



By: *Daniel Lacalle*

The UK economy is in bad shape, but don't blame Brexit



A recent study, “The Economic Impact of Brexit” (Bloom et al., 2025), argues that their simulation models suggest that **Brexit** had reduced UK GDP by 6% to 8% by 2025.

There are several inconsistencies in the study, starting with a view that staying in the EU would have not penalised growth, which does not seem logical considering that the UK’s major peers in the European Union are in stagnation and in a worse situation than the UK.

One can hardly assume that the UK would have led strong economic growth inside the EU when Germany, France and Italy remain in stagnation.

Furthermore, the study does not explain why the European Union registered no real improvement in growth, as well as showing no impact in their models from the excessive regulation that even Mr Draghi and the European Commission acknowledge to be large burdens of growth.

A tax system that “combines the worst of the US and Scandinavia”

No. Brexit did not wipe out 6% to 8% of the UK’s GDP. Germany and France are in stagnation, as is the euro area. Brexit, therefore, cannot be the cause of the UK’s stagnation, as it is experiencing similar economic conditions to France, Germany, and even Canada or Japan.

What has destroyed the UK’s economic potential was maintaining and increasing all the regulatory and tax burdens of the EU, raising taxes and imposing net zero interventionism.

This is more likely the reason why the UK economy is as weak as Canada, France and Germany: politicians have demolished the private sector and bloated political interventionism.

Brexit was supposed to open the UK economy to the world by eliminating unnecessary regulatory burdens, reducing taxes and increasing economic freedom.

UK slumped by keeping all the negatives of the EU burdens and eliminating all the positives of the UK’s own tax system

Instead, governments increased regulatory burdens to growth, imposed net-zero policies that crippled the industry and made energy bills even more expensive, and implemented a **tax system** that “combines the worst of the US and Scandinavia”, defined as “eating the rich” by the Financial Times.

The UK did not fall into stagnation because of Brexit. It slumped by keeping all the negatives of the European Union burdens and eliminating all the positives of the UK’s own tax system.

The result? A record capital flight. The UK’s leading export is millionaires, which leads to lower tax collection, lower investment and a disastrous economy.

Poor growth, high borrowing, and negative expectations

The latest official data paints a negative picture for the UK economy. Poor growth, high borrowing, and negative expectations ahead of Chancellor Rachel Reeves’s **Autumn Budget**.

Expecting another interventionist budget, consensus estimates warn of increasing challenges for growth, employment, and investor confidence.

UK real **GDP** grew by just 0.1% in the third quarter of 2025, significantly lower than the already weak 0.3% of the preceding quarter, missing market forecasts of 0.2%.

Consensus among forecasters anticipates UK GDP growth of just 1.5% for 2025

Annual growth reached 1.3% for Q3, and momentum worsened, as the effects of higher spending and rising taxes combined with sluggish consumer spending may create a worse slowdown into 2026.

The Office for Budget Responsibility (OBR) recently downgraded its estimate for economic growth, increasing the deficit and reminding us that higher taxes would not help improve receipts.

Consensus among forecasters, including the EY ITEM Club, anticipates **UK GDP growth** of just 1.5% for 2025, with a deceleration to 0.9% next in 2026.

Rising taxes and weak growth

With these estimates, the UK will be in a very weak economic growth environment. However, when we look at the estimates for France, Italy, and Germany, they are not better at all.

For **France**, estimates of 2025 GDP growth are at 0.7%, with 0.9% in 2026. For **Germany** it is worse, at +0.2% for 2025 and 1.2% for 2026. Furthermore, **Italy** is expected to grow 0.4% in 2025 and 0.8% in 2026. No, Brexit is not the cause of the UK's problems.

The UK problem comes from governments that think they can solve the borrowing problem by constantly raising taxes, despite the evidence of failure.

Deficit rises with higher taxes as weak growth erodes revenues while unnecessary spending remains

The latest UK borrowing figures reveal the extent of the financial challenges of the

economy. In October 2025, UK government borrowing hit £17.4 billion, exceeding both consensus forecasts and the Office for Budget Responsibility's prediction.

This was the third highest borrowing figure in October since records began. Year-to-date (April to October), the government borrowed £116.8 billion, £9 billion more than last year and the second highest since modern records began.

Government net debt has risen to 94.5% of GDP. Although lower than France's 114%, it is an unsustainable level considering the expected borrowing path. Deficit rises with higher taxes as weak growth erodes revenues while unnecessary spending remains.

The fiscal hole

The fiscal hole is estimated at £20–30 billion for the upcoming budget, and the evidence shows that higher taxes will not solve it.

The last budget's combination of higher spending and tax hikes depressed the private sector growth and generated an even worse borrowing outlook.

Furthermore, recent GDP increases were artificially inflated by government spending rather than a productive economic recovery.

The anticipated Autumn Budget is expected to bet again on tax increases

Without meaningful productive investment and supply-side reforms, stagnation will worsen. Additionally, the negative outlook for fiscal deficits means that British 10-year bond yields have risen to more than 4.5%, showing the evidence of the loss of investor confidence after the budget announcement.

The anticipated Autumn Budget is expected to bet again on tax increases. Reeves has reiterated a commitment to "iron-clad" fiscal

rules, which seems to be a joke when she is constantly increasing spending.

Deficits are always a spending problem. Consensus expects damaging measures such as freezing income tax thresholds, increasing property taxes, and introducing new levies on sectors from electric vehicles to gambling.

However, these tax increases will further undermine investment and job creation and may accelerate capital flight among high earners and businesses.

Confidence low among investors and businesses

The OBR's recent reduction in the UK's productivity forecast weakens long-term fiscal sustainability. For every 0.1 percentage point drop in productivity, government borrowing is projected to increase by £7 billion, with a recent revision threatening a £21 billion budget shortfall.



UK citizens deserve better, but the harsh reality is that the solution is not to copy France or rejoin the European Union, which are in worse shape - Daniel Lacalle

Meanwhile, unemployment is already on a slow rise due to elevated labour costs and is forecast to rise to 5% in 2026. Considering that inflation is rising to a 13-month high, the decline in living standards is evident as effective real net wage growth becomes almost non-existent.

When we look at expectations for Reeves's Autumn Budget, confidence is low among

investors and business owners. Analysts expect a “smorgasbord” of targeted tax changes, according to the BBC, rather than bold supply-side reforms.

Public opinion polls show a lack of support for the government's handling of the economy, with 76% of citizens stating that the government is managing the economy badly or very badly, according to YouGov.

The result of big government and high taxes is stagnating GDP, capital flight, persistent deficit and a rising debt burden.

High taxes and big government are the recipe for stagnation. UK citizens deserve better, but the harsh reality is that the solution is not to copy France or rejoin the European Union, which are in worse shape, but to abandon net-zero and regulatory burdens and reduce taxes to attract investment and jobs.