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Brexit Update: We've reached an inflection point

Economic Comment
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- **On 27 February a parliamentary vote on the course of Brexit took the threat of a hard (no-deal) Brexit on 29 March off the table**
- **The inflection point was the adoption of an amendment that institutionalized Prime Minister (PM) May's promises to give parliament a say on the course of Brexit at the middle of March, including a vote on an extension of article 50**
- **Political dynamics seem to be changing on the back of defections from both large parties as the popularity of this Independent Group seems to come at the cost of support for Labour**
- **Consequently, the opposition party Labour has shifted their Brexit position to supporting a second referendum, thereby increasing the odds of a Bremain**
- **These events might create a perfect storm for the EU-UK deal to get parliamentary approval on 12 March**
- **In case of rejection, MP's are expected to vote in favour of an extension of article 50 on 14 March and EU approval does not look problematic**
- **We still see an orderly Brexit as the most likely outcome as the extension will give the British Parliament more time to find a consensus on a desired EU-UK deal**
- **The chances of a hard Brexit also remain uncomfortably high on the back of the political gridlock on Brexit in the UK**

UK Parliament takes charge

In our latest Brexit Update we highlighted that without action by the UK Parliament PM May looked poised to [take Brexit down to the wire](#), thereby maintaining a high degree of uncertainty until the last moment. An extension of [article 50](#) became necessary after the EU-UK deal was rejected by the British Parliament on 15 January given the legislative work that is required to translate an approved deal into British law. PM May's refusal to acknowledge this maintained the threat of a 'hard Brexit', even if probably by accident or miscalculation. Or as the Dutch PM Rutte phrased it: "sleepwalking into a no-deal Brexit". PM May's choice to keep the 'no-deal' alive is to some extent understandable since removing this option could cause a rupture of the Conservative party, which in turn could become a threat for the continuity of her Cabinet.

Luckily the UK parliament took charge on 27 February. First, under pressure from Europhiles in the Conservative party the PM conceded to give parliament a say on the Brexit course through a series of cascaded votes: 1) a second meaningful vote on the EU-UK deal on 12 March, 2) a vote on a 'no-deal' on 13

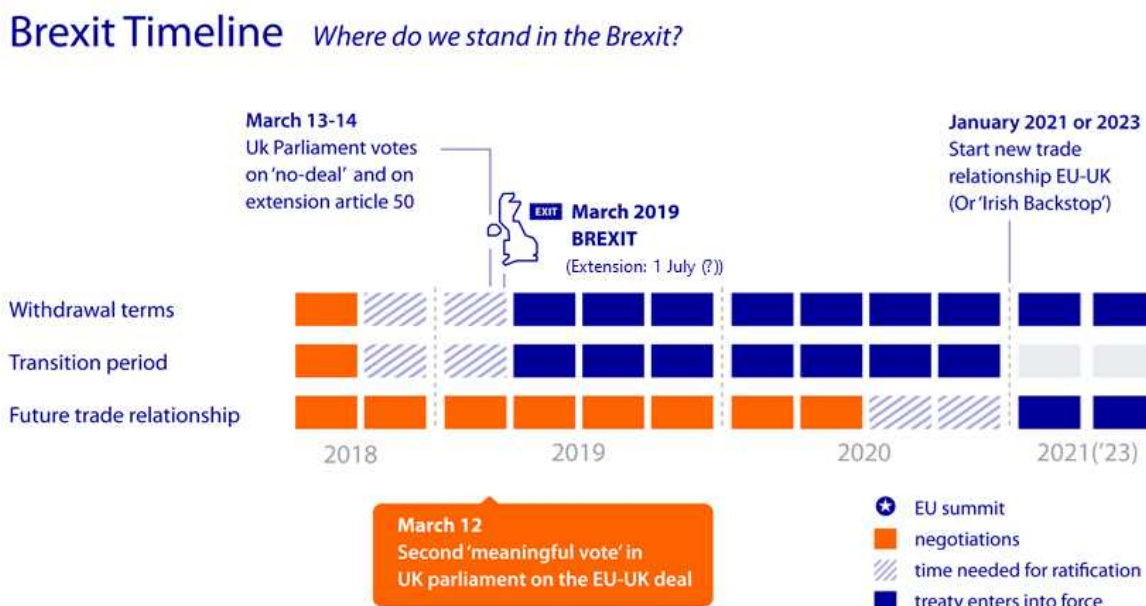
March and 3) a vote on extending article 50 on 14 March. The series stops when one option gets approved by Parliament and represents the next milestone in the Brexit process (Figure 1). However, Theresa May has often made promises she didn't keep. It is therefore reassuring that the British Parliament formalized this plan by adopting the Cooper- Letwin amendment that summarized these promises with an overwhelming majority of 482 votes. The parliamentary majority against a 'no-deal' finally materialized into action on the Brexit course on 27 February and it is likely to play a role again during the March votes, playing down the threat of a 'hard Brexit' (Figure 2).

Perfect storm?

