

The global economy has maintained modest growth, financial markets have shown erratic behaviour, and the geopolitical situation has become more complicated.

The Spanish economy has developed very favourably, registering growth levels not seen since 2007.

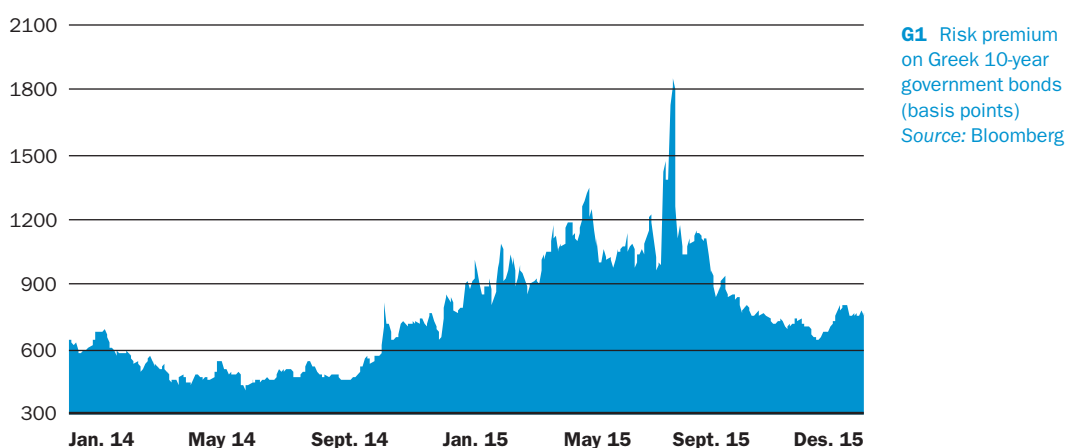
Global economic environment

In 2015, the global economy has maintained modest growth. The year has been marked by new episodes of political and geopolitical instability, and also by more erratic behaviour of financial markets.

In the political arena, uncertainty regarding Greece during the first half of the year took centre stage. The new Government elected in January, Syriza, began a challenging process of negotiation with international lenders regarding the terms of the financial aid programmes. The negotiations became increasingly complicated, ending with Greece calling a referendum to decide on whether or not to accept the conditions of the rescue package. Furthermore, the EBC froze the emergency liquidity that had been granted to the Greek banking sector, resulting in a significant outflow of banking deposits, which required the establishment of capital controls. In this context, Greece became the first developed country to break its financial commitments with the IMF, and significant

doubts arose as regards to it remaining a member of the Eurozone. In the end, a third international rescue package for Greece was granted, of up to €86 billion, tied to an important set of conditions. Following the agreement, the instability surrounding the country was significantly reduced, and new elections were held (in September), in which Syriza was victorious once more (G1).

