Brexit Update – 17.01.2019

EUROGROUP CONSULTING

Theresa May's Brexit Withdrawal Agreement has failed in the House of Commons: whilst a very hard Brexit is the default option currently with the UK leaving the EU with no deal, a softer Brexit or no Brexit is forecasted

Brexit Severity Index[1]
Previously: Level 5
Now: Level 3

Theresa May's Brexit Withdrawal Agreement failed in a House of Commons vote on 15th January 2019. The defeat, however, was bigger than expected with 432 votes against vs 202 votes in favour. With 71 days to go until 29th March 2019 the current default pathway is for the UK to leave the EU with no deal, as it seems the UK and EU will find it difficult to agree on a compromise Brexit agreement in such a short space of time. As expected, May's government survived a no confidence vote yesterday (Wednesday 16th January) due to all wings of her Conservative Party (including the hard Brexiteers) and May's supporting Northern Irish party DUP backing the government. Therefore the probability of a snap general election is now very low. **Whilst the Brexit negotiations are difficult to predict and ever-changing, after considering all the eventualities and next steps outlined below Eurogroup Consulting forecasts a softer Brexit or no Brexit potentially via a 2nd referendum.**

Next steps:

- May will enter discussions with other UK party leaders and leading politicians on how to proceed with the EU negotiations. Currently, there is no credible alternative to May's Brexit plan. After the discussions she will go back to the EU to negotiate, however the EU has already stated the Withdrawal Agreement is not open for renegotiation
- May will most probably put forward her Brexit plan B to the House of Commons on 21st January 2019. It is at the moment uncertain what that plan B would include given the limited time frame
- Due to these aforementioned issues, the likelihood of an extension to Article 50 has increased significantly after the Brexit Withdrawal Agreement failed yesterday. The EU has stated this is an acceptable interim solution for them
- A majority in the House of Commons after a recent parliament ruling has clearly indicated it is against a very hard no-deal Brexit, which would only happen by accident, as it is the default option

Therefore we believe there are 2 likely outcomes:

1) **Softer Brexit** (e.g. Norway-style Brexit), which is agreed upon after all discussions with other UK parties and EU negotiations have taken place
2) **No Brexit via a 2nd referendum** – due to the deadlock within the House of Commons to agree on a plan the UK population should decide on the next step. Should this 2nd referendum take place, we think there is a strong possibility that Brexit will not take place due to the UK population now having a much more informed view of what hassle and difficulties Brexit entails

What does a soft Brexit mean for the UK financial services ecosystem and in particular the corporate and investment banking (CIB) industry?

[1] Level of severity ranges from 1 = very soft to 10 = very hard. Eurogroup Consulting is continuously monitoring the latest developments around Brexit and the index comprises advanced research and statistics across a number of drivers that will impact Brexit.

As stated in our last Brexit publication, the overall UK financial services ecosystem currently equates to an annual UK revenue of GBP 200bn and full-time employees (FTEs) of 1.05m. In the case of a soft Brexit, our forecasts state this **whole ecosystem will decrease by 5-10%**, within the range of GBP 190-180bn UK revenue and 1m - 950k FTEs. Within the UK financial services ecosystem, we predict the **CIB market, due to its international outlook, will decrease by 10-15%** from GBP 44bn UK revenue and 110k FTEs currently to a range of GBP 40-35bn and 100-90k respectively. Within all this it must be noted that the UK financial services ecosystem currently represents 10% of annual UK GDP and 3.1% of UK jobs.