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How Brexit Damaged the United Kingdom and the City of London

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Abstract: This paper examines the economic cost of Brexit for the City of London. Even though the Covid pandemic may have delayed some plans for relocations by financial firms from London to the EU, the EU's finance hubs are growing. Paris has become the bloc's top trading hub, while Frankfurt, Dublin and Amsterdam are also emerging as hubs for different financial services specialisms. There were three drivers behind the UK government's stance on Brexit which have been largely detrimental to City of London interests: First, *Getting Brexit Done* by concluding a boilerplate agreement on goods, while neglecting financial services; second, leaving the single market and ending freedom of movement making a deal on financial services impossible, and third, the false and arrogant mantra that 'the EU needed the City more than the City needed the EU'. Prime Ministers Johnson, Truss and Sunak have led the UK into further self-inflicted economic and political decline and regulatory uncertainty. Brexit will over the next few years have a negative impact on jobs and tax receipts. The City of London will have to adapt to the harsh realities of a hard Brexit, perennial tensions with Brussels and growing competition from European financial centres and from New York.

Keywords: Brexit; City of London; European Union; financial regulation; United Kingdom

JEL Classification: F3; F5; F15; G2; G3

1 Introduction

Prime Minister Liz Truss resigned on 20 October 2022 mainly after the fallout from the ill-considered budget presented a month earlier which caused the UK economy and the country's reputation serious damage. In aiming at fulfilling the vision of "Britannia Unchained," a book Truss had co-authored, she did nothing less than forge her own

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demise (Kwarteng et al. 2012). Truss and Chancellor Kwasi Kwarteng pursued go-it-alone policymaking and intentionally failed to consult the independent watchdog Office for Budget Responsibility (OBR), that typically scrutinizes fiscal plans. They attacked the Bank of England on interest rates (Brenton, Treeck, and Webber 2022). Bank of England officials were also excluded from mini-budget discussions (Inman and Makortoff 2022). Kwarteng also sacked the most experienced Treasury official when he arrived at the Treasury (McNamara 2022). Prime Minister Rishi Sunak and Chancellor Jeremy Hunt have taken a risky deregulation policy to overcome the damage wrought by Brexit which may lead to further decline and crisis. Especially since the Edinburgh Reforms there has been ongoing financial turbulence in the markets.

Meanwhile, the consequences of Brexit threaten to undermine the position of the City of London. Aside from being the Eurozone's financial centre, the City of London has been a leading European hub for fintech and innovation venture capital investment (House of Lords European Affairs Committee 2022). However, with Brexit passporting rights have been lost and on 8 February 2022 the European Commission extended "equivalence", meaning UK clearing access, for a final time (European Commission 2022). This means that UK-based derivatives clearing houses will no longer have direct access to the European Union after June 2025. The impact on the European financial services ecosystem will be extensive. Consequently, the City of London needs to adapt more quickly to maintain its position after Brexit. Frankfurt, Paris Dublin and Amsterdam may not individually threaten the position of London, but combined under a coordinated EU strategy, the position of the City could come under threat. Competition from Europe aside, New York is well positioned to become the real winner from Brexit and gain more market share from London (Rankin 2022).

The UK regulatory cycle follows a well-worn pattern. A market crash or consumer scandal leads to calls for something to be done and an abrupt tightening of rules. These safeguards then get slowly chipped away — until the next crash or consumer scandal. The so-calledEdinburgh Reforms (HM Treasury 2022) are a package of 30 pro-City measures unveiled by Jeremy Hunt on 9 December 2022. Is this a dangerous erosion of the regulatory foundations that make banks safe and sound and protect consumers from scams? Or is it a sensible tailoring of the rules to suit British interests, a fair balancing of the interests of taxpayers and consumers with those of the City?

2 Challenges Multiply for Post-Brexit City of London

Following the Big Bang policy of Margaret Thatcher, the financial sector became a crucial pillar of growth in the United Kingdom, with the City of London becoming

Europe's leading financial centre. Financial growth dynamics accelerated given the increasingly expansionary monetary policies in the UK, continental Europe, and the US. The resulting strong boost for the financial sector culminated in the 2008 global financial crisis.

