



# The Road to the Scottish Currency

Concise answers to questions about  
the introduction of a new Scottish  
currency which may be asked by  
members of the public.

October 2022



Scottish Currency Group

# Q&A

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## Note:

This document is intended to provide, as far as possible, short and simple answers to questions about the introduction of a new Scottish currency which may be asked by members of the public.

The emphasis is on reassuring people without specialised knowledge of economics that the policy set out in 'The Road to a Scottish Currency' is both feasible and sensible, and that the change will take place in a carefully planned way which will not harm the interests of the ordinary citizen.

The document is structured into sections A-G which group together detailed questions on particular issues.

The questions (in bold) are followed by the recommended short 'doorstep' answers to members of the public. More detailed background information (intended to inform the campaigner rather than to be read out to members of the public) is in italics.



# **SECTION A: RATIONALE FOR INTRODUCING A NEW SCOTTISH CURRENCY AND CENTRAL BANK**

## **Why does Scotland need its own Currency and Central Bank?**

To enable the Scottish Government to run the country's economy in the best interests of the people of Scotland with control over our own currency as well as the other levers of economic policy.

This will best allow the democratically elected Scottish Government to decide on priorities for spending and funding all the things we as a nation need.

Scotland needs to be a Currency Issuer not a Currency User.

## **What will the new currency be called?**

This will be for the Scottish Government to decide. The Scottish Pound seems to be the most popular choice.

## **Why not call the new currency something else?**

The Scottish Pound makes the most sense since that is the name we are accustomed to.

## **Shouldn't we be joining the Euro?**

No. Even if Scotland were to re-join the EU, we need to control our own money and not have to depend on decisions made by the European Central Bank.

We must be able to issue our own currency so we do not need to borrow in a foreign currency.

Joining the Euro would give the European Central Bank too much control over the Scottish budget and spending powers. Look what happened to Greece.

## **How can Scotland have its own currency? - Most European countries use the Euro.**

Several European countries do not use the Euro, for example Norway, Sweden, Denmark.



### **Why don't we just carry-on using sterling?**

Because then the Bank of England would control our money supply and spending abilities.

### **Don't we already have Scottish currency? - I've got a Bank of Scotland £20 note in my wallet.**

That note is issued by permission of the Bank of England. The new Scottish Central Bank will issue the new Scottish currency.

### **Is this anything like Bitcoin?**

Absolutely not.

### **What will the Scottish Central Bank be called?**

This will be for the Scottish Government to decide. Possibilities include Scottish Central Bank, Scottish Reserve Bank, or Bank of Scotland (although this would require the Scottish Government acquiring the Bank of Scotland name from Lloyds Bank).

## **SECTION B: PROCESS OF INTRODUCING THE NEW ARRANGEMENTS**

### **How easy will it be to introduce a new currency?**

This is a straightforward process. Other small countries such as Slovenia, Slovakia, Latvia, Lithuania, and Estonia have all done this in recent years. Estonia managed it in under a year.

### **When will the Scottish Pound come into use?**

As soon as practicable after Independence Day, which means as soon as the Scottish Central Bank is ready and Parliament authorises it to proceed.

This could be of the order of a few months, but that depends on how long there is between a vote for Independence and Independence Day.

### **How long will it take to create the Scottish Central Bank and be ready to release the new currency?**

The Scottish Currency Group plan shows this to be about 4 years, of which 18 months or so of preparations can be done now before the Independence vote.

### **Where will we get the money to have our own currency? Don't we need to save up Foreign Exchange reserves before we can introduce the Scottish Pound?**

No – this is a much repeated and common fallacy. The new Scottish Pound will not be given out free of charge.

The process of exchanging UK £ sterling for the Scottish Pound will create sterling reserves for the Scottish Central Bank.

### **Who will issue the new currency?**

The Scottish Central Bank.

The new banknotes denominated in Scottish Pounds are likely to look much like the present banknotes. They may just need to change the colour of the notes and slightly alter the wording on them. De La Rue the note printer can do this very easily. We may even return to using paper money instead of plastic.

