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RECENT DEVELOPMENTS IN UK TRADE WITH THE EU AND MALTA

BOX 2: RECENT DEVELOPMENTS IN UK TRADE WITH THE EU AND MALTA¹

According to the International Monetary Fund (IMF), the UK is the world's sixth largest economy, and the second largest in Europe after Germany. With an estimated GDP of USD 3.2 trillion (approximately GBP 2.6 trillion) in 2023, and a population of more than 68 million, the UK is an important player in global trade, especially with regard to its European partners.²

The UK joined the European Union (EU) in 1973 and became an important member of the bloc. However, following a referendum in 2016, the UK left the Union following a protracted negotiation process. The UK formally triggered its withdrawal procedure in March 2017. Nonetheless, it effectively left the EU in January 2020, while a withdrawal agreement that included a transition period of one year allowed it to remain in the EU single market until January 2021.

Right after Brexit, The UK signed a trade and cooperation agreement (TCA) with the EU, setting out a framework for its relationship with the Union, and allowing it to benefit from a free trade agreement and more. The TCA was applied provisionally as of 1 January 2021, and entered into force on 1 May 2021. While the TCA cannot match the level of integration the UK had with the EU member states, it provides for free trade in goods and a mutual market access in services.³

This box reviews international trade developments in the UK in recent years amid the various disruptions to trade stemming from Brexit and the COVID-19 pandemic.^{4,5}

The first section of the box looks at trade relations between the UK and the rest of the world. The second section explores the UK's trade relations with the EU, while the third section looks more specifically at UK trade with Malta. A final section concludes the box.⁶

Global trade partners of the UK

This section deals with UK trade with the rest of the world over the period extending from 2012 to 2022, and the shares each partner holds of the UK's total imports and exports.⁷ Although as shown in the next sections of this box, most of the UK trade disruptions occurred in the transition year of 2020, it must be noted that during the same year, the global economy contracted by 2.4% due to the COVID-19 pandemic and recorded an annual drop of 5.1% in the world merchandise trade volume, as reported by the World Trade Organisation (WTO).^{8,9}

¹ This Box was prepared by Ahmed Hnesh, Expert in the Eurosystem and International Relations Office, Monetary Policy, Eurosystem and International Relations Department of the Central Bank of Malta. The Box was reviewed by Kalina Koleva and John Caruana. The views expressed in the Box are the author's own and do not necessarily reflect the views of the Bank.

² The IMF DataMapper.

³ TCA between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part; Official Journal L 149, 30.4.2021.

⁴ Unless otherwise stated, all the data used in this box are retrieved from the UK's Office for National Statistics (ONS) and views trade from the UK's perspective. Data need to be interpreted with caution because of changes in data collection methods.

⁵ COVID restrictions in the UK were introduced in March 2020.

⁶ All data are in current prices, in GBP million and are seasonally adjusted unless stated otherwise.

⁷ Total exports and total imports refer to trade in both goods and services.

⁸ [IMF World Economic Outlook, April 2023](#).

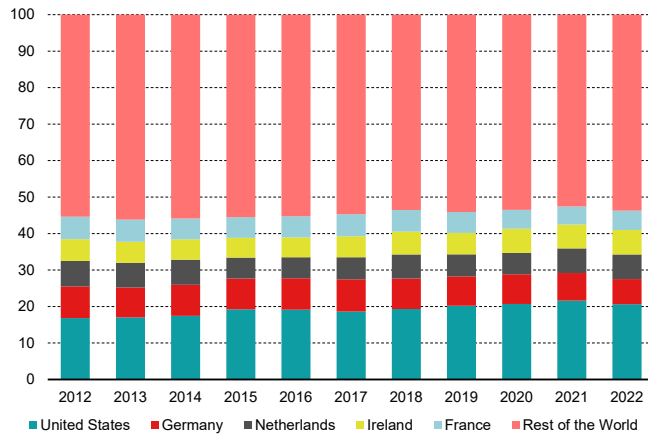
⁹ [Global Trade Outlook, April 2023](#).

