English summary

The Faroese Economic Council (Búskaparráðið) has revised the growth in Gross Domestic Product (GDP) for the years 2021 – 2022 and estimated the GDP growth for 2023. The Faroese Economic Council has in cooperation with the Statistical Bureau of the Faroes (Hagstova Føroya) estimated the growth in GDP in current prices to be respectively 8.2% in 2021, 3.3% in 2022 and 2.4% in 2023. The Statistical Bureau has revised the growth in GDP in current prices for the years of 1998 to 2020 due to updated statistical processing. GDP has doubled within 15 years from 10.5 billion kr. in 2005 to 21.2 billion kr. in 2020.

	2019	2020	2021	2022	2023
Est. GDP-growth in current prices	8,6%	-2,8%	8,2%	3,3%	2,4%

The situation is currently uncertain due to the conflict between Russia and Ukraine, which will affect the global economy and, thereby, the Faroese economy. The assumed GDP estimations for 2022 and 2023 do not consider the Russia and Ukraine situation.

The Economy is growing
Both wage expenditures and the number of employees reached new highs in December 2021 and reached above the level before COVID-19 hit the Faroe Islands. The unemployment has also hit the low pre-COVID-19 level, which altogether indicates that the Faroese economy is growing. During the summer of 2021 the course of the **tourist industry** turned, and the activity was so extensive that the most significant challenge in the tourism industry was to provide the labour force required to meet the demand of tourists. The urgent need for work capacity has improved significantly through the new Fast Track program which has made it easier to acquire both trained and untrained workers from third-party countries. Several bookings for the tourist year 2022 are already made by foreigners. Therefore, the prospect for the Faroese tourist industry is good even though both restaurants and hotels have faced losses during 2020 and 2021 due to COVID-19.

The largest obstacle to production in the **construction industry** is the lack of employee. This bottleneck issue is not as easily solved through the new Fast Track program providing labour force from third-party countries, because it is difficult to find the specific skilled employee requested by the construction industry. According to representatives from the construction industry, a system similar to that used for fishermen is needed, which can ensure foreign workers to effectively move between their homes and the Faroe Islands for work. The construction industry expects the need for workers to continue to be there in the years ahead. The industry perceives the policy that foreign workers only can be utilised when unemployment rate is below 3.5% as an obstacle because these particular workers are lacking in the Faroe Islands even if unemployment rises.

The optimism of the **households** has slightly decreased in the latest consumer survey. According to the Statistical Bureau of the Faroes, the most significant yearly change in consumer price index since the economic depression in 2008 took place during the last quarter of 2021. The households' expenditures to heating residential properties and petrol for cars has significantly increased, but the optimism of the households is however maintained. The private business is on the other hand very optimistic in the recent economic survey, which reveals an increase in orders, services, and activity. The household spending has been higher than usual within the Faroe Islands during 2020 and 2021, helping the **retail and service industry**. The consumption will unlikely continue at this level in 2022 as the households are expected to start spending money abroad again once the COVID-19 situation allows for more travelling.

In 2021 the exports of goods set a record. The expenses to operation and transport have however significantly increased during the last year, which has decreased the profitability of the export industry. The prices of transport and raw materials are expected to remain high in 2022. However, the foreign

demand from grocery stores and hotels and restaurants for Faroese goods is already stabilising as the current COVID-19 situation no longer seems to have such serious long-term consequences.

In the **fish farming industry**, the harvested volumes of salmon set a new record in 2021, while the harvested volumes are expected to decrease below 110 thousand tonnes in living weight in 2022. The lower harvested volumes in 2022 compared to 2021 causes the total export to decrease in 2022. However, this will be countered by an expected increase in the salmon price in 2022 as demand is expected to be continually exceeding the supply of salmon. Regarding the **pelagic fish industry** there are no prospects for a trade agreement with Great Britain regarding mackerel fisheries this year. An agreement in favour of the Faroes could yield higher prices of mackerel if fishing were allowed in the British waters since the quality of mackerel is better and easier to catch in that area. In 2021 the ships used substantially more time fishing mackerel than when fishing in British waters, and this is expected to continue this year. The overall quota of mackerel is likely to decrease in 2022; however, if ships fish the unfulfilled quota from last year, the decrease of the overall quota will not pull the export values of 2022 significantly down.

In 2021 the Faroe Islands received a capelin quota. The capelin quota will increase significantly in 2022, and, therefore, there is no expectation of receiving as good a price for capelin as last year. The overall quota of other pelagic fish; herring and blue whiting, is expected to decrease in 2022. In 2021 the herring arrived later from the Icelandic Ocean than usual; however, the amount expected that year was caught. Although the herring price is likely to remain stable in 2022, the blue whiting price is expected to increase slightly in 2022. The lack of MSC (Marine Stewardship Council) approval of blue whiting is currently not specifically important in the countries that the Faroe Islands exports to, and thus does not affect the price, but the industry reveals that consumers are increasingly demanding sustainable fishing.

The catch of cod is little within the **domestic borders**, and the prospects of the cod stock are poor. The majority of Faroese cod is fished in the Barents Sea. The quota in the Barents Sea is decreasing in 2022 compared to 2021; however, prices are estimated to increase slightly in 2022. On the other hand, haddock stock is doing better, and the haddock catch is estimated to increase in 2022 compared to 2021. In comparison, saithe fishing is not doing well even though plenty of saithe should be available according to the fish stock estimations. Therefore, it is estimated that less saithe will be caught in 2022 compared to 2021.