One of the many Brexiter mistakes was to dismiss all gold-plated regulations for coming from the EU. It was UK regulators who were very influential in drafting EU financial regulation and were the main users of the gold-plating process. It seems that the UK will revisit that mistake with the new post-Brexit regulatory proposals that gold-plate capital standards could lead to entrenched benefits for EU competitors (Noonan 2022a). Three main causes of the financial crisis were, first, macro global imbalances and low interest rates. Second, inadequate supervision and regulation of the financial sector. Third, excessive leverage and risk taking (Merrouche and Nier 2010).

Rishi Sunak has been warned not to weaken City of London regulations, including plans to relax rules for smaller banks, following the collapse of the UK arm of Silicon Valley Bank. Lord Nick Macpherson, Treasury permanent secretary in the years before and after the 2008 banking crash, said: "The Treasury must be careful not to follow the US example and weaken regulation in the name of competition." The Edinburgh Reforms were formulated on the basis that the post-global financial crisis regulatory reforms have done their job, but the latest problems emerging with banks in the US and Switzerland having serious difficulties show that assessment needs to be urgently revised (Parker, Noonan, and Giles 2023).

In 2021, the financial services sector contributed £173.6 billion to the UK economy, 8.3 % of total economic output. The sector was largest in London, where half of the sector's output was generated. Exports of UK financial services were worth £61.3 billion in 2021 and imports were worth £16.6 billion, so there was a surplus in financial services trade of £44.7 billion. UK exports of financial services to the EU have fallen notably since 2018 – between 2018 and 2021, the value of UK exports of financial services to the EU fell by 19 % in cash terms, while exports of financial services to non-EU countries grew by 4 %. There were 1.08 million financial services jobs in the UK in Q1 2022, 3.0 % of all jobs. In the same quarter, the EU accounted for 34 % of UK financial services exports and the USA accounted for 31 % (Hutton 2022).

On 1 January 2021, UK financial firms lost blanket access to the EU under the single market passporting regime and became reliant on Brussels granting regulatory equivalence to its financial services sector. The political imperatives of Brexit have made the negotiations exceedingly difficult. There have been three main Brexit drivers which have been largely detrimental to City interests: First, Getting Brexit Done by concluding a boilerplate agreement on goods, while neglecting financial services; second, leaving the single market and ending freedom of movement making

a deal on financial services near to impossible, and third, the false and arrogant mantra that ‘the EU needs the City more than the City needs the EU’ (Ford 2020).

Former Prime Minister Johnson was neither a capable nor an effective prime minister. He showed limited understanding of Whitehall, policy and the functioning of Parliament. Johnson, as Seldon and Newell outline in their book, lacked personal and political honesty and principles. The damage he has done to UK political institutions, international reputation and economic consequences are what the UK will have to endure for many years to come. Seldon and Newell, expose how ill thought through Brexit was. The morning after the referendum result in 2016, they write, Johnson was shocked, exclaiming: “Oh shit, we’ve got no plan. We have not thought about it. I didn’t think it would happen. Holy crap, what will we do?” (Seldon and Newell 2023)

After years of fraught negotiations, Johnson spoke about the new trade deal struck between the UK and EU on December 24, 2020, telling the news conference[1] after his prepared statement that “there’s some good language about equivalence for financial services” … “Above all it means certainty for businesses from financial services to … (other industries).” “The Agreement does not include any elements pertaining to equivalence frameworks for financial services,” said the European Commission’s corresponding assessment. It added that the EU will seek clarification on the UK’s plans, particularly over regulatory divergence (European Commission 2020).

Equivalence’ is a system that can be used to grant ‘domestic market access to foreign firms in certain areas of financial services. It is based on the principle that the countries where the firm is based have regimes which are ‘equivalent’ in control, behaviour, and outcomes. Equivalence does not carry anywhere near the same rights as passporting and either side can unilaterally terminate it, which in EU legislation can be with just 30 days’ notice.

The European Commission’s assessment of the Brexit deal bluntly said the EU “will consider equivalence (decisions) when they are in the EU’s interest” (European Commission 2020). EU Financial Services Commissioner Mairead McGuinness said on 19 January 2021 that Brussels would not grant Britain’s financiers access to the bloc before assessing the risks to financial stability–and that to do otherwise would be an “experiment”. McGuinness said it was likely that more financial jobs would leave London for the EU, and that assessing UK access would be a “big body of work” through 2021 and beyond. “It is not a question of Europe trying to bring everything back home, not at all. It is a question of Europe ensuring that at home Europe is strong, and can be strong globally,” she said (O’Leary 2021).

