

## Overview of recent studies on Brexit's economic impacts

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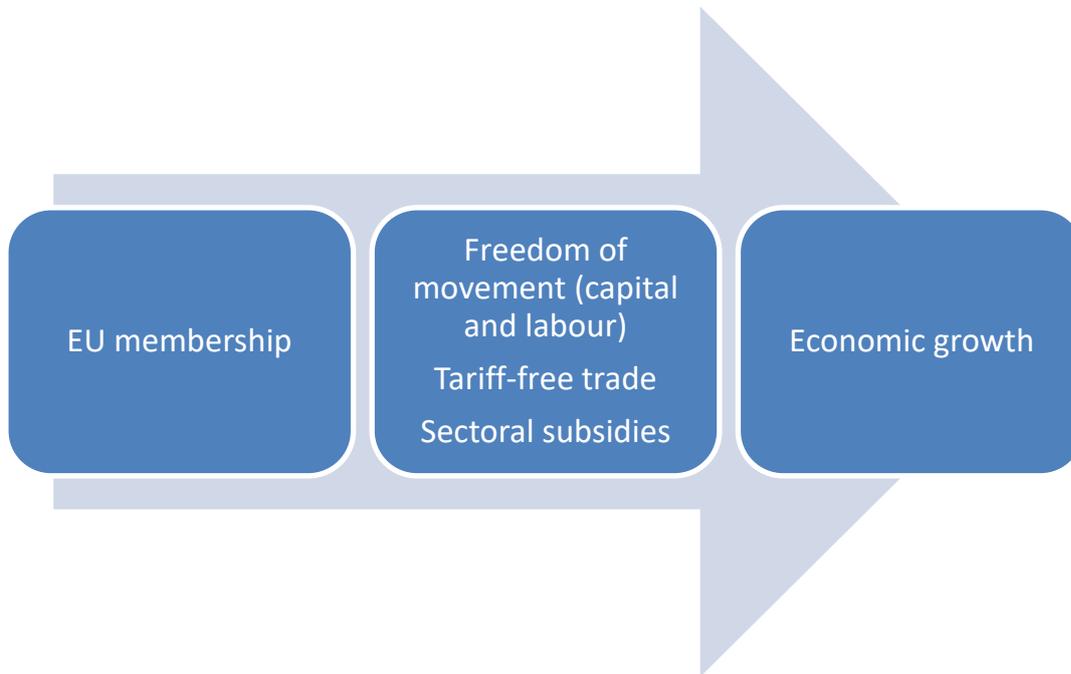
### **CONTEXT**

The run-up to the Brexit referendum in 2016 saw economic forecasters predict a large and persistent shock to UK economic performance – of around a 10% reduction in GDP – in the event of a 'leave' vote. The following years saw many studies that attempted to quantify the actual losses but these tended to find smaller impacts of around 2%-5% of GDP. Now, though, new studies with more comprehensive data to work with, are again finding higher impacts in the 5% to 10% range. This note presents the results of some recent analyses on the subject.

### **HOW BREXIT AFFECTS THE LONDON AND UK ECONOMIES**

It is commonly accepted that trade in goods and services considerably impacts an economy's growth. Prior to Brexit, the UK was a member of the European Union (and its predecessor, the European Economic Community) since 1973, during which time it accepted free trade in goods and services as well as freedom of movement of capital and labour.

The UK was a member of both the Single Market and Customs Union. Chart 1 presents the link between EU membership and economic growth.

**Chart 1. EU membership and economic growth**

EU membership meant that the UK could export goods and services to a market of almost 500 million consumers without facing imports that render its products less competitive in European markets. It also allowed UK-based workers to access employment and business opportunities across the continent, while allowing London-based financial services companies to seamlessly integrate with their European counterparts and ensure smooth capital flows. Moreover, through access to sector-specific support, UK industry could be supported into expanding production and activity, thereby boosting economic growth.

HM Government summarised the beneficial effects of trade agreements in general<sup>1</sup>. “In the long run, theory and evidence suggest that international trade increases output and raises living standards through four key channels:

- Domestic specialisation allows each country to put more resources into what it does best, leading to higher productivity and real wages
- Greater variety of inputs and products for businesses and consumers, with increased competition and lower prices leading to more efficient production for businesses and increased consumer choice
- Access to new markets allows firms to scale up their production, leading to efficiency gains where there are increasing returns to scale
- Exposure to competition leads demand to shift away from the least competitive firms while the most competitive (and productive) firms gain opportunities to expand into new markets.”

