

# Economic Intelligence Wales

## *Quarterly report*

**May 2021**

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# Executive summary

It has now been over a year since the first period of Covid-19 lockdown in the UK. While at the end of 2021Q1 the health impacts of the pandemic appear to be declining, the effects on the economy are persisting, with continued implications on growth and employment. The IMF now estimates that the global economy will have contracted by 3.3% in 2020, and the Organisation for Economic Cooperation and Development (OECD) estimates an increase of unemployment in the 37 OECD countries from 5.4% in 2019 to 7.1% in 2020.

The focus of mitigation policies for much of 2020 was on helping businesses survive, but in the final quarter of last year there was a greater emphasis in support on business transformation, innovation, and ensuring strong business exits from the lockdown phase.

Although the Brexit agreement ended a period of uncertainty after a long period of negotiations, obstacles have been posed to its implementation, with the end of the transition period marking a significant decline in UK trade with the EU. It is not clear yet how far the poor export performance in January 2021 was due to excessive stock acquisition in 2020Q3 and Q4.

The **UK economy recorded 1% quarterly growth in 2020Q4, although UK GDP declined by 7.8% in the year to 2020Q4. UK GDP fell by an estimated 9.9% over 2020 as a whole. This was the largest annual contraction on record.** While the UK economy avoided a double dip recession in 2020, economic conditions remained poor in 2021Q1, with UK GDP falling by 2.9% in the month to January 2021. The Office for Budget Responsibility and Bank of England project that UK GDP will rise by 4% in 2021. However, this is an average across the UK, with strong variation in growth rates in different parts of the UK. Both institutions forecast that unemployment will peak at 6.5% in 2021.

The Covid-19 impact in Wales was captured by quarterly (experimental) GDP estimates. The latest available figures, for 2020Q2 revealed a 15.1% quarterly contraction, capturing the effects of the four-months of lockdown beginning in March 2020. GDP in Wales is estimated to have fallen by 18.3% in the year to 2020Q2.

The UK labour market saw large numbers of redundancies prior to the announcement of an extension of the job furlough scheme to September 2021. The **UK unemployment rate increased from 4.8% in 2020Q3 to 5.1% in 2020Q4, the highest level achieved since 2016. The unemployment rate in Wales fell from 4.6% in 2020Q3 to 4.4% in 2020Q4.** The UK redundancy rate in the year to 2020Q4 stood at 12.3 per thousand employees.

**Output across production, construction and market services recovered somewhat in 2020Q3.** The Index of Production recovered, rising from 83.9 in 2020Q2 to 97.3 in 2020Q3. The Market Services index increased from 83.5 in 2020Q2 to 96.4 in 2020Q3. **The Index of Construction industry output grew strongly from 68.5 in 2020Q2 to 96.4 in 2020Q3.**

## Wales features the fourth lowest SME confidence in 2020Q4

In Wales the SME confidence index increased from -72 in 2020Q3, the lowest across all the UK regions, to -48 in 2020Q4, the fourth lowest across the UK. Confidence remained in negative territory across all the UK regions in 2020Q4.

# Executive summary

The ONS quarterly experimental statistics on business demography show that the number of business births in Wales in 2020Q4 was higher than business deaths. This contrasts with the UK average where there were less business births than deaths during the final quarter of 2020. Nevertheless, **the impact of the pandemic is evident in the data for both the UK and Wales. In the UK there was a 37% annual increase in business deaths in the year to 2020Q4, this compares to a 48% increase in Wales.** However, in Wales, business births increased by 103% in the year to 2020Q4.

According to the *ONS Business Impact of COVID-19 Survey*, the vast majority of Welsh businesses were trading during January and February 2021. **Around 85% of Welsh firms reported that they were 'continuing to trade'**, although the turnover of companies has been badly affected. **For instance, around 38% of firms surveyed in Wales reported a decrease in turnover of up to 50%.**

Highlighting the initial effects of the new trade regulations between the UK and EU, the *ONS Business Impact of COVID-19 Survey* indicated that 24% of Welsh businesses reported a drop in the volume of products sent to Northern Ireland in the January/February survey, **while around 7% had stopped sending goods to Northern Ireland altogether, the highest rate of the UK regions.**

Additionally, 32% of surveyed Welsh businesses, reported that they were still exporting, but less than normal for the time of year, **while 7.1% of businesses reported that they had not been able to export, the highest of the UK regions.**

The short-term implications of Brexit are now more evident, with UK exports to the EU falling by £5.6bn (-41%) and UK imports from the EU contracting by £6.6bn (-28.8%) between December 2020 and January 2021. However, it is important to further contextualise this in terms of the fact that trade volumes were also impacted as a result of Covid-19.

SME demand for credit has been strong, with small firms in Wales seeking credit to fund working capital. The *SME Finance Monitor 2020Q4* reported that around 14% of UK SMEs surveyed stated that they had a need for finance in 2020Q4, increasing from 6% in 2020Q2 and 11% in 2020Q3. According to the *SME Finance Monitor 2020Q4*, 74% of UK SMEs used some type of business funding, up from 63% in 2020Q2. A strong rise in business borrowing is also evidenced by the same report which shows that **the share of UK permanent non-borrowers fell from 41% in 2020Q2 to 39% in 2020Q3, before plummeting to 32% in 2020Q4. Permanent non-borrowers in Wales fell from 33% in 2020Q2 to 25% in 2020Q4 and those using external finance increasing from 40% to 52% in the same period.**

Part of the growth in Welsh SME borrowing is associated with the UK and Welsh Government-backed schemes to support businesses during the Covid-19 crisis. As of 10 January, SMEs located in Wales received loans worth a total value of £503m from the Coronavirus Business Interruption Loan Scheme, £1.52bn from the Bounce Back Loan Scheme, and £11m from the Future Fund, as well as grants from the Welsh Government's Economic Resilience Funds and Covid-19 Wales Business Loan Scheme.

Alongside credit growth, UK SMEs received a record number of equity investments in 2020, recording a 5% annual rise, while the value of equity investment increased by 9% compared to 2019. Wales recorded 77 equity deals with a value of £78.6m, 4% and 1% of the UK totals respectively.

# Executive summary

Despite poor economic conditions, credit risk ratings continued to improve for Welsh SMEs.

**The share of SMEs in the Caution category has continued to decline, falling from 55% in November 2020 to 49% in February 2021.**

The gradual increase in the proportion of SMEs in the Normal, Stable and Secure SMEs categories recorded in the second half of 2020, continued into the beginning of 2021.

In the third quarter of 2020/21, the Development Bank of Wales made a total of 232 investments, up from 222 in 2020/21Q2, but lower than the 1,434 investments in 2020/21Q1 that was characterised by the unusually large scale of activity relating to the *COVID-19 Wales Business Loan Scheme*. **The value of new investments made by the Development Bank during the third quarter of the financial year 2020/21 summed to nearly £42m**, up from £29m in 2020/21Q2, but down from £108m in 2020/21Q1 (an all-time record in a quarter). Investments in 2020/21Q2 created 297 jobs and safeguarded 420 jobs.

The gradual lifting of lockdown measures and the Covid-19 vaccination rollout are likely to improve economic prospects in 2021, with, for example, some expectation of a strong increase in UK consumer spending once social restrictions are lifted. However real challenges are expected for selected businesses when the Government-backed business support, repayment holidays and job retention schemes come to an end. Here the evolving balance in Welsh Government support between safeguarding and transforming regional SME activity will be an increasingly important one. In addition, Covid-19 vaccine supply issues, both locally and globally, as well as possible further waves of pandemic infections and new Covid-19 variants suggest caution is still needed in predicting UK economic prospects.

Covid-19 and resulting lockdown policies have severely affected the global economy. The IMF now estimates that there will have been a 3.3% global GDP contraction in 2020<sup>1</sup>, while the OECD estimated an increase of unemployment across the 37 OECD countries from 5.4% in 2019 to 7.1% in 2020.<sup>2</sup>

The third EIW Quarterly Report (QR) for the 2020/21 financial year is published at a time of some cautious optimism of a return to more 'normal' business conditions. The approval of Covid-19 vaccines and a fall in mortality rates in many countries has started to stimulate economic prospects worldwide. The IMF recently revised its forecasts for the global economy upwards to 6% growth in 2021 and 4.4% growth in 2022, although they have noted the high levels of uncertainty surrounding the forecasts.<sup>3</sup>

Economic challenges remain in 2021. During this year furlough schemes are expected to come to an end, and with both 'political' and 'epidemiological' factors resulting in some international variation in the speed with which different countries are able to come out of lockdown measures. Moreover, although the Brexit agreement for the future trade relationship between the UK and the EU ended a period of uncertainty, there are obstacles occurring through the initial implementation phase, with the end of the transition period marking a significant short-term decline in UK exports to the EU. During the final quarter of 2020 the UK economy experienced weak economic growth and the highest unemployment rate seen for the last five years. Very large numbers of workers are still supported by the UK government employment and self-employment support schemes.

The EIW QR2 for 2020/21 in February 2021<sup>4</sup> provided commentary on the national and regional economic growth trends in the aftermath of the summer reopening of economy.

QR2 also revealed the number of Welsh jobs being furloughed and the resulting financial hardship for Welsh SMEs. QR3 expands this analysis, incorporating up-to-date figures for the last quarter of 2020. Sections 2-4 of this report provide the UK and Welsh macroeconomic context within which Welsh SMEs operate and analyses 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, and the amounts and types of lending/investment into SMEs in Wales, particularly in the context of Covid-19.

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. QR3 identifies the use of Bank funds, the types of enterprises and industries supported, and the geographical distribution of investment. 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.

<sup>1</sup> [www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021](https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021)

<sup>2</sup> [www.keepeek.com/Digital-Asset-Management/oced/economics/main-economic-indicators/volume-2021/issue-2\\_585cdc93-en#page43](https://www.keepeek.com/Digital-Asset-Management/oced/economics/main-economic-indicators/volume-2021/issue-2_585cdc93-en#page43)

<sup>3</sup> [www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021](https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021)

<sup>4</sup> See [developmentbank.wales/sites/default/files/2021-02/EIW%20Quarterly%20report%20Q1%202021%20ENG.pdf](https://developmentbank.wales/sites/default/files/2021-02/EIW%20Quarterly%20report%20Q1%202021%20ENG.pdf)

Covid-19 has resulted in prolonged mitigation policies and unprecedented lockdown measures, leading to a disruption of UK and Welsh economic activity, industry contraction, as well as a sharp decline in household and business consumption.

In addition, there have been economic consequences resulting from Brexit. The end of the transition period marked a significant decline in UK trade to and from the EU at the start of this year.

## UK economic growth hits a record low in 2020.

Following the largest quarterly contraction on record (-20.4% in 2020Q2), UK GDP increased in 2020Q3 by 15.5%, amid the reopening of the economy. This reduced to weak growth of 1% in the final quarter of 2020 in the midst of a further nationwide lockdown<sup>5</sup>. UK GDP fell by 9.9% over 2020 as a whole. This was the largest annual contraction on record. Other countries recorded smaller annual contractions in GDP in 2020, such as Germany (-3.4%), the USA (-3.5%), Japan (-4.8%), France (-6%) and Italy (-7.8%).

