

Brexit will deliver a credit crash

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In November I [wrote a blog with the headline:](#)

Brexit will deliver a liquidity crisis that will make 2008 look like a half-hearted warm-up act

My suggestion was that:

Looking at the agricultural sector that dominates my home region I suggested that many local businesses are intensely fragile, and operate (like a great many households) on the basis of tiny capital bases. What this means is that even a few weeks of disruption created by labour shortages and so a lack of goods to pack, ship and process, will be enough to tip many of those local enterprises into failure. And I cannot see how that disruption will not happen if a rapid ban on migration (or a marked reluctance on the part of EU citizens to travel here) as a consequence of hard Brexit results in labour shortages.

As a result I forecast business failures due to a Brexit driven credit crisis. These, I suggested, could rapidly snowball into a full blown economic and banking crisis: businesses do not exist in isolation but as part of systems.

Now we know that there is another dimension to this. As the [Observer](#) reports today:

More than 130,000 UK firms will be forced to pay VAT upfront for the first time on all goods imported from the European Union after Brexit, under controversial legislation to be considered by MPs on Monday.

The VAT changes spelled out in the taxation (cross-border trade) bill — one of a string of Brexit laws passing through parliament — are causing uproar among UK business groups, which say that they will create acute cashflow problems and huge additional bureaucracy.

It is being reported that the change is unavoidable, and outside the Customs Union I agree. If, quite literally, a boundary is crossed then the taxes due at it are payable.

Inside the Customs Union there is no border: outside it there is.

The result is inevitable: thinly capitalised business will face another crisis, more cash outflow, and another threat to their survival.

I think my suggestion that Brexit would cause a credit crisis that would precipitate economic failure was right last November. I am doubly sure of it now. And of course, the problem of payment just compounds the issue I foresaw. This is very ugly indeed for large numbers of British businesses and those who depend on them.