

# Scottish Economic Bulletin

Office of the Chief Economic Adviser



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Scottish Government  
Riaghaltas na h-Alba

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Data up to: 11 February 2026

Cover page Image of peat sampling at Blawhorn Moss © Dougie Barnett NatureScot

## Overview

The Scottish economy continued to show stable growth during the final quarter of 2025 with indications of improving business and consumer confidence for the year ahead. However, latest data also indicate that subdued demand conditions have continued into the new year alongside a further weakening in some labour market indicators, while the rise in global geopolitical risk and continued elevation in world trade uncertainty present further headwinds for the year ahead.

The latest GDP data indicates that Scottish economic growth remained broadly stable in the 3-months to November - output grew 0.3% in the 3-months to November, driven by services and production, offsetting a fall in construction.

Business surveys for the start of 2026 indicate that overall demand conditions facing businesses remained subdued in January albeit there were some signs of improved stability compared to the fourth quarter of 2025. Consumer sentiment improved slightly in December, particularly relating to households financial situation, however remained weak overall and in negative territory.

The weakness in demand also continued to be reflected in looser labour market conditions. Unemployment remained low at 3.7% however the number of payrolled employees fell by 8,700 over the year to December, with the RBS Growth Tracker indicating that businesses continued to reduce staffing levels in January. Labour costs remain key cost pressures for businesses, leading in part to both the reduction in staffing levels and the need to raise prices to protect margins. However, pay growth is expected to moderate this year with the recent Bank of England pay survey indicating the average pay settlement will fall from 4% in 2025 to 3.4% in 2026.

Consumer price inflation picked up to 3.4% in December, however it is forecast to fall to around 3% in the next few months and then to around the 2% target rate in April. In the short term, this largely reflects changes in household energy prices and wider regulated prices, however the current weakness in demand and looser labour market have the potential to reduce inflationary pressures more broadly.

Looking ahead, the Scottish economy is forecast to grow 1.3% in 2026 with stable growth expected to be supported by lower inflation and looser monetary policy. There are indications that business optimism improved slightly through the turn of the year, however the increase in global geopolitical risk and continued elevation in world trade uncertainty in January continues to highlight the risks of external headwinds escalating with the potential to impact supply chains, investment and consumer and business sentiment more broadly. Market movements such as the recent rise in gold price as investors seek to contain risks, have reflected that immediate uncertainty and while some of the short term tension has eased, it emphasises the challenging and uncertain global landscape that businesses and consumers will have to navigate in the year ahead.

# Data and Forecasts Summary

## Outturn Data

Indicator	Latest Data	Next Release	2025								2026		6-month Graph
			June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb		
GDP growth (3-month rolling %)	0.3% (Nov)	25 February	0.2	0.3	0.4	0.3	0.3	0.3	n/a	n/a	n/a		
Unemployment rate (%)	3.7% (Sep - Nov)	17 February	3.8	3.5	3.9	3.7	3.8	3.7	n/a	n/a	n/a		
Real Earnings growth (YoY %)	0.9% (Dec)	18 February	2.0	2.2	2.7	2.3	0.5	-1.8	0.9	n/a	n/a		
Inflation rate (CPI YoY %)	3.4% (Dec)	18 February	3.6	3.8	3.8	3.8	3.6	3.2	3.4	n/a	n/a		
BoE Base Rate (%)	3.75% (Feb)	19 March	4.25	4.25	4.00	4.00	4.00	4.00	3.75	3.75	3.75		
Consumer Sentiment (Index)	-9.6 (Dec)	25 February	-6.9	-8.8	-8.1	-8.1	-6.6	-10.2	-9.6	n/a	n/a		

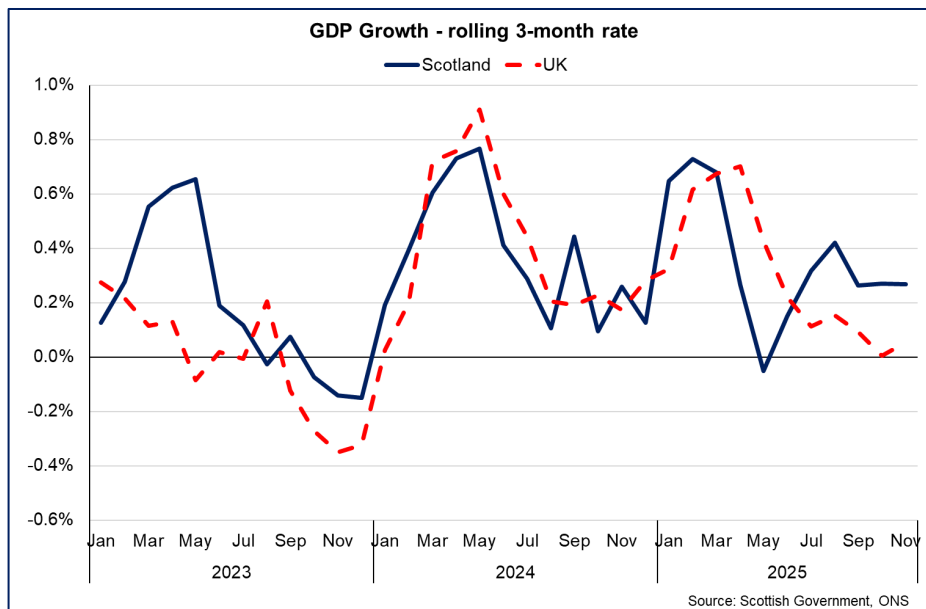
## Forecasts

Indicator	Organsiation	Date of Forecast	2025	2026	2027	2028	2029	2030	Graph
GDP growth (YoY %)	SFC	January 2026	1.1	1.3	1.3	1.5	1.5	1.5	
Unemployment rate (%)	SFC	January 2026	4.0	4.2	4.2	4.2	4.2	4.1	
Nominal Average Earnings growth (YoY %)	SFC	January 2026	6.4	2.9	2.8	2.7	2.8	2.8	
Inflation rate (4Q rate in Q4)	BoE	February 2026	3.4	2.0	1.8	2.0	n/a	n/a	

## Output

The Scottish economy grew 0.3% in the 3-months to November, supported by a pick-up in production sector growth.

- The latest GDP data for November indicates that the pace of 3-monthly growth remained broadly stable during the second half of 2025 to that point.
- Scotland's GDP grew 0.3% in the 3-months to November, unchanged from growth in the 3-months to October. Growth was driven by activity in September, which grew by 0.8%, before falling back in October (-0.2%) and November (-0.4%).<sup>1</sup>
- In the second half of the year to November, 3-monthly growth in Scotland was slightly stronger than at a UK level with UK output rising 0.1% in the 3-months to November. However, growth was broadly in line over the year, with growth of 1.4% in Scotland and 1.3% at a UK level.<sup>2</sup>

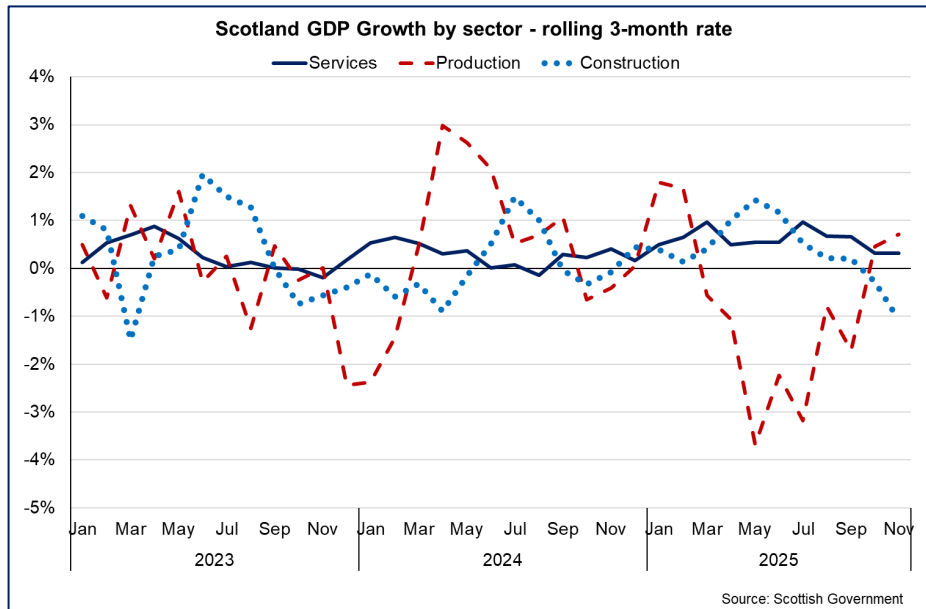


- At a sector level, growth over the three months was driven by the services (0.3%) and production (0.7%) sectors, offsetting a fall in construction output (-1.1%).
- The pace of growth in the services sector remained stable in the 3-months to November, however moderated during the fourth quarter compared to earlier in the year and to its slowest rates since the end of 2024. Growth in some service industries improved in November, including professional, scientific and technical services (2.1%) and retail (1.9%). However accommodation and food services output fell 1.3% and financial and insurance activities output fell 0.2%. At a broader level, consumer facing services output growth slowed to 0.2% over the 3-months.

