# A Scottish Central Bank for an independent Scotland: A review of the Scottish Government's current proposal and an outline of a wellbeing economy alternative

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**About the authors**

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## Foreward:

It was with great pleasure that I worked with William on this manuscript. He would write a section and share the file with me, and I would then edit it and send it back. Along the way, we had in-depth discussions of purpose, structure, and content, culminating in a document that is technically precise, purposefully organised, and written in layman's terms for a general audience. The result is a 'must read' for both those involved in the Scottish independence movement and students of economics seeking to gain a working knowledge of the fundamentals of current issues of global monetary operations.

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## Executive summary

Many economic commentators, including senior central bankers, are dissatisfied with the post-2008 structure of central banks, and it makes little sense for the Scottish Government to proceed with a plan to build a new Scottish Central Bank (SCB) on the current, suboptimal foundations.

- The current prospectus for a SCB does not align with operational reality. The Scottish Government could create an organisation called the Scottish Central Bank, but it would be a paper exercise until it issues its own unit of account (currency).
- By choosing to maintain the Bank of England (BoE) as Scotland's operational central bank for perhaps up to a decade after independence, the Scottish Government has chosen a position many economic commentators consider suboptimal.
- The Scottish Government states that a SCB (while using sterling) would have “oversight of monetary and economic conditions in Scotland and with responsibility for financial stability”. We find that the SCB would not have either role in any meaningful sense. Scotland’s independent economy and financial system will depend principally on the UK for stability.
- Operating within the sterling monetary system, a SCB without its own currency would have fewer privileges than a UK-regulated retail bank on a Scottish high street.
- The creditworthiness and operational reality of the central bank—or the Scottish Government as a combined entity—would depend principally on the ability to tax in its own currency. In other words, the Scottish Government's creditworthiness will depend on the UK Government. The longer the Scottish economy uses a foreign unit of account, the less creditworthy and operationally independent its government will be.
- It would be exceptionally challenging, if not impossible, for the Scottish Government to pursue a wellbeing economy without oversight of a modern central bank's core functions.

An opportunity exists to create a central bank that reflects Scotland’s unique economic landscape. We believe a SCB should be central to a macroeconomic framework designed to implement a wellbeing economy. We propose a democratic institution focused on full employment, reducing income and wealth inequality, directing resources to the real economy, and supporting an economy and society that operate within planetary boundaries.

- Operationally, a SCB can be launched only alongside the creation of a Scottish currency.
- Within three years of a vote for independence, a SCB could be fully operational and overseeing a fiat currency issued by the Scottish Government.
- Our proposal supports a modern money economy and dispenses with the burdens of legacy systems' contradictions and inefficiencies.
- Our proposal is that the SCB should have a minimal balance sheet, should not use the unemployed as a buffer for price stability, should not pay large regressive interest payments on government liabilities, should provide unlimited, but strongly regulated, liquidity, should not use fiscal space for foreign reserve accumulation, should place full employment at the heart of its mandate, should provide full bank deposit insurance, and should not constrain the central bank’s operations with capital targets.

## Introduction

In a modern money economy, it is impossible to disentangle the creation of a central bank and the issuing of a sovereign fiat currency. One is not possible without the other [1]. However, more than a decade after the independence referendum, considerable inconsistencies remain in the planned operation of Scotland's monetary operations and institutions. Nowhere is this more obvious than in the current Scottish Government (2025) plan for a Scottish Central Bank (SCB), which will operate for perhaps five years or more before Scotland issues its own unit of account (also referred to hereafter as a currency). This puts anyone proposing an outline for a SCB in an awkward position. If Scotland doesn't issue its own currency, exactly what will the SCB do? Few economic commentators would suggest that a central bank could function without issuing a fiat currency, unless we stretch the definition of a central bank to something it is not (we argue this is the current Scottish Government position).