## Background information

*Every new Scottish Pound will be sold to us in exchange for us paying £1 Sterling. So, if the Scottish Central Bank issues S£40 billion in the first week, it will also receive £40 billion gross of Sterling as payment. Money going in the other direction to repay Sterling loans must be deducted to arrive at the net balance. That becomes part of our Foreign Exchange reserves. You should note that the UK net reserves are US\$78 billion (BoE data for September 2022), so pro-rata Scotland would need \$8 billion. As there are around £200 billion that belong to us and which will be gradually exchanged then the Scottish Central Bank will end up with very large reserves. If we allow the Scottish banks to carry on issuing their own design of bank notes then the £4.5 billion they hold on deposit at the Bank of England would also move to the SCB, while the SCB will get the £3 billion Bank of England notes and coins that currently circulate in Scotland when they are replaced by the new SCB ones.*



## **SECTION C: HOW THE NEW ARRANGEMENTS WILL WORK?**

### **Will it be compulsory to use the Scottish Pound?**

No – but, once the new currency is introduced, payments by and taxes due to the Scottish Government will be made in Scottish Pounds and most people will find it convenient to have a bank account in the new currency.

You can keep your savings in Sterling but you will need Scottish currency for day to day use in Scotland.

Once the new currency is introduced, all cash transactions in Scotland will be in Scottish Pounds. Shops, pubs, supermarkets, etc, will charge in the new currency (although some may also accept Sterling for a transitional period). When you withdraw cash at an ATM in Scotland, it will dispense Scottish notes.

### **Can I keep my Sterling account(s) and have new Scottish Pound accounts?**

Yes. If you travel to rUK or place orders with rUK shops often then it would be quite sensible to keep your existing Sterling account and debit card. That will save you foreign exchange fees in the future.

### **Will I still be able to use my existing debit card/credit card/iPhone when I'm in England?**

Yes.

### **Will my new Scottish Pound account and cards be the same as my existing ones?**

No. Your existing Sterling account has a UK sort code, contains Sterling and is ultimately under the control of the Bank of England.

That can't be changed so you will need a completely new account with a new Scottish sort code that can contain Scottish Pounds and which is ultimately under the control of the Scottish Central Bank.

### **Can I just carry on using Sterling for all my purchases?**

Yes, but after an initial Exchange Period this will start to cost you foreign exchange fees - just the same as when you presently use Sterling in Spain or other foreign countries.

## **Background information**

*The Exchange Period is the first month or two when the Scottish Central Bank will keep the two currencies fixed at one to one and with no charges for changing between them. After that the Scottish Pound will start to float on the currency market and the banks will charge a foreign currency fee on Sterling transactions. Shops may decide to stop accepting Sterling bank notes and coins. The transition to floating will involve slowly widening the bands within which the S£ is permitted to move, so that the transition is controlled and the Central Bank can ensure it is without any sudden or large movements.*

### **Isn't this all very difficult for businesses that buy or sell in rUK?**

Not really. Most businesses will probably keep their Sterling accounts, credit card machines and the like and use those when buying or selling in rUK. They will use their new Scottish accounts and credit card machines for their dealings within Scotland.

### **I'm a businessman who has English customers. Will I need 2 Card readers and 2 sets of accounts?**

No. Your bank will facilitate whatever you choose for your business. You may need a new bank card but that is not an onerous task as they replace your cards every expiration date.

### **What happens if you are abroad or in rUK in future?**

You do not need to change your existing bank account or any other financial items to Scottish Pounds if you do not wish to do so.

At present, when you are abroad and use your current bank card to withdraw Euros at an ATM the banking system does the work and the machine pays you in Euros.

It's the same if you use the card in a shop abroad. The shop charges you euros and the banks pay the retailer and debit your UK account.

Things will operate just the same in rUK in future.

### **Isn't this even more complicated than decimalisation in 1971 or bringing in the Euro?**

No, it is actually much easier for us and businesses. That is because 1 Scottish Pound will

initially equal £1 Sterling, so there is no need for any shop or restaurant to change any prices, get menus reprinted, buy new cash registers, etc.

All you will notice are a new design for the bank notes and coins, and a new debit card for making payments.

