



# Welsh Government Evidence Paper – Economy

03/12/2025

The Economy, Trade and Rural Affairs Committee has invited the Cabinet Secretary for Economy, Energy and Planning to attend a general scrutiny session on the Economy on 3 December 2025. This paper is intended to inform the discussion, providing an update on policy developments in this area, and actions the Welsh Government has taken to grow the economy of Wales.

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# 1. Introduction

- 1.** The Welsh Government remains firmly focused on delivering the First Minister's priorities, particularly those relating to jobs. This commitment aligns with the four national priority areas set out in our Economic Mission for this term of Government, aimed at creating a more prosperous and fairer economy that builds on Welsh strengths and opportunities.
- 2.** We are deploying the full range of devolved levers at our disposal, including skills, finance, advice, energy, and planning, to support sustainable job creation, productivity, and long-term growth.
- 3.** On 23 June, the UK Government published its Industrial Strategy. Welsh Government worked in collaboration to ensure it focussed upon priorities for Wales. Welsh Ministers continue to engage with UK Government on delivering the Industrial Strategy and wider growth mission. These discussions focus on accelerating delivery and removing barriers to place-based developments such as Port Talbot, Freeports, and Investment Zones, as well as sector plans for clean energy, digital and tech, advanced manufacturing, defence, life sciences, and creative industries.
- 4.** Recent announcements demonstrate how this collaboration is delivering for Wales:
  - a. Wylfa on Anglesey has been confirmed as the site for the UK's first Small Modular Reactor (SMR). This investment will create thousands of high-quality jobs, strengthen energy security, and position Wales as a leader in clean energy innovation.
  - b. North and South Wales have been designated as AI Growth Zones, unlocking significant investment and thousands of skilled jobs. These zones will accelerate digital transformation, attract global investment, and build a strong foundation for Wales to lead in AI and data-driven innovation.
- 5.** Together, these initiatives show how collaboration between Welsh and UK Governments is delivering on our shared ambition: creating secure jobs, driving innovation, and building a sustainable economy for generations to come.

## 2. The Welsh Economy

### Current Economic Position

#### Economic Growth

6. GDP in Wales grew by 0.6% between 2022 and 2023 in real terms, which was higher than for the UK as a whole (0.3%).

#### Productivity

7. While UK productivity fell by 0.2% in 2023, Wales's productivity increased by 1.3%. Out of the 12 International Territorial Level 1 regions in the UK, made up of Wales, Scotland, Northern Ireland, and 9 English regions - productivity growth in Wales between 2022 and 2023 ranked 2nd. Wales's productivity growth (14.1%) has been higher than that for the UK as a whole (10.5%) since 2009.

#### Labour Market

8. The latest labour market data reinforce the Chancellor's speech as part of the Autumn Budget Statement on 26 November 2025, which highlighted the challenges facing the entire UK economy, many of these as a result of external factors such as the disruption in global trade as a result of higher U.S. tariffs.
9. Statisticians have advised that the Annual Population Survey (APS) gives a more reliable view of the Welsh Labour Market than the Labour Force Survey (LFS). The latest unemployment rate estimate for Wales from the APS was 4.1% for the year ending June 2025, lower than the figure of 5.7% for July to September 2025 from the LFS.
10. The long run trend for Labour Market participation in Wales, as measured by the employment rate, has been positive. According to the APS, the employment rate gap between Wales and the UK has narrowed from 3.3 percentage points in the year ending June 2005 to 2.7 percentage points in the year ending June 2025.
11. Over the last 10 years (2015-2025), median gross weekly earnings for full-time adults working in Wales grew by 47.2%, exceeding the increase for the UK as a whole (45.4%).
12. Between 2022 and 2024, Wales's percentage employment growth was the sixth highest of the 11 International Territorial Level 1 regions in Great Britain (made up of Wales, Scotland, and 9 English regions), outperforming East

Midlands, West Midlands, the South East, Yorkshire & the Humber and Scotland.

- 13.** The gender pay gap on a median hourly full-time basis (excluding overtime) in April 2024 was 1.9% in Wales and 7.0% in the UK. In Wales the gap narrowed by 3.0 percentage points and in the UK, it has narrowed by 0.5 percentage points compared to the previous year.

