Office for Budget Responsibility

Professor David Miles and Tom Josephs
Members of the Budget Responsibility Committee
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19 December 2025

Dear Lord Moynihan,

Re: Brexit

Thank you for your letter of 11 November to Richard Hughes concerning the impact of Brexit in the OBR's forecast.

As you set out, our assessment is that Brexit will reduce the potential productivity of the UK economy by around 4 per cent, relative to remaining in the EU, with the full effect felt 15 years after the Trade and Cooperation Agreement (TCA) came into effect. Higher trade barriers are estimated to reduce the volume of both UK imports and exports by around 15 per cent, leading to the 4 per cent reduction in the potential productivity of the UK economy relative to remaining in the EU. We expect this impact to be frontloaded, so we estimated that around two fifths of the impact on productivity to have already occurred by the time the TCA came into force as a result of uncertainty weighing on investment and capital deepening (see Box 2.2 of the March 2021 *Economic and fiscal outlook* (*EFO*)). There is lots of uncertainty around the impact of Brexit on trade intensity and productivity, so our estimate is drawn from a wide range of estimates from the literature (also see Box 2.2 of the March 2021 *EFO*). This 4 per cent impact on potential productivity does not include the impact of changes in net migration from the post-Brexit migration regime.

We last conducted a detailed review of our Brexit assumption in the March 2024 *EFO* (see Box 2.4). We concluded that, overall, our assumptions about the impact of Brexit on trade intensity and productivity appear to be broadly on track and recently published studies were also broadly consistent with these estimates. However, it remains hard to draw firm conclusions given the challenges of disentangling the simultaneous impacts of Brexit, the pandemic, and other geopolitical developments affecting UK and global trade. A further challenge is that trade data are volatile and prone to revision, particularly trade in services. Since concluding our last detailed review, one recently published study has estimated that by 2025 Brexit had already reduced UK productivity by 3 to 4 per cent and overall GDP by 6 to 8 per cent (Bloom et al, *The Economic Impact of Brexit*, NBER working paper 34459, November 2025).

We continue to consider the latest evidence on the impact of Brexit on the UK economy and will keep our Brexit assumptions under review.

In line with OBR policy, we will be publishing this reply together with your original letter on our website.

Yours Sincerely,

Professor David Miles Tom Josephs
Members of the Budget Responsibility Committee

HOUSE OF LORDS

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11th November 2025

By post and email

Dear Mr Hughes

I write to you regarding the claim, in recent and past OBR reports, that Brexit will hit the UK's GNP by 4%.

Misunderstandings and abuse of the 4% claim

As the below will show, I (and others) disagree with the OBR's analysis. Regardless, the 4% is, the OBR has stated, forecast to take place over 15 years post-Brexit –so with only 5 years (one third of the 15 gone) the implication is that so far, the hit to GNP has only been some 1.3%. Regrettably, the current government asserts that the full 4% has already hit the economy; this view is loudly repeated by many others (such as the BBC, to whom you repeated the 4% number in 2021, while the OBR has continued to make the claim in, for example, 2023, 2024 and 2025). The OBR has not issued correction or clarification of this "Brexit has hit GNP by 4%" claim, which is, seemingly endlessly, repeated.

Dubious validity of your models

You first published this 4% claim using the average of ten independent forecasters. Six of those were productivity-based models, an approach you seem to prefer. These gave an average of a 3%, not a 4%, hit. The others used versions of the gravity model (nowadays largely discredited). Their average (including a wildly absurd World Bank forecast of an 11% hit) was 6%. A forecast on the impact of Brexit from the IMF, which the Chancellor has said is the best economic authority in the world, was for a *long term* reduction in GDP of 2%. The productivity models used assumptions (such as that there would be no trade deal with the EU) that turned out (inevitably, in my view) to have very little relation –I believe you will agree– to what actually transpired; analyses assumed, for example, that the UK would leave under the terms of a 'typical' trade agreement, yet what happened was far from that: the TCA was far deeper than the 'typical' deal (to take just one example, it has no quotas). So these forecasts were, at the least, overcooked.

