What kind of Brexit can now be expected?

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A few weeks ago the majority of analysts were saying that Theresa May's real motive in calling early elections in the UK was to strengthen her majority against the hardest wing of her party. This would have enabled her to accept "softer" conditions in a possible agreement on Brexit.

The elections was not exactly a success for the prime minister, since it not only produced a worse outcome for the conservatives than the previous election but also lost them their majority and weakened May's position in her party. However, the results have shifted the balance of power, not towards conservatives in favour of a "hard" Brexit but towards an opposition that defends an ultimate status closer to the European Union (EU).

This week saw a proliferation of statements and rumours along these lines. Former conservative leaders John Major and David Cameron have advised negotiating the terms of Brexit with the opposition. There is talk of negotiations between another former Tory leader, William Hague, and the Labour party aimed at reaching a common position. Yesterday Philip Hammond, the Chancellor of the Exchequer (minister of finance), who has been relatively marginalised in the government and in the electoral campaign, was expected to make a speech warning of the risks of walking away from the EU without an agreement. The new Labour opposition, which has been strengthened by the elections, has never had a stable position on Brexit, but is currently moving towards defending a customs union.

In the negotiations with the EU, which start next week, the sequence of subjects (first the terms of exit, then the new agreement), which was looked at askance by the British, may now be an advantage, since it gives the British government some time in which to redefine its position on two key issues: on the one hand the type of trade deal that it wants to negotiate, which is the key to a long-term relationship with the EU, and on the other hand the advisability or otherwise of signing a provisional agreement to stay in the single market for a transitional time. It is an opportunity to reverse the drift towards a hard Brexit that we have seen so far.

The phase will cover above all the Brexit "bill" (as much as €100 billion according to the EU proposal) and the rights of the three million EU nationals living in the UK. British sources talk of a "generous proposal" on this latter subject, but nothing short of maintaining the social rights of these citizens is likely to be accepted by the EU. The most likely outcome is that these negotiations will speed up after the summer (and after the German elections) and be finalised, at least in broad terms, by year-end.

As for the second phase, the UK position until now has centred on dismissing the risks of a "hard" Brexit, partly based on the fact that the Brexit referendum vote has not so far affected the economy. However all the calculations made at the time obviously referred to a considerable impact on GDP in the long term, after withdrawal, not in the short term. And apart from this, the latest indicators are showing signs of weakness and could be reflecting reduced investment in the face of uncertainty and the effect of the depreciation seen so far on income and spending. More of this can be expected as a result of the elections if a clear line towards a soft Brexit is not defined.

Amid this complexity we must not forget the EU stance. This week Michel Barnier, who is in charge of negotiations for the EU, made some widely reported statements with messages almost devoid of content, such as that we need to hurry, or that the difference between hard and soft Brexit is not clear, which very well reflects the EU delegation’s relatively comfortable and so far unanimous position clearly linking trade advantages to freedom of movement. We shall see whether that unanimity is maintained in the coming months.