Irish exporters in the firing line as Fitch warns currency crisis will be 'good for UK' companies

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Workers and tourists rest in deckchairs as 20 Fenchurch Street, also known as the 'Walkie-Talkie', centre, stands beyond, in London. Photo: Bloomberg

Imports into the UK will decline as foreign products become more expensive thanks to the weakening of sterling, ratings agency Fitch has warned, which is bad news for Irish exporters.

A weaker sterling harms the competitiveness of Irish exporters because it cuts margins and makes it more expensive for them to do business in the UK. But it benefits UK domestic businesses.

The pound has weakened considerably since late last year. At the end of November, €1 bought 69 pence. At the close of polls on Thursday, that had weakened to 76 pence, but when the Brexit vote became apparent, it weakened further and is now hovering around the 83 pence mark.

Fitch said the fall in sterling will boost UK exports, but have a negative impact on imports.

"Imports look likely to decline as investment contracts and foreign products become more expensive, resulting in expenditure switching to domestically produced goods and services and higher inflation," the ratings agency has said.

The Irish Exporters Association and other business representative groups has already warned about the impact of currency fluctuations on Irish business.

Simon McKeever, the IEA chief executive, warned further weakening is likely.

And the organisation has called on firms to hedge against this and to talk to the banks.

Fitch, which has already warned that Ireland is one of the most exposed countries to a Brexit, said businesses in Britain are facing a surge in uncertainty on three separate fronts - the future of the UK's trading relationship with the EU, the shape of the regulatory framework, and domestic political uncertainty, including the future status of Scotland.

Fitch said investment in Britain is expected to fall by 5pc in 2017 and will be 15pc lower by 2018 than the agency previously expected in its May 2016 Global Economic Outlook (GEO).

"The long-term impacts of Brexit on the economy are harder to estimate with great precision," Fitch said.

"However, in addition to less favourable access to the European Single Market, reductions in trade openness and inward FDI could harm productivity performance, while reduced immigration would slow labour supply and potential GDP.

"These negatives will likely outweigh any GDP gains from deregulation outside the EU or the redirection of EU budget transfers."

Brexit, Fitch said, hits the world economy at a "fragile juncture", with US growth recently weighed down by external shocks, but it added that the direct near-term impact on the global economy is likely to be manageable.

"The trade exposures of US and Asian economies to the UK economy are small. The eurozone will suffer a larger shock from weaker UK demand and the depreciation of the pound, but for the block as a whole, growth adjustments will likely be significantly smaller than for the UK," Fitch said.

A further strengthening in the dollar against sterling cannot be ruled out, Fitch said. Fed tightening in terms of interest rates is now expected to be put off until December, Fitch said.

But it added the Bank of England is likely to lower interest rates by 25 basis points later in the year.

"Nevertheless, medium to long-term risks to the global economy from the Brexit vote would rise in the event of increased political fragmentation, pressures in the rest of the EU or a reversal of globalisation that culminated in rising trade protectionism."