Analysis of tourists' economic behaviour in the UK

A Cebr report for the Heart of London Business Alliance

June 2026

Updated September 2026

Disclaimer

Authorship and acknowledgements

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The report does not necessarily reflect the views of the Heart of London Business Alliance.

September 2026 update

This report was updated in September 2026 to provide further clarification on the methods and sources used to derive intensive margin estimates in section 3.1 and the tourist spending multiplier in section 3.2. Further, the text in section 3.4 was corrected to state that the £1.4 billion of VAT rebates reflects the VAT that would have accrued from visitors who were going to come to the UK in any case. The earlier version of the report incorrectly stated this figure also captures the spending of any additional tourists encouraged by the scheme.

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Foreword

The debate around VAT-free shopping is often framed through the lens of retail, but its implications are far wider. At its heart, this is a question about the UK's international competitiveness and our ability to attract visitors, investment and spending in an increasingly competitive global marketplace.

International tourists do not simply shop. They stay in hotels, eat in restaurants, visit cultural attractions, use transport networks and support local businesses. Their spending sustains jobs and economic activity across cities, towns and regions throughout the United Kingdom. When the UK becomes a less attractive destination for high-spending international visitors, the effects are felt far beyond our shopping districts.

The decision to withdraw VAT-free shopping placed the UK at a disadvantage compared with many of our closest competitors. While countries across Europe continue to use tax-free shopping as a tool to attract international visitors and encourage spending, the UK has chosen a different path. This report provides an important and rigorous assessment of the consequences of that decision.

Its findings demonstrate that the impact extends well beyond retail. Lost visitor spending affects hospitality, culture, leisure, tourism and the wider visitor economy, reducing opportunities for growth in communities across the country. At a time when national and local leaders are rightly focused on driving economic growth, boosting productivity and supporting high streets and city centres, these findings deserve careful consideration.

The evidence presented in this report makes a compelling contribution to an important policy debate. As the Government seeks to unlock growth in every region of the UK, reinstating VAT-free shopping should be considered not as a sector-specific intervention, but as a national economic opportunity.

Ros Morgan
Chief Executive

Heart of London Business Alliance

Executive summary

Cebr is pleased to present this report examining how changes in visitor behaviour and the removal of tax-free shopping have affected the UK's tourism economy. The report analyses trends in inbound and outbound tourism, investigates differences across regions and inbound visitor markets, and assesses the impact of the potential reintroduction of a tax-free shopping scheme in the UK.

Although the UK continues to attract large numbers of international visitors, the real economic contribution per visitor remains below pre-pandemic levels. Given the importance of high-spending international visitors, particularly in London and other regions reliant on tourism, policies, like tax-free shopping, that improve the UK's price competitiveness and encourage higher visitor expenditure could support stronger growth, employment and regional development.

Key findings

- **The post-pandemic recovery in real tourism spending has lagged behind the recovery in visitor numbers.** VisitBritain estimates suggest that the number of overseas visitors in 2024 fell 1.3% short of 2019 levels. However, real expenditure remained 8.7% below 2019 levels, and average spending per visit fell from £848 to £786.
- **The recovery in non-EU spending has lagged behind that of EU visitors**. By 2024, real expenditure from EU visitors had recovered to around 96.0% of its 2019 level, compared with 88.6% for non-EU markets.
- Across most regions of the UK, spending by non-EU visitors saw a weaker recovery compared to spending by EU visitors. Northern Ireland was a notable exception. Notably, unlike Great Britain, retailers there remained able to offer VAT refunds to eligible non-EU visitors after 2021. **The comparatively stronger recovery in non-EU spending in Northern Ireland is consistent with the view that a reintroduction of tax-free shopping can support greater activity.**
- **London remains the cornerstone of the UK's inbound tourism economy.** In 2024, the capital accounted for almost half (48.0%) of all overseas visits and more than half (54.7%) of total visitor spending.
- **The abolition of tax-free shopping left the UK at a competitive disadvantage relative to major European destinations**. While competitor economies, such as France, Italy and Spain, retained VAT refund schemes, the UK became an outlier among European tourism markets. The comparatively weaker recovery among non-EU visitors is consistent with this loss of competitiveness.
- **Tax-free shopping represents an opportunity to unlock additional tourism demand and support growth across the UK.** Cebr estimates that reintroducing the scheme in 2025 could have boosted GVA by up to £11.5 billion, supporting over 150,000 jobs, as well as providing a net benefit to the Exchequer.

Introduction

The UK tourism sector has undergone a period of significant change in recent years. The COVID-19 pandemic, the UK's withdrawal from the European Union, and the abolition of the Value Added Tax Retail Export Scheme (VAT RES) in 2021 have all reshaped the environment in which international tourism operates. Although overseas visitor numbers have largely recovered, the recovery in visitor spending has been considerably weaker, particularly among higher-spending long-haul markets. This raises important questions about the UK's competitiveness as an international destination and the factors influencing visitor behaviour.

Outside of global developments, the removal of tax-free shopping represented a significant change in the UK's tourism offer specifically. Prior to 2021, the UK was aligned with other major European destinations in offering VAT refunds on eligible purchases to non-EU visitors. Following the abolition of VAT RES, however, the UK became an outlier among competing tourism markets in the region, with countries such as France, Italy and Spain continuing to provide tax-free shopping to international visitors. This increased the effective cost of shopping in the UK relative to competing destinations and represents a potential avenue via which the attractiveness of the UK as a tourist destination has fallen.

This report seeks to assess the extent to which the abolition of VAT RES has impacted UK tourism by examining recent trends in inbound and outbound tourism, focusing on differences across source markets and UK regions. It also compares the UK's recovery with that of other major European destinations, where tax-free shopping remains available. Finally, we estimate the economic, employment and fiscal impacts associated with reintroducing tax-free shopping, with particular attention given to the regional distribution of these effects and the opportunities associated with establishing a broader tax-free shopping scheme that extends eligibility to EU visitors, who were previously excluded under the previous structure.

The report is set out as follows. Chapter 1 examines inbound tourism trends and differences across visitor markets and regions. Chapter 2 considers patterns in outbound tourism by UK residents. Chapter 3 estimates the potential impacts of reintroducing tax-free shopping, while Chapter 4 discusses the wider implications for the UK's international competitiveness and tourism sector.

1. Inbound tourist behaviour

This section examines how inbound tourist behaviour in the UK has evolved since the COVID-19 pandemic, Brexit and the removal of tax-free shopping (TFS) for non-EU visitors. Although the abolition of the scheme coincided with the pandemic, differences in the pace of recovery across markets provide a useful setting in which to assess whether changes in relative prices and tax policy may have influenced tourism activity.

Unless otherwise stated, this report uses official inbound tourism statistics published by the Office for National Statistics (ONS). However, methodological changes to the International Passenger Survey (IPS) introduced in 2024 have reduced the comparability of the latest estimates with earlier years. Accordingly, where comparisons with pre-pandemic trends are required, this report draws on adjusted estimates produced by VisitBritain for 2024, which are designed to provide a more consistent time series for both visitor numbers and visitor spending. This also applies to the figures presented throughout the report. All real expenditure figures are presented in constant 2023 prices, allowing for comparisons over time to be made after adjusting for inflation.

