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Five things you need to know about Brexit

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Article 50 sets in motion a two-year negotiation to decide the UK's relationship with the EU – here are the key facts

1) The EU's negotiating position will be agreed on 29 April

Notification of the UK's intention to leave the EU sets off a two-year process: first, negotiations between the UK Government and the remaining EU countries (EU 27), then parliamentary ratifications, ending with Brexit. Once Article 50 has been triggered, the ball is in the EU's court. After a swift initial response to the UK, the EU will develop a negotiating position that will be agreed at a summit on 29 April, then finalised in detail in June. The EU will shortly publicise its draft guidelines for exit talks.

2) Chances of a breakdown in talks are highest early on

UK Prime Minister Theresa May says that 'no deal is better than a bad deal', and the exit bill could be a deal breaker. The government's view is that the UK can leave the EU without making any payment to the EU-27, although such a stance would result in a breakdown in relations between the two sides – a 'chaotic' Brexit. The chances of such a breakdown are highest early in negotiations, in our view, maybe even ahead of formal negotiations, when the two sides are setting out their stalls. A chaotic Brexit would mean no EU trade agreement and no transition period, leaving the UK to face tariffs and non-tariff barriers from April 2019. The market and economic shock of a chaotic Brexit would be felt quickly once talks turned sour, and an early UK general election could be called.

3) UK businesses want early agreement on transition – EU governments mostly do not

For UK businesses, the sooner transition arrangements can be agreed the better. By March 2018, with less than one year to go before Brexit, businesses might implement contingency plans to protect their operations if no transition period has been agreed (some businesses are already taking precautionary action). From the EU's perspective, costs (in terms of disruption to their own business sectors) of a late agreement on transition could be offset by the benefits of attracting businesses relocating from the UK.

4) Brexit negotiations expected to be concluded by October next year

Brexit negotiations are expected to be concluded by October 2018, allowing six months for the deal to be ratified by EU member states, the European Parliament and the UK Parliament, before Brexit is finalised in March 2019. Legal challenges to Brexit are likely to persist, including the question of whether Article 50 is revocable. But once Article 50 is triggered, the assumption is that there will be no dialling back: the outcome will be Brexit after two years, with, or without, an EU deal.

5) Brexit negotiations will likely be punctuated by data releases on how the economy is faring

The UK economy has fared better than expected since the Brexit referendum, but inflation is spiking and there are signs that growth momentum is fading. Bank of England's quarterly inflation report forecasts will outline whether the UK central bank is ready to withdraw policy accommodation; a chaotic Brexit raises the likelihood of policy staying on prolonged hold, in our view. If the recent slowdown in EU immigration persists, challenges for businesses and policy makers could grow, undermining the narrative behind the government's 'hard Brexit' stance.

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