

What has been the impact of Brexit on the UK economy?

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Sarah Hall, University of Nottingham, discusses and assesses the impact of Brexit on the UK economy, in combination with COVID-19 and the Ukraine war

It is now three years since the UK left the EU at the end of the Brexit transition period. During that time, the terms of UK-EU trade is governed through the EU-UK Trade and Cooperation Agreement (TCA). However, it is still relatively early in implementing the TCA to fully assess its economic impacts on the UK economy. This means that the UK is still in the early stages of the Brexit process, and there remains considerable uncertainty and public and political debate concerning the economic impacts of Brexit.

This uncertainty has been compounded by two further significant changes that are impacting the UK economy post-Brexit: the impact of COVID-19 both in terms of initial lockdowns and its longer-term effects in terms of decreased labour market participation; and the economic impacts of the war in Ukraine, which has led to significant inflation driven by rising energy prices.

We must consider COVID-19 and the war alongside Brexit. Untangling the economic impacts of COVID-19 and the war in Ukraine from Brexit is critical if the economic impacts of the UK's new trading arrangements with the EU and the rest of the world are to be fully understood. More research and data are being conducted across various disciplines, including economics, sociology, legal studies and geography, that aim to do precisely that. Examining some of these research highlights provides a valuable starting point for understanding the impact of Brexit on the UK economy.

Before examining the real-world impacts of the TCA, it is helpful to step back and set out what economists anticipated the effects of Brexit on the UK economy. This is important because, during the period of EU membership since 1973, UK economic growth and GDP per capita grew as the economy developed more significant trade and capital flow with the EU alongside more incredible migration. This gave rise to arguments from leading economists that reduced access to the EU's single market, alongside uncertainty which would likely reduce international investment into the UK, would likely lead to lower wages, a lower sterling rate and the need for higher taxes or reduced investment in public spending.

Impact of Brexit on different regional areas

Crucially, however, the economic benefits of EU single market membership were distributed unevenly across the UK. Whilst London and the South-East benefited from marked increases in financial and related professional services activity in particular,

provincial regions did not see the same GDP growth. As such, the period of UK EU membership did not reverse the long-term pattern of marked regional differences in economic performance across the UK. Research has argued that voters living in places that had not benefitted from rising GDP at the national level, which were also often the places that were most impacted by austerity policies in the 2000s were influenced by these experiences and registered this in part through a Leave vote.

What do economic experts and forecasters say?

However, the role of economic experts, and forecasting in particular, have been the subject of continued debate and criticism since the Brexit referendum in 2016. This partly stems from early initial forecasts of the economic impacts of Brexit that predicted a negative economic impact that would be felt relatively quickly, driven by negative effects on financial markets, and consumer and business confidence.

The most damaging elements of these initial forecasts did not materialise by enlargement. On the one hand, the pound did fall largely as expected, but the predicted house price fall did not occur. Similarly, the labour market remained relatively strong, and there was a slight fall in unemployment.

However, the longer-term predictions made during the referendum, particularly concerning the impacts on trade and migration, have been more accurate.

How do we really understand the impact of Brexit?

To understand these impacts, the nature of the TCA itself needs to be set out. Broadly, the TCA does more to liberalise goods trade between the UK and the EU than it does for services trade. This is significant because services have historically been a strength for the UK economy whilst goods have dominated in the EU. The TCA provides zero tariffs and quotas on goods but very little around the mutual recognition of regulatory standards or to support labour mobility which is important in services.

In terms of goods trade, following the implementation of the TCA, research shows a 25% decrease in UK imports from the EU compared to imports from the rest of the world. Their research suggests a smaller and more temporary decrease in UK exports to the EU. However, they report a large reduction in the number of trade relationships between UK exports and their EU counterparts. This suggests that smaller firms were more likely to decrease their exporting activity to the EU compared with larger firms who had more capacity to address any additional costs that they incurred with exporting to the EU.

In terms of services trade, the quality of data is not as strong as it is for goods. In services, there is evidence of a decline in UK services exports to the EU in the immediate period post-referendum, prior to the implementation of the TCA. This has been placed at around 6% in 2019. In terms of financial services in particular that are especially important in the UK, there is evidence that around 10% of total banking assets have moved to the EU with a smaller proportion of jobs relocating.

Taken together, this analysis suggests that the early economic impacts of Brexit on the UK economy do not neatly follow the estimates made by economists immediately following the referendum. There have been negative impacts on trade which can be largely separated from the impacts of COVID-19 and the War on Ukraine. Crucially, the devil is in the detail with such changes varying significantly by economic sector and by location in the UK. Whilst Brexit is only in its early stages economically, it is clear that its impacts are sectorally and regionally variegated.

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