The Bank of England<sup>2</sup> also identifies several complementary effects:

- “Barriers that result in economies becoming less open result in lower trade and foreign direct investment

<sup>1</sup> Department for Exiting the European Union (2018), <https://www.gov.uk/government/publications/exiting-the-european-union-publications>

<sup>2</sup> Bank of England (2018), <https://www.bankofengland.co.uk/report/2018/eu-withdrawal-scenarios-and-monetary-and-financial-stability>

- Reductions in trade and foreign direct investment tend to reduce productivity
- Less open and less productive economies tend to have lower real exchange rates
- Depreciations in the exchange rate tend to have large and protracted pass-through to consumer prices in the UK
- Slowdowns in the economy are often associated with tighter financial conditions and an increase in uncertainty. In turn, these weigh on demand
- Weaker demand tends to increase the rate of unemployment and significant structural adjustment can increase the natural rate of unemployment
- Weaker economic conditions tend to reduce net inward migration.”

## PREVIOUS STUDIES

Various studies attempted to estimate the loss in GDP resulting from Brexit following the 2016 Referendum. Typically, two methodologies were applied:

- Forecasting Brexit's long-term impacts using computable general equilibrium (CGE) models or quantitative general equilibrium (QGE) models.
- Impact analyses that estimate what would have happened without Brexit from the moment the intervention begins until the present moment (or thereabouts). They require a control group as well as a treatment group.

## EARLY FORECASTS

The benchmark for some of the first projections of Brexit impacts came from **HM Treasury** in April 2016<sup>3</sup>. This produced estimates under three scenarios – membership of the European Economic Area (a 'Norway' scenario), a negotiated bilateral agreement (a 'Switzerland' scenario) and a World Trade Organization scenario. These scenarios produced estimates of, respectively a 3.4%-4.3% impact on GDP by 2031, a 4.6%-7.8% impact and a 5.4%-9.5% impact. Although the UK does have the Trade and Cooperation Agreement (TCA) with the EU, the deal is somewhere between the Switzerland and WTO scenarios, meaning GDP is roughly 5%-9% lower than it would have been in staying in the EU.

The most prominent academic work before the referendum was **Dhingra et.al. (2016)**<sup>4</sup> published by the Centre for Economic Performance at the LSE. It showed, with a different method and assumptions to HMT, that the impact of Brexit on lower productivity and FDI would lead to a 6.3% to 9.5% lower long-run level of GDP.

## LATER STUDIES

The **Office for Budget Responsibility's (OBR)** analysis of Brexit impacts suggested that “the volume of UK imports and exports will both be 15 per cent lower than if we had remained in the EU. We assume that the resulting reduction in the trade intensity of GDP will lead to a 4 per cent reduction in the potential

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<sup>3</sup> <https://www.gov.uk/government/publications/hm-treasury-analysis-the-long-term-economic-impact-of-eu-membership-and-the-alternatives>

<sup>4</sup> <https://cep.lse.ac.uk/pubs/download/brexit02.pdf>

productivity of the UK economy (relative to remaining in the EU), with the full effect felt after 15 years"<sup>5</sup>. **UK in a Changing Europe**, meanwhile, estimated a 2-3% hit to GDP<sup>6</sup>.

**Born et. al. (2019)**<sup>7</sup> estimated that the UK economy was 2.4% smaller than it would otherwise have been by the end of 2018, while **Springford (2022)**<sup>8</sup> estimated that the UK economy was 5.2% smaller by December 2021, and 5.5% smaller by June 2022. The **National Institute of Economic and Social Research (NIESR)**<sup>9</sup> published a report on Brexit's economic effects. It suggested that three years after the end of the transition period, the UK's real GDP is 2%-3% lower than it would have been had Brexit not happened, with that impact increasing to 6% by 2035.

With respect to impacts on London's economy, Centre for Economics and Business Research (**CEBR**)<sup>10</sup> conducted a short piece of analysis for the GLA (published soon after the TCA was agreed). It estimated that London may lose £9.5bn a year in economic output because of Brexit. This is more than 2% of London's output. Another study by **Fetzer and Wang (2020)**<sup>11</sup> found that all countries and regions of the UK have reduced economic activity after the EU Referendum and prior to the UK leaving the EU. Across the UK, losses add up to £50 billion, or 2.3%-2.5% of GDP in 2019. The absolute loss was highest in London at £17 billion in 2018, or 3.8% of GDP, falling to £7 billion, or 1.6% in 2019.

Broadly speaking, these previous studies point to a GDP impact below the 5% mark for both London and the UK.

## RECENT STUDIES

Over the past two years, there have been new studies and analyses seeking to refine previous estimates of Brexit's economic impact on the UK.

One example is **Bloom et. al. (2025)**, which uses both macroeconomic simulations and microeconomic survey data from UK firms to approximate Brexit's effects. They estimate that "by 2025, Brexit had reduced UK GDP by 6% to 8%, with the impact accumulating gradually over time"<sup>12</sup>. They also estimate that "investment was reduced by between 12% and 18%, employment by 3% to 4% and productivity by 3% to 4%"<sup>13</sup>. These considerable impacts are attributed to post-Brexit uncertainty deterring both investment and demand, inefficiencies in firm management and allocation of resources as UK-EU negotiations dragged on.