### **Will this mean that there has to be a border with England?**

Not because we have our own currency.

### **Who will control the spending?**

The democratically elected Scottish Government and the Scottish Central Bank will be responsible for all aspects of economic and monetary policy. A Scottish currency will enable the Scottish Government to increase investment in social priorities such as the NHS, pensions, social care, education and infrastructure.

### **Why should we trust the Scottish Government to get this right? - they can't even build a pair of ferries!**

Scotland has some of the brightest economic minds and some of the best financial people in the world. You need not have any concerns about our ability to run the economy, just as other small independent countries do. All Governments make mistakes. The overall record of the Scottish Government, including the successful management of big capital projects, compares favourably with that of the UK Government.

### **What happens to the banks?**

Commercial banks and building societies that wish to continue to do business in Scotland will need a Scottish subsidiary company that is registered in Scotland and obtains a banking licence from the Scottish Central Bank. It is standard practice that foreign banks, which would after independence include rUK banks such as NatWest, would not be allowed to offer services in Scotland if they do not comply with the requirements of the Scottish Central Bank.

### **Background information**

*Sterling can't be held in a bank in Scotland and the Scottish Pound can't be held in a bank in rUK other than as cash notes and coins. That is because holding the currency in an account requires that the account and the bank are connected to the relevant central*



bank payment system and account ledgers. So, for a bank such as Tesco Bank it will divide into Tesco Bank (rUK) Plc and Tesco Bank (Scotland) Plc, with both companies being owned by Tesco Banking Group Plc. Prior to independence our sterling accounts (and loans, etc) will become part of the rUK part of the relevant bank. In the case of Tesco Bank (rUK) Plc it would carry on being a Bank of England regulated bank that works in Sterling. Tesco Bank (Scotland) Plc would initially have no accounts or funds and thus a zero balance sheet. When the currency is created the new Scottish Pound accounts will be opened in the relevant Scottish bank company. If you ask to exchange £500 into Scottish Pounds, then the rUK bank holding your Sterling account will sell that £500 to the Scottish Central Bank. The SCB will deposit 500 Scottish Pounds to the Scottish Bank company Reserve Account at the SCB (of the same banking group, e.g. Tesco Bank) for onward deposit to your new Scottish Pound bank account.

The SCB works in Scottish Pounds so the Sterling it buys from us can't be held in the SCB accounting ledger. The way banks work this is to hold the foreign currency in a correspondent bank that works in that currency. It is likely the SCB would use a Sovereign Reserve Account at the Bank of England, but it could use Barclays or another Sterling bank. In the above example the £500 would be paid into the SCB correspondent bank.

## **SECTION D: WHAT WILL CHANGE FOR THE ORDINARY CITIZEN?**

### **How will the new currency affect me?**

For most people, daily life will be the same. You will just have Scottish notes in your pocket instead of English ones.

Your bank will arrange to set up whatever bank accounts or bank cards you need.

### **Will I be forced to convert my savings into Scottish Pounds?**

No, everyone is free to choose how much of their savings they wish to exchange into Scottish Pounds. If you prefer to keep your savings in Sterling you are free to do so.

### **Will I have to exchange my current money?**

No. This will be done automatically, as you spend it and it is paid back into the banks. Banks in Scotland will only issue Scottish currency.

### **What about my wages?**

This depends on your employer. If you work for the Scottish Government, Scottish Health Service, a Council or any other public sector body then from the first month your wages will be paid in Scottish Pounds. You will not have a choice about that. The amount you get paid will be exactly the same as before.

If you work for somebody else then it is up to you and your employer to agree whether they continue to pay you in Sterling or switch to Scottish Pounds. Most employers are likely to switch to the Scottish Pound within a month or two, simply because using Sterling will become inconvenient.

### **Do I need to do anything?**

Yes, you need to decide if you want to have new Scottish Currency accounts and cards and if you want to keep your existing Sterling accounts and cards.

Your bank will contact you some months in advance of the introduction of the new currency and ask you if you would like to have an account or accounts in the new currency. You will

need to instruct them to set up these account(s) if that is what you want. If you don't want to keep your Sterling accounts and cards then instruct the bank to close those and transfer any balances to your new accounts.