By concentrating on Scotland's Central Bank, we answer a direct call from the Scottish Government,

> "An early priority following a vote for independence would be for the Scottish Government to work with the Scottish Central Bank to design an institutional model and a future approach to financial regulation that would be proportionate to the size and ambition of the financial services sector in an independent Scotland" (Scottish Government, 2022: 32)

To be useful, then, should we propose a design for an organisation that *calls itself a central bank* but doesn't have any of the generally accepted levers of a central bank? Or should we jump ahead and propose a fully functioning central bank? We opt for the second option for three reasons. First, we would like policymakers and the public to better understand the choices available to them as they choose the function and role of important economic institutions, including a fiat currency and a central bank, so they can make more informed decisions about independence or remaining in the UK. The Scottish Government's position on currency and, by extension, its decision to leave the Bank of England in complete control of monetary policy, was a major factor in its failure to persuade voters to back independence (Liñeira et al., 2017). Second, we believe an independent Scotland could establish a fully functioning central bank before the end of the transition period, putting Scotland in a better position than prolonged reliance on sterling. Finally, the current Scottish Government plan must be challenged. The Scottish Government seems able to propose an outline that deeply misunderstands the role of essential economic institutions. It can state its position with little scrutiny and even less engagement with those who highlight the possibility that the Scottish Government may be wrong. Democracy requires holding policymakers to account.

Our proposal is therefore for a Scottish Central Bank that operates under the general understanding that a central bank issues a fiat currency, mints coins and notes, oversees the payment system, sets the base rate for interest in an attempt to control the overall price level, oversees or is directly

[1] Monetary unions are special examples. The euro area, for example, operates through the Eurosystem, comprising the European Central Bank and the national central banks (NCBs) of euro-area member states. NCBs are authorised to create central bank liabilities denominated in the shared currency, the euro.

involved in regulating the finance sector (Bank of England, 2026a), and crucially has the role as the lender of last resort (Tucker, 2014). But be aware, our design does not cling to an outdated understanding of monetary operations and institutions. It designs a Scottish Central Bank that actively supports a wellbeing economy. Although written specifically to address Scotland's unique policy challenges, the paper will also provide a useful framework for a central bank in an independent Wales.

*The Scottish Government sees the macroeconomic management of an independent nation differently from almost every economic commentator, including pro-union, pro-independence, and those without a dog in the fight.*

## Part one: The current Scottish Government proposal for currency and a Scottish Central Bank

Before outlining our vision for a SCB, we must explain our concerns with the current Scottish Government (2025) proposals, which build on the similar economic prospectus outlined in Scottish Government (2018; 2022). Scotland is to continue to use the pound sterling after independence while a “careful, managed and responsible transition” (Ibid: 32) takes place. During this transition, the Scottish Government will levy taxes and impose fines in pounds sterling. The Government and all its agents will pay salaries and all expenses and expenditures, including interest on any sterling-denominated debt, which it may inherit after independence, and have its principal net borrowing (government spending minus taxation) in pounds sterling.

*The Scottish government maintains its role as a currency user (similar to its pre-independence days) for an extended period. If we consider the transition to independence taking five years (the Brexit timetable), plus an ‘extended period’ of transition, this could extend the process from six to ten years.*

It is also worth clarifying that during this period, all financial products, including private and public pensions, will be denominated in pound sterling (Ibid). As such, the domestic non-government sector will remain anchored to the pound sterling over a similar timeframe (six to ten years). Without a Scottish currency, the private sector will continue to use sterling to pay taxes for most transactions. Similarly, the foreign sector will operate with the Scottish government, businesses, and households on a business-as-usual basis, expecting to be paid and offering goods and services denominated in sterling.

We have been explicit in detailing the function of currency above in the three sectors of the economy (government sector, domestic non-government sector and the foreign sector) because there is no detailed and clear explanation of how the everyday economy would function in any of the three Scottish Government principal sources (Scottish Government, 2018; 2022; 2025). In fact, (Scottish Government, 2022) illustrates, in our opinion, a deep misunderstanding of currency, monetary operations and the job of a central bank;

> “While Scotland is still using sterling, many aspects of monetary policy would continue to be set by the Bank of England. However, an independent Scottish Central Bank would be established *with oversight of monetary and economic conditions in Scotland and with responsibility for financial stability.* (Emphasis not in the original) (ibid: 32)”

The proposal acknowledges that the Bank of England (BoE) will be Scotland’s Central Bank for “many” of its operations; however, it identifies two essential roles for the Scottish Central Bank: overseeing the economy and financial stability. Given this dichotomy, it is essential to detail the BoE role and then investigate whether a non-fiat-currency-issuing Scottish Central Bank can carry out the functions the Scottish Government has identified.

