Wales Economic and Fiscal Report 2026: Five Essential Insights

Llywodraeth Cymru
Welsh Government

Dr Thomas Nicholls

Chief Economist

Five Essential Insights

1. Economic growth has returned but is weak by historical standards

2. Productivity is Wales's key long-term economic challenge

3. Wales faces growing demographic and health pressures

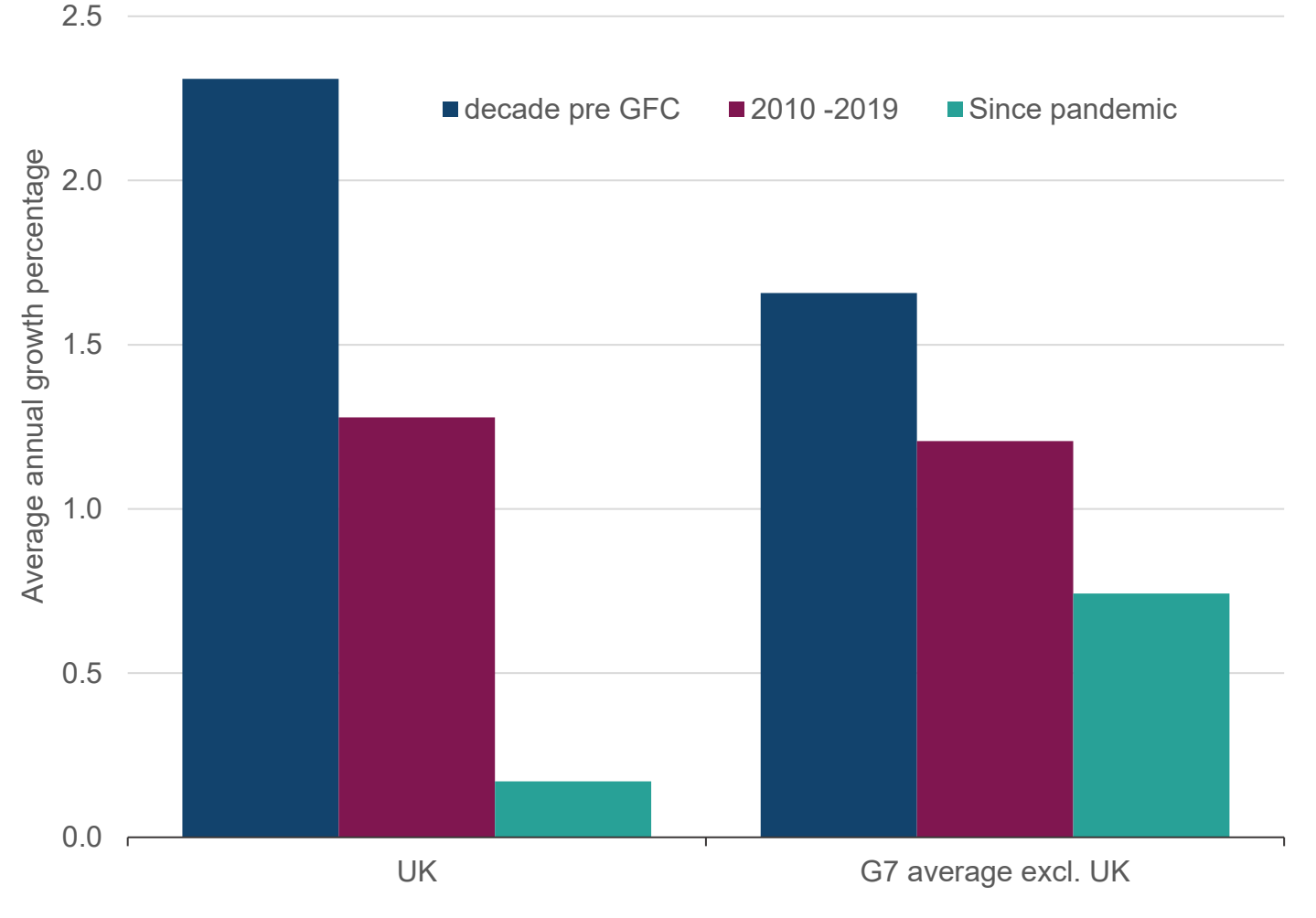
4. Households remain under financial pressure, despite improvements in living standards

