



of the US. The government needs to balance the competing objectives of a swift enough vote to retain investment, but allowing sufficient time for negotiations with Brussels.

EU membership renegotiations will begin at this month's European Council meeting. A deal seems more likely at the February Council meeting at the earliest. Mr Cameron's four themes for renegotiation are explored in our 27 November *Focus Europe*, but in short the key demands are: i) improving competitiveness by reducing red tape and deepening the Single Market – where work is already under way, ii) economic governance – ensuring that rules governing the euro area are not automatically imposed on the UK, iii) returning greater sovereignty to the UK – the 'Europe where necessary' philosophy, and most contentiously iv) constraining migration by use of the benefits system.

The vote looks likely to be closer than the last EU referendum in 1975 when the tally was 66% for remaining in. Polls have swung towards those favouring exit recently, with some even showing a majority wanting to leave. However, the average poll shows "In" slightly trumping "Out" (around 43% vs 40%). But similar to 1975, a government campaigning to remain in, supported by the opposition and the media in general, may well produce a vote to remain in the EU – albeit in modestly amended form. Still, we should expect a bumpy ride between now and then as some polls raise the risk of exit.

European politics: Testing times to continue into 2016

The environment for European policymakers has become even more challenging following the terrorist attacks in France in mid-November. Managing (and containing) the massive influx of refugees since the summer was already keeping many EU member states busy, above all Germany. The controversial decision on a quota for the redistribution of refugees and the lack of full application of European rules has provided some evidence for the different interests and the respective understanding of solidarity on this topic.

Politics has started to move. Fuelled by the threat of terrorist attacks, a more coherent response to the refugee crisis should be felt in different policy areas. Foreign and security policy will become more extensive including a stronger control of the EU's external borders and most likely a more conservative European response to the refugee crisis. In terms of fiscal monitoring, the fiscal framework in the euro area provides sufficient flexibility (to a reasonable extent) should higher public spending related to foreign and security or asylum policy drive budget deficits beyond the agreed trajectory up. The European Commission intends to provide a thorough assessment of member state budget plans in Q1/ 2016.

EU-28 relations with Russia might be reviewed as Russia is seen as an important partner in coping with the tensions in the Middle East and by extension the refugee crisis and the threat of terrorism. A number of the sanctions imposed in 2014 have been linked to a successful implementation of the Minsk 2 agreement by the end of this year. The overall political environment – if not again deteriorating after the most recent events in Turkey and Ukraine – might work towards a re-assessment of parts of the sanctions over the course of 2016.

The Netherlands will assume the EU Council Presidency in the first half of 2016. One major topic will be re-negotiating the terms of British EU-membership. The Dutch are well positioned as a mediator in this complex process as they share some of the demands put forward by British PM Cameron but firmly support European integration. There is considerable political goodwill by the EU

Figure 16: Huge influx of refugees in Europe*



*Schengen states, i.e. EU28 + Iceland, Liechtenstein, Norway and Switzerland
Sources: Eurostat, Deutsche Bank Research