OFFICIAL REPORT
AITHISG OIFIGEIL

Culture, Tourism, Europe and External Affairs Committee

Thursday 7 March 2019

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Thursday 7 March 2019

CONTENTS

CULTURE, TOURISM, EUROPE AND EXTERNAL AFFAIRS COMMITTEE
7th Meeting 2019, Session 5

CONVENER

Joan McAlpine (South Scotland) (SNP)

DEPUTY CONVENER

*Claire Baker (Mid Scotland and Fife) (Lab)

COMMITTEE MEMBERS

*Annabelle Ewing (Cowdenbeath) (SNP)
*Kenneth Gibson (Cunninghame North) (SNP)
*Jamie Greene (West Scotland) (Con)
*Ross Greer (West Scotland) (Green)
*Stuart McMillan (Greenock and Inverclyde) (SNP)
*Tavish Scott (Shetland Islands) (LD)
*Alexander Stewart (Mid Scotland and Fife) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Simon Fuller (Scottish Government)
Dr Gary Gillespie (Scottish Government)

CLERK TO THE COMMITTEE

Stephen Herbert

LOCATION

The Adam Smith Room (CR5)

Scottish Parliament

Culture, Tourism, Europe and External Affairs Committee

Thursday 7 March 2019

[The Convener opened the meeting at 09:17]

Article 50 (Economic Implications for Scotland of a No-deal Brexit)

The Deputy Convener (Claire Baker): Good morning and welcome to the seventh meeting in 2019 of the Culture, Tourism, Europe and External Affairs Committee. I remind members and the public to turn off their mobile phones. Members who are using electronic devices to access committee papers during the meeting should ensure that the devices are switched to silent.

The first item of business on today's agenda is an evidence session on the report, "No Deal Brexit—Economic Implications for Scotland" by the chief economic adviser to the Scottish Government. I welcome to the meeting Dr Gary Gillespie, who is the Government's chief economic adviser, and Simon Fuller, who is the deputy director of economic analysis at the Scottish Government.

I understand that Dr Gillespie would like to make an opening statement; I invite you to do so.

Dr Gary Gillespie (Scottish Government): Thank you, convener. It is a pleasure to come to the meeting this morning to give evidence on the report. I will make a few opening remarks that cover some of the background to the analysis, including the difference between the no-deal report and our earlier work. I will say a little bit about why we chose the particular scenarios and, finally, what the results imply.

The background to the analysis is that it draws on work that we have done in Government over the past two years, and on external analysis. The paper was produced in a way that tries to articulate in a clear and neutral way the transmission channels through which a no-deal Brexit would have an impact. The report represents two years of work, a lot of our analysis and my personal and professional judgment about the results.

What is different in the analysis from work that we have published previously, including in the "Scotland's Place in Europe" series, is that, in all that work, the central assumption was that there would be an orderly transition from European Union exit to a different arrangement. The modelling says that over a 15-year period growth in the economy will be lower as a result of our leaving the EU, irrespective of the arrangements that we arrive at. However, the transition would be managed and the impacts would happen over time—there would not be an immediate negative impact, such as a recession. In the report on what will happen under no deal on the other hand, we focus on immediate impacts alongside the long-term structural changes. I will say a little bit more about that in a moment.

We outline two scenarios in the paper. Scenario 1 is a short supply-side shock to the economy. We have tried to capture the notion of an economy that is functioning well, with disruption that leads to legal, regulatory, transport and logistical challenges that impact on how the economy outputs. I use the analogy of the power strikes in the early 70s, when the economy was working on a three-day week. That was a classic supply-side shock. Another example would be extreme events such as bad weather having an impact on the flow of goods in the economy.

In scenario 2, we looked at a more prolonged version of scenario 1 that starts to impact on business cash flows, household confidence and the demand side of the economy. That brings with it a set of additional impacts.

Scenarios 1 and 2 are set out as projections, because there is uncertainty about the final form of Brexit that will materialise and what the impacts will be across a range of sectors. Brexit represents a trade change to the economy: we are changing the basis on which the economy operates.

Our methodology and results are very similar to work that has been done by the Bank of England and the United Kingdom Government. The results, which we published on 21 February, bring all that together and set out the transmission mechanisms by which the scenarios would impact on the economy.

One of the key messages from the analysis is that, despite the best potential Government mitigation, no-deal Brexit will result in a sharp shock to the economy and a fall in output. Our modelling shows gross domestic product growth in Scotland falling by 2.5 per cent to 7 per cent. That type of shock would manifest itself in the labour market. Unemployment, which is at a record low level, would begin to rise as firms respond to the challenge of reduced demand, supplies and cash flows. On the wider macroeconomic side, we would see impacts on exchange rates, inflation, migration, exports and foreign direct investment. There would be quite a significant shock.

Our results are broadly in the line with those of the UK Government. Its worst-case scenario for no deal is a 9.3 per cent reduction in GDP growth, which would be over a longer period. The range for the UK Government's deal is a reduction of between 2.5 and 3.9 per cent. We are seeing consensus across published analyses by the UK Government, the Bank of England and the Scottish Government that Brexit will have a negative impact on the economy, although there is a debate about transmission mechanisms and the impacts of different deals.

The intention behind the work was that it would set out clearly the channels and range of potential impacts of there being no deal, so that we could think about how the Government could respond to that. It was also to engage the wider business sector on the potential impacts of no deal.

The final thing that I have not mentioned—I am sure that we will come on to it—is that the impacts of Brexit, unlike the previous recession, are likely to have a sectoral and geographical focus. That reflects the nature of the shock and the types of impacts that it will transmit.

The Deputy Convener: Thank you. Other scenarios could have been analysed; you chose two scenarios, which you have outlined for us. What other options could have been discussed?

The Fraser of Allander institute's blog emphasises that the report is not a forecast and that there is a clear distinction between scenarios and forecasts.

You briefly referred to how the work will be taken forward and what the purpose of the report is. Can you say why the two scenarios were chosen and what your expectations are about what the report can achieve?

Dr Gillespie: It is interesting that the UK Government report that was published last week is also based on scenarios. They are not forecasts and they cannot be forecasts because we cannot be certain about this, given the range and complexity of variables.

With scenarios 1 and 2, we set out a range of possibilities, from a minimal short-term shock that would predominantly impact the supply side—logistics, transport, constraints on business, new administration costs and adjustments—after which the economy recovers, to a wider and fuller effect that transmits to the economy.

There is a range of scenarios within which there could be various impacts. Some sectors might be less impacted, and others might be more impacted. The demand side could also be less important or more important within that range. In a sense, you could view scenarios 1 and 2 as two end points.

