.3	8.0	4.1	7.9
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	6.2	3.7	18.3	8.7	2.2	16.6	11.5	16.1	9.7
Savings rate (% pers. disp. income, avg.)	11.4	17.2	18.6	18.9	22.9	21.4	21.0	21.6	21.3

Source: MAPFRE Economics (based on INEGI data)
Forecast end date: 19 January 2024.

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risks include the strength of consumption and tensions in production chains. In December, the Bank of Mexico kept the reference rate at 11.25%, deeming it necessary to hold it in order to converge inflation to the central bank's inflation target. With high real interest rates (around 7%), the peso has appreciated and is currently around 17 pesos per dollar.

The main short-term risk to the Mexican economy is a recession in the United States (its main commercial partner) during 2024, which would impact production, exports, and remittances. However, positive prospects include high investment due to the nearshoring process, a change in the monetary policy cycle, rising confidence, and the strength of the peso favoring the disinflation process. The June presidential elections will be a factor that could redefine the outlook and expectations for the Mexican economy in the medium term.

1.2.10 Brazil

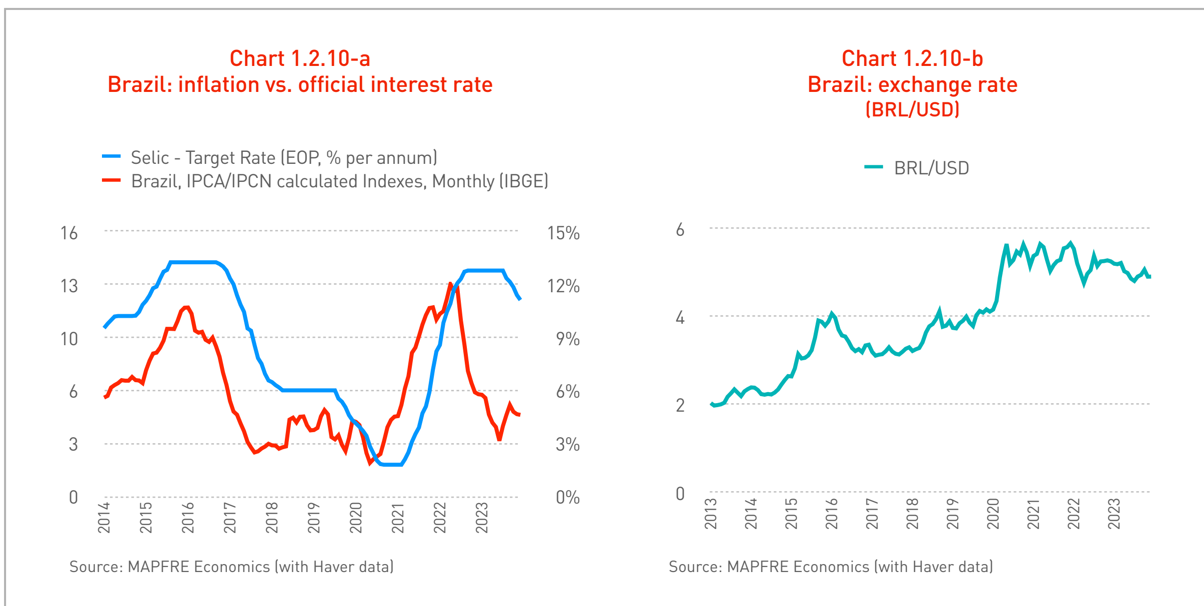
The economy will slow down in 2024 while benefiting from the easing of monetary policy.

The Brazilian economy grew by 2.0% in the second quarter of 2023 (0.1% QoQ), slowing significantly compared to the first quarter. Overall, during 2023, the economy has performed better than forecast a year ago. Private consumption grew by 3.3%, although investment fell 6.8% YoY due to the effect of high interest rates. Meanwhile, exports registered solid growth of 10.0%.

Industrial production grew 1.2%, with disparities between sectors, and investment was constrained by tight financial conditions, although a gradual improvement is expected in 2024 with rate cuts. In September, consumer confidence reached four-year highs and has moderated recently. The PMIs fell in December, with the composite at 50.0 points, services at 50.5, and manufacturing at 48.4. Thus, GDP growth is expected to be 3.1% in 2023, slowing to 1.6% in 2024 and 2.4% in 2025 (see Table 1.2.10 and Charts 1.2.10-c and 1.2.10-d).

Brazil

- **Brazil is already in an interest rate easing cycle, but interest rates are still at restrictive levels.**
- **The slowdown in economic activity in 2024 will start to be felt in consumption and exports.**
- **In December, a tax reform was approved that will strengthen the public finance situation.**
- **Brazilian GDP is expected to grow by around 1.6% in 2024 and 2.4% in 2025.**



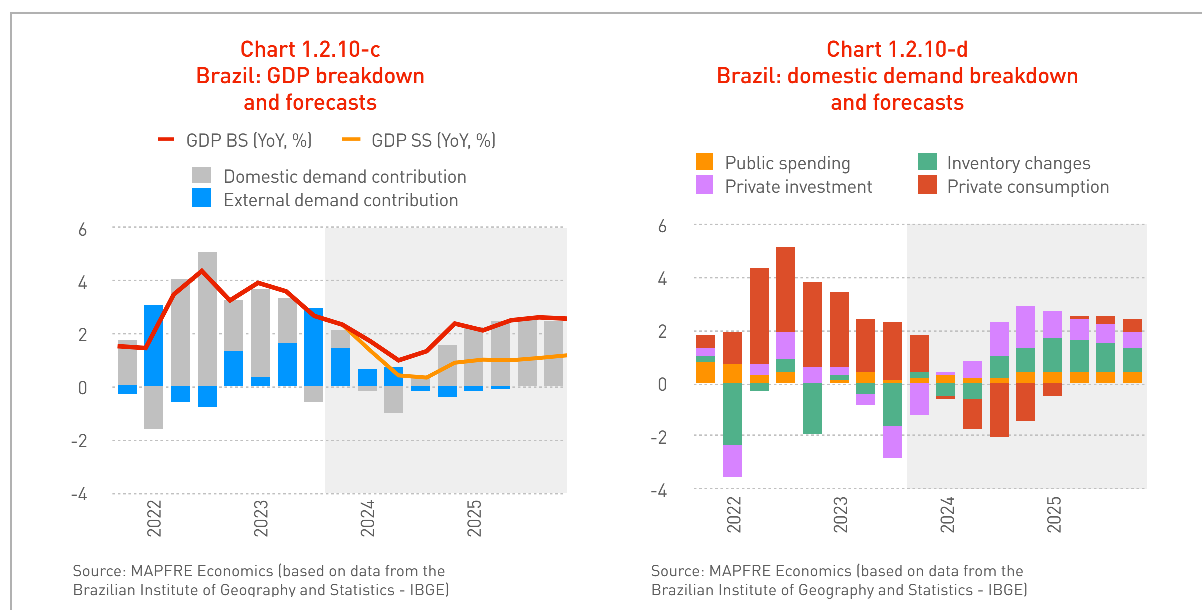


Chart 1.2.10-c
Brazil: GDP breakdown and forecasts

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

Chart 1.2.10-d
Brazil: domestic demand breakdown and forecasts

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

Table 1.2.10
Brazil: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2019	2020	2021	2022	2023(e)	2024(p)	2025(p)	2024(p)	2025(p)
GDP (% YoY)	1.2	-3.6	5.1	3.1	3.1	1.6	2.4	0.7	1.1
Domestic demand contribution	1.8	-4.9	6.7	2.3	1.3	0.8	2.4	-0.3	0.8
External demand contribution	-0.6	1.3	-1.6	0.8	1.8	0.8	-0.1	1.0	0.3
Private consumption contribution	1.8	-3.4	2.3	2.8	2.1	-0.3	0.1	-1.0	-0.3
Total investment contribution	0.7	-0.3	2.3	0.2	-0.6	0.9	0.8	0.4	-0.2
Public spending contribution	-0.1	-0.6	0.7	0.4	0.2	0.3	0.4	0.3	0.4
Private consumption (% YoY)	2.6	-4.9	3.3	4.1	3.1	-1.7	0.2	-2.5	-1.4
Public spending (% YoY)	-0.5	-3.7	4.2	2.1	1.3	1.7	2.4	1.7	2.4
Total investment (% YoY)	4.0	-1.7	13.0	1.0	-3.4	5.2	4.4	2.5	-0.9
Exports (% YoY)	-2.5	-2.7	4.9	6.2	8.6	-2.6	-0.1	-3.2	-1.7
Imports (% YoY)	1.3	-9.4	13.8	0.7	-1.8	-3.7	0.4	-5.5	-1.8
Unemployment rate (%, last quarter)	11.1	14.2	11.1	7.9	8.1	8.3	8.4	8.7	9.3
Inflation (% YoY, average)	3.7	3.2	8.3	9.3	4.6	4.0	3.7	4.4	3.4
Inflation (% YoY, last quarter)	3.4	4.3	10.5	6.1	4.7	4.0	3.7	4.2	3.1
Fiscal balance (% of GDP)	-5.8	-13.3	-4.3	-4.6	-8.7	-8.5	-7.5	-8.8	-8.7
Primary fiscal balance (% of GDP)	-0.8	-9.2	0.7	1.2	-1.7	-0.9	-0.6	-1.0	-1.5
Current account balance (% of GDP)	-3.6	-1.9	-2.8	-2.7	-1.1	-1.6	-2.2	-1.6	-2.1
Official interest rate (end of period)	4.50	2.00	9.25	13.75	11.75	9.50	8.50	10.25	8.75
3-month interest rate (end of period)	4.40	1.90	9.15	13.65	11.65	8.90	8.90	9.81	8.65
10-year interest rate (end of period)	6.81	6.98	10.31	12.76	10.35	10.03	9.37	11.03	10.51
Exchange rate vs. U.S. dollar (end of period)	4.03	5.20	5.58	5.22	4.84	5.12	5.20	5.37	5.33
Exchange rate vs. euro (end of period)	4.53	6.38	6.32	5.56	5.35	5.57	5.79	5.77	5.92
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	10.8	10.1	17.7	20.3	12.4	9.8	9.6	9.7	9.0
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	15.8	19.1	21.9	20.1	19.7	22.6	23.2	22.9	24.1

Source: MAPFRE Economics (based on data from the Brazilian Institute of Geography and Statistics - IBGE)
Forecast end date: 19 January 2024.

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Meanwhile, inflation dropped to 4.7% in November. Food rose less (0.6% YoY), but tensions persisted in transportation (6.9%) and health (7.9%), while fuels rose (7.9%) due to the effect of gasoline, which increased by 11%. At its December meeting, the Central Bank of Brazil cut SELIC rates by 50 basis points to 11.75%. The bank highlighted risks for inflation in both directions. Upside risks include persistent global inflationary pressures and inflationary drag in services, while downside risks include a more pronounced global economic slowdown and a stronger-than-expected impact of global monetary tightening on disinflation.

In the short term, risks of higher fiscal deficits persist due to the government's inclination to expand social spending. A slowdown in growth is expected, especially in exports, due to the lagged effects of global monetary tightening, even though Brazil is already in a monetary easing cycle. At the end of 2023, the Chamber of Deputies approved an extensive tax reform that will have a positive impact on public accounts, although it presents uncertainties regarding economic activity.

1.2.11 Argentina

The new government's priority is financial, fiscal, and exchange stabilization.

Argentina's economy had a difficult Q3, contracting 0.8% YoY and growing 2.7% QoQ. Private consumption increased slightly, by 0.3%, but exports dropped 5.0%, while imports rose 2.8%. The drought affected agricultural production, and although industry and automobile production showed some stability, retail sales began to weaken.

In this context, Argentine GDP growth forecasts for 2023 have been adjusted to a 2.0% contraction. By 2024, the austerity measures of the new government's stabilization plan are expected to lead to a further decline in GDP growth in the vicinity of 1.8%, a trend that would reverse in 2025, with growth of 0.9% (see Table 1.2.11 and Charts 1.2.11-a and 1.2.11-b). The government's priority is to stabilize inflation and the currency, which will require balancing public accounts and moving away from monetizing government financing. However, this path presents challenges, as much of the spending is on pensions and benefits, and parliamentary majorities will be needed for reforms.

Inflation continues to increase, reaching 211.4% in December, with core inflation at 229.4%. The money supply (M2) is growing rapidly, exacerbating inflation and currency depreciation. The government decreed a 54.2% devaluation, bringing the official exchange rate from 366.5 to 800.0 Argentine pesos per dollar. Nevertheless, the currency continues to lose value, ending the year close to 808.0 Argentine pesos per dollar. With respect to interest rates, the 28-day LELIQ rate (central bank liquidity bills) stood at 100% as of mid-December, down from 133% in the previous two months, while the BADLAR rate (rate for deposits over 1 million pesos in private banks) was close to 109% at the end of December.

The government headed by President Javier Milei intends to change the model of strong public intervention. To this end, he has proposed making progress in balancing public accounts, carrying out privatizations, reducing debt, and ceasing to mone-

Argentina

- The proposed fiscal adjustment will generate heavy austerity in the short term.
- The government officially devalued the currency by 50%.
- Inflation in Argentina reached 211% in December and is still trending upward.
- In 2024, the economy will suffer from the macroeconomic adjustment, decreasing by 1.8%; by 2025, activity could begin to recover, with GDP increasing by 0.9%.

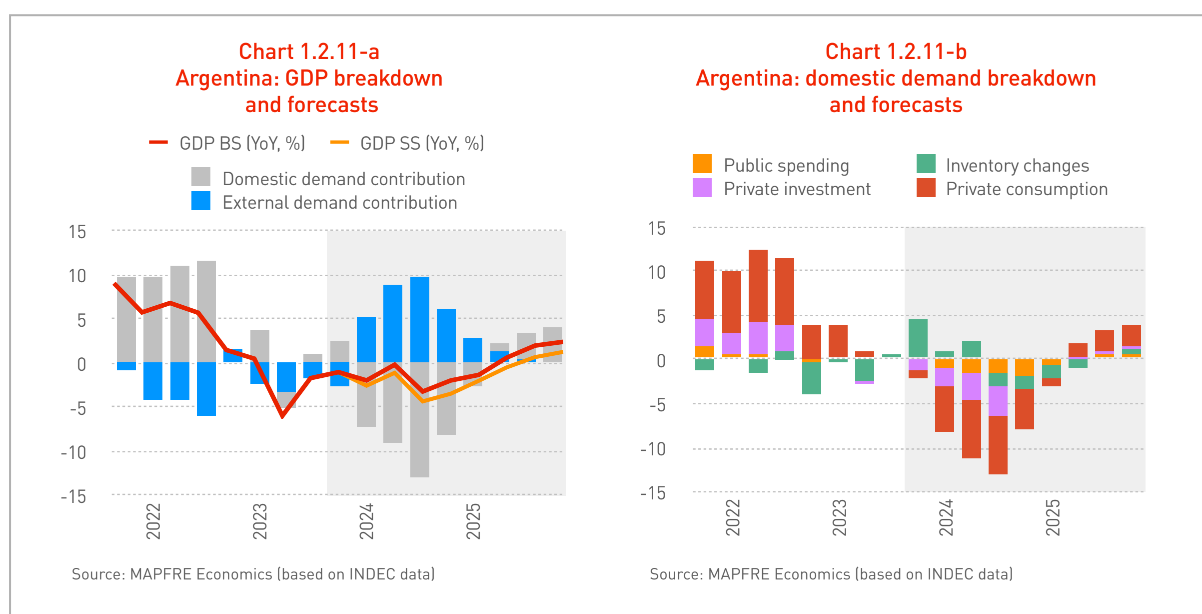

Table 1.2.11
Argentina: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	-2.0	-9.9	10.7	5.0	-2.0	-1.8	0.9	-2.8	-0.1
Domestic demand contribution	-9.5	-10.0	13.4	8.1	0.4	-9.3	0.1	-10.7	-1.1
External demand contribution	7.5	0.1	-2.7	-3.1	-2.4	7.5	0.7	7.8	1.3
Private consumption contribution	-4.6	-8.7	7.2	6.7	0.8	-5.8	0.4	-6.7	0.6
Total investment contribution	-3.2	-2.2	5.6	2.2	-0.4	-2.1	0.3	-2.6	-0.7
Public spending contribution	-0.9	-0.3	0.9	0.3	0.3	-1.5	0.1	-1.5	0.1
Private consumption (% YoY)	-6.1	-12.2	10.4	9.7	1.2	-7.8	2.0	-9.0	0.4
Public spending (% YoY)	-6.4	-2.0	6.3	1.9	2.4	-10.8	1.1	-10.8	1.1
Total investment (% YoY)	-16.0	-13.1	33.8	11.1	-1.7	-10.0	1.5	-12.2	-3.9
Exports (% YoY)	9.8	-17.4	8.5	5.8	-6.7	11.7	2.3	11.2	0.5
Imports (% YoY)	-18.7	-17.2	20.4	17.9	3.8	-18.2	-2.6	-19.7	-5.1
Unemployment rate (%, last quarter)	8.9	11.0	7.0	6.3	7.6	7.5	6.9	7.9	7.8
Inflation (% YoY, average)	53.5	42.0	48.4	72.4	127.9	248.0	115.0	342.4	169.0
Inflation (% YoY, last quarter)	52.2	36.4	51.4	91.8	171.1	208.4	71.5	305.4	124.9
Fiscal balance (% of GDP)	-3.8	-8.4	-3.6	-3.8	-3.9	-0.3	-0.5	-0.5	-1.1
Primary fiscal balance (% of GDP)	-0.4	-6.4	-2.1	-2.0	-2.3	0.1	-0.3	-0.1	-0.9
Current account balance (% of GDP)	-0.8	0.7	1.4	-0.7	-3.2	1.2	1.8	1.4	2.2
Official interest rate (end of period)	55.00	38.00	38.00	75.00	133.00	85.00	65.00	120.00	90.00
3-month interest rate (end of period)	45.13	29.55	31.49	67.61	98.00	98.00	90.50	98.46	89.34
10-year interest rate (end of period)	30.24	21.68	25.52	34.40	22.90	22.49	21.38	23.43	22.57
Exchange rate vs. U.S. dollar (end of period)	59.89	84.15	102.72	177.15	808.45	2085.17	2871.58	2228.78	2972.51
Exchange rate vs. euro (end of period)	67.28	103.26	116.34	188.95	893.34	2267.81	3196.51	2398.71	3296.94
Private lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Household lending (% YoY, average)	15.3	22.9	34.6	60.4	82.4	74.8	174.1	74.0	172.0
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: MAPFRE Economics (based on INDEC data)
Forecast end date: 19 January 2024.