UK household expenditure declined by 0.2% in the quarter to 2020Q4, despite the partial reopening of some sectors for the Christmas period. Lockdown restrictions, increased unemployment and higher poverty levels,<sup>6</sup> particularly in Wales,<sup>7</sup> have all affected household expenditure levels.

UK economic growth, although weak, was driven by government consumption that further recovered (6.4% quarterly increase to 2020Q4), particularly in healthcare (17.2% quarterly rise), due to Covid-19 testing, and education (6% increase).

### UK does not double dip

Businesses in the UK are not expected to resume more normal trading conditions until the end of 2021Q2. Whilst the UK economy avoided a double dip recession in 2020, GDP contraction is still possible in the first quarter of 2021, given that UK GDP fell by 2.9% in the month to January 2021, and with UK exports falling sharply in the same month.

## Significant fluctuations in the recovery of output across economic sectors.

Output in UK industries increased in 2020Q4 (construction 4.4%, production 1.6% and services 0.5%). However, 2020 output levels are still below those prevailing before the pandemic in 2019 (Figure 1). Output in the different industries varied in their recovery trajectories in the final quarter of 2020. In services, output

in hospitality (-1%) and trade (-0.3%) declined, whereas output in education (0.4%) and human health (0.8%) increased. In production, while output in the manufacture of pharmaceuticals (-0.4%) and food products (-0.2%) contracted, output in the manufacture of basic metals (0.5%) and transport equipment (1%) increased.

<sup>5</sup> [www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/latest](https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/latest)

<sup>6</sup> [li.com/reports/poverty-during-the-covid-19-crisis/](https://li.com/reports/poverty-during-the-covid-19-crisis/)

<sup>7</sup> Bevan Foundation (2020) Devastating impact of Covid 19 on Wales' poorest households laid bare by new Bevan Foundation report. Available at: [www.bevanfoundation.org/publications/poverty-in-winter-2020/](https://www.bevanfoundation.org/publications/poverty-in-winter-2020/)



**Figure 1.**

*UK annual growth in output, by industry, 2020*



Source: [GDP first quarterly estimate, UK: October to December 2020](#)

## Welsh GDP plummeted in 2020Q2.

The early Covid-19 impact is captured by the quarterly (experimental) GDP estimates for Wales<sup>8</sup>. The latest available figures, for 2020Q2, show a 15.1% quarterly contraction. This was a smaller quarterly contraction than estimated in England (19%) and Scotland (19.4%)<sup>9</sup>. GDP in Wales fell by 18.3% in the year to 2020Q2.

In their February UK Economic Outlook, the National Institute of Economic and Social Research (NIESR) estimated that Wales will have recorded the third highest annual decline in GVA amongst the UK regions in 2020Q4 relative to 2019Q4 of -10.6% (with the East of England at -10.8% and London at -12.6%)<sup>10</sup>.

## UK unemployment hit the highest level since 2016.

Extensive public support, primarily through the Coronavirus Job Retention Scheme has worked to safeguard many jobs through the pandemic. However, the UK unemployment rate increased from 3.9% in 2020Q2 to 4.8% in 2020Q3 and further to 5.1% in 2020Q4, the highest level in the last five years.<sup>11</sup> The 'Pay As You Earn Real Time Information', shows that the UK recorded around 28.3m payroll employees in February 2021, approximately 0.7m less than in February 2020 (a 2.4% annual decline).<sup>12</sup> The UK employment rate fell from 76.5% in 2019 to 75% in 2020. The real challenges for labour market resilience are expected after the end of furlough scheme that has now been extended until the end of September.

The redundancy rate (in the three months prior to the Labour Force Survey interview) rose by 8.4 per thousand in the year to 2020Q4 and stood at 12.3 per thousand employees. Although the UK economy benefits from the extension of the furlough scheme, unemployment figures are still expected to trend upwards in the first half of 2021. Not all of these and future increases can be directly linked to the pandemic. For example, the recent collapse of Greensill Capital, a financial company, threatens thousands of jobs in Liberty Steel, the third largest corporation in the UK steel industry, with 11 sites, including one in Newport, with this also indicating a potential supply chain finance problem.<sup>13</sup>

<sup>8</sup> These figures should be treated with caution due to the potential volatility of the data.

<sup>9</sup> [www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/apriltojune2020](http://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/apriltojune2020)

<sup>10</sup> [www.niesr.ac.uk/publications/uk-economic-outlook-february-2021-brexite-britain-covid-recovery-ward](http://www.niesr.ac.uk/publications/uk-economic-outlook-february-2021-brexite-britain-covid-recovery-ward)

<sup>11</sup> [www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/february2021](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/february2021)

<sup>12</sup> [www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/march2021#pay-as-you-earn-real-time-information](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/march2021#pay-as-you-earn-real-time-information)

<sup>13</sup> [www.ft.com/content/db5bc46a-57cc-4c7d-a6fe-47f5a59412d4](http://www.ft.com/content/db5bc46a-57cc-4c7d-a6fe-47f5a59412d4)



The Welsh unemployment rate was 4.4% in 2020Q4, down from 4.6% in 2020Q3 (but up from the rate of 2.9% in 2019Q4). This represented around 2,000 less unemployed persons compared to 2020Q3, and marked

the second largest quarterly decline in unemployment rate among the UK regions. The Welsh employment rate dropped from 74.4% in 2019Q4 to 72.2% in 2020Q4.

## A further fall in the number of unemployment benefit claimants in January 2021.

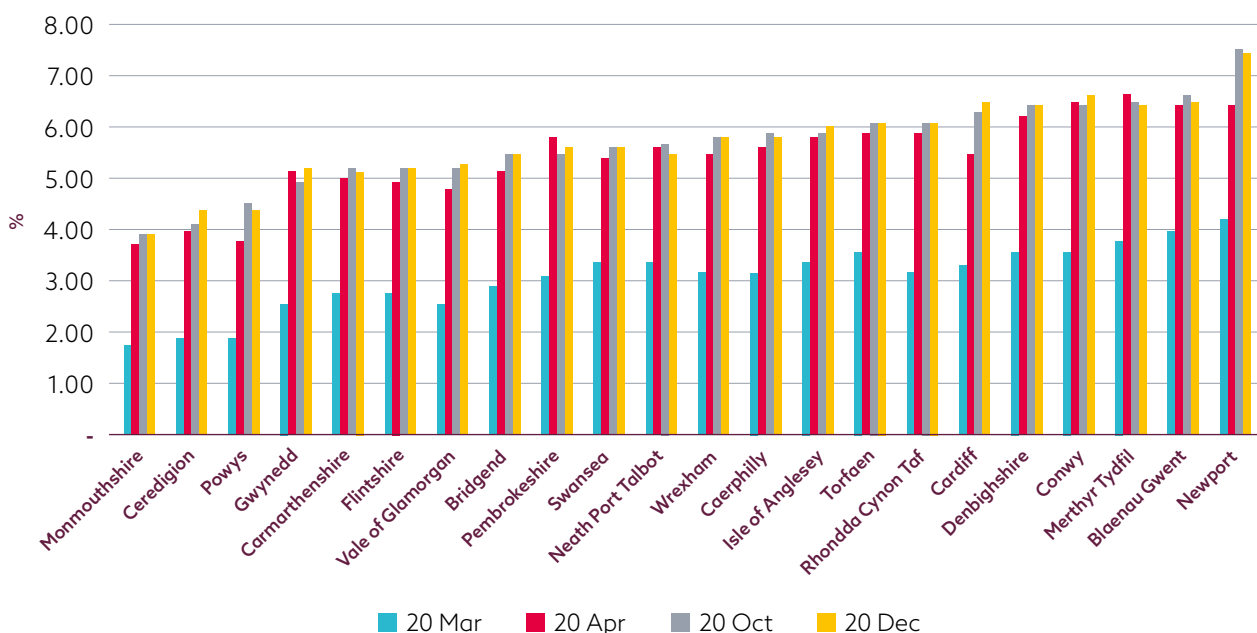
The count of benefit claimants in the UK fell from 2.63m in October 2020 to 2.59m in January 2021, continuing the declining trend since September 2020 (2.93m).<sup>14</sup> Annually, UK benefit claimants increased by 1.37m, recording a 110% annual increase, rising from 1.22m in January 2020 to 2.59m in January 2021.

In January 2021, 109,000 people in Wales claimed unemployment-related benefits (equal to 5.7% of the working age population), down from 114,000 in October 2020.

According to the latest available data for December 2020,<sup>15</sup> the Welsh areas with the highest proportion of working age population claiming either job seeker's allowance or universal credit were Newport (7.4%), Conwy (6.6%) and Blaenau Gwent (6.5%), and with the lowest proportion, Monmouth (3.9%), Ceredigion (4.4%) and Powys (4.4%) (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.

**Figure 2.**

*Proportion of working age people claiming either job seeker's allowance or universal credit by Welsh council*



Source: [Data Cymru](#)

<sup>14</sup> [www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental](http://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental)

<sup>15</sup> [www.data.cymru/covid19/economy-dashboard](http://www.data.cymru/covid19/economy-dashboard)

The number of UK furloughed jobs fell between early July (5.9m) and late October (2.4m), but has risen since due to the ongoing lockdown. Furloughed UK jobs grew from 4m on 5 November 2020 to 4.9m on 20 January 2021.<sup>16</sup> The total value of furlough claims in the UK was £53.8bn on 15 February 2021, up from £43bn on 15 November and £35.4bn on 16 August 2020. Hospitality had the highest take-up rate on 31 January 2021 with 68% of employers in the scheme (1.15m employments furloughed). Employments furloughed in wholesale and retail rose from 714,400 in December 2020 to 938,500 in January 2021.

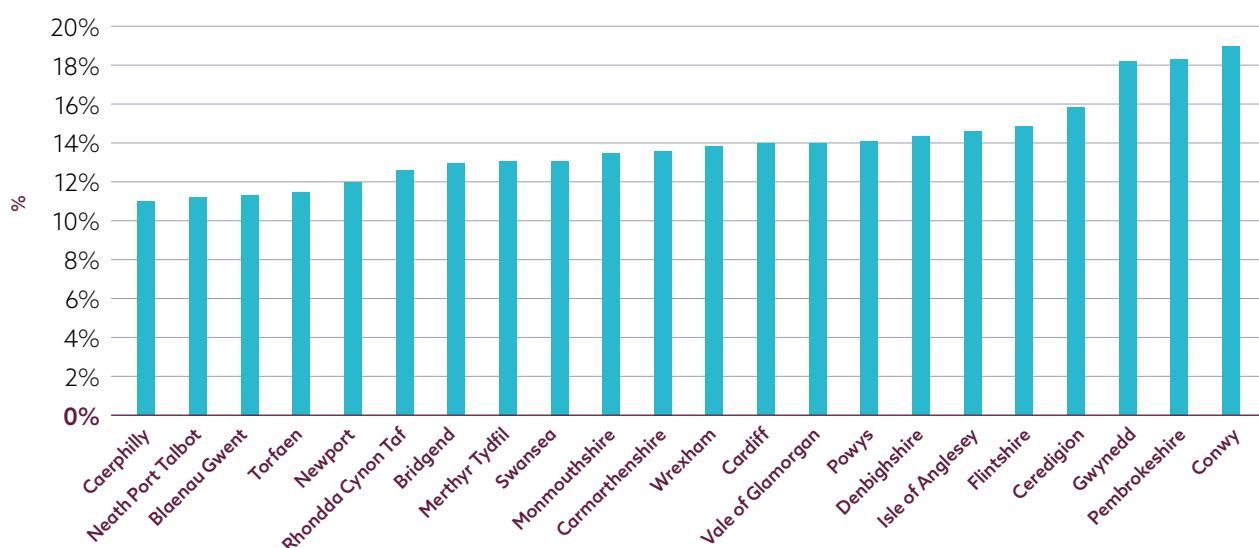
In Wales, employments furloughed increased from 109,600 on 30 September 2020 to 178,000 on 31 January 2021 and with this latter equal to around 13% of total employment.

