

Economic Intelligence Wales

Annual report

August 2021

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Executive summary

The 2020/21 financial year has seen significant turbulence for the UK and world economy, due to the Covid-19 pandemic and the subsequent health and economic crisis. The mitigation strategies devised to cope with the pandemic, including lockdowns and significant disruption of economic life, have resulted in unprecedented economic contraction. According to IMF estimates, the global economy contracted by 3.6% in 2020, recording a greater fall than in the aftermath of the 2008/09 global financial crisis. While in mid-2021 health outcomes are improving in many developed states after consecutive pandemic waves, the effects on economies are more persistent. The latest OECD economic outlook estimates a 7.1% average unemployment rate across the 37 OECD countries in 2020, up from 5.4% in 2019.

The focus of recovery policies for much of 2020 has been on helping firms survive and maintaining employment. The 2021/22 financial year is seeing a greater focus in UK and devolved administration strategy on finance and grant assistance to support business transformation and innovation.

Six months after the beginning of the post-Brexit trade agreement, a significant decline in UK trade with the EU has occurred. The special strategies of the Welsh Government to back firms in sectors, such as fisheries, are crucial in the new transformative period.

This Annual report reveals that UK GDP fell by 1.5% in the quarter to 2021Q1. UK GDP contracted by an estimated 6.1% in the 2020/21 financial year. Nevertheless, there are signs of sustained recovery due to the partial reopening of the economy after March 2021, and with the UK recording monthly GDP increases for February, March and April 2021 (0.7%, 2.1% and 2.3%, respectively). **The Bank of England projects that UK GDP will rise by 7.25% in 2021, an improved forecast compared to the January 2021 prediction (5%).**

The latest available quarterly GDP estimates for Wales for 2020Q3, demonstrate a 14.4% quarterly increase, following a 15.1% contraction in the quarter to 2020Q2.

This increase was driven by hospitality, construction as well as wholesale and retail. However, GDP in Wales is estimated to have fallen by 6% in the year to 2020Q3.

There are also signs of labour market recovery although the longer term direction of travel on key labour market indicators is contested. The UK unemployment rate declined from 5.1% in 2020Q4 to 4.8% in 2021Q1 and further to 4.7% in April 2021. **The UK redundancy rate fell by 55% in the quarter to 2021Q1 and stood at 5.5 per 1,000 employees. This was still 42% higher than the rate prevailing in 2020Q1. The Welsh unemployment rate was 4.4% in 2021Q1, unchanged from 2020Q4.** While the UK economy benefits from the partial reopening, the unemployment contraction and the extension of the furlough scheme, the remainder of 2021 is expected to be turbulent for the labour market. Indeed, **National Institute of Economic and Social Research (NIESR) projects an increase in Welsh unemployment rate from 4.1% in 2020-21 to 6% in 2021-22, since the real effects of the pandemic shock on the labour market are expected after the end of the furlough scheme. UK business investment contracted by 2.3% in the quarter to 2021Q1, remaining well below the pre-pandemic level in 2019Q4 (-18.4%).**

Welsh SME confidence rebounds

Wales saw SME confidence rebounding from -48 in 2020Q4, the fourth lowest in the UK, to positive territory (+34) in 2021Q1, the sixth highest in the UK.

The ONS quarterly experimental statistics on business demography highlight that the number of business births in Wales in 2020Q1 was higher than business deaths.

Executive summary

The annual comparison reveals positive signs. The number of business births increased by 31% between 2020Q1 and 2021Q1 and the number of business deaths fell by -0.7%.

According to the ONS Business Impact of COVID-19 Survey (BICS) for the period from 17 to 30 May 2021, the vast majority of Welsh businesses were trading (97%), although the turnover of companies was still badly affected. **Around 26% of responding businesses in Wales reported a fall in turnover of up to 50%, the third highest rate across the UK regions. Almost 11% of surveyed Welsh companies indicated a moderate risk of insolvency, the highest among the UK regions. The British Business Bank Small Business Finance Markets Report 2020/21 indicated that 13% of SMEs surveyed in Wales reported growth in the last 12 months, while 41% expect to grow in the next 12 months.**

Six months has now passed since the end of the transition period and implementation of the new trade rules between the UK and EU. **Total UK trade in goods with EU Member States decreased by 14% in the year to 2021Q1, while trade with non-EU countries remained unchanged. According to a recent report from the FSB, 23% of exporters have temporarily paused exports to the EU, while 4% have decided to stop selling to EU countries permanently.**

The demand for credit from small firms has been strong, as SMEs in Wales seek credit to cover deferred payments, including rent and tax, but also cash-flow needs. **The BVA BDRC SME Finance Monitor 2020Q4 reported that around 19% of Welsh SMEs surveyed had a borrowing event in 2020Q4, up from 7% in 2020Q3. Permanent non-borrowers fell from 33% in 2020Q3 to 25% in 2020Q4. The proportion of Welsh SMEs using finance which were concerned about their ability to repay debt, increased from 24% in 2020Q3 (21% for UK SMEs) to 30% in 2020Q4 (24% for UK SMEs). According to the Small Business Finance Markets Report 2020/21, almost 20% of SMEs surveyed in Wales plan to apply**

for a bank loan or overdraft in the next three months, higher than the UK average (14%). Alongside credit growth, 2020 was a record year for the UK equity markets. **The Small Business Equity Tracker 2021 showed that a record of 2,044 SME equity investments were made in 2020 with a record total value of £8.8bn.**

Despite poor economic conditions, the proportions of Welsh SMEs in different credit risk ratings remained stable. **However, the rate of SMEs in the High Risk group gradually increased from 4.1% in February to 4.5% in May 2021, but with the proportions of SMEs in the Caution, Normal, Stable and Secure categories changing little over the same period.**

Total cumulative Development Bank of Wales investment to the end of the 2020/21 financial year was almost £888m, up from £690m in 2019/20. Almost 6,000 loan investments have been made between 2001/02 and 2020/21, with these loans linked to activity that has created nearly 13,630 jobs and safeguarded over 39,150 jobs. More than 400 equity investments have been made, with this linked to 3,460 new jobs and 2,390 safeguarded jobs.

The 2020/21 financial year marked a record year for the activities of the Development Bank of Wales, in terms of SMEs receiving investment and value of direct investment from the Bank. The interventions of the Development Bank have been crucial during the crisis. Total investments were close to £200m, and with around 1,000 new and over 17,300 safeguarded jobs. The total of direct created and safeguarded jobs supports an estimated total of over 27,000 jobs and some £0.92bn of Welsh gross value added. This would mean that every £1m of Development Bank loan and/or equity investment supports and safeguards directly and indirectly around £4.7m of Welsh GVA. Furthermore each £1m of Development Bank loan and/or equity investment supports directly and indirectly an estimated 139 jobs in Wales.

This is the third Economic Intelligence Wales Annual report. The report summarises the trends for the 2020/21 financial year and is published at a time of some economic optimism due to improving employment and consumer spending conditions although with some distance to cover to more 'normal' business conditions. While the distribution and administration of Covid-19 vaccines and the fall in mortality in many more developed countries has started to stimulate economic prospects, uncertainty remains stemming from emerging variants and the possible extension of social distancing measures. This uncertainty, coupled with the expected end of business support and job retention schemes poses additional economic challenges for the 2021/22 financial year.

Sections 2-4 of this report provide the UK and Welsh macroeconomic context within which Welsh SMEs operate and analyse the impact of Government support on firms. The report, building on this context, then examines factors relating to the demand for, and supply and cost of, SME finance. These sections have the objectives of understanding:

- Macro-economic factors shaping the demand for SME finance in Wales.
- Trends in SME growth, start-ups, and business survival prospects in Wales.
- The supply of finance to SMEs in Wales.
- The amounts and types of lending/ investment into SMEs in Wales.

Section 5 summarises the activities of the Development Bank of Wales in the context of factors affecting the demand for, and supply of, finance to SMEs in Wales. In summary, the annual report identifies:

- The use of Development Bank funds in financing Welsh SMEs, and what types of enterprises and industries are being supported.
- The geographical distribution of SME investment around Wales.

While our series of Quarterly Reports (QR) examine the activity of the Development Bank in terms of investments made, the Annual report goes a step further and seeks to provide insights into the wider regional economic impact of investments made. The final section draws conclusions from the overall analysis.

This report is largely based on publicly available data (generally reported in calendar years) together with a special analysis of data provided by the Development Bank of Wales (mostly reported in financial years). Due to differences in reporting periods, there will be some slight temporal mismatch of data within this report. Economic data relating to Covid-19 effects and interventions can change quickly. Hence establishing a timely economic picture of impacts across the Welsh SME landscape is particularly challenging.

The pandemic and the subsequent mitigation measures have resulted in disruption to UK and Welsh economic activity, industry contraction, as well as a sharp decline in household and business consumption during 2020. Additionally, there have been economic consequences resulting from the implementation of new trade regulations in the post-Brexit era. However, there are early signs of recovery resulting from the partial reopening of the economy since March 2021.

According to IMF estimates, the global economy contracted by 3.6% in 2020, recording a much deeper recession than in the aftermath of the 2008/09 global financial crisis.¹ The IMF estimated that the fall could have been 3 times worse without any government intervention. The IMF predicts 6% annual global GDP growth in 2021 and 4.4% in 2022. The latest OECD Economic Outlook estimated average 7.1% unemployment rates in the 37 OECD countries in 2020, up from 5.4% in 2019.

A troubled first quarter of 2021.

In the context of the UK's largest annual economic contraction on record (-9.9% in 2020), early signs of recovery emerged in the final quarter of last year. There was some reopening of the economy in 2020Q4, increased consumer spending and improved business prospects compared to the previous quarters. However, UK growth was still weak in the quarter to 2020Q4 (1%) and was followed by another GDP fall (-1.5%) in 2021Q1². Poor UK GDP performance in 2021Q1 was replicated in Germany, Spain and Italy, but contrasted with quarterly GDP growth in the USA and France.

UK GDP in 2021Q1 remains short of the pre-pandemic 2019Q4 level by 8.7%. According to the Centre for Economics and Business Research³, Covid-19 has caused a £251bn loss in UK GVA. The Centre estimates the contribution of Wales to Covid-19 output loss to have been around £9.3bn in the year to March 2021 or 3.7% of the total estimated loss.

UK household expenditure fell by 3.9% in the quarter to 2021Q1, following a 1.7% contraction in 2020Q4. Comparing with pre-pandemic levels, household consumption was 12.8% lower in 2021Q1 than in 2019Q4. Government consumption supported some recovery recording a 2.6% increase in 2021Q1, following a 6.4% quarterly growth in 2020Q4. Government consumption growth reflects the volume increase of healthcare services, largely due to NHS Covid-19 testing and vaccination.

Due to the partial reopening of the economy from March 2021, UK GDP grew by 0.7%, 2.1% and 2.3% in the months of February, March and April 2021 respectively.

¹ www.imf.org/en/Publications/WEO/weo-database/2021/April

² www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/latest

³ cebr.com/reports/one-year-since-lockdown-the-251-billion-cost-to-the-uk-economy

UK business investment decreased in 2021Q1.

Following a 15.1% quarterly increase in 2020Q3 and 1.4% in 2020Q4, UK business investment contracted by 2.3% in the quarter to 2021Q1, remaining over 18% below the pre-pandemic level in 2019Q4. Investment was based on stockpiling occurring in advance of the end of the Brexit transition period. Over this period the volume of finished manufacturing goods grew and retail continued recording a rise in inventories.

According to the Bank of England Monthly Decision Maker⁴ for February 2021, firms expected investment in 2021Q1 to be 22% lower than it would have been without the pandemic. Respondents perceiving the level of economic uncertainty as high fell from 68% in December 2020 to 57% in February 2021. This was still much higher than the 41% of respondents perceiving the level of economic uncertainty as high in early 2020. The Bank of England improved its forecast for the annual growth of UK business investment from 4% to 7% in 2021.⁵

Output in services contracted, construction witnessed growth in the first quarter.

Output in UK services and production declined in 2021Q1. Output in services declined by 2% in the quarter to 2021Q1, being 8.7% below the pre-lockdown 2019Q4 level. Key contributors were education (-11.8%) and hospitality (-18.2%). Production output also recorded a quarterly decline in 2021Q1 (-0.4%), driven

mainly by manufacturing (-0.7%), a sector whose output is now 3.4% below 2019Q4 levels. Construction was the only sector which experienced a positive growth of output in the quarter to 2021Q1 (2.6%), although still 3.4% below the pre-pandemic levels.