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1 Boris Johnson announces EU and UK have reached a post-Brexit trade deal agreement 24 December 2020-YouTube.

In a speech in February 2021, Bank of England Governor Andrew Bailey said it would be unfair of the EU to impose tougher rules on the UK than it has on other non-EU countries, insisting that Britain could not accept becoming a “rule-taker”. In his view, the UK could make the most of its opportunity to diverge, if needed. At the same time, the UK would continue to help set the agenda at the global level, vital for the raft of firms in the City (Bailey 2021).

The City UK, the industry group for UK financial services, published a paper outlining the “key outstanding issues” facing Britain’s financial and professional services industry. Their appeal for greater access to the European Union single market came amid fears of the deteriorating relations of the UK government with the EU which would leave large parts of the City of London at a distinct disadvantage in the next years to come. Yet UK financial firms were far from reaching certainty in the post-Brexit world (TheCityUK 2021).

It did not take long for some of the post-Brexit challenges to reveal themselves to the City. In January 2021, in a blow to the City of London, the European Commission announced that the US’ financial regulator’s rules are equivalent to the EU’s, allowing American competitors to operate in a market that London’s clearing houses have dominated (European Commission 2021). The agreement with the US aside, the EU is in fact keen to repatriate financial business and to build its own capacity: it sees Brexit as a once in a generation opportunity to rewind the clock 20 years. If the UK had got a more comprehensive deal or a higher degree of equivalence, fewer firms would have moved jobs and activities to the EU or will do so in the future (Hamre and Wright 2021).

Amsterdam overtook London as Europe’s largest share trading centre in January 2021 (Stafford 2021). While London moved back ahead of Amsterdam in June 2021 (Galouchko and Metcalf 2021), Amsterdam overtook London again in January 2022 to retain share-trading supremacy (Jones and Howcroft 2022).

The UK’s share of the Euro-denominated swaps market decreased from 40 % in July 2020 to 10 % in January 2021 with mainly New York, Paris and Amsterdam benefiting (Stafford 2021a). The City of London and the UK government cannot afford to be complacent because Brexit will have a negative impact on trade, jobs, activity, and tax receipts.

Brussels gave temporary equivalence in just two areas from a possible 39, for derivatives clearing houses and to settle Irish securities transactions. The Political Declaration – part of the UK-EU ‘Withdrawal Treaty’ – had aimed to conclude ‘equivalence’ assessments before the end of June 2020. This deadline was missed, limiting the European Commission to grant temporary equivalence to UK central counterparties. The European Commission on 8 February 2022 adopted a decision to extend equivalence for UK central counterparties (CCPs) until 30 June 2025, ensuring

the European Union's financial stability in the short-term (European Commission 2022).

In the context of the tensions regarding the Northern Ireland Protocol, the deeply eroded level of trust between the EU and UK is making a memorandum of understanding on financial services equivalence probably untenable in the foreseeable future. Restrictions on EU migration after Brexit have impacted the competitiveness and attractiveness of the City of London (Jones 2022).

The 33rd edition of the Global Financial Centres Index (GFCI 33) was published on 23 March 2023. The report shows that London has lost its sole lead as the world's top global financial centre, according to research by the City of London that will add to concerns over the competitiveness of the Square Mile. London and New York are tied for the top spot, according to benchmarking data by the City's governing body. This marks the first year that the UK capital has not been the clear leader as other financial centres have grown faster. Financial services executives have warned that the UK is at risk of losing its place as a top financial centre after Brexit, which has already forced some companies to move operations to the EU. The even bigger threat for London is New York with the largest deepest capital markets with the most important US founded or listed companies. Growing tech companies coming out of the UK have regularly chosen to list in New York instead (Wardle and Mainelli 2023).

This raises questions over the value offer of the London stock exchange as a well-regulated, highly liquid market for companies to raise capital, and investors to safely put money into opportunities for capital appreciation and/or dividend yield.