These figures should be treated with caution, since they are based on the employees' residential address information, therefore not capturing commuting effects i.e. an employee's workplace could be in a different region.

Across Welsh areas, Conwy had the highest take-up rate of the furlough scheme<sup>17</sup> (19%), followed by Pembrokeshire (18%) and Gwynedd (18%) on 31 January 2021. By contrast, Torfaen, Blaenau Gwent, Neath Port Talbot and Caerphilly had the lowest take-up rate on 31 January 2021 (all at 11%). In absolute terms, Cardiff had the highest number of employments furloughed (21,500) on 31 January 2021, above Swansea (13,000) and Rhondda Cynon Taf (12,400). Blaenau Gwent (3,300), Merthyr Tydfil (3,400) and Isle of Anglesey (3,800) had the lowest count of employments furloughed on 31 January 2021.

**Figure 3.**

*Furlough scheme take-up rate across Welsh local authorities (% of employment)*



Source: [UK Government](#)

<sup>16</sup> [www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-february-2021](http://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-february-2021)

<sup>17</sup> Total employments furloughed/ Total employments eligible for furlough.

## UK business investment increased in 2020Q4.

Despite lockdown restrictions, UK business investment rose by 1.4% in 2020Q4, following the 15.1% quarterly increase in 2020Q3 and the 31.4% quarterly contraction in 2020Q2. Nevertheless, the level of business investment in 2020Q4 remains well below the pre-lockdown level in 2019Q4 (10.3% lower). This was an improvement compared to the Bank of England latest forecast (15% below 2019Q4 levels).<sup>18</sup>

Investment was limited to essential equipment rather than strategic projects, due to the high level of uncertainty and concerns about the speed of the economic recovery. According to the Bank of England monthly decision maker<sup>19</sup> for December 2020, economic uncertainty was high for 68% of companies. The Bank of England forecasts that UK business investment will rise by 4% in 2021 (reduced from around 6% in the previous projection) and 12% in 2022.

## UK and Welsh economy forecasts.

The Office for Budget Responsibility (OBR) projects that UK GDP will rise by 4% in 2021, and reach pre-pandemic levels in 2022Q2, six months earlier than it forecasted in November 2020.<sup>20</sup> OBR projects that UK unemployment will peak at 6.5% in 2021, (an improvement on the 7.5% previously forecasted in November). The OBR forecast for GDP concurs with the Bank of England projection for a 4% GDP growth in 2021 (down from 7.2% projected in November) and 7.2% in 2022. The Bank of England forecasts 6.5% unemployment in 2021, before falling to 5% in 2022. The IMF recently upgraded its forecasts for the global and UK economy. They forecast that the UK economy will grow by 5.3% in 2021 and by 5.1% in 2022.<sup>21</sup>

The National Institute of Economic and Social Research (NIESR) adopted a more pessimistic approach, forecasting a 3.4% UK GDP annual growth in 2021, with unemployment rate peaking at 7.1% in 2022.<sup>22</sup> The Welsh economy is expected to be among the last UK regions to recover positive GVA growth. NIESR projects Welsh GVA to contract by 6.3% in 2021Q4, 4.1% in 2022Q4 and 1.6% 2023Q4, all compared to 2019Q4. Wales is expected to be particularly affected due to weak labour productivity, which in 2023Q4 is projected be 2.6% lower than in 2019Q4. Caution is needed with these, and other forecasts due to high levels of uncertainty.

<sup>18</sup> [www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/february/monetary-policy-report-february-2021.pdf?la=en&hash=3638A7091B34164428A54277B55BD6901709AA44](https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/february/monetary-policy-report-february-2021.pdf?la=en&hash=3638A7091B34164428A54277B55BD6901709AA44)

<sup>19</sup> [www.bankofengland.co.uk/decision-maker-panel/2020/december-2020](https://www.bankofengland.co.uk/decision-maker-panel/2020/december-2020)

<sup>20</sup> [obr.uk/overview-of-the-march-2021-economic-and-fiscal-outlook/](https://obr.uk/overview-of-the-march-2021-economic-and-fiscal-outlook/)

<sup>21</sup> [www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021](https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021)

<sup>22</sup> [www.niesr.ac.uk/publications/uk-economic-outlook-february-2021-brex-it-britain-covid-recovery-ward](https://www.niesr.ac.uk/publications/uk-economic-outlook-february-2021-brex-it-britain-covid-recovery-ward)

## Small firms' confidence hit the second lowest level on record in 2020Q4.

The UK Small Business Index<sup>23</sup> crashed to an all-time low in 2020Q1, remained in negative territory in 2020Q2, and declined from -32.6 in 2020Q3 to -49.3 in 2020Q4, the second lowest point on record.<sup>24</sup> An all-time high of around 250,000 UK SMEs expressed their fear they will have to shut down permanently, while the proportion of UK SMEs having reduced staff headcount in 2020Q4 remained high (23% in 2020Q4, down from 25% in 2020Q3).

### UK small business confidence index in hospitality and leisure

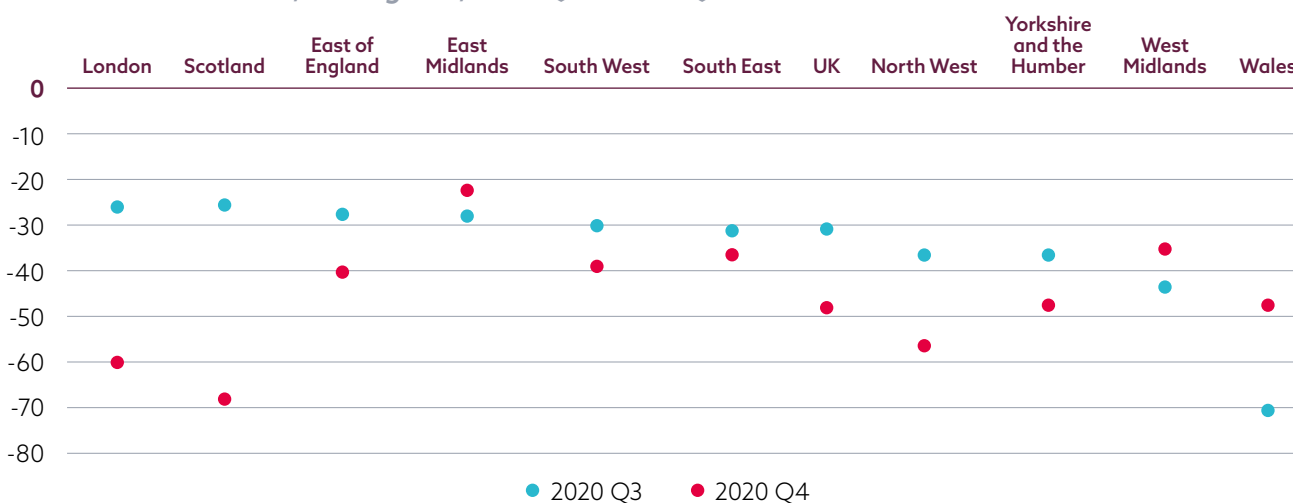
Sectors that have faced severe lockdown restrictions and demand contraction recorded the lowest confidence, these being hospitality (confidence index fall of -108, although higher than -127 in 2020Q3), leisure (-99, down from -58 in the previous quarter) and retail (-89, down from -43 in 2020Q3).

## Wales SME confidence in 2020Q4.

The FSB reported a slight improvement of SME confidence in Wales, although remaining in negative territory for the fourth consecutive quarter in 2020Q4.

Wales saw SME confidence increasing from -72 in 2020Q3, the lowest among the UK regions, to -48 in 2020Q4, the fourth lowest in the UK.

**Figure 4.**  
Small Business Index, UK regions, 2020Q3 & 2020Q4



Source: FSB Voice of Small Business Index 2020Q4

<sup>23</sup> "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).

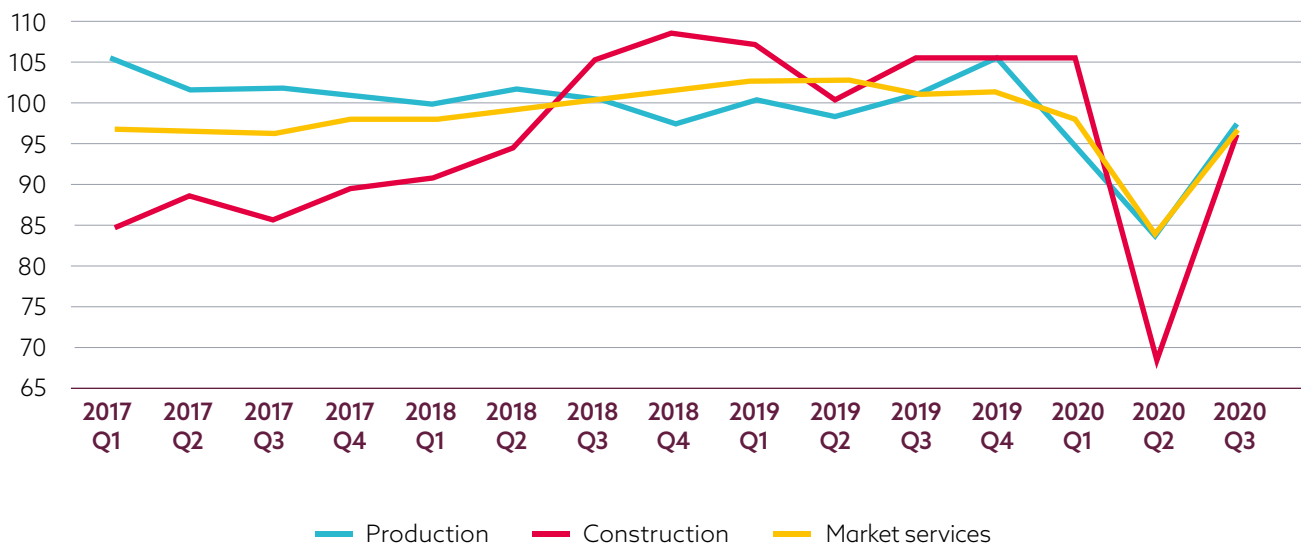
<sup>24</sup> FSB (2020). FSB voice of small business index, Quarter 4 2020. Available at: [www.fsb.org.uk/static/c7a810b2-ae0-4c42-9a1d45bd6a5e95f9/FSB-Voice-of-Small-Business-Index-Quarter-4-2020.pdf](http://www.fsb.org.uk/static/c7a810b2-ae0-4c42-9a1d45bd6a5e95f9/FSB-Voice-of-Small-Business-Index-Quarter-4-2020.pdf)

## Output growth across production, construction and market services sectors close to recovery in 2020Q3.

Figure 5 illustrates the quarterly movement in the Welsh indices of output in production, construction and market services from 2017Q1 to 2020Q3. The comparison of these figures with data in previous QRs should be made with caution due to a statistical change in the base year for the series (from 2016 to 2018). Indices of output in all sectors increased in 2020Q3, verifying EIW QR2 expectations.