### **What will change for me?**

As far as the day to day running of your money is concerned, everything will be dealt with by your bank and the banking finance system. Mortgages, loans, pensions, and investments are all computerised.

It will be business as usual although the banks may need to update your bank cards.





## SECTION E: FUTURE VALUE OF THE SCOTTISH POUND

### ·Will prices go up?

Prices should stay the same as a result of the introduction of the Scottish Pound. Only your notes will change.

### Will the Scottish Pound be worth as much as the British one?

Yes it will initially be valued (pegged) to the same value as the £ Sterling.

### What about the risk of future devaluation of the Scottish Pound against other currencies?

As with any currency traded on international foreign exchange markets, there is the possibility of both upward and downward fluctuations in the external value of the currency when currencies are allowed to 'float'. For example, the UK £ Sterling has depreciated significantly against the American Dollar and the Euro since Brexit.

### Background information:

*The Scottish Central Bank will have a mandate from the Scottish Government to maintain the foreign exchange stability of the Scottish Pound, insofar as this is in the interests of the Scottish economy. It is expected that the Scottish Pound will be allowed to 'float' against other currencies after an initial period – to be determined by the elected Scottish Government - during which it will be fixed (pegged) against the rUK£ Sterling at 1:1.*

*During the initial official fixed exchange rate period when banks and the public are indemnified against FX movements/costs, and subsequently when the Scottish Pound is allowed to 'float', the Scottish Central Bank will have holdings of foreign currency which may rise or fall in value.*

*Equally we (individuals and companies) will have a currency risk to the extent that we retain Sterling deposits in our old bank accounts (now located in the rUK part of our bank), leave our mortgages and loans in Sterling, or remain in receipt of a pension paid in Sterling. A public information campaign will educate us about those risks and ensure we can take suitable action in good time if we wish to do so.*

*Many people may choose to leave their arrangements as they are, perhaps keeping a Sterling loan because they also have a Sterling income (e.g. a pension or share dividends). The more adventurous might choose to speculate that the Scottish Pound could rise against Sterling, but that is not recommended for anyone without a clear understanding of the risks and a willingness to accept that could cause a loss just as easily as a gain.*

**It has been claimed that the commercial banks will face a large foreign exchange risk?**

This is not true.

**Background information:**

*Banks currently operating in Scotland and rUK will have to divide into a Scottish Bank and an rUK Bank after independence. The Scottish Pound customer deposits and new loans and mortgages in Scottish Pounds will be entirely in the Scottish Bank. The old Sterling deposits and old Sterling mortgages and loans will be entirely in the rUK Bank. The balance sheets in the rUK banks will fall with no mismatch between assets and liabilities. The balance sheets in the Scottish banks will rise, again with no mismatch between assets and liabilities. There is nothing owed from the Scottish Bank to the rUK Bank, or vice versa. If there is nothing owed, then there is no foreign exchange risk.*



## SECTION F: IMPACT ON MORTGAGES AND OTHER LOANS

### What about my mortgage, credit card and personal loan?

All loans will stay exactly as they are in Sterling until you instruct your bank to change them. There will be no automatic conversion into Scottish Pounds.

Your bank will contact you near the time and ask if you would like to re-mortgage into the Scottish Pound or take out new Scottish Pound credit cards and loans. The banks, Scottish Government and the Scottish Central Bank will run an information campaign to explain to you the risks and benefits of changing loans into Scottish Pounds compared with leaving them in Sterling. It is likely that the Central Bank will assist/require the banks to provide the same interest rates and terms on replacement Scottish Pound mortgages and loans as you had on your old Sterling ones.

### Background information:

*There are about 900,000 mortgages with a total outstanding debt of £75 billion, making the average mortgage £83,000. That is about 30% of Scottish households meaning that 70% of households do not have a mortgage to worry about.*

### If I re-mortgage how does this work?

You are best to ask your bank to do this during the Exchange Period, probably the first two months or so. That will avoid you having any currency fees to pay or any risk from exchange rate changes.