It should also be noted that regional inbound tourism estimates published by VisitBritain do not sum to the official UK-wide totals reported by the ONS. This is because the regional VisitBritain statistics measure visits to individual regions rather than unique visits to the UK. A single inbound trip on the latter may include multiple destinations on the former.[1] We use VisitBritain statistics for the regional analysis due to the longer back history and granularity of data available.

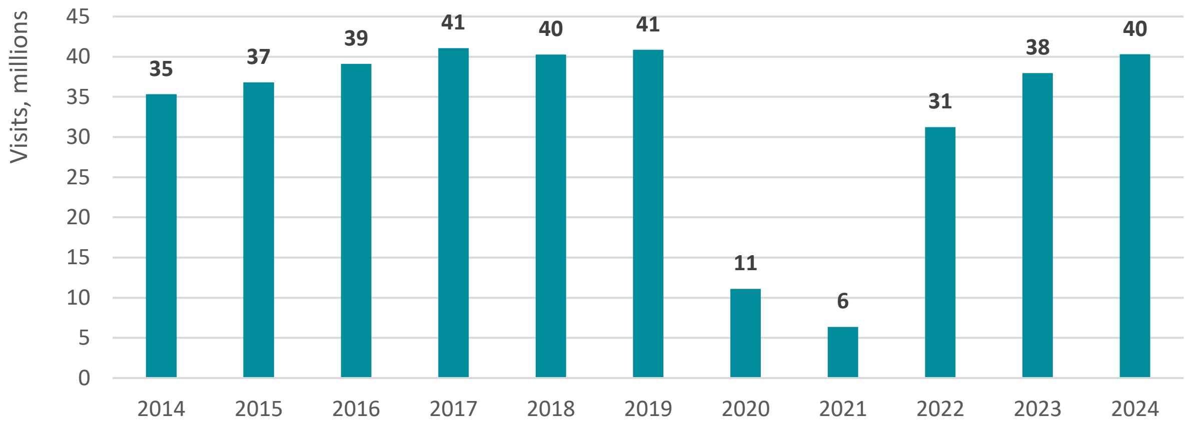
1.1 National overview

Total inbound tourism

In 2024, ONS statistics estimate that UK inbound tourist visits reached 42.6 million. However, the back-history comparable value stands lower, at 40.3 million. This falls 1.3% short of 2019 levels (Figure 1), suggesting that UK visitor numbers have not yet recovered from the levels observed before the pandemic.

[1] In addition, regional estimates are derived from smaller survey samples than the national figures and are subject to greater sampling variability and rounding adjustments, which can further contribute to differences between aggregated regional figures and UK-wide statistics.

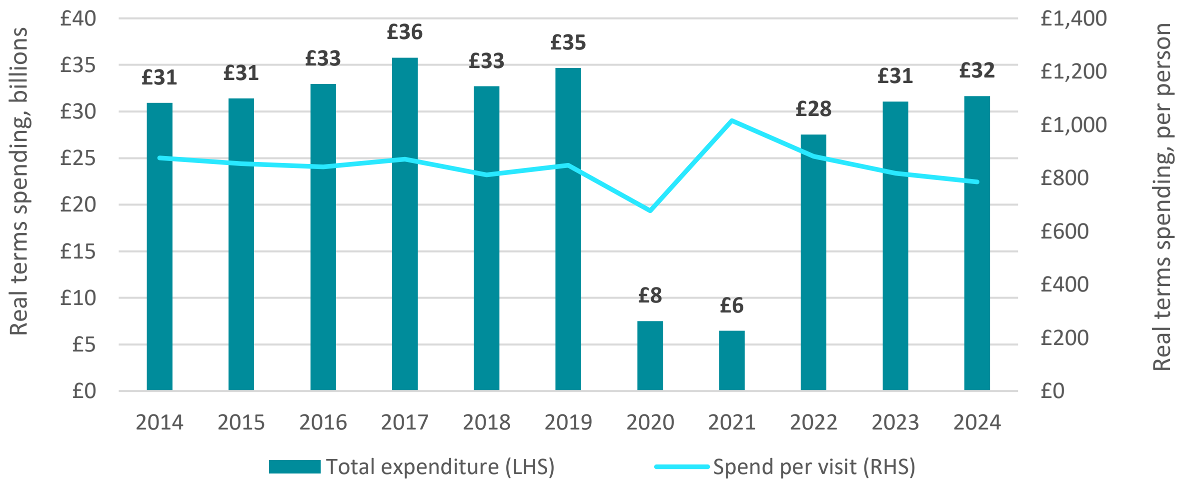
Figure 1 – Number of inbound visits by overseas visitors, 2014 to 2024



Source: ONS, VisitBritain, Cebr analysis

Tourism spending has increased in nominal terms since 2019, rising from £28.4 billion to £32.5 billion. However, after adjusting for inflation, a weaker picture emerges. Real inbound tourism expenditure, in 2023 prices, stood at £31.7 billion, 8.7% below its 2019 level (Figure 2) of £34.7 billion. Additionally, real expenditure per visit fell from £848 in 2019 to £786 in 2024, a decline of 7.4% and its lowest level on record (excluding the pandemic years). The decline in expenditure per visit does not appear to be driven by changes in trip duration, with the average length of stay showing little variation across 2019 and 2024, at around one week. Instead, the findings suggest that while visitors are spending more in cash terms, spending has not increased sufficiently to keep pace with inflation. As a result, while inbound tourism volumes have almost recovered, the real economic value generated by each visitor remains considerably below pre-pandemic levels.

Figure 2 – Total expenditure by overseas visitors (LHS) and spend per person (RHS), real terms (2023 prices), 2014 to 2024



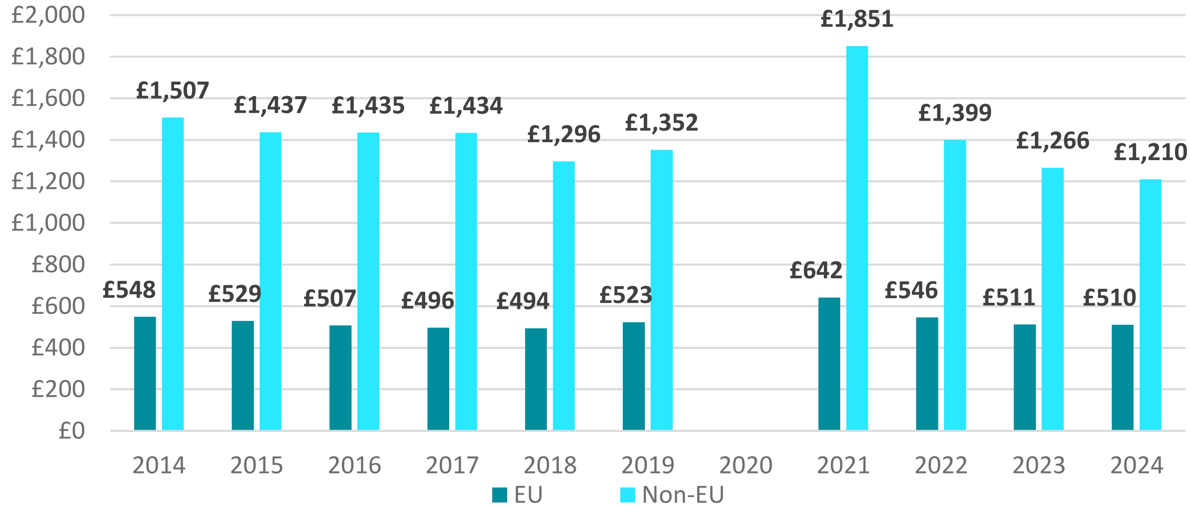
Source: ONS, VisitBritain, Cebr analysis

Inbound tourism by major market

At the country level, the United States remained the largest source market of inbound tourism to Great Britain in 2024, accounting for approximately 5.6 million visits and £7.1 billion in real tourism expenditure.[2] France and Germany were the next largest source markets, generating 3.6 million and 3.3 million visits, respectively. More broadly, the EU remains the largest source market for UK tourism, accounting for roughly three-fifths of all inbound visits in 2024.