On the question about other scenarios, I would be interested to hear your views about what else we could have modelled. We have tried to model from an economic perspective, thinking about the supply side and the demand side and how everything comes together. The articulation of scenarios 1 and 2 is to help us to understand the different impacts of different shocks, how we could respond to those shocks and how that would impact on the business community. Other scenarios could be modelled, but I think that they are broadly covered within that range.

The Deputy Convener: That is helpful. Thank you. I have a question on mitigation. It might not be the purpose of the report to consider mitigation, but you have outlined the potential impact of a no-deal Brexit. Is consideration being given to mitigation policies in the planning of the Scottish Government or the UK Government?

You will be aware of the paper that we have from Tony Mackay, who is a professor of economics. He suggests that you have not considered where mitigation could be brought in and that your report almost assumes that no action or insufficient action will be taken by the Scottish Government, the UK Government and the Bank of England in any of the scenarios.

What mitigation are the Scottish Government and UK Government currently undertaking—or what should they be undertaking—for a no-deal scenario?

Dr Gillespie: Our report is consistent with the UK Government analysis that says, essentially, that despite Government mitigation, a no-deal Brexit will have a significant impact on a number of areas. There is an admission that we cannot mitigate the full impact because mitigation cannot be unilateral: it requires businesses to be prepared, reciprocal arrangements from the EU, and changes to customs and procedures. It is not within the gift of the UK or Scottish Governments to mitigate the impact fully.

I think that what Professor Mackay is getting at is to do with what the policy response would be in the event of there being no deal, and whether that would shift the projections from the worst-case scenario closer to the better-case scenario.

On that, the immediate Government response should be to think about the supply-side constraints, what businesses need in order to function—new information, new processes and customs—and how logistical shocks will be eased. The UK Government paper also cites the bottleneck in transport links to the UK. That should be the initial focus. That is consistent with the supply-side scenario 1, which we see as being a short, sharp shock with the economy then coming back. Some mitigation is implicit in that scenario.

09:30

Obviously, if we get into a full-blown supply and demand shock situation, there will be a role for the Bank of England, the Treasury and others in stimulating the economy. It is worth saying that during the last financial crisis in 2008-09, which led to a major recession, output at UK level fell by more than 6 per cent and unemployment in Scotland increased from 4 per cent to more than 8 per cent.

There was a massive response from Government to that. Members might remember that interest rates were cut, practically overnight, from 4.5 to 0.5 per cent. There was a quantitative easing programme that, in essence, pumped money into the economy through the banks. For a short period, there was a reduction in VAT to stimulate consumer confidence, along with a co-ordinated global stimulus to support the banks.

A Government response will mitigate some of the impacts, but we could not model that in the context of our report. The report was produced purely to set out the transmission mechanisms and how they would impact on the economy. The evidence from previous recessions is that Governments cannot fully mitigate the effects. Natural business-cycle issues come into play, to which the Government cannot fully respond.

Ross Greer (West Scotland) (Green): I will move on to trade, but before I do so, I will pick up on employment, which Dr Gillespie mentioned. Anyone would expect an economic shock to result in more unemployment, but another side of it is the rise in underemployment, such as we saw on the back of the last economic crisis, with more people in part-time work, precarious work and low-wage work. Have you done any modelling on the impact of that? People would still be in work, so the headline unemployment figure would not rise particularly high, but those people would have far less spending power than they would otherwise have.

Dr Gillespie: To be clear, underemployment relates to people being in work and wanting to work more hours. You are right that we saw it increase substantially during the last financial crisis. The headline unemployment rate came down, but the underemployment rate was slow to recover. The underemployment rate is now broadly back to pre-recession levels, but the point is important because that would be a way in which the labour market would be impacted. In the face of cash flow or business problems, firms might start reducing the hours of people who are on more flexible contracts. A more flexible labour market means that the headline unemployment rate might not rise as quickly as we forecast, but underemployment would pick up and people would start to lose hours. We have not specifically modelled underemployment. Essentially, it is correlated with the unemployment rate, as we saw in the previous recession.

Ross Greer: There has been quite a bit of coverage recently of the UK Government's struggles in trying to roll over trade deals that the European Union has: 69 key deals have been highlighted and, of those, eight have been rolled over—or nine, if we count the deal with the Palestinian National Authority.

The deals vary. The Swiss one is significant enough—it relates to about £8 billion of UK imports and £6.5 billion of exports, and the Madagascar deal relates to £30 million of imports and £19 million of exports. Have you done any modelling, and will you continue with live modelling, of the deals that the UK Government manages to roll over, and the impact that they will have on Scotland? As you said, there are significant geographical and sectoral differences.

Dr Gillespie: To give a flavour, the modelling work looked at what the implications of leaving the EU would be over a 15-year period. In doing that, we looked at evidence from the National Institute of Economic and Social Research and other bodies on the likely impact on trade with the EU—productivity, foreign direct investment and so on. In that sense, what we modelled was reductions in trade with the EU.

There are broader trade agreements that are integral to the EU, and there are the World Trade Organization agreements, for example. We have not modelled those in detail, but they would be implicit in the dislocation that we would experience. In its paper that was published last week, the UK Government cited the falling-off of such trade deals as being a risk for some sectors of the economy. It concedes that the deal with Japan will not be ready in time, which will obviously have implications. The immediate impact of such deals falling will be on trade, the arrangements on tariffs and so on. Although we have not yet modelled that, we will continue to look at it.

Ross Greer: There have been a number of suggestions that, as particular deals are not rolled over, and our trading relationship with the European Union is disrupted, UK exports would struggle, but so would inputs. The examples that are typically used are about food, and say that we would expect a far smaller amount of certain foods to come into the UK but that we would simply export less of others that are produced here. For example, some tabloids have suggested that we would simply have to start eating more salmon here. Have you done any modelling of that—of what we might call the compensation effect?

Dr Gillespie: We have not modelled that, but internal work has been done on looking at how we could make import substitutions—that is, if we had goods that we could no longer get to market, how we could have the ability to supply them into our market. What we say in our report is based on analysis of the impacts of EU exports falling by up to 20 per cent. However, imports would fall correspondingly. If there were to be an issue at the border or at a customs point, that would work two ways, which would provide an opportunity for some goods to be supplied locally. It is not straightforward, but it is really for businesses and firms to think about their markets and internal opportunities. The food industry in the UK operates through the supermarkets, on a wholesale basis. It is very logistically based, with regard to how inputs come in and goods are made, so significant changes would have to be made to that model.

Ross Greer: Finally, what on-going work will you do? Like everyone else, you are a hostage to fortune on everything that you publish at the moment, because significant change is happening week by week and day by day in the Brexit process. What work will you do to adapt the projections that you have already made about the direction that we could be heading in?

