COMMENTARY

Pounded? Currency devaluation and migration to and from the UK

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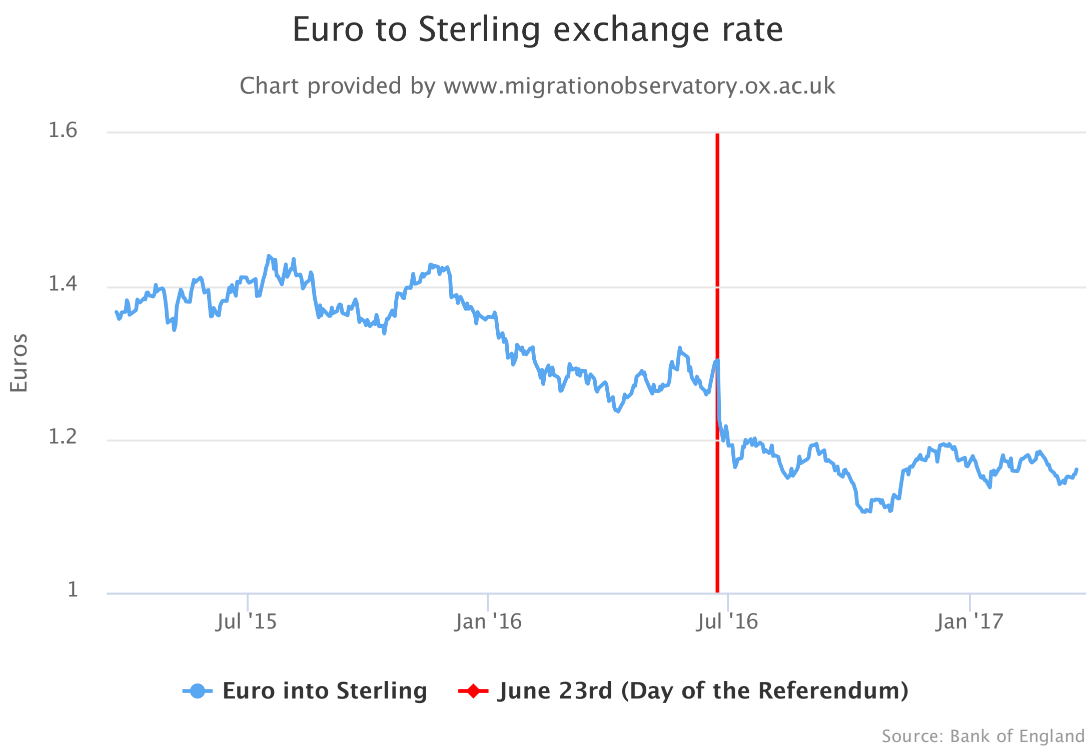
www.migrationobservatory.ox.ac.uk

An interesting facet of policy debates about migration is that they often focus on policy measures that can be undertaken to manage migration flows without much discussion of the external factors that actually shape those migration flows.

While the UK has recently triggered Article 50, it is still a member of the EU, meaning that in many respects little has changed, yet, in terms of control over migrants inflows from the EU. However, one unintended consequence of the Brexit referendum - a sharp fall in the value of the British pound - could have important ramifications for migration to and from the UK, regardless of the outcome of Brexit negotiations.

As shown in Figure 1, the relative value of the British pound has changed from 1.37 euro per pound in March 2015, to 1.16 euro per pound in March 2017, a drop of 15%.

Figure 1



What is the expected impact of the pound's devaluation on migrant flows to the UK? Academic studies suggest that migration flows are broadly responsive to exchange rate fluctuations (Keita, 2016; Portes and Forte, 2017). A Home Office report from 2012 also found "an association between changes in levels of British and EU citizens' emigration from the UK and changes in both levels of unemployment and relevant exchange rates." However, we would expect the lower value of the pound to affect different migrants in different ways.

The UK could become more attractive to international students and foreign investors

