Llywodraeth Cymru
Welsh Government

Welsh Government Wales Economic and Fiscal Report 2025

October 2025

This report provides the economic and fiscal context for the draft Budget 2026-27.

Wales Economic and Fiscal Report 2025

Foreword

This is the second Wales Economic and Fiscal Report (WEFR) by the Welsh Government. It follows the first edition published in 2024. WEFR replaces the previous Chief Economist's Reports, first published in 2017 alongside the Welsh Government Draft Budget for 2018-19.

WEFR is drafted by a range of Welsh Government analysts and aims to offer insights into the factors influencing and shaping the economic landscape in Wales. This includes looking at the latest trends in economic output, productivity, living standards, inflation, the labour market, wages, trade and the fiscal outlook. There is also analysis on two increasingly important issues, climate change and artificial intelligence.

We hope you continue to find the report interesting and useful. We welcome any feedback on the content or format of the report.

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Executive Summary

What is this report?

- The Wales Economic and Fiscal Report (WEFR) is published by the Welsh Government to explain how the Welsh economy is performing, how people's living standards are changing, and what the future may hold.
- It reflects the economic situation at the time of the Draft Budget 2026-27.
- It uses the latest available data (as of 10th September 2025) and compares Wales with the rest of the UK.

The Welsh Economy in Context

- Wales' economy is closely linked to the rest of the UK. Many of the goods produced in Wales are sold within the UK, and many of the goods bought come from other parts of the UK.
- Economic trends in the UK, such as growth, inflation, and employment, have a big impact on Wales.

Economic Growth and Output

- The UK economy has grown slowly since the pandemic, with growth rates lower than in previous decades.
- Wales' economic output per person is lower than the UK average, but similar to some regions in northern England.
- The production sector (such as manufacturing) is more important in Wales than in most of the UK, while the services sector (such as finance and IT) is smaller.

Productivity and Wages

- Productivity (how much we produce for each hour worked) is lower in Wales than the UK average, but has grown faster here than in many other regions since 2009.
- Wages in Wales are about 93% of the UK average, but have grown at a similar pace to the rest of the UK over the long term.
- Real wage growth (after inflation) has been weak since 2008, but there has been some improvement recently, albeit to return it to levels from around 17 years ago.

Artificial Intelligence

- Artificial intelligence (AI) is increasingly recognised as a key potential driver of economic change; bringing opportunities to enhance productivity, improve

public service delivery, and address global challenges. However, its adoption also raises important considerations around ethics, trust, privacy, and accountability.

- AI has the potential to reshape labour markets by automating routine tasks and increasing demand for high-skill roles. While it may support innovation and the emergence of new industries, its overall impact on productivity, economic growth and public finances remains uncertain.
- Recent survey data suggest around half of businesses in Wales are adopting AI technologies. Barriers to adoption include limited expertise, cost, and difficulty identifying use cases.

Living Standards and Poverty

- Household incomes in Wales are lower than the UK average, but the gap has not widened in recent years.
- Expenditure (and wealth) data suggests the gap in living standards between Wales and the rest of the UK may not be as low as those shown through some economic output and income measures.
- About 22% of people in Wales live in relative income poverty (after housing costs), similar to England, but higher than Scotland and Northern Ireland.

Housing and Wealth

- More people in Wales own their homes outright compared to England. House prices in Wales have continued to rise, with big differences in house prices across Wales.

Inflation and the Cost of Living

- Inflation peaked at over 11% in 2022 but has now fallen back to around 4%. It is expected to return to the Bank of England's 2% target by 2027-28.
- The cost of living crisis has affected real incomes, but recent wage growth has helped to offset some of the impact.

Jobs and the Labour Market

- The employment rate in Wales has improved since devolution, closing on the UK rate, but remains slightly below the UK average.
- The unemployment rate is similar to the UK average, but relatively more people in Wales are not working due to long-term sickness.
- Most recent UK job losses have been in the private sector, especially in lower-paid industries.

Climate Change and the Economy

- Climate change is expected to reduce economic growth in the UK and Wales in the long term, mainly through higher costs and lower productivity.
- Major emissions reductions in Wales are expected from energy supply and transport during the period 2026 to 2030.
- The transition will require upfront capital investment, mostly from private sources, but could lead to operational savings and net economic benefits and health improvements in the future.

Trade and Brexit

- Wales exports more goods (as a share of its economy) than any other UK nation or region, with most exports going to the EU.
- The value of Welsh exports has fallen recently, especially in petroleum products.
- Despite the various new trade deals, trade with the EU remains an important market for Welsh businesses.

Public Finances and the Welsh Budget

- UK Government spending and debt are both high by historical standards, affecting the funding available for Wales, as the Welsh Government's budget remains dominated by block grant from UK Government.
- The Welsh Government's budget is expected to grow modestly in real terms over the next few years, but pressures from an ageing population and rising demand for public services remain.
- Devolved taxes (like Welsh income tax) are making a growing contribution to the Welsh budget.

Looking Ahead

- Wales faces challenges from slow economic growth, rising living costs, and demographic change.
- The Welsh Government is focusing on improving productivity, supporting jobs, tackling poverty, and preparing for the impacts of climate change.

Introduction

This is the second Wales Economic and Fiscal Report (WEFR). This builds on and continues the series of Chief Economist reports published alongside each Draft Budget since 2017. The report is a development of those reports, providing the economic and fiscal context on the economy in Wales and the UK for the Draft Budget 2026-27.

While the report primarily focuses on Wales, some content relates to the UK to set a wider context and reflect the availability of certain data. UK data trends generally apply to Wales due to Wales' deep integration within the UK economy. Latest data from the Trade Survey for Wales found that around a third of goods and services sales from Welsh businesses went to the rest of the UK, compared to 17% which went to international destinations. 42% of all business' purchases came from the rest of UK, highlighting the importance of intra-UK trade for Welsh businesses.

Due to this high level of economic interdependence, many UK-wide developments are likely to influence Welsh economic conditions, particularly in the short to medium term. While fiscal, macroeconomic, and monetary policy are reserved matters and therefore largely outside the legislative competence of the Welsh Government, there remain important policy levers, such as those in transport, health, education, and planning, that can shape economic outcomes in Wales over the longer term.

The data presented in this report are drawn from a range of official sources and are the most up to date available as of 10th September 2025. However, many economic and fiscal statistics are subject to revision as new information becomes available or as methodologies are refined. Users of this report should be aware that figures may change over time, and subsequent releases may update or replace the data presented here. Where relevant, the report highlights known revisions or uncertainties.

Economic Output

The total value of UK economic output, as measured by Gross Domestic Product (GDP), is estimated to have been £2.85 trillion in 2024. The recent key aspect of UK economic output has been how it has performed relative to past performance.

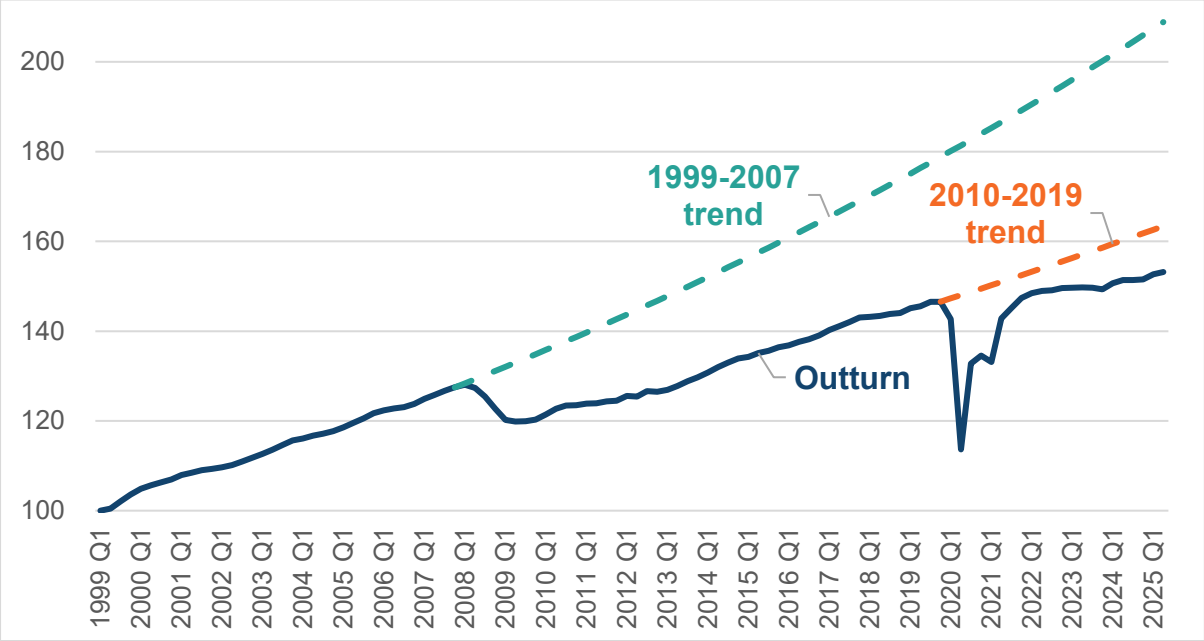
Between devolution in 1999 and 2008, UK GDP grew, on average, at around 2.5% a year. The 2008-09 global financial crisis (GFC) affected the world economy and led to a sharp decrease in the UK's economic output. Between 2010 and 2019, the economy grew but at a slower rate of growth than in the previous ten years, around 2% a year. However, since 2020, the UK economy has experienced an even lower rate of growth, at around 1% a year, see **Figure 1**.[1]

The Office for National Statistics (ONS) has suspended the publication of quarterly GDP data for Wales due to concerns about data quality.[2] As highlighted in the previous section, the economies of Wales and the UK are highly integrated, therefore the following analysis on output which draws from UK data, is highly relevant to the performance of the economy in Wales.

[1] All the data is correct as of 10th September 2025. The data, even for earlier years, may be subsequently revised. ONS released the Blue Book 2025 on 19th August 2025, which includes annual and quarterly impacts on the 2025 UK National Accounts from recent methodological improvements, and new survey and administrative information. This revises the way economic output is measured. This results in some modest changes to the UK's official estimates of economic output (GDP) from 1997 to the end of 2023. However, these estimates are only incorporated into the official estimates from quarterly national accounts release from 30th September 2025.

[2] The latest ONS data with Wales quarterly GDP was in May 2023 for the period July to September 2022; ONS (2023) GDP, UK regions and countries

Figure 1: UK Real GDP index (1999 Q1 = 100)



Source: ONS

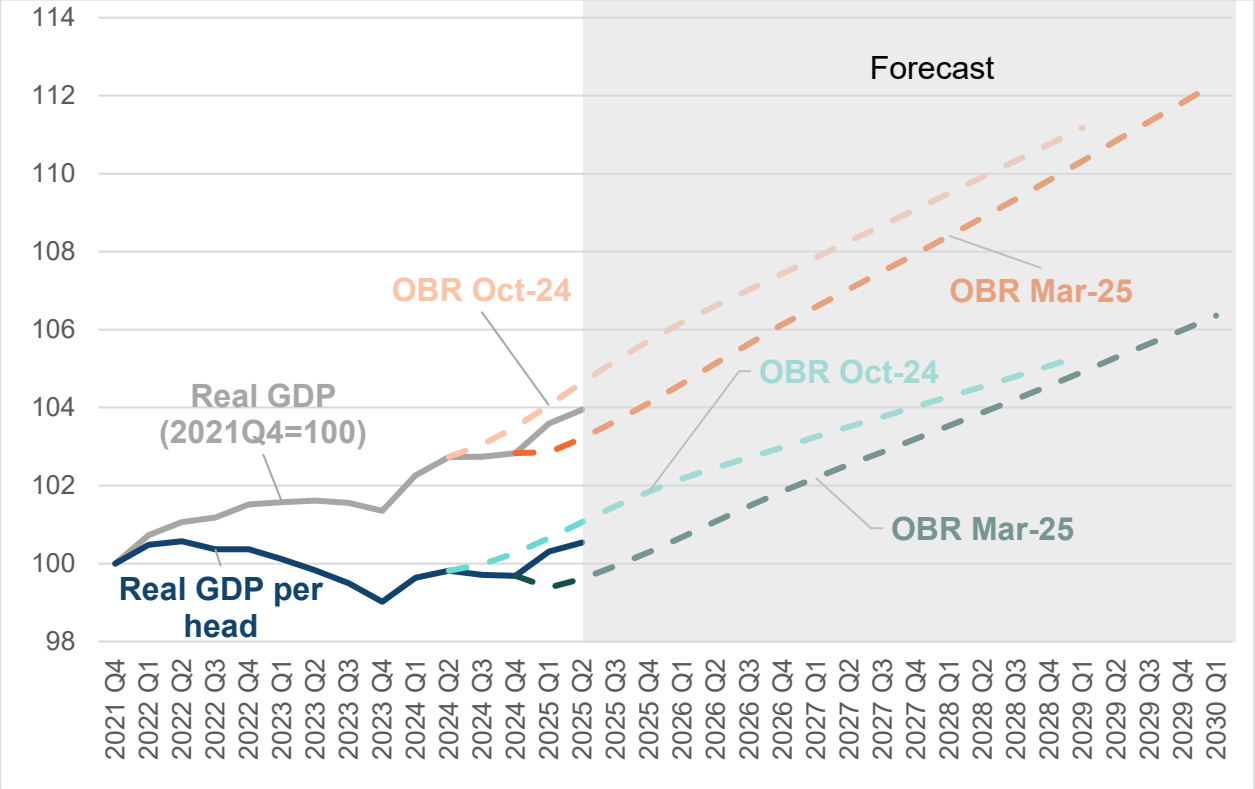
The UK economy has performed slightly below the forecasts set out in the Office for Budget Responsibility's (OBR) October 2024 forecast, which informed the Welsh Government's Draft Budget for 2025–26, see Figure 2.

In its latest forecast, published alongside the 2025 Spring Statement in March, the OBR expects GDP growth of 1% in 2025, half the rate anticipated in the October 2024 forecast. However, the OBR assumes some of the loss of growth in the short run will be partially offset with higher growth in the medium term. This results in the period 2023 to 2029, cumulative real GDP growth over the period is forecast to be only around half a percentage point lower than the October forecast.

Changes in headline GDP do not account for changes in population, making it a limited measure of economic progress. In contrast, GDP per person accounts for population change and provides a more meaningful indicator of living standards.

Like GDP, GDP per head has underperformed compared to the OBR October 2024 forecast at the time of the last Welsh Government Draft Budget. The level of UK GDP per person in the second quarter of 2025 was just 0.5% higher than in the fourth quarter of 2021 (see Figure 2), whereas total GDP was up 3.9%. This difference is largely explained by population growth outpacing economic growth during this period. Like GDP, GDP per head growth rate remains well below the long-term trend, pre-financial crisis of between 2% and 2.5%.

Figure 2: UK aggregate GDP and GDP per person index (quarter 4, 2021 = 100)



Note: *Chart axis does not start at zero.*
Source: ONS

Wellbeing and GDP

GDP is an important measure of economic progress but, as is widely acknowledged by economists, it is incomplete and does not include well-being. For example, GDP does not reflect the gains or damage caused by GDP growth on society and the environment. It does not include how economic growth is shared among society and ignores activity outside the production boundary but contributes to well-being most notably household production.[3]

An indicator approach can be used to assess wellbeing across several dimensions or goals. Such an approach is used for the Wellbeing of Wales report. Wellbeing was also explored more in the Wales Economic and Fiscal Report 2024.

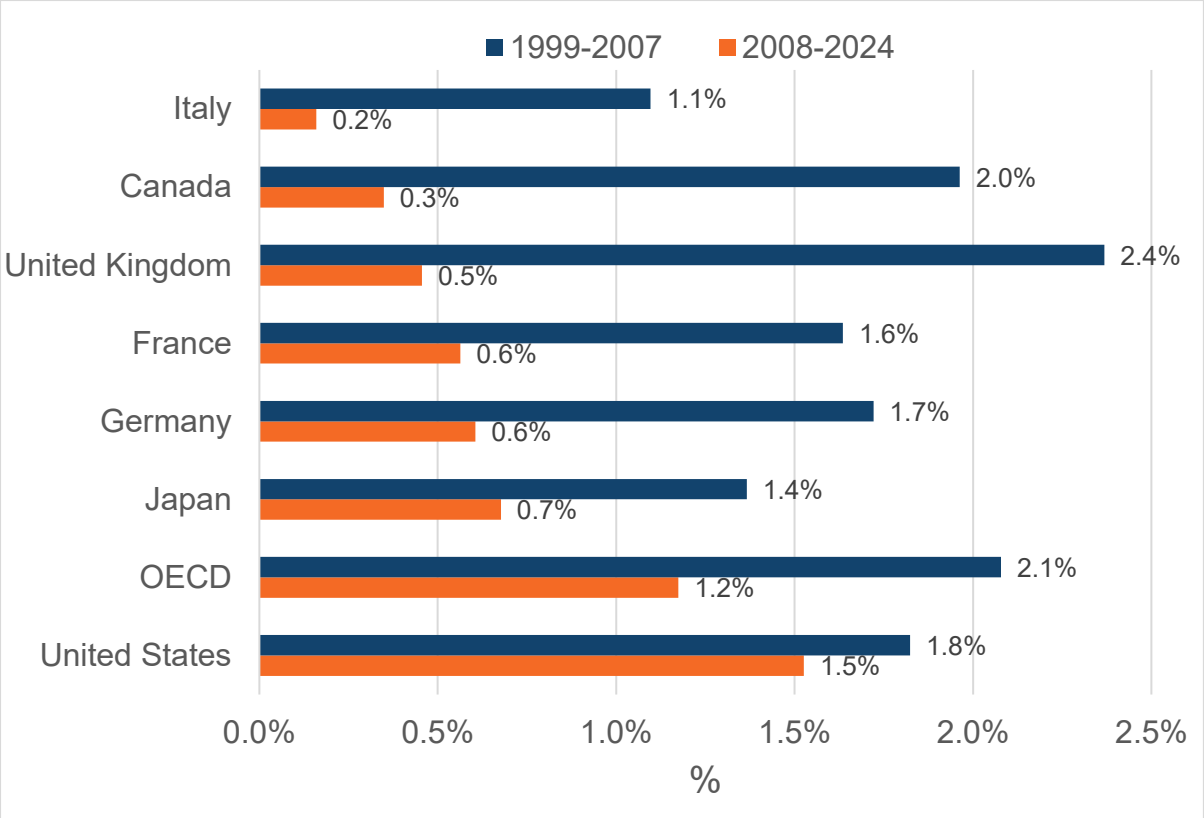
Figure 3 shows how all G7 countries had lower annual average growth per head in the period 2008 to 2024 than since the start of devolution to the Global Financial Crisis (1999 to 2007). The United States saw the smallest decline, from 1.8% to 1.5%, while the UK experienced the largest fall, from 2.4% to 0.5%. The OECD average declined from 2.1% to 1.2%.

This matters because the rate of growth affects how quickly living standards improve. For example, an average annual growth rate of 2.4% would double GDP

[3] For more details, see ONS (2024) Measuring progress, well-being and beyond GDP in the UK

per capita in around 30 years. At a rate of 0.5%, it would take more than 140 years to achieve the same outcome.

Figure 3: Average percentage change in annual real gross domestic product per capita by country, 1999-2024

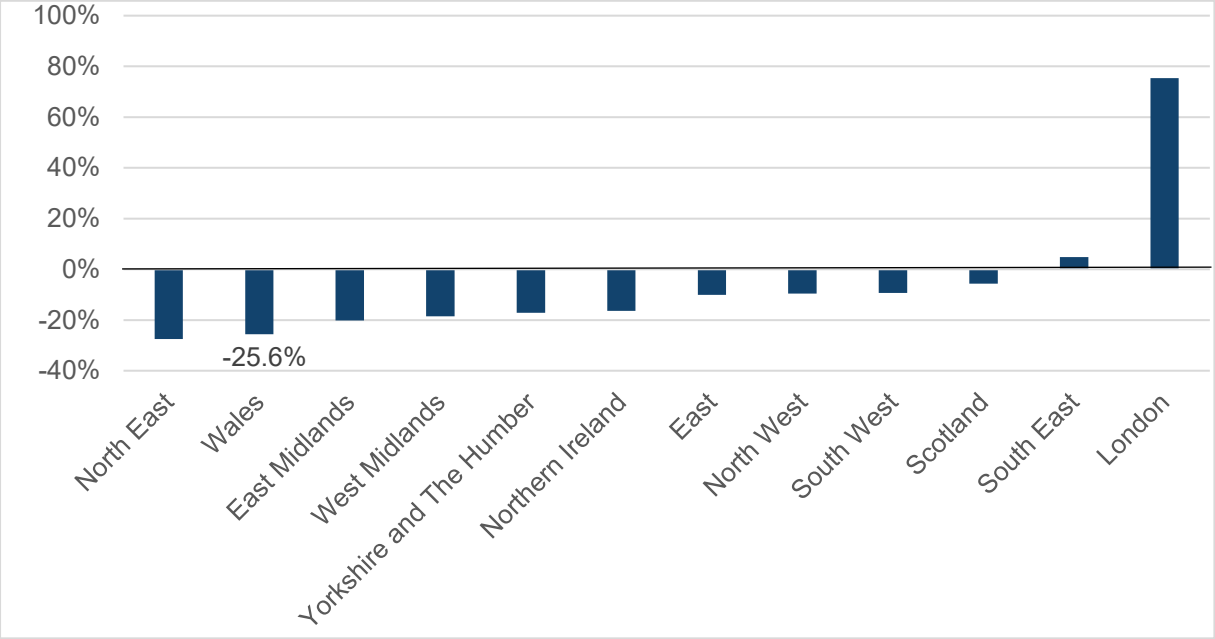


Source: OECD, NAAG

Wales' economic output

In 2023, the latest year of available data, economic output in Wales, as measured by GDP, was £92.8bn. Per person it was £29,316, equivalent to 74.4% (or 25.6% below) of the UK average (excluding extra-region). Of the 12 UK countries and English regions, only the North East of England (72.5% of UK) had lower GDP per person than Wales, see **Figure 4**. London's high economic output per person marks it out as an outlier when compared with all other UK countries and English regions. When excluding London, GDP per head in Wales and all other regions are much closer to the UK average. London, and to some extent the wider South East of England, are able to benefit from agglomeration effects.[4] London also benefits from in-commuting, which adds to its economic output but not its (resident) population. Whereas Wales' GDP per head is negatively affected by *out-commuting*. Wales' GDP is also adversely affected by the age structure of the population, with a relatively high share of older people who are less likely to be in work (see later section on population structure).

Figure 4: GDP per head, percentage difference from UK (excluding ex regio), 2023



Source: Regional gross domestic product (GDP), ONS

Adjusted for (UK-level) inflation, GDP per person in Wales decreased by 0.8% (UK less extra-regio[5] decreased by 0.6%) in 2023 compared with the previous year. On a

[4] This is when there is higher firm and population density in an area which provides firms and workers with the conditions that enable knowledge spillovers, pooling of resources, and better skills for workers within the local labour market.

[5] Extra-Regio economic activity is economic activity that cannot be attached to a certain region, for example air-space, territorial waters and the continental shelf, embassies, consulates, military bases and deposits of oil, natural gas, etc. in international waters).

per head basis, GDP was down 1.8% in Wales compared to a decrease of 1.6% for UK (less extra-regio).

Sectoral Composition of Welsh Economic Output

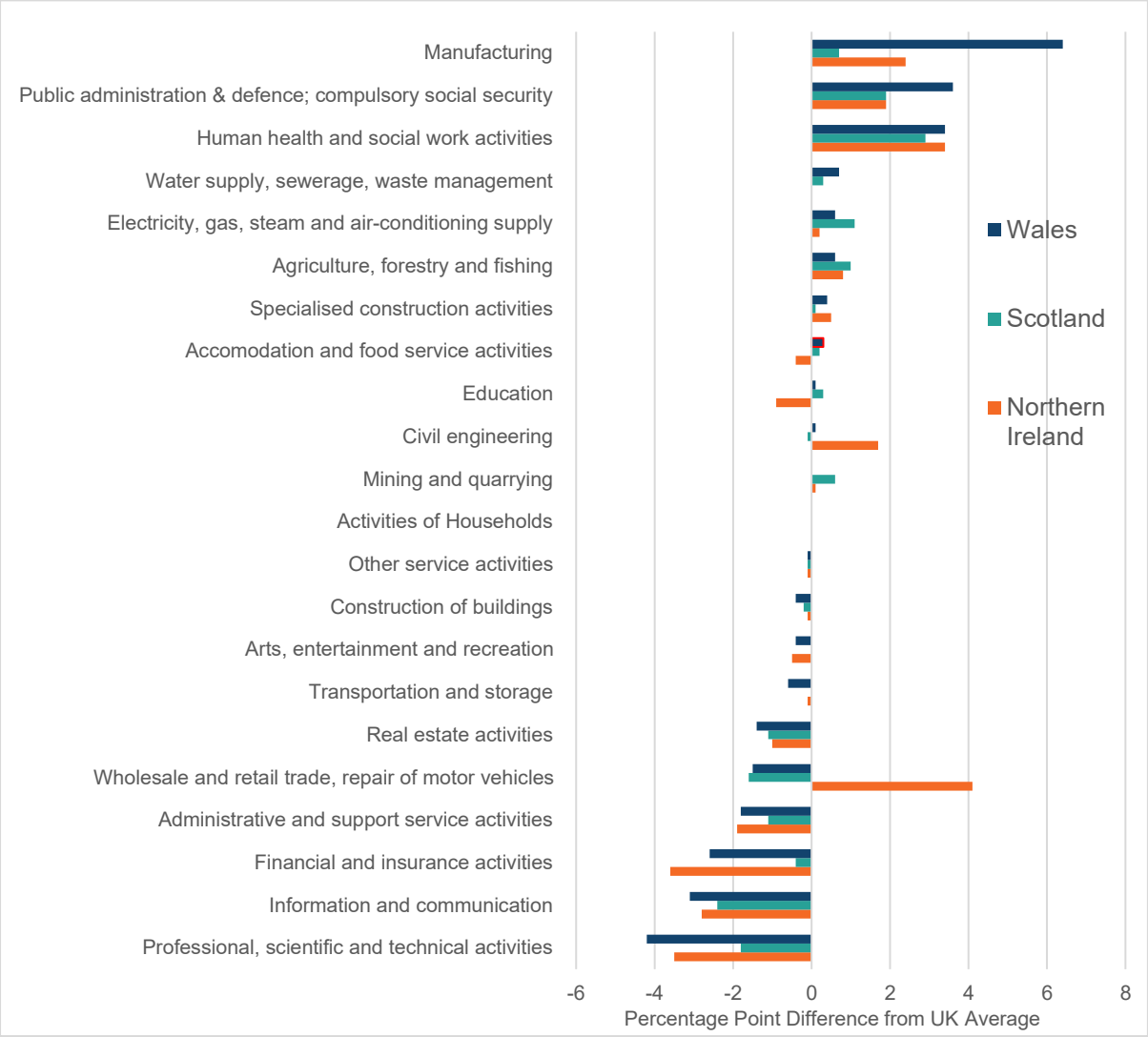
A long-standing feature of the economy in Wales, compared to the other UK nations, has been the higher share of economic output generated by the production sector.[6] In 2023, the production sector in Wales generated 21% of economic output, as measured by Gross Value Added (GVA)[7] compared to 13% of the UK's GVA. At the same time, the services sector accounted for 73% of economic output in Wales compared to 81% for the UK.

Figure 5, illustrates other differences in the composition of Wales' GVA compared to the other UK nations, most notably a higher share of output in: Manufacturing (16% in Wales and 9% in the UK in 2023), Public administration and defence; compulsory social security (9% in Wales and 5% in the UK in 2023); and Human health and social work activities (12% in Wales, similar in Scotland and Northern Ireland but 8% in the UK in 2023). In contrast, Wales has relatively lower shares particularly in: Information and communication (3% in Wales and 6% in the UK in 2023); Professional, scientific, and technical activities (4% in Wales and 8% in the UK in 2023); and Financial and insurance activities (6% in Wales and 9% in the UK in 2023).

[6] This includes manufacturing, mining and quarrying, energy supply, water supply and waste management. In the UK and Wales it is dominated by manufacturing

[7] GVA is a measure of economic output taking account of the value of intermediate inputs used in the production process. For information on the differences between GVA and GDP see A guide to interpreting monthly gross domestic product - Office for National Statistics

Figure 5: GDP per head, percentage difference from UK (excluding ex regio), 2023



Source: Regional Accounts, Office for National Statistics

Between 1999 and 2023, the value of economic output (GVA) in Wales increased almost two-and-a-half fold in nominal terms and by around 40% in real terms.[8] In that time, the value of service sector output grew by 161% in nominal terms (by around a half in real terms) whilst the value of production sector (including manufacturing, energy, and utilities) output almost doubled nominal terms and increased by around 10% in real terms.

As a result, the share of Wales' economic output accounted for by services increased from around 68% in 1999 to 73% in 2023 whilst the production sector's share fell from around 26% to about 21% over the same period. Construction's share of GVA has remained relatively stable, fluctuating between 5% and 7% over the same period, with short-term changes often linked to economic cycles and major

[8] The change is broadly similar whether using the UK GDP deflator or the Wales implied GDP deflator

projects. The agriculture, forestry, and fishing sector and the mining and quarrying sector have consistently accounted for small shares of total GVA; less than 2% each.

The value of manufacturing output in Wales increased by just over 86% in nominal terms between 1999 and 2023 (around a 6% increase in real terms). Consequently, the manufacturing sector's share of Wales' economic output fell from just over 20% to just over 15% over the same period.

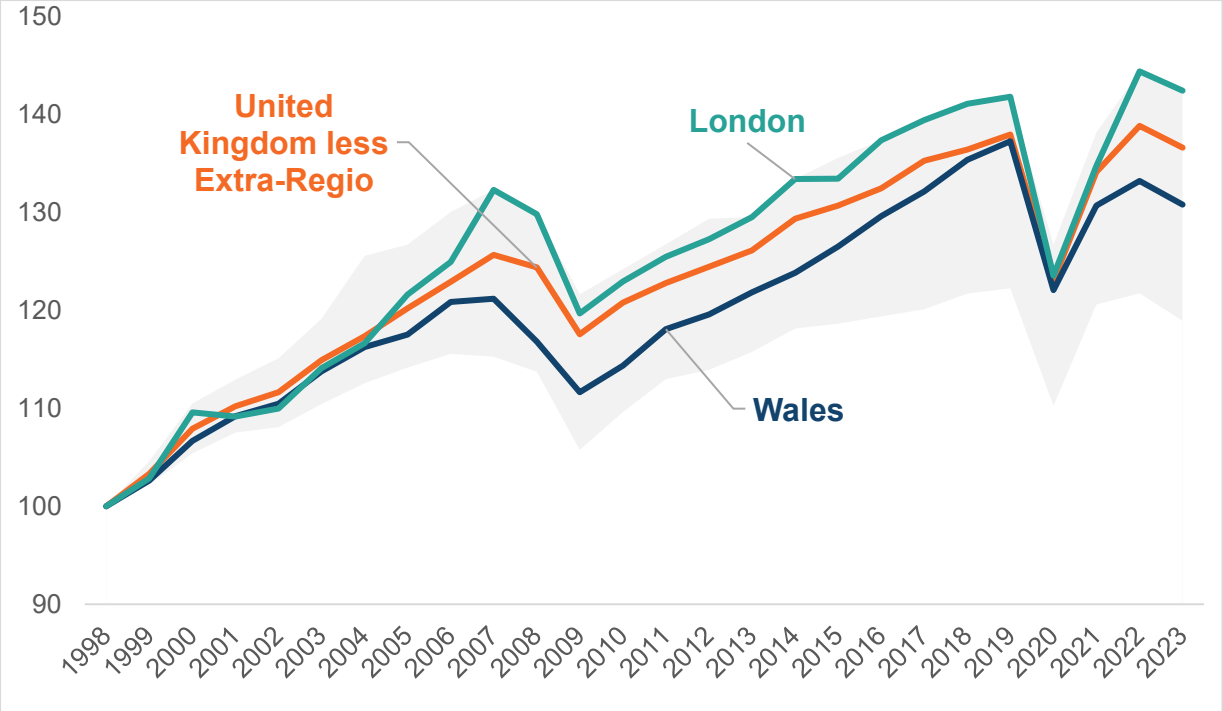
Service sub-sectors such as public administration, health and social work; professional, scientific, and technical activities; administrative and support service activities; and financial and insurance activities, account for a larger share of Wales' economic output in 2023 than they did in 1999.

These shifts reflect the tendency for services to grow faster in advanced economies due to rising incomes and changing consumer preferences.

Long term relative economic performance

Over the longer term, Welsh economic output per head has grown by 31% in real terms between 1998 and 2023, with the United Kingdom (less extra-regio) growing by 37% over the same period. London has grown by the most over the period, growing by 42%. However, the East Midlands (19%), West Midlands (23%), South West (26%) have all grown less than Wales over the period 1998 to 2023, with Wales around middle on a per head basis, see **Figure 6**.