Dr Gillespie: Friday 29 March is three weeks tomorrow, so it is probably futile for us to do more modelling of impacts. We have set out two scenarios that are particularly grave as far as potential impacts are concerned. Our task now is to look at the final shape that the EU exit takes. I say that because there could be concessions for some sectors over a transitionary period, based on last-minute deals. However, the key task in my role as chief economic adviser will be to look at what happens immediately afterwards and to use our intelligence, data and analysis to pick up and verify—or not—the types of transition mechanisms that we think are having an impact. We are thinking about how we can monitor, in real time, the potential changes that will have an impact on the economy through the firm base, transport and logistics, and confidence, so that we will be in a better position to advise ministers and think about the responses that could be put in place at different times. The immediate resilience work in the Scottish Government is focused on the major resilience challenges. That work includes the impact on the economy, but it will lag behind the initial impacts.

Annabelle Ewing (Cowdenbeath) (SNP): Good morning, and thank you for coming in. I want to turn to the issue of migration. As we know, over the next 10 years, all of Scotland's population growth is expected to come from migration, and, therefore, any significant impacts on that would presumably have other significant impacts on our economy. What impact do you understand a no-deal scenario would have on international net migration?

Dr Gillespie: At the moment, Scotland benefits from just over 13,000 migrants a year coming into the economy. Previous analysis shows the benefits of migrants in terms of enhancing the labour supply and the contribution that they make. You make a good point about the working-age population and the broader declining population. Even with migration as it is at the moment, there are local authority areas in Scotland with declining populations. Migration is important, first and foremost, for the population base. Secondly, it is important in relation to the working-age population. Thirdly, a point that is often missed is that migrants are a source of demand in the economy. A substantial part of the growth differential between the performance of the UK and the Scottish economies over the past 15 years reflects differences in population growth. The rest of the UK economy is expanding more.

On the impact a no-deal Brexit would have on migration, we know from the evidence of the past couple of years that the number of migrants into the UK and Scotland is starting to reduce. Depreciation in sterling has a negative impact on the attractiveness of the UK and Scotland for migrants. We know that the migrant population is important for certain sectors of the economy and that migrants bring particular skills, which we would not necessarily be able to replace quickly. It is interesting that the Scottish Fiscal Commission's forecast has a much more pessimistic view of the working-age population and how a decline in it will constrain growth in Scotland. That is driven by assumptions of fewer migrants.

Simon Fuller can add something about the modelling work.

Simon Fuller (Scottish Government): On your point about the longer-term impact, we published analysis last year that looked at the effect that different migration levels might have on Scotland's economy in the long term. The baseline was the scenario in which Scotland remained in the EU. We looked to see what would happen if EU migration fell by 50 per cent, and also if it fell by the level required to achieve the UK Government's then target of getting migration down to the tens of thousands. That showed that a 50 per cent fall in EU migration would mean Scotland's economy being about 6 per cent smaller by 2040 than would have been the case if migration had continued at the level that had been seen over the previous five to six years. That would mean that GDP would be about £6 billion to £7 billion lower, and that would feed through to tax revenues of about £2 billion or £3 billion lower. In the longer term, migration is a key driver for overall output and public sector revenue growth in Scotland.

Finally, migration does not just boost the overall labour supply but also brings in discrete specialist skills and allows the economy to be more connected to and networked with the wider international economy. The issue of migration is about much more than the totality of migrants in Scotland; it is also about wider economic benefits and impact.

Annabelle Ewing: Indeed, and it is important in considering migration to remember that there are issues other than the direct ones involved. In that regard, the committee had the opportunity to discuss the issues with Professor Alan Manning of the Migration Advisory Committee some weeks ago. On questioning, Professor Manning conceded that it had done no specific modelling of the position in Scotland. Many members were surprised—that is one word for it—by that, because the MAC's work fed into the UK Government's policy paper.

Given that you were doing work on Scotland, were you aware of the development at Westminster, which took no account of the Scottish position? Professor Manning indicated that the overarching concern to push wage levels up could mean that other sectors with lower wages might just go to the wall. Sectors that might have lower wages—which is regrettable but understandable in contexts that are well understood, such as Scottish agriculture and tourism—seem to be dispensable in the new shining approach to life as we know it. When you were working on various papers, including the one that we are considering today, did you know that such an approach was being taken at Westminster?

09:45

Dr Gillespie: We were aware that a report on the issue was being compiled. I would have to check, but I believe that the work that we did in relation to the impact on Scotland, the different view on migration and the extent of the contribution of the 180,000 EU workers to the sectors was provided to the Migration Advisory Committee through the Scottish ministers. I am almost certain that that information was shared with that committee.

Annabelle Ewing: Has Professor Manning ever come to speak to you?

Dr Gillespie: No, I have never spoken to Professor Manning.

Annabelle Ewing: What about you, Mr Fuller?

Simon Fuller: No.

Annabelle Ewing: That is a pity, because it could have helped to inform the UK Government's position.

Tavish Scott (Shetland Islands) (LD): I want to go back to the points that Dr Gillespie made earlier about measures taken in the context of the two scenarios in the papers. Can I take it that there is a Government plan for both scenarios?

Dr Gillespie: Yes, there is.

Tavish Scott: Have we seen that?

Dr Gillespie: Let me explain a little bit around the plan. We set out scenarios so that we can understand the channels and transmission mechanisms through which there will be an impact on the economy. We can then consider those and ask what the role of Government is, whether Government can mitigate that impact and where its focus is best placed. For instance, if there is a logistical customs issue at the ports—for example, if we do not have inspection ports in place or the right customs mechanism—the Government could try to enhance that capacity. If the impact is at the firm level, because firms do not have the knowledge or understanding of what being a third-country trader implies, the Government would look to provide a different type of support through information or new systems to help firms understand the implications.

Tavish Scott: I appreciate all the context that you are describing, but can I see a published plan in response to those different scenarios? It is all very well producing scenarios, but we need a plan that businesses can feed into and respond to—we can have all the economists that we like, but people need to get on with their business on whatever day exit happens.

Dr Gillespie: Yes. There is a plan in place, but the key thing is that the plan cannot mitigate across all the areas. The reason that I was trying to give you a sense of the channels is that it is so complicated that the Government would not be able to respond across all of those different areas. The timing of when the Government would respond would depend on what was happening on the ground—it would have to respond in real time. We can plan for logistics, extra customs officials, engaging the enterprise base and any number of things, but we would need to know what we were mitigating against in order to put the plan in place.

