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SMEs' international business stagnates – enterprises adapt to a changing environment

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KfW Research
Palmengartenstrasse 5-9
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Phone +49 69 7431-0, Fax +49 69 7431-2944
www.kfw.de

Edited by
KfW
KfW Research
research@kfw.de

Author
Dr Jennifer Abel-Koch
Phone +49 69 7431-9592

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SMEs' international business stagnates – enterprises adapt to a changing environment

The escalation of the conflict in the Middle East and the blockade of the Strait of Hormuz are leading to rising energy prices and looming supply shortages, dampening global growth prospects. For the international business of the German SME sector – which is already under pressure from US trade policy, growing competition from China and weakening competitiveness of Germany as a business location – this poses an additional challenge.

After the strong recovery in 2021 and 2022 from the pandemic-induced slump, foreign sales of the SME sector have been stagnating for several years. After amounting to EUR 701 billion in 2022, they declined slightly in nominal terms to EUR 698 billion in 2023 and rose only marginally to EUR 699 billion in 2024. Adjusted for prices, the high inflation rates even imply a marked decline. The current weakness in foreign sales is primarily attributable to the manufacturing sector. Its cross-border sales fell from EUR 316 billion to EUR 298 billion in 2024. Declines were also seen in wholesale and retail trade. Only the services sector was able to significantly increase its foreign sales from EUR 194 billion to EUR 227 billion, thereby stabilising the overall volume.

The preliminary results for 2025 suggest rather a continuation of this sideways movement. In around one third of internationally active enterprises, foreign sales in 2025 fell compared with the previous year; in only one fifth did they increase. Even in the medium term, SMEs expect little growth momentum from their international business. In January 2026 — even before the war in Iran — 24% of companies operating abroad anticipated that their international sales would rise over the next three years, while 30% expected a (further) decline. The positive trend in German goods exports in the first half of 2026 and the sharp rise in export expectations in the manufacturing sector in August 2026 are, against the backdrop of ongoing structural challenges, likely signs of an economic upturn rather than a sustainable turnaround.

Even before the coronavirus crisis, declining globalisation dynamics confronted enterprises with the challenge of reviewing their foreign business and tapping new sales potential. The fall in demand and slump in sales during the pandemic, which affected export-oriented enterprises significantly more often and more severely, have called existing export strategies into question. With the geopolitical crises of recent years, the protectionist trade policy of the US and increasing headwinds from China, the pressure to adjust has risen further.

In parts of the SME sector, a realignment of international business is already discernible. Around one quarter of internationally active enterprises have implemented adjustment measures over the past five years and another quarter are planning to do so in the coming five years. The main focus is on broader diversification of export markets, which 16% of all internationally active SMEs have already implemented and a further 7% are planning. Around 8% have responded by concentrating more strongly on domestic customers. A stronger orientation towards the EU internal market has so far been undertaken by only 5% of internationally active SMEs – however, more than 14% are planning this in the next five years. Only 4% of internationally active SMEs have adjusted by (partially) relocating their enterprise abroad, while another 12% are considering this for the future.

In the manufacturing sector, the pressure to adapt is higher and the responses are correspondingly more pronounced. Here, 22% have diversified their exports more strongly, while 10% of internationally active enterprises have shifted their regional focus towards the EU internal market. About 15% have turned more towards domestic customers. To date, 8% of industrial enterprises with cross-border sales have (partially) relocated abroad. However, a further 29% of them are planning to do so in future. If only every second enterprise implements such plans – a realistic assumption in view of past implementation of investment plans in the SME sector – this means that in the next five years almost 7% of all SME manufacturing enterprises will relocate at least part of their operations abroad – significantly more than have invested abroad in recent years. In view of the particular importance of the manufacturing sector for sales and employment and its value-chain connections with the services sector, this is likely to have noticeable effects not only on the SME sector. This underlines the urgency of addressing structural locational disadvantages and seeking appropriate trade and industrial policy responses to counteract deindustrialisation trends and secure the external economic strength of the German SME sector.

The war in Iran poses an additional challenge for SMEs international operations

Following the US attack on Iran in February 2026 and the weeks-long blockade of the Strait of Hormuz, tensions in the Middle East continue. Although the two countries had in the meantime agreed on a framework agreement providing for an extension of the ceasefire and further negotiations, this was terminated by Donald Trump after mutual attacks. It is uncertain whether the conflict can be settled permanently in the near future. Navigating the strait is still severely restricted and a rapid resolution of the congestion in the Persian Gulf is not in sight. In August, about 400 ships with 6,000 sailors were still stranded there.[1]

For global value chains, the conflict represents an additional challenge. Although no significant shares of global merchandise trade are routed through the Strait of Hormuz, it constitutes a bottleneck for oil and gas exports of major producer countries in the region as well as for some important industrial raw materials and fertilisers. The result is rising energy prices and a shortage of key intermediate products such as aluminium, ethylene and other petrochemical raw materials required for plastics production, helium, which is needed for semiconductor manufacturing, as well as urea and ammonia, which are used in fertiliser production.[2] This is likely to slow global economic growth. In July 2026 the IMF projected global growth to be only 3.0%, compared with 3.3% in January 2026, still before the escalation of the conflict.[3] For SMEs, this represents yet another challenge in their international business operations—in addition to the U.S.' restrictive trade policies, growing competition from China and the pressure on Germany's competitiveness as a business location.

SMEs partially withdraw from US business

Since Donald Trump took office, US trade policy has become not only more protectionist but also more unpredictable. Although the trade agreement concluded last year between the EU and the US, which in principle caps US tariffs on imports from the EU at 15%, entered into force on 1 July 2026, this has not prevented the US President from threatening new tariffs – most recently after the EU imposed a multi-billion fine on Google for abuse of market power. The trade policy framework is likely to remain characterised by uncertainty in the future as well.

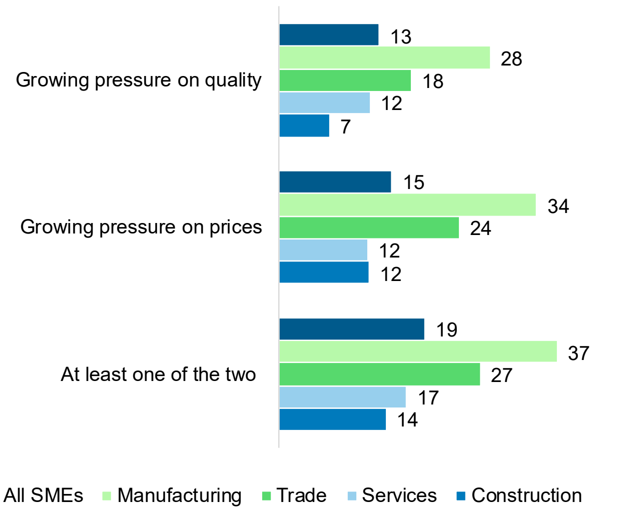
For SMEs with transatlantic business relations, this poses challenges. Every second enterprise reports negative effects of the new US policy on its own business. Consequently, many SMEs have withdrawn from US business, as shown by the results of a supplementary survey to the KfW SME Panel in January 2026. The share of the 3.9 million SMEs with direct exports to the US was only 5.8% in January 2026, compared with 8.5% when Donald Trump took office one year earlier.[4]

Many enterprises are feeling growing competitive pressure from China

In addition, SMEs are exposed to intensified competition from China. Although some SMEs also benefit from imports from China, 19% of the 3.9 million small and medium-sized enterprises in Germany perceive growing competitive pressure on the prices or quality of their products or services (Figure 1). Those particularly affected are SMEs in the manufacturing sector but also in wholesale and retail trade. Both in domestic and export markets, Chinese competitors are likely to become one of the central challenges in future.[5]

Figure 1: Growing competitive pressure from China

Share of enterprises for which competitive pressure from Chinese rivals has increased over the past three years in per cent



Note: Figures extrapolated based on the number of enterprises.