Figure 6: GDP per head index 1998 to 2023, (1998=100)



Note: *Shaded area is the range of UK countries & English regions. Chart does not start at zero.*
Source: Regional economic activity by gross domestic product, ONS

The UK's departure from the European Union is expected to have a dampening effect on the economy, particularly through reduced trade intensity and productivity over the long run. However, quantifying those effects is challenging, as it is difficult to isolate the impact of Brexit from the range of shocks the UK and Welsh economies have experienced over recent years.

The OBR expects the total impact of Brexit to be realised several years after full implementation of the new trading relationships with the EU. It estimates the overall effect of EU exit will reduce the size of the UK economy by around 4%, with the full effects materialising 15 years after the new trade agreement came into effect in 2021.[9]

[9] See OBR March 2024 Economic and fiscal outlook – March 2024

Productivity

Why is productivity important?

Productivity measures how an economy converts input such as labour and capital into outputs. Over the long term, increasing productivity is the only way to obtain (and crucially sustain) per capita higher living standards. Higher productivity improves people's well-being in many ways. In principle, higher productivity increases both the profitability and competitiveness of firms, which in turn should provide the financial conditions for employees to ask for, and firms to offer, higher real wages. A growing economy generates higher tax revenues without raising tax rates. This provides government with options to use the resources they can then use to invest in public services, infrastructure, and/or reduce taxation. The importance of productivity growth and the assumptions made about it are discussed in more detail in the fiscal prospects section.

Productivity improvements in the public sector (for example, through digital transformation in healthcare or education) can reduce the relative cost of public services and provides opportunities for enhancing service quality and accessibility. Productivity growth through more resource efficient production can reduce waste and emissions and help decouple economic growth from environmental degradation. Productivity improvements often mean less time spent on repetitive tasks, freeing up time for leisure, family, or creative pursuits.

As identified in the previous section, economic growth in the UK and Wales has been subdued since the global financial crisis of 2007–08, particularly when compared with the preceding four decades. Since the financial crisis, productivity growth has stagnated, a trend widely referred to as the 'productivity puzzle'. The causes of this stagnation remain the subject of ongoing debate among economists and policymakers.

The UK public finances are highly sensitive to productivity. Even small increases from the OBR's central assumption on productivity growth would have relatively large impacts on the public finances. The OBR[10] estimates if productivity growth is 1.2% a year from next year, instead of 1% growth over the forecast period, then government receipts are higher by an average of £16.3 billion from 2025-26 and by £20.2 billion in the final year. Tax as share of GDP is estimated to be broadly unchanged, underlining how this is a sustainable way of increasing government resources, as more revenues are generated without increasing the tax as a share of the economy.

With spending also reduced in such a scenario (mainly due to lower debt interest payments), the OBR estimates higher productivity growth would alter the UK's current budget improving from a £58.8 billion (2.0 per cent of GDP) deficit this year

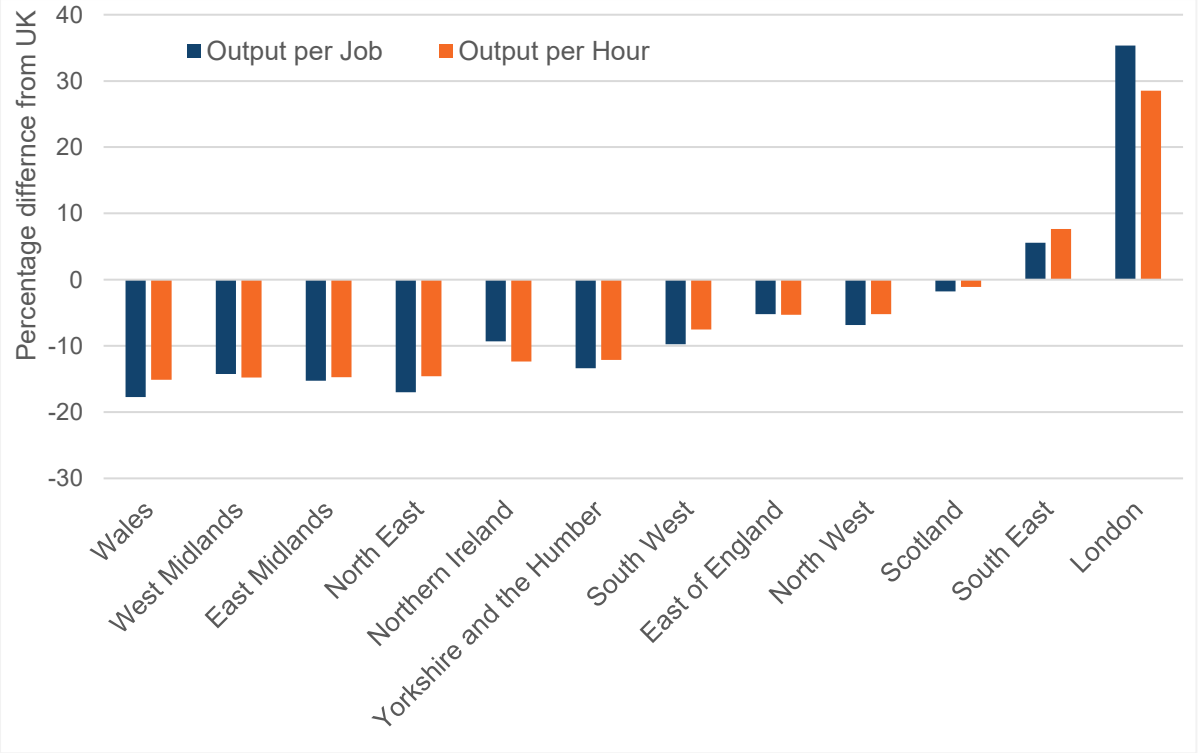
[10] Office for Budget Responsibility (2025). Economic and fiscal outlook: March 2025.

to a small surplus of £0.6 billion (0.0 per cent of GDP) in 2026-27, in surplus a year earlier than the March central forecast. It then reaches a surplus of £33.1 billion (0.9 per cent of GDP) in 2029-30, higher than the central March forecast, a surplus of £9.9 billion (0.3 per cent of GDP) in 2029-30.

How does Welsh productivity compare?

Whilst the rate of growth of productivity is important, Wales also faces the challenge that its level of productivity is lower than other UK countries and English regions. Regardless of the measure of labour productivity used, the level of Welsh productivity is significantly lower than the UK average, as illustrated in **Figure 7**. However, the UK average is skewed by London's exceptionally high productivity performance.[11] There are only two regions in the UK (London and the South East of England) with average productivity above the UK average.

Figure 7: Productivity measures relative to UK countries and English regions (2023)



Source: Regional Labour Productivity, ONS

This section includes data related to the following national indicator: **(09) Gross Value Added (GVA) per hour worked (relative to UK average)**. More information on the indicators, along with narratives for each of the well-being goals and associated technical information is available in the Wellbeing of Wales report 2025.

[11] All regions, but especially London, mask considerable variation in productivity performance within their region.

A common critique of the UK economy is the concentration of financial services in London, which disproportionately raises national productivity figures, potentially masking the relative underperformance of most other regions, including Wales. However, several studies and analysis have concluded the UK's dispersion of productivity, which includes Wales' relatively lower productivity, is more due to factors within industries and not simply due to regions having different industrial structures.[12]

Productivity differences between the UK countries and English regions are particularly evident within the service sectors, and especially between London and all other areas. Productivity differences can therefore not solely be explained by London and the South East having a predominantly service-based economy while manufacturing is more prominent elsewhere. In Wales, for example, manufacturing productivity levels are higher than in other parts of the UK.[13]

An important caveat to these findings is that when looking at lower levels of geography than UK countries and English regions (ITL1) – and especially for more sparsely populated areas – industry can explain some productivity differences. For example, some areas have relatively high shares of employment in relatively low productivity industries, which tend to include sectors such as agriculture, forestry and fishing, and accommodation and food services.[14]

The 2024 Wales Economic and Fiscal Report explored ways to improve productivity performance in Wales.[15]

Productivity levels in Wales have been comparatively low for much of Wales' recent history. **Figure 8** shows productivity levels (output per hour worked) relative to the UK average across the UK's countries over the past two decades. In 2023, Welsh output per hour worked was 84.9% of the UK average.

Since the global financial crisis, Wales has seen stronger productivity growth than the UK as a whole. Between 2009 and 2023, Welsh productivity (measured as GVA per hour worked) grew by 14.1%, compared with 10.5% for the UK. Only the North East (16.4%) and Northern Ireland (15.9%) recorded higher growth among UK countries and English regions

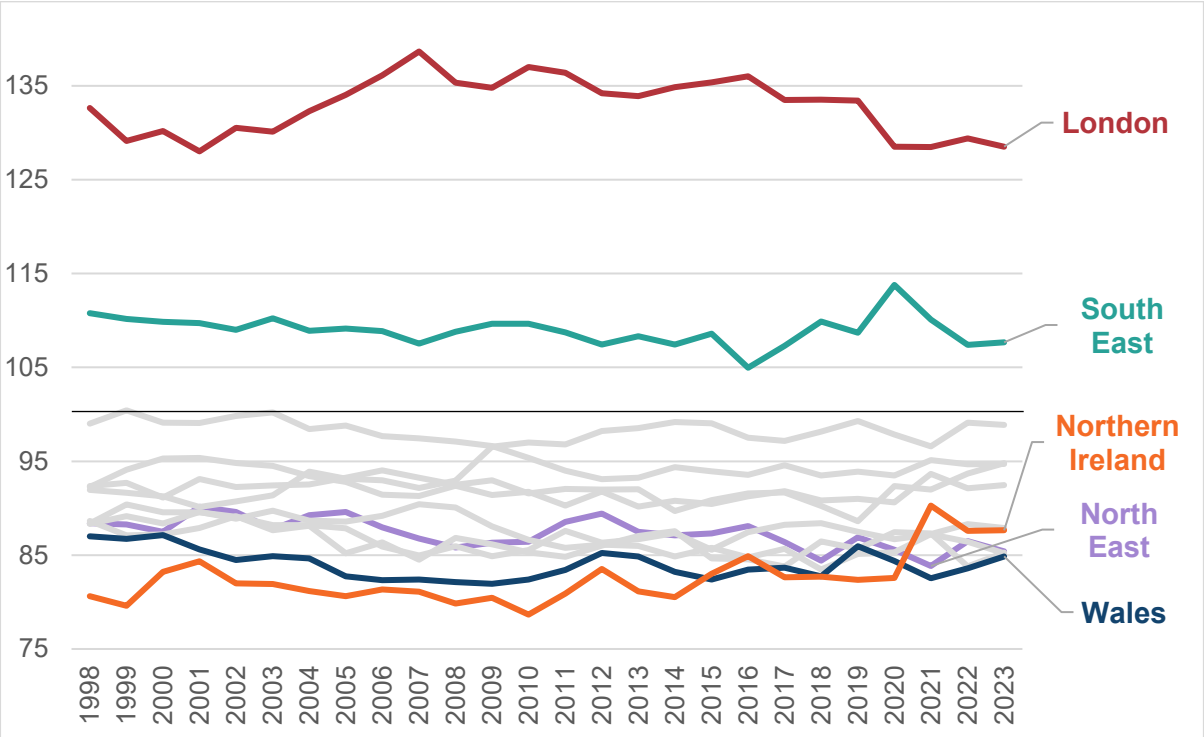
[12] ONS (2019). Understanding spatial labour productivity in the UK; R Harris & J Moffat (2021). The geographical dimension of productivity in Great Britain, 2011–18: the sources of the London productivity advantage; and, A Stansbury & others (2023). Tackling the UK's regional economic inequality: Binding constraints and avenues for policy intervention

[13] ONS (2021). Region by industry labour productivity

[14] ONS (2019). Understanding spatial labour productivity in the UK

[15] See pages 16-18 of Wales Economic and Fiscal Report 2024

Figure 8: Output (GVA) per hour worked index, UK countries and English regions (UK = 100)



Note: *Chart axis does not start at zero.*
Source: Regional Labour Productivity, ONS

Between 2019 and 2023, Wales experienced productivity growth, but at a slower rate than the UK overall. As shown in Figure 8, this has resulted in Wales' productivity index ending the period below its 2019 level relative to the UK average. The North West and Northern Ireland have had the strongest productivity growth over that period, with London and the West Midlands the lowest growth.

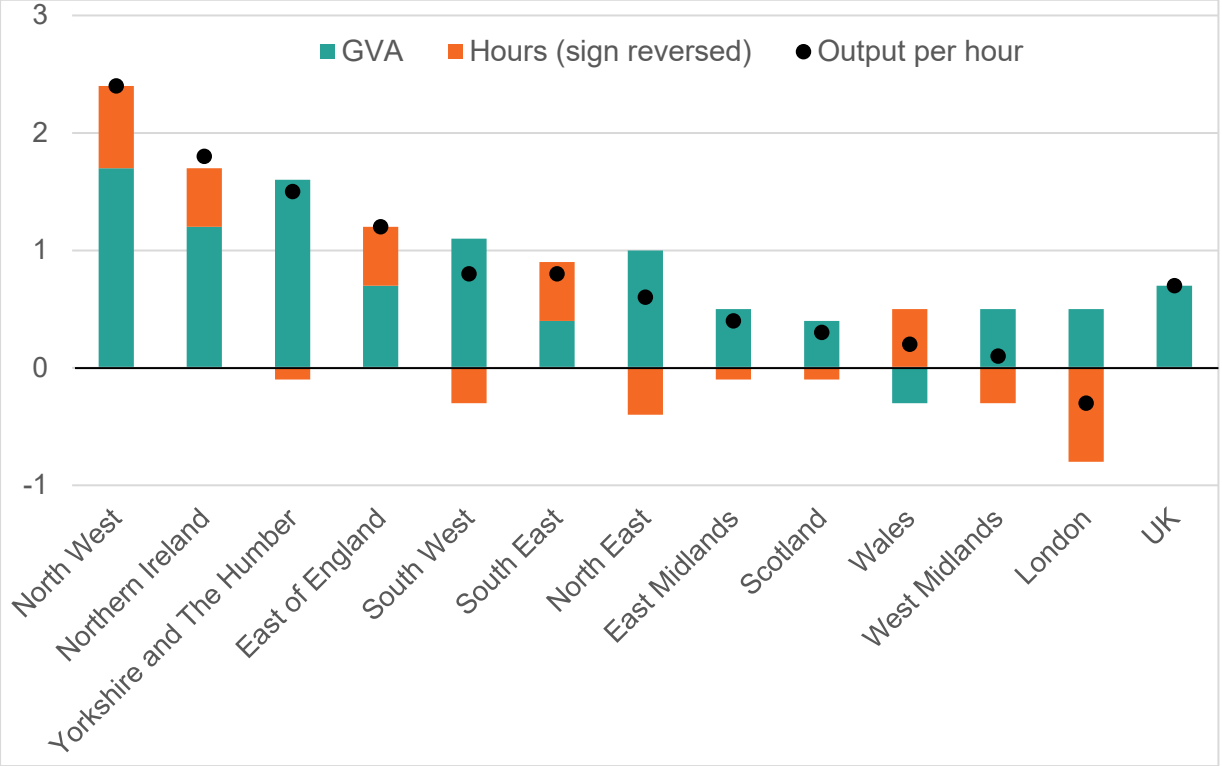
Wales stands out as the only region or UK country where output (GVA) declined over the period, consistent with **Figure 6** earlier. This trend was highlighted in WEFR 2024[16], with issues identified including Wales' relative reliance on the production sector. Brexit may also have had a more pronounced negative impact in Wales compared to other parts of the UK.

Wales productivity has increased over the period 2019 to 2023, but that is due to a proportionately larger fall in hours worked (marked as positive to growth **Figure 9**). It could be these issues are linked, in that fewer hours are being worked and the work which has been lost is relatively less productive, raising overall productivity. However, it may also be the case they are unrelated. For instance, it could be issues with measuring the labour market[17] over this period has meant hours worked are recorded erroneously as having fallen. In which case, the movements of these variables would be independent. Other English regions and UK countries also

[16] See Wales Economic and Fiscal report 2024
[17] See Labour Force Survey quality update - Office for National Statistics

experienced declines in hours worked over the period 2019 to 2023, including South East, East of England, Northern Ireland and North West.

Figure 9: Cumulative average annual percentage growth rates for hours worked, labour productivity and output in UK countries and English regions, 2019 and 2023



Please note totals may not sum due to rounding.
Source: ONS (Regional Labour Productivity)

Artificial Intelligence

The increasing creation and adoption of artificial intelligence (AI) technologies is widely identified as one of the key potential drivers of economic and social change in the coming decades. AI has been identified as having the potential to generate productivity gains, improve well-being, and help address global challenges, such as climate change, resource scarcity and health crises. The use of AI has also prompted discussion about issues such as trust, ethics, fairness, privacy, safety and accountability.

AI and its potential effects on the economy

AI has the potential to have a significant impact on economic and social outcomes. The range of AI systems, from simple tools and services like text autocorrect to complex algorithms capable of driving cars autonomously, alongside the inherent uncertainty about the future path of technological change makes it challenging to make robust statements about the economic impact of AI. Therefore, the first part of this section only identifies some of the emerging major themes in the literature on the economic impact of AI. The second part of this section presents indicative evidence on the adoption of artificial intelligence by businesses in Wales.

The Potential Economic Impacts of AI

Mainstream economic theory holds that the introduction of any new labour-saving technology has two economic impacts: the displacement effect and the compensation effect. The displacement effect leads to the substitution of the new technology for workers for certain tasks. In the case of AI, routine and predictable tasks are highly susceptible to automation, potentially displacing workers in clerical, administrative, and some service roles. It may also change some types of jobs, removing some tasks. Conversely, demand is likely to increase for high-skill occupations requiring creativity, complex problem-solving, and interpersonal capabilities. Estimates about the number of jobs likely to be affected vary markedly depending on the assumptions made. For example, the IMF estimates about 40% of jobs globally are exposed to AI, and up to around 60% in advanced economies.[18]

Historically, the compensation effect has been more important in the long run. Fewer workers producing the same total output increases the average productivity allowing scope for higher compensation for workers. Higher profits and higher earnings increased demand for other goods and services. Moreover, by lowering costs of research, development, and service delivery, AI has the potential to accelerate innovation. Entirely new industries and business models may emerge, particularly in areas such as personalised medicine, advanced manufacturing, and digital services.

[18] Mauro Cazzaniga, Florence Jaumotte, Longji Li, Giovanni Melina, Augustus J Panton, Carlo Pizzinelli, Emma J Rockall, and Marina Mendes Tavares. "Gen-AI: Artificial Intelligence and the Future of Work", *Staff Discussion Notes* 2024, 001 (2024), https://doi.org/10.5089/9798400262548.006

This could generate new forms of employment and economic diversification. Set against this, competition and protection of intellectual property rights are also drivers of innovation. If AI increases market concentration and weakens markets, this could limit the innovative contribution of new firm entry and competitive pressures. Thus, AI could improve productivity and economic growth, particularly in knowledge-intensive industries by automating routine tasks, optimising resource allocation, and supporting data-driven decision-making. The OBR notes 'the magnitude and timing of the possible boost to productivity remains highly uncertain'.[19] Similarly, the OECD points out that so far, the acceleration of AI development and diffusion has not been associated with higher productivity growth at the macroeconomic level, thus failing to offset the prolonged productivity slowdown noted in the earlier section.[20] Recent evidence suggests large productivity increases driven by AI are possible in specific contexts.[21]

The diffusion of AI technologies will face constraints such as development time, availability of requisite data, budget, energy, skilled workers, etc. For example, the National Audit Office has highlighted the need to update legacy systems and improving data quality and access is fundamental to exploit AI opportunities.[22] Risk-averse organisations may be less willing to make the needed investments or use inputs with uncertain returns. AI technologies introduce additional risks including new opportunities for cyber-crime and risks to financial systems.

AI adoption may influence global trade dynamics, with early leaders gaining competitive advantages in productivity, innovation, and standards-setting. Nations investing in AI capabilities and infrastructure may attract higher levels of foreign investment and talent, reinforcing their position in the global economy.

AI will affect the public finances. On the revenue side, through its impact on the tax base notably company profits and labour market earnings. Also on the expenditure side, by presenting opportunities for savings by improving service productivity and demand management. Taken together the aggregate fiscal effects are highly uncertain and path dependent.

The increasingly pervasive nature of AI technologies makes measuring the extent and impact of AI on the economy in Wales challenging and beyond the scope of this report.

A study commissioned by the UK Government and published in 2025[23] concluded the UK's AI ecosystem has grown to now include more than 5,800 AI companies, generating revenue of around £23.9 billion, and contributing £11.8 billion in Gross

[19] Office for Budget Responsibility: Fiscal risks and sustainability, July 2025 p.134.
[20] Filippucci, F. et al. (2024), "The impact of Artificial Intelligence on productivity, distribution and growth: Key mechanisms, initial evidence and policy challenges", *OECD Artificial Intelligence Papers*, No. 15, OECD Publishing, Paris, https://doi.org/10.1787/8d900037-en
[21] For example see Brynjolfsson, Li, and Raymond (2023)
[22] National Audit Office. Use of Artificial Intelligence in Government, March 2024
[23] Artificial Intelligence sector study 2024 - GOV.UK

Value Added (GVA). The study found high concentrations of AI companies in London, the South East and the East of England with those areas accounting for approximately 75% of registered office locations in 2024. Wales accounted for 1.4% of registered office locations.

The ONS' fortnightly Business Insights and Conditions Survey (BICS) offers some insights on the adoption of artificial intelligence by businesses in Wales. The survey aims to capture the views of businesses on the impact of the challenges facing the economy and other events on turnover, workforce, prices, trade and business resilience. The data in the following analysis are from Wave 135 of the survey and relate to the period 1st May 2025 to 31st May 2025. In Wales, of the 735 businesses that responded (out of a sample size of 2,660 businesses which had a presence in Wales) 98.9% are currently trading, with 96.9% currently fully trading. The questions on AI are only asked to businesses that report they have not permanently stopped trading.

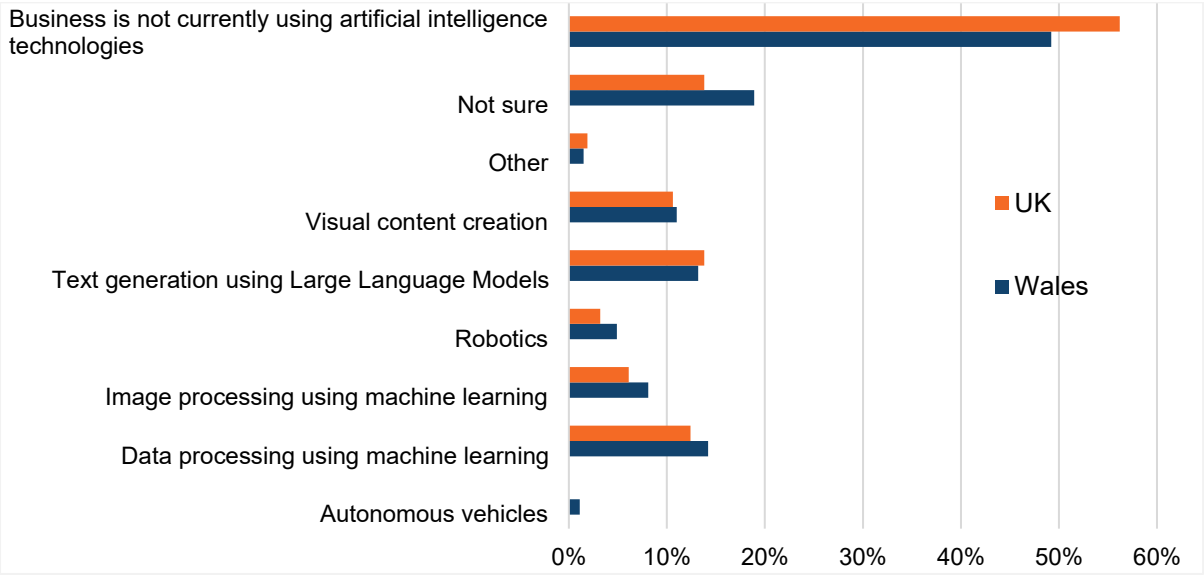
Figure 10 illustrates just under half of Welsh businesses (49%) reported not currently using AI technologies, lower than the corresponding proportion for the UK (56%). The most reported AI technologies in use by Welsh businesses are data processing using machine learning (14%), text generation using large language models (13%), and visual content creation (11%).

Of businesses which have not permanently stopped trading which use some form of AI or are not sure if they are doing so, just under half (49%) reported using them to improve business operations, 19% to provide or personalise products or services to customers, and 12% to develop a new product or service. Of the same sample, just over one-third (35%) adopted AI through the purchase of external software or ready-to-use, 22% developed AI applications in-house, whilst 18% outsourced to external providers or third parties.

Just over half (53%) of the Welsh businesses did not plan to adopt artificial intelligence technologies in the next three months (June-August 2025). Of those businesses that planned to use AI within the next three months or were not sure about doing so, 41% planned to use it to improve business operations, 16% to provide, or personalise, products or services to customers, 12% to develop a new product or service and 6% to explore a new market.

Factors that prevented or delayed Welsh businesses from adopting AI technologies in the preceding three months were level of expertise in AI (12%), cost (9%), and difficulty identifying business use cases (9%).

Figure 10: Use of AI technologies by businesses in Wales and the UK, May 2025



Note: *Response rates vary across regions and between waves. Low response can impact the interpretation of these estimates. Detail of each region's percentage response can be found in the detailed dataset. Businesses can select more than one response. Each business was assigned the same weight regardless of turnover, size or industry. Some data has been removed for confidentiality reasons, such as percentage less than 1% and count less than 10 for each region.*
Source: Final results, Wave 135 of the Office for National Statistics' (ONS') Business Insights and Conditions Survey (BICS).

Living Standards

Household income data provide an important measure of living standards, or the material welfare of individuals and families. When presented on a per person basis it reflects mean disposable household income per head, the average amount available for spending or saving after taxes, social contributions and benefits are taken into account.

However, this measure has limitations. It does not account for differences in age or household composition, excludes wider costs such as housing, and does not reflect the value of public service provision. It also shows only the average (mean) income, without capturing income distribution. Some of these limitations can be addressed through complementary indicators.

UK living standards and economic output (GDP per head) are linked. **Figure 11** shows how they have moved together (and are forecast to move) over the period 2008-09 to 2029-30. The main exception is during the COVID-19 pandemic when GDP fell sharply but household incomes were maintained through very large government interventions and transfers, such as the Coronavirus Job Retention Scheme.

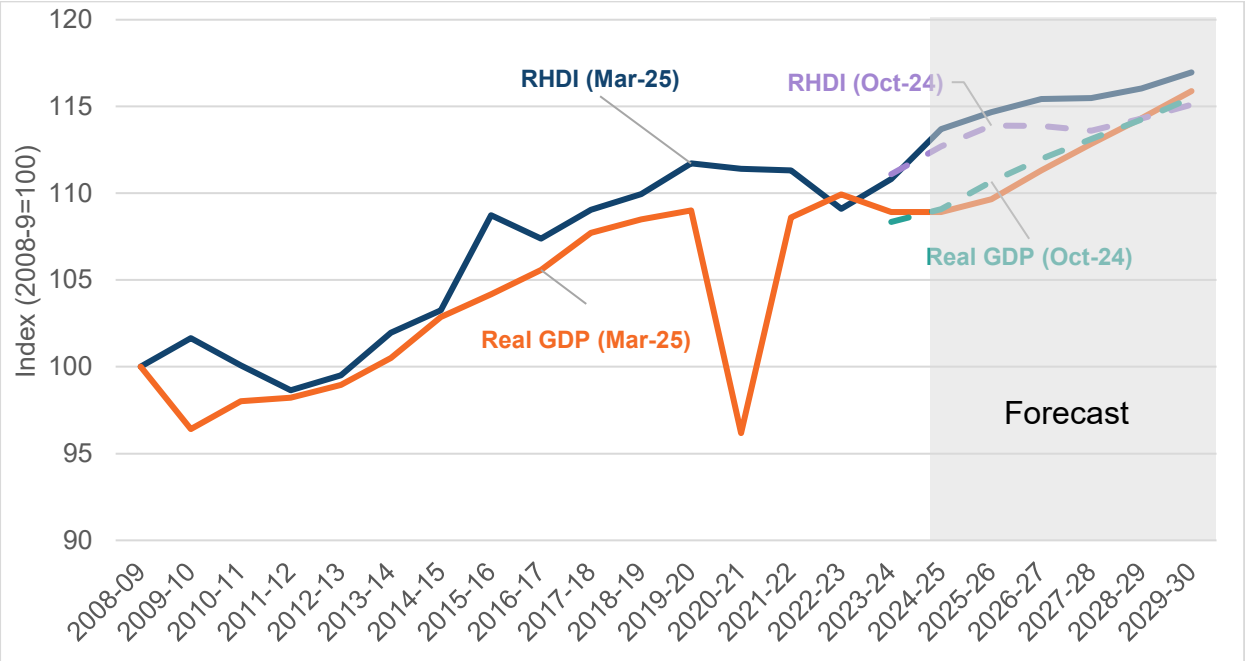
As discussed earlier, the subdued growth of GDP per head since around the time of the financial crisis compared to previous periods means UK household income growth has been slower than in previous periods.

The OBR forecasts household income to grow by 2.9% between 2024-25 and 2029-30 – see Figure 11.[24] Growth is stronger in the first year of the OBR's forecast (2025-26) at 0.9% and then 0.7% in 2026-27, mainly driven by the expectation that on average wages will grow slightly faster than inflation. However, as with productivity, UK living standards are forecast to grow well below the long-term trend before the financial crisis of around 2.5% per year. Over the medium-term, Wales' household income and living standards are expected to follow similar trends to those in the UK.

Compared with the OBR's October 2024 forecast, which informed the last Draft Budget, real household disposable income RHDI per person is now expected to grow slightly faster across the forecast period. This is due to stronger real wage growth forecast, although policy measures announced in March 2025 are expected to reduce RHDI per person slightly by 2029-30.

[24] OBR (2025) Economic and fiscal outlook – March 2025

Figure 11: UK Real Household Disposable Income (RHDI) and GDP per head index, 2008-9 to 2029-30



Note: *Chart axis does not start at zero.*
Source: OBR

In June 2025 the Resolution Foundation[25], drawing on forecasts from the OBR, estimated the typical (median) UK household income of non-pensioners in 2025-26 would have zero real growth. The biggest drag on real household income is forecast to be modestly higher inflation (see later section). Over five years from 2024-25, UK household income of non-pensioners is forecast to grow only slightly, by 1% in total. This would result in the typical (median) non-pensioner real income of a UK household remaining unchanged in 2029-30 compared to 2019-20. If this were to come to pass, then the Resolution Foundation estimate the 2020s would be the worst decade for living standards growth since before the 1970s, lower still than that of the 2010s. The Resolution Foundation also found the lower-income half of the non-pensioner UK households fare even worse. The typical (median) real income for them would be 1% lower in 2029-30 than in 2024-25 and 2% lower in 2029-30 compared to 2019-20.

