

Comments on
Scottish Fiscal Commission report
Scotland's Economic and Fiscal Forecasts
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By

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1. The Scottish Fiscal Commission (SFC) published their latest forecasts on 28 January 2021.
2. I have read the Summary and first three chapters of the report, including Chapter 3: Economy. I have yet to read the other chapters: 4 Tax and 5 Social Security, plus Annexes; but may comment on those later. I give a few comments on the economic forecasts below.
3. My main comment is that the forecast Scottish GDP growth of +1.8% in 2021 is too low.
4. I am not sure what the implications of this pessimistic GDP forecast are for the SFC's fiscal forecasts and advice to the Scottish Government on the draft budget presented last week by Kate Forbes, the Cabinet Secretary for Finance, but will consider those over the next few days.
5. The Commission's "headline forecasts" are set out in Figure 3.2 in the report and the GDP ones are:
 - 2019 +0.8%
 - 2020 -10.7%
 - 2021 +1.8%
 - 2022 +7.5%
 - 2023 +1.6%
 - 2024 +1.6%
 - 2025 +1.7%
6. Economic output (gross domestic product, GDP) was obviously badly affected by the coronavirus pandemic in 2020. The SFC estimates that Scottish GDP declined by a massive -10.7% last year.
7. They are forecasting growth of just +1.8% in 2021, which seems very pessimistic to me.
8. Then a big rise to +7.5% in 2022, followed by a return to a long term annual growth rate of about +1.6%.
9. My main differences with the SFC are that I believe that the 2021 forecast is too pessimistic and the 2022 forecast too optimistic.
10. It is obviously difficult to predict the timing of the recovery from the coronavirus pandemic.

11. I do not produce forecasts for the UK economy but rely on those made by the UK Treasury and other bodies. The Treasury publishes every month a very interesting summary of the forecasts of about 30 bodies. The latest average GDP forecasts published in January were:
 - * 2020 -10.7%
 - * 2021 +4.5%.
12. The 2020 estimate is the same as the SFC's. However, the 2021 growth forecast of a +4.5% growth in UK GDP is much higher than the SFC's +1.8% forecast for Scotland.
13. The Commission held an interesting Zoom presentation of their forecasts last week, which I watched. I submitted a question asking why the SFC GDP forecast for 2021 was so much lower than the average in the Treasury monthly survey. However, the response was very poor. The answer given was that the SFC forecast had been prepared since the Treasury survey but that is obviously not correct.
14. The report states that the SFC forecasts were finalised on 7 January. The latest Treasury Survey, to which I referred, was published on 20 January. Of course, many of the forecasts in it were produced before that date. Nevertheless, the survey is published every month and the average to which I refer does not change significantly from month to month.
15. I hope that the Commission will explain the difference soon.
16. The vaccine programme in Scotland and the rest of the UK seems to be going very well at the present time. There is certainly increasing hope that the restrictions are working better now and will be relaxed in the near future. That would mean the re-opening of businesses, including in Scotland.
17. That hope is obviously reflected in the Treasury survey average forecast of +4.5% growth in UK GDP in 2021. That must be seen in the context of the massive -10.7% decline last year. There seems general agreement that it will take a few years for the economy to return to the pre-2020 level.
18. Another point I would like to highlight is the SFC's pessimistic growth forecasts from 2023 onwards, averaging about +1.6% a year. Their revised estimate of GDP growth in 2019 was only +0.8%, which was about half the UK figure.
19. The Scottish economy has underperformed the UK economy in the last few years. I have written various articles about that and been strongly criticised by the Scottish Government's Office of the Chief Economic Adviser (OCEA) for what I wrote.
20. Nevertheless, it should be of general concern that the Scottish economy did poorly before the coronavirus pandemic. The SFC's forecasts to 2025 suggest that they believe the underperformance will continue over the next few years. I would be interested to know if the SFC have had discussions with Scottish Government ministers and officials about how to improve the growth rate!

21. Paragraph 3.5 of the report states “Our forecast for 2021 as a whole is for growth of 1.8 per cent, picking up to 7.5 per cent in 2022, mainly fuelled by household consumption as higher-income consumers who accumulated savings during the lockdown months start spending again. In contrast, lower-income households – who have been disproportionately affected by the COVID-19 crisis – were less able to save during the pandemic, and may have run down savings or borrowed to cover day-to-day expenses, so at best they can be expected to spend cautiously in order to restore their finances.”
22. I do not think this is an accurate description of what has been happening in Scotland. There have been significant changes in the pattern of household spending, notably the switch to online shopping, which the report does not consider.
23. Paragraph 3.10 is: “Another important development since our previous forecast is that the UK and EU have reached a free trade agreement which came into effect at the end of the transition period on 1 January 2021. Our recent forecasts already incorporated the long-run effects of Brexit on the Scottish economy and, because the deal was within the range of our previously expected outcomes, we continue to use the same assumptions for this forecast.”
24. There are a few paragraphs in Chapter 3 on the implications of Brexit, particularly exports which are relatively more important in Scotland than in the UK economy. The problems with fish and other seafood exports have attracted a lot of media attention recently. There are also the ongoing problems with Scotch whisky exports to the USA.
25. Paragraph 3.12 refers to comparisons between the SFC’s forecasts and those of the UK’s Office for Budget Responsibility (OBR). The latter were made in November 2020.
26. Box 3.1 and Figure 3.3 show the Commission’s population projections of a continuing decline in our population. The latest forecasts are worse than those in their last forecasts in February 2020. Brexit seems to be the main reason for that.
27. The employment forecast for 2021 is worse than last year’s forecast but those for the next few years are a little better.
28. The unemployment forecasts are also worse, not surprisingly.
29. Overall, however, Chapter 3 does not explain why the SFC’s GDP forecasts are so much lower than those for the UK economy as a whole. Some of that can be explained by assumptions about the timing of the recovery between 2021 and 2022, but some of it is far from clear.
30. I believe that the Commission’s GDP forecasts are too pessimistic.

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