Source: Supplementary survey to the KfW SME Panel in September 2025.

Competitiveness of Germany as a business location at risk

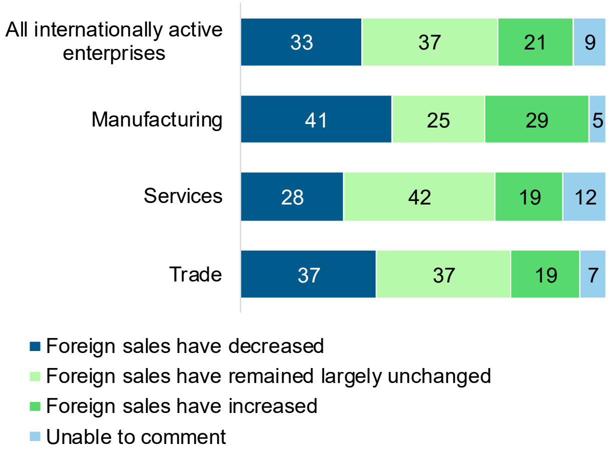
While many SMEs currently still consider themselves well-positioned, their confidence in their ability to remain competitive on the international stage in the future is waning. In September 2025, only 23% of enterprises expected their competitive position to improve over the next three years, compared with 35% in March 2023. By contrast, the share of enterprises expecting a deterioration in the future more than doubled over this period, from 19 to 41%. In addition to challenging external economic conditions, the competitiveness of Germany as a business location also plays a role here. Enterprises view bureaucracy, but also taxes and charges as well as energy and labour costs, as key risks. This is holding back investment and innovation – which are essential prerequisites for maintaining Germany's competitiveness.[6]

External economic environment leaves its mark on SMEs' foreign sales

The difficult external economic environment and the challenges to the competitiveness of Germany as a business location are also reflected in SMEs' foreign sales. In 2025 these declined year-on-year in one third of internationally active enterprises, as a first estimate based on the supplementary survey to the KfW SME Panel in January 2026 shows (Figure 2). By contrast, only a good fifth of enterprises were able to record rising foreign sales. The manufacturing sector saw declines in foreign sales particularly often, in 41% of all internationally active enterprises, although 29% here were also able to increase their foreign sales. In wholesale and retail trade, too, a comparatively large number of enterprises had to accept falling foreign sales. The services sector was somewhat less severely affected, although here as well foreign sales declined markedly more often than they increased (Figure 2). For the development of the overall volume of foreign sales in 2025, which is being collected in the ongoing main survey of the KfW SME Panel, this points at best to stagnation.

Figure 2: Development of SMEs' foreign sales in 2025

Year-on-year, share of internationally active enterprises in per cent



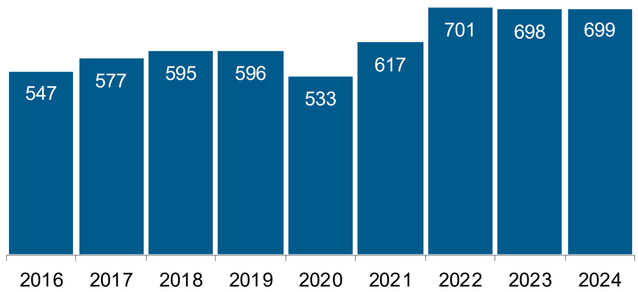
Note: Values extrapolated based on the number of enterprises. Construction sector not shown separately due to the low number of observations.

Source: Supplementary survey to the KfW SME Panel in January 2026.

The sideways movement of recent years is therefore likely to continue for the time being (Figure 3). After the pandemic-induced slump in 2020 (EUR 533 billion), nominal foreign sales of the SME sector initially recovered strongly and, in 2021 (EUR 617 billion) and 2022 (EUR 701 billion), clearly exceeded the pre-crisis level of 2019 (EUR 596 billion). In 2023, foreign sales were unable to rise further but even fell by -0.4% to EUR 698 billion and for 2024 only minimal nominal growth of 0.2% to EUR 699 billion can be observed.[7] Real growth is negative in view of the high inflation rates in recent years and stood at -2.9% in 2024, following -6.5% in 2023.[8]

Figure 3: SMEs' foreign sales

Total foreign sales in EUR billions



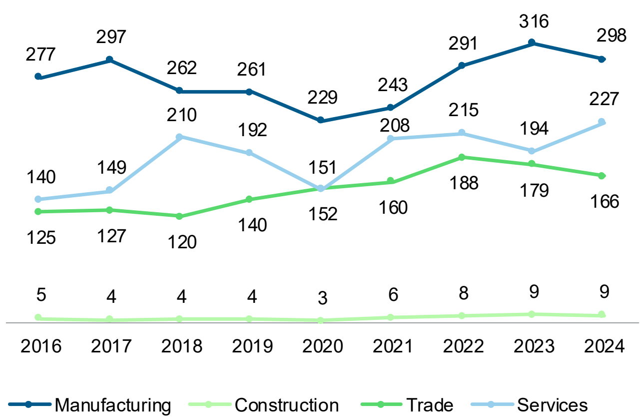
Source: KfW SME Panel 2017–2025.

Services sector offsets declining foreign sales of the manufacturing sector

A look at SMEs' foreign sales by sector shows that the development emerging for 2025 – particularly weak foreign business in manufacturing and trade – was already becoming apparent in 2024. Cross-border sales of the manufacturing sector fell from EUR 316 billion to EUR 298 billion in 2024. In wholesale and retail trade they declined from EUR 179 billion to EUR 166 billion. By contrast, the services sector was able to increase its foreign sales from EUR 194 billion to EUR 227 billion and thus contribute to stabilising SMEs' foreign business (Figure 4). In the construction sector, which traditionally exhibits low international activity, foreign sales remained largely unchanged.

