Duncan Massey
Convener
Economy, Tourism and Energy Committee

The Scottish Parliament
Edinburgh
EH99 1SP

25 August 2026

Dear Convener,

Today the Scottish Fiscal Commission has published three reports. Our Fiscal Update has been prepared to assist the Parliament and its Committees with its pre-Budget scrutiny of the upcoming Autumn Budget Revision and Scottish Budget 2027-28. We discuss the economic and fiscal developments since our last forecasts in January 2026 and how these will affect the Scottish Budget for the remainder of 2026-27 and the upcoming 2027-28 Budget.

Since our January forecasts, the economic outlook has weakened and inflation is above target. The Bank of England expects inflation to further increase and remain above target in the near term. This increase is mainly due to the recent energy price shock, with a 13 per cent rise in the Ofgem Energy Price Cap from July 2026. Global food prices may also rise later in the year following the summer wildfires and droughts.

The outlook for Scottish living standards remains weak over the next five years with growth of less than 1 per cent per year. Higher inflation could result in even weaker growth in real household incomes in the future, if earnings do not keep pace with rising prices this could negatively impact living standards. We have seen earnings growth slowing across the UK in 2024-25 and 2025-26, and particularly in Scotland where earnings growth has dropped slightly below the UK average.

The knock-on implications of the weaker economic outlook for the Scottish Budget remain uncertain. The Office for Budget Responsibility will publish updated forecasts alongside the UK Budget on 28 October 2026. The UK Government's tax and spending decisions will depend on the wider UK fiscal outlook, and the Scottish Budget is dependent on tax revenues in Scotland relative to the rest of the UK. We will provide our updated forecast of the Scottish economy alongside the 2027-28 Scottish Budget.

In our Forecast Evaluation Report, we evaluate our December 2024 forecasts for the economy, fully devolved taxes, social security expenditure in 2025-26, and our December 2023 forecast for Scottish Income Tax revenue in 2024-25.

We over-forecast Scottish Gross Domestic Product growth by 0.6 percentage points, which we judge to be a reasonable forecast error. A few factors have contributed to lower than forecasted economic growth such as the US Government's announcement in early 2025 of a range of new import tariffs creating additional uncertainty, and higher global energy and food prices than expected. Overall, outturn data shows our outlook was largely correct as the Scottish and UK economies continue to experience slow growth due to demographic challenges, weak productivity growth, and ongoing uncertainty, consistent with the economic outlook in our forecasts.

We have also published our biennial Statement of Data Needs, setting out the progress on data availability since our last report in 2024, and the areas where further improvement is needed.

Like other data users, we continue to have concerns regarding the quality of labour market data from the Office for National Statistics in recent years. However, we recognise that work is underway to improve the quality of the data and welcome further developments.

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

Yours sincerely,

Professor Graeme Roy

Scottish Fiscal Commission, The Governor's House, Regent Road, Edinburgh, EH1 3DE

For general enquiries: info@FiscalCommission.scot