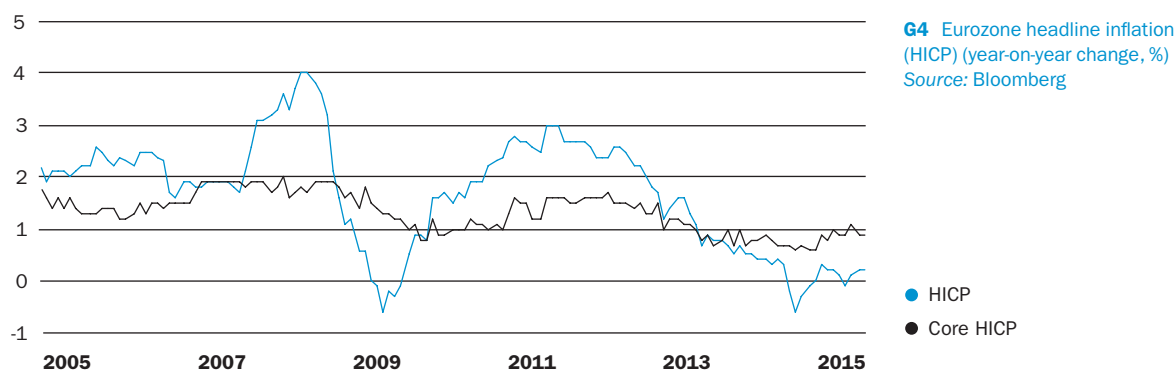
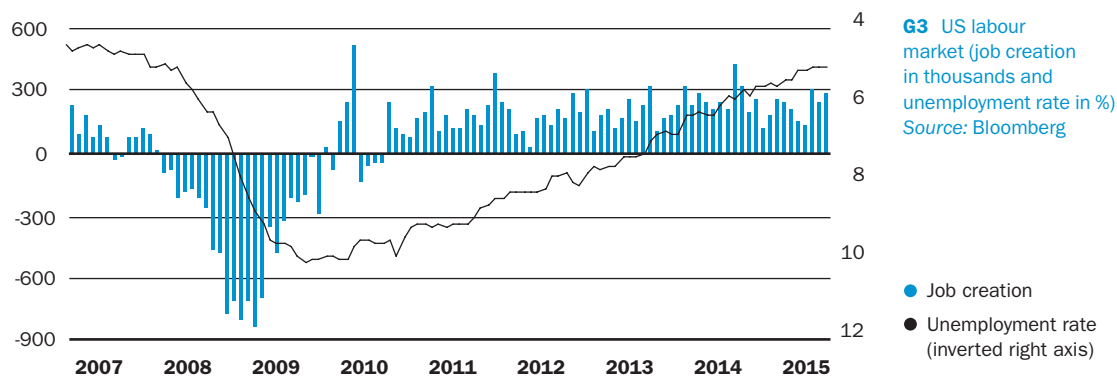
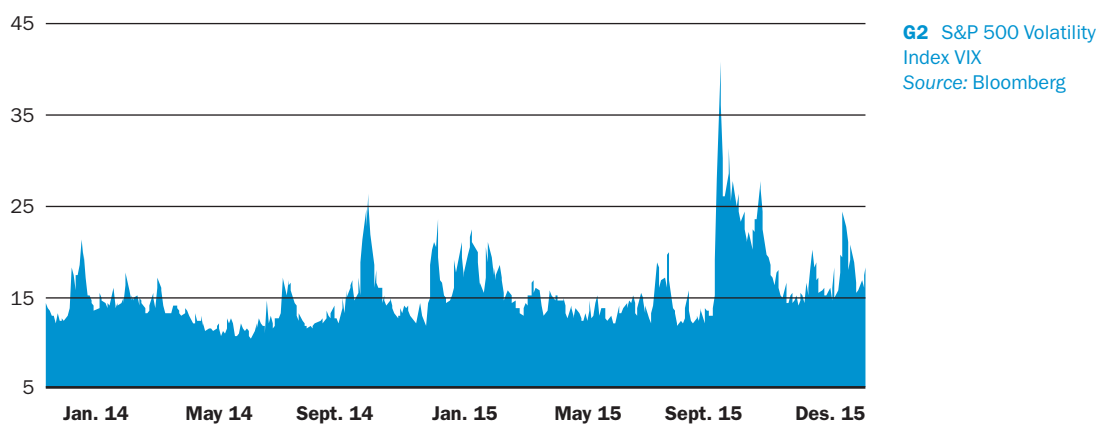
In the political arena, the victory of the Conservative Party in the United Kingdom, which won the elections with absolute majority, also attracted widespread attention, implying that a referendum will be held on whether it will remain in or leave the European Union (EU). The referendum will finally be held in June 2016. In Portugal, after the general elections, difficulties in forming a government became apparent. Finally, the Socialist Party headed the government thanks to support from left-wing parties and despite obtaining fewer votes than the Conservative Party. In Spain, the conservative Partido Popular won the general elections held on 20 December, although agreements and pacts will have to be reached in



order to be able to form a government. Lastly, in the geopolitical arena, the conflict in Ukraine has taken second stage to the refugee crisis in Europe and the increasing tension with regards to Syria, particularly after the terrorist attacks in Paris by the Islamic State.

With regards to the global financial markets, the abrupt summer movements are notable, fuelled by doubts concerning the growth of China after the devaluation of the Chinese Yuan, and amidst expectations that the first increase in the benchmark interest rate in nine years would take place in the United States. The evolution was particularly negative in terms of currencies, stock exchanges and corporate debt of emerging countries, with similar reductions, and in some cases even more severe reductions, reaching previous economic crisis levels (G2).