## The tale of two banks

We outlined the functions of a central bank in our introduction, but they are worth investigating further: i. overseeing the payment system (including issuing notes and coins); ii. setting the base rate for interest, creating, deleting and managing central bank liabilities to achieve the target rate; iii. overseeing or being directly involved in regulating the finance sector; and iv. the role as the lender of last resort. The BoE operates in all four areas across the United Kingdom and would continue to do so under the current Scottish Government's independence plans. The SCB would have no involvement in these areas. In detail:

i. Only the institution that issues the unit of account can oversee the payment system. In the UK, the unit of account is sterling, and the BoE is the monopoly issuer. The BoE uses its powers and privileges to ensure all payments clear and that the money supply is sufficient to enable all financial transactions.

The SCB will not have this power until it issues its own currency.

ii. Monetary policy can be summarised as setting interest rates and managing the level of central bank liabilities (including selling and purchasing government debt). A currency-issuing government controls this process exclusively through its fiscal agent, the central bank. If a government uses sterling as its unit of account (that is, it makes payments and collects taxes), then all monetary policy — no matter where the government is located — is carried out by the UK's fiscal agent. Only the UK government, through its fiscal agent the BoE and associated bodies like the Debt Management Office and Royal Mint, can create central bank liabilities by creating digital entries into central bank reserve accounts, issuing new central government public debt or minting cash and coins. It is the only institution that can delete those liabilities, and it does this by collecting taxes or fines.

While using sterling, the Scottish government must first obtain pounds (the Scottish economy as a whole must earn or borrow in a foreign currency) before it can spend. The SCB will not set the base interest rate, and it cannot create sterling or any central bank liabilities. Unless a central bank has monetary policy control, it can not in any meaningful way attempt to oversee *"monetary and economic conditions in Scotland."*

iii. Every pound held by a Scottish business or household is accounted for within the BoE reserve system which includes the balance sheets of all financial firms. All liabilities and assets are accounted for in sterling. In effect, with the exception of physical pounds in Scottish wallets, purses and safes, there is in fact no currency in Scotland. This alone highlights why only the BoE can oversee Scotland's financial system. Governments can try various ways to ensure short-term economic stability (capital controls, overseas ownership rules, etc.), but the central bank's role as the regulator of the domestic financial system is central.

As long as the Scottish Government uses sterling as its unit of account, it is impossible for any Scottish Central Bank to have *"responsibility for financial stability."*

iv. The essential ‘lender of last resort’ function (Tucker, 2014) — which is essentially an unlimited capacity to create new liabilities and exchange bank money at par for government money — can only be exercised by the BoE. This insurance policy for the domestic economy underpins the monetary system, including the government's creditworthiness. The BoE would be under no obligation to create new central bank liabilities for the Scottish government or, in fact, any organisation in Scotland.

Berkeley et al. (2025: 874) explain the practicalities,

> “HM Treasury stands ready to provide financial assistance [via the BoE] to ensure economic stability in [for example] the event of commercial bank failure. Stabilization powers include the transfer of banking entities into public ownership and the provision of deposit insurance”

In other words, the consolidated UK Government can provide financial assistance to any organisation it wishes to support. But considering the political and economic fallout from Scottish independence, can we assume this will extend to an independent Scotland, and all businesses and households?

To provide these ‘stabilization powers’, any central bank (instructed by the Treasury) must be able to issue its own (or a shared) unit of account. Scotland cannot have financial security or stability while these privileges lie with a foreign nation.

The SCB and the wider Scottish government would operate without this insurance. The SCB *could* be the ‘lender of last resort’, but it would first have to borrow those pounds and then lend them! This stretches the LoLR definition to the breaking point. The SCB may have the nameplate, but it has none of a central bank's powers.

*As the GFC showed, central banks' currency-creating privilege saved modern money economies (Tucker, 2014). More recently, as the COVID-19 pandemic has shown, a wholly owned central bank's ability to create its own liabilities in its own unit of account was the single most important macroeconomic factor in stabilising national economies (Felipe et al., 2021). Without these privileges, there is no stability.*

The summary above allowed us to look more critically at the (Scottish Government, 2022) restricted role for the SCB, and we must state this clearly: only the UK government, as a combined entity, would have “*oversight of monetary and economic conditions in Scotland and with responsibility for financial stability”.*

*Certainly the Scottish Government could create an organisation called the Scottish Central Bank, but it would be a paper exercise. The creditworthiness and operational reality of the central bank—or the Scottish Government as a combined entity—would depend principally on the financial security that comes with the power to compel tax payment in its own unit of account, a privilege that Holyrood will grant to Westminster. In other words, the Scottish Government's creditworthiness will depend on the UK government.*

Operating within the sterling monetary system, an SCB without its own unit of account would have fewer privileges than a bank on a Scottish high street (which would, of course, be registered in England). Not to put too fine a point on it, the stability of Scotland's *independent* economy will depend entirely on the UK. In practice, the longer the Scottish economy uses a foreign unit of account, the less creditworthy and operationally independent its government will be.