Welsh GDP in 2020Q3.

The effects of Covid-19 are captured by the quarterly (experimental) GDP estimates for Wales.⁶ The latest available figures, for 2020Q3, demonstrate a 14.4% quarterly increase, following a 15.1% contraction in the quarter to 2020Q2.⁷ Hospitality, construction as well as wholesale and retail were the main drivers

of the Welsh GDP increase during 2020Q3. However, GDP in Wales fell by 6% in the whole year to 2020Q3. Wales experienced the smallest quarterly GDP increase in 2020Q3 among the four devolved administrations (England 17.2%, Scotland 15.8% and Northern Ireland 15.4%), similar to 2020Q2.

⁴ www.bankofengland.co.uk/decision-maker-panel/2021/february-2021

⁵ www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/may/monetary-policy-report-may-2021

⁶ These figures should be treated with caution due to the potential volatility of the data.

⁷ www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/julytoseptember2020

UK unemployment falls in 2020Q1

The Coronavirus Job Retention Scheme has worked to partially safeguard jobs through the pandemic. According to the Labour Force Survey⁸ the UK unemployment rate declined from 5.1% in 2020Q4 to 4.8% in 2021Q1, and further down to 4.7% in April 2021.⁹

According to 'Pay as You Earn Real Time Information', the UK has been witnessing an increase in payroll employees for every month from November 2020 to May 2021, increasing from 28m to 28.5m. This latter figure was similar to the level in April 2020, but 553,000 lower than in February 2020.¹⁰ The UK employment rate increased very slightly from 75% in 2020Q4 to 75.2% in 2021Q1. The most concerning element pertained to the youth (people aged 16 to 24) labour market and specifically youth inactivity levels, that increased from 0.3% in 2020Q2 to 3.3% in 2021Q1. The redundancy rate (in the three months prior to the Labour Force Survey interview) fell by 55% in the quarter to 2021Q1 and stood at 5.5 per 1,000 employees, although still 42% higher than 2020Q1 (3.9 per 1,000 workers).

While the UK economy benefits from a partial reopening coupled with the extension of the furlough scheme, the remainder of 2021 is still expected to be a period of turbulence for national and regional labour markets.

The real challenges for labour market resilience are anticipated amid the reopening of the economy and particularly after the end of job retention scheme (now extended until the end of September).

The Welsh unemployment rate was 4.4% in 2021Q1, unchanged from 2020Q4, but down from 4.6% in 2020Q3. The Welsh employment rate increased from 72.2% in 2020Q4 to 74% in 2021Q1, similar to the 2020Q1 rate and approaching pre-pandemic 2019Q4 levels (74.4%). The improvement in regional labour market conditions is also indicated by Figure 1 that shows the annual percentage change of number of employees. The regional labour markets in Wales, Scotland and Northern Ireland exhibit early signs of recovery in April 2021. However, the NIESR predictions are more pessimistic for the Welsh labour market, projecting an increase in the unemployment rate from 4.1% in 2020-21 to 6% in 2021-22 and further to 6.5% in 2022-23, higher than in Scotland, Northern Ireland and the UK average. It is important to recognise that in the absence of government led interventions the forecast outcomes would be much worse. However, the pessimism in forecasts has been contested with the UK as a whole seeing a sharp increase in vacancies during the second quarter of this year.

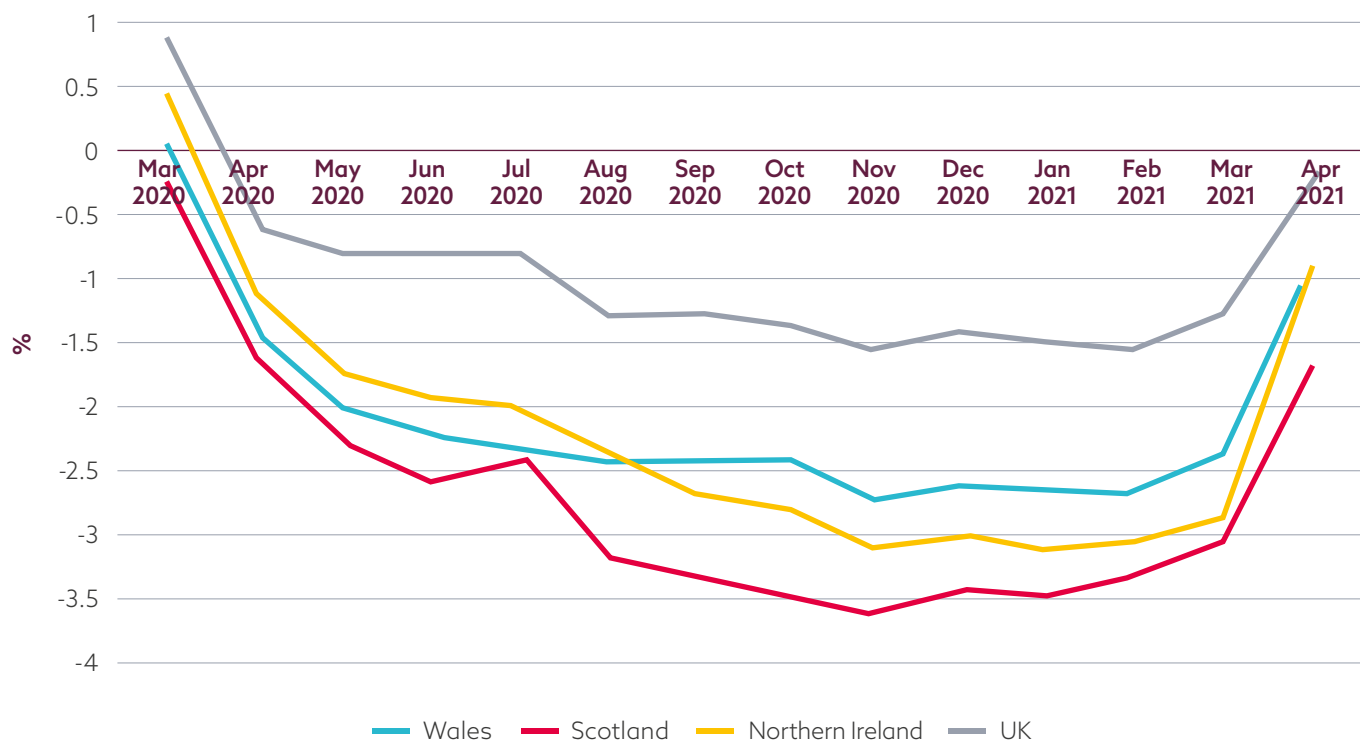
⁸ www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/may2021

⁹ LFS responses are weighted to official population projections. As the current projections are 2018-based they are based on demographic trends that pre-date the COVID-19 pandemic. Rates published from the LFS remain robust; however, levels and changes in levels should be used with caution. The Office for National Statistics have published a methodology paper outlining that they intend to re-weight the LFS using population estimates from PAYE real-time information. This will be applied to LFS results from July 2021.

¹⁰ www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/latest

Figure 1.

Growth of Number of Employees: Percentage change on same month in previous year, seasonally adjusted



Source: [ONS, 2021](https://www.ons.gov.uk)

An increase in the number of unemployment benefit claimants in April 2021, after a declining trend.

The UK unemployment-related benefit claimant count increased from 2.59m in January 2021 to 2.65m in April 2021.¹¹ UK benefit claimants increased by 0.5m in the year to April 2021.

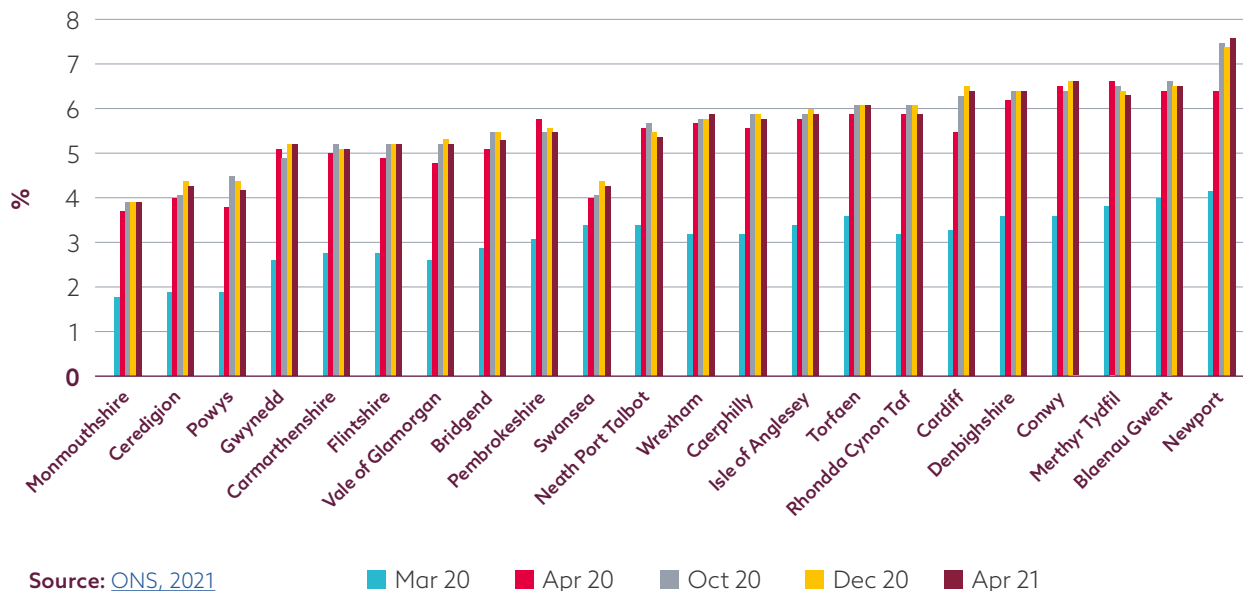
In April 2021, 110,400 people in Wales claimed unemployment-related benefits (equal to 5.7% of the working age population), up slightly from 109,000 in January 2021. According to the latest available data for April 2021, the Welsh areas

with the highest proportion of working age population claiming unemployment-related benefits were Newport (7.6%), Conwy (6.6%) and Blaenau Gwent (6.5%), and with the lowest proportion, Monmouth (3.9%), Powys (4.2%) and Ceredigion (4.3%) (Figure 2). Caution is needed in any interpretations here, as the 'true' underlying trend cannot yet be established with the furlough scheme still in operation.

¹¹ www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental

Figure 2.

Proportion of working age people claiming unemployment-related benefits by Welsh local authority



Source: [ONS, 2021](#)

■ Mar 20 ■ Apr 20 ■ Oct 20 ■ Dec 20 ■ Apr 21

Decline in furloughed jobs.

The number of UK furloughed jobs fell between early July 2020 (5.9m) and late October 2020 (2.4m), before rising in late January 2021 (5.1m). It had declined to 3.4m by 30 April 2021.¹² There are some connections between changes in furloughed jobs and the unemployment figures noted above but precise connections are difficult to assess. Almost 11.5m jobs have been supported in total through the Coronavirus Job Retention Scheme by mid-May 2021, with the total value of furlough claims in the UK rising from £54bn on 15 February to £64bn in May 2021. Sectors with the highest furlough take-up rate in late April 2021 included beverage serving activities (70%), hotels and accommodation (65%) and passenger air transport (55%).

In Wales, employments furloughed declined from 183,400 in January 2021 to 131,900 in April 2021, equal to around 10% of total Welsh employments eligible for furlough. Some caution is needed in interpreting local and regional furlough figures

because they are based on the employees' residential address information, thus not capturing commuting effects i.e. an employee's workplace could be in a different region. That said a reduction in numbers on furlough should be seen as a positive development for the Welsh economy.