However, in expenditure terms, non-EU visitors contribute to a disproportionately large share of tourism revenues. In 2024, real spending by non-EU visitors totalled £19.2 billion, compared with £12.5 billion from EU visitors. On average, a non-EU visitor spends more than twice as much per trip as an EU visitor. For instance, in 2024, this amounted to £1,210 for non-EU visitors against £510 for EU visitors. One explanation for this is that long-haul travellers typically face higher transport costs and longer journey times, and therefore tend to stay for longer and allocate larger budgets during their visits.

Figure 3 – Average expenditure per visit among EU and non-EU visitors, real terms (2023 prices), 2014 to 2024



Source: ONS, VisitBritain, Cebr analysis

Visitor numbers from both EU and non-EU markets had almost recovered by 2024, with visits remaining just 1.5% below their 2019 level for EU countries and 1.0% below for non-EU markets. In contrast, the recovery in spending has been considerably weaker, particularly among higher-spending non-EU visitors. In real terms, expenditure by EU visitors recovered to 96.0% of its 2019 level by 2024, while expenditure by non-EU visitors recovered to only 88.6% of its 2019 level.

At the per-visit level, real spend has trended downward since 2021 for both EU and non-EU visits (Figure 3), when it became inflated due to the post-pandemic release of pent-up demand. Spending per visit among non-EU visitors fell 10.5% in 2024 relative to 2019, from £1,352 to £1,210. EU visitors recorded a more moderate decline of 2.5%, from £523 in 2019 to £510 in 2024. A similar divergence is evident in nominal spending trends. While nominal expenditure by both groups exceeded pre-pandemic levels in 2024, the recovery was considerably

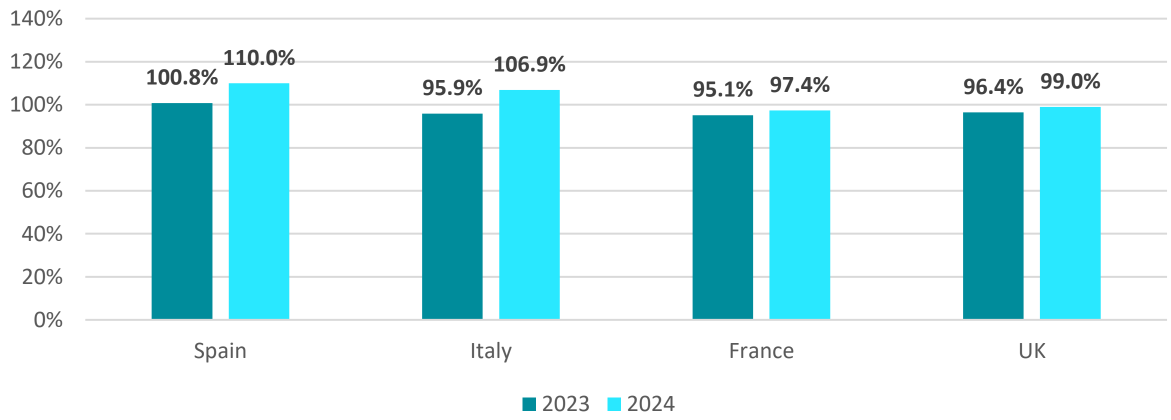
[2] Granular data on inbound tourism by destination for 2024 is only available for Great Britain. To allow for a consistent comparison over time, we estimated Northern Ireland inbound spending and visits based on the 2023 shares of EU and non-EU tourism activity using regional data from VisitBritain to obtain a UK equivalent value. This, however, cannot be reliably replicated across origin destinations, hence the use of Great Britian figures for this sub-section.

stronger for EU visitors than for non-EU visitors. Given that non-EU tourists typically spend substantially more per trip, this weaker recovery among long-haul markets has weighed on the overall recovery in tourism revenues.

Broader developments, including elevated UK inflation, exchange rate movements and differences in economic conditions across source markets, are likely to have influenced tourism demand. However, many of these factors similarly affected both EU and non-EU markets. Given that the TFS scheme applied exclusively to non-EU visitors before its abolition, the policy change represents one of the few factors that disproportionately affected these higher-spending, non-EU markets. Consequently, the removal of tax-free shopping may have reduced the UK's relative attractiveness for long-haul visitors and encouraged a greater share of spending to be directed towards competing European destinations, where similar schemes remain in place.

The experience of other major European destinations is broadly consistent with this interpretation. France, Spain and Italy all retained TFS for eligible non-EU visitors and generally experienced stronger recoveries in non-EU tourism activity than the UK in 2024. This is evident in Figure 4, illustrating non-EU visitor numbers in 2023 and 2024 as a percentage of their 2019 level.[3] A value of 100% indicates that visitor arrivals fully recovered to their pre-pandemic level, while values below 100% indicate that arrivals remained below 2019 levels. On the latest full year of data, the UK continued to fall short of 2019 levels, while Spain and Italy also showed a recovery from pre-pandemic levels.[4]

Figure 4. Recovery in non-EU tourism activity compared to 2019 levels in Spain, Italy, France, and the UK



Source: ONS, VisitBritain, Eurostat, Cebr analysis

[3] Data for Spain, Italy and France are obtained from Eurostat on the number of non-EU arrivals at tourist accommodation establishments as a commonly used proxy for visits. For the UK, we use the ONS data for visits in 2019 and 2023 but use VisitBritain's adjusted 2024 estimates to allow for a consistent comparison with previous years.

[4] France's comparatively weaker non-EU recovery may partly reflect temporary displacement effects associated with the Paris 2024 Olympic Games, as some tourists may have delayed or diverted their visits owing to concerns around congestion and higher prices. This is supported by anecdotal evidence including from Air-France KLM and Delta Air Lines Inc., the latter of which estimates they would see $100 million in losses as travellers chose to skip France over the Olympic period. Similar effects were observed during the London 2012 Olympics.

Looking beyond the broad non-EU groupings reveals important differences across source markets. While total visits from the US and Canada have exceeded pre-pandemic levels, several traditionally high-spending Asian markets, including China and Japan, remain materially below 2019 levels. Similar patterns have been observed across EU inbound tourism data, suggesting that the weaker recovery of these markets may also reflect broader global developments as well as factors that are unique to the UK, like the abolition of VAT RES. In particular, China's subdued economic outlook has weighed on consumer spending and international travel demand, while robust wage growth and consumer spending in the United States have supported a strong recovery.

