NUMBER 9, MAY 2022

Post

Introduction

For this new issue of the magazine Economía y Seguros [Economics and Insurance], four topical articles have been selected from publications by MAPFRE Economics. Two of these articles summarize the economic and sectoral outlook for 2022, which is discussed at greater length in the report 2022 Economic and Industry Outlook: second quarter perspectives.

As the study suggests, the path toward the global economic recovery that marked the beginning of 2022 was cut short by Russia's invasion of Ukraine during the first quarter of the year, which caused growth forecasts to begin to exhibit significant deterioration at the global level. The rise in commodity prices worldwide, mainly in the sphere of energy, oil derivatives, and food, has raised the risk of economic disruption, albeit with certain regional differences. This scenario is casting a shadow over the outlook for business development and profitability of the insurance sector in 2022 against the backdrop of high volatility in the financial markets.

Another of the selected articles deals with excess mortality, management of the pandemic, and the effects on the insurance sector, a synthesis of the study Covid-19: un análisis preliminar de los impactos demográficos y sobre el sector asegurador [COVID-19: a preliminary analysis of demographic and insurance industry impacts]. In addition to an in-depth analysis of the excess mortality seen during 2020 and 2021 in a total of 39 countries, this paper presents a Pandemic Management Effectiveness Indicator (PMEI). Deepening our analysis of the measures adopted to tackle the situation and of the excess mortality observed in 2020 and 2021, the goal of the indicator is to assess how effective the 39 countries were in managing the pandemic.

Finally, the article entitled Composición de la cartera de inversiones de las entidades aseguradoras ante la Covid-19 [Composition of insurance companies´ investment portfolios in the wake of COVID-19] presents a comparative analysis of the main items in the insurance sector's investment portfolios in a selection of developed markets (Eurozone, United States, Japan, United Kingdom, and Spain) and emerging markets (Brazil and Mexico) for the first year of the pandemic crisis.

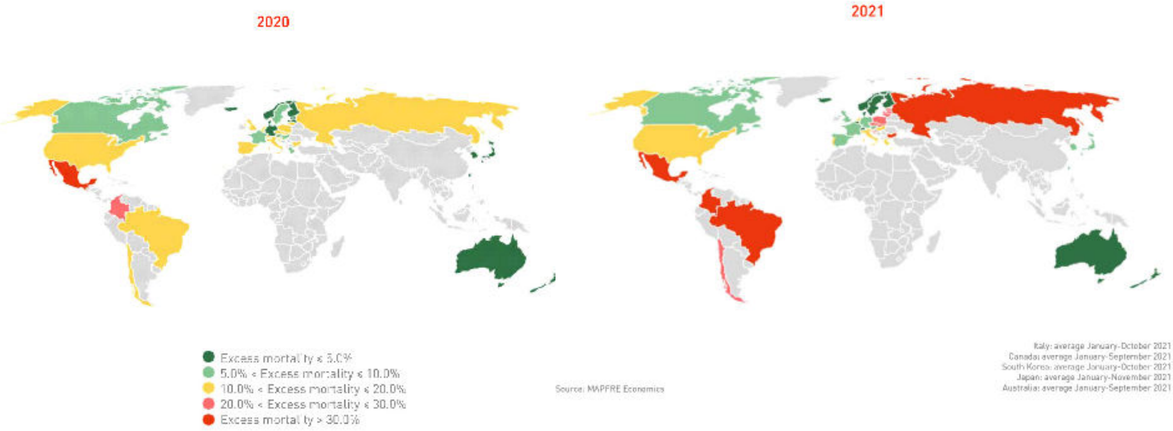
Excess mortality, pandemic management, and insurance industry impacts

Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
COVID-19: a preliminary analysis of demographic and insurance industry impacts
Madrid, Fundación MAPFRE, March 2022

One of the challenges when analyzing the severity of the pandemic in terms of mortality is the uncertainty regarding the actual data on infections and deaths from COVID-19. For this reason, we use a specific indicator called “excess mortality,” which disregards the official pandemic data and is instead based on the number of deaths for any cause recorded during the pandemic compared with the mortality data during a pre-pandemic period, considered a “normal” environment from an epidemiological point of view. By comparing mortality per 100,000 people in 2020 and 2021 with the annual average for the 2016–2019 period (immediately prior to the spread of the original strain of the virus), we can easily identify the different pandemic waves and provide insight into their severity, both direct and indirect. Excess mortality in a selection of 39 countries, thus calculated by MAPFRE Economics, is shown in Chart 1.