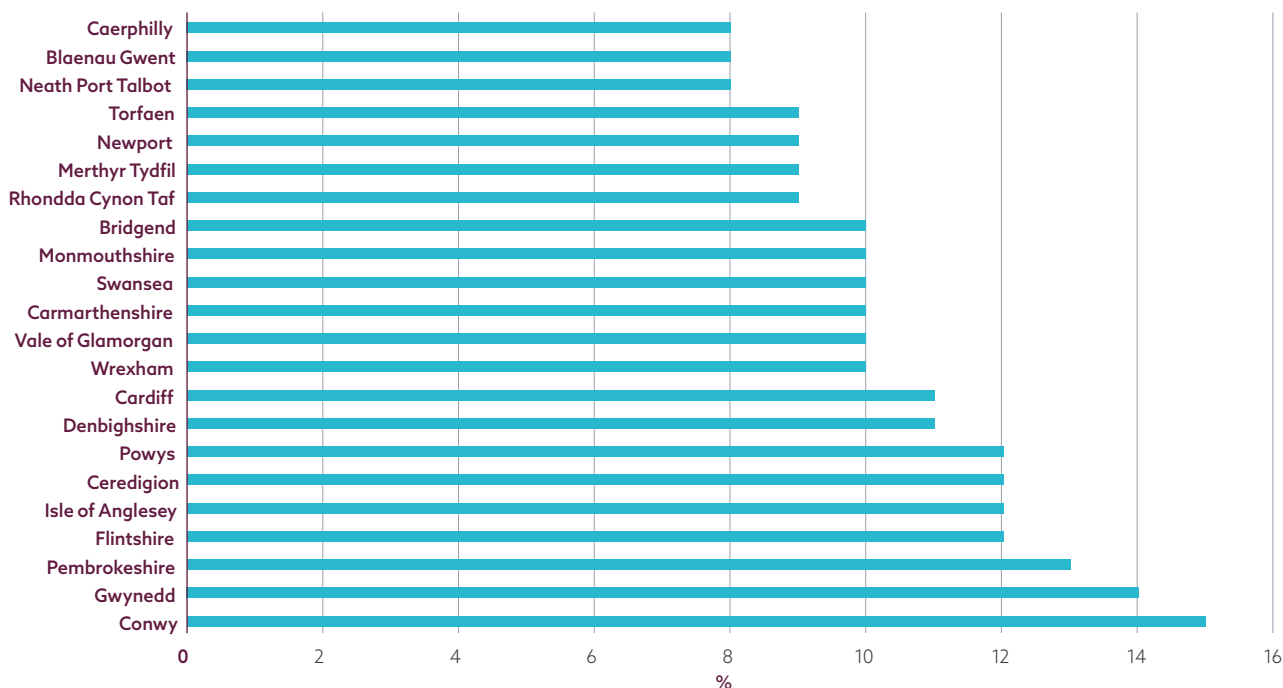
Across Wales¹³ Conwy had the highest furlough take-up rate (15% of employments eligible), followed by Gwynedd (14%) and Pembrokeshire (13%) at 30 April 2021 (Figure 3). By contrast, Blaenau Gwent, Neath Port Talbot and Caerphilly had the lowest take-up rate (8%). In absolute terms, Cardiff had the highest number of employments furloughed (15,900 in late April down from 21,500 in late January), above Swansea (9,600 down from 13,000) and Rhondda Cynon Taf (9,100 down from 12,400). Merthyr Tydfil (2,300 down from 3,400) and Blaenau Gwent (2,400 down from 3,300) had the lowest count of employments furloughed at the end of April 2021.

¹² www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-3-june-2021/coronavirus-job-retention-scheme-statistics-3-june-2021

¹³ Total employments furloughed/Total employments eligible for furlough

Figure 3.

*Furlough scheme take-up rate across Welsh local authorities, as at 30 April 2021
(% of eligible employment)*



Source: [UK Government](#)

UK and Welsh economy forecasts.

The Bank of England forecasts that UK GDP will rise by 7.25% in 2021, an improved forecast compared to the January 2021 prediction (5%). The Bank also forecasts a 5% unemployment rate in 2021 (down from 6.5% as projected in January), before falling to 4.5% in 2022.

In their Spring UK Economic Outlook, the National Institute of Economic and Social Research (NIESR) estimated that Wales, alongside the North East, Yorkshire & Humber and Northern Ireland, will not have recovered to pre-pandemic levels of GVA before 2024Q4, when it is projected to be 1% below the 2019Q4 level.¹⁴ NIESR projects that the contribution of

Wales to UK GVA in 2021Q4 will be similar to the 2019 level (3.4%). Moreover, due to the higher expected employment rate, as a result of the recovery in the regional labour markets, and the slow growth of GVA, Wales is among those UK regions whose labour productivity (GVA per worker) will not easily recover. NIESR forecast that Welsh labour productivity will still be below the 2019Q4 level by end 2025. The other regions projected not to have recovered in terms of productivity include a mix of economically strong and weak areas, namely London, North East, Yorkshire & Humber and Northern Ireland.

¹⁴ www.niesr.ac.uk/sites/default/files/publications/New%20UK%20Economic%20Outlook%20Spring%202021%20-%20Full%20Document_0.pdf

Small firms' confidence hits the highest point since 2015.

After four consecutive quarters of decline, the UK Small Business Index¹⁵ has recovered reaching its highest point since 2015. Following the fall from -5 in 2020Q2 to -32 in 2020Q3 and further to -49 in 2020Q4, the Index rebounded to +27 in the quarter to 2021Q1¹⁶ amid the reopening of business activity. More than half of SMEs surveyed (51%) forecasted an increase in revenues during 2021Q2, while even more (53%) expressed their aspiration to expand operations during 2021. However, around half of SMEs exporting reported a fall in sales in 2021Q1.

UK small business confidence index rebounds in all sectors in 2021Q1

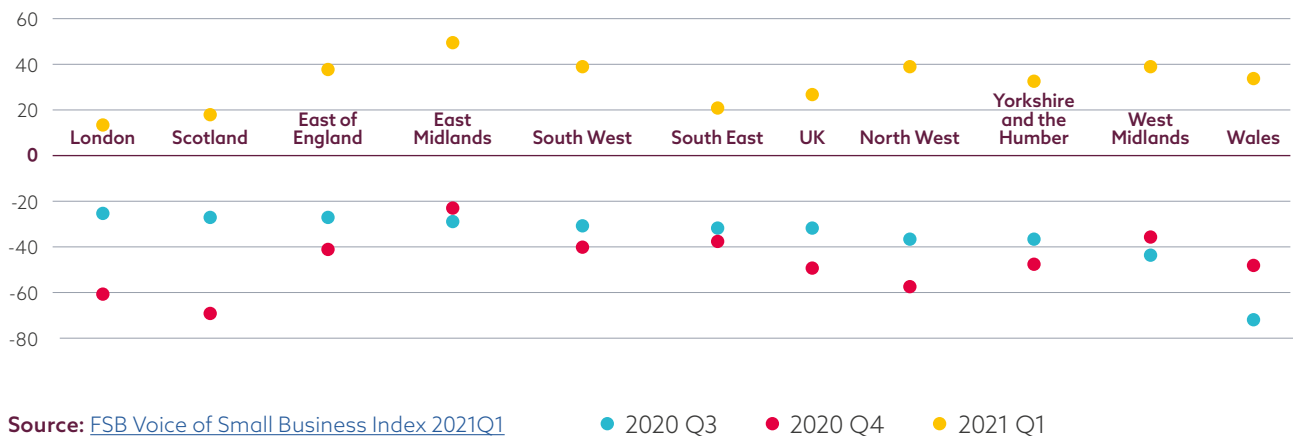
SMEs in all industries have recorded positive confidence index in 2021Q1. Sectors that have faced severe lockdown restrictions and demand contraction, demonstrated the most impressive returns, these being hospitality (confidence index of +15 from -108 in 2020Q4), leisure (+7 from -99) and retail (+24 from -89). The most confident sector was manufacturing with an index of +37 in 2021Q1.

Wales SME confidence in 2021Q1.

After four consecutive quarters of decline, the UK Small Business Index¹⁵ has recovered reaching its highest point since 2015. Following the fall from -5 in 2020Q2 to -32 in 2020Q3 and further to -49 in 2020Q4, the Index rebounded to +27 in the quarter to 2021Q1¹⁶ amid the

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Figure 4.
Small Business Index, UK regions, 2020Q3-2021Q1



Source: [FSB Voice of Small Business Index 2021Q1](#)

● 2020 Q3 ● 2020 Q4 ● 2021 Q1

¹⁵ "The Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous three months?' The share of firms reporting 'much improved' are given the following weightings: +2, slightly improved +1, approximately the same 0, slightly worse -1 and much worse -2; the Small Business Index is derived from the sum of these factors" (FSB, 2020).

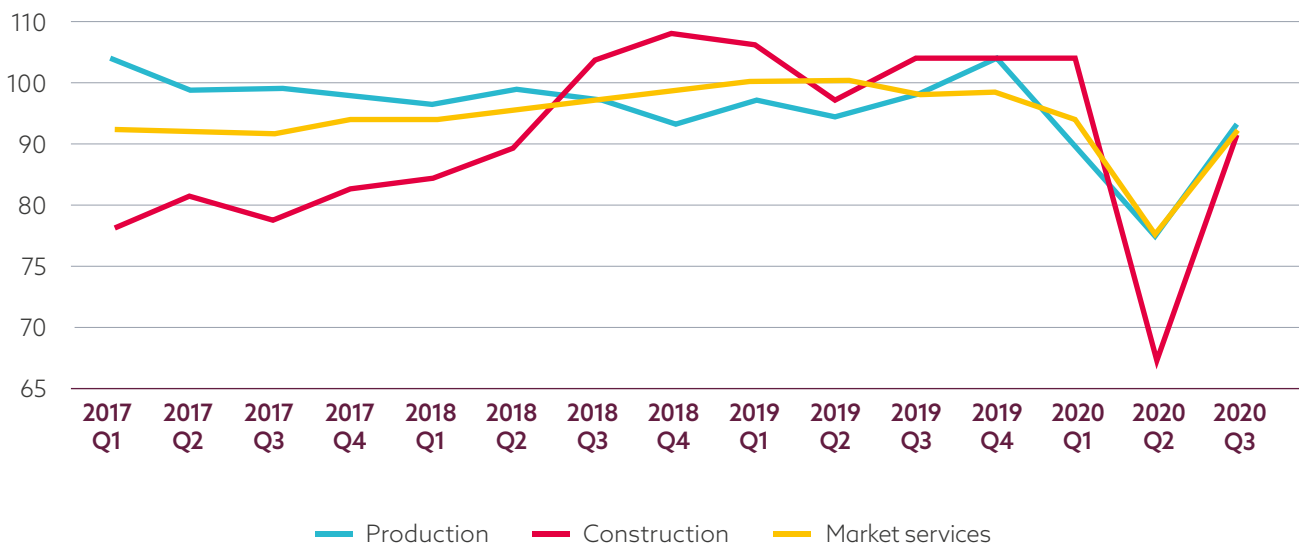
¹⁶ FSB (2021). FSB voice of small business index, Quarter 1 2021. Available at: www.fsb.org.uk/static/b2c75005-00fa-4b71-ba55fcc08345aa2d/FSB-Voice-of-Small-Business-Index-Quarter-1-2021.pdf

Output growth across production, construction and market services sectors increased in 2020Q4.

Figure 5 illustrates the quarterly movement in Welsh indices of output in production, construction and market services from 2017Q2 to 2020Q4. The main indices of industry output increased in 2020Q4. The index of market services rose from 96.1 in 2020Q3 to 97 in 2020Q4. The index of production followed a similar trajectory, increasing from 96.5 in 2020Q3 to 97.1 in 2020Q4. The construction index, that

was severely affected by forced halts made in large projects due to lockdown restrictions in the first half of 2020, continued its recovery with the value of 2020Q4 being 4.7 points higher than the 2018 base year, although still below the pre-pandemic level. Note Figure 5 does not take account of the expected fall in the main indices in the first quarter of this year.