### The operational reality

In practice, a Scottish Central Bank can be launched only alongside the creation of a Scottish currency.

It would be exceptionally challenging, if not impossible, for the Scottish Government to pursue any form of economic management without oversight of a modern central bank's core functions.

Now that we have positioned a functioning central bank in Scotland within a fiat money system, we now turn to the main part of the paper: the design of the Scottish Central Bank to support a wellbeing economy.

## Part two: A wellbeing economy alternative

Scottish academics, commentators, civic organisations, and progressive politicians have collectively described an aspirational economic alternative as pursuing a wellbeing economy, a well-established term in Scottish policy circles (McCartney et al., 2025; Scottish Government, 2025; WEALL Alliance, 2026). Indeed, a significant driver of Scottish independence is the ability to escape the confines of the UK's economic system. However, the current plan for independence risks replicating the very economic system, including its monetary institutions and financial system. We question how it would be possible to construct a wellbeing economy within the same framework that has failed to even acknowledge that a wellbeing economy is desirable. [2]

In part one, we found that the Scottish Government will allow the core monetary functions of a central bank to remain with the BoE and will subsequently design the 'new' SCB in the BoE's image. This process counters, perhaps, the principal reason for independence: the unique opportunity to design and create a nation's own institutions.

We consider the SCB to be a critical formal institution in Scotland's economic framework. It would, of course, be part of the broader institutional design for creating a prosperous economy. With that goal in mind, we propose a democratic institution that focuses on full employment, reduces income and wealth inequality, directs resources to the real economy rather than a bloated financial sector, and supports an economy and society that operate within planetary boundaries. In summary, we believe the SCB would be central to a macroeconomic framework designed to implement a wellbeing economy. [3]

We examine the design of the SCB's monetary operations, concentrating on, but not limited to, interest rate policy, reserve levels, and interest paid on liabilities. We address the unresolved tensions in existing monetary frameworks. Both orthodox and heterodox economists express dissatisfaction with the current norm: i. central banks with large balance sheets (Hooley et al., 2023; Cavallo et al., 2019); ii. large-scale interest payments on reserves (Duygan-Bump and Kahn, 2026; Forstater and Mosler, 2005; Tcherneva and Wray, 2026), and increasingly blurred boundaries between monetary and fiscal functions (Miles, 2012; European Central Bank, 2013; Tucker, 2018; Morris, 2025). We advocate a limited/small balance-sheet model that relies on no bond markets or asset purchases, resolving many of the institutional tensions within current systems. In one sense, we offer a 'less is more' answer to an orthodox and heterodox puzzle. However, upon independence, the Scottish Government (2022; 24) would seek to copy the institutional design of the UK's core financial institutions. This would include a SCB. Given the dissatisfaction with the current core concerns, as expressed by orthodox and heterodox economists, as well as by central banks (see

[2] The UK government is not a mamber of the WEGO alliance. Wales and Scotland are members. The UK government does not use the term wellbeing economy in any of its policy papers.

[3] We use the definition and the wider concept of a wellbeing economy based on the WEALL alliance's short outline that a "Wellbeing Economy is an economy designed to serve people and the planet, not the other way around. Rather than treating economic growth as an end in and of itself and pursuing it at all costs, a Wellbeing Economy puts our human and planetary needs at the centre of its activities, ensuring that these needs are all equally met, by default."

citations in the preceding paragraph), this would likely strike the reader as a bizarre starting premise for a new central bank. [4]

In summary, given the opportunity, no central banker would design a new bank based on the status quo, especially when considering how to construct the very different economic system of a wellbeing economy. One must therefore ask, why would this be the starting point for the Scottish Government's vision for a central bank? Surely there exists an opportunity to create a central bank that reflects Scotland's unique economic landscape? That is the challenge we have set ourselves. Since the BoE will initially act as Scotland's functioning central bank, table one compares the BoE's current role with our framework for the new SCB. As explained in our introduction, for our comparison, we assume the SCB launches alongside Scotland's own fiat currency.