### **Inflation**

- 14.** The latest data show that earnings growth continues to outstrip inflation which is helping many households throughout Wales cope with cost-of-living pressures. UK CPI inflation stood at 3.6% in October 2025, down from peaks in 2023, but still above the Bank of England's 2% target.
- 15.** House prices in Wales rose 3.1% year-on-year to September, and rental affordability has improved, with tenants spending 31.7% of income on rent, down from 34.5% a year ago<sup>1</sup>.

### **Business Demography**

- 16.** There were 10,105 enterprise births in Wales during 2024, representing an enterprise birth rate of 10.1%. This means that 10.1% of all active businesses in Wales were newly established during the year. The 5-year survival rate for enterprises born in 2019 and still active in 2024 was 38.1%, broadly in line with the UK average.

### **UKG Industrial Strategy**

- 17.** On 23 June 2025, the UK Government published its Modern Industrial Strategy, a 10-year plan to boost business investment and drive growth in eight priority sectors (IS-8), which complements our Economic Mission. Each sector has a bespoke Sector Plan setting out its transformation vision by 2035. Continued engagement has been taking place, with a focus on maximising funding in Wales, where high-growth sectors such as Advanced Manufacturing, Clean Energy, Digital & Tech, Creative, Life Sciences, and Financial Services remain central.
- 18.** We have seen key strategic announcements for Wales, which will help to unlock growth potential, and which aligns with our strategic priorities, including:

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<sup>1</sup> **Savills USA | Welsh Housing Market and Supply Update – November 2025**

- **Nuclear at Wylfa:** UK Government has confirmed Wylfa as a priority site for Small Modular Reactors (SMRs), positioning Wales at the forefront of nuclear innovation and energy security.
  - **AI Growth Zones:** North and South Wales have been designated as an AI Growth Zones, unlocking investment and creating thousands of high-value jobs in digital and data-driven sectors.
  - **Defence Growth Deal for Wales:** A dedicated Defence Growth Deal will support advanced defence technologies, including Unmanned Aerial Vehicles and autonomous systems, leveraging Welsh assets such as Snowdonia Aerospace Centre.
- 19.** With all eight Sector Plans now published, implementation is moving forward. This includes the development of jobs plans across each sector. For example, the Clean Energy Plan sets out opportunities for over 15,000 jobs, complementing our Net Zero Skills Action Plan.
- 20.** Addressing skills gaps is a key part of the strategy, and we are engaging with Skills England to discuss how their proposed measures will operate alongside devolved responsibilities in Wales. This is about ensuring alignment rather than seeking clarification, given that skills policy is largely devolved. We also continue to work closely with UK Government on complementary strategies, including those on steel, infrastructure, SMEs, and trade, to understand developments and identify opportunities for alignment.
- 21.** We remain focused on delivering green jobs and skills across offshore wind, onshore wind, nuclear, carbon capture, tidal stream, and hydrogen. Barriers around grid capacity and finance persist. However, Welsh Government is committed to utilising our levers and working with UK Government to unlock these constraints at pace.
- 22.** The strategy aims to make it quicker and easier for businesses to invest, reduce regulatory burdens, cut industrial electricity costs by up to 25% from 2027, and accelerate grid connections through a new Connections Accelerator Service. This includes the Grid Accelerator Scheme, which is critical for unlocking clean energy projects in Wales. We are also working with UK Government around consultations on a Business Industrial Competitiveness Scheme (BICS) and a Supercharger Scheme.
- 23.** The Local Growth Fund will invest £547m of UK Government funding in Wales over three years. For the first time since we left the EU, decisions on these

important regional economic development funds will return to the Welsh Government. The Welsh Government has launched a consultation on the use of these funds, seeking views on key objectives to raise productivity and tackle economic inequalities. The new fund will align with the Welsh Government's Economic Mission and with the UK Government's growth mission and Industrial Strategy.

**24.** The Interministerial Group (IMG) for Business and Industry is key to progressing the Industrial Strategy and support its delivery. The next meeting is likely to take place in January 2026 hosted by Northern Ireland.

