

# Deloitte Brexit Briefings

## Perspectives on Brexit

### The Deloitte Brexit Briefing Series

The United Kingdom's decision to leave the European Union in June 2016 will have sweeping economic and political consequences. For German enterprises, Brexit means their business environment will change fundamentally.

The *Deloitte Brexit Briefings* take an in-depth look at core issues and risks in the context of Brexit from an economic, strategic, tax-related and legal perspective, helping readers navigate the complex impacts of Brexit and the Brexit process.



### This edition

The United Kingdom announced its plans to leave the European Union more than three years ago. And although it is still technically a member state, this decision has already made its mark on the German economy.

In this edition of our Brexit Briefings series entitled "Brexit so far – The impact to date on Germany as a location for business", we will analyze the effects that Brexit negotiations are already having on German-UK economic relations. Our focus is on trends between the two economies in terms of trade relations, foreign direct investment and citizenship.

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Brexit is a process rather than an event – it is already heavily impacting trade and citizenship trends, while the effect on foreign direct investment has been weak to date

## Three key trends since Brexit negotiations began

- ### # 1

Trade between Germany and the UK has declined significantly

  - Over the past three years, German trade with the UK has plummeted by more than 8 billion euros on a cumulative basis – a figure that exceeds Germany’s overall annual trade with Greece
  - The impact has been particularly strong on Germany’s automotive and pharmaceutical industries – German automotive exports to the UK fell by more than 6 billion euros cumulated over the past three years – a figure that exceeds Germany’s total annual car exports to Japan
  - Southern Germany is bearing most of the burden – above all Bavaria, Baden Württemberg and Saarland are suffering most from the downward trend in trade
  
- ### # 2

While FDI from the UK is still growing, the growth rate has not changed significantly compared to the recent past

  - UK direct investments in Germany (by entities with a UK-based parent company) have grown since 2016 (14 percent), rising at a rate similar to that of previous three-year periods and other key investor countries
  - Frankfurt and Dusseldorf in particular have benefited from the growth in FDI from the United Kingdom
  
- ### # 3

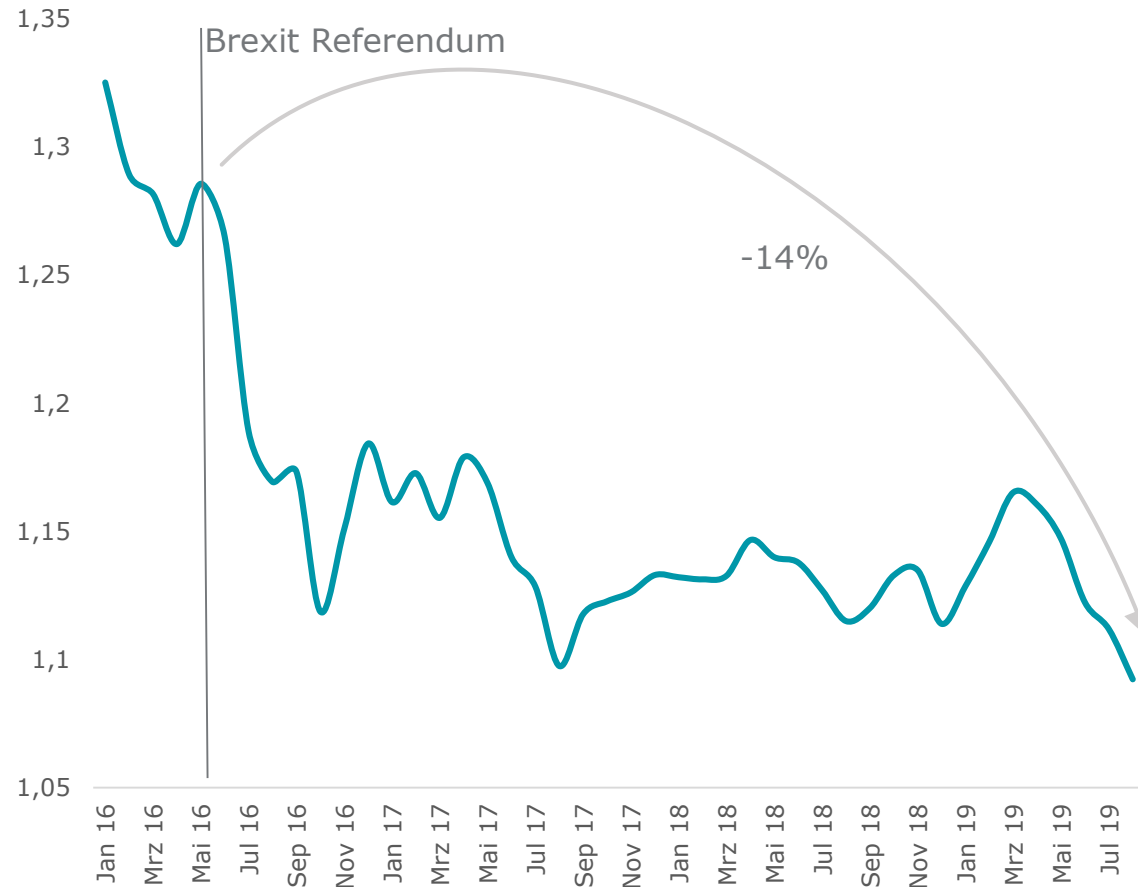
Number of British citizens applying for German citizenship has risen sharply

  - From 2016 to 2018, a total of 17,000 British citizens applied for German citizenship, compared to only 4,800 in total over the previous 15 years