Figure 5.
Welsh output indices: trends 2017Q2 - 2020Q4 (2018 =100)



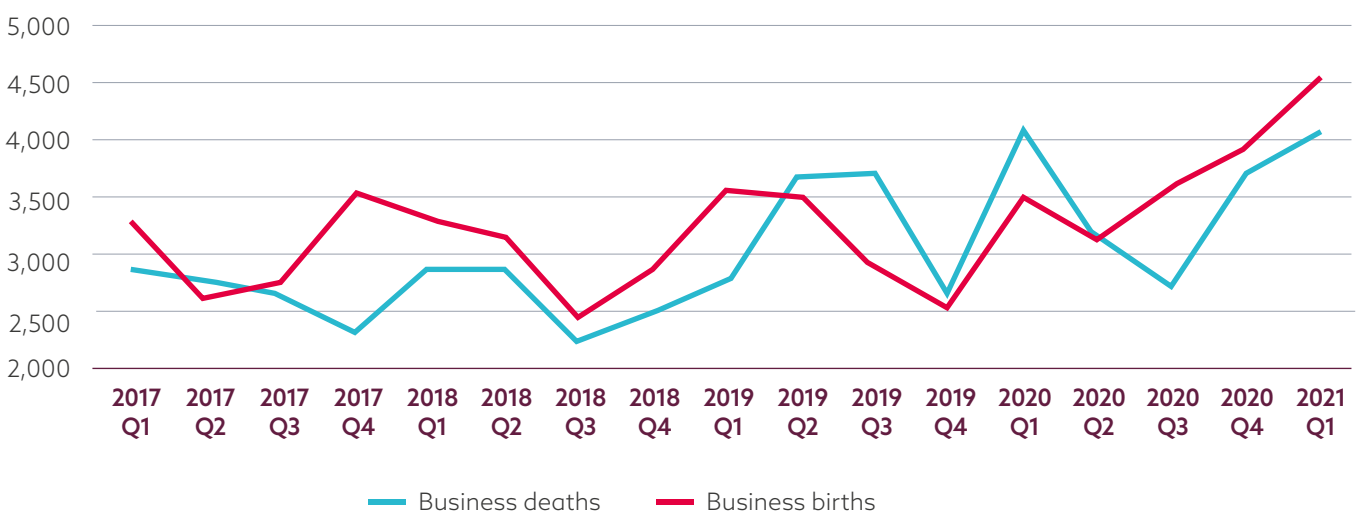
Source: Stats Wales, [Welsh Indices of Production and Construction \(2018=100\) by section and year](#) and [Index of Market Services \(2018=100\) by year and area](#)

Increase of business births and decline of business deaths in the year to 2021Q1.

Figures provided from ONS indicate that business births rose from 94,400 in 2020Q4 to 136,800 in 2021Q1, 14% up from 2020Q1 (120,000 business births). The number of business births in 2021Q1 was 17% higher than the average of business births in the first quarter of the calendar years from 2017 to 2020. The number of business deaths rose from 103,800 in 2020Q4 to 111,150 in 2021Q1, 16% higher than the average of repay in the first quarter of the calendar years from 2017 to 2020, highlighting the dire impacts of the pandemic and lockdown measures on the business economy. Firm closures in 2020Q1 were lower than company dissolutions in all industries with the exception of agriculture, transportation and storage, information and communication, as well as professional and scientific activities. According to experimental figures from the ONS,¹⁷ the total number of company incorporations in the UK during the first 22 weeks of 2021 was 29% higher than the respective period in 2020 and 16% higher than in 2019.

Wales follows a similar trend compared to that of the UK. Business births rose by 31% in the year to 2021Q1, increasing from 3,500 in 2020Q1 to 4,560 in 2021Q1. Selected initiatives from the Development Bank of Wales, may have contributed to this improved business birth rate.¹⁸ For 2020/21 around £7.5m was invested by the Development Bank in start-up businesses, a 32% rise in funding compared to the 2019/20 financial year.¹⁹ Business deaths in Wales dropped slightly by 0.7% in the year to 2021Q1, falling from 4,100 in 2020Q1 to 4,075 in 2021Q1. Figure 6 illustrates the difference between business births (4,560) and deaths (4,075) in 2021Q1, highlighting that both business births and deaths have trended upwards since 2020Q3, possibly due to the reopening of the economy after the first lockdown, with weak firms having experienced an unprecedented contraction that did not allow them to reopen.

Figure 6.
Quarterly business births and deaths in Wales



Source: [Business demography, quarterly experimental statistics, UK](#)

¹⁷ www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/companyincorporationsandvoluntarydissolutions

¹⁸ developmentbank.wales/news-and-events/rise-business-start-ups-entrepreneurs-follow-their-dreams-during-lockdown-0

¹⁹ developmentbank.wales/news-and-events/development-bank-wales-invested-almost-ps200-million-welsh-businesses-202021

The *Business Impact of COVID-19 Survey (BICS)*,²⁰ now called Business Impacts and Conditions Survey, for the period from 17 to 30 May 2021 indicated that 97% of firms surveyed in Wales continued to trade, while 2% of companies had temporarily paused trading (the fifth lowest rate across the UK regions). Around 8% of responding businesses in Wales reported a fall in turnover of over 50%, which was the second highest of any other UK region. A further 26% reported a decline of up to 50%, the third highest rate across the UK regions. Among Welsh firms that had not permanently stopped trading, almost 39% reported that their cash reserves would last more than 6 months.

The British Business Bank *Small Business Finance Markets Report 2020/21*²¹ indicated that 13% of SMEs surveyed in Wales reported growth in the last 12 months. Around 41% of responding SMEs in Wales expect to grow in the following 12 months. The *BVA BDRC SME Finance Monitor for 2020Q4*,²² a quarter that was characterised by several weeks of lockdown and suspension of business activity, reported that around 17% of SMEs surveyed in Wales believed that the worst effect of the pandemic was behind them (down from 23% in 2020Q3), while 43% believed that the worst was yet to come (up from 32% in 2020Q3). Around 80% reported a negative impact of Covid-19, with 10% having already made staff redundant and 12% possibly making redundancies in the coming months.

The *BVA BDRC SME Finance Monitor* focusing on the 3 month rolling analysis to the end February 2021²³ indicated that the proportion of UK SMEs reporting growth for 2020 was just 13%. The report suggested that 6 in 10 SMEs had seen business decline in 2020, marking an increase compared to 2019 (2 in 10). The rate of SMEs surveyed in the three months to February 2021 that had plans to grow in the coming months remained unchanged compared to 2020Q4 (42%). Important for the growth plans is the export intensity of SMEs. Around 60% of SMEs that import and export reported plans to grow, while only 39% of businesses that focused on domestic sales had growth plans for the next 12 months. Almost 7 in 10 SMEs surveyed from December 2020 to February 2021 argued that the future was uncertain, with 29% perceiving the current economic climate as a major obstacle to running business. Around 2 in 10 SMEs surveyed were concerned about political uncertainty and 1 in 10 about cash flow late payment in the three months to February 2021.

The Welsh Government has decided on a cautious and gradual reopening of the economy. Welsh SMEs, particularly in the hospitality sector, still face critical challenges according to FSB Wales.²⁴ Despite the additional support of businesses in hospitality through the Economic Resilience Fund,²⁵ these firms have struggled to recruit staff and this has hampered their capacity to continue trading. Moreover, ongoing social distancing measures place restrictions on the way that hospitality firms operate and trade.

²⁰ www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheeconomy

²¹ www.british-business-bank.co.uk/wp-content/uploads/2021/03/BBB-SBFM-Report-2021-Widescreen-AW-tagged-002.pdf

²² www.bva-bdrc.com/wp-content/uploads/2021/03/BVABDRC_SME_FM_Q4_2020.pdf

²³ www.bva-bdrc.com/wp-content/uploads/2021/03/SME-Monthly-charts-Feb-to-publish.pdf

²⁴ www.fsb.org.uk/resources-page/hospitality-firms-still-in-need-of-welsh-government-support-as-wales-continues-to-reopen.html

²⁵ gov.wales/sites/default/files/publications/2021-03/welsh-tax-policy-report-2021.pdf

The impact of Covid-19 and the peak of the second pandemic wave coincided with the beginning of the post-Brexit trade agreement. Six months have now passed since the end of the transition period and implementation of the new trade rules between the UK and EU. Total trade in goods (excluding precious metals) with the EU Member States fell by 20.3% in the quarter to 2020Q1, while, in the same period, trade with non-EU countries declined by just 0.4%.²⁶ In annual comparisons, total trade with the EU decreased by 14% in the year to 2021Q1, while trade with non-EU countries remained unchanged. Seasonally adjusted figures indicate that total trade in commodities with EU Member States dropped by 23.1% when comparing 2018Q1 with 2021Q1. In terms of trade in services, which is more difficult to estimate due to limited travel because of Covid-19, it is worth mentioning that the proportion of service businesses that reported exporting as normal fell from 57% in mid-December 2020 to a low of 52% in mid-January 2021.²⁷ Other effects of Brexit on the UK economy pertain to the departure of several transnational corporations, particularly in the financial sector. For example, Deutsche Bank has announced the relocation of staff from London.²⁸

The FSB has argued that the implications of post-Brexit trade regulations are particularly severe for SME exporters.²⁷ Their study reporting in March 2021 showed that 23% of exporters had temporarily paused exports to the EU, while 4% had decided to stop selling to EU countries permanently.³⁰

Importers have faced challenges from new paperwork, while 70% of SMEs exporting to or importing from the EU had suffered shipment delays. An Institute of Directors trade survey in March 2021 indicated that since the beginning of the year around 20% of directors whose companies used to trade with the EU have stopped doing so.

The latest available data about international trade in goods for the UK regions relates to 2021Q1.³¹ These figures indicated a decrease in the value of exports and imports for all the UK devolved administrations in the beginning of 2021, following the pattern in 2020, with Wales appearing to witness the greatest losses. The value of exports from Wales fell by 27% in the year to 2021Q1 (and 29% between 2019Q1 and 2021Q1), compared to a decline of 15% in England, 17% in Northern Ireland and 22% in Scotland. Over the same period, imports to Wales declined by 25%, compared to a contraction of 12% in Northern Ireland, 14% in Scotland, and 16% in England.

Some very initial Brexit related trading issues for Welsh SMEs have emerged. The BICS survey for the period between 17 and 30 May 2021 showed that around 7% of responding Welsh firms have made changes to their supply chains during the Brexit transition period, with half of them deciding to use more UK suppliers. More than 4 in 10 responding Welsh businesses faced extra costs due to the end of the EU transition period (being below the UK average).

²⁶ www.ons.gov.uk/businessindustryandtrade/internationaltrade/articles/theimpactsfofeuexitandthecoronavirusonuktradeingoods/2021-05-25

²⁷ www.ons.gov.uk/businessindustryandtrade/internationaltrade/articles/earlyindicatorsoftheimpactsfofeuexitandthecoronavirusonukbusinessestradinginservices/june2020toapril2021

²⁸ www.ft.com/content/891b2482-e15e-4c2f-8e51-9a4271599dc0

²⁹ www.fsb.org.uk/resources-page/one-in-four-small-exporters-halt-eu-sales-three-months-on-from-transition-end-new-study-finds.html

³⁰ www.iod.com/news/news/articles/iod-calls-for-EUBrexit-cooperation-after-members-halt-trade-with-EU

³¹ www.gov.uk/government/statistics/uk-regional-trade-in-goods-statistics-first-quarter-2021

The supply side for Welsh SME finance and funding has changed rapidly as a result of

targeted interventions to assist firms impacted by Covid-19.

SME demand for credit recorded a slight increase in 2021Q1.

The Bank of England *Agents' summary of business conditions*³² indicates that SME demand for credit increased slightly in 2021Q1 due to the post-Christmas lockdown restrictions. Demand for credit is expected to further increase in the rest of 2021 as small businesses seek credit facilities to cover deferred payments, including rent and tax, but also cash-flow needs. While UK Government emergency funding channels supported many firms during a tough financial year, loan applications to UK Government schemes have been falling in recent months due to the improvement of business confidence.