The London stock exchange may or may not be well-regulated, but the overarching factor here is that the UK remains in a period of significant economic turmoil generated by an era of significant political turbulence. Starting with austerity and the Tory embrace of the hard right UKIP and Brexit parties, the outcome was Brexit. Brexit being no less than a wholesale realignment of the UK's relationship with the world economy on every front. Brexit changed emigration, immigration, capital markets, labour markets, demographics, and pretty much every other factor. It was oversold on its simplicity and undersold on the overall volatility of its impact. As a result, the British economy has some fundamental deficits.

Given the number of companies leaving the market or giving it a miss for IPOs, the London stock exchange does not seem to be an attractive market for raising capital now. Cities in the EU such as Frankfurt, Dublin or Paris are attracting some business from London over the short run. However, it is unlikely that there is a single city in the EU with the physical infrastructure or regulatory infrastructure to take the role London has. Instead, there will be regionalisation and fragmentation in services. The most significant winner is probably going to be New York, as the only global financial centre that could absorb migration of jobs and services from London on a large scale (Ryan 2018). Decisions by several large companies to shun the City in

favour of New York have sparked fears about the future of the London Stock Exchange (Thomas, Gross, and Parker 2023).

Lord Jonathan Hill told the House of Commons Treasury select committee on 26 April 2023 that regulators had "moved quickly" on the recommendations of his March 2021 review, but that planned changes in areas such as rules for company prospectuses were just one part of the broader ecosystem in which new listings in London would live or die (Noonan 2023). "The regulatory side, the corporate governance side, attitudes towards remuneration, cultural issues, attitudes towards risk, all of these are interlinked, and I think we need to think of all of them," he told the cross-party panel of MPs.[2]

London attracted just four initial public offerings (IPOs) in the first quarter 2023, marking its sixth-worst quarter for listings since 1995 show. The decline began long before that, with London accounting for just 5 per cent of global IPOs between 2015 and 2020 (Noonan 2023). The number of companies trading on the London Stock Exchange has seen decline since the decision to leave the European Union (See Figure 1).

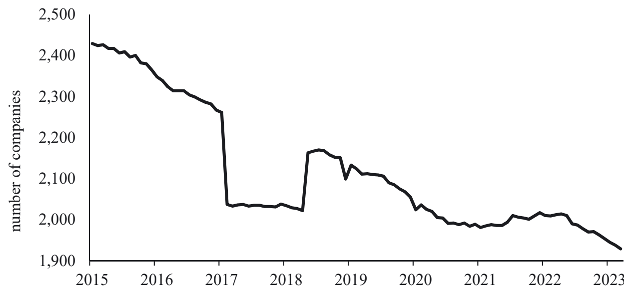

Figure 1: Number of companies on London stock exchange 2015–2023. Source: London stock exchange.

3 Stagnation for the UK Economy and Relative Decline for the City of London

The economic track record of the Conservative Party was already very poor under the Cameron/Osborne-led austerity programme supported by the Liberal Democrats which was a failure on its own terms. After five years of cuts, the structural budget deficit that it was designed to eliminate was still over 2 per cent of GDP. The

2 Parliamentlive.tv – Treasury Committee.

Conservative inspired deep cuts to public spending led directly to the vast backlogs in public services, notably health and the criminal justice system, that are weighing on the UK economy today. Meanwhile, the ultra-low interest rates triggered a bubble in asset prices that made the rich vastly richer without leading to any surge in investment.

Research by think tank New Financial suggested that ahead of the formal exit more than 400 UK-based financial services firms "have moved something somewhere to the EU in response to Brexit". Of these, 128 had chosen Dublin which principal strength is Asset Management, while Paris with strengths in insurance and asset management had attracted 88, Luxembourg 84, Frankfurt 56 mostly banks, or investment banks, Amsterdam 47 exchanges, trading platforms, brokers, and Brussels 10 (Wright 2021).

The EU and ECB want control of euro transactions. They have not forgotten that the City of London speculated against the Euro in 2008. The ECB cannot expect to provide a backstop to institutions outside its regulation and EU law. Most importantly it is about system stability but also a part of a process designed to gradually diminish the amount of wholesale euro financial services business of every kind that London conducts.