Exports

The US remained the largest export partner of the UK throughout the period under review, with export shares of 16.8% and 20.6% in 2012 and 2022 respectively (see Chart 1).¹⁰ Germany kept its second place between 2012 and 2022, although its share shrank from 8.7% of the UK's total exports in 2012 to 6.9% in 2022. The Netherlands was the UK's third largest

total export partner with a share of 6.8% in 2022, compared to 7.0% in 2012. Ireland was the fourth largest total exports partner and experienced an increase in its share of total UK exports from 2020 onwards, whereby it reached 6.7% in 2022, compared to average levels below 6.0% in the years before 2020. France is the fifth largest export partner for the UK accounting for around 5.3% of the UK's total exports in 2022. France lost some of its share of UK exports, compared to its share of 6.2% in 2012.

Chart 1
UK EXPORT PARTNERS
(percentage)

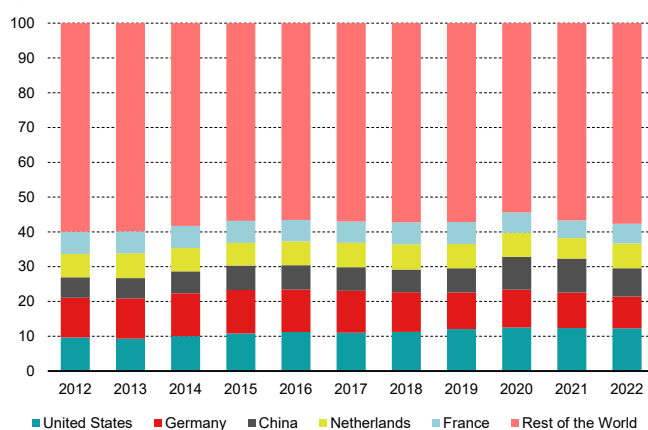


Source: ONS.

Imports

As for imports, Chart 2 shows that the biggest UK import partners are Germany, the US, China, the Netherlands, and France. Prior to 2019, Germany was the largest exporter to the UK. However, from 2019 onwards, the US overtook Germany in this respect. UK imports from China as a share also increased significantly over the observed period. In 2012 only 5.8% of the UK's total imports originated from China. This share increased to 9.7% in 2021, though it dropped back to 8.1% in 2022. France lost some of its share of the UK imports in 2020 and beyond, while the Netherlands sustained its levels around the average of 6.8%.

Chart 2
UK IMPORT PARTNERS
(percentage)



Source: ONS.

¹⁰ The United States include Puerto Rico.

The EU as a trade partner of the UK¹¹

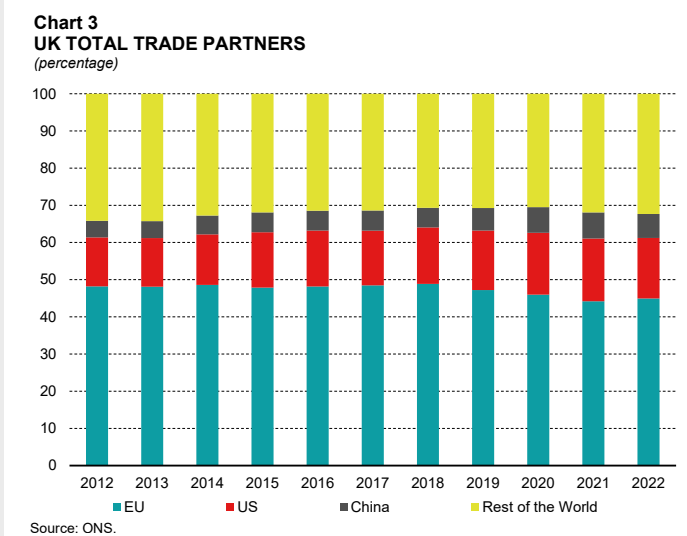
To better understand whether the UK trade patterns shifted following Brexit, Chart 3 views the UK total trade (imports plus exports) with the rest of the world and treats the EU as a single trading bloc. The EU is the largest single trade partner for the UK, accounting for more than two-fifths of the UK total trade throughout the period reviewed. This is mainly related to the

close geographical proximity of the UK and the EU and the fact that, for much of the period, the UK formed part of the EU single market and thus, enjoyed smooth, barrierless trade with the other EU member states.