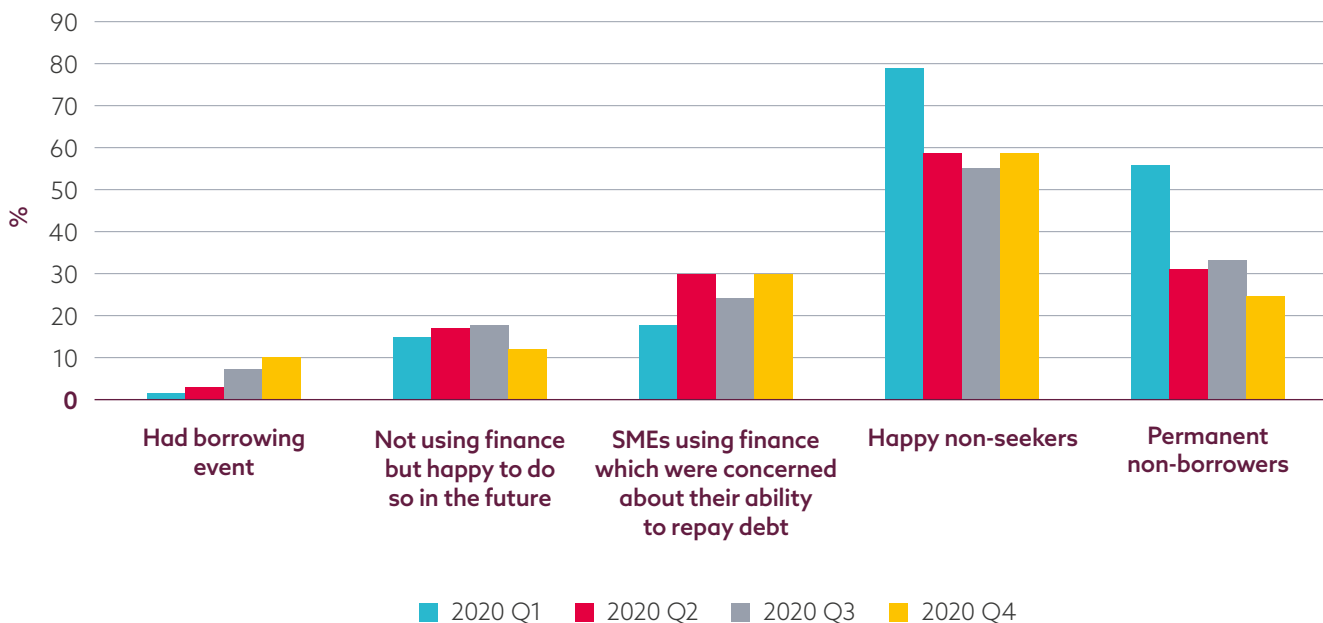
According to BICS between 17 and 30 May 2021, debt repayments had increased during May for around 40% of responding firms. Around 12% of businesses surveyed expected repayments to further increase. Therefore the risk of default is expected to grow this year. Around 11% of surveyed Welsh companies indicated a moderate risk of insolvency in the BICS survey, the highest among the UK regions. According to the *BVA BDRC SME Finance Monitor 2020Q4*, the proportion of Welsh SMEs using finance which were concerned about their ability to repay debt, increased from 24% in 2020Q3 (21% for UK SMEs) to 30% in 2020Q4 (24% for UK SMEs). Medium-sized firms (10%) appeared to be the least concerned about their future ability to repay debts. According to the *Small Business Finance Markets Report 2020/21*, 1 in 4 UK SMEs expressed concerns about their capacity to make full repayments for external finance sought in 2020.

The *BVA BDRC SME Finance Monitor* reporting results for the period between December 2020 and February 2021 indicated that the appetite for future finance has declined for UK SMEs. 'Happy non-seekers of finance' fell from 65% in 2020Q3 to 60% in 2020Q4, but then increased to 63% in the three months to February 2021, although this was still much lower than the 80% reported in 2019Q4. Around 14% of responding SMEs had a need for external funding in the past 12 months. Moreover, the proportion of UK SMEs surveyed that agreed with the statement 'As a business we are happy to use external finance to help the business grow and develop' increased from 31% in 2020Q2, to 37% in the three months to February 2021. SMEs that use external finance increased from 40% in 2020Q3 and further to 44% in 2020Q4, before declining to 42% in the three months to February 2021, while permanent non-borrowers fell from 51% of SMEs in 2020Q1 to 32% in 2020Q4, and then slightly increased to 36% between December 2020 and February 2021.

In Wales, SMEs surveyed that had a borrowing event increased from 7% in 2020Q3 to 10% in 2020Q4. Permanent non-borrowers fell from 56% in 2020Q1 to 31% in 2020Q2, before increasing to 33% in 2020Q3 and then falling again to 25% in 2020Q4. The proportion of happy-non seekers fell from 79% in 2020Q1 to 59% in 2020Q2 and further to 55% in 2020Q3, before increasing to 59% in 2020Q4. SMEs not using finance but happy to do so in the future declined from 18% in 2020Q3 to 12% in 2020Q4. According to *Small Business Finance Markets Report 2020/21*, almost 20% SMEs surveyed in Wales plan to apply for a bank loan or overdraft in the next three months, higher than the UK average (14%).

³² www.bankofengland.co.uk/agents-summary/2021/2021-q1

Figure 7.
SME finance trends in Wales



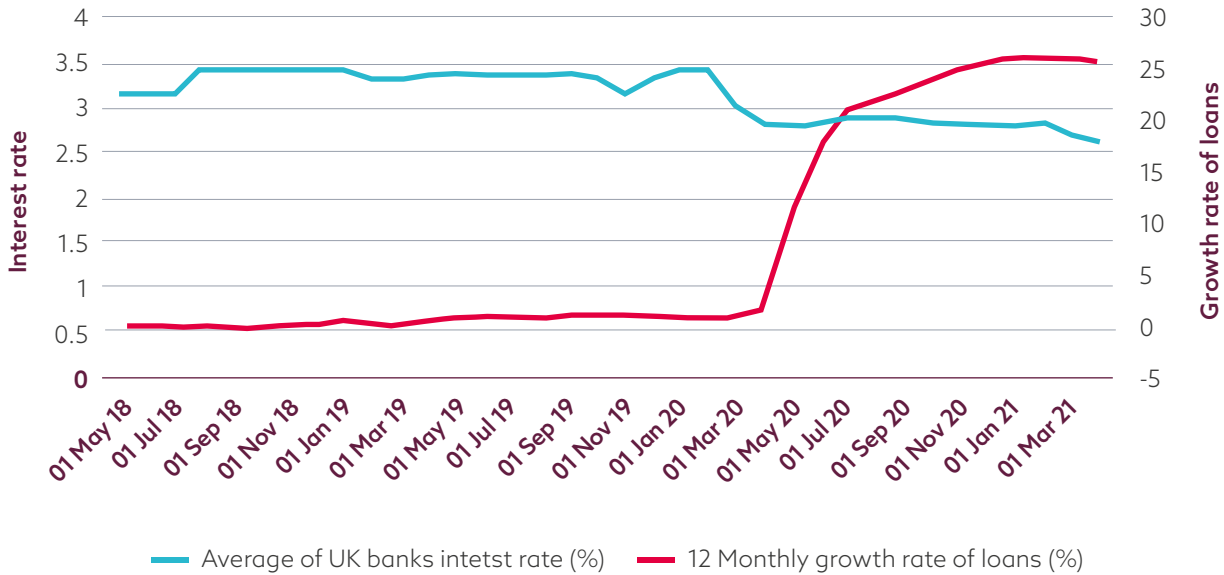
Source: [BVA BDRC SME Finance Monitor 2020Q4](#)

Interest rates on UK SME loans further declined, and the annual growth rate of loans slightly fell.

Figure 8 illustrates that the average interest rates on UK SME loans declined during 2021Q1. The average interest rate was 2.67% in April 2021, down from 2.82% in January 2021. The declining trend reflects Bank of England concerns to reduce the cost of business borrowing in the light of the rising risk of insolvencies.

UK government schemes for business support during Covid-19 have driven a significant increase in SME borrowing, although the funding applications to UK Government schemes have been declining in the last months according to the Bank of England Agents' summary of business conditions. This is reflected in Figure 9 that shows a slight decline of the annual growth rate of loans to SMEs, from 26% in January to 25.5% in April 2021, after the increase since May 2020.

Figure 8.
Interest rate on UK SME loans, and growth rates of loans

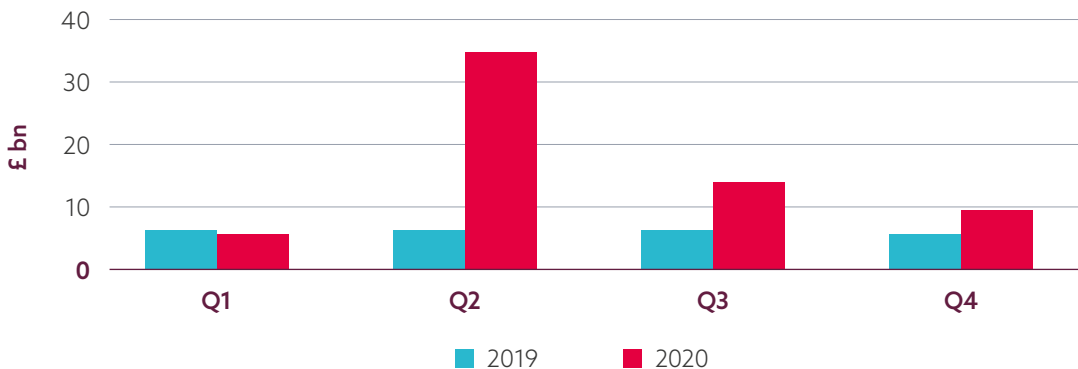


Source: [Bank of England](#)

UK Finance figures show that gross lending to SMEs reached £63.6 billion in 2020, equal to 162% of gross lending in 2019. Again the increase is largely driven by government-backed business support.³³ Peaking in Q2 2020 (£34.5bn), gross lending fell in the following quarters to £13.9bn in 2020Q3 and £9.6bn in 2020Q4, although this was still 65% higher than gross lending in 2019Q4. Wales had the second highest number of SME loans and

overdrafts approved per 1,000 firms across the UK regions in the final quarter of 2020. The contribution of Wales to the UK SME stock is estimated to be 4% in 2020, while its contribution to UK SME lending value in 2020 was 5%, above the average between 2013 and 2018 (4.5%). Welsh Government schemes and Development Bank of Wales funding initiatives to support Welsh SMEs in 2020 have played a role in this increased SME lending.

Figure 9.
Gross lending to UK SMEs through loans and overdrafts in 2020 compared to 2019



Source: [UK Finance](#)

³³ www.ukfinance.org.uk/sites/default/files/uploads/Business-Finance-Review-2020-Q4-Final.pdf

The Small Business Finance Markets Report 2020/21 highlights that 45% of UK SMEs had applied for external finance in 2020, up from 13% in 2019. The report showed that 2020 gross bank lending to SMEs summed

to £104bn (excluding overdrafts), up by 82% compared to 2019. From firms seeking external finance in 2020, around 90% did so stating the implications of the pandemic.

UK and Welsh Government support extended to Autumn 2021.

The Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) came to an end on 31 March 2021 and were replaced by the Recovery Loan Scheme (RLS) opening to applications on 6 April 2021. In the year to 31 May 2021 around 110,000 CBILS loans were approved to UK SMEs with a total value of £26.4bn.³⁴ Welsh SMEs received 3,200 CBILS loans worth £713m.³⁵ The Welsh SME proportion of offered facilities is roughly equal to the Welsh share of the UK business population (3%). The demand for the Bounce Back Loan Scheme (BBLs)³⁶ across the UK has been stronger. As of 31 May 2021, UK SMEs have been offered 1.56m BBLs facilities of £47.4bn. Welsh SMEs received BBLs loans with a value of £1.64bn, linked to 59,000 approved applications (equal to 4% of total UK offered facilities of BBLs).

Under the Self-Employment Income Support Scheme (SEISS)³⁷ in Wales, the value of 66,000 claims during the fourth and latest tranche up to 9 May 2021 was £173m, with the average value of claims in Wales being £2,600. Around 32% of the total number of claims for the grant in Wales were made by self-employed in construction and 7% in transportation and storage. Almost 29% of claims were made by females. Around 14% of Welsh SMEs surveyed in the Longitudinal small business survey 2019 were women led, below the UK average.³⁸ According to the Gender Index: 2020 Fact File, Wales had the fourth lowest rate of female

founded firms across the 12 UK regions with 16.5% of Welsh start-ups in 2020 (i.e. 20,000 firms).³⁹

According to the Small Business Finance Markets Report 2020/21 around 1 in 5 UK SMEs applied for a Covid-19 related loan, with most of them being micro or small. The total value of 1.6m CBILS and BBLs loans was £70bn.

The National Audit Office⁴⁰ reveals that for February 2020 and March 2021, the total value of all the UK government interventions to support healthcare services, businesses and workers is £372bn, with support to firms being the biggest spending area (£150bn). These interventions have important consequences for the UK public finances. UK borrowing in April 2021 was £31.7bn, up from £8.8bn in January 2021 and £22.3bn October 2020.⁴¹ Public debt reached a total value of £2,171bn at the end of April 2021, equal to 98.5% of the UK GDP, the highest ratio since March 1962 (99.5%).