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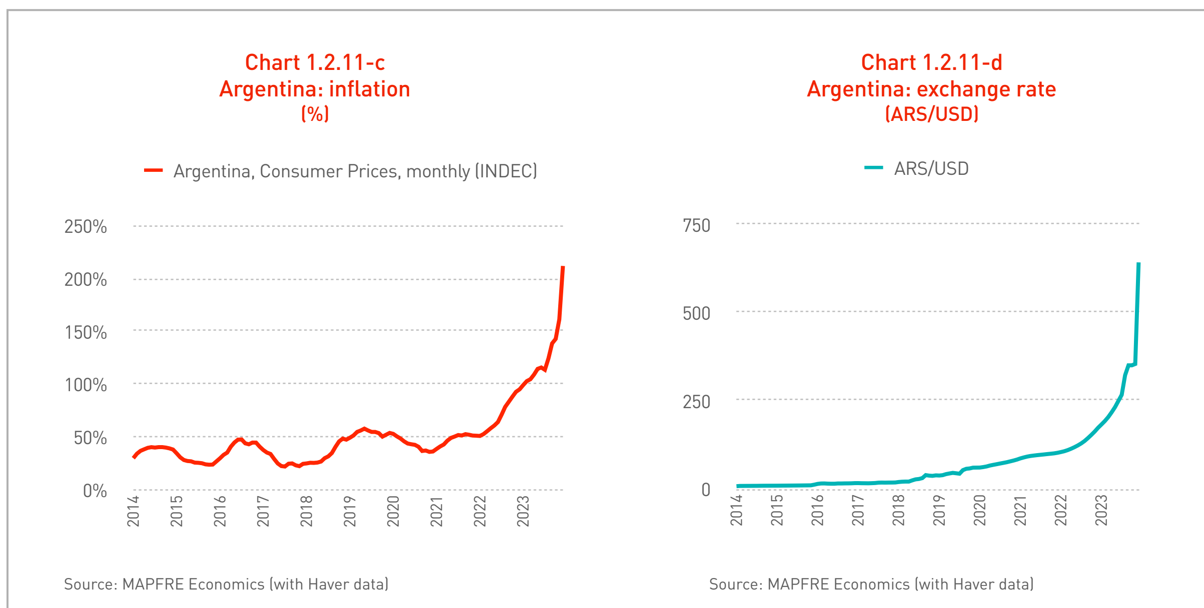

tize government financing. This process, which also includes controlling the money supply and inflation, will be difficult and will require the support of the population, various economic sectors, and labor unions.

1.2.12 China

Activity in the construction sector is down, with price deflation and the economy losing steam.

The Chinese economy grew by 4.9% in Q3 2023, better than expected, with private consumption rising by 5.8%, and exports by 3.4% YoY, all while investment growth moderated (2.1%). The problems in the real estate sector have been particularly evident over the last two years, with a decrease in real estate investment. November data indicates a 9.4% contraction in total real estate investment: -9.0% in residential, -10.0% in offices, -17.0% in commercial space. New construction starts fell by more than 20.0% and financing to developers by 13.4%. Thus, the real estate climate index has been falling for 3 years and stands at 93.4 points.

The purchasing managers' indexes (PMIs) are only marginally in the positive, with the composite index at 52.6, services at 52.9, and manufacturing at 50.8 points. Retail sales are cooling, stagnating in the last 3 months, although on a year-on-year basis they still show growth due to a base effect (10.1%). Consumer confidence is stable, but at depressed levels (87.9) with respect to 2019–2020. Advance Q4 GDP growth data suggests that 2023 closed with growth up to 5.2%. Going forward, the Chinese economy is forecast to grow by 4.4% in 2024 and 4.0% in 2025 (see Table 1.2.12 and Charts 1.2.12-a and 1.2.12-b). This slowdown is related to both internal (consumption and real estate investment) and foreign (exports) factors.

At the price level, China is in deflation, with month-on-month price declines since October and a year-on-year decrease of 0.3% in December. Food was down 3.7%, and transportation dropped 2.2%. Producer prices (PPI) fell 2.7% in December and

China

- **The construction sector and real estate prices are losing momentum, albeit gently.**
- **Falling prices are both a cause and a consequence of deteriorating expectations.**
- **Monetary and fiscal stimulus is expected to support economic activity that is losing momentum.**
- **The Chinese economy is expected to grow by around 4.4% in 2024 and 4.0% in 2025.**

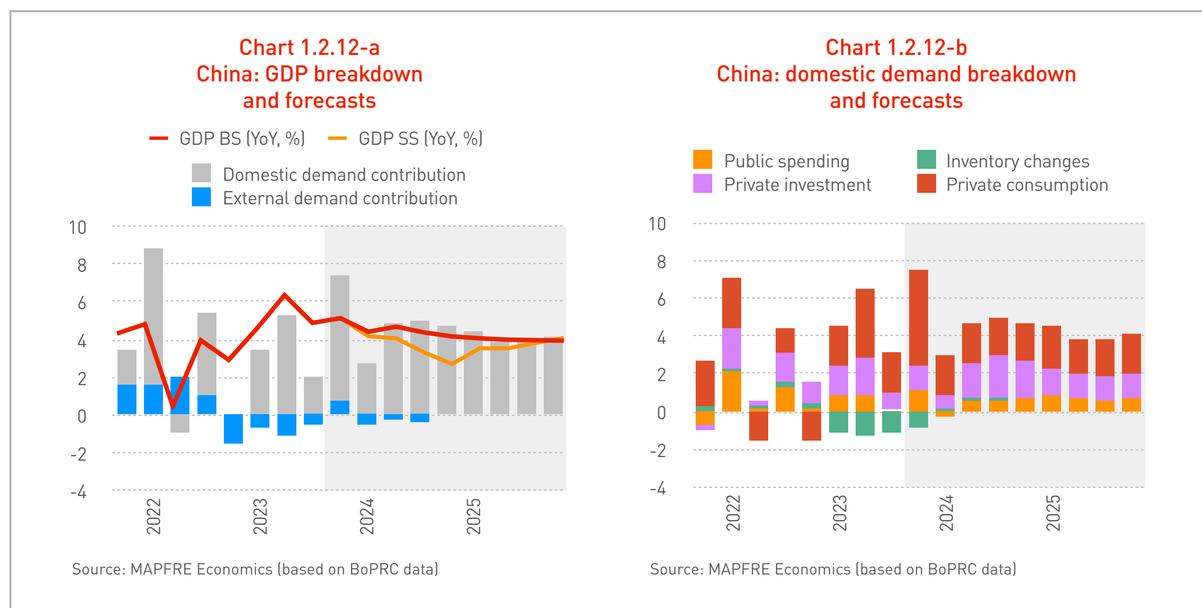

Table 1.2.12
China: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	6.0	2.2	8.5	3.0	5.2	4.4	4.0	3.5	3.7
Domestic demand contribution	5.3	1.6	6.6	2.5	4.4	4.4	4.0	3.4	3.3
External demand contribution	0.6	0.7	2.3	0.7	-0.3	-0.3	0.0	-0.2	0.4
Private consumption contribution	2.5	-1.0	4.6	0.1	3.4	2.1	2.0	1.8	2.1
Total investment contribution	2.2	1.3	1.3	1.3	1.4	1.7	1.3	1.0	0.4
Public spending contribution	1.1	0.8	0.3	0.9	0.8	0.4	0.7	0.4	0.7
Private consumption (% YoY)	6.3	-2.4	12.1	0.3	8.7	5.2	5.1	4.5	4.3
Public spending (% YoY)	6.6	4.6	1.6	5.7	4.6	2.5	4.2	2.5	4.2
Total investment (% YoY)	5.1	3.1	3.2	3.2	3.4	4.2	3.3	2.4	1.0
Exports (% YoY)	2.3	1.8	19.1	-0.5	2.8	1.9	4.4	1.0	2.5
Imports (% YoY)	-0.7	-2.0	7.9	-5.0	5.7	4.3	5.4	2.9	3.0
Unemployment rate (%, last quarter)	3.1	3.5	3.3	3.0	3.4	3.4	3.4	3.8	4.0
Inflation (% YoY, average)	2.9	2.5	0.9	2.0	0.2	1.1	1.6	1.6	1.4
Inflation (% YoY, last quarter)	4.3	0.1	1.8	1.8	-0.2	1.3	2.0	1.8	1.7
Fiscal balance (% of GDP)	-5.6	-7.6	-5.1	-7.4	-7.8	-7.9	-7.0	-8.1	-7.8
Primary fiscal balance (% of GDP)	-2.2	-3.7	-1.5	-3.7	-3.9	-3.9	-3.1	-4.2	-3.8
Current account balance (% of GDP)	0.7	1.7	2.0	2.2	1.8	1.6	1.8	1.7	2.1
Official interest rate (end of period)	3.25	3.00	3.00	2.75	2.50	2.40	2.50	2.50	2.40
3-month interest rate (end of period)	3.02	2.76	2.50	2.42	2.53	1.92	2.12	1.92	2.04
10-year interest rate (end of period)	3.14	3.14	2.78	2.84	2.56	2.55	2.74	3.25	3.15
Exchange rate vs. U.S. dollar (end of period)	6.99	6.52	6.35	6.90	7.10	7.01	6.58	7.14	6.64
Exchange rate vs. euro (end of period)	7.85	8.00	7.19	7.36	7.84	7.63	7.32	7.68	7.37
Private lending (% YoY, average)	13.1	13.1	12.3	11.1	11.5	8.6	7.9	7.0	7.4
Household lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings rate (% pers. disp. income, avg.)	29.0	32.9	31.1	31.8	29.1	29.9	30.4	30.0	31.0

Source: MAPFRE Economics (based on BoPRC data)
Forecast end date: 19 January 2024.

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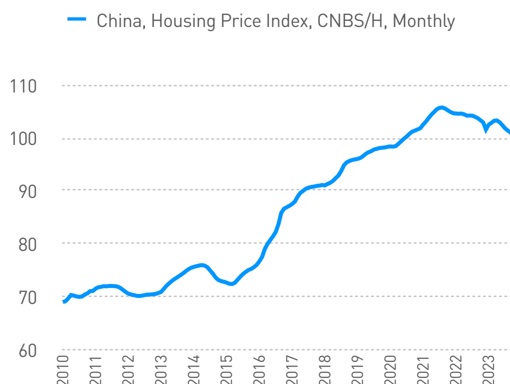
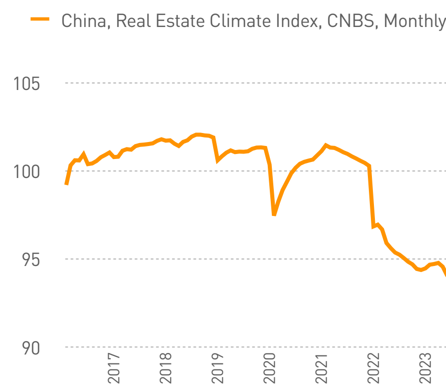
Chart 1.2.12-c
China: home price index



Source: MAPFRE Economics (with Haver data)

Chart 1.2.12-d
China: real estate sector sentiment index



Source: MAPFRE Economics (with Haver data)

have been negative since October 2022. On the monetary policy front, the central bank has not touched its reserve requirement ratio for banks since September, when it lowered it by 25 basis points to 10.50%. With the economy in deflation and facing problems in both the real estate sector and regional indebtedness, the central bank is likely to provide support through an accommodative policy. The deposit interest rate stands at 1.50% and the 7-day reverse repo rate is 1.77%.

In terms of short-term risks to the Chinese economy, the problem of the real estate sector persists, with transactions clearly falling in terms of both new construction volume and prices, although for the time being these are soft declines. The deflation phenomenon at the price level may be indicative of a further deterioration in the outlook for domestic consumption. With the financial, real estate and regional finance sectors in a delicate situation, the government will try to make at least its exports a factor for growth, but the foreign context remains difficult. In terms of geopolitical tensions with the United States, after the high-level meeting between Presidents Xi Jinping and Joe Biden, tensions are calmer, although this may only be a medium-term reassurance, as China has once again reaffirmed its intention to reintegrate Taiwan. In addition, the economies of China and the United States are strongly interconnected, and seeking a reduction in trade relations between them is a long-term issue.

1.2.13 Indonesia

Inflation has practically normalized, although at the cost of a slight loss of momentum in the economy.

The Indonesian economy grew 4.9% in Q3 2023, with household consumption rising 5.1% and investment 5.8%, while public spending contracted 3.8%. Exports decreased 4.3%, and imports were down 6.2%. The November manufacturing PMI remained in expansion territory, registering 52.2 points, and retail sales slowed to 2.9% in December. In this context, Indonesian

Indonesia

- Inflation in Indonesia bottomed out at 2.3%, although it could rebound slightly in 2024.
- The interest rate pivot in the United States has been a relief for countries with foreign debt in dollars, such as Indonesia.
- The Indonesian economy slowed in 2024 to 4.8%, with recovery expected in 2025.

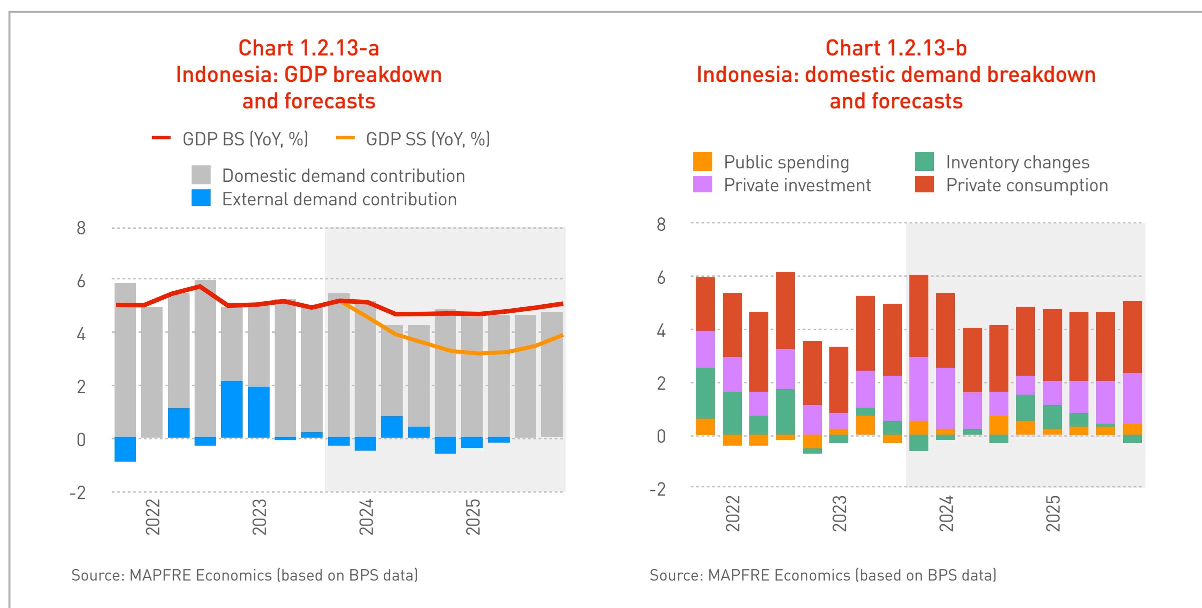


Chart 1.2.13-a
Indonesia: GDP breakdown and forecasts

Source: MAPFRE Economics (based on BPS data)

Chart 1.2.13-b
Indonesia: domestic demand breakdown and forecasts

Source: MAPFRE Economics (based on BPS data)

Table 1.2.13
Indonesia: main macroeconomic aggregates

						Baseline (BS)		Stressed (SS)	
	2019	2020	2021	2022	2023(e)	2024(p)	2025(p)	2024(p)	2025(p)
GDP (% YoY)	5.0	-2.1	3.7	5.3	5.1	4.8	4.9	3.8	3.5
Domestic demand contribution	3.6	-3.6	4.1	4.5	4.6	4.6	4.7	3.8	3.8
External demand contribution	1.4	1.5	-0.4	0.8	0.4	0.1	0.1	0.0	-0.4
Private consumption contribution	2.9	-1.5	1.1	2.7	2.8	2.9	2.7	2.4	2.5
Total investment contribution	1.5	-1.6	1.2	1.2	1.6	1.3	1.4	1.0	0.7
Public spending contribution	0.3	0.2	0.3	-0.4	0.3	0.4	0.3	0.4	0.3
Private consumption (% YoY)	5.2	-2.7	2.0	4.9	5.2	4.8	4.9	4.4	4.5
Public spending (% YoY)	3.3	2.1	4.2	-4.5	4.0	4.8	4.3	4.9	3.9
Total investment (% YoY)	4.5	-5.0	3.8	3.9	5.0	4.2	4.5	3.2	2.3
Exports (% YoY)	-0.5	-8.4	18.0	16.3	0.5	3.4	4.6	2.6	2.9
Imports (% YoY)	-7.1	-17.6	24.9	14.7	-1.6	3.7	6.4	3.0	5.3
Unemployment rate (%, last quarter)	5.1	6.7	6.2	5.6	5.5	5.3	5.0	5.6	5.5
Inflation (% YoY, average)	2.8	2.0	1.6	4.2	3.7	2.4	2.6	2.7	3.0
Inflation (% YoY, last quarter)	2.7	1.6	1.8	5.5	2.7	2.4	2.9	2.7	3.1
Fiscal balance (% of GDP)	-2.2	-6.2	-4.6	-2.4	-1.4	-1.7	-1.7	-1.7	-2.0
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.2	-0.5	-0.6	-0.5	-0.2
Official interest rate (end of period)	5.00	3.75	3.50	5.50	6.00	5.00	4.50	6.00	4.50
3-month interest rate (end of period)	5.51	4.06	3.75	6.62	6.95	5.92	5.40	6.91	5.44
10-year interest rate (end of period)	7.10	6.10	6.38	6.93	6.49	6.47	6.93	7.45	7.74
Exchange rate vs. U.S. dollar (end of period)	13,883	14,050	14,253	15,568	15,389	15,918	16,589	16,072	16,653
Tipo de cambio vs Euro (final período)	15,596	17,241	16,143	16,605	17,005	17,312	18,466	17,295	18,469
Private lending (% YoY, average)	8.8	1.4	1.0	9.6	8.4	7.1	9.7	7.3	9.4
Household lending (% YoY, average)	7.9	2.1	2.2	7.8	8.7	6.9	6.4	6.5	5.8
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	0.3	-9.0	-12.6	15.3	30.7	14.6	7.8	14.4	6.8
Savings rate (% pers. disp. income, avg.)	22.8	21.4	25.7	29.2	27.9	27.0	25.8	27.1	26.1

Source: MAPFRE Economics (based on BPS data)
Forecast end date: 19 January 2024.

