

Net Migration

May 2025



MIGRATION ADVISORY COMMITTEE

Net Migration in the UK¹

Introduction

Net migration in the UK hit a record level of 906,000 in the year ending June 2023. Since then, there has been a clear fall in the numbers, with the data for June 2024 showing a drop of 178,000. However, the recent high levels have reignited a debate about the appropriate level of net migration and the potential policy levers that could be used to achieve any desired level. During the 2010s, the government had an explicit target of net migration in the tens of thousands which they never achieved, and the current government is committed to reducing the level of net migration.

But what is net migration, why should we care about it and what could we do if we wanted to reduce it? This paper begins by explaining exactly what net migration measures and provides both historical and international context. We emphasise that net migration is not a complete picture of the flows of people coming in and out of the UK over the course of a year and does not attempt to capture the relative contribution of different migrants to the economy or society more broadly. Net migration figures are also subject to significant uncertainty and revision which highlights the risk of focusing unduly on a particular data release. We provide a high-level account of the causes of the recent rise in net migration and the likely trend over the next few years. We then discuss why policymakers may care about the level of net migration.

At its simplest, positive net migration adds to the population. Whether this is desirable depends on one's view of the appropriate size and structure of the population. We discuss the impact of population growth on economic welfare and assess the extent to which net migration can significantly alter the trends in dependency ratios that will otherwise occur over the coming decades. Even if one did not have a view on ideal population size, one may be concerned that population growth adds to the demand for housing and public services, or that the rate of population growth may outpace the expansion of housing and provision of public services. In principle, some or all the increased housing demand could be broadly offset by increased supply since housebuilders should respond to the extra demand by building more houses, although planning constraints can hinder this resulting in higher housing costs. Similarly, most migrants pay taxes and use public services, so the impact of net migration on the fiscal position of the country needs to be assessed.

Finally, we consider policy options. To do so, we argue that policy should primarily focus on the long-run level of net migration rather than the short-term ups and downs of the published statistics. The long-run level is determined by the total number of visas that are issued and the probability that the visa holder remains in the UK in the long-run. Plausible estimates suggest that, without further policy change, long-run net migration may settle in the region of 300,000 per year or more. This is broadly the same level that the Office for National Statistics (ONS) and Office for Budget Responsibility (OBR) use in their projections, which is based on

¹ This paper is a revised and expanded version of the Chapter on Net Migration published in the Migration Advisory Committee (MAC) Annual Report 2023. This version has been updated from the version provided to the Home Office in January 2025, mainly to reflect updated data. The illustrative net migration scenario considered in Table 1.11 does not reflect any policy announcements in the White Paper.

averages over the last decade. We then discuss the potential policy levers that are available to either reduce the inflow or the stay rate – or both.

We do not take a view on the appropriate level of net migration, which we consider to be a political decision – though one that we would hope is informed by the evidence on the impact of net migration on the welfare of the resident population. We also do not take a view on how policymakers should achieve any desired level of net migration, though we would of course advise government on this, if asked. This paper was provided to the Home Office in January 2025 to contribute to the evidence base that could inform the work on the White Paper on Immigration that the government has published. We are publishing this separately in the interests of transparency.

What is net migration?

Net migration is a measure of the difference between the number of people moving into the UK (immigrants) and the number of people leaving it (emigrants) during a specific period, usually a year. However, rather than counting every migrant in the statistics, only those who are expected to remain in the UK for a minimum defined period of time are included. The ONS, who produce the UK net migration statistics, use the United Nations' (UN) <u>definition of a long-term migrant</u> which refers to those "who move from their country of usual residence for a period of at least 12 months". While this is conceptually clear, it can be difficult to accurately estimate in practice as for some migrants the expected length of stay will not be clear.

This 12-month definition, which is standard in many countries, means that many individuals who enter or leave the UK with short-term objectives are excluded from the net migration statistics. This includes workers on the seasonal worker visa (who can remain in the UK for only 6 months), students enrolled for short courses and visitors requiring a visa for entry. This is not a comment on relative contribution to British society nor the value to the UK of particular visa routes. The net migration statistics also incorporate British nationals leaving the UK to live, work, or study abroad for a year or more, and those returning after such a spell.

It is often suggested that international students should be removed from the net migration statistics. We have consistently opposed such an approach for 2 reasons. First, statistical definitions should be the sole preserve of the independent ONS. Public confidence in statistics will surely fall if policymakers are involved in defining how things are measured. Second, if students just arrived for the degree course and left after, then net migration for students would be zero and it would be irrelevant if they were counted or not. Students contribute to net migration because not all leave and this adds to the population in the long term. The ONS now publishes migration and net migration statistics for different groups such as students, workers etc in addition to the overall totals. It is then up to policymakers to decide which measure of net migration they wish to focus on.

Producing the net migration statistics

Net migration figures in the UK are based on several sources including administrative data and other methodologies, with the approach changing over time. Historically, the ONS had relied on the International Passenger Survey (IPS), which conducted between 700,000-800,000 interviews a year of passengers entering and leaving the UK. This approach had limitations, including the failure to capture some categories of

migration accurately—particularly European Union (EU) immigration under free movement (<u>missing a growing</u> <u>number of people</u> coming to the UK via its regional airports from countries that joined the EU in 2004), and the emigration of non-EU international students (as the survey reports intentions, not outcomes, and many students reported an intention to return to the UK within 12 months <u>but did not do so</u>). These problems were the catalyst for the ONS' decision to develop new methods based on administrative data. However, the IPS— which was temporarily paused during the pandemic—was scaled back before new administrative data sources were fully developed, creating a significant gap in the data at a time of substantial change in migration patterns.

The new administrative estimates use border data to measure the movement of people in and out of the UK, with visa and travel information combined to identify individuals' duration of stay in the UK. Because many European Economic Area (EEA) nationals do not require visas, this data source is currently only used for non-EU nationals. For EU citizens, the ONS relies on a different administrative source: the registration and population interaction database (RAPID). For individuals with a National Insurance (NI) number, RAPID measures weeks of *"activity"* in the tax and benefits system within each tax year. However, this methodology also has its limitations e.g., there are some populations who have less or no interaction with the source datasets, such as non-working family members/students who are not accessing benefits or children under 16 (although the ONS does adjust estimates to try to account for this under coverage). Due to the complexity of identifying British migrants in administrative data, the IPS is still being used to measure the activity of British citizens migrating to and from the UK.