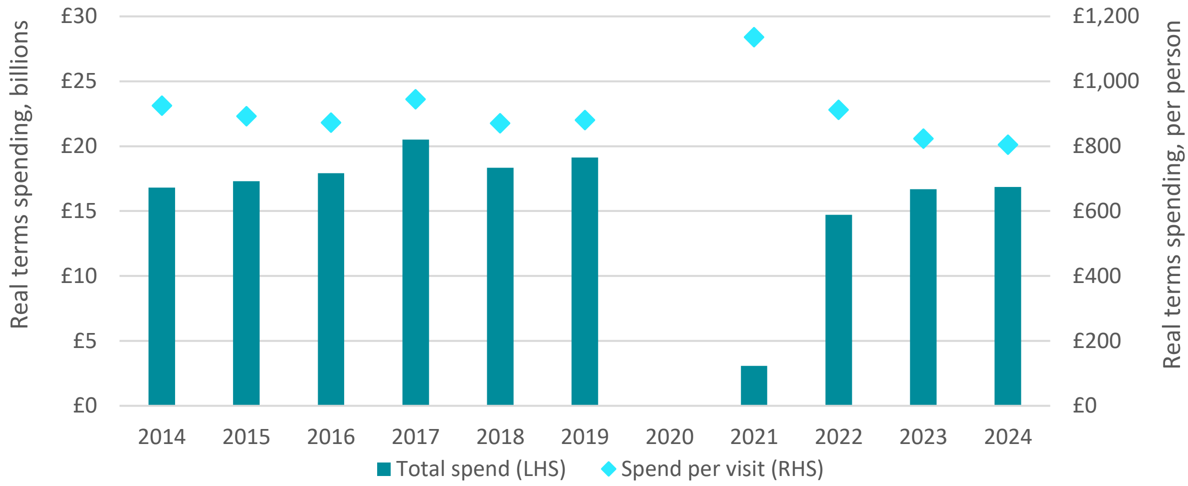
1.2 London deep dive

London occupies a unique position in the UK’s tourism economy. As the country’s primary gateway for international visitors and its largest concentration of retail, hospitality, cultural and entertainment activity, the capital attracts a disproportionate share of both visitor numbers and expenditure. In 2024, London made up just under half of all UK visits (48.0%) and 54.7% of all tourism expenditure. Consequently, changes in international visitor behaviour are likely to have a disproportionately larger impact in London than elsewhere in the UK.

Since 2021, real tourism spend has risen but remains below pre-pandemic levels. In 2024, real visitor expenditure totalled £16.9 billion, compared to £19.1 billion in 2019. The picture is more pronounced when considering real expenditure per visit, which has been on a downward trajectory since its post-pandemic peak in 2021 (Figure 5). The sharp uptick in 2021 likely reflects the unusual composition of travel during the immediate recovery period. International travel restrictions remained in place across many markets. Those who did travel were more likely to be higher-spending visitors, undertaking longer trips and benefiting from accumulated savings following periods of restricted consumption during the pandemic, ultimately reflecting a release of pent-up demand.

The decline in spending has not been evenly distributed across visitor groups. In line with the national picture, the recovery in tourism activity has been stronger among EU visitors than among non-EU visitors, particularly when measured in terms of spending rather than visitor numbers. This distinction is particularly important for London. The capital attracts a disproportionate share of long-haul visitors and is the UK's primary destination for international shopping, luxury retail, cultural attractions and business travel. As a result, London is more reliant than other regions on high-spending non-EU visitors, who typically spend significantly more per trip than visitors from nearby European markets. In 2024, non-EU visitors accounted for almost two-thirds (64.4%) of inbound tourism expenditure in London. Consequently, the weaker recovery in non-EU spending has had a disproportionate impact on the capital's overall tourism performance.

Figure 5. Total expenditure by overseas visitors in London (LHS) and spend per person (RHS), real terms (2023 prices), 2014 to 2024[5]



Source: ONS, VisitBritain, Cebr analysis

These developments are particularly relevant for London, given its position as the UK's principal destination for international shopping tourism. Before 2021, the capital was one of Europe's leading destinations for international shopping tourism, benefiting from a combination of world-renowned retail districts, luxury brands and VAT refunds available through the VAT RES. The abolition of the scheme increased the effective cost of shopping in the UK relative to competing European destinations such as Paris and Milan, both of which continue to offer tax-free shopping to eligible international visitors.

Policies that improve the country's price competitiveness could help support stronger tourism expenditure, particularly given that real visitor spending remains below pre-pandemic levels. In Section 3.5 we estimate that a reintroduction of VAT RES in the UK could have generated a GVA boost of £6.3 billion in London and supported around 65,500 jobs, illustrating the scale at which a reintroduced VAT RES could play an important role in supporting the recovery of London’s tourist economy.

1.3 Tourism activity across UK regions and devolved nations

Though London accounts for a disproportionate share of tourism activity, other regions also see significant footfall. The South East was the second-largest destination, attracting 10.5% of visits, followed by Scotland at 10.0%.

Regional tourism performance has varied considerably since the pandemic. Scotland has recorded the strongest recovery by some margin, with inbound visits reaching 126.3% of their 2019 level in 2024 and real visitor spending recovering to 125.1% of its pre-pandemic level. The East of England has also performed relatively well, with visitor numbers exceeding pre-pandemic levels at 105.0% of their 2019 value, although spending has recovered more slowly,

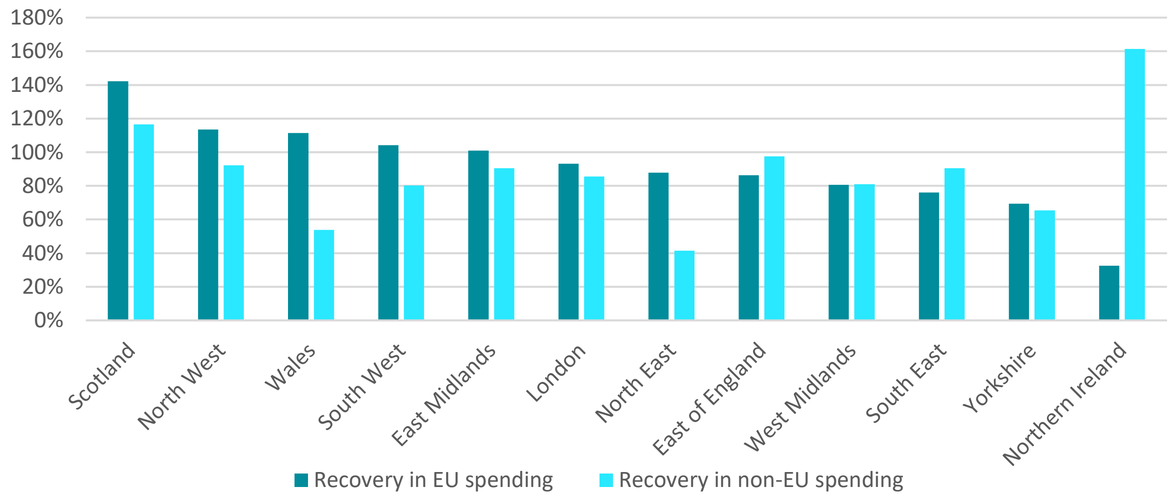
[5] Official data for 2020 is unavailable at a granular level and is therefore omitted.

reaching 92.5% of its 2019 level. By contrast, most other regions remain below pre-pandemic benchmarks for both visitor numbers and expenditure.