5. Wales faces major long-term changes to its economy

Economic growth has returned but is weak by historical standards

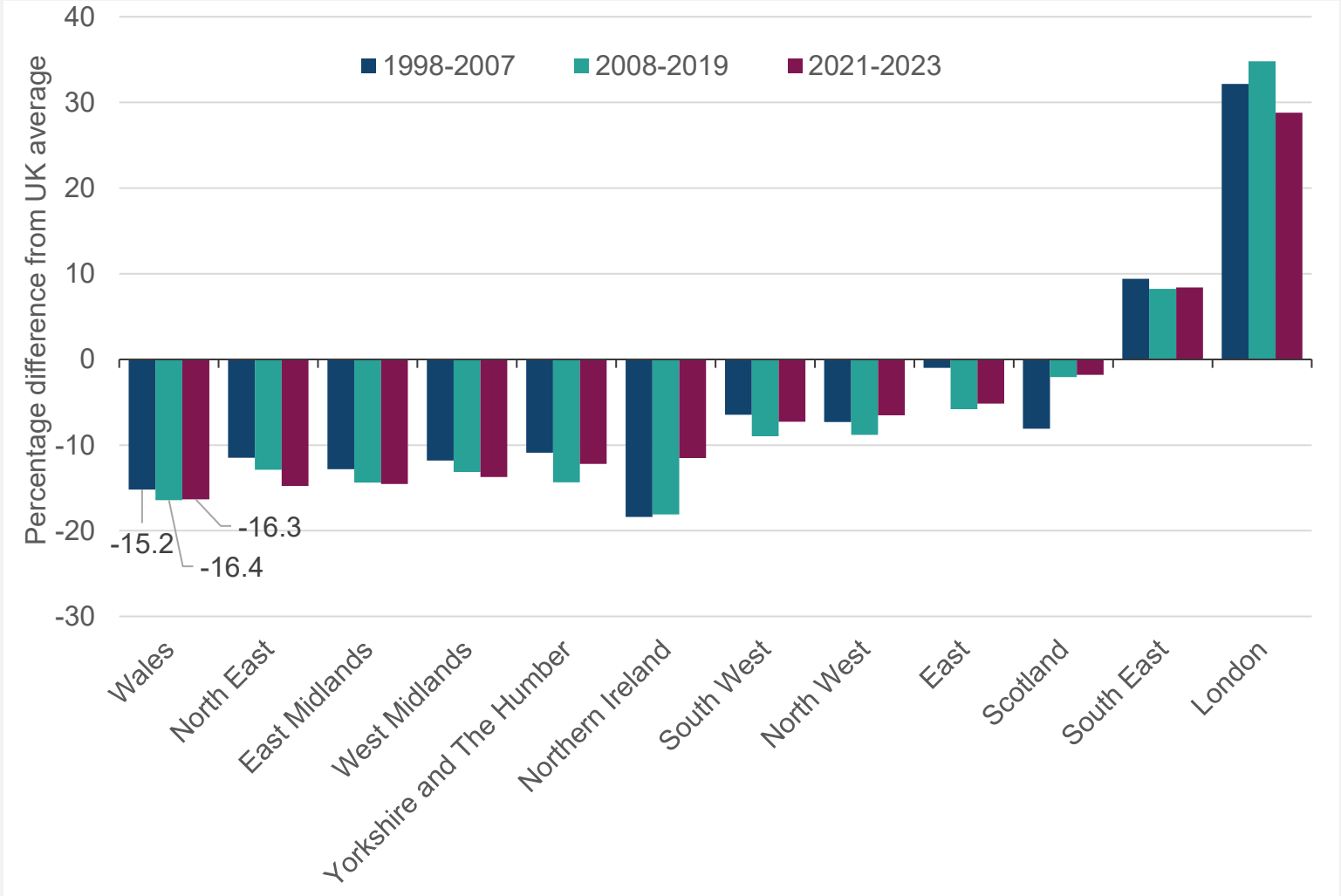
- The UK economy grew in 2025 and is expected to continue growing over the next two years. Higher energy prices and international instability mean the outlook remains uncertain.

- Growth in economic output per person is still far below rates before the financial crisis. Wales also has one of the lowest levels of economic output per person in the UK.



