

## [Independent Scotland could be AAA rated – Standard & Poors](#)

[Gordon MacIntyre-Kemp](#) | 28/02/2014 | [38 Comments](#)



Independent Scotland AAA?

In a massive blow to the credibility of the No Campaign's scaremongering, the credit rating agency Standard & Poor's released a report yesterday, clearly stating that an independent Scotland would be an investment grade economy.

The [report](#) states emphatically that S&P would expect Scotland to 'benefit from all the attributes of an investment-grade sovereign credit' due to its 'wealthy' economy, and that it sees 'no fundamental reason' in terms of Scotland's balance sheet why Scotland could not float its own currency (even though we do not intend to).

Interestingly, given that it comes on the heels of yesterday's exaggerated media coverage of the statement by Standard Life, S&P actually reported that '*a shrinking of Scotland's 'unusually large' financial services sector could boost the country's sovereign credit rating by reducing the size of the economy's external balance sheet and reducing its liabilities*'.

In other words, the perception of Scotland's credit-worthiness could be even stronger if one or two banks left. They won't of course, which is why we only mention this for academic interest, but it reminds that we should be careful about presuming that if certain institutions did leave, it would be a disaster. RBS comes to mind in particular. Of course, RBS is deleveraging so quickly that the size of its asset base in Scotland is likely to have reduced even more significantly by independence day in March 2016. And the financial sector in Scotland contributes to a smaller share of GDP than the UK as a whole anyway.

Far from worrying about the volatility of oil prices, credit ratings agencies seem to be more concerned about the highly volatile financial sector that dominates the UK's economy, and of course contributed to the recession and credit crisis. Business for Scotland has long argued that this is where the real threat to Scotland's economy lies.

The report gives Scotland a positive rating even under the scenario that:

- Scotland would not have a currency union and would have its own currency (which BFS does not believe will happen)
- Scotland would inherit a population share of UK debt (which BFS expects to happen because Scotland will gain a fair share of assets including currency)
- A major financial institution or two were to leave (which they won't in our view)

**There are seven major rebuttals to the No Campaign's position in the report:**

**1) Oil revenues are bonus to Scotland, not something we are dependent on.**

S&P state that Scotland could manage independently even without the contribution of the North Sea. Our GDP without oil is roughly similar to other credit-worthy nations.

**2) Scotland is not excessively reliant on oil.**

S&P says it only considers an economy to be over-reliant on a particular industry if it accounts for more than 20% of GDP. Oil in Scotland is between 12-16% of GDP.

**3) The people of Scotland and the business community can be confident in the strength of an independent Scotland's economy.**

S&P cites 'high-quality human capital, flexible product and labour markets and transparent institutions' as further reasons for confidence in the Scottish economy.

**4) Scotland has a strong balance of payments.**

The report states: 'Overall, then, from a balance of payments perspective, there is little evidence that Scotland depends on the rest of the world to finance a large share of its annual GDP. In other words, net external financing on an annual basis appears to be relatively low'.

**5) Scotland is a wealthy nation.**

The report compares the GDP (wealth in the economy) on a per head basis with other countries, stating:

- Scotland GDP p/capita = \$47,369
- Germany GDP p/capita = \$43,855
- UK GDP p/capita = \$41,066
- New Zealand GDP p/capita = \$39,840

All of those nations have an AAA credit rating from at least one of the three big credit rating agencies and Moody's rates New Zealand higher than it does the UK.

**6) Scotland has a varied tax base (and by extension a diverse economy).**

S&P states 'even excluding North Sea output and calculating per capita GDP only by looking at onshore income, Scotland would qualify for our highest economic assessment. Higher GDP per capita, in our view, gives a country a broader potential tax and funding base to draw from, which supports creditworthiness'.

## 7) Danny Alexander's credibility is in tatters



Danny Alexander credibility in tatters.

Treasury Minister Danny Alexander is one of the gang of three who have schemed with Alistair Darling to convince Scots we have no rights to our own currency. In February, he gave evidence to the Scottish Parliament's economy committee where he said interest rate rises in an independent Scotland would suffer from an "independence premium" on borrowing from the markets, leading to "an extra £1,700 a year for the average mortgage-payer".

Now one of the credit ratings agencies has suggested Scotland would be investment grade and compared it to peers who are all AAA rated.

Was his evidence incompetent or knowingly misleading? As another element to the self-styled Project Fear bites the dust how, can anyone believe a word that the No Campaign say?

### **Is it all milk and honey then?**

No, clearly not. The world is recovering after a major recession and financial crisis caused in part by the lack of regulation and foresight of previous Chancellors such as the No Campaign's Alastair Darling or Shadow Chancellor Ed Balls. Scotland faces significant issues after a No vote, not least the generations of Westminster austerity budgets to come and the associated deep cuts in Scotland's budget.

The S&P reports clearly states there would be a transition period and that: 'If Scotland were not to join a monetary union then Scottish financial institutions would not have access to lending facilities from a major central bank such as the European Central Bank (ECB) or the Bank of England'. This is true and is one of the reasons why the Scottish Government is willing to accept a fair share of the UK national debt in return for a long term agreement on continuing the currency union that will benefit both Scotland and rUK, not least by both minimising small business transaction costs on business both sides of the border and, as it happens, helping to protect the rUK's credit rating.

The report concludes: 'In short, the challenge for Scotland to go it alone would be significant, but not unsurpassable'.

### **Conclusion**

Several of the No Campaign's scare stories about Scotland's financial position as an independent nation have been completely blown out of the water by this report. It states, emphatically, that an independent Scotland would be an investment worthy nation. It also

highlights that Scotland's economic peers are all AAA rated by at least one major credit agency.

We have a choice, with a NO vote we have the significant and *possibly unsurpassable challenges* of staying in the union or vote YES and face the challenges and opportunities of the world in control of our own destiny. We can deal with the "*not unsurpassable*", challenges with the freedom to be the country we want to be and to head in the direction we choose to go.

With a YES vote we can, create a successful and sustainably growing economy whilst sharing wealth more fairly in the interests of the economy, business and Scotland people as a whole.