Figure 4: Foreign sales by sector

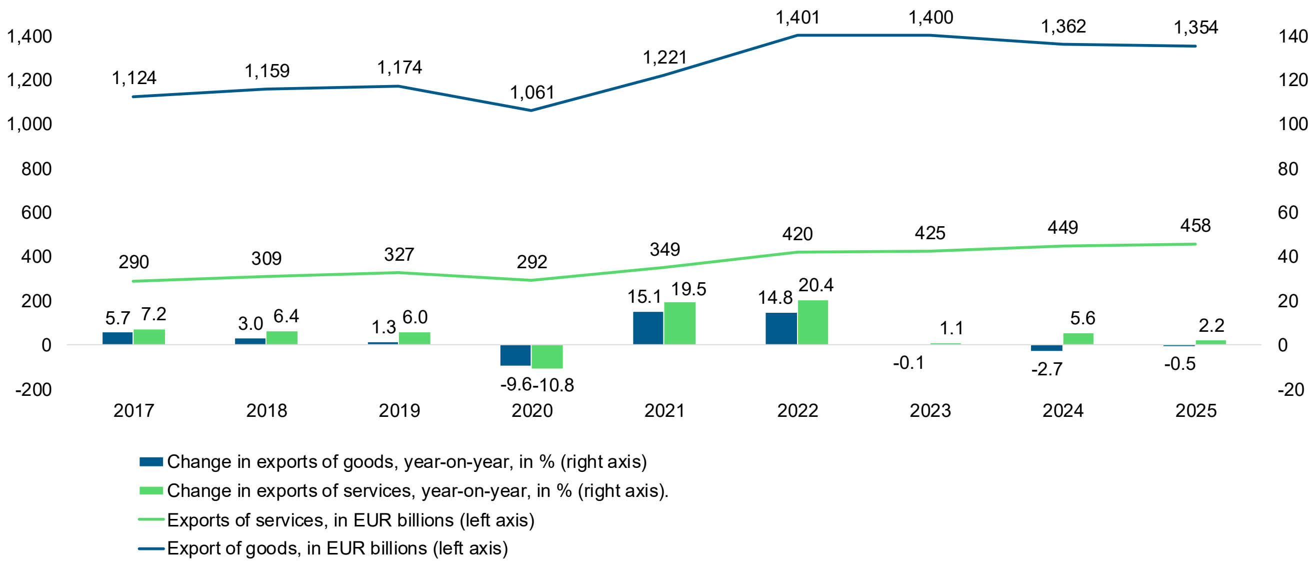
SMEs' foreign sales by sector in EUR billions



Source: KfW SME Panel 2017-2025.

Figure 5: Germany's exports of goods and services

Nominal values



Source: German Federal Statistical Office, Deutsche Bundesbank

In this respect, the SME sector mirrors the overall economy: After recovering from the coronavirus crisis, total exports of goods and services have also remained flat and, at EUR 1,812 billion in 2025, were only slightly above the previous year's figure of EUR 1,810 billion. Here too, service exports have developed markedly more positively after the pandemic than goods exports, which are driven by the manufacturing sector and have recorded negative nominal growth rates since 2023 Here too, service exports have developed markedly more positively after the pandemic than goods exports, which are driven by the manufacturing sector and have recorded negative nominal growth rates since 2023. (Figure 5).

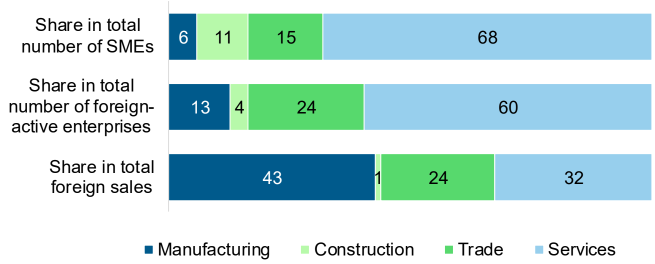
This reflects a long-standing trend towards greater trade in services, which is increasingly facilitated by ongoing digitalisation. It also expresses the current weakness of German industry, which is being hit much harder than the services sector by the protectionist trade policy of the US, growing competitive pressure from China and unfavourable locational conditions such as high energy costs.[9]

Nevertheless, the manufacturing sector remains an important pillar of foreign business in the SME sector as well. Although it accounts for only 6% of the total number of small and medium-sized enterprises in Germany and no more than 13% of the total number of internationally active small and medium-sized enterprises, the manufacturing sector contributes around 43% of total SMEs' foreign sales (Figure 6).

The services sector constitutes a large share of the SME sector and accounts for the majority of internationally active enterprises. However, as enterprises in this sector are generally smaller and generate comparatively low foreign sales, they are responsible for only around 32% of total SMEs' foreign sales.

Figure 6: Sectoral distribution in international business

Share of the respective sector in 2024 in per cent



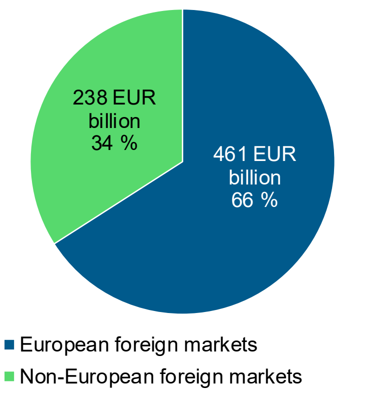
Source: KfW SME Panel 2025.

Non-European foreign markets up to 2024 an important driver of SME exports

In 2024, Europe continued to account for by far the largest share of small and medium-sized enterprises' foreign sales, amounting to approximately 461 billion EUR, or two-thirds. Sales generated in non-European countries totalled 238 billion EUR, accounting for only about one-third (Figure 7).

Figure 7: Regional distribution of foreign sales

Share of the respective region in total SMEs' foreign sales in 2024 in per cent

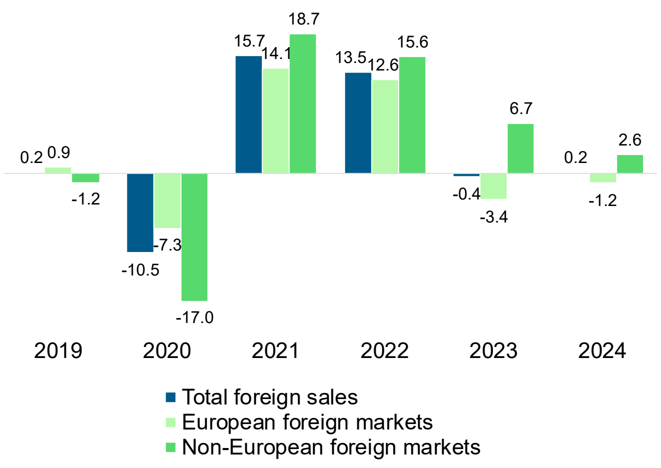


Source: KfW SME Panel 2025.

During the coronavirus pandemic in 2020, sales generated in non-European foreign markets slumped much more sharply than sales generated in European foreign markets, but they also recovered more quickly from the crisis in 2021 and 2022 (Figure 8). In 2023 and 2024, non-European foreign markets contributed, with positive growth rates, to stabilising SME foreign business, while sales in European foreign markets declined, not least because of weak demand due to the more restrictive monetary policy of the European Central Bank.

Figure 8: Growth rates of SMEs' foreign sales by region

In per cent



Source: KfW SME Panel 2020–2025.