The UK's exit from the EU was expected to affect the UK trade patterns and, more specifically, have a negative impact on its trade with EU member states due to the tariffs and non-tariff barriers (NTBs) that would stem from leaving the single market and the customs union. A paper published by the ECB in 2020 on the potential impact of Brexit indicated "*robust negative effects both on trade and migration flows for the United Kingdom due to Brexit*". Furthermore, the paper also stated that "*it is clear that Brexit will give rise to trade barriers – both tariffs and NTBs – between the EU and the United Kingdom*".¹²

Annual developments in UK trade flows depend on a variety of factors, including shifts in demand, supply constraints and exchange rate movements. Bearing these caveats in mind, some effect of the UK's exit from the EU can be observed when total trade with the EU is translated into a percentage of total UK trade with the world. Although the EU remained the largest trading partner of the UK, it has lost some of its share of the UK total trade to other partners. The EU share in total UK trade peaked at 48.9% in 2018, dropping to 44.2% in 2021 when the UK effectively left the EU single market, before picking up slightly in the following year.

The loss in the share of UK trade with the EU translated into increased shares for the US and China. Both countries were reported to have a greater share of UK total trade from 2020 and beyond. To illustrate, as seen in Chart 3, 16.3% of the UK total trade in 2022 was with the US, compared to 13.2% in 2012. Similarly, 6.5% of the UK's total trade was with China in 2022, compared to 4.5% in 2012.

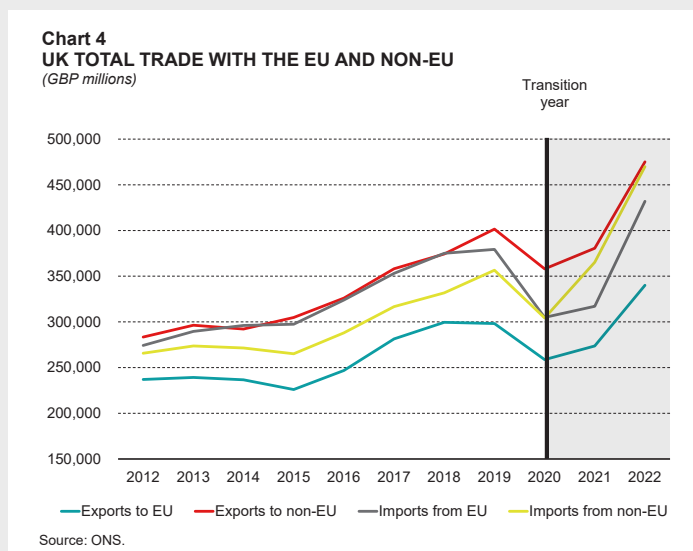


¹¹ In this analysis the EU refers to the 27 EU countries, implying that the UK is excluded from the EU data even in the years prior to Brexit.

¹² [Occasional Paper Series - A review of economic analyses on the potential impact of Brexit](#), ECB 2020.

Total UK trade with the EU and non-EU countries

Chart 4 shows UK trade with EU and non-EU countries encompassing both imports and exports of goods and services. Drops in both UK imports and exports are visible in 2020. However, it is also noticeable that the drop in imports is more pronounced than the one in exports.



UK imports from the EU

in the transition year dropped by 19.6% compared to a 14.6% drop in imports from non-EU countries. Furthermore, non-EU imports were quicker to recover in the following year, while imports from the EU had a slower recovery. In fact, imports from non-EU countries exceeded those from the EU in 2021 for the first time throughout the observed period and continued to do so in the following year. The substitution which may have taken place could have resulted from changes in prices as well as supply bottlenecks in certain regions arising during the COVID period which may have diverted trade.

