ANNEX A

The following items of information are provided as extracts because they come from sources containing other information outwith the scope of your request.

<u>Extract 1 – Taken from an email from officials in Constitutional Futures Division to Ministers</u>

Notably, the Sustainable Growth Commission proposed a fiscal rule (that Scotland should target a deficit on all spending less than 3% of GDP).

However, there is greater fiscal and economic uncertainty now than when the SGC proposed its fiscal rule; the policy decisions taken by the UK government between now and Scottish independence may well increase the UK's fiscal deficit, which in turn would affect Scotland's fiscal position upon independence.

<u>Extract 2 – Taken from slides used for a Fiscal policy meeting within the Fiscal policy team on 30 May 2022</u>

Fiscal Propositions for an Independent Scotland

2018 Sustainable Growth Commission (SGC)

- Starting fiscal deficit around 6% of GDP.
- Oil revenue excluded from deficit for investment in a Fund for Future Generations.
- Defence spending 1.6% of GDP.

<u>Extract 3 – Taken from slides used for a Fiscal policy meeting within the Fiscal policy team on 30 May 2022</u>

Sustainable Growth Commission

- highlighted some specific assumptions on expenditure, and savings vs UK approach
- spend currently allocated to Scotland in a number of reserved areas assumed to be unchanged (including welfare, pensions, economic development and scientific and university research funding);
- recommended commitment to reducing fiscal deficit, by holding growth in spend lower than growth in GDP – with specific decisions to be made by governments in an independent Scotland.

<u>Extract 4 – Taken from slides used for a Fiscal policy meeting within the Fiscal policy team on 30 May 2022</u>

Key SGC fiscal propositions

- **Fiscal Targets**: should be established and adhered to:

- i) Public debt should be maintained at no more than 50 per cent of GDP with borrowing only for public investment in net terms over the course of the cycle.
- ii) Public sector deficit should be reduced to below 3 per cent of GDP and maintained at levels consistent with a 50 per cent debt threshold.
-
- A **Deficit Reduction Policy** should be established with a target of delivering the initial deficit target of under 3 per cent of GDP within 5 to 10 years. Public spending increases in transition should be limited to sufficiently less than GDP growth to deliver this.

- All future **North Sea Revenues should be set aside in a new Fund for Future Generations**, along with any other windfalls such as asset sales or one-off revenue raisers.

- An **Annual Solidarity Payment should be created** to allow the Scottish Government to pay an agreed share of the servicing of a net balance of UK debt and assets and any continued shared services payments.

- The resourcing and **remit of the Scottish Fiscal Commission should be extended** as policy competences are increased over time.

- A **Debt Management Office should be established** to a 'best-in-class' standard to manage the debt stock and issuance of debt.

<u>Extract 5 – Slides from a monetary policy meeting involving Fiscal policy</u>

Currency Propositions for an Independent Scotland

2018 Sustainable Growth Commission

- Continued use of the pound in a Informal Currency Union with the rest of the UK (also known as Sterlingisation) with a move to an independent Scottish currency at such a time as considered appropriate for the Scottish economy.

<u>Extract 6 - Slides from a monetary policy development meeting on 17th May 2022 involving Fiscal policy</u>

Own Currency: Sustainable Growth Commission Tests to Move from Sterling to Own Currency

1. Fiscal sustainability: Has the Scottish Government sustainably secured its fiscal policy objectives and sufficiently strong and credible fiscal position, in relation to budget deficit and overall debt level?

2. Central Bank credibility and stability of debt issuance: Has the Scottish Central Bank and Government framework established sufficient international and market credibility evidenced by the price and the stability of the price of its debt issuance?

3. Financial requirements of Scottish residents and businesses: Would a separate currency meet the on-going needs of Scottish residents and businesses for stability and continuity of their financial arrangements and command wide support?

4. Sufficiency of foreign exchange and financial reserves: Does Scotland have sufficient reserves to allow currency management?

5. Fit to trade and investment patterns: Would the new arrangement better reflect Scotland's new and developing trading or investment patterns?

6. Correlation of economic and trade cycle: Is the economic cycle in Scotland significantly out of phase with that of the rest of the UK, or at least as well correlated with the cycles of other trading and investment partners, thus making an independent monetary policy feasible and desirable?

Extract 7 – Briefing notes for the monetary policy development meeting on 17th May 2022 involving Fiscal policy

The Sustainable Growth Commission report from 2018 recommended using Sterling in an informal currency union with the UK before moving to a new independent Scottish currency after a period of time, once a set of tests had been met.

Extract 8 - Briefing notes for the monetary policy development meeting on 17th May 2022 involving Fiscal policy

- The Sustainable Growth Commission recommended a transition to a separate Scottish currency after 6 economic tests were met:
    1. Fiscal sustainability.
    2. Central Bank credibility and stability of debt issuance
    3. Financial requirements of Scottish residents and businesses
    4. Sufficiency of foreign exchange and financial reserves
    5. Fit to trade and investment patterns
    6. Correlation of economic and trade cycle.