Tavish Scott: I nearly understand that. In the logical order of things, I assume that the Government will have the scenarios that you have articulated in the paper and that policy makers in the Government will then draw up the plan to deal with those scenarios. Has that been done?

Dr Gillespie: Yes.

Tavish Scott: Has it been published?

Dr Gillespie: Yes. We have spoken to local government and our enterprise agencies about the analysis and we have been presenting the work to ministers in the Government. However, the point of publishing the scenarios and central assumptions was to enable people to think about how they would respond to those.

Tavish Scott: I think that people are doing that. I am asking you what the Government is doing. All those other parties are absolutely doing that, but—

Dr Gillespie: The agencies are part of the Government, so—

Tavish Scott: That is an interesting observation.

Dr Gillespie: Skills Development Scotland, Scottish Enterprise and Transport Scotland would, therefore, be part of any Government response. Individual cabinet secretaries are concerned with their own particular issues and are raising issues with UK ministers around the impacts in their sectors. There is no magic lever that the Scottish Government pulls. It would need to be co-ordinated with the UK, as well.

Tavish Scott: Of course it would be, but I ask the question again: where is the published plan?

Dr Gillespie: There is no published plan as yet—

Tavish Scott: There is no published plan.

Dr Gillespie: —but there is no published plan at the UK level either.

Tavish Scott: Indeed. That is one of the criticisms that we are all making of the UK Government.

Dr Gillespie: We have heard from the UK Government that the Bank of England will bring forward particular measures, but we have not heard much else about what a plan would be.

Tavish Scott: Okay. The final paragraph of your conclusion says:

> "The agriculture, food and fishing sectors are among those who have a particularly high level of exposure under a No Deal Brexit."

I could not agree more. What would be the impact on fishing?

Dr Gillespie: The sectoral analysis, first and foremost, is based on which sectors we think would be most impacted by a no-deal Brexit. Obviously, fishing and agriculture have specific arrangements within the EU, so they would be part of that. On the fishing side it is more nuanced, because within that sector we have fish processing as well, and the arrangements are much more complicated. However, for that sector in particular, there is a real concern that there would be a major dislocation—

Tavish Scott: Do you mean in the processing sector?

Dr Gillespie: Yes—in processing and in the landing sector, because there are real issues about how goods would get to market. We need to think about the frictionless market that we have at present and then about the introduction of new export health certificates for different elements of the fish sector and the processing impact that that would have. That is why the sector, along with agriculture and other sectors, is exposed to a high level of risk in a no-deal scenario. Those sectors have also been identified in the Bank of England work and other work as sectors that would be heavily impacted.

I think that, in a sense, your question may be looking towards a new arrangement outwith the EU, and whether the fishing sector could benefit in Scotland. Is that your thinking?

Tavish Scott: I think that it is important to recognise a difference. I am here not to make statements about what I think, but to ask questions. That is how I understand parliamentary committees to work, normally.

Dr Gillespie: Okay.

Tavish Scott: My point is that the paper talks about fishing and you assume that it is all bad—that is the implication of the paper—but that is not the case.

Dr Gillespie: There is a level of detail, which you allude to, on each of the sectors. Fishing is certainly a sector that would be impacted. Over what time period it would become good is a different question. The paper is an economic assessment at the macro level, including sectors. I made the point in my opening remarks that, essentially, EU exit reflects changes to the terms of trade for sectors across the economy, and the long-term modelling shows that sectors will adjust and other sectors will emerge. The fishing sector is one that will be impacted.

Tavish Scott: Okay. It is just that your conclusion specifically mentions only three sectors. I think that you are right on agriculture and food; I just think that it is wrong to lump fishing in with that, as you have done, and say that it is all bad. That is not true. You absolutely cannot say that. Do not get me wrong—it does not matter what I think, but, in effect, you imply in the paper that the catching sector will be adversely affected. You do not know that.

Dr Gillespie: No, but I suppose—

Tavish Scott: I think that you are right about agriculture. We absolutely know that what you say is true of agriculture, but it is not true of fishing.

Dr Gillespie: We will know when we get the evidence on that.

Tavish Scott: Okay. Thank you.

Alexander Stewart (Mid Scotland and Fife) (Con): We have talked about the UK Government and the Scottish Government putting together guidelines. Many local authorities have already done scenario planning, and have talked about contingencies that they require to have in place to ensure that their departments are protected if there is no deal. Will you broaden that out a bit and give us a flavour of which local authorities have done scenario planning. Is there sufficient preparation in local authorities to mitigate and manage a no-deal situation, if and when it occurs?

Dr Gillespie: It is fair to say that our paper was about the economic impacts of no deal. The policy response and readiness of local authorities and the Scottish Government was not part of the analysis. We know that local authorities are preparing. The resilience committee that has been set up operates across Scotland and involves local authorities. Local authorities are part of any response and are looking at the impact of no deal on their workforce, the services that they deliver and their specific roles around environment and health checks and so on.

It is worth saying that no deal would have an immediate impact. Until about September last year, the central assumption was that there would be a deal of sorts and a transition period, which would mean that everything would stay as it is until January 2021. There is a challenge, for example of capacity, for sectors and parts of government to respond to something that might happen very quickly.

Alexander Stewart: As I have said, local government is already going through that whole process. If, in three weeks' time, we do not find ourselves in a no-deal situation, do you anticipate a massive knock-on effect on local government, or will it take some time to filter through? The health and social care sector is one of the biggest parts of local government. At the moment, it is working at capacity and doing all that it can. No deal may have an effect on staffing levels, but that would not be imminent—it would happen over time, so if that sector already has scenarios and contingency plans in place, the effects might be mitigated for that sector.

Another local government sector is economic development. Once again, it may take time for the effects to occur. Other organisations, such as the Federation of Small Businesses and the chambers of commerce, support that sector. You identify that an impact may take place. How would that impact be managed in six months, a year or whatever? In some of the scenarios that people have come up with, it is thought that a crisis would happen in some sectors almost immediately.

Dr Gillespie: I go back to the point that I made in my opening remarks. There would be a sectoral and geographical impact; not all impacts would happen immediately and they would happen at different times. You mentioned health and social care. In the labour market in Scotland at the moment, unemployment is under 100,000 and there is pressure around getting people into the health and social care sector to provide services. That is unlikely to change immediately, unless there is a real fall in migrant labour, which could have an impact on the provision of labour into that sector.

On the question of economic development and business readiness, business gateway is, obviously, part of the wider enterprise system, and it is connected into the readiness work that Scottish Enterprise and others are doing on how to respond to the business base.