<sup>1</sup> [Economy statistics - gov.scot \(www.gov.scot\)](https://www.gov.scot/economy-statistics)

<sup>2</sup> [GDP monthly estimate, UK - Office for National Statistics](https://www.ons.gov.uk/gdp-monthly-estimate-uk)

- In contrast, growth in the production sector increased modestly over the three months to November (0.7%) and to its fastest rate since February 2025. There was mixed performance across production industries with growth in manufacturing (0.5%), electricity and gas supply (1.9%), and water supply and waste management output (2.4%), while mining and quarrying output fell 1.6%.



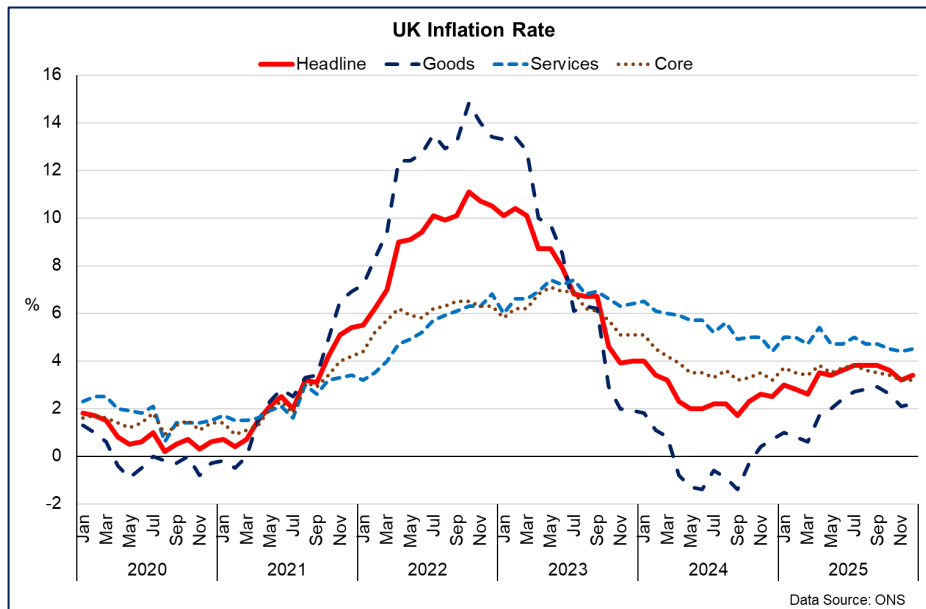
- Despite this slight change in growth pattern recently, Scotland's annual growth of 1.4% reflected growth in services (2.2%) and construction (0.7%) offsetting a fall in production (-2.2%).

## Inflation

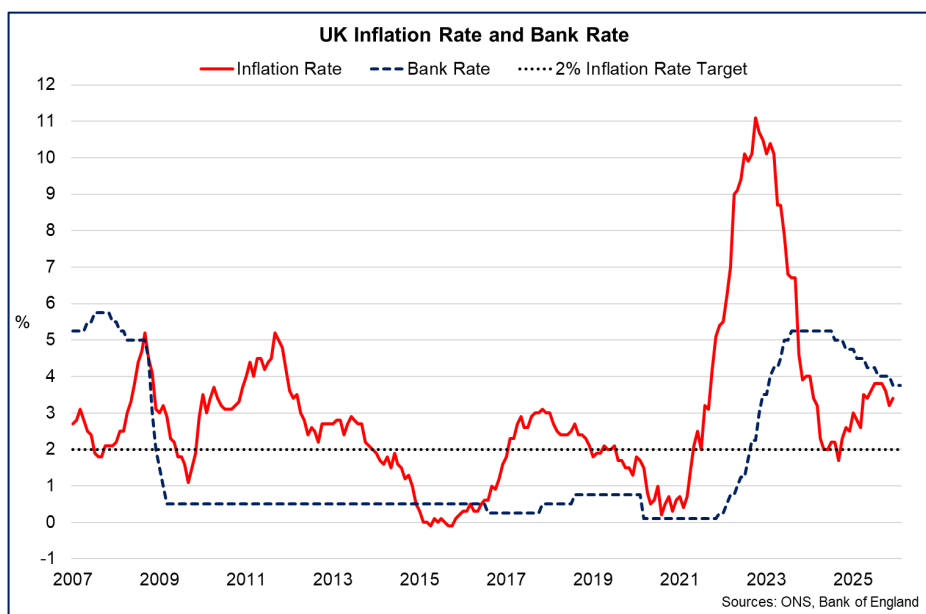
The inflation rate rose to 3.4% in December, up from 3.2% in November, however is forecast to fall to around 2% in April.

- The inflation rate increased slightly in December, from 3.2% to 3.4%, however is expected to fall again in the coming months and return to around 2% during the first half of this year.
- The increase in inflation in December saw increases in the rates of inflation for food and non-alcoholic beverages (4.5%, up from 4.2%), alcohol and tobacco (5.2%, up from 4.0%), and transport (4%, up from 3.7%). Core inflation (excluding energy, food, alcohol and tobacco) remained unchanged at 3.2% in December and has eased back from 3.8% in August.<sup>3</sup>
- More broadly, the inflation rate of goods prices rose from 2.1% to 2.2%, while services prices inflation also increased slightly from 4.4% to 4.5%. Despite the pick-up in service price inflation, it remains lower than its recent peak of 5.4% in April 2025.

<sup>3</sup> [Consumer price inflation, UK - Office for National Statistics](#)



- The Bank of England forecast inflation to fall from its current rate of 3.4% to around 3% in the next few months and then to the 2% target rate in April this year, partly reflecting UK Budget announcements on administered prices and indirect taxes.<sup>4</sup>



- In February, the Bank’s Monetary Policy Committee (MPC) held the Bank Rate at 3.75%, judging that while inflation is expected to fall in the coming months, there remain medium term risks from elevated inflation expectations and the pace at which lower inflation might feed through to wage and price setting. The Bank set out that based on the current evidence, the Bank Rate is likely to be reduced further and markets currently expect it to fall by 0.5 percentage points during the year.<sup>5</sup>

<sup>4</sup> [Monetary Policy Report - February 2026 | Bank of England](#)

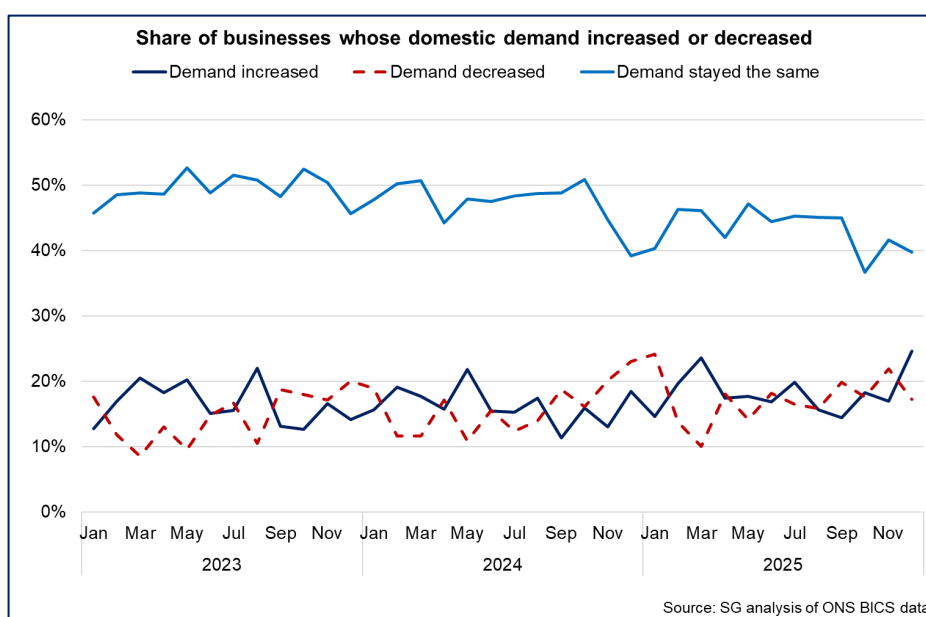
<sup>5</sup> [Bank Rate maintained at 3.75% - February 2026 Monetary Policy Summary and Minutes | Bank of England](#)

## Business Conditions

Business activity was more stable in January after a challenging fourth quarter of 2025, accompanied by a slight improvement in business optimism.