After you instruct your bank to arrange a Scottish Pound mortgage, you will complete the standard process of selecting a mortgage (fixed term, tracker, etc), an updated valuation if required and the legal paperwork. On the date agreed with your bank they will release the Scottish Pound funds, exchange those into Sterling, and use that Sterling to repay your Sterling mortgage.

Your Sterling mortgage account will be closed and you will be left with just your new Scottish Pound mortgage account. You can do this at any time, but the longer you delay the more likely that the Scottish Pound and Sterling values will diverge, in which case it might cost you either more or less in Scottish Pounds to repay the Sterling loan.



## Background information:

*By far the biggest component of personal debt is mortgages. Exact data for Scotland is hard to find, but personal loans, credit cards, and overdrafts probably total less than £20 billion. As there is no change to Sterling debts until such time as people and business ask for their banks to exchange them into Scottish Pounds, then it is expected that the exchange of debts into Scottish Pounds will lag significantly behind the exchange of deposits and cash. As with mortgages exchanging a debt into the new currency involves paying off the old Sterling loan. This means that settling these debts requires an outflow from Scottish Pounds and into Sterling. For example, I take out a new 500 Scottish Pounds overdraft and ask my bank to pay off my old £500 Sterling overdraft. That means my bank will sell 500 Scottish Pounds and buy £500. That is most likely to be via the Foreign Exchange market, but may be assisted by the SCB. This will depend on whether the transaction is before or after the initial Exchange Period ends, and what the conditions are in the FX market. If there is a large or sudden outflow of Scottish Pounds to redeem Sterling debts then the SCB can intervene in the market to buy up (and thus cancel) any surplus Scottish Pounds. It can do that using part of the Sterling reserve it acquired selling us the new Scottish Pounds. It should be kept in mind that there is also a long tail of people who held on to Sterling who will exchange it gradually over many months. That inflow will to a large extent mop up the outflow that is clearing old Sterling debts.*

## SECTION G: IMPACT ON PENSIONS AND SAVINGS

### What about my pension?

It is likely that as part of independence negotiations with the UK Government, the Scottish Government will agree to take over the UK State Pension for anyone resident in Scotland on Independence Day. If that happens then the new Scottish State Pension will be paid in Scottish Pounds only. The present Scottish government is committed to substantially increasing the old age pension as the UK's is the lowest in Europe.

Scottish public sector pensions (for example, local authority, Scottish Health Service, Fire Service, etc.) will be paid in Scottish Pounds only. UK civil servant pensions, for example from central departments such as the Foreign Office, will, unless negotiated otherwise, continue to be paid in £ Sterling. This would also apply to British Armed Forces pensions, unless the person involved transfers into the Scottish Armed Forces.

For the declining number of people lucky enough to have a private sector company pension then it is up to the pension scheme to decide. Where it is a Scottish company scheme then they are likely to change to pay in the S£ within a short period. Where it is an rUK scheme (e.g. British Airways), then it will continue to be paid in Sterling.

Annuities, personal pensions and similar from rUK providers (e.g. Aviva) will be paid in Sterling. Scottish providers (e.g. Scottish Widows) will probably offer the option to convert to receiving Scottish Pounds if you wish to do so.

Some large pension schemes (e.g. the Universities USS) may choose to allow Scottish pensioners to be paid in Scottish Pounds rather than Sterling. If you use an rUK pension provider you may wish to move your pension fund to a Scottish provider if you want to avoid any exchange rate risk.

### What about my ISA?

If you have a cash ISA then it is up to you to decide whether to keep the money in Sterling or to exchange it into the Scottish Pound. There is no guarantee that the Scottish Government will continue the ISA scheme after Independence so there might be tax changes. If you keep your cash ISA in Sterling then it may become a foreign investment rather than a domestic Scottish one but it would still fall under the jurisdiction of Scottish tax law. If you want to avoid exchange rate risks you will be safer to exchange your Sterling cash ISA into Scottish Pounds. Until such time as there is a Stock Exchange in Scotland then a stocks and shares ISA would remain in Sterling as the shares would be held in the London market.

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