Chart 1
Select countries: annual excess mortality, 2020 and 2021



We observe that in 2020, excess mortality in two of the countries analyzed, Colombia and Mexico, was more than 20% on average for the year. In the rest of the world, the countries in the sample showed excess mortality of less than 20%. In particular, excess deaths in large countries such as Brazil, the United States, Russia, Italy, the United Kingdom, and Spain stood at 10% to 20%, while others, including New Zealand, Australia, Norway, and Denmark, had no excess mortality whatsoever, and even negative figures.

However, the situation changed dramatically in 2021, when countries and regions like Brazil, Chile, Russia, and Eastern Europe began to show excess mortality of more than 20%, while others in Western Europe improved, indicating that some countries were more capable of responding to and addressing the consequences of new pandemic waves.

Efficiency of Pandemic Management Indicator (EPMI)

Deepening our analysis of the situation and of the excess mortality observed in 2020 and 2021, we have developed an indicator for a total of 39 countries intended to assess how efficiently these countries managed the pandemic. Known as the MAPFRE Economics "Efficiency of Pandemic Management Indicator (EPMI)," this summary indicator is based on five partial measures with the rationale that, overall, the countries that did the best job of managing the pandemic were the ones with lower excess mortality and stronger economic recovery in 2021 after the decline in 2020. They also had greater established healthcare capacity to meet the population's needs during the health emergency, higher rates of fully vaccinated population, and lower levels of economic and social restrictions (see Table 1).

Table 1
Efficiency of Pandemic Management Indicator (EPMI)

		Excess mortality index	Vaccination index (medium-term immunization capacity)	Economic performance index	Healthcare response capacity index	Stringency index	Efficiency of pandemic management index
1	South Korea	84.2	94.0	90.8	94.7	60.5	84.8
2	Norway	98.6	76.9	69.6	91.2	75.8	82.8
3	New Zealand	100.0	83.1	42.3	84.2	86.8	79.3
4	Iceland	94.2	84.1	3.8	92.1	98.6	74.6
5	Denmark	92.7	88.6	29.5	78.9	74.5	72.8
6	Japan	87.4	86.0	0.0	100.0	90.1	72.7
7	Finland	89.5	81.8	13.5	86.0	90.7	72.3
8	Estonia	90.6	66.7	50.6	50.0	100.0	71.6
9	Lithuania	66.3	74.4	100.0	27.2	80.4	69.6
10	Sweden	81.9	80.0	23.8	91.2	67.4	68.9
11	Israel	84.8	70.1	58.8	86.8	40.5	68.2
12	Australia	99.6	85.4	22.2	91.2	35.0	66.7
13	Switzerland	70.0	72.9	22.7	95.6	70.0	66.2
14	Luxembourg	84.5	0.0	79.5	87.7	78.4	66.0
15	Portugal	69.7	100.0	2.9	81.6	42.0	59.2
16	Belgium	64.5	87.6	10.5	79.8	55.7	58.6
17	Netherlands	71.8	77.2	12.8	82.5	46.3	58.1
18	Spain	58.5	89.3	1.5	91.2	43.8	56.8
19	France	74.2	83.1	8.4	86.8	30.9	56.7
20	Canada	77.6	86.8	14.3	88.6	15.6	56.6
21	Austria	75.2	80.7	5.7	79.8	39.8	56.1
22	Chile	63.8	96.9	30.9	66.7	20.6	55.8
23	Latvia	85.5	74.7	17.9	23.7	74.4	55.1
24	Croatia	77.4	56.6	8.4	52.6	83.9	54.8
25	United Kingdom	70.7	76.6	7.5	80.7	38.8	54.8
26	Slovenia	57.3	61.5	23.1	75.4	56.4	54.7
27	Germany	85.1	79.7	2.6	77.2	22.8	53.5
28	Czech Republic	61.8	67.5	5.6	59.6	70.5	53.0
29	Hungary	75.1	67.6	23.5	23.7	66.0	51.2
30	United States	56.8	68.0	26.1	60.5	40.3	50.3
31	Poland	55.9	61.0	31.1	43.9	39.6	50.3
32	Greece	76.5	76.4	8.5	77.2	11.0	49.9
33	Italy	60.9	83.9	6.6	92.1	0.0	48.7
34	Slovakia	77.6	51.0	11.0	44.7	62.9	48.5
35	Brazil	64.7	75.9	17.7	31.6	32.3	43.8
36	Russia	61.2	49.7	27.5	0.0	68.8	40.9
37	Bulgaria	59.2	11.5	14.2	18.7	80.1	36.7
38	Colombia	40.5	66.8	15.2	22.8	21.8	33.4
39	Mexico	0.0	67.9	4.4	26.3	55.0	29.7