### Business Activity

- Business activity and confidence remained subdued in the fourth quarter of 2025, however business surveys indicate slightly improved stability in January, albeit that demand remains weak overall.
- The Scottish Business Monitor for Q4 2025 reported that the volume of business activity (sales) improved over the quarter (net balance rose from -12.3 to -8.6), however the value of business activity (turnover) weakened (net balance fell from -11.4 to -14.6). This indicates that while sales showed some signs of recovery over the quarter, this did not fully feed through to an improvement in turnover. The Quarterly Economic Indicator for Q4 2025 also indicated that sales performance remained subdued over the quarter across sectors.<sup>6,7</sup>



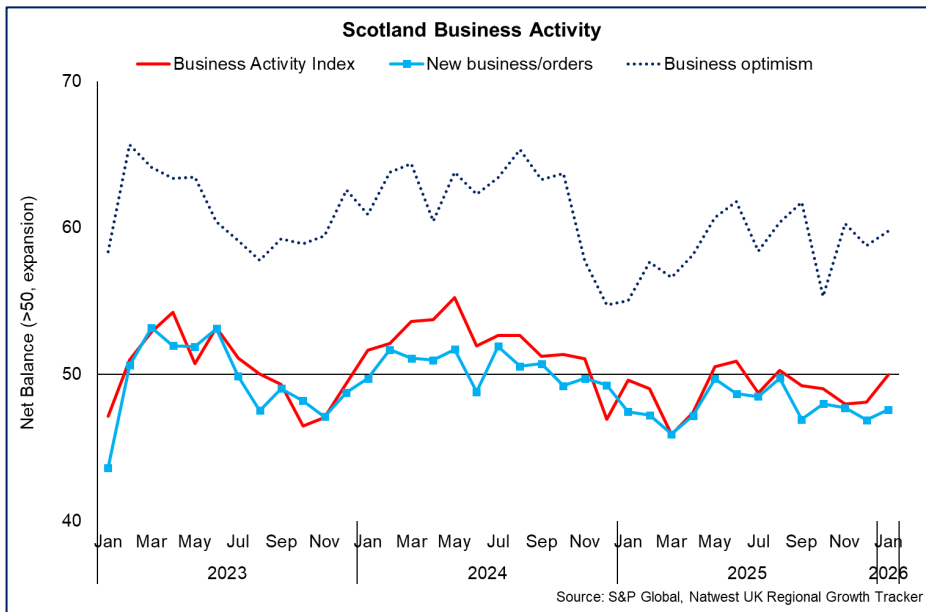
- Monthly BICS data provided more positive indications for the month of December itself, with an increase in the share of businesses reporting that domestic demand increased over the month (21.6% up from 17.0%), while the share of businesses reporting that demand decreased fell from 21.9% to 17.3%.<sup>8</sup>
- Most recently in January, the RBS Growth Tracker business survey indicated that overall business activity was stable during the month with a reading of 50 following four consecutive

<sup>6</sup> [Businesses anticipate uneasy start to 2026 | FAI](#)

<sup>7</sup> [Quarterly Economic Indicator - Scottish Chambers](#)

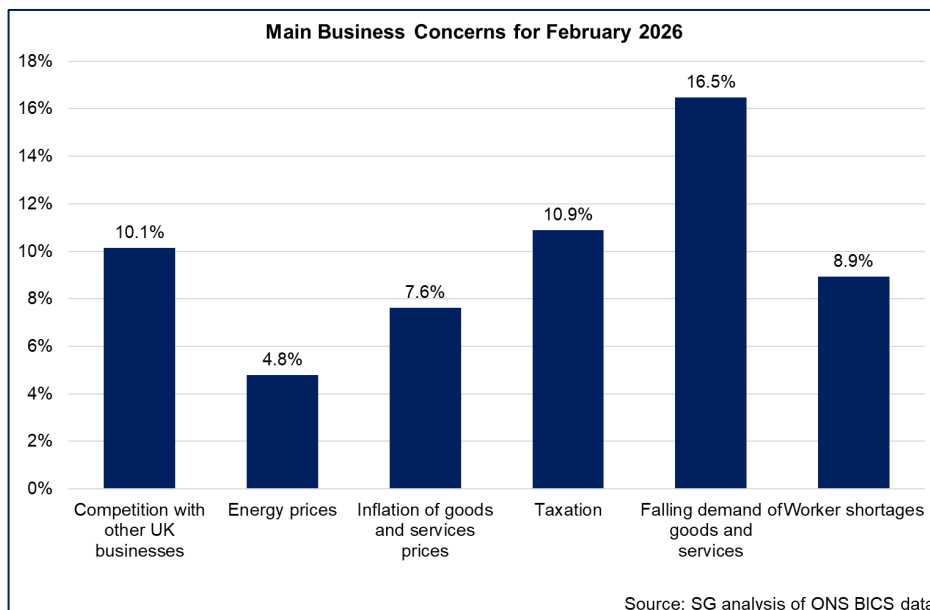
<sup>8</sup> [Business and innovation statistics - gov.scot](#)

months of declining activity (a reading below 50 indicates contracting business activity). However, underlying demand remained weak with a further fall in new orders, albeit to a lesser extent than in December. Higher cost of living and economic uncertainty were cited by businesses as weighing on new orders.<sup>9</sup>



### Business Concerns

- Latest BICS data for February shows that similar key business concerns during 2025 have continued into the start of 2026. Falling demand of goods and services continues to be the most cited concern by businesses in Scotland (16.5%) followed by taxation (10.9%) and competition with other UK businesses (10.1%).

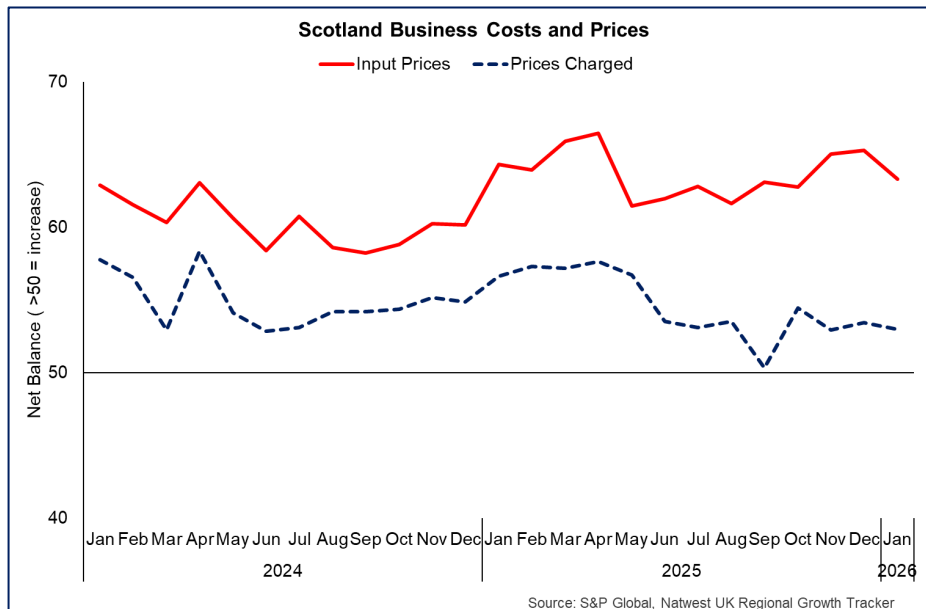


<sup>9</sup> [Purchasing Managers' Index Reports | Royal Bank of Scotland](#) , [Purchasing Managers' Index Reports | NatWest Business](#) , <https://www.pmi.spglobal.com/public/release/pressreleases>

- The increase in concern regarding worker shortages which picked-up towards the end of 2025, particularly in Admin and Support Services, Transport and Storage and Construction sectors, has eased somewhat for February.