Sustained improvements in living standards will require long-term efforts to raise productivity. However, as noted by the Resolution Foundation[26], supporting the incomes and living standards of those in the lower half of the income distribution, is largely within the remit of the UK Government through welfare system. There are likely to be competing pressures on government resources to maintain and improve public services, which may indirectly improve living standards, as well as to invest in

[25] See Resolution Foundation (2025) The Living Standards Outlook 2025
[26] See Resolution Foundation 2025 The Living Standards Outlook 2025 • Resolution Foundation

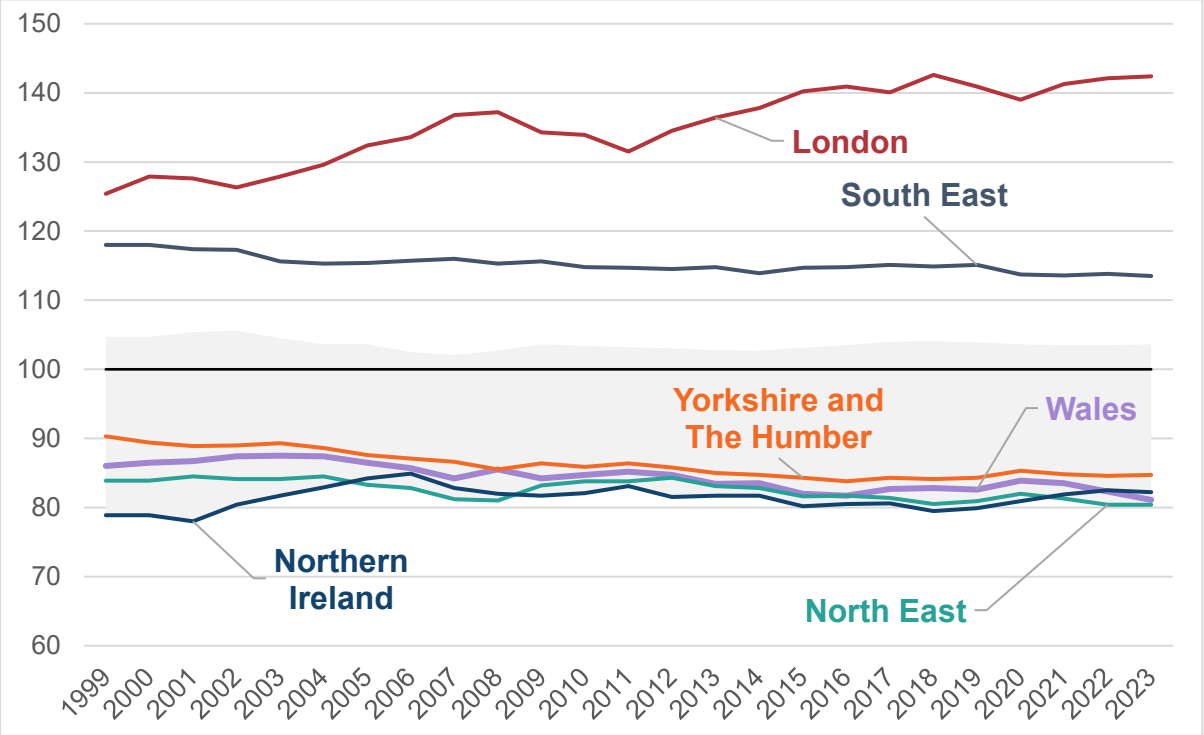
other areas of UK public spending such as defence. The pressures facing public finances are discussed further in the fiscal section of this report.

Living standards in Wales and elsewhere within the UK

As noted above, productivity is a key determinant of living standards over the long term. Given productivity in Wales is lower than the UK average, this is likely to be reflected in living standards.

Figure 12 shows living standards by country and English region compared to the UK as measured by ONS' Gross Disposable Household income (GDHI) per head. For the most recent available period, 2023, GDHI per head in Wales (81.1% of the UK) was the second lowest amongst UK countries and regions, higher than the North-east of England (80.4%), and similar to Northern Ireland (82.2%). Wales' GDHI per head relative to the UK, at 81%, is therefore very similar, albeit now slightly lower, than its productivity (GVA per hour) relative to the UK at 84.9%.

Figure 12: Gross Disposable Household Income (GDHI) per head (UK=100) by UK countries and English regions, 1999 to 2023



Note: *Chart axis does not start at zero. Shaded area is the range of UK countries & English regions excluding London & South East.*
Source: ONS

The gap between Wales and the UK on GDHI per head has widened over the longer term. Comparable regions to Wales have performed similarly. Most UK countries and English regions are below the UK average, with only London, the South East, South West and the East of England above that figure. London has performed most differently, increasing relative to the UK over the period. As a result, Wales' GDHI per head is 90% of the UK figure excluding London and the South East of England. The

difference between Wales and the UK (when excluding London and the South East of England) has remained around that same level for around the last ten years. This shows Wales has maintained its relative level of prosperity compared to most regions and countries of the UK over the medium term.

The measure GDHI at the Wales level is also a national indicator: (10) Gross Disposable Household Income per head and also reported in the Well-being of Wales report A Prosperous Wales chapter and is used as one of the national indicators (to improve GDHI per head by 2035).

Alternative measures of household income

The Family Resource Survey (FRS) is an alternative source of information on household incomes in Wales and the UK.[27] The survey allows the calculation of a median household income (AHC) measure. AHC includes all sources of income from all household members, including dependents, and is adjusted ('equivalised') to allow for household composition. It therefore reflects the experience of a typical household and is widely seen as the most representative single measure of material living standards.

Using the median instead of the mean provides a clearer comparison of income levels between Wales and the UK, as it better reflects the typical level and is less affected by extreme values.

Reasons for the difference between the mean measure of income from the Family Resources Survey and Gross Disposable Household Income are explored in WEFR 2024 p. 27.

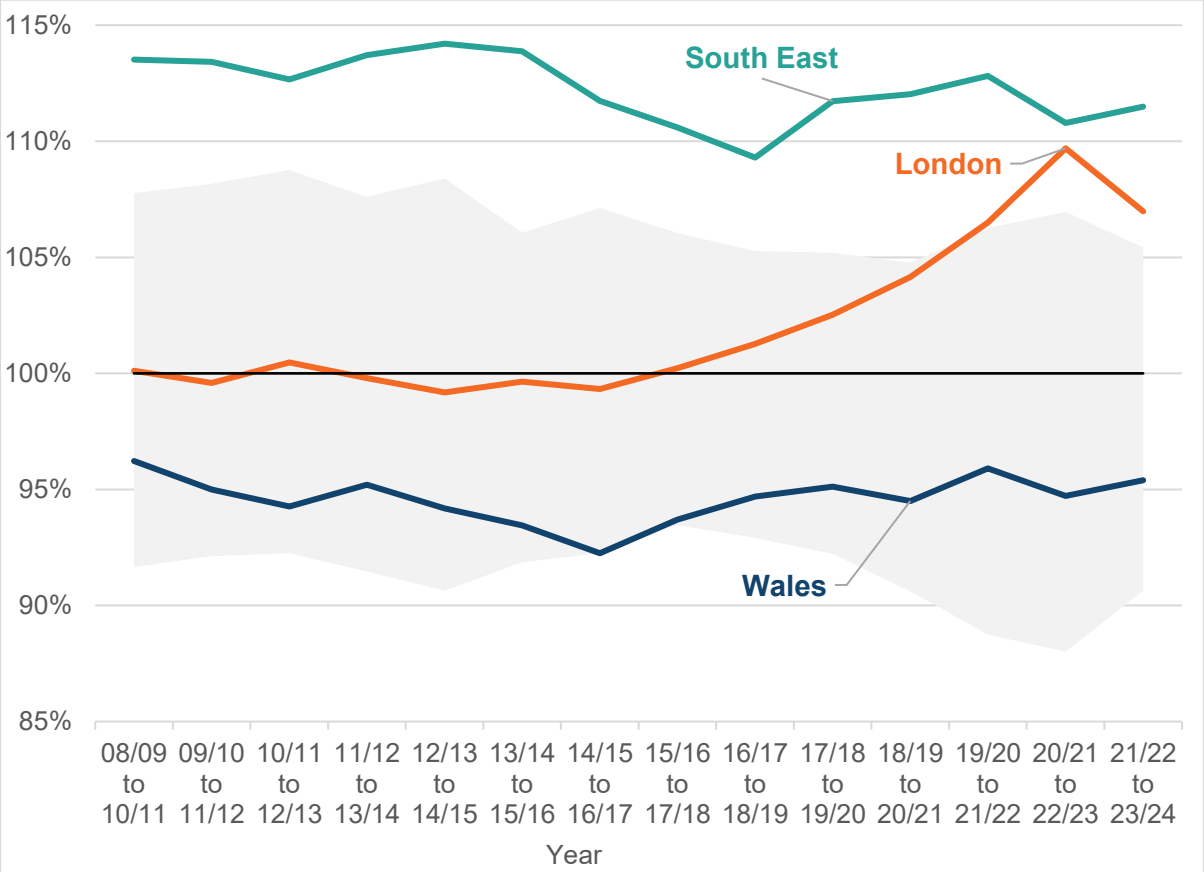
In the most recent period, 2021-22 to 2023-24, the median weekly equivalised household income (before housing costs) in Wales stood at £616.[28] This is 93% of the equivalent figure for the UK as a whole (£659) and is the fifth lowest for all UK countries and English regions, with the North West (£609), Yorkshire and the Humber (£604), North East (£604) and West Midlands (£600) being lower.[29] London had the highest median weekly equivalised household income at £767.

Over the same period and after deducting housing costs (see **Figure 13**), the West Midlands still had the lowest median weekly income 91% of UK figure (£521), while the South East had the highest at 111% of the UK figure (£640). The high cost of housing in London means incomes are lower than in the South East once these have been considered. Median weekly equivalised household income (after housing costs) in Wales stood at 95% (£548) of the level for the UK as a whole (£574). Therefore, the after-housing costs measure has a relatively small impact on Wales compared with other UK countries and English regions.

[27] Family Resources Survey: background information and methodology - GOV.UK
[28] The most recent data is for the three-year period 2021-22 to 2023-24.
[29] Adjusting for the lower cost of living in Wales would reduce this gap.

As **Figure 13** also shows, over the last 15 years, AHC income in Wales has been consistently lower than that for the UK as a whole and many other English regions and UK countries. Other UK countries and English regions also with a median household income consistently lower than the UK's and around the same as Wales over the same time are the North East, North West, Yorkshire and the Humber, and the West Midlands.

Figure 13: Median weekly equivalised household income for all individuals by UK country and English region, after housing costs (UK=100%)



Note: *Chart axis does not start at zero. Shaded area shows the maximum and minimum of the UK countries and English regions excluding London and the South East.*
Source: HBAI, DWP

Benefits in kind

Income-based measures of living standards, such as those shown above, tend to not include the wider non-cash benefits provided by public services, sometimes referred to as 'benefits in kind'.

The provision of public services; such as health (including free prescriptions), education (including free school meals), social care and public transport subsidies,

all reduce the (final) income gap between Wales and the UK as a whole and between Wales and most other UK nations and English regions.[30]

Data suggests these are likely to add to incomes in Wales relative to most other regions and UK countries, reducing the gap, perhaps by around two percentage points between Wales and the UK average.[31] The inclusion of benefits in kind is material but its impact on the Wales-UK differential is smaller than that of the tax and benefits system.

Relative income poverty

To examine how the distribution of household income compares in Wales, particularly those towards the lower end, it's insightful to consider data on the percentage of people who are in poverty.

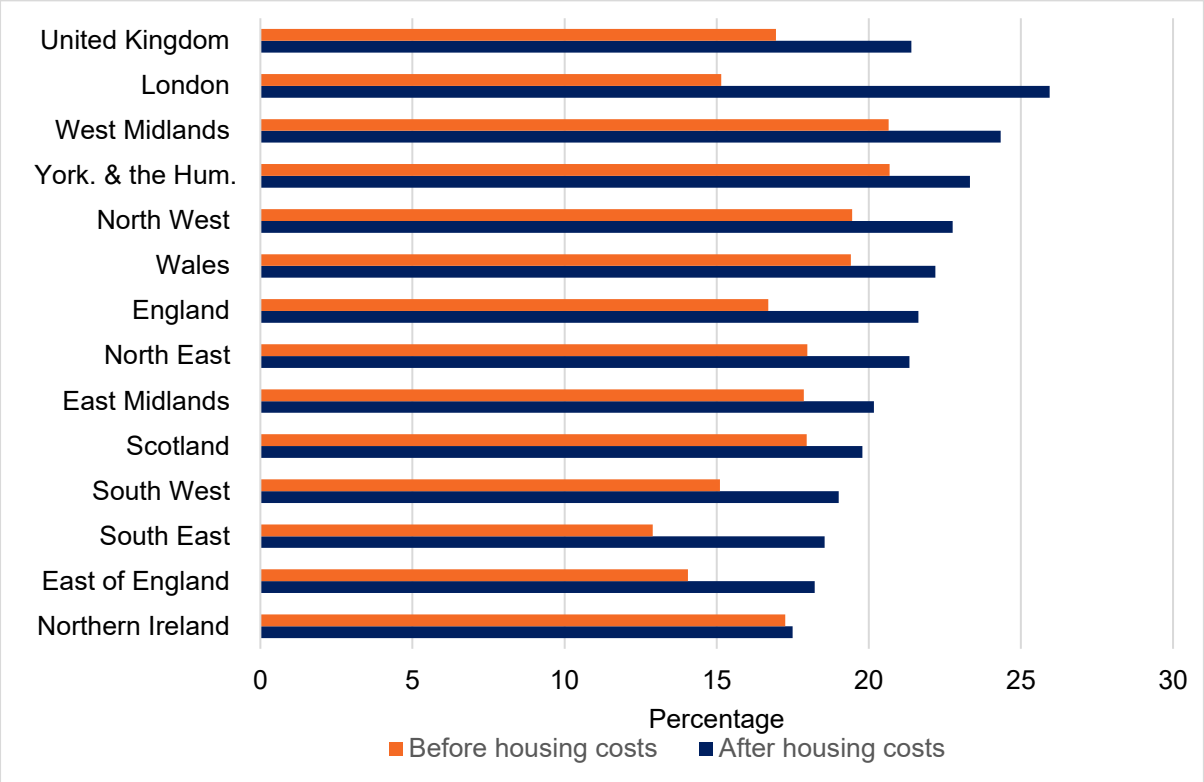
Data for relative income poverty comes from the Households Below Average Income (HBAI) report published by the Department of Work and Pensions (DWP).[32] HBAI data defines a person to be living in relative income poverty if they live in a household where the total household income from all sources is less than 60% of the average (median) UK household income.

Between the financial year ending (FYE) 2022 and FYE 2024, 22% of all people in Wales were living in relative income poverty (after housing costs)[33] – see **Figure 14**. The percentage of people living in relative income poverty has been relatively stable in Wales for over 19 years.

In England, the percentage of people living in relative income poverty (after housing costs) was similar to Wales at 22% between FYE 2022 and FYE 2024. In Scotland and Northern Ireland, the figures were 20% and 17% respectively. The relative income poverty rate (after housing costs) in Wales was lower than the North West, Yorkshire and the Humber, West Midlands and London; and, higher than the North East, East of England, South East, South West, and the East Midlands. On a before housing costs measure, the ranking for Wales is less favourable (with only three English regions having higher rates compared to four regions on an AHC basis).[34] This reflects higher housing costs in other areas of the UK compared to Wales.

[30] Final income is the most comprehensive measure of household income. Final income is calculated as gross income *less* direct taxes *less* indirect taxes *plus* benefits in kind.
[31] See Effects of taxes and benefits on household income - Office for National Statistics
[32] Department for Work & Pensions (2025). Households Below Average Income: an analysis of the UK income distribution: FYE 1995 to FYE 2024
[33] Other data breakdowns are available, for example: children/working-age adults/pensioners in relative income poverty; and, relative income poverty by age group, housing tenure, economic status and type of employment, family characteristics, ethnicity, disability, sexual orientation, migrant status, and household food security status.
[34] HBAI (2025) Relative income poverty: April 2023 to March 2024

Figure 14: Percentage of all individuals living in relative income poverty by UK country and English region, FYE 2022 to 2024



Source: HBAI, DWP

Changes to UK household income inequality

The Gini coefficient is one of the most widely used measures of inequality in the distribution of household income. It takes values between 0% and 100%, with higher values representing an increase in the level of inequality. A value of 0% indicates complete equality in the distribution of household income, implying that all people have the same equivalised income. A value of 100% indicates complete inequality, implying that one person has all the income, and the others have no income.

UK household income inequality, as measured by the Gini coefficient for disposable household income, has not changed much since the 1990s. Disposable income inequality for all individuals was 33% in FYE 2024, a slight decrease from 35% in FYE 1990. Disposable income inequality for people in retired households continues to remain lower than for non-retired households.

As mentioned earlier in this section, the Resolution Foundation's household income growth projections for the period 2023-24 to 2029-30 are worse for lower income households, and for children[35], primarily driven by the UK Government's planned

[35] Resolution Foundation 2025 The Living Standards Outlook 2025 • Resolution Foundation

changes to welfare.[36] Given this, the child poverty outlook is also forecast to rise. Meanwhile, the pensioner poverty rate is not projected to increase.

The child poverty outlook for Wales is worse than all other countries of the UK (incomes in Wales are affected by 8% private rental growth[37] and a 7% Council Tax rise – both higher than in most parts of the UK[38]). The Resolution Foundation projects the relative child poverty rate in Wales will rise by 5.4 percentage points between 2023-24 and 2029-30. This compares to the following projected cumulative percentage point changes in the proportion of children living in relative poverty over the same period in the UK as a whole and the other UK countries: UK +4.0 percentage points; England +4.1 percentage points; Northern Ireland +4.4 percentage points; and Scotland +0.9 percentage points. The child poverty rate in Scotland is not expected to rise significantly over the forecast period given Scottish Child Payments, the two-child limit offset from 2026, amongst other offsetting expected policies.

Expenditure, consumption and living standards

Analysis on poverty and living standards in the UK tends to focus on household income as a key measure, valued for its strong policy relevance (as it can be varied through taxes and benefits) and its role as a proxy for available resources. However, household consumption expenditure may be a better measure of actual living standards, as it reflects how people satisfy their needs over time and is more closely linked to subjective well-being.

Consumption is generally less volatile than income, making it a potentially more stable measure of living standards, especially in cases of temporary income shocks. The permanent income hypothesis supports this, suggesting that individuals base their spending on long-term income expectations rather than short-term fluctuations.

Consumption data may also be more accurate at the lower end of the income scale, where income is often under-reported. Surveys about spending also tend to be less sensitive than those about income, reducing error rates.

However, consumption measures are not without flaws. They may miss the long-term benefits of durable goods, leading to overestimates of poverty among asset-rich households. Some items (like alcohol or gambling) are often under-reported in surveys, and data collection can be costly and complex.

[36] Since the Resolution Foundation published the Living Standards Outlook 2025, cuts to disability benefits have been substantially reversed. The impact will be to lessen income losses marginally across the bottom half of the income distribution.
[37] May 2025 data
[38] As discussed in UK Poverty 2025 • Joseph Rowntree Foundation, other factors driving differences in poverty levels include differences in labour markets (including the levels of employment, the sectors worked in and rates of pay) and rates of benefit receipt, alongside wider demographic factors (age, family types and sizes).

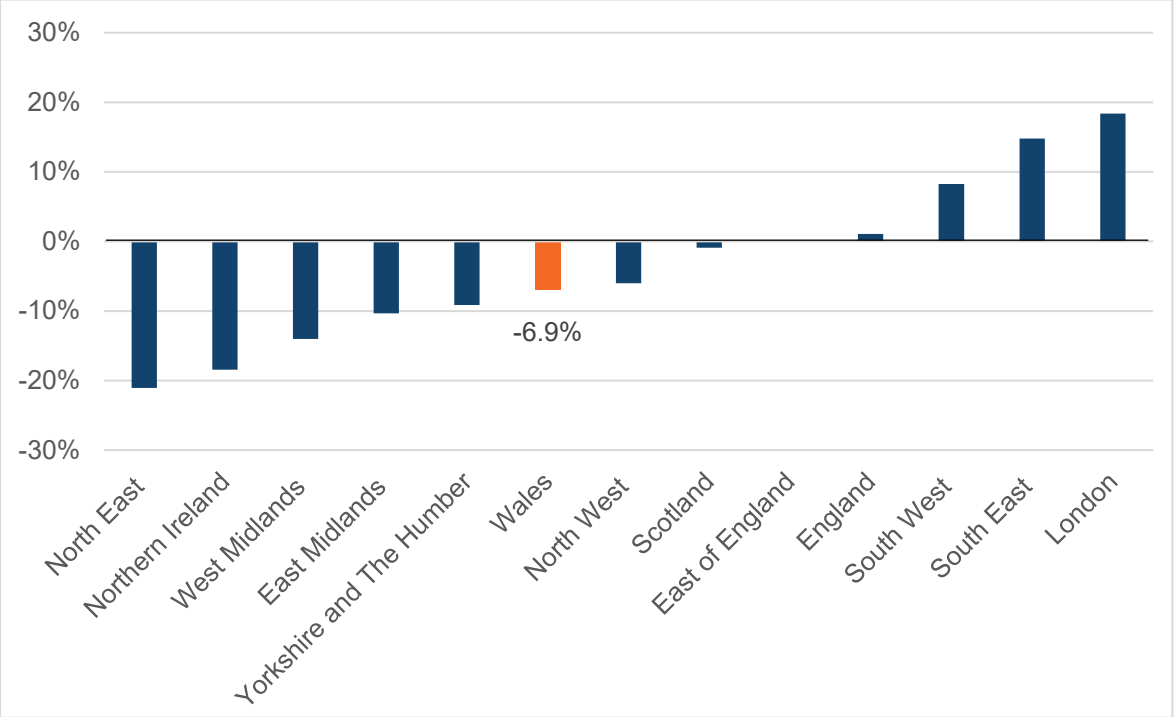
Ultimately, both income and consumption provide complementary insights into poverty and living standards.

Expenditure data is published by the ONS, it includes all spending on goods and services by the residents of a region or UK country, regardless of where that spending takes place. The use of national expenditure per person enables the comparison of spending across regions of different sizes and populations.

National expenditure per person for Wales in 2022 was £20,693, compared to £22,227 for the UK overall. Of the English regions and UK countries, London had the highest national expenditure per person in 2022 at £26,309. This was mainly caused by higher housing costs. The lowest spending per person in 2022 was the North East at £17,544.

Expenditure per person in Wales was 6.9% lower than the UK average, see **Figure 15**. Expenditure per person in Wales was higher than the North East, Northern Ireland, West Midlands, East Midlands and Yorkshire and Humberside. The only English regions and UK countries with expenditure higher than the UK per person average were South West, South East and London. This suggests average living standards, as measured by expenditure and consumption in Wales may be closer to the UK average than estimates based on income and economic output measures.

Figure 15: Expenditure per person - percentage difference from UK, 2022



Source: Regional Household Final Consumption Expenditure, ONS

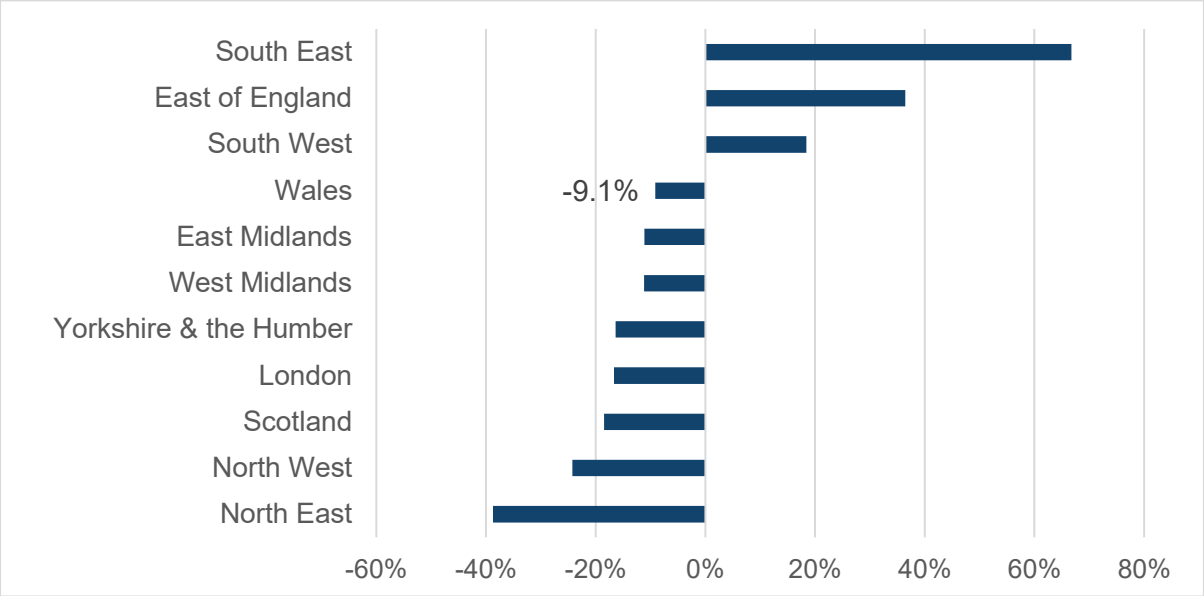
Between 2021 and 2022, Wales had the largest increase in spending per person at 19.5%, the UK increase was 12.5%. However, this is in cash terms and does not account for inflation. For context, the overall rate of inflation in 2022 as measured by the Consumer Prices Index including owner occupiers' housing costs was 7.9%.

Wealth

People may use wealth to complement their income to boost their consumption, expenditure or living standards. Therefore, measures of wealth are also illustrative to help further understand potential differences to living standards in Wales and other parts of the UK.

Latest ONS data (April 2020 to March 2022) on median household wealth is 9% lower in Wales than the GB average, but higher than in Scotland, the Northern and Midlands regions of England, and London, see **Figure 16**.

Figure 16: Median household wealth, percentage difference from Great Britain median, April 2020 to March 2022



Source: Wealth and Assets Survey, ONS

According to the latest ONS data, Wales' largest component of net wealth (after any debts or liabilities) in the period April 2020 to March 2022 was private pension wealth (39%), followed by property wealth (35%). The remaining components of wealth are physical wealth (14%), the value of vehicles, collectables, and household contents - and financial wealth (13%), the value of savings or investments minus financial liabilities.

Wealth data in Wales are likely to reflect the demographic profile; Wales has around 20% of its population of pension age, and that it has a relatively large proportion of households who are owner occupier. **Table 1** shows Wales has a higher proportion of property ownership than England, driven by more homes being owned outright. The offset is a lower proportion of private rented properties, which is lower in Wales than any English region. Outright ownership is higher in Wales than any English region. However, two English regions had higher overall home ownership than Wales (South East and South West). House prices are looked at in a later section.

Table 1: Share of housing stock by tenure type, 2021

Tenure type	England	Wales
Owned outright	33%	38%
Owned with a mortgage, loan or shared ownership	30%	28%
Social rented	17%	16%
Private rented or lives rent free	21%	17%
Total	100%	100%

Source: Census 2021

Earnings

Earnings are heavily linked to productivity and living standards. Higher productivity (see earlier section) enables businesses to pay higher wages without increasing costs. This is because more efficient production leads to greater output and, potentially, higher profits, allowing firms to share these gains with workers. The earlier section on productivity and last year's report showed how productivity growth had slowed down since the Global Financial Crisis. This has also overlapped with what has happened with wage growth in the UK.[39]

Labour market earnings are also a primary determinant of living standards. When earnings rise, individuals have more income to spend on goods and services, which can lead to improved quality of life.

The Annual Survey of Hours and Earnings (ASHE) provides information about earnings and hours worked for employees. It excludes income earned from self-employment, pensions and other sources.

The latest ASHE data shows median – or typical person's - gross (before any deductions) weekly earnings for full-time adults working in Wales were £674.5 in April 2024 (or £34,303 on a tax year basis).[40] This was 92.6% of (or 7.4% lower than) the average for the UK (£728.3 or £37,430 on a tax year basis). As this measure of wages uses the median, it is not distorted by differences at the very bottom or top end of the distribution, using differences at more typical levels of earnings.

Median gross weekly earnings in Wales were the eighth highest amongst the 12 UK countries and English regions, see **Figure 17: Median gross weekly earnings percentage difference from UK, by UK country and English region, 2024Figure 17**. Like with many economic statistics in the UK, London (24.3%) and the South East (3.5%) were larger than the UK median. However, Scotland (1.6%) was also higher than the UK median.

At the time of devolution in 1999, median gross weekly earnings for full-time adults working in Wales were 8.3% below that of the UK equivalent, with only the North East (9.1% lower) and Northern Ireland (10.1% lower) having lower earnings than Wales.

Latest research[41] on explaining differences of earnings between places (travel to work areas) suggests for early career workers (although it may also be applicable to

[39] Recent evidence which has explored this relationship and reasons why it may have happened are explored in Machin (2025) (see Real wage and productivity stagnation *Oxford Review of Economic Policy*, Volume 41, Issue 1, Spring 2025, Pages 105–119, https://doi.org/10.1093/oxrep/graf013

[40] This may be revised by ONS in during autumn 2025.

[41] See R Egyei, E Fry, T Kitsos, D Ribaudo, G Thwaites, E Vanino, *The power of place: The role of place in driving regional pay inequalities*, Resolution Foundation, June 2025 https://doi.org/10.63492/xnr30

all workers) that place effects are the most important factor in explaining inequality in pay between areas, even after factoring in people's changing characteristics. Whilst individual characteristics do still matter, the new research using a large dataset of young workers in England suggests the effects of people is less than in earlier studies.[42] The differences in pay between areas is also found to occur within industry and firms of a similar size, so they cannot be explained much by industrial structure. It is more the type of job they do in particular high performing, likely to be highly productive businesses. Agglomeration effects are also found to matter for wages but are not strong. Therefore, the policy implications from this latest research suggest securing high-performing, highly productivity businesses in locations, as well as improving the human capital and skills of people in places.

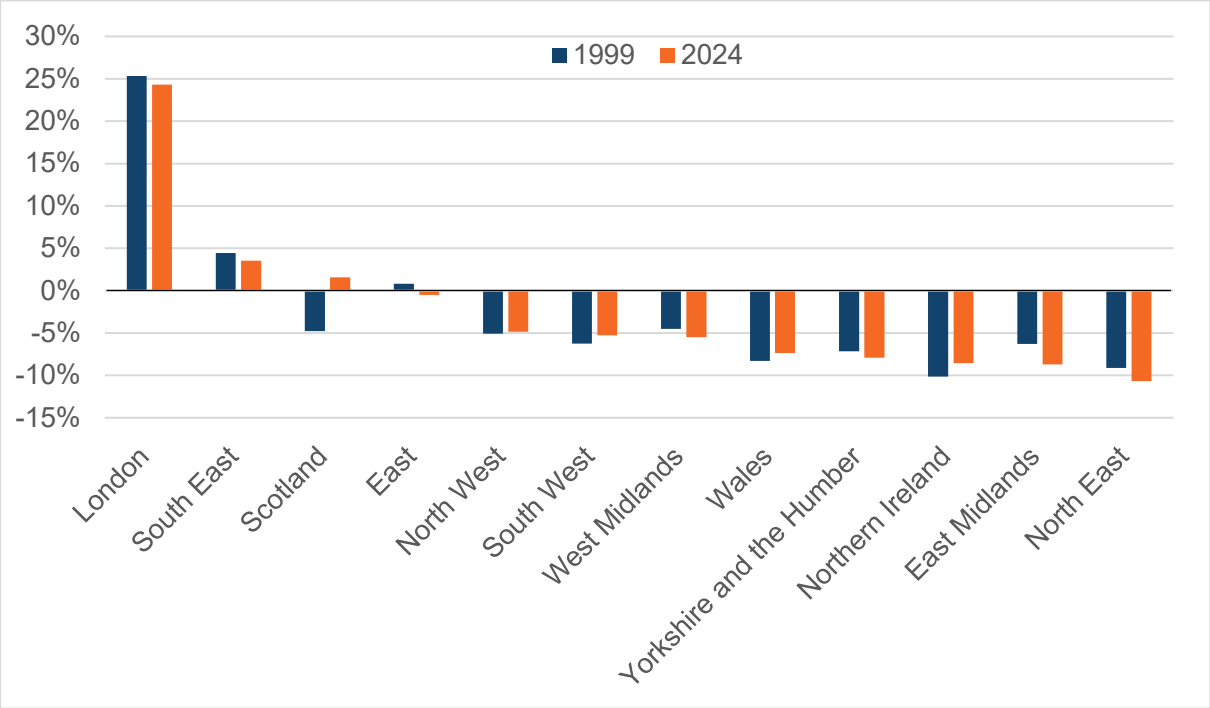
In the period 1999 to 2024, the latest data, UK earnings increased by 111% (in nominal or cash terms).[43] Over the same period, median earnings in Wales increased by 113%. Wales had the sixth highest percentage change amongst the 12 UK countries and English regions in 2024. Weekly full-time earnings increased in Wales and the UK both by 6.0% in April 2024 compared with April 2023.

Inflation will have eroded the real rise in earnings over time. This has especially been the case in recent times when inflation has been exceptionally high compared to most of the 2000s. The recent impact of inflation on earnings is explored later.