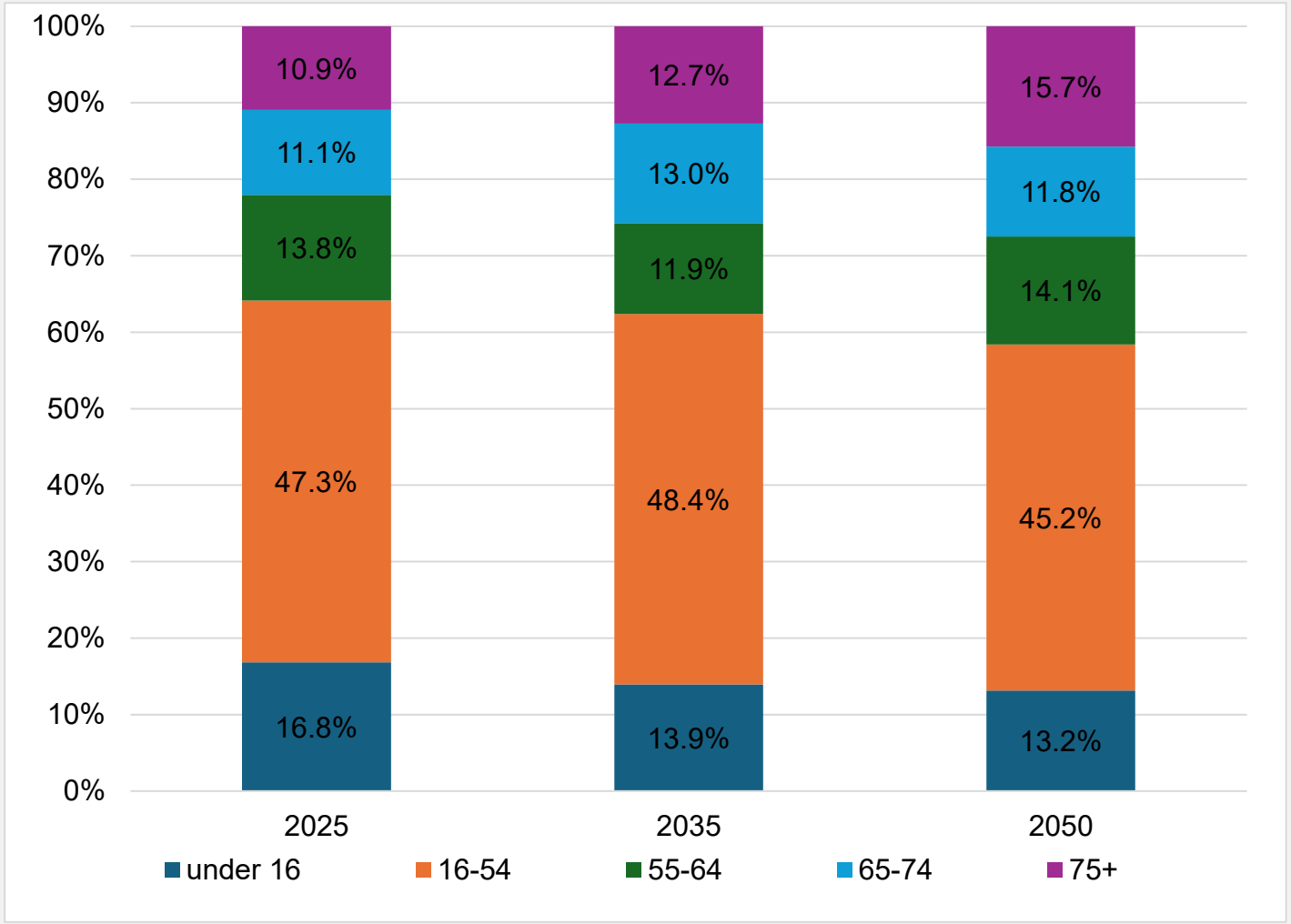
Productivity is Wales's key long-term economic challenge

- Productivity is the most sustainable way to provide improvements in wages, living standards and public revenues.
- Closing the gap would help raise incomes. It would also provide more resources available for public services, enable lower taxes or both.