Another study by **Millard et. al. (2025)**<sup>14</sup> used a macroeconomic model of trade that accounts for firm heterogeneity and labour-market frictions to analyse Brexit's effects on productivity and growth. They concluded that under the TCA, UK GDP would be 7.5% lower than it would have been otherwise in 2021, before increasing towards a long-term situation of GDP being around 4% lower than where it would have been. They attribute this drop to higher trading costs preventing high-productivity UK firms from exporting as much as they would have otherwise, while low-productivity firms do not experience as much competition

<sup>5</sup> <https://obr.uk/box/how-are-our-brexit-trade-forecast-assumptions-performing/>

<sup>6</sup> <https://ukandeu.ac.uk/brexit-and-the-economy-what-do-we-know/>

<sup>7</sup> Born B et al (2019), The Costs of Economic Nationalism: evidence from the Brexit experiment, *Economic Journal*, volume 129, pp2722-2744

<sup>8</sup> Springford J (2022), What can we know about the cost of Brexit so far?, Centre for European Reform, 9 June:

<https://www.cer.eu/publications/archive/policy-brief/2022/cost-brexit-so-far>

<sup>9</sup> Kaya A et al (2023), Revisiting the Effect of Brexit, NIESR: <https://niesr.ac.uk/publications/revisiting-effect-brexit?type=global-economic-outlook-topical-feature>

<sup>10</sup> CEBR (2021). 'Trade and Cooperation Agreement – London impact', January 2021:

[https://www.london.gov.uk/sites/default/files/brexit\\_deal\\_analysis\\_2021\\_-\\_04.02.pdf](https://www.london.gov.uk/sites/default/files/brexit_deal_analysis_2021_-_04.02.pdf)

<sup>11</sup> Fetzer T and Wang S (2020), Measuring the Regional Economic Cost of Brexit: evidence up to 2019, CAGE working paper no 486:

<https://warwick.ac.uk/fac/soc/economics/research/centres/cage/manage/publications/wp486.2020.pdf>

<sup>12</sup> <https://www.nber.org/papers/w34459>

<sup>13</sup> Ibid.

<sup>14</sup> <https://www.cambridge.org/core/journals/national-institute-economic-review/article/abs/understanding-the-effects-of-brexit-on-uk-productivity/76F7F6C0F4CE98CD5300C0EBBEC2F3A>

from EU rivals due to higher trade barriers that impede these rivals' ability to access the domestic UK market.

A 2023 study by the **National Institute of Economic and Social Research (NIESR)** found that "the negative impact of Brexit gradually escalates, reaching some 5-6 per cent of GDP or about £2,300 per capita by 2035"<sup>15</sup>. This reduction is linked to unfavourable terms of trade following Brexit and diminished productivity.

Analysis by **Goldman Sachs** in 2024 also demonstrated that 'structural and cyclical costs of Brexit' were responsible for the UK growing 5% less between 2016 and 2024 than other comparable countries<sup>16</sup>. The Bank further noted that the actual hit to the UK economy could reach 8% of real GDP. This effect is a result of reduced trade with the EU, low business investment and labour-market shortages due to the end of freedom of movement.

## IMPLICATIONS AND CONCLUDING THOUGHTS

The aforementioned recent studies indicate that the reduction in GDP growth as a result of Brexit is higher than earlier forecasts suggested. Most of these studies submit anywhere between a 5 and 10% reduction over the medium term, compared to 2 to 5% in the earlier studies. One reason for this is that recent studies incorporate more up-to-date economic data that provides a longer-term picture of impacts since the Referendum and the coming of the Trade and Cooperation Agreement (TCA) into effect. Another reason is that some studies (e.g., Bloom et. al.) were able to introduce innovative methodologies to enhance the robustness and reliability of the results.

That said, most studies (previous or recent) conclude that Brexit has been harmful to both the London and UK economies, reducing investment, exports, productivity and growth. The estimates point to foregone total income in the tens of billions of pounds – which represents a material loss of income per household at a time when cost-of-living pressures persist and public finances remain in a precarious state.

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<sup>15</sup> [https://www.researchgate.net/publication/377963691\\_Revisiting\\_the\\_effect\\_of\\_Brexit](https://www.researchgate.net/publication/377963691_Revisiting_the_effect_of_Brexit)

<sup>16</sup> [https://www.cnbc.com/2024/02/14/brexit-has-sliced-5percent-off-uk-economic-growth-goldman-sachs-says.html?utm\\_source=chatgpt.com](https://www.cnbc.com/2024/02/14/brexit-has-sliced-5percent-off-uk-economic-growth-goldman-sachs-says.html?utm_source=chatgpt.com)