

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

Collette Stevenson MSP
Convener
Social Justice and Social Security 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.

We forecast devolved Scottish taxes revenue to raise £20.1 billion in 2023-24, which is £384 million higher than in our December 2022 forecasts. Much of this change can be attributed to income tax because of higher employment and nominal earnings; this increase in revenue is offset by similar BGA revisions.

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.

Our social security spending forecast has been revised up to reflect the higher than previously expected demand for disability payments seen across the UK and the higher number of successful applications to Child Disability Payment. This increase in spending is partly cancelled by a decrease in the uprating applied at the start of 2024-25.

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