The use of the UN definition of long-term immigration means that whether someone should be counted as an immigrant or emigrant (and hence contribute to the net migration statistics) only becomes evident after 12 months, meaning final data are only available with a relatively long lag. Currently, the ONS publishes provisional estimates with a 5-month lag. These estimates require important assumptions to predict behaviour which can have a large impact on the estimates.

Net migration statistics have seen large revisions, especially in recent years. As noted, part of this is because provisional statistics are published first, with the provisional data replaced by final numbers when they become available after 12 months. However, methodological changes or improvements and the correction of mistakes can also lead to revisions. Changes of this nature have been evident in recent years. In 2022, net migration was initially estimated to be 606,000 before being revised up to 745,000, then 764,000 and finally 872,000 - 18 months after the initial estimate and 44% higher. While recent revisions have been upwards, this is not systematic and may not always be the case. Differences between initial and final estimates are often caused by failing to fully account for policy changes (e.g., the introduction of the Ukraine visa scheme) or altering migration patterns (such as a changing share of visa holders remaining in the UK long term) which may happen at any time and impact net migration positively or negatively. We should not expect revisions based on methodological changes or corrections to be a permanent feature of the statistics (and to the contrary, they are likely to become less common as the ONS fine-tunes its methods), however, there are other reasons why revisions in the short term are now larger than they were in the past.

Before the pandemic, net migration statistics were produced from the IPS which conducts face to face interviews with a sample of passengers passing through ports and airports. While revisions were made to the net migration figures, they tended to be smaller in size. From 2006 to 2019 (before the new methodology was

introduced in 2020), the average magnitude of revision in the ensuing years was 12,000 (a 6% change from the original figure). Once the survey had been conducted little further data was collected about that cohort of people, and hence revisions were largely based on statistical changes (such as improved weightings or benchmarking). However, revisions after the census were much larger. At this point, census population statistics would be used to validate the preceding years' net migration estimates, with revisions used to bring the net migration figures in line with the census. They would often be quite different. When the results of the 2011 Census were analysed, it was found that the UK's population was <u>464,000 higher</u> than previously estimated leading to revisions of the 2006-2011 net migration numbers which averaged 47,000 in absolute terms (representing a 30% change from their initial estimate).

The ONS' current net migration statistics are badged as "experimental", allowing the ONS to make changes to the methodology more freely (and also meaning they are not required to complete stringent robustness and accuracy tests). This means that there are larger revisions in the short term as new data and methodologies become available (such as detailed data on people who switch visas in-country or more complete travel data on Ukrainian migrants). From 2021 to 2023, the average magnitude of revision has been 178,000 – a 31% change from the initial estimate (and similar to the changes resulting from the 2011 Census). The difference is that now we are likely to see these changes in the years immediately after publication as opposed to large adjustments after the census, and further, these revisions should in theory reduce in size as the ONS improves its methodology and data collection.

However, if the ONS continues to publish data to its current timetable, it will always need to make assumptions on the future behaviour of migrants to determine whether they are long-term migrants, using data based on past behaviour. Therefore, there will always be some level of correction required as future behaviour is uncertain and patterns may change. This raises the issue of the trade-off which exists between accuracy and timeliness. Whilst timely statistics are welcomed, the large revisions of the ONS' provisional net migration statistics means it may be preferable to delay producing the statistics so there are fewer and smaller revisions. Consistently large revisions can undermine confidence in the statistics, even if they are planned and happen for a known reason.

How has net migration changed over time?

In year ending June 2023, net migration was 906,000 – the highest figure ever recorded. This net figure measured the difference between an inflow of around 1.3 million long-term immigrants to the UK and an outflow of 414,000 individuals emigrating from the country.

Figure 1.1 shows the level of immigration, emigration and net migration over the last 60 years. Until the mid-1990s, net migration tended to be quite low and as likely to be positive as negative. Since then, net migration has been consistently positive, so adding to the population of the UK. It averaged 223,000 during the 2000s and 260,000 during the 2010s. The figure demonstrates the very unusual levels of net migration observed since 2021.

Figure 1.2 zooms in on the more recent past and breaks the data down by nationality (British, EU, non-EU). Between 2015 and 2019, net migration averaged approximately 244,000 per year, with EU and non-EU migration contributing around 324,000 to net migration annually, though after the 2016 EU referendum there was a notable decline in the EU share. Net migration of British nationals was consistently negative and averaged -80,000.



Figure 1.1: UK immigration, emigration and net migration

Source: Office for National Statistics (ONS) - International Passenger Survey (IPS) & Long-Term International Migration stats (LTIM) June 24

Notes: IPS was discontinued in 2019. Long-Term International Migration (LTIM) estimates are designated as experimental statistics and have been used 2020-2024. These results should be treated with caution. Data for 2024 is YE June 2024.

2020 saw a significant dip in net migration primarily due to travel restrictions imposed because of the COVID-19 pandemic. This was the first year in decades that net migration fell below 100,000. Post-pandemic, when restrictions eased, net migration rose sharply despite a net emigration of EU nationals (roughly 72,000 across 2022 and 2023). The sharp rise in net migration is explained almost entirely by a significant increase in non-EU immigration. Between June 2020 and June 2023 (when net migration peaked), net migration rose from 111,000 to 906,000. Over the same period, non-EU net migration rose from 115,000 to 954,000. Estimated emigration for non-EU was broadly unchanged over the period, so the rise was driven by immigration.

Because the rise in net migration was driven by an increase in immigration, Home Office statistics can be used to provide relatively reliable information on the inflow of migrants to the UK through visa issuance data, particularly since the ending of Freedom of Movement (FoM) requires almost all foreign nationals to obtain a visa for long-term migration to the UK. Note that most, but not all, people who receive a visa travel to the UK. Figures 1.3a and 1.3b shows issued entry visas since 2018 for those on routes where the visas typically last for at least 12 months. It demonstrates that the substantial increase in net migration since 2020 is largely explained by 3 factors: an increase in work visas (particularly in health & social care), an increase in student visas, and the opening of humanitarian routes such as the British National (Overseas) (BN(O)) and Ukraine schemes.





Notes: Data year ending (YE) 2015 Q1 - 2024 Q2.