London was dealt another Brexit related blow on 14 November 2022 when new research showed the City had lost its title of Europe's largest equity market to France (Masud 2022). Almost two years after Britain left the European Union's single market and customs union, an index compiled by Bloomberg showed combined market capitalisation of primary listings in Paris overtook London in US dollar terms. In addition, London lost another status symbol as Europe's biggest stock market. Paris won the title after economic growth concerns weighed on UK assets and China's relaxation of Covid rules boosted French luxury shares. It is another symbolic sign of Britain's shrinking place in the wake of Brexit, and the continental rivals that will step into position. The French stock market is now worth $2.823 trillion, narrowly edging out the UK at $2.821 trillion, according to data compiled by Bloomberg. In 2016, British stocks were collectively worth $1.5 trillion more than France (Easton 2022).

The disappointments of Cameron/Osborne's era, however, are nothing compared with the failures of the six years that followed under May, Johnson and Truss. Truss spoke repeatedly about her plans for supply-side reform, apparently oblivious to the fact that since 2016 the Tories had presided over the most radical supply-side revolution, albeit almost entirely negative, in recent history. Trade barriers have been erected with Britain's most important trading partners. Exporters to the EU must contend with a new bureaucracy (BBC News 2022a). Regulatory uncertainty has hung over every sector for six years, deterring investment (see Figure 2). Sectors that used to rely on EU workers face labour shortages. Until the recent Windsor Agreement (BBC News 2023) the lingering threat of a trade war

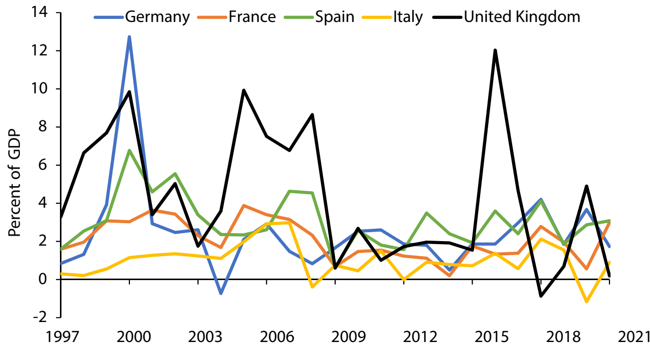

Figure 2: Inward FDI in percent of GDP. Source: World Bank.

because of the impasse over the Northern Irish border continued to undermine business and investor confidence. The UK government's constant communication of Brexit benefits over losses has not been qualified by evidence (HM Government 2022).

The London market in March 2023 is $250bn (£204bn) smaller than its French rival, according to data from Bloomberg, as fears grow that the London Stock Exchange is losing its allure amid a procession of businesses snubbing the Square Mile for New York. The market value of stocks in Paris has jumped by more than a 10th to $3.1 trillion since November 2022, according to the data, while London's combined market capitalisation has only grown by 2pc to $2.9 trillion during the same period (Foy 2023).

Meanwhile public support for Brexit has declined (See Figure 3). 32 % say that the UK was right to leave, 14 % don't know and 55 % say that the UK was wrong to leave the EU. In a desperate attempt to restore confidence and to establish Brexit Britain as a great place to invest and succeed, Chancellor Kwasi Kwarteng issued a "mini-Budget" on 23 September 2022 which unveiled a catalog of unfunded tax cuts — the largest in 50 years — as part of a "Growth Plan".[3] Markets recoiled. Government borrowing costs spiked along with mortgage rates.

As for public finances, Truss and Kwarteng both arrived in parliament in 2010 when netnational debt was around 65 per cent of GDP.[4] Both had previously held this debt up as the gravest of all threats to national prosperity and had defined themselves through a mission to get it down through austerity. When Truss and Kwarteng came into power, public debt was running at approximately 95 per cent of GDP, and no sooner were they in office, they decided to push it up to well over 100 per cent, purportedly, to establish Britain as a great place to invest and succeed.