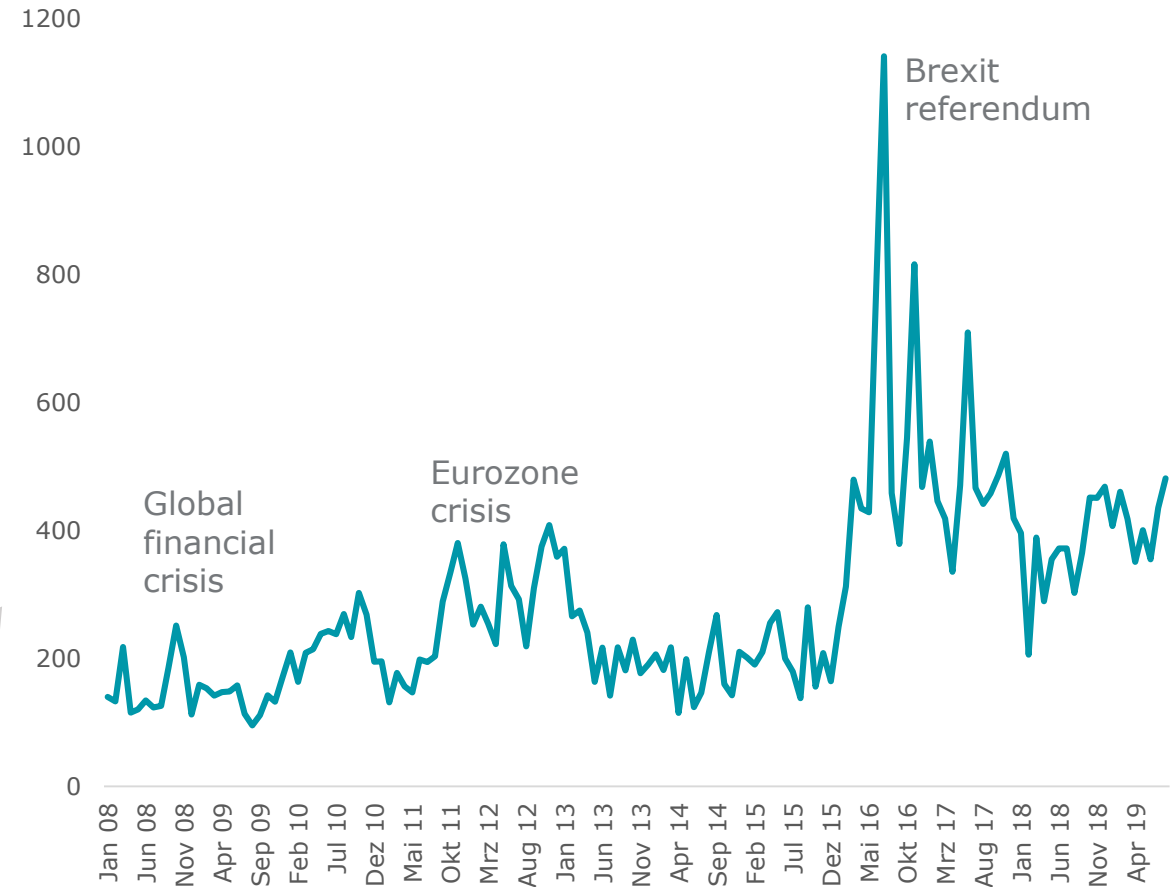
# Brexit | Context

The Brexit process has had the biggest impact on two particular economic indicators: the exchange rate and economic uncertainty

Euro/British pound sterling exchange rate



UK Economic Uncertainty Index



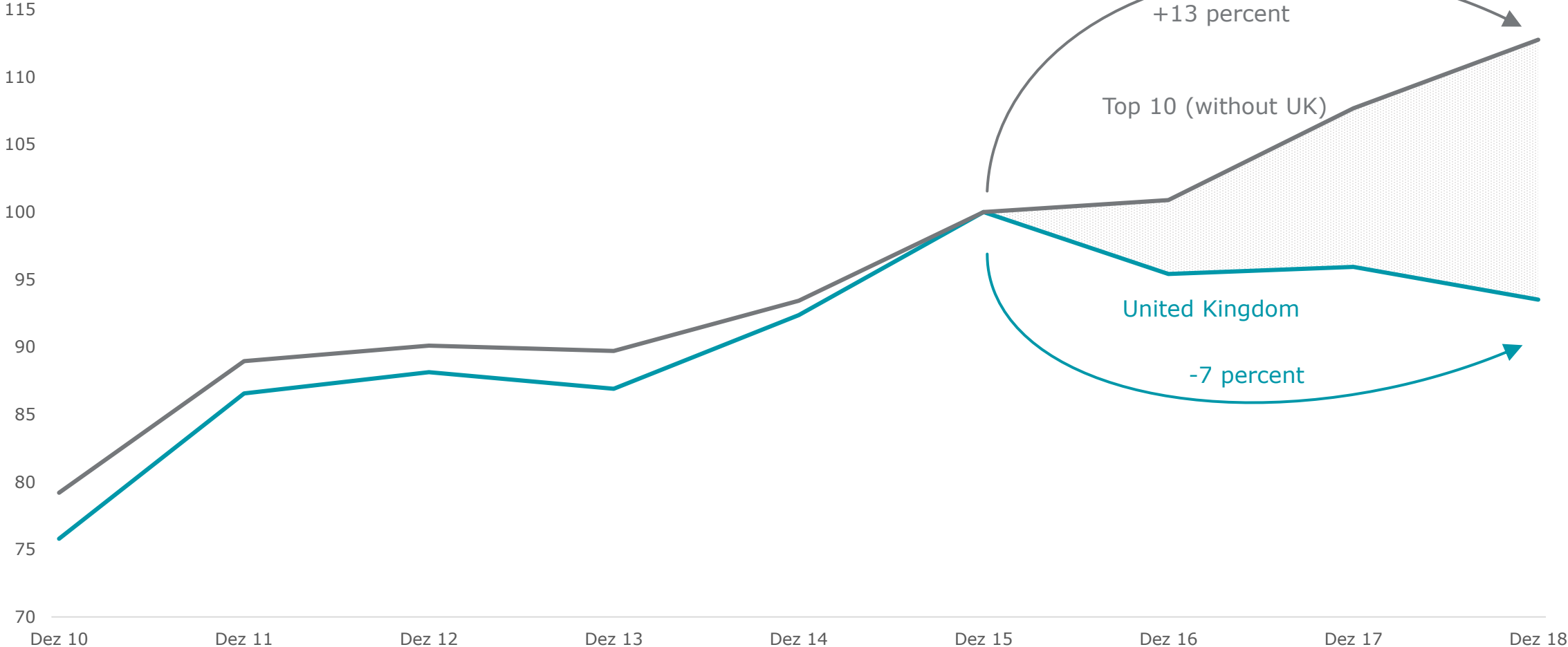
Source: European Central Bank, Economic Uncertainty Index

# Foreign trade

# Foreign trade | Trade volume (1)

German trade with the UK has plummeted by over 8 billion euros in the past three years – more than Germany’s overall annual trade with Greece

German trade volume (goods) with selected partners (2015=100)

