

15 December 2022

HIGHER PRICES PUT PRESSURE ON HOUSEHOLDS

The Scottish Fiscal Commission today said that the purchasing power of household incomes is anticipated to fall by the largest amount since Scottish records began in 1998. Inflation will peak at around 11 per cent by the end of this year and is outstripping pay settlements. Interest rates have risen to levels not seen since before the 2008-09 Global Financial Crisis. All this intensifies the cost of living crisis for households and businesses.

Inflation is expected to drop sharply over the course of next year, and household incomes should start to recover in 2024-25. But the price level will remain high and living standards will take time to return to their 2021-22 levels. The economy will also adjust slowly to the two global shocks of COVID and the Russian invasion of Ukraine following in immediate succession. The Commission's forecasts suggest that, by 2025-26, real disposable income per person will be no higher than its level a decade earlier.

Despite the challenging outlook for the economy, the net contribution of income tax to the Scottish Government's budget for 2023-24 has improved by over £500 million since projections made this time last year. In part this is due to rising earnings, and in part to the Scottish Government's policy changes in this Budget that have added £129 million. The Block Grant from the UK Government has also increased leading to a £1.7 billion increase in the Scottish Government's budget in cash terms when added to net taxes and other income.

Higher inflation also leads to spending on social security increasing by £433 million as the payment rates are uprated in line with inflation. Further increases in spending arise from more people receiving disability payments, with the cost of living crisis prompting more people to apply, and delays to health treatment potentially leading to more individuals becoming eligible.

The Commission's chair, Professor Graeme Roy, said:

“For the first time ever, inflation will have a profound effect on the Scottish Government's Budget. We estimate that after allowing for rising prices the total resource budget for next year will only be marginally above this year's.

“This means that with pressures on pay and rising costs the situation within individual government portfolios will be challenging.”

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Notes for Editors

1. The Commission's Report [Scotland's Economic and Fiscal Forecasts – December 2022](#) is available now, along with a one page graphic of key figures and a summary document. Background information also includes spreadsheets with data for tables and charts.
2. The main report contains our official economic, tax and social security forecasts along with policy costings for the changes in tax and social security proposed in the Government's budget. Our forecasts are just one component of the Scottish Budget; the report also gives an overview of public funding over the next five years and provides our assessment of the reasonableness of the Government's borrowing plans.
3. The Commission expects the recession in Scotland to broadly mirror the UK recession forecast by the Office for Budget Responsibility (OBR). Peak to trough, we forecast the Scottish economy to shrink by 1.8 per cent, compared to the OBR's forecast for the UK of 2.1 per cent. The Scottish economy should recover to its pre-recession peak by the first quarter of 2025, one quarter behind the UK.
4. The Commission estimates that as a result of its policy announcements the Scottish Government will raise an additional £129 million from income tax, £34 million more from the Additional Dwellings Supplement to Land and Buildings Transaction Tax and £356 million less from Non-Domestic Rates.
5. Detailed information on the number of taxpayers in each income tax band can be found within the supplementary tax tables section of our supporting documents [here](#)
6. The Scottish Fiscal Commission is the independent fiscal institution for Scotland, established by the Scottish Fiscal Commission (2016) Act. Our statutory duty is to provide the independent and official forecasts of Scottish GDP, devolved tax revenue and devolved social security spending for the Scottish Government to use in its budget and financial planning. The Commission's forecasts will also assist the Parliament's scrutiny of the Scottish Budget and Budget Bill.
7. The Commission's forecasting remit is specified by the Act and in secondary legislation. A full list of what we forecast is given in the 'explainers' section of our website.
8. Our forecasts represent the collective view of the Scottish Fiscal Commission, comprising the Commissioners: Professor Francis Breedon, Dr Domenico Lombardi, Professor David Ulph, and the Chair, Professor Graeme Roy.