Changing dynamics

Brexit has brought British politics at crossroads, as both Labour and the Conservatives have been struggling with rifts along Brexit lines. These divisions culminated in the week of 18 February when 8 Labour and 3 Conservative MPs who are in favor of a second referendum left their party to form the Independent Group. According to [a recent poll](#) this group could enjoy 18% of the votes in a general election – assuming they will register as a political party – and this seems to come at the expense of Labour. According [to another poll](#) 32% of Labour voters would vote for The Independent Group in an election, while only 19% of the Conservative voters would switch. The loss in popularity and the fear of further defections seems to have been sufficient to push Labour to change their Brexit stance. The party leader Corbyn, announced that the party would support a second referendum if their amendment proposing a permanent customs union with the EU was rejected by parliament on 27 February, which as expected it was. Labour is now expected to propose an amendment on a second referendum during the meaningful vote on 12 March. However, given insufficient support for another People's Vote in the British Parliament we expect this amendment to be rejected. Nevertheless, the chances of a Bremain have been boosted by Labour's new position, though we still assess it to be a third option with low chances.

Figure 1: Brexit timeline: what's next?



Source: Rabobank

Change of hearts?

The government's endorsement of the Cooper-Letwin amendment alienated Brexiteers, but none of them left

the party as a result. One minister did resign in a sign of protest. The risk of endless extensions and/or a second referendum makes the threat of 'no Brexit at all' more noticeable and that seems to be causing Eurosceptic MP's to reconsider their options. Actually, the tone of hardliners seems to have softened in recent days. Rees-Mogg, the leader of the pro-Brexit European Research Group, for example stated that an addendum to the Withdrawal Agreement making it clear the UK cannot be indefinitely trapped in a Customs Union with the EU would suffice, instead of previous requests to alter the Irish Backstop itself. This was later confirmed by news that the ERG has softened their red lines accordingly.

With a little help from EU friends?

Crucial for the position of the Brexiteers and the Irish DUP will be the advice general attorney Geoffrey Cox will provide on any changes to the deal. Cox is currently engaged in talks with Brussels to discuss available options. Rumour has it that a codicil is being considered, one that makes it clear the Irish Backstop is not intended as permanent, that promises to consider future technological options and that establishes periodical reviews.

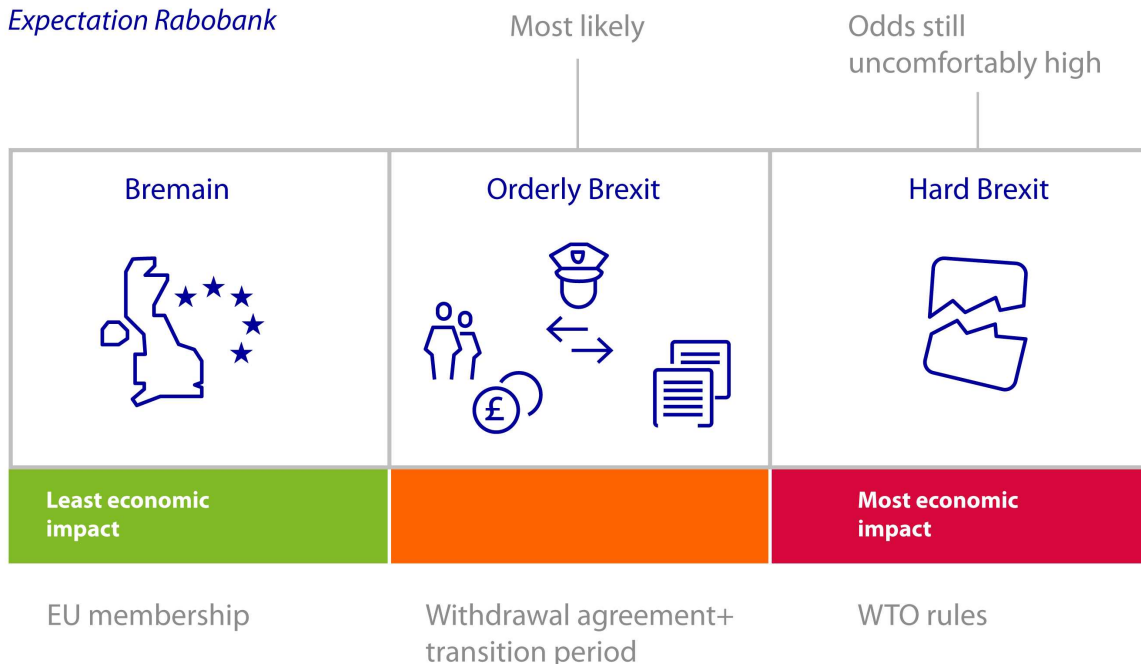
All in all, the recent turn of events might prove to garner just enough support amongst MP's to support PM May's deal on 12 March. The PM is also playing her part to attract Labour MP's not aligned with their party's support for a referendum, namely those coming from constituencies that voted 'leave'. The Stronger Towns Fund that was launched on 4 March and promises 1.6bn GBP to boost poorer areas will particularly benefit those constituencies.

Should the deal be rejected, MPs are likely to vote for an extension of article 50 on 14 March and thereby take more time to reach a consensus on a deal that enjoys parliamentary majority. Hence, we still see an orderly Brexit as the most likely scenario. A short term extension until the end of June at the latest will be necessary for this to be achieved. A delay will be necessary even if a deal gets approved on 12 March. EU consent is not seen as problematic. The political gridlock on Brexit in the UK also means that the odds of a 'hard Brexit' as a final outcome are still uncomfortably high, though they have subsided in the past week.

Figure 2: Odds of a hard Brexit revised downwards

Brexit Barometer: three outcomes relevant in 2019

Expectation Rabobank



Source: Rabobank

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