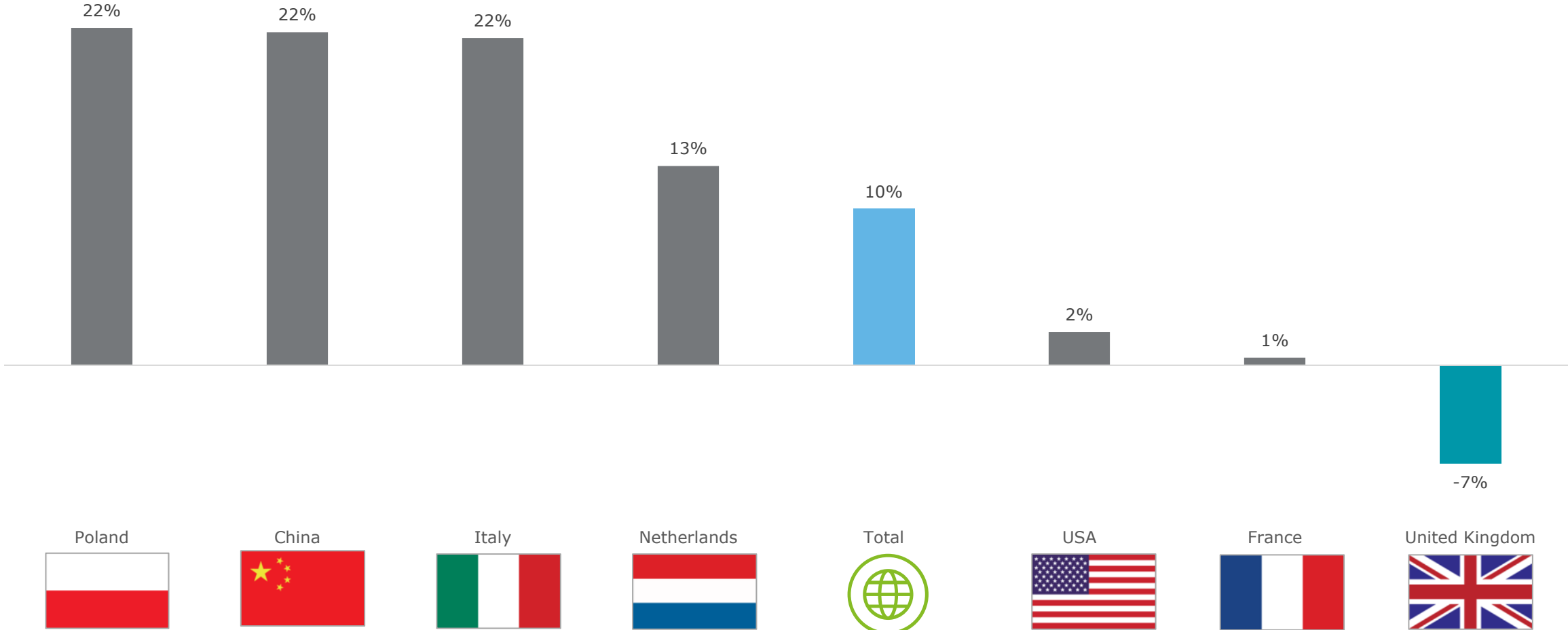


Source: Destatis, Deloitte Analysis

# Foreign trade | Trade volume (2)

While German trade has increased with other partners, there has been a sharp decline in trade with the United Kingdom

German trade volume (goods) with selected partners (2015-2018, in %)

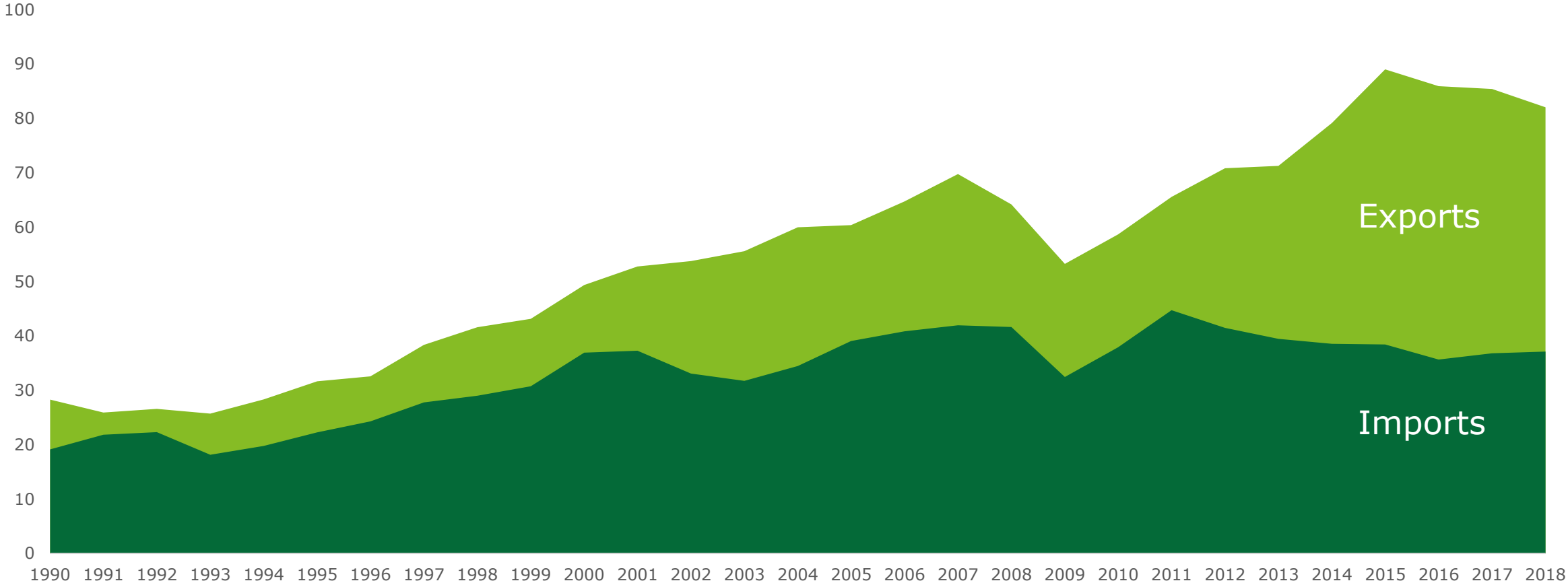


Source: Destatis, Deloitte Analysis  
2019 Deloitte

# Foreign trade | Exports and imports

German exports to the UK have decreased since the Brexit referendum, while imports have increased slightly as a result of the falling pound exchange rate

German imports and exports (goods) with the United Kingdom (in billion euros)













Source: Destatis, Deloitte Analysis



## Foreign trade | Exports

Over the past three years, the United Kingdom has dropped from third to fifth place among Germany's top export partners, displaced by China and The Netherlands

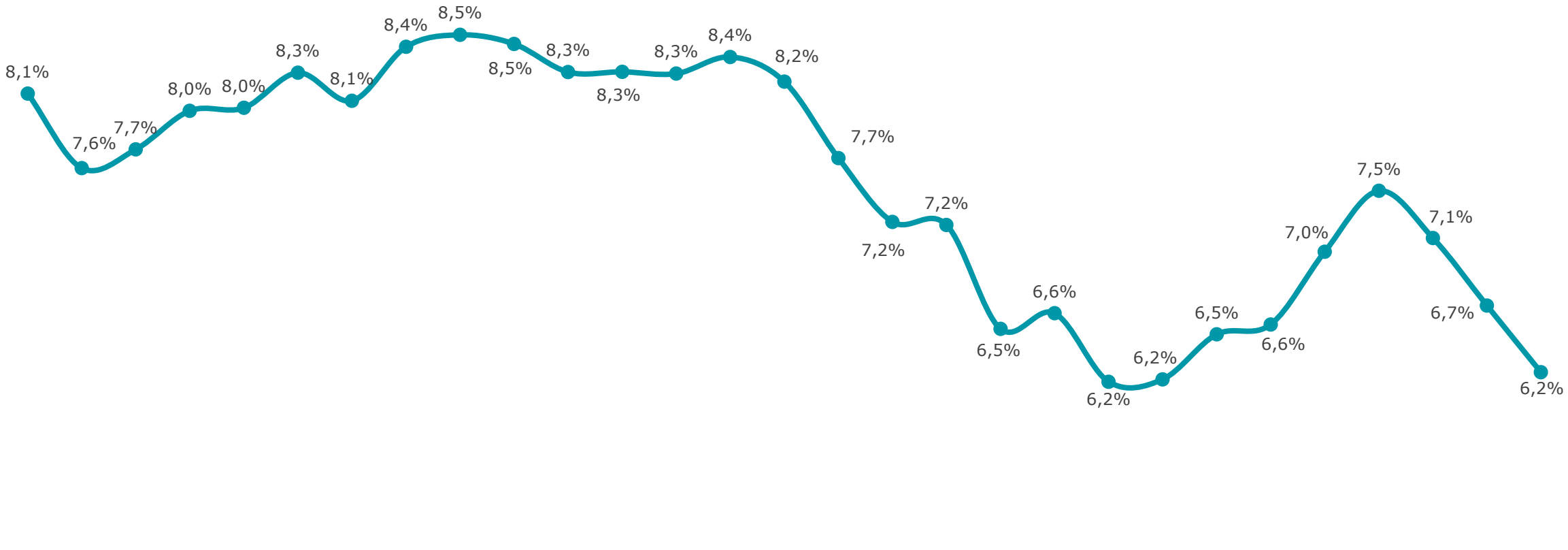
Germany's top export partners (goods)

