## Currency - Transaction Costs to UK Businesses

**Scottish Government analysis illustrates that a separate Scottish currency has the potential to lead to transaction costs for rUK businesses of approximately £500m per year**

- This cost would be incurred by industry and customers in rUK importing and exporting from an independent Scotland with an alternative currency.

- This illustrative calculation uses estimates from research on the costs and benefits of European Monetary Union (EMU) to the value of trade between rUK and Scotland.

- The research on the costs savings from joining the EMU[1] is widely used in analysis of currency transaction costs, including the previous UK Government's assessment of joining the Euro ('5 tests').[2] It is based on relative savings from having no currency transactions costs in trade.

### Methodology

- The transaction costs as a proportion of UK trade with the European Union are applied to the value of rUK trade with Scotland.
- Transaction costs savings to the (then) European Community as a whole from joining the single currency were estimated in the order of between 0.1% and 0.2% of national GDP. These costs were for a larger Member State, in contrast small open economies may gain around 1% of their GDP. As highlighted by the Governor of the Bank of England in his recent speech on currency unions, the total benefits from reduced transaction costs were estimated at almost 0.5% of European GDP every year.[3]
- In 2012, the UK as a whole exported £150 billion worth of goods to the EU and imported £205 billion worth of goods from the EU.[4]
- Trade in goods is a proxy for total trade, which is accounted for by using the lower bound transaction cost estimate of 0.1%.
- In 2012, experimental statistics show that that the UK is estimated to have exported £60 billion worth of goods and services to Scotland and imported £48 billion worth of goods and services from Scotland.[5] While exact figures on exports from rUK to Scotland are not known it is reasonable to assume that they are within the £50bn to £60bn range. On this basis exports from rUK to Scotland were around 40% of the value of UK exports to the EU in 2012 and imports to rUK from Scotland were around 25% of UK imports from the EU in 2012.
- In 2012 UK GDP was £1,565 billion in nominal terms.[6] Potential transaction costs of around 0.1% of GDP with respect to the Euro Area would therefore amount to approximately £1.6 billion.
- With exports from rUK to Scotland around 40% of UK-EU exports assuming similar savings in transaction costs, maintaining a sterling area would reduce transaction costs by around £630m.
- Alternatively, as imports to rUK from Scotland were around 23% of UK imports from the EU, assuming similar savings in transaction costs, maintaining a sterling area would reduce costs of trade by around £370m compared to having separate currencies.
- Of course, if transaction cost savings were larger – i.e. closer to 0.2% – then the savings from maintaining a currency union would be that much larger.
- The range indicates a potential cost of approximately £500m from not having the same currency.

- It should be noted that these calculations are for on-shore trade only. Experimental statistics estimate that the UK imported £13.6 billion of oil and gas from Scotland in 2012. This would also be subject to transaction costs.

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[1] European Commission (1990), One Market, One Money: An Evaluation of the Potential Benefits and Costs of Forming an Economic and Monetary Union
[2] HM Treasury (2003) "UK membership of the single currency: An assessment of the five economic tests"
[3] http://www.bankofengland.co.uk/publications/Documents/speeches/2014/speech706.pdf
[4] HMRC OTS data https://www.uktradeinfo.com/Statistics/BuildYourOwnTables/Pages/Table.aspx
[5] Detailed Supplementary Tables Table 8: http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/QNA2013Q3
[6] HM Treasury GDP Deflators https://www.gov.uk/government/publications/gdp-deflators-at-market-prices-and-money-gdp-march-2013