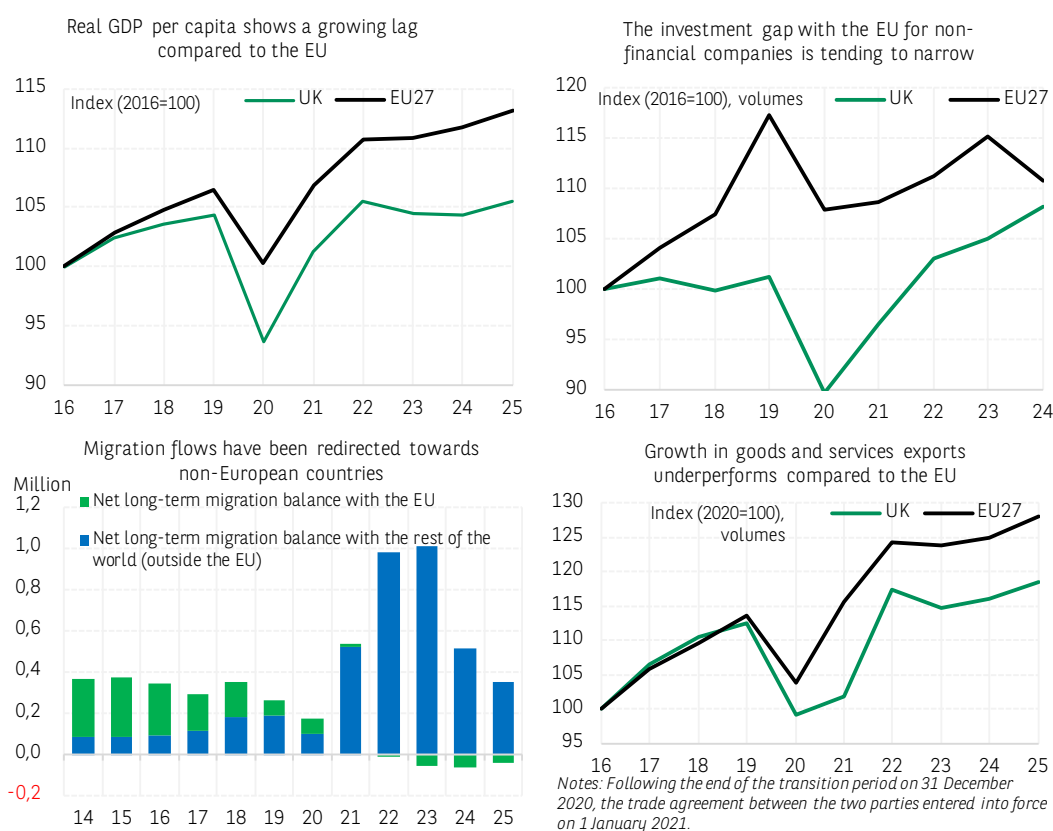


A DECADE AFTER THE REFERENDUM, THE UK IS FACING THE CONSEQUENCES OF BREXIT

Marianne Mueller

23 June will mark the tenth anniversary of the Brexit referendum, which led to the UK's official exit from the European Union on 31 January 2020 (followed by a transition period). Since then, the country has indeed regained control over certain policy domains, such as trade, migration and regulatory frameworks. However, both the anticipation of Brexit and its actual implementation in 2021 have been linked to a decline in the country's performance across several key indicators. Against a backdrop of escalating geopolitical tensions and mounting shared challenges, the UK is now seeking to re-establish practical collaboration with its main economic partner: the European Union.



SOURCE: ONS, OECD, EUROSTAT, BNP PARIBAS

An imperfect Brexit

While the referendum enabled the United Kingdom to regain exclusive competence over several areas of governance, this restored sovereignty has not resulted in a clean break with the European Union. Furthermore, it has led to developments that deviate from initial expectations.