10:00

Again, the point is that the impacts may not happen immediately—the business impacts could be more front-loaded, depending on the sector and how quickly it becomes dislocated. If you think back to the previous financial crisis, we had a relative lag of about three or four months before unemployment in Scotland started to rise. We then had a period of about 11 months over which it rose from about 4 to 8 per cent, where it stayed for a period before coming back down.

As I mentioned in my response to Ross Greer, there is a lag, because a company's first response to such a situation is to cut hours and maintain people and their skills in the business. However, if the point comes when structural changes are needed, you will see the impact of that through the wider labour supply.

Alexander Stewart: In looking at local authorities' scenario planning and processes, Audit Scotland and others have commended a number of local authorities for their good financial management. However, a number of local authorities have found themselves in a very difficult f65inancial situation. A no-deal situation could have a massive impact on those local authorities that do not have the resilience or resource to draw on that other local authorities have to cushion the impact. Do you have any views on that?

Dr Gillespie: Only in the sense that, if we take the no-deal scenario to its fullest extent and we have the channels of impact that we have identified, particularly rising unemployment, falling output and more stress in the business sector, all that will feed through to public finances and there will be impacts. A totally different response would be required from all forms of government to that scenario; we would be in a completely different ball park.

Alexander Stewart: Is local government in a better or worse situation than other sectors? Is local government in a dire situation compared with other sectors? Will the impact be biggest on the services that local authorities provide?

Dr Gillespie: I could not really comment on local authorities' different service provision. Local authorities are, obviously, key providers of services, and they would be part of any response. In our paper, we identify the potential impact on local authorities and rank them in terms of that impact. That is—

Alexander Stewart: That is in relation to the workforce, rather than on the finances.

Dr Gillespie: Yes, the work is based on the workforce and the Bank of England's position on those sectors that are most likely to be impacted by a no deal. The information is based on the proportion of employment in those sectors by local authority. Obviously, people commute in and out of local authority areas. We were trying to get a handle on the economic dislocation that could happen in those sectors. In a sense, it reflects where those sectors are—the north, the north-east and parts of the central belt.

Alexander Stewart: It depends on where the population is, or where it is not, because that brings in different aspects to whether local authorities can cope with the scenarios—or not, as the case may be.

Dr Gillespie: In a sense. I suppose that there are different ways to view the situation. If the impact in those sectors is an economic shock, a response will be required beyond that of the local authority. If we are talking about local authority public services, that would be different.

Stuart McMillan (Greenock and Inverclyde) (SNP): Good morning, panel. Your report is very useful. On page 15, Scotland's success in attracting foreign direct investment is highlighted:

> "In 2017, there were 116 new foreign direct investment projects in Scotland - a 7% increase from 2016."

Will you provide further detail on the number of jobs that are being created as a consequence of that? What quantum of investment has come into Scotland?

Dr Gillespie: The main source that we use for looking at inward investment in Scotland is the EY attractiveness survey, which is good for giving the number and volume of projects. There is a stock of FDI in Scotland. The way to think about that is to think about the businesses that are owned by non-UK operants. For instance, we have around 2,600 foreign-owned businesses in Scotland, which employ around 330,000 people. Approximately 1,100 are EU owned, and they contribute 121,000 jobs to Scotland's economy.

We see from the figures that Stuart McMillan referred to that Scotland continues to be an attractive place for inward investment, which is very important for the economy. Alongside the traditional benefits of that investment, such as employment, a lot of inward investment that comes to Scotland results in exports and brings benefits to the supply chain. There are wider benefits in exposing companies to different systems, new management techniques and supply-side benefits. It is recognised that inward investment largely brings benefits to the economy in that guise.

Scotland has done well on inward investment, and the number of projects competes well, but we are probably seeing a change in the nature of inward investment. It tends to be more niche—research and development, data and digital—and it tends to be smaller projects that are less capital intensive. That is very positive in the sense that Scotland is a very attractive place to make such investments and to do knowledge-based or R and D digital-type work. The flipside of that is that, as investment is not in the traditional plants, there is less direct capital investment on the ground. It could be more footloose than in the past, when there was investment in a substantial amount of plant.

In the report, we took from the Bank of England work its estimate of the potential reduction in inward investment to Scotland being around 20 per cent.

Stuart McMillan: I understand the points that you have made. R and D is crucial for businesses. When I worked in the electronics industry, we knew that, when R and D went, it was just a matter of time before any assembly and manufacturing went. Unfortunately, that is what happened in Scotland.

You mentioned the figure of 20 per cent. Can you provide further detail on that in a no-deal Brexit scenario?

Dr Gillespie: Yes. That goes back to the EY survey. It does surveys of the attractiveness of the UK and Scotland and looks at inward investment flows into the EU. In the report that it published last year, it essentially said that it believed that the UK had already been impacted by Brexit in respect of inward investors' perceptions of the attractiveness of the UK as a location. The UK still does well in the survey. It is the number 1 destination in Europe for inward investment, but its market share has slipped, and there have been changes within that.

Stuart McMillan's example of the electronics industry is a good example of both the positives and the negatives of inward investment. The electronics industry that was created was very much an international industry that did really well from Scotland, but changes in market conditions led to it no longer being so strongly based here.

On the 20 per cent fall, I go back to the no-deal analysis and the impact on access to markets. Obviously, the ability to come to Scotland, invest and have frictionless trade across the EU is a big attraction for inward investors. The EY report reflects the fact that the uncertainty about the shape of the arrangements and the potential dislocation are creating negative perceptions of the UK and Scotland and will impact on investment flows. Companies will decide to go to other places rather than here. That is the rationale behind it.

Stuart McMillan: You made two extremely important comments earlier, which tie in with the example of the electronics industry. You stated that EU exit affects the terms of trade and, in answer to Tavish Scott, you said that every Government agency will be planning. The Scottish Government, by opening up the hubs, which the committee has discussed previously, is trying to get the message over to the international community that, even in a no-deal Brexit scenario, Scotland is very much open for business. In relation to those hubs, have you seen a genuine collective approach from the Scottish Government and all the agencies to get across that message and ensure that the activities that take place in the hubs are effective?

Dr Gillespie: Yes. The basis of the hubs is to bring together the trade, cultural and wider benefits of Scotland in one place in order to market those more effectively and reach out to the business base. The most recent hub to open was the one in Paris, which opened a fortnight ago. France is an important food and drink market for Scotland, and we have strong cultural links. The hubs bring together staff who would traditionally have been in Scottish Development International along with broader staff groups so that there is a clear articulation of the proposition that Scotland offers across different sectors and markets. I have certainly seen that working in London and Dublin. That concentration and those connections on the ground can really help businesses operating in those places as well as connections to those places and to different trades. It is an important start.