[42] Evidence previously cited in the Welsh Government's Chief Economist reports has reported how *people effects* tended to dominate over *place effects* (see H Overman & X Xu, Spatial disparities across labour markets, IFS Deaton Review of Inequalities, 2022)

[43] Data for 1999 is only directly comparable with the estimates from 1997 to 2003. Comparisons with other years are not strictly valid due to changes in methodology. Therefore this is more indicative and is used more for comparative purposes. For further information on the quality and methodology of the data please see ONS' Annual Survey of Hours and Earnings quality and methodology information report: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/methodologies/annualsurveyofhoursandearningslowpayandannualsurveyofhoursandearningspen

Figure 17: Median gross weekly earnings percentage difference from UK, by UK country and English region, 2024



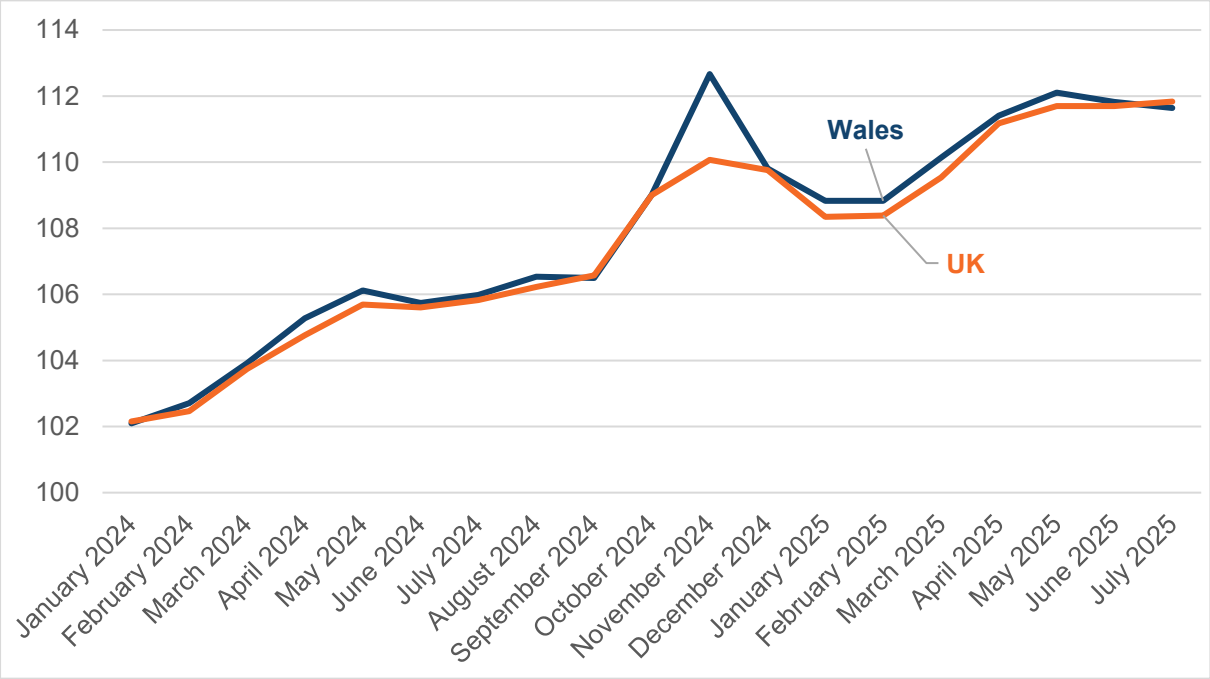
Source: Annual Survey of Hours and Earnings, ONS

Earnings can also be reported on a work-place or residence basis, to account for commuting effects. On a residence basis, median full-time weekly earnings for those *living* in Wales were 94.0% of the UK average (whereas only those working in Wales were 92.6% of the UK average). Therefore, commuting accounts for some of the difference in earnings between UK and Wales. The remaining difference are likely to be explained by similar elements as what causes the differences in productivity between locations.

When looking at part time and full time combined (and not just full time), on a workplace basis, then Wales' weekly earnings (gross) were 92.2% of the UK median, lower than that for full time (92.6%) in 2024. This shows Wales also has a relatively greater share of part time workers than the UK which also needs to be considered when comparing earnings.

Over the short to medium term, earnings in Wales and the UK are highly likely to be correlated and move together. Monthly data of median pay from Paye As You Earn (PAYE) from January 2023 suggests this, see **Figure 18**. Therefore medium- to long-term trends in UK earnings can be illustrative of changes in Wales too.

Figure 18: Pay As You Earn Real Time Information, median pay index Pay index (2023=100) Wales and UK, January 2024 to July 2025



Source: ONS

Earnings and inflation

Median gross weekly earnings for full-time adults working in Wales increased by 6.0% between 2023 and 2024. In April 2024 inflation (annual CPI rate) was 2.3%. Therefore, there were real increase in wages in April 2024 of just under 4%. Whereas, in the year before, median gross weekly earnings for full-time adults working in Wales increased by 6.1% between 2022 and 2023 with inflation (CPI) in April 2023 inflation (CPI) was 8.7%, a real terms fall of over 2.5%.

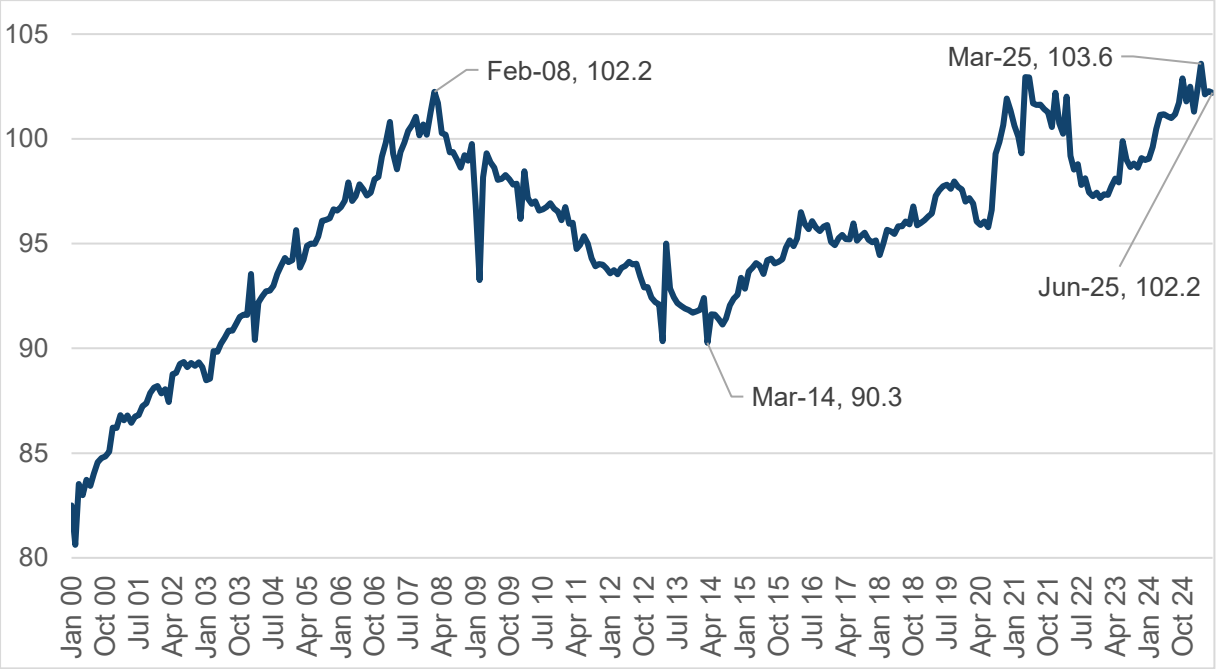
Whilst official earnings data for Wales can only be looked at on an annual basis, with the latest data relating to April 2024, a more up-to-date and frequent data on earnings and inflation can be provided at the UK level.

UK real wages have been growing by between 2% to 3% during 2025, see **Figure 19**. However, this has only really restored real earnings to the levels in 2021, as after then, the recovery from the pandemic and then more so the cost-of-living crisis resulted in inflation to increase more than wages, meaning than real wages fell during 2022 and early 2023.

From 2000 to 2007, UK wages grew by around 2.5% a year. However, in the period since 2008 to 2014, real wages fell to be around 10% lower than the 2008 average. Real wages then rose slowly, with a sharp rise during COVID-19 and then a fall again during the recovery and cost of living crisis. Real wages are now only 2.2% higher than in 2008. On average, real wages over the last 17 years have had around

the equivalent of one year's growth in the period 2000 to 2008. Looking back further, this recent stalling of real wage growth is found to be quite unprecedent in modern times; it is the longest period for which comparable records exist, which is back to at least the late nineteenth century.[44] The real wage growth of recent periods in the UK is also relatively poor compared to most advanced economy OECD countries.[45]

Figure 19: Real wages (total pay) index (2008=100) in the UK, 2000-2025



Source: ONS

Earnings across the distribution

Looking at how wages have fared across the income distribution, suggests UK pay has risen since 1999 more for those towards the lower end of the income distribution, compared to the top. This has reversed the situation which occurred between 1975 and 1999.[46] The reason for this reversal and for pay towards the lower end are uncertain, however, it could be UK labour market policies have helped with this, such as the introduction of the National Minimum Wages, which may have helped to increase pay, particularly at the lower end. However, this may not explain why pay growth above this may have increased more to than pay towards the top. This also comes from survey-based data, which does tend to under-report high pay. Alternative administrative data sources tend to show stronger pay growth in more recent years towards the top of the pay distribution, but still lower growth than the

[44] See Stephen Machin, Real wage and productivity stagnation, *Oxford Review of Economic Policy*, Volume 41, Issue 1, Spring 2025, Pages 105–119, https://doi.org/10.1093/oxrep/graf013
[45] See Stephen Machin, Real wage and productivity stagnation, *Oxford Review of Economic Policy*, Volume 41, Issue 1, Spring 2025, Pages 105–119, https://doi.org/10.1093/oxrep/graf013
[46] See Real hourly pay growth by pay percentile, UK, 1975-1999 and 1999-2023 - GOV.UK

bottom end.[47] Therefore the underreporting of earnings may explain only some of the very top pay not growing so strongly. It is likely these trends will have also occurred in Wales.

[47] See table 5 of Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted - Office for National Statistics

Inflation

Inflation is the rate at which the prices of goods and services *increase* over time.[48] It has been one of the most significant and noticeable economic features in recent years. Consumer price inflation, the representative inflation experienced by individuals and households peaked at 11.1% in October 2022, the highest rate in the UK in over 40 years. Driven by the surge in energy prices following the Russian conflict with Ukraine, supply chain disruptions caused by the COVID-19 pandemic and increased demand for goods and services, as countries removed restrictions designed to deal with the pandemic. These past events have likely led to some degree of inflation persistence.

Inflation fell during 2023 and first half of 2024[49], with inflation returning to more typical rates, and the Consumer Price Index (CPI) back around the Bank of England's inflation target of 2% (see **Figure 20**).

Over the latter half of 2024 and then into the first half 2025 inflation has started to rise again, although at a much slower rate than it did in 2021 and 2022. Inflation, at over 3% (the CPI rose by 3.8% in the 12 months to July 2025), has also been over half a percentage point higher during 2025 so far than it was expected last year by the OBR in its October 2024 forecast, which were the latest forecasts at the time of last year's Welsh Government Draft Budget (for 2025-26). At that time, inflation was expected at between 2.5% and 3%.

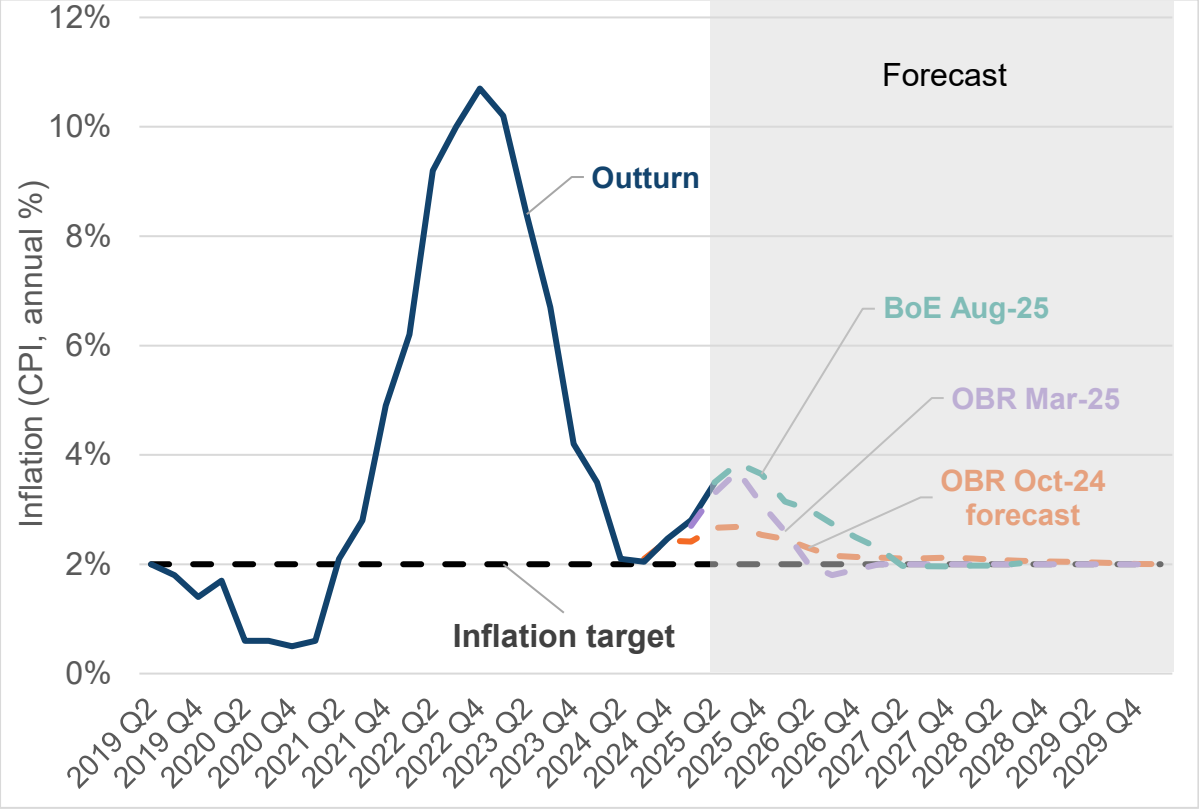
The latest CPI inflation forecast by the OBR (March 2025) suggests UK inflation will peak towards the end of 2025, at just below 4% (similar to the latest Bank of England's forecast in August). The OBR then expect it to fall to the inflation target at 2% in the second quarter of 2026. However, the latest Bank of England forecast from August[50] now expects inflation to be a bit more persistent, and for it to fall more gradually, only getting to target in 2027 Q2.

OBR forecast inflation to remain at 2% for the forecast period from mid-2026. It is generally expected to get back to the 2% target, around the same time as forecast in October 2024. Based on historical OBR forecast errors, they expect there to be an around one-in-five chance of CPI inflation being below 2.6% or above 4.0% in 2025.

The OBR also expects the GDP deflator (a price measure of all domestically produced goods and services, used extensively in the public sector) to grow largely in line with CPI inflation throughout the forecast period.

[48] If those prices fall, it is known as deflation.
[49] This does not mean prices were falling but that they were rising more slowly than before.
[50] See Monetary Policy Report - August 2025 | Bank of England

Figure 20: Inflation rate (CPI) and forecasts, 2019Q2 to 2029Q4



Source: ONS, OBR, Bank of England

Service sector inflation, which has around a 50% weight in the CPI basket – the way in which inflation is measured, continues to be elevated. It has been high for a prolonged period now, with CPI service inflation running at 5.0% in July 2025. Service sector inflation is regarded by the Bank of England as especially important in determining the prospects for total consumer price inflation hitting the UK Government's 2.0% inflation target due to its links with inflation persistence.

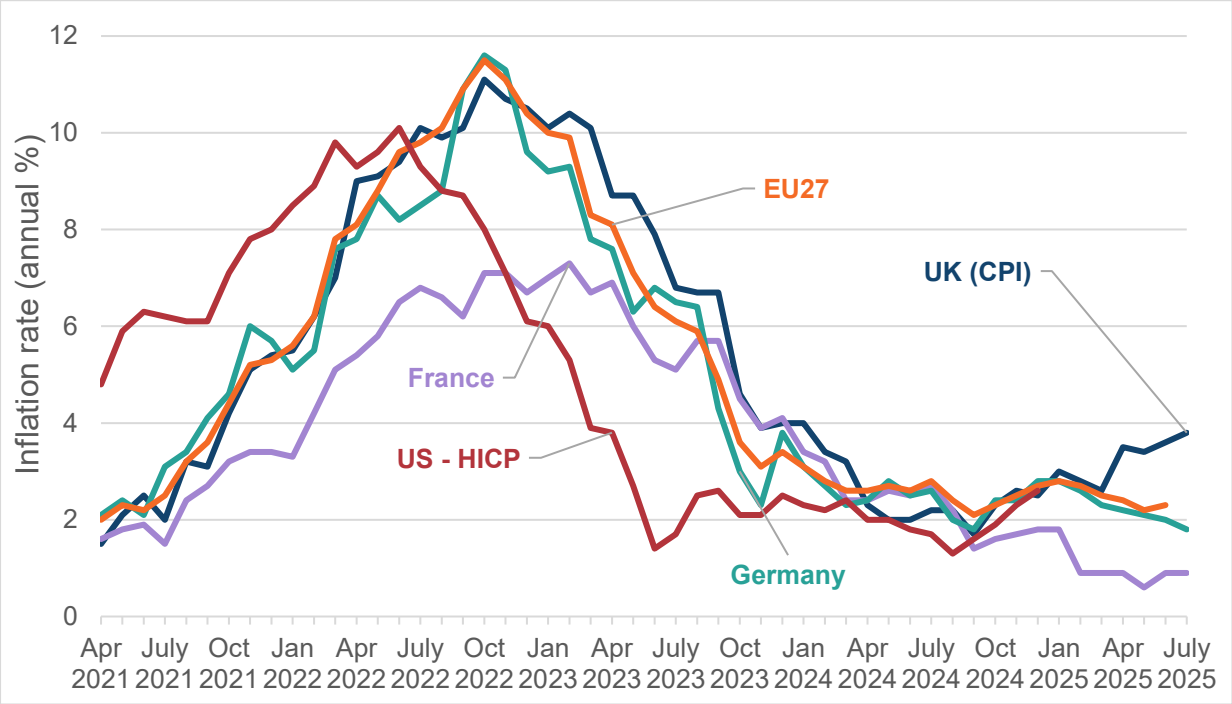
The Bank is responsible for achieving the target and uses monetary policy, mainly interest rates, to do so. The Bank's Monetary Policy Committee (MPC) believes service price inflation will remain elevated for several more months before reducing in 2026 on the assumption that this year's large increases in regulated prices (water bills etc) are not repeated. The MPC also expects pay growth to ease reflecting weakening labour market conditions (see later section on wages and the labour market). Against this backdrop, it is widely expected the Committee will gradually reduce interest rates over the next year or so. However, the situation is highly fluid and not without many risks. As a result, the Bank of England's MPC continues to be cautious with any potential interest rate reductions, as inflation in the service sector especially, may reflect pay growth and underlying inflation persistence.

Whilst there is no inflation data for Wales only, it is highly likely to be the around the same as the UK rate. Analysis by different types of households as shown in WEFR

2024 suggests Wales, or at least certain households in Wales, may have faced relatively higher levels of inflation.[51]

Many other large economies also experienced an inflation spike during 2022. It then gradually fell towards the end of 2022 and more so in 2023, see **Figure 21**. Whilst the UK inflation rate has generally followed many other large economy inflation rates over 2024, most recently UK inflation appears to have been higher than these, with the latest data suggesting it is particularly different from the trend in Europe (US data provided by ONS only goes to December 2024).

Figure 21: Inflation rates across selected EU and large economies, April 2021 to July 2025



Source: ONS

[51] For further information on how inflation affects different households see Office for National Statistics (ONS), released 28th August 2025 ONS website, statistical bulletin, Household Costs Indices, UK: April to June 2025

House Prices

This section analyses the growth of house prices in Wales compared to other regions of the UK since devolution, reviews regional house price trends within Wales, and considers the potential impact of council tax premiums on house prices in areas popular for second homes.

A range of UK house price indices offer insights into property market trends, but their coverage of Wales varies. The UK House Price Index (UK HPI), published by the ONS, provides the most comprehensive and official data, including a dedicated breakdown for Wales. The Principality Building Society, in partnership with LSL Acadata, publishes a Wales-only quarterly index with local authority details. In contrast, indices from Rightmove, Halifax, and Nationwide cover the UK or England and Wales together, though Nationwide does include Wales in its quarterly regional breakdowns. More detailed comparisons and methodology explanations can be found on the gov.uk website.

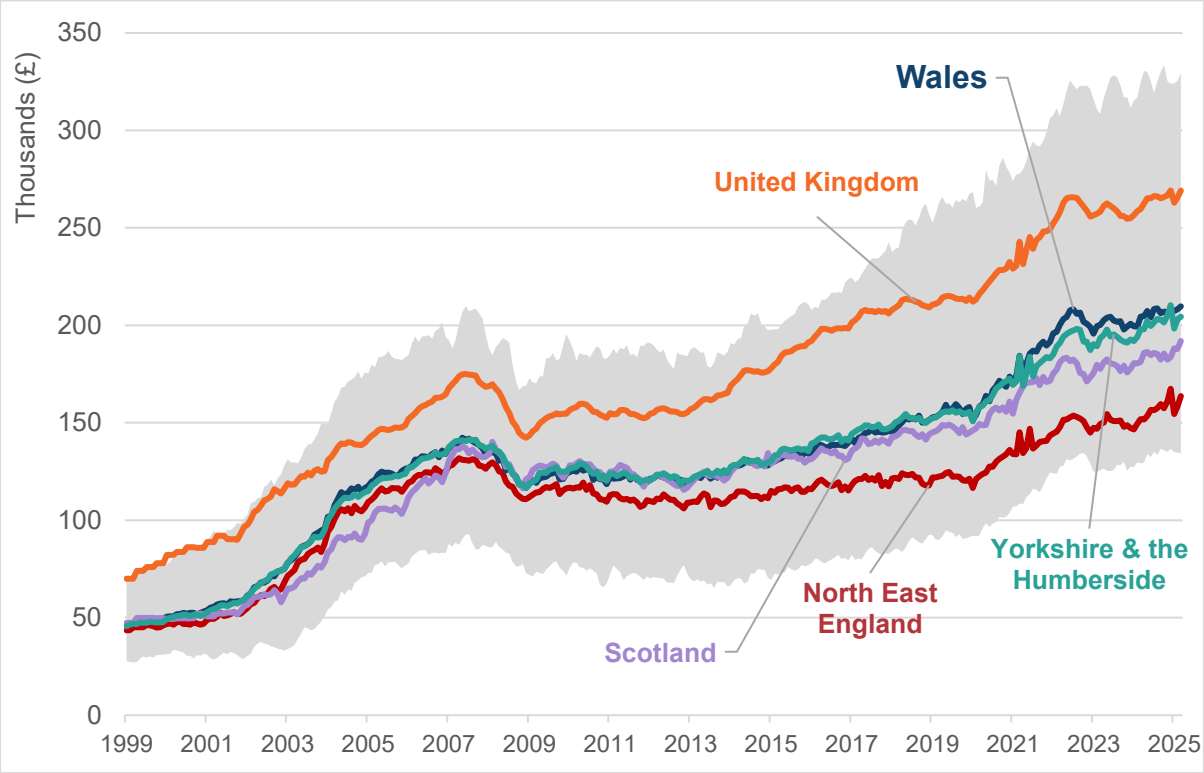
Changes in house prices since devolution

The average house price in Wales increased by 2.6% over the past year, reaching £209,728 as of June 2025.[52] This growth continues the moderate recovery observed during the 12 months to June 2024, which saw a 2.1% increase, following a period of price stagnation throughout 2023 after substantial growth earlier in the decade. The average price varies considerably across Wales from £329,177 in Monmouthshire to £134,442 in Blaenau Gwent.

Since devolution in 1999, Wales has had an average annual increase in house prices of 6.3%. In comparison, Scotland experienced a yearly growth rate averaging 5.7%, while the UK had 5.6%. When compared with English regions which had similar initial house prices as Wales in 1999, Wales has had slightly higher price growth than the North East (5.5%) and Yorkshire and Humber (6.2%), see **Figure 22**. The only English regions of London (6.6%), the North West (6.4%), and the East Midlands (6.3%) have recorded greater average annual increases than Wales.

[52] All figures are drawn from the June 2025 UK House Price Index, current at the time of writing in August 2025.

Figure 22: Average house price since devolution, Wales, Scotland, UK, selected UK regions & the price range of the 22 Welsh Local Authorities



Shaded area is the range of the 22 LAs
Source: ONS/Land Registry

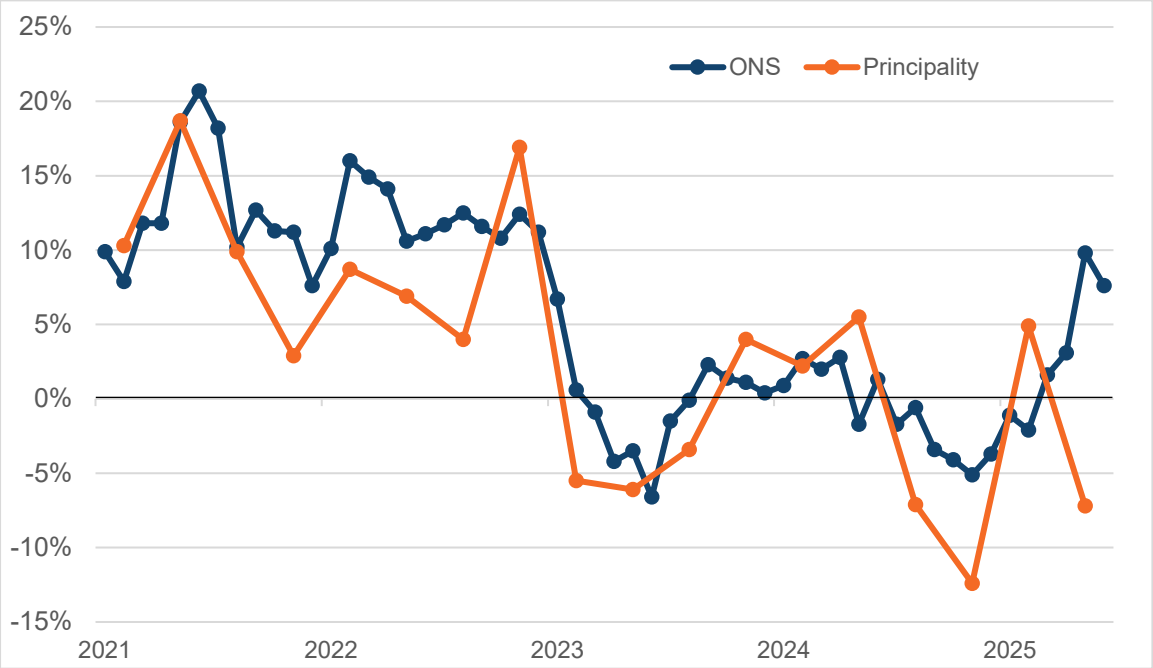
Regional House Price Movements within Wales

In early 2025, prominent headlines reported a significant annual decrease in house prices in Gwynedd, with the Principality House Price Index indicating a decline of 12.4% in the final quarter of 2024. This downturn was largely attributed to the enforcement of a 150% council tax premium on second homes effective from April 2023 and Article 4 planning restrictions introduced in September 2024. By the first quarter of 2025, the same index recorded a recovery, with growth rising to +4.9%, followed by a subsequent decrease to -7.1% in the latest data (Q2 2025). During this period, the monthly ONS measure ranged from a high of +9.8% to a low of -5.1%, see **Figure 23**.

The Principality index is frequently cited in the media because it is published more promptly than the ONS measure, providing more timely snapshots of the Welsh housing market. However, the Principality data has some limitations, including a smaller sample size and the use of different mix adjustment techniques compared to the ONS House Price Index.[53]

[53] More detailed comparisons and methodology explanations can be found on the gov.uk website.

Figure 23: Annual house price growth (%) in Gwynedd as measured by the Principality Building Society HPI and the ONS HPI 2021-2025



Source: ONS/Land Registry & Principality Building Society

Regional house price growth data, such as Gwynedd, can vary considerably from month to month or quarter to quarter, particularly at the Local Authority level. These variations often reflect the relatively low number of sales transactions in some areas, which can lead to greater apparent volatility in the figures. As noted in the House Price Index release: 'Geographies with low number of sales transactions should be analysed in the context of their longer-term trends rather than focusing on monthly movements.' To accurately assess whether council tax premiums are affecting house prices, it is more appropriate to conduct an analysis over an extended time frame.

Council Tax Premiums and Regional House Prices

Since 2017-18, local authorities in Wales have had the power to apply council tax premiums on second homes. In 2023, the maximum allowable premium for such properties increased from 100% to 300%. The table below presents the council tax premiums selected by local authorities for second homes in each year since 2017-18.

Table 2: Council tax premium levied by Local Authorities for second homes 2017-18 to 2024-25

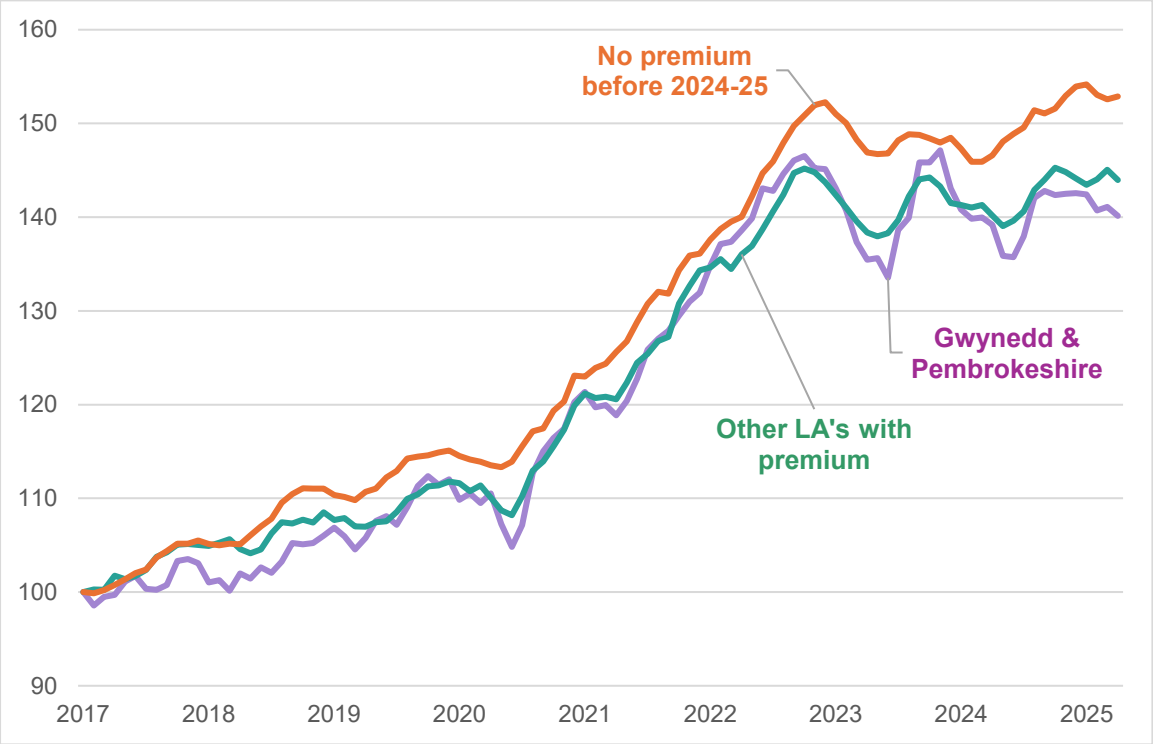
Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Isle of Anglesey	25	25	35	35	35	50	75	100
Gwynedd		50	50	50	100	100	150	150
Conwy			25	25	25	25	50	100
Denbighshire				50	50	50	50	100
Flintshire	50	50	50	50	50	50	100	100
Wrexham								
Powys	50	50	50	50	50	50	75	75
Ceredigion	25	25	25	25	25	25	25	100
Pembrokeshire	50	50	50	50	50	100	100	200
Carmarthenshire								50
Swansea					100	100	100	100
Neath Port Talbot								
Bridgend								100
Vale of Glamorgan								100
Rhondda Cynon Taf								100
Merthyr Tydfil								100
Caerphilly								
Blaenau Gwent								
Torfaen								
Monmouthshire								100
Newport								
Cardiff								100

Note: A blank entry denotes no premium was applied during the specified year.
Source: Welsh Government Second Homes team

Based on this information, local authorities can be classified into three distinct categories according to the level of premium levied on second homes. **Purple**: Indicates a strong application of second home premiums; these two local authorities are the only ones charging a premium exceeding 100%. **Green**: Represents moderate implementation, with areas that have applied premiums over several years. **Orange**: Refers to limited use of second home premiums, specifically in areas that did not charge a premium until the 2024-25 financial year.

Analysis of house price growth within these categories reveals authorities with low utilisation of second home council tax premiums have seen a 53% increase in house prices since 2017. This compares to 44% growth in the medium category and 40% in the high category, see **Figure 24**.

Figure 24: House Price Index January 2017 – April 2025 by use of council tax premium for second homes (January 2017 = 100)



Source: Welsh Government Analysis of ONS/Land Registry

This analysis provides some evidence that the application of second home council tax premiums may have contributed to lower house price growth. However, it is also possible that the slower rate of increase in those regions implementing the premiums reflects other influences, such as earnings trends, the broader economic climate, demographic changes or other policies in those areas. The longer-term picture shows house price growth in Wales since devolution has more than kept pace with growth across the UK as a whole.

Climate Change

Climate change is one of the largest issues facing the Welsh, UK and global economy. It is likely to have implications for the economy, especially over the long term.