Comparing the recovery in spending and visitor numbers reveals a broader pattern. In many regions, real expenditure has recovered more slowly than visitor volumes, suggesting that the economic value generated by each visitor remains below pre-pandemic levels. The North East recorded the weakest recovery in England, with visitor numbers recovering to 80.1% of their 2019 level, while real visitor spending recovered to slightly more than half (54.9%) of its pre-pandemic level. This pattern evident across all other UK regions, with the exception of the North West and the East Midlands, which saw a stronger recovery in spending compared to visitor volumes. The North West saw visitor numbers recover to 97.8% of their 2019 level, while the equivalent spending recovery rate was 100.9%. Meanwhile, the East Midlands had a visitor recovery rate of 90.6%, while spending recovered to 95.0% of its 2019 level.

Regional differences in tourism performance are also influenced by the composition of visitors. While EU visitors account for a larger share of overall arrivals nationally, non-EU visitors generate a disproportionate share of tourism expenditure due to their significantly higher spending per trip. This pattern is evident across most UK regions. In 2024, non-EU visitors accounted for nearly two-thirds of tourism spending in London (64.4%), Scotland (62.3%) and the South East (60.2%). They also generated the majority of tourism expenditure in the East of England, Yorkshire, the North West, the East Midlands and the North East.

Figure 6. Recovery rates in EU vs non-EU spending across UK regions and the devolved nations, 2024 vs 2019[6]



Source: ONS, VisitBritain, Cebr analysis

Figure 6 highlights a broadly consistent pattern across the UK regions and devolved nations. Expenditure by EU visitors recovered more strongly than expenditure by non-EU visitors in most parts of the UK, mirroring the divergence observed at the national level. Only Northern Ireland, the South East, the West Midlands, and the East of England saw a stronger non-EU

[6] 2024 inbound tourism data for Northern Ireland are not available from VisitBritain and EU and non-EU splits are not easily distinguishable from additional sources. Therefore, data for Northern Ireland is based on 2023 values to remain consistent across regions and source markets.

recovery. One possible explanation for this weaker recovery among higher-spending non-EU markets is the abolition of VAT RES in 2021, which solely affected these visitors, since EU visitors were ineligible under the scheme.

Amongst the four regions that saw a stronger non-EU recovery, Northern Ireland represents a notable outlier. Unlike Great Britain, retailers in Northern Ireland retained the ability to offer VAT refunds to eligible non-EU visitors, under the Windsor Framework, following the abolition of VAT RES in 2021, although participation in the scheme is voluntary. While the relatively small size of Northern Ireland's tourism market warrants caution, the stronger recovery in non-EU spending observed there adds to the view that tax-free shopping availability supports demand among visitors, highlighting the potential opportunity enabled by reintroducing the scheme across the rest of the UK.

1.4 Demand for inbound tourism

Inbound tourism is a significant contributor to the UK economy, making it important to understand the factors that influence demand. Economic theory suggests that visitor numbers and spending are influenced by relative prices and exchange rates. In particular, the concept of price elasticity of demand captures the responsiveness of tourism activity to changes in the cost of visiting the UK. In practice, the result is that when the UK becomes relatively cheaper for overseas visitors, demand for inbound tourism tends to increase.

One mechanism through which this can be explored is by considering exchange rate volatility. When sterling depreciates, foreign visitors are able to purchase more goods and services in the UK with the same amount of their home currency. As a result, holidays, accommodation, shopping, and hospitality services become relatively cheaper in the UK, incentivising greater tourism activity. This is supported by research from Blake and Cortes-Jiménez (2007), who found that a 1% increase in UK prices or relative exchange rates would result in a 0.6% fall in tourism spending. [7] In other words, they estimated an average price elasticity of demand for inbound tourism of -0.6 in the UK. In addition, they found that Spain, the UK's top visitor destination, is particularly sensitive to changes in prices, with a price elasticity of -1.4. This implies that a 1% increase in Spanish prices or relative exchange rates would result in a 1.4% decrease in tourism expenditure.

Other research from the British Tourist Authority (BTA) estimates a price elasticity of -1.3, meaning a 1% increase in the exchange rate is associated with a 1.3% decline in tourism spending. [8] The BTA modelled the price elasticity of demand using the UK's trade-weighted exchange rate and the Organisation for Economic Co-operation and Development (OECD) estimate of real GDP to proxy the cost of visiting the UK and overseas visitors' incomes. The results showed that in long-haul markets, like the United States, the UK's tourism revenues were particularly sensitive to changes in the cost of the visit. This poses an important implication for non-EU visitors, who tend to stay for longer and have higher per-visit expenditure. The findings are consistent with the view that the abolition of VAT RES

[7] The Drivers of Tourism Demand in the UK, 2007

[8] The effect of changes in exchange rates and income levels on the UK's international tourism earnings, British Tourism Authority

contributed to the slower recovery in non-EU tourism activity, since the UK became a more expensive place to visit.

Similarly, we found that EU visitor demand is sensitive to changes in the relative cost of visiting the UK. We estimate a series of regressions linking EU inbound tourism activity to movements in the sterling-euro real exchange rate over the period 2002 to 2019.[9] The dependent variable, EU tourism demand, is proxied by two variables: real EU visitor spending and the number of EU visits.

The results suggest that EU tourism demand is responsive to changes in relative prices and are broadly consistent with the wider academic literature. The elasticity of EU visitor spending with respect to the real exchange rate is estimated at -0.7, while the elasticity of EU visitor numbers is estimated at -0.9. These estimates imply that a 1% appreciation in the real value of sterling against the euro is associated with a 0.7% reduction in real visitor spending and a 0.9% reduction in visitor numbers. Conversely, improvements in the UK's price competitiveness are associated with stronger tourism activity. This has important implications for any future tax-free shopping scheme. Any reintroduced scheme would necessarily need to apply to EU visitors as well as non-EU visitors. Given the evidence that EU tourism demand is sensitive to changes in relative prices, extending eligibility to this market could stimulate additional visitor activity and expenditure. Since EU residents account for more than 60% of inbound visits to the UK, this would create a substantially larger eligible market than existed under the previous VAT RES regime.

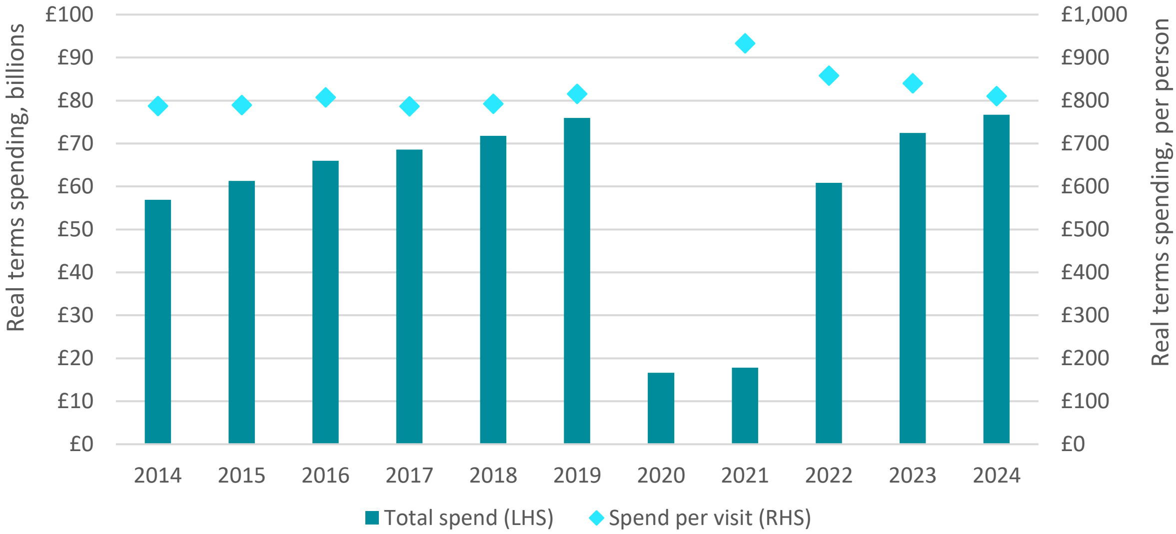
[9] Further details on the methodology can be found in Chapter 5.

