English summary

The Economic Situation Remains Unchanged

The Faroe Islands Economic Council has revised the 2023 - 2024 GDP growth rates taking into account updated statistics and produced a forecast for 2025. Statistics Faroe Islands has also issued definitive GDP growth figures in current and fixed prices for the years 1998 to 2022. Real GDP growth amounted to 5.8% in 2021 and 5.4% in 2022 driven by the Faroese economy bouncing back after the Covid pandemic; the contribution to growth comes especially from the primary sector and the private sector service industry. GDP Growth rate estimates for 2023-2025 are calculated in current prices as: 5.4% in 2023, 4.4% in 2024 and 2.8% in 2025.

	2021	2022	2023	2024	2025
GDP growth in current prices	7.7%	9.5%	5.4%	4.4%	2.8%
GDP growth in fixed prices	5.8%	5.4%			

Note: 2021 and 2022 figures were calculated by Statistics Faroe Islands. 2023, 2024 and 2025 are estimates issued by the Faroe Islands Economic Council.
Source: Statistics Faroe Islands and Faroe Islands Economic Council

Key figures continue to demonstrate that the **Faroese economy is robust**. While export of certain stocks (salmon and demersal fish) was lower in 2023, an increase in the blue whiting quota raised export volumes of processed fish products, among other goods. While export value grew in 2023, import value fell due to lower oil prices, amongst other things, and therefore there was a **trade balance surplus again** in 2023.

Unemployment remains low in the Faroe Islands (1% in Jan. 2024). **The strong labour market** induces the **households to remain optimistic**, in spite of the fact that interest rate have increased and higher inflation has weakened the purchasing power since the summer of 2022. Prospects of wage increases and tax cuts along with lower inflation and the expectation that the interest rate will fall are likely contributing to households remaining confident.

Prices are still rising, but **not as much** as they have been in the last year. In the fourth quarter of 2023 the consumer price index rose by 2.8%, which is significantly less than the growth in the consumer price index since mid 2022. While oil prices had the greatest impact on the consumer price index in early 2022, it has since been food prices that have increased the consumer price index. By close of 2023, however, interest rate expenses had the greatest impact on the consumer price index. **There have been 10 interest rate hikes** since the summer of 2022, and mortgage interest expenses have risen by 82% for Faroese households in the period July 2022 - December 2023.

The financial institutions estimate that **households** have become **slightly more cautious** since interest rates and price levels began to rise. However, it is likely that they had the financial margin to absorb the higher cost of living. First time buyers have, however, found it even more difficult to get a foothold on the housing market in the capital in 2023 than in previous years. In Tórshavn housing prices remained constant in 2023 as compared to 2022, while the larger villages and Suðuroy and Sandoy experienced a drop in prices. In the smaller villages the average price of a house was higher in 2023 compared to 2022.

The confidence index for the business sector was **lower** in January 2024 than in June 2023. The primary sector is reporting lower demand and larger stocks of finished goods, but the industry expects prices to rise for herring and Barents Sea cod due to reduced quotas. In addition, the sector anticipates a stagnation to the international supply of salmon, which could result in higher prices of salmon in 2024. The retail industry is not optimistic and is reporting large volumes of stock in storage and lower sales

forecasts for 2024. Households have shifted to cheaper goods and the demand for new cars has fallen drastically. The private services industry estimated that the 2023 turnover was unsatisfactory but remains optimistic about demand in 2024. On the other hand, confidence in the construction industry remains high and one of every two construction companies is reporting a shortage of labour, while the tourism sector is reporting increased international bookings for the summer and autumn of 2024.

The **result on the central government budget** is forecasted by the Faroe Islands Economic Council to a deficit of **DKK 146 million in 2024** and a deficit of **DKK 31 million in 2025**. The estimate is based on the 2024 fiscal budget, which shows a surplus of approximately DKK 4 million. Public investments worth DKK 200 million have been carried over from 2023 and The Economic Council estimates that DKK 100 million of these carry-overs will be used in 2024, also the VAT income will be DKK 50 million less than estimated. For the fiscal year 2025 the Economic Council has based its estimate on projections made by the Ministry for Finance. These projections do not, however, take into account price and wage growth, and the Economic Council has therefore added these. This yields a deficit of DKK 31 million in 2025. The deficit is lower in 2025 than 2024 due to a drop in government investments by nearly DKK 200 million. The Faroe Islands Economic Council considers it to be poor financial management when the central government budget yields a deficit in both 2024 and 2025 following several consecutive years of economic growth with low unemployment and considerable rises in treasury revenue. These results demonstrate that **the political system** remains **unable to hold back in expenditures during upswings**. In addition, resource rent revenues allocated for transfer to Búskapargrunnur Føroya (Faroe Islands sovereign wealth consolidation fund) are classed as revenues on the national budget. This makes it very difficult for politicians and the public to interpret what the actual budget results are and thus it is hard to see how the political system should prioritize.

Call for a fiscal framework

The **fiscal policy sustainability indicator is -9% of GDP** according to a recent sustainability analysis carried out by the Faroe Islands Economic Council. Given that in the future the ratio between providers and those who need providing will not be the same as today the financial requirement over the coming 40 years will amount to DKK 45 billion.

Current legislation stipulates increasing the retirement age by six months in 2025 and in 2030, however, this will not suffice to meet the sustainability challenge. If, however, **the retirement age** were to **rise by one year** every five years from 2035, then the fiscal policy will, in time, become sustainable and the financial requirement will drop to DKK 12 billion over the next 40 years. The political system will therefore have to implement reforms and measures to reduce expenditure and raise revenue, as well as increase the retirement age by one year every five years.

A fiscal framework would enable **reigning in spending growth**. The political system should in a **broad consensus**, draw up **public sector budget targets for a 10-year period**, which are in line with a sustainable economy in the long term. This includes both state and municipalities budgets. Once this is done, revenues for this period will be forecasted and subsequently the expenditure these revenues suffice to cover are calculated, on the condition that the budget target is reached. Central government should in this context negotiate with local government (municipalities) on a spending framework for, e.g., a four-year period, which is fixed but where the municipalities are free to set their own priorities.

Increase labour supply

Shortening the working week reduces labour supply, but if this measure is implemented, the political system should carry out **measures to increase the supply of labour.** Labour shortages are and will remain a major challenge for the Faroese economy, both in the public and private sector. The fast-track system has alleviated pressure in certain areas of the labour market. It is also a step in the right direction that the political system has lowered tax rebates for people working abroad. The Economic

Council is, however, convinced that **all special tax regimes, which encourage people to work abroad** rather than in the Faroe Islands **should be repealed**.

Withdraw public subsidies schemes

It hampers economic development in the Faroe Islands that **public subsidies schemes continue to support operations in loss-making industries**. The Faroe Islands have several forms of such subsidies schemes. One is the unemployment service for the workers in the fish processing industry, which retains people in industries with little to no profit and cannot offer employment year-round, and which prevents people from seeking employment in other industries where they could contribute more to the economy. Another scheme which is private is a scheme that ensures workers on fishing vessels a minimum wage. This minimum wage combined with the stipulation of an obligation to use a quota means that, even when certain fisheries are not economically viable, they continue to operate. As stocks shrink, this scheme drives fisheries to continue leading to further stock depletion. The possibility of bringing in foreign crews for fisheries that fish so little that the crew receive minimum wages most of the year, also means that the Faroe Islands receives foreign workers for businesses, which cannot pay competitive wages to Faroese crews. This system leads businesses, which otherwise probably would have kept their vessel from fishing, to man them with foreign workers and thereby these schemes result in maintaining an overcapacity in the Faroese fishing fleet.