3 Mini-Budget 2022 and follow-up | Institute for Fiscal Studies (ifs.org.uk).

4 PS: Net Debt (excluding public sector banks) as a % of GDP: NSA – Office for National Statistics (ons.gov.uk).

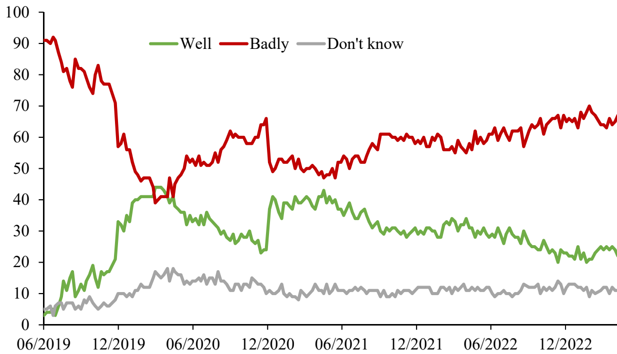

Figure 3: Perception of UK government handling Britain's exit from the EU. Source: YouGov.

Kwarteng revealed the weaknesses in economic management and politics that exist across the UK political spectrum. It will take many years to clear up the mess that followed the reckless steps taken by the government. The political and economic creditability of the Conservative Party and the UK has been damaged. Brexit has been the vehicle that the hard right used to dominate the party. The populist economic policies advocated by Truss and Kwarteng are now considered more right wing than similar parties in the US and Brazil (Burn-Murdoch 2022).

The markets quickly and brutally rejected Kwarteng's mini budget (House of Lords Library 2022), which swiftly turned into a fiscal event on Friday 23 September 2022. As well as a large and untargeted energy bailout of households and businesses, Kwarteng announced big unfunded cuts to income tax, especially for higher earners, and reversed planned rises in payroll and corporation taxes. Markets responded by selling sterling and UK government bonds. The reception in the financial sector was similarly disastrous. The pound fell to a record low against the dollar – dropping as low as $1.03 on 26 September 2022 (BBC News 2022b). The pound against the dollar and euro slowly recovered after the resignations of Kwarteng and Truss.

Credit rating agency S&P announced on 30 September 2022 its credit rating for the UK and issued a negative outlook warning about the country's debt (Giles 2022). The UK's credit rating came under further threat on 5 October 2022 as Fitch put the country on a "negative" outlook while giving a damning verdict on the government's fiscal policy and political credibility (Strauss 2022). The UK's economic outlook was downgraded from "stable" to "negative" by Moody's because of political instability and high inflation. In a report published on 21 October 2022, Moody's said the change in outlook was driven by "heightened unpredictability in policymaking amid weaker growth prospects and high inflation" and "risks to the UK's debt affordability from likely higher borrowing and risk of a sustained weakening in policy credibility"

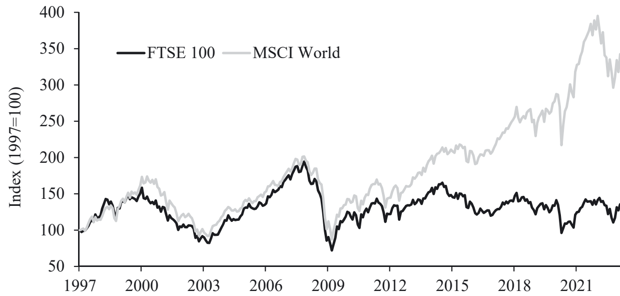

Figure 4: MSCI World and FTSE 100. Source: FTSE, MSCI.

(The Guardian 2022). Figure 4 below compares the British stock market index with a US stock market index and shows the stagnation since 2014 and the failed recovery since Brexit.

The government had been reluctant to allow any public scrutiny of its unorthodox budgetary measures but gave way after the International Monetary Fundissued an unusual rebuke of British fiscal policy (Smith and Politi 2022), warning that the tax cuts would exacerbate inequality and that the proposals in the so-called mini-budget would exacerbate the UK's cost-of-living crisis (Inman and Partington 2022). To calm markets and save her own position, Truss sacked Kwarteng and replaced him with Jeremy Hunt whose track record as former health secretary had left the NHS in bad shape to cope with the COVID-19 pandemic in the UK. Finally, Truss was pushed out of office by her MPs and replaced by Rishi Sunak, the former chancellor (Parker, Payne, and Hughes 2022).

Due to its lack of credibility, the Truss/Kwarteng government failed to reassure global investors that Britain remains a serious, well-run country with strong institutions led by a government willing to acknowledge economic realities and committed to sound public finances. The six weeks of Prime Minister Liz Truss has exacerbated further not only the UK's economic credibility but also its reputation for political stability (Financial Times Editorial 2022).