### **Maximising UK Funding Streams through the Industrial Strategy**

**25.** A key lever for delivering the UK Government's Industrial Strategy is ensuring Wales fully accesses and aligns with major UK funding streams. These include initiatives designed to accelerate investment, unlock strategic sites, and foster innovation-led growth across the eight Industrial Strategy sectors.

**26. National Wealth Fund:** We are working closely with the National Wealth Fund (NWF) to maximise the benefits it can bring to Wales in line with strategic priorities, particularly in clean energy, advanced manufacturing, and infrastructure. This engagement aims to secure investment for projects that accelerate net zero, strengthen supply chains, and create high-value jobs across Welsh clusters.

**27. British Business Bank Engagement:** The British Business Bank has committed £6.6bn to support innovation and entrepreneurship as part of the Industrial Strategy, including a new £4bn Industrial Strategy Growth Capital programme. This will deliver around £16bn of investment into smaller businesses and innovation across the eight priority sectors, crowding in approximately £12bn of private capital. Wales can leverage this to scale high-growth firms and strengthen innovation clusters.

**28. Strategic Sites Accelerator:** The UK Government has launched a £600m Strategic Sites Accelerator to unlock development of high-potential industrial sites by addressing barriers such as grid connectivity, planning delays, and land remediation. This is particularly relevant for Welsh clusters in clean energy and advanced manufacturing, where grid access remains a critical constraint. Discussions with the UK Government are ongoing.

**29. Local Innovation Partnerships – Cardiff Capital Region:** Cardiff Capital Region has secured at least £30m through the £500m Local Innovation Partnerships

Fund, backing locally led innovation in areas such as AI, life sciences, and green energy. This funding will strengthen collaboration between local authorities, businesses, and research institutions, building on Wales's existing strengths in compound semiconductors and data science.

**30. Defence Growth Deal for Wales:** Wales is one of five regions selected for a Defence Growth Deal, backed by £250m UK Government investment under the Defence Industrial Strategy. The Welsh deal will focus on unmanned aerial vehicles (UAVs) and autonomous systems, leveraging assets such as the Snowdonia Aerospace Centre and the Welsh Centre for Defence Autonomy. This will create high-value jobs and attract private investment into defence innovation.

**31. AI Growth Zones for Wales:** North and South Wales have been designated as national AI Growth Zones. The zones will act as a hub for AI development, supported by £5m for local business adoption and skills, and reforms to accelerate planning and grid access.

**32.** Together, these funding streams represent a significant opportunity to accelerate delivery of the Industrial Strategy in Wales, strengthen regional clusters, and crowd in private investment. Welsh Government will work with UK Government, local authorities, and industry partners to ensure Wales maximises these opportunities and addresses barriers to growth.

## **Investment Summit**

**33.** Inward investment plays a critical role in the economy of Wales. The latest figures<sup>2</sup> show that more than 1,500 foreign-owned companies are active in Wales, employing over 176,000 people.

**34.** Wales is attracting global investment like never before. In 2024-25, Wales secured 65 Foreign Direct Investment projects, a 23% increase year-on-year and the second highest growth in the UK. These projects created 2,470 new jobs and safeguarded 1,652 more, the highest of any UK region.

**35.** Building on this success, the Welsh Government's Investment Summit will take place on 1 December 2025 to showcase Wales as a prime destination for international investment, highlighting dynamic sectors (semiconductors, creative industries, green energy, fintech, life sciences) and the Welsh Government's commitment to sustainable economic growth.

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<sup>2</sup> Foreign-Owned Companies in Wales 2024, Office for National Statistics



- 36.**Wales offers a compelling investment proposition with world-class infrastructure, a skilled workforce, and a strategic location that provides access to major UK and European market, creating the conditions for businesses to succeed and grow.
- 37.**The Investment Summit will bring a real focus for business and government to work together and generate investment for the years to come. More than 300 delegates from 27 countries are confirmed to attend the Summit.