Sectoral and occupational importance of EU migration

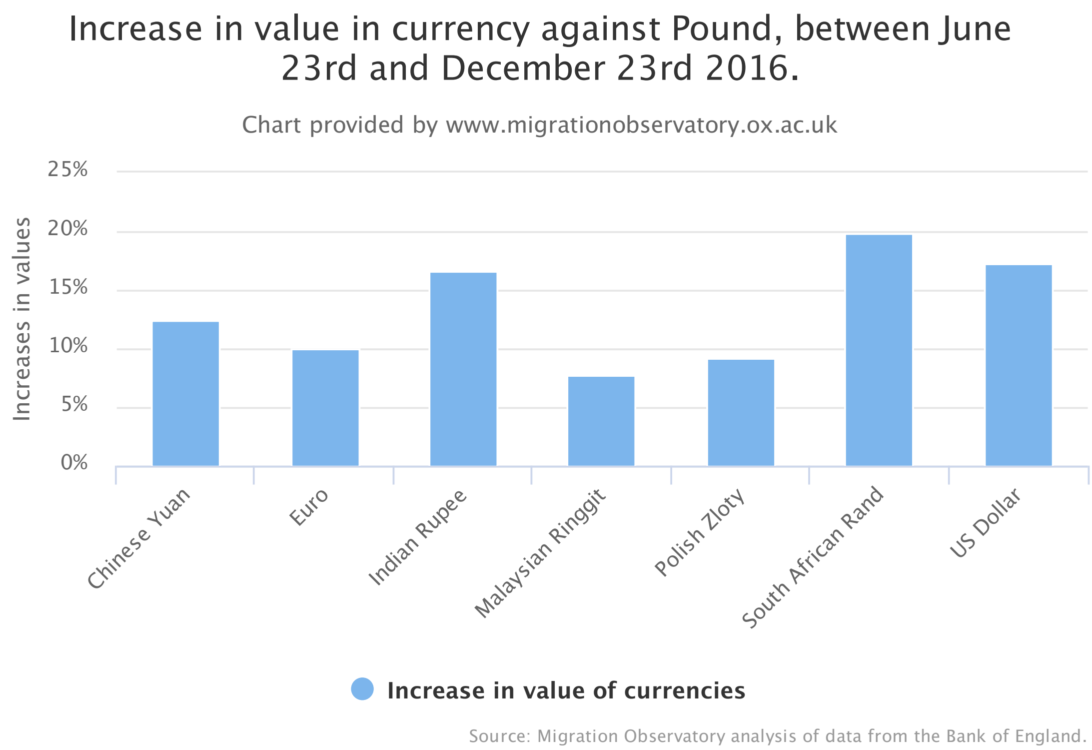
The beneficiaries from a falling pound are those who pay for goods and services in the UK with currency which has remained comparatively strong, and from the perspective of migration to and from the UK, a key group that fits into this category is international students. This includes students at UK higher education institutions, language schools, boarding schools and others.

A declining pound substantially reduces the cost of study for those paying for education in the UK with money coming from abroad. As an illustration, Figure 2, below, shows the difference in the cost to foreign currency holders of a year's university tuition at a cost of £13,500 the average fees for overseas undergraduate students at the exchange rate from the Referendum date (June 23rd), compared to the exchange rate on December 23rd (6 months following the vote).

Chinese students represented the largest cohort of foreign students in 2015/6 (around 30%). Students using Chinese Yuan would have saved 13% on December 23rd as compared to their costs if they had paid on June 23rd. Similarly, students paying in US dollars would have saved 17%. These savings would equate to reducing the cost of overseas (assuming they are at the average for overseas students) by about £ 1,690 and £ 2,320 respectively, and this does not take into account further savings which are being made from the fall in cost of living for students relying on foreign currencies.

The fact that higher education in the UK would be cheaper makes it potentially more attractive to international students. However, it is important to note that students from within the EEA may be fearful of a fee hike as they could become potentially subject to non-EU fees.

Figure 2



Foreign Investors

Another group of potential beneficiaries is those with an income or wealth in different currencies who wish to use investing in the UK as a means to staying for an extended period. With an investor visa, one is eligible to stay in the UK for three years. To obtain such a visa, an investor must invest £2million into the UK. Given the fall in the sterling against other currencies, this amount has essentially fallen from nearly $3million at the time of the referendum to around $2.5million 6 months later. This could increase the popularity of this visa – on which there is currently no numerical limit. However, it is important to note that the number of visas given under the investor route is small (578 in 2016). Also, unlike students who are buying educational services, investors should take into account expectations about the long-term value of the pound.

The UK could become less attractive to foreign workers, particularly those with overseas dependents

While those buying goods and services in the UK with foreign currencies stand to gain, those who earn in the UK but pay for goods and services in other currencies stand to lose. A key group in this category is foreign workers who support family members in other countries.

Many foreign-born workers – (as well as many UK born workers with links to communities overseas) – send remittances, to family members, business associates and community members in other countries and the UK is recognised as one of the major sources of remittances worldwide. The change in value of the pound has reduced the relative value of remittances from the UK and the evidence suggests that exchange rates play a key role in determining remitted amounts (Yang, 1998).

Likewise, the academic evidence suggests that plans of foreign-born workers who want to return home at some point could be affected by the change in the value of the currency (Dustmann and Görlach, 2016). Some might decide to stay longer in the UK to accumulate higher savings, others might opt to move into other countries with stronger currencies.

Conclusions

While exchange rates alone are unlikely to be the factor that determines whether people move to or from the UK – with jobs, language, family, community, choice of study location and other factors still likely to be more important – the exchange rate devaluation following the referendum result may well be a factor that influences migration decisions.

Fluctuations in exchange rates create winners and losers from a migration perspective, just as they do from a business perspective. Recently the UK's prices have fallen for those with access to foreign currencies, while for those who depend on the British pound, the rest of the world has become more expensive.

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The Migration Observatory

Based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford, the Migration Observatory provides independent, authoritative, evidence-based analysis of data on migration and migrants in the UK, to inform media, public and policy debates, and to generate high quality research on international migration and public policy issues. The Observatory's analysis involves experts from a wide range of disciplines and departments at the University of Oxford.

COMPAS

The Migration Observatory is based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford. The mission of COMPAS is to conduct high quality research in order to develop theory and knowledge, inform policy-making and public debate, and engage users of research within the field of migration.
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