Wales faces growing demographic and health pressures

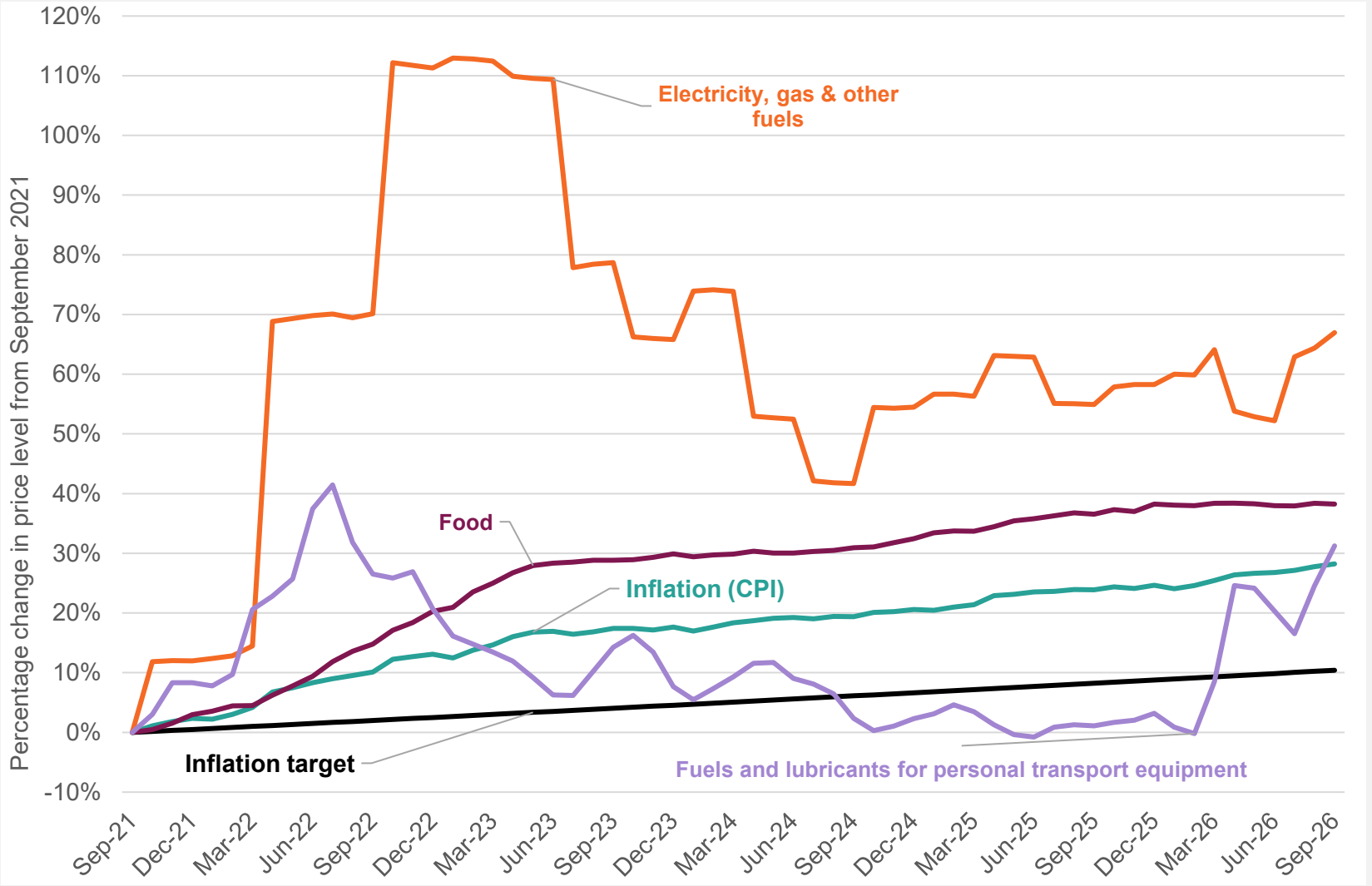
- Wales has an ageing population. Its working-age population is also projected to fall.
- Healthy life expectancy has fallen. Long-term sickness is still a major cause of economic inactivity. These trends risk constraining growth while increasing demand for public services.



