

HAS BREXIT TRULY MADE THE UK LESS ATTRACTIVE ECONOMICALLY?

Stéphane Colliac in collaboration with Louis Morillon (intern)

It is generally assumed that Brexit has made the United Kingdom less attractive economically. However, data on the balance of payments and foreign workers reveal that it's not as simple as that.

Granted, as recently as March 2023, one UK company out of four ranked Brexit as one of its top three concerns. While that number had fallen since 2019, it does show that concerns have not disappeared entirely.

Real business investment (both foreign and domestic) in the UK was 0.4% lower in the fourth quarter of 2022 than in the second quarter 2016. However, this decline was not driven by weaker foreign direct investment (FDI) by non-residents in the UK, as this does not show up in the data.

Brexit has had a more notable impact on workforce flows. There have been fewer European worker arrivals since the second quarter of 2016, which the increase in non-European workers since 2021 has not yet fully offset. We estimate that 76,000 fewer foreign workers were employed in the UK than would have been, had the pre-Brexit trend in this category continued.

These comparisons suggest that Brexit did have a negative impact on the UK economy during the post-referendum period of uncertainty. But this period ended once actual Brexit details had been ironed out. Once a stable post-Brexit framework had been established, the UK got a boost, as direct investments and arrivals of foreign workers from countries outside the European Union (EU) made up the ground lost.

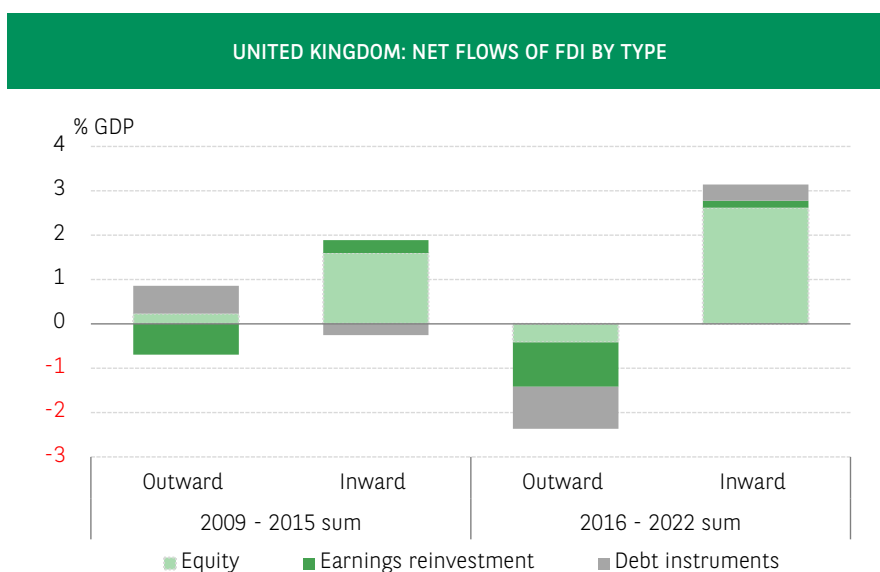


CHART 1

SOURCE: BANK OF ENGLAND, BNP PARIBAS CALCULATIONS

THE UK IS STILL ATTRACTIVE FOR FOREIGN INVESTORS

Back in 2016, one of the main arguments put forth by Brexit opponents was that foreign direct investments (FDI) in the United Kingdom would dry up. Dhingra et al.¹ estimated at that time that an exit from the European Union (EU) would lead to a 22% decrease in FDI inflows into the UK in the 10 years after Brexit.

For the moment, balance-of-payments figures have ultimately belied this fear. Adding up FDI flows between 2009 and 2015, on the one hand, and those between 2016 and 2022, on the other, and comparing them to GDP, we find that inflows (i.e., investments in the UK by non-residents) rose from 1.6% of GDP from 2009 to 2015 to 3.1% from 2016 to 2022 (see Chart 1)². The same trend is found in FDI capital inflows alone (from 1.6% of GDP between 2009 and 2015 to 2.6% between 2016 and 2022).

In parallel, FDI outflows also rose, from 1.3% of GDP to 2.4%, driven by an increase in intra-group loans by British companies to their foreign subsidiaries. These intra-group loans may have had several causes. One of these would be that British companies have diversified their activities outside the UK, to the Netherlands, France, etc. This could be due directly to Brexit, particularly in the financial sector, as certain activities have been offshored, but without undermining London's status as a financial hub.

¹ The impact of Brexit on foreign. Dhingra et al., April 2016.

