



25 May 2023

ECONOMIC OUTLOOK IMPROVES SLIGHTLY BUT LIVING STANDARDS STILL FALLING

The Scottish Fiscal Commission today said that the five-year funding outlook for the Scottish Government has remained broadly unchanged since its forecasts in December last year.

The Commission now 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 once again 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 Commission has also revised up its forecasts of social security spending mainly because demand for disability benefits has been higher than expected. By 2027-28 the forecast spend increases by £122 million.

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.

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

"In December we cautioned that pressures from rising costs would mean that the funding position for individual government portfolios would be challenging.

"That assessment remains unchanged despite our marginally more optimistic forecasts."

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Notes for Editors

1. The Commission's Report, [Scotland's Economic and Fiscal Forecasts - May 2023](#) is available now, along with a one page graphic of key figures and a summary document. Background information is also available including 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 proposed in the Government's Medium Term Financial Strategy (MTFS). Our forecasts are just one component of the Scottish Government's MTFS; 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. As we have highlighted in recent publications, we continue to expect a large and negative income tax reconciliation for the Budget year 2021-22. We expect final outturn data in July 2023, with the resulting reconciliation being applied to the Scottish Budget for 2024-25. Comparing the latest OBR and SFC forecasts indicates a large negative reconciliation for 2021-22 of minus £712 million.
4. Detailed information on the number of taxpayers in each income tax band can be found in our [Tax – Supplementary Tables](#).
5. The Scottish Fiscal Commission is the independent fiscal institution for Scotland, established by the Scottish Fiscal Commission Act 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.
6. 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.
7. 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.
8. Today we have also launched a consultation on our approach to setting tax and social security policy baselines in the absence of Scottish Government commitments. The consultation paper is [available here](#).

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