Part A: Raising the Potential and Performance of the Scottish Economy

Background: This section of the report considers:
- The performance of the Scottish economy and assesses the potential for improvement;
- Draws on the experience of a benchmark group of the 12 most successful small advanced economies;
- Sets out some principles for a new Scottish economic model and long term policy strategy;
- Proposes a framework for a Scottish economy designed to match the performance of the benchmark small advanced economies;
- Provides a series of policy recommendations to support these growth aspirations now and with fuller powers.

Key recommendations and goals

1. Scotland’s approach to growth should centre on the three P's;

   Productivity: The priority is to raise productivity in the domestic (or non-tradables) sectors, such as retail, wholesale, construction and public services. These sectors are where much of the employment growth has been over the past few decades.

   Population Growth: Scotland should seek to be regarded as the most talent friendly country in the world with a ‘Come to Scotland’ package that would grow the economy by incentivising inward investment and driving population growth.

   Participation: There is an economic as well as moral imperative to improve participation and equality.

2. Scotland should create a next generation economic model based on benchmark small advanced economies;

3. Scotland should identify comparative advantage and strategic priority sectors;

4. Scotland should establish a Productivity Commission and an Infrastructure Commission;

5. Scotland can move to a ‘flexicurity’ model for its labour market;

6. Scotland should create an Export Growth Strategy in consultation with the main exporting sectors, companies and potential exporters;

Part B: The Framework & Strategy for the Sustainable Public Finances

Key Policy Recommendations

- Scotland would make an Annual Solidarity Payment of around £5 billion to go towards previous UK debt and shared commitments such as international aid.
- An independent Scotland would need tight public spending rules to bring the country’s deficit down from around 6% in 2021-22 to below 3% over a period of 10 years.
- National debt should not increase beyond 50% of GDP and should stabilise at that level.

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1 Austria, Belgium, Denmark, Finland, Hong Kong, Ireland, the Netherlands, New Zealand, Norway, Singapore, Sweden, and Switzerland
Inherited Fiscal Position and Fiscal Sustainability
- Excluding oil, Scotland’s inherited deficit in 2021-22 is estimated at -5.9% of GDP, compared to -7.1% under current constitutional arrangements. This assumes lower spending on defence (0.4% of GDP) and debt servicing costs (0.4% of GDP) and some other services (0.8% of GDP).
- The report recommends adopting the following fiscal rules:
  o The deficit is reduced to below 3% of GDP within 5 to 10 years;
  o That national debt does not increase beyond 50% of GDP and stabilises at that level.
  o Borrowing is undertaken for public investment only over the course of the economic cycle.
- To this end, the report recommends that public spending should grow, but that this growth should be less than the growth in the wider economy to reduce Scotland’s deficit.

Part C: The Monetary Policy and Financial Regulation Framework

Continue use of sterling
- The report recommends that the currency of an independent Scotland should remain the pound sterling. The report states that a formal monetary union will not be required.
- The report acknowledges the continued use of sterling means that the Scottish Government would not secure monetary policy autonomy. However, the Commission believes that the advantages of stability outweigh the benefits of introducing a new currency.

Six tests to consider before moving to a Scottish currency
- The Commission proposes that a decision to move to an independent Scottish currency should be based on criteria. The Commission recommends six tests which the report anticipates an independent Scotland would not be ready to meet until the end of the first decade following an independence vote.
  o Fiscal sustainability.
  o Central bank credibility and stability of debt issuance.
  o Financial requirements of Scottish residents and businesses.
  o Sufficiency of foreign exchange and financial reserves.
  o Fit to trade and investment patterns.
  o Correlation of economic and trade cycle with the rest of the UK and other main trading partners.

The institutional financial structure
- The Commission recommends that two new institutions are set up, the Scottish Central Bank (SCB) and a Scottish Financial Authority (SFA).
- Scottish Central Bank would act as banker to the Scottish Government, holding deposits and providing liquidity support for Scottish retail banks and provide a clearing system for these banks.
- The SCB will act as lender of last resort to individual banks with a liquidity rather than solvency problem and provide emergency liquidity assistance to the banking system where there is a systemic need.
- If Scotland becomes an EU member in the future, the Commission states that Scotland will not be obliged to join the euro. The report say that Scotland would join the euro only if and when such a decision is in the best interests of both Scotland and the EU.