In 2025 this development is likely to have reversed as a result of aggressive US tariff policy and weak business with China, combined with increasing competition.[10] At the aggregate economic level this is already evident in the figures: Germany's exports of goods and services to other European countries grew slightly by 2.4% in 2025, whereas exports to the US fell by 3.5% and exports to China even declined by 15.6%.[11]

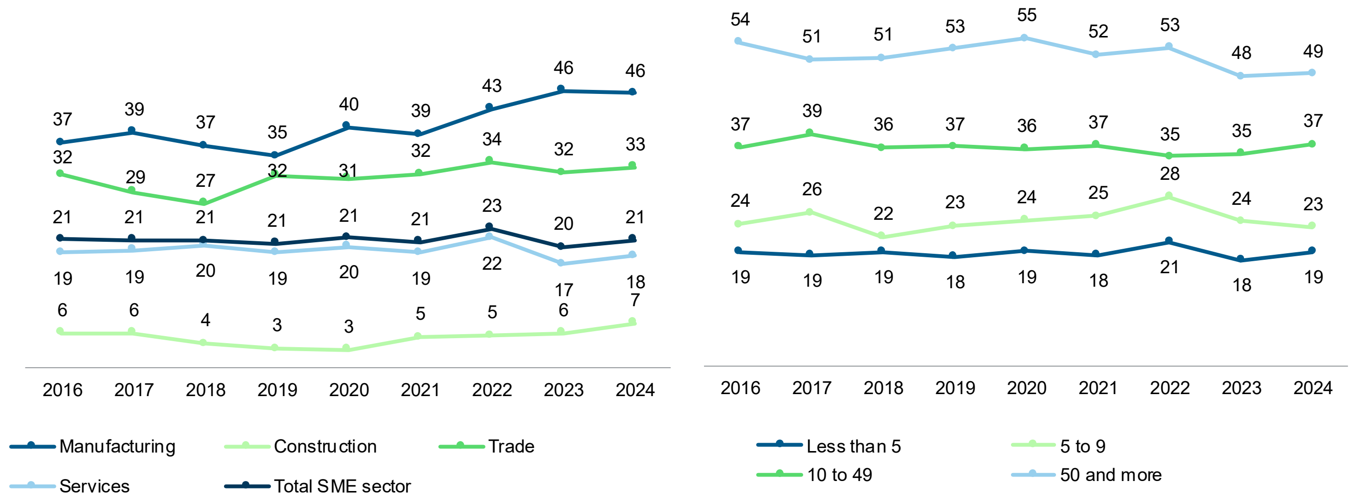
Slightly more SMEs active abroad …

In 2024 around 21% of all small and medium-sized enterprises were active abroad – slightly more than in the previous year and about as many as in the long-term average (Figure 9). With just under 3.9 million SMEs in Germany, this corresponds to around 819,000 enterprises. This trend is driven particularly by the services sector, to which more than two thirds of all SMEs belong and in which the share of internationally active enterprises rose by around 1.4 percentage points (from 17.1% to just under 18.5%). In the manufacturing sector, by contrast, the share of internationally active enterprises fell marginally by 0.5 percentage points (from 46.1 to 45.6%). Despite declining sales, the manufacturing sector has not yet seen a widespread withdrawal from the export business. This suggests that international business could quickly rebound if economic and structural conditions improve.

Looking at enterprise size, micro-enterprises with fewer than five employees have the greatest influence on the share of internationally active enterprises in the SME sector, as they account for more than 80% of the total number of enterprises in the SME sector. Of these, around 19.1% were active abroad in 2024, compared with 17.6% in the previous year. Larger SMEs with 50 or more employees, however, remain particularly internationalised, with almost half of them (48.7%) being active abroad in 2024. This confirms the long-term stable relationship between size and internationalisation: the larger the enterprise, the more frequently it is present in foreign markets.

Figure 9: Share of internationally active enterprises by size class and sector

Shares of internationally active enterprises in per cent

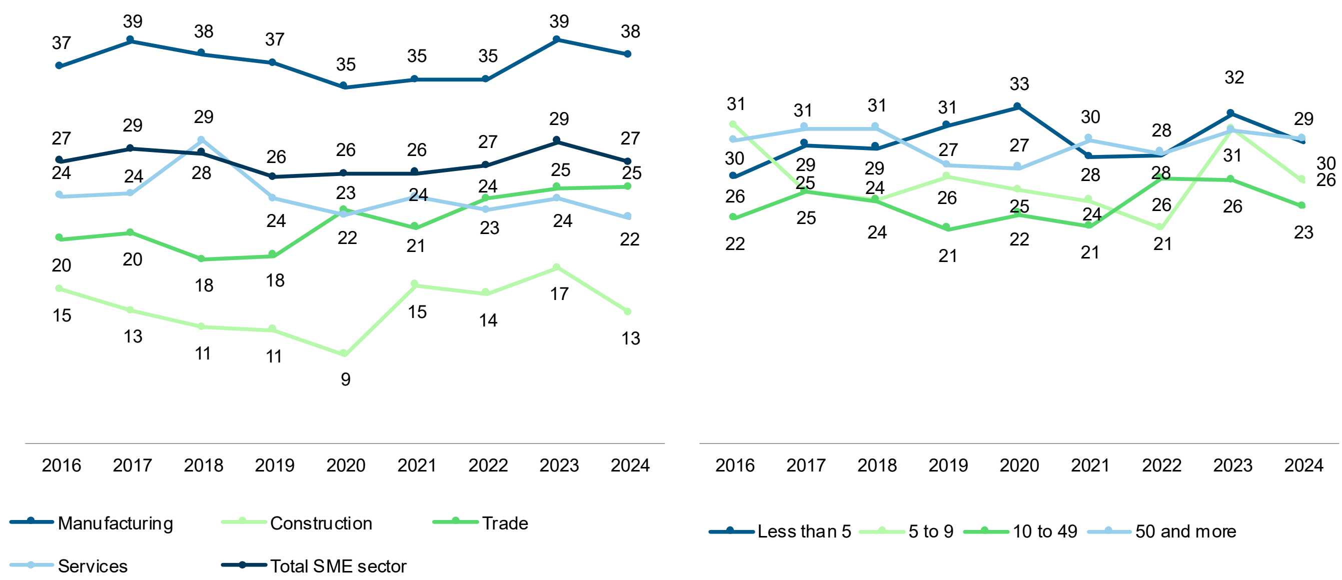


Note: Values extrapolated based on the number of enterprises. Size classes by number of full-time equivalent employees.

Source: KfW SME Panel 2017–2025.

Figure 10: Share of foreign sales in total sales of internationally active enterprises by size class and sector

Share of foreign sales in total sales of internationally active enterprises in per cent



Note: Values extrapolated based on the number of employees. Size classes by number of full-time equivalent employees.

Source: KfW SME Panel 2017–2025.

… but they generate lower sales

The fact that total SMEs' foreign sales barely increased in 2024 despite the slightly higher share of internationally active enterprises is due to a decline in average foreign sales per internationally active enterprise from around EUR 915,000 in 2023 to around EUR 853,000 in 2024.

