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MPs Say No to No Deal, but an Accidental Hard Brexit Remains a Possibility

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Some commentators have described March 13 as the most important day in the Brexit saga since the June 2016 referendum. UK members of parliament have voted to reject a situation in which the United Kingdom crashes out of the European Union without a deal. But with only days until the official leave date, the options for a tidy resolution are limited. David Zahn explains why he expects the UK government now to seek an extension to the Brexit negotiations and he offers some thoughts on what that might mean longer term.

UK members of parliament (MPs) have voted to reject a no-deal Brexit. But an “accidental no-deal” Brexit remains very much on the cards.

We believe there’s still a very real chance the United Kingdom could crash out of the European Union without an agreement on the post-Brexit relationship.

But in the short term, we expect a positive reaction from markets to the decision to rule out no deal—at least until the next development.

Following the parliamentary vote to reject no deal, we think the logical next step would be for the UK government to seek to push back the March 29 leave date to allow further talks to take place.

UK Prime Minister Theresa May has indicated she will have one last attempt at persuading MPs to support her withdrawal agreement in the coming days. However, the House of Commons has already overwhelmingly rejected that proposition on two occasions, including earlier this week.

Separately, MPs will be given the opportunity to approve a request for an extension of negotiations. If they choose not to, we could find ourselves in the impossible position that MPs have rejected all the possible options: a negotiated deal, no deal and an extension of talks.

Any extension of negotiations also requires the approval of all 27 remaining EU states. While we’d expect the EU to grant an extension, we believe it would impose some tough conditions. It might ask for a greater financial contribution to the “divorce bill” when the UK does finally leave or that the UK gives up some legal rights.

If an agreement to extend negotiations is not in place by March 29, the United Kingdom will leave the EU without a deal, irrespective of this week’s parliamentary vote. In other words, an “accidental no-deal Brexit.”

However, securing an extension to negotiations does not really offer a clearer path to a resolution.

Pushing out the leave date by more than a few months might give more time for a new referendum or general election, but those events would likely bring more uncertainty and financial market dislocation.

By ruling out a no-deal Brexit, MPs have removed the UK government's last remaining bargaining chip for a better deal from the EU. We can't imagine the EU offering a better deal than the one currently on the table, so we'd expect the situation at the end of any extension to be exactly the same as it is now.

If the UK does secure an extension and maintains its resolve to rule out a no-deal Brexit, we think the ultimate outcome will be that the UK stays in the EU in some form, at least temporarily.

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