The first half of your 4% flies in the face of the facts

You have said that half of the 4% (ie 2%) derived from the idea that because the UK economy was growing faster than the EU in the few years before it left the EU, it would (had we remained in the EU) have continued to grow faster than the EU (the notoriously questionable 'doppelganger' approach). But the reason offered for that speculative belief was that having left the EU, we would have lower immigration; as you know, immigration has been far larger since we left the EU than before. Your reports have regularly asserted that immigration increases, not decreases, GNP because productivity improves; so your assertion, that leaving the EU would result in reduced GNP because immigration would be lower, falls foul of the facts –even if we go along with your model's assumptions. That gets rid of an entire half of your 4%.

The other half of your 4% cannot be blamed on Brexit

You have switched tack more recently, claiming that the 4% will occur because the UK's trade intensity will deteriorate (*note the 'will deteriorate'; not 'has deteriorated'*) by 15% (presumably, in 15 years). So, again, let's say one third of that in the 5 years to date –implying a 5% (one third of 15%) deterioration in the UK's trade intensity to date. But, both France and Germany have, since 2019, seen a lessening in *their* trade intensity by 6%. This happened while they were *in the EU* –does that not mean, according to your logic, that leaving the EU is slightly better for trade intensity than staying? Or, is better to say that the whole idea is nonsense?

In any event, were the UK to have a worse deterioration in trade intensity than France's or Germany's 6% (and you will know that there will be a particularly poignant impact on goods exports, since goods are a greater percentage of overall exports than they are of the overall economy), the explanations for that will have nothing to do with Brexit. To claim that all that lowered growth is due to Brexit, you necessarily have to say there has been no negative impact from:

- Covid and all its negative impact on productivity and the economy
- The rapid closing down of the North Sea Industry due to government decisions
- The decline of manufacturing due to catastrophically high energy prices (with many manufacturing companies closing down or moving abroad; a closed company will not export anything)
- The gradual implosion of the City of London due to imposition of growth-destroying policies and regulation
- The exodus of wealth and talent, of all ages, accelerating at this time, due to government's war on business, entrepreneurship and ambition
- The ever-tighter bank regulation which lowers lending to industry
- The abrupt retreat of foreign capital due to excessively high new taxes on business, and a general hostility to enterprise
- The reluctance of businesses of all sizes to hire due to the recent costly increases in NIC and multiple new anti-business laws.

None of the above, the claim implicitly says, can be at all responsible for any decline in GDP; only Brexit is to blame. Is this credible? It seems to me that the wonder is that the UK economy hasn't done even worse, as a result of the above anti-growth policies that have been imposed by successive governments. None of these policies had or have anything to do with Brexit.

I agree with the OBR that the UK's GDP is lower than it would otherwise have been due to the woeful lack of improvement in productivity in the UK (for most of this century –so including many years prior to our leaving the EU– not just since). But as you know, this productivity failure is almost all in the public sector; the private sector has actually increased its productivity by some 30% in recent years. I hope you will agree with me that zero productivity improvement *in the public sector* cannot possibly be due to the UK's having left the EU.

Mr Hughes, I thank you for having read through the above. I hope you find these points both reasonable and important. I call on you urgently to ensure that the OBR reviews not just its latest forecast, but past ones, and after reviewing the above, agrees to amend and caveat them as soon as possible. This is particularly important for when the OBR prepares its response, later this month, to the government's budget. It is important that the government get good, not ideologically biased, commentary on the impact of its policies. Please also can you as a matter of urgency explain all this to the government, who seem to have misunderstood your report and are coming up as a result with policies that are based on that misunderstanding, and that avoid looking at their many policies, such as (to take but one out of many) the Employment Rights Bill, that are actually and prospectively hitting the UK's GDP?

I hope that you will consider this letter with care, and act on it on an immediate basis.

I look forward to hearing from you

Yours Sincerely

Moynihan

Lord Moynihan of Chelsea, OBE