

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

Claire Baker MSP
Convener
Economy and Fair Work 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. We have also launched a consultation on our approach to setting tax and social security policy baselines. The consultation paper is available [here](#).

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.

I 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