² The Brexit vote in 2016 took place against a backdrop of heavy capital flows, but if 2016 is removed from the comparison, there is no meaningful change in the increase in flows between 2009-15 and 2017-22.

ECONOMIC RESEARCH



BNP PARIBAS

The bank
for a changing
world

The net sum of these shifts in FDI inflows and outflows is a decrease in net flows as a percentage of GDP between two periods under review (see Chart 2). However, based on a breakdown in FDI flows, this decrease does not necessarily mean that the UK has become less attractive. Quite the contrary, if we look at FDI capital inflows.

NET FLOWS OF FDI, EUROPEAN COMPARISON

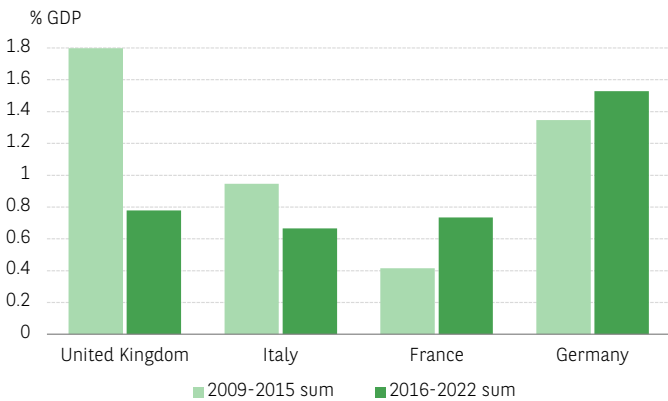


CHART 2

SOURCE: BANK OF ITALY, BDF, BUNDESBANK, BOE, BNP PARIBAS CALCULATIONS

PRODUCTIVE INVESTMENT WAS UNDERMINED BY THE PERIOD OF UNCERTAINTY BETWEEN THE BREXIT VOTE AND ITS IMPLEMENTATION

While the UK economy appears to have remained attractive to non-resident investors, the increase in the number of UK companies' intra-group loans to their foreign subsidiaries may have reduced the resources available to fund investment in the UK. This reduction is at least in part due to the uncertainty that marked the period from the June 2016 referendum to the UK's actual exit from the EU in January 2020.

Since 2016, the Bank of England has produced the Brexit Uncertainty Index (see Chart 3)³. This index indicates that the June 2016 Brexit vote triggered a surge in uncertainty, peaking in December 2018 during the phase of negotiations, with 58% of respondents then counting Brexit as one of their top three concerns. Uncertainty then pulled back with the January 2020 ratification of the Brexit agreement. Even so, in May 2023 more than one respondent out of four regarded Brexit as one of their three greatest sources of uncertainty.

This uncertainty most likely played a big role in the stagnation of companies' real productive investment in the UK from the third quarter of 2016 to the fourth quarter of 2019. The post-Covid recovery has not yet been enough to return to the prior level. Accordingly, in the first quarter of 2023, real business investment in the UK remained +1.2% below its third quarter 2016 peak. Chart 4 illustrates the situation in the UK compared to its linear trend from 2012 to 2016, to provide a contrafactual viewpoint, and compared to its peers.

³ The Bank of England's Decision Maker Panel expresses the economic expectations of market participants, including Brexit Uncertainty Index, which sums up the replies of more than 10,000 UK companies regarding their concerns over the consequences of Brexit

UK BREXIT UNCERTAINTY INDEX



CHART 3

SOURCE: BOE, BNP PARIBAS

BUSINESS REAL INVESTMENT, EUROPEAN COMPARISON

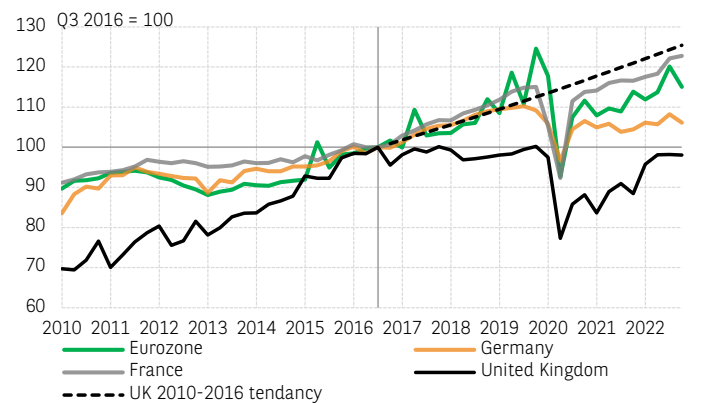


CHART 4

SOURCE: ONS, EUROSTAT, BNP PARIBAS CALCULATIONS

This shows a clear divergence between the UK and Germany or France. This divergence began in the fourth quarter of 2016, when the post-2008 recovery of the UK business investment was stronger than that of its peers (+30.3% between 2010 and 2016 for the UK, vs. +8.8% for France, +16.5% for Germany, and +10.3% for the euro zone). We nonetheless see a relative outperformance of investment by UK companies that coincides with the end of the pre-Brexit transition period, beginning in the first quarter of 2020 (-2.1% between 1Q 2020 and 1Q 2022 for the UK, vs. -7.6% for the euro zone).

