




Today the Scottish Fiscal Commission (SFCs) released their latest set of economic and fiscal forecasts.

You can read the full document [here](#).

In this blog we give a quick tour of the latest forecasts and some of the additional insights.

Economic forecasts

A key element of the SFCs report is their outlook for the Scottish economy and devolved tax revenues. These are summarised below.

Economy		2018	2019	2020	2024	% growth
	GDP	1.3	0.8	0.9	1.3	Brexit uncertainty is expected to limit growth in 2019 and 2020, and growth in the longer term remains subdued
	Change since December 2018	-0.1	-0.4	-0.1		
	Nominal Earnings	2.6	2.6	2.7	3.2	Nominal earnings growth is higher than in our last forecast, and expected to gradually increase
	Change since December 2018	0.6	0.3	0.2		
	Real Earnings	0.2	0.4	0.8	1.2	Real earnings growth is expected to remain low
	Change since December 2018	0.5	0.1	0.3		

The SFC estimate that GDP in Scotland will grow by 0.8% in 2019, and 0.9% in 2020. Both of these are weaker than the OBR forecast for the UK as a whole (which are 1.2% in 2019 and 1.4% in 2020). They're also weaker than our own [forecasts](#).

On GDP per capita, the gap between the SFC and OBR is smaller at least during the first few years of the forecast horizon.

Real wage growth in Scotland is also expected to be weak, with growth of just 0.4% in 2019 and 0.8% in 2020, compared to 1.0% and 1.1% in the UK as a whole.

Of course, such forecasts - like all forecasts at the current time - need to be viewed with a degree of caution given the significant degree of uncertainty that exists.

The SFC have forecast weak growth in the past, with outturn GDP data more positive. For example, back in December 2017, the SFC forecast growth of 0.7% in 2018. In the end, the outturn growth was 1.3%.

But overall, today's figures are consistent with the wider sentiment amongst business and economists that the next few years are likely to remain challenging.

Reconciliations

Arguably the more interesting element of the report is what the SFC are saying about the outlook for Scotland's fiscal position.

Under the new fiscal framework for the Scottish budget, the SFC forecast income tax revenues prior to each financial year. These forecasts are then 'locked-in' and - combined with the Block Grant Adjustment (BGA) which adjusts the Scottish Budget to account for tax devolution - the Scottish Government's budget is set for that year.

But at some point down the line, actual outturn data will become available both for Scottish devolved taxes and rUK taxes (remember, it is these rUK taxes that determine the BGA).

There is then a reconciliation.

If the forecast has been too pessimistic, and tax receipts in Scotland grew more quickly than in the rest of the UK (i.e. the BGA), the difference is added to future Scottish budgets, and if the forecast has been too optimistic, relative to the outturn tax receipts, this amount needs to be found from the Scottish budget.

As we highlighted in a [blog](#) earlier this year, the outlook for Scottish income tax revenues has started to emerge as a concern.

Today we found out the latest forecasts for these figures.

The current forecast for the reconciliations are shown in Table 1 below.

Table 1: Income tax reconciliations

Budget year	Outturn data available	Budget affected	Forecast reconciliation (£ million)
2017-18	Summer 2019	2020-21	-229
2018-19	Summer 2020	2021-22	-608
2019-20	Summer 2021	2022-23	-188

Source: Scottish Fiscal Commission

Based on the latest assessment from the SFC, the Scottish Government is facing a significant reconciliation over the next three years – to the tune of £1,025 million over 3 years.

It's important to remember that that this is not to say that the Budget will fall by this amount each year. Instead, whether or not the budget in these years will go up or down will depend upon a variety of factors, including changes in the Barnett block grant and the growth of devolved tax revenues.

But what can be said with certainty, if these forecasts are correct, is that the amount of money that the government had planned to have at their disposal – all other factors remaining equal – will be much smaller.

Of course, the budget will also depend upon how the Scottish Government chooses to respond.

The fiscal framework does provide for some borrowing to cover just this eventuality, but not at this scale.

This means that money will have to be found from the existing budget plans to offset at least some of these reconciliations, should they come to pass.

It's hard to not reach the conclusion that if these updated reconciliation assessments turn out to be realised, the Scottish Parliament will face some difficult decisions in the near future – including right in the middle of a Scottish election in May 2021 and review of the fiscal framework – about what spending areas to cut back on relative to current plans and/or to seek to raise revenues.

We will know more about the actual reconciliation for next year's budget when the 2017/18 outturn data for income tax are published in July 2019.

