SCOTTISH TRENDS

(Press Release - 22nd August 2019)

Update on GERS 2019 analysis

Some of the commentary on yesterdays publication was confused in its thinking and it is worthwhile explaining why.

1) There was some suspicion as to why, taken together, the combined deficit for Scotland (£-12.6 billion for 2018-19) and for Wales (£-13.7 billion for 2017-18, see Welsh Fiscal Analysis estimates, 29/7/2019) is greater than the fiscal deficit for the UK as a whole (£-23 billion in 2018-19).

In fact this is not surprising. Latest estimates by the ONS (28/05/2019) for 2017-18 showed UK constituent country fiscal balances (inc. North Sea oil revenues distributed on geographic basis) as:

- UK: £-41.8 billion
- England: £-5.7 billion
- Wales: £-13.7 billion
- Scotland: £-13.3 billion
- Northern Ireland: £-9.2 billion

Given that the UK fiscal balance is estimated to have improved by £19 billion in 2018-19, this implies projected UK constituent country fiscal balances for 2018-19 of approximately (rounded to the nearest billion):

- UK: £-23 billion
- **England: £+11 billion**
- Wales: £-13 billion
- Scotland: £-12 billion
- Northern Ireland: £-9 billion

Hence, the fact that Scotland and Wales (and Northern Ireland) have a combined deficit above the UK is explained by the fact that England has moved into a position of fiscal surplus.

2) There was also confusion by some over how Scotland, with a population share of just 8.2% of the UK as a whole, could account for over 50% of the UK deficit. However, such a situation is perfectly possible and indeed to be expected under certain conditions.

When a balance (in this case the fiscal balance) is arrived at by aggregating across more than one element (in this case the four UK constituent countries) then as that balance approaches zero it becomes more and more likely that a) some of the contributors will be in a positive balance position and others in a negative balance position, and thus b) that these balance shares may be very different to population or GDP or any other shares, as is happening in this case (indeed a particular contributors deficit could easily be over 100% of the aggregate figure).

A similar ‘distortion’ applies in other circumstances. For example, when looking at the relative position of two countries with differing, but linked (like Scotland and the UK) fiscal deficits then when Country A’s fiscal deficit stands at 12% of GDP and Country B’s stands at 6%, then Country A’s is **double** that of Country B’s. Should both countries deficits be falling over time, near proportionately, then when Country A’s gets to 6%, Country B’s will be below 1%, at which point it could be claimed that Country A’s deficit is at least **six times higher** than Country B’s. While this is true, it is largely irrelevant when analysing the situation. The reality is that both deficits are falling but when Country B is in balance Country A will still have a deficit. To take this example to its extreme, if the UK has a £1 deficit and Scotland still has a £12 billion pound deficit then Scotland’s is higher by a near infinite amount! (Equally, point 1 above highlights the fact that, in 2018-19 England most likely has a surplus while Scotland has a deficit, which makes this type of ‘comparison of deficits’ redundant.)

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