On the export side, in 2020, UK exports to the EU and non-EU dropped by 13.2% and 10.8% respectively. Nevertheless, they recovered at a similar rate in the following years, maintaining the EU's position as the largest export partner for the UK.

To strip away the effects of price changes, an analysis of monthly chain volume measure (CVM) estimates of trade in goods was conducted. This confirms that UK imports of goods from non-EU countries overtook UK imports of goods from EU countries in 2021.¹³ However, imports of goods from the EU recovered in 2022 and exceeded the non-EU imports, suggesting only a short-term disruption of UK imports from the EU. In addition, CVM data shows that UK goods exports to non-EU countries remained higher than those to the EU in 2020 and the years following.

Trade in goods

In nominal terms, UK trade in goods with the EU increased between 2012 and 2022. During the period under review, exports to the EU rose from GBP 150,505.0 million in 2012 to GBP 193,698.0 million in 2022, while imports went up from GBP 209,554.0 million to GBP 310,953.0 million over the same period (see Chart 5). Although in 2020 both exports and imports of goods dropped from the previous year, the fall was reversed in the

¹³ CVM estimates are volume measure estimates obtained by chain-linking. They are the result of joining together two indices that overlap in one period by rescaling one of them to make its value equal to that of the other in the same period, thus combining them into single consistent cvm time series.

following years. Between 2012 through 2022, the UK registered on average an annual goods trade deficit of GBP 87,759.0 million with the EU.

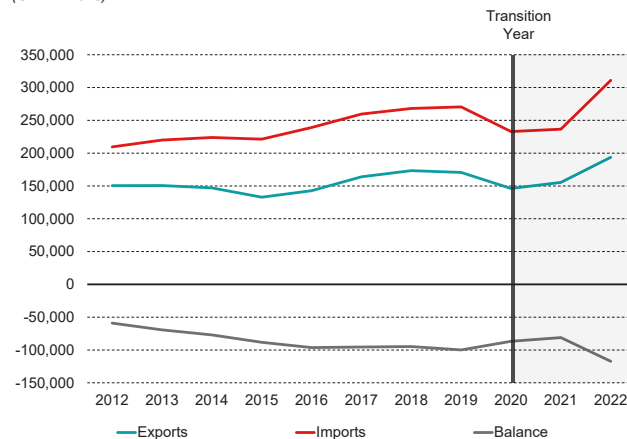
Trade in services

As can be seen in Chart 6, UK services exports to the EU also followed a general upward trend in nominal terms. However, a drop of 11.7% to GBP 112,549.0 million occurred in 2020. UK services exports to the EU resumed growth in the following years, increasing to GBP 146,372.0 million in 2022. UK services imports from the EU followed a similar pattern, although they dropped even more strongly in 2020, contracting by 33.8% to GBP 71,996.0 million, which in turn increased the services trade surplus for the same year. Notwithstanding the drop, UK services imports

from the EU recovered in the following two years, to reach GBP 120,975.0 million in 2022. Throughout the observed period, the UK recorded on average an annual services trade surplus of around GBP 23,620.4 million with the EU. Given that financial services account for a significant share of trade in services with the EU, the UK's trade surplus could decrease if financial services firms increasingly shift business away from London because of Brexit.¹⁴

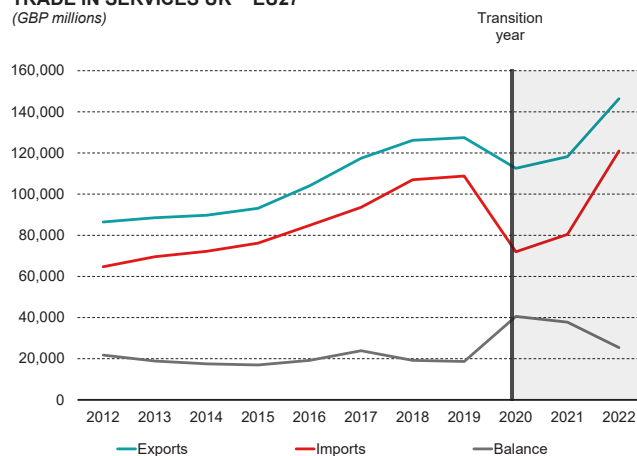
Chart 7 shows the shares of UK exports of services to the EU and to non-EU countries during the observed period. More than a third of the UK's services exports were directed to the EU during the observed period. In 2020, the EU's share in UK services exports dropped by two percentage points compared to 2019 and amounted to 36%. The fact that in the following two years, it did not regain its 2019 level might signify that Brexit could have contributed