2016	2018
 1. USA	 1. USA
 2. France	 2. France
 <b>3. United Kingdom</b>	 3. China
 4. The Netherlands	 4. The Netherlands
 5. China	 <b>5. United Kingdom</b>

# Foreign Trade | Share of exports

The United Kingdom's share of German exports has now fallen to the same level as during the financial crisis

UK share in German exports of goods (in %)

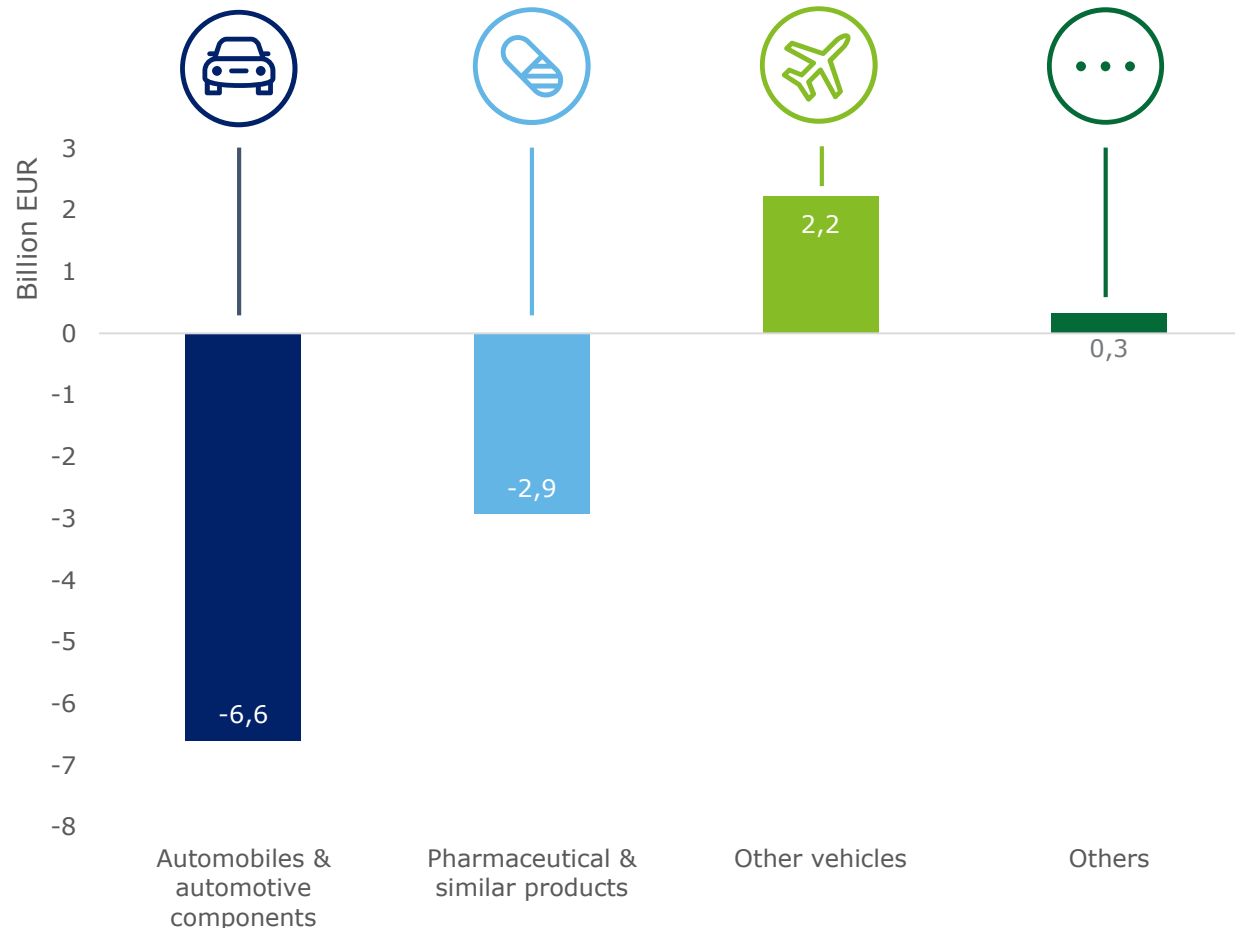


Source: Destatis, Deloitte Analysis

## Foreign trade | Sectors

Uncertainty surrounding the Brexit negotiations has hit German automotive and pharmaceutical industries particularly hard

Share in the decline of **goods exports** from Germany since 2015 by sector (in billion euros)