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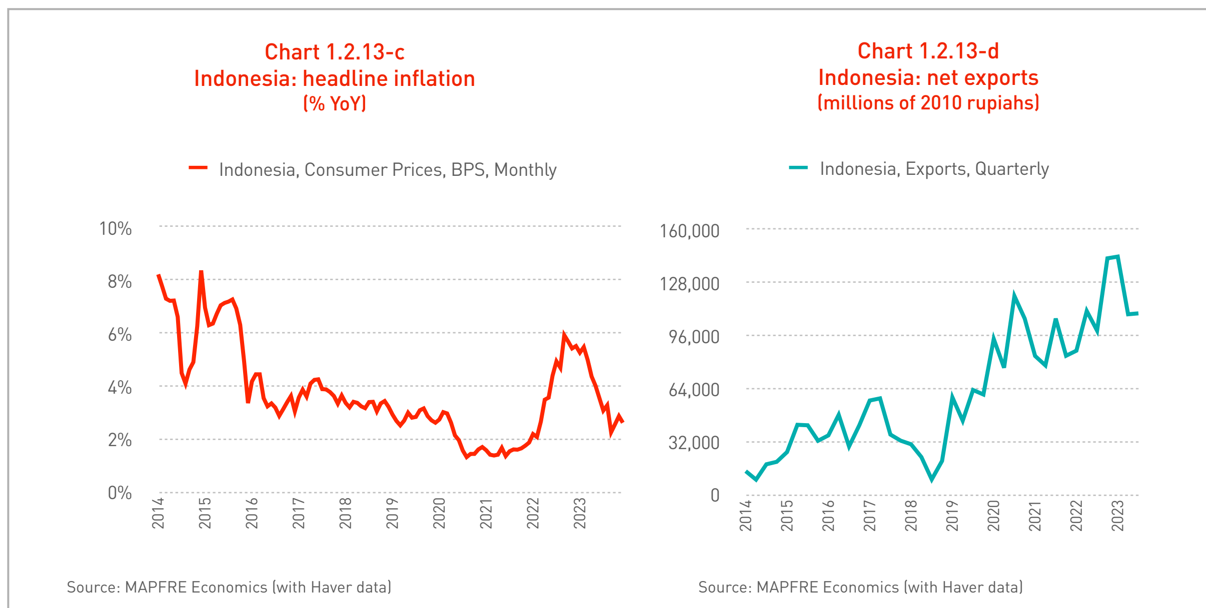


GDP is expected to grow 5.1% at the close of 2023, with estimated growth of 4.8% in 2024 and 4.9% in 2025 (see Table 1.2.13 and Charts 1.2.13-a and 1.2.13-b).

On the other hand, inflation, which rebounded to 2.6% in December, improved from a peak of nearly 6.0% in September 2022. The Central Bank of Indonesia kept interest rates at 6.00% in December, in an attempt to keep inflation within range and the rupiah stable. Short-term economic risks for the Indonesian economy may arise from a surge in inflation, or a price drop in the main exports, such as palm oil and copper. The current account balance is marginally positive (0.3% of GDP). The exchange rate stabilized around 15,500 rupiah/dollar, aided by the easing of interest rates in the U.S. The presidential elections on February 14 will have implications for future policies.

Philippines

- Employment in the Philippines is at record highs.
- The economy's growth is being led by domestic demand.
- Inflation is at risk of rebounding somewhat if government support is suspended.
- Philippine GDP is expected to maintain the momentum observed in recent years, with growth of 5.4% in 2024 and 6.2% in 2025.

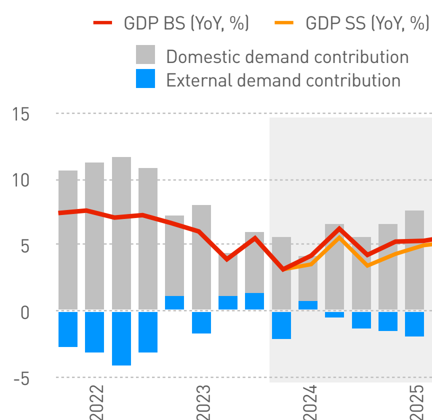
1.2.14 Philippines

The Philippine economy is the fastest growing in the Asia-Pacific region, outperforming forecasts.

The Philippine economy accelerated in the third quarter of 2023 to 5.9% (3.3% QoQ), from 4.3% in the previous quarter. Private consumption grew by 5.0% YoY, government consumption rose by 6.7%, and investment dropped slightly (-1.6%). Exports increased 2.6%, while imports were down 1.3%. The manufacturing PMI expanded to 51.5 points in December, while the survey of future business conditions for Q4 decreased significantly to 38.2 from 53.8 (<50 indicates contraction). Industrial production grew by only 1.7% in October, weighed down by a 10% drop in the chemical industry and a 6.7% decline in automobile production. Consumer confidence also worsened, registering -19% for Q4 2023.

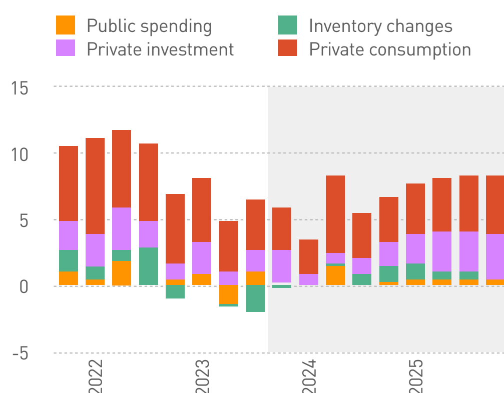
For the coming quarters, consumption is expected to remain strong, at around 5%, and improvements in exports and imports are also expected compared to 2023. Investment will be weaker, but will still

Chart 1.2.14-a
Philippines: GDP breakdown and forecasts



Source: MAPFRE Economics (based on PSA data)

Chart 1.2.14-b
Philippines: domestic demand breakdown and forecasts



Source: MAPFRE Economics (based on PSA data)

Table 1.2.14
Philippines: main macroeconomic aggregates

	2019	2020	2021	2022	2023(e)	Baseline (BS) 2024(p)	Baseline (BS) 2025(p)	Stressed (SS) 2024(p)	Stressed (SS) 2025(p)
GDP (% YoY)	6.1	-9.5	5.7	7.6	5.1	5.4	6.2	4.7	5.8
Domestic demand contribution	6.3	-13.5	8.0	9.8	5.3	5.6	8.1	5.4	7.9
External demand contribution	-0.2	4.0	-2.3	-2.2	-0.3	-0.2	-1.9	-0.7	-2.1
Private consumption contribution	4.3	-5.8	3.1	6.0	3.8	3.9	4.1	3.7	4.1
Total investment contribution	1.1	-7.3	2.1	2.2	1.9	1.2	3.0	1.1	2.8
Public spending contribution	1.1	1.3	1.1	0.7	0.2	0.4	0.4	0.4	0.4
Private consumption (% YoY)	5.9	-8.0	4.2	8.3	5.2	5.3	5.6	5.1	5.6
Public spending (% YoY)	9.1	10.5	7.2	4.9	1.1	3.1	3.1	3.1	3.1
Total investment (% YoY)	3.9	-27.3	9.8	9.7	8.5	5.1	12.6	4.6	11.7
Exports (% YoY)	2.6	-16.1	8.0	10.9	2.3	4.4	6.3	3.9	5.0
Imports (% YoY)	2.3	-21.6	12.8	13.9	2.4	5.0	9.5	4.7	9.1
Unemployment rate (%, last quarter)	4.6	8.7	6.8	4.3	4.0	4.5	4.4	4.6	4.7
Inflation (% YoY, average)	2.4	2.4	3.9	5.8	6.0	3.4	3.1	3.6	2.3
Inflation (% YoY, last quarter)	1.4	2.9	3.6	7.9	4.3	3.2	2.7	3.1	1.8
Fiscal balance (% of GDP)	-3.4	-7.6	-8.6	-7.3	-6.2	-5.6	-4.4	-5.7	-4.6
Primary fiscal balance (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance (% of GDP)	-0.8	3.2	-1.5	-4.5	-2.6	-2.1	-3.0	-2.1	-2.5
Official interest rate (end of period)	4.00	2.00	2.00	5.50	6.50	5.25	5.00	5.50	4.50
3-month interest rate (end of period)	3.97	2.00	1.81	5.50	6.41	5.19	5.00	5.34	4.45
10-year interest rate (end of period)	4.44	2.97	4.72	6.91	6.02	6.47	6.50	7.05	6.96
Exchange rate vs. U.S. dollar (end of period)	50.74	48.04	50.27	56.12	55.57	54.43	53.06	55.41	53.56
Exchange rate vs. euro (end of period)	57.01	58.94	56.93	59.86	61.40	59.20	59.06	59.62	59.40
Private lending (% YoY, average)	9.5	4.0	0.9	8.3	7.5	6.8	9.1	7.2	8.7
Household lending (% YoY, average)	12.8	11.2	-2.1	7.9	15.5	12.4	10.2	12.3	10.5
P.S. non-financial lending (% YoY, average)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P.S. financial lending (% YoY, average)	6.9	-7.9	8.2	13.4	10.3	10.2	9.6	10.1	9.1
Savings rate (% pers. disp. income, avg.)	5.0	3.4	-0.4	-0.9	0.9	2.7	3.8	2.8	4.5

Source: MAPFRE Economics (based on PSA data)
Forecast end date: 19 January 2024.

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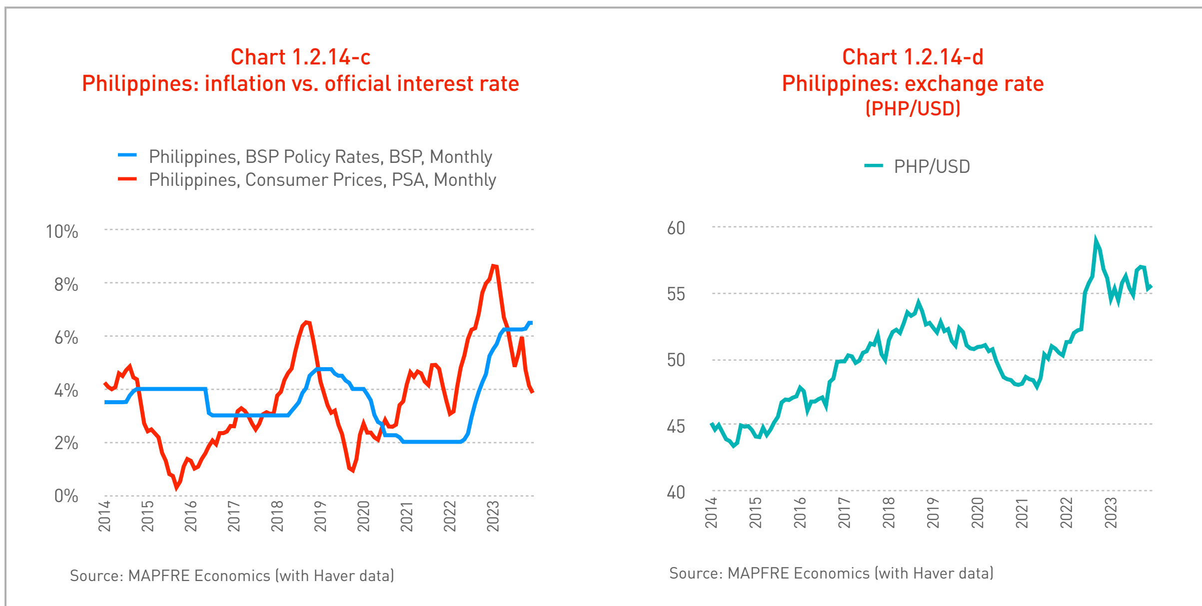


exceed 5.0%. Thus, Philippine GDP growth is projected at 5.1% in 2023, while the economic growth forecast would be around 5.4% for 2024 and 6.2% for 2025 (see Table 1.2.14 and Charts 1.2.14-a and 1.2.14-b).

Year-on-year inflation continued to moderate, standing at 3.9% in December, although it increased 0.2% month-on-month. Core inflation, meanwhile, dropped to 4.4%. By categories, food rose 5.7%, and housing and household supplies by 2.5%, while the cost of transportation dropped 0.8%. At its December meeting, the central bank decided to hold interest rates at 6.50% (Target Reverse Repo), the deposit facility at 6.0%, and the lending rate at 7.0%. Risks to inflation remain tilted to the upside due to possible pressures in transportation, electricity tariffs, and oil prices. The greatest risk lies in inflation picking up if food subsidies are not extended and if electricity costs and oil prices rise, leading the central bank to keep interest rates higher for longer. In any case, no interest rate cuts are expected before the Federal Reserve to protect the exchange rate.

2. Industry outlook

2.1 The economic environment and its impact on insurance demand

2.1.1 Global markets

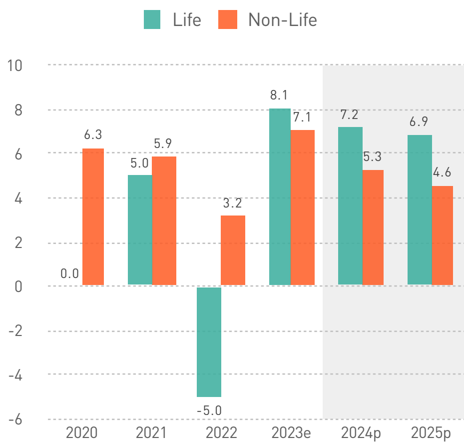
Estimates for the world economy point to a slowdown, with global economic growth forecast at 2.3% in 2024 (3.1% in 2023), a situation that could begin to reverse in 2025, when economic growth is expected to reach 2.6%. The effects of tighter financing conditions and the credit squeeze in most of the world's economies on economic activity will continue to be passed on to the real economy in the form of lower growth, thus creating a scenario of moderate growth in business volume for the insurance business, especially for those segments most closely linked to the economic cycle and credit volume, like Motors or Life Protection insurance. The profitability of the insurance industry, which has suffered in the last two years from the sharp rebound in inflation, is expected to improve due to upward revisions in insurance premiums and moderating growth in insurance companies' costs as price increases are brought under control. Meanwhile, higher financial income from investment portfolios due to higher interest rates will also contribute to the anticipated improvement in profitability while continuing to boost the savings-linked Life insurance and annuity business.

In terms of financial investments, interest rates in the major world markets closed out 2023 at levels below the YoY highs of the previous year, set in the last months of 2022, when there were large corrections in the main categories of long-term fixed-income assets (sovereign and corporate) in which insurance companies invest, which have only partially reversed at the close of 2023. Meanwhile, the market risk-free yield curves in December showed a pronounced negative slope in the main markets (particularly in the United States and Eurozone), reflecting downward inflation expectations, a situation that will not end up normalizing as long as central banks maintain their monetary policy interest rates at the current restrictive levels.

This environment of inverted interest rate curves makes it necessary to adapt insurance offerings to a situation in which short-term rates exceed long-term rates, so that a positive term premium cannot be offered on longer-term products. In any case, the high yield curve will continue to favor the savings-linked Life insurance business. In terms of credit risk, the expected economic slowdown and rising cost of financing as debts are refinanced in an environment of high indebtedness and large fiscal deficits of governments (many in the midst of elections) could put pressure on risk premiums in the coming months. However, this has not yet happened.

Meanwhile, equity performed well in 2023 as a whole. Thus, the main global indexes grew significantly in the first half of the year, and after a setback in Q3, they rebounded strongly in the last two months of 2023 with the help of the final messages of the year from the Federal Reserve, which indicated that interest rate hikes could have reached their ceiling. This is a result of the better-than-expected moderation of inflation, which could even lead to a change in the Fed's monetary policy stance, with possible interest rate cuts in 2024. In this regard, the most striking case was the Nasdaq Composite, which closed 2023 with a YoY appreciation of 42.1% (-33.1% in 2022). The S&P 500 increased 23.8% (-19.4% in 2022), and in Europe, the Euro Stoxx 50 index

Chart 2.1.1-a
Global: nominal premium growth
(annual nominal growth in USD, %)



Source: MAPFRE Economics

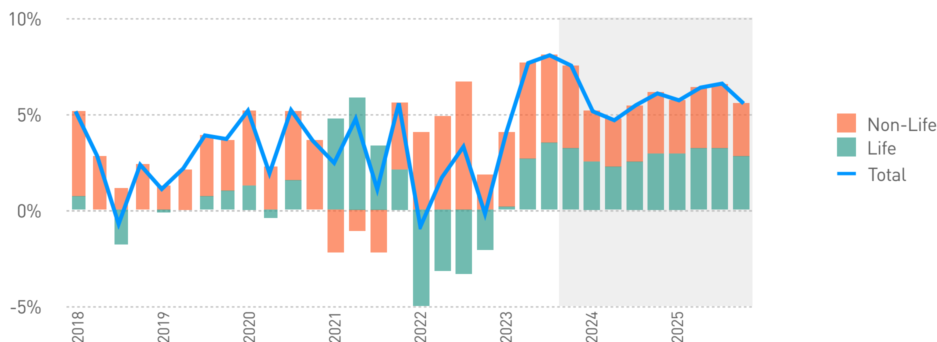
showed a cumulative return of 18.9% in 2023 (-11.7% in 2022).

