

German SMEs divided over possible consequences of a hard Brexit



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An exit without a deal?

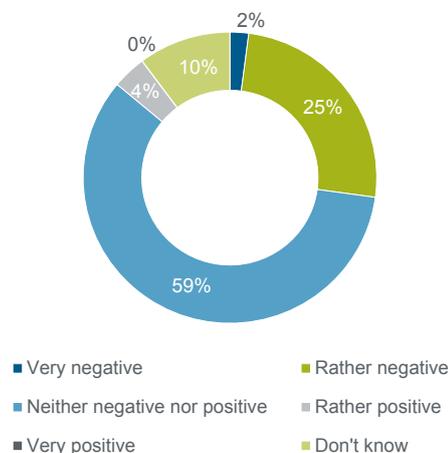
The United Kingdom is set to leave the EU on 31 October. So far, however, no agreement on the withdrawal has been reached, so the possibility of a hard Brexit at the end of October or after a renewed extension remains. Not all small and medium-sized enterprises (SMEs) in Germany would be affected – and some could even benefit.

The majority of German SMEs are relaxed about Brexit

Around 25% of German SMEs fear rather negative consequences for their business in the event of a hard Brexit and 2% even expect very negative effects. Only 4% expect rather positive effects. Almost none of the SMEs expect very positive effects. Some 60% believe they would not feel any major impacts (Figure 1). These are the findings of a representative survey conducted among German SMEs by KfW Research in September.

Figure 1: One in four SMEs fear negative consequences

Expected consequences of a hard Brexit on own business. Share of all SMEs.



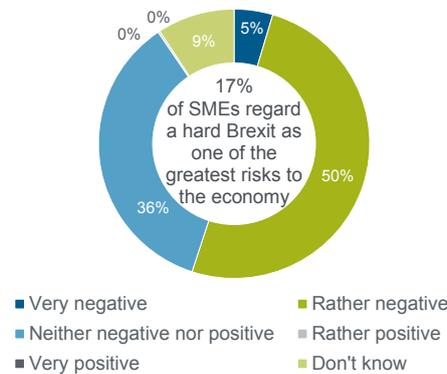
Source: KfW SME Panel 2019

Concern over the economy is most likely what clouds the expectations of many

SMEs. Of the 17% of SMEs that regard a disorderly Brexit as one of the greatest risks to the German economy, more than half expect negative consequences for their business.

Figure 2: Brexit as an economic risk

Expected consequences of a hard Brexit on own business. Share of all SMEs that regard a hard Brexit as one of the three main risks to the German economy.



Source: KfW SME Panel 2019

Export-oriented manufacturers are particularly pessimistic

Furthermore, some SMEs are likely to be directly impacted as well – for example because they export to the United Kingdom. Accordingly, four in ten SMEs, whose international turnover makes up more than 10% of total turnover, expect a hard Brexit to disadvantage them.

Export-driven manufacturing SMEs would be hit particularly hard as they would lose an important sales market. More than 60% of them expect negative consequences for their business in the case of a disorderly exit.

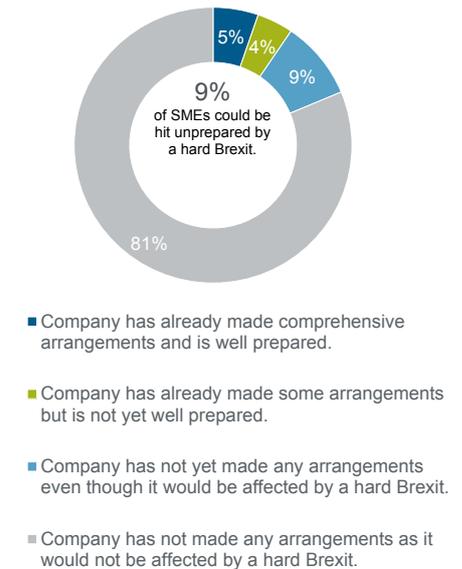
Some service providers could even benefit from a hard Brexit

However, a relatively high 15% of service providers with a strong export focus, which include law firms, tax consultants and auditing firms, expect a

hard Brexit to have positive effects on their business. Reduced competition from rivals in the United Kingdom likely plays a role here but so does the increased need for advisory services from companies with business activities in the United Kingdom.

Figure 3: SMEs that have made preparations for a no-deal Brexit

Share of SMEs that have made arrangements for a possible hard Brexit in all SMEs.



Source: KfW SME Panel 2019

Only few SMEs have made comprehensive arrangements

Four in five small and medium-sized enterprises have not made any preparations for a hard Brexit because they do not believe they will be directly impacted. One in twenty see themselves affected but feel well prepared. By contrast, there is somewhat more concern about a disorderly exit among the 13% of SMEs that believe they would be affected but are not yet or not sufficiently prepared. If the economic consequences of a hard Brexit remain manageable, they could get away with a black eye.