In terms of trade, the United Kingdom has negotiated new free trade agreements with Japan (2021), Australia and New Zealand (2023), before joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, 2024). However, the momentum of UK exports has waned, lagging behind that of the EU (Chart4). Furthermore, while the volume of UK goods exported to the EU has fallen (-14% between 2019 and 2025), the EU continues to be the country's largest trading partner, accounting for around 41% of its goods and services exports, underscoring the significance of geographical proximity in international trade.



The situation is similar from a regulatory perspective

The UK has carved out its own path in targeted sectors – most notably through the Edinburgh Reforms aimed at financial and banking services, as well as a more flexible regulatory framework for artificial intelligence compared to that of the EU. However, aside from these initiatives, the overall divergence in regulation remains limited: only a third of the 6,800 European texts that were incorporated into UK law have been amended or repealed. With the exceptional framework (REUL Act) expiring on 23 June, any future amendments will have to follow the standard parliamentary procedure, which is longer and more restrictive, likely slowing the pace of divergence from European standards.

Finally, regarding immigration, the desire to regain control over borders has been achieved through the introduction of a points-based immigration system and the end of free movement for Europeans within the UK. Consequently, the net migration balance from the EU plummeted following the referendum, becoming negative by 2022. However, this new system has not led to an overall reduction in immigration. In fact, immigration from non-EU countries increased massively (with total net migration reaching a record high in 2023), before a tightening of regulations led to a decline in 2025, though remaining above pre-Brexit levels (Chart3). Thus, the UK has regained control over migration channels yet has not reduced total migration flows.

A significant economic cost

In 2018, the Office for Budget Responsibility (OBR) projected a 4% decrease in productivity and a 15% reduction in trade over the long term – projections it then reaffirmed in 2024. These figures are corroborated by an NBER study (2025), which found that the UK's GDP is currently 6-8% lower than it would have been had the UK not left the EU. The same study revealed that investment, employment and productivity levels are also lower than they would have been without Brexit, with investment shortfalls ranging from -12% to -18%, and employment and productivity deficits between -3% and -4%. This trend is illustrated by the disparity in real GDP between the UK and the EU27 (Chart1), as well as the growth rates of exports (+3.8%) and imports (+4.9%) between 2021 and 2025, which lag behind those of similar economies (Chart4). As a result, uncertainty and trade barriers have had measurable effects on growth.

The UK still benefits from structural advantages that existed prior to Brexit and remain relevant

The effects of Brexit differ across various sectors and regions. The UK remains an attractive destination for foreign direct investment, especially in financial services, technology and artificial intelligence. This is largely due to more flexible regulations in these sectors compared to the EU (a flexibility that existed prior to Brexit and has since been further enhanced, particularly regarding prudential regulations), a deliberately pro-innovation government policy (evidenced by the AI Opportunities Action Plan and the regulatory sandbox), as well as inherent structural strengths (the robustness of its financial and technological ecosystems, its skilled workforce, and its language and time zone advantages, which facilitate bridges to North American and Asian markets).

This combination of factors has supported business investment (Chart2), the only area where the UK has managed in recent years to partially close the gap that had opened with the EU (while the Draghi report highlighted that excessive regulation has penalized such investment within the EU).

A strategic pivot toward the European Union

The UK is now seeking a rapprochement with the European Union. The bilateral summit on 19 May 2025, the first since Brexit, culminated in a joint declaration, a security and defence partnership, and a roadmap aimed at strengthening cooperation in several areas. Concrete progress has already been made, such as the extension of the fisheries agreement, discussions on the alignment of carbon markets, and a proposal for a common sanitary and phytosanitary area (with dynamic regulatory adjustments) to remove trade barriers in this sector. Furthermore, the UK is currently negotiating for broader access to specific European programmes as a third country, notably the SAFE defence fund and the European Industrial Accelerator Act. The forthcoming bilateral summit, to be held on 22 July, should help to advance these discussions. This strategic shift is a response to an increasingly challenging international environment, characterised by escalating geopolitical tensions, heightened economic rivalries, and energy and climate issues. It would also help to ease the economic friction caused by Brexit, capitalising on the fact that the majority of the British public is now dissatisfied with Brexit and largely in favour of the country rejoining the EU.

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