The OBR has updated its estimates of the potential damage costs from climate change.[54] These have been increased due to greater probabilities of higher temperature changes and an increasing likelihood of more severe impacts of climate change on economies. The larger increase in damage at 3°C compared to 2°C is partly because current global temperatures are already most of the way to the below 2°C scenario.

Under a scenario where global temperatures rise by less than 2°C, the UK economy is estimated to be 3.3% smaller than in the OBR's no climate change baseline projection. Under a scenario where global temperatures rise by less than 3°C, climate-related damage is estimated to reduce the level of UK GDP by 8% by the early 2070s. This is three percentage points more than in the OBR's 2024 Fiscal Risks and Sustainability projection.

Whilst government can take mitigating actions and look to adapt to climate change, there is little the UK can do to directly reduce the climate change damage costs. These are driven by the impact of global emissions and the extent to which the relatively larger emitters take actions on their emissions.

Tackling climate change requires concerted effort to reduce net carbon emissions and change the way we operate to become less dependent on fossil fuels. The transition to a low carbon economy presents opportunities as well as challenges. New technology and innovation means that the transition is not simply a cost but a different type of economy and cost savings in some sectors.

In May this year the Climate Change Committee (CCC) published their latest Welsh advice[55], setting out a pathway for decarbonisation in different sectors along the way to reaching Net Zero by 2050. The pathway is split into 5-year Carbon Budgets (CB) with the next budget, CB3, running from 2026 to 2030, CB4 running from 2031 to 2035 and so on to 2050, when the UK, and Wales, has committed to reaching Net Zero.

The level of abatement required, and the interventions needed, vary considerably by sector, as does the amount of direct power held by the Welsh Government, with some sectors being largely reserved to Westminster, some largely devolved, and others mixed. The action needed to reach Net Zero, and live within our Carbon

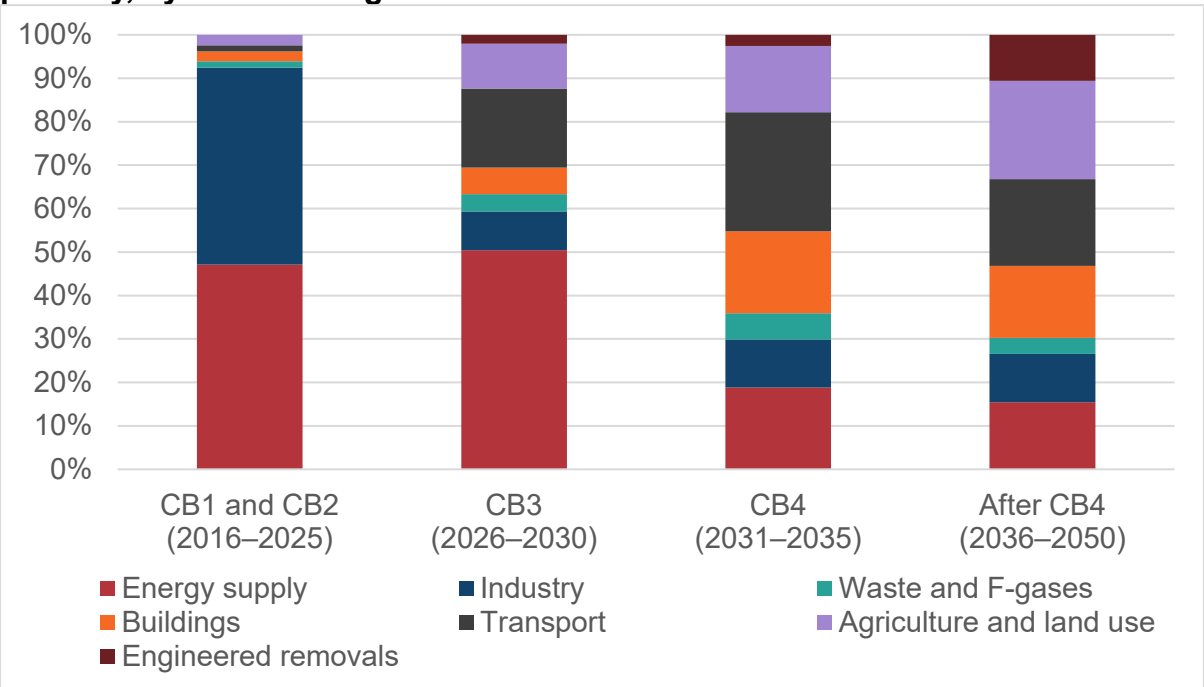
[54] See OBR (2025 Fiscal risks and sustainability – July 2025)
[55] Wales' Fourth Carbon Budget - Climate Change Committee

Budgets, also comes from a mixture of government, private sector and individuals' choices and behaviour.

The CCC estimates that the net cost of Net Zero in Wales will be around 0.4% of GDP per year on average in their pathway. Much of this investment, in particular in electricity supply, Electric Vehicles (EVs), and heat pumps, generates operational savings as inefficient fossil fuel technologies are replaced by more efficient electric alternatives. The majority of those investments will be private capital.

Over the next Carbon Budget (CB3) a little over 50% of the emissions reduction in the CCC pathway comes from energy supply, with the next largest reduction coming from transport, see **Figure 25**.

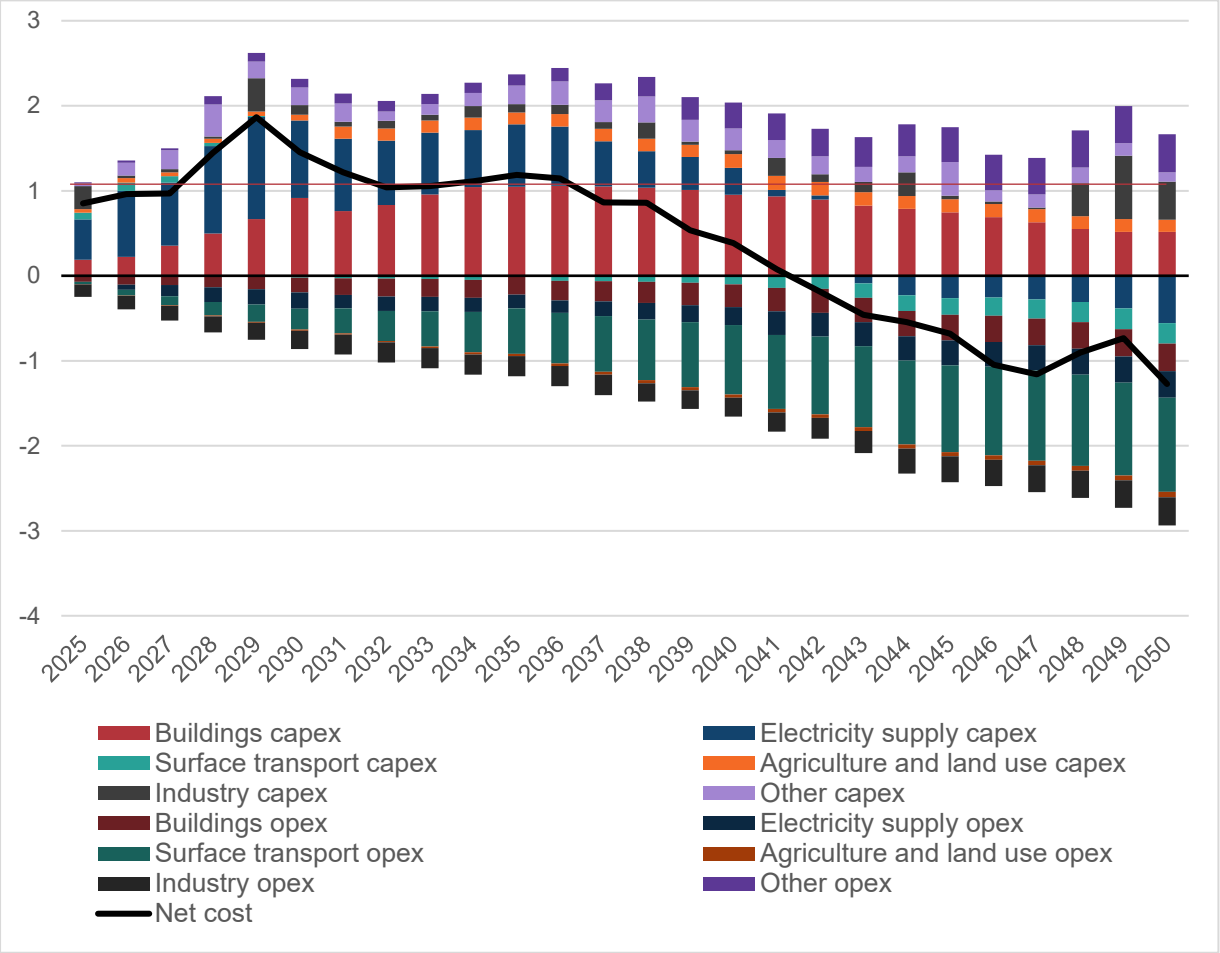
Figure 25: Distribution of emissions reduction for Wales in the balanced pathway, by carbon budget



Source: Wales' Fourth Carbon Budget - Climate Change Committee

For much of the balanced pathway, the CCC anticipates that upfront investment is required (capital expenditure) but this is offset by reduced running costs (operational expenditure) with the total pathway leading to net savings in the early 2040s, see **Figure 26**.

Figure 26: Additional costs and savings in the balanced pathway for Wales, (£bn/year)



Source: Wales' Fourth Carbon Budget - Climate Change Committee

For some interventions the CCC expect bigger savings sooner. EVs, for example, already have lower running costs, on average, than petrol or diesel cars, and from 2026 the CCC anticipates that they will also be cheaper to purchase, meaning that both capital expenditure and running costs will be lower, making the switch to electric vehicles the cheaper and greener option for most consumers.

The transition to Net Zero also has other co-benefits, particularly improved air quality from EVs and other electric alternatives to fossil fuels, which support goals contained within the Well-being of Future Generations Act, such as improved health outcomes. While the changes needed to tackle climate change require global efforts, which are not directly in our control, the latest CCC pathway suggests that there are potential direct gains from decarbonising our economy, and the OBR analysis highlights the costs of inaction.

The CCC data also shows that the investment cost of the transition to Net Zero varies between different parts of the UK. Early analysis of the latest pathway suggests the total capital cost per person in Wales from 2026 to 2050 could be

around £12,100, compared to around £9,400 in the rest of the UK, driven largely by differences in agriculture, land use and industry. If this additional cost (around 30%) is borne by the Welsh Government this could have fiscal consequences.

Labour Market

The labour market, and especially employment, has been a major area of economic success for the UK and Wales over the last 20 years. The next section shows this as well as providing some analysis on some of the more recent trends.

The labour market section focuses on the headline indicators of employment, unemployment and economic inactivity. Traditionally, the Labour Force Survey (LFS) published by the ONS has been the main source of data for these indicators. However, concerns about the accuracy and reliability of the LFS, noted in last year's Welsh Economic and Fiscal Report[56] remain. Consequently, Welsh Government analysts[57] recommend consideration should also be given to the trends exhibited by other labour market data sources. These additional sources are:

- the Annual Population Survey (APS),
- HMRC's Pay As You Earn (PAYE) count of the number of employees on PAYE payrolls, and
- the Claimant Count which is the number of people claiming unemployment-related benefits (Jobseeker's Allowance or those receiving Universal Credit, for unemployment reasons).

Taken together, these data provide a well-rounded picture of how the labour market in Wales has evolved in recent years and since the Welsh Economic and Fiscal Report 2024. ONS plan to replace the LFS and the APS with a Transformed Labour Force Survey (TLFS). Transition to the TLFS is expected to start in late 2026 or 2027.[58] More details on this is provided in the later section *Developments in Economic Data.*

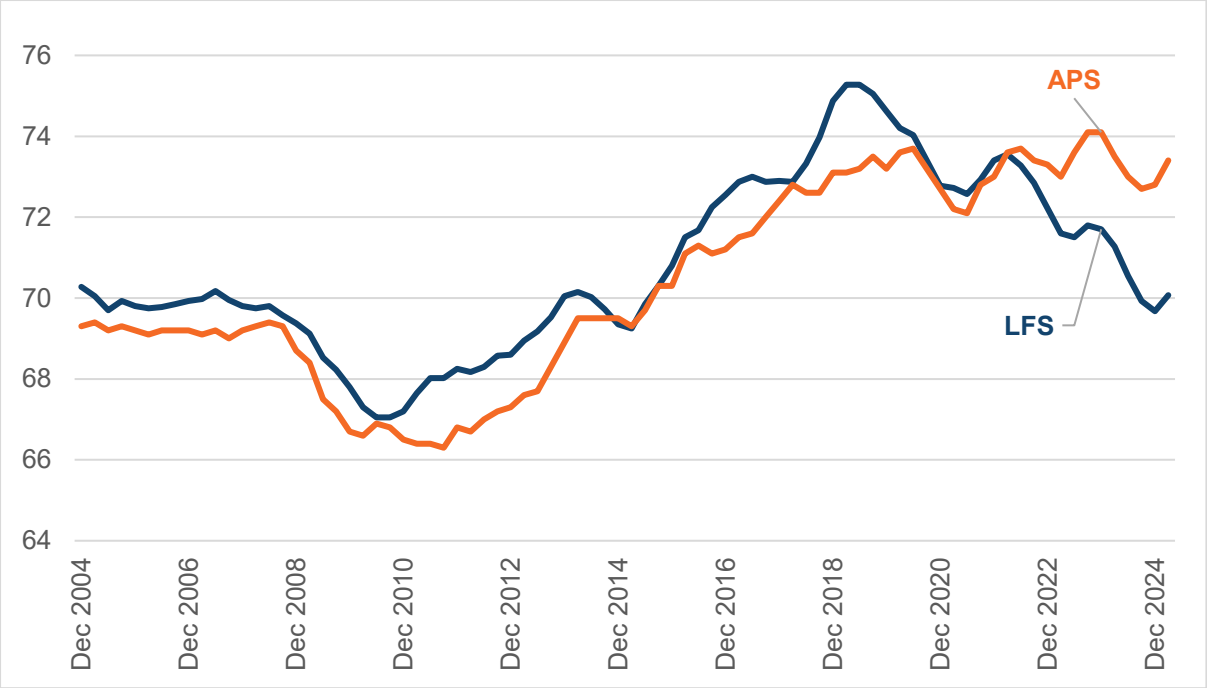
Employment

LFS employment and APS employment data for Wales over comparable periods is shown in **Figure 27**. Over the period 2004 to 2021, the APS employment rate in Wales has been lower or similar to the LFS employment rate over comparable periods. However, since around 2021, the APS shows a higher and more stable employment rate in Wales than the LFS. The APS employment rate has been especially higher than that of the LFS during 2024, reporting an employment rate which is relatively high compared to the rates over the last 20 years. The APS currently reports a gap of two percentage points to the UK employment rate. The gap was around five percentage points in the late 1990s (the 1990s data is not shown owing to data constraints).

[56] Wales Economic and Fiscal report 2024
[57] See The Labour Market | For The Record
[58] Labour market transformation – update on progress and plans - Office for National Statistics

The data in this relates to the following wellbeing national indicator: (21) percentage of people in employment. More information on the indicators, along with narratives for each of the wellbeing goals and associated technical information is available in the Wellbeing of Wales report.

Figure 27: Employment rate (%) in Wales 16 to 64, December 2004 to March 2025



Note: *Chart axis does not start at zero. Data is for the 12-month period ending in the month shown. LFS data presented is a rolling 12-month period, so it is on a consistent basis as the APS data.*
Source: ONS

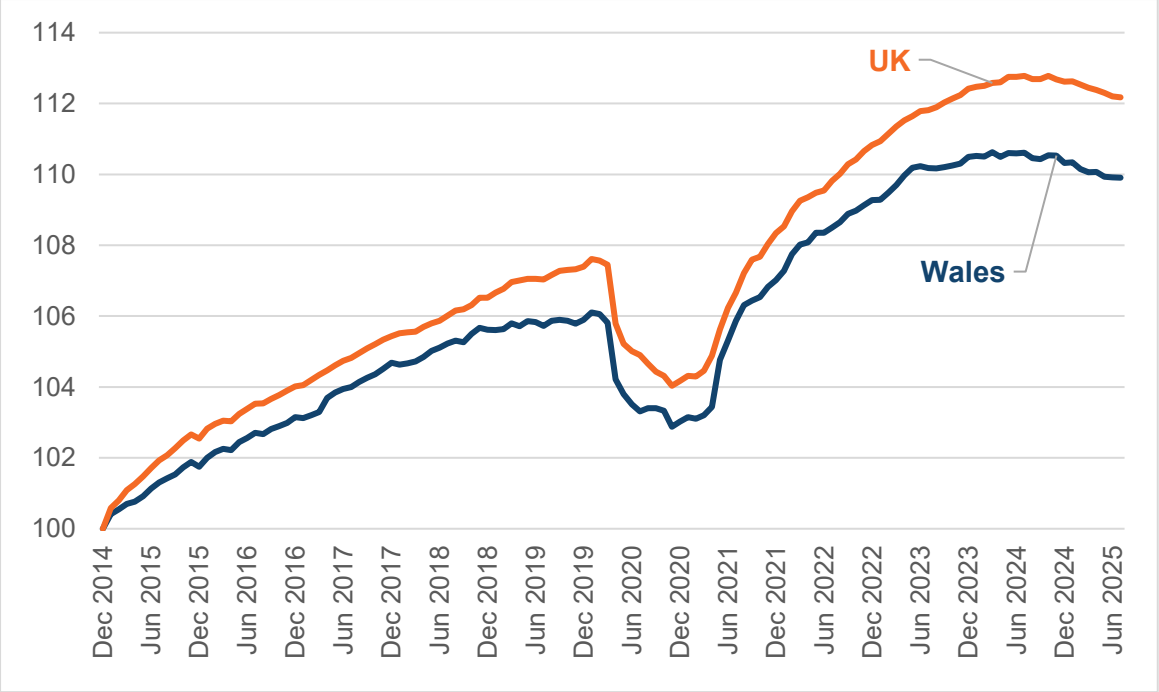
The rise in employment, both the rate and the level, has been one of the major economic successes since devolution. The APS shows the employment of those aged 16 to 64 in the UK increased from 27.8m in the 12 months from January 2004 to 31.6m in the 12 months from April 2024. In Wales, this has increased from 1.29m to 1.41m over the same period. In both Wales and the UK, this has been achieved through a rising employment rate, as well as population growth over the period. However, for Wales about two-thirds of this improvement over that period has been achieved through a rising employment rate, whereas in the UK this is closer to a third, with a larger share there of its rising employment rate being driven by population rises.

The relatively stable employment pattern evident in the APS data through 2024 is similarly repeated in HMRC's PAYE count of paid employees (excludes the self-employed) and is highlighted in Figure 28. The figure also shows the trend in employee numbers is highly synchronised between Wales and the UK. PAYE data are timelier than APS data and are not based on survey sources. The APS is also presented as 12 month rolling averages. Therefore, the PAYE data pick up changes

in employment patterns more quickly than the APS. The latest PAYE data show a weakening curve in 2025 with job losses accelerating in the second quarter.

Business surveys suggest the increase in employer national insurance contributions (NICs), the lowering of the NICs threshold and a sizeable increase in the national living wage, all effective from April 2025, as well as employer concerns about pending legislation regarding workers' rights are contributing to job losses.[59] More generally the economic backdrop is fairly poor as the economy struggles to break out of its post financial crisis low productivity paradigm. PAYE data show job losses are exclusively occurring in predominantly private sector industries. In the three months to June 2025, private sector PAYE jobs were down 1.5% on the prior year. Job losses have been most pronounced in relatively low paying activities. For example, in hospitality the number of PAYE employees was down 5% on the prior year. In contrast to developments in private sector job numbers, the number of PAYE jobs in the public sector has continued to increase in both Wales and the UK.

Figure 28: Index of paid employees (2014=100), December 2014 to June 2025



Note: *Chart axis does not start at zero.*
Source: ONS

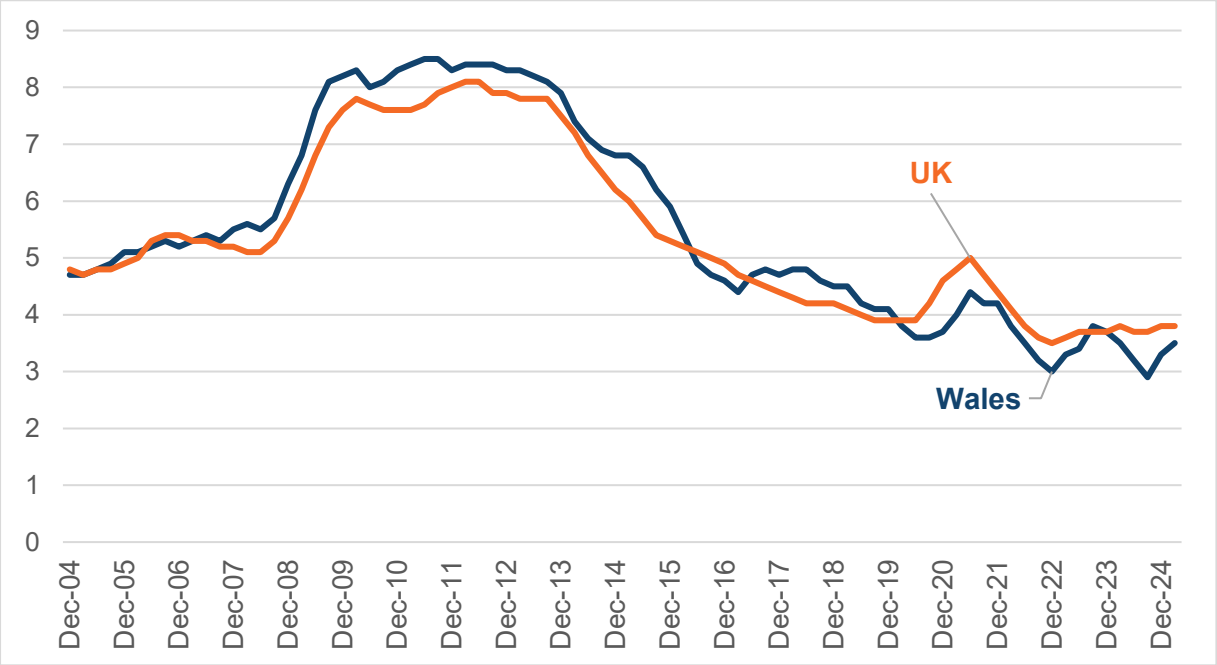
Unemployment

The APS unemployment rate in Wales has tracked the UK rate closely for the last 20 years (see **Figure 29**). The closeness of unemployment changes in the two

[59] For more information see Ray-Chaudhuri, S and Xu, X. (2025). Combined impact of minimum wage and tax increases may reduce opportunities for young people [Comment] Institute for Fiscal Studies. Available at: https://ifs.org.uk/articles/combined-impact-minimum-wage-and-tax-increases-may-reduce-opportunities-young-people

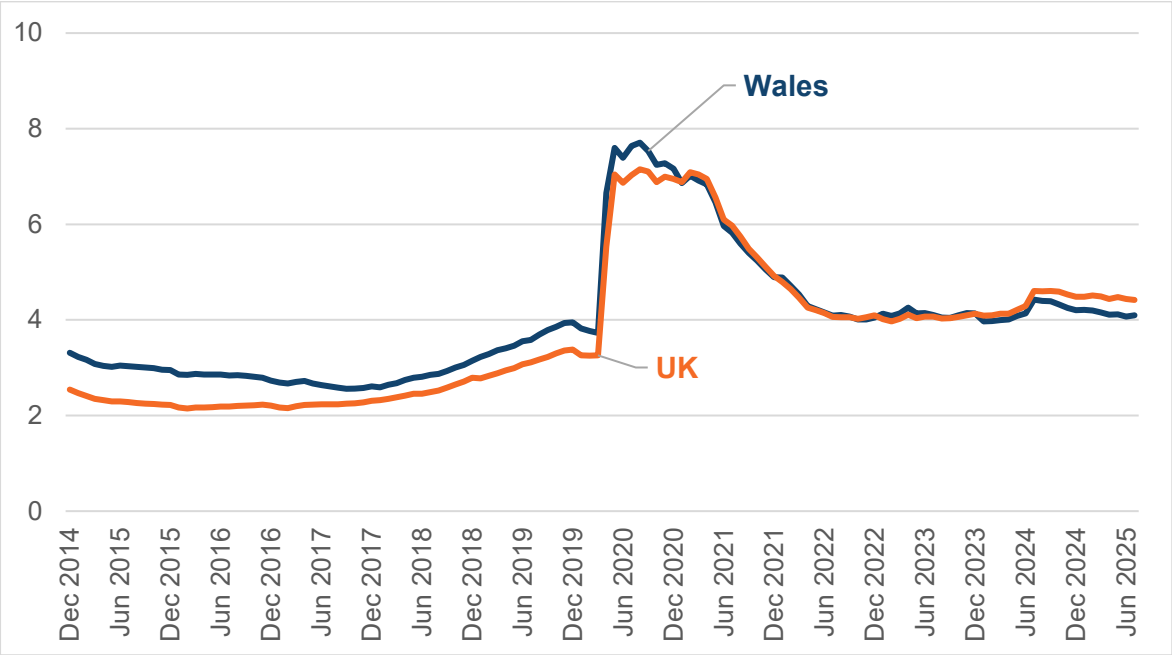
countries is confirmed in data capturing the proportion of the workforce claiming unemployment related benefits which is essentially identical (see **Figure 30**). The unemployment rate has generally fallen over the last 20 years, in both UK and Wales, despite the recession in 2008. At the start of the period (2004) the unemployment rate was around, or just below, 5% falling to around, or just below, 4% in more recent periods. The economic recession in 2008 had a much larger direct and longer lasting impact on unemployment than COVID-19.

Figure 29: Unemployment rate (%) aged 16+, December 2004 to March 2025



Note: *Data is for the 12-month period ending in the month shown.*
Source: APS, ONS

Figure 30: Claimant count rate as percentage (%) of workforce, December 2014 to July 2025



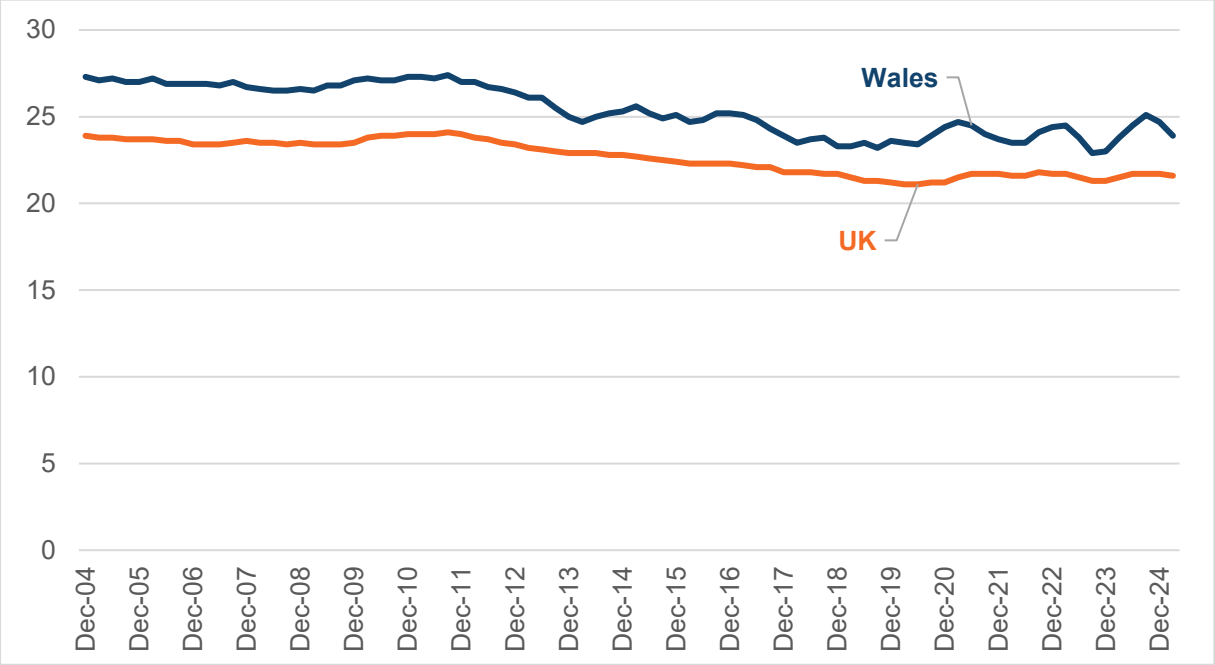
Source: ONS

As the unemployment position is very similar in Wales and the UK, it follows that the lower employment rate in Wales, as noted earlier, is driven by a higher rate of economic inactivity in Wales. The economic inactivity rate is the proportion of the working age population who are neither in work nor looking for work. Last year's report included a detailed analysis on inactivity and the analysis remains relevant.[60]

[60] Available at Wales economic and fiscal report 2024

In Wales, through the 2010s, and mirroring the improvement in the employment rate noted earlier, the economic inactivity rate declined steadily (see Figure 31). More recently, in the year to March 2025, the economic inactivity rate was 23.9%. This was 2.3 percentage points above the UK rate, a marked narrowing of the gap that prevailed in the late 1990s (1990s data are not shown owing to data constraints) and lower than at the start of the APS series in 2004 (3.4 percentage points).

Figure 31: Economic inactivity rate (%) 16-64 year olds, December 2004 to March 2025



Note: *Data is for the 12-month period ending in the month shown.*
Source: APS (ONS)

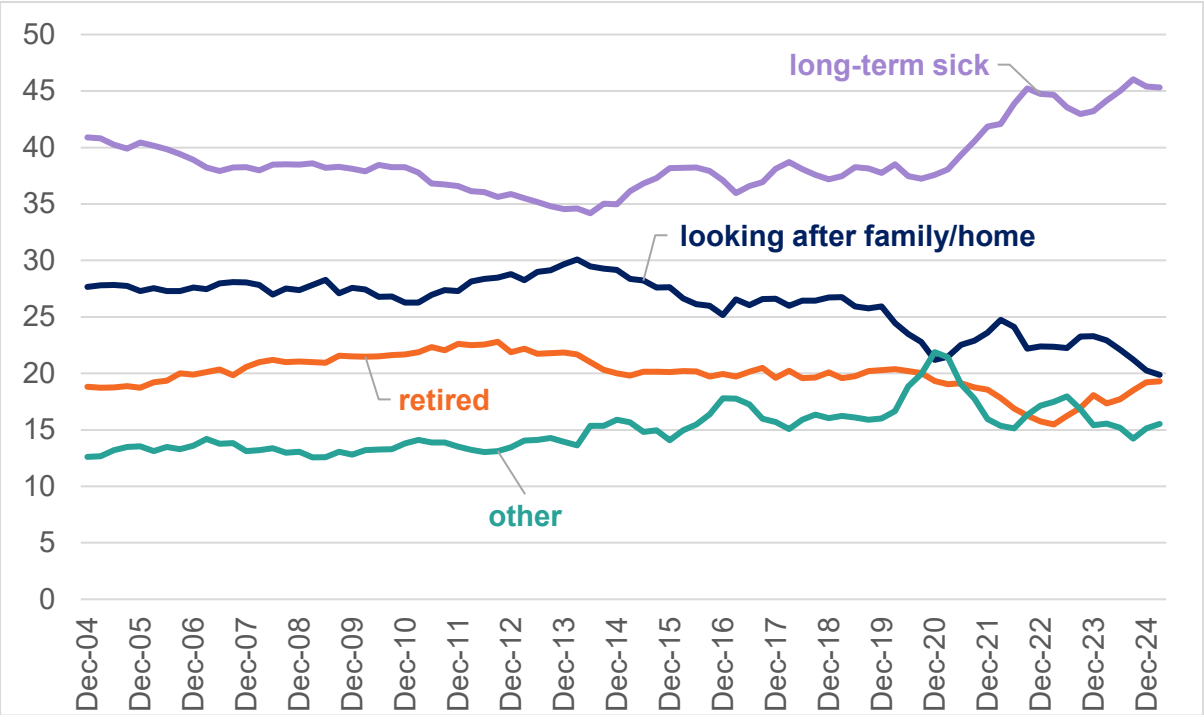
In terms of the reasons for economic inactivity, Figure 32 shows long-term sickness has been the leading cause of economic inactivity in Wales since APS records began. Long-term sickness is also the main cause of economic inactivity in other UK countries and regions. Moreover, it has increased sharply since 2019, accounting for a rising share of the total working age population who are economically inactive. It is not clear whether this rise is due to difficulties accessing the health service in the UK. Institute for Fiscal Studies (IFS) analysis suggests that 'at the local level, there is no clear relationship between changes in NHS waits (*in England*) and changes in working-age health-related benefit claims.[61] This is also likely to apply for Wales too.