The Welsh Government has also intervened to help businesses impacted by the pandemic and lockdown during the 2020/21 financial year.⁴² In its first two phases, the Welsh Government's Economic Resilience Fund (ERF) provided 11,717 grants with a total value of £182m, protecting around 100,000 jobs.⁴³ In addition, the Covid-19 Wales Business Loan Scheme (CWBLs) supported businesses with £92m of loan finance provided by the Development Bank of Wales.⁴⁴

³⁴ www.gov.uk/government/collections/hm-treasury-coronavirus-covid-19-business-loan-scheme-statistics

³⁵ www.british-business-bank.co.uk/analysis-of-final-coronavirus-loan-scheme-data-shows-79-3bn-of-loans-to-1-67m-businesses-evenly-distributed-across-whole-of-the-uk

³⁶ Under the BBLs, SMEs can borrow from £2,000 up to 25% of their turnover, with the maximum loan available at £50,000. The UK government provides lenders with a 100% guarantee and covers the first 12 months of interest payments. Thereupon, the interest rate is set at 2.5% per annum.

³⁷ www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-june-2021/self-employment-income-support-scheme-statistics-june-2021

³⁸ gov.wales/longitudinal-small-business-survey-2019.html

³⁹ The Gender Index: 2020 Fact File.

⁴⁰ www.nao.org.uk/covid-19/cost-tracker

⁴¹ www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/april2021

⁴² developmentbank.wales/sites/default/files/2020-12/EIW%20bespoke%20report%20on%20Covid-19%20interventions_ENG.pdf

⁴³ businesswales.gov.wales/coronavirus-advice/support/financial-support-and-grants

⁴⁴ EIW (2020) Covid-19 Welsh Government financial interventions: An analysis of Welsh beneficiaries. Available at: developmentbank.wales/sites/default/files/2020-12/EIW%20bespoke%20report%20on%20Covid-19%20interventions_ENG.pdf

2020 was a record year for the UK equity markets.

The *Small Business Equity Tracker 2021*⁴⁵ indicates that 2020 was a record year for UK equity markets in terms of number of SME deals and investment value. Some 2,044 SME equity investments were made in 2020, up from 1,941 in 2019. The total value of SME equity investments was £8.8bn in 2020, up from £8.1bn in 2019. The Future Fund, delivered by the British Business Bank, was important for this annual increase in the number of SME equity deals. Without the fund investments, the total number of SME equity deals in 2020 would have been lower than in 2019. When the fund closed for applications on 31 January 2021 it had provided 1,190 convertible loans with a total value of £1.14bn.⁴⁶ In Wales, loans were approved with a total value of £19m. Some 58% of all announced equity deals in Wales involved a Government Fund in 2020. In Wales, around 32% of equity investment went to the 'tech' sector in 2020.

According to the *Small Business Finance Markets Report 2020/21*, 86% of SMEs were aware of at least one of the following six alternative finance types in 2020: leasing, venture capital, equity, market place lending, business angels and mezzanine finance. In Wales, the proportion of responding SMEs that were aware of equity and crowdfunding was 42% in 2020. The percentage of Welsh SMEs surveyed that reported using equity from directors or family was 3% in 2020, while 12% said that they would consider applying for equity or crowdfunding. Important for equity funding in Wales is the strong innovative performance of SMEs. According to the Longitudinal small business survey 2019, 19% of Welsh SMEs surveyed introduced a new product (and 29% a new service), higher than for the UK average (15.2% and 25.7% respectively).

Small increase in SMEs in High Risk group, and an extended improvement in Welsh SME credit risk ratings.

The proportion of Welsh SMEs in the High Risk credit rating group ranged from 3% to 3.5% between August and November 2020, this following the first significant reopening of the economy. This rate increased to 5.3% in December 2020, amid the second pandemic wave and lockdown, before falling to 4.1% in February 2021. Since then, the rate of SMEs in the High Risk group gradually increased reaching 4.5% in May 2021. From September 2020 to May 2021 the number of High Risk SMEs in Wales has almost doubled, rising from 1,205 to

2,358. The proportion of SMEs in the Caution, Normal, Stable and Secure categories has remained largely unchanged from February to May 2021. Government policies supporting firms and jobs have contributed to an improvement in the credit risk picture in Wales in the last 12 months. It is worth adding that the number of Welsh SMEs in the FAME database has increased from 31,650 in May 2020 to 52,240 in May 2021, possibly related to the high business birth rate in Wales, with similar increases being recorded in all the UK devolved administrations.

⁴⁵ www.british-business-bank.co.uk/wp-content/uploads/2021/06/Equity-Tracker-2021-Final-report-1.pdf

⁴⁶ www.british-business-bank.co.uk/future-fund-publishes-diversity-data-of-companies-receiving-convertible-loan-agreements-8

Figure 10.

Proportion of SMEs by Credit Risk in Wales (%), May 2020 - May 2021

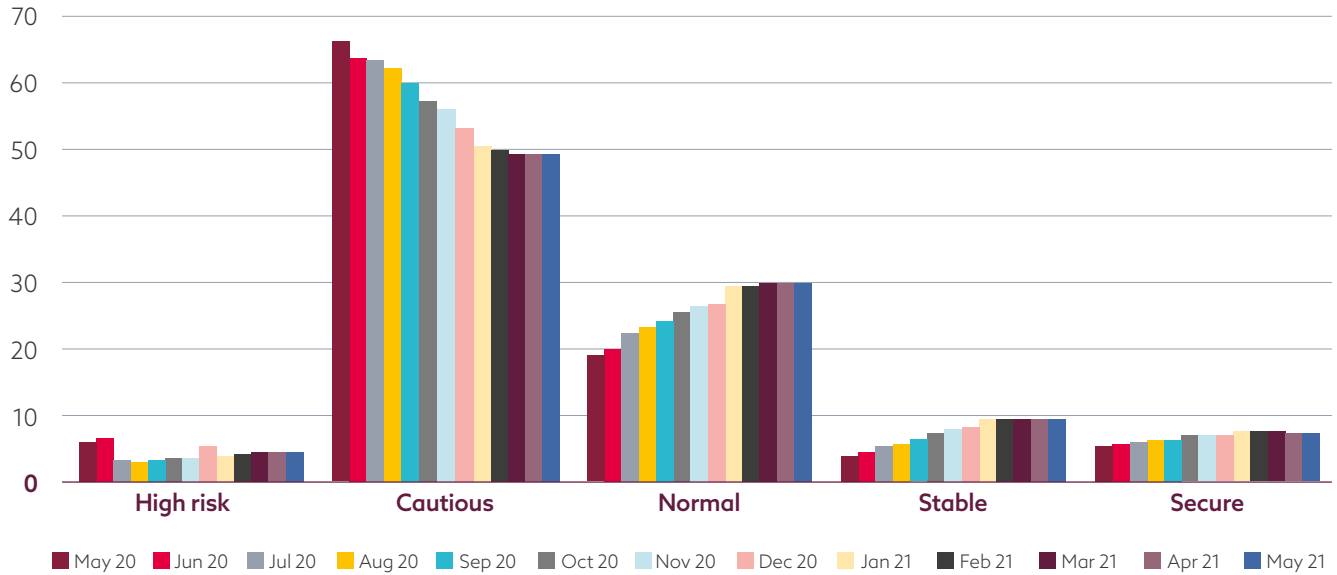
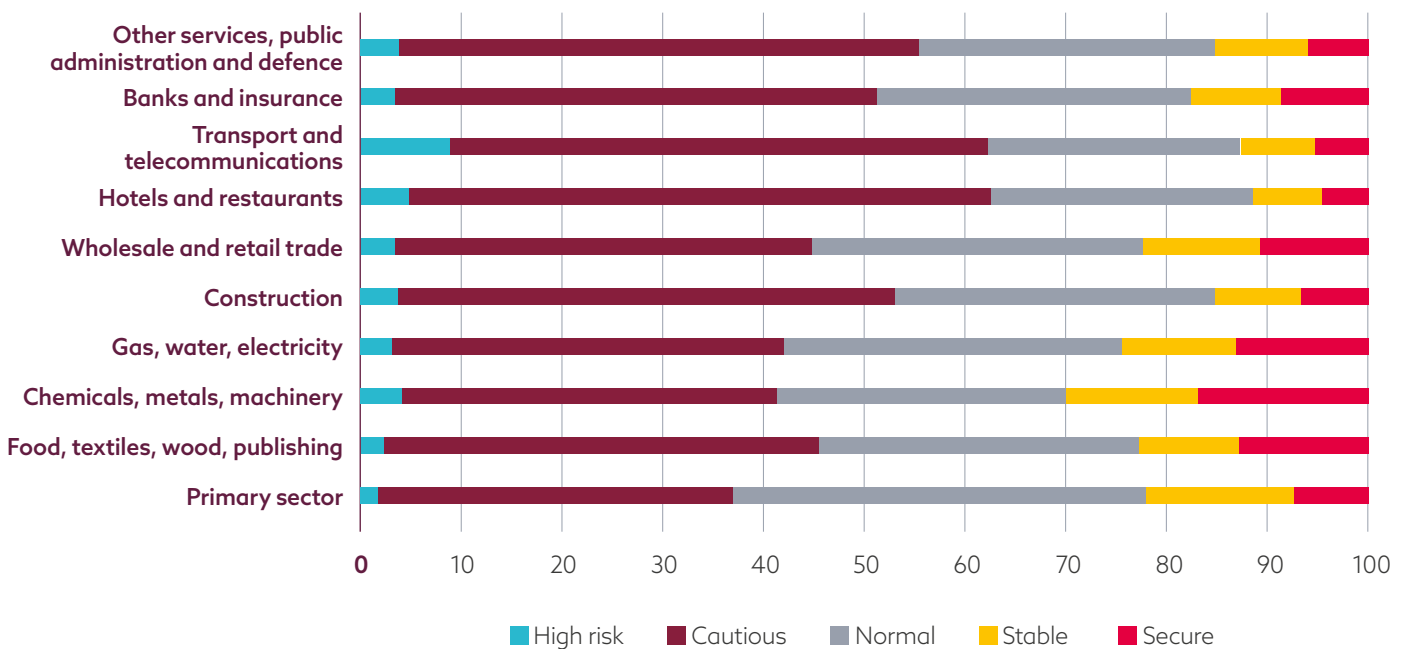


Figure 11 shows data for the Welsh SME credit risk by sector in May 2021. Similar to November 2020 and February 2021, as reported in our Quarterly Report series, hospitality as well as transport and telecommunications had the highest share of SMEs in the High

Risk and Caution groups. Branches of manufacturing, such as chemicals, metals and machinery as well as gas, water and electricity, had the highest share of SMEs in the Secure and Stable categories.

Figure 11.

Welsh SMEs Credit Risk by Sector, February 2021



This section summarises Development Bank of Wales investments in 2020/21Q4 and then assesses the activity of the Development

Bank for the 2020/21 financial year. All the data in this section has been derived from the Development Bank's database.

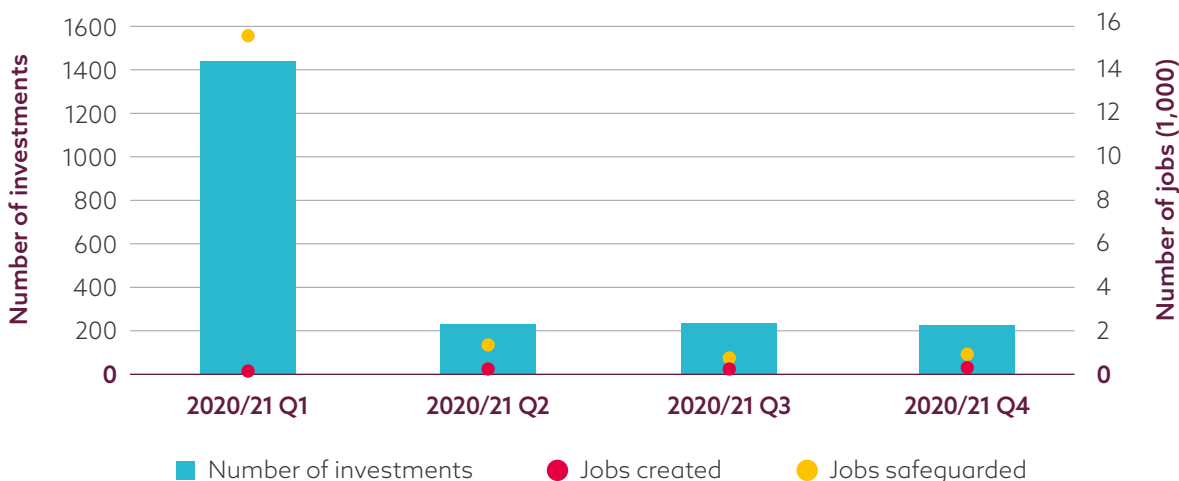
A fall in investment, but an increase in employment supported in 2020/21Q4.

