SCOTTISH TRENDS

(Press Release - 24th August 2019)

Further Update on GERS 2019 analysis

The on-going commentary around GERS 2019 requires further clarifications.

A spokesperson for Finance Secretary Derek Mackay yesterday stated that "*GERS also shows our deficit reduction ahead of the Growth Commission's projections.*"

Furthermore, SNP depute leader Keith Brown stated *"This year, the deficit fell by one per cent. So, on that trajectory, it would only take us less than three years from now to get to the Growth Commission target of three per cent."*

While both statements are technically correct they give a false impression of what is actually happening.

With regards to the first statement, the Growth Commission projections referred to were made by myself, taken from a Scottish Trends paper of March 2017 (IFS estimates were also referred to). The table below compares those estimates with the actual out-turn:

Table 1: Overall fiscal balance, Scotland and the UK, 2018-19, £ million

	2018-19 (2017 projection)	2018-19 (Out-turn)
SCOTLAND		
Onshore Revenues	**61,800**	**61,278**
- share of UK revenues	*8.0%*	*7.8%*
Expenditure	**74,700**	**75,338**
- share of UK expenditure	*9.1%*	*9.3%*
Scottish North Sea revenues	**700**	**1,429**
Overall Fiscal Balance	**-12,200**	**-12,631**
% of GDP	*-7.4*	*-7.0*
UK		
Overall Fiscal Balance	**-41,000**	**-23,533**
% of GDP	*-1.9*	*-1.1*

Source: GERS 2019 and Scottish Trends 'Analysis of key economic and fiscal issues impacting on a 2nd Scottish independence referendum', March 2017

Table 1 shows that the Scottish fiscal balance, as a % of GDP, is indeed better than I had projected it would be. However, it also shows:

- Unlike the UK deficit, the Scottish fiscal deficit is worse in cash terms than was predicted (£12.6 billion rather than £12.2 billion) in 2017. However, Scottish GDP is higher than expected and so the deficit as a % of GDP has fallen;
- The reason the Scottish deficit is higher is because the Scottish share of onshore UK revenues has fallen from an estimate of 8% to an out-turn of 7.8% while the Scottish share of expenditure has risen from an estimate of 9.1% to an out-turn of 9.3%. However, some of this deterioration has been offset by an improvement in North Sea oil revenues, up from £0.7 billion to £1.4 billion. (Note, however, that the Growth Commission works from the basis that it is the onshore balance that should be targeted.);
- As a result of these shifts, the UK fiscal balance, as a % of GDP, has improved by even more than the Scottish fiscal balance, +0.8% of GDP for the UK vs 0.4% for Scotland. One interpretation of this could be that the goal of the UK Government to move towards fiscal balance has been more effectively achieved than was expected in 2017.

With regards to the second statement, using such a simple extrapolation of one years figures is, unsurprisingly, unwise. The premise on which Mr Browns calculation appears to be based is that the UK Government's fiscal reduction plan is working well and will continue to do so. This is highly questionable. The improvement in UK (and Scottish) revenues in 2018-19 was bigger than expected and may well not continue, leaving aside the one-off slowdown expected in 2019-20.

One noticeable impact of the various shifts to fiscal balance relevant data since the Growth Commission's use of Scottish Trends projections is that Scotland's position relative to the UK has worsened. The impact of moving from being part of the UK to being independent, based on the same tax and spend policies, is now estimated to be £11.2 billion, rather than £9.8 billion (both based on the financial year 2021-22). To be clear, this is not the figure that would need to be adjusted for at the point of independence (by cutting spending, increasing taxes or increasing borrowing), rather it is the effective financial loss of moving from a shared public spending system to an independent one.

Scotland's fiscal balance position, and GERS role in understanding it, is a subject where the figures can readily be distorted, so it is worthwhile keeping the underlying picture as clear as possible. This is especially true where official, government approved, statistics are involved.

Contact details

John McLaren
Mobile: 07429 508 596
E-mail: john.mclaren@btinternet.com
Website - scottishtrends.co.uk