

The global economy continued to show modest growth as the role of political factors increased.

In the political arena, the United Kingdom's decision to leave the EU and Trump's victory in the US presidential election were key developments.

Once again the Spanish economy outperformed, growing at over 3.0% per annum.

Global economic environment

The start of 2016 was marked by severe financial market turbulence as oil prices sank to their lowest levels in more than a decade and uncertainty grew over the state of China and the world economy generally. Subsequent actions by central banks were able to calm the situation. Financial markets were, in fact, relatively successful in overcoming the effects of the major, and sometimes unforeseeable, political developments that occurred in the course of the year (G1).

Politics played an ever-increasing role and became a major factor affecting financial asset performance. Of particular significance were the holding and the result of

the UK referendum on whether to leave or remain in the European Union, the surprise victory of Trump and the Republicans in the US, and the Italian referendum on the reform of the Senate.

In the UK referendum, held on 23 June, the leave option prevailed with 51.9% of the votes. This result led to the resignation of David Cameron as Prime Minister and the appointment of Theresa May as his successor. The British Government stated its intention to invoke article 50, which gives formal notification of a country's intention to leave the European Union, by the end of March 2017. The UK has announced that a key priority in the negotiations will be to control immigration and, at the same time, maintain full access to the European market.



In the US, the Republican candidate Donald Trump won the presidential election of 8 November, with the Republican party retaining control of both the House of Representatives and the Senate. Trump has proposed interventionist and protectionist policies. On the fiscal front, his intention is to adopt expansionary measures such as tax cuts and increased expenditure on defence and infrastructure.

In the Italian referendum on 4 December, a majority voted against a reform of the Senate with 59.1% of the votes. Following this outcome, Matteo Renzi announced his resignation as Prime Minister and a new government was formed under the leadership of a former Minister of Foreign Affairs, Paolo Gentiloni.

On the economic front, global growth remained relatively sluggish, with potential growth rates falling below those seen before the global financial crisis. The Euro area has so far shown little sign of any impact from the UK referendum and growth has continued to be led by domestic demand. In the United Kingdom the impact of the referendum on economic activity was limited and fell mainly on construction and, to a lesser extent, manufacturing. In the US activity gained momentum as the year progressed and labour market data improved. Growth in the Japanese economy remained relatively weak despite a further round of fiscal stimulus measures (G2).

In the emerging markets growth in the main countries remained weak or was down on the previous year as the deleveraging process continued. Initially, doubts over the economic and financial situation in China and Brazil caused a significant increase in risk aversion with capital

outflows from emerging markets reaching a very high level. Later in the year, however, the situation became calmer; this was helped by: the more accommodative stance shown by central banks in developed countries; (ii) stimulus policies adopted by China to support growth, and (iii) optimism sparked by the change of government in Brazil. As a result, deleveraging in the emerging markets proceeded at a more orderly pace. Trump's victory in the United States towards the end of the year forced a downgrade of economic prospects for Mexico inasmuch as it could signify a reversal of the integration process in which the two economies have been engaged for several decades (G3).

Spanish economy

The Spanish economy continued to perform strongly, with GDP growing at more than 3.0% and unemployment falling to its lowest point since the end of 2009 (G4). The property market showed an improvement and housing prices continued their upward movement. On the balance of payments front, the country ended the year with a current account surplus for the fourth year in succession. In the political arena, the failure of parties to form a government following the December 2015 general election forced the holding of a further election on 26 June. In this second election the Popular Party was again the victor, winning a larger number of votes and deputies than in December, but was still unable to achieve an absolute majority.