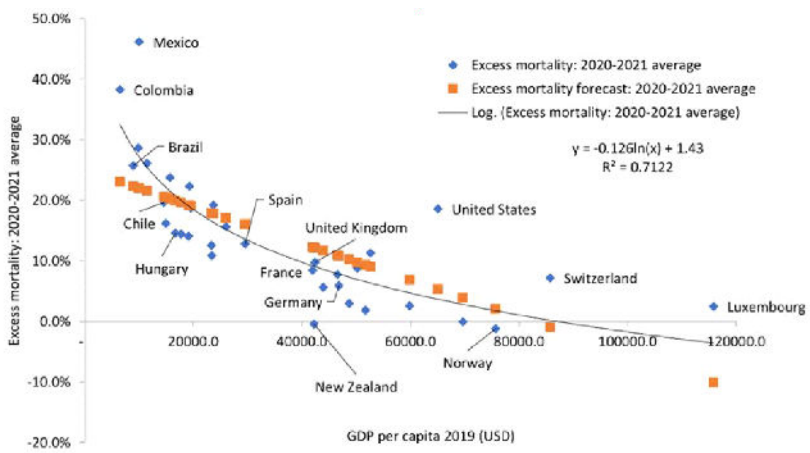
Source: MAPFRE Economics

According to the MAPFRE Economics EPMI, the country that managed the pandemic most efficiently was South Korea, followed by Norway and New Zealand. Iceland, Denmark, and Japan (whose healthcare system is ranked among the best in the world) also stand out. The countries with the lowest scores include Mexico, Colombia, Bulgaria, Russia, and Brazil, which all have weak healthcare systems. Our attention is also drawn to the elevated excess mortality in Mexico, the highest in the sample, as well as in Colombia. Latin America has been hit particularly hard by the pandemic, and despite having weak healthcare systems, countries in the region have made a tremendous effort to vaccinate their populations, especially Chile.

Per capita income and excess mortality

In the analysis by MAPFRE Economics, a high correlation between the excess mortality differences in the 39 countries and their populations' per capita income was detected (see Chart 2). If we take the average excess mortality in the 2020–2021 period and calculate the fitted regression line with per capita GDP in the year before the pandemic, the coefficient of determination is 0.7122. In other words, among the various factors that may explain lower excess mortality among countries, higher per capita income would explain 71.2% of the differences and 28.8% would be attributable to other factors.

Chart 2
Excess mortality vs. GDP per capita: fitted regression life

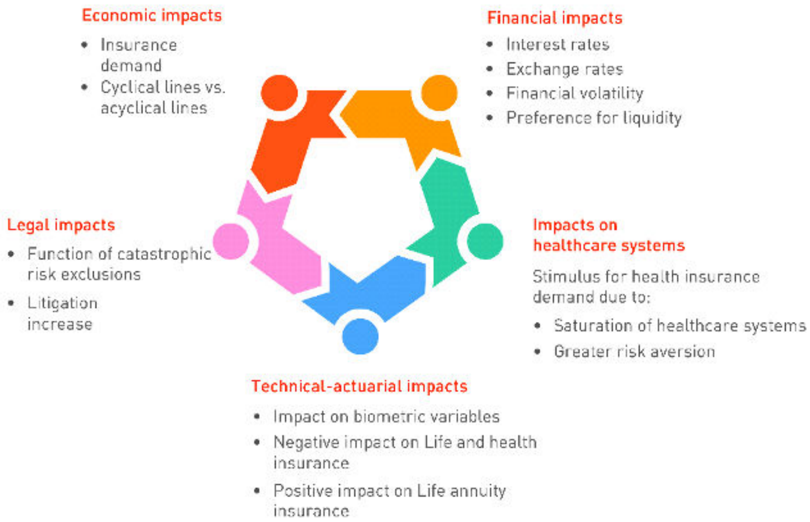


Source: MAPFRE Economics

The pandemic's impacts on the insurance industry

This crisis has had significant repercussions on revenues and profitability in the insurance industry due to the economic and legal effects (related to contractual clauses that exclude pandemic coverage), as well as the effects on healthcare systems and biometrics that may affect the life expectancy of the global population (see Chart 3).

