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The Impact of Recent Migration from Eastern Europe on the UK Economy

In a speech to members of the Cambridgeshire Chamber of Commerce, Professor David Blanchflower – a member of the Monetary Policy Committee – summarised the paper that he released today, co-authored with Bank of England economists Jumana Saleheen and Chris Shadforth, on the impact of recent migration from Eastern Europe on the UK economy.

In the paper, Professor Blanchflower and his co-authors note how the UK population has grown at a relatively fast pace since 2000, driven primarily by changes in net migration. The rate of inflow has increased reflecting migrants from Asia and the Middle East as well as from the eight East European Accession (A8) countries. The uncertainty about the exact number of migrants from the A8 countries is also highlighted.

Professor Blanchflower notes that empirical literature from around the world suggests little evidence that immigrants have had a major impact on native labour market outcomes such as wages or unemployment and recent work on the UK by other authors is consistent with this view. He goes on to examine whether the rising share of young immigrant workers can explain the increase in the unemployment rate among 18-24 years olds since 2000 and concludes that this increase has had little to do with the influx of migrants. In addition, Professor Blanchflower suggests that the recent rise in the overall UK unemployment rate could be unrelated to structural factors and that policymakers may therefore interpret the rise in the actual unemployment rate as a reflection of greater slack in the labour market now compared to a year ago.

Professor Blanchflower says that the overall macroeconomic impact of immigration – including that from the A8 countries – on inflation and growth is not clear-cut. It would appear that the recent immigration from Eastern Europe up to late 2006 is likely to have acted to reduce the natural rate of unemployment in the UK and helped to raise the supply potential of the economy. In addition, this recent immigration appears to have continued to reduce inflationary pressures.

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2007/speech297.pdf>