• Households remain under financial pressure, despite improvements in living standards

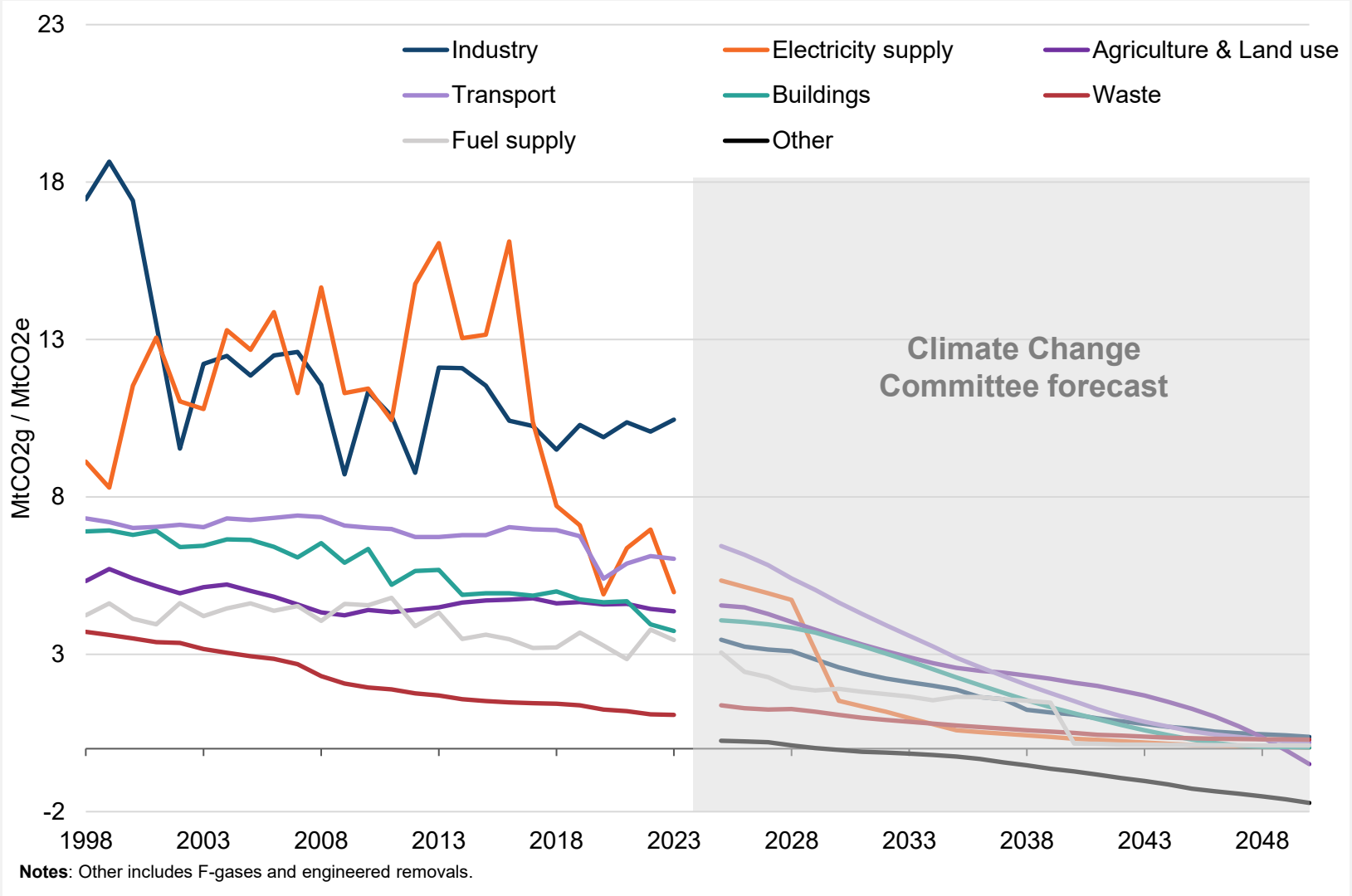
- Inflation has fallen significantly from its 2022 peak. It is still above the target rate and households continue to face much higher prices than before 2022.

- Household incomes in Wales remain below UK averages, while poverty rates remain persistently high.



Wales faces major long-term changes to its economy

- Climate change, artificial intelligence and demographic change are likely to change the economy and public finances.
- Wales continues towards net zero. Long-term benefits are expected, but it will require substantial investment.



Notes: Other includes F-gases and engineered removals.