Stuart McMillan: How important is it for Government ministers to take part in trade missions to help to promote and sell Scotland and to bring further inward investment into the country?

Dr Gillespie: I will not comment on Government ministers, but I will say that undertaking trade missions and helping businesses to get an opportunity in different markets is the day-to-day job of Governments around the world. That is why, even before the hubs, Scottish Development International had operations across, I think, 18 countries. In that context, anything that helps companies through culture, trade, political visits and ministerial visits has to be beneficial to the economy.

Kenneth Gibson (Cunninghame North) (SNP): Tony Mackay says in his critique that the report is "very biased and misleading" and that it

"gives a far too pessimistic assessment and is clearly intended for political purposes."

How do you respond to that?

Dr Gillespie: I refute that completely. In my opening remarks, I set out the basis of the report, which is based on two years' work and not solely on our analysis—we looked at work by the UK Government, Her Majesty's Treasury, the National Institute of Economic and Social Research, Standard and Poor's and the Fraser of Allander institute. I believe that the report is set out clearly. It sets out channel scenarios, and the ranges are modest compared to other work that has been done. In analysis that the UK Government has published, it estimates that a no-deal Brexit would have a negative effect of about 8 per cent in Scotland, and the Bank of England's unemployment projections are similar to those in the report. Not many academics or independent commentators dispute the view that the effect will be negative. I think that the uncertainty is around the final form of that negative impact and that is why there are a range of scenarios. I am surprised by that comment, but I stand by my own analysis.

10:15

Kenneth Gibson: Your report talks about a reduction in GDP in Scotland by 2030, ranging from 2.7 per cent to 8.5 per cent. As you rightly say, in its report "Implications for Business and Trade of a No Deal Exit on 29 March 2019", which was published on 26 February, HM Government has suggested that the reduction in Scotland will be around 8 per cent within 15 years. That seems to be closer to the more pessimistic end of your range, as Professor Mackay would put it.

You have talked about some of the organisations with which you liaise. Did you speak to the Institute for Fiscal Studies? Did you have direct conversations with the Treasury itself? In one of your responses to Tavish Scott, I think that you said that you—not you personally, but the Scottish Government and others, including even the UK Government—had not heard much from the Bank of England, for example. How much broader were your connections in addressing the issue?

Dr Gillespie: We have engagement with the Bank of England through its agent in Scotland, primarily around its understanding of the economic conditions in Scotland. In the work that was published before Christmas, the bank has been clear about its range of scenarios and impacts, and the governor gave evidence to a Westminster parliamentary committee last week, at which he restated the bank's views. Its forecast for growth in the UK economy in 2019 is now 1.2 per cent. Essentially, the governor said to the committee that if he returns to it in June following a no-deal exit, he will come back with much-reduced forecasts, and we will be in a different place. We are aware of the work and the views of the Bank of England through our connections and the published outputs.

We monitor all work that is done and published. Our initial analysis, which was published in "Scotland's Place in Europe", was done independently of anyone else. The analysis was written by us but informed by work on the potential channels and impacts by the Organisation for Economic Co-operation and Development, the IFS and others. We modelled our analysis on the basis of that work.

Last week's paper from the UK Government clearly states that Government cannot mitigate a no-deal Brexit, which would have a severe impact in a number of areas. It refers to the immediacy points around the abrupt nature of the transition—the lapse in trade agreements and access to markets, and the late stage at which many parties and businesses are preparing for a no-deal Brexit. Those are all material factors. Nobody is saying that it will be okay; if it is going to be okay, there is no clear path to indicate that that is the case yet. I think that there is consensus around our work.

Simon Fuller: We have regular engagement on an official level with the Treasury and the Department for Exiting the European Union, in particular to discuss the analyses that we and they have done. A couple of weeks ago, we had a roundtable discussion in Scotland on the analysis of international trade with colleagues from the Department for International Trade, the Welsh Government and the Northern Ireland civil service. Quite a lot of sharing takes place on the analytical underpinnings and models that we use.

Dr Gillespie: I should probably have made that point. There is a general consistency in the methodology and approaches that are used for the models. We use a computable general equilibrium model, and the UK Government uses a similar model. The types of assumptions that are made and the responses of the models to different types of shock are broadly similar. That is why there is a broad consensus around the results.

Kenneth Gibson: You mentioned your concern about a significant increase in the consumer prices index and inflation, possibly because of the impact of sterling depreciation, among other issues. Could you tell me more about the potential impact on interest rates and inflation of a no-deal Brexit?

Dr Gillespie: In the report, we set out some assumptions about inflation that are based on the Bank of England's work on where it sees inflation going if there is no deal. In essence, the increase from the current level could be between 4 and 6 per cent. The reason why we could see a rise in inflation is that, because of sterling's depreciation, import costs would rise—that would come through a number of goods. We may also see price rises across sectors as the cost of delay or other additional costs are passed on to consumers by businesses. Therefore, the increase in inflation would be driven primarily by sterling's depreciation and the increased costs of imported goods. An increase in inflation obviously reduces people's purchasing power, which puts a squeeze on household finances.

The link to interest rates in the report is based on earlier Bank of England work that projected where it thought interest rates would need to be to match higher inflation levels. Our view, which was published a couple of weeks ago, is that the immediate response would be an expansionary monetary policy in the space created by a shock. Interest rates would, if anything, be likely to come down immediately to support the banks and others to maintain confidence in the economy. The governor of the Bank of England last week gave an equal probability to interest rates coming down. The monetary situation at the moment is a legacy from the last financial crisis; we still have really low interest rates, but there is an expectation that they will tighten and come back to a more normal level at some point.

Therefore, in the advent of a shock of that scale, we would expect monetary policy to be one of expansionary support from the Bank of England and others. The bank's target is an inflation rate of about 2 per cent, and it has a wider remit around supporting the economy. It would see the situation as a one-off price level adjustment, which I do not think it would respond to in the traditional way. It would be partly a response and partly an adjustment.

Kenneth Gibson: You have mentioned that there could be a real impact on certain sectors in the economy, such as agriculture. The Treasury's report says:

> "the EU would introduce tariffs of around 70% on beef and 45% on lamb exports, and 10% on ... automotive vehicles".

An area that has not been touched on, but which is huge for Scotland because of its contribution to the economy and employment is, the financial sector. The Treasury's report also says:

> "The Commission has stated that it is only focusing on areas in its self-interest, for EU financial stability, and that any decisions taken may be conditional and time-limited."

It goes on to say that

> "the absence of action by EU authorities to mitigate risks in some areas of financial services"

means that

> "there could be some disruption".

How concerned is the Scottish Government about the impact on our financial services sector for employment and for the sector's ability to trade effectively with its European partners?