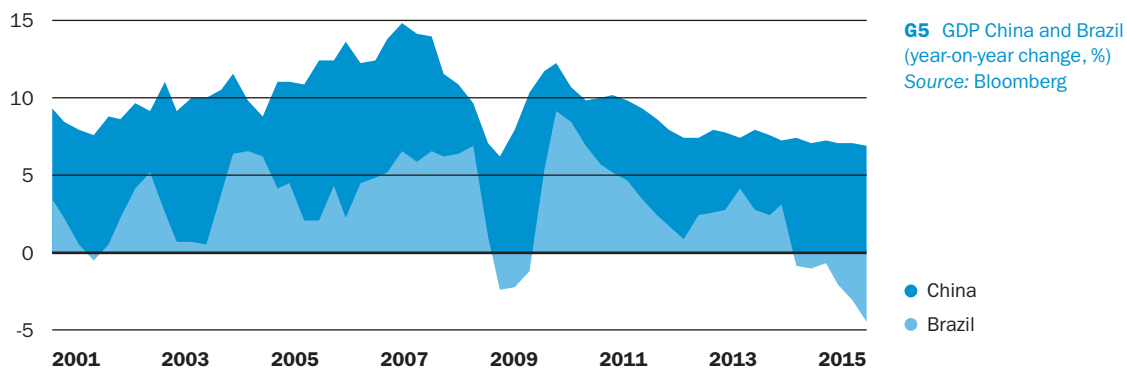
In terms of activity in the United States, the economy has maintained growth rates similar to those seen in 2014, and the labour market has continued to progress with the implementation of its normalisation process. The economy has been negatively affected by the strength of the Dollar and the reduced activity in the petroleum extraction sector. In the Eurozone, despite the uncertainty surrounding Greece, activity has been more positive than in the previous year, backed by the depreciation of the Euro, the lower price of crude oil and reduced financing costs. In the United Kingdom, the economy has maintained a favourable trend, supported by the good performance of the labour market, although it is experiencing lower growth rates than in 2014. In Japan, the economy has shown weakness, with its GDP declining in the second and fourth quarters (G3).



In terms of inflation, it has remained at a very low level and a long way off from the targets of the monetary policies in the main developed economies. Inflation has declined due to the lower price of crude oil and of commodities in general. In this sense, the price of petrol was at its lowest in over a decade, affected by aspects such as a lack of adjustment of supply and weak demand. The underlying aspect of inflation (prices excluding food or energy) has shown a better improvement than the general price index (G4).

Emerging economies have witnessed lower growth rates than in 2014, affected by more restrictive financing conditions, lower commodities prices and the structural deceleration in China. In China, this slowdown is framed within its process of changing its production

model. China has made progress in areas such as financial liberalisation, while the authorities have continued to adopt measures to limit the deterioration of the country's activities. On the other hand, the economic situation has continued to worsen in Brazil, in a context of political instability and severe fiscal imbalances and declines in current accounts. Mexico has maintained a moderate growth rate, which slightly exceeds that of 2014. In Colombia, the economy has decelerated, hindered by the deterioration of its petrol activity. In Eastern Europe the economic downturn and the financial crisis in Russia are notable, Russia was still affected by the conflict in Ukraine, particularly in the first half of the year (G5).



Spanish economy

The Spanish economy has maintained a highly favourable development, and has continued to stand out from other Eurozone countries. In 2015, its GDP recorded growth in excess of 3.0% in 2015, something not seen since 2007. Domestic demand has continued to be the main source of growth, while exports have maintained a notable dynamism. Economic activity has benefited from lower crude oil prices, a reduced fiscal effort (e.g. tax

reductions) and some favourable financing conditions. The positive behaviour of economic activity has been reflected in an improved behaviour in the labour market, with an increase in net employment and a further decline in unemployment rates. With regards to the external sector, the economy has maintained a situation of surplus current accounts for the third consecutive year. Lastly, in terms of tax, the public deficit has continued to decline, from 5.8% GDP in 2014 to 4.5% in 2015, according to the Government's first estimate (G6).

