English Summary

The Economic Council of the Faroe Islands has revised the 2020 and 2021 GDP growth rates, based on updated statistics, and issued its 2022 GDP growth forecast. In cooperation with Statistics Faroe Islands, the Faroe Islands Economic Council estimates the following GDP growth figures in current prices: -2.4% in 2020, 7.9% in 2021 and 3.3% in 2022. Statistics Faroe Islands has also issued definitive GDP growth figures in current prices for the years 1998 to 2019.

	2018	2019	2020	2021	2022
GDP growth in current prices	0.7%	8.2%	-2.4%	7.9%	3.3%

Comment: 2018 to 2019 are based on published data from Statistics Faroe Islands. 2020, 2021 and 2022 are own estimates
Source: Statistics Faroe Islands and the Economic Council

Faster recovery than expected

Based on updated statistics, estimated GDP growth for the year **2020** has been revised to -2.4%. The spring term estimate indicated a GDP drop twice that size, however, private consumption in 2020 proved higher than previously estimated, and acted as a positive contribution to 2020 GDP growth, rather than dragging GDP down. In addition, public investments also made a greater positive contribution to GDP growth than previously estimated. The reasons why the shock was attenuated include that rescue packages in the Faroe Islands and globally mitigated the impact of Covid-19. All in all, domestic demand was higher than estimated in spring, and therefore the 2020 GDP growth drop was smaller than anticipated.

The changed variables that underpin the revision of the 2021 GDP forecast include an updated estimate of salmon harvest volume. The 2021 salmon harvest will exceed the spring estimates and this, along with a slight price increase, increases the total export value of salmon in 2021. Owing to the lack of an agreement with the UK, mackerel stocks are caught before entering British waters, which translates into lower quality catches and lower export prices. The Faroe Islands has fixed a higher mackerel quota for itself this year, however, given the present situation the quota is not expected to be used in full.

The Barents Sea quota increased in 2021, but the total volume of cod exports is not expected to grow significantly in 2021, given the modest cod stock in Faroese waters. Uncertainty owing to Covid-19 has led to low export prices for demersal stocks, which are sold under contract to clients such as hotels and restaurants in Southern Europe, however, cod prices are gradually returning to 2019 price levels as the pressures of Covid-19 ease around the world. Haddock prices appear to mirror those of cod, a hike in haddock prices is therefore also forecast for 2021. Haddock stock estimates also appear more optimistic than for cod, while saithe stocks are in poor shape. If closed fishing grounds are opened, on the condition of using sorting grids, the outlook for saithe catch volumes could improve.

GDP growth conditions for **2022** are based on variables such as the expectations of various export sectors. In general, the outlook for mackerel fisheries is uncertain because of the lack of an agreement with the UK, and it also depends on how mackerel catches shape up in autumn. It is uncertain whether the entire mackerel quota will be used in 2022, and prices are forecast to remain at the same low level as in 2021. The scientific catch recommendations for Barents Sea demersal stocks are lower for 2022 than 2021, and the Faroe Islands Economic Council is therefore calculating lower volumes. Demand from hotels and restaurants for Faroese demersal stocks is expected to grow in 2022, in line with increased vaccination rates, and prices are hence expected to approach 2019 levels. The aquaculture sector is forecast to harvest slightly higher volumes in 2022 than in 2021, considering the higher weight of current smolts compared to the previous year. In addition, prices are expected to increase slightly, given that demand, with rising vaccination rates, is expected to increase from hotels and restaurants internationally.

The Covid-19 pandemic has not caused any direct downturn of the Faroese economy, but has acted more like a minor shock. Households have not felt much impact from this shock; they are optimistic, and this translates into increased consumption, which is bolstering domestic retail. Private consumption is, along with growth in both household and private sector investments, contributing to pulling GDP growth back up again in 2021. Closures and restrictions abroad have impacted our export companies, and various restrictions have also impacted the tourist sector in the Faroe Islands. In spring the Faroe Islands Economic Council described the year 2021 with the word 'normalization', with export industries expected to gradually regain access to foreign markets, and international tourists also expected to return to the Faroe Islands. This normalization has occurred more quickly than expected in spring, and this is reflected in high GDP growth in 2021. This normalization is expected to continue in 2022, before it can be considered that the conditions for Faroese export industries are the same as before the pandemic.