Work visas issued rose from 125,000 in 2021 to 467,000 2 years later. Of this 342,000 increase, 57,000 was on the main Skilled Worker (SW) route and 285,000 was on the Health and Care worker (H&CW) route. The rise on the SW route can to some extent be explained by the tightness of the labour market following the pandemic, although it also results from an expansion of the occupations eligible for these work visas to include middle-skilled occupations. Under FoM, non-EU migrants could only work in Regulated Qualifications Framework (RQF) level 6 (graduate) occupations, while after 2021 the skills threshold was lowered to RQF level 3 (A-level equivalent) and applied to both EU and non-EU migrants. Visas issued in these previously ineligible RQF 3-5 occupations has risen from 12% of total visas (8,200) in 2021 to 22% (47,100) in 2023. Vacancies rose to record levels, and the SW route is explicitly designed to flex with employer demand as there are no caps on usage. Fig 1.4 shows the relationship between SW visas and vacancies. As vacancies have fallen back in recent quarters, we have begun to see a reduction in visas on the SW route.

The rise in H&CW visas is primarily explained by the extension of the route to care workers in February 2022 following advice from us. The growth was particularly strong in late 2022 and 2023 as social care employers registered to be sponsors and fill the very high vacancy rates that the sector was experiencing. Care workers were also more likely to have dependents than other SW applicants, so the number of dependents also rose

Source: Office for National Statistics (ONS) - Long-Term International Migration (LTIM) stats June 24

substantially. The figures have fallen rapidly in the last few months as a result of the enhanced enforcement of the genuine vacancy test and potentially aspects of policy changes introduced in Spring 2024.





Source: Home Office, Immigration System Statistics, Entry clearance visas granted outside the UK

Notes: This data presents issued visas; actual entry numbers will be lower if individuals decide against travelling. Short term visas (i.e., temporary visas/other temporary work visas, including Frontier Workers, Overseas Domestic Workers (ODW), Charity Workers, Creative Workers, Seasonal Workers and Service supplier visas, short-term study where individuals cannot stay for longer than 12 months) are excluded. Skilled Worker includes volumes from certain Tier-2 categories. Other visas include Global Business Mobility (GBM), Intra-Company Transfer (ICT), Scale-up, Tier 1/Investor, business development and talent, International Sportsperson and Other work visas and exemptions (exc. ODW).

The number of international students also rose very substantially. Prior to the pandemic, there were around a quarter of a million visas issued each year for students – with only around 5% for dependants. This rose rapidly to around 600,000 in 2023, with a large associated rise in dependants. There were 3 likely drivers of this rise (see <u>MAC Annual Report 2023</u> for more discussion). First, the graduate route became operational in 2021 and allowed students to remain in the UK after graduation for 2 to 3 years and work in any job. This significantly enhanced the attractiveness of studying in the UK, particularly on 1-year taught master's programmes. Second, rising costs for universities in the context of a long-run freeze on domestic fees, made higher recruitment of international students vital to their financial sustainability. Finally, the UK opened up faster than key competitor markets (e.g. Australia and Canada) following the pandemic, which encouraged students

to apply to the UK. The rise in dependants was primarily driven by a change in the nationality mix of master's students with a large rise in those from India and Nigeria and a relative decline from China. The previous government introduced a ban on student dependants in January 2024 for those on taught master's programmes and this has seen a large decline in numbers of dependants.

Figure 1.3b: Visas issued by year, for visas that typically last 12 months or more										
		2018	2019	2020	2021	2022	2023	2024		
Skilled Worker		43,300	62,400	53,100	61,200	113,100	118,300	116,700		
	Main Applicant	24,900	36,600	28,100	36,600	66,700	66,000	58,700		
	Dependant	18,400	25,800	25,000	24,600	46,400	52,200	57,900		
Health & Care Worker		0	0	1,200	63,300	157,600	348,200	110,800		
	Main Applicant	0	0	700	31,800	76,700	145,800	27,200		
	Dependant	0	0	500	31,500	80,900	202,300	83,700		
Study		240,800	284,700	229,000	430,500	618,700	600,000	415,100		
	Main Applicant	228,000	268,700	209,800	376,000	484,100	456,700	393,100		
	Dependant	12,800	16,000	19,100	54,500	134,600	143,300	22,000		
Family		43,600	55,600	37,100	42,200	47,100	80,100	86,000		
Humanitarian routes		0	0	0	75,600	263,400	68,500	38,600		
Ukraine (Main Applicant										
only)		0	0	0	0	209,700	40,300	19,300		
BN(O)		0	0	0	75,600	53,700	28,200	19,300		
	Main Applicant	0	0	0	44,700	32,100	17,600	12,400		
	Dependant	0	0	0	30,900	21,600	10,600	6,800		
Other		70,800	65,600	30,700	51,800	59,900	50,200	40,200		
	Main Applicant	40,500	38,500	19,400	34,300	34,700	29,600	25,000		
	Dependant	30,300	27,200	11,300	17,500	25,100	20,600	15,200		

Source: Home Office, Immigration system statistics, Entry clearance visas granted outside the UK

Notes: This data presents issued visas; actual entry numbers will be lower if individuals decide against travelling. Short term visas (i.e., temporary visas/other temporary work visas, including Frontier Workers, Overseas Domestic Workers (ODW), Charity Workers, Creative Workers, Seasonal Workers and Service supplier visas, short-term study where individuals cannot stay for longer than 12 months) are excluded. Skilled Worker includes volumes from certain Tier-2 categories. Other visas include Global Business Mobility (GBM), Intra-Company Transfer (ICT), Scale-up, Tier 1/Investor, business development and talent, International Sportsperson and Other work visas and exemptions (exc. ODW).

Figure 1.4: Vacancies and visas



Source: Office for National Statistics (ONS) vacancy survey (Left), Home Office Immigration statistics (Right)

Notes: Vacancies and visa data excludes the human health and social work activities sector. Skilled Worker visas only.

Finally, the introduction of humanitarian routes for Ukraine and Hong Kong British National (Overseas) led to around 260,000 visas being issued in 2022. Both of these routes have now fallen back substantially, though there were still around 40,000 visas being issued in 2024 which continues to add to net migration.

A key point here is that there was no single cause of the rise in immigration and consequently net migration. There were a number of separate factors that generated rises across a number of visa routes. Some were a result of deliberate government migration policy (e.g. care workers, graduate route, humanitarian routes) while others were driven by external factors (e.g. tight labour market, university funding issues). As we shall see below, we were also not alone in experiencing such a rise post-pandemic.

How does the UK compare to other countries?