## Business Costs

- Cost pressures remained elevated for business in the final quarter of 2025 and businesses expect this to continue in the first half of 2026.
- The Scottish Business Monitor for Q4 2025 showed that 80.7% of businesses reported higher total costs, up slightly from 78.4% in Q3 2025, with the largest shares citing higher labour and input costs. Businesses expect this pattern to continue in the first half of 2026 with 89.7% of businesses expecting to face higher total costs during this period. This was echoed in the Quarterly Economic Indicator for Q4 2025 with 77% of firms reporting increased pressure from labour costs.
- Most recently in January, the RBS Growth Tracker business survey indicated that business input cost pressures continued to increase at the start of the new year, albeit at a slower pace than at the end of 2025. Similarly, the pace of output price inflation also eased indicating that while businesses continued to pass on costs to clients to protect margins where possible, it was to a lesser extent than at the same point last year.<sup>10</sup>

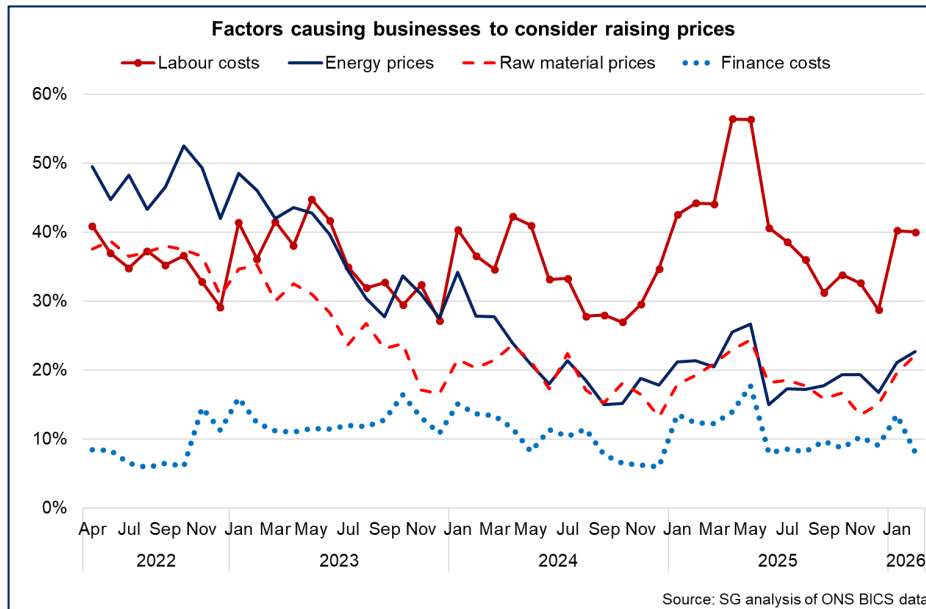


- BICS indicators for February also show a slight easing in the proportion of businesses expecting the prices of their goods and services to rise (21.3%, down from 22.9%), and similarly, the share is notably lower than at the start of 2025. Challenging demand conditions means that not all

<sup>10</sup> [Purchasing Managers' Index Reports | Royal Bank of Scotland](#) , [Purchasing Managers' Index Reports | NatWest Business](#) , <https://www.pmi.spglobal.com/public/release/pressreleases>

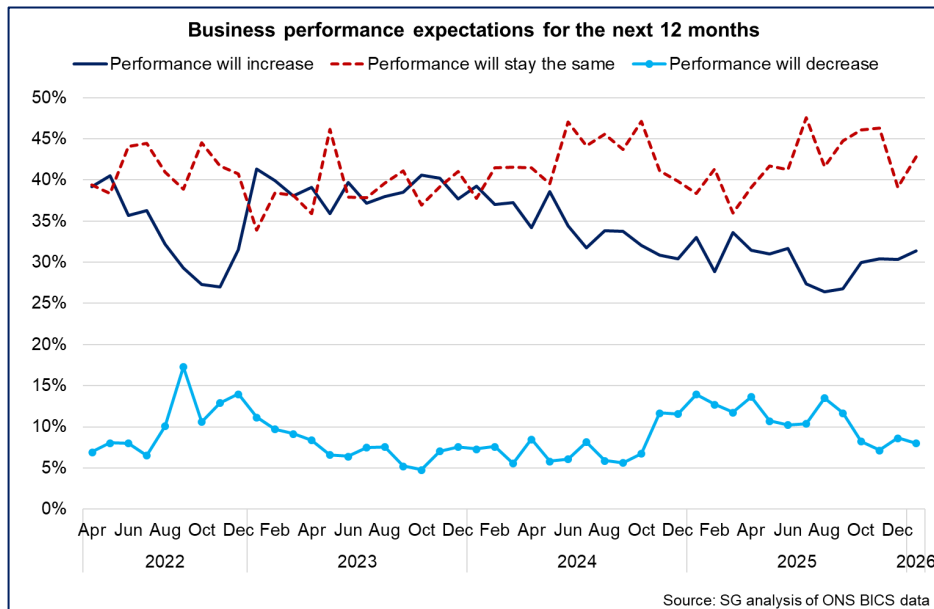
business are passing through costs with 60.8% of businesses expecting the price of their goods and services to stay the same in February.

- Labour costs continue to be the main factor causing businesses to consider price increases (40%) followed by raw materials prices (22.2%) and energy prices (21.7%). The reporting of these factors has increased from the second half of 2025.



## Business Optimism

- Looking ahead, in the face of cost challenges and weak demand, business sentiment remains subdued, however there are some indications it may be improving.
- The Scottish Business Monitor for Q4 2025 reported that business optimism for sales over the first half of 2026 remained in negative territory (-7.5%) however did improve by 5.1 points over the quarter.
- Latest BICs data indicates a slight improvement in optimism in January with the share of businesses expecting performance to increase over the next year rising to 31.4%; its highest share since June 2025. Furthermore, the share of businesses expecting performance to decrease fell to 8% (from 8.7%). However, the largest share of businesses continue to expect performance to remain unchanged (42.8%, up from 39.1% in December).



- Similarly, the RBS Growth Tracker for January reported that business optimism improved slightly over the month (59.8) with an increasing balance of businesses expecting growth in the year ahead.<sup>11</sup>

## Labour Market

The labour market continued to loosen in Q4 2025, with the number of payrolled employees continuing its downward trend alongside slower earnings growth.

### Employment, Unemployment, and Inactivity

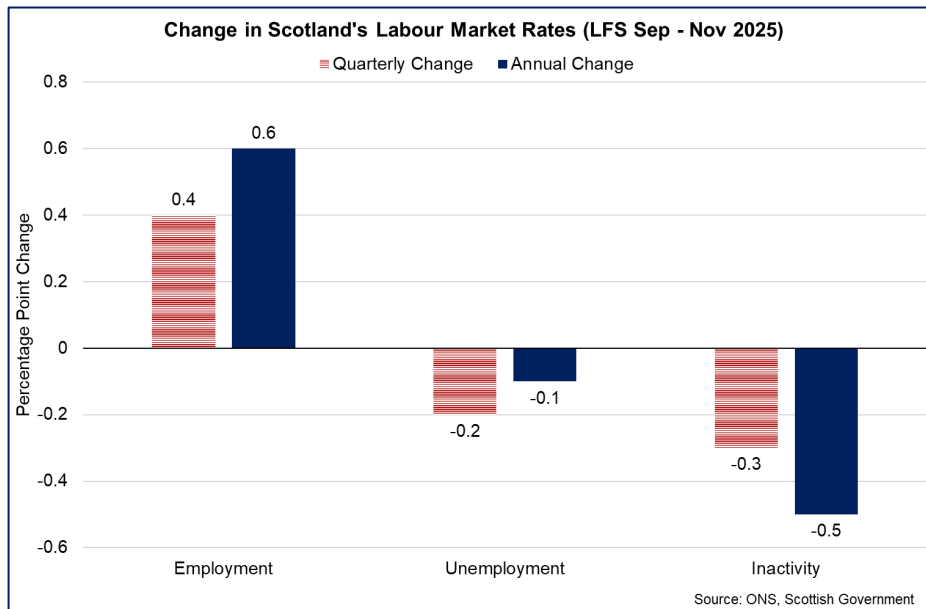
- Unemployment remained low in Scotland in the final quarter of 2025, but indicators continue to point towards loosening conditions with falls in the number of payrolled employees, weaker pay growth and business surveys continuing to indicate a fall in staffing levels at the start of the year.
- The Labour Force Survey (LFS) shows Scotland's unemployment rate remained low in the 3-months to November at 3.7% (UK: 5.1%), and fell 0.2 percentage points (p.p) over the quarter and 0.1 percentage points over the year (UK: +0.7 p.p).<sup>12</sup>
- Scotland's Claimant Count unemployment rate (3.5%) also remains low relative to the UK as a whole (4.4%), albeit that the number of claimants of unemployment related benefits rose 1.1% (1,100) in December to 104,400, its highest level since May. Over the past year however, the claimant count has fallen by 3.1% (3,300).<sup>13,14</sup>

