

## Will Scotland's general election pave the way for independence?

In less than a month's time, the people of Scotland will head to the polls to elect their next members of parliament. The general election on 6 May will be Scotland's first since Brexit, and the question of Scottish independence is an inevitable hot topic.

While we believe an independent Scotland remains an outside chance over the near term, it is still worth considering the political, social and economic ramifications of such a scenario. On the heels of a number of other political banana skins for the UK (the 2014 Scottish independence referendum, the 2016 Brexit referendum, and multiple UK-wide general elections), a concerted new push for Scottish independence could start to feature in the way financial markets view the UK.

### Is a Scottish independence referendum on the cards?

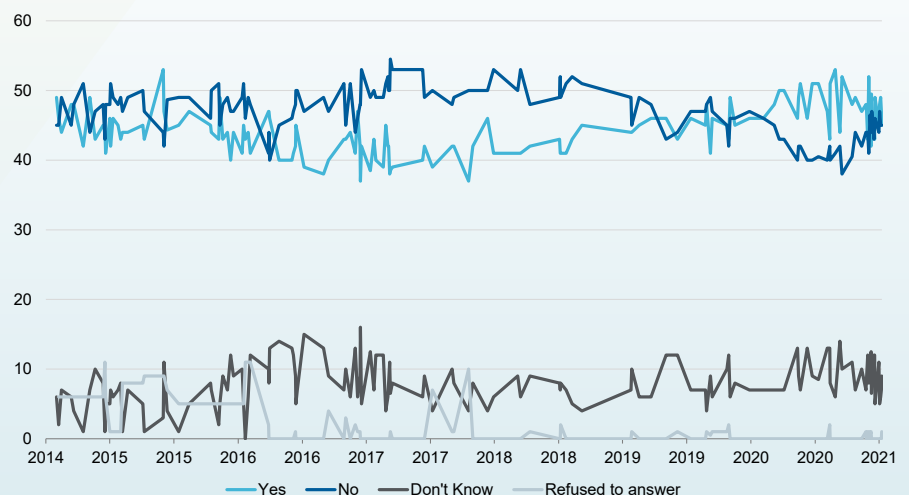
In the near term, the probability of an independent Scotland does not look high. However, it is certainly not entirely out of the question, and the likelihood of this scenario may well have been underestimated by many.

The current Scottish Parliament has now lasted for a full five-year term, spanning a truly extraordinary half-decade. The most recent general election for Scottish MPs took place in May 2016 – a matter of weeks before the Brexit vote. Since then, the UK has slowly (and rather chaotically) exited the EU, Westminster has housed three different prime ministers, and a global pandemic has recalibrated the world as we know it. To put it mildly, Scottish voters heading to the polls in May will be electing their leaders amid an entirely changed landscape.

Unlike UK-wide general elections, the voting age for Scottish general elections is just 16 years old. This youthful slice of the Scottish population is believed to have voted against independence from the UK in the 2014 referendum. But in the Brexit referendum (two years later), studies suggest that younger people across the UK voted overwhelmingly in favour of remaining in the EU. We also know that the majority of Scottish voters overall (62% – a far higher number than in England, Wales or Northern Ireland) voted 'remain'. Suffice to say, the outcome of a Scottish independence referendum today could prove to be markedly different than in 2014.

### Polls suggest that Scotland is sharply divided on independence

Responses to the question:  
How Would You Vote in a Scottish Independence Referendum?



Source: ScotCen Social Research, Macrobond

## Contact

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### Unpicking the Scottish political scene

Among the political parties in favour of independence are the Scottish National Party (or SNP), the Scottish Greens, and Alba – a Scottish nationalist and pro-independence party, split off from the SNP and led by the former first minister of Scotland, Alex Salmond. At the moment, the SNP has momentum in the polls, at least in part related to perceptions that the COVID-19 pandemic was comparatively well handled in Scotland. However, a very public rupture between Salmond and Nicola Sturgeon (Salmond's successor as both head of the SNP and first minister) is muddying the waters.

Nevertheless, if the SNP wins a majority (or is otherwise able to form a majority coalition with other parties), they might ask Downing Street for a second referendum on Scottish independence. The UK government would more than likely refuse, but the Scottish Parliament could still try to enact legislation to make a referendum happen. As a result, we could see further concessions made to the Scottish Parliament in an attempt to quell the independence movement, perhaps in the form of additional devolution. Even so, this might be stalling (rather than solving) the problem, and would not stop the pro-independence movement indefinitely.

### What would independence mean for the Scottish economy?

The unholy trinity of Brexit, the COVID-19 pandemic, and lower-than-anticipated tax revenues mean that public finances would be a serious worry for a newly-independent Scotland. At the last independence referendum, in 2014, the SNP pointed to revenues from North Sea oil as a means of plugging the gap in public finances, but these revenues have since fallen, while Scotland's budget deficits have expanded significantly due to pandemic support programmes.

Budget and trade deficits would pose a substantial problem for an independent Scotland looking to join Europe's single currency region. Since euro membership is likely off the cards, a 'freely floating' Scottish currency might be Scotland's only option, with the new currency's value allowed to fluctuate freely in foreign exchange markets. But outflows of capital in the event of independence, particularly if key businesses chose to relocate to other countries, could weigh heavily on the value of this hypothetical Scottish currency. In 2014, polls suggested that around a third of major companies – including the Royal Bank of Scotland, currently headquartered in Edinburgh – would relocate their head offices in the event of Scottish independence.

When it comes to relocation, the human population might not be quite so flighty. However, if the divisive nature of the Brexit vote in the UK is any indicator, a Scottish independence vote could be deeply damaging to social cohesion.

### What will really happen?

If financial markets do start to view Scottish independence as a serious risk, we would likely see this primarily in currency markets, via sterling weakness. Still, it is worth remembering that this can be beneficial for large UK-listed companies, which typically earn much of their revenue overseas, meaning that this revenue is then translated back into sterling at better exchange rates.

In the very near term, though, we think an independent Scotland remains unlikely, not least given the tricks and delaying tactics that Downing Street can deploy. Over the longer term, though, the Scottish independence movement could become a force to be reckoned with, regardless of the individual players on the Scotland's political stage.

### The Investment Team

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