Irish Independent

IRISH exporters association

Brexit would make Irish exporters 30pc less competitive in UK - Ibec

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IBEC director general Danny McCoy. Photo: Gary O' Neill

Irish firms selling into the UK market could be around 30pc less competitive by June than they were in January if Britain votes to pull out of the EU, due to the knock-on effect on sterling,Ireland's biggest business lobby group has claimed.

Sterling has already weakened over the course of recent months as uncertainty over the outcome of the June 23 referendum takes its toll on the UK currency.

One euro is worth around 78/79 pence, compared with 69 pence in November.

Business lobby group Ibec said it is likely that sterling will weaken further against the euro to as much as 85 pence before polling day.

"In the very aftermath of a possible Brexit, various analysts have suggested that the sterling/euro exchange rate would move toward or above parity and could fall to around £0.75 if the referendum result is a vote to stay in the EU," Ibec said, in its latest economic outlook, the first for 2016.

"A Brexit therefore could leave Irish firms selling into the UK market 30pc less competitive by June than they were in January through exchange rate movements alone."

Sterling steadied last week after falling to its weakest on a trade-weighted basis in two years, helped by investors squaring positions before the long Easter weekend and a marginally more optimistic reading of British retail sales.

Ructions within the UK's Conservative Party and the reaction to last Tuesday's bomb attacks in Brussels have driven an almost 2pc fall in sterling in trade-weighted terms last week as bookmakers' odds on a Brexit narrowed.

The cost of hedging against sharp swings in the currency in the run up to the June vote also rose to more than 15pc, its highest since the UK general election in 2010.

Ibec also warned that further risks to Irish exporting firms could come in the guise of restrictions on freedom of trade.

"If a Brexit does occur, it is likely that the UK will enter into a free trade or bilateral agreement with the EU.

"In the short run, that trade agreement will take at least two years, but is likely to take much longer. "This would bring a level of uncertainty for Irish firms exporting to Britain in the short-term, impacting on employment, investment and export plans."

Ibec has set aside a special section in the commentary devoted to Brexit, noting that while it is not the most likely outcome of the vote, "neither is it a tail risk".

However, it does acknowledge that there may be opportunities for Ireland from a British withdrawal, as companies in the UK that need a home in the EU may look elsewhere, with Dublin a strong contender.

However, there's also a downside as it points out that Brexit would mean that the UK would no longer be subject to state aid rules when competing for foreign direct investment or encouraging home-grown businesses.

"If the UK were to introduce new aid measures, this could boost their potential attractiveness to business," Ibec said.

"Additionally, it is highly likely that the UK government would introduce enhanced business and investment supports in order to prevent capital flight in the short run and to improve their long run attractiveness for FDI. This could carry serious implications for Ireland."

Meanwhile, Ibec is forecasting that the economy will grow by 4.6pc this year and 3.9pc in 2017.

It said that there are a number of issues weighing on the economy this year, including Brexit and a marked slowdown in the global economy.

"There is no room for economic complacency, we need to focus on staying flexible and competitive," Ibec director general Danny McCoy, inset, said.

"Many new pay claims go far beyond what is realistic and affordable.

"There can be no return to bubble-economy wage inflation or spiralling relativity pay claims."

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