This is also reflected in the share of foreign sales in total sales, which fell across virtually all sectors and size classes (Figure 10). For the SME sector as a whole, the foreign share of sales of internationally active enterprises declined from 29.3 to 27.3% between 2023 and 2024.

If one considers not only enterprises with international business but at all of the roughly 3.9 million SMEs in Germany, the share of foreign sales in total sales amounted to around 13.1% in 2024, after 14.2% in the previous year. The SME sector thus generates around one in every eight euros of revenues abroad. There are marked sectoral differences here as well: in the manufacturing sector almost every third euro, in the services sector only around every twelfth euro of sales is generated abroad. The nominally moderate growth of total sales in the SME sector – which rose slightly by 2% to EUR 5,179 billion in 2024 compared with the previous year – was driven almost exclusively by domestic sales.[12]

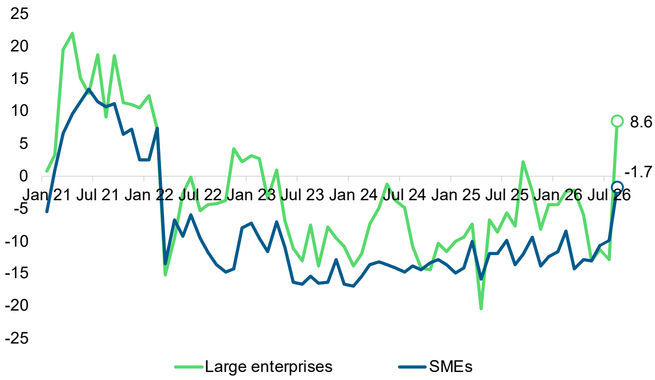
Exports are unlikely to provide much of a boost to growth in the coming years either

In the first half of 2026, German exports were up 3.9% from the same period a year earlier, primarily due to an increase in exports to other EU countries.[13] After a prolonged slump, export expectations in the manufacturing sector also surged in August 2026 – to 8.6 net points among large companies and -1.7 net points among small and medium-sized enterprises (Figure 11). As a result, export expectations for the coming three months are more positive than they have been since February 2022, before the start of the war in Ukraine. Both exports and short-term expectations have risen particularly sharply among manufacturers of data-processing equipment as well as electronic and optical products, suggesting that the global boom in artificial intelligence is also taking hold among German suppliers.[14]

However, it would be premature to interpret the current upturn as a sustained turnaround. Geopolitical crises and conflicts, trade policy uncertainties regarding the United States, and growing competitive pressure from China are likely to continue to shape the external economic environment in the coming years, and far-reaching reforms to strengthen Germany's competitiveness as a business location are likely to be implemented only slowly.

Consequently, the expectations of many small and medium-sized enterprises regarding international business in the medium term are subdued. A total of 30% of all companies active abroad expect their cross-border sales to decline over the next three years; of these, 6% even anticipate a sharp decline. Only 24% of all companies active abroad expect growth in their international sales. About one in two expects to be able to keep its sales largely stable (Figure 12). The conflict between the U.S. and Iran, which escalated in late February 2026 – and thus after the survey period in January 2026 – and for which there is no end in sight, is likely to have further dampened expectations in light of rising energy prices and looming supply bottlenecks.

Figure 11: Export expectations of the manufacturing factor



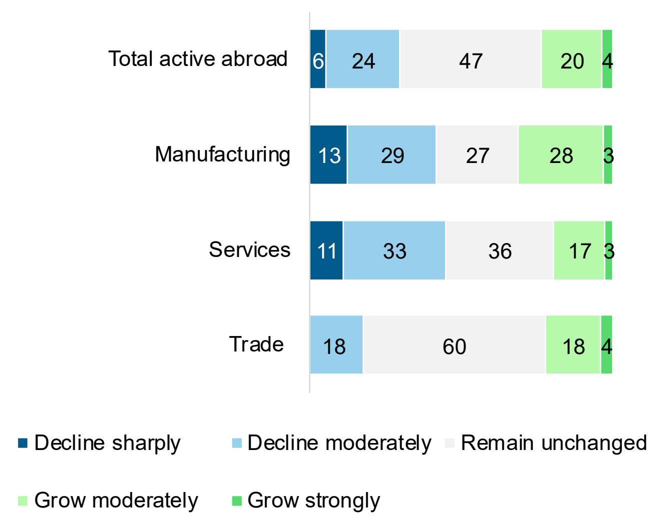
Note: Balance (in percentage points) of the percentage shares of positive and negative responses on export expectations for the coming three months (seasonally and mean-adjusted). The SME sector comprises enterprises with no more than 500 employees and annual turnover of no more than EUR 50 million.

Source: KfW Research, ifo Institute.

Shifts are likely to occur primarily I in the manufacturing sector but are also likely in the services sector: here, more than 40% of enterprises expect a decline, while at the same time more than 30% of industrial enterprises and around 20% of services enterprises anticipate an increase in their foreign sales. These heterogeneous expectations reflect, not least, the structural transformation currently under way, which is calling existing business models into question while at the same time opening growth opportunities for new technologies, products and services.[15]

Figure 12: Expected development of foreign sales in the next three years

Share of internationally active enterprises in per cent that expect their foreign sales in the coming three years to …



Note: Values extrapolated based on the number of enterprises. Construction sector not shown separately owing due to low number of observations.

Source: Special survey for the KfW SME Panel in January 2026.

The automotive industry, which is being tested by the transformation towards electromobility, is losing market share, as are mechanical engineering and the electrical industry, which are facing growing competition from China in the high-technology segment and, not least, the energy-intensive chemicals and metals industries, which are particularly affected by rising energy prices.[16] New export opportunities are emerging, for example, in the security and defence industry or in the field of climate and environmental protection goods, for which globally growing demand can be expected to continue.[17] In the services sector, digital technologies are a key growth driver. However, it is above all the US that occupies a strong position here, particularly in business models based on artificial intelligence. By contrast, transport and logistics services, which – alongside research and development services – play a central role in German service exports, depend heavily on German goods exports and thus indirectly on the future of German industry.[18]

SMEs adapt to changing framework conditions

Even before the coronavirus crisis, the slowing pace of globalisation confronted enterprises with the challenge of reviewing growth strategies focused on international business and tapping new sales potential.[19] As a result of the fall in demand and the slump in sales during the pandemic – which affected internationally active enterprises significantly more often and more severely than purely domestic enterprises – many internationally active enterprises considered broader diversification of their export activities, while others contemplated a stronger focus on domestic customers.[20] With the geopolitical crises and conflicts of recent years, the protectionist trade policy of the US and the increasing headwinds from China, the pressure to adapt has risen further.