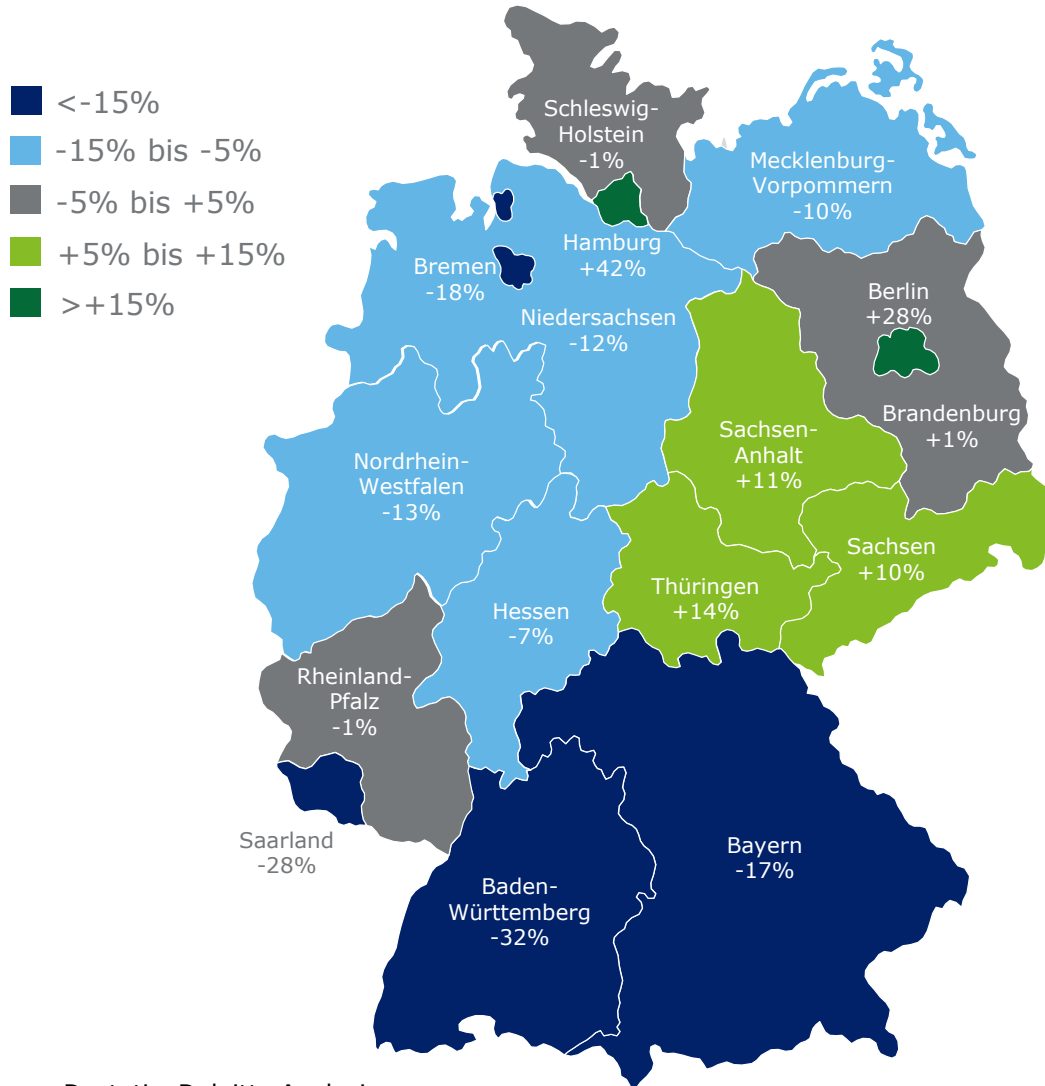
Source: Destatis, Deloitte Analysis

2019 Deloitte

- German exports to the United Kingdom have fallen by **8 percent** since 2015
- The German **automotive sector** accounts for the largest share in the drop in exports, reporting a decrease of over 6 billion euros (-23 percent) – more than Germany’s total annual car exports to Japan
- The **pharmaceutical sector** is also a major factor in the decline in exports, reporting an accumulated loss of just under 3 billion euros (-41 percent)
- By contrast, we have seen an increase in the export of “other vehicles”, namely **aviation and spacecraft**

# Foreign trade | Regional impact

## Massive regional disparities in the export trends of the Federal States



Growth in German exports to the United Kingdom by state (2015-2018, in %)

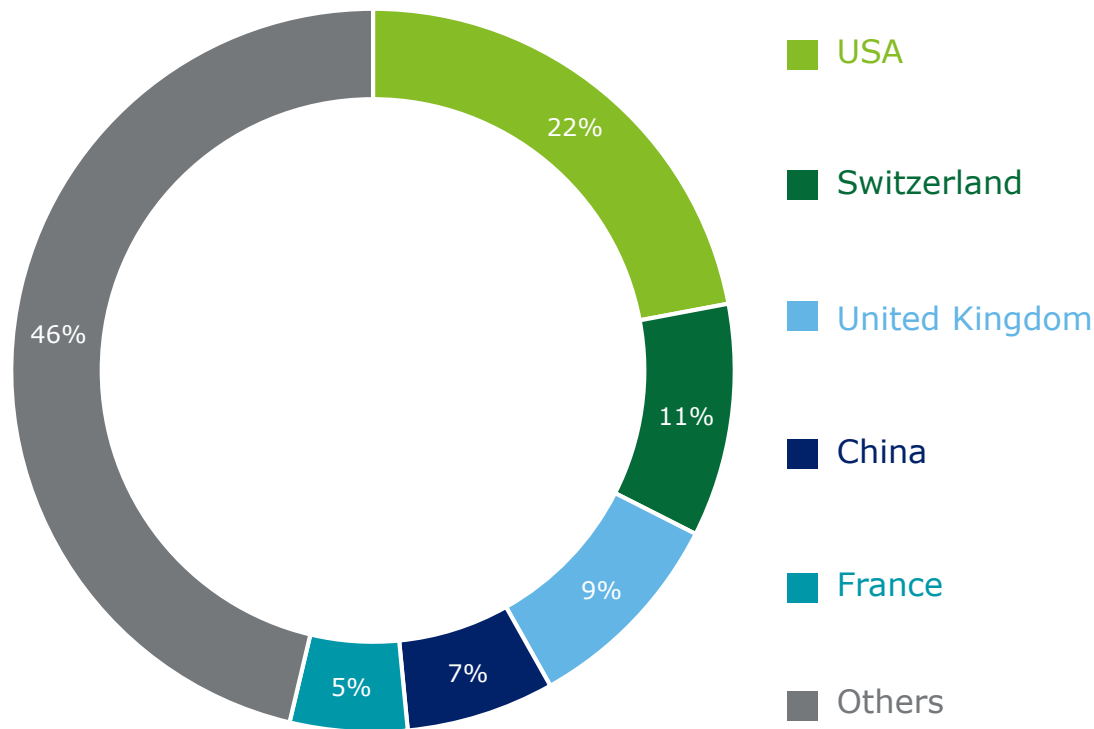
- The **top-3 export partners** in the United Kingdom are Bavaria, North Rhine-Westphalia and Baden-Württemberg
- Brexit negotiations have already had a **tangible impact**, particularly in states with a focus on the automotive sector
- Exports from **Baden-Württemberg** were hit particularly hard due to the concentration of automotive and pharmaceutical companies in the state
- **Bavaria, Bremen** and **Saarland** are also suffering from sluggish automotive exports
- By contrast, **Hamburg** and **Berlin** are benefiting from rising exports in the aviation sector and food & tobacco industry, respectively

# Foreign direct investment

# Foreign direct investment | Overview

## The United Kingdom is the third-largest provider of foreign direct investment into Germany

Share of FDI projects since 2016 by country of origin



- During the period from 2016 to 2018, the total number of foreign direct investment projects rose in Germany by a **moderate** 10 percent over the previous three-year period
- The number of FDI projects increased in particular from **China** (18 percent), the **US** (17 percent) and the **United Kingdom** (14 percent) during the same period
- The number of new investment projects in those three years decreased from **Switzerland** and **France** (-5 and -6 percent, respectively)