This environment favors the development of Life insurance products in which the policyholder assumes the investment risk, which could shift the composition of the reference assets towards a higher weight of fixed income in the combination of products offered in the market for the most risk-averse policyholders, considering that the main equity indexes, particularly in the United States, have reached all-time highs.

Thus, in the current context of economic activity, inflation, and financing costs, the Life insurance market during 2024–2025 is expected to maintain a visible momentum that, although lower than that of the previous two years, will still maintain nominal rates close to 7% on average (see Charts 2.1.1-a and 2.1.1-b, and Table B-1 in the Appendix to this report). This growth will be especially driven by developed markets, where interest rates will remain high, accounting for more than half of overall premium growth. Thus, Europe would contribute less than 2 percentage points (pp) of global growth, North America less than 1.5 pp, and developed Asia and Oceania slightly less than 1 pp of global growth. Meanwhile, emerging markets would contribute, as a whole, around 2.5 pp to the global growth of the insurance industry in this segment, with emerging Asia and China contributing the most (around 1 pp each), and Latin America around 0.5 pp (see Chart 2.1.1-c).

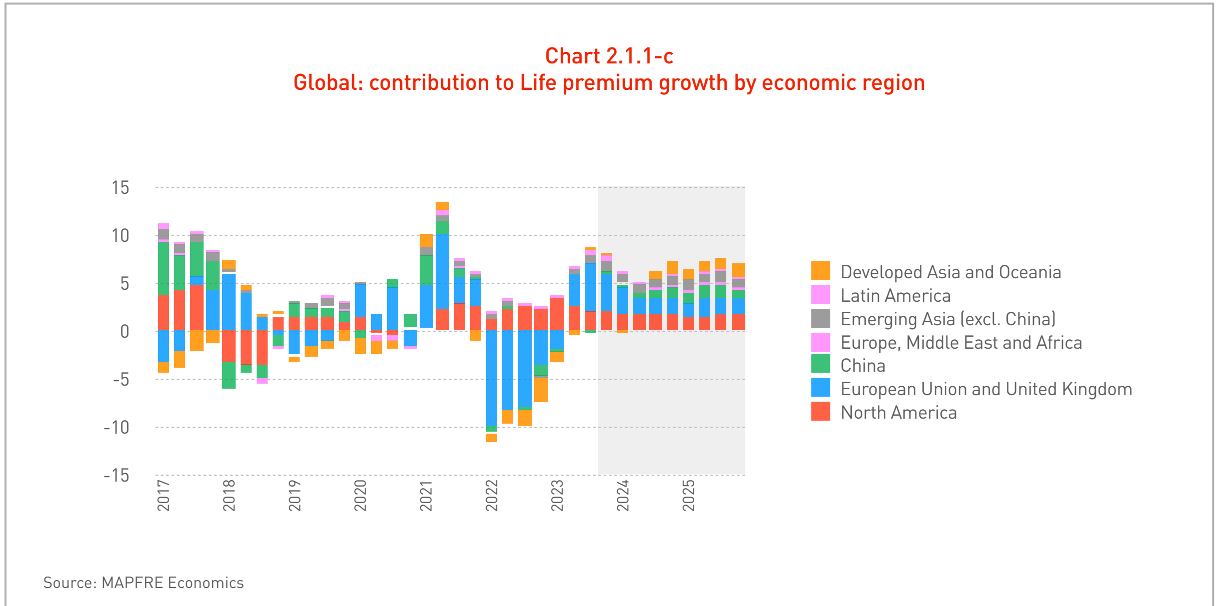
The average nominal growth forecast for the Non-Life insurance segment over the forecast horizon (2024–2025) is slightly below 5%. North America will account for more than half of this global growth over the next few years (around 2.6 pp), but its contribution will lose momentum as the financial environment generates less accessible

Chart 2.1.1-b
Global: contribution of insurance lines to premium growth



Source: MAPFRE Economics

Chart 2.1.1-c
Global: contribution to Life premium growth by economic region



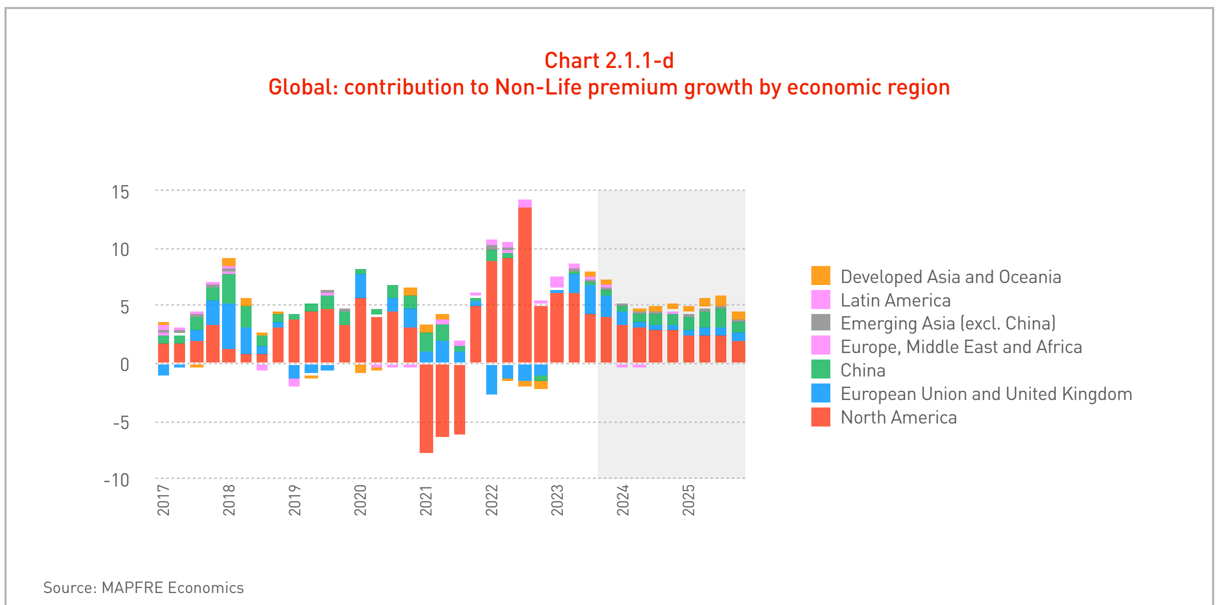
Source: MAPFRE Economics

consumption and investment, and as the expected cyclical adjustment takes place. China and emerging Asia will gradually increase their contribution to the overall growth of the insurance industry in this segment during the period under review, contributing approximately half as much as North America (around 1.3 pp), while the remaining regions as a whole will contribute the rest of the growth (approximately 1.1 pp). The contribution from Europe and Latin America will be quite small, given the expected sluggishness of their economic activity (see Chart 2.1.1-d and Table B-1 in the Appendix of this report).

2.1.2 Eurozone

In the Eurozone, economic growth is expected to remain weak, with the region's aggregate GDP forecast at 0.6% in 2024 (0.5% in 2023), a situation that should improve in 2025, when economic growth is expected to reach 1.6%. This weak growth is a consequence of the limited momentum of some of its main economies, especially Germany, but also France and Italy. Interest rate hikes and the credit crunch are having a negative impact on their real economies, with weaker consumption and a drop in the household savings rate, which may result

Chart 2.1.1-d
Global: contribution to Non-Life premium growth by economic region

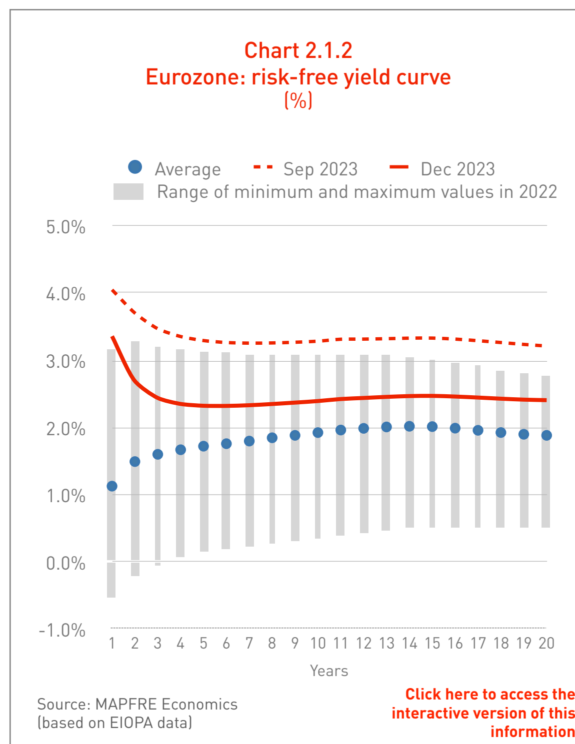


Source: MAPFRE Economics

in moderate growth in the insurance industry's more cyclical lines of business. The economic slowdown and increase in financing costs are particularly noticeable in new passenger car registrations in the Eurozone, which dropped by 3.3% year-on-year in December 2023, Germany being the main cause of the decline, with a year-on-year drop of 23%[6]. However, in the Eurozone as a whole, new car registrations increased 14.7% in 2023 compared to the previous year, with growth in all main markets.

On the positive side, rising interest rates will continue to create a favorable environment for savings-linked Life insurance and annuities. In addition, the improvement in the financial performance of investment portfolios, falling inflation, and the revision of insurance premiums to adapt them to inflation may offset the negative effect inflation has had on the insurance industry's profitability in the past year. At its December 2023 meeting, the European Central Bank (ECB) decided to maintain restrictive financial conditions, with interest rates at 4.5% for the main financing operations and 4% for the deposit facility (after ten uninterrupted increases from July 2022 to October 2023, when they were at 0% and -0.5%, respectively). These interest rate levels are the highest in more than two decades. In addition, the ECB decided to continue on its path of gradually reducing the size of its balance sheet. Inflation continues to show signs of moderation, standing at 2.9% in December (2.4% in November), leaving average inflation for 2023 at 5.5% (8.4% in 2022), close to, but still above, the ECB's 2% target for the Eurozone as a whole. Meanwhile, the progressive reduction in the size of its balance sheet continues as expected, without significantly affecting the risk premiums of countries with the highest levels of indebtedness, which have corrected the upturn seen in previous quarters.

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



Source: MAPFRE Economics (based on EIOPA data)

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The risk-free yield curves produced by the European Insurance and Pension Authority (EIOPA) at the end of December show the easing of interest rates in all sections of the curve (which still has a negative slope), in a scenario in which risk-free market rates have discounted that interest rates could begin to fall in the coming quarters (see Chart 2.1.2)[7].

This environment continues to favor the marketing of Life savings insurance products with guaranteed interest rates for short durations and rate reviews at each renewal, but also of products with interest rate guarantees for longer durations, in view of expectations that the ECB may begin to lower interest rates this year. Meanwhile, the S&P 500 performed well in the first half of the year and in the last two months of 2023, closing the year with a YoY appreciation of 23.8% (-19.4% in 2022), which favors the development of Life insurance products in which the policyholder assumes the investment risk, which can also benefit from the high interest rates in fixed income.

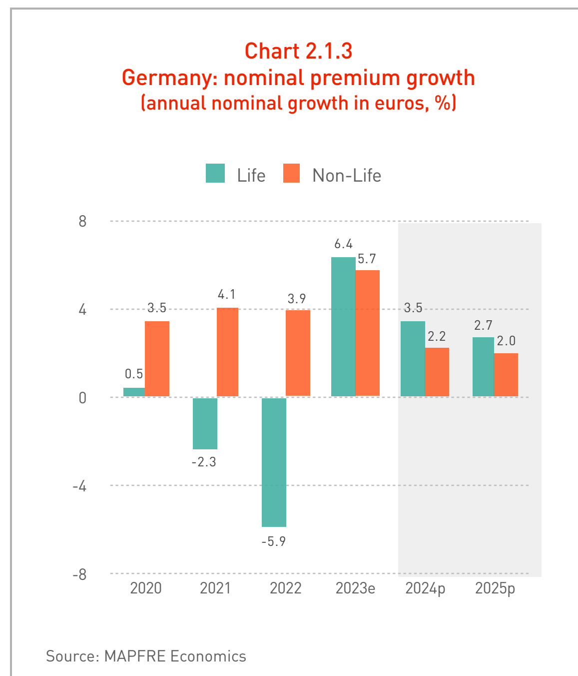
2.1.3 Germany

Estimates for Germany point to weak economic growth of 0.3% in 2024 (-0.3% in 2023), a situation that could improve in 2025, when growth of 1.5% is expected in this country. Sluggish demand is affecting consumption (public and private) and investment (especially construction), with inflation continuing to moderate (3.2% and 3.7% in November and December, respectively), leaving average inflation for 2023 as a whole at 6.0% (6.9% in 2022). This environment suggests a scenario of low growth for the insurance industry in terms of business volume, especially for its most cyclical lines, such as Motors insurance, Life Protection insurance, and construction-related insurance. However, the outlook for its profitability is improving due to moderating inflation and improved financial profitability of investments as a result of interest rate hikes. Thus, the growth of Non-Life premiums in the insurance industry in 2024 could be around 2.2%, while for the Life insurance segment, this forecast would be around 3.5% in 2024 (see Chart 2.1.3).

In terms of the Life business, the yield on the German sovereign bond declined in the last two months of 2023, except in the short tranches, with the slope of the German sovereign bond yield curve at the end of December remaining sharply negative. This interest rate situation continues to provide a favorable environment for the Life savings business with guaranteed interest rates with shorter terms and periodic renewals, but a more complex one for products with guaranteed rates for longer terms and for traditional annuities due to the inversion of the risk-free yield curve.

Meanwhile, the main global indexes experienced significant growth in 2023. In particular, the German DAX performed well, after the Q3 setback, rebounding strongly in the last two months of the year to leave YoY appreciation at the close of 2023 at 19.7% (recovering from the 13.6% decline in 2022).

Chart 2.1.3
Germany: nominal premium growth
(annual nominal growth in euros, %)



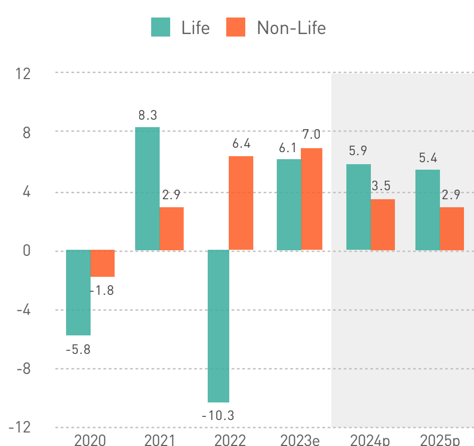
Source: MAPFRE Economics

This environment favors the development of Life insurance products in which the policyholder assumes the investment risk, which can also take advantage of the higher-than-usual interest rate environment in this market, broadening the composition of reference assets towards a greater weight of fixed income for more risk-adverse policyholders. This is also based on the fact that the main equity indexes, particularly those of the United States and the DAX, are approaching all-time highs.

2.1.4 Italy

Forecasts suggest that the weak economic growth in Italy will persist, slowing to 0.5% in 2024 (0.7% in 2023), a situation that may improve slightly in 2025, when growth is expected to be 1.2%. In this environment, as illustrated in Chart 2.1.4, Non-Life insurance premiums are expected to suffer a slowdown, with estimated growth in 2024 of 3.5% (7.0% in 2023). Inflation continues to moderate and fell substantially in the last two months of the year (0.67% and 0.59% in November and December, compared to an average inflation rate of 5.7% in 2023), which could have a positive impact on the profitability of the insurance industry, which has been suffering from the

Chart 2.1.4
Italy: nominal premium growth
(annual nominal growth in euros, %)



Source: MAPFRE Economics

sharp rise in inflation over the last two years.

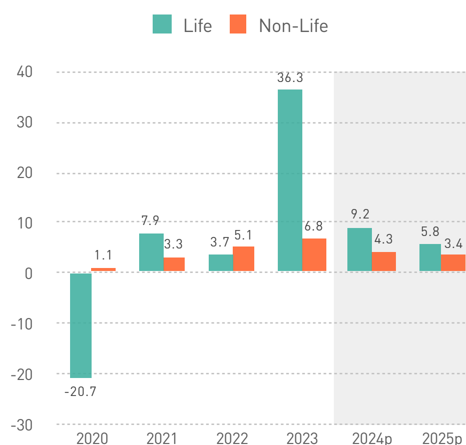
Meanwhile, in terms of the interest rate environment for Life insurance, the yield on the ten-year Italian sovereign bond fell in the last quarter of 2023 to levels slightly below, but close to 4% (from levels close to 5%). The sovereign debt curve was inverted in its first tranche, with maturities up to five years, and had a positive slope in the longer tranches, allowing slightly higher yields to be offered on long-term products in comparison with short-term rates (positive term premium). This situation continues to paint a favorable picture for traditional Life savings and annuity products, including products with guaranteed rates over shorter terms and periodic revisions of the guaranteed rate, taking advantage of the inversion of the first tranches of the yield curve. Meanwhile, the main Italian equity index (FTSE MIB) performed well during the year (following last year's declines), gaining 27.2%. The performance of equities, together with the high yields offered by fixed income, may support the development of Life insurance products in which the policyholder assumes the investment risk. In this context, as illustrated in Chart 2.1.4, Life insurance premiums are expected to grow 5.9% in 2024 (6.1% in 2023).

