

A solid orange right-angled triangle pointing downwards and to the right.

John Mason MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

25 May 2023

Dear Convener,

Today the Scottish Fiscal Commission has published [Scotland's Economic and Fiscal Forecasts – May 2023](#), giving our latest forecasts for the economy, tax revenues and social security to inform the Scottish Government's Medium Term Financial Strategy.

The Commission forecasts that the economy will remain largely flat this year rather than fall into the shallow recession predicted in December. Despite this marginal improvement in the forecast for GDP and low levels of unemployment this year, living standards are likely to fall in 2023-24. This is because the overall rate of inflation, which now reflects a broader range of price rises than just energy, will continue to exceed the growth in nominal household disposable incomes.

Forecast revenue from Scottish income tax has been revised up, because of higher employment and nominal earnings. By 2027-28 the forecast revenue increases by £209 million. However, the offsetting adjustment to the Block Grant to the Scottish Government also rises following similar revisions by the OBR to their income tax forecast for the rest of the UK. The result is a small upwards movement in the net funding available to the Scottish Government.

The Scottish Government's resource funding is expected to increase modestly in real terms throughout the five-year forecast horizon. However, the resource position will be particularly tight in 2024-25 where real funding will be only marginally above this year. Finally, capital funding is more constrained and projected to fall in both nominal and real terms over the next five years.

We have also launched a consultation on our approach to setting tax and social security policy baselines. An important part of our role is to estimate the effect policy changes introduced by the Scottish Government will have on tax revenues and social security spending in future years. Each time we produce a forecast we have a pre-measures forecast reflecting all previously announced policies, and a post-measures forecast reflecting any new policy announcements. Our pre-measures forecast uses what we call our policy baseline, for example that tax thresholds will be held frozen or increase by inflation each year. How we set our policy baseline has a significant effect on our forecasts and also how government policy changes are framed.

The [consultation paper](#) is available on our website.

I look forward to giving evidence on our forecasts on 6 June 2023, and am happy to discuss any aspect of our forecasts or the issues discussed in the consultation paper.

Yours sincerely,

A handwritten signature in black ink that reads "Graeme Roy".

Professor Graeme Roy