Chart 3:
Summary of thepandemic´s impacts on the insurance industry



Source: MAPFRE Economics

In addition, insurers' efforts to remain operational during lockdowns have accelerated digitization processes, ensuring that underwriting and customer service were not paralyzed and speeding up plans to invest in technological resources and profiles.

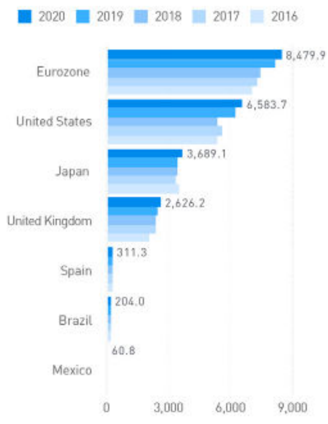
At the following link, you can find the study COVID-19: a preliminary analysis of demographic and insurance industry impacts, by MAPFRE Economics, which takes a closer look at excess mortality and the pandemic's effects on life expectancy and the insurance industry.

Composition of insurance companies' investment portfolios in the wake of COVID-19

Autor: MAPFRE Economics

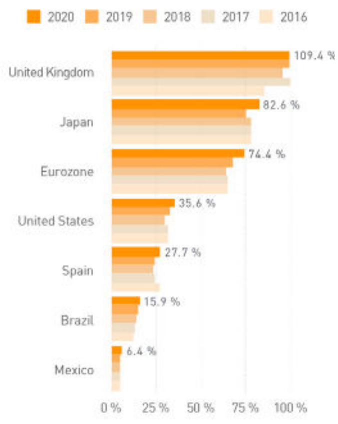
As shown in Graphs 1 and 2, the insurance sector continued posting growth in the value of investments across the board in all regions under study, both in absolute terms and as a percentage of GDP. The largest proportion of growth was seen in the UK, where it increased by 10 percentage points to 109%, while at the other end of the spectrum, Mexico only increased by 1 percentage point to 6%.

Chart 1
Selected markets: investments managed by the insurance industry, 2016-2020 (billions of euros)



Source: MAPFRE Economics (with data from EIOPA, ICEA, BoE, NAIC, LIAJ, GIAJ, SUSEP, and CNSF)

Chart 2
Selected markets: investments managed by the insurance industry as a share of GDP 2016-2020 (% of GDP)



Source: MAPFRE Economics (with data from EIOPA, ICEA, BoE, NAIC, LIAJ, GIAJ, SUSEP, CNSF, and FMI)

During the two years of the pandemic, markets were driven by different factors. On the one hand, central banks expanded money issuance to spur purchasing of government bonds and certain corporate bonds that kept market interest rates low. On the other hand, these central bank issues, together with government stimulus programs put in place to mitigate disruptions in economies, have found their way into the real economy and other assets as well. This circumstance has been reflected in the dissonance between the strong valuation of stock markets and the real economy, which contracted in many countries due to the mobility restrictions imposed. This massive flow of money has also fueled the rise in value of many other assets (not just real estate) and intensified the already "emerging" inflation.

Against this backdrop, a comparative analysis of the major global insurance markets shows the main items in their investment portfolios for different economies where (see Table 1), broadly speaking, the high level of concentration of investments in fixed income (corporate and sovereign) is of note. This predominance can be explained to a large extent by the fact that the insurance business model involves the need to implement liability-driven investment strategies in order to achieve an appropriate match in terms of maturity and interest rates between recognized liabilities and the investment instruments that back them up.

Table 1
Structural breakdown of traditional business investment portfolios, 2019–2020
(%)

Asset type	Eurozone		United States		Japan		United Kingdom		Spain	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Corporate fixed income	31.4 %	31.2 %	51.1 %	46.4 %	7.4 %	7.1 %	33.6 %	33.5 %	19.8 %	19.8 %
Sovereign fixed income	34.4 %	33.3 %	13.3 %	16.2 %	39.1 %	38.4 %	18.2 %	18.1 %	55.6 %	55.0 %
Equities	13.8 %	13.4 %	13.2 %	13.6 %	5.7 %	7.2 %	9.0 %	7.7 %	5.6 %	5.7 %
Loans	5.0 %	5.1 %	10.6 %	10.1 %	7.5 %	7.0 %	9.9 %	10.6 %	0.8 %	0.6 %
Cash and deposits	4.8 %	4.6 %	4.1 %	4.9 %	3.6 %	3.4 %	8.7 %	9.4 %	6.4 %	6.5 %
Real estate	2.1 %	2.3 %	0.6 %	0.6 %	1.7 %	1.6 %	1.9 %	1.6 %	3.5 %	3.5 %
Other investments	8.6 %	8.0 %	7.2 %	8.3 %	35.0 %	35.4 %	18.7 %	19.0 %	8.2 %	8.8 %

