

Mapping UK SME Credit Quality

July 2019

As Britain edges closer towards a proposed Brexit date of 31st October, the Office for Budget Responsibility has [released the results](#) of a stress test which quantifies the economic impact of a “by no means” worst-case no-deal scenario – warning that the UK could fall into recession next year in this version of Brexit.

[Previous analysis](#) focused on credit trends for Large U.K. Corporates. But how will Small and Medium Enterprises (SMEs) fare under a no-deal Brexit and beyond? Until new trade agreements are ironed out, smaller UK businesses could see a significant negative impact from tighter credit, a weaker currency, and disruption to supply chains. In the longer term, SMEs may benefit from new UK government funding initiatives and greater trading freedom. Credit Benchmark has recently examined the [trending credit quality for UK SMEs](#), showing some regional differences in credit trends over the last year. The current state of play shows a mixed picture, as seen in the below map which illustrates the differences in average Probability of Default (PD) for SMEs by region and country.

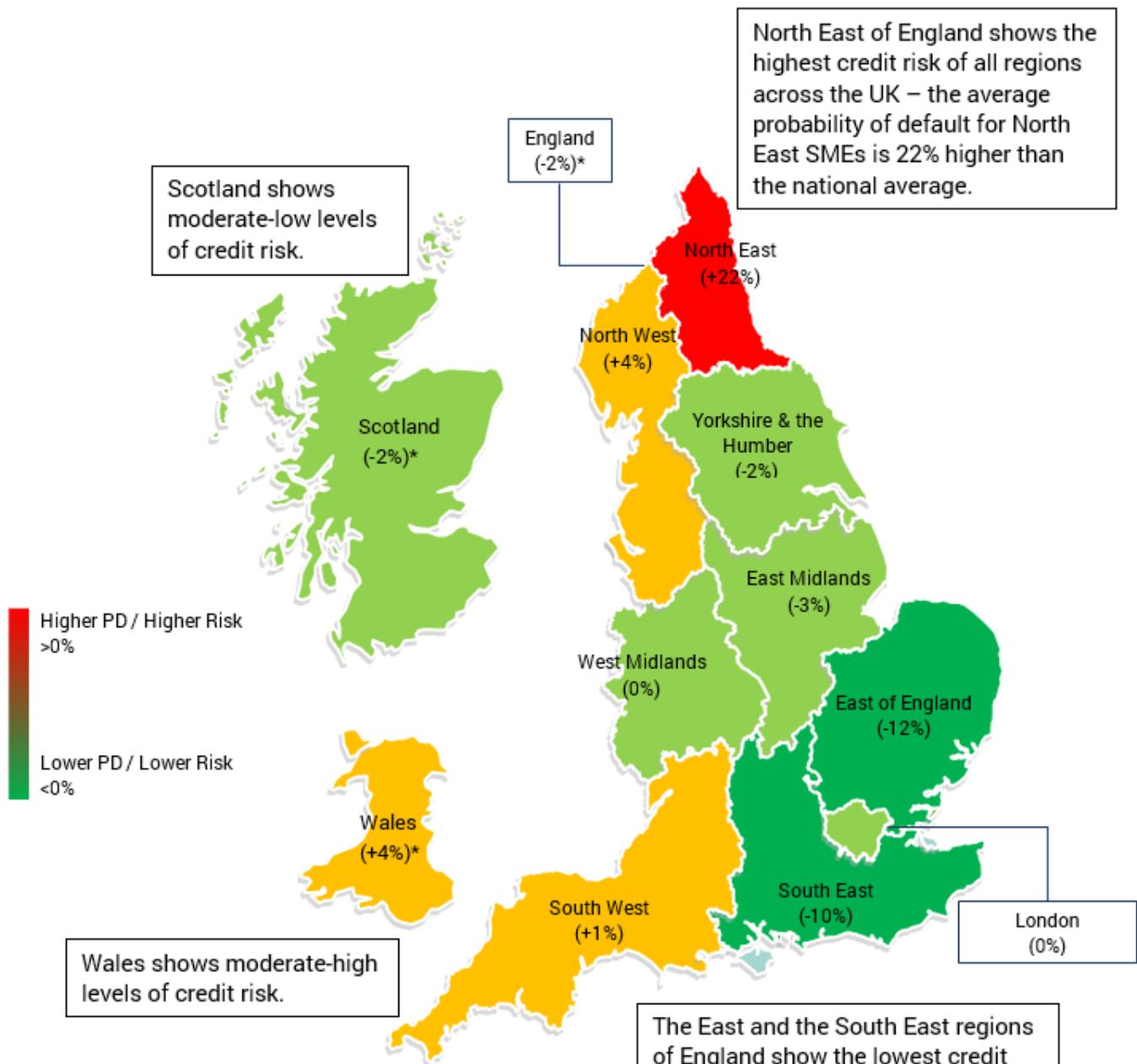
The North East of England – also the region representing the third largest percentage of ‘leave’ votes – shows the highest credit risk of all regions across the UK, with an average PD 22% higher than the national average. [Forecasts for the region](#) estimate that a no-deal Brexit would lead to an output loss worth £7bn.

The West and East Midlands (with the highest ‘leave’ vote) so far remain fairly low-risk, maintaining an average PD of 0% and 3% lower than the national average respectively. With an export-oriented economy, the Midlands have seen a boost off the back of a weak sterling, and the anticipated benefit of greater trading potential post-Brexit bodes well for the region.

The East and South East regions of England show the lowest credit risk of all regions across the UK, with an average PD 12% and 10% lower than the national average respectively. The South East is currently the most populous region of the UK and has the second largest economy after London, lending it a robustness that may help weather any Brexit aftershocks.

Country to country, Wales is faring slightly worse than its neighbours, with an average PD 4% higher than that of England and Scotland.

Credit Benchmark SME data and analysis covers all regions across England and further insights into Scottish and Welsh credit quality are available. For more, please get in touch with us at info@creditbenchmark.com



*England, Scotland and Wales credit risk averages are relative to each other.

England regional credit risk averages are relative to each other

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