<sup>11</sup> [Purchasing Managers' Index Reports | Royal Bank of Scotland](https://www.pmi.spglobal.com/public/release/pressreleases) , [Purchasing Managers' Index Reports | NatWest Business](https://www.pmi.spglobal.com/public/release/pressreleases) , <https://www.pmi.spglobal.com/public/release/pressreleases>

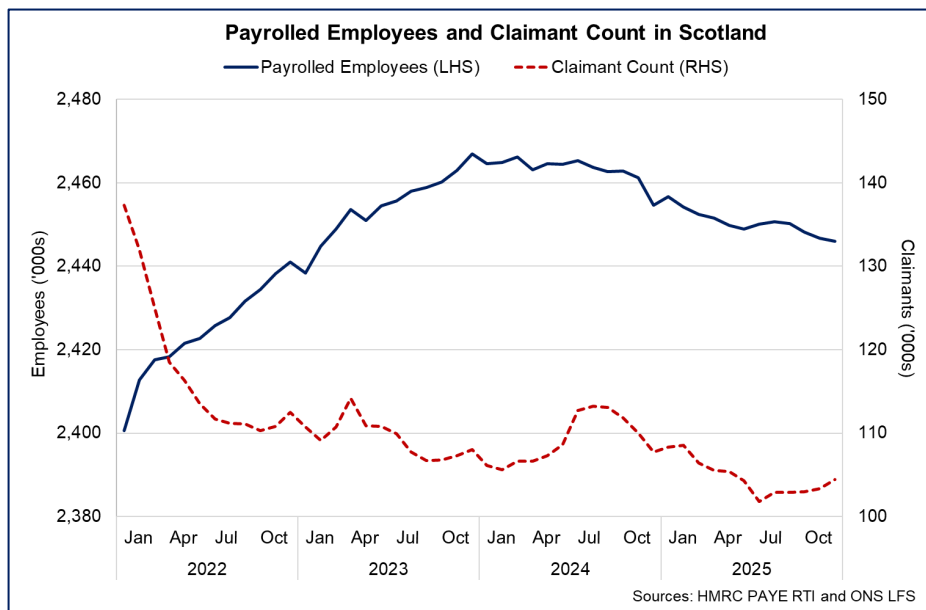
<sup>12</sup> [Labour market statistics - gov.scot](https://www.gov.scot)

<sup>13</sup> [Nomis - Official Census and Labour Market Statistics](https://www.nomis.gov.uk)

<sup>14</sup> In May 2024, the Department for Work and Pensions increased the administrative earnings threshold for full work search conditionality. This change affected around 180,000 claimants in the UK, increasing the Claimant Count at the time of the change.

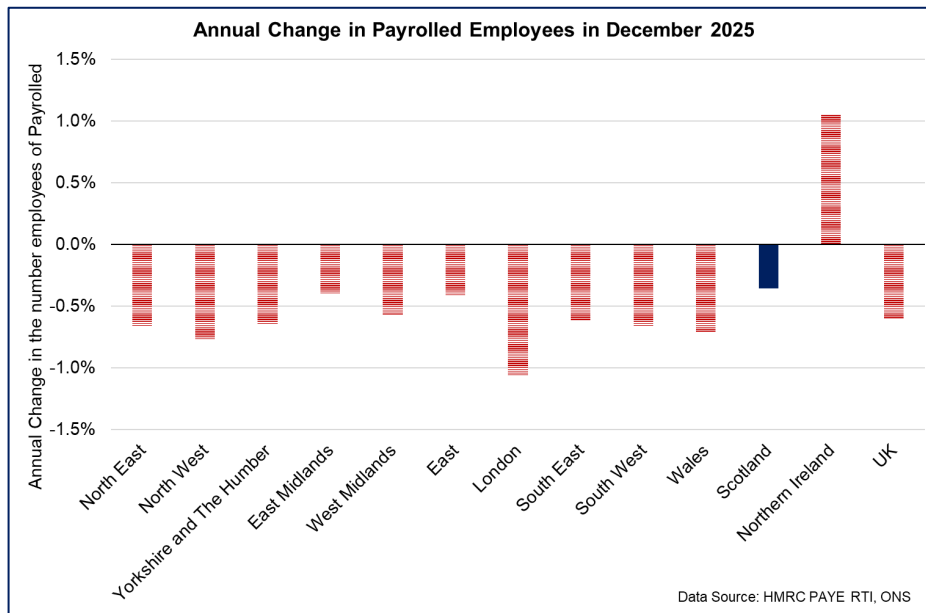


- The LFS for the three months to November also shows that alongside the fall in the unemployment rate over the quarter, the employment rate rose 0.4 p.p to 74.7% and the inactivity rate fell by 0.3 p.p to 22.3%. Compared to last year, both indicators remain stronger with the employment rate up 0.6 p.p and the inactivity rate down by 0.5 p.p.
- However, Pay as you Earn (PAYE) Real Time Information data indicates that the number of payrolled employees in Scotland is currently falling back from its recent peak of 2.46 million in July 2024. Latest data for December shows that payrolled employees has fallen by 0.4% (8,700) over the past year to 2.45 million, albeit remained largely unchanged over the month.<sup>15</sup>



<sup>15</sup> [Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted - Office for National Statistics](#)

- This trend over the past year is similar across most other parts of the UK with the number of payrolled employees in Scotland at its lowest level since February 2023.



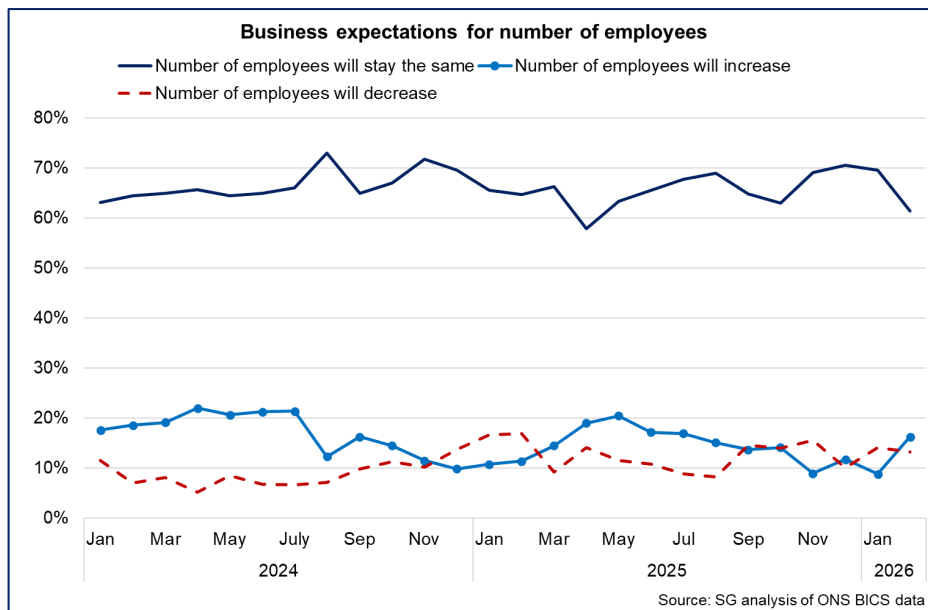
## Recruitment Activity

- Business surveys indicate that demand for labour and recruitment activity remained relatively subdued in the fourth quarter of 2025 with this pattern continuing into the start of the new year, and has been impacted by factors including cost pressures, weakness in new business orders growth, and elevated economic uncertainty.
- The Scottish Business Monitor reported that firms employment levels continued to fall during Q4 2025 and at an accelerated rate with the employment indicator net balance falling to -13.9%.
- While there were indications of stabilisation in December, most recent business survey data indicates that this didn't continue into January, with the RBS Growth Tracker employment indicator falling to 48.9, (50 indicates stable employment levels) and its lowest level since August 2025.<sup>16</sup>