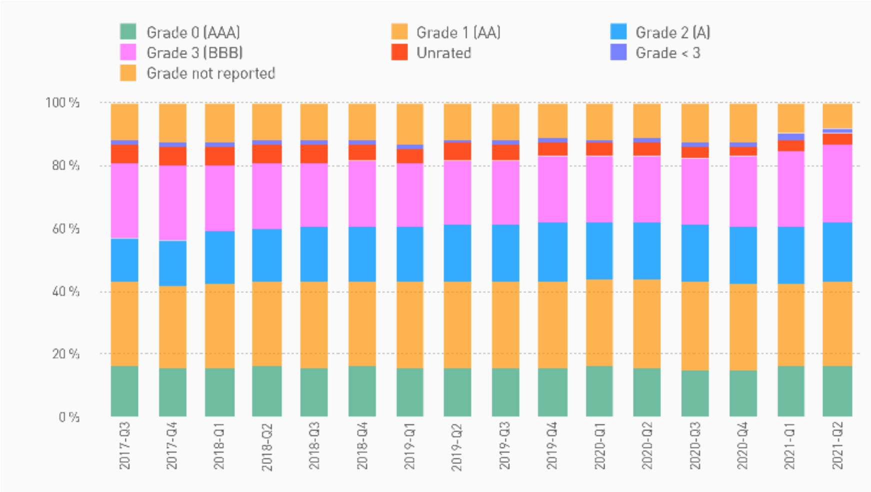
Source: MAPFRE Economics (with data from EIOPA, ICEA, BoE, NAIC, LIAJ, and GIAJ)

Over the last decade, the global environment has been characterized by low growth and low inflation rates, in line with a secular trend of declining potential growth, lower productivity, and, consequently, a low interest rate environment whose persistence has led to a greater risk appetite in search of higher returns, albeit under a selection process supported by more evolved regulation.

The year 2020 was marked by a continuation of this trend, accelerated by the measures taken by the main central banks worldwide to help solve the problems of liquidity shortages in bond markets, to address the widening of credit spreads, and, more generally, to ensure the proper functioning of markets, allowing these markets to continue to function properly. Thus, issuing companies and states could continue to place their issues in order to gain access to the liquidity needed to deal with the situation they faced and, most importantly, to be able to refinance their debts at a reasonable cost. The more recent environment, characterized by higher and persistent inflation rates, reflects a shift in bias toward less accommodative financial conditions, both in terms of a reduced dampening effect of central bank balance sheets and presumably less credit easing due to rising interest rates.

In this context, the conservative profile of the investments on insurance companies' balance sheets as well as their credit quality is particularly relevant since, despite the pressures on investment returns and the greater diversity of assets in the portfolios, the quality of investments has been maintained and even improved within an appropriate scale perimeter and with a tendency to accumulate tranches of higher quality, as shown by the European evolutionary composition (see Graph 3).

Chart 3
Credit quality of the bond portfolio (%)



Source: MAPFRE Economics (with data from EIOPA)

Global economic outlook

Author: MAPFRE Economics

Summary of report conclusions:
MAPFRE Economics
2022 Economic and industry outlook:
second quarter perspectives
Madrid, Fundación MAPFRE, May 2022

The path to global economic recovery marked the beginning of the year 2022, with positive, albeit moderate, growth rates. This recovery was conditioned by factors such as the new Omicron variant, which, due to experience gained in previous pandemic waves and effective vaccines and treatments, enabled COVID-19 to be treated as a more endemic, normalized disease in this new phase. It was also influenced by high and persistent inflation rates, which were starting to erode real incomes; and supply chains that, while continuing to exacerbate the imbalance between supply and demand, showed some improvement and freeing up in certain areas of manufacturing and transport.

However, due to the invasion of Ukraine by Russia during the first quarter of the year, growth forecasts began to show significant deterioration at a global level. The rise in commodity prices worldwide has intensified, mainly in the sphere of energy, oil derivatives and food, raising the risk of economic disruption, albeit with certain regional differences. This will imply greater risks for production capacity and growth while increasing the inflation risk.

