

Ibec warns of threats to Irish economic growth

Brexit possibility creating competitiveness risk for Irish exporters, says lobby group

Tue, Mar 29, 2016

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Ibec: Brexit vote could spark devaluation of sterling which would mean products from Irish companies selling into the UK would effectively be 30% more

Ibec, the employers lobby group, expects economic growth of 4.6 per cent this year and 3.9 per cent for 2017. But it warned that uncertainty from the growing “economic headwinds” facing Ireland means the actual performance could deviate “substantially” from these numbers.

Its latest quarterly economic outlook warned that the possibility of a British exit from the [European Union](#) was creating a major competitiveness risk for Irish exporters into the UK. It also warned on the dangers of a global economic slowdown, spiralling wage growth at home and constraints due to Ireland’s acute housing shortage.

Ibec said a Brexit vote could spark a devaluation of sterling. That would mean products from Irish companies selling into the UK would effectively be 30 per cent more expensive following the June referendum than they were in January.

Different path

Danny McCoy, the chief executive of Ibec, said that even if the UK votes to remain within the EU, it has set itself “on a different path” to the rest of Europe that could harm Irish economic prospects.

“Even if the UK stays, an ever-closer union is not for them. That’s massive [for Ireland]. Over time, it could lead to a significant drift away from the European core,” he said.

Ibec warned the UK would not be bound by state aid rules were it to leave the EU, potentially creating competition for Ireland for mobile foreign investment.

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On the upside, it said a Brexit could create opportunities for the Irish financial sector to capitalise by attracting UK-domiciled institutions that want an EU “home”.

[Sean Kelly](#), leader of the [Fine Gael](#) delegation in the [European Parliament](#), also warned yesterday of the dangers of a Brexit for Ireland, which he said would “severely damage” trade.

Ibec’s report predicts “continued increases in rental prices in and around the main cities” in Ireland due to the accommodation shortage.

“The current housing crisis is a supply side problem and is not likely to go away until enough houses are built to meet demand,” it said. However, it warned that building costs were still too high.

“There is a lazy assumption out there that just because house prices are rising, there will be huge investment in building,” said Mr McCoy. “But it isn’t like that. Investors in the sector have other places to put their money, such as into commercial property.”

Ibec is forecasting 2.1 per cent employment growth, or an extra 40,000 jobs in the economy, with short-term unemployment almost down to pre-crisis levels. Wages will grow by about 2 per cent this year.

The improvement in the labour market, meanwhile, should lead to a 4.1 per cent increase in consumer spending in 2016, it said, although retail competition will keep price growth to a minimum.

Luas dispute

However, Ibec warned that the Luas dispute was an example of how wage demands are spiralling in some sectors and that the economy needs to focus on maintaining competitiveness.

“If wage growth stays within productivity growth, then you’ve no problem,” said Mr McCoy, “but there is no way of co-ordinating wages at a national level.”

He said that he was not calling for a return to a centralised system of collective bargaining over wages, as per the pre-crash social partnership deals, “but there does need to be some centralised forum for social dialogue on the elements that affect pay. We need an anchor for wage expectations.”

Ibec highlighted that there was a “clear upward momentum in wage trends”, especially in certain sectors such as technology and in administration and support services.

It said that the still relatively high unemployment level of 8.8 per cent was not acting as an effective brake on wage growth, as it normally would, because of the concentration of long-term unemployment in jobless figures.