Table one. The Bank of England v the new framework for a Scottish Central Bank. Simple comparison.

| Policy | Bank of England | Scottish Central Bank |
|---|---|---|
| Financial regulation* | YES | YES |
| Treasury backstop* | YES | YES |
| Public ownership* | YES | YES |
| Supervision of the payment infrastructure* | YES | YES |
| Separation of roles of Treasury and central bank* | YES | YES, but much clearer; the SCB is not independent |
| Involvement in credit allocation* | YES | YES, but indirectly through bank regulation |
| Minimal balance sheet | NO | YES |
| Interest rates as the main tool for economic stability | YES | NO |
| Interest on government liabilities held in reserve balance accounts | YES | NO |
| Intra-bank lending** | YES | NO |
| Unlimited liquidity for regulated member banks** | NO | YES |
| FX reserves accumulation policy | YES | NO |
| The NAIRU / Phillips curve framework | YES | NO |
| Central Bank capital requirements | YES | NO |
| Full employment mandate | NO | YES |
| Full bank deposit insurance | NO | YES |

**We are principally interested in the difference between central banks, so we will exclude financial regulation, treasury*

[4] Large balance sheets are a legacy issue stemming from the GFC and COVID-19. But the system is in place to replicate this approach should the next crisis present itself. To give an idea of the 'new normal' from 2008 to the end of 2014, the U.S. Federal Reserve balance sheet grew from $900 billion to $4.5 trillion. The BoE went from £98 billion to £407 billion.

*backstop, public ownership, supervision of the payment infrastructure, and separation of roles of Treasury and central bank.*
***Can be seen as competing solutions to the same issue.*

Our framework differs significantly from the status quo. Below we expand on the practical implications of the divergence.

**Minimum balance sheet**

A central bank balance sheet records what it owns (assets) and what it has issued or owes (liabilities), including banknotes and commercial bank reserves. The BoE's weekly report of 2 September 2026 shows liabilities of £743b, consisting mainly of £644b in reserve balances and £99b in banknotes in circulation (Bank of England, 2026b).

The SCB's balance sheet would mainly include provisions for cash, notes, and coins in the banking system, as well as foreign exchange initially generated when households and businesses exchange foreign currency for Scottish currency. It would not engage in operations that create a large balance sheet.

**Interest rates as the main tool for economic stability**

Modern central banks primarily focus on interest rates to manage the economy. Raising interest rates is expected to slow the economy and temper demand, which should reduce inflation. So reducing interest rates is presumed to have the opposite effect. Using interest rates to keep inflation close to the target (typically 2%) [5] is the main tool for maintaining relative price stability. Central banks also operate on the belief that high interest rates support, or even underpin, a strong currency which provides economic stability. But supporting a positive interest rate [6] for a floating currency means increasing government deficit spending to cover interest payments on the public debt; that additional deficit spending is likely to be inflationary and highly regressive. Additionally, the data do not support the hypothesis that interest rate policy determines the currency's exchange rate. We would argue that, in general and for a long period, at least since the 1980s, the traditional use of interest rates to maintain economic stability, especially inflation, has failed. This was partly conceded by central bankers (BIS, 2023) in relation to the post-COVID-19 supply-side inflation where, "monetary policy has close to no traction" (Ibid: 1). In sum, it is time for the blunt instrument of interest rates (Galbraith, 1958) to be consigned to the *gold standard world* where it belongs.

The SCB will play a structured role within the Scottish Government to maintain economic stability. Primarily, it will ensure a resilient financial services sector through regulation and supervision. The SCB would have limited operational independence, setting interest rates close to the policy rate, fixed at 0%.

**Intra-bank lending versus unlimited liquidity for regulated member banks****

[5] Since the start of 2021 inflation has only been close to the BoE target rate for two months (May & June 2024) and has in the main been substantially higher. It was for a brief period (September 2024) below the target rate. This mirrored the framework's poor performance from the 2000s.
[6] As Forstater and Mosler explained in 2005, in the absence of government intervention, the central bank's policy rate is 0%. A higher rate requires interventions to support it, such as paying interest on balances held at the central bank and the Treasury selling securities.

Most central banks allow and support member banks lending their reserves to each other. In the first instance, interbank lending covers a bank's overdrafts at the central bank. Interbank lending addresses a lack of settlement liquidity: an individual bank may not have sufficient funds in its reserve accounts to settle payments or transfers and may struggle to borrow those funds from other banks. By allowing unlimited overdrafts for regulated central bank member banks, interbank lending becomes unnecessary. Unlimited liquidity for regulated member banks is the more efficient structure. The central bank adds no additional risk, as the government regularly examines all bank assets to ensure banks qualify for government deposit insurance. That means bank assets have already been determined to exceed liabilities, including central bank overdrafts, by the required margin.