This shock has come at a time when economic policies were already beginning to pivot from the broadly accommodative environment that became widespread during the pandemic crisis, towards a more tightening approach, still in its initial stage in developed markets and at a much more advanced stage in most emerging markets. Similarly, although lagging somewhat behind the commodity and energy price channel, a deterioration is foreseeable that will begin to affect corporate margins and, secondly, to be passed on to the end consumer in a further attempt at cost pass-through, resulting in a second round of higher prices, less intense base effects and higher and longer-lasting inflation expectations.

Given such dynamics, and given the risk of leading to a possible destruction of demand, economic policymakers are in a tricky position to respond. On the one hand, there is a need to recover fiscal and monetary margins, as well as to combat historically high inflation rates through more orthodox policies; and on the other hand, there is a need to delay the process and resume fiscal dampening in view of the current scenario of deteriorating activity and implications for prices. So much so that a pause in normalization or additional fiscal expansions could feed back into the problem, as was the case with the initial bottlenecks whose ignition relied on fiscally and monetarily stimulated demand.

At the current turning point, the dynamics of global economic activity is affected by this new geopolitical condition that implies the possibility of unknown actions, rapid escalation, difficult solution and with the potential to lead to systemic risk events, deteriorating the forecasting scenario through other channels. However, and in line with what we have stated in previous reports, the base scenario has the broad base of probabilities and the stressed (alternative) scenario presents a stress approach resulting from it, where the impact on activity in this scenario would become more unfavorable and with latent stagflationary implications, mainly for Europe.

Bassline and Stressed Scenarios: Guess Domestic Product
(anual growth, %)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2018	2019	2020	2021(e)	2022(p)	2023(p)	2018	2019	2020	2021(e)	2022(p)	2023(p)
United States	2.9	2.3	-3.4	5.7	3.2	1.7	2.9	2.3	-3.4	5.7	1.5	0.6
Eurozone	1.8	1.6	-6.5	5.3	2.9	2.7	1.8	1.6	-6.5	5.3	-0.3	-0.2
Germany	1.1	1.1	-4.9	2.9	2.0	3.1	1.1	1.1	-4.9	2.9	-1.3	-0.5
France	1.8	1.8	-8.0	6.3	3.2	2.2	1.8	1.8	-8.0	6.3	-1.0	-0.5
Italy	0.8	0.5	-9.1	6.6	2.9	2.2	0.8	0.5	-9.1	6.6	-0.4	-0.5
Spain	2.3	2.1	-10.8	5.0	4.2	3.0	2.3	2.1	-10.8	5.0	-0.5	-0.3
United Kingdom	1.7	1.7	-9.4	7.5	3.7	1.6	1.7	1.7	-9.4	7.5	0.9	-1.0
Japan	0.6	-0.2	-4.5	1.7	2.4	2.0	0.6	-0.2	-4.5	1.7	0.9	1.4
Emerging markets	4.5	3.7	-2.1	6.3	4.2	4.2	4.5	3.7	-2.1	6.3	2.5	3.5
Latin America[1]	1.2	0.2	-7.0	6.3	2.0	2.1	1.2	0.2	-7.0	6.3	1.0	1.1
Mexico	2.2	-0.2	-8.4	5.0	1.6	1.9	2.2	-0.2	-8.4	5.0	0.1	1.4
Brazil	1.7	1.2	-4.2	5.0	0.7	1.2	1.7	1.2	-4.2	5.0	-0.4	0.9
Argentina	-2.6	-2.0	-9.9	10.2	3.0	0.8	-2.6	-2.0	-9.9	10.2	1.6	0.0
European emerging markets[2]	3.4	2.5	-2.0	6.0	-1.4	1.9	3.4	2.5	-2.0	6.0	-2.0	1.0
Turkey	3.0	0.9	1.8	11.0	2.0	2.5	3.0	0.9	1.8	11.0	-0.2	0.4
Asia Pacific[3]	6.4	5.4	-0.9	7.1	4.8	4.6	6.4	5.4	-0.9	7.1	3.5	3.3
China	6.7	6.0	2.2	8.1	4.8	5.3	6.7	6.0	2.2	8.1	3.7	4.8
Indonesia	5.2	5.0	-2.1	3.7	5.7	5.6	5.2	5.0	-2.1	3.7	4.2	4.7
Philippines	6.3	6.1	-9.6	5.6	6.8	5.7	6.3	6.1	-9.6	5.6	5.1	5.0
Global	3.6	2.9	-3.1	6.1	3.6	3.6	3.6	2.9	-3.1	6.1	3.2	2.6

Source: MAPFRE Economics

[1]Argentina, Brazil, Chile, Colombia, Mexico, and Peru; [2] Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: April 28, 2022.