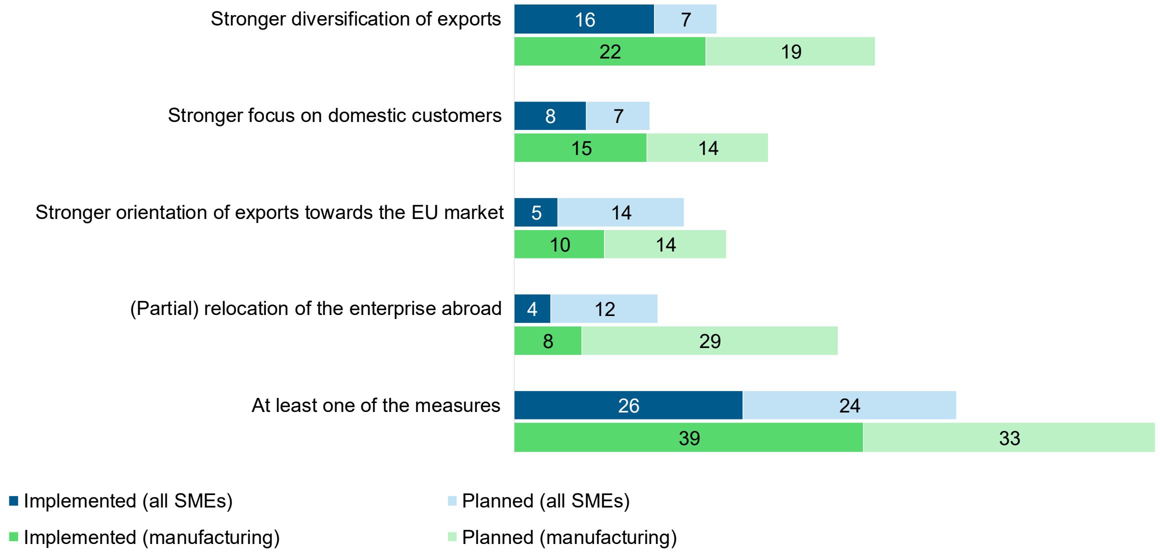
In parts of the SME sector, a realignment of foreign business is already discernible (Figure 13). The main focus is on stronger diversification of exports: almost 16% of all internationally active enterprises have opened up new export markets or gained new customers abroad in the past five years and another 7% are planning to do so in the next five years. In the manufacturing sector, where the pressure to adapt is higher due to US tariffs but also declines in business with China, 22% of internationally active enterprises have already implemented corresponding measures, and another 19% are planning stronger diversification of their exports in the medium term.

Many enterprises are thus continuing to rely on foreign sales but are seeking to strengthen their resilience by reducing risks arising from external economic dependencies. With broader diversification of export markets, revenue declines in individual markets due to regional shocks – such as drastic tariff increases by the US – can be partially offset by revenue increases in other markets.[21] However, opening up new export markets requires financial and human resources that not all SMEs possess. For smaller enterprises in particular, with only low output volumes, the investments necessary for market entry – such as those in product adaptations or the establishment of a new distribution network abroad – pose a challenge.

Especially for smaller exporters, a stronger focus on domestic customers may therefore be the consequence of the changing conditions. Overall, around 8% of SME enterprises that are currently still generating cross-border sales have oriented themselves more towards the domestic market, and a further 7% intend to do so in future.

Figure 13: Adaptation to changed framework conditions

Share of internationally active enterprises in per cent that have implemented the respective measure in the past five years or are planning it for the next five years



Note: Values extrapolated based on the number of enterprises.

Source: Supplementary survey to the KfW SME Panel in January 2026.

In the manufacturing sector, the shares are around twice as high (Figure 13). Although enterprises that have completely discontinued their foreign activities in recent years are not included here, the relatively stable share of internationally active enterprises of 21% (Figure 9) indicates that a stronger focus on domestic customers has so far only rarely gone hand in hand with a complete withdrawal from export business.

Stronger orientation towards the EU internal market has so far barely occurred – but is widely planned

To date, only 5% of all internationally active enterprises have focused their exports more heavily on the EU internal market. However, around 14% of internationally active enterprises are planning to shift their regional focus there in future. This is thus the most frequently planned adjustment measure in the SME sector (Figure 13). Sales markets in Central and Eastern Europe are likely to be particularly interesting in this context, to which small and medium-sized enterprises attribute growing importance.[22]

Even today, the SME sector generates two thirds of its foreign sales in Europe (Figure 7). At the same time, significant non-tariff trade barriers still exist between EU Member States: for example, trade in goods is hampered by product safety requirements or certification regulations which differ from one country to another, while trade in services is impaired, among other things, by national reporting obligations or the lack of mutual recognition of professional qualifications. The negative effects of such non-tariff trade barriers to trade are significant – particularly in the services sector.[23] Consistent dismantling of administrative and regulatory hurdles and further strengthening of the EU internal market harbour considerable growth potential for Germany, from which small and medium-sized enterprises in particular could benefit.

However, an overly strong focus on the EU internal market runs counter to broad diversification and risk spreading, as EU Member States often display synchronised economic cycles. In addition, an excessively one-sided orientation towards the EU internal market leaves opportunities in particularly dynamic growth markets – especially in emerging and developing economies – untapped. This is likely to be one reason why a stronger focus on the EU internal market does not rank first in the manufacturing sector when it comes to adapting to the changing economic environment.

Enterprises in the manufacturing sector more frequently consider (partial) relocation abroad

Some SMEs also see (partial) relocation of their enterprise abroad as a way of adapting to the changing international economic environment. So far, only few have implemented this: only 4% of all SMEs that generate sales abroad have relocated activities from their domestic locations to locations abroad in the past five years. In the manufacturing sector, the share is around 8%. In the future this number could increase: an additional 12% of all SMEs that already generate sales abroad are planning (partial) relocation of their enterprise abroad over the next five years; in the manufacturing sector the figure is as high as 29%.

These figures need to be seen in relation: they refer only to small and medium-sized enterprises in Germany that generated at least part of their sales abroad in 2024 and thus already have an international presence. They account for around 21% of the just under 3.9 million SMEs.

By contrast, the manufacturing sector is significantly more internationally oriented, with around 46% of all enterprises generating sales abroad. If almost one in three of these intends (partial) relocation abroad in the medium term, this suggests perceptible effects for the sector as a whole. Not all enterprises will, however, carry out their plans, as analyses of corporate investment behaviour indicate: in 2024 only 68% of enterprises actually implemented, as planned, the investments they had envisaged at the beginning of the year, whether at home or abroad.[24] If one assumes that only every second enterprise which has plans for (partial) relocation abroad actually implements them – and if one assumes further that enterprises which generate sales exclusively in the domestic market and thus have hardly any international experience do not consider relocation at all – this would mean that within the next five years around 7% of all manufacturing SMEs could relocate part of their production abroad.

Although the figures are not directly comparable, between 2019 and 2022, only around 2.9% of all manufacturing SMEs invested abroad – and they did so not solely to relocate parts of their production but above all to tap new sales markets for their domestic production.[25] This is an indication that, more than in the past, relocation of a significant share of manufacturing SMEs is looming – which account for only a small part of the just under 3.9 million small and medium-sized enterprises in Germany, but contribute disproportionately to sales and employment.