<sup>16</sup> [Purchasing Managers' Index Reports | Royal Bank of Scotland](#) , [Purchasing Managers' Index Reports | NatWest Business](#) , <https://www.pmi.spglobal.com/public/release/pressreleases>



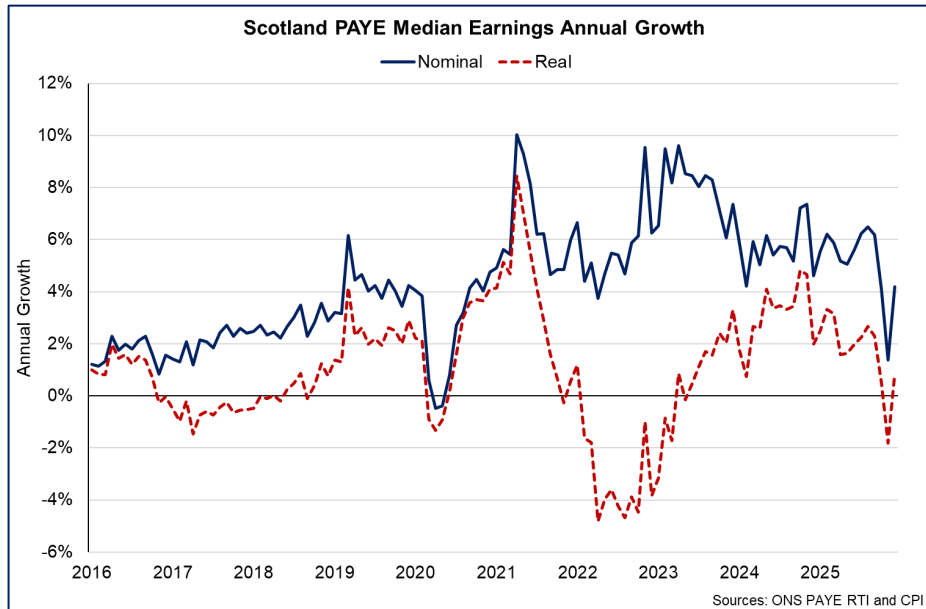
- However, looking ahead, BICS data indicates that the share of businesses expecting employee numbers to increase rose from 8.8% in January to 16.3% in February, its highest share since July 2025, while the share of businesses expecting employee numbers to decrease fell from 14.0% to 13.3% for February. 61.4% of business expect employee numbers to remain unchanged in February.



## Earnings

- Earnings growth remained robust in 2025, however latest data indicates the pace of growth slowed notably in the final quarter of the year. However, this slow-down is not necessarily concerning, with real earnings growth remaining positive, and may also signal a lessening of inflationary pressures.

- Nominal median monthly PAYE pay in Scotland (£2,580) grew by 4.2% on an annual basis in December, up from 1.4% annual growth in November when the growth rate was at its lowest since June 2020. However, the pace of growth was lower than the relatively high average annual growth rate in 2025 of 5.2%. In real terms, adjusting for annual inflation of 3.4% in December, earnings grew by 0.9% (UK: 0.7%), notably below the average annual growth rate of 1.7% in 2025.<sup>17</sup>



- Looking ahead, earnings growth is expected to moderate further in 2026 reflecting reduced inflationary pressures and a looser labour market. At a UK level, the recent Bank of England pay survey indicates that the average pay settlement will fall from 4% in 2025 to 3.4% in 2026.<sup>18</sup>

## Consumer Activity

The Scottish Consumer Sentiment Indicator rose by 0.6 points in December, but remains negative at -9.6.

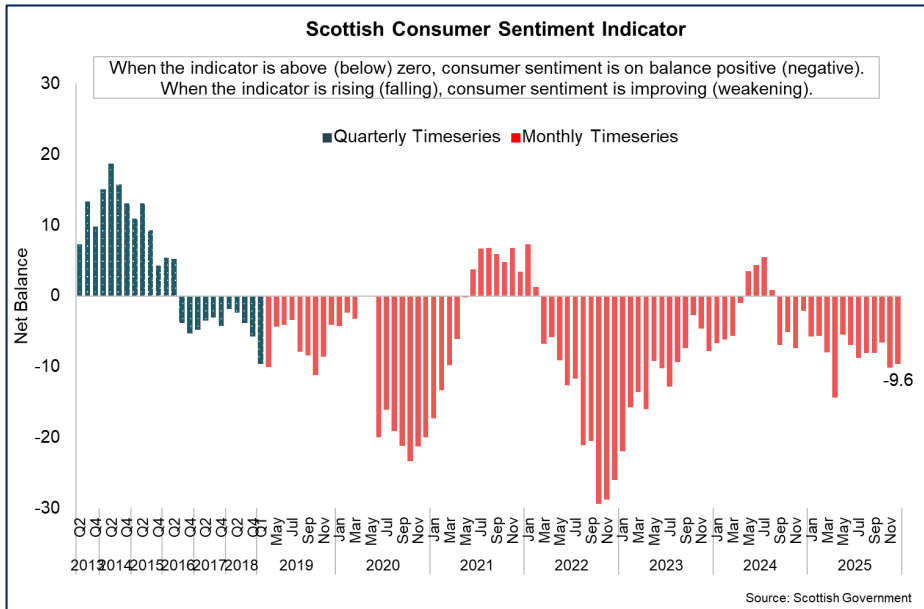
### Consumer Sentiment

- The Scottish Consumer Sentiment Indicator (SCSI) reflects how people feel the economy is performing, how secure they feel about their household finances and how relaxed they feel about spending money.
- In December, the consumer sentiment net balance rose over the month to -9.6, strengthening from -10.2 in November, but is 7.5 points lower than in December 2024.<sup>19</sup>

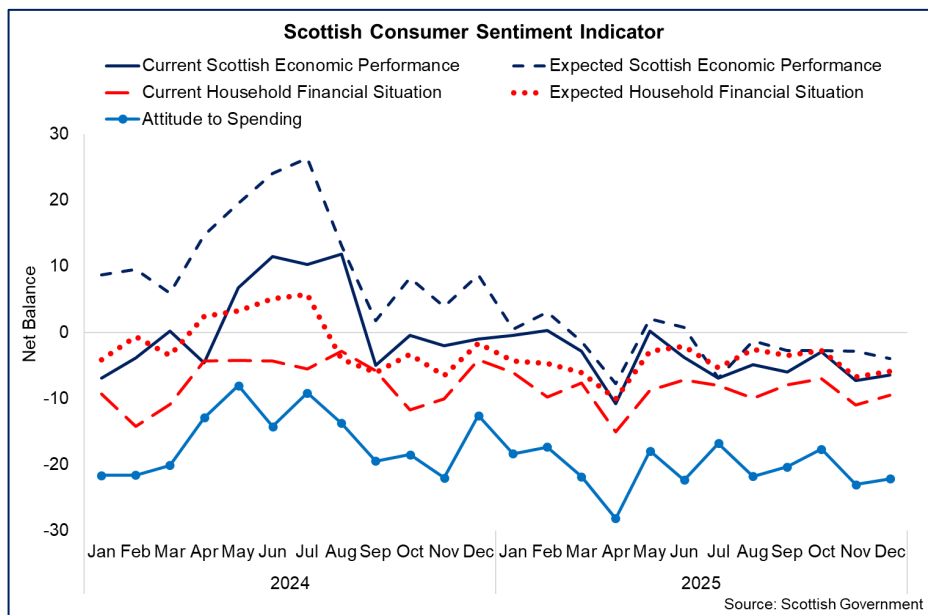
<sup>17</sup> [Earnings and employment from Pay as You Earn Real Time Information, seasonally adjusted - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/earningsandemploymentfrompayasyouearnrealtimeinformation)

<sup>18</sup> [Agents' summary of business conditions - February 2026 | Bank of England](https://www.bankofengland.co.uk/agents-summary-of-business-conditions)

<sup>19</sup> [Economy statistics - gov.scot \(www.gov.scot\)](https://www.gov.scot/economy-statistics)



- The rise in sentiment over the month was driven by improvements in four of the five sub-indicators covering current economic performance, current and expected household finances, and attitudes to spending. The remaining sub-indicator covering expected economic performance fell over the month to its lowest since July 2025.



