

Sterlingisation might not work for the SNP: that is why...

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I had an article in [The National newspaper in Scotland](#) yesterday that was more significant, I think, than usual.

I firstly used the column to address the criticism that has come my way for writing the [Twitter thread that I did on Monday](#) criticising the Scottish government's plan for the Scottish economy, post-independence.

I am aware some SNP members did not appreciate my comments. But, as I pointed out, I am not a member of any political party, anywhere. I offer commentary on what is happening in Scotland and elsewhere on the basis of my reasoning, not party politics. If that means I have to challenge a prevailing political view, so be it. I am willing to take the criticism for doing so.

I then used most of the column to expand on my concerns about the plan Nicola Sturgeon presented. Rather than repeat themes on the risk that this plan has inherent in it, which I explored on Monday, I developed another reason for concern. This develops an idea Tim Rideout and I have discussed on the potential credibility of a Scottish central bank, which this new plan sys is on offer after independence.

Unfortunately, in my opinion, the plan that the SNP has offered makes no sense. As I explain in the article, the new central bank will lack almost all the characteristics of such an agency if Scotland uses sterling after independence. That is because it will not be able to:

- Issue currency
- Set interest rates
- Act as borrower of last resort
- Regulate commercial banks

That leaves it as a central bank in name only.

The last of the issues I list is a particular focus for my concern. As I point out, commercial banks registered in Scotland (as no doubt the government of an independent Scotland would require for tax purposes, and to provide a veneer of a

regularity environment) would, however, still need to clear all their payments through the Bank of England central bank reserve account clearing system if sterling was the currency in use after independence. That is because the BoE is the issuer of sterling, and there is no viable parallel system for clearing interbank payments available (or even plausibly possible in my opinion) in that currency other than the one they have created.

My key point after noting that is that the Bank of England does not appear to make such clearing systems available to foreign banks. It does to the London based subsidiaries of overseas banks, but not the foreign banks themselves. And Scottish banks will be foreign banks after independence. It seems likely in that case that Scottish banks might have no viable way to clear their inter-bank payments after independence in that case, which would cripple the Scottish economy.

There is good reason for this BoE policy of excluding foreign banks. It is tasked with maintaining the stability of sterling, a currency only used in the UK and a few tiny overseas territories and Crown Dependencies that are as a result, and for these purposes critically, integrated into the UK banking system as a consequence. If it allows foreign banks using sterling as their operating currency and regulated by a foreign government with a differing economic policy into the UK banking system then, of course, it is going to increase the risk of instability. It is bound to refuse Scottish banks' desire to be part of that system as a result. It would have a duty to the remainder of the UK to do so.

In that case, my argument is that Scotland had better be ready to use its own currency on independence day or very soon thereafter (I suspect a very short transition could be negotiated) or else its banking system thereafter, if trying to operate in sterling, might be slow, expensive, and cumbersome at best, or inoperable at worst.

This is not me challenging independence as some have suggested. It is me saying that the risks in becoming independent need to be properly appraised, and I think the SNP have simply not done that. There is good reason why almost no country in the world tries to use the currency of another jurisdiction (and the eurozone countries do not). It is because it is nigh in impossible to do so.

All I am doing is explaining why I think that might be the case for Scotland after independence and why as a result the SNP policy of sterlingisation is not only a bad idea, but one that cannot work, in which case it harms the independence cause.

What needs to be done now? I have acknowledged in my National piece that I might be wrong and that there might be a way around this, and exploring that possibility needs to be happen. But assuming I am right (and I would not have said all this and taken the flak for it if I did not think that was the case) then there are three other options.

First, the SNP needs to say if it has the agreement of London that it might use sterling.

This negates my argument.

Second, it must show that the Bank of England are, at least in principle, open to Scottish banks using its clearing arrangements after independence. This would also negate my argument.

Or, third, the SNP needs to come back with a plan for a very rapid transition to a Scottish currency on, or incredibly soon after, independence day.

My point is simple. If the first two can't be delivered (and I very much doubt that they can be) then the only remaining credible plan for independence is the third option and I think it would be utterly irresponsible of me not to point that out, however inconvenient that might be.

I believe Scotland is a viable, mid-size European state. I am certain it could be better off independent than as part of the UK. But that is only possible if the independence movement properly appraises and presents the risks involved in the transition to independence and shows that it is competent to manage those risks by creating credible plans to do so.

All my work is solution focused. I am seeking a solution to what I think is a real problem. I sincerely hope the SNP will address the issue. It's now on the table. I think they have to address it now.