



**Rabobank**

## Brexit Monitor: Heading towards an extension

**Economic Comment**  
**Alexandra Dumitru**

The decision by the British people to leave the EU may have serious consequences for Dutch businesses. Our Brexit Monitor keeps you up to date with the latest Brexit developments. What effects will Brexit have, and what can you expect? An overview of the main news and analysis from experts.

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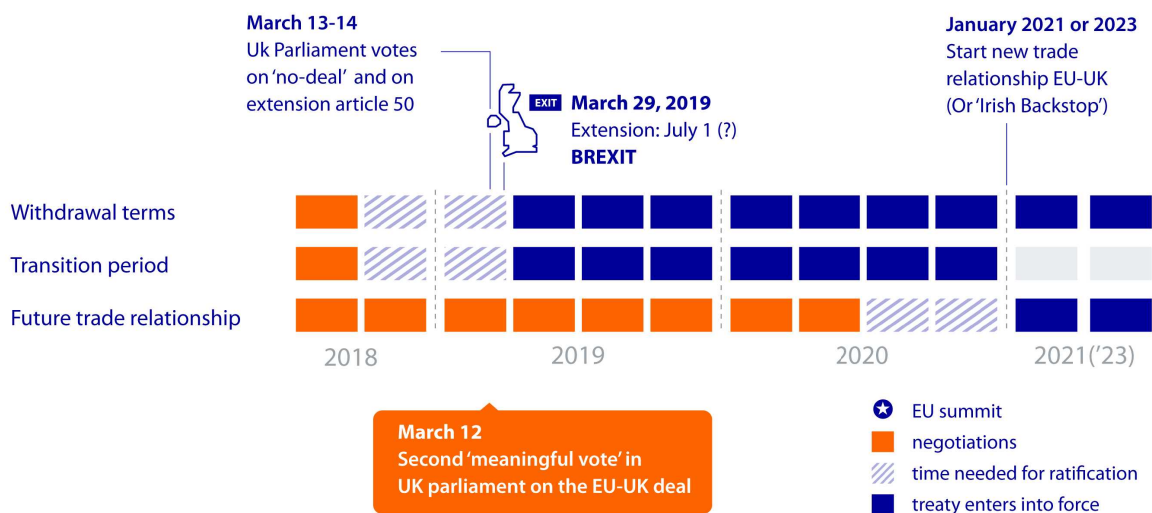
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### Political developments: British Parliament takes control

The EU-UK Brexit deal was rejected by the British Parliament in January. For the first time since the rejection, MP's managed to change the course of the Brexit process. They adopted an amendment that plans 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 deal is likely to get rejected on 12 March, though recent events improve the chances of an approval. Given the parliamentary majority against a no-deal, it is likely that the British Parliament will opt for an extension of article 50 on 14 March. In that case, we don't expect EU approval to be problematic and a hard Brexit on 29 March is virtually off the table. However, the odds of a hard Brexit after an extension remain uncomfortably high.

