Colin Smyth MSP
Convenor
Economy and Fair Work Committee

The Scottish Parliament
Edinburgh
EH99 1SP

4 December 2024

Dear Convener,

Today the Scottish Fiscal Commission published [Scotland's Economic and Fiscal Forecasts – December 2024](), giving our latest forecasts for the economy, tax revenues and social security to inform the Scottish Budget.

In our report we show that, over the past year, the Scottish economy has performed slightly better than we expected in December 2023, but broadly on track with our last forecast. Gross Domestic Product (GDP) has increased marginally after being flat since early 2022. Stronger earnings growth, combined with lower inflation than expected a year ago, has resulted in living standards recovering more rapidly from their fall in 2022-23.

We forecast GDP growth of 1.6 per cent in 2025-26 and 1.5 per cent in 2026-27, boosted in the short run by increases in government spending, returning to its trend rate of 1.4 per cent by 2027-28 which reflects our higher migration and population assumption.

Following the UK Autumn Budget, the Block Grant for capital spending is set to grow by 10.1 per cent between 2024-25 and 2025-26. The Block Grant for day-to-day spending has increased by £1.4 billion in 2024-25 as a result of the UK Budget, with a further increase of £1.5 billion in 2025-26. However, the overall increase in next year's Scottish Budget is modest due to the worsening net tax position combined with rising pay bill pressures and increased Social Security spending.

The income tax net position for 2025-26 used to set the Scottish Budget has reduced the funding by £575 million between 2024-25 and 2025-26. This is because the OBR's forecasts for income tax revenues in the UK have improved by more than our forecasts for Scotland.

We forecast Social Security spending will take up a growing share of the budget with spending in 2025-26 forecast to be £1,334 million higher than the corresponding funding provided by the UK Government. As such, after accounting for social security commitments, day-to-day spending on other areas is falling in real terms by 0.3 per cent between 2024-25 and 2025-26.

The Scottish Government will receive some compensation from the UK Government for the changes to employer NICs in respect of public sector employees. As Scotland's larger share of spending on public sector wages means the full cost of employer NIC rises will not be covered, there will be increased pressure from staff costs within individual portfolios.

I am happy to discuss any aspect of our forecasts and anything the Commission can do to aid the work of the Committee.

Yours sincerely

GD Roy

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