By offering unlimited liquidity to regulated member banks, the SCB will improve liquidity processes for its members and dramatically enhance transparency in the monetary system.

**Interest on government liabilities held in reserve balance accounts**

Most central banks pay interest on reserve balance accounts. The BoE began paying interest on reserves in 2006 (Bank of England, 2006). However, this practice was only institutionalised after the Great Financial Crisis (2007-2009), when the US Federal Reserve moved to an Interest on Reserve Balances (IORB) regime (Federal Reserve of San Francisco, 2013). That interest is paid to support the central policy rate (Ibid.) when it's above 0%. In 2025, the BoE paid £25bn in interest payments. A decade before, the figure was under £2bn. (UK Parliament, 2026).

The SCB will revert to a pre-financial-crisis system designed for central banks with low balance sheets. Consistent with its 0% rate policy, it will not pay interest on any funds held as reserve balances. Some European central banks have already moved away from remunerating all central bank reserves at the policy rate, and this could be the general direction of travel for medium-sized open European economies [7].

**Foreign exchange (FX) reserves accumulation policy**

Most central banks hold reserves in foreign exchange and other liquid assets, including gold. Foreign currency reserves play no role in monetary policy under a floating exchange rate regime. Building FX reserves is functionally the same as deficit spending and has the same monetary effects by adding to aggregate demand and utilising fiscal space. However, the reserves purchased have no real economic value and instead represent a reduction in the real wealth they could otherwise have purchased. Any consideration of FX reserves should centre on specific national security imperatives, if any, rather than on monetary policy. It may well be prudent to accumulate FX reserves, but this should be a separate political decision.

The SCB will, however, accumulate significant sterling reserves in the first six months of issuing the Scottish currency as individuals and organisations buy Scottish currency with GBP to pay taxes in Scotland. It may also accumulate smaller reserves in other major currencies. FX reserves are

[7] The Swiss National Bank operates a tiered system in which reserves above a specified threshold receive a rate below the policy rate. Sweden's Riksbank pays no interest at all on a proportion of deposits held at the central bank.

intended to support the transition to the new currency and are expected to be depleted as Scotland settles its external obligations.

**NAIRU and the Phillips curve framework**

Most central banks follow the Phillips curve framework, which posits a trade-off between inflation and employment. The unobservable criterion of the Non-Accelerating Inflationary Rate of Unemployment (NAIRU) is used to suggest a level of *acceptable unemployment* to check inflation. On economic and political grounds, we suggest that this framework is incompatible with a wellbeing economy.

For Scotland, with its full employment policy, which we would hope includes a government job guarantee (Tchernava, 2020), it's entirely inapplicable. In our design, the SCB's mandate would include a commitment to full employment and economic and price stability. A consolidated government approach to full employment and price stability would replace the Phillips curve/NAIRU framework. Unlike the current system, the SCB would not have sole responsibility for achieving price stability. With a job guarantee, Scotland would have a bank of employed (rather than unemployed) people to help control the price level and a government actively controlling specific prices.

**Central bank capital requirements**

Most central banks maintain capital. This comes in the form of real and financial wealth. Maintaining capital requirements is not applicable to a floating exchange rate (non-convertible currency) because, in effect, all central banks are underwritten or backstopped by the government. Central banks maintain capital and indemnity arrangements for institutional and accounting reasons.

The Scottish Government would not set capital requirement levels for an SCB as Capital is not an operational constraint. The SCB's capacity to make payments in its own currency derives from its statutory authority as issuer of that currency, not from the size of its capital account.

**Full employment mandate**

Most central banks, including the BoE, do not have a full employment mandate. As highlighted above, the Phillips curve framework places price stability above full employment. This negatively affects an economy's material wellbeing, measured as domestic output plus imports minus exports. Domestic output rises with employment, so a full-employment policy optimises material wealth. Involuntary unemployment does untold and significant damage to people's wellbeing. Because unemployment is a consequence of government tax liabilities, by design, it reflects insufficient government spending to cover the need to pay taxes and to net save, and is therefore a direct consequence of government policy and a government responsibility.

We argue that the entire government, including the SCB, has a legal and moral obligation to pursue a full-employment mandate.