Accounting for the size of populations, in recent times the UK has experienced a similar level of net migration to comparator countries. Over the period 2015-2019, the UK's average rate of net migration was slightly higher than Italy and the US, but below Germany and approximately half the size of Canada and Australia. Like similar countries, in 2022, UK net migration rose. All countries in Figure 1.5 experienced higher net migration in 2022 compared to 2015-2019. However, while the increases were notable in Germany, Canada and Australia (as well as the UK), the rises in Italy, France and US were more marginal. The same is true for 2023, except that German net migration fell significantly.

This increase in net migration can be explained both as a response to COVID-19 (with immigration plans delayed until after the pandemic) and (especially in Europe) by the crisis in Ukraine. For example, Germany's spike in net migration in 2022 can be largely explained by Ukrainian refugees, with the country accepting in

excess of 1 million Ukrainians in comparison to 126,000 in the UK. These refugees will have caused a spike in immigration not met by a respective rise in emigration. However, the UK has seen a larger increase in its net migration figures compared to countries such as France and Italy, despite their intake of Ukrainian refugees per population being relatively similar. As noted earlier, this is because increased student numbers and Health and Care work (H&CW) visas had a significant influence on the UK's increase in net migration.



Figure 1.5: Net migration per 1000 of resident population across selected countries

Source: Office for National Statistics (ONS) (UK), Insee (France), the Australian Bureau of Statistics (Australia), Destatis (Germany), Census Bureau (US), Italian National Institute of Statistics (Italy), Statistics Canada (Canada)

Notes: Net migration values for all countries are provisional and may be revised. Data are expressed per 1,000 resident population within each respective country. Migration estimates are subject to regular revision by respective country and therefore may not exactly match current statistics.

Why should we care about net migration?

Net migration levels affect the UK and its constituent nations and regions in different ways. At an aggregate level, positive net migration means more people entering than leaving the UK. However, the visa routes which make up this total (work, family, humanitarian etc.) will each have their own costs and benefits, resulting from factors such as what each group of newcomers does in the labour market or what public services they use.

In addition, net migration changes the population and affects population growth which may have economic and social impacts. Again, these effects vary as migrants are not distributed evenly across the country. Our

<u>2023 Annual Report</u> showed that roughly 15% of the population of England and Wales live in a London borough compared to 27% of recent immigrants to England and Wales (arriving in the past year). This is replicated across the UK's major cities, which tend to have a considerably higher proportion of foreign-born population compared to smaller cities, towns, and rural areas.

There is no consensus on what might constitute an 'optimum' population level for the UK. This is in part because population size or population density on their own are not particularly important predictors of prosperity or living standards, although it is perfectly reasonable for people to have political preferences about these things. It is also because the impacts of population growth resulting from net migration depend on how the UK responds: for example, how effectively public services or the housing stock are expanded.

Our view is that the composition of migration matters more for most of the economic impacts of migration than the aggregate number of people admitted. It is not sensible to discuss overall desirable levels of net migration in isolation from a discussion of the costs and benefits of the routes that comprise net migration. Net migration would have very different associated costs and benefits depending on the characteristics of the migrants arriving - whether they will be studying, working, or claiming asylum. Nonetheless, population growth (or change) in its own right does come with costs and benefits, which this section explores.

Population

As discussed, the most direct and straightforward impact of net migration is to alter the size of the population. In a simple accounting sense, changes in total population are the sum of natural change (births minus deaths) and net migration. Net migration is a major component of population growth, accounting for 60% of the UK's population growth <u>between 2004 and 2022</u>. This will become even more stark in the future, as natural change will soon begin to *reduce* the total population as deaths exceed births.

ONS population projections illustrate how the size of the UK population is likely to change over the next few decades. Figure 1.6 shows projections for the UK's population under 4 alternative scenarios for annual net migration:

- 1) The ONS long-term projection of 340,000 per year;
- 2) Zero net migration;
- 3) 120,000 per year; and
- 4) 525,000 per year.

If net migration was zero going forward, the UK population would begin falling almost immediately, as deaths exceed births. Net migration of 120,000 would leave the UK population size roughly flat, while the central and higher net migration scenarios lead to positive population growth over the 20-year projection period. The impacts of a given level of UK net migration would vary across the UK's constituent nations (England, Scotland, Wales and Northern Ireland).



Figure 1.6: UK population projections with different net migration scenarios (thousands)

Source: Office for National Statistics (ONS) - National population projections: 2022-based interim, United Kingdom population predictions and migration assumptions

Notes: Data is in thousands. Based off ONS Principal (340k), Low (120k) and High (525k) long term net migration assumptions. Zero net migration scenario has been modelled from 2025 using the principal scenario and adjusting for migration and natural population change.

It is often implicitly assumed that a declining (or stagnant) population is somehow bad for the economy. This is not what conventional economic theory tells us. For a given savings rate, a higher population growth rate reduces output per person and so in general reduces consumer welfare. The reason for this is straightforward. With a given amount of savings, a growing population means that we each have access to slightly less capital per person – the capital we have in the economy needs to be spread across more people (often called capital widening). But with less capital per person, we will be less productive, so output per person will fall. Some research suggests that a lower population growth rate (or indeed a fall in the population) would be positive for the economy². This is not however certain. It assumes that the savings rate remains constant, that migrants do not bring capital with them and that there is not a significant productivity gain from the arrival of migrants

² For example, <u>Miles (2023)</u> estimates that if the population growth rate fell from 1% per annum to 0%, the level of sustainable consumption for the average person in the UK would rise by 5.5%. See also <u>Lee (2014)</u>.

with a different skill mix. None of these assumptions are necessarily correct. It is however wise to bear the basic intuition in mind when considering population growth.



Figure 1.7: Mid-year estimated and projected population levels, UK and 4 nations, 2010-2045 (2010 base = 100)

Source: Office for National Statistics (ONS) - National population projections: 2022-based interim

Notes: Principal projection for the UK and the 4 nations.

The OBR considered this in their forecast from <u>March 2024</u>. Under a scenario in which additional migrants have the same productivity as the existing population, and where capital investment increases so capital per worker remains the same, they estimated that an increase in net migration of 200,000 per year would raise Gross Domestic Product (GDP) by 1.5%. The impact on GDP per capita – a better measure of welfare - was negligible (an increase of 0.1%). Under an alternative assumption that the capital stock does not adjust so there is less capital per worker, GDP is estimated to increase by 1% and GDP per capita is estimated to *drop* by 0.4%.

