

SME Risk Intelligence



Risk Solutions
Grounded in Reality

Middle East Conflict

SMEs are a particularly vulnerable part of the economy and should consider the long-term strategic implications for their business and the decisions they make.

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Middle East Conflict

The Middle East conflict is now feeding directly into the global economy through energy disruption, higher inflation, weaker growth and tighter financial conditions. For the UK, the risks are amplified by dependence on imported gas, rising gilt yields and limited fiscal room for large-scale support.

SMEs are especially exposed because we typically have less ability to absorb energy shocks, manage cash-flow strain, access cheap finance or withstand weaker demand.

The key business risk is a prolonged period in which costs rise faster than revenues while government support is more limited than during the 2022–23 energy crisis.

Key risks and concerns for SMEs

1. Energy cost pressure

SMEs are likely to be among the most exposed to renewed spikes in electricity and gas costs. Many smaller firms have less ability to hedge energy costs, absorb margin compression, or negotiate favourable contracts. Energy-intensive businesses such as manufacturing, hospitality, logistics, food production and some retail formats would be especially vulnerable.

2. Reduced government support

The Government may be less able to repeat the scale of support seen in 2022–23. For SMEs, this raises the risk that any future relief package is smaller, narrower, slower to arrive, or targeted mainly at households and the most strategically sensitive sectors.

3. Higher borrowing costs

If inflation remains elevated and rates rise rather than fall, SMEs could face a tougher financing environment. This matters for overdrafts, variable-rate debt, refinancing, asset finance and growth borrowing. Smaller firms with weaker balance sheets or thin cash reserves may find credit either more expensive or harder to access.

4. Demand weakness

For SMEs, that may mean softer sales, lower discretionary spending, delayed orders and more cautious business customers. Consumer-facing firms and those dependent on cyclical sectors may see a squeeze from both sides: rising costs and weaker demand.

5. Supply chain disruption

Strain on energy markets, transport routes and wider geopolitical relations could lead to delays, shortages and higher input costs. SMEs tend to have less diversified supply chains and less buffer stock than larger firms, making us more vulnerable to disruption.

6. Cash-flow stress

The combination of higher input costs, slower customer payments, pricier borrowing and uncertain demand could create acute working-capital pressure. SMEs are more exposed than large corporates because they often have less liquidity, weaker bargaining power and fewer contingency options.

7. Sector-specific exposure

Some SME-heavy sectors appear particularly at risk:

- hospitality and leisure, due to energy and consumer spending pressure
- small manufacturers, due to energy and input cost sensitivity
- transport and logistics, due to fuel exposure
- retail, due to margin pressure and weaker footfall
- construction and trades, if financing costs stay high and business confidence falls

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8. Planning uncertainty

As a result of these factors there is uncertainty over both the conflict and policy response. For SMEs, uncertainty itself is a risk because it discourages hiring, investment, stock-building and expansion. Many firms may postpone decisions, which can become self-reinforcing across the wider economy.

Overall SME implication

The main SME takeaway is that this is not just an overseas geopolitical issue; it could translate quickly into higher costs, tighter finance, weaker demand and less public support than during the last energy shock.

SMEs are therefore a particularly vulnerable part of the economy and should consider the long-term strategic implications for their business and the decisions they make, as well as the short/medium-term tactical options available to reduce these impacts as well as identifying opportunities that may be available.

If you wish to discuss any of these matters and the implications for your business in more detail or require assistance in identifying what to do next, then contact Real Risks at info@realrisksolutions.

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