The Development Bank made 225 investment transactions in 2020/21Q4. Investment transactions include tranches of investments drawn in the year. This is much lower than the 1,434 investments in 2020/21Q1 but with this latter figure pertaining to the unusually large scale of activity relating to CWBLS which allocated around £92m to more than

1,330 businesses from April to July 2020.⁴⁷ The Development Bank invested £26.6m in 2020/21Q4. The average investment amount in 2020/21Q4 was £118,000. The 225 investments in 2020/21Q4 created or safeguarded 858 employment positions, compared to 720 (2020/21Q3), 1,340 (2020/21Q2), and 15,500 (2020/21Q1).

Figure 12.

Investment transactions and jobs created and safeguarded, 2020/21Q1 – 2020/21Q4



Decline in loan investment and small increase in equity in 2020/21Q4.

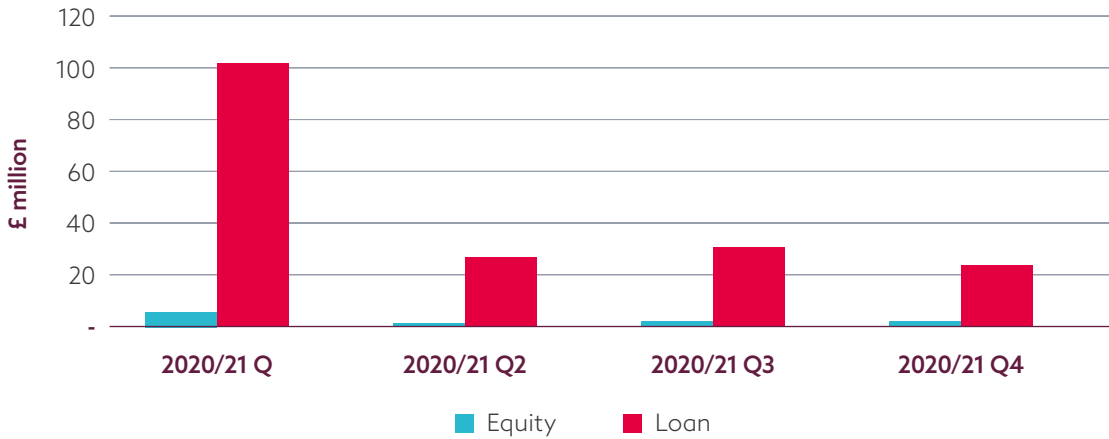
New loan investment was £23.7m in 2020/21Q4 (Figure 13). Equity investment was £2.8m in 2020/21Q4, up from £2.7m in 2020/21Q3, £1.3m in 2020/21Q2, but down from £6.7m in

2020/21Q1. Due to end of year adjustments for investment activity and reporting on the Mutual Investment Model investments, these figures will appear higher in previous Quarterly Reports.

⁴⁵ EIW (2020) Covid-19 Welsh Government financial interventions: An analysis of Welsh beneficiaries. Available at: developmentbank.wales/sites/default/files/2020-12/EIW%20bespoke%20report%20on%20Covid-19%20interventions_ENG.pdf

Figure 13.

New investment by investment type (£m), 2020/21Q1 - 2020/21Q4



Development Bank's total cumulative investment at the end of 2020/21 reached £888m.

Up from £690m to the end of 2019/20 and £586m to the end of 2018/19, with new investments of close to £200m

in 2020/21. Around 89% of the firms supported have received loans, 7% equity and 4% mezzanine finance by 2020/21.

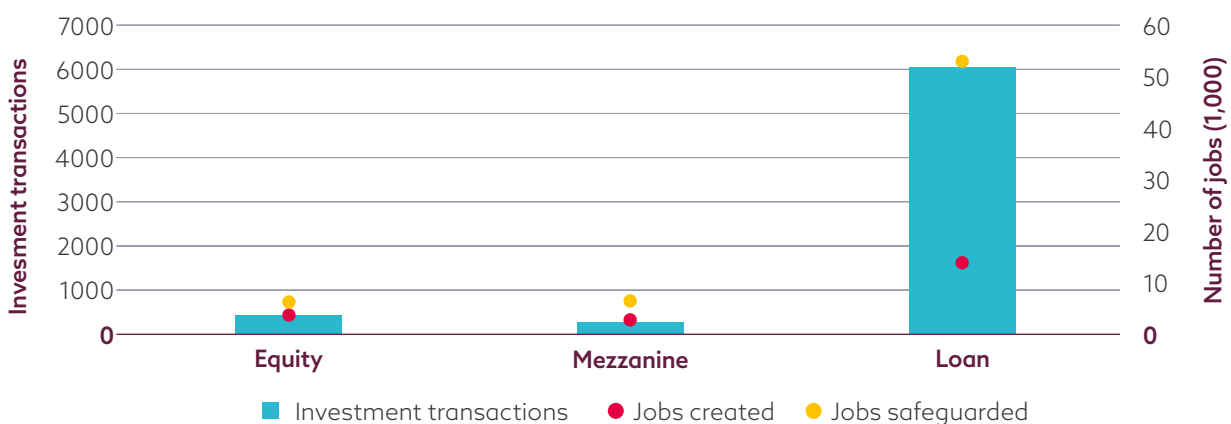
By the end of the 2020/21 financial year, 6,000 loan investment transactions have been made.

With these loans linked to activity that has created an estimated total of around 13,630 jobs, whilst safeguarding around 39,100

(Figure 14). More than 402 equity investment transactions have been made, creating over 3,445 jobs and safeguarding around 2,390.

Figure 14.

Cumulative number of investment transactions made by Development Bank and jobs created/ safeguarded to the end of 2020/21



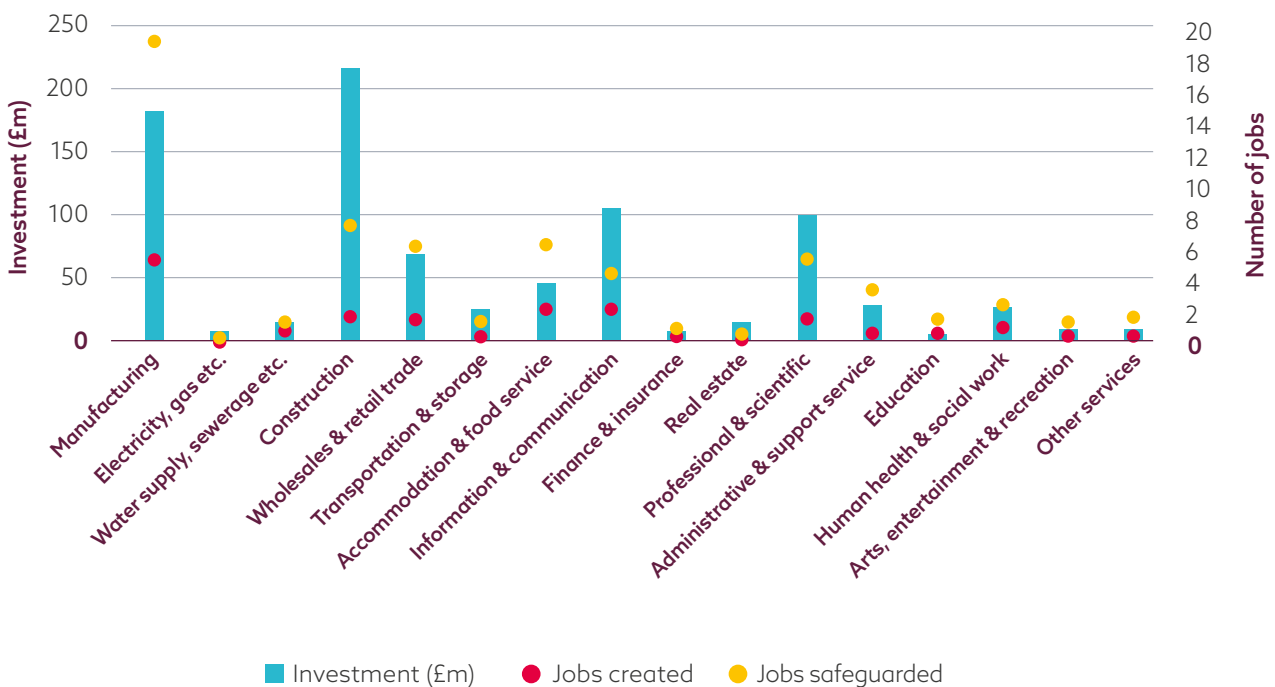
Most investments have been made in construction by the end of 2020/21.

Construction has been the main recipient of Development Bank’s cumulative investment (£216m), followed by manufacturing and ICT sectors (Figure 15). During 2020/21, construction received the majority of investment (£67.6m),

creating or safeguarding 2,500 jobs. It was followed by manufacturing (£21.8m investment and 2,700 jobs), and wholesale and retail (£21.1m investment with 2,500 jobs).

Figure 15.

Cumulative investment value and jobs by sector to the end of 2020/21



In 2020/21, firms in South East Wales received the lion’s share of the investments made by the Development Bank.

Similar to 2018/19 and 2019/20, businesses in the South East region accounted for the largest share of all investment types in 2020/21 (Figure 16). Firms in the South East received loans of

£85.8m and £7.7m of equity. Businesses in Mid and South West received £54.8m in loans and £3m in equity, with firms in North Wales receiving £43m in loans and £3m in equity.

Figure 16.

Investment by location (£m), 2020/21



Loans make up the majority of investments in all locations by the end of 2020/21 financial year with firms in South East having cumulatively received in £283m in loans and £119m in equity,

companies in Mid and South West £166m in loans and £57m in equity, and businesses in North Wales £137m in loans and £28m in equity.

CWBLS makes the majority of investment in 2020/21.

In terms of 2020/21 investment, CWBLS was the dominant fund with £92m of investments. There was also a strong performance from the Wales Business Fund, with £29m of new investment.

Other funds with significant activity in 2020/21 include the Stalled Sites Fund (£22.6m of new investment), Property Fund 2 (£20.9m) and Wales Flexible Investment Fund (£14.6m).

2020/21 was a record year in terms of the value of direct investment but with private sector leverage decreasing.

In 2020/21, the value of direct investment was close to £200m and private sector leverage was £60m. This was an all-time record amount of investment in a year for the Development Bank and strongly affected by

the special CWBLS funding. Private sector leverage has trended downwards in the last two financial years. The downward trend in the last financial year is expected to have been connected to the effects of Covid-19.

Figure 17.

