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.

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.

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.

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.

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.