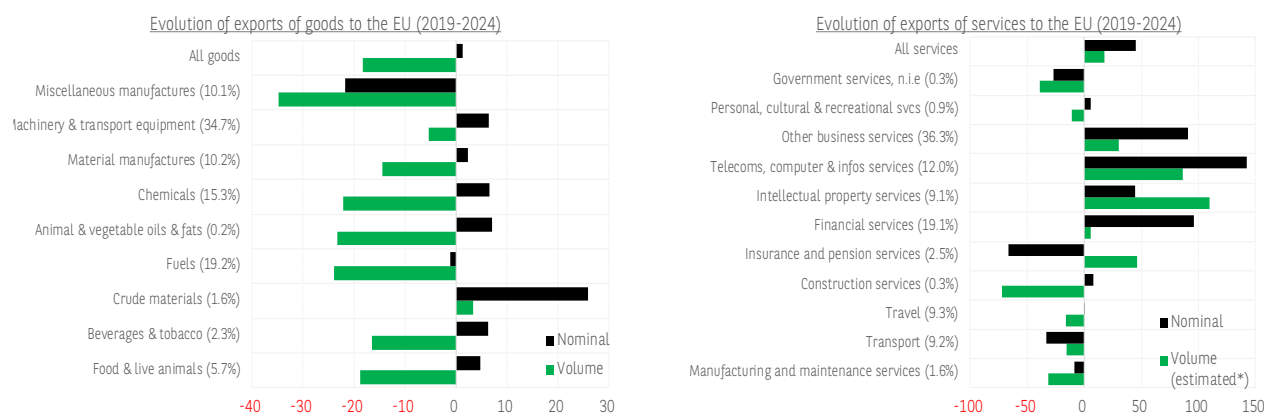


United Kingdom: From Brexit to Reset

The EU-UK summit on 19 May marks a new phase in economic rapprochement, more than five years after the Brexit, which has undeniably weakened the UK economy¹. The structural challenges facing the UK – high inflation, sluggish business investment, low productivity – partly result from this event.

BRITISH EXPORTS: LESS GOODS, MORE SERVICES



Source: ONS, BNP Paribas calculations

Note: the figures in brackets indicate the weight of each component in 2024.

* The breakdown of services exports by sub-component in volume terms is available for total UK exports but not for those specifically to the EU. To approximate the latter, we have calculated the weight of the EU in exports by nominal value and assigned these figures to the volume data. These figures therefore do not take account of price changes specific to each sector.

The European Union: a key market. Due to its geographical proximity, the EU remains by far the main destination for British goods, accounting for 47% of total merchandise exports (by value) in 2024; this share has remained broadly stable since 2019. Exports in volume to the EU have fallen significantly since 2019 (*left chart*), as have those to the rest of the world. This trend partly reflects a 'Brexit effect', linked to the higher cost of imports from the EU, but not only: it also reflects the wider structural loss of competitiveness of British industry in the face of competition from outside Europe, particularly from Asia. The slight increase in nominal exports to the EU reflects a price effect only. The decline in volume between 2019 and 2024 (-18% overall) affected almost all segments; the biggest export items, machinery and equipment and fuels (and derivatives) fell by 5.3% and 24% respectively.

The weight of services is increasing significantly. Conversely, certain high-value-added service sectors have coped better with the Brexit. The volume of exports to the EU of information and telecommunication services and intellectual property products grew at a very sustained rate (*see graph on the right*), pushing higher the surplus on the bilateral balance of services. The share of services in total exports to the EU has grown steadily since the Brexit (42% in 2019 vs. 51% in 2024 in nominal terms), and they now account for the majority of UK exports. However, this increase only partially offsets the widening of the UK's bilateral trade deficit with the EU (trade in goods), which reached record levels in the first half of 2025.

A rapprochement beneficial for growth and competitiveness. The resetting of trade relations with the EU is a positive economic development for the UK. Recent trade agreements with third countries (India and the United States) cannot fully compensate for the UK's distance from the EU. The Security and Defence Partnership, which brings the UK closer to participating in the SAFE² programme for funding European rearmament, and the discussions aimed at integrating the UK into the European GHG emissions trading scheme, will ease some of the structural impediments to the competitiveness of British industry caused by Brexit, while preserving the country's strengths in technology-related services.

1 See for example «Five Years On: The Economic Impact of Brexit», NIESR, January 2025. See also S. Colliac and L. Morillon, United Kingdom: Has Brexit truly made the UK less attractive economically?, BNP Paribas, June 2023.

2 Security Action For Europe.

Guillaume Derrien

(with the participation of Leslie Huynh, intern)

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