- At a UK level, the GfK Consumer Confidence Index rose by 1 point in January to -16 with consumers reporting improved confidence around their personal financial situation however weaker sentiment regarding the general economic situation.<sup>20</sup>

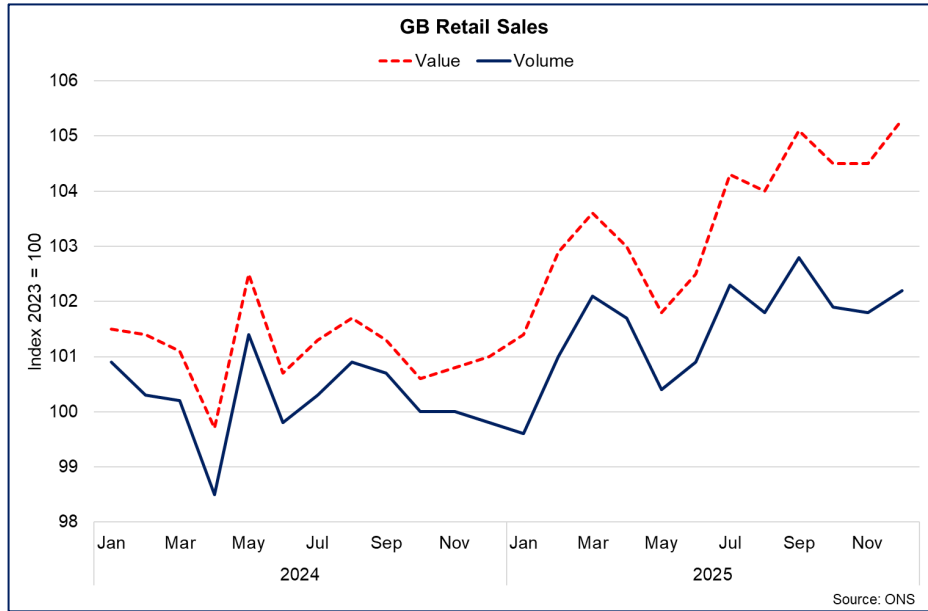
## Spending and Cost of Living

- The slight easing in inflation expectations and the reduction in interest rates are supportive of conditions for stronger consumer and household activity growth, however cost of living

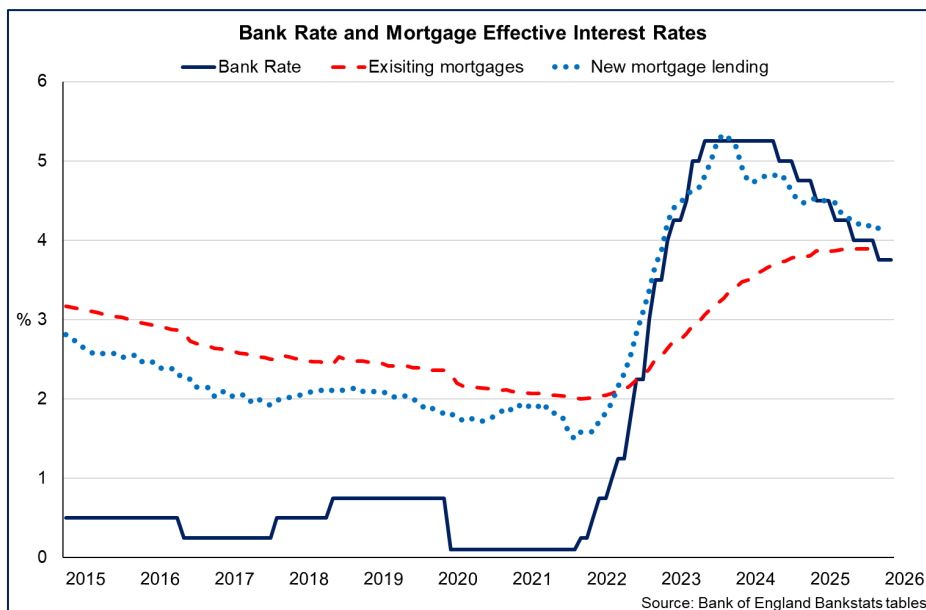
<sup>20</sup> [Consumer confidence up one point to -16 in January - NIQ](#)

challenges and weakness in consumer sentiment continue to weigh on activity and indicates continued caution by households toward spending.

- At a GB level, retail sales contracted in the 3-months to December by -0.3% in volume terms, though rose by 0.3% in value terms. On an annual basis, retail sales strengthened 2.1% in volume terms and 4.0% in value terms.<sup>21</sup>



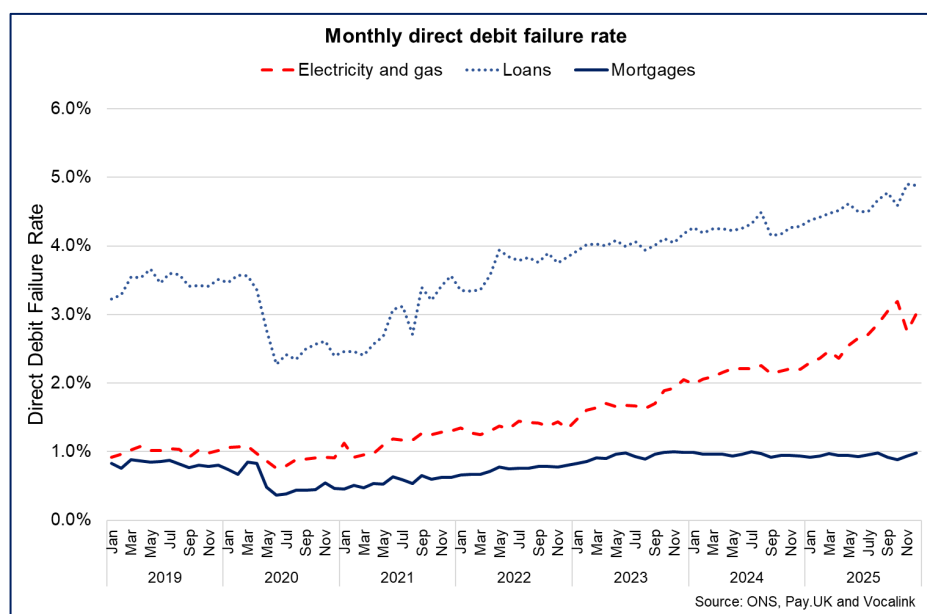
- The gradual loosening in monetary policy over the past year is progressively feeding through the economy. The effective interest rate on new mortgages has been on a downward trend and was 4.15% in December while the rate on the stock of existing mortgages has plateaued in recent months at 3.92% following its rising trend since 2022.<sup>22</sup>



<sup>21</sup> [Retail sales, Great Britain - Office for National Statistics](#)

<sup>22</sup> [Effective interest rates - A visual summary of our data | Bank of England](#)

- However, while inflation is forecast to come down from its current rate, consumers continue to face cost pressures. At a GB level, direct debit failure rates due to insufficient funds data show that the failure rate for electricity and gas payments rose to 3.01% in December, up from 2.76% in November, and remains higher than in December 2024 (2.20%). Direct debit failure rates for loans also remain elevated at 4.89% in December, up from 4.29% in December 2024.<sup>23</sup>
- Failure rates for mortgage payments remain relatively low, however have been rising in recent months with the failure rate at 0.98% in December, marginally up from 0.94% in November and from 0.88% in October.



