

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.

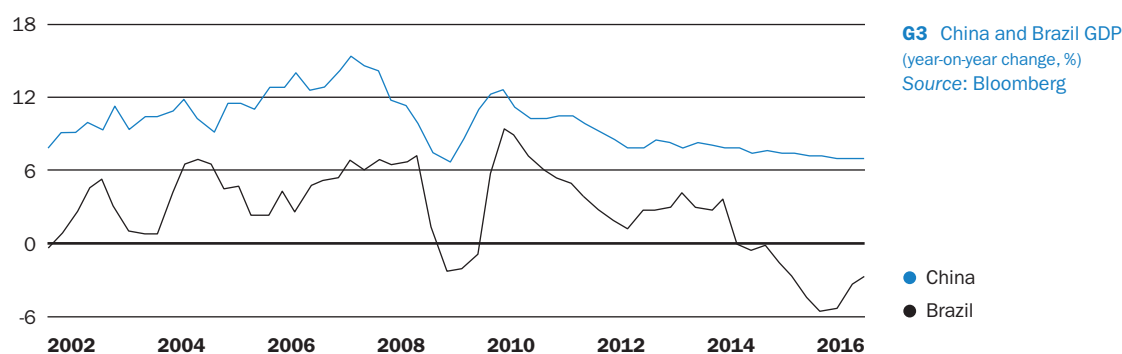
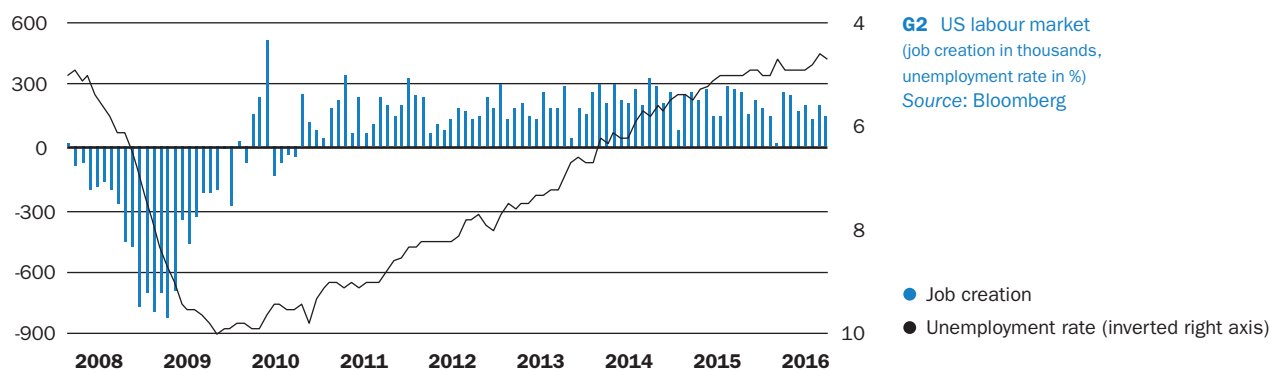
On the economic front, global growth remained relatively sluggish, with potential growth rates falling below those seen before the global financial crisis. The Euro area has so far shown little sign of any impact from the UK referendum and growth has continued to be led by domestic demand. In the United 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).

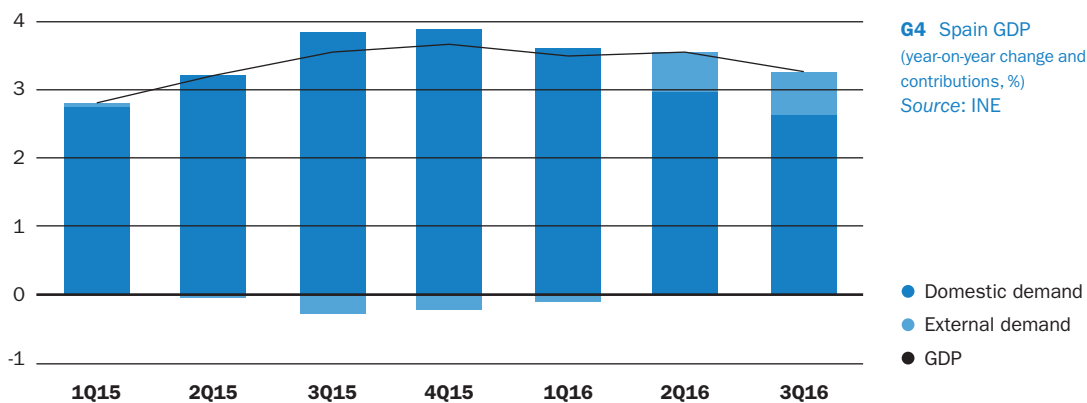
In the emerging markets growth in the main countries remained weak or was down on the previous year as the deleveraging process continued. Initially, doubts over the economic and financial situation in China and Brazil caused a significant increase in risk aversion with capital

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.





Monetary policy and financial markets

Inflation remained below the target levels set by monetary policy in the major developed economies. In the Euro area inflation moved back into negative territory early in the year, depressed by falling oil prices. Later in the year it returned to positive territory as oil prices recovered. In the UK the depreciation of sterling on the back of the referendum result put upward pressure on prices. As for the US, core inflation (excluding food and energy) rose to its highest level since 2012 as the amount of slack in the economy was taken up (G5).

As the year began the world's financial markets were severely depressed by low oil prices, unstemmed outflows of capital from China and the uncertainty surrounding the US economy. The situation improved later on as fears of global recession receded, oil prices strengthened, China and the European Central Bank (ECB) adopted measures for monetary easing and the US Federal Reserve took a more accommodative stance. Global markets suffered further sharp movements following the referendum in the United Kingdom at the end of June and Trump's election as president of the United States in November. These events, however, did not threaten to cause any malfunction or loss of liquidity on the financial markets (G6).