2. Outbound tourist behaviour

This section explores how the behaviour of UK residents travelling abroad has changed over recent years. Following the UK's departure from the EU, residents have since been able to access tax-free shopping services that were previously unavailable to them during the UK's membership of the bloc. Therefore, comparing trends in travel to EU and non-EU destinations provides a useful opportunity to examine how lower effective prices may influence visitor spending and tourism activity.

Outbound tourism by UK residents has largely recovered to its pre-pandemic level. In 2024, UK residents made 94.6 million overseas visits, slightly exceeding the 93.1 million recorded in 2019. Real expenditure abroad also recovered, reaching £76.7 billion compared with £75.9 billion in 2019. This contrasts with the inbound tourism picture presented in Section 1. While inbound visitor numbers have recovered more strongly than spending, outbound tourism has seen both visits and expenditure return broadly to their pre-pandemic levels.

Figure 7. UK outbound tourist expenditure (LHS) and spend per person (RHS), real terms (2023 prices), 2014 to 2024



Source: ONS, VisitBritain, Cebr analysis

The composition of outbound tourism continues to be dominated by European destinations. Spain was the most popular destination for British tourists in 2024[10], attracting 17.8 million visits, equivalent to almost one-fifth of all overseas trips. France was the second most visited destination, recording 9.3 million visits, followed by Italy (4.8 million) and Turkey (4.1 million). In nominal expenditure terms, Spain also ranked first (£13.5 billion), followed by France (£7.0 billion) and the United States (£5.9 billion).

[10] Due to a lack of sufficiently granular official data on outbound tourism by destination, these values for 2024 refer to outbound trips by British tourists rather than UK tourists. Comparisons to 2019 levels are therefore compared to 2023 data for consistency when breaking down outbound tourism by origin destination.

More broadly, the EU accounted for almost 70% of all UK overseas visits. In 2024, Britons made an estimated 63.4 million visits to EU countries, compared with 28.0 million visits to non-EU destinations. While the EU also accounted for the majority of outbound tourism expenditure, its share of spending (57.5%) was notably smaller than its share of visits, reflecting the higher average cost and spending associated with long-haul trips outside Europe.

The recovery in outbound tourism has been stronger for non-EU destinations when measured in terms of both visitor numbers and total expenditure. By 2023, visits to non-EU destinations had recovered to 97.4% of their 2019 level, compared with 90.8% for EU destinations, while real spending recovered to 96.9% and 94.2% of pre-pandemic levels, respectively. However, EU destinations have experienced a stronger recovery in spending per visit. Real expenditure per trip exceeded its 2019 level by 3.9%, while spending per visit in non-EU destinations remained broadly unchanged. This suggests that, although fewer UK residents are travelling to the EU than 2019 levels, those who do travel are spending more during their visits.

Several factors may help explain this pattern. European destinations offer shorter journey times, lower transport costs and greater connectivity, while many long-haul destinations have faced higher airfares and capacity constraints following the pandemic. Changes in travel preferences may have also encouraged UK residents to take fewer but higher-value trips within Europe. In addition, British visitors were able to access tax-free shopping schemes across much of the EU from January 2021, following the formalisation of the Brexit process. While it is not possible to isolate the impact of tax-free shopping from other developments, the stronger recovery in spending per visit observed across EU destinations is supportive of the view that lower effective prices can support higher visitor expenditure.

This interpretation is supported by proprietary industry data from Global Blue on tax-free shopping activity among British visitors to the EU. Since 2021, these data show strong growth in the value of transactions processed through tax-free shopping schemes, particularly in France, which reflects one of the UK's most accessible markets due to geographical proximity. The gross value of retail sales eligible for VAT refunds increased from €159 million in 2021 to €947 million in 2025. This suggests that UK visitors have increasingly made use of these schemes, highlighting both the scale of demand and the attractiveness of tax-free shopping. More broadly, the experience of British travellers provides an indication of the potential benefits associated with opening up new tax-free shopping markets, as would be the case if a reintroduced UK scheme were extended to EU visitors.

3. The economic, employment, and fiscal impact of tax-free shopping

The UK's departure from the EU has created a unique opportunity. Under the previous VAT RES, tax-free shopping (TFS) was applicable only to non-EU visitors. A reintroduced scheme would be extended to all international visitors under World Trade Organization rules, allowing the UK to become a major European destination offering tax-free shopping to both EU and non-EU travellers. This would substantially expand the addressable market. In 2024, EU visitors accounted for approximately 25.8 million trips, representing around three-fifths of all inbound visits. Given their proximity to the UK and lower travel costs, European visitors are generally able to travel more frequently and may be particularly responsive to changes in relative prices, as highlighted by the elasticity modelling in Section 1.4. As such, the reintroduction of tax-free shopping in the UK could create an additional source of tourism demand alongside supporting expenditure from existing long-haul markets.

The inbound tourism spending figures presented in Chapter 1 cover expenditure across all consumption categories, including travel, accommodation, restaurants, and goods. However, not all spending qualifies for a tax rebate under the VAT RES scheme. While official statistics on the value of purchases that would be eligible for rebates are not currently available, estimates from VisitBritain suggest that 25% of all tourist expenditure in the UK goes towards shopping, covering clothing, souvenirs, household items, books, and foodstuffs.[11] Applying this share to the aggregate spending values provides a hypothetical upper bound for the value of purchases that would be eligible for tax rebates.

In the first instance, we consider the impacts of reintroducing the TFS scheme at the national level, estimating the direct impacts to the tourism sector, as well as the impacts on economic activity, employment, and the net fiscal impacts. We then present the impacts of reintroducing TFS at the regional level. All monetary values presented in this section are expressed in nominal terms.

The UK-wide estimates exclude direct effects for Northern Ireland, where retailers have continued to offer VAT refunds to eligible non-EU visitors following the abolition of VAT RES in Great Britain in 2021. Reintroducing the scheme elsewhere in the UK could nevertheless generate additional benefits for Northern Ireland through both increased visitor flows and the extension of eligibility to EU visitors. However, the distinct policy framework applying in Northern Ireland, combined with data limitations, means that it is not possible to robustly isolate and quantify these incremental effects. For this reason, Northern Ireland is excluded from the modelling presented in this chapter.