The index of production recovered, rising from 83.9 in 2020Q2 to 97.3 in 2020Q3. The index of market services follows a similar trajectory, rising from 83.5 in 2020Q2 to 96.4 in 2020Q3. The construction index was severely affected by forced halts made in large projects due to lockdown restrictions in the first half of 2020. This index plunged from 105.8 in 2020Q1 to 68.5 in 2020Q2. With the gradual reopening of the economy, the construction index showed an impressive upturn in 2020Q3, although with the index still below the pre-pandemic level.

**Figure 5.**  
*Welsh output indices: trends 2017Q1 - 2020Q3 (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](#)

## The effects of the Covid-19 pandemic on Welsh firms.

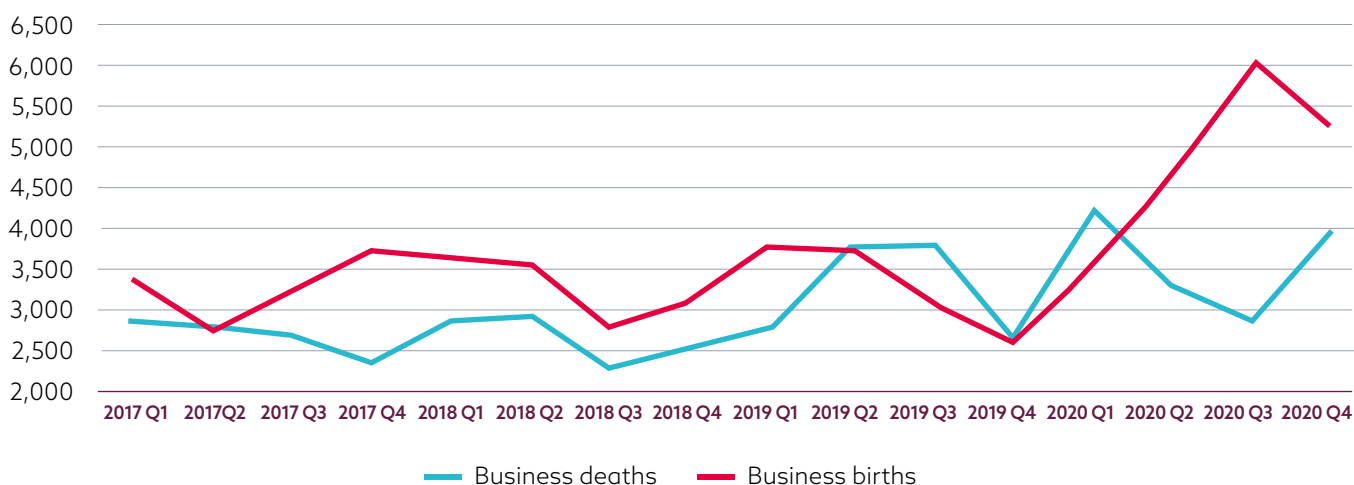
The gradual reopening of the economy during 2020Q3 was good news for firms in Wales, but this did not depreciate the importance of business support schemes in providing an economic safety net. Business demography figures provided from ONS indicate that the count of UK firms removed from the Inter-Departmental Business Register increased by 37% in the year to 2020Q4.<sup>25</sup> The number of business deaths rose from 77,815 in 2019Q4 to 106,400 in 2020Q4. The latter was higher than business deaths in the other two pandemic affected quarters of 2020 (93,055 business deaths in 2020Q2 and 76,465 in 2020Q3). Business births rose from 88,965 in 2020Q2 to 95,400 in 2020Q3 and further to 101,400 in 2020Q4 (i.e. lower than company dissolutions).

The total number of business deaths in 2020 was 17% higher than the average of annual business closures in 2017-2019, illustrating the severe impacts of the pandemic and lockdown measures on business activity. Firm closures in 2020Q4 were higher than in 2019Q4 in all industries, with the exception of the motor trade sector.

In contrast to the UK data, the number of business births in 2020Q4 in Wales was higher than business deaths (5,245 compared with 3,975). Business deaths increased by 48% in the year to 2020Q4, while in the last quarter of 2020 company deaths were higher than in the other two pandemic affected quarters of 2020 (3,295 business closures in 2020Q2 and 2,865 in 2020Q3). Similarly, business births increased by 103% in the year to 2020Q4, rising from 2,585 in 2019Q4 to 5,245 in 2020Q4. The funding channels of the Development Bank of Wales could have been important in supporting this high business birth rate as micro loans for start-ups increased 60% compared to 2019.<sup>26</sup>

Figure 6 illustrates the difference between business births (6,080) and deaths (2,865) in 2020Q3. However, given the June 2021 start date for repayments of the large volume of BBLs credit in Wales (£1.5bn as of 10th January 2021), business closures may be expected to pick up during the summer.

**Figure 6.**  
*Business births and deaths in Wales*



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

<sup>25</sup> [www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemographyquarterlyexperimentalstatisticsuk/quarter42020](http://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemographyquarterlyexperimentalstatisticsuk/quarter42020)

<sup>26</sup> [developmentbank.wales/news-and-events/rise-business-start-ups-entrepreneurs-follow-their-dreams-during-lockdown-0](http://developmentbank.wales/news-and-events/rise-business-start-ups-entrepreneurs-follow-their-dreams-during-lockdown-0)

The Business Impact of COVID-19 Survey (BICS)<sup>27</sup> for the period from 25 January to 7 February 2021 indicated that 85% of firms surveyed in Wales continued to trade, while 14% of companies have paused trading (the second highest rate in the UK), without intending to restart in the two weeks after the survey. Around 38% of responding businesses in Wales reported a decrease in turnover of up to 50%, which was the highest of any other UK region, with a further 9% reporting a decline of over 50%. Among Welsh firms that have not permanently stopped trading, almost 36% reported that their cash reserves will last more than 6 months.

The *BVA BDRC SME Finance Monitor 2020Q4*<sup>28</sup> reported that around 73% of UK SMEs surveyed have been negatively affected by the pandemic and subsequent economic crisis, down slightly from 75% in 2020Q3. Sectors particularly affected include hospitality, transportation and manufacturing. Around 16% of UK SMEs surveyed in the Monitor 2020Q4 have made redundancies, up from 9% in 2020Q3, while 31% of businesses expected turnover to be down by more than 50% or expected no income at all in 2020Q4, up slightly from 30% in the previous quarter.

### SME concerns

The *BVA BDRC SME Finance Monitor 2020Q4* reports that the proportion of UK SMEs that were concerned about the pandemic impact was 51%, while those concerned about the current economic climate declined from 41% in 2020Q3 to 36% in 2020Q4, with political uncertainty concerns increasing from 25% in 2020Q3 to 27% in 2020Q4.

The *BVA BDRC SME Finance Monitor 2020Q4* that 61% of UK SMEs surveyed recorded economic decline in 2020Q4, rising from 46% in 2020Q3, 22% in 2020Q2 and 21% in 2020Q1. Furthermore, around 70% of UK SMEs surveyed reported a profit in 2020Q4. According to the FCA Financial Lives Survey,<sup>29</sup> 71% of self-employed surveyed recorded a contraction of business revenues from March to October 2020, while 9% ceased trading. The Survey highlights that sole traders, freelancers and self-employed contractors have seen a more negative Covid-19 impact on business revenue than partnerships or limited companies.

Welsh Government's announcement on easing lockdown measures from the middle of March 2021 could be confusing and challenging for SMEs according to FSB Wales.<sup>30</sup> Many firms in the non-essential retail sector will have been closed for four months by 12th April when they reopen, missing the Easter and school holiday trade. Many SMEs in tourism sectors will also miss important trading opportunities over Easter due to opening restrictions and travel limitations relating to visitors from outside Wales.

The UK Budget extended the business rates holiday until June 2021 and the 5% VAT for tourism and hospitality until September 2021,<sup>31</sup> although in Wales firms in retail, hospitality and retail will not pay business rates for 2021-22. The Welsh Government has further supported firms in hospitality that have been particularly affected by the pandemic through the Economic Resilience Fund.<sup>32</sup> In the Budget, the UK Government announced a tax break for companies investing in new equipment in 2021-22, this will cut their corporate tax bill by 25p for every pound they invest.

<sup>27</sup> [www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy](http://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy)

<sup>28</sup> [www.bva-bdrc.com/wp-content/uploads/2021/03/BVABDRC\\_SME\\_FM\\_Q4\\_2020.pdf](http://www.bva-bdrc.com/wp-content/uploads/2021/03/BVABDRC_SME_FM_Q4_2020.pdf)

<sup>29</sup> [www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf](http://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf)

<sup>30</sup> [www.fsb.org.uk/resources-page/confusing-and-disappointing-announcement-on-easing-of-lockdown-for-smes-in-wales.html](http://www.fsb.org.uk/resources-page/confusing-and-disappointing-announcement-on-easing-of-lockdown-for-smes-in-wales.html)

<sup>31</sup> [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/966869/Budget\\_2021\\_Print.pdf](http://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966869/Budget_2021_Print.pdf)

<sup>32</sup> [gov.wales/sites/default/files/publications/2021-03/welsh-tax-policy-report-2021.pdf](http://gov.wales/sites/default/files/publications/2021-03/welsh-tax-policy-report-2021.pdf)



In addition to the pandemic impact, the implications of Brexit and trade agreement implementation have had serious repercussions for some UK SMEs. Apart from the political obstacles (particularly related to the border between Ireland and Northern Ireland), UK exporters have been affected by the arrangements relating to the new border controls and revised VAT rules.<sup>33</sup> The very short-term implications of Brexit are now evident. In the month to January 2021, UK exports to the EU fell by £5.6bn (-41%) and UK imports from the EU contracted by £6.6bn (-28.8%). This contributed to the largest monthly decline in UK trade since 1997. The OBR forecasts that the decline in international trade will result in a 0.5% GDP loss in 2021Q1.

In Wales, Brexit is expected to have effects on investments in sectors that predominantly comprise of SMEs and that have benefitted from EU structural funds, including agriculture and tourism.<sup>34</sup> Disentangling the sectoral impacts related to Brexit and the Covid-19 crisis is expected to be very difficult.

The latest available trade in goods data for the UK regions relates to 2020Q4<sup>35</sup>. This data showed that there had been a decrease in the value of exports and imports for all UK countries in the year to the end of December 2020.

