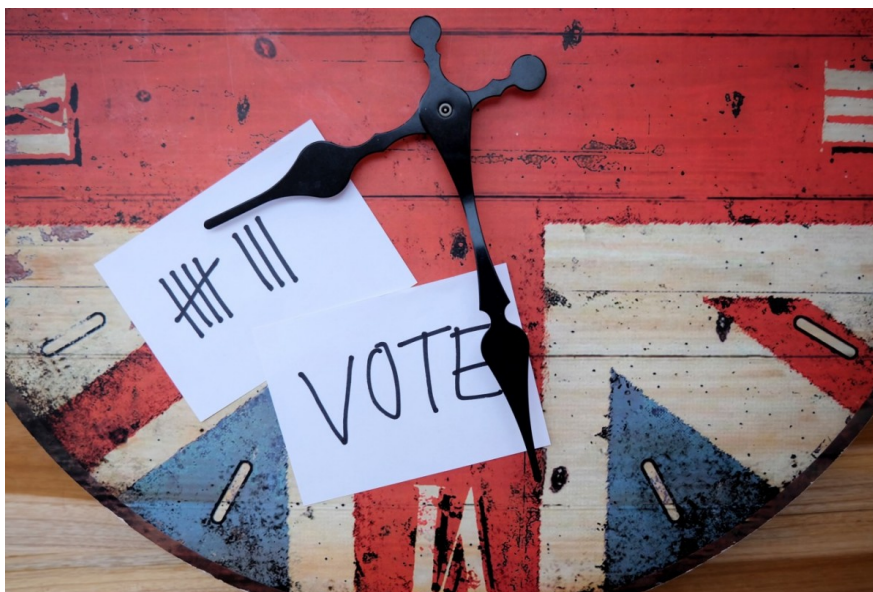


UK election: What next?

Theresa May's Conservative party has fallen short of an overall majority, but with the support of the DUP she can stay on as Prime Minister. The situation will become clearer over the next few days, but this outcome creates a huge amount of uncertainty that will have major implications for the path of Brexit.



Britain's Prime Minister, Theresa May, called an election when she appeared to be way ahead in the opinion polls. She said she wanted a big majority to 'strengthen her hand' at the upcoming Brexit negotiations. It didn't work out like that. In fact, her future is being called into question after her governing Conservative party failed to win an overall majority.

With fewer than 20 seats left to declare it now looks as though the Conservatives, while being the largest party after this election (a likely 318 seats, down from 330 in 2015), will fall short of a majority by 8 seats. However, the Democratic Unionist Party, which has won ten seats in Northern Ireland, has indicated that it is willing to work with the Conservatives, which could keep Theresa May in power.

So what about Brexit?

UK-EU Brexit talks are due to start on June 19, but this election outcome could lead to a delay as

the parties work to form a government. The election also throws up a new set of issues that adds to the uncertainty surrounding Brexit. If Theresa May can broker a deal to stay on as Prime Minister there is clearly the scenario that she retains a hardline Brexit strategy. She may feel the need to keep the Brexiteers in her own party and the Brexit supporting DUP on side. If this is the case there is less likely to be compromise on migration and the size of the divorce bill. This runs the risk of talks breaking down, heightening the threat of “hard Brexit” and the potential for economically damaging trade barriers coming into force.

However, Theresa May will be presiding over a party that has been wounded by this election and some MPs are already calling for her to step aside. Polls were predicting a landslide for the Conservative party just a few weeks ago. Now they don't have enough seats to form a government on their own as a result of an election Theresa May didn't need to call. She will be vulnerable to challenges from within and there is a sense that in Brexit negotiations she has weakened her hand. This perhaps makes it more likely that she will leave it to Sir Tim Barrow to lead negotiations, the UK's Ambassador to the EU, or her “Sherpa”, senior civil servant Olly Robbins (Permanent Secretary of the Department for Exiting the European Union).

According to an interview with the FT a senior EU diplomat reportedly said “we are not hung up about how senior they are. What we need is somebody who is empowered to actually take commitments”. There is the possibility that Theresa May could decide to step down as leader feeling her weakened position is detrimental to the UK in the negotiations. Assuming a quick coronation of an alternative, the path of Brexit could change again. However, it seems more likely she would try and stay on, but would have to change her leadership style to be more open with her ministers.

Assuming a stable coalition/political pact can be agreed this government doesn't have to face the electorate again until 2022. On the positive side for a smooth Brexit, this means there is scope for an extended transitional arrangement should the UK and EU be able to work out their differences. If there is compromise from both sides the extra time available could help smooth the UK's path out of the EU, but the UK would have to continue abiding by EU rules to facilitate this. We remain optimistic on the potential for a mutually beneficial deal, but getting a transitional arrangement is of critical importance.

Another election? What happens if neither party can form a stable majority

How another election could be triggered

There are two reasons why another vote could occur: either if neither major party can reach an agreement with smaller parties, or if a newly formed government proves to be too fragile.

In either case, the Fixed Term Parliament Act means an election would be triggered by a no-confidence vote by MPs. There would then be two weeks whereby the government must subsequently win a confidence vote if it is to stop the election from taking place. If that fails, an election would take place 25 working days later.

Potential impact on Brexit

It's impossible to say what another election would mean for Brexit in the long-run. But the loss of time in the Article 50 process could be detrimental to the UK's Brexit negotiations and would intensify the need for a transitional deal.

Minority/coalitions governments in the past

February 1974 – October 1979:
Labour party used support from the Liberals. Held a new election in October 1974 with Labour winning it by a majority of 3.

March 1977 – May 1979:
James Callaghan's Labour government needed support from the Liberals following a by-election defeat.

December 1996 – May 1997:
John Major's Conservative Party lost a series of seats and held on for 6 months after by-election defeats and party defections.

May 2010-May 2015
Conservative-Lib Dem coalition lasted the whole 5 year term.

All in all there is a huge amount of uncertainty over the politics of the UK economy, which will intensify the downside risks to economic activity. This uncertainty will make it all the more likely the Bank of England will choose to leave monetary policy ultra-loose in order to provide as much support to growth as possible.

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