2.1.5 Spain

In Spain, economic growth estimates for 2024 point to a slowdown, with growth forecast at 1.4% in (2.5% in 2023), a situation that could begin to improve in 2025, when economic growth is expected to reach 1.8%. Inflation figures for the Spanish economy continue to show signs of slowing, with a year-on-year figure of 3.1% in December, bringing average inflation for 2023 to 3.6% (8.4% in 2022). For now, the effects of inflation and higher financing costs on household and corporate disposable income continue to paint a picture of economic slowdown that will be passed on to the more cyclical lines of the insurance industry in the coming months, particularly in the Non-Life business, for which premium growth is estimated at 4.3%, compared to 6.8% in 2023 (see Chart 2.1.5).

This economic slowdown could have a greater impact on the businesses most closely linked to credit behavior, such as Motors and Life Protection insurance.

Chart 2.1.5
Spain: nominal premium growth
(annual nominal growth in euros, %)



Source: MAPFRE Economics

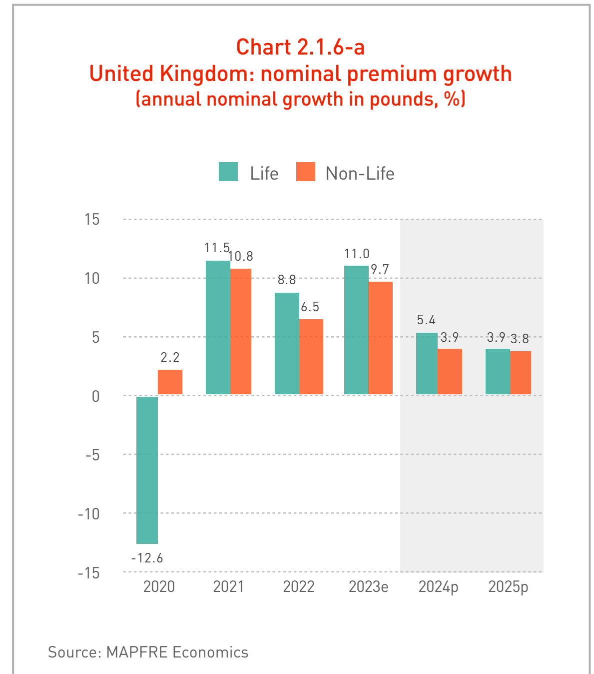
However, the improved inflation performance could have a positive impact on their profitability, which has been suffering the consequences of higher prices in the cost of services, repairs, and operating expenses over the last two years. The moderation of inflation, the progressive upward revision of insurance premiums, the foreseeable improvement in investment portfolio returns, and the strong performance of the Life savings business— in Spain, one of the biggest contributors to the industry's results— mean that the profitability of insurance companies is expected to improve this year.

The ECB, which could begin to progressively reduce interest rates in the coming quarters if inflation data for the Eurozone as a whole allows it, is maintaining a restrictive monetary policy for the time being, with interest rates in many Eurozone economies (particularly in Spain) in the territory of positive real interest rates, with nominal rates above inflation. Thus, the Life savings business is expected to maintain significant growth of 9.2% in 2024, less spectacular than in the previous year (36.3% in 2023), after a long period of interest rates at levels close to zero or even negative, but in any case, significant growth (see Chart 2.1.5). High interest rates continue to create an environment in which insurance companies are in a position to offer guaranteed rates that can compete with other savings management products, such as bank deposits, which are slowly passing on these higher interest rates to their product offerings in the market.

2.1.6 United Kingdom

Forecasts for the United Kingdom point to an environment of low economic growth, with GDP growth of 0.4% in 2024 (0.5% in 2023), a situation that could improve by 2025, when GDP growth is expected to be 1.3%. Meanwhile, inflation is more stubborn than in other developed economies, but continues to show signs of improvement (3.9% and 4.0% YoY in

Chart 2.1.6-a
United Kingdom: nominal premium growth
(annual nominal growth in pounds, %)



Source: MAPFRE Economics

November and December, respectively, compared to an average inflation rate of 7.4% in 2023). High financing costs will continue to generate an environment of weak economic growth, which will be passed on to the insurance industry, especially the Non-Life segment, for which premium volume growth is expected to be 3.9% in 2024 (9.7% in 2023), as illustrated in Chart 2.1.6-a. However, improved inflation performance and higher interest rate levels could translate into a recovery of profitability margins.

Regarding the interest rate environment for savings-linked Life insurance and traditional annuities, the Bank of England last raised interest rates in 2023 at its August meeting to 5.25% and has since held them at that level for the remainder of the year's meetings. In EIOPA's December month-end risk-free yield curves (see Chart 2.1.6-b), there is a significant drop in all tranches, with a steep negative slope in maturities up to eight years. Despite the downturn, the high short-term interest rates continue to be conducive to the marketing of Life savings insurance products with guaranteed short-term rates and rate revisions at each renewal. In terms of equities, the FTSE 100 was one of

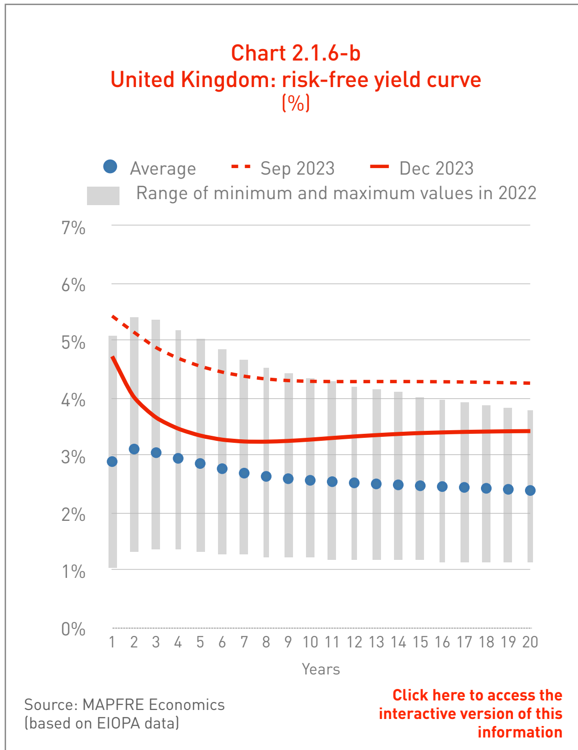


Chart 2.1.6-b
United Kingdom: risk-free yield curve
(%)

Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

the worst performing indexes in 2023, growing 3.8% (0.9% in 2022). This environment offers a somewhat more complicated outlook for the development of Life insurance in the U.K. market, estimating that premium growth in this business segment could slow down to 5.4% in 2024 (11.0% in 2023), as illustrated in the aforementioned Chart 2.1.6-a.

2.1.7 United States

Forecasts for the United States show an economic slowdown with 1.1% GDP growth in 2024 (2.5% in 2023), a situation that could improve slightly in 2025, when GDP growth is expected to be 1.5%. Inflation continued to show signs of easing throughout the year (3.1% and 3.4% year-on-year in November and December, compared to average inflation of 4.2% in 2023), although with some occasional spikes. This economic slowdown is expected to affect the insurance industry's most cyclical lines, particularly the most credit-linked businesses, such as Motors, Life Protection, and construction-related insurance. Thus, Chart 2.1.7-a shows estimated growth of 4.6% for the Non-Life business in 2024 (6.9% in 2023).

However, improved inflation performance could have a positive impact on the profitability of the insurance industry, aided by the repricing of insurance policies (which in this market are normally subject to supervisory approval, increasing the time until price inflation starts to be compensated through higher prices) and significantly higher financial income due to the high interest rates.

In terms of the interest rate environment for savings-linked Life insurance and annuities, the Federal Reserve raised monetary policy interest rates at its July meeting, leaving them in a range between 5.25% and 5.50% and deciding to hold them at that level at successive meetings in 2023. However, they could gradually begin to be reduced in the coming quarters if inflation data continues to improve and is controlled at levels close to the Fed's 2% target. The market risk-free yield curve for December produced by EIOPA (see Chart 2.1.7-b) shows an easing in the levels of all tranches of the curve, which presents a negative slope in maturities up to eight years offering positive real interest rates

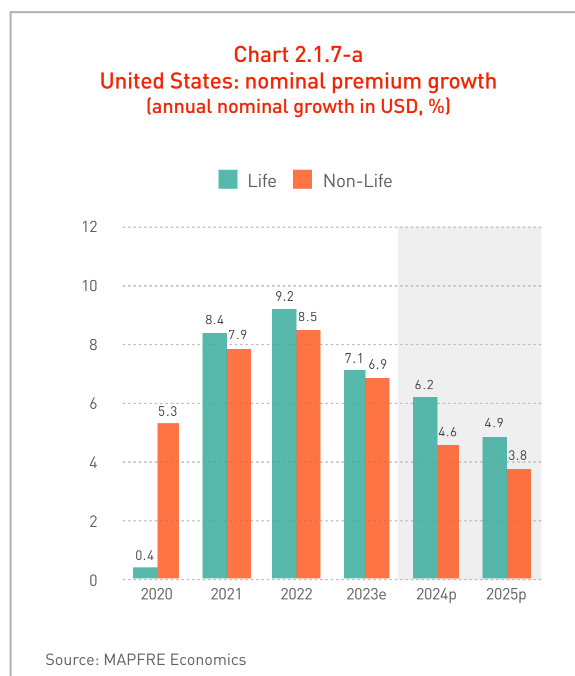
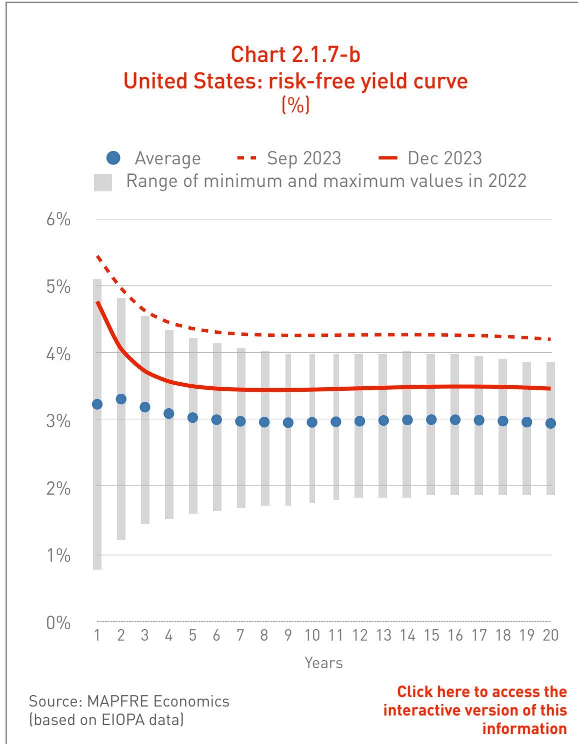


Chart 2.1.7-a
United States: nominal premium growth
(annual nominal growth in USD, %)

Source: MAPFRE Economics



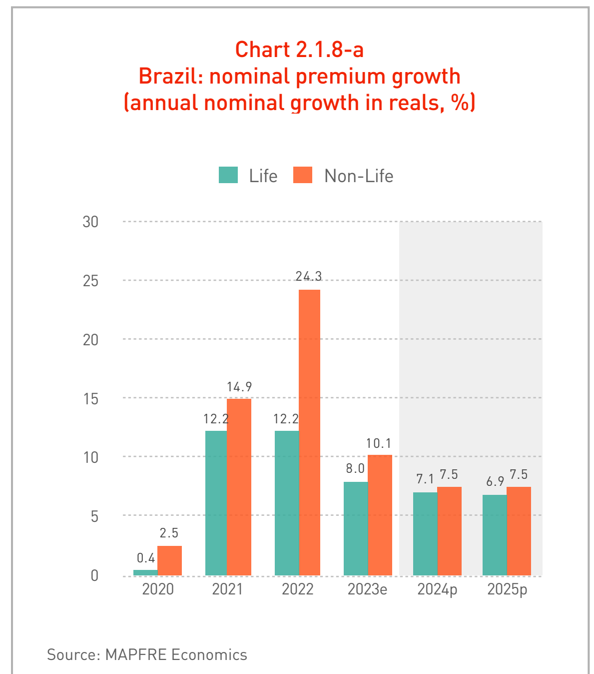
(with nominal rates above inflation), especially in the shorter tranches of the curve.

This environment remains conducive to the marketing of Life savings insurance products with guaranteed short-term rates and rate revisions at each renewal. Meanwhile, the Nasdaq Composite index performed well in the first half and in the last two months of 2023, closing the year with a YoY appreciation of 42.1% (-33.1% in 2022). Meanwhile, the S&P 500 performed similarly, although with a lower growth rate than the Nasdaq of 23.8% in 2023 (-19.4% in 2022), which may favor the development of Life insurance products in which the policyholder assumes the investment risk. These products may also benefit from the high interest rates in fixed income, making them suitable for policyholders with a more conservative profile. In this context, as shown in Chart 2.1.7-a, Life insurance premiums in the United States could grow 6.2% in 2024 (7.1% in 2023).

2.1.8 Brazil

Economic growth estimates for Brazil suggest a slowdown in 2024 to 1.6% (3.1% in 2023), mainly due to the effect of high borrowing costs on the real economy, a situation that should improve in 2025 with expected growth of 2.4%. This economic slowdown would be passed on to insurance industry growth, mainly in the Non-Life segment, with premium growth in 2024 estimated at 7.5% (10.1% in 2023) which is, in any case, positive growth and above the inflation forecast (see Chart 2.1.8-a).

Meanwhile, the moderation of inflation and financial income due to high interest rates will have a positive impact on the profitability of the insurance industry. The Central Bank of Brazil continues to reduce monetary policy interest rates and, since its meeting in July 2023, has cut rates four consecutive times during the year to 11.25% (from 13.75%). The inflation data improved in response to the upward trend, which, after an occasional upturn since July, moderated again in November and December to 4.68% and 4.62%, respectively (leaving average inflation for 2023 at 4.6%). In EIOPA's risk-free yield curves for the end



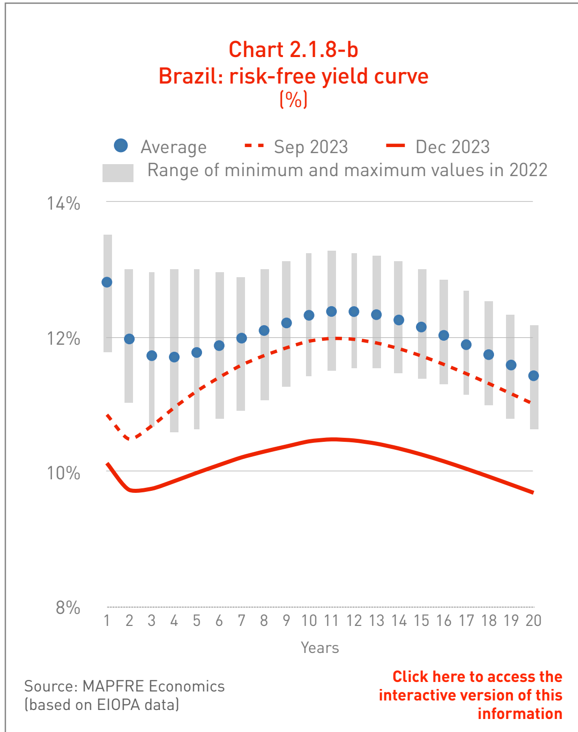


Chart 2.1.8-b
Brazil: risk-free yield curve
(%)

Source: MAPFRE Economics (based on EIOPA data)

of December (see Chart 2.1.8-b), there was a drop in all tranches of the curve, with a positive term premium and positive real interest, but also with high rates in the short-term part of the curve, which continues to provide a suitable environment for Life savings (VGBL and PGBL type) and annuities business development. These may continue to offer returns significantly higher than the latest inflation data, although the expected economic slowdown could lead to somewhat lower growth of this market segment of 7.1% in 2024 (8.0% in 2023), as illustrated in the aforementioned Chart 2.1.8-a.

2.1.9 Mexico

The Mexican economy is expected to moderate its growth to 2.0% in 2024 (3.3% in 2023), with growth in 2025 expected to be 2.1%. Inflation continued to slow to 4.32% and 4.66% year-on-year in November and December, respectively, compared to average inflation of 5.6% in 2023 (the central bank's target range is between 2% and 4%). In this environment of positive economic growth, in an economy that is holding up well to the effect of tighter financing conditions, the outlook for the insurance industry remains favorable, with Non-Life premium growth forecast at 8.7% in 2024 (12.9% in 2023), significantly above the inflation forecast for this year (see Chart 2.1.9-a). Meanwhile, the moderation of inflation and financial income due to high interest rates are expected to have a positive impact on the profitability of the insurance industry.