In Wales exports declined by 24.4% over the year to December 2020 (compared to a decline of 15.4% in England, and 21.3% in Scotland). Over the same period, the value of imports to Wales declined by 22.2% (compared to a decline of 15.6% in England and 16.0% in Scotland). Wales has a high share of exports to the EU compared with the UK average. In 2020, just over 58% of Welsh exports were to the EU (down from just over 60% in 2019), compared with 48% of UK exports to the EU in 2020.<sup>36</sup>

Data for Wales that may reflect the initial Brexit related trading issues will not be available until later in 2021. However, indicatively, the BICS results for the period between 25 January and 7 February 2021 showed that 24% of Welsh businesses reported a fall in the volume of products sent to Northern Ireland, while 6.7% had stopped sending goods to Northern Ireland altogether. Around 48% of Welsh businesses surveyed highlighted 'Increased Delays' as the reason for changing volume of goods sent to Northern Ireland, compared to 26% for 'Increased Costs', and 22% as a result of Covid-19. In addition, 32% of surveyed businesses in Wales reported that they were still exporting, but less than normal for the time of year, while 7.1% of businesses reported that they had not been able to export, the highest of the UK regions.

<sup>33</sup> [www.theguardian.com/politics/2021/feb/06/fury-at-gove-as-exports-to-eu-slashed-by-68-since-brexit](https://www.theguardian.com/politics/2021/feb/06/fury-at-gove-as-exports-to-eu-slashed-by-68-since-brexit)

<sup>34</sup> WCPP (2020) The implications of the European transition for key Welsh economic sectors. Available at: [www.wcpp.org.uk/wp-content/uploads/2020/12/The-implications-of-the-European-transition-for-key-Welsh-economic-sectors.pdf](https://www.wcpp.org.uk/wp-content/uploads/2020/12/The-implications-of-the-European-transition-for-key-Welsh-economic-sectors.pdf)

<sup>35</sup> [www.uktradeinfo.com/trade-data/regional/2020/uk-regional-trade-in-goods-statistics-fourth-quarter-2020/](https://www.uktradeinfo.com/trade-data/regional/2020/uk-regional-trade-in-goods-statistics-fourth-quarter-2020/)

<sup>36</sup> Data for 2020 is provisional.

The conditions for Welsh SME finance and funding changed rapidly in 2020

as a result of interventions to assist firms impacted by Covid-19.

## SME demand for credit increased due to recent social restrictions.

The Bank of England *Agents' summary of business conditions*<sup>37</sup> indicates that SME demand for credit increased in 2020Q4 due to new lockdown restrictions at the end of the year. Demand for credit is expected to further increase in the first half of 2021 with SMEs seeking credit to cover deferred payments, including rent and tax, but also cash-flow needs. While the UK Government supports sectors strongly impacted by lockdown measures, backing credit availability, insolvencies are still expected to increase.

Furthermore, SME concerns about their ability to repay debts increased in 2020Q4. According to the *BVA BDRC SME Finance Monitor 2020Q4*, the proportion of UK SMEs using finance which were concerned about their ability to repay debt, increased from 21% in 2020Q3 to 24% in 2020Q4, after doubling between 2020Q1 and 2020Q2 (from 14% to 29%). In Wales, this concern grew from 24% in 2020Q3 to 30% in 2020Q4 equalling the 2020Q2 high of 30% following a rise from 18% in 2020Q1. Medium-sized firms across Wales and the UK appeared to be the least concerned about their future ability to repay their debts.

The *BVA BDRC SME Finance Monitor 2020Q4* reported that the appetite for finance has risen for UK SMEs. Around 14% of UK SMEs surveyed

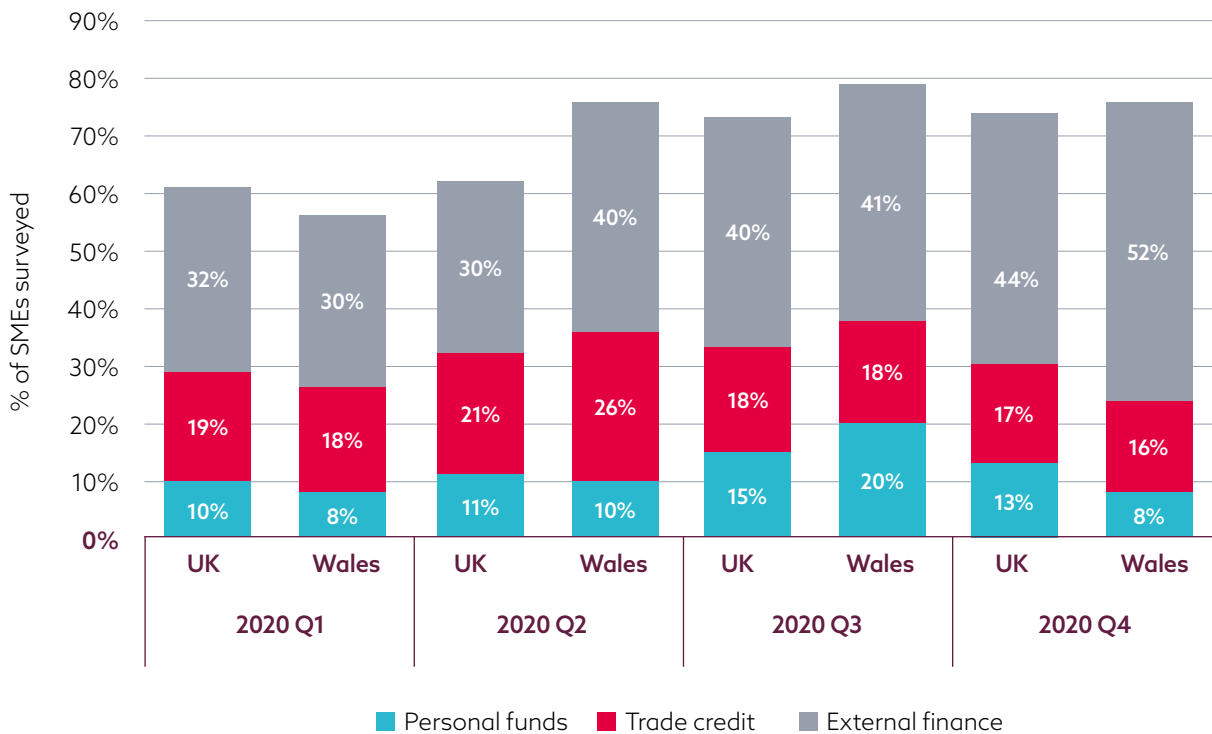
stated that they had a need for finance in 2020Q4, increasing from 6% in 2020Q2 with Welsh SMEs seeing similar levels at 13% in 2020Q4 increasing from 4% in 2020Q2. Moreover, the percentage of Welsh SMEs surveyed that agreed with the statement 'As a business we are happy to use external finance to help the business grow and develop' increased from 35% in 2020Q2, to 39% in 2020Q3, to 45% in 2020Q4 and was particularly high amongst those with 10-49 employees (51%). Comparatively, UK SMEs saw increases to 31% in 2020Q2, to 34% in 2020Q3, and to 37% in 2020Q4.

According to the *BVA BDRC SME Finance Monitor 2020Q4*, 74% of UK SMEs used some type of business funding, up from 73% in 2020Q3 and 62% in 2020Q2. Figure 7 compares this to Welsh SMEs showing more, and a growing proportion using business funding. UK SMEs that use external finance increased from 30% in 2020Q2 to 40% in 2020Q3 and further to 44% in 2020Q4, while permanent non-borrowers fell from 51% of SMEs in 2020Q1 to 32% in 2020Q4. Similarly for Wales, those using external finance increased from 41% in 2020Q3 to 52% in 2020Q4 while permanent non-borrowers fell from 33% in 2020Q2 to 25% in 2020Q4.

<sup>37</sup> [www.bankofengland.co.uk/agents-summary/2020/2020-q4](http://www.bankofengland.co.uk/agents-summary/2020/2020-q4)

**Figure 7.**

*Use of business funding from SMEs, by type of funding*



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

## Interest rates on UK SME loans remain low, and the annual growth rate of loans increases.

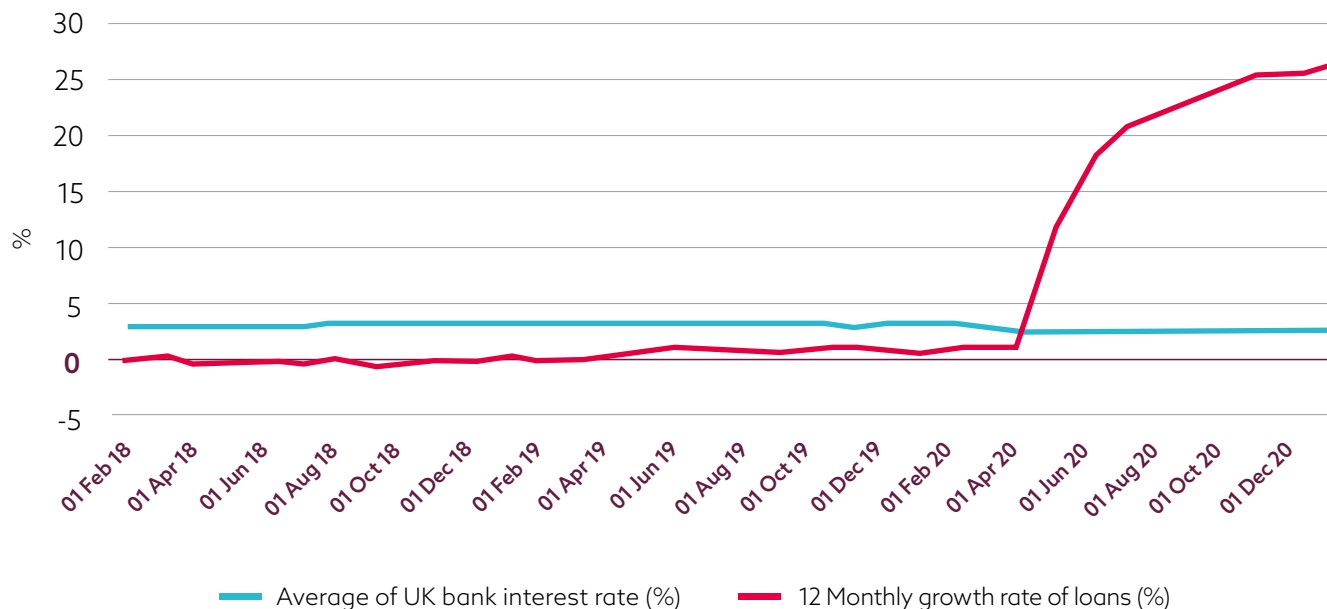
Figure 8 shows that the average interest rates on UK SME loans remains low and largely unchanged at the start of 2021. The average interest rate was 2.82% in January 2021, very marginally increasing from 2.81% in October 2020. The low levels are influenced by the stabilisation of the Bank of England’s interest rate to 0.1% since March 2020 with efforts seeking to reduce the cost of business borrowing that increased due to the rising risk of defaults.

UK government schemes for business support during Covid-19 have driven a significant increase in SME borrowing. Figure 8 illustrates the increasing trends in the annual growth rate of loans to SMEs since May 2020, with the latest data showing a rise from 24.2% in October 2020 to 25.9% in January 2021. This increase in borrowing is also evidenced by the *Small Business Finance Markets 2020/21*<sup>38</sup> report indicating that bank lending to UK SMEs increased from £57bn in 2019 to £103.7bn in 2020.