The DIHK also noted a rising share of German industrial enterprises with plans to invest abroad in its economic survey conducted in early 2026. Whereas motives relating to market entry and sales had previously been clearly predominant, cost savings have now become the main reason for planned foreign investments. In addition, plans to invest abroad are significantly more frequently accompanied by declining investment plans and job cuts in Germany.[26]

Enterprises and policymakers must face new realities

War in Ukraine and the Middle East, import tariffs in the US, growing competition from China – the external economic environment has become significantly more difficult in recent years. At the same time, enterprises' competitiveness in Germany is increasingly coming under pressure. This is also being felt by the SME sector, whose foreign sales have been stagnating since the recovery from the coronavirus crisis. Enterprises are adapting to this new reality – through greater diversification of exports, stronger orientation towards the EU internal market or a stronger focus on domestic customers: one quarter of all internationally active enterprises have already implemented adjustment measures in the past five years. A further quarter are planning corresponding measures in the near future. In the manufacturing sector, dependence on foreign markets is greater and the pressure to adapt is stronger. Here, almost three quarters of all small and medium-sized enterprises have already reacted or intend to do so in the coming five years.

(Partial) relocation of production capacities abroad as a way of circumventing import tariffs and benefiting from better locational conditions is understandable from a corporate perspective. For growth and prosperity in Germany, however, increasing deindustrialisation is a worrying development, particularly when it is driven by market-distorting industrial and trade policies of other countries. It leads to growing dependencies and shrinking room for manoeuvre in negotiations in a world in which a rules-based order and cooperation are losing importance.[27] Moreover, the German industry is closely intertwined with the services sector via its value chains – maintenance and repair services, legal, tax and business advisory services, transport and logistics services as well as personnel services depend to a large extent on the manufacturing sector.[28] A departure of industrial enterprises would thus have indirect effects reaching deep into the breadth of the SME sector.

Where policymakers have the power to shape conditions, they should use it to counter deindustrialisation. A key lever is strengthening Germany's competitiveness as a business location. Bureaucracy, energy and labour costs and the burden of taxes and charges are the factors where – also from the perspective of the SME sector – there is greatest need for action. For the manufacturing sector in particular, ensuring the supply of raw materials and addressing the shortage of skilled labour are of major importance to be able to compete on global markets from Germany in the future. At the same time, it is essential to drive forward digitalisation, avoid falling behind in key future technologies and strengthen investment and innovation.[29] In relation to the US and China, Germany and Europe need to reduce dependencies and regain geopolitical influence. In this context, industrial and trade policy instruments are increasingly moving centre stage.[30] In view of the plans of small and medium-sized enterprises, there is no time to waste here.

KfW SME Panel
The KfW SME Panel (KfW-Mittelstandspanel) has been conducted since 2003 as a recurring postal survey of small and medium-sized enterprises in Germany with annual turnover of up to EUR 500 million.

With data based on up to 15,000 enterprises per year, the KfW SME Panel is the only representative survey of the German SME sector, making it the most important source of data on issues relevant to the SME sector. As it is representative of SMEs of all sizes and across all sectors in Germany, the KfW SME Panel offers the possibility to make projections even for micro-enterprises with fewer than five employees. In the current wave, a total of 13,079 SMEs took part.

The KfW SME Panel is used as the basis for analyses of long-term structural developments in the SME sector. It provides a representative picture of the current situation and the needs and plans of SMEs in Germany. Its focus is on annually recurring information on corporate performance, investment activity and financing structure. This instrument offers the unique possibility of determining quantitative indicators for SMEs such as investment expenditure, loan demand or equity ratios.

The population of the KfW SME Panel comprises all SMEs in Germany. This includes private enterprises in all sectors of the economy with annual turnover of not more than EUR 500 million. Excluded are the public sector, banks and non-profit organisations. At present there are no official statistics providing adequate information the number of SMEs or the number of their employees. To determine the population of SMEs as well as the population of employees in SMEs in 2024, the German business register (Unternehmensregister) and the employment accounts (Erwerbstätigenrechnung) were used as a basis for the 2025 survey.

The sample of the KfW SME Panel is designed to generate representative and reliable data. To this end, the sample is split into four stratification groups: type of promotion, sector affiliation, enterprise size class and region. To be able to infer from the sample to the population, the survey results are extrapolated (weighted). To determine the extrapolation factors, the four central stratification characteristics are used: The extrapolation factors relate the distribution of the net sample according to the four stratification characteristics to the distribution in the population. Overall, two extrapolation factors are calculated: an unbound factor for extrapolating qualitative variables to the number of SMEs in Germany, and a bound factor for extrapolating quantitative variables to the number of employees in SMEs in Germany.

The survey is carried out by GfK GmbH on behalf of KfW Group. The project has received scientific advice from the Leibniz Centre for European Economic Research (ZEW) in Mannheim. The survey period for the main survey of the 23rd wave of the KfW SME Panel ran from 10 February 2025 to 20 June 2025.

Supplementary survey to the KfW SME Panel
The analyses of the development of foreign sales in 2025 and of the adjustment of international activities to changing economic conditions are based on for a supplementary survey to the KfW SME Panel 2025, which was carried out in the period from 12 to 21 January 2026. All enterprises that had previously taken part in a wave of the KfW SME Panel and had provided a valid e-mail address was available were surveyed. In total, responses from around 1,700 SMEs, including some 600 internationally active enterprises, could be taken into account. Due to the linkage to the main dataset of the KfW SME Panel, these results also provide a representative picture of the German SME sector.

Further information is available here.

[1] Cf. International Maritime Organization, accessed on 1 September 2026 at https://www.imo.org/en/mediacentre/pressbriefings/pages/statement-on-the-ongoing-crisis-in-the-strait-of-hormuz.aspx.

[2] Cf. The Economist (2026): The Iran war is roiling commodities far beyond oil, accessed on 11 August 2026 at https://www.economist.com/finance-and-economics/2026/03/16/the-iran-war-is-roiling-commodities-far-beyond-oil and World Economic Forum (2026): Beyond oil: 9 commodities impacted by the Strait of Hormuz crisis, accessed on 11 August 2026 at https://www.weforum.org/stories/supply-chains-and-transportation/beyond-oil-lng-commodities-impacted-closure-hormuz-strait/

[3] Cf. International Monetary Fund (2026): July 2026 World Economic Outlook Update: Global Economy in Crosscurrents of War and Technology, International Monetary Fund (2026): World Economic Outlook Update, January 2026: Global Economy: Steady amid Divergent Forces.

[4] Cf. Abel-Koch, J. (2026): Many SMEs are withdrawing from the US market, Economics in Brief No. 259, KfW Research.

[5] Cf. Abel-Koch, J. (2026): The international competitive position of German SMEs is under pressure – partly due to growing competition from China, Focus on Economics No. 537, KfW Research.

[6] Cf. Abel-Koch, J. (2026): The international competitive position of German SMEs is under pressure – partly due to growing competition from China, Focus on Economics No. 537, KfW Research.