**Bank deposit insurance**

Most countries limit formal deposit insurance to a specific amount per depositor [8] rather than offering permanent, unlimited guarantees. The current system leaves depositors' funds at risk if banks fail. The problem is that even experienced financial analysts can't forecast which banks will fail, so this policy can cause extreme financial instability through 'runs' driven by rumours and fear-mongering. The liability side of banking is not the place for market discipline.

The SCB would offer full bank deposit insurance and be the gold standard for open, transparent lending, making the financial sector almost bulletproof, assuming the Scottish Financial Regulator were effective, especially in overseeing the level of commercial loans in foreign currency. Offering unlimited bank deposit insurance would also make the financial system simpler and leaner, freeing up real resources for the real economy.

[8] The level is £120,000 in the UK. The FSCS covers consumers when financial firms go bust.

## Timing

A Scottish Central Bank would be created alongside the creation of Scotland's other formal institutions, including its own currency. It is therefore essential to outline the central bank's role in supporting the transition from using sterling to adopting a new Scottish currency.

Jan 2nd 2030 [9]
Scotland becomes independent. Scotland and the UK initially operate under the status quo, including fiscal and monetary arrangements, as transition arrangements and negotiations are made.

Jan 2nd 2031
The Scottish Central Bank opens applications for Scottish bank licences. Licences will be granted to commercial banks, which, in the normal course of business, as agents of the government, facilitate the conversion of sterling and other currencies into the Scottish currency on behalf of their clients, on a continuous basis. The financial regulator and the Scottish Government would set specific conditions, requirements, and regulations. For example, these may be that ten licences in total shall be granted, licence holders must reapply every five years, all licence holders must operate from physical branches across the country, banks must have worker participation on the board, applicant banks who currently have sterling-denominated accounts for Scottish residents must facilitate the voluntary transfer to Scottish currency accounts, and all licence holders must have headquarters in Scotland.

Jan 2nd 2032
A new central bank and payments system would be operational. From this point forward, the Scottish government would spend in Scottish currency by adding (crediting) reserve balances held at the SCB, sign new contracts in the Scottish currency, and receive all taxes and fines in the Scottish currency. The Scottish government would renegotiate all outstanding contracts, acknowledging that some may continue to be paid in sterling. There is no forced exchange of sterling to Scottish currency. SCB foreign exchange reserves will start at zero and will be built primarily by exchanging Scottish currency for sterling through FX. As Scottish currency is exchanged at par, the FX value will match the sterling value (until 2nd July 2032, see below). The SCB will open foreign currency accounts at other national banks and will provide Scottish currency bank accounts at the SCB for other central banks. Scotland's domestic non-government sector (households and businesses) would, as is the case now, continue to accept any unit of account for any good or service provided. For example, if a retailer wishes to continue charging in sterling, they can. Similarly, if an exporter wishes to be paid in sterling, they can. However, the retailer and exporter must pay local, regional, and state taxes in Scottish currency, as will their employees and counterparties. Banks with state licences could credit Scottish currency deposits by issuing loans. Bank money would be exchanged at par for Scottish currency bank reserves. As noted, regulated banks at the SCB would have unlimited overdrafts, with no interbank lending, full deposit insurance, and no interest paid on reserves.

[9] The date of independence is not a precondition; it is simply set to establish the timeline.

January 2nd 2032 to July 2nd 2032

The SCB will offer to purchase sterling at a 1:1 rate. Anyone who wishes to exchange £1 for 1 unit of the Scottish currency can do so at par. Following this period, this policy ends, and the Scottish currency floats. The demand for new currency needed to pay annual taxes of approximately £85 billion based on current (Scottish Government, 2026) figures, in the first year of independence, along with the desire of the vast majority of the population to convert its sterling financial assets to Scottish currency-denominated financial assets, would ensure that the currency sustains its purchasing power. The Scottish Government is the monopoly issuer of the unit of account needed to pay taxes and fines in Scotland, and its tax and spending policy determines net demand. Financial products denominated in sterling, such as mortgages, credit card loans, student loans, and gilts, will qualify for exchange at par. These are private agreements between the lender and the borrower. However, the lender must pay local, regional, and state taxes in Scottish currency. The lender must also be regulated in Scotland and therefore must operate within prudential guidelines, which would stipulate macroprudential aspects, including currency-exchange risk. The borrower must also pay local, regional, and national taxes in Scottish currency. After this date, private individuals and organisations can continue to determine their own currency risk exposure.

July 3rd 2032, ongoing

Short-term government bills (three-month T-bills) denominated in Scottish currency and paying interest at approximately the SCB policy rate (0%) would be available in the primary and secondary markets.

