

NIESR submission on Welsh Budget 2025-26 and beyond

Key points

* In the 2025-26 budget, we welcome the Welsh government pledge to invest additional money in transport and social housing. The NIESR Regional Regeneration Dashboard and Index 2024 (<https://regional-dashboard.niesr.ac.uk/>) noted large areas of Wales as lagging behind comparator regions in other parts of the UK in both transport and housing, hence this focus is well placed.

* However, notwithstanding pledges towards building a greener economy, we think that progress in this direction have been limited. In particular, we encourage greater momentum towards the proposed "green hub" in north Wales, harnessing tidal power in the Severn Estuary, and careful transition away from environmentally harmful production processes in a fair way that protects livelihoods and communities and enhances productivity. A greater focus on nature emergency is also becoming urgent in light of climate events and increasingly volatile meteorological conditions.

* The Welsh economy has been ailing for some time now, but the situation has been exacerbated following the sequence of shocks – the Covid-19 pandemic, Brexit and the cost-of-living crisis. In our most recent economic outlook for Wales (February 2025, <https://niesr.ac.uk/publications/tale-two-halves?type=uk-economic-outlook>), we found that

- Wales' Gross Value Added grew relative to the fourth quarter of 2021 and is expected to see further growth over the next few years
- The revisions to the regional labour market data see Wales' employment relative to the fourth quarter of 2021 exhibit a much more volatile path than what was evident in previous ONS data (notwithstanding uncertainty surrounding labour market data). This is especially apparent between the second quarter of 2022 and the second quarter of 2024.
- In addition, employment in Wales sees a notable downward shift relative to levels in the fourth quarter of 2021 and is unlikely to return to previous levels in the coming years.
- Despite some employment growth, inactivity rates in Wales are expected to remain stable over the next two years. Wales continues to experience the highest inactivity rates of all the devolved nations and the English regions too.
- Productivity in Wales remains well below the UK average, though a small increase is projected by the fourth quarter of 2026. Relative to the other UK regions and devolved nations, Wales is expected to see somewhat more robust productivity gains, although upon a lower base.

* NIESR has highlighted significant overlap of lower economic growth, stagnating employment and human capital, and low capital investment across much of Wales (Box D, in NIESR UK Economic Outlook, Summer 2025, August 2025, <https://niesr.ac.uk/publications/uk-economic-outlook-chancellors-trilemma?type=uk-economic-outlook>). Investment on skills must go hand in hand with public and private investments, both of which are stagnating.

* Substantial recent revisions to ONS data on the labour market (including historical data) have cast new light upon Welsh productivity. Wales has been experiencing somewhat stronger growth in output (GVA) post-pandemic but also substantially weaker and flat employment trends well below post-pandemic levels together with higher and rising inactivity. However, this implies somewhat more stronger productivity trends relative to most English regions, comparable to Scotland and London, even if productivity levels are still lagging far behind. This presents a mixed picture that the Welsh budget should look to address. It is not entirely clear how budgetary allocations are targeting low economic participation and stagnant productivity.

* Beyond economic performance, we would also like to encourage greater focus on well-being, as initiated in the historic Well-being of Future Generations (Wales) Act 2015. Despite substantial budgetary allocations, including schemes designed to replace economic aid previously provided by the European Union, it is unclear as to how this is aligned with improving both economic growth and well-being.

* Most importantly, we find lack of data and evaluation mechanisms to verify not only whether the allocations are spent on the areas that are specifically targeted, but what impacts they have on the desired outcomes. We suggest greater attention to this area. This includes not only the efficiency in delivery of public services in relation to allocations, but also targeted investments in specific sectors such as health and AI which are critical for Wales.