As a next step, Chancellor Jeremy Hunt plans to repeal and replace a set of laws known as 'Solvency II', which allows insurance companies to hold back less capital to protect themselves from going bankrupt. The UK is a major global insurance market, meaning British insurers are exposed to risks all over the world. As the climate crisis escalates, the proposition that they will need less cash in reserve is, to say the least, a worrying development. In the short term, the new law will mean there is more capital around for the finance sector to invest. But in the medium term, it means there is a much higher risk of the whole insurance industry collapsing which would have a severe impact on the UK economy.

Chancellor Hunt has also confirmed the government wants to loosen ‘ring-fencing’, a rule that bans big banks from speculating with money from ordinary customers’ accounts in the riskier ends of the financial market. Ring-fencing was introduced in 2019, following a long review of what financial laws could help to prevent another financial crash. Therefore, watering down ring-fencing could expose the UK to much more risk.

While the EU is looking at clearing services, the UK government is looking at watering down rules that currently force short-sellers — investors making “down bets” on share prices — to disclose their positions to the regulator and to the public when their negative positions amount to 0.5 per cent of a company’s issued share capital. Short selling can provide an important function to markets, exposing frauds, accounting tricks and valuation anomalies. But given the potential for market abuse, allowing them more anonymity must be a mistake. This is an area crying out for more transparency, not less.

Sir John Vickers, who led the independent commission into the new banking regime after the crisis (Treanor 2011), has expressed concern, saying the changes could be the start of “an extremely dangerous wrong path” (Makortoff 2022). Certainly, it feels a bit as though the lessons of the banking crisis are fading. Another proposed policy shift is to allow building societies to source more of their funding from wholesale markets, as distinct from retail deposits. This was the calamitous path taken by Northern Rock before its collapse in 2007. These ring-fence rules came into force only in 2019.

In the immediate aftermath of the banking crisis, everyone accepted that the financial services industry had grown too fast and too big. The balance sheet of only one bank, Royal Bank of Scotland, had ballooned to more than the entire UK GDP. It was rightly decided that UK banks and other financial institutions needed to be both better-capitalised but also not so big that they could badly damage the UK economy. But now financial services are one of Hunt’s five key growth sectors (alongside advanced manufacturing, green industries, life sciences and digital technologies) and stand to be favoured over other sectors. That, combined with the decision to give the Financial Conduct Authority and Prudential Regulation Authority a secondary objective of “City competitiveness” should be sounding alarm bells.

Bank of England governor Andrew Bailey has warned Rishi Sunak’s government against going too far with its flagship programme to free the City from post-crisis regulations, insisting that the rules remain essential more than a decade after the crash (Noonan 2022b). Too much City “growth” and innovation turns out to be ephemeral and built on nothing more than complexity and leverage. Table 5 shows the unhealthy growth of the private banking sector before the global financial crisis and the stagnation since then (See Figure 5 below).

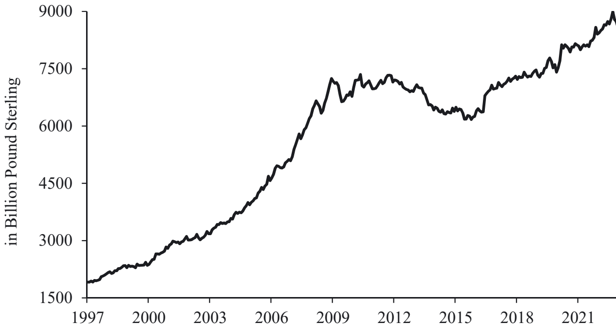

Figure 5: Consolidated balance sheet of MFIs as share of total assets. Source: Bank of England.

This points to the challenges, as well as the opportunities, for UK financial services. Economically, it is unclear whether the Edinburgh Reforms plans can deliver on their aspirations to increase the competitiveness of the City given indications that the fastest growth is taking place in Asian and US financial centres and employment in the sector in the UK is largely flatlining post-Brexit (Hutton 2022). Moreover, the Trade and Cooperation Agreement between the EU and the UK does very little to facilitate cross border financial services trade, reflecting the fact that the deal goes further on supporting goods trade than on services.