### Definitions

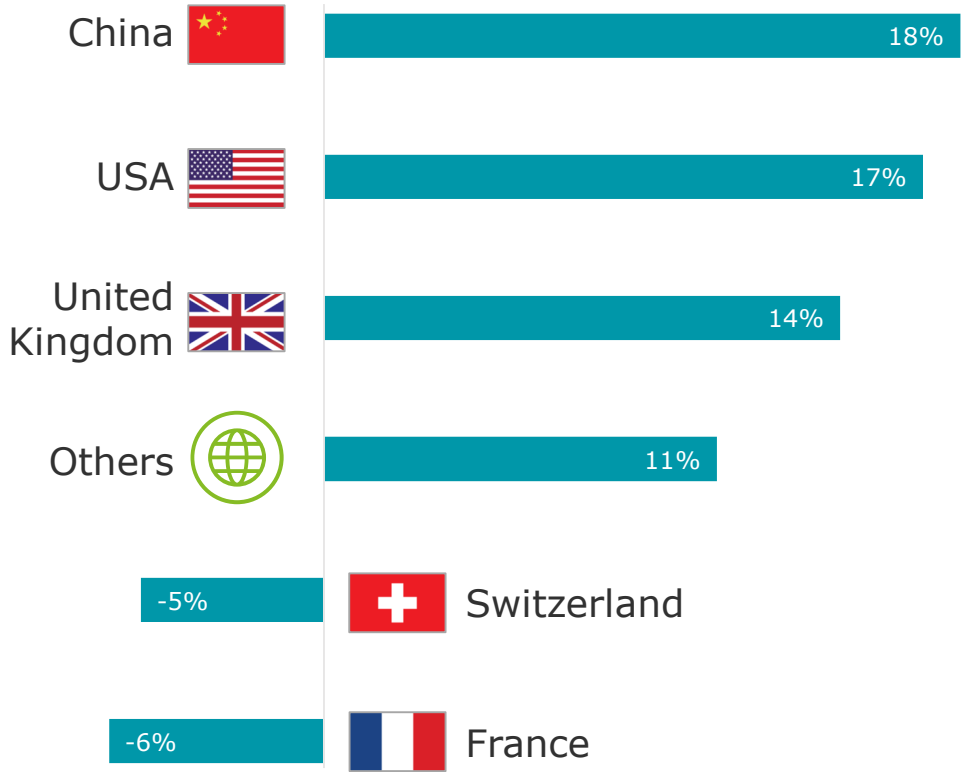
- **Foreign direct investments** are defined as cross-border investments in a new physical project or the expansion of existing investments that create new jobs or capital expenditure
- Joint ventures are only included if they lead to new physical operations. Mergers and other equity investments are not included
- The country of origin is defined as the location of the parent company's headquarters. Relocations of UK-based subsidiaries of American or Japanese parent companies are not considered UK direct investments.

Source: fDi Markets, Deloitte Analysis

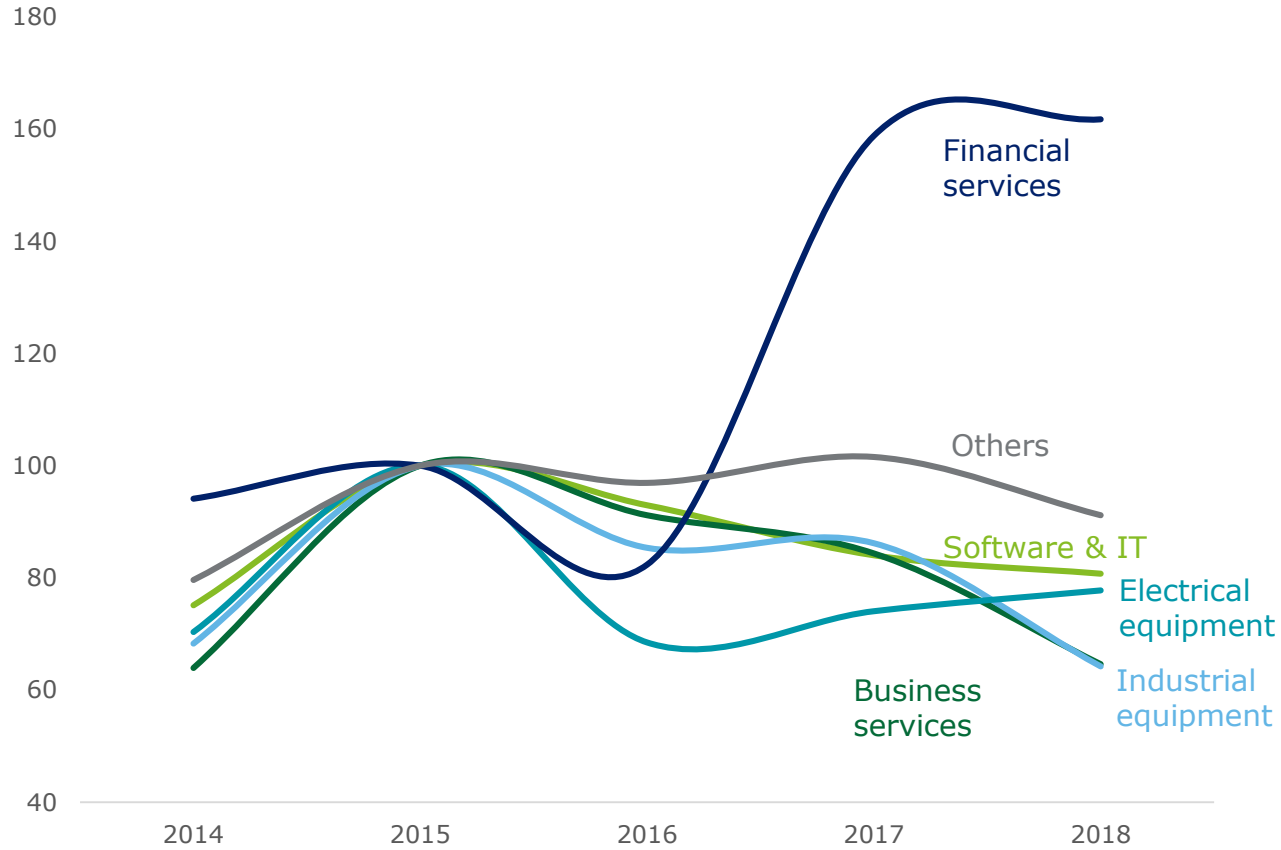
# Foreign direct investment | Overview

Direct investments from the UK are rising in line with trends from other key investor countries – surge in financial industry projects

FDI trends by country (percentage change 2016-2018 vs. 2013-2015)