LESS ATTRACTIVE FOR EUROPEAN WORKERS

While Brexit does not seem to have lessened the UK's attractiveness to foreign investors, it has reduced the mobility of European workers. The resulting lack of non-qualified workers has not yet been reabsorbed.



However, this is now happening, thanks to the arrival of workers from non-EU countries. We estimate that the number of foreign workers employed in the UK in the first quarter of 2023 was 76,000 lower than it would have been if total employment of European and non-European workers had stuck to its pre-Brexit trend. The gap between this trend and the employment of foreign workers widened during the post-Brexit period of uncertainty, then began to level off in 2020. Arrivals of new workers from non-EU countries have risen recently, in particular after the lifting of Covid-19 health restrictions. Since then, these new arrivals have helped offset the absent flows of European workers. Moreover, the latest figures, particularly those of the first quarter of 2023, suggest that the numbers are catching up with the pre-Brexit trend.

Meanwhile, a June 2022 study by the Centre for European Reform⁴ found that Brexit had led to a net loss of 330,000 foreign workers compared to a counterfactual, non-Brexit scenario. The study also found that the hardest hit sectors are those that mostly employ non-qualified workers, such as transport (net loss equivalent to 8.7% of the labour force), hotels and catering (6% of the labour force), and retail and wholesale trading (3.2% of the labour force).

The UK labour shortage has been aggravated since the start of the Covid-19 crisis by the broader issue of a declining participation rate, which has underperformed the euro zone's rate – an issue that we reported on in a research note in early March⁵. The number of persons of working age absent from the working population has, in fact, increased by almost 6% since February 2020. While the participation rate had risen by 0.5 percentage points in the euro zone from its pre-Covid level by the fourth quarter of 2022, it had still not returned to its pre-Covid level in the UK, with a rate 0.9 points lower than in the fourth quarter of 2019.

This serious shortage of workers in the UK is weighing on the supply side and is one reason inflation has been so stubborn.

Stéphane Colliac
stephane.colliac@bnpparibas.com

⁴ [Early impacts of the post-Brexit immigration system on the UK labour market | Centre for European Reform \(cer.eu\)](#)
⁵ [BNP Paribas Global Markets, UK Economic Outlook, Slide N°3](#)