In sum, the role of the Scottish Central Bank and the real-world application of Scotland’s transition from a sterling-based monetary system to a Scottish currency system would, of course, be vastly more detailed than summarised above. However, this covers many important operational aspects and provides an understanding of both the scope of work and the timeline.

Within three years of a vote for independence, with pre-planning between now and the date of a successful vote, there is no reason a Scottish Central Bank could not be fully operational, overseeing a fiat currency issued by the Scottish government.

## Conclusion

There is striking agreement across otherwise very different perspectives that a period of sterlingisation, the colloquial term for a post-independent Scotland continuing to use sterling as Scotland's unit of account, would be sub-optimal (MacDonald, 2023; Kay, 2021; Armstrong and Ebell, 2014; Common Weal, 2018; Laurentjoye, 2026). The UK government would also likely view this position as far from ideal. In the Office of the Secretary of State for Scotland 'Currency - summary leaflet' (UK Government, 2014), Westminster makes its point clearly that should Scotland become independent, the UK government's position would be to "protect the interests of the people of England, Wales and Northern Ireland". It is therefore unlikely that, among other financial risks, unnecessary exposure to currency risk would be acceptable [10]. And of course, the UK Government would need to fully support Scotland continuing to use sterling, which, in effect, means access to the BoE payments system and reserve balance accounts.

*This casts doubt on the Scottish Government's overall proposal for Scotland's monetary institutions. It would further suggest that the current prospectus for a Scottish Central Bank does not align with operational reality. These are significant charges to answer for an administration pushing for a 'fresh start with independence'.*

Perhaps the only constituency to disagree with the conclusion above is the current (and previous) Scottish National Party-led administration. This alone would suggest that more scrutiny of the wider proposals for Scotland's monetary institutions, including its central bank, is warranted.

Specifically, regarding a Scottish Central Bank, while such an institution might carry the title of a central bank, as long as Scotland continued to use another state's currency, it would lack many of the fundamental powers required to operate as a fully functioning independent central bank.

In contrast, our design for an independent Scottish Central Bank is based on Scotland's *endgame*: operating a wellbeing economy. It supports a Scottish economy that operates within planetary boundaries and focuses on full employment. It is an institution with strong democratic oversight. Its policies will reduce income and wealth inequality and direct real resources away from the financial sector and towards the real economy. By design, the Scottish Central Bank has a minimal balance sheet, does not use the unemployed as a buffer for price stability, does not pay large regressive interest payments on government liabilities, provides unlimited, but strongly regulated, liquidity, does not use fiscal space for foreign reserve accumulation, places full employment at the heart of its mandate, provides full bank deposit insurance, and does not constrain the central bank's operations

[10] Most taxation in Scotland is currently collected by HM Treasury. Devolved taxes are collected and deposited in the Scottish Government's cash account called the Scottish Consolidated Fund (SCF). The block grant tops up this cash account. The Scottish Government's tax revenue is around £85 billion each year, and those pounds would continue to circulate within the Scottish economy once Scotland was independent rather than much of it being deleted by the BoE, as is currently the case. Any of those pounds could be spent in the remaining parts of the UK, and it is unclear whether the UK Treasury would be happy to have a substantial stock of these liabilities held by foreigners. This is only one of the likely issues that the UK government would have with Scotland continuing to use sterling as its unit of account. There may also be benefits for the UK, for example, having a demand for its currency across the UK and having control of its nearest neighbours economy.

with capital targets. In summary, it is designed to support a modern money economy in pursuit of a wellbeing economy and dispenses with the burdens of the contradictions and inefficiencies of legacy systems.

In February 2025, Adriana Kugler, a member of the Federal Reserve Board of Governors, said during her Whittington Lecture on monetary policy that

> "Policymakers must be open to various options, models, and frameworks—and not be afraid to experiment in search of more accurate answers. Policymakers must be very attentive to the most recent contributions from academia and empirical practitioners." (Federal Reserve, 2025)

We are sure we are not alone in echoing the Governor's thoughts.

If central banks are indeed the 'only game in town' in today's modern economy, they do not need to be built on an orthodox understanding of monetary operations. For Scotland, independence is a unique opportunity for an institutional reset. Rather than inheriting UK financial structures and monetary policy functions, Scotland can instead design a central bank that supports full employment, price stability and resilience, aligned with the concept of a wellbeing economy.

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