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Convener
Finance and Public Administration Committee
Scottish Parliament
Edinburgh
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Dear Convener

Today we have published two reports. In our [Forecast Evaluation Report](), we evaluate our December 2021 forecasts of the economy, devolved taxes and social security used to set the 2022-23 Scottish Budget; and, due to the longer publication lag of income tax data, our earlier income tax forecast used in setting the 2021-22 Scottish Budget.

The economy, devolved taxes and social security forecasts were published at a time of ongoing uncertainty due to the COVID-19 pandemic, and before the Russian invasion of Ukraine and the subsequent energy price shock. Despite these significant events, our forecast for economic growth proved reasonably accurate with Scottish GDP growing by 2.0 per cent in 2022-23, compared to a forecast of 2.2 per cent. Land and Building Transaction Tax revenue was £99 million higher than forecast because residential properties saw faster price growth and there were more high value property transactions than forecast. Social security spending was £127 million higher than forecast, mainly driven by higher spending on disability payments and the Scottish Government announcing policies after the Budget.

Our forecasts for Scottish income tax for 2021-22 were made in January 2021 at a much earlier point during the pandemic: the furlough scheme was in operation; a national Scottish lockdown was in place; and COVID-19 vaccines were just starting to be rolled out. Scottish income tax revenues were £1,461 million or 12 percent higher than our forecast for the 2021-22 Scottish Budget. This difference was primarily because the economic recovery from the COVID-19 pandemic in 2021-22 was stronger than expected and higher inflation led to faster nominal earnings growth. Income tax revenues in the rest of the UK were also higher than forecast by the OBR, with the net effect being for a negative reconciliation of £390 million to be applied in the 2024-25 Scottish Budget.

We have also published a report on [Productivity and Fiscal Sustainability]() which explores how changes to productivity growth would affect the projections made in our Fiscal Sustainability Report in March.

We conclude that even though higher productivity growth leads to a faster economic growth, higher wage growth and likely better public services for the people of Scotland, on its own it does not necessarily translate into a more sustainable fiscal position. While higher productivity growth has a clear positive effect on the economy, the net effects on the public finances are complicated and to improve fiscal sustainability will require changes in public spending or tax policy.

I look forward to discussing these reports with you when I give evidence to the Committee on Tuesday 5 September.

Yours sincerely

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