In this regard, with respect to the interest rate environment, the Bank of Mexico has held the benchmark monetary policy rate in 2023 at 11.25% since March, although the market risk-free yield curves produced by EIOPA (see Chart 2.1.9-b) show a decline in all tranches. It should be noted that the yield curve remains significantly inverted, especially in tranches up to five years. As real interest rates remain positive, savings-linked Life insurance and annuity products can continue to offer returns exceeding the latest inflation data, especially in the shorter tranches. This is a suitable environment for launching savings products with shorter-term rate guarantees and periodic reviews of guaranteed rates. However, products with longer-term guarantees and Life annuities may also be attractive due to the high interest rates

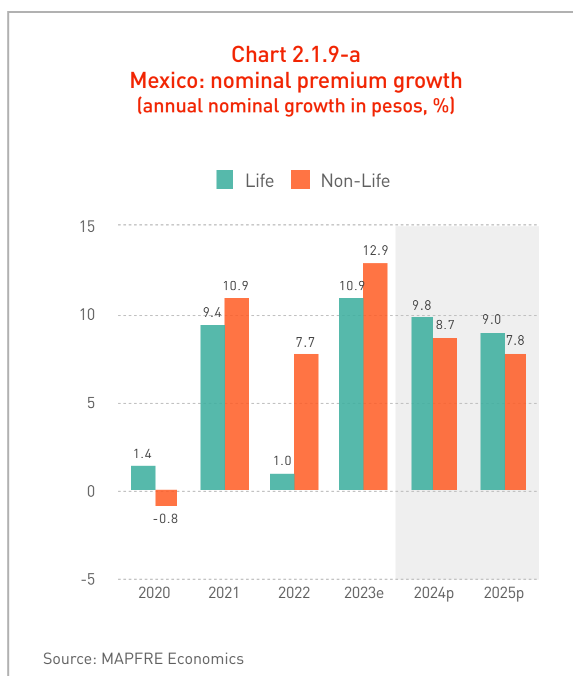


Chart 2.1.9-a
Mexico: nominal premium growth
(annual nominal growth in pesos, %)

Source: MAPFRE Economics

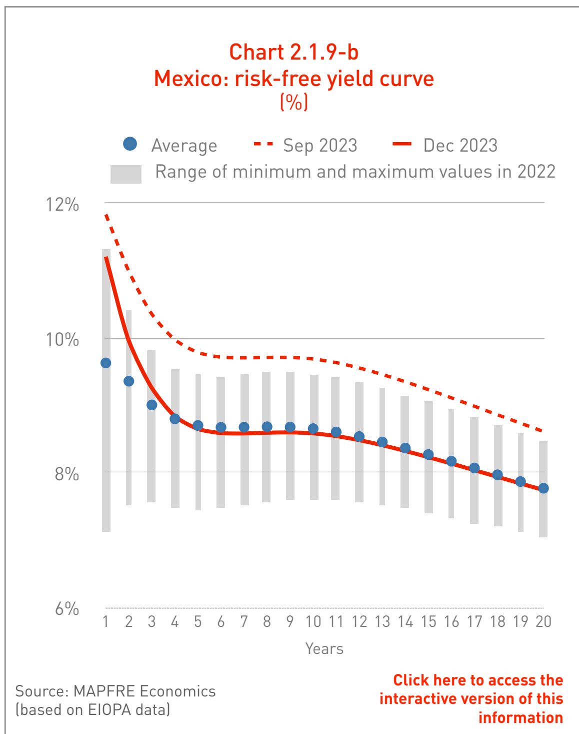


Chart 2.1.9-b
Mexico: risk-free yield curve
(%)

Source: MAPFRE Economics (based on EIOPA data)

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offered in all tranches of the curve, as well as the expectation that rates will continue to fall once inflation is under control. In this context, as shown in Chart 2.1.9-a, Life insurance premiums in the Mexico could grow 9.8% in 2024 (10.9% in 2023).

2.1.10 Argentina

The forecast for Argentina suggests an environment of economic recession, with GDP variation in 2024 of -1.8% (-2.0% in 2023) and an out-of-control inflation rate, which reached 211.4% YoY in December 2023, leaving average YoY inflation at 127.9%. However, economic momentum could improve in 2025, when GDP growth is expected to reach 0.9%. This complex economic context continues to pose a challenging outlook for the business and profitability of the insurance industry. It is estimated that the Non-Life business could experience nominal growth of 75.5% in 2024 (72.5% in 2023), basically due to the process of revising premiums to try to bring them into line with the hyperinflationary price escalation (see Chart 2.1.10).

Meanwhile, the Central Bank has changed its benchmark interest rate for its overnight repo rate to 100%, down from the previous benchmark interest rate (Leliqs rate of the four-week liquidity bill auctions), in an attempt to support demand for longer-term government bonds. In any case, real interest rates remain in deeply negative territory, which continues to complicate the outlook for savings-linked Life insurance, which cannot offer returns to compensate for high inflation. In this regard, the forecast for nominal growth in Life insurance premiums for 2024 would be around 49.2% (53.0% in 2023) and 31.6% in 2025, well below the average inflation forecast for those years.

2.1.11 Turkey

In Turkey, the economy is expected to moderate its growth to 2.4% in 2024 (4.0% in 2023), with anticipated growth of 2.9% in 2025. Inflation continued to spike to 64.8% in December, compared to average inflation in 2023 of 53.4%. In response to this upturn, the Turkish central bank continues to tighten its monetary policy, raising its benchmark interest rate to 42.5% at its last meeting in December, its

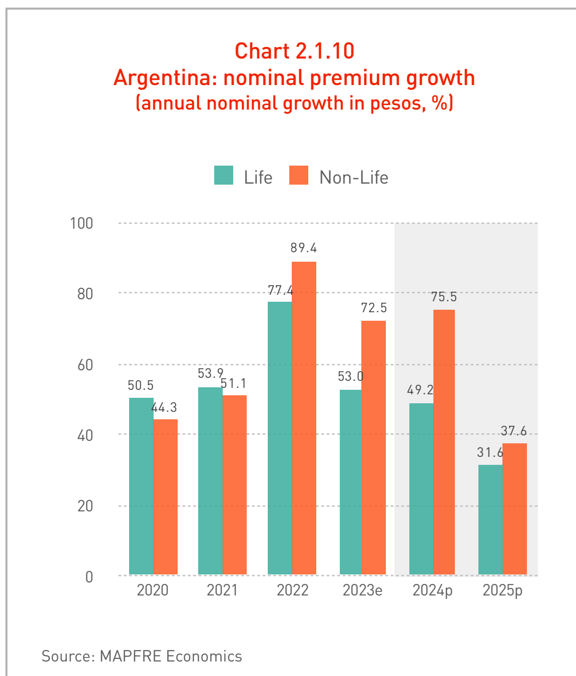


Chart 2.1.10
Argentina: nominal premium growth
(annual nominal growth in pesos, %)

Source: MAPFRE Economics

seventh consecutive hike since June 2023. In the insurance industry, this economic environment points to estimated growth of 62.1% for the Non-Life business in 2024 (77.6% in 2023), which could imply moderate growth in real terms, considering the inflation forecast that will continue to pose significant challenges in terms of profitability (see Chart 2.1.11-a).

That said, the latest interest rate hike implemented by the central bank is still not enough to bring real interest rates into positive territory. In the EIOPA curves (see Chart 2.1.11-b), a sharp rise in market risk-free interest rates is again observed in the tranche of the curve with maturities up to three years, whose negative slope significantly increases. However, interest rate levels at maturities above three years are down, falling substantially below inflation, so the rate environment remains difficult for the development of the Life savings business, which is more suitable for products offering guaranteed interest at short-term maturities and guaranteed rate reviews at each maturity. In this context, also taking into account the possible development of Life Protection insurance, nominal Life insurance premiums in Turkey are expected to grow by around 26.7% in 2024 (37.2% in 2023).

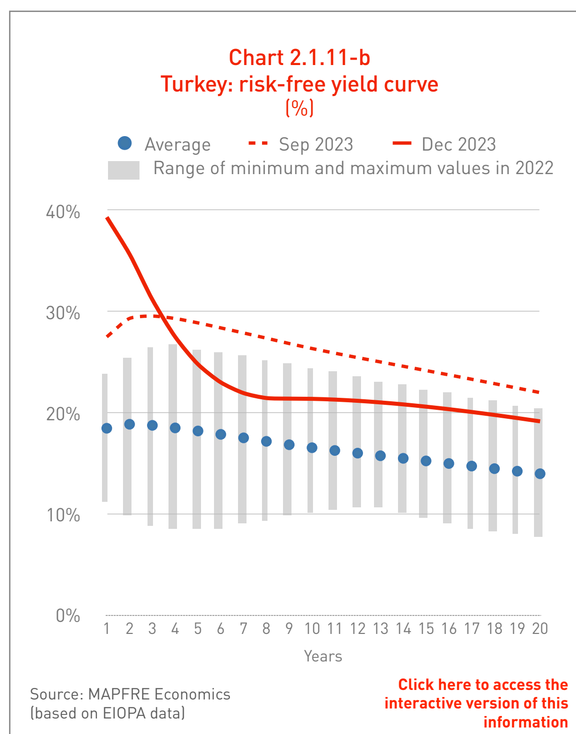


Chart 2.1.11-b
Turkey: risk-free yield curve
(%)

Source: MAPFRE Economics (based on EIOPA data)

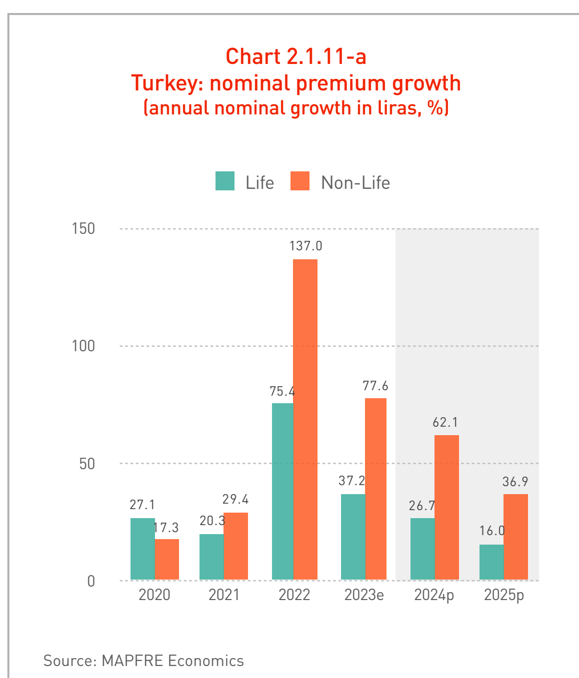


Chart 2.1.11-a
Turkey: nominal premium growth
(annual nominal growth in liras, %)

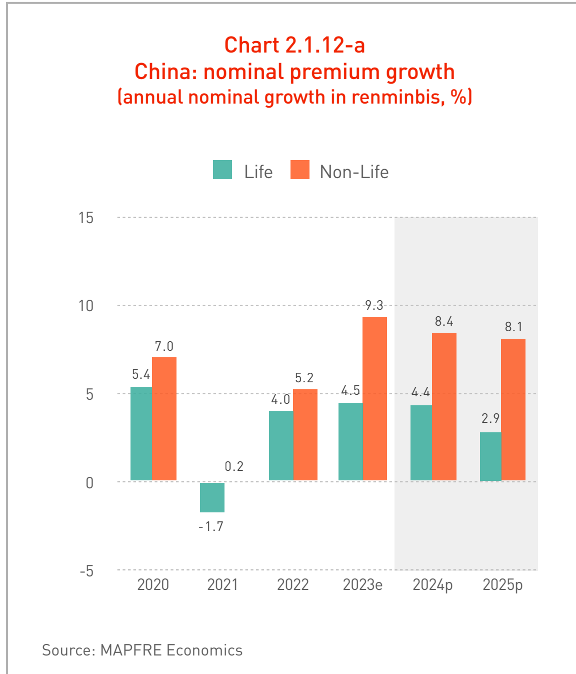
Source: MAPFRE Economics

2.1.12 China

Forecasts point to a certain slowdown in China's economy in 2024, to 4.4% (5.2% in 2023). This loss of momentum would carry over to 2025, with 4.0% estimated growth, which remains significant despite the problems in the economy stemming from the ongoing real estate crisis. In any case, this is an appropriate growth environment for the development of the insurance business, estimating growth of 8.4% in Non-Life insurance premiums in 2024 (9.3% in 2023), as shown in Chart 2.1.12-a.

Meanwhile, inflation in China returned to negative territory in recent months, at -0.5% and -0.3% in November and December 2023, leaving average inflation for 2023 at just 0.2%. At its December meeting, the central bank decided to hold the monetary policy rate at 3.45%, but implemented some accommodative measures through medium-term liquidity injections. Thus, the EIOPA curves (see Chart 2.1.12-b) show that market risk-free

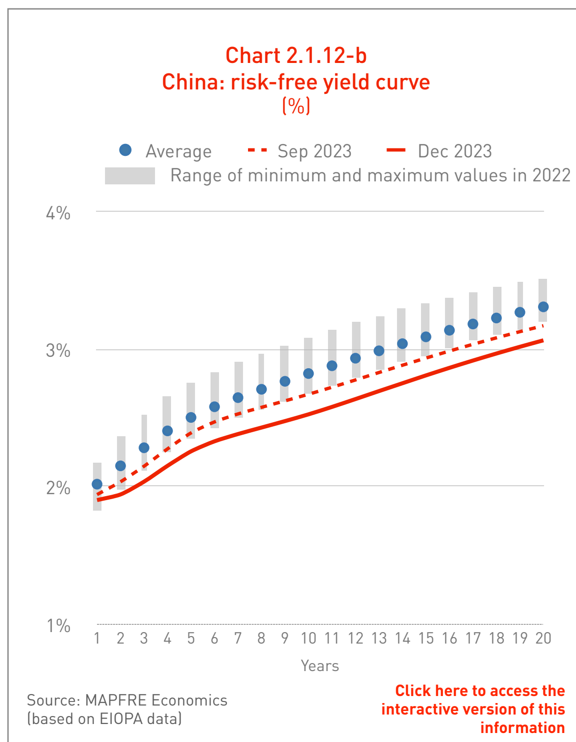
Chart 2.1.12-a
China: nominal premium growth
(annual nominal growth in renminbis, %)



Source: MAPFRE Economics

interest rates in December fell slightly, below the minimum values reached in 2023. Long-term rates remain significantly above short-term rates, offering a positive term premium, an environment favorable for the Life savings and annuities business, with a curve that makes it possible to offer guaranteed medium and long-term rates that are higher than short-term rates, above inflation (positive real interest rates). In this context, the estimated growth of Life insurance premiums in 2024 would be 4.4% (4.5% in 2023).

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



Source: MAPFRE Economics
(based on EIOPA data)

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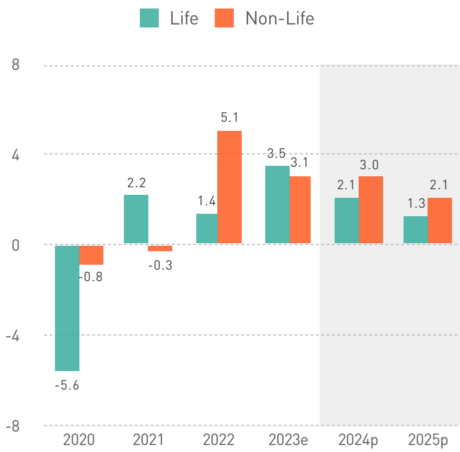
2.1.13 Japan

Expectations for Japan point to an economic slowdown in 2024, with growth of 0.9% (2.0% in 2023) and 1.0% by 2025, more in line with pre-pandemic growth of the Japanese economy. This is a moderate growth economic environment that will carry over to insurance business, with Non-Life insurance premium growth for 2024 estimated at 3.0% (3.1% in 2023), partly due to the adaptation of insurance pricing to inflation that remains relatively high for the Japanese economy (see Chart 2.1.13-a). However, inflation is moderating, with year-on-year rates of 2.8% and 2.6% in November and December 2023, respectively, leaving average inflation for the year at 3.2%. This creates a more benign outlook for insurance company profitability, which has suffered in the last two years from rising prices in claims costs and operating expenses.

Regarding the interest rate environment for the Life insurance business, the Bank of Japan decided once again, at its December meeting, not to modify its ultra-lax monetary policy, holding short-term interest rates at -0.1% and the 10-year sovereign bond at around 0%, despite inflation data that continued to exceed its 2% target. In the risk-free yield curves produced by EIOPA at the close of December 2023 (see Chart 2.1.13-b), an easing is observed in all market curve tranches, except in the shortest maturities, although they are still significantly above the maximum levels reached the previous year, with positive values in all tranches. The curve makes it possible to offer a positive term premium, which presents a favorable environment for the development of Life savings and annuity insurance. In this context, Life insurance premiums (including Life Protection insurance) are

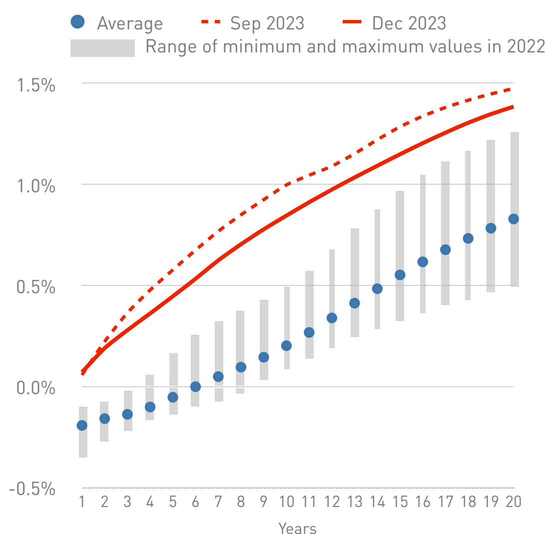
Chart 2.1.13-a
Japan: nominal premium growth
(annual nominal growth in yen, %)



Source: MAPFRE Economics

expected to slow down, with growth of 2.1% in 2024 (3.5% in 2023), in line with the general economic slowdown expected for the country.

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



Source: MAPFRE Economics (based on EIOPA data)

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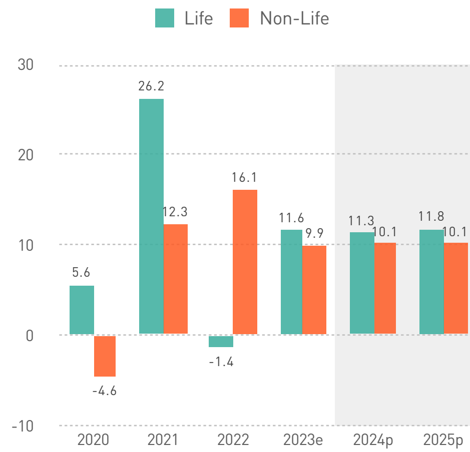
Chart 2.1-14
Philippines: nominal premium growth
(annual nominal growth in pesos, %)



Source: MAPFRE Economics

2.1.14 Philippines

Forecasts anticipate the strong performance of the Philippine economy, with growth of 5.4% in 2024 (5.1% in 2023) and 6.2% in 2025. In the last few months of 2023, inflation showed signs of deceleration, standing at 3.9% year-on-year in December, below the 2023 average inflation of 6.0%. This data suggests a favorable outlook for the insurance industry's growth and profitability, estimating that the Non-Life business could grow by around 10.1% in 2024 (9.9% in 2023), as illustrated in Chart 2.1.14).