3.1 National impact

The impact of reintroducing tax-free shopping in the UK is twofold. First, the effective cost reductions are likely to encourage higher visitor numbers. Second, a reintroduction is likely to

[11] VisitBritain (2013) – Foresight, Issue 112

impact consumption patterns, translating into higher spend per visit. This is evidenced in Section 1.4 when considering the responsiveness of visitor demand to relative price changes. A reduction in the cost of a visit to the UK increases tourism demand, measured by both total expenditure and the number of visits. That said, direct evidence on how scheme users adjust their spending once in the UK is scarce. As such, we adopt an intensive-margin response of -1.6 for this group, drawing on Gago et al. (2006) and the Office for Budget Responsibility's (OBR) analysis of tax-free shopping. Gago et al capture the response of general tourism demand to broad price changes rather than that of scheme users to a VAT refund specifically. In turn, we treat the elasticity as an indicative anchor rather than a direct estimate. Calibrated this way, a 2% increase in the price of tourists' consumption basket is associated with a 3.2% reduction in total expenditure. The OBR works from the same evidence gap and assigns a price elasticity of -1.2, which it deems as central while separately observing that scheme users are likely to be more price-sensitive than the average traveller.

VisitBritain estimates of total visitor spending for 2025 of £33.4 billion in the UK.[12] For the purposes of the modelling presented here, this is adjusted to £33.2 billion to reflect spending in those parts of the UK to which the policy change directly applies. Based on this value, the **level of tourist expenditure that would have qualified for a VAT rebate was £8.3 billion**. In per tourist terms, tax-free eligible spend amounted to £192. Given that the UK was no longer operating a tax-free shopping scheme last year, it is reasonable to assume that VAT is included in the aggregate expenditure value for 2025. Excluding VAT from this figure suggests that goods to the value of £7.0 billion were purchased on aggregate, amounting to £160 per visitor. The average visitor therefore paid VAT of £32 on their shopping purchases in 2025.

If a VAT Retail Export Scheme had been in operation and tourists had made rebate claims on all eligible purchases, then **the average tourist would have saved 4.2% on their total spending** while in the UK in 2025. This represents an upper bound for two reasons. First, take-up would be incomplete, since visitors would not fully exhaust the scheme's offer. Second, the figure assumes shoppers retain the full value of the refund, whereas refund operators typically deduct a commission in practice, which lowers the realised saving and the associated demand response.

As seen in Section 1.4, visitors are responsive to changes in the price of a visit to the UK. Therefore, the effective cost reduction through VAT rebates would help boost inbound tourism demand. To quantify this impact, we apply the cost saving figure with the price elasticity for incoming tourists. This measures the sensitivity of visitor numbers with respect to the cost of a visit.

Using an elasticity value of -1.3[13], the 4.2% cost reduction brought about by VAT rebates on shopping would lead to an increase in visitor numbers of 5.4%. Applying this uplift to 2025 suggests that **an upper bound of an additional 2.3 million tourists would have visited the**

12 VisitBritain: Inbound tourism forecast

13 We have used an elasticity of -1.3 for tourist numbers with respect to the average cost of a visit. An elasticity describes the percentage change in one variable as a result of a change in another variable. This is a conventional elasticity used for tourism and is officially quoted by the UK's Tourism Alliance.

UK if a tax-free shopping scheme had been in place in 2025. This would take estimated visitor numbers from 43 million to 46 million, the highest level on record, and approaching the government's target of 50 million visitors by 2030. Assuming that these additional tourists have the same spending profile as current visitors to the UK, this translates into **potential additional spending of around £1.8 billion**.

Now considering the impact on spending patterns, we estimate that **the reintroduction of the TFS scheme would stimulate a 6.7% increase in consumption among visitors**. Applied to 2025 data, this amounts to additional spending of £2.3 billion.

Taken together, the additional tourism spending generated from higher visitor numbers as well as the increase in expenditure per visit translates into an **aggregate gain of £4.1 billion** from TFS. This is under the assumption that 100% of all potential tax refunds are reclaimed.

3.2 GVA impact

The analysis in the previous section covers the direct increase in expenditure possible as a result of the reintroduction of tax-free shopping schemes in the UK. However, this is not the sole impact. Through its links with sectors such as hospitality, retail, transport and cultural attractions, tourism generates economic activity throughout supply chains and local labour markets, highlighting its importance to economic growth and employment.

To calculate the potential economic contribution of tax-free shopping to the UK economy, we use a 'tourist spending multiplier'. We derive this from the World Travel and Tourism Council's Economic Impact data, taking the international economic contribution of tourism and dividing it by international tourist spending. Defined this way, the ratio relates output to the same spending base to which it is later applied. On a 2013 to 2019 average, this yields a value of 2.8. The multiplier incorporates the direct effects of visitor spending, the indirect effects generated through business supply chains, and the induced effects arising from employee spending, implying that every £1 of international tourist spending ultimately supports £2.80 of output across the wider economy. Employment effects are estimated using region-specific GVA-to-employment ratios to reflect differences in productivity and labour intensity across local economies.

Applying this figure to our estimates of the increase in consumption due to the reintroduction of tax-free shopping, **we estimate that a fully utilised tax-free shopping scheme could have increased GVA by £11.5 billion in 2025**.

3.3 Employment impact

The reintroduction of a TFS scheme could also bring employment benefits and support local labour markets. We apply the ratio of output to jobs across the economy to estimate the number of supported jobs due to the increased output generated from higher tourist activity.

We estimate that 153,000 jobs would have been supported by the reintroduction of TFS in 2025 in the upper bound case.[14]

3.4 Fiscal impact

The latest data from the OECD suggest that the UK had a tax-to-GDP ratio of 0.34 in 2024.[15] As such, for every additional £100 in GDP, tax receipts increase by £34. Applying this ratio to the marginal economic output effects enables us to estimate the fiscal impact of the scheme.

The results show that the reintroduction of **the TFS scheme is estimated to provide a net benefit to the Exchequer**. Although the scheme would involve the repayment of VAT to eligible visitors, the additional economic activity generated by higher tourist activity is expected to raise sufficient revenues to more than offset these costs. Specifically, we find that for every £1 returned through VAT rebates, the resulting increase in tourism activity has the potential to generate £1.54 in tax revenues elsewhere in the economy.

In aggregate, the additional activity brought about by the reintroduction of a tax-free shopping scheme could have produced tax receipts of £4.0 billion in 2025. After deducting the total value of the VAT rebates, which are estimated at £1.4 billion and reflect the VAT that would have accrued from visitors who were going to come to the UK in any case, the net fiscal impact is estimated at £2.6 billion. The figures analysed thus far are based on the assumption that refunds are claimed for 100% of eligible transactions. However, even under a scenario whereby only 50% of refunds are claimed, the wider effects still point to a net positive fiscal impact.

3.5 Impact on UK regions and the devolved nations

Regional estimates and for the devolved nations are derived by applying their respective shares[16] of inbound visitor spending to the UK-wide tourism activity estimates provided by VisitBritain for 2025. Therefore, we assume that the additional expenditure generated by the reintroduction of a tax-free shopping scheme would be distributed across the UK regions and devolved nations in line with their current inbound tourism expenditure and visits.

We apply the same modelling assumptions used in the national analysis at the regional level, including with respect to price elasticities and GVA multipliers. This means that we assume the behavioural response of international visitors to the reintroduction of TFS to be broadly similar across the UK. However, employment effects are estimated using region-specific GVA-to-employment ratios to reflect differences in productivity and labour intensity across local economies.

14 Please note that these estimates are not all 'new' jobs, in that they would be created solely because of the scheme. Rather, these estimates also include existing jobs that would experience greater activity as a result of the wider economic impact of a reintroduction of tax-free shopping.