Chart 5
TRADE IN GOODS UK – EU27
(GBP millions)



Source: ONS.

Chart 6
TRADE IN SERVICES UK – EU27
(GBP millions)



Source: ONS.

¹⁴ There is no evidence so far of major shifts in the importance of the City of London for euro-denominated financial market segments, with some exceptions. See: [Impact of Brexit on the international role of the euro](#).

to this decrease. In contrast, shorter term effects could be more clearly attributable to restrictions related to COVID-19, which disrupted travel.

As for imports, around half of the UK's services imports originated from the EU (see Chart 8). An observable shift of shares occurred in 2020, whereby the EU's share of the UK's services imports decreased to 43% from 49% in 2019. The EU share dropped further in the following year to 42%, before recovering in 2022 to reach 47%. Although the EU regained a significant part of the share lost in the transition year, it is yet to return to pre-2020 levels.

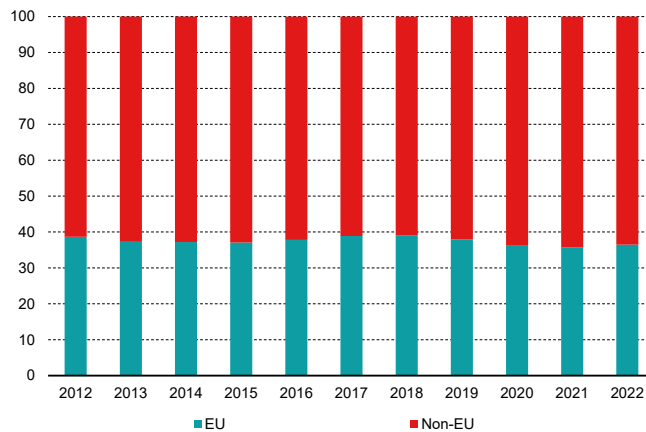
Malta as a trade partner to the UK

The UK is a relevant trade partner for Malta.

In the period extending from 2012 to 2022, the UK's total trade with Malta averaged GBP 1,794.5 million annually. To put in context, according to the United Nations Conference on Trade and Development (UNCTAD), Malta's total trade annually averaged USD 37,414.5 million (around GBP 26,887.45 million)¹⁵ between 2012 and 2022. Hence, Malta's trade with the UK would represent around 6.7% of Malta's total trade.

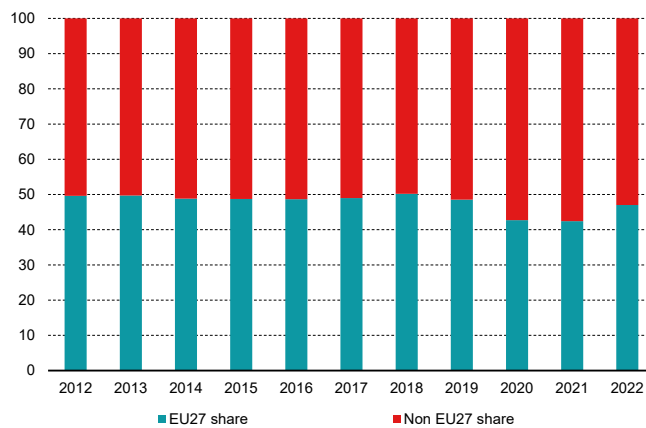
In value terms, figures are likely to rise over time, especially when inflation is relatively high. To minimize the effect of price fluctuation on trade values, Chart 9 shows the UK's trade with Malta as a percentage of Malta's total trade. The UK's share of Malta's trade remained relatively stable over the years under review. Although the share did drop in 2020, the Brexit transition year, it recovered in the following years, reaching 6.7% in 2022. This could

Chart 7
UK EXPORTS OF SERVICES
(percentage)



Source: ONS.