## **International Activity**

- 38.**Through the Export Action Plan for Wales, the Welsh Government is supporting businesses across Wales to develop existing and new export markets for their products and services, to drive growth in Welsh exports. The focus is on inspiring businesses to take up exporting; building export capability; helping businesses to identify new overseas customers; and supporting businesses to get to overseas markets. Since the publication of the Export Action Plan, businesses in Wales have secured more than £370m of new export business as a direct result of Welsh Government export support.
- 39.**Since the publication of the International Strategy (April 2020), there have been 280 investments by foreign-owned companies which have created and safeguarded more than 24,000 jobs.
- 40.** Working with our Wales-based teams and the UK Government overseas network, our Welsh Government overseas offices in key markets across the world (USA, Canada, India, China, Japan, France, Germany, Belgium, Ireland, Dubai) also support Wales's global ambitions, including supporting Welsh businesses to export and promoting Wales as an excellent place to establish a business.

## **Steel**

- 41.** There are external threats to the UK Steel Sector such as energy prices, global overcapacity, trade barriers and tariffs. The steel sector expects that the soon to be published UK Government Steel Strategy will address the need for a competitive electricity pricing structure to allow UK-based steel companies to compete on a level playing field with their European counterparts.
- 42.**On 31 October the UK Government confirmed an increase to the Network Charging Compensation, from 60% to 90%, which will come into effect from April 2026. While the uplift was welcomed by steel companies, they must wait until 2027 to receive the uplift as the compensation for 2026 is to be paid a

year in arrears. The scheme compensates the steel industry for the carbon taxes paid via electricity bills.

- 43.** The UK steel sector is calling on the UK Government to address the UK/EU and UK/US steel trade arrangements. It is imperative the UK Government maintains favourable arrangements for the trade of steel in these negotiations.
- 44.** The industry also wants the UK Government to publish their plans and a clear timetable for reforming the UK steel safeguards system so that improved quotas are in place before the current arrangements expire at the end of June 2026. It is vital the new UK system aligns with that of the EU to avoid a potential increase in trade diversion to the UK.
- 45.** The Welsh Government attends the UK Government's UK Steel Council. The Council is currently prioritising the production of the UK Steel Strategy due to be published later in December. The Steel Strategy is investigating the policy issues our domestic steel sector continues to face, as well as researching the best opportunities for capital investment. The strategy will be informed by two independent commissioned reports concerning future steel demand and potential investment opportunities for the sector. We have made clear the strategy also needs to highlight the important role RD&I will play in meeting the challenges faced by the sector. Wales is well served by our well-established academic expertise on steel which positive support for RD&I funding will strengthen.
- 46.7** Steel (formerly Celsa) has been producing steel in Cardiff through an Electric Arc Furnace (EAF) since 2006. Once Tata Steel UK transitions to EAF steel production at the end of 2027, both Welsh-based steel producers will be using scrap-fed technology to make green steel and will require a significant amount of steel scrap. Therefore, securing a sufficient supply of domestically generated scrap metal of the required quality and quantity is of particular importance to Wales.
- 47.** On 26 June, the UK Government announced a new Public Procurement Notice for public sector procurers to consult the UK Steel's digital catalogue and to consider if the national security exemptions in the Procurement Act 2023 are relevant to the procurement being undertaken. Procurement is a devolved matter; Welsh Government officials are currently undertaking work to align the Welsh Government Public Procurement Note on steel to UK practices where appropriate.

**48.** Welcomed by the steel sector in June, the UK Government's Trade Strategy stated the UK Government would seek to introduce legislation to adjust the Trade Remedies Authority's (TRA's) policy guidance and operating framework, enabling it to adopt a more assertive approach on issues like imports from countries with unfair market distortions. The Cabinet Secretary has met with counterparts in the UK Government and pressed the need for the TRA to be able to react flexibly to the needs of industry and we are awaiting detailed information on the TRA's new powers.

## **Domestic Activity**

**49.** Here in Wales, we have several initiatives designed to provide support for businesses, such as:

- Business Wales - provides businesses and entrepreneurs with a single point of contact for business information, advice and support from the public, private and voluntary sectors.
- Development Bank of Wales - provides SMEs with access to finance, from loans to equity investment.