In contrast to the share of those who have been inactive due to long-term sickness, there has been a marked trend decline in the number of people who are inactive because they are looking after family/home. This seems to be related to declining birth rates and improved qualification levels which encourages greater participation in the labour force. An inactive person can cite just one reason for being

[61] See The relationship between NHS waiting lists and health-related benefit claims | Institute for Fiscal Studies

economically inactive. So, there is scope for an inactive person to change their reason for being economically inactive or have more than one reason. IFS research using longitudinal data suggests this has been a factor in increased reporting of long-term sickness as a reason for economic inactivity.[62]

Figure 32: Main reason for economic inactivity in Wales 16 to 64 (%), excluding students, December 2004 – March 2025



Note: *Data is for the 12-month period ending in the month shown. 'Other' includes temporary sick and discouraged workers.*
Source: APS, ONS

[62] The rise in economic inactivity among people in their 50s and 60s | Institute for Fiscal Studies

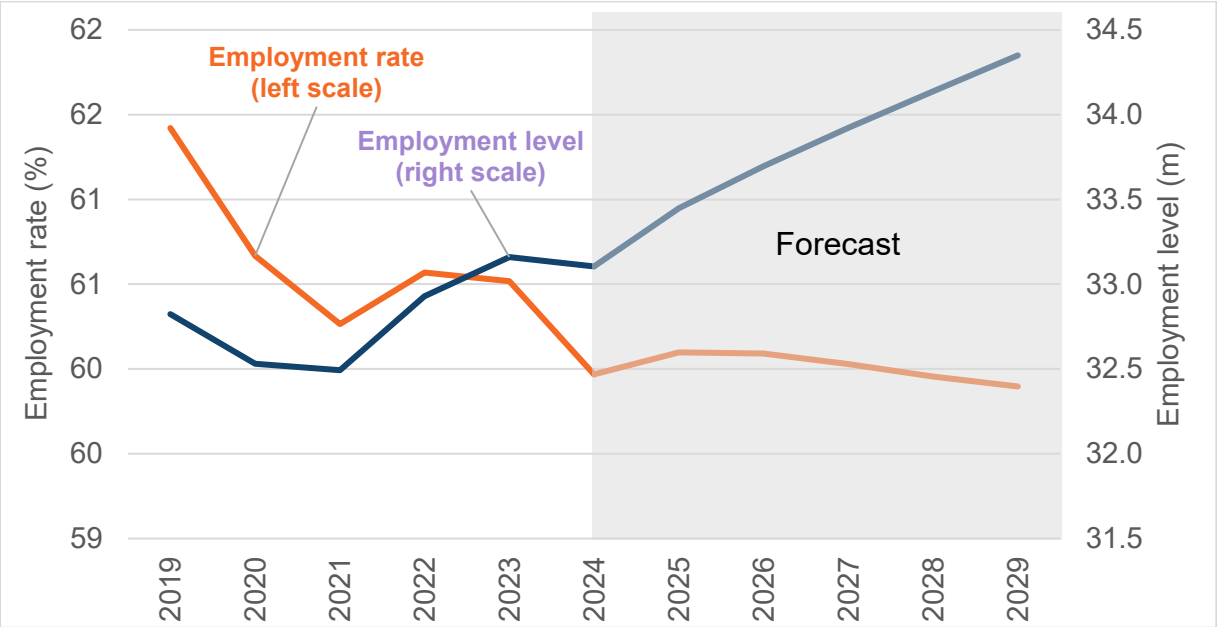
Outlook for the labour market

The OBR's latest (March 2025) forecast for the UK 16+ employment rate is 60.2%[63] by 2029, down from a starting point of 60.5% (quarter 4, 2024). The OBR attribute the expected three tenths of one percentage point reduction mainly to population ageing weighing on participation in the labour force. Higher employer national insurance contributions, effective April 2025, are also expected to slightly reduce employment.[64] The same downward pattern can be expected to feature in Wales, likely in slightly more pronounced fashion given the older profile of the Welsh population.

Although the employment rate is expected to decline moderately through the rest of the decade, the number of people in employment is expected to increase (i.e. the number of people in employment increases at a slower pace than the 16+ population is projected to increase). In the UK, the OBR expects the total number in employment to increase by 1.2 million people between 2024 and 2029 (see Figure 33). Given that changes in employment in Wales closely follow UK changes, this suggests Wales' 'share' of the increase in employment would be around 50,000 people by 2029. This is 20,000 more than was suggested in last year's Welsh Economic and Fiscal Report. The revision is a result largely of the ONS reweighting of the LFS to be consistent with population estimates published in November 2023, along with updated population projections, rather than to an improved labour market performance.

In the OBR's March 2025 forecast, owing to lack of detail and timing constraints, the OBR did not incorporate potential employment impacts resulting from the UK Government's Plan to Make Work Pay.[65] For much the same reasons, no account was taken of potential employment impacts from welfare reforms set out in the Pathways to Work Green Paper.[66] Many of the measures in the Green Paper have since been dropped but changes, nonetheless, will be introduced. It is expected that employment impacts resulting from these measures will be provided in the OBR's next forecast which will be published alongside the UK Autumn Budget 2025.

Figure 33: Employment for people aged 16 and over years in the UK, 2019 to 2029



Note: *Chart axes do not start at zero.*
Source: ONS, OBR

The OBR also forecasts the UK unemployment rate. Given the degree to which the UK and Wales unemployment rates are correlated – as highlighted in **Figure 29** and **Figure 30** – it is highly likely the two will continue to track each other over the forecast period. In addition, any UK Government measures that affect unemployment will also apply in Wales. The OBR's latest forecast is for the unemployment rate, which averaged 4.3% in 2024, to average 4.5% this year with the modest increase reflecting weaker labour demand because of a generally anaemic economic backdrop as well as the impact of higher labour costs to employers. The unemployment rate is expected to decrease gradually over the rest of the forecast period, settling at 4.1% in 2028 and 2029.

The OBR does not publish a forecast for economic inactivity. However, it does provide a forecast for the participation rate or the economic activity rate (sum of employment and unemployment) for the 16+ population. While this is a very approximate way of deriving the implied forecast for economic inactivity rate for the working age population, the OBR's analysis suggests it may increase, perhaps by a couple of tenths of one percentage point, over the forecast period. The OBR expects long-term sickness as the main reason for economic inactivity to continue increasing.

[63] Note this is a lower employment rate than that shown in **Figure 27**, as the OBR forecast those aged 16+, whereas the headline measure and that shown earlier is for those aged 16 to 64.
[64] Ther Bank of England reports that this is already affecting employment intentions by businesses, see Monetary Policy Report - August 2025 | Bank of England
[65] Make Work Pay - GOV.UK.
[66] Pathways to Work: Reforming Benefits and Support to Get Britain Working Green Paper - GOV.UK.

This increase is likely to be offset in part by a further decrease in looking after family/home as the reason for economic inactivity reflecting impacts from lower birth rates and policy measures to increase the provision of childcare.

International Trade

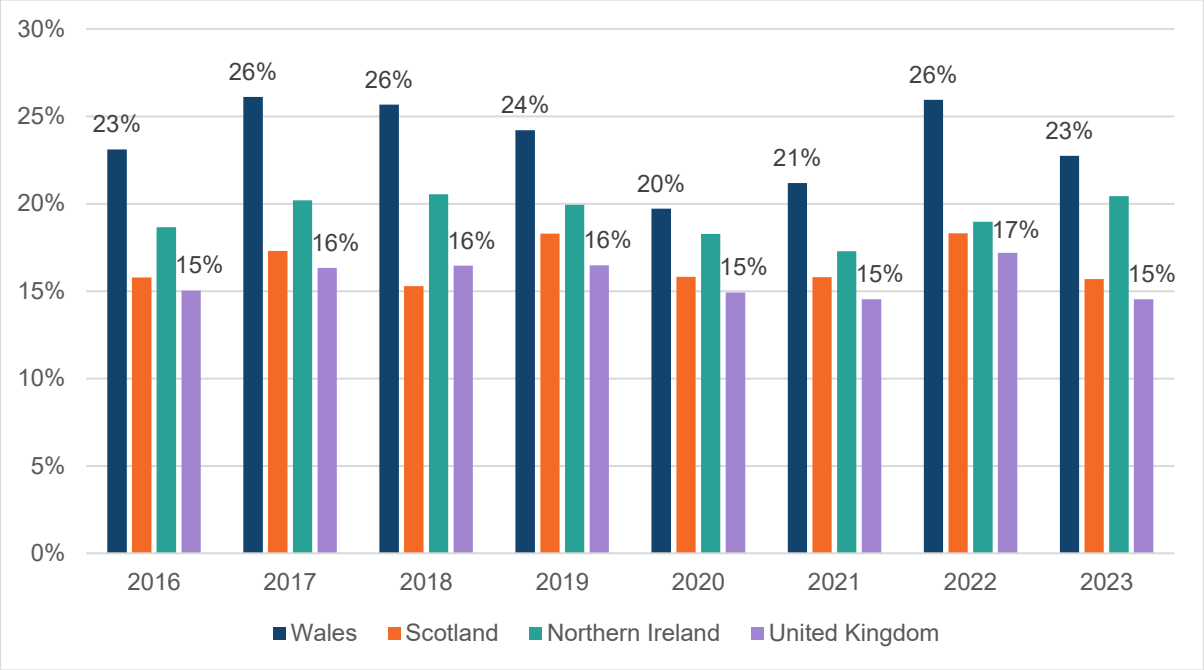
International exports provide an important market for Welsh firms, whilst imports provide inputs to businesses and goods for consumers, typically keeping prices down and increasing consumer choice. Latest evidence from the ONS finds firms that engaged in international trade between 2011 and 2022 were 35.4% more productive than firms that did not, in terms of output per worker.[67]

UNCTAD's Global Trade Update (July 2025) reported a 1.5% increase in global trade in the first quarter of 2025, with growth expected to accelerate to 2% in the second quarter. Despite global trade in goods and services remaining strong in the first half of 2025, persistent policy uncertainty, geopolitical tensions and signs of slowing global growth pose risks for trade in the second half of the year. This is supported by the OECD's revised global growth projections of 2.9% for both 2025 and 2026, forecasting a slowdown from a modest 3.3% growth in 2024. This comes as a result of increased trade barriers and elevated uncertainty, with rising trade costs fuelling inflation. Similarly, the World Trade Organisation (WTO)'s revised forecasts show World merchandise trade[68] is now projected to grow 0.9% in 2025, up from the -0.2% contraction forecasted in April but down from the 2.7% estimate pre-dating the tariff increases. The upgrade is mostly due to frontloading of imports in the United States, suggesting higher tariffs over time will weigh on trade, bringing next year's expected trade volume growth down to 1.8% from 2.5% previously.

Wales is a relatively trade intensive nation with international goods exports accounting for around 23% of output (GDP) in 2023[69], see **Figure 34**. This is consistently higher than any other UK country or English region, and well above the UK (15%). Whilst being exposed to other economies, widening access to markets beyond domestic ones has many economic advantages, it has also meant Wales has perhaps been able to benefit during periods of when global trade was opening up. However, whilst is has brought opportunities to the Welsh economy, it has also brought risks, with Wales perhaps being more exposed to negative economic shocks from changes in goods trading relationships than elsewhere in the UK.

[67] ONS Trade and Productivity in British firms 2005 to 2022
[68] Merchandise exports includes goods whose economic ownership is changed from a resident to a non-resident and that are not included in the following categories: goods under merchanting, non-monetary gold, and parts of travel, construction, and government goods and services n.i.e.
[69] ONS Regional gross domestic product: all ITL regions (table 5) Subnational trade timeseries - Office for National Statistics

Figure 34: UK Countries Goods Export as a share of GDP, 2016-2023



Source: *ONS subnational GDP and ONS Subnational Trade Time Series (Trade in Goods)*

Overall, Wales' exports are dominated by goods, which accounted for around 67% of total Welsh exports in 2023, much higher than the 46% for the UK. Service exports account for around 11% of Wales' output (GDP), lower than the UK (17%), and also lower than Scotland at 17% and England at 18%, but slightly above Northern Ireland at 10%. Services tend to be less affected by tariffs than other forms of regulations, due to tariffs only being directly applied to goods.

Wales-US trade

Wales' relative higher share of goods exports suggests Wales could be disproportionately impacted by trade policy changes including the recent imposition of tariffs on imports into the US. Goods account for around two-thirds of Wales' exports to the US, compared with around a third at the UK level.[70]

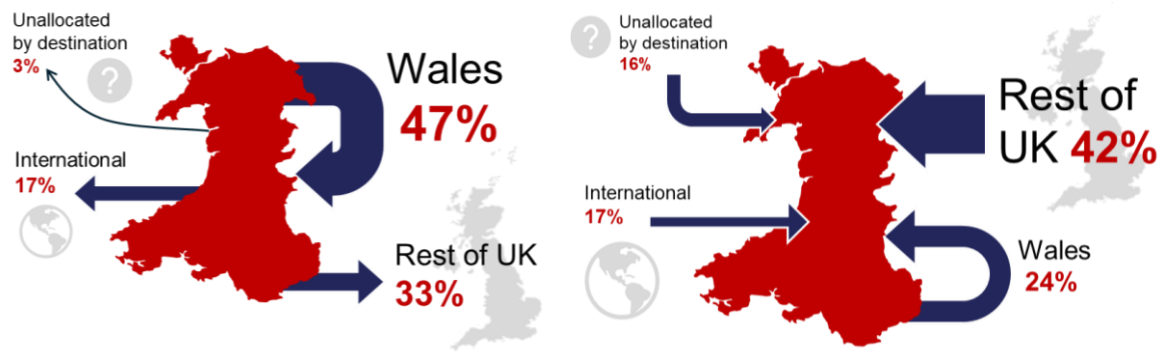
The rapidly changing and stop-start nature of new policies introduced by the US has made meaningful analysis of the potential impacts challenging. Whilst the OBR have modelled potential impacts of these tariffs, the scenarios modelled differ from what's currently been applied, therefore these offer only limited insights. However, it is possible to infer that higher US tariffs would reduce the trade intensity of the Welsh economy and lower productivity and economic output over the long run. The scale of this is uncertain at present. The UK-US deal is expected to be fundamentally important to mitigating the potential impact of these tariffs on Wales, given that a substantial proportion of Wales' trade with the US is in goods currently exempt from the tariffs (or facing preferential rates due to the deal agreed).

[70] ONS Subnational Trade (2023)

In addition to the direct impact of tariffs, there is also expected to be significant trade diversion, particularly as China seeks to redirect its exports away from the US. WTO estimates indicate Chinese merchandise exports are projected to rise by between 4% to 9% across all regions outside North America as trade is redirected.[71]

Wales continues to be deeply embedded in the UK economy (see **Figure 35**). The latest business-to-business trade data (2022) shows 47% of sales from businesses based in Wales are to other businesses in Wales, while 33% are to the rest of the UK. Purchases from the rest of the UK (42%) are larger than those from businesses in Wales (24%). Sales and purchases between businesses in Wales and the UK are significantly larger than international transactions.

Figure 35: Destinations and origins of Wales' Sales and purchases, 2022



Note: *This does not include all sales from businesses in Wales as some will be to consumers. Certain sectors are also excluded from the survey.*
Source: Welsh Government (2024) Trade Survey for Wales: 2022

Internationally, the EU continues to be the largest export market for Wales, with 56.8% of Wales' goods exports heading there in the year ending June 2025[72], compared to 48.4% at the UK level. This proportion has fallen recently and is currently at its lowest level since 2014 (when comparable data was first published). This is driven by the value of EU exports falling more than exports to non-EU countries.

That other UK countries and the EU remain large exporting destinations for Wales, suggests geography and proximity to countries still plays a major part for trade, especially for goods. This is less so the case for services, with around two-thirds of services exports from Wales destined for non-EU markets in 2023.[73]

Wales' trade performance over time

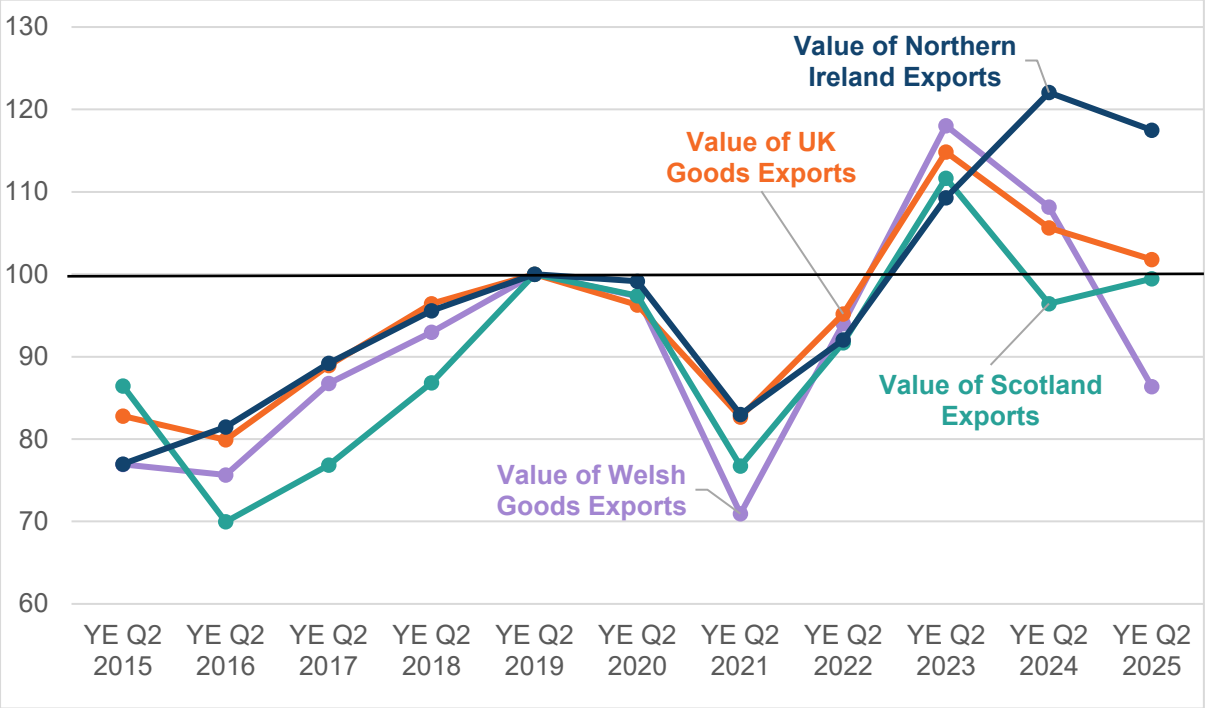
Following a volatile period for Wales' trade whereby the impacts of the COVID-19 pandemic were compounded by those of the UK's exit from the EU, the value of goods exports in Wales (as well as the UK) was slower to recover than the rest of the

[71] WTO Global Trade Outlook (April 2025)
[72] HMRC RTS Year ending June 2025
[73] ONS subnational trade 2023

G7. Despite this, a large increase was seen in 2022, believed to be at least in part driven by a period of high inflation. Since then, the value of goods exports has been on a downwards trend for Wales and the UK throughout 2023 through to early 2025.

Most recent data shows Wales experienced the largest fall in value of goods exports of all the UK countries in the year ending June 2025, with a much larger fall in the value of exports than the UK (-8.2% compared to -0.8%). The downward trend observed since early 2023 persists; however, the rate of decrease is slowing according to latest data. This downward trend in the value of Wales' goods exports continues to be driven by the exports of petroleum. Omitting petroleum, Wales' good exports grew by 2.8% during this period. This suggests petroleum may be masking growth in other sectors and therefore distorting the overall picture for Wales' export performance. Overall, Wales' export performance now tracks much lower than every other UK country as shown in **Figure 36**.

Figure 36: Value of goods exports by UK country, Indexed (YE Q1 2019=100)



Source: HMRC Regional Trade in Goods Statistics

More broadly, Wales has experienced a weaker export performance in recent quarters compared to the UK, with the current value of Wales' good exports broadly comparable to 2018 levels. The value of exports is the product of the volume and the price of exports. Relatively weak export performance for Wales is also shown in the volume of Welsh goods exports, which are around half (53.1%) the level they were in 2019.[74] This fall was largely driven by a decline in the quantity of petroleum exports contributing over three quarters (80.1%) of this decrease.

[74] Year ending June 2025 compared with Year ending June 2019.

Historically, petroleum has been a key driver of Wales' export performance, boosting the value of exports in 2022 due to peaks in global oil prices but has been driving down the value of Wales' goods exports since. The overall contribution of petroleum to the value of Wales' exports has fallen sharply in the last year, with the value and volume of exports falling by 74.8% and 69.8% respectively.[75] During this period, petroleum exports accounted for around 3.9% of Wales' total goods exports, down from 14.1% the previous year[76] and well below the peak of 22.2% in 2022.

The Centre for European Reform found that at the end of 2024, UK trade intensity remained 3.5% lower than pre-pandemic levels, even as it rose by 1% across the G7 and 3% across the EU-27. In addition, UK trade volumes have grown by just 1% on 2019 levels in real terms, compared with 8% growth in both the G7 and the EU. This highlights the relatively poor trade performance of the UK and Wales since EU exit. The UK Government continues to sign free trade agreements with third countries including the recently signed UK-India agreement. Whilst the estimated impacts of these agreements are relatively low compared to the loss of full access to the EU market, they do offer substantial benefits to Welsh businesses that trade with those individual countries.

[75] The scale of the fall in value and volume of exports of petroleum signals a major shift in exports of these products. Whether this is to be a short-term shift or a longer-term trend remains to be seen, however until more data becomes available, caution is advised due to these changes likely being linked to the activities of a small number of firms.
[76] Year ending June 2024

Developments in economic data

The UK is grappling with several challenges in its economic statistics landscape, reflecting structural issues and evolving economic conditions. Volatile economic conditions and the increasing need for more timely economic data has presented changes to the UK's economic statistical infrastructure. Economic data also needs to reflect and capture the ever more complex economic ecosystem, and integrated nature of business and industry, with activity crossing international borders and industries.

Whilst the demand for more timely and complex economic data is increasing, there are also challenges on the supply, with declining participation in surveys, the more traditional ways of collecting data. Whilst administrative data may help with this, that source of data may not have the richness to provide information across all elements which may be required by analysts and policy makers. It is also liable to changes in policies which may impact how or what data is collected.

ONS published an article detailing their plans for Economic Statistics on 26th June 2025 as part of their response to the Devereux Review of the Office for National Statistics. The plan sets out ONS's approach to restore trust and improve the quality of their core economic and population statistics. In the plan, ONS note the current concerns on the quality of labour market statistics and provide detailed plans on how they aim to address these concerns, such as by making greater use of administrative data; improving the quality of LFS responses through larger initial sample sizes and increased field interviewer capacity; reweighting the LFS and related datasets; and transitioning to the TLFS. Additional improvement measures are also being implemented across other labour market data sources, such as the Annual Survey of Hours and Earnings (ASHE), Workforce jobs and the Business Register and Employment Survey (BRES).

Labour market

ONS published an update in May 2025 on their program of work to improve the quality of estimates from the LFS. The main interventions made to address quality concerns with the LFS have now fed through all waves of the survey from the January to March 2025 period. Whilst these interventions have resulted in improvements in response levels and rates, levels for certain waves remain low by historical standards. Headline estimates from the LFS for Wales remain volatile and provide an uncertain view of the labour market when viewed in isolation. Given this, it is still recommended that consideration should be given to the trends exhibited by a range of labour market data sources.

ONS's long-term solution remains the replacement of the LFS with the Transformed Labour Force Survey (TLFS). ONS announced in the latest update that they intend to implement some changes to the design of the TLFS and that they will continue the

parallel running of the TLFS and LFS until TLFS design changes are fully embedded. ONS will keep users informed and report on progress in the next labour market transformation update.

The Annual Population Survey (APS) has seen a fall in sample sizes over recent years, given this and the fact the survey has not been reweighted to latest population estimates, the Office for Statistics Regulation (OSR) has agreed accreditation of the APS should be suspended and the estimates should be redesignated as official statistics. It is still appropriate to use these statistics; however users should note the increased uncertainty around estimates derived from the APS. At a national level, estimates continue to provide a reasonable indication of trends for Wales, particularly if used as part of a basket of indicators with alternative sources, such as HMRC real time information on paid employees (now classified as ‘Official Accredited Statistics’), data on workforce jobs, and the claimant count. Estimates from the APS for smaller geographies or population sub-groups, however, are currently less reliable.

Areas of priority for future research and analysis

The Welsh Government is developing a statement of its Areas of Research Interest (ARI) which it will publish to guide and encourage research that supports evidence-based policymaking in economic and fiscal domains.

The ARI will seek to foster collaboration with the research community and is intended to be reviewed periodically. It will not be a call for funding proposals but a guide to priority evidence needs.

The ARI is likely to outline seven strategic themes where further research is needed to inform policy development, investment decisions, and long-term planning in Wales, in line with devolved responsibilities and the Wellbeing and Future Generations Act.

i. **Fiscal Devolution and Public Finances**
Research is sought on devolved taxation, revenue forecasting, fiscal sustainability, and the interaction with the UK fiscal framework.

ii. **Economic Growth, Productivity, and Regional Development**
Priorities include understanding productivity drivers, addressing regional inequalities, supporting the foundational and rural economies, and enabling the transition to a low-carbon economy.

iii. **Labour Market Dynamics, Skills, and Fair Work**
Evidence is needed on employment trends, the impact of automation and digitalisation, youth employment, workforce development, and the implementation of the Fair Work Wales agenda.

iv. **Economic Inequality, Poverty, and Inclusive Growth**
Research to support inclusive economic strategies, with a focus on poverty measurement, the impact of economic policy on household wellbeing, and community wealth building.

v. **Demography, Planned Migration, and Population Change**
Areas of interest include the role of migration in population sustainability, economic impacts of migration, integration strategies, and population modelling.

vi. **Post-Brexit and Post-Pandemic Economic Resilience**
Research is needed on trade and investment changes, labour market shocks, evaluation of recovery measures, and supply chain resilience.

vii. **Data, Modelling, and Evaluation**
The Welsh Government welcomes research that enhances analytical capacity,

including the development of Wales-specific models, innovative data use, and robust policy evaluation methods.

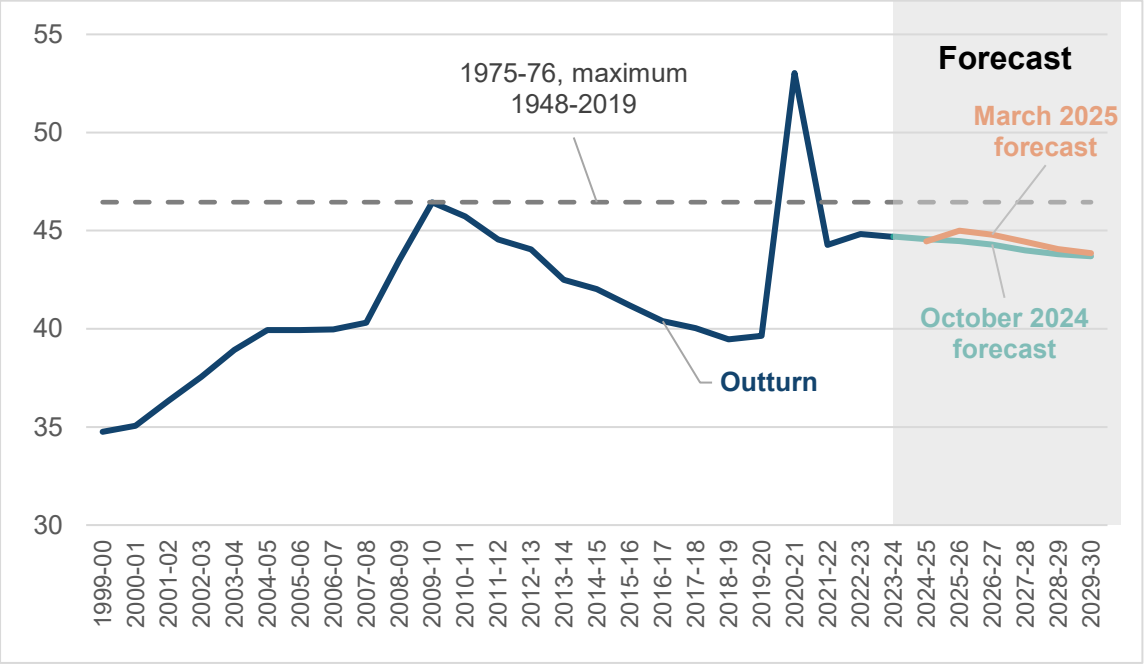
The Welsh Government welcomes opportunities to collaborate with researchers on any of themes in the ARI and on economic issues relevant to the Welsh Government more generally. For further information please contact: Economic.Research@gov.wales

Public spending

During the early part of devolution, UK Government spending was growing more than GDP. It rose from 34.8% of GDP in 1999-00 to a high of 46.4% in 2009-10, just after the Global Financial Crisis, although part of the rise in the final year would have been driven by the fall in GDP in 2009 rather than spending increases. Since 2009-10, the share of spending has gradually fallen each year to 39.5% in 2018-19, until rising slightly in 2019-20 before the pandemic.

The OBR forecasts UK spending as a share of UK GDP to rise from 44.7% in 2023-24 (last year of outturn) to 45.0% in 2025-26 (see **Figure 37**). This is 0.5 percentage point higher than the October 2024 forecast, at the time of the last Draft Budget. Spending as share of GDP is then forecast to fall slightly to 43.9% of GDP in 2029-20, only 0.2 percentage points higher than forecast in October. This is 4.2 percentage points higher than pre-pandemic in 2019-20.

Figure 37: UK public spending as a percentage of UK GDP, 1999-2030



Note: *Chart axis does not start at zero. October 2024 forecast is OBR's restated one due to GDP data revisions.*
Source: OBR

Spending increases as a percentage of GDP this year are partly driven by substantial additions to departmental spending. Decreases in spending as a share of GDP over the remainder of the OBR's forecast is then partly from departmental spending growing more slowly than the UK economy.

The pressures to increase public spending remain across the UK. Without additional economic growth (see the first section of this report) and unless the UK Government can switch funding between types of spending, such as from welfare to departmental spending, then any additional funding would need to be generated by either borrowing or taxation. Borrowing and taxation are summarised in the next two sections.

UK's public finances

Borrowing

Government borrowing occurs when public spending exceeds revenue (mainly from taxes). The public sector borrowed £149 billion in 2024-25 and the OBR forecast it to borrow £118 billion in 2025-26, based on its March 2025 forecasts. This is up from £105.6 billion in the October 2024 OBR forecast, the forecasts used at the time of the last Draft Budget. A large element of this increase is from an expected increase in debt interest of £5.5 billion (see below section).

UK public sector borrowing for the first four months of the 2025-26 financial year[77] was £60.0 billion, £6.7 billion (12.7%) above the same period last year. This is consistent with the OBR's March 2025 forecast (only 0.1% above). Borrowing can be disaggregated into borrowing to fund day-to-day public sector activities (the current budget) and borrowing for investment purposes. The current budget deficit was £42.8 billion, £5.7 billion (15.3%) above forecast.

Debt

To finance borrowing, the government can issue debt, UK Government bonds, sometimes known as gilts. Public debt is the accumulation of past borrowing. It reflects the total amount the government owes to creditors. Debt is typically expressed as a percentage of GDP to assess sustainability and a government's potential to be able to cover its debt. A rising debt-to-GDP ratio can signal fiscal stress.