UK: LOSS & GAIN OF WORKERS WITH RESPECT TO PRE-BREXIT TREND

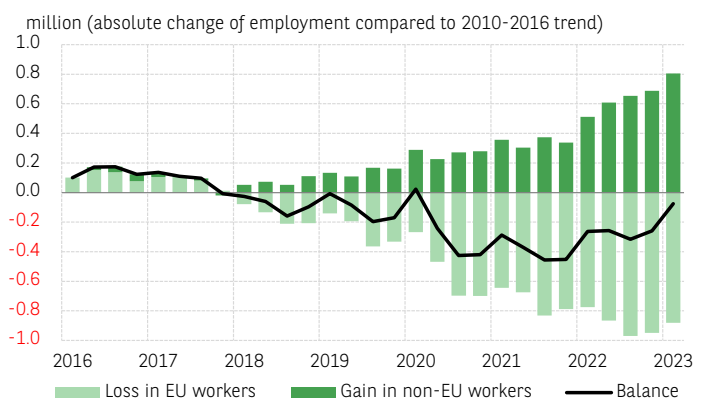


CHART 5 SOURCE: ONS, BNP PARIBAS CALCULATIONS

William De Vijlder
Chief Economist

+33 1 55 77 47 31

william.devijlder@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon

Deputy chief economist, Head - United States

+33 1 58 16 03 63

helene.baudchon@bnpparibas.com

Stéphane Colliac

France, Germany

+33 1 42 98 43 86

stephane.colliac@bnpparibas.com

Guillaume Derrien

Eurozone, Southern Europe, Japan, United Kingdom - Global trade

+33 1 55 77 71 89

guillaume.a.derrien@bnpparibas.com

Veary Bou, Tarik Rharrab

Statistics

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat

Head

+33 1 58 16 73 32

jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon

Head

+33 1 42 98 56 54

laurent.quignon@bnpparibas.com

Céline Choulet

+33 1 43 16 95 54

celine.choulet@bnpparibas.com

Thomas Humblot

+33 1 40 14 30 77

thomas.humblot@bnpparibas.com

Marianne Mueller

+33 1 40 14 48 11

marianne.mueller@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure

Head - Argentina, Turkey - Methodology, Modelling

+33 1 42 98 79 82

francois.faure@bnpparibas.com

Christine Peltier

Deputy Head - Greater China, Vietnam - Methodology

+33 1 42 98 56 27

christine.peltier@bnpparibas.com

Stéphane Alby

Africa (French-speaking countries)

+33 1 42 98 02 04

stephane.alby@bnpparibas.com

Pascal Devaux

Middle East, Balkan countries

+33 1 43 16 95 51

pascal.devaux@bnpparibas.com

Hélène Drouot

South Korea, Philippines, Thailand, Andean countries

+33 1 42 98 33 00

helene.drouot@bnpparibas.com

Salim Hammad

Latin America

+33 1 42 98 74 26

salim.hammad@bnpparibas.com

Cynthia Kalasopatan Antoine

Ukraine, Central European countries

+33 1 53 31 59 32

cynthia.kalasopatan.antoine@bnpparibas.com

Johanna Melka

India, South Asia, Russia, Kazakhstan

+33 1 58 16 05 84

johanna.melka@bnpparibas.com

Lucas Plé

Africa (Portuguese & English-speaking countries)

+33 1 40 14 50 18

lucas.ple@bnpparibas.com

CONTACT MEDIA

Mickaelle Fils Marie-Luce

+33 1 42 98 48 59

mickaelle.filsmarie-luce@bnpparibas.com



BNP PARIBAS

The bank
for a changing
world

ECOCONJONCTURE

Structural or thematic topics.

ECOEMERGING

Analyses and forecasts for a selection of emerging economies.

ECOPERSPECTIVES

Analyses and forecasts with a focus on developed countries.

ECOFFLASH

Data releases, major economic events.

ECOWEEK

Recent economic and policy developments, data comments, economic calendar, forecasts.

ECOCHARTS

Easy-to-read monthly overview of inflation dynamics in the main developed economies.

ECOPULSE

Monthly barometer of key economic indicators of the main OECD countries.

MACROWAVES

Our economic podcast.

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. It does not constitute investment advice, nor financial research or analysis. Information and opinions contained in the report are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient; they are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas, may to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

BNP Paribas is incorporated in France with limited liability. Registered Office 16 Boulevard des Italiens, 75009 Paris. This report was produced by a BNP Paribas group company. This report is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNP Paribas. By accepting this document you agree to be bound by the foregoing limitations.

Certain countries within the European Economic Area:

This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. BNP Paribas London Branch is authorised and supervised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Services Authority. Details of the extent of our authorisation and regulation by the Financial Services Authority are available from us on request.

This report has been approved for publication in France by BNP Paribas SA. BNP Paribas SA is incorporated in France with Limited Liability and is authorised by the Autorité de Contrôle Prudentiel (ACP) and regulated by the Autorité des Marchés Financiers (AMF). Its head office is 16, boulevard des Italiens 75009 Paris, France.

This report is being distributed in Germany either by BNP Paribas London Branch or by BNP Paribas Niederlassung Frankfurt am Main, a branch of BNP Paribas S.A. whose head office is in Paris, France. BNP Paribas S.A. - Niederlassung Frankfurt am Main, Europa Allee 12, 60327 Frankfurt is authorised and supervised by the Autorité de Contrôle Prudentiel and it is authorised and subject to limited regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer. BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and other principal exchanges. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Japan: This report is being distributed in Japan by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas not registered as a financial instruments firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial instruments firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japan affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Institution regulated by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

Some or all the information reported in this document may already have been published on <https://globalmarkets.bnpparibas.com>

© BNP Paribas (2015). All rights reserved.

HOW TO RECEIVE OUR PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the [Economic Research website](#)

&

FOLLOW US ON LINKEDIN
see the [Economic Research linkedin page](#)

OR TWITTER
see the [Economic Research Twitter page](#)



Published by BNP PARIBAS Economic Research

Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas.com - www.economic-research.bnpparibas.com

Head of publication : Jean Lemierre / Chief editor: William De Vijlder

Copyright: Copyright:Aha-Soft



BNP PARIBAS

The bank
for a changing
world