In terms of the interest rate environment for savings-linked Life business, the Central Bank of the Philippines, which has been pursuing a restrictive monetary policy in its fight against inflation, decided to maintain the benchmark rate at 6.5%. The yield on the two-year sovereign bond fell slightly to 6.06% on January 18, 2024, and the yield on the ten-year sovereign bond also fell slightly to 6.29%. As a result, the interest rate environment remains favorable for marketing traditional Life savings and annuity products, with real interest rates in positive territory, a positively sloping yield curve, and high levels in an inflation

environment that continues to show clear signs of improvement. In this context, Life insurance premiums (including Life Protection insurance) are expected to grow by 11.3% in 2024 (11.6% in 2023), which represents a significant acceleration in real terms, taking into account the downward inflation forecast.

2.1.15 Reinsurance

Natural catastrophes will again break economic loss records in 2023, amounting to 269 billion dollars, of which the reinsurance industry covered approximately 40%[8]. Regarding insured losses, a high number of low to medium severity events resulted in damages estimated at more than 100 billion dollars, with severe windstorms being the main contributors. In 2023, the United States exceeded 50 billion dollars in insured losses from severe windstorms for the first time, which is expected to continue to increase. Europe also experienced an increase in insured losses due to this phenomenon in 2023, Italy being the most affected.

Climate disasters were aggravated by extremely high temperatures in 2023[9]. Globally, average temperatures through November of that year were approximately 1.3°C higher than in pre-industrial times (1850–1900), making it the warmest year since temperature measurements began. Likewise, the earthquake in Turkey and Syria was the costliest natural catastrophe of 2023 and the most devastating humanitarian disaster of the year, with estimated insured losses of 6 billion dollars. In terms of total losses, the second costliest natural disaster was Typhoon Doksuri, which caused extensive damage in the Philippines, the island of Taiwan, and mainland China in late July.

Hurricane Otis struck the Pacific coast of Mexico on October 25, 2023, and was one of the strongest storms in the area's historical records. In mid-December, the Mexican Association of Insurance Institutions reported that, as of that date, the insurance industry estimated damages at 31.9 billion pesos (1.8 billion dollars). Meanwhile, the large forest fires that affected several regions were the result of heat waves and droughts. In particular, the Maui wildfires will become the most costly insured loss for the state of Hawaii (3.5 billion dollars)[10].

In Spain, the isolated atmospheric depression at high levels (DANA) that occurred at the beginning of September, with intense and persistent rainfall that generated flooding in large areas of the Iberian Peninsula, is noteworthy. An initial preliminary and indicative estimate of insured damages made by the Insurance Compensation Consortium puts the number of flood claims at around 17,000, with a cost of between 100 and 115 million euros.

Major reinsurance intermediaries and credit rating agencies[11] forecast greater stability in reinsurance premium rates for property catastrophe coverage in 2024, compared to the sharp rise in the previous year, specifying that larger increases will occur in regions with a larger loss experience. Overall, we see more than enough supply to meet the increase in demand and an improvement in capitalization in 2023, driven by higher earnings. Also, in some markets, increased litigation over the amount of benefits (a phenomenon known as "social inflation") may continue to put upward pressure on the cost of direct insurance and reinsurance coverage.

2.2 Regulatory and supervisory trends

2.2.1 Solvency II Reform

On December 14, 2023, the European Council and Parliament reached a provisional agreement on amendments to the Solvency II directive and new rules on insurance recovery and resolution (IRRD). Among its objectives, this reform seeks to boost the role of the insurance and

reinsurance sector in providing long-term private sources of investment to European businesses. At the same time, it aims to make the industry more resilient and better prepared for future challenges in order to better protect insurance policyholders. The agreement contemplates the need to complement the new rules by delegated acts of the European Commission, in addition to the necessary transposition of the directive by Member States once the final text is published. Therefore, its practical implementation could be delayed until 2026.

2.2.2 EIOPA Financial Stability Report 2023

On December 11, 2023, the European Insurance and Pension Authority (EIOPA) published its most recent financial stability report. The report highlights the main risks for the insurance industry and pension funds, which are summarized below[12].

Liquidity risk

Historically, liquidity risk has not been considered a major concern of insurance supervisors. This was due to insurers' liability-based business model, which is often characterized by an inverted production cycle[13] and an asset allocation with large exposures to (highly) liquid securities. However, the liquidity risk outlook changed following the recent series of crises and adverse events, such as the pandemic outbreak, the 2022 Gilt crisis in the U.K., and the turmoil in U.S. regional banks in the first half of 2023.

The COVID-19 crisis raised concerns about cash outflows as a result of health-related claims. Meanwhile, the 2022 U.K. Gilt crisis shed light on two key aspects: (i) the liquidity implication of collateral requirements arising from the hedging of interest rate risks, and (ii) the liquidity of asset classes (in the specific case of long-term U.K. sovereign debt) should be assessed taking into account the concentration of investment portfolios and market depth. And finally, the regional banking turmoil of 2023 in the United States served as a reminder of the risk of massive deposit withdrawals and the possibility of similar events in the insurance industry.

Although the European insurance industry successfully weathered these crises, a new economic environment with stubbornly high inflation and rising interest rates could lead to liquidity strains in technical flows and investment flows. In terms of technical flows, repayments could increase due to the erosion of disposable income of lower income groups or, in the case of higher income groups, due to the reallocation of investments to more profitable instruments outside the insurance market. The same factors could also reduce inflows from underwriting new business. Liquidity needs may also arise from investment activities. Insurance companies, typically Life insurance companies, hedge against falling interest rates with derivatives to limit the risks of the negative duration gap between their assets and liabilities. Rising interest rates led to large margin calls[14] from insurance companies, which had to cover themselves with cash, repos, or sales of liquid assets.

The analysis, which is part of the so-called "Liquidity Monitoring Exercise," included 100 insurance companies and attempts to understand how the liquidity of investment portfolios evolved in response to changes in the markets. A notable effect of the current macroeconomic environment, characterized by rising interest rates, is the decline in the value of liquid assets, particularly government bonds. The result is an "automatic" deterioration of liquidity measures for the insurance industry. The combined effects of impairment and potential asset reallocations led to a deterioration in the liquidity position of balance sheet assets, as shown in Table 2.2.2, with a 4.3 percentage point (pp)

Table 2.2.2
Asset portfolio liquidity

Reference date	Liquid assets after cuts / 2020 assets	Liquid assets after cuts / total assets (excl. UL/IL)
2021	74.3%	45.5%
2022	73.4%	41.2%

Source: EIOPA, *Financial Stability Report*, June 2023.

decline in 2022 in the ratio of liquid assets after haircuts[15] to total assets (excluding unit linked/index linked).

On the other hand, the liquidity of technical provisions has increased despite higher discount rates. The amount of liquid liabilities, determined by adjusted surrender values, rose by 15.0% in 2022, despite the increase in interest rates. The increase was due to liabilities considered more liquid (with lower or no surrender penalties), while the amount of liabilities with surrender values below 80% of reserves decreased.

In general, the overall liquidity situation of the insurers in the sample considered in the study has deteriorated. As a result of the combined effect of the decrease in liquid assets and the increase in liquid liabilities, both the ratio of adjusted redemption values to liquid assets and the ratio of adjusted redemption values to cash and cash equivalents increased in 2022. However, it should be noted that the liquidity measure analysis for liabilities depends to a large extent on the assumptions about policyholder behavior reflected in the weightings applied to surrender values. The weightings used imply, for example, that 50% of all policyholders with contracts where the surrender value corresponds to the best estimate of the statutory reserves would surrender their policies.

In summary, the exercise has determined that the aggregate liquidity position of the insurers in the sample does not give cause for concern. Although still limited in terms of companies and size, the slight increase in the number of companies that had to take measures (e.g., asset sales) to cope with their cash outflows requires further monitoring. Looking ahead, there could be potential reasons for a deterioration in insurers' net cash flows due to higher surrender rates, as policyholders may need to recover funds or want to switch to other investments, or due to higher expenses and claims costs because of inflation and lower investment sales revenues due to falling prices.

Insurance companies' asset allocation developments in a rising interest rate environment

The recent rise in interest rates has affected the asset allocation of European Economic Area (EEA) insurance companies. Now that rates are no longer close to zero, yield-seeking behavior may be less pronounced. Insurance companies may be rebalancing their portfolios and returning to more traditional investments, such as government and corporate bonds, and relying less on alternative asset classes, which tend to be riskier and illiquid. Nevertheless, the results presented in the EIOPA report demonstrate a continued trend towards alternative investments for the time being. Despite rising yields, Life insurance underwriters have become net sellers of government and corporate bonds, while Non-Life insurance underwriters and reinsurers have continued to buy them. One possible explanation is that Life insurance companies will resume buying bonds once they are convinced that interest rates have peaked, thus locking in more attractive yields.

Rising interest rates and pension managers' liquidity needs in interest rate derivatives

During 2022, interest rates increased dramatically. For occupational pension funds that use derivatives to hedge their interest rate risk, that rise did, however,

create potential liquidity risks by decreasing the value of their derivative positions, triggering margin calls that had to be met in cash. The amounts were substantial, approximately 5.6% of the total investments of derivative users. EIOPA's analysis suggests that pension managers sold large amounts of equity and fixed income funds, directly held equity securities and, to a lesser extent, highly liquid short-term government debt to raise the cash needed for margins. However, they remained net buyers of government and corporate debt. Large equity divestments allowed occupational pension funds not only to pay the spreads on their derivatives, but also to be net buyers of government bonds, bringing the ratio of equities to fixed income in their portfolios back closer to their strategic asset allocation targets.

Past recessions and insurance business

With growth slowing and an environment of rising interest rates and high inflation, EIOPA believes that a recession cannot be ruled out in the coming months in the EEA. In this context, the report analyzes how past recessions affected financial markets, insurers' profitability, and their valuation in equity markets. A distinctive feature with respect to previous recessions could be high and persistent inflation, which could prevent central banks from lowering interest rates and thus prolong and deepen the recession. Another adverse effect of the price increase could be lower or negative underwriting results. For many years, insurance stocks have offered a higher dividend yield than the market. Rising interest rates have already reduced the premium (excess yield) with respect to risk-free investments; high dividend yields may have attracted investors, making the decision to reduce or cut dividends in the next recession even more difficult than usual.

Other risks and vulnerabilities

The report presents a survey of the competent authorities on the usual risks, i.e. those outside the current exceptional situation that has shifted the focus to the impact of interest rate hikes on investment portfolios and the increase in liquidity risk. According to respondents, the macroeconomic outlook for insurers and pension managers has improved since the spring of 2023, although macroeconomic and market risks remain the main concerns. Geopolitical instability, which the authorities identified as the main driver of macroeconomic risks for insurers and pension funds, introduces further uncertainty around the outlook for inflation and growth. In particular, higher inflation rates may impact the financial position of occupational pension funds, especially when pension rights are linked to inflation or wage growth.

For insurers, interest rate risk was identified as the main driver of market risk, reflecting their high exposure to fixed income assets and the interest rate guarantees they have provided. Insurers have already suffered losses on their fixed income assets as a result of rising interest rates, and in this context, Non-Life insurance companies are reviewing their investment strategies to maintain the level of investment returns. Meanwhile, Life insurance companies are continually reducing guaranteed rates on new products and shifting new business from traditional products that offer policyholders a guaranteed return to capital market-linked products and biometric products, which transfers some of the risk to policyholders.

The report emphasizes that market volatility creates liquidity risks for insurers' portfolios. A possible stagflation situation could reduce the purchasing power of policyholders and thus lead to a decrease in premiums and an increase in long-term lapses. In addition, one source of liquidity risk is variation margins on derivatives and

repurchase agreements, especially when market volatility spikes.

Finally, digitalization and cyber risks remain a significant challenge and are expected to increase in the future. The number of cyber incidents has continued to rise and concerns about cybersecurity issues remain high, also due to fears of a hybrid geopolitical conflict. For the insurance industry, the materiality of ESG risks (those arising from environmental, social, and governance factors) is also expected to increase over the next 12 months, with physical climate risks as the main driver.

2.2.3 IAIS Global Insurance Market Report

On December 6[16], the International Association of Insurance Supervisors (IAIS) published its *2023 Global Insurance Market Report* (GIMAR). The IAIS drafts this report as part of its global exercise to assess the core risks and trends in the insurance Industry and the possible accumulation of potential systemic risks in the global insurance industry (known as the Global Monitoring Exercise, GME). In this context, the 2023 GME contains two confidential data compilations covering the period through the end of 2022. On one hand, *Individual Insurer Monitoring* (IIM), which applies to insurance companies that meet the Insurance Group's criteria and includes approximately 60 of the largest international insurance companies from 18 jurisdictions. And, on the other, *Sector-Wide Monitoring* (SWM), which includes insurance market data compiled from IAIS members from 27 jurisdictions that meet the criteria described in the GME and represent more than 90% of gross written premiums (GWP) worldwide. These criteria have been designed to permit broad coverage in terms of global participation. It should be noted that the analysis includes data through the end of 2022, updated with the most recent financial data when available, and that a total of 45 jurisdictions participated in at least one of the components of the 2023 SWM data compilation.

The report describes the performance of the global insurance market in 2022 in terms of assets, liabilities, solvency, profitability, and liquidity, among other aspects.

Solvency

According to the report, capital levels in the global insurance industry remain solid. The aggregate solvency ratio for the insurance companies participating in the 2023 GME remains well above 100%, although it was slightly down at the end of 2022 compared to the end of 2021. It should be noted that the key factors behind these drops are the performance of the financial markets, especially the lower asset valuation triggered by drops in stock, the expansion of credit spreads in corporate and sovereign debt, greater interest rate volatility, and weaker currencies in some jurisdictions. These decreases, however, are partially offset by interest rate hikes, which reduce the valuation of the insurance companies' liabilities at the end of 2022 versus the end of 2021.

Supervisors have identified inflation, possible defaults, significant unrealized capital loss places, and the possibility of a reduction in insurance demand due to strains on household purchasing power as potential risk factors that could affect future solvency and profitability. Although the effects of the COVID-19 pandemic are largely considered to be over, geopolitical tensions, including the war in Ukraine, continue to negatively influence the supervisors' outlook.

Macroprudential aspects

In this GIMAR exercise, two macroprudential issues have been identified for analysis: (i) interest rate, liquidity, and credit risks in a challenging macroeconomic environment, and (ii) structural changes in the Life

insurance industry, including capital allocation to alternative assets, and cross-border asset-intensive reinsurance.

Interest rate, liquidity, and credit risks in a challenging macroeconomic environment

With respect to the first macroprudential issue, the main vulnerabilities associated with increasing interest rates include: increasing policy cancellations and liquidity risk arising from the use of derivatives and margin calls. Supervisor responses have included continuous and more frequent monitoring of cancellations and liquidity risk, including sensitivity analyses and liquidity risk stress tests (considering, for example, mass cancellation risk scenarios). This issue also includes increased credit risk, especially regarding exposure to the commercial real estate industry and the nexus between the insurance industry and banks.

Although direct exposure is limited at the global level, a greater concentration is observed for some insurance companies. Regarding the supervisors' response, they are making efforts to regularly monitor exposure to the insurance companies' credit risk, including stress test exercises and detailed portfolio assessments (with a specific focus on increased holdings of less liquid assets). Insurance companies with substantial real estate and mortgage portfolios are more closely supervised (for example, through in situ inspections).

Regarding the interconnection with the banking sector, the key measures the supervisors have taken include ongoing monitoring of exposure and, in some cases, establishing investment limits in financial sectors or exposure of counterparts to guarantee diversification. Requirements have also been established to plan for financing and liquidity contingencies to ensure that the sources of liquidity remain solid and available, even during recessions in the banking sector, and guarantee greater access for insurance companies to capital markets and improve flexibility in collecting fund.

Structural changes in the Life insurance sector, including the assignment of capital to alternative assets, and intensive reinsurance in cross-border assets

Secondly, the report emphasizes that the switch to alternative investments is relevant for some insurance companies. Alternative investments are associated with greater liquidity risk and complexity in terms of risk evaluation and assessment. The report therefore discusses the importance of adequately understanding these investments and managing their risks at the insurance company level, in addition to guaranteeing that the investment portfolio characteristics are appropriate, given the liquidity profile of the insurance companies' obligations.

Meanwhile, the use of asset-intensive reinsurance—in other words, reinsurance whereby a substantial part of the investment risk is also transferred to the reinsurer—is observed more frequently, especially for long-term Life insurance obligations. The reinsurers who take on this asset-intensive reinsurance are currently concentrated in just a few jurisdictions. Although this practice is not uncommon in the reinsurance business. The cedents of these obligations are also concentrated in some jurisdictions where the Life Insurance business models are characterized by long-term obligations. This has raised questions as to whether this concentration could be associated with taking advantage of regulatory differences in valuation, technical provisions, and capital requirements. It should be noted that existing supervisory recognition mechanisms could help mitigate some of the risks related to these matters.

The supervisors' focus on these reinsurance transactions is also related to having clarity about who retains ownership of the assets (cedent or reinsurer), who manages the assets, and what jurisdiction has the

authority to supervise these assets. Finally, in terms of supervisory standards, the IAIS will evaluate to what degree asset-intensive reinsurance is adequately covered under Insurance Core Principle 13 ("Reinsurance and Other Forms of Risk Transfer"), and if necessary, will explore the development of additional supervisory guidance.