## Brexit Timeline *Where do we stand in the Brexit?*



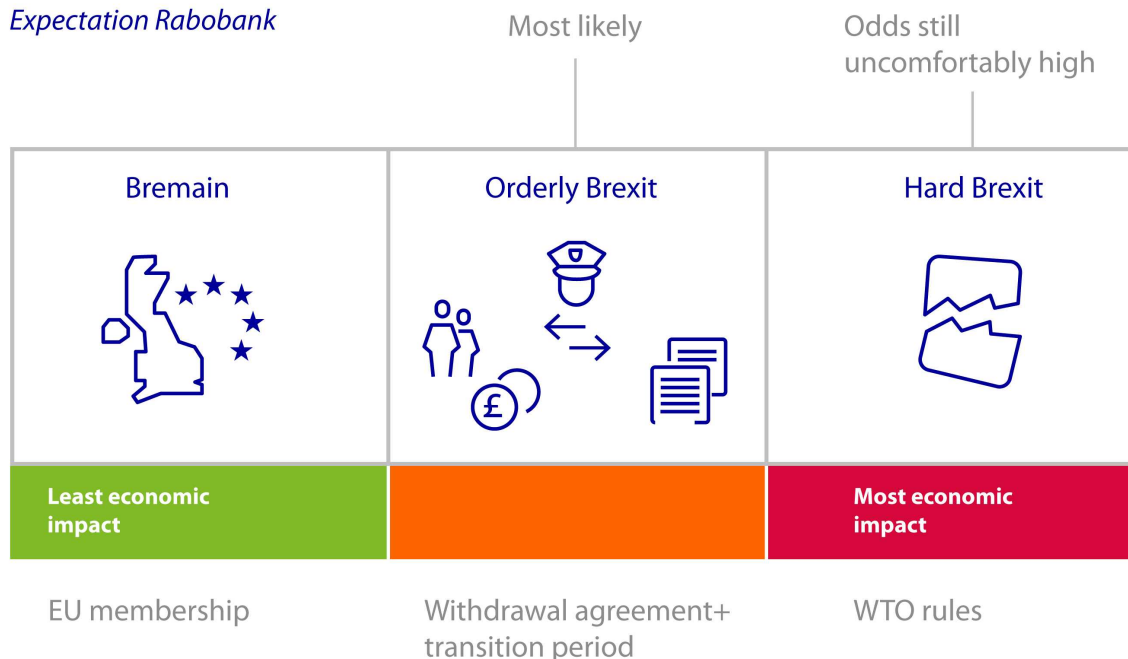
## Changing dynamics after party defections

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 left their party to form the Independent Group. The popularity of this group according to recent surveys has led labour to shift their Brexit stands to supporting a second referendum. This has boosted the chances of a Breain, but we still assess this outcome to be a third option with low chances. This change of hearts can bode well for the approval of the EU-UK deal on 12 March as Brexiteers are getting nervous about the possibility that Brexit will be fully abandoned.

We still see an orderly Brexit as the most likely scenario. Whether the deal gets approved on 12 March depends on the concessions the EU is willing to make. The extension will give the British Parliament more time to reach a consensus on the envisaged deal.

## Brexit Barometer: three outcomes relevant in 2019

Expectation Rabobank



## Economic developments: Brexit takes its toll on the economy

### British economy practically stands still at the end of 2018

GDP growth in the last quarter of 2018 was a mere 0.2% q-o-q. As a result, economic growth in 2018 came in at 1.4%, the lowest growth level since 2012. Private consumption held ground and government expenses even picked up, but could not compensate for the contraction in private sector investment. Moreover investments contracted for the fourth consecutive quarter mainly driven by Brexit uncertainty. We expect the persistent uncertainty to lead to a weak start of 2019. However, once a deal is approved and uncertainty wanes going forward we expect economic activity to pick up. Overall, we expect the economy to grow by 1.5% in 2019. Risks are obviously tilted to the downside because of a possible hard Brexit.

### Tariffs on F&A imports

According to media reports the UK is considering import tariffs on some F&A products in order to protect British farmers. Products that might be targeted are beef, lamb and dairy. The [International Department of Trade](#) are expected to announce tariffs somewhere in March. In general, industrial products are reportedly not targeted by tariffs.

### Support for the pound the financial markets

While uncertainty persists and a hard Brexit remains a significant risk, financial markets have become optimistic about the outlook of a softer Brexit. This has strengthened the pound in past month. The EUR/GBP currently stands around 0.86 and we expect the exchange rate to stay in the range 0.85-0.86 in the coming 3 to 6 months. A hard Brexit would weaken the pound towards parity with the euro.


## Exchange rate

EUR/GBP,  
February 28, 2019

 0.85

## Exchange rate forecast

Forecast Rabobank  
EUR/GBP, 12 months

 0.85

## GDP growth 2019

Forecast Rabobank  
y-o-y, 2019

 1.2%

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