
Abstract

The withdrawal of the United Kingdom from the European Union marks one of the most important events in recent history. The consequences of Brexit, particularly the loss of passporting rights in the services sector, have had severe adverse effects on British trade because it created barriers and challenges for British businesses to access the EU market and vice versa. This thesis aims to contribute to the existing literature on the impact of Brexit on financial services, specifically focusing on the banking sector. I use the country-by-country reporting data spanning from 2013 to 2021 to investigate the activity of 44 European banks. Using the turnover of the banks as a substitute for measuring banking activity, I estimate the gravity model employing the PPML and OLS estimators.

The results indicate a negative effect of 24% on the turnover of British banks abroad relative to the domestic turnover. This suggests that the loss of passporting rights and the subsequent regulatory changes decreased the international operations of UK-based banks. In contrast, EU-based banks experienced 30% higher turnover in partner countries than domestically.