SECTOR IN-DEPTH
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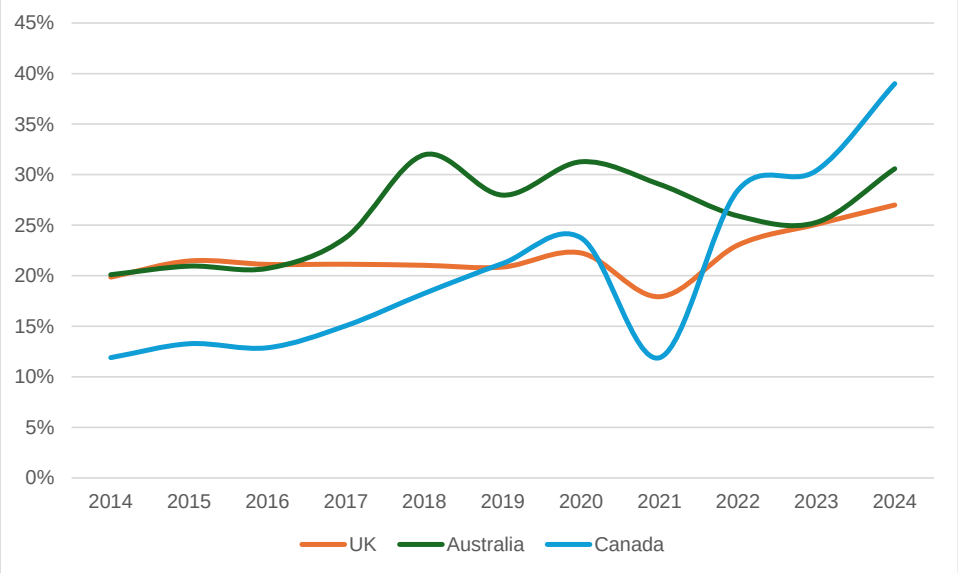
Higher Education – Cross Region

Government policies on immigration constrain universities

Universities in Canada (Aaa stable), the UK (Aa3 stable) and Australia (Aaa stable) are all facing similar strains from national policies that limit their ability to attract international students. This cohort of students has emerged over the past decade as a way to offset weaker government funding for domestic students, which has stressed the operations of the universities.

International students pay higher tuition rates than domestic students, and their tuition is either not regulated, or at least has less regulation than domestic tuition, so universities have focused on increasing the share of enrollment stemming from international students (see Exhibit 1). Recent policy changes and announcements that affect international enrollment have added negative pressure to the universities' operating environment within these three countries.

Exhibit 1
International students have become a larger share of enrollment in higher education institutions over the past 10 years
Share of total enrollment represented by international students



Sources: Institute of International Education and Moody's Ratings

Recently, these governments have turned their focus on how immigration, including international students, has contributed to various broader social issues such as housing shortages, rise of temporary workers and the strain on healthcare. As such, governments in

Canada, the UK, and Australia have introduced measures that will either directly or indirectly slow the growth of international students, while not fully addressing the issues that initially prompted universities to seek out more international students. This has left the universities in a precarious position of adhering to government policy while trying to limit the potential credit negative impacts. These impacts add downward pressure to our assessments of the operating environment across these three countries.

Canada, which has seen the largest relative increase in international students among the three countries, imposed a cap on the number of study permit applications available to international students planning to attend higher education institutions. The new limits are at levels below international enrolment recorded in the fall of 2023. Additionally, the government made changes to post-graduate work permits, including new language proficiency and field of study requirements, reducing the complimentary benefit of earning a degree from a Canadian institution. These changes reduce the growth potential of international students relative to previous policies.

The Canadian province of Quebec (Aa2 stable) has added further controls regarding immigration, making it the most restrictive province in Canada for international students. In addition to the immigration policies, the province also imposed French proficiency measures to strengthen the predominance of French usage and to redirect revenue raised by anglophone universities from international students to support the francophone institutions. Among the measures undertaken by the province were an increase to tuition rates for Canadian, non-Quebec students and setting a minimum tuition for international students, as well as introducing a tuition clawback for international students and recovering an amount for Canadian, non-Quebec students that exceed the teaching and support grants provided by the province. These policy changes disproportionally impact the two largest anglophone universities in the province, McGill University (Aa2 negative) and Concordia University (A1 negative), by reducing their price competitiveness and lowering revenue growth. Both universities went so far as to challenge the province in court, a risky proposition that may have further damaged their relationship with the province. While the court declared that both the French proficiency and the tuition increase for Canadian, non-Quebec students were unreasonable and declared them invalid, the province was given nine months to provide justification for the tuition increase, which means the higher tuition rates for Canadian, non-Quebec students are still in effect for the Fall 2025 admissions, while the French proficiency measures which were scheduled to be implemented in the Fall 2025 admissions are now null and void as the province did not appeal the court's ruling.

In May, the UK government published a white paper on immigration proposing new measures that would be credit negative for UK universities if adopted. Central to the proposals are a shortening of the country's post-study work visa and the introduction of a 6% levy on universities' income from international students. Both measures could expand deficits for UK universities. The proposed changes on the post-study work visa would shorten the period of eligibility for students to work in the UK upon graduation to 18 months from the current 24 months. As with Canada, this may lead to a decrease in interest from international students, especially if other countries provide greater post-study work eligibility conditions. The 2021 introduction of post-study work visas led to a 26.5% increase in international students across fiscal 2021 to fiscal 2023. The 6% levy would amount to £0.7 billion based on the £11 billion the sector generated from international tuition fees in fiscal 2025, erasing the sector's estimated surplus of £0.3 billion for this year.

This comes in the context of a significant erosion of regulated domestic undergraduate tuition fees in real terms, significant cost increases and cuts in capital grant funding. We reflected this deterioration in operating conditions by lowering the operating environment score for English universities to *Baa* from *A*[1].

Policy uncertainty arising from the Australian government's inability to pass legislation on international student caps and a lack of clear direction on Universities Accord reforms have weakened the operating environment for Australian public universities. Although the proposed international student caps were not legislated, the government introduced Ministerial Direction 111 (MD-111) in December 2024. This directive aims to promote more equitable visa processing by prioritizing faster approvals for smaller and regional universities operating below 80% of the Australian government's proposed (but not legislated) international student caps. As a result, larger and metropolitan institutions, which tend to receive more international students, may experience delays in enrolling students on a timely basis, adding potential reputational harm.

The Labor Party's victory in the May 3 federal election ensures continuity in existing international student policies over the next two to three years, including MD-111 and student visa fee increases to AUD2,000 (up from AUD1,600, already the highest in the world).

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Such measures that seek to stem the inflow of international students could reduce university revenue, contribute to job losses and may harm the international reputation of Australian higher education over the longer term. Despite these challenges, the sector is proving resilient. Universities are responding by preserving cash buffers, implementing cost-saving strategies, delaying major capital projects and slowing debt reduction to maintain financial flexibility. Amid uncertainty over revenue and key spending items, we expect universities will further refine their cost structures over the next 12-18 months. This may strain labor relations, particularly with trade unions – given the sectors' heavily unionized workforce – and increase job insecurity for long term casual staff.

Endnotes

1 The exceptions were the universities of Oxford (Aa1 stable) and Cambridge (Aa1 stable) who retain *Aa* scores

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