The 3.3% GDP growth forecast for 2022 is somewhat lower than in some of the neighbouring countries, but this is firstly due to the fact that the Faroese economy already in 2021 has seen a major boost, which means that the Faroese economy has recovered relatively quickly following the Covid-19 shock compared to other countries. Secondly, the Faroe Islands has, owing to low unemployment rates and high labour pressures a capacity problem, which means that the Faroese economy due to the lack of available labour will be unable to grow as quickly in 2022 as in 2021. In addition, the sluggish GDP growth forecast in 2022 also owes to the outlook for mackerel fisheries next year. It is therefore crucial that an agreement on mackerel is reached as quickly as possible.

Major labour shortages

In the tourist industry the trend has just turned. Following a very slow spring, July has been a good month. International forecasts estimate that the tourist industry will return to pre-Covid levels by 2023 and 2024, however, representatives of the tourist industry in the Faroe Islands estimate that the sector could recover even faster. The biggest challenge to progress in the Faroese tourist industry is, however, labour shortages, and this bottleneck is not expected to be solved in the coming year, as it is proving cumbersome to bring foreign labour to the Faroe Islands. Representatives of the construction sector also highlight that it is difficult to find qualified labour for various tasks, and that the same skilled workers are also in high demand in the EU. In the fishing and fish farming industries it has also been necessary to fill positions with foreign labour, and the demand for labour remains high in both production and services. At present, unemployment is practically non-existent in the Faroe Islands, and it is therefore hard to imagine that these vacancies can be filled by existing labour in the Faroe Islands.

Labour shortages in the Faroe Islands are therefore not a passing challenge, but a problem that needs to be solved. The political system should therefore act to facilitate bringing foreign labour to the Faroe Islands, so that the bottlenecks, which otherwise slow down and raise the costs of operations and lead to wage-drift, are mitigated. Large construction firms in the Faroe Islands have positive experiences bringing foreign workers to the Faroe Islands and, inverse, as was seen in 2020 during Covid-related uncertainties. The experience of the construction industry point to foreign labour as a handy buffer that can ease pressures on the labour market, with the caveat that this must be done within a structured framework to avoid social dumping.

Treasury surpluses too low

Public expenditure grew 5% in 2021 compared with the previous year. It is mainly central government wage expenditures in welfare, e.g. the national health and social care systems, that has grown, but local governments, which are responsible for remits such as elderly care, have also experienced a hike. National pension spending will also rise in 2021 as compared to the previous year. On the other hand, total public investment expenditure will shrink in 2021 compared to the foregoing year, because of reductions e.g. in tunnel works and SEV. Public spending on investments has proven pro-cyclical over the years, be it national, local or state-controlled enterprise spending. In order to stabilise the economy there is a need for systematic management and coordination of investment, as well as a need to coordinate the investment activities of state-controlled enterprises.

The fact that the Faroese economy has recovered quickly advocates for larger surpluses on the national budget. The public budget deficit is estimated at DKK 300 million in 2021 and DKK 200 million in 2022. This is not a sustainable fiscal policy, that the public coffers during an economic situation with near zero unemployment and major income growth have no surplus. In the 2022 allocation framework adopted in April this year, the Government foresaw a continued annual treasury deficit in 2022 and a small surplus in 2023 with different measures worth DKK 60 million, which have yet to be specified. The state coffers should have a surplus of at least DKK 150 million in 2022. This is not to say that the Government should tighten the reins precipitously, but rather that there is a need for concrete plans to foster sustainable fiscal policies. Bearing in mind, in particular, the demographic challenges the Faroe Islands will face in coming years with the rapidly growing number of older citizens.

Housing shortages

Housing shortages constitute a crucial bottleneck with the potential to block continued demographic and economic growth in the coming years. During the period 2014-2020 the Faroese population has grown by 4882 people. New connections made by SEV to the electricity grid offer an indication of the number of new residential units, and these number 969 during the same period. The average number of persons per household in the Faroe Islands stands at 2.48; this corresponds to a need for approximately 1700 new homes. These figures do not correspond to the exact demand, but indicate that the offer of housing is too low compared to demand. The sluggish supply of housing combined with the large population growth contributes to pushing up house prices, making it difficult for young families to enter the housing market. This means that monetary assets are transferred from young families, which are already economically squeezed and looking to establish their first home, to those who are already financially well off and own substantial equity in houses. It would be wise if municipalities with large population growth accelerated the development of land for residential housing, so that the supply of housing is better placed to keep up with demand.