15 OECD: Revenue Statistics 2025

16 The regional shares are calculated using data from VisitBritain on visits and total tourism spending.

Table 1 – Estimated impacts of reintroducing tax-free shopping across the UK, 2025 (differences in total due to rounding)

	Additional visitors	Total spending boost (£m)	GVA boost (£m)	Supported jobs
UK	2,350,000	£4,136	£11,476	152,900
London	1,130,000	£2,255	£6,257	65,500
Scotland	220,000	£485	£1,346	21,900
South East	240,000	£335	£928	13,700
North West	190,000	£291	£808	13,800
South West	140,000	£198	£549	9,500
East of England	120,000	£151	£418	7,000
West Midlands	110,000	£143	£396	7,100
Yorkshire	60,000	£87	£241	4,400
East Midlands	60,000	£81	£225	4,200
Wales	50,000	£62	£172	3,300
North East	30,000	£49	£135	2,600

Source: ONS, VisitBritain, Cebr analysis

The estimated benefits of the reintroduction of TFS are concentrated in the UK's largest tourism markets. London is expected to capture almost half of the potential additional visitors generated by the scheme, attracting around 1.1 million extra visitors and accounting for £2.3 billion of additional visitor spending in the top-end case. This is estimated to support £6.3 billion in GVA and approximately 65,500 jobs, reflecting the capital's dominant position in the UK's inbound tourism market.

Outside London, Scotland and the South East are expected to experience the largest gains. Scotland could attract around 220,000 additional visitors, generating £485 million in additional spending, £1.3 billion in GVA and supporting 21,900 jobs. The South East is estimated to benefit from around 240,000 additional visitors, contributing £928 million in GVA and supporting 13,700 jobs.

Other regions also experience significant gains. The North West is estimated to generate £808 million in GVA and support 13,800 jobs, while the South West, East of England and West Midlands are each expected to see output gains of around £400 million to £550 million. Smaller but still material impacts are observed in Yorkshire, the East Midlands, Wales and the North East.

Overall, the results suggest that the economic benefits of a tax-free shopping scheme would be felt across all parts of the UK, although the largest effects would accrue to regions that currently attract the greatest share of international visitor expenditure. However, these benefits would not be confined to the regions in which spending takes place. Through supply-chain linkages, increased visitor expenditure in major tourism centres such as London would support economic activity, employment and incomes across the wider UK economy, reflecting the fact that the goods and services consumed by visitors are produced and supplied throughout the country.

4. Conclusion and wider points

This report has shown that the recovery in the UK's tourism sector has been uneven. While international visitor numbers have largely returned to pre-pandemic levels, spending has recovered more slowly. In particular, higher-spending non-EU markets have experienced a weaker recovery than EU visitors, resulting in lower real expenditure per visit and a less complete recovery in the economic value generated by international tourism.

The analysis suggests that relative prices and competitiveness play an important role in shaping visitor behaviour. The UK's experience since 2021 has differed from that of several competing European destinations, which retained tax-free shopping for international visitors and generally experienced stronger recoveries among non-EU markets. Similar evidence is apparent within the UK, where Northern Ireland's comparatively stronger recovery in non-EU spending is consistent with the continued availability of VAT refunds for eligible visitors having supported demand. Although a range of factors have influenced tourism demand in recent years, the abolition of the VAT Retail Export Scheme was one of the few developments that disproportionately affected higher-spending international visitors and may therefore have contributed to the weaker recovery observed in these markets.

The consequences of these trends extend beyond tourism spending alone. International visitors support activity across retail, hospitality, accommodation, transport, entertainment and cultural industries, generating benefits that are felt throughout the wider economy. The findings presented in this report indicate that reintroducing tax-free shopping could support additional economic output, employment and fiscal revenues, with multiplier effects extending well beyond the retail sector.

These benefits would not be confined to London. Although the capital remains the UK's principal destination for international shopping tourism and would capture a significant share of the gains, regions and devolved nations across the country would also benefit. Many parts of the UK continue to rely heavily on international tourism, and higher visitor expenditure would support local businesses, city centres and supply chains nationwide. In this sense, strengthening the UK's attractiveness as a destination represents an opportunity to support growth across all parts of the country.

Greater visitor demand may also help to strengthen incentives for investment. International tourism supports a range of sectors that require long-term capital commitments, including hotels, retail developments, leisure attractions and cultural venues. Policies that enhance the UK's attractiveness as a destination could therefore encourage additional private investment, supporting productivity and economic activity beyond the tourism sector itself.

More broadly, the evidence presented in this report highlights the importance of considering tourism policy through the lens of international competitiveness. Visitor behaviour is influenced by a range of factors, including exchange rates, relative prices and transport costs, alongside policy settings. As competition for high-value international visitors intensifies, maintaining the UK's attractiveness as a destination will be increasingly important in supporting economic growth and ensuring that the benefits of tourism continue to be felt across all parts of the country. The reintroduction of tax-free shopping represents one possible avenue through which these opportunities could be realised.

5. Methodology note

This report combines descriptive analysis, econometric modelling and economic impact assessment to examine how tourist behaviour in the UK has evolved following the COVID-19 pandemic, Brexit and the abolition of the VAT RES. This chapter provides a more detailed insight into the modelling approach used in the analysis.

Tourism data

This report uses official estimates of inbound tourism published by the Office for National Statistics (ONS) when citing national statistics and regional tourism statistics published by VisitBritain. The ONS has noted that methodological changes introduced to the International Passenger Survey in the 2024 release, particularly surrounding coverage of Northern Ireland, limit the comparability of the latest estimates with earlier years. As a result, direct comparisons with pre-pandemic data should be interpreted with caution. Therefore, we use alternative estimates produced by VisitBritain for 2024, which adjust for these changes in order to provide a more comparable time series when making comparisons to earlier years.

Unless otherwise stated, expenditure figures are presented in real terms using 2023 prices to remove the effects of inflation. EU inbound tourism draws on data from Eurostat on international arrivals.

Visitors are grouped into two broad source markets: EU and non-EU countries. Regional estimates are based on VisitBritain data and should not be interpreted as summing to UK totals, as a single trip may involve visits to multiple regions.

Price competitiveness and tourism demand

To assess the sensitivity of inbound tourism demand to changes in the UK's price competitiveness, we estimated a simple regression using annual data covering the period 2002 to 2019. The pre-pandemic sample period was selected to avoid distortions associated with the COVID-19 shock and to capture the long-run relationship between exchange rates and tourism activity.

We ran the model twice proxying tourism demand, the main dependent variable, by both the total number of EU visits and total real EU visitor spending. The explanatory variable was the real sterling-euro exchange rate, expressed as euros per pound sterling. The use of the real exchange rate accounts for differences in inflation between the UK and the EU and therefore provides a more accurate measure of the UK's underlying price competitiveness than the nominal exchange rate. The model was estimated in logarithmic form, allowing the coefficient on the exchange rate to be interpreted directly as an elasticity.

The model is intentionally simple and focuses on the relationship between the UK's price competitiveness and visitor spending. While other factors also influence tourism demand, like income growth in source markets and destination-specific characteristics, this approach provides a clear indication of how changes in relative prices are associated with tourism activity.

The model achieved an adjusted R^2 of 0.54 when measuring EU visitors, and 0.51 when measuring expenditure indicating that fluctuations in the real exchange rate explain a meaningful proportion of the variation in tourism demand. In both cases, the real exchange rate was found to be a statistically significant explanatory variable for tourism demand.