Net migration also changes the demographic composition of the population in various ways. Most directly it changes the relative shares of the population who were born in the UK and those born abroad. Figure 1.8 shows the foreign-born population at the start of the millennium and in the most recent data for the UK and selected countries. With most developed countries experiencing consistent positive net migration flows over

the period, all countries shown have seen the foreign-born share of the population increase. While the foreign-born population in the UK has grown more quickly than most across this period, this still places it significantly below countries such as Australia and Switzerland at the top of the spectrum (with 29% and 31% foreign-born population respectively) and broadly similar to France, Germany and the United States.



Figure 1.8: Foreign-born share of population in selected OECD countries

Source: Organisation for Economic Co-operation and Development (OECD) Notes: 2000 and 2023 (or closest available).

In addition, migrants are generally more likely to be of working age compared to the resident population. This will alter the age distribution of the population as a whole and have impacts on the dependency ratio (the ratio of the working age population to non-working age population). It is often asserted that higher net migration will be vital in reversing the projected rise in dependency ratios that the UK (and most other advanced economies) will experience in the coming decades. However, most demographic research suggests that it is unrealistic to expect substantial reductions in the dependency ratio as a result of net migration unless one is willing to contemplate persistent levels of net migration which we have never experienced before. To see this, note that in 2023, the old-age dependency ratio in the UK was 277 i.e. there were 277 people of pension age for every 1,000 people of working-age. The ONS project that this will rise to 303 by 2035 assuming that net migration continues at 340,000 per year. To keep the ratio at 277 would require an additional 4.4 million working-age people in the UK in 2035 – or roughly an additional 370,000 net migration per year.

Migration is clearly not irrelevant - under a zero net migration scenario, the dependency ratio is projected to be at 339 in 2035. Also, because migrants age just like the rest of society, over time migrants will add to the dependency ratio. The only way to avoid that is to either have a large-scale temporary migration programme for working-age adults who would then leave the UK, or for an ever-rising level of net migration. Policymakers are likely to be more successful by focusing on changes to the retirement age (see Figure 1.9 for the impact of increasing the age from 65 to 66 in 2020, from 66 to 67 over 2026-28 and from 66 to 67 over 2044-46) and increasing older-age labour force participation.



Figure 1.9: Historical and projected old age dependency ratio

Source: Office for National Statistics (ONS) - National population projections: 2022-based interim

Notes: Per thousand of the working age population. Historical and projected old age dependency ratio calculated by dividing the pensionable age population by the working age population. Figures include planned changes to the pension age over time. Assumes rise from 65 to 66 in state pension age occurred in 2020. Scenarios are based off ONS long-run net migration trends - Principal (340k), Low (120k) and High (525k) and Zero-Net Migration (0k). ONS' zero-net migration scenario assumes zero net migration from 2023 onwards.

Housing

Net migration contributes to the demand for housing through increasing the population. Historically, the supply of housing in the UK has not kept pace with rising demand and so it would be expected that the

increased housing demand arising from positive net migration would put further upward pressure on housing costs.

There have been attempts to estimate the impact of migration on housing costs, with mixed results. In our report on EEA migration we estimated that a 1% increase in the population due to migration leads to a 1% rise in house prices. However, the results were sensitive to specification and the impacts of migration on house prices cannot be seen in isolation from other government policies. For example, if an increase in migration were combined with a relaxation of planning regulations, the expected impact on housing costs would be different. Similar results were found in the Ministry of Housing, Communities and Local Government (MHCLG) (2018) modelling.

Contrastingly, at a local level there is some evidence that immigration can cause a reduction in housing costs (see Sá (2014) and Zhu et al (2018)). This is likely caused by native flight, where high-income locals leave areas as the migrant population increases. It must be noted that this reduction in housing costs would be more than offset by the increase in other areas caused by the migrating natives adding to housing demand wherever they move.

The impact of immigration on housing will differ depending on the visa route or reason for immigration; students, workers and families will have different demands. For example, students are more likely to rent a room in shared accommodation whilst higher earning workers may live alone. There is, however, a distinct lack of evidence on the impact of particular visa routes on housing demands. This means that predicting the impact of net migration on housing assumes that the current mix of migrants will stay the same. In practice, the composition of migrant groups varies year on year, suggesting that this would be a weak assumption.

On the other hand, migration can positively impact the supply of housing with some of the immigrant population being likely to work in the construction sector, as we argued in <u>2018</u>. This increased workforce can help reduce supply constraints arising from skill shortages in the construction sector and increase the volume of new housebuilding, which would mitigate the increased demand for housing. It is important to consider both housing supply and demand to understand the aggregate effect.

Overall, the available evidence suggests that in the UK context where housebuilding has not kept pace with population growth, net migration has contributed to – but is by no means the only cause of – higher housing costs. To the extent that policymakers are unable, or unwilling, to address the various other constraints on house building, this may encourage a focus on reducing net migration. The impact of migration on housing is an area where we intend to focus on improving the evidence base this year.

Fiscal impacts and public services

Net migration increases the demand for public services such as education, health, and policing. However, migrants pay taxes, and so at the aggregate level the most important consideration is whether migrants are net contributors to the fiscal balance i.e., do they pay more in tax than they use in public services. If migrants are on average net contributors, then public services could improve with no additional tax burden on the resident population. This again highlights the point we made previously – the impact of specific routes is likely to be more important than the aggregate level of net migration. For example, migrants arriving on the Skilled

Worker (SW) route are more likely to be net fiscal contributors compared to those arriving on humanitarian routes. For context, estimates from our <u>Annual Report 2024</u> suggest that an average SW migrant has a £16,300 net positive fiscal impact compared to £800 for the average UK born adult.

In addition to public services, the responsiveness of public infrastructure investment to rising population needs to be assessed. As the population increases, there will be increasing demands on UK infrastructure such as roads, rail and public buildings. Again, the UK does not have a strong track record of ensuring that public³ investment keeps pace with demand and historically it has often been cut when public finances are tight⁴. This is further exacerbated by the often relatively high cost of such investments in the UK relative to other countries (see Liscow (2024) for an example on urban transport construction costs per km). Note that this is another example of the capital widening that we referred to earlier.

