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BREXIT FLEXTENSION SETS STAGE FOR INTERESTING TIMES

Berenberg Macro Flash

Limited “Flexextension”: The EU27 grant the UK a Brexit delay until 31 October. The UK can leave earlier if it ratifies the Withdrawal Agreement beforehand but will have to hold the EU parliamentary elections on 23-26 May if it has not done so by 22 May. The UK can still revoke its decision to leave the EU. The UK promises not to disrupt EU27 affairs while it is still a member. See [here](#) for the full text of the EU decision.

This result of the EU emergency summit removes the tail risk of an immediate hard Brexit and is better than a new cliff-edge on 30 June already as UK Prime Minister Theresa May had sought. But it keeps the UK and EU27 in limbo for six more months. At French insistence, it is less generous than the 9-12 months extension EU Council President Donald Tusk had proposed.

The flexextension buys the UK some extra time for parliament to agree what option it wants for future UK-EU relations. While it reduces the immediate uncertainty, it does not dispel the tail risks. This implies some downside risk to the near-term economic outlook, in UK more so than EU27.

The flexextension gives us no clarity about the final outcome. The hard Brexit risk remains low as the UK government and parliament as well as the EU27 want to avoid it. However, like all other options, it is not off the table. A permanent customs union for goods is still the most logical and likely of all options, in our view.

The situation remains uncomfortable and potentially unstable: The UK government has lost control. The EU is been torn between a desire to force the UK to make up its mind and a clear wish to not humiliate a country that the EU27 wants to keep as a close friend.

Mind the “Boris“ risk: the weakness of prime minister May makes it difficult for Labour to strike a deal with her and for the EU27 to fully trust May’s assurances that the UK will not disrupt EU27 affairs while still in the EU. Would a new UK prime minister honour May’s commitments? No negotiating partner can take it for granted that May can last in office until Brexit is finally settled.

The summit result gives us some foretaste of Britain’s possible post-Brexit future: as a medium-sized economy with limited powers to shape international events, the UK will often have to cope with whatever its bigger trading partners (US, China, EU27) may decide.

See also:

[May is containing the hard Brexit risk](#)

[Brexit delay: serious concerns and a tail risk](#)



MACRO NEWS

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