Dr Gillespie: Financial services is a really important sector that is identified as being impacted by no deal on a regulatory basis. The legal and regulatory framework allows those firms to passport across Europe, and the UK Government paper says that we could have equivalence, which in essence is the recognition of mutual regulatory environments and allows a form of passporting to continue. However, the UK Government's paper says that that is unlikely to be in place by 29 March. The implication is that the ability of financial sector firms in Scotland to service EU markets will be impacted.

In that context, we know that the financial sector in Scotland, through the banks and various operations, has looked at how it can continue both to manage money from within the EU and to support its customers outwith the EU through opening or using European banking licences in other places.

The sector is probably one of the areas where the importance of services has been underestimated. When we consider the four freedoms, the ability of legal and other professionals to trade from Scotland across the EU is really important, and that ability to passport and deliver services is likely to be impacted almost overnight. In that regard, what happens in the EU is quite different from what happens elsewhere. The four freedoms have been in place since 1992, but on the services side, it is really quite unusual to have the ability to trade services across countries on the basis that exists at present. Very few trade deals in the world allow that. The financial services sector has benefited from that, and it would be impacted.

Kenneth Gibson: Okay. Finally—

The Deputy Convener: I ask for a brief question and a brief response.

Kenneth Gibson: Sure. I chair the cross-party group on life sciences, and we had a presentation from GlaxoSmithKline, which said that the company, which employs 14,000 people in the UK, has spent £70 million on Brexit preparations. That is £5,000 per head, and it is money that is not going into everything else, from investment to salaries. What impact has the need to divert resources into preparation for Brexit had on investment by Scottish and UK companies?

Dr Gillespie: I will give a brief response and then I will let Simon Fuller come in as well. Companies are already transitioning and trying to prepare to mitigate. We published some work last year on the impact of stockpiling, which is evident. We are seeing businesses increase the inventories that they hold in order to mitigate immediate disruptions. Essentially, that is skewing working capital towards the holding of more stock. That is just a transitory effect, but it is a particular impact. Where investment is taking place, it is skewed towards supply chain issues and additional warehousing or wholesaling to do with Brexit preparedness. In a sense, your example is borne out by others.

We are also seeing businesses holding cash, postponing investment and, if not quite bunkering down, waiting to see what response there is. In the purchasing managers index for February, inventories were at record highs since the series began, so there is that whole thing around people stockpiling. There is definitely different behaviour in the business community.

Does Simon Fuller want to say anything about the investment figures?

Simon Fuller: Yes. I think that we are seeing two things happen in the investment figures for Scotland and for the UK. First, overall growth from business investment in the UK is really low at present. It is the lowest in the G7 and has really slumped over the past four quarters or so—primarily, I expect, because companies are holding fire and waiting for the uncertainty to resolve itself. We are seeing far lower investment figures.

Secondly, as Gary Gillespie mentioned, a lot of the investment that is occurring is around Brexit mitigation rather than being growth-enhancing investment that will drive future growth and allow companies to enter future markets. The investment that we are seeing is being made to mitigate the risks as companies see them, rather than to try to boost future output. That has a short-term impact on the economy, but if it is sustained, with business investment being low in the longer term, it will feed through to slower productivity growth. That is partly why some of the long-term Brexit analysis is so negative.

10:30

Jamie Greene (West Scotland) (Con): Good morning, gentlemen. I want to refer back to the evidence that we received from Professor Mackay. I appreciate that you may well have some different opinions. In his submission, he praises many aspects of the work that you have done, which is to be noted and appreciated.

However, paragraph 17 of Professor Mackay's submission struck me as interesting. He said:

"There is now little attempt to explain the recent poor performance of the Scottish economy. Instead, there is often a very selective choice of statistics".

Would you say that section 3 of your report, on "Scotland's Recent Economic Performance and Previous Economic Shocks", gives a fair, balanced and unbiased view of Scotland's recent economic performance?

Dr Gillespie: Yes, certainly. Let me explain a little. I publish an independent "State of the Economy" report three or four times a year. In the most recent report, which I published about two weeks ago, the key message was that Scotland's economy was stronger in 2018 than it had been in the two previous years, with growth of around 1.5 per cent and a labour market that was performing at record levels.

The context for that key message was the impact of the situation in the oil and gas sector in 2016 and 2017, which I had covered in previous analyses. We know that what happened to the sector had a severe impact on Scotland in that period. Part of the positive narrative on Scotland's economy is that the sector has been through quite a transition over two years.

The sector is probably a good example in relation to some of the arguments about international trade and having an open sector. There is one price for the sector, which is a dollar price, and when the price falls from more than \$100 to \$50, the sector has to respond. There was a two-year response.

Our analysis showed the impact of the sector on GDP and the production and services sectors. Our analysis is clear. If you look back through my reports, you will see that the one that we published a couple of weeks ago focused on the big issue and the big risk for the economy at the moment. It highlighted the potential dislocation from a no-deal Brexit across sectors.

Alongside our "State of the Economy" reports, we publish monthly economic statistics. Our analysis is open and transparent. I am perfectly comfortable with what we do and how we set things out.

Jamie Greene: I appreciate the work that you do continuously to analyse the economy. However, in your paper, why did you choose not to compare the Scottish economy with the economy in the rest of the UK?

Dr Gillespie: On what basis?

Jamie Greene: On any basis.

Dr Gillespie: Let me be clear. In the "State of the Economy" report—

Jamie Greene: I mean the report, "No Deal Brexit—Economic Implications for Scotland", which is the report that we are talking about today.

Dr Gillespie: Sorry—

Jamie Greene: In section 3, which is headed "Scotland's Recent Economic Performance and Previous Economic Shocks", there is no comparative analysis of Scotland's economic performance and that of the rest of the UK. Why?

Dr Gillespie: That is the report that I published two weeks ago—

Jamie Greene: It is the one that this meeting is about.

Dr Gillespie: It is simply because the report is about the impact on Scotland. In the "State of the Economy" report that was published the week before that, all our analysis starts by considering the global economy, the UK economy and Scotland, and we provide the same comparators for each one.

Our focus in the report that you are talking about is on Scotland. We are trying to provide a backdrop for Scotland in relation to the impact of a no-deal Brexit.

Jamie Greene: Surely in considering what would happen in a no-deal scenario, you are building up a case and painting a picture of where the economy is at the moment, which I presume requires you to look at Scotland's performance as it stands, whether there is Brexit or no Brexit, a deal or no deal, or a hard Brexit or no hard Brexit.