## Economic Outlook

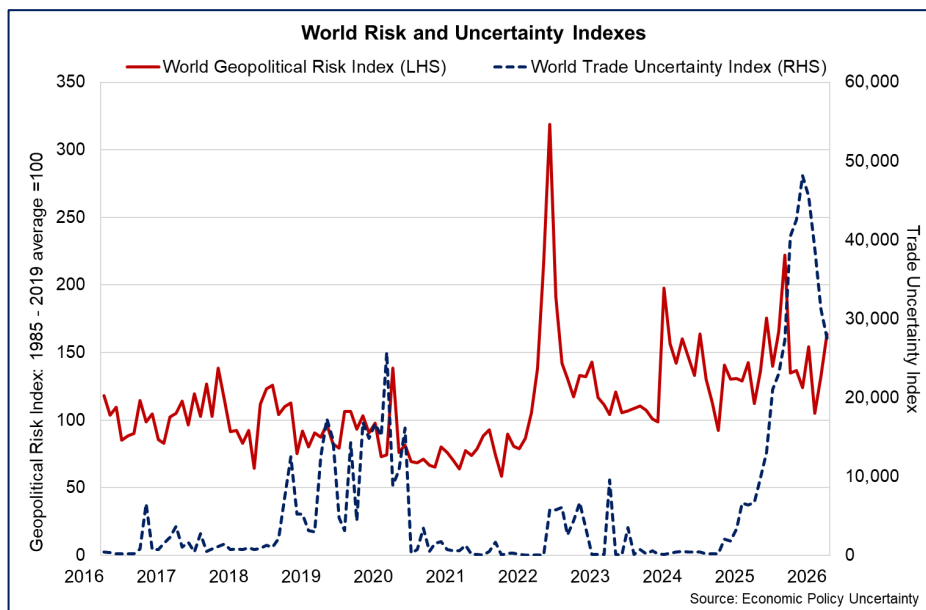
The Scottish economy is forecast to strengthen in 2026 as global uncertainty remains elevated.

- Global economic growth is forecast to remain steady in 2026 with the IMF forecasting growth to remain unchanged at 3.3% in 2026 before easing slightly to 3.2% in 2027. The resilience in the pace of growth is in part supported by less restrictive monetary policy as inflation continues to moderate. Global inflation is forecast to fall from 4.1% in 2025 to 3.8% in 2026.<sup>24</sup>
- However the increase in global geopolitical risk and continued elevation in world trade uncertainty in January indicates that these factors remain key downside risks for the year ahead and have the potential to disrupt demand and supply chains and weigh on investment intentions.
- The increase in risks in the short term has been evident in financial and commodity market movements in January which has seen the price of gold rise above \$5,000 an ounce while there

<sup>23</sup> [Monthly Direct Debit failure rate and average transaction amount - Office for National Statistics](#)

<sup>24</sup> [World Economic Outlook Update, January 2026: Global Economy: Steady amid Divergent Forces](#)

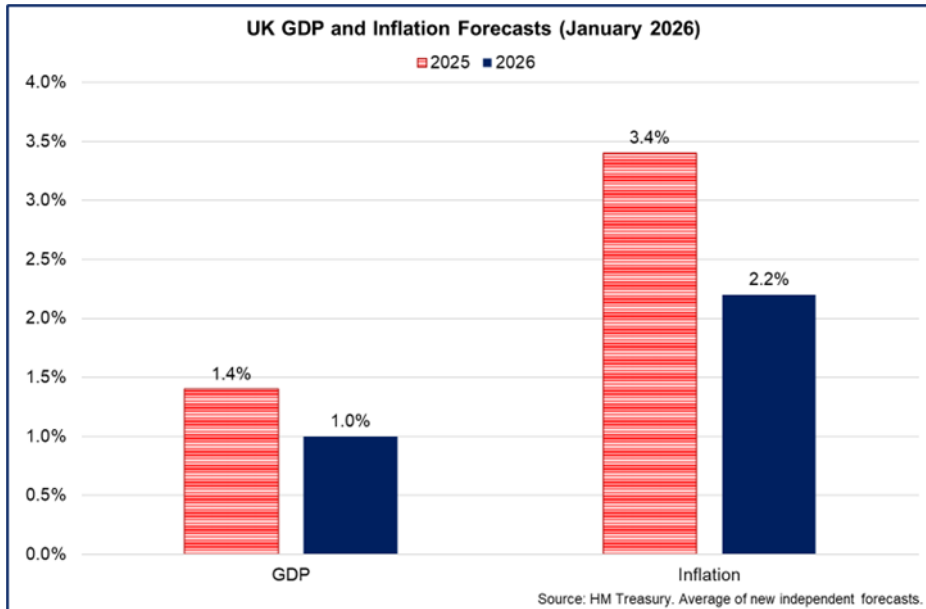
has also been upward pressure on oil prices, in part due to the increase in tensions and potential of military action in Iran. These have partly reflected short term market reactions, with indications that some of the immediate tension has eased, albeit the underlying risks remain elevated.



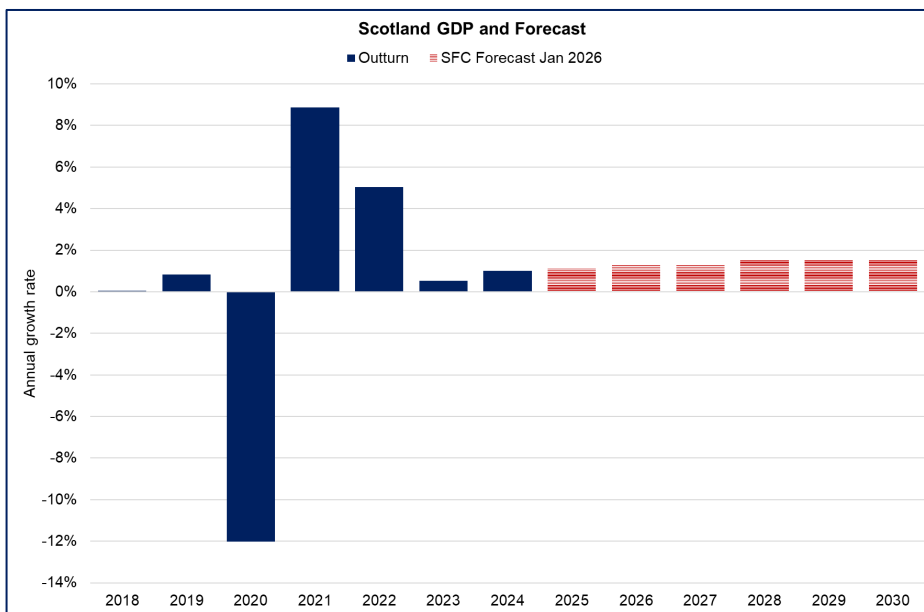
- At a UK level, in February the Bank of England forecast UK GDP growth to slow from 1.4% in 2025 to 0.9% in 2026 before strengthening to 1.5% in 2027 and 1.9% in 2028. Subdued growth in 2026 reflects the persistence of weak demand, uncertainty and a slight drag from past monetary tightening and is expected to be reflected in further loosening in the labour market and unemployment rising to 5.25% during the year.<sup>25</sup>
- Inflation is expected to fall to around the 2% target rate in April, largely reflecting UK Budget announcements on administered prices and indirect taxes. Markets currently expect interest rates to fall by a further 0.5 percentage points during the year which is expected to support the pickup in growth in 2027 and 2028.
- Looking at a broader set of forecasts, the latest HMT average of new independent UK forecasts in January showed that UK GDP growth is projected to weaken from 1.4% in 2025 to 1.0% in 2026.<sup>26</sup>

<sup>25</sup> [Monetary Policy Report - February 2026 | Bank of England](#)

<sup>26</sup> [Forecasts for the UK economy - GOV.UK](#)



- The Scottish Fiscal Commission (SFC) published their latest forecasts for the Scottish economy alongside the Scottish Budget on 13 January. Following expected growth of 1.1% in 2025 the SFC forecast Scottish GDP growth to strengthen to 1.3% in both 2026 and 2027.<sup>27</sup>



- Most recently in February, the Fraser of Allander Institute forecast a similar outlook for growth of 1.1% in 2026 rising to 1.2% in 2027.<sup>28</sup>
- Overall, the outlook for stable growth in 2026 and 2027 alongside lower inflation and loosening monetary conditions, presents a positive outlook for the economy which has been reflected in recent improvements in business and consumer confidence, albeit from a low base. However the loosening in the labour market over the past year and the ongoing weakness in demand conditions, in part relating to ongoing cost pressures, remain a risk to the growth outlook.

<sup>27</sup> [Scotland's Economic and Fiscal Forecasts – January 2026 | Scottish Fiscal Commission](#)

<sup>28</sup> [FAI Economic Commentary Q4 2025 | FAI](#)

Furthermore, the increase in global geopolitical risk and continued elevation in world trade uncertainty at the start of the year continues to emphasise the risk of further escalations during the year and the challenges this could present for trade and investment decisions.



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