Politically, attempts to stimulate growth through deregulation will face criticism that they pose risks to financial sector stability and do not sit easily with wider policy aims to level up economic growth across the country. Most other European countries have better growth prospects for 2023 (See Figure 6).

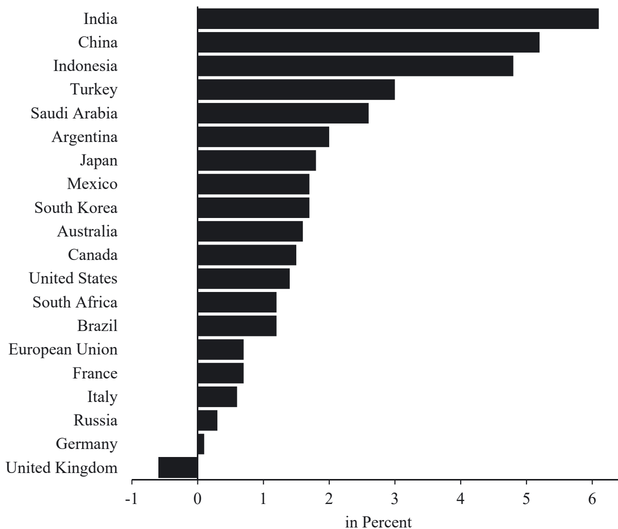

Figure 6: Real GDP Growth 2023. Source: International monetary fund.

These issues will need to be addressed if the Edinburgh Reforms are to live up to their ambitions, namely delivering an internationally competitive post-Brexit financial services sector, whilst also supporting economic growth in financial services and beyond across the UK.

4 Conclusions

Most Prime Ministers of the UK throughout its 47-year membership of the EU defended and enhanced British exceptionalism, and carved out a permanent niche, within the Single Market and Customs Union, but outside the European Monetary Union and further European integration with various opt outs. That positioning, which was beneficial to the UK, economically and politically, was replaced by a Brexit deal that has divided the UK politically with the possibility of the breakup of the Union. It has also made the UK poorer, because of the tradeoff that sacrificed wealth over sovereignty. The proportion and timescale of this sacrifice are still to be fully determined (Ryan 2019).

For the City of London this means that it will have to adapt to the harsh realities of a hard Brexit, including perennial tensions with Brussels and growing competition from continental financial centres and from New York. The UK's relations with both the EU and US have become more divisive and contested in domestic debates. The failures of the UK government in the two most important challenges in the recent history of the UK, namely COVID-19 and Brexit have caused growing chaos (Ryan 2021).

The UK's divorce from the EU has been exposed as folly. The six main indicators of the UK economic health: inflation, investment, trade, debt, sterling and the current account are in bad shape and may get worse in 2023. The UK's previous economic model was based on two pillars: acting as a large, liberal, English-speaking entry point for US and Asian companies into the EU's single market and being the Eurozone's financial centre. Brexit as such and in the aggressive form in which it has been negotiated by the UK government has diminished both pillars. The Kwarteng mini-budget fiasco proved fatal to the Truss government, and the damage to the Conservative Party is wide and deep. The government has completely lost its credibility on its ability to manage the economy and to be seen as a solid custodian of people's money.

The City of London's 'Golden Age' as Europe's financial capital is over following Brexit, but it will remain a major and profitable centre. The UK set out a package of financial services reforms that cut across dozens of areas but fell short of the Big Bang that politicians were promising earlierand is unlikely to deliver the dramatic reshaping that some Brexit supporters envisioned.

The Chancellor of the Exchequer, Jeremy Hunt, set out the government's priorities for regulatory reform of UK financial services. This is supposed to deliver 'benefits of Brexit' by better tailoring regulation to the specifics of UK financial services through a 'smarter and home-grown regulatory framework for the UK'. This financial services regulation reform makes ill-advised claims and flawed political motivations such as to sustain the public pretence that Brexit has benefits. Johnson, Truss, and Sunak cannot explain or show major Brexit benefits of leaving the EU. The political instability caused, and economic damage done especially to the City of London by Brexit was pure hubris. The realities of Brexit and the UK's subsequent economic and political problems are becoming clear but a path forward to alleviate the consequenceshas yet to emerge.

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