



Kallum Pickering, Senior Economist | [Kallum.pickering@berenberg.com](mailto:Kallum.pickering@berenberg.com) | +44 203 465 2672

## **BREXIT UPDATE: THE UK'S FATE IS IN ITS OWN HANDS**

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A small step back from the cliff-edge, for now. Yesterday the EU accepted the UK's request for a Brexit delay. It outlined the following conditions:

- Brexit will be delayed until 22 May if UK parliament passes the withdrawal agreement including the contentious Irish backstop next week
- Brexit will be delayed until 12 April if UK parliament does not pass the withdrawal agreement next week

EU President Donald Tusk said that all options would still be available to the UK until 12 April including no Brexit and the possibility of a longer extension. A longer extension however, would need the approval of all 27 EU member states and would require the UK to participate in the European Elections on 23-26 May.

If the UK decides to take part in the EU elections, we would expect the EU to accept a request for a longer delay in order for the UK to undertake a new political process to debate and vote on alternative arrangements for the future relationship, including the customs union or Norway options, or to provide time for a snap election or second referendum. However, the EU would most likely not grant a longer delay for the UK to just continue voting on May's deal again.

The ball is now in the UK's court. In a series of Brexit debates and votes next week, probably including a third vote on May's deal, UK parliament will get a chance to forge a way forward and possibly take the opportunity to seize control of the Brexit process and reduce the risk of a hard Brexit.

If parliament voted down May's deal and agreed a process to seriously contemplate the alternatives, the likelihood of the UK submitting a request for a further longer delay would be high. In that scenario, we would see a high risk that Theresa May, having failed to convince MPs to back her deal, would resign as Prime Minister and leader of the Conservative Party. While this would add to uncertainty, it would not change the parliamentary calculus around Brexit in a major way. Still, a majority of MPs would want to retain close ties with the EU.

As the situation is in flux, we make no change to our probabilities for the potential Brexit outcomes; hard Brexit (15%); May's deal (10%); customs union model (35%); Norway model (15%); and no Brexit (25%). However, the uncertainty around these calls is high. The risks to our probabilities for May's deal and a hard Brexit are tilted to the upside.



## MACRO NEWS

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Joh. Berenberg, Gossler & Co.  
KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7878  
[www.berenberg.com](http://www.berenberg.com)  
[kallum.pickering@berenberg.com](mailto:kallum.pickering@berenberg.com)