

Fact sheet

“No-deal Brexit” no disaster for German economy

The British are still yet to decide whether they will accept the exit agreement to leave the EU. A no-deal Brexit remains a possibility. But this is no longer something to fear for the German economy.

Peace on the Irish isle, democracy and social cohesion in the UK, the EU - Brexit is a lose-lose situation. All of these assessments of Brexit as a political tragedy are true and significant.

The chaos that threatens the borders should an unregulated no-deal Brexit happen is also a worry to the German economy - although in this case temporary precautions could be taken. A greater cause for concern is the resulting tariffs that would affect exports to the UK. For Germany, exported goods to the UK in 2018 were worth a good **80 billion euros**, around half of which went to the automobile industry, mechanical engineering, and the electrical industry. The UK is Germany's **fifth most important exporting country for goods**.

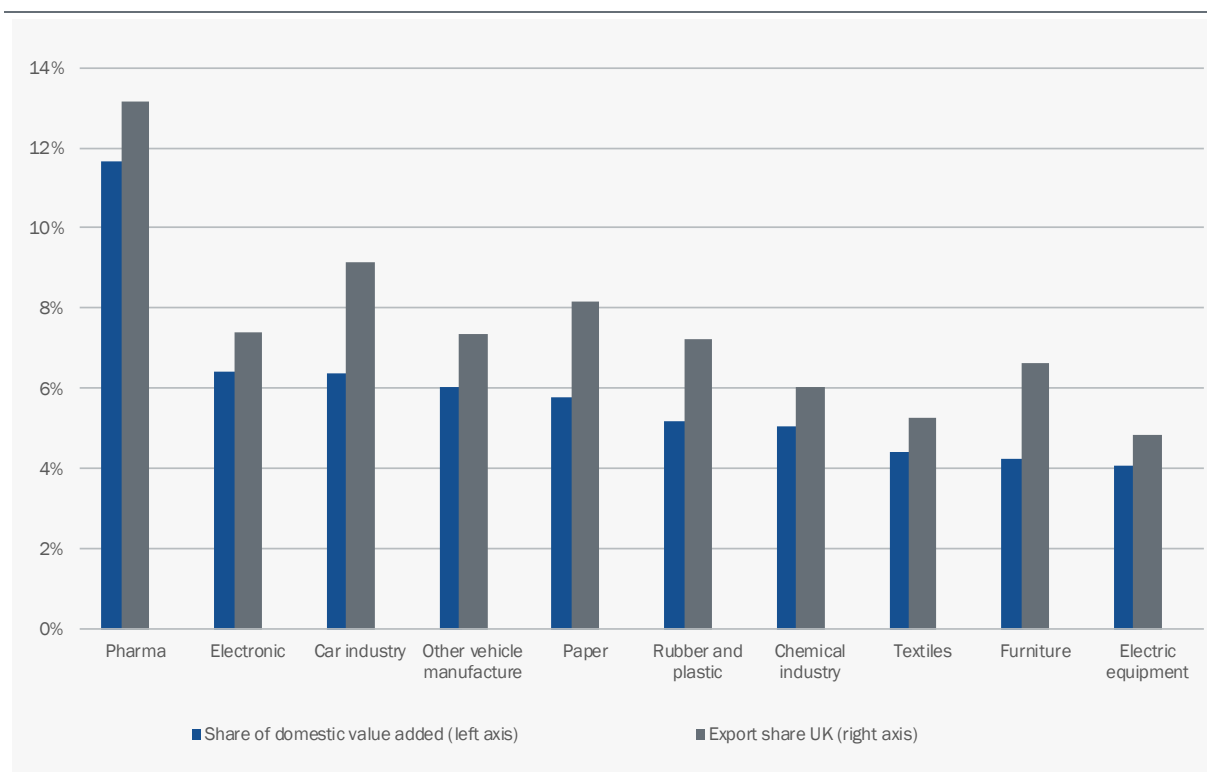
“Whatever happens with Brexit: We must of course strive to keep the trade barriers with the British low, permanently. However, companies have had the last few years to adapt their organization for the cut. A no-deal Brexit no longer represents the nightmare for the German economy it once did.” – *Dr. Michael Böhrmer, Prognos Chief Economist*

Not all exports have the same amount of domestic added value:

In the automobile industry and in a few other industrial sectors, the added value of production in Germany is rather low. As a result, in the case of a decline in exports due to a no-deal Brexit, value added and employment in individual sectors would be affected quite differently than suggested by export figures alone.

In fact, it would be the **pharmaceutical industry** that has the most to lose, followed by **the electronic industry**, with the **automobile industry** only in third place. The major industrial sectors export between **4 and 6 per cent** of their value added to the UK. Many other industries are well below these proportions. In economic terms, **7 percent** of our total exports go to the United Kingdom, but these account for only **1.9 percent** of our value added.

Figure 1: Share of UK value added flows in total domestic value added (left axis) and United Kingdom export share, per sector



Source: WIOD, Bundesbank, Destatis, their calculations.

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If, for example, exports from the major industrial sectors were to collapse by **20 percent** in the short-term—in the case of a no-deal Brexit—the value-added losses in several industries would amount to around **1 percent**.

“That wouldn’t be great, but manageable.

The costs of continued uncertainty are unlikely to be much lower.” says Dr. Michael Böhmer.

For many other sectors the effect would be hardly noticeable. In this scenario, macroeconomic short-term losses in domestic value added of less than half a percent would have to be absorbed.

“The impact on full-year GDP growth is likely to be significantly lower. German companies won’t be overcome by lethargy and spend an entire year crying to the British. Rather, they would make swift efforts to at least partially compensate for losses, from other markets.” Michael Böhmer.

Considering the central role of Germany in European value chains¹, this is also good news for the European economy overall.

¹ see also: Prognos AG (2019) [The importance of the German economy for the EU](#). On behalf of VBW.

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Methodology

Production processes have become increasingly fragmented in recent decades—different countries and industries add value to final production at various stages of the production chain. With traditional trade statistics, based on service and consumer goods exports, it is not possible to adequately represent these value chains. In order to record value-added flows statistically, multi-regional input-output tables, the so-called World Input-Output Tables (WIOD), are used. These map trade links between 56 industries and 43 countries. Through various matrix operations, it is possible to visualize value-added flows between industries and countries and to analyse the real, undistorted economic importance of trade.

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