**50.** Since the beginning of this Senedd term, Business Wales has dealt with almost 188,000 enquiries, demonstrating the scale of need, and our commitment to meeting it. This has translated into direct support for over 33,200 businesses and entrepreneurs. Evidence shows businesses who engage with Business Wales have stronger survival rates.

**51.** The Development Bank of Wales continues to play an increasingly important role in our economic strategy. This Senedd term it has supported more than 18,800 jobs through over £512m of investment. This is critical in ensuring businesses have the tools they need to succeed and remain rooted in their local communities.

**52.** The Development Bank of Wales recently announced it has created and safeguarded over 50,000 jobs across Wales, marking a significant milestone with £1bn invested in equity, debt, and property since 2017.

**53.** Recognising the importance of place-based economic development, our regional economy teams (North, Mid & South West, South East) work with a range of indigenous and overseas investors to support their ambitions for growth. Business Wales works closely with our innovation and regional

economy teams and in partnership with local authorities and the wider ecosystem.

## **Circular Economy<sup>3</sup>**

**54.** The Welsh Government is committed to moving to a circular economy in Wales, where waste is avoided, and resources are kept in use for as long as possible.

**55.** Our circular economy strategy, *Beyond Recycling*, was published in 2021 and sets out key actions to accelerate our transition to a circular economy - our target is to be a zero waste, net zero carbon nation by 2050, using a fair share of our planet's resources.

**56.** To date, we have transformed from a nation which recycled less than 5% of its municipal waste with over 95% going to landfill in 1999, to now reaching 66.6% recycling and landfilling only 0.9%. Recycling is now simply a part of who we are as a nation.

**57.** We intend to build on these strong foundations by accelerating the move towards a circular economy in Wales and going *Beyond Recycling*.

### **Economic opportunities**

**58.** We are second best in the world in terms of recycling. This puts us in a great position to reap the economic benefits from moving to a circular economy as well as making our supply chains more resilient to global volatility and climate impacts.

**59.** The transition to a circular economy presents significant opportunities for Wales to unlock greater economic value from the materials we are world class in collecting. The Circular Economy Fund for Business provides funding for businesses to take important steps like adapting their processes to use recycled material and reduce the materials they need to use. 50 businesses have benefited from this funding so far.

**60.** Our supply of high-quality recycled materials is also helping to attract inward investment and create jobs in Wales. In Deeside, the redevelopment of Shotton Mill has attracted investment of over £1 band safeguarded 147 jobs. The site will become one of the UK's largest recycled packaging centres, creating a further 220 green jobs. Businesses like this know that in coming to Wales they can

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<sup>3</sup> The Circular Economy is the responsibility of the Deputy First Minister and Cabinet Secretary for Climate Change and Rural Affairs.

access good quality recycling thanks to the efforts of people in Wales. Other examples include a facility to extract precious metals from electronic waste (Royal Mint), and the processing of plastic for recycling (Jayplas).

## **Conclusion**

- 61.** This paper sets out the steps we have taken to support growth and jobs and accelerate delivery of our Economic Mission during challenging economic times. Our focus remains clear: creating quality jobs, driving green growth, and delivering on the First Minister's priorities across all regions of Wales.
- 62.** Recent progress demonstrates the power of collaboration between Welsh and UK Governments in securing strategically important projects for Wales, such as Wylfa and AI Growth Zones, that will shape our economy for decades to come. These partnerships show what can be achieved when governments work together to dismantle barriers and unlock investment.
- 63.** Looking ahead, inward investment will continue to play a vital role in building a resilient, inclusive, and sustainable economy. The upcoming Investment Summit provides a major opportunity to showcase Welsh strengths in advanced manufacturing, clean energy, digital and tech, life sciences, and creative industries, ensuring we seize the opportunities of the future.
- 64.** Our ambition is unwavering: a Wales that delivers quality jobs, strong businesses, and thriving communities for generations to come.
- 65.** Welsh Government intend to remain fully focused on long-term impact across all regions of Wales whilst ensuring that we capitalise on Wales's strengths and seize the opportunities of the future in areas including advanced manufacturing, defence, clean energies, digital and tech, as well as life sciences and creative industries. We remain committed to a Wales which delivers on quality jobs, strong businesses, and thriving communities.