Climate-related risks to the insurance industry

Through an ongoing process, the IAIS continues to improve its understanding of the exposure of the insurance industry to climate-related risks. This year, data was complied on individual insurance companies as a supplement to the data provided by the supervisors at the sectoral level. While the quantitative analysis over the previous two years focused on the impact of climate change in insurance company investments, this year, the liability risks of insurance companies related to exposure to natural disasters (NatCat) was also evaluated quantitatively.

In terms of insurance company investments, the analysis found that exposure to climate-related assets are still significant worldwide, estimated at 37% of reported assets. Within the insurance companies' stock, corporate bond, loan, and mortgage portfolios, the proportion of assets most exposed to transition risks ranges from 29% (in Europe and Africa) to 42% (in Latin America), with the North America and Asia and Oceania regions in the middle.

This shows that insurance companies continued to assign a significant portion of their portfolios to the six climate related sectors and that the exposure to transition risk persists. Data at the close of 2022 suggests a slight increase in the exposure to climate-related assets compared to 2021 year-end data, mainly due to greater coverage and granularity of the data, and not necessarily as a result of a real change in the aggregate assignment of assets by the insurance companies.

It is worth noting that one of the main physical risks of climate change for insurance companies is the expected increase in claims related to NatCat events. Establishing risk-based capital requirements for NatCat risk can ensure that capital resources are appropriately allocated to cover this risk. The majority of responses by supervisory authorities indicated that there were already capital requirements for NatCat risks in their jurisdictions, while two members stated that they planned to introduce these requirements in the near future.

The NatCat data received from individual insurance companies was used to estimate the impact of extreme climate events on the insurance companies' capital levels. Immediately after a 1-in-200-year event, insurance companies' capital coverage ratios could decrease by an average of 34%. This could create a significant capital management challenge if it becomes difficult for insurers to raise capital quickly, which could disrupt reinsurance markets and reduce reinsurance capacity. Thus, given the increasing attention to NatCat events, the IAIS recently published its report *A Call to Action: The Role of Insurance Supervisors in Addressing Natural Catastrophe Protection Gaps*, outlining steps for insurance supervisors in addressing NatCat protection gaps.

2023 individual insurance company monitoring aggregate results

A comparison of the aggregate systemic risk scores of insurance companies with those of the banking sector shows that the total cross-sector scores for banks remain significantly higher than for insurance companies. However, insurance companies show a higher increase than banks in their aggregate systemic risk score from the end of 2019 to the end of 2020. Three inter-sector indicators increased for insurance companies at the end of 2022 compared to the end of 2021: (I) level 3 assets (illiquid and hard-to-value assets); (ii) the notional

value of over-the-counter derivatives, and (iii) liabilities within the financial system.

The IAIS is more deeply analyzing the holding of level 3 assets observed for insurance companies and banks to determine whether this could be related to accounting differences (where the banks have more "book value" loans and mortgages compared to insurance companies). The aggregate systemic risk scores of the insurance industry dropped 3.1% at the end of 2022 versus the end of 2021. The key drivers of this drop are: (i) less exposure to short-term financing; (ii) liquidity of liabilities, assets within the financial system; and (iii) minimum coverage on variable products. These decreases are partially offset with increases in liabilities within the financial system, derivatives, specific premiums for commercial lines and level 3 assets.

Global reinsurance market

The gross reinsurance premiums reported in the GME continued the growth trend of recent years, up almost 10% in 2022. This is in marked contrast with the trend reported for the global insurance market (which covers both direct insurance and reinsurance markets), whereby it experienced a slight decrease of 0.3% in gross written premiums in 2022. Net reinsurance premiums increased 12% in 2022. Significant increases in insurance losses caused by NatCat events put pressure on the profitability of reinsurers, which were materially impaired in 2022, especially in the America and Europe regions.

In addition, the report states that small increases were observed at the end of 2022 in the solvency positions and leverage ratios of reinsurers. Reinsurers' asset allocations remained generally stable, with minimal increases seen in equity and loan allocations, while corporate and sovereign debt holdings declined slightly.

Appendix A: macroeconomic forecasts

Table A-1
Baseline and stressed scenarios: Gross Domestic Product (GDP)
(annual growth, %)

	Baseline Scenario (BS)					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
United States	-2.2	5.8	1.9	2.5	1.1	1.5
Eurozone	-6.2	5.9	3.4	0.5	0.6	1.6
Germany	-4.2	3.1	1.9	-0.3	0.3	1.5
France	-7.7	6.4	2.5	0.8	0.7	1.3
Italy	-9.0	8.3	3.9	0.7	0.5	1.2
Spain	-11.2	6.4	5.8	2.5	1.4	1.8
United Kingdom	-10.4	8.7	4.3	0.5	0.4	1.3
Japan	-4.2	2.6	0.9	2.0	0.9	1.0
Emerging markets	-1.8	6.9	4.1	4.5	3.7	3.7
Latin America	-7.0	7.4	4.1	2.0	1.4	2.2
Mexico	-8.8	6.0	3.9	3.3	2.0	2.1
Brazil	-3.6	5.1	3.1	3.1	1.6	2.4
Argentina	-9.9	10.7	5.0	-2.0	-1.8	0.9
Colombia	-7.3	11.0	7.3	1.0	1.9	2.9
Chile	-6.4	11.9	2.5	-0.2	1.9	2.6
Peru	-10.9	13.5	2.7	0.6	2.6	2.9
Emerging markets, Europe[1]	-1.6	7.3	0.8	2.4	2.2	2.5
Turkey	1.9	11.4	5.5	4.0	2.4	2.9
Asia Pacific	-0.5	7.5	4.5	5.2	4.5	4.1
China	2.2	8.5	3.0	5.2	4.4	4.0
Indonesia	-2.1	3.7	5.3	5.1	4.8	4.9
Philippines	-9.5	5.7	7.6	5.1	5.4	6.2
Global	-2.8	6.3	3.5	3.1	2.3	2.6

	Stressed Scenario (SS)					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
United States	-2.2	5.8	1.9	2.5	0.2	-0.3
Eurozone	-6.2	5.9	3.4	0.5	-0.3	0.1
Germany	-4.2	3.1	1.9	-0.3	-0.8	-0.1
France	-7.7	6.4	2.5	0.8	-0.2	0.6
Italy	-9.0	8.3	3.9	0.7	-0.5	-0.2
Spain	-11.2	6.4	5.8	2.5	0.4	0.1
United Kingdom	-10.4	8.7	4.3	0.5	-0.3	0.5
Japan	-4.2	2.6	0.9	2.0	0.3	0.5
Emerging markets	-1.8	6.9	4.1	4.5	2.8	3.0
Latin America	-7.0	7.4	4.1	2.0	0.5	0.8
Mexico	-8.8	6.0	3.9	3.3	1.2	0.6
Brazil	-3.6	5.1	3.1	3.1	0.7	1.1
Argentina	-9.9	10.7	5.0	-2.0	-2.8	-0.1
Colombia	-7.3	11.0	7.3	1.0	0.9	1.4
Chile	-6.4	11.9	2.5	-0.2	0.5	1.0
Peru	-10.9	13.5	2.7	0.6	1.5	1.7
Emerging markets, Europe[1]	-1.6	7.3	0.8	2.4	2.0	2.4
Turkey	1.9	11.4	5.5	4.0	0.3	0.5
Asia Pacific	-0.5	7.5	4.5	5.2	3.6	3.8
China	2.2	8.5	3.0	5.2	3.5	3.7
Indonesia	-2.1	3.7	5.3	5.1	3.8	3.5
Philippines	-9.5	5.7	7.6	5.1	4.7	5.8
Global	-2.8	6.3	3.5	3.1	1.4	1.5

Source: MAPFRE Economics (using data from national statistical centers and IMF)

[1]Eastern Europe
Forecast end date: 19 January 2024.

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

	Baseline Scenario (BS)					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
United States	1.3	4.7	8.0	4.2	2.7	2.2
Eurozone	0.3	2.6	8.4	5.5	2.5	2.0
Germany	0.5	3.1	6.9	6.0	2.1	1.9
France	0.5	1.6	5.2	4.9	2.5	2.0
Italy	-0.1	1.9	8.2	5.7	2.1	1.7
Spain	-0.3	3.1	8.4	3.6	2.4	2.0
United Kingdom	0.9	2.6	9.1	7.4	3.2	2.1
Japan	0.0	-0.2	2.5	3.2	2.2	1.7
Emerging markets[2]	5.2	5.9	9.8	6.3	6.2	4.5
Latin America[2]	6.4	9.8	14.0	10.1	8.4	7.7
Mexico	3.4	5.7	7.9	5.6	4.2	3.5
Brazil	3.2	8.3	9.3	4.6	4.0	3.7
Argentina	42.0	48.4	72.4	127.9	248.0	115.0
Colombia	2.5	3.5	10.2	11.8	6.1	3.8
Chile	3.0	4.5	11.6	7.7	3.3	2.9
Peru	1.8	4.0	7.9	6.3	3.4	2.5
Emerging markets, Europe[1]	5.4	9.6	27.9	18.9	19.9	16.1
Turkey	12.3	19.6	72.3	53.4	51.7	24.4
Asia Pacific	3.2	2.2	3.8	0.8	1.3	1.8
China	2.5	0.9	2.0	0.2	1.1	1.6
Indonesia	2.0	1.6	4.2	3.7	2.4	2.6
Philippines	2.4	3.9	5.8	6.0	3.4	3.1
Global[2]	3.2	4.7	8.7	5.5	4.4	3.3

	Stressed Scenario (SS)					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
United States	1.3	4.7	8.0	4.2	3.0	1.8
Eurozone	0.3	2.6	8.4	5.5	2.9	1.9
Germany	0.5	3.1	6.9	6.0	2.5	0.9
France	0.5	1.6	5.2	4.9	3.1	1.9
Italy	-0.1	1.9	8.2	5.7	2.5	0.9
Spain	-0.3	3.1	8.4	3.6	2.5	1.0
United Kingdom	0.9	2.6	9.1	7.4	3.5	1.9
Japan	0.0	-0.2	2.5	3.2	2.6	1.5
Emerging markets[2]	5.2	5.9	9.8	6.3	6.8	4.2
Latin America[2]	6.4	9.8	14.0	10.1	8.7	7.5
Mexico	3.4	5.7	7.9	5.6	4.6	3.2
Brazil	3.2	8.3	9.3	4.6	4.4	3.4
Argentina	42.0	48.4	72.4	127.9	342.4	169.0
Colombia	2.5	3.5	10.2	11.8	7.4	3.6
Chile	3.0	4.5	11.6	7.7	3.5	2.8
Peru	1.8	4.0	7.9	6.3	3.9	2.4
Emerging markets, Europe[1]	5.4	9.6	27.9	18.9	20.7	16.7
Turkey	12.3	19.6	72.3	53.4	53.6	21.9
Asia Pacific	3.2	2.2	3.8	0.8	1.8	1.7
China	2.5	0.9	2.0	0.2	1.6	1.4
Indonesia	2.0	1.6	4.2	3.7	2.7	3.0
Philippines	2.4	3.9	5.8	6.0	3.6	2.3
Global[2]	3.2	4.7	8.7	5.5	4.8	2.9

Source: MAPFRE Economics (using data from national statistical centers and IMF)

[1]Eastern Europe [2]Excl. Argentina
Forecast end date: 19 January 2024.

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

	Baseline Scenario (BS)					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
United States	0.93	1.52	3.88	3.88	3.79	3.46
Eurozone	-0.19	0.32	3.39	2.79	2.74	2.72

	Stressed Scenario (SS)					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
United States	0.93	1.52	3.88	3.88	4.60	4.23
Eurozone	-0.19	0.32	3.39	2.79	3.84	3.67

Source: MAPFRE Economics (using data from national statistical centers and IMF)
Forecast end date: 19 January 2024.

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

	Baseline Scenario (BS)					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
USD-EUR	0.81	0.88	0.94	0.90	0.92	0.90
EUR-USD	1.23	1.13	1.07	1.11	1.09	1.11
GBP-USD	1.36	1.35	1.20	1.27	1.26	1.28
USD-JPY	103.54	115.00	132.65	141.91	135.45	126.74
USD-CNY	6.52	6.35	6.90	7.10	7.01	6.58

	Stressed Scenario (SS)					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
USD-EUR	0.81	0.88	0.94	0.90	0.93	0.90
EUR-USD	1.23	1.13	1.07	1.11	1.08	1.11
GBP-USD	1.36	1.35	1.20	1.27	1.23	1.27
USD-JPY	103.54	115.00	132.65	141.91	137.35	127.57
USD-CNY	6.52	6.35	6.90	7.10	7.14	6.64

Source: MAPFRE Economics (using data from national statistical centers and IMF)
Forecast end date: 19 January 2024.

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

	Baseline Scenario (BS)					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
United States	0.25	0.25	4.50	5.50	4.00	3.00
Eurozone	0.00	0.00	2.50	4.50	3.00	2.00
China	3.00	3.00	2.75	2.50	2.40	2.50

	Stressed Scenario (SS)					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
United States	0.25	0.25	4.50	5.50	5.50	3.50
Eurozone	0.00	0.00	2.50	4.50	4.50	2.50
China	3.00	3.00	2.75	2.50	2.50	2.40

Source: MAPFRE Economics (using data from national statistical centers and IMF)
Forecast end date: 19 January 2024.

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Appendix B: premium growth forecasts

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

	Life					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
United States	0.4	8.4	9.2	7.1	6.2	4.9
Eurozone						
Germany	0.5	-2.3	-5.9	6.4	3.5	2.7
France	-19.6	27.6	-2.9	7.2	4.7	3.9
Italy	-5.8	8.3	-10.3	6.1	5.9	5.4
Spain	-20.7	7.9	3.7	36.3	9.2	5.8
United Kingdom	-12.6	11.5	8.8	11.0	5.4	3.9
Latin America						
Mexico	1.4	9.4	1.0	10.9	9.8	9.0
Brazil	0.4	12.2	12.2	8.0	7.1	6.9
Argentina	50.5	53.9	77.4	53.0	49.2	31.6
Colombia	-1.2	16.1	67.0	23.1	16.0	11.4
Chile	-25.6	7.8	39.3	19.6	11.4	10.3
Peru	-4.0	40.4	4.2	5.7	4.9	4.3
European emerging markets						
Turkey	27.1	20.3	75.4	37.2	26.7	16.0
Asia Pacific emerging markets						
China	5.4	-1.7	4.0	4.5	4.4	2.9
Indonesia	-4.9	10.1	-9.1	16.5	8.3	7.1
Philippines	5.6	26.2	-1.4	11.6	11.3	11.8
Japan	-5.6	2.2	1.4	3.5	2.1	1.3
Global[1]	0.0	5.0	-5.0	8.1	7.2	6.9

	Non-Life					
	2020	2021	2022	2023(e)	2024(p)	2025(p)
United States	5.3	7.9	8.5	6.9	4.6	3.8
Eurozone						
Germany	3.5	4.1	3.9	5.7	2.2	2.0
France	2.1	5.3	5.5	8.3	3.8	2.9
Italy	-1.8	2.9	6.4	7.0	3.5	2.9
Spain	1.1	3.3	5.1	6.8	4.3	3.4
United Kingdom	2.2	10.8	6.5	9.7	3.9	3.8
Latin America						
Mexico	-0.8	10.9	7.7	12.9	8.7	7.8
Brazil	2.5	14.9	24.3	10.1	7.5	7.5
Argentina	44.3	51.1	89.4	72.5	75.5	37.6
Colombia	2.5	15.9	19.4	15.3	11.4	8.3
Chile	5.5	14.2	23.3	10.3	7.6	7.4
Peru	2.1	15.3	7.6	8.0	6.8	6.5
European emerging markets						
Turkey	17.3	29.4	137.0	77.6	62.1	36.9
Asia Pacific emerging markets						
China	7.0	0.2	5.2	9.3	8.4	8.1
Indonesia	-8.7	8.5	19.9	6.5	4.2	4.2
Philippines	-4.6	12.3	16.1	9.9	10.1	10.1
Japan	-0.8	-0.3	5.1	3.1	3.0	2.1
Global[1]	6.3	5.9	3.2	7.1	5.3	4.6

Source: MAPFRE Economics

[1]Annual nominal growth forecasts in USD
Forecast end date: 19 January 2024.

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3/ Alan S Blinder, "Landings, Soft and Hard: The Federal," *Journal of Economic Perspectives,* Volume 37, Number 1, Winter 2023.

4/ The optimistic narrative sees transitory geopolitical tensions, certain disinflation, recovery of consumption via real wages, and interest rate cuts in time to reinforce the cyclical exit, as well as newly favorable conditions for financing the challenges facing governments (energy transition, reorganization of supply chains, aging, defense, etc.).

5/ Abdelrahman, Hamza, and Luiz E. Oliveira. 2023c. "The Rise and Fall of Pandemic Excess Savings," *FRBSF Economic Letter 2023*, 11, (May 8).

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7/ Chart 2.1.2 shows the minimum, average, and maximum levels reached in 2022, along with the level of the latest curves published by EIOPA for September and December 2023. See other months and currencies on the interactive chart. See: "EIOPA Curves" at: https://app.klipfolio.com/published/29577612d0ba9ff3681af85b8ee8a998/curvas-eiopa

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12/ Analysis taken from: EIOPA (2023), *Financial Stability Report*, June 2023.

13/ Policyholders pay premiums in advance and contractual payments are only made if an insured event occurs.

14/ See: EIOPA (2023), *Impact of inflation on the insurance sector, pp. 62*-63. Available at: Impact of inflation on insurance sector.

15/ The cuts applied to the asset classes are inspired by the HQLA classification used in the banking sector to calculate the LCR.

16/ See: https://www.iaisweb.org/uploads/2023/12/Global-Insurance-Market-Report-2023.pdf

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