

Summary of forecasts of the Scottish deficit in the proposed year of independence

1.1 Government Expenditure and Revenues in Scotland (GERS) 2014 is released tomorrow (12 March 2014). This will include backward-looking estimates of government expenditure and revenue in Scotland over the last 5 years. It will include, for the first time, estimates for 2012-13.

1.2 As well as analysis of Scotland's fiscal position in the past, there are a growing number of forecasts of Scotland's fiscal position in 2016-17, the Scottish Government's proposed year of independence. The latest forecast was published on Friday (7 March) by Citi in 'UK — Scottish Independence: Will It Happen? What Would Be the Implications?' The Institute for Fiscal Studies (IFS) also published a forecast for 2016-17 last Wednesday (5 March).

1.3 The table below summarises recent forecasts of Scotland's fiscal position in 2016-17. Most forecasts are published as the Scottish deficit as a share of Scottish GDP in 2016-17, but HM Treasury have also approximated the overall £s billion figure and what this means per Scottish person in 2016-17.

1.4 This comparison uses the Scottish Government's most cautious forecast of the 2016-17 deficit contained in its White Paper. At a deficit of 3.2 per cent of GDP (£5.5 billion or £1,020 per person) this forecast is almost 2 per cent of GDP and more than £3 billion more optimistic than any other forecast of the Scottish deficit in 2016-17 set out below.

Table 1.A: Forecasts of the Scottish deficit in 2016-17

| Forecasting body | Per cent of GDP | £ billions | £ per head |
|---|-----------------|------------|------------|
| Scottish Government | 3.2 | 5.5 | 1,020 |
| Centre for Public Policy for Regions (CPPR) | 5.1 | 8.8 | 1,630 |
| Institute for Fiscal Studies (IFS) | 5.2 | 8.9 | 1,660 |
| HM Treasury | 5.3 | 9.1 | 1,690 |
| Citi Group | 5.4 | 9.3 | 1,720 |

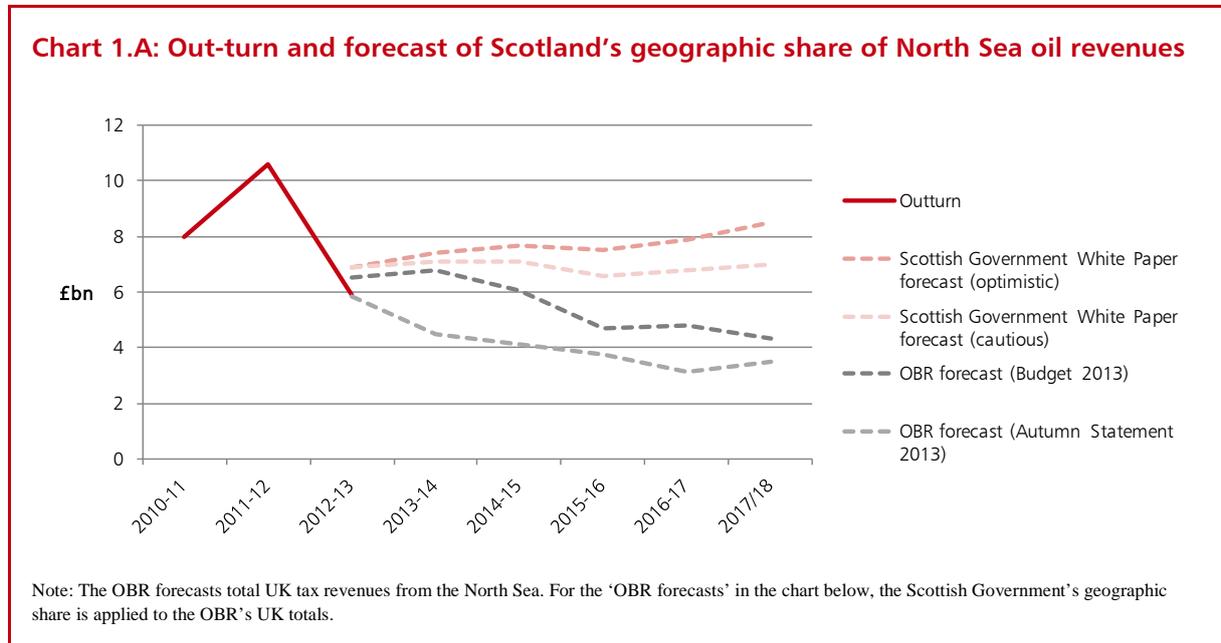
Note: Per cent of GDP figures as published by each body. Converted into £ billions using the Scottish Government's White Paper forecast of Scotland's GDP in 2016-17.

