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## HIGH COURT RULING COULD MATERIALLY CHANGE BREXIT CALCULUS - PLUS ECONOMIC IMPLICATIONS

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**It's not over yet.** Today's High Court ruling that the British government requires parliamentary approval to begin the UK's exit from the EU – trigger Article 50 – has the potential to materially change the calculus of Brexit.

The Government has indicated that it will likely appeal the ruling. The Supreme Court has made arrangements for that case to be heard on 5-8 Dec. If the Supreme Court sides with the High Court then parliament will get a chance to vote on the government's Brexit plan. Ironically, if the Supreme Court rules in favour of the government, would the issue need to go to the European Court of Justice to settle?

Until now, PM Theresa May and her cabinet had pursued Brexit under the assumption that the Prime Minister had the authority to trigger Article 50 under royal prerogative. Without such power it is unlikely that the Government would be in a position to fully pursue a hard Brexit – one where the UK placed strong restrictions on flows of migrants from the EU and did not keep a high level of access to the EU single market.

#### Possible consequences if parliament is required to take a vote on Article 50

**Serious delays and soft Brexit (likely):** The leading Conservative Party does not have a majority in the House of Lords and around two-thirds of MPs are pro-EU. With Theresa May's leanings towards a hard Brexit, this sets the stage for messy domestic negotiations ahead of a parliamentary vote on Brexit, thus raising the probability of severe delays before negotiations with the EU27 could begin. The Government's baseline case to trigger Article 50 by March 2017 will probably be out of the window if they lose the appeal. There are more Remainers than Brexiteers in parliament. It would probably mean that government would only get a thumbs up for Brexit if it agreed to try to pursue an exit from the EU that maintained a high level of market access, and – presumably – few restrictions on EU migration.

**Exit from Brexit? (unlikely but not implausible):** Some non-Conservative MPs may try to frustrate government by holding up Brexit talks until the next election – 2020. It is conceivable that the Labour Party or Liberal Democrats could promise to hold a second referendum if they won the election. It is likely, however, that any attempt to overturn the first vote, would lead to serious political fallout and could risk triggering a constitutional crisis.

Our base case, should MPs be required to take a vote, would be delays before Article 50 is triggered but ultimately, a hard drive by the Conservatives to avoid carrying Brexit into next parliament, making concessions where necessary to expedite the process.

**Economic impact:** In the near-term, the lower risk of a hard Brexit will take some of the downward pressure of the pound. If sterling appreciates a little over the coming months inflation may not rise as high next-year as previously thought – a positive for real spending and near-term growth. In the long-term, a soft-Brexit would improve the outlook for the economy's long-term supply potential and growth rate. The less trade, investment and migration with the EU fall after Brexit, the better it is for the UK economy in the long-run.



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