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## NOTES ON THE CONSEQUENCES OF TERROR ATTACKS

### Berenberg Macro Flash

After the heinous Brussels terror attacks, our thoughts are with the victims, their families and all those who lost loved ones.

Not for the first time, we have to consider the potential economic and political effects of terror.

Resilience is part of human nature. Individual terror attacks usually do not change underlying economic trends. That at least was the clear lesson of the terror attacks on Madrid and London in 2004 and 2005. Trends in consumer spending and overall domestic demand were not seriously affected for long. As a result, we do not expect the terror attacks on Brussels to disrupt the stabilisation of economic surveys that the PMI, Ifo and ZEW data had suggested this morning after some declines in the months before. Helped by a fading of financial tensions and a strong ECB response to softer economic data, we expect the eurozone economy to return to trend growth of roughly 1.6% by mid-2016 at the latest after a soft patch now.

Of course, a sustained series of deadly terror attacks following the Brussels attacks could have a more pronounced impact on economic sentiment and hence on business investment and consumer demand. As discussed for instance in our Year Ahead outlook at the turn of the year, this is one of the key tail risks to watch for this year.

In political terms, the terror attacks on Brussels, the de facto capital of the European Union, can elicit two very different responses. On the one hand, a serious external threat can serve as a reminder of common values and the ties that bind, fostering some additional solidarity in the group. On the other hand, the attacks may trigger a knee-jerk reaction to get further away from the European continent and Brussels especially among those who are somewhat sceptical of what "Brussels" stands for anyway. Sad as it is, there is some risk that the terror attacks may end up strengthening the "leave the EU" camp in the UK slightly.

Logic would suggest that a terror attack strengthens the case for closer cooperation in Europe, including cooperation on security and foreign policy issues. Logic would also suggest that concerns about migration should make Britons value even more the current arrangement under which the UK has partly outsourced the control over its Southern sea border to France (hence the refugee camps in Calais rather than Dover). Whether or not that arrangement would survive a Brexit vote is an open question. But as many in the "leave" camp are not primarily appealing to logic anyway, we had noted in our Year Ahead outlook already that major terror attacks in Europe could inadvertently add to the Brexit risk.

The Brexit vote is still three months away. The EU is trying hard to get the emotive migration issue somewhat under control and thus out of the headlines. The deal with Turkey and the de facto closure of the West Balkan route for migrants and refugees could contribute to that over time. We continue to put the Brexit risk at 35%.

Our main theme for 2016 has been that we need to watch the politics much more than the economics. After Brussels, this holds as much as before. The direct economic impact will likely be small and brief. But we have to pay close attention to any political fallout it may potentially have, especially in Britain. In turn, a Brexit would be a major economic event, potentially hurting the British economy a lot and the overall EU economy somewhat as well.



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