In the full analysis of the report prepared by MAPFRE Economics 2022 Economic and industry outlook: second quarter perspectives, which can be found at the following link, a third scenario appears, leveraged on the possibility of a broader conflict based on dynamics that, despite being within the tail risks, would have the potential to lead to a global recession in 2023 (shock scenario).

Industry outlook for the insurance market

Author: MAPFRE Economics

Summary of report conclusions:
MAPFRE Economics
2022 Economic and industry outlook: second quarter perspectives
Madrid, Fundación MAPFRE, May 2022

The widespread downward revision of global economic growth estimates, inflation and increased uncertainty due to the conflict in Ukraine are casting a shadow over the outlook for business development and profitability of the insurance industry in 2022, in an environment of high volatility in the financial markets. The war in Ukraine and the sanctions imposed on Russia for its invasion have compounded some of the main problems generated by the process of economic reopening, after the worst phases of the pandemic, which still continues to hit some countries such as China.

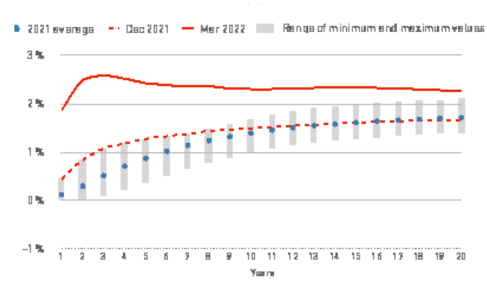
Inflation erodes business margins and household purchasing power, making it difficult to pass on to insurance prices the rising costs of claims and other insurance company expenses. Corrections in both the bond market and the major equity indices may adversely affect the balance sheet and solvency position of those insurance companies that have not handled these risks adequately.

In terms of the different lines of insurance business, it should be noted that disruptions in supply chains continue to weigh down new vehicle registrations, with a negative impact on the auto insurance business. However, some lines of business such as health and life risk insurance continue to benefit from increased sensitivity to the risk of illness and death as a result of the pandemic and war, especially in markets where public healthcare systems are weaker or remain saturated. Other important business segments such as property, commercial and industrial multirisk continue to show their characteristic resilience in this type of situation.

With regard to Life insurance, the persistence of higher-than-expected inflation is leading to a tightening of monetary policy in most developed and emerging markets (with some exceptions, such as China), with interest rate hikes that favor the development of savings-linked Life insurance and traditional annuities, although in many markets there are still situations of negative real interest rates coupled with higher and more lasting inflation than expected, which may erode the saving capacity of households, reducing the demand for this type of products that cannot offer a sufficient rate guarantee to compensate for the loss of purchasing power as a result of the inflationary process.

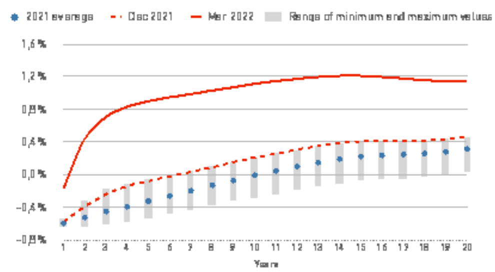
In the Eurozone and the United States, the strong rebound and persistence of inflation (7.5% and 8.5% in April, respectively) are leading to a tightening of monetary policy by the European Central Bank and, to a greater extent, by the US Federal Reserve, which has been reflected in the risk-free yield curve produced by the European Insurance and Occupational Pensions Authority - EIOPA (see Charts 1 and 2).

Chart 1
United States: risk-free yield curve (%)



Source: MAPFRE Economics (based on EIOPA data)

Chart 2
Eurozone: risk-free yield curve (%)



Source: MAPFRE Economics (based on EIOPA data)

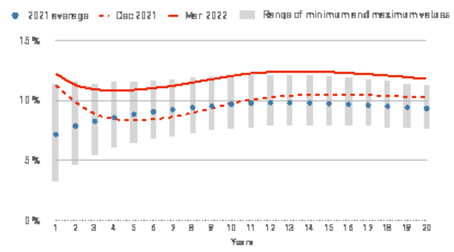
In this regard, at its April meeting, the European Central Bank, while deciding to maintain short-term interest rates at current levels (0% for the main refinancing operations and -0.5% for the deposit facility), entered into a context of a more accelerated than expected reduction of net asset purchase programs, signaling possible interest rate hikes that could occur later this year. Thus, the increase in the volume of net purchases of sovereign and corporate bonds is expected to end between July and September, with rate hikes starting "some time after" the end of the net purchase program and would in any case be gradual, depending on the data to be produced.