When producing their fiscal forecasts, the OBR rely on His Majesty's Treasury to provide the forecasted levels of spending on public services. These departmental expenditure limits are set in Spending Reviews and the government gives the OBR assumptions for growth in spending for the remainder of the forecast period which is not covered by the Spending Review. If net migration is higher than initially forecast when public spending plans were set, population growth is higher than forecast and this implies a decrease in actual spending per person on public services.

The <u>OBR estimate</u> that in a scenario of an extra 200,000 migrants per year, receipts would be £18bn higher than forecast from the additional taxes and fees paid by migrants. If there is no adjustment to public spending or welfare payments, then debt would be 3.1% of GDP lower in 2028/29. However, if the government increased total expenditure to maintain the level of spending per person on public services, thereby reducing pressure on public services from serving more people with the same budget, this would cost an additional £8.1bn. This partially offsets the higher receipts from taxes and fees paid by migrants. Given the age composition and higher labour market participation rate of newly arrived migrants, this still has a positive impact on the debt to GDP ratio as debt would be 2.5% of GDP lower in 2028/29. This demonstrates the impact that migration can have on fiscal sustainability in the medium term. However, it is important to remember that in the long term, the fiscal contribution of migrants will likely decrease, as they may get settlement and become eligible for benefits, or as they move into retirement with lower tax contributions and higher health and pension costs. Figure 1.10 below shows how the fiscal contribution of a migrant changes over a lifetime, for a 'representative migrant' on the Skilled Worker Route.

Different issues are relevant at the local level. Here, in theory, public spending adjusts to population size i.e., government allocates funding to local areas based at least partly on their populations. However, not only does it take time for the data to reflect population increases and for budgets to account for these changes, but many spending decisions continue to use outdated population estimates which have not been revised in many years.

³ Public investment refers to government spending on long-term infrastructure, e.g. road, transport, buildings, bridges etc.

⁴ For example, <u>Chadra and Samiri (2022)</u> show that the ratio of Investment to GDP within the UK has more or less consistently been lower than US, France and Germany over the last 6 decades, with UK's long term public investment dropping from 4.5% of GDP (1949-1978) to 1.5% of GDP (1979-2019).



Figure 1.10: Cumulative fiscal impact of representative migrants

Source: Office for Budget Responsibility (OBR) - Fiscal Risks and Sustainability Report 2024

Notes: In £ thousands, cumulative fiscal impact includes the cost of a Skilled Worker visa, NHS surcharge, indefinite leave to remain and immigration skills charges for employers. Figures for migrants includes the fiscal spending required to keep public capital stock per person constant.

The responsiveness of local level funding varies heavily across services. School funding is largely allocated on a per-student basis, with funding top ups added for disadvantaged students. This is lagged, with schools funded based on their student numbers the previous year, but some extra funding is available within-year for schools with growing student rolls. Childcare funding also responds to changing need on a lagged, annual basis. By contrast, every area has seen the same percentage change in public health funding since 2013, regardless of differences in population growth between areas, and the same is true of the main grant for police services. A promised Fair Funding Review, which would reassess needs for Local Government funding and reflect changes in populations since 2013, has been delayed until at least 2025. Even National Health Service (NHS) funding, which has a strong process to assess need has difficulties in monitoring population levels accurately. Funding is allocated based on General Practise (GP) registrations, which differ from ONS population estimates, especially in areas with more students or renters. Beyond issues monitoring and responding to population changes, there are likely to be short-term supply constraints which mean population growth may create pressures at the local level. For example, one cannot quickly build a new GP surgery, so either patient list size rises or patients travel further to alternative GP surgeries until such adjustment can occur.

While there are some advantages to funding being stable or predictable over time, as well as political difficulties in reallocating funding in response to changing needs, if this meant a reduction in funding for some places, it is clear that funding for public services at the local level is not perfectly responsive to population

change. Any form of population growth, of which positive net migration is one, may therefore place pressures on local budgets. In the case of migration these impacts are dependent on the profile, and the needs, of the arriving migrants e.g., families would demand schooling which young professionals would not.

Even if funding was made more responsive to changes in population estimates, these estimates are not infallible. Difficulties measuring both population and migration become more and more pressing the further we move away from the census, the point at which population estimates have their highest certainty. In the intervening period between censuses, the ONS makes population projections for local areas based on assumptions. Overall, 89% of the ONS' local authority population estimates for 2021 (in England and Wales) differed by less than 5% to the census (of the same year). However, projections for local authorities in cities or with relatively high student populations were less accurate, and for 3 authorities in London (Westminster, Camden, and City of London), the ONS projections and census-based estimates differed by more than 20%.

Long-term net migration estimates and policy options

To understand the policy options for reducing net migration, it is crucial to consider the immigration system route by route. Policy changes in each route come with different trade-offs, depending on the economic and non-economic impacts of the route. The government will have to decide how it prefers to resolve the trade-offs each route presents. These are often political decisions: for example, we are not in a position to recommend whether any foreign-policy benefits of continuing the Ukraine schemes outweigh the potential fiscal impacts or the government's interest in reducing net migration.

The impact of policy on net migration is difficult to forecast. A given immigration route may affect migration differently in the short run to the long run. For example, people on the Youth Mobility Scheme (YMS) add to net migration in the short run when they immigrate. After 2 to 3 years, they add to emigration. If a large proportion leave the country, the overall impact on net migration will be small. However, it will not be zero, because some people may find other routes to remain in the UK, such as skilled work or family visas. And if YMS migration is increasing, there will be a temporary period of higher net migration before emigration 'catches up'. This dynamic is explained in a Migration Observatory-London School of Economics (LSE) <u>analysis</u> on which this paper draws. The analysis shows that migration policies that either increase or decrease immigration will have a larger impact on net migration in the short run than in the long run—because policies affect immigration before they affect emigration.

The long-run impact of each immigration route depends on (a) the level of immigration on that route; and (b) the percentage of people on the route who ultimately settle permanently in the UK. To estimate the potential long-run impact on net migration, we must rely on assumptions about likely levels of immigration and the 'stay rates'. Both are highly uncertain. They depend not only on policy, but also on migrants' behaviour. Migration patterns and the share of people who want to stay long term can vary for reasons that the Home Office will inevitably find difficult to anticipate.

