

Claire Baker MSP
Convener
Economy and Fair Work Committee

The Scottish Parliament
Edinburgh
EH99 1SP

31 May 2022

Dear Convener,

Today the Scottish Fiscal Commission has published two reports. [Scotland's Economic and Fiscal Forecasts – May 2022](#) gives our latest forecasts for the economy, tax revenues and social security spending to inform the Scottish Government's Medium Term Financial Strategy and Resource Spending Review.

Our separate [Fiscal Update](#) sets out the latest position for the 2021-22 and 2022-23 Scottish Budgets in light of changes since December, including the UK Spring Statement and revised Scottish Government borrowing plans.

The outlook for the Scottish economy is much more uncertain, with the Russian invasion of Ukraine, rising energy prices and further global supply chain disruptions in China all presenting a challenge.

We expect wage growth to increase income tax revenues in cash terms, but stronger growth in the rest of the UK will mean a larger deduction from the Block Grant, and put pressure on the Scottish Budget in the early years of the Spending Review. This pressure should ease from 2024-25 because of the planned 19 pence income tax rate in the rest of the UK, and our new assumption that the higher rate threshold will remain frozen in Scotland.

On the spending side, we now include indicative forecasts for all the Scottish Government's social security policy commitments, and expect the gap between Block Grant Adjustment funding and devolved social security spending to reach £1.3 billion by 2026-27. Spending on social security will rise from 10 per cent of the resource Budget this year to 14 per cent in 2026-27, putting pressure on the other spending portfolios.

This is my last set of forecasts as Chair of the Commission. I am sure my successor, Professor Graeme Roy, will be an excellent leader of the Commission, and will be happy to work with you on anything the Commission can do to support your scrutiny of the Scottish Government's economic policy.

Yours sincerely,

A handwritten signature in black ink that reads "Susan".

Dame Susan Rice DBE