Sources for table 1.A:

- Scottish Government – most cautious forecast, page 75 'Scotland's Future: your guide to an independent Scotland', November 2013
- Centre for Public Policy for Regions (CPPR) – John McLaren and Jo Armstrong, 'CPPR Briefing Paper: Analysis of Scotland's past and future fiscal position', March 2013
- Institute for Fiscal Studies (IFS) – Forecast in 'The next five years look better, but tough choices remain for Scotland', March 2014, IFS
- HM Treasury – taking the Scottish Government's White Paper forecast but applying the OBR's independent forecast for North Sea oil and gas receipts in Economic and fiscal outlook, December 2013; OBR [N.B. this will be updated again at next week's Budget 2014, published on 19 March]
- Citi Group – Forecast taken from 'UK — Scottish Independence: Will It Happen? What Would Be the Implications?' March 2014; Citi

1.5 The difference between the Scottish Government’s most cautious forecast and all the other forecasts in the table above is primarily driven by how optimistic the Scottish Government is about revenues from North Sea oil and gas production.

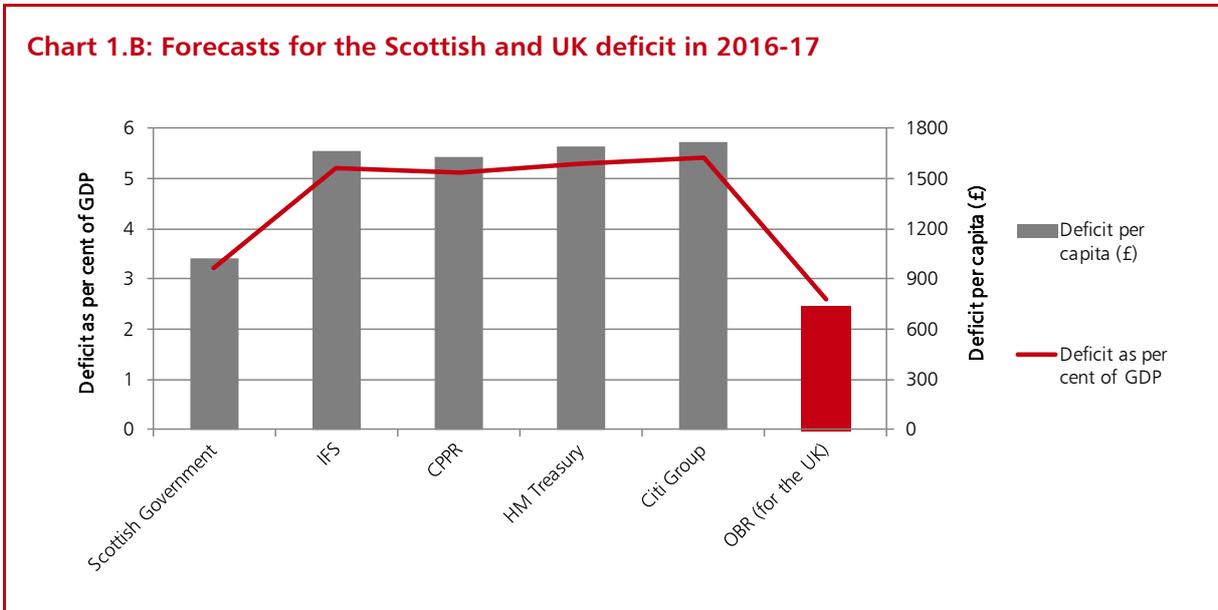
1.6 All the forecasts in the table above assume an allocation of North Sea oil and gas revenues using the Scottish Government’s estimate of Scotland’s geographical share (i.e. around 90 per cent flowing to Scotland). However, as the chart below shows, the Scottish Government is much more optimistic than the independent Office for Budget Responsibility (OBR) about the future path of oil and gas revenues.



1.7 The chart also shows that the Scottish Government is significantly more optimistic about oil and gas revenues than the recent out-turn figures. The Scottish Government’s White Paper forecasts of Scotland’s fiscal position (in November 2013) were based on two scenarios from their Oil and Gas Analytical Bulletin published in March 2013. The Scottish Government’s least optimistic White Paper forecast for 16-17 used a North Sea scenario that predicted £6.9 billion for Scotland’s share of North Sea revenues in 2012-13, despite the fact that the total UK revenues had already been published by HMRC in April 2013 at £6.5 billion. The Scottish Government’s geographic share would give Scotland £800 million less than their £6.9 billion forecast at £6.1 billion, while in October 2013 HMRC’s experimental publication estimated Scotland’s geographic share in 2012-13 at £5.1 billion.

1.8 The chart below shows forecasts of the Scottish deficit in 2016-17, the proposed year of independence, as both as a share of GDP and per Scottish person. This illustrates that the Scottish Government’s most cautious forecast of the Scottish deficit at independence is almost 40 per cent more optimistic than the other forecasts of the Scottish deficit.

Chart 1.B: Forecasts for the Scottish and UK deficit in 2016-17



1.9 The chart also shows that the latest OBR forecast of the overall UK deficit in 2016-17 is significantly better than all forecasts of the Scottish deficit. This shows that Scotland is better off sharing the volatile and declining revenues that come from North Sea oil and gas, and all other fiscal risks, with the UK.