Chart 8
UK IMPORTS OF SERVICES
(percentage)



Source: ONS.

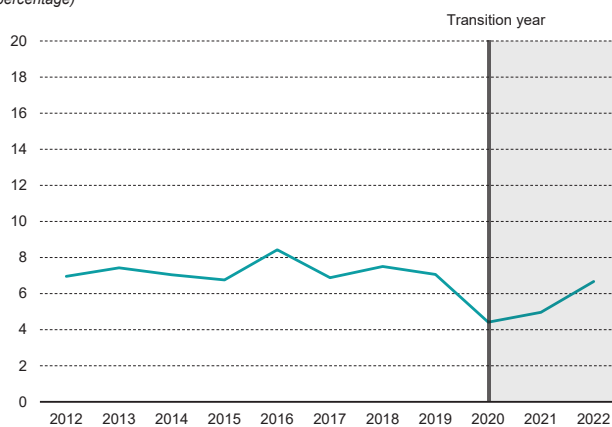
¹⁵ Based on estimated average exchange rate for the period between 2012 and 2022 of USD 1 = GBP 0.7186

indicate that the short-lived drop was primarily caused by COVID-19 restrictions, which would have affected tourism, rather than Brexit.

In nominal terms, the UK's total exports to Malta increased significantly over time as seen in Chart 10. The increase was mainly driven by services exports. In 2012, the value of total exports from the UK to Malta stood at GBP 750.0 million, rising to GBP 1,280.0 million in 2022. This indicates a 70.7% increase over the period covered. The UK's exports to Malta peaked in 2019, when the value of total exports reached GBP 1,376.0 million, before dropping to GBP 1,126.0 million in 2020. This drop occurred in the transition year when also various restrictions related to COVID-19 pandemic were introduced, and the global economy contracted sharply. Throughout the years in review, service exports dominated, and accounted for 70.7% of the total UK exports to Malta in 2022.

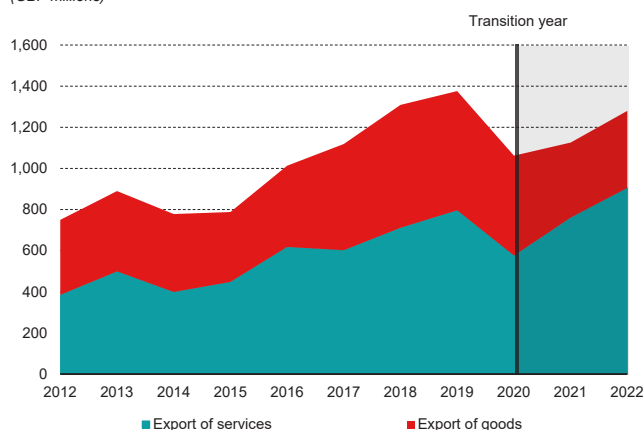
As for imports, services clearly dominated the UK imports from Malta as shown in Chart 11. Between 2012 and 2015,

Chart 9
UK SHARE OF MALTA TOTAL TRADE
(percentage)



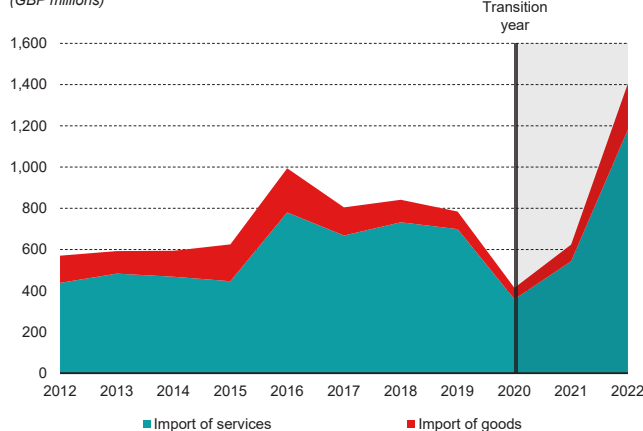
Source: Author's calculations based on data from ONS and UNCTAD.

