

Colin Smyth MSP  
Convener  
Economy and Fair Work Committee

The Scottish Parliament  
Edinburgh  
EH99 1SP

29 May 2025

Dear Convener,

Today the Scottish Fiscal Commission published [Scotland's Economic and Fiscal Forecasts – May 2025](#), giving our latest forecasts for the economy, tax revenues and social security, alongside commentary on the funding implications of these forecasts.

In our report, we forecast growth in Gross Domestic Product (GDP) of 1.2 per cent in 2025-26, lower than the 1.6 per cent we expected in December 2024. This mainly reflects slower GDP growth at the end of 2024 compared to our last forecast. Rising global uncertainty, together with other factors such as higher inflation and interest rate expectations, contributed to weaker consumer and business sentiment and lower economic activity in late 2024.

Since our December 2024 forecast, ongoing developments in international trade policy have created significant uncertainty and volatility, making forecasting trade and wider effects of tariffs difficult. We have considered the potential effects of tariffs through scenarios in our report.

The total funding available to the Scottish Government in 2025-26 will be £59.6 billion, almost £0.8 billion higher than in our December 2024 forecast. The funding available for day-to-day spending is estimated to grow by 1.9 per cent in real terms in 2026-27. Growth slows to 0.6 per cent in 2027-28 and then returns to an average of 1.6 per cent over the remaining three years of the forecast. Despite this growth, the pressures on the Scottish Government's budget remain significant.

Two of the key public sector pay deals already agreed for this year have been above the Scottish Government's policy of three per cent, and the deal for most Scottish NHS workers is above the comparable pay offer for the rest of the UK. This is likely to create further pressure for ongoing negotiations in other parts of the public sector. There is also a knock-on effect for wage costs in future years.

The challenges on pay are made more difficult by April's rise in employer National Insurance Contributions. Although the Scottish Government has received £339 million of additional funding from the UK, this only covers between half to two thirds of the Scottish Government's estimated additional costs from the tax rise.

We will publish a follow-up report on 25 June 2025 to accompany the publication of the Scottish Government's Medium-Term Financial Strategy.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read "G. Roy".

Professor Graeme Roy