

UK: Three Brexit questions for 2019

The immediate question for the UK in 2019 will be whether the government can gain approval for its Brexit deal. A defeat seems highly likely in December, but in the absence of an election or fresh referendum, we feel a fudge can still be found to avert 'no deal.' Focus will then turn to full-blown trade talks with the EU, which may take several years to complete



Source: Shutterstock

For the UK, 2019 looks set to be a year of two very uncertain parts. The most pressing question before March is whether Parliament will get behind a plan to avoid the economically risky 'no deal' scenario. If that happens - and ultimately we still think a fudge can be found - then focus will turn to starting trade talks. We'll take a look at these issues in turn.

1 Can the Prime Minister persuade Parliament to back her deal?

In short, the answer looks increasingly like 'no'. Parliament will get a vote on the Brexit deal agreed with the EU on 11 December, and as things stand, the widespread scepticism within the House of

Commons means it's hard to see Theresa May finding enough support to back her deal. Focus is now switching to what might happen if May is indeed defeated – and we think there are five main possibilities.

Firstly, it seems fairly probable that there would be an attempt by the opposition to force a general election. This would require two-thirds of MPs to vote in favour of a no-confidence motion in the government. For this to succeed, it would require a number of Conservative MPs to back it – and that seems like a tall order.

The second possibility – a second referendum – could face similar hurdles. It's hard to imagine a Conservative Prime Minister triggering one, but it could come about if a 'People's vote' amendment were to be introduced in Parliament. In this case, a simple majority of MPs would need to vote in favour of it. But while a handful of Conservative MPs would likely back a referendum, it would require most Labour MPs to back it, too. Despite some prominent Labour figures talking up the chances, given that many represent staunch Leave-supporting constituencies, it's not immediately clear whether a majority would actively back a second vote.

Even if there's no election or referendum, we may still see a Conservative leadership challenge. This has of course been mooted several times over the past few months, but thus far the threshold of 48 MPs required to trigger a no-confidence vote in the leader hasn't been met. That might change in the aftermath of a defeat on Brexit in Parliament, although even if there is a vote, there's no guarantee the Prime Minister would lose. It's also possible that Theresa May feels obliged to stand down if she is defeated on such a fundamental policy issue, although our feeling is that her preference is to see this through.

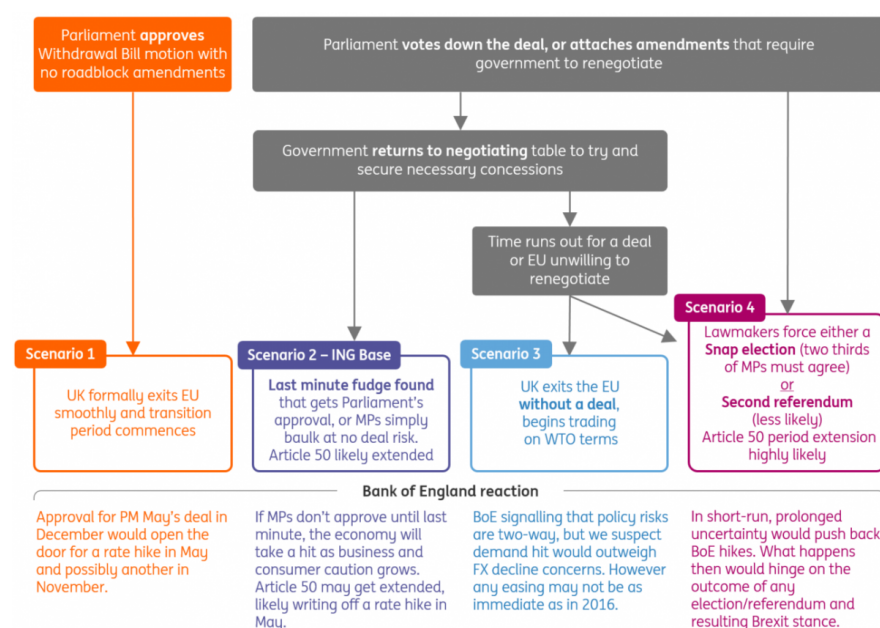
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Assuming we're right on all of the above, then it all comes back to whether Theresa May can find a way to get her deal through Parliament second time around. This will be challenging, not least because the EU will not be in the mood to renegotiate on the key withdrawal issues. That said, Brussels may be open to tinkering on the non-binding political declaration which sets out a vague roadmap for a future trade deal.

In the end, the response of the Labour Party may prove key. For instance, if Labour were to introduce an amendment in Parliament, pushing for a commitment to permanent membership of the customs union, there's a chance they could gather enough support in the House of Commons to force the government's hand.

In this case, Theresa May would be forced to return to the EU and try to work this into the political declaration on trade. There's no guarantee this would be successful, and of course the more extreme Brexit-supporters in the Conservative Party would be deeply concerned. But such a move may be enough to win support of the main opposition party in a second vote, which could be sufficient to gain approval for a deal in Parliament.

Four Brexit scenarios for 2019



Source: ING

2 What happens if 'no deal' is avoided?

Having said all of the above, nobody really knows for sure how – or if – Theresa May will succeed over the next few months. But assuming she prevails and the UK leaves the EU on 29 March – or later if article 50 has to be extended – then the 21-month transition period will kick in. The goal is to agree a new trading relationship by the end of this period in December 2020, although we feel this is highly unlikely to be long enough.

Trade deals take time – remember the EU-Canada agreement took roughly seven years to negotiate. The domestic debate on the best Brexit path is also far from over, and it could be quite some time before a clear strategy is established. It's also worth remembering that the EU side may also become more disunited. So far, the remaining 27 member states have been closely aligned on mutually-important issues such as money and citizens' rights. But trade talks open the door to a range of potential sticking points – the recent disagreements on Gibraltar may be a taste of what is to come.

Implementation will also take time. Hiring new customs and border officials often takes upwards of two to three years, given the likely volume of staff required and the need for training and extensive security checks, while the necessary physical infrastructure and associated IT systems will also be time-intensive to set-up.

We therefore think the transition period will ultimately need to be extended – subject to fresh EU budget contributions from the UK – taking us much closer to the next scheduled election in 2022.

3 What about growth and the Bank of England?

If the UK exits with a deal, then the economy may regain some poise, with hiring and investment likely gaining a little more momentum. But as mentioned above, it could be many years before the true Brexit implications emerge for specific sectors, companies and individuals, which will keep a

cloud of uncertainty over the outlook in 2019 and beyond. We expect this to limit growth next year to 1.6%, although we do anticipate further Bank of England rate hikes as policymakers seek to offset higher wage growth.

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