The UK's public debt has risen by 67% of GDP over the last 25 years, and is now at just under 100% of GDP (see **Figure 38**). Whilst this rise has mostly been due to the recent economic and fiscal shocks the UK has experienced over that period, it is now more exposed to changes in interest rates and borrowing costs, as well as having less capacity to deal with potential future shocks.[78] Only in two periods since devolution (including the latest forecast period) is public sector net debt excluding Bank of England expected to fall as percentage of GDP fall over two years or more, and for six years in total. It is also only falling in seven of the 30 years, and not during over the forecast period. The current fiscal rules use public sector net

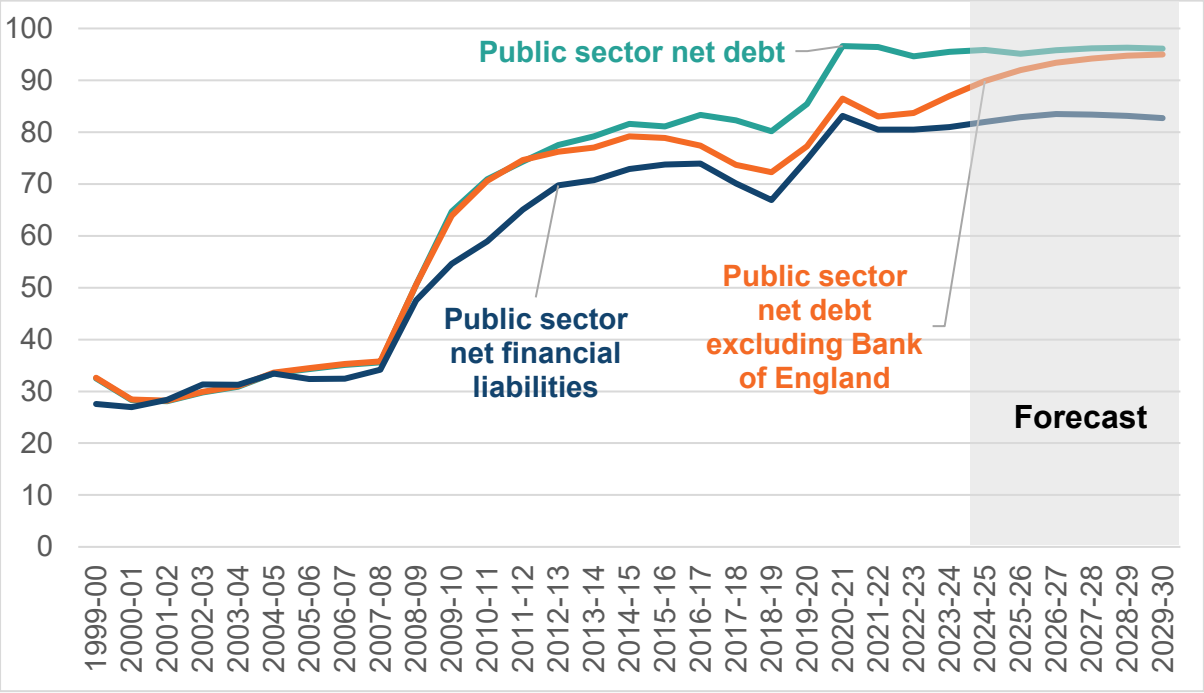
[77] The latest data as of 10th September 2025.
[78] For more information see Fiscal risks and sustainability – July 2025 - Office for Budget Responsibility

financial liabilities[79], which does fall in 2027-28 ahead of the fiscal rule requirement in 2028-29.

Looking at how debt increased, there are effectively two main periods to explain the rise, the three years over the GFC from 2008-9 to 20210-11 period debt increased by 35 percentage points, moving from 36% of GDP to 71%. The period impacted by COVID-19 and then the cost-of-living crisis also saw the net debt measure increase by around 10 percentage points, from 77% in 2019-20 to 87% in 2023-24.

Debt is also forecast to not reduce, regardless of whether the Bank of England is excluded. This is also little changed from OBR's October forecast (not shown), with net debt excluding the Bank of England lower in 2024-25 and higher in every year thereafter, and by 0.9 per cent of GDP in 2029-30.

Figure 38: Public sector debt as a percentage of GDP, 1999-00 to 2029-30



Source: OBR

The OBR reports UK Government debt as a share of GDP is the fourth highest among advanced European economies, and the sixth highest among advanced economies (after Japan, Greece, Italy, France, and the US).[80]

Debt interest

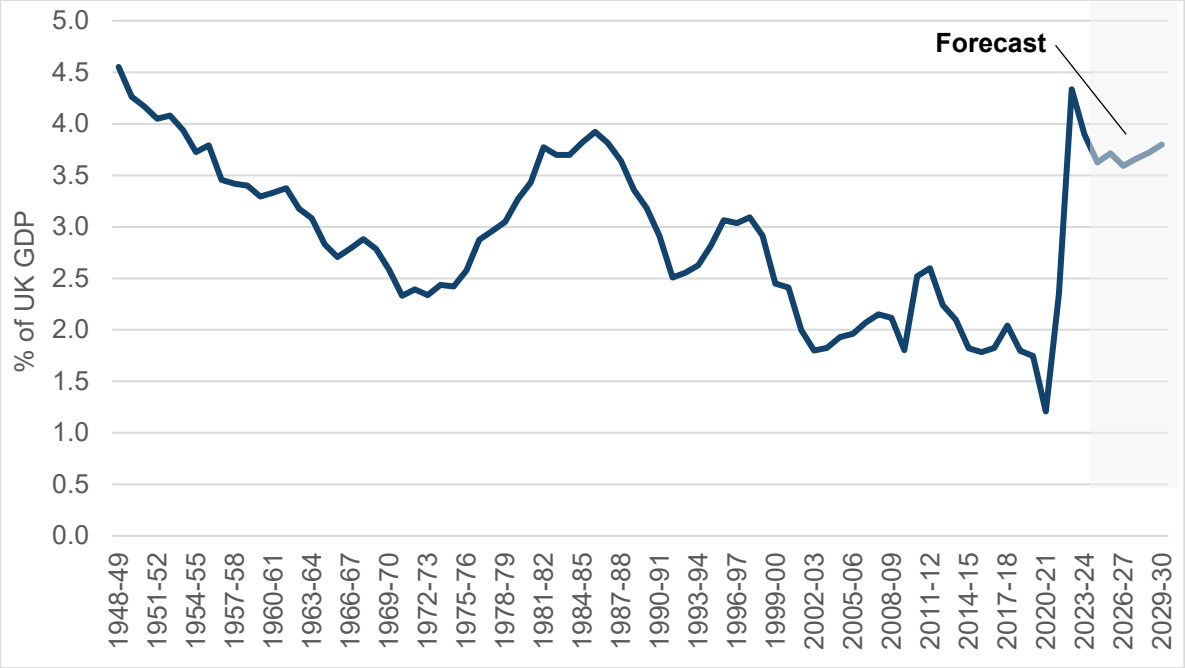
Debt interest payments are an increasingly important component of the fiscal position in many developed countries including the UK, as illustrated in **Figure 39**. A combination of factors has sharply increased the amount public sectors' in developed

[79] For more information on this measure, see Public sector net financial liabilities (PSNFL) - Office for National Statistics

[80] See OBR (2025:p.3) Office for Budget Responsibility – Fiscal risks and sustainability

countries are paying in debt interest each year. Alongside the increase in UK public sector net debt, set out in the above section, the UK Government and governments globally have faced higher interest rates on new borrowing, variable-rate debt instruments and the refinancing of existing debt. The UK Government now faces the third-highest borrowing costs of any advanced economy after New Zealand and Iceland.[81]

Figure 39: UK central government debt interest (net of APF) as a percentage of GDP, 1948-2029



Note: *Debt interest figures are presented net of interest on the Asset Purchase Facility, mostly Government debt by the Bank of England, part of the public sector, so the interest paid by central government on those gilts does not actually leave the public sector.*
Source: OBR Public Finances Databank

The Bank of England and other central banks have increased policy rates to combat inflation surges in 2022 and 2023, increasing the cost of borrowing for individuals, businesses, and governments. Around 25% of UK Government debt is index-linked, a higher share than most other major economies, making UK debt interest costs more closely linked to inflation. Market volatility, driven by events such as wars in Ukraine and the Middle East and changes in the composition of government bond holders have also pushed up interest rates on government borrowing.

Consequently, the OBR forecasts UK debt interest payments in the 2025-26 fiscal year to be £111.2 billion. Debt interest is now forecast to be one of the largest areas of government spending, accounting for around 8.3% of total public spending, higher than the entire UK Government's spending on Defence and Transport and higher than the total receipts from corporation tax. UK debt interest payments are the

[81] See OBR (2025:p.3) Office for Budget Responsibility – Fiscal risks and sustainability

equivalent of 3.7% of GDP.[82] Whilst this is lower than the post-war high of 4.3% GDP in 2022-23, the OBR forecasts the ratio to increase over the next five years.

Every pound spent on debt interest is money not available to fund public services, investments, or tax reductions. Increases in debt interest costs and the UK Government's commitment to its fiscal rules makes trade-offs in government budgets more acute.

The UK is not alone in facing these challenges as the US, Eurozone, and Japan have also seen rising debt interest payments. In 2024, the gross interest payments-to-GDP ratio in OECD continued to rise, reaching 3.3%, up from 3.0% in 2023 and 2.7% in 2015-19.[83]

Higher debt servicing costs raise questions about the long-term sustainability of current fiscal paths. If borrowing continues at high levels, or interest rates stay elevated, the proportion of government revenue devoted to debt interest could become unsustainable.[84] Elevated debt interest payments also risk reducing governments' ability to respond to future economic shocks with fiscal stimulus or emergency spending. Higher economic growth (nominal or in real terms) would help a government to deal with its debt sustainability.

Fiscal Rules

The UK Government's fiscal rules require the current budget to be in surplus by 2029-30 and public sector net financial liabilities to be falling as a share of GDP in the same year.

The current budget deficit is the difference between government's day-to-day spending and its revenues. The current budget deficit doesn't include investment spending, unlike the overall budget deficit. The current budget deficit is therefore considered to measure the difference between what taxpayers generate and the cost of paying for public services.

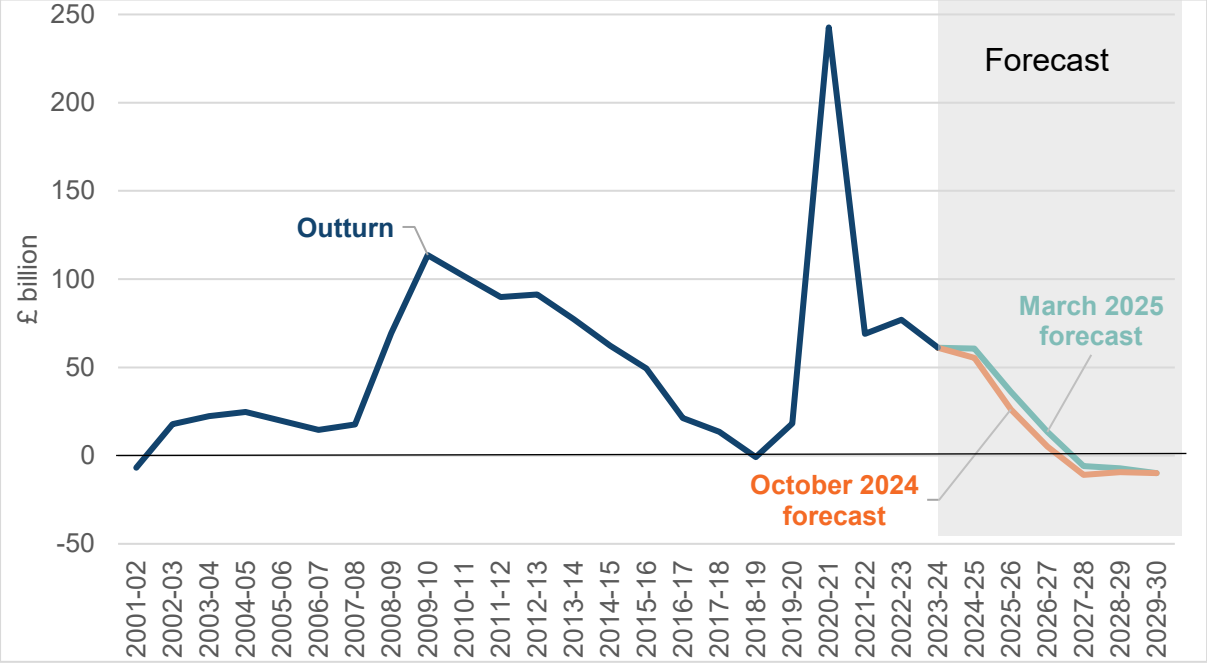
Between 2001-02 and 2023-24, the UK has only had the current budget in surplus in two years (2001-02 and 2018-19), see Figure 40. The OBR's March forecast shows borrowing, whilst still positive, declining over the rest of this decade and for the current budget to be in surplus in 2027-28, ahead of the fiscal rule in 2029-30. The current budget deficit is expected to be higher, or less positive, in every year of the

[82] See OBR Debt interest (central government, net of APF)
[83] See OECD (2025), *Global Debt Report 2025: Financing Growth in a Challenging Debt Market Environment*, OECD Publishing, Paris, https://doi.org/10.1787/8ee42b13-en.
[84] The arithmetic or classical way to view government debt sustainability uses the relationship between the interest rate on public debt (r) and the economy's growth rate (g). When the interest rate is lower than the growth rate (r < g), the economy expands faster than the cost of servicing debt, allowing the debt-to-GDP ratio to decline even if the government runs a modest deficit. This scenario supports sustainable debt levels. Conversely, if the interest rate exceeds the growth rate (r > g), debt accumulates faster than economic output, requiring fiscal surpluses to stabilize or reduce the debt ratio.

forecast compared to October 2024. It is £5.2 billion higher in 2024-25 and £10.0 billion higher in 2025-26. It is then unchanged by 2029-30, meeting the forecast by the same margin, or 'headroom', by £9.9 billion as the October forecast, with some fiscal consolidation undertaken in March to offset the weaker fiscal forecast to maintain this level of headroom.

The rule for the current budget to be in surplus by 2029-30 is therefore met but only by a very narrow margin. The fiscal mandate is met by a margin of 0.3% of GDP (£9.9 billion) in 2029-30, equivalent to around 0.7% of tax revenues. The OBR assess the probability of the target being met as 54%. Therefore, even relatively small unanticipated changes in estimated revenues, or spending, have the potential to eliminate the forecast surplus. There is also a lot of pressure to increase resource or day-to-day spending. But this is much less able to be financed through borrowing given the current fiscal rules.

Figure 40: Current budget deficit, 2001-02 to 2029-30



Source: OBR

As noted earlier, productivity is crucial for any economy's fiscal outlook, determining the strength of a government's revenue base and the cost of delivering public services.

The assumptions about UK productivity growth are one of the most uncertain, challenging but consequential aspects of the OBR's fiscal forecasts. Assumptions about productivity growth underpin the assessment of medium to long-term growth of the economy and other important fiscal variables.

The OBR's overly optimistic assessment of the post-financial crisis recovery in productivity in the early 2010s means it has overestimated UK economic growth by an average of 0.3 and 0.7 percentage points over its two- and five-year periods; slightly higher than external forecasters.[85] As a result, the OBR has already revised down its expectations around productivity and therefore medium-term GDP growth in 2017 by around 0.5 percentage points.[86] However, even after this downward revision, there is still considerable uncertainty around one of the most influential aspects of the UK's fiscal and economic forecast, with considerable downside risks remaining.[87]

The productivity section (see earlier) provides details on the some of the fiscal implications if UK productivity was to improve. However, instead of productivity outperforming forecasts (this makes no assumptions around any potential future policies), a more likely scenario is that productivity is revised down or underperforms compared to forecast.

The OBR provides a scenario with productivity growth at 0.3% per year throughout the forecast (instead of 1.0% over the forecast, reaching 1.3% in 2029-30).[88] Lower productivity is assumed to reduce nominal GDP and wages. As a result, receipts are forecast to be lower, spending is higher which act together to increase the current budget from what is currently forecast by the OBR. As a result, the current budget is projected to be in deficit for the whole forecast period to 2029-30. The current deficit increases to £48.4 billion in 2029-30. This is a swing of £58.3bn from the original £9.9bn headroom (surplus) in the central forecast. This is all caused by a reduction of around one percentage point in trend productivity over the forecast period. Therefore, UK productivity growth, and assumptions around how it may grow in the future, are critical for the UK's economic and fiscal outlook

Taxation

The combination of the fiscal rules and the pressures for public spending mean there is now more emphasis on taxation to fund more spending, especially for the day-to-day or resource budget.

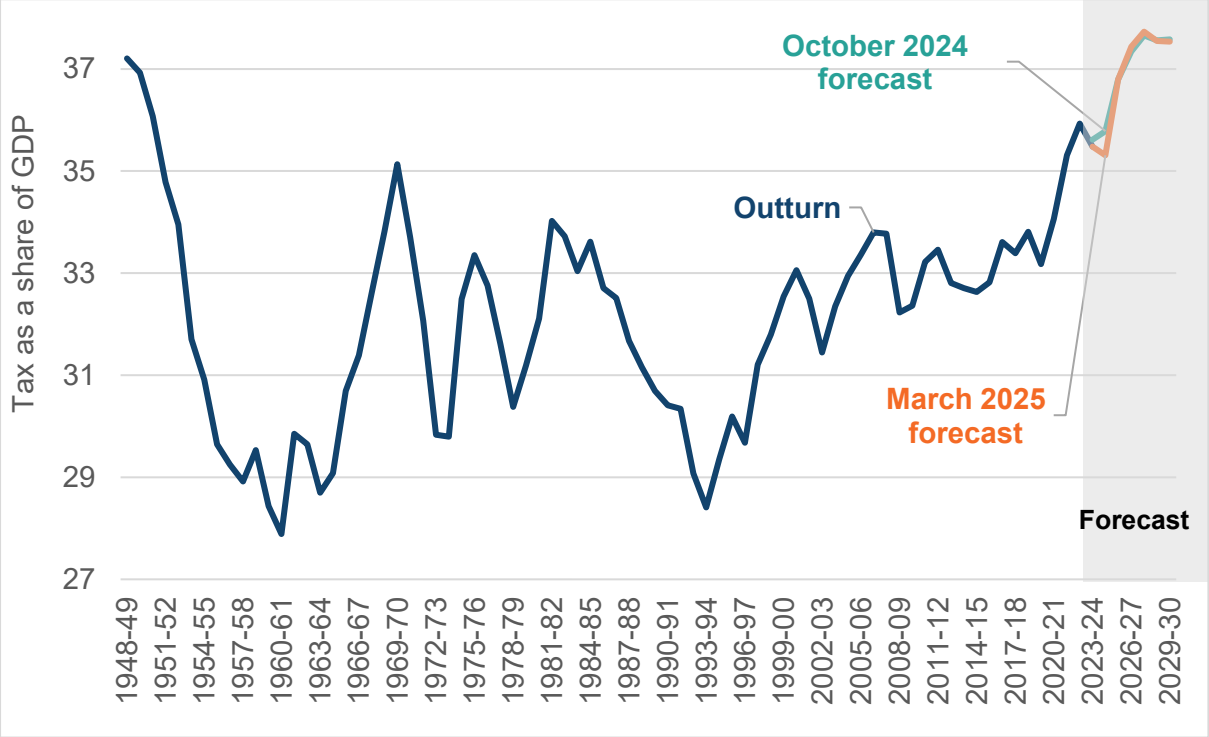
The UK tax is estimated to be at 35.5% of GDP in 2023-24, whilst down on 2022-23 at 35.9% of GDP, it is still relatively high and was only higher as a percentage of GDP in the early 1950s. Over the next few years, the OBR forecast this to rise to 37.7% in 2027-28 and then falling slightly to 37.5% by the end of the forecast period 2029-30. This would then result in tax as a share of GDP being at its highest rate

[85] See Office for Budget Responsibility (July 2025) - Forecast evaluation report
[86] See Productivity growth in the long-term - Office for Budget Responsibility
[87] See FT (17 February 2025) 'Out on a limb': UK fiscal watchdog's productivity forecasts under fire, FT (24 June 2025) BoE's Andrew Bailey warns on UK productivity in challenge to Rachel Reeves and FT (11 September 2025) The 'educated guess' set to decide Keir Starmer's fiscal fate
[88] See Office for Budget Responsibility (March 2025) – Economic and fiscal outlook

since the post-war period. This is around the same as forecast in October 2024, albeit 0.1 percentage point higher then.

Whilst UK tax as a share of GDP is high by historical standards, it is around average by international standards according to the OBR, even after the recent measures. The OBR also finds tax has been rising as a share of GDP across advanced economies in recent years.

Figure 41: Taxes as a share of GDP, 1948-49 to 2029-30



Note: axis does not start at zero
Source: OBR

The UK increase of taxes as share of GDP over the forecast period is estimated to come from personal taxes (caused by the mix of rising earnings with frozen National Insurance and income tax allowances and thresholds), rise in employer NICs and capital taxes (caused by rising equity and property prices, as well as UK Government policies in the 2024 Budget).

The freeze in income tax and employee National Insurance Contribution thresholds, which have been in place since 2021, is scheduled to run until April 2028. This freeze could be extended to the end of the decade in the Budget this autumn if, as fiscal experts currently expect,[89] the Chancellor will have to raise more tax revenue for the UK Government's main fiscal target to be met. The main taxes in the UK are income tax, employee NICs, value added tax and corporation tax. Of the £1,100bn of

[89] See for example Rachel Reeves must raise taxes to cover £41bn gap, says think tank - BBC News and Politics Home | There Could be "Significant" Tax Rises At The Next Budget, Says Leading Economist

UK tax and revenue receipts to government, these taxes amount to nearly two-thirds of the total. A further 7% is from council tax and non-domestic rates which fund local government and services. Most other taxes raise less than £10bn a year: fuel duty at £25bn, stamp duty land tax at £12bn and capital gains tax at £14bn the only exceptions.

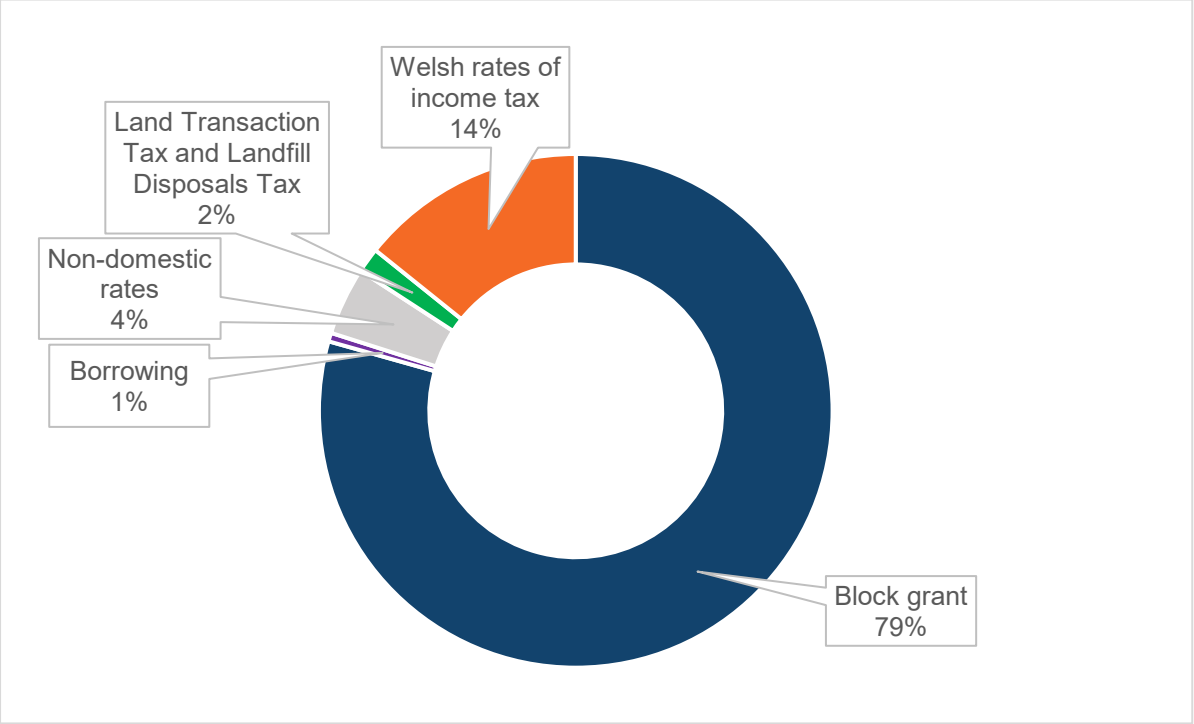
Welsh Government's Settlement and financing

The UK Government's June 2025 Spending Review (SR) provided the Welsh Government with a resource block grant settlement for 2026-27 to 2028-29 and a capital settlement for 2026-27 to 2029-30. The overall block grant settlement for 2025-26 to 2028-29 is £6 billion higher than would have been expected, based on growth in UK discretionary public expenditure assumed in the March 2024 UK Budget.

As well as the block grant, the size of the Welsh Government budget also depends on revenues from non-domestic rates, the devolved taxes, and the block grant adjustments that accompany those taxes. Overall, the block grant accounts for 79% of the budget in 2026-27 (after deducting the block grant adjustments). The devolved taxes fund 15% with the rest accounted for by non-domestic rates and capital borrowing (see **Figure 42**).

A separate distributional analysis showing the impact of Welsh Government resource spending programmes in 2026-27 across the income distribution is published separately alongside the Draft Budget.

Figure 42: Financing of the Welsh Government Draft Budget 2026-27

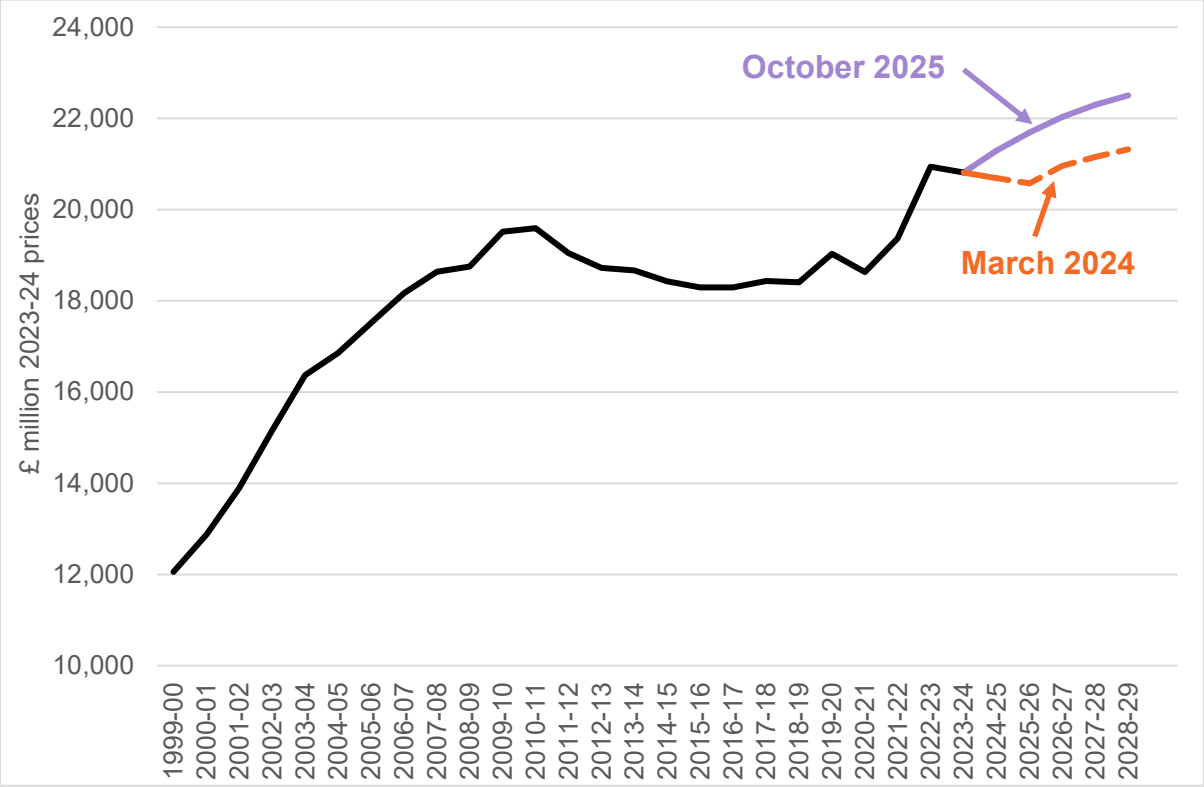


Source: Welsh Government

Welsh Government resource budget

The total resource budget for Welsh Government, including all elements listed above, is expected to increase by 1.6% in real terms in 2026-27 and by the same amount on average each year for the years 2024-25 to 2028-29. The trajectory for the resource budget is similar to that expected under the resource plans set out in March 2024 by the previous UK Government, but from a considerably higher base in 2025-26 (**Figure 43**).

Figure 43: Welsh Government Resource Budget in real terms (£m)



Note: axis does not start at zero
Source: Welsh Government

The 1.6% real growth rate in the resource budget expected over the 2024-25 to 2028-29 period is compared to earlier periods in **Figure 44**. It is considerably higher than over the period of austerity in the 2010s, but lower than at other times and much lower than during the initial period of devolution in the early 2000s.

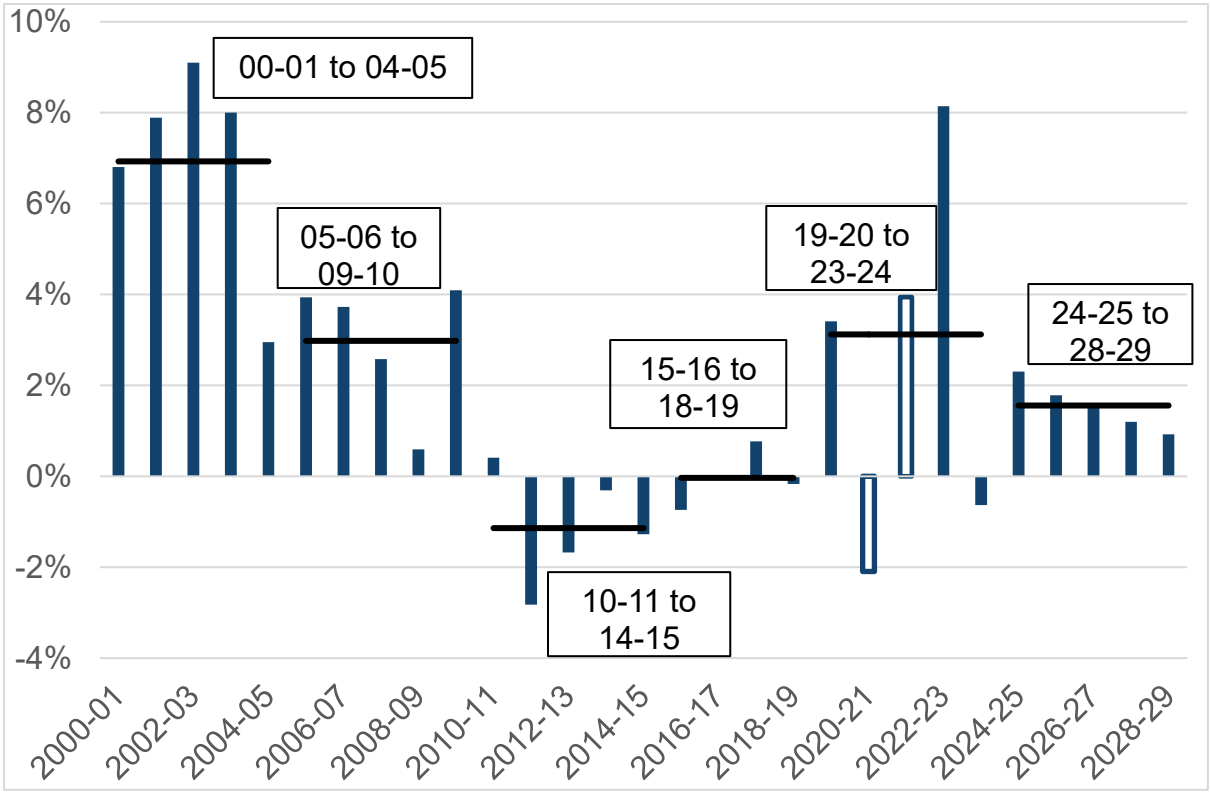
Over the 2015 SR period, nominal growth in spending increased from 0.7% to 2.4% a year on average. This was enough to maintain the settlement in real terms over the period rather than falling by 1.1% a year, as in the original plan. There were big increases in the nominal settlement over the 2021 SR period, from the original average growth rate of 5.4% a year to 9.1% a year. However, because of the major inflation shock over the SR period, this large nominal increase just maintained a planned real growth rate of around 3% a year.

Given the previous experience over multi-year SR settlements, the Welsh Government may well receive additional funding over the next few years (**Figure 45**). However, it is prudent to plan on the basis of the funding provided in the recent SR settlement.