Chart 10
UK EXPORTS TO MALTA
(GBP millions)



Source: ONS.

Chart 11
UK IMPORTS FROM MALTA
(GBP millions)



Source: ONS.

UK total imports from Malta remained at a stable level of around GBP 600.0 million, before increasing sharply in 2016 to GBP 994.0 million driven by an increase in service imports. The value of UK imports from Malta then dropped to GBP 804.0 million, in 2017 and remained around the same level in the following two years. In 2020, UK total imports from Malta dropped sharply to GBP 414.0 million. Travel contributes the largest share to UK's imports from Malta, and this was one of the sectors most impacted by the pandemic. In fact, UK imports of travel services from Malta dropped by 71.9% in 2020. In 2021, imports began to recover, reaching levels similar to the ones prior to 2016, before rising to GBP 1,406.0 million in 2022, which is the highest value for the observed period. Over the period extending from 2012 to 2022, services accounted for more than four-fifths on average to the UK's total imports from Malta.

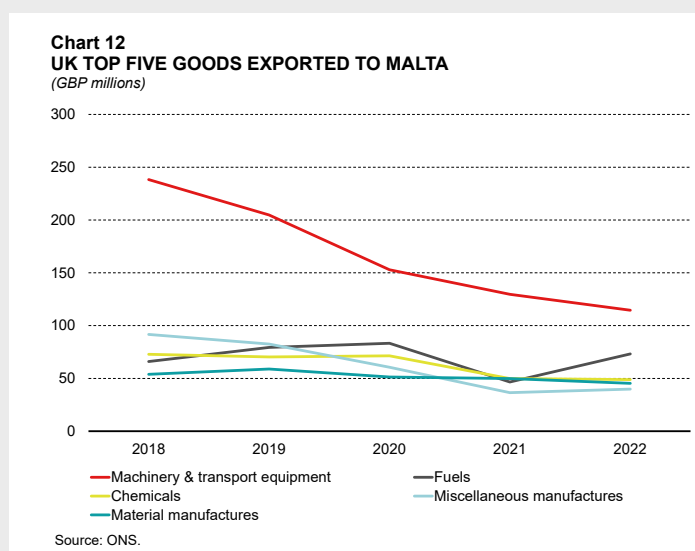
Top goods traded with Malta (exports and imports)

According to Eurostat, from 2012 to 2022, on average, Malta imported 8.1% of its total goods from the UK, while it exported 3.6% of its total goods exports to the UK.

In order to analyse goods trade between the UK and Malta, this section breaks down imports and exports of goods by category using ONS data. This shows the top five most traded goods between Malta and the UK, and how trade in each of these five goods evolved over the last five years, which is when this breakdown is available.

Exports

Chart 12 shows that the UK's top five exported goods to Malta in the last five years were machinery & transport equipment,¹⁶ fuels, chemicals, miscellaneous manufactures, and material manufactures.¹⁷ Over the five years observed, UK exports of machinery and transport equipment to Malta followed a downward trend, whereby in 2018 their value stood at GBP 238.3 million compared to GBP 114.6 million in 2022. The sharpest drop in exports of machinery and transport equipment was experienced in 2020, when they fell by 25% compared to the previous year. Nevertheless, this category remains the most important category in UK goods exports to Malta. Moreover, UK exports of miscellaneous manufactures also dropped significantly over the period, from GBP 91.7 million in 2018 to GBP 39.9 million in 2022. The reported value of UK's fuel exports to Malta (mainly made up of refined oil) stood at GBP 66.0 million in 2018



¹⁶ This category includes ships, aircrafts, road vehicles, electrical machinery and mechanical machinery.