<sup>38</sup> [www.british-business-bank.co.uk/wp-content/uploads/2021/03/BBB-SBFM-Report-2021-Widescreen-AW-tagged-002.pdf](http://www.british-business-bank.co.uk/wp-content/uploads/2021/03/BBB-SBFM-Report-2021-Widescreen-AW-tagged-002.pdf)

**Figure 8.**

*Interest rate on UK SME loans, and growth rates of loans*



Source: Bank of England

UK Finance figures for the first three quarters of 2020 show that gross lending to SMEs reached £54bn, being more than double the annual lending in 2019.<sup>39</sup>

In 2020Q2 and 2020Q3 gross lending to SMEs was £36bn higher than in 2019Q2 and 2019Q3, a rise largely driven by government-backed business support.

<sup>39</sup> [www.ukfinance.org.uk/press/press-releases/sme-lending-first-three-quarters-2020-more-double-2019-total/#summary](https://www.ukfinance.org.uk/press/press-releases/sme-lending-first-three-quarters-2020-more-double-2019-total/#summary)

## UK and Welsh Government support extended to Autumn 2021.

The Coronavirus Business Interruption Loan Scheme (CBILS) administered by the British Business Bank is available to SMEs for loans of up to £5m. In the period to 21 February 2021, 11 months since CBILS was launched, 92,449 loans were approved to UK SMEs with a total value of £22bn.<sup>40</sup> By 10 January 2021, Welsh SMEs received 2,228 CBILS loans worth £503m,<sup>41</sup> up from 1,691 loans of £374m on 15 November 2020. The Welsh SME proportion of offered facilities is roughly equal to the share of Wales in the UK business population (3%). UK SMEs that received funds from CBILS were primarily in wholesale and retail (18% of total offered facilities), construction (14%), and manufacturing (13%).

The demand for the Bounce Back Loan Scheme (BBLs)<sup>42</sup> across the UK has also been strong. As of 21 February 2021, UK SMEs have been offered 2m BBLs facilities of £45.6bn, up from 1.4m loans that were approved by 15 November 2020 with a total value of £42.2bn. In the period to 10 January 2021, Welsh SMEs received BBLs loans with a value of £1.52bn, linked to 55,094 approved applications (equal to 4% of total UK offered facilities of BBLs). Over 40% of UK businesses receiving BBLs funds were in construction (17% of total offered facilities), wholesale and retail (15%), and professional, scientific and technical activities (11%). Despite the volume of BBLs facilities provided to UK firms, default rates on these loans are now expected to be lower than the 35-60% of borrowers as originally reported by the National Audit Office.<sup>43</sup>

This has been linked to the financial position of borrowers and lower than expected levels of application fraud.<sup>44</sup>

Figure 9 shows the geographical distribution of CBILS and BBLs loan' values to businesses across the 40 Welsh constituencies in the period to January 2021, compared to the total funds by October 2020:

- Cardiff South and Penarth had the largest share in January 2021, similar to the previous period, with 5.1% of the total value (£104m up from £91m, and 2,495 loans up from 2,239), followed by Cardiff Central with 4.3% (£87m up from £72m, with 1,945 loans up from 1,733) and Carmarthen West and South Pembrokeshire with 3.9% (£79m up from £68m, with 2,206 loans up from 1,921)
- Rhondda had the lowest share with 1% of the total value (£20m up from £17m, with 749 loans up from 659), below Cynon Valley with 1.2% (£25m up from £22m, with 899 loans up from 809) and Blaenau Gwent with 1.4% (£29m up from £23m, with 744 loans up from 641).
- In terms of the average value of loans per application, Newport East was ranked at the top with an average value of £46,485, above Wrexham (£45,250) and Cardiff Central (£44,700). At the bottom Rhondda had the lowest average value (£27,130), below Cynon Valley (£28,090) and Neath (£29,160).

<sup>40</sup> [www.gov.uk/government/collections/hm-treasury-coronavirus-covid-19-business-loan-scheme-statistics](http://www.gov.uk/government/collections/hm-treasury-coronavirus-covid-19-business-loan-scheme-statistics)

<sup>41</sup> [www.british-business-bank.co.uk/coronavirus-loan-schemes-continue-to-support-businesses-evenly-across-the-uk-new-analysis-shows/](http://www.british-business-bank.co.uk/coronavirus-loan-schemes-continue-to-support-businesses-evenly-across-the-uk-new-analysis-shows/)

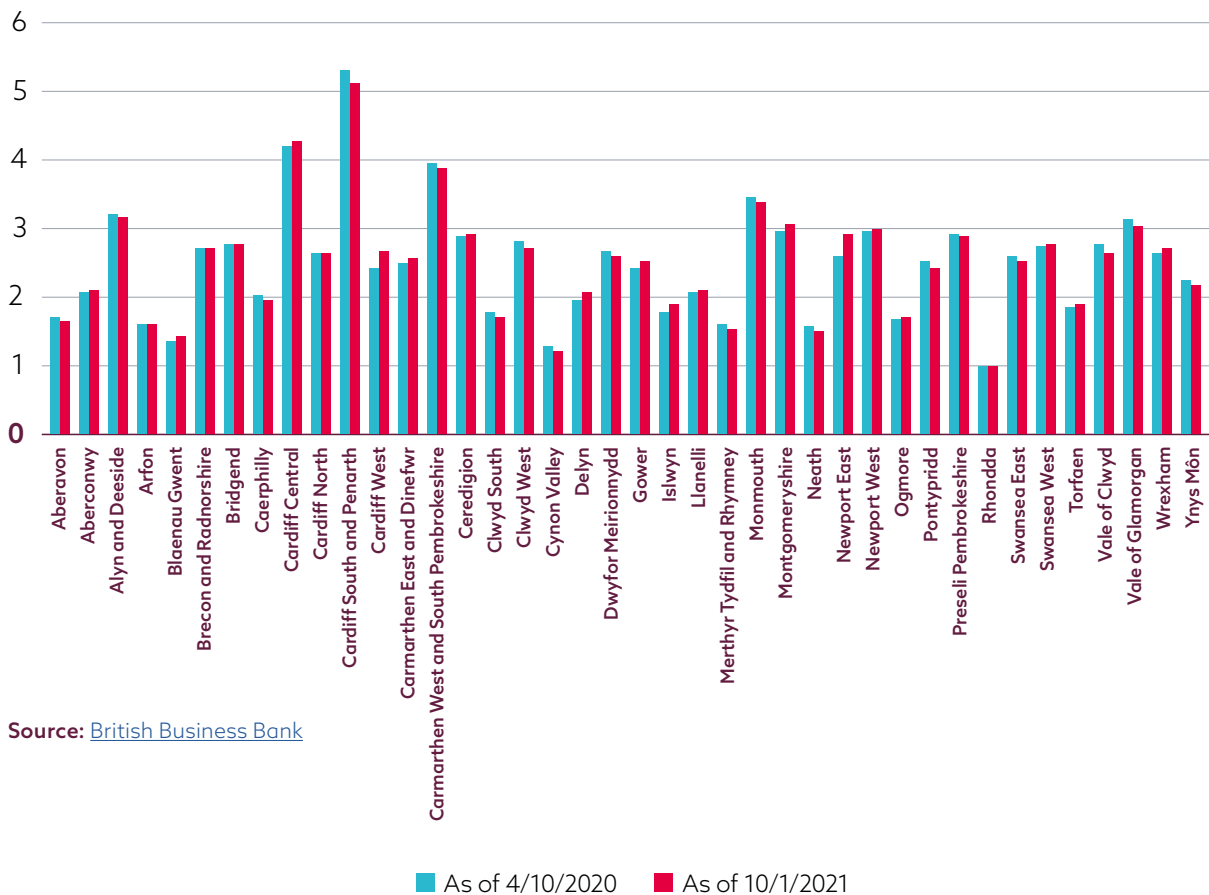
<sup>42</sup> Under the BBLs, SMEs can borrow from £2,000 up to 25% of their turnover, with the maximum loan available at £50,000. The UK government provides lenders with a 100% guarantee and covers the first 12 months of interest payments. Thereupon, the interest rate is set at 2.5% per annum.

<sup>43</sup> [www.nao.org.uk/wp-content/uploads/2020/10/Investigation-into-the-Bounce-Back-Loan-Scheme.pdf](http://www.nao.org.uk/wp-content/uploads/2020/10/Investigation-into-the-Bounce-Back-Loan-Scheme.pdf)

<sup>44</sup> [www.thetimes.co.uk/article/bounce-back-loan-fraud-may-only-be-a-fraction-of-what-was-feared-7bkt256hx](http://www.thetimes.co.uk/article/bounce-back-loan-fraud-may-only-be-a-fraction-of-what-was-feared-7bkt256hx)

**Figure 9.**

*Welsh constituencies' share (%) of total value of UK government business support via CBILS and BLS*



Source: [British Business Bank](#)

After having offered £7.8bn in its first tranche, the second tranche of the Self-Employment Income Support Scheme (SEISS) opened on 17 August. At the end of January 2021 2.2m claims were made with a total value of £6.2bn.<sup>45</sup> In Wales, the value of 88,000 claims during the second tranche was £233m to the end of January 2021. Around 33% of the total number of claims for the grant in Wales were made by the self-employed in construction, while only 28% of claims were made by females, which constitutes the third lowest rate across the UK regions, although Wales had the highest numbers of women-led SMEs across the four nations of the UK with 29% in 2019.<sup>46</sup>

The total value of all the UK government interventions to support the healthcare services, businesses and workers has been estimated at £280bn for 2020-21 and is expected to rise by £72bn in 2021-22<sup>47</sup> with important consequences for the UK public finances. Borrowing in January 2021 was £8.8bn, down from £22.3bn October 2020.<sup>48</sup> Public debt increased by £316bn in the first ten months of 2020/21, reaching a total value of £2,114bn at the end of January 2021, equal to 97.9%, down from 100.8% of GDP in October 2020. According to the UK borrowing plan, public debt is projected to be equal to 110% of GDP in 2023-24, and will then start to decline.

<sup>45</sup> [www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-february-2021](http://www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-february-2021)

<sup>46</sup> [VA BDRC \(2020\) Women Led Businesses](http://VA BDRC (2020) Women Led Businesses)

<sup>47</sup> [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/966869/Budget\\_2021\\_Print.pdf](http://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966869/Budget_2021_Print.pdf)

<sup>48</sup> [www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/january2021](http://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/january2021)

The Welsh Government has also intervened to help businesses impacted by the pandemic and lockdown.<sup>49</sup> In its first two phases, the Welsh Government's Economic Resilience Fund (ERF) provided 11,717 grants with a total value of £182m, protecting 100,000 jobs.<sup>50</sup> In addition the Covid-19 Wales Business Loan Scheme (CWBLS) supported business

with £92m of loan finance provided by the Development Bank of Wales. EIW analysed the administrative data of these schemes in its 2020 report to illustrate the beneficiaries of Welsh Government interventions.<sup>1</sup> So far, the total value of the Welsh Government business support has been more than £1.7bn, equal to 2.6% of Welsh GVA.<sup>52</sup>

## UK equity markets are strong.

Among the UK government-backed schemes, the Future Fund has supported equity funds availability, thus facilitating the increase of equity deals in 2020, according to the *Small Business Finance Markets 2020/21*. The Future Fund, delivered by the British Business Bank, provides convertible government loans to innovative businesses that are affected by Covid-19. In the period to February 2021, 1,140 convertible loans were approved in the UK, with a total value of £1.12bn, up from 874 convertible loans with a total value of £876m in November 2020. In Wales, 20 loans were approved over the same period, with a total value of £11m.<sup>53</sup>

According to *Small Business Finance Markets 2020/21*, around 2,040 SME equity deals were made in the UK in 2020 (a 5% annual rise) with a total value of £8.8bn. This was a record high and marked an increase of 9% compared to 2019. Although the average deal size increased by 3% in the year to 2020, the pandemic has affected equity activity. Investors responded

with equity deals of smaller size at the seed stage and deals of larger size at later stages. The UK presents a heavily concentrated equity system around London and the South East (with 56% of total deals and 77% of total investment value in 2020). Wales recorded 77 equity deals (4% of the total) with a value of £78.6m (i.e. just 1% of UK investment)<sup>54</sup>.