Assuming this settlement over the period, the situation for potential future Welsh Government budgets can be outlined. If health and local government resource settlements in 2027-28 and 2028-29 were to increase in line with average growth rates since 2019-20 (3.6% and 1.7% annual real growth respectively) – then the rest

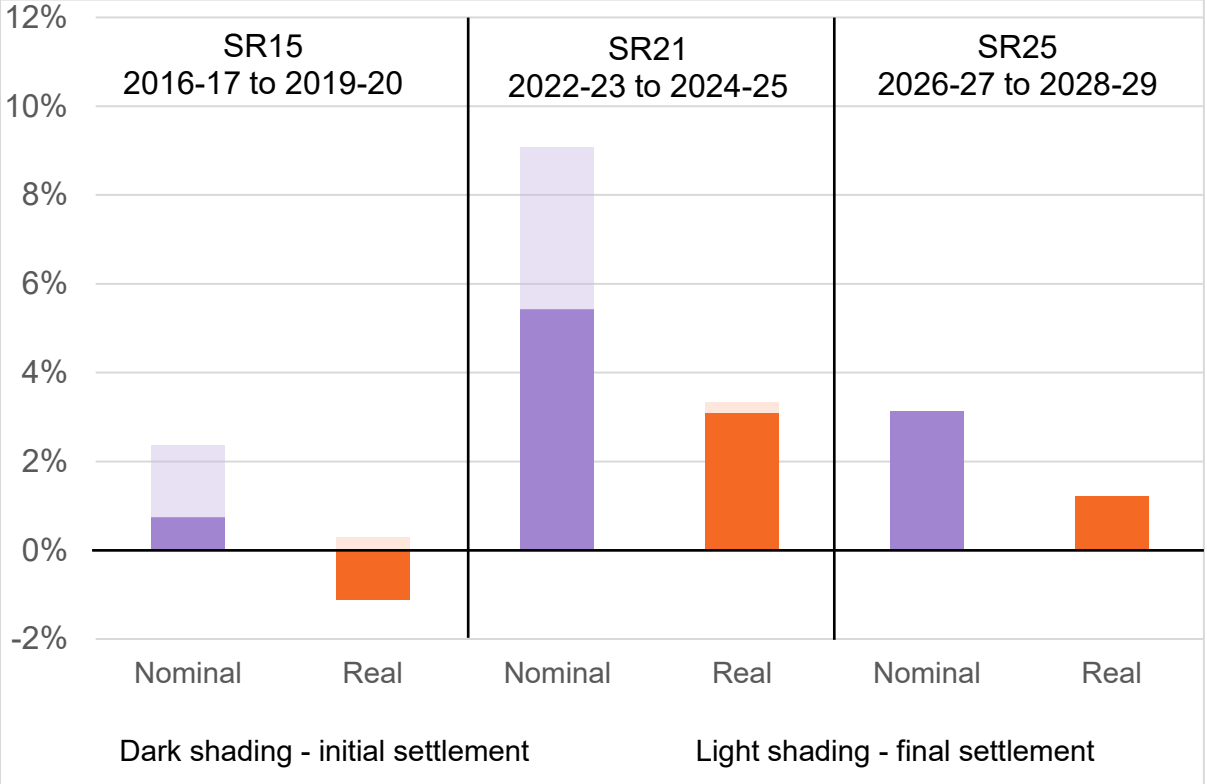
of the Welsh Government's resource budget would have to fall by 6% a year in real terms over those two years. Alternatively, for all budgets except health and local government to have inflationary increases, so zero real terms growth, then the settlements for health and local government would increase at less than half the average rate seen since 2019-20.

Figure 44: Real year-on-year growth rates in Welsh Government resource budget



Source: Welsh Government

Figure 45: Spending review annual average growth rates



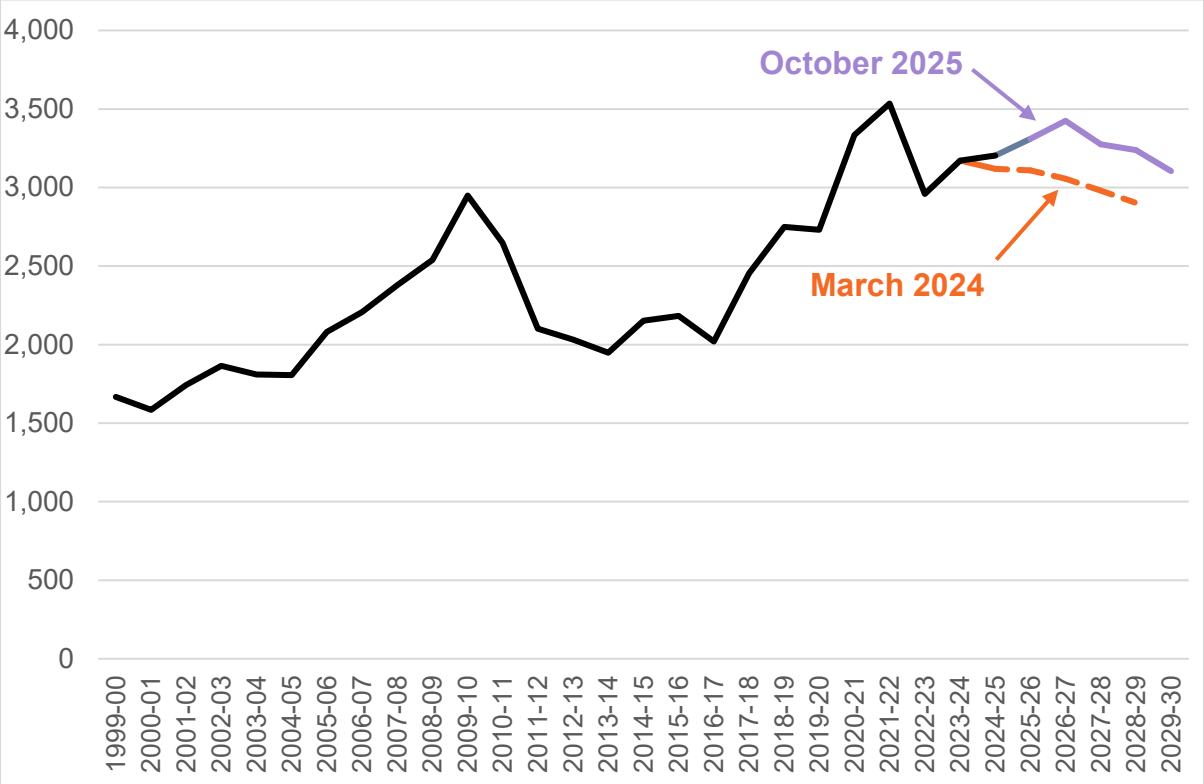
Source: Welsh Government

Welsh Government capital budget

The general capital budget in 2026-27 is 2.2% higher in real terms than in 2025-26 and 8.6% higher than the outturn for 2023-24. However, it is expected to decline by 11% in real terms between 2026-27 and 2029-30. The projected budget shown in **Figure 46** assumes the Welsh Government continues to use its full annual capital borrowing limit of £150m. However, this would mean the overall £1bn total stock limit would be reached in 2028-29, explaining some of the projected reduction in the budget in 2029-30. A different profile of borrowing would lead to a somewhat different trajectory for the overall capital budget.

The relatively large capital increases in 2025-26 and 2026-27 keep the budget well above what would have been expected based on the overall UK capital projections published in the previous UK Government's March 2024 budget.

Figure 46: Welsh Government capital budget in real terms, £m



Source: Welsh Government

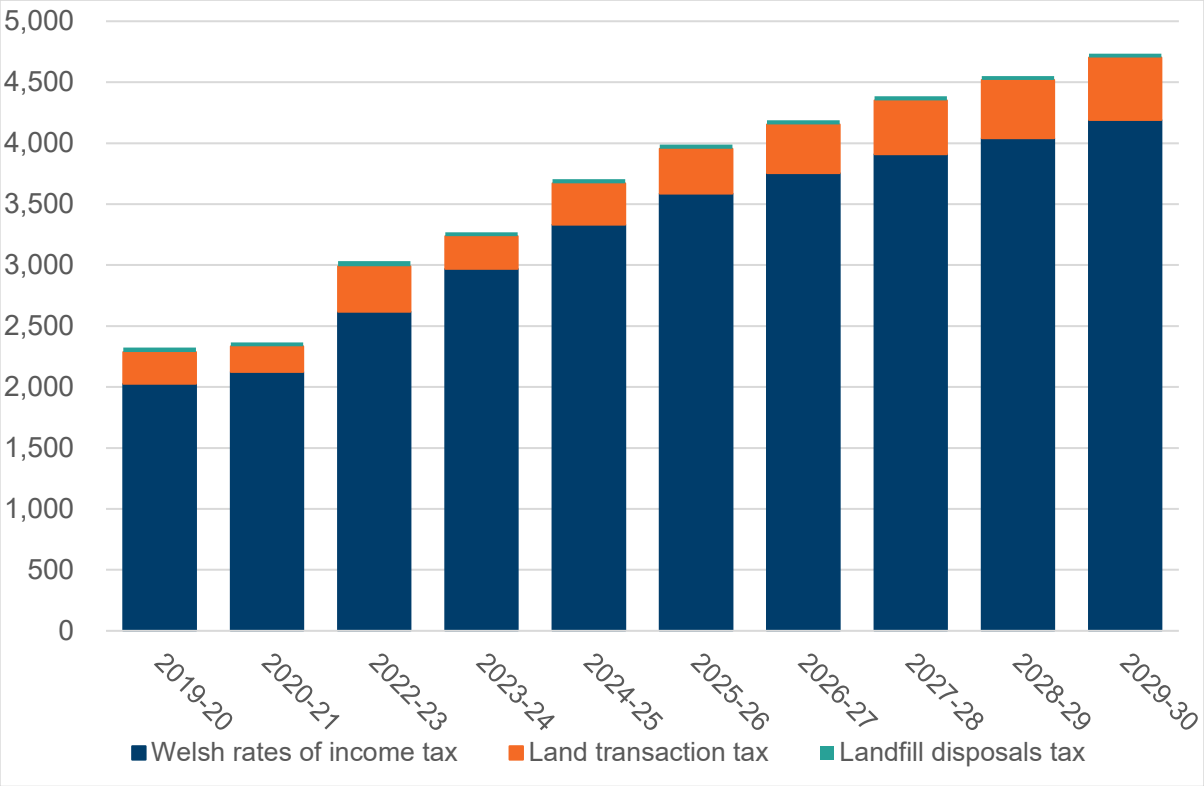
Devolved taxes

The projected resource budget figures above include the forecast net impact of the devolved tax revenues. This section provides more detail on those forecasts. The OBR's March 2025 Economic and Fiscal Outlook included forecasts for the devolved taxes and for the equivalent UK taxes which are used to derive the associated block grant adjustments. The resource budget projections and the Welsh Government's Draft Budget for 2026-27 include the March forecasts for the Welsh rates of income tax (WRIT) and for the block grant adjustments alongside updated forecasts for land transaction tax and landfill disposals tax using the latest outturn information. The 2026-27 revenue totals also include reconciliation amounts taking account of the outturns for income tax in 2023-24 and the block grant adjustments for the fully devolved taxes in 2024-25. Further detail is provided in the OBR's summary Welsh Taxes Outlook published alongside the Welsh Government's Draft Budget.

The latest forecasts show strong growth in revenues from the Welsh rates of income tax (see **Figure 47**). Over the outturn years between 2019-20 and 2023-24, WRIT revenue grew by 10% a year on average and is forecast to grow by 6% a year on average for the rest of the current decade. Land transaction tax revenues are expected to continue recovering from a relatively low level in 2023-24 and grow strongly through the remainder of the forecast period. In aggregate, the devolved

taxes are expected to double in nominal terms between 2019-20 and 2029-30, increasing by around £2bn.

Figure 47: Devolved tax revenues (£ million)



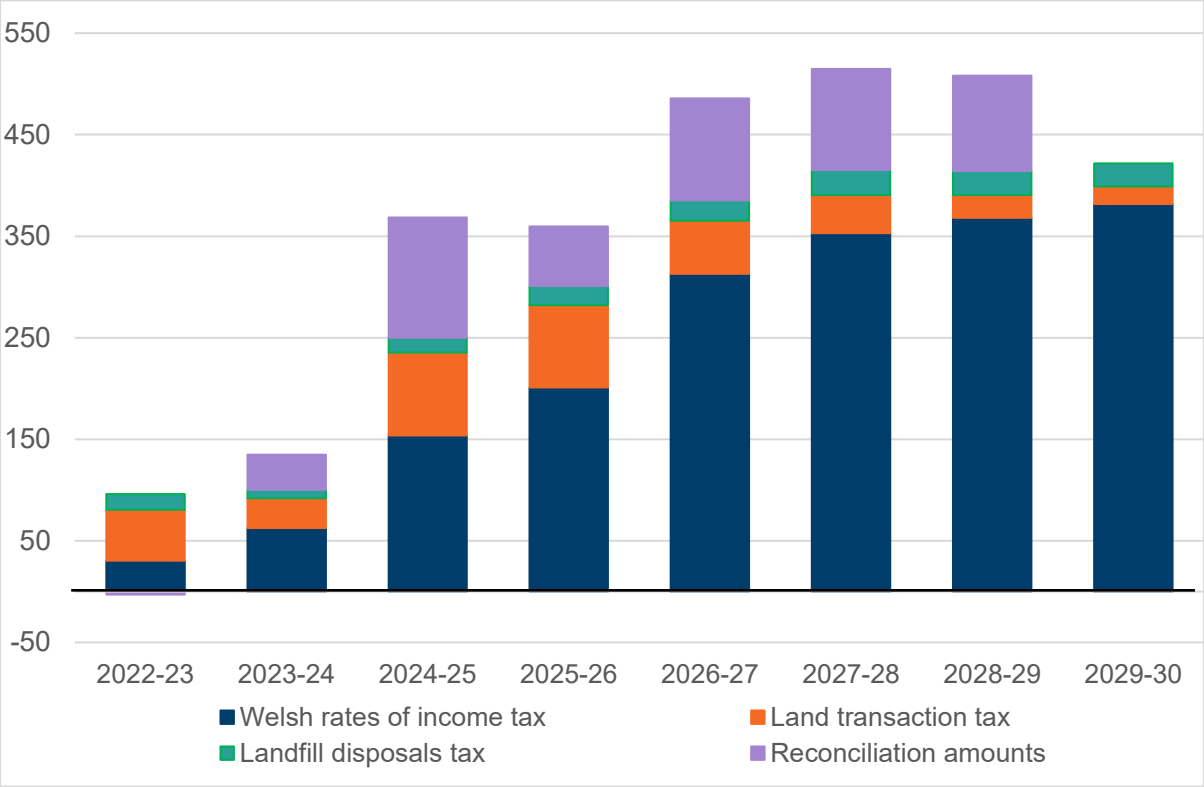
Source: Welsh Government

The OBR's forecasts for the UK equivalent taxes also affects the Welsh Government's budget via the block grant adjustments.

The net budgetary impact of devolved taxation, including block grant adjustments and the tax forecasts used in budgets is shown in **Figure 48**. The net position also includes the impact of reconciliation amounts in respect of forecast errors in previous years. More detail is provided on these amounts in Annex A to the main Outline Draft Budget Report. Overall, the devolved taxes are expected to continue making a substantial positive contribution to the Welsh Government's budget, with an annual expected net position of £400m or more from 2026-27 to the end of the forecast period.

The expected net position is sharply up in 2026-27 compared to 2025-26. This is driven by forecast net improvements on WRIT relative to the October 2024 forecast used for the 2025-26 budget. There is also a higher reconciliation amount in 2026-27.

Figure 48: Net position between devolved tax forecasts and block grant adjustments (£ million)



Source: Welsh Government

The WRIT block grant adjustment and the WRIT revenue forecast for 2026-27 will be fixed for budgetary purposes using the OBR's Autumn 2025 forecast. These will be reflected in the Welsh Government's Final Budget. Outturn for 2026-27 will be published in Summer 2028 and any resulting reconciliation amounts will be applied in 2029-30. Block grant adjustments for land transaction tax and landfill disposals tax in 2026-27 will also be revised following the OBR's Autumn forecast.

A ready reckoner[90] showing the revenue impact of changing the Welsh rates of income tax was published alongside the Draft Budget for 2025-26. This will also be updated alongside the Final Budget in January 2026 using the OBR's Autumn forecast.

[90] See Welsh rates of Income Tax ready reckoner 2025 to 2026 | GOV.WALES

Scenarios for future budgets

The longer-term projections in **Figure 49** use the medium-term outlook illustrated in **Figure 43** as a starting point. Three scenarios are then considered for the period from 2029-30 to 2035-36.

Scenario one: OBR spending projections

- Based on the OBR's baseline projections from its 2024 Fiscal Risks and Sustainability report, UK Government spending relevant to block grant funding grows faster than GDP throughout its projection period. Without mitigation, this scenario eventually leads to an exponential increase in net public sector debt.

Scenario two: Spending grows with GDP

- UK Government spending relevant to Welsh Government block grant funding for day-to-day spending grows at the same rate as the UK economy. This scenario reflects a situation where the UK Government is happy to broadly maintain the fiscal situation at the end of the current medium term forecast period.

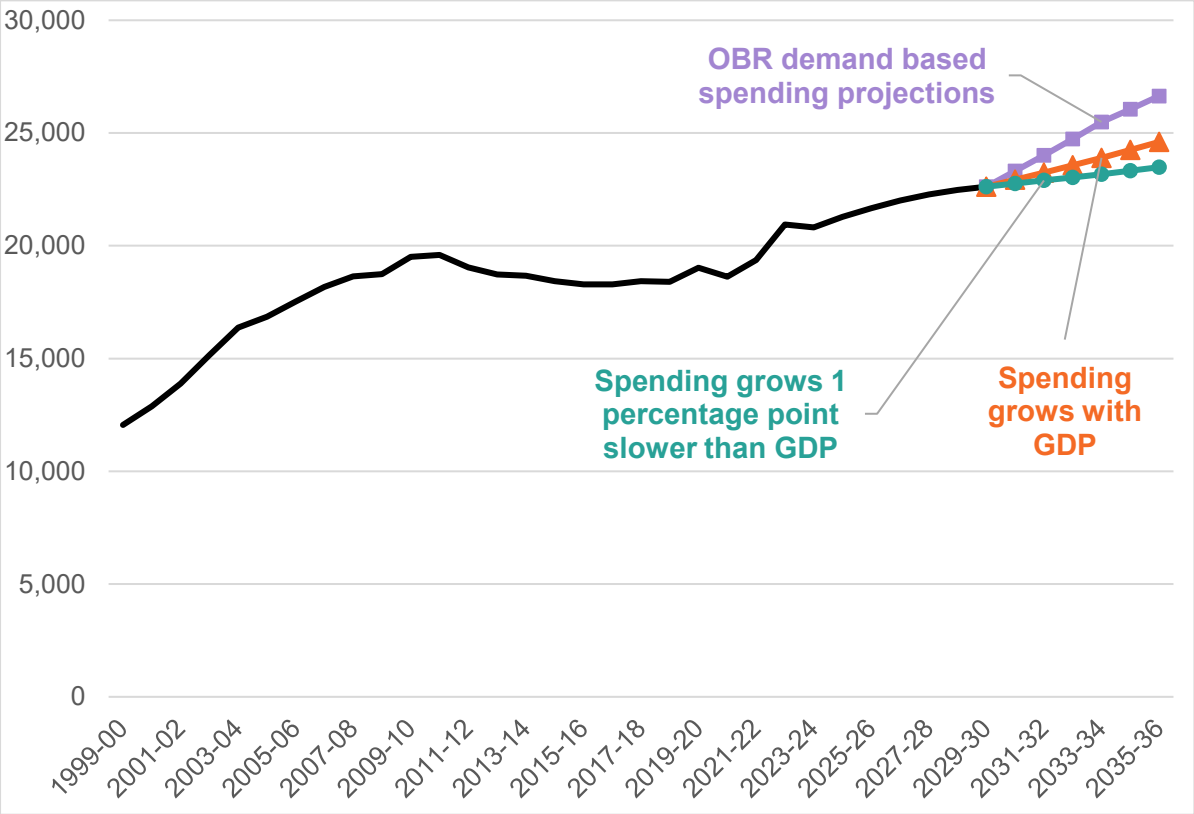
Scenario three: Growth of one percentage point less than GDP

- Relevant UK Government spending grows one percentage point slower than the UK economy. This reflects a scenario where there are demands to reduce debt more rapidly or other elements of UK spending – such as pensions or debt interest – are growing more quickly.

The OBR spending scenario has the Welsh Government resource budget growing at a similar rate to that seen during the 2000s. This scenario is most likely to provide the necessary resources to meet future demand for public services but, given the OBR's conclusion that this leads to exponential growth in net public sector debt, without tax increases, it may not be the most likely.

The middle scenario suggests the resource budget will grow a little faster than over the 2025 spending review period, while the lower scenario sees a continuation of that growth in the longer term.

Figure 49: Long-term projections for Welsh Government day-to-day spending (resource budget excluding COVID-19) in real terms, £m 2023-24 prices



Source: Welsh Government

Long term fiscal sustainability

Given the dominance of the block grant in the Welsh Government budget, the sustainability of the budget to meet public service needs in future will depend largely on UK Government spending decisions relating to public services in England. If the equivalent services in England are adequately funded, then the future adequacy of funding in Wales will depend on whether the demand for those services is growing at a different rate to that in England. The relative performance of the devolved taxes will have a smaller but still important impact here.

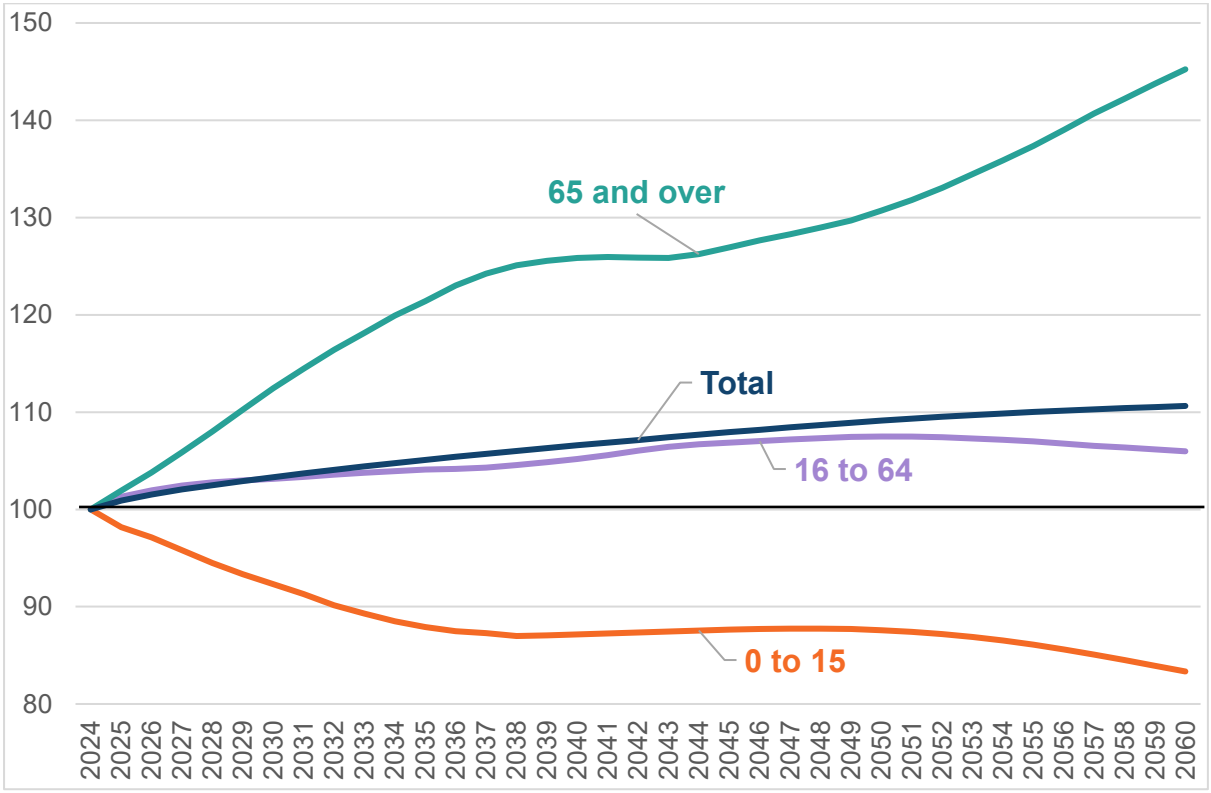
The size and demographic structure of the population play an important driver of the demand for public services as an individual's need and use of public services will vary across their lifetime. This was shown in last year's WEFR.[91]

The latest ONS population projections for Wales continue to suggest a rising population over the period out to 2060 compared to the base period 2024[92], see **Figure 50**. Equally important is the demographic profile, given the varying need of public services with age. **Figure 50** shows the 65 and over years of age will drive the

[91] See figure 43 of Wales Economic and Fiscal report 2024
[92] The base period is mid-2024 population estimates for Wales, available from Population estimates for England and Wales - Office for National Statistics

population increase for Wales, similar to the previous projections. However, these are likely to grow faster, being 45% larger in 2060 than in 2024, compared to around 10% for the total population growth over that time. In contrast, the 0 to 15 years age is projected to fall, but slightly more than previously projected by the ONS, falling by around 13% by the 2040s compared to 2024 and then falling 17% by 2060 compared to 2024. As a result, the working age population (16 to 64 year olds) falls a bit sooner (from the 2050s onwards) and faster than the previous ONS projections. However, the working age population of Wales is projected to grow until the 2050s.

Figure 50: Wales 2022-based population projections (2024=100), by age



Source: National population projections, ONS

Increases in healthy ageing can help to partly offset the negative impact of demographic headwinds, with people not only living longer, but aging in better health, which can help to facilitate longer and more productive working lives. For example, data from a sample of 41 advanced and emerging market economies in recent research by the IMF indicates, '… *on average, a person who was 70 in 2022 had the same cognitive ability as a 53-year-old in 2000*.'[93] This pace of improvement in cognitive abilities can help to increase the likelihood of engagement with the labour market, however, this impact is tempered by existing health disparities within countries. For example, the IMF research also found average health scores were

[93] Chapter 2: The Rise of the Silver Economy: Global Implications of Population Aging, International Monetary Fund (IMF), Research Department. 22 Apr 2025

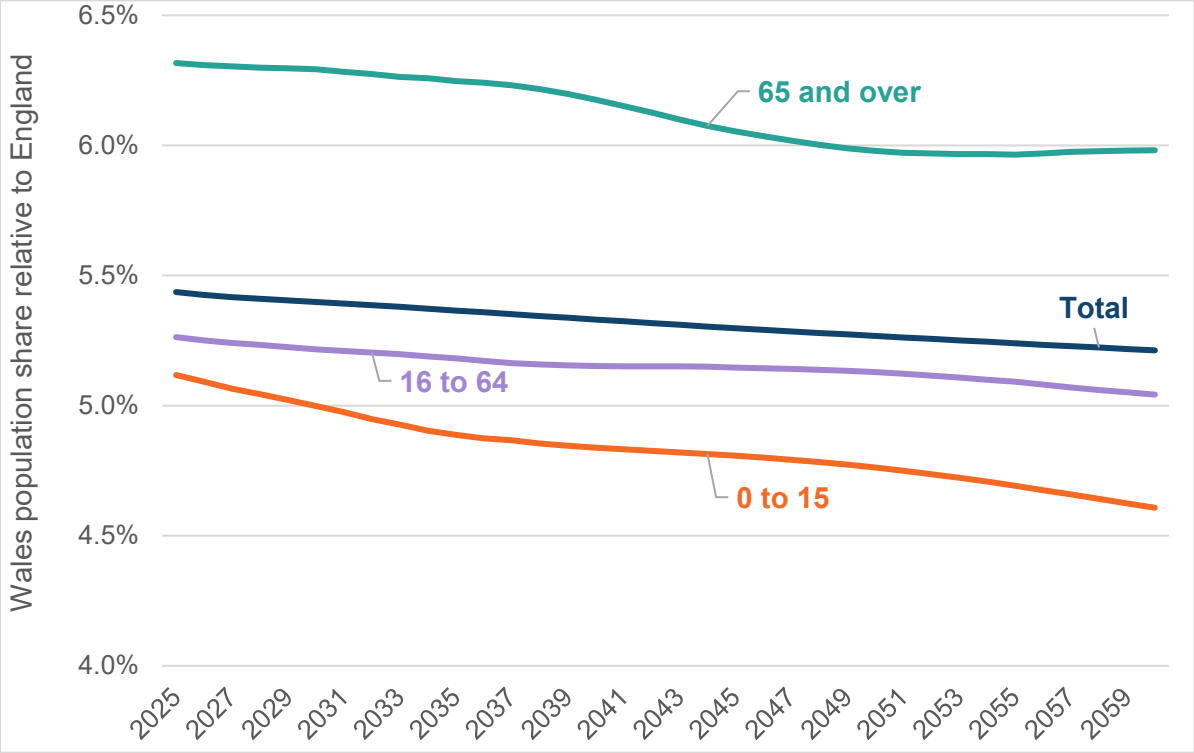
significantly lower for individuals in rural locations, individuals with at most primary education, and lower-wealth households.

For the Welsh Government, the key to managing demographic changes in Wales and the fiscal implications are how the population changes relative to England, due to the way the Welsh Government's funding works. **Figure 51** shows each of these age groups but this time as a share of England, to show the relative changes in Wales to England. Any significant rises would suggest Wales may have additional demographic pressures over and above England.

Wales currently has a relatively higher share of 65 and over population (this is higher than the total population share for Wales), and slightly lower 0 to 15 population share than in England. Over time, all the main age groups are projected to decline relative to England. This suggests the changing demographic pressures Wales faces are expected to be no worse than those in England. However, these projections are based on a number of uncertain assumptions.

A changing demographic profile for Wales will still pose challenges and will require some management of the transitions and ease the changing pressures across and within budgets. However, the changes facing Wales from age-related issues alone is not expected to be any worse than those faced in England. This is only one dimension by which the future demand for public services may be predicted. However, there are also many other factors which can also drive and affect the demand for public services.

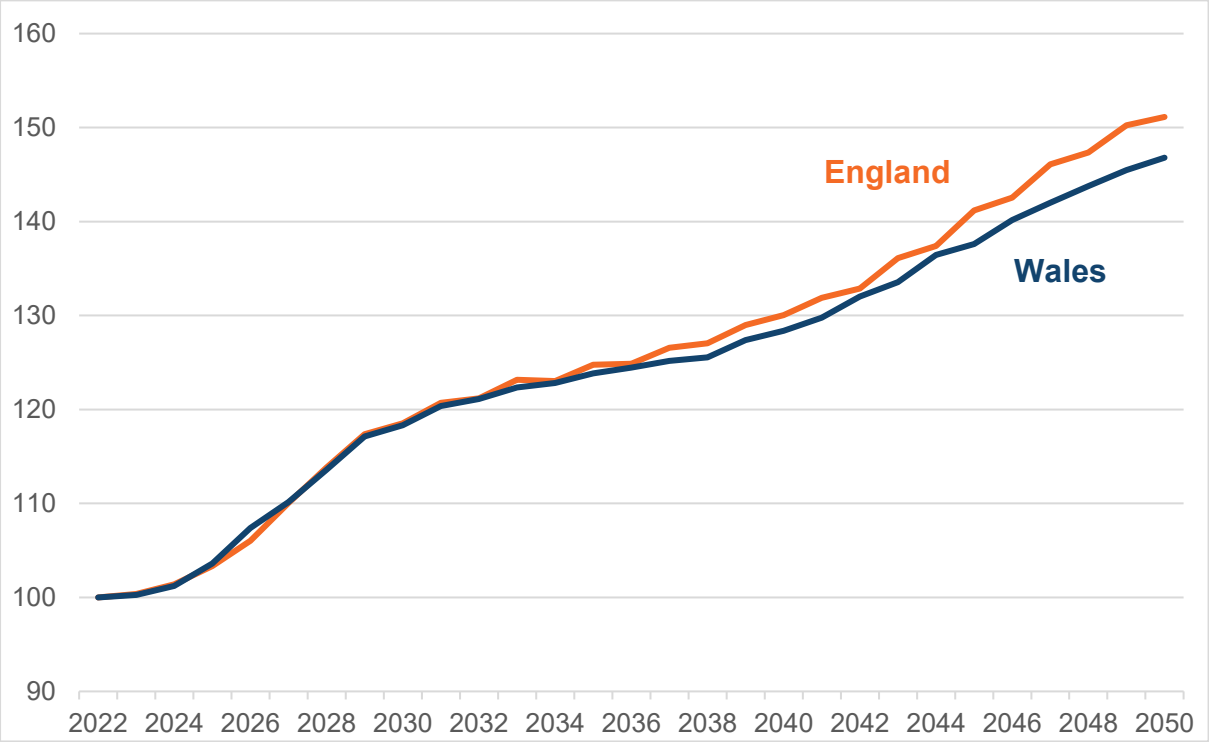
Figure 51: Wales population shares relative to England by age group, 2025 to 2060



Note: Chart does not start at zero
Source: National population projections, ONS

As illustrated by **Figure 50**, the increasing population of older people is expected to be a key driver of the growing demand for public service spending across the UK. Wales has a higher proportion of older people than England – part of the reason it has a higher relative need to spend on public services – but it is the growth in population that is likely to drive *changes* in demand. **Figure 52** shows the projected growth in the population with remaining life expectancy of 10 years or less, a group which is likely to generate some of the highest future demand for public services. This population is expected to grow quickly, but at around the same rate in England and Wales until the mid 2030s, followed by slightly faster growth in England after that. Based on these projections, the demographic impetus for increasing spend on public services for older people in Wales should also be no greater than in England.

Figure 52: Projected population with remaining life expectancy of 10 years or less (Index 2022 = 100)



Note: *Chart axis does not start at zero.*
Source: ONS

The Welsh Government faces severe fiscal challenges, with increasing demand for public services and higher levels of need than in England. However, there continues to be nothing in the currently available population projections to suggest the growth in demand for services will be different in Wales than in England.