Investments and Private Sector Leverage by financial year (£m)

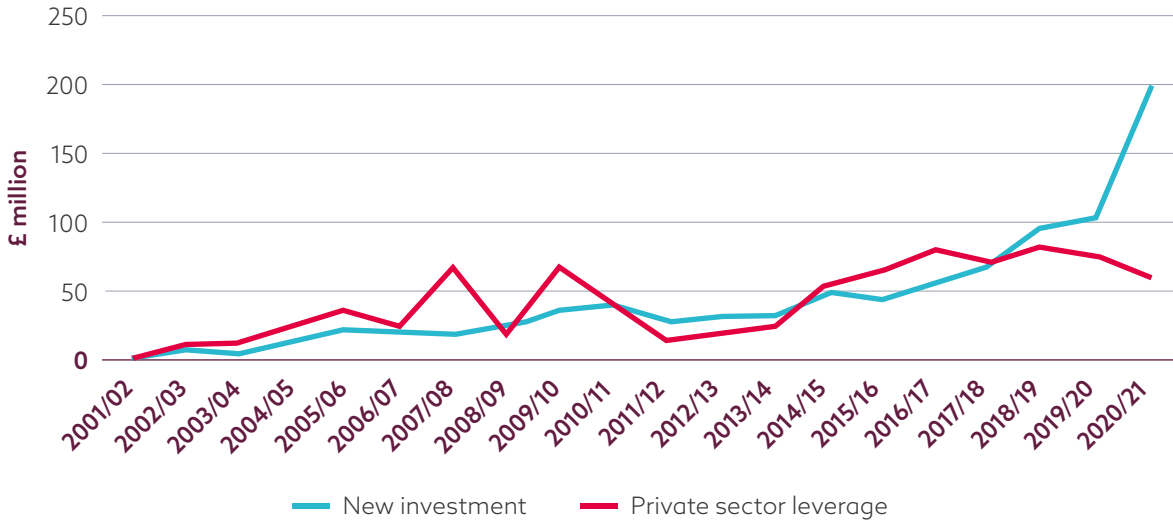
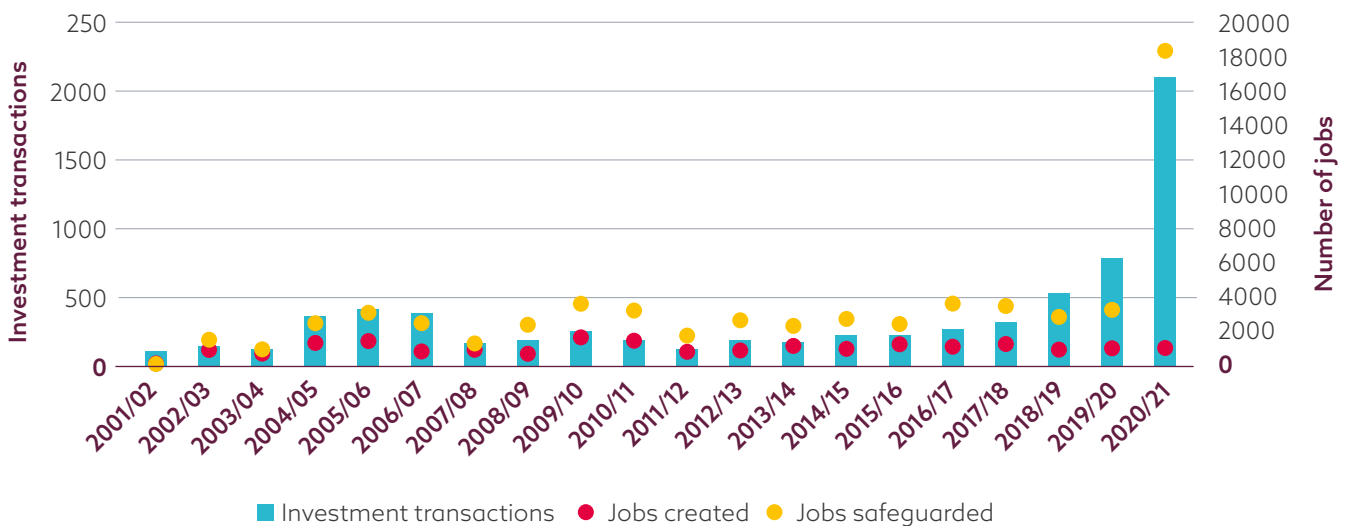


Figure 18 shows that 2020/21 was another record year in terms of number of SME investment transactions, with over 2,100 investment transactions, an almost threefold increase on 2019/20. Figure 18 also demonstrates a 5% annual increase in the jobs created, with investments during 2020/21 connected with the creation of almost 1,000 jobs. CWBLS investment had important benefits for the labour market in Wales, since it safeguarded a very high number of jobs (over, 17,300 in 2020/21).

However, for a third consecutive financial year, the short-term impact of funds in creating/safeguarding job positions is not comparable with the number of investments. This is due to a lag in reporting jobs created due to funder's requirements. Thus, jobs created are not captured until they are verified on the anniversary of the investment.

Figure 18.

Number of investment transactions and jobs created and safeguarded



The Development Bank's investments have wider regional economic effects.

Clearly 2020/21 has been an unusual year for the Development Bank. The prior analysis has revealed that there has been a huge increase in the level of investment committed by the Development Bank while associated private sector leverage has fallen. In prior years as part of the Annual report we have provided an estimate of the gross value added in Wales estimated to be connected to the investments made by the Development Bank. Each year we also seek to estimate, using the framework offered by the Welsh Input-Output tables, how far the activity supported by Development Bank investments supports other activity in the Welsh economy through supply chain and household income effects. We seek to undertake this analysis in what follows but this year, in particular, caution has to be applied. We seek for comparative purposes to employ the same methods as previously used to estimate indirect effects but these can only be indicative in 2020-21 because so much of the economy was in lockdown and 'normal' supply chain relationships and household spending patterns were severely disrupted. More than in previous years the support offered by the Development Bank ran in parallel with other public supports for firms and organisations such that any comments on how far Development Bank assistance safeguarded activity on top of other supports is uncertain. It is also important to recognise that the current Welsh Input-Output tables on which multipliers are developed are quite old and with the tables currently in a process of revision.

Finally here a key factor in our economic modelling is that employment and output in different Welsh industries results in very different multiplier effects across the country. Then, for example, support offered during the Covid-19 pandemic year has been focused on parts of the economy worst impacted. Activity supported in sectors such as construction and manufacturing tends to create larger multiplier effects in the local economy because these sectors tend to purchase more locally.⁴⁸ Then where support focused on these sectors in the pandemic year we might expect to see more significant multiplier effects compared to a more 'normal year'.

Recall from analysis above that total Development Bank investments were close to £200m with associated private sector leverage of close to £60m. These activities were estimated to be connected with around 1,000 jobs created and 17,300 jobs safeguarded (around 18,300 in total). Then each new or safeguarded job was connected with around £10,750 of public investment but with the important caveat that this employment is connected to loan and/or equity finance and not grants such that comparison with cost per job figures from other Welsh Government interventions (for example, cost per gross job estimated from Business Wales programmes) would not be appropriate.

It is estimated that the estimated 1,000 new jobs created in 2020/21 are connected with £35.0m of Welsh gross value added and with around half of this directly supported in the manufacturing and construction sectors. This would equate to an average GVA per new job created of £35,246.

⁴⁸ See for example multiplier analysis contained in the Welsh Input-Output tables series, see input-output-tables-2007-final-30-6.pdf (cardiff.ac.uk)

The 17,300 estimated safeguarded employment opportunities are connected to an estimated £0.53bn of gross value added. Once again a very large proportion of the connected gross value added is supported in manufacturing and construction i.e. a little over 45%. The average GVA per safeguarded employment is £30,833.

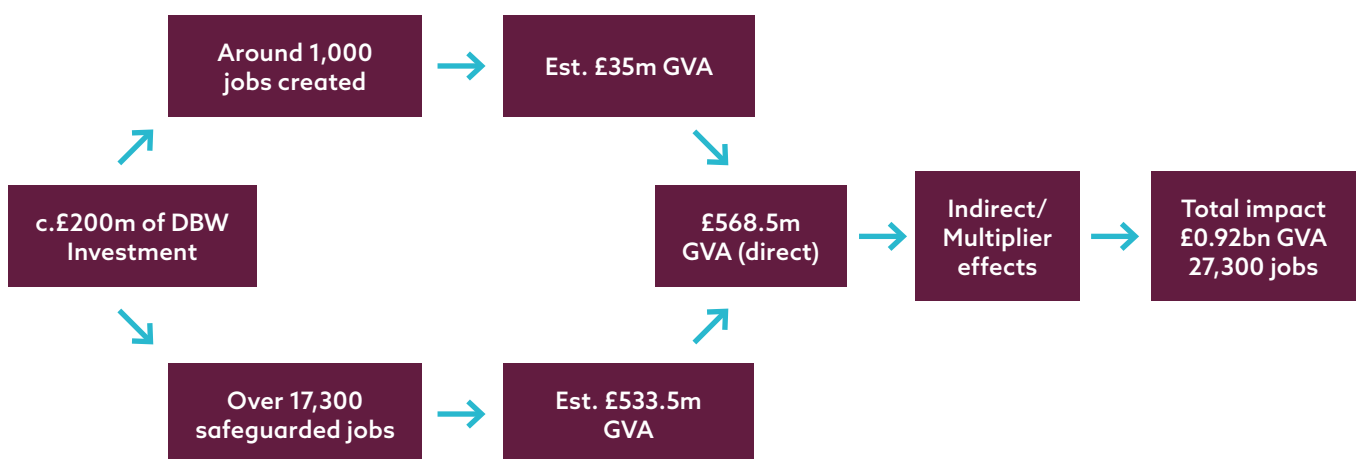
The 1,000 jobs created by Development Bank support are connected to a total of around 1,500 jobs supported directly and indirectly in the Welsh economy i.e. each direct job supports an estimated 0.50 of a job elsewhere in the Welsh economy through supply chain and household spending effects. These direct and indirect jobs are connected to an estimated total of £55.7m of Welsh GVA.⁴⁹

However, the total of direct created and safeguarded jobs (18,300) supports an estimated total of 27,300 jobs and some £0.92bn of Welsh gross value added. This would mean that every £1m of Development Bank loan and/or equity investment supports and safeguards directly and indirectly around £4.7m of Welsh GVA. Furthermore each £1m of Development Bank loan and/or equity investment supports directly and indirectly an estimated 139 jobs in Wales.

The above analysis is based on an estimate of gross jobs connected to the Development Bank loan and/or equity interventions and then with some inference on connected GVA and multiplier effects. No account is taken here of deadweight effects (i.e. the extent to which new and safeguarded employment would have been supported in the absence of the Development Bank investment), displacement (i.e. whether assisted firms with the advantage of the investment are able to displace other firms in the market), and leakage effects (i.e. whether any employment or estimated GVA outcomes leak outside of the Welsh economy). The pandemic year is a poor one in which to fully understand these types of effects. However, prior research for Welsh Government suggests that typical relationships are that net job outcomes (i.e. allowing for multiplier, deadweight, displacement, and leakage effects) are around 55% of gross outcomes.

Figure 19.

Summary of Welsh economy activity supported by the Development Bank in 2020/21



⁴⁹ Note that in the analysis here Type 2 multipliers are employed which take into account supply chain and household spending effects.

It had been hoped that the end of 2021Q2 would have seen a significant relaxation of the remaining lockdown conditions and with the prospect of a more normal summer of trading conditions following a very successful vaccine rollout. In reality many firms, particularly in Welsh leisure and hospitality sectors, continue to face uncertain trading conditions and the spectre of a third wave of the pandemic. There are also concerns over the longer term consequences of the pandemic for Welsh labour markets once the shields provided by Welsh and UK government supports taper away.

Clearly, the gradual easing of lockdown restrictions and the reopening of the economy have resulted in better consumption spending. But alongside this has been SMEs in Wales having low cash reserves and increasing risks of insolvency, and with the UK's economic forecasting groups questioning the sustainability of any economic recovery and over what time periods regional output might return to pre-pandemic levels. Undoubtedly in the poor economic conditions the activities of the Development Bank have had an added economic significance.

This report has revealed that 2020/21 marked a record year for the activities of the Development Bank in terms of SMEs receiving investment and value of direct investments. The interventions of the Development Bank have worked to support Welsh labour markets both creating and safeguarding employment. The COVID-19 Wales Business Loan Scheme helped the Development Bank to successfully respond to the challenge posed last year, namely to provide loan funding at a critical time for Welsh SMEs, with this highlighting the advantages of having a dedicated regionally based development bank during economic shocks. The Annual report also provides evidence on the wider regional economic impacts of investments made by the Development Bank.

Some figures reported in Annual report 2021 change quite rapidly. For the reader, this appendix provides web links to the statistics that are frequently updated such that updates can be gained prior to the next Quarterly Report.

UK GDP updates:

www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/latest

UK labour market analysis:

www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/august2020

UK regional labour market data:

www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/nationallabourmarketsummarybyregions01

UK coronavirus schemes updates:

www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics

ONS Business Impact of COVID-19 Survey:

www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessimpactofcovid19surveybicsresults

Welsh Government Business Support data:

gov.wales/coronavirus-covid-19-related-statistics-and-research#Business,economyandinnovation

Dirnad Economi Cymru
Economic Intelligence Wales



bancdatblygu.cymru
developmentbank.wales

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