According to Beauhurst,<sup>55</sup> equity deals to UK SMEs and large firms in 2020 would have been high even without the Future Fund support, highlighting the strength of the UK equity system, with most investments made in healthcare, particularly medical technology, and digital security. Some 27 equity deals were made in Cardiff in 2020 with a total value of £18.6m, which remains a regional cluster of equity deals in Wales,<sup>56</sup> above cities such as Bristol (18 deals), Birmingham (16) and Belfast (12), but Cardiff continues to feature lower investment value per deal than those in other cities.

<sup>49</sup> [developmentbank.wales/sites/default/files/2020-12/EIW%20bespoke%20report%20on%20Covid-19%20interventions\\_ENG.pdf](https://developmentbank.wales/sites/default/files/2020-12/EIW%20bespoke%20report%20on%20Covid-19%20interventions_ENG.pdf)

<sup>50</sup> [businesswales.gov.wales/coronavirus-advice/support/financial-support-and-grants](https://businesswales.gov.wales/coronavirus-advice/support/financial-support-and-grants)

<sup>51</sup> 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](https://developmentbank.wales/sites/default/files/2020-12/EIW%20bespoke%20report%20on%20Covid-19%20interventions_ENG.pdf)

<sup>52</sup> [gov.wales/written-statement-economic-resilience-fund-phase-3-0](https://gov.wales/written-statement-economic-resilience-fund-phase-3-0)

<sup>53</sup> [www.british-business-bank.co.uk/future-fund-publishes-diversity-data-of-companies-receiving-convertible-loan-agreements-8/](https://www.british-business-bank.co.uk/future-fund-publishes-diversity-data-of-companies-receiving-convertible-loan-agreements-8/)

<sup>54</sup> Unfortunately there is no previous information available for Wales on which to make any time comparisons.

<sup>55</sup> [www.beauhurst.com/research/the-deal/](https://www.beauhurst.com/research/the-deal/)

<sup>56</sup> [developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report\\_final.pdf](https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report_final.pdf)



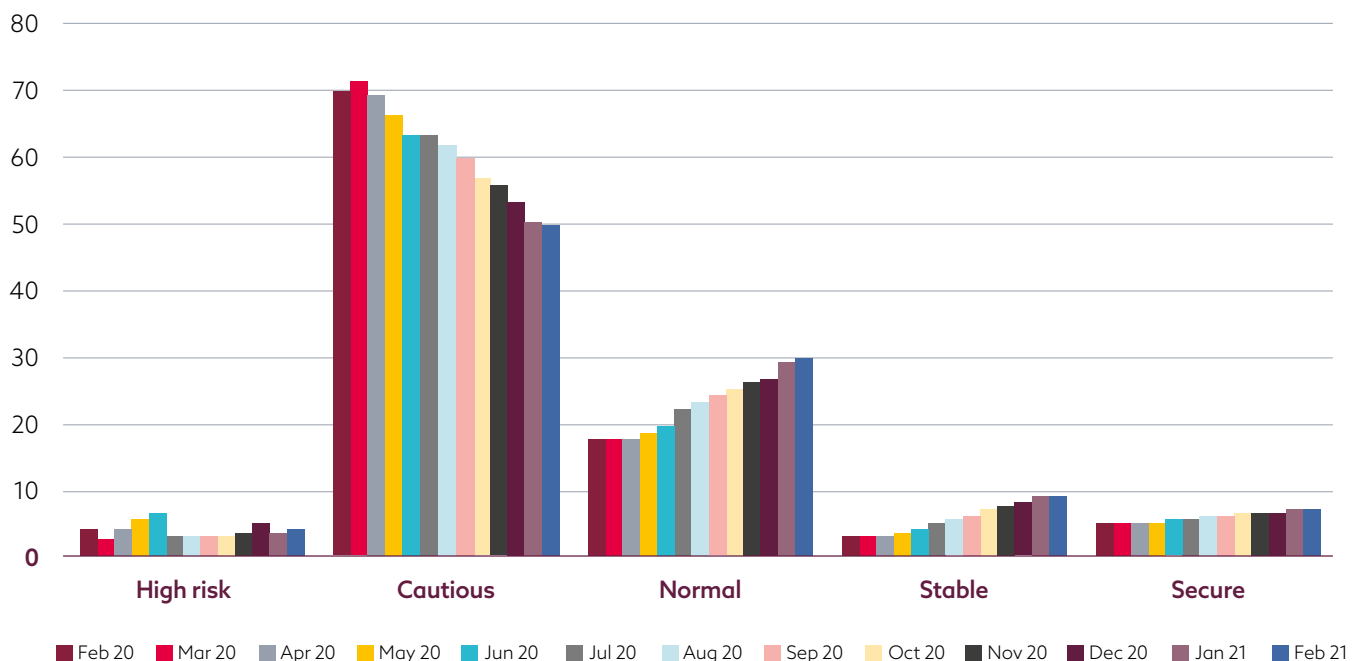
## Small increase in SMEs in High Risk group, but an overall improvement in Welsh SME credit risk ratings.

Since the first 'reopening' of the economy in July 2020 the proportion of Welsh SMEs in the High Risk credit rating group has remained relatively stable ranging from 3% to 3.5% between August and November 2020. This percentage increased to 5.3% in December 2020. Since then the proportion of Welsh SMEs in the High Risk group has fallen to 4.1% in February 2021. From August 2020 to February 2021 High Risk SMEs in Wales increased by 82% from 1,072 to 1,954. Similar patterns of High Risk group rate changes are identified in all the UK devolved administrations. The proportion of SMEs in the Caution category has fallen from 55% in November 2020 to 49% in February 2021.

The gradual increase in the proportion of SMEs in the Normal, Stable and Secure SMEs categories in the second half of 2020, continued into the beginning of 2021. Government policies supporting firms and jobs are likely to have been crucial for the reduction in credit risk. It is worth adding that the number of Welsh SMEs in the FAME database has increased from 40,800 in November 2020 to 47,120 in February 2021, possibly partly related to the high business birth rate in Wales noted earlier, although this increase is recorded in all the UK devolved administrations.

**Figure 10.**

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

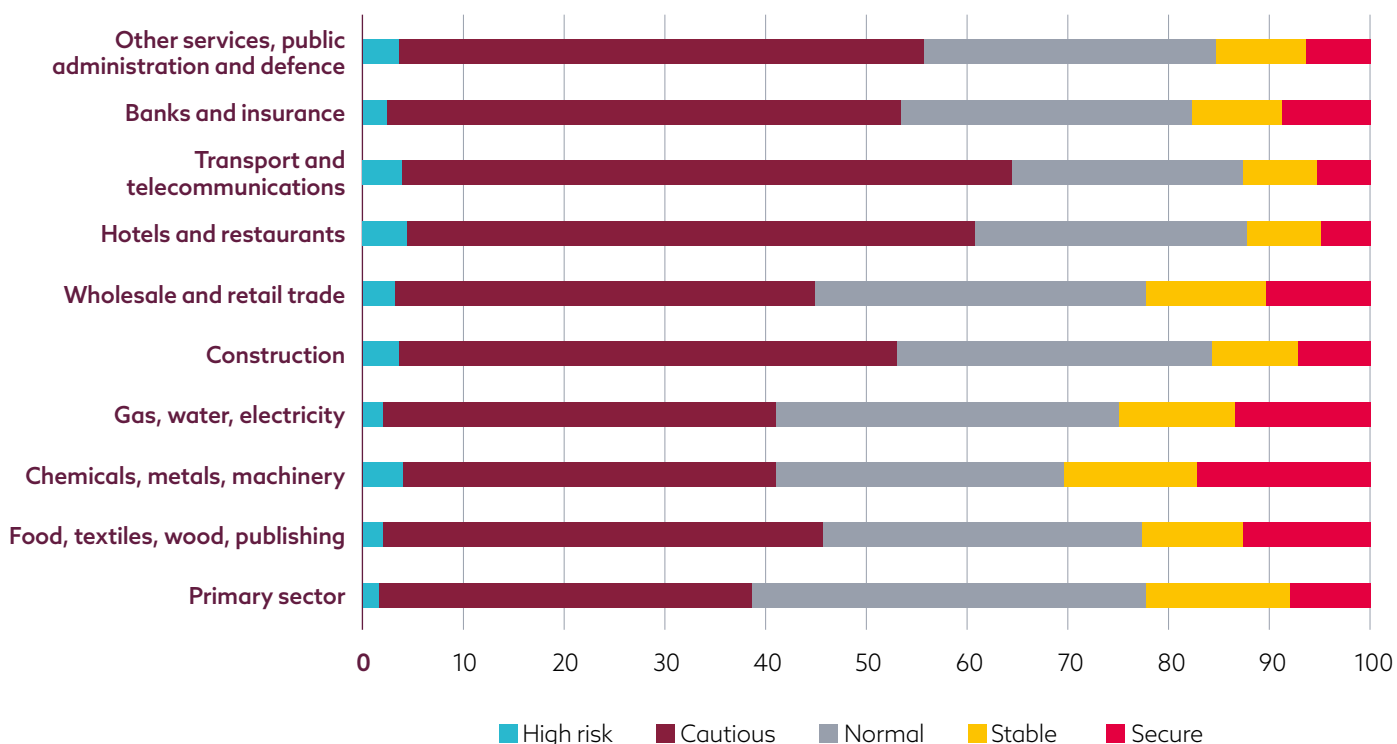


Source: [FAME](#), [Bureau van Dijk](#)

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

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*



Source: [FAME](#), [Bureau van Dijk](#)

This section summarises Development Bank of Wales' investments in 2020/21Q3.

All the data in this section has been derived from the Development Bank of Wales' database.