For example, you completely missed out the analysis that the Scottish Fiscal Commission has done in relation to GDP growth over the next five years, and you made no comparison between productivity levels in Scotland and those in the rest of the UK. You are setting the scene for what might happen next without painting a picture of how things are at the moment.

Dr Gillespie: I think that we are probably splitting hairs over different papers. The paper that you are talking about was, in essence, about the implications for Scotland of no deal. The focus was on scenario analysis and transmission mechanisms and how they would impact the economy.

Your points about the underlying performance of the economy are all covered in the report that we published the week before we published that paper. That report included forecasts from the Scottish Fiscal Commission and other independent organisations such as the Fraser of Allander institute. It included Office for Budget Responsibility forecasts and the most recent productivity data and labour market data—all that was there.

I accept that we could have made the no-deal report 10 pages longer and reproduced all that analysis, but the point of the report was really the immediate impact of no deal on the economy.

Jamie Greene: Okay. On page 15 of your report, you say:

“The lack of clarity for Brexit beyond March 2019 is already starting to have an impact on key economic indicators for Scotland.”

Can you tell me what those are?

Dr Gillespie: We have just touched on investment being skewed, and we are seeing firms respond. I think that the point—

Jamie Greene: What are the key economic indicators? I want to hear what effect the lack of clarity is having on GDP, productivity and employment levels—the key indicators that most economists use to analyse the economy.

Dr Gillespie: We have not published GDP for quarter 4 yet, but figures that were published for the UK economy in December show that GDP growth has slowed to 0.1 per cent, which was based on analysis of uncertainty to do with Brexit. In this report, we mention a material drop in confidence in January and February that is coming through.

Jamie Greene: What statistics did you use for that?

Dr Gillespie: We have a Scottish consumer sentiments survey that surveys 2,000 households, and we have seen a drop in sentiment across that—

Jamie Greene: You make the broad-brush statement that

“The lack of clarity for Brexit ... is already starting to have an impact on key economic indicators”,

but the only statistic that you have provided is a household survey of 2,000 people in Scotland. That is not exactly a key economic indicator, is it?

Dr Gillespie: I think that confidence is a massive indicator. It is also really important to think about what we are hearing from the business base. The analysis that we did last year, which looked at the impact of uncertainty on investment, suggested that businesses are not investing on the same basis at the moment. We know that from our engagement with the banks and sectors. The uncertainty is there; where companies are investing, they are investing in mitigation measures and in the efficiency of operations; they are not taking into account the context of the economy in those making those investments. There is a wider backdrop in terms of the global economy and the UK economy. I am clear that we are seeing impacts from that on the economy.

The interesting point that you have made is that this is all against a backdrop of record low unemployment levels and the demand for services. Some if that is Brexit related, with firms not investing in new equipment and capital but employing people more at this time, because of the uncertainty.

Jamie Greene: Presumably, higher employment levels are a positive.

Dr Gillespie: Yes, certainly.

Jamie Greene: Your paper has sections on “Labour Markets” and “Migration” on pages 24 and 25. Could you explain the assumptions that you made in your modelling? What are the reasons for the fall in net migration between 2015-16 and 2016-17?

Dr Gillespie: Simon Fuller can come in on this issue as well. The reasons for the fall in migration are quite clear. We have data for the flows of people into Scotland, and when we did the modelling in the earlier analysis, we took the central projections from Registers of Scotland about high and low migrant scenarios. If the question is why we would expect—

Jamie Greene: No, it is not. You said that there was a fall in inward migration. My question is: what do you think are the reasons for the fall?

Dr Gillespie: The reasons for the fall will have been perceptions of openness, perceptions of willingness to stay here—

Jamie Greene: The document says that the fall came

“on the back of improving economic conditions elsewhere in the EU”.

What has that got to do with perceptions?

Simon Fuller: We said that net migration into Scotland fell between 2015-16 and 2016-17. First, that was partly because sterling depreciated by 18 per cent over that period, which is discussed on the previous page. For people who repatriate their wages, that meant that their wages were worth less when put into euros.

Secondly, throughout that period there was an oil-related slowdown in Scotland's economy while at the same time the wider euro economy was recovering, so Scotland's relative attractiveness to migrants was a bit lower. Thirdly, as Gary Gillespie said, wider perceptions on the back of the EU referendum probably had an impact on some EU migrants.

Jamie Greene: In your modelling of a no-deal scenario, which is what this conversation is about, have you included increased non-EU migration in the context of labour market forecasts?

Dr Gillespie: Not specifically, but the way—

Jamie Greene: So you made no assumption that there would be an increase in non-EU migration.

Dr Gillespie: No. In essence, what we are talking about is the net migrant figure. The number of migrants—from both sources—coming out of the Scottish economy is 13,000. We are simulating the impact of a reduction in migration; where the people come from is less of an issue, because the impact is the same. It would be the same if migration was increasing.

Jamie Greene: So you did not model that.

The Deputy Convener: We need to close, now.

Jamie Greene: May I ask a final, short question?

The Deputy Convener: If it is very brief. We are running out of time.

Jamie Greene: It is very brief.

Dr Gillespie, given everything that you have said in your report and in our conversation about the potential impact of no deal, what is the best thing that could happen on 29 March?

Dr Gillespie: In what context?

Jamie Greene: The discussion about how terrible a no-deal Brexit would be.

The Deputy Convener: It might not be appropriate for Dr Gillespie to answer that question.

Jamie Greene: He is the chief economic adviser to the Government. I would like to think that he has a view on the matter.

Dr Gillespie: All that I will say is—

Jamie Greene: Would transition be helpful, for example?

Dr Gillespie: Certainly transition would be helpful. All that I will say is that no deal brings immediate impacts, with an abruptness that is the catalyst for the impacts that we talked about. That is confirmed in the UK paper.

Jamie Greene: On that consensual note, thank you.

The Deputy Convener: Annabelle Ewing has a brief question.

Annabelle Ewing: Thank you, convener. It is really a point of information, which I thought might help the committee. I think that Mr Greene might not be aware of this, given his questions about the relative strengths of the Scottish economy and the UK economy. This morning, Her Majesty's Revenue and Customs published figures that show that Scotland's goods exports increased by 6 per cent in 2018, which is double the rate for the UK as a whole. That might be helpful information on the context in which we are comparing the two economies.

The Deputy Convener: I think that you have made your point, Ms Ewing.

I thank Dr Gillespie and Simon Fuller for coming—[*Interruption*.] May I have some order in the committee, please? It has been a privilege to convene the committee this morning. Joan McAlpine, the convener, sends her apologies and regrets that she was unable to be here to take part in the evidence session.

10:42

Meeting continued in private until 10:48.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot

The Scottish Parliament
Pàrlamaid na h-Alba