Table 1.11 shows a plausible but speculative scenario for net migration after the 2024 rule changes have bedded in, for non-EU citizens. Migration statistics are taken from the Long-Term International Migration

(LTIM) estimates produced by the ONS. A hypothetical estimate of what long-run immigration would look like is assumed (see notes). Stay rates are calculated using migrant journey data and have been taken from a <u>Migration Observatory-LSE study</u>. The long-run net migration figure is simply the estimate of long-run immigration, multiplied by an estimated stay rate. For simplicity, EU citizens are excluded. In recent years, net migration of EU citizens has been negative due to the departure of people who previously arrived under free movement. This will not continue forever, so eventually we expect EU net migration to be positive (but much smaller than under free movement). Net migration of British citizens is also excluded. This is almost always negative too, in the range of 30,000 to 80,000 net emigration per year, although ONS has had particular trouble measuring this category accurately. At recent rates of EU and British net emigration, the roughly 400,000 level of non-EU net migration implies total net migration of roughly 300,000 per year.

The purpose of these calculations is **not** to predict future net migration, but to allow us to illustrate the approximate size of different migration categories' contribution to net migration in the medium to long term, if migration levels remain at roughly current levels.

Category	2023 immigration (LTIM)	Hypothetical long-run immigration	Assumed stay rate	Long-run non- EU net migration	% of non-EU future net migration
Work visas	444,000	280,000	56%	157,000	38%
Study visas	418,000	270,000	26%	70,000	17%
Family visas	84,000	84,000	80%	67,000	16%
Asylum	80,000	80,000	90%	72,000	17%
Hong Kong BNO	36,000	20,000	90%	18,000	4%
Ukraine schemes	40,000	24,000	90%	22,000	5%
Resettlement refugees	4,000	4,000	100%	4,000	1%
Other visas	17,000	17,000	31%	5,000	1%
Total	1,123,000	779,000	53%	415,000	100%

Table 1.11: Illustrative net migration scenario, non-EU citizens only

Source: 2023 immigration figures from Office for National Statistics (ONS), Migration Observatory & London School of Economics (LSE)

Notes: Assumptions for hypothetical long-run LTIM: work visas based on assumption that Skilled Worker and Health & Care have the same ratio of visa grants to LTIM as other visa categories (excluding seasonal workers & overseas domestic workers, which are 6 month visas), and that LTIM between 2023 and 2024 fall by the same percentage as visa grants fell between May-Nov 2023 and May-Nov 2024; this may underestimate the decline in work visas as Skilled Worker and health & care are likely to be a higher share of LTIM than visa grants. Student visa level for long-run assumes that main applicant and dependant visa grants fall in line with the 2023-2024 change in January-November visa grants. Family, asylum, resettlement and other visas are assumed to be the same in long-run as in 2023. Hong Kong BNO and Ukraine Schemes LTIM in long run based on visa grants for year ending September 2024. Stay rates based on Migration Observatory-LSE <u>September 2024 update</u>. Totals may not sum due to rounding.

Some of the assumptions in the table are particularly uncertain. For example, the share of students who remain in the UK permanently has been increasing. It is too early to calculate an accurate stay rate for recent cohorts of students, as this depends on how many decide and are able to switch to long-term visas after their studies. The introduction of the Graduate Route will have impacted this behaviour. In addition, the early 2024

policy changes may reduce the share of students who stay. This is because restrictions on dependants are likely to disproportionately affect families, who tend to stay in the UK longer; and because higher salary thresholds will make it harder for students to switch to skilled work visas outside of the health and care sector.

Putting aside these uncertainties, some broad observations:

- Work visas are currently the major contributor to overall net migration, even after the 2024 policy
 restrictions. Within the work category, Skilled Worker visas (including Health and Care) will make the
 largest contribution to net migration because they are the largest in absolute terms and are more likely
 to lead to permanent stays than some other categories (e.g. temporary workers);
- Student migration makes a non-trivial contribution to long-term net migration. This is also a function of the work visa system. Student visas do not provide a path to permanent status in their own right, but students can stay permanently if they switch to long-term work visas; and
- Humanitarian visas and the asylum system could make up roughly a quarter of net migration in the medium to long term. Asylum migration is very difficult to influence using policy. However, the government controls humanitarian visa schemes for British Nationals Overseas, Ukrainians and other resettled refugees.

Naturally, efforts to reduce migration in any of these areas will come with trade-offs. The nature of the trade-offs is very different depending on the category. Below we outline some of the key considerations.

Work visas

Following the decline in Health and Care migration, an increasing share of long-term work migrants will likely now be in private sector occupations. The rise in the general salary threshold from £26,200 to £38,700 now means that most will be making net fiscal contributions, although the precise fiscal impact depends on many factors, including whether the main applicant has family members and how long they stay in the UK (our <u>2024</u> <u>Annual Report</u> discussed this in more detail). While detailed analysis would be needed to understand the fiscal impact of further policy changes, it is likely that further restrictions to high-earning Skilled Worker visa holders would come at a fiscal cost. If one wanted to reduce net migration through the Skilled Worker route, there are a range of policy levers that would likely have an impact, though detailed analysis would be needed to estimate the overall impact. For instance, policies that affect the level of work-related net migration include:

- The exemptions which allow a lower salary threshold including the Immigration Salary List (formerly known as the Shortage Occupation List, where occupations deemed to be in shortage can pay lower salaries) or the new entrant thresholds (for those below age 26 or switching from the student route);
- Particularly where high levels of international recruitment in certain occupations are contributing to net migration, the occupation-specific rules on salary thresholds, dependants, caps, or the removal of otherwise eligible individual occupations from the SW route; and
- The skill level the route was previously open only to RQF 6+ (graduate-level) roles which was lowered to RQF3 (A-level equivalent) in the post-Brexit migration system when freedom of movement for EEA nationals ended.

These options come with trade-offs and a full analysis would be required of the potential costs and benefits. Around 30% of main applicants in the skilled work visa routes between May and November 2024 were in health and care. These workers are subject to lower salary thresholds and are less well paid (particularly in the care sector). Their direct fiscal impact is thus expected to be smaller (and possibly negative in some cases particularly in the long term). The direct economic cost of restricting these visas would thus be smaller. The impacts of visa restrictions in health and care would depend substantially on what other action the government takes to ensure a sustainable workforce in the sector. As we have repeatedly said, if the government want a functioning health and care sector, with lower reliance on immigration, more needs to be done to fill roles domestically through increased funding to improve pay and conditions.