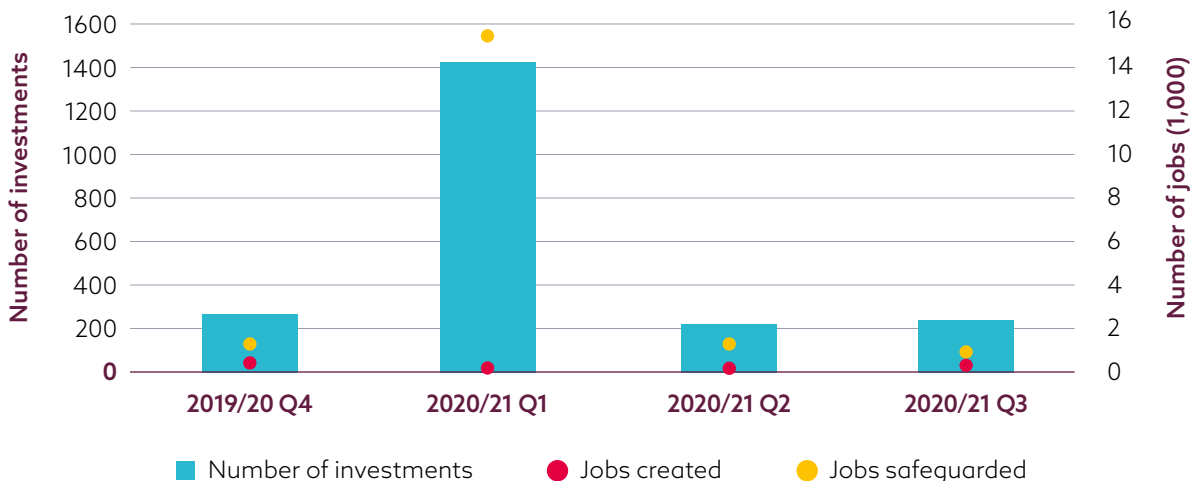
## An increase in investment in 2020/21Q3.

The Development Bank made 232 investment transactions in 2020/21Q3, up from 222 in 2020/21Q2 but lower than the 1,434 investments in 2020/21Q1. This latter figure related to the unusually large scale of activity relating to CWBLS, funded by Welsh Government, and launched by the Development Bank that allocated around £92m to more than 1,330 businesses from April to July 2020.<sup>57</sup> The Development Bank invested £42.1m in 2020/21Q3, up from 28.8m in 2020/21Q2 but

down from £108.5m in 2020/21Q1 (an all-time record in a quarter, again due to CWBLS investments). The average investment amount was among the highest ever with £181,000, much greater than in 2020/21Q2 (£130,000) and 2020/21Q1 (£75,000). The 232 investments in 2020/21Q3 created 297 jobs and safeguarded 420 jobs, compared with 181 created and 1,160 safeguarded jobs in 2020/21Q2, and 15,493 created or safeguarded jobs in 2020/21Q1, related to CWBLS investments.

**Figure 12.**

*Investment transactions and Jobs created and safeguarded, 2019/20Q4 - 2020/21Q3*



## Significant rise in loan and equity investment.

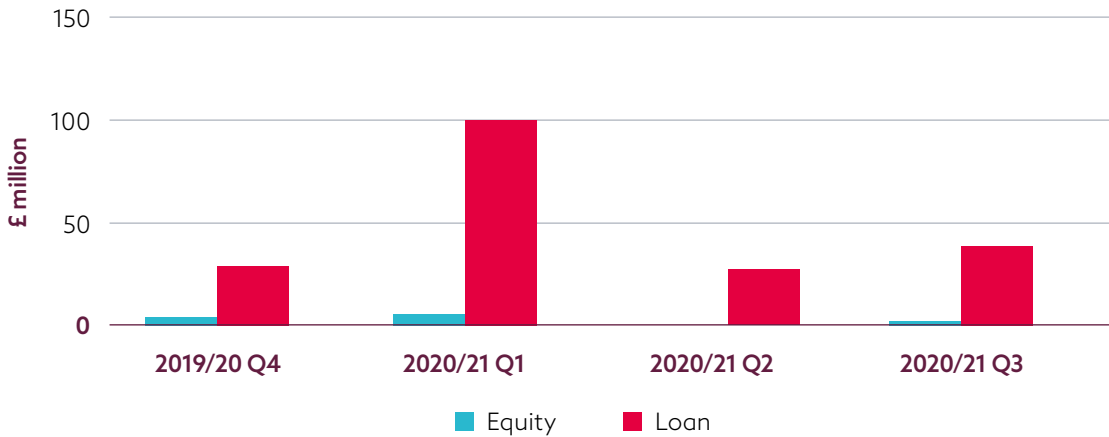
New loan investment was £39.4m in 2020/21/Q3, up from £27.4m in 2020/21Q2, but lower than £101.5m in 2020/21Q1

(Figure 13). Equity investment was £2.7m in 2020/21Q3, up from £1.3m in 2020/21Q2, but down from £7m in 2020/21Q1.

<sup>57</sup> 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](https://developmentbank.wales/sites/default/files/2020-12/EIW%20bespoke%20report%20on%20Covid-19%20interventions_ENG.pdf)

**Figure 13.**

*New Investment by Investment Type (£m), 2019/20Q4 – 2020/21Q3*



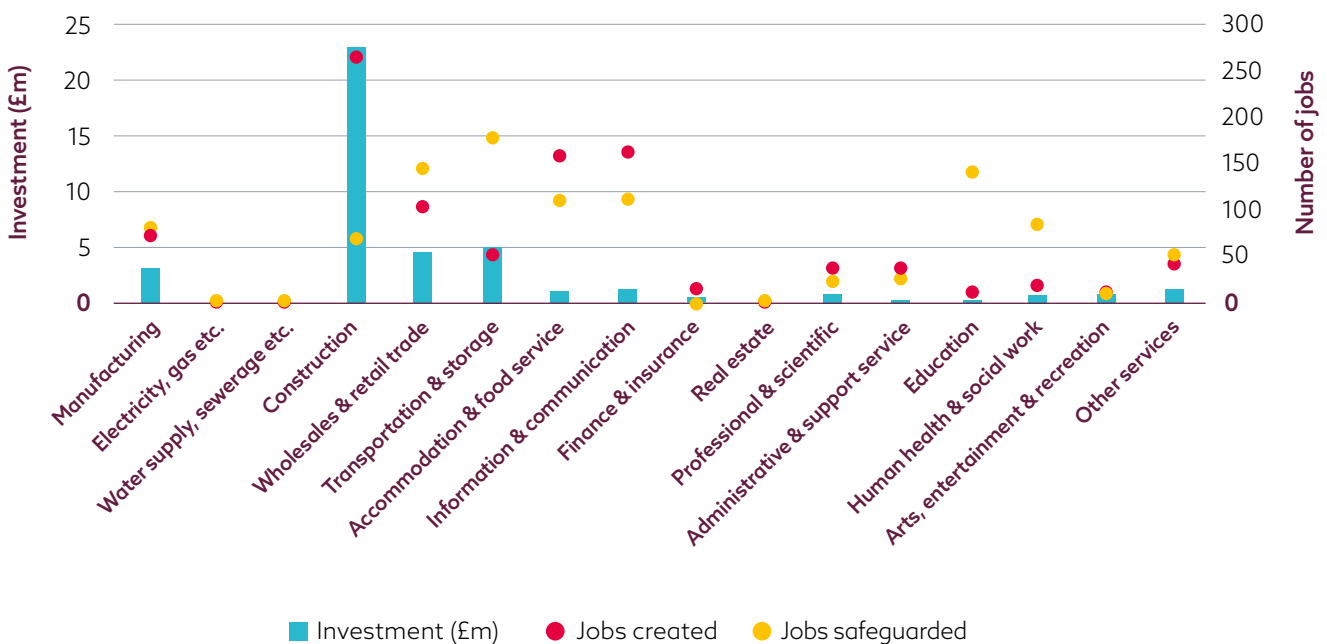
## Construction had the largest share of new investment for another quarter.

In 2020/21Q3, construction received the largest share of new investment (£23m up from £15.2m in the previous quarter), creating or safeguarding 99 jobs. Investments in transportation and storage increased from £0.15m in 2020/21Q2 to £4.9m, and created

or safeguarded 68 jobs. Other sectors with high levels of investment included wholesale and retail (£4.5m, up from £1m in 2020/21Q2) and manufacturing (£3m, up from £1.9m in the previous quarter).

**Figure 14.**

*New investment and jobs created and safeguarded by sector (£ million), 2020/21Q3*



## South East Wales attracted the majority of new investment in 2020/21Q3.

In 2020/21Q3, the majority of investments were made to firms located in South East Wales, similar to previous periods. New investment in South East Wales, the area with the highest share of firms in Wales, amounted to £24.8m in 2020/21Q3 up from £13.7m in 2020/21Q2, creating

193 and safeguarding 297 jobs. New investment in North Wales was £8.7m in 2020/21Q3, up from £6.1m in 2020/21Q2, while new investment in Mid and South West Wales was £8.5m in 2020/21Q3, down from £8.9m in 2020/21Q2.

**Figure 15.**

*Investment and jobs created and safeguarded by location (£m), 2020/21Q3*



## Wales Business Fund makes the majority of investment in 2020/21Q3.

In terms of 2020/21Q3 investment, there was a strong performance from the Wales Business Fund, with £8.4m of new investment, up from £6.6m in 2020/21Q2.

Other funds with significant activity in 2020/21Q3 include the Stalled Sites Fund (£7.5m of new investment), Property Fund 2 (£5.8m) and Wales Flexible Investment Fund (£3.8m).

While there is an expectation of a return to more normal trading conditions at the end of 2021Q2, there are still a number of uncertainties that will impact prospects for Welsh SMEs. On the positive side, the end of lockdown restrictions could see a short-term increase in consumption spending as retail and travel options open up. At the same time there has been some unevenness about the speed of the vaccination process in Europe which could impact economic activity in the second half of the year across the trading bloc, which would have repercussions for the UK economy.

As expected in the opening months of 2021, Brexit resulted in difficult trading conditions for some sectors, and with much of the problems focused on non-tariff barriers. In Wales, the very short-term effects seem to have been in agriculture, food and fisheries sectors, but it will be important to monitor Welsh exports in other sectors through this year as data becomes available.

The UK Budget provided some further actions in support of UK business. For example, the extension of the furlough scheme, the self-employment income support scheme and business rates holidays, as well as a tax break for investment in new equipment.

While much of QR3 has explored factors affecting the supply and demand side for all Welsh SMEs, it is important to recognise that the speed of recovery is expected to vary in different parts of the regional economy.

Just as some local authority areas have been worse hit by Covid-19 because of their individual industry make-up, so these same areas may be slower to recover.

The QR3 reveals some green shoots in terms of new business formations. At the same time 2021Q1 reveals SMEs reporting low cash reserves. The resilience of business activity and labour markets will be challenged when the Government-backed business support and job retention schemes come to an end, possibly towards the end of 2021.

Many of the changes occurring in the last twelve months in terms of SME transactions and operations are likely to shape the new 'normal' of running a business, shifting towards online transactions and remote working in the digital era, and thus leading to changing financing needs. The balance in Welsh Government support between safeguarding and transforming regional SME activity is an increasingly important one. There are difficult questions in terms of whether the current round of interventions will have the longer-term effects of returning Wales to its existing growth trajectory and work to reinforce a regional low skills equilibrium. This report has revealed that the activities of the Development Bank of Wales have been critical during the crisis, with the Development Bank having a central role to play in funding the transformation agenda during 2021-22.

# Appendix:

## Selected frequently updated resources

Some figures reported in QR3 change quite rapidly. This appendix provides web links to the statistics that are frequently available so that updates can be gained prior to the next Quarterly Report.

### **UK GDP updates:**

[www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/latest](http://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/latest)

### **UK labour market analysis:**

[www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/august2020](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/august2020)

### **UK regional labour market data:**

[www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/nationallabourmarketsummarybyregions01](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/nationallabourmarketsummarybyregions01)

### **UK coronavirus schemes updates:**

[www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics](http://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](http://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](http://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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