For its part, the US Federal Reserve raised interest rates at its last meeting in May by 50 basis points to leave them in the range of 0.75%-1%. It is expected to continue to raise them in the coming meetings and will also begin a process of reducing its balance sheet by an amount that will increase to 95 billion dollars per month in September in a process known as "quantitative tightening" or QT (monthly reduction of 60 billion sovereign bonds and 35 billion corporate bonds backed by mortgages that the Federal Reserve holds on its balance sheet).

On the other hand, the outlook for Life insurance in which the policyholder assumes the investment risk has become more complicated as a result of the setbacks and the high volatility of the stock markets, which make their commercialization more difficult. This will compel insurance companies to adapt their products to a new environment with corrections and greater volatility in equities and in which risk-free interest rates and risk premiums in fixed income are rising in the face of economic uncertainty and the withdrawal of monetary stimuli by central banks, with spreads more closely aligned to the credit risk of the issues, so that the bond market (sovereign and corporate) is expected to become more important.

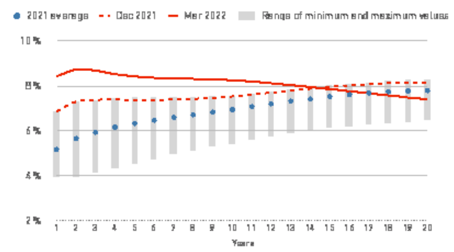
On the other hand, most emerging countries continue to deepen their restrictive monetary policy with sharp interest rate hikes in their fight against inflation, as is the case of Brazil and Mexico (see Charts 3 and 4). These rate hikes together with the new geopolitical context are leading to downward revisions in their economic growth expectations, which will be transferred to the development of the insurance business, although they are generating a more favorable interest rate environment for the development of the Life savings and traditional annuity business by being able to market products that offer higher yields to protect against the loss of purchasing power caused by inflation. However, the erosion of household disposable income brought about by the inflationary process may reduce the demand for this type of product.

Chart 3
Brazil: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

Chart 4
Mexico: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

In Spain, there has been a substantial downgrade in economic growth expectations for 2022 by 1.3 percentage points to 4.2% compared to 4.5% in 2021. This implies that the Spanish economy will suffer a slowdown in growth and will not reach its pre-pandemic level until 2023. The pandemic is evolving favorably, having a positive impact on important sectors for the Spanish economy such as tourism, however, the increase in energy and food prices has led to a sharp rise in inflation. Private consumption and investment (with the help of European funds) continue to recover, but lose momentum due to the high uncertainty coupled with the loss of household purchasing power and the fall in corporate margins as a result of inflation, which may detract from the dynamism of the insurance market's business development and erode its profitability, increasing the pressure on insurance prices. The shortage of supplies continues to slow down production levels in the automotive sector, weighing down exports and new vehicle registrations, a situation that has worsened as a result of the invasion of Ukraine, thus the auto insurance business will continue to be affected by this situation, and uncertainty has risen as to its possible recovery in the coming months.

The business for life insurance linked to savings in Spain will continue to be marked by the low interest rate environment, although the situation is beginning to show a slight improvement due to the change in the monetary policy stance of the European Central Bank, which is raising the interest rate curve of the Spanish sovereign bond market, leaving negative territory in all maturities over one year and beginning to offer a certain positive term premium. However, nominal interest rates continue at levels below inflation, creating an environment of negative real interest rates, which means that premiums for traditional life insurance savings and annuities are expected to remain far from pre-crisis levels. Equities, which had been an alternative to protect against the low interest rate environment and the upturn in inflation, have suffered falls and a spike in volatility as a result of the war in Ukraine, complicating the outlook for the development of life insurance products in which the policyholder assumes the investment risk.

Full analysis of the economic and industry perspectives with additional information and interactive charts on the Eurozone, Germany, Italy, Spain, the United Kingdom, the United States, Brazil, Mexico, Argentina, Turkey, Japan, China and the Philippines can be found in the report entitled 2022 Economic and industry outlook: second quarter perspectives, compiled by MAPFRE Economics.