Finally, work visas' contribution to net migration also depends on the stay rate. Policies that affect the stay rate include:

- Whether the visas lead to settlement vs. are strictly temporary; and
- How liberal or restrictive the policies are that govern the transition from temporary status to settlement: for example, the salary and skills thresholds for settlement and any other criteria that were not already applied at entry (e.g. language).

Currently, people who qualify for a Skilled Worker (including Health & Care) entry visa will usually also qualify for settlement if they remain in their job for 5 years. If the eligibility criteria for settlement are significantly more restrictive than for the entry visa, this effectively turns some skilled work visas into strictly temporary, 5year ones. If adjusting settlement criteria in this way, the government would need to consider whether 5 years is the right duration for a temporary visa. Currently, most temporary visas that do not allow a path to settlement are significantly shorter than 5 years. The impact of introducing more temporary work migration on net migration would depend on the extent to which employers then simply 'replaced' the migrants who were not allowed to stay with less experienced (and less integrated) newcomers. A policy designed to reduce work stay rates in this way might be expected to have a positive fiscal impact (because recently arrived migrants have a more positive fiscal impact) at the cost of lower integration. It would likely take several years for any policy which reduced stay rates to reduce net migration, given those on existing visas would usually be subject to the settlement criteria that were in place when they entered, and new settlement rules would typically apply to new entry cohorts who would not be eligible to apply for settlement for some time. Equally, more restrictive settlement criteria or a shorter visa duration may also make the UK a less attractive destination for workers and could reduce immigration to some extent. However, we do not have evidence that limiting settlement has substantial effects on migration flows, at least compared to other factors. Settlement policies are often overlooked with a larger focus on initial entry rules. There would be value in more fully considering the evidence and reviewing settlement policies.

Study visas

As we outlined in our <u>2024 report on the Graduate Route</u>, study visas have played a large role in financing higher education. The distribution of this funding depends on which institutions recruit most international students and how much they pay in fees - it is not necessarily the same distribution policymakers might have chosen if they were funding the sector directly using tax revenues. The impacts of student visa restrictions

thus depend on other decisions the government makes about the funding of higher education (such as domestic tuition fees and research funding).

Students' contribution to net migration is influenced both by inflows and by policies that facilitate switching into other routes, including the Graduate Route, the health and care sector, and other skilled work visas. Policies likely to have some impact include:

- The future of the Health and Care visa, which has had an important impact on students' stay rates, because many students switch to long-term work visas in the sector (particularly those who switch directly from study visas, rather than going via the graduate route). Over half (56%) of people who switched directly from the Student Route to the Skilled Worker Route in year ending June 2023 went into <u>care work</u>. Together with the work-related entry visas discussed above, the future of the care visa may thus be one of the most important single factors affecting net migration;
- The lower salary thresholds for students who qualify as 'new entrants'. The impacts of arrangements for new entrants since the 2024 salary threshold increase are uncertain and would be worth reviewing in more detail;
- Any restrictions on student immigration, for example caps on international student numbers at the university level or overall restrictions such as this would be focused on reducing inflows, rather than stay rates; and
- The Graduate Route, which likely increases long-term net migration to some extent by making study more attractive to students and making it easier for some students to find long-term work visas after their studies. Closing or restricting the Graduate Route, for example, would likely reduce inflows of students by reducing the attractiveness of the UK for study but would also reduce stay rates.

If the government considers any changes along these lines, the wider funding issues for higher education would need to be considered. Even with the planned rise in tuition fees for domestic students, it is likely that many universities will still use international student fees to make up for losses on teaching of domestic students and research as part of their longer-term financial sustainability.

Family visas

Family visas are expected to be less economically and fiscally beneficial than work visas. This is not surprising since their main purpose is not economic, but rather to enable family life in the UK. The key question for family visas is how to balance the economic and population considerations with the right to family life. We will report on this in June, following a commission from the Home Secretary.

Asylum

Asylum claims might reasonably be expected to contribute close to 20% of non-EU net migration in the longrun, though the share has been much lower in recent years. Asylum is an area of policy that we have not been asked to provide advice on in the past and presents very different policy questions for the government. It is very difficult to tightly control this aspect of migration.

Humanitarian visas

The Ukraine and Hong Kong BN(O) schemes are a small but non-trivial share of total net migration. Any decision to restrict these schemes would likely not be economically costly. Again, these schemes were not

introduced for economic reasons. The trade-off here is between the government's desire to reduce net migration and the foreign-policy and ethical considerations that led to the introduction of the visas.

Conclusion

Net migration is a seemingly simple measure but one which is difficult to estimate and often misunderstood, with public discourse focusing mainly on the immigration side of the equation over the emigration side. The most obvious way in which net migration relates to outcomes in the UK is through its impact on population growth. A changing population level has implications for housing and public service provision including education, transport, and the environment. Whilst there is no optimal level of net migration it is an undoubtedly important issue, specifically at the local level, and with varying population projections for different parts of the UK, the UK government and the Devolved Governments are approaching the issue of net migration with different policy priorities in mind.

It is not possible to have a sensible discussion about how to reduce net migration without examining the immigration system route by route. Different migration categories admit migrants with different characteristics, reasons for coming to the UK, durations of stay and locations within the UK. This determines the type of services that they will demand, what kind of contributions they make to the UK, and for how long they will do so for. This is also important when considering policies aiming to effect net migration which are likely to have differential impacts across the UK's nations and regions.

If the government wants to reduce net migration, it will face various constraints and trade-offs. In particular, some categories are easier to manipulate using policy than others. The government can relatively easily adjust work-visa policy, for example, and expect this to translate into higher or lower visa grants. By contrast, it is more constrained on family migration (due to the expectation of a right to family life), and especially on asylum (where policies often have limited impacts). One challenge for the government is that the categories that are easiest to reduce are often the ones that are more economically beneficial (namely, skilled work visas and international students).

It is entirely for government to decide if net migration is too high and needs to be reduced. Whilst there are a range of policy choices that may reduce net migration in the short run, our analysis highlights how difficult it is in practice to have confidence in the likely magnitude of a particular policy change on long-run net migration, which suggests that policymakers may want to be cautious in the promises they make on future migration levels. Finally, we would suggest that government should consider the total impact of a policy change, rather than simply its effect on net migration. For example, a binding cap which reduced the number of care workers allowed would decrease net migration. But what would be the effect on the social care sector? Restricting the ability of students to remain in the UK after graduation would also reduce net migration. But what would be the effect on university finances? Migration policy does not act in isolation.