[7] Exchange rate effects are likely to play only a subordinate role in this development, as a large share of SME exports goes to countries in the euro area and exports to third countries are frequently invoiced in euro as well. See German Federal Statistical Office (2026): 54.7% of Germany's export transactions with third countries were invoiced in euros in 2025, Press release No. 093 of 20 March 2026.

[8] There is no general deflator for aggregate sales volumes, nor a general price index that could be applied to sales volumes in the corporate sector. The German Federal Statistical Office uses different deflators for various industries or sections of the economy, in some cases at a very detailed level. A similar degree of differentiation is only possible to a very limited extent on the basis of the KfW SME Panel. Therefore, the gross domestic product deflator is used to adjust SME sales for price changes. See also Schwartz, M. and J. Abel-Koch (2024): KfW Internationalisation Report 2024 – International business in times of multiple crises: SMEs achieved a record result in 2022, KfW Research.

[9] Cf. Sultan, S. (2026): Dienstleistungshandel: Wo ist die EU stark, wo bestehen Abhängigkeiten? (*Trade in services: Where is the EU strong, where are there dependencies*, in German only), IW-Report 2/2026.

[10] Cf. Matthes, J. and S. Sultan (2026): Zuwächse in Europa stabilisieren deutsche Exportbilanz (*Gains in Europe stabilise Germany's export balance*, our title translation, in German only) and Matthes, J. (2026): Entwicklung der deutschen Exporte im Jahr 2025 nach Ländern (*Development of German exports in 2025 by country*, in German only), IW-Report 68/2025.

[11] Cf. German Federal Statistical Office and Federal Bank (2026): Außenhandel und Dienstleistungen der Bundesrepublik Deutschland mit dem Ausland – Integrierte Daten für den Berichtszeitraum 2021 bis 2025 (*Foreign trade and services of the Federal Republic of Germany with foreign countries – integrated data for the reporting period 2021 to 2025*, our title translation, in German only), as at May 2026.

[12] Cf. Schwartz, M. and J. Gerstenberger (2025): KfW SME Panel 2025 – Steady course but headwinds loom: SMEs were stable in recession year, trade conflicts on the horizon, KfW Research.

[13] Cf. Statistisches Bundesamt (2026): German exports in first half of 2026: +3.9% on the same period a year earlier, Press release No. 296 of 20 August 2026.

[14] Cf. Wanke, S. (2026): Big bank – and potentially a breakthrough, KfW-ifo SME Barometer August 2026.

[15] Cf. Zimmermann, V. (2025): Mittelständische Unternehmen mit Geschäftsmodellinnovationen sind erfolgreicher (*SMEs with business model innovations are more successful*, our title translation, in German only), Focus on Economics Nr. 480, KfW Research.

[16] Cf. Bundesbank (2025): What's behind the sustained decline in German export market shares?, Monthly report, July 2025.

[17] Cf. Grewenig, E. and A. Brüggemann (2024): Geschäftsmodell Klimaschutz: Bereits 30 % der Unternehmen in Deutschland haben Klimaschutzgüter im Produktportfolio (*Business model climate protection: Already 30% of enterprises in Germany have climate protection goods in their product portfolio*, our title translation, in German only), Focus on Economics No. 458, KfW Research.

[18] Cf. Sultan, S. (2026): Dienstleistungshandel: Wo ist die EU stark, wo bestehen Abhängigkeiten? (*Trade in services: Where is the EU strong, where are there dependencies*, in German only), IW-Report 2/2026 and German Federal Bank (2026): International trade in services, available at https://www.bundesbank.de/en/statistics/external-sector/trade-in-services/international-trade-in-services-971272, accessed on 6 August 2026.

[19] Cf. Abel-Koch, J. and K. Ullrich (2021): Low globalisation momentum requires adjustment of German companies' growth strategies, Focus on Economics No. 349, KfW Research.

[20] Cf. Abel-Koch, J. (2021): KfW Internationalisation Report 2021 – Coronavirus crisis sends SMEs' international business tumbling, KfW Research.

[21] Cf. also Caselli, F., Koren, M, Lisicky, M. and S. Tenreyro (2020): Diversification Through Trade, The Quarterly Journal of Economics, Bd. 135(1), S. 449–502, and Herskovic, B., Kelly, B., Lustig, H. and S. Van Nieuwerburgh (2020): Firm Volatility in Granular Networks, Journal of Political Economy, Bd. 128(11), S. 4097–4162, which show that smaller enterprises with a stronger concentration on few customers exhibit higher volatility.

[22] Cf. Abel-Koch, J. (2025): KfW Internationalisation Report 2025 – SMEs' international business stagnates in difficult environment – US policies are making EU single market even more important, KfW Research.

[23] There are various estimates in the literature of the implicit level of tariffs in EU trade. Although the estimates arrive at different results owing to differing data bases and estimation approaches, taken together they point to significant trade barriers in the EU Single Market. See also ECB (2025): What is the untapped potential of the EU Single Market? Economic Bulletin 8.

[24] Cf. Schwartz, M. and J. Gerstenberger (2025): KfW SME Panel 2025 – Steady course but headwinds loom: SMEs were stable in recession year, trade conflicts on the horizon, KfW Research.

[25] Cf. Abel-Koch, J. (2023): Main motive for SMEs to invest abroad is to expand into new sales markets, Focus on Economics No. 446, KfW Research.

[26] Cf. German Chamber of Commerce and Industry (2026): Foreign Investments of Manufacturing Companies 2026.

[27] Cf. KfW Research (2025): Wettbewerb(sfähigkeit) neu denken: Deutschlands Industrie am Scheideweg (*Rethinking competition (competitiveness): Germany's industry at a crossroads*, our title translation, in German only).

[28] Cf. IW Consult (2021): Bedeutung unternehmensnaher Dienstleistungen für den Industriestandort Deutschland/Europa (*Importance of business-related services for Germany/Europe as an industrial location*, our title translation, in German only).

[29] Cf. KfW Research (2025): Wettbewerb(sfähigkeit) neu denken: Deutschlands Industrie am Scheideweg (*Rethinking competition (competitiveness): Germany's industry at a crossroads*, our title translation, in German only) and Abel-Koch, J. (2026): The international competitive position of German SMEs is under pressure – partly due to growing competition from China, Focus on Economics No. 537, KfW Research.

[30] Cf. Moller-Nielsen, T. (2026): Die EU setzt ihre Handelsmaßnahmen gegen China fort, da das Defizit einen neuen Höchststand erreicht hat (*The EU continues its trade measures against China as the deficit reaches a new record high*, our title translation, in German only), available at https://euractiv.com/de/news/die-eu-setzt-ihre-handelsmassnahmen-gegen-china-fort-da-das-defizit-einen-neuen-hoechststand-erreicht-hat/ accessed on 6 August 2026 and Kirchner, R. (2026): Mit Druck gegen den China-Schock (*Using pressure to counter the China shock*, our title translation, in German only), available at https://www.tagesschau.de/inland/innenpolitik/china-wettbewerb-deutschland-100.html