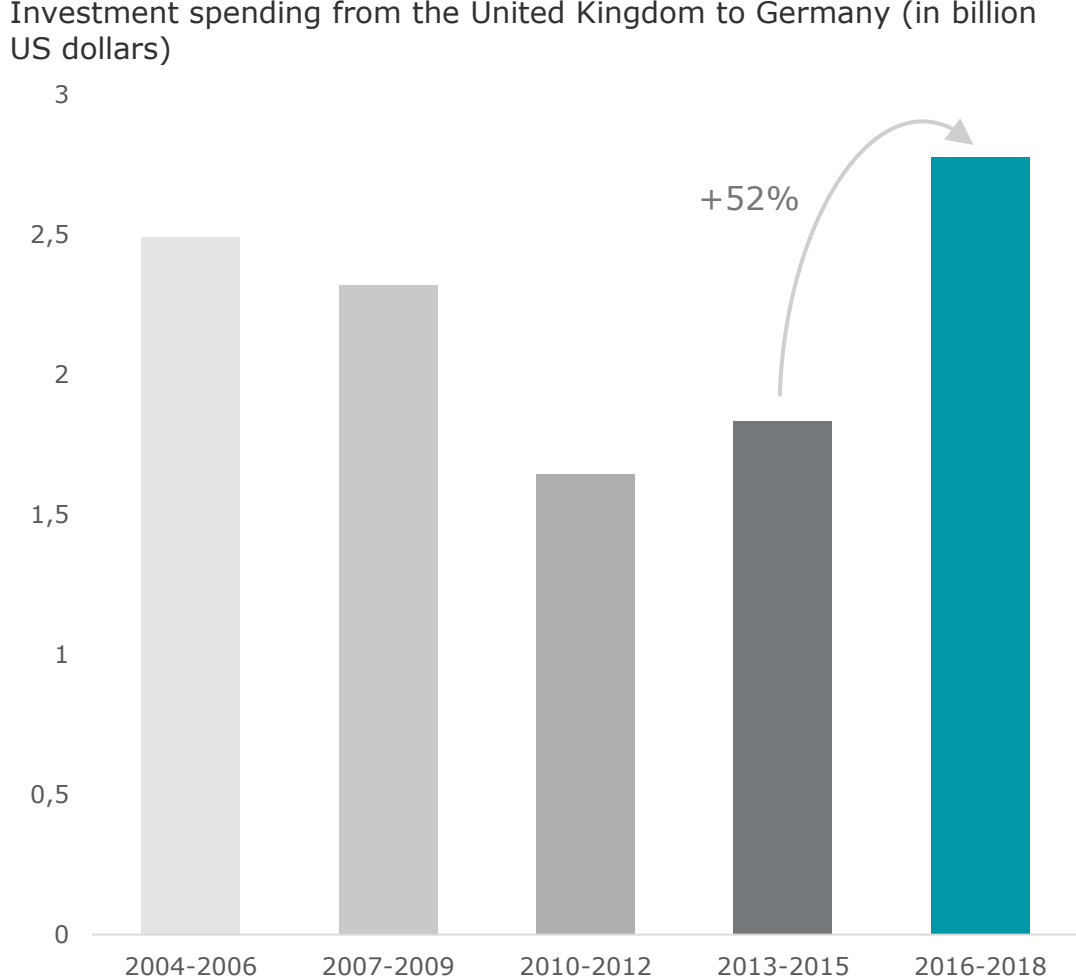
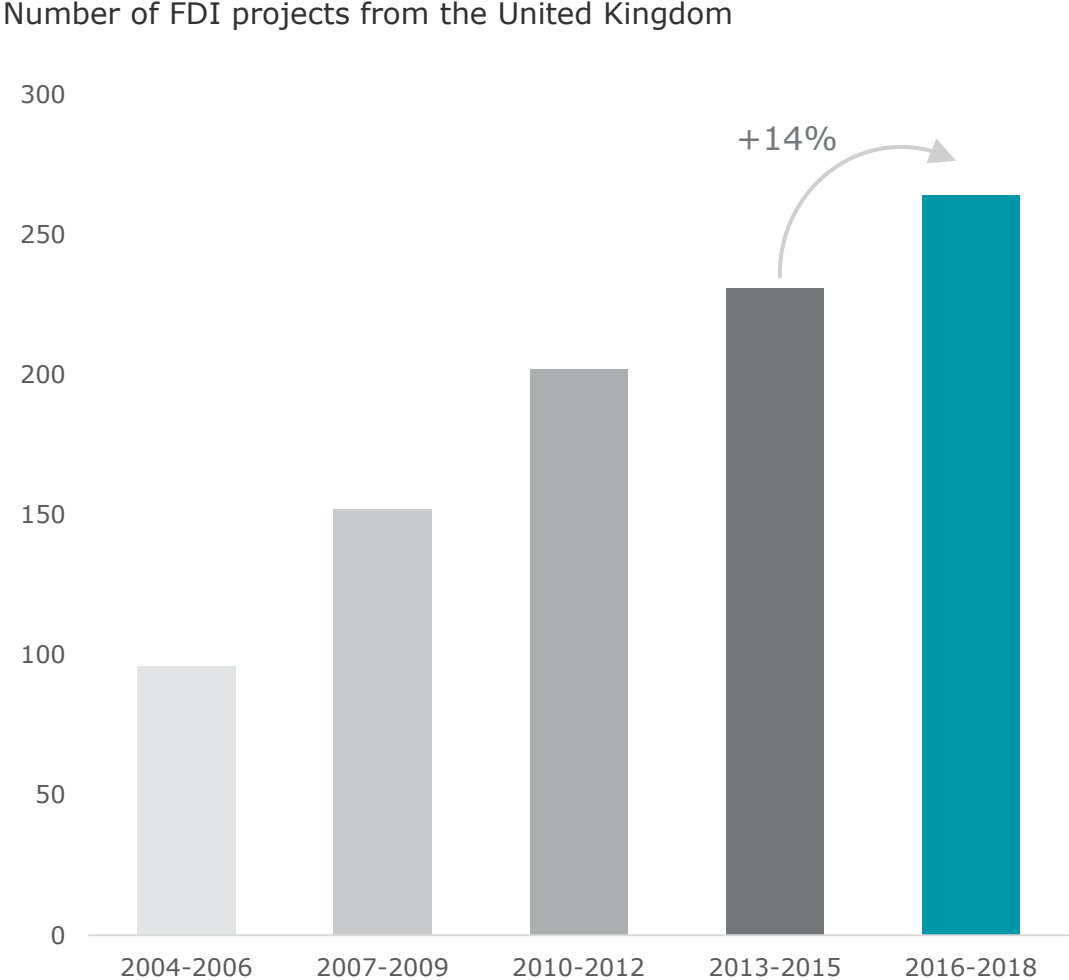
Number of FDI projects by sector (2015=100)



Source: fDi Markets, Deloitte Analysis  
2019 Deloitte

# Foreign direct investment | UK

British companies have increased the number of investments in Germany at a rate similar to previous years, while the projects are larger in scale – no clear Brexit effect