¹⁷ Material manufactures include items made of leather, rubber, cork, wood, paper, textile yarn, fabrics, non-metallic mineral manufactures, iron and steel.

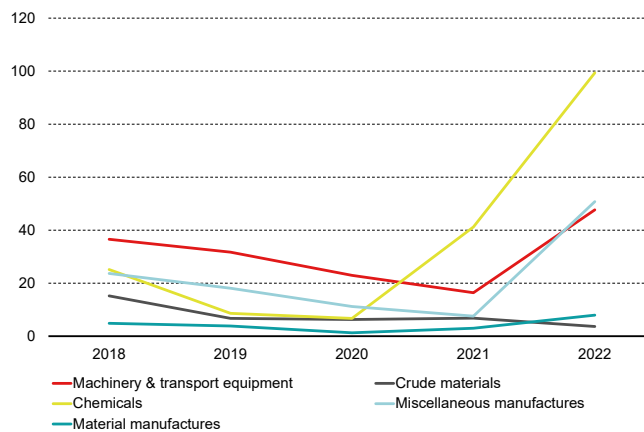
and increased in the following two years reaching GBP 83.3 million in 2020. It almost halved in 2021, but later picked up to GBP 73.3 million in 2022.

Imports

The top five goods imported into the UK from Malta between 2018 to 2022 were chemicals, machinery & transport equipment, miscellaneous manufactures, crude materials,

and material manufactures. As Chart 13 shows, imports of chemicals increased significantly in 2021 and 2022, with values of GBP 41.2 million and GBP 99.4 million respectively, compared to just GBP 6.7 million in 2020. This increase was driven by an increase in UK imports of medicinal and pharmaceutical products from Malta.

Chart 13
UK TOP FIVE GOODS IMPORTED FROM MALTA
(GBP millions)



Source: ONS.

Conclusion

Although the referendum for Brexit took place in 2016, the UK effectively left the EU in 2021. Furthermore, the UK signed the TCA with the EU right after it left the EU. An observable drop in UK trade occurred in 2020 (the transition year). However, this was the same year when the global economy and world trade contracted due to the impact of COVID-19. This makes it difficult to disentangle the impact of Brexit on UK trade from the impact of the pandemic.

Nevertheless, while the UK's total trade did in fact drop in 2020, we can also observe a loss in the EU's share of the UK's total trade in the same year. Given that the pandemic probably affected the UK trade with all its trade partners, this loss of share the EU has experienced may be linked to Brexit. Moreover, the loss of share continued in 2021, but came to a halt in 2022. In part, the loss in trade share may have been temporary and due to uncertainty that clouded businesses over the consequences of Brexit and the new costs that would arise from leaving the EU single market and customs union. This could also justify the increase in value of trade between the EU and the UK in 2022, as business may have become more accustomed to the TCA, and the uncertainty over the trade barriers caused by Brexit may have started to fade away. A report published in 2019 by the Bank of England indicated that uncertainty levels based on various indicators were close to post-crisis highs in Q3 2019,¹⁸ which would support the hypothesis that the drop was caused by uncertainty as well as trade barriers originating from Brexit.

¹⁸ [In focus – uncertainty over Brexit](#), Bank of England 2019.

As for UK trade with Malta, a drop in trade between the two countries is observable in 2020. The drop was most likely caused by a combined effect of both the COVID-19 pandemic and Brexit. However, given that trade levels returned to pre-Brexit levels in the following years, it is probable that the pandemic was the larger contributor to the drop in that year, and Brexit had relatively minor effects. The short-term nature of the drop in trade between Malta and the UK might also indicate a relatively short-lived Brexit effect on bilateral trade.

Nonetheless, a longer timeframe after Brexit must be observed to evaluate whether UK trade shares with the EU and Malta would stabilise at around the same levels prior to Brexit or deviate from them. At the current stage, it is too early to determine such finding, particularly since global supply chains were disrupted first by the pandemic and continue to be so by the Russian invasion of Ukraine.