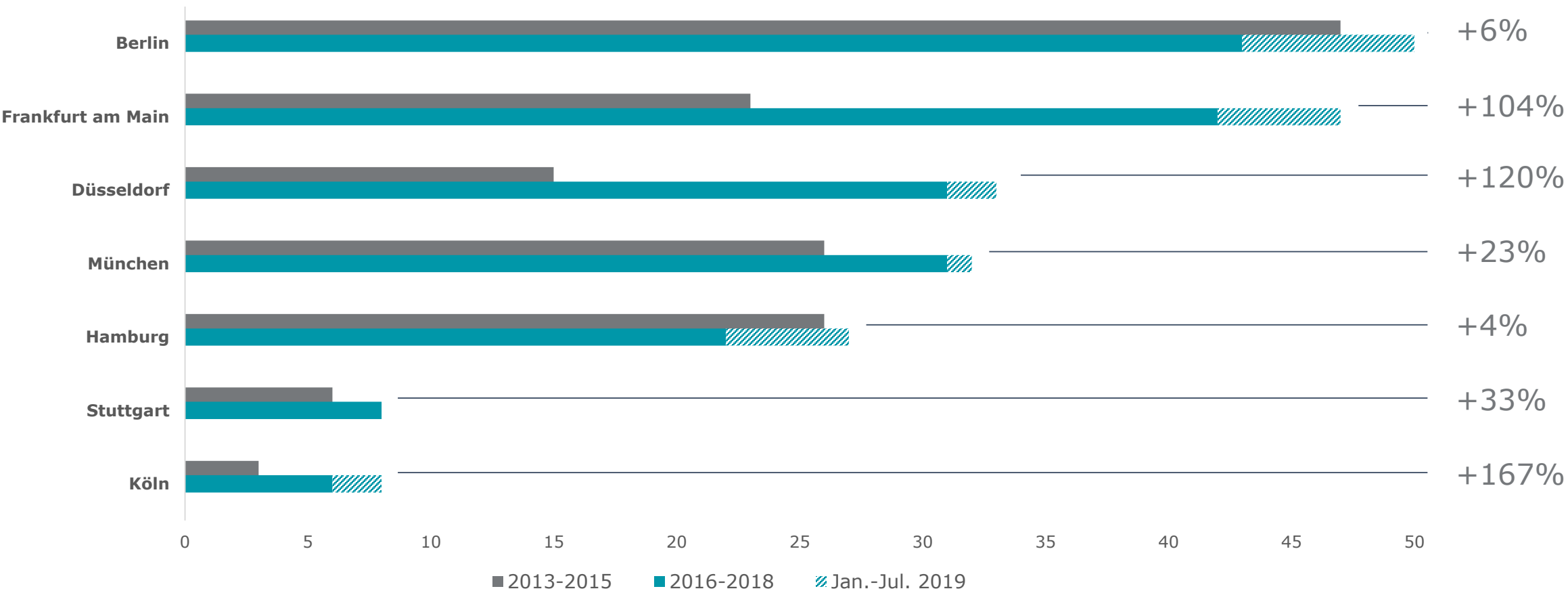
Source: fDi Markets, Deloitte Analysis



# Foreign direct investment | Cities

The United Kingdom has increased their investments in all major German cities – with Frankfurt and Dusseldorf in particular reaping the benefits

Number of FDI projects by destination



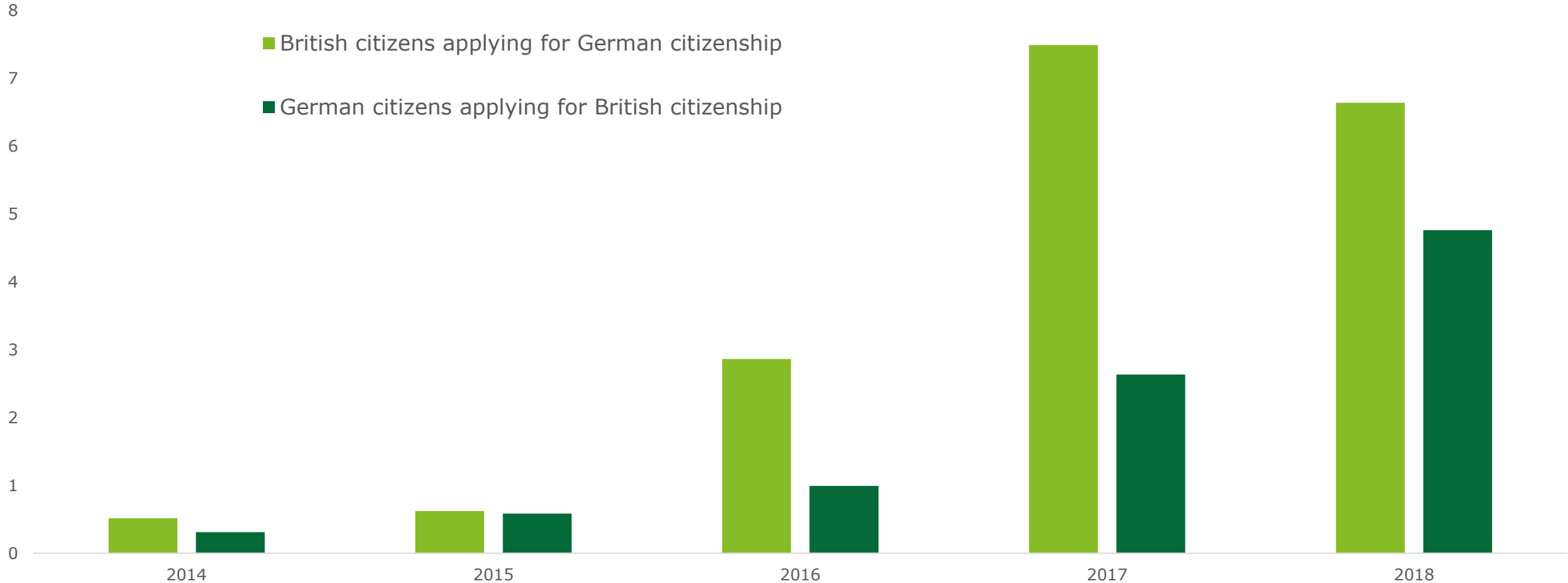
Source: fDi Markets, Deloitte Analysis  
2019 Deloitte

# Citizenship

# Citizenship

In the period from 2016 to 2018, a total of 17,000 British citizens applied for German citizenship – up from only 4,800 applications in the previous 15 years

The number of British citizens applying for German citizenship and German citizens applying for British citizenship (in 1,000)



Source: Destatis

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# Brexit | Publications

Brexit Briefings: in-depth look at core issues and risks in the context of Brexit from an economic, strategic, tax-related and legal perspective

## Brexit Briefings

### Part 1: Brexit Survey 1.0

EU Referendum: Brexit and the consequences for German companies

### Part 2: Brexit Scenarios

CLV-Scenario analysis about possible trade relationships between the United Kingdom and the EU

### Part 3: Sectoral Analysis

German industrial sectors' ties with the United Kingdom

### Part 4: Brexit Survey 2.0

Opportunities, risks and scenarios -Brexit from a German business perspective

### Part 5: No-deal Brexit and the UK automotive industry

Brake Block Brexit - How a hard Brexit would impact the German automotive industry

### Part 6: Hard Brexit and the Supply Chain

Hard Brexit and the Supply Chain - Effects on German automotive suppliers

### Part 7: Brexit und die Steuerfolgen (no english version available)

Analyse der steuerlichen Folgen des Brexits für deutsch-britische Umstrukturierungen juristischer und natürlicher Personen

### Part 8: Brexit Survey 3.0

Brexit and the impact on Germany - Company perspectives

### Part 9: Brexit Road Ahead

Possible options over the short and medium term

### Part 10: Brexit Survey 4.0

Brexit and the German economy: Risks, expectations and strategies as stated by German companies





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