The Budget surplus is estimated to be DKK 160 million in 2021 and DKK -155 million in 2022. The results of 2021 were better than initially expected due to increased income from VAT. This is because Faroese people have travelled less and spent more money within the country. Furthermore, the harvested volume of salmon was greater in 2021 than initially estimated, resulting in a higher income from the license fee. Additionally, the operational expenditures were lower than initially estimated. The result of DKK -155 million for 2022 is worse than the Budget states (it states a surplus of DKK 38 million in 2022) because the Economic Council expects around DKK 150 million more to be used for investments than the Budget states and extra ordinary expropriation of DKK 50 million kr. in 2022.

Prospects of 2023

The prospects for mackerel fishing are slightly worse in 2023 than in 2022. This is assuming no settlements with Great Britain on fisheries in British waters have been made in 2023. Despite of the lack of an agreement with Great Britain a significant amount of mackerel has been caught in 2021 because the recruitment of mackerel has been good. If the NEAFC countries continue to set their quota past the recommended amount; there will undoubtedly be a decrease in the overall quota for 2023 set by ICES because of tremendous fishing pressure decreasing the current fish stock. The same can be said about blue whiting, as non-sustainable fisheries over the past years, has resulted in lower TAC-quota, and most likely will happen again 2023. It is difficult to layout the progression of herring fisheries in 2023; the reason being the estimated decrease in the spawning stock as time progresses, without disregarding the possibility of a single good year in 2023, which would then affect the overall situation of 2023. The fish farming industry expects an increased activity in 2023 compared to 2022,

while demersal fishing is not expected to change significantly, neither on the domestic shelf or at the Barents Sea during 2023.

Tourism activity is estimated to rise above the levels before COVID-19 in 2023, partially because of increased capacity through new hotels. Several sizeable public building projects are finished, and the driving force of the construction industry are now more investments in the private sector. In January 2022, the construction industry estimated the order books to be full until early 2023, and if the prices in building materials stabilize, demand might rise. If demand of qualified employee within the construction industry continues to rise into 2023, then a bottleneck effect might arise and an even more significant wage drift might commence and thus increasing the price within the construction industry as a whole.

The consumption of private households in 2023 is estimated to have decreased to the same level prior to COVID-19. This is caused by an expected increase in the private household demand of travelling abroad, which could affect commercial industry sales in the Faroes. A greater demand for new construction and renovation of residential properties from private households is still expected in 2023, which is expected to prolong the price level in the residential house market. As previously pointed out by the Economic Council, a continuously high price level on residential housing is simultaneously due to the lack of housing properties. This trend is projected to continue in 2023.

Overall, a lower supply of pelagic fish is estimated to decrease the export value in 2023, whilst an increase in salmon exports will negate this effect, leading to slight growth in the overall export in 2023 compared to 2022. This will help increase the growth of GDP in 2023, whilst the private consumption expectantly returns to the level prior to COVID-19. The growth of GDP in 2023 is provisionally estimated to be 2.4% in current prices. Moreover, the uncertainty around COVID-19 and continuous substantial price growth in energy and materials in 2023, as well as other unclear and uncertain factors, could significantly affect Faroese exports. The negotiations with Great Britain about mackerel as well as the conflict between Russia and Ukraine could lead to a price drop in the pelagic fishing industry. Currently, it is difficult to know the full consequences of these factors.

The Economic Council projects the governmental income and expenses to rise by +3% compared to 2022 estimates, and this leads to an estimated result of DKK -159 million on the Budget of 2023. With close to no unemployment and significant income growth, the public budgets should at least have a surplus in both 2022 and 2023.

Sustainable Primary Sector

Faroese export is significantly dependent on natural resources, mainly marine resources. Therefore, considerations on biological sustainability are crucial as industrial activity exploits the environment. This means, for example, maintaining a sustainable fishing pressure, thereby making sure that fishing stocks are not emptied. Sustainable fisheries ensure that the output can be continuously stable, if not greater in the future.

The Faroese economy has multiple sustainability challenges ahead. One of them is the mackerel quota partially being granted to ships not suitable for mackerel fishing, which prevents industry adjustments to ensure productivity growth. The political system has reverted to old habits by providing financial support to the domestic fleet, which from experience is known to be non-sustainable. The Economic Council perceive such arrangements as public subsidies for operations, that are struggling to be self-supportive. This could lead to an increasement in fishing pressure and therefore fishing stocks being lower than that which is biologically sustainable. Consequently, this maintains labour force in an industry that is not profitable, which prompts capital being invested in an industry that is artificial self-supportive, because of support from the government. Only vessels specifically designed to pelagic fisheries should be allowed to fish the pelagic stocks. The size of the fishing fleets should not be unnecessarily large if it is to be as effective as possible to increase productivity and, thereby, guaranteeing economic growth. Furthermore, resource payment should materialise on all mackerel resources. At the moment this resource payment, which should be exacted by the government, is used

for unnecessary vessels and ineffective production. The average amount of fish fished in the Faroese continental shelf has been historically low for the last seven years. In its current state, with the situation being as bad as it is for the domestic fleet, fishing demersal fish, the question is whether this is a chance to reassess the current fishing day system. It is uncertain if the current system, which measures fishing days instead of amounts by quota, and which only allows for the number of fishing days to be regulated 5% in either direction, is the most efficient. In 2021, at least one-fourth of the fishing days allocated to the domestic fleets were unused, which in certain cases comprised of more than half of the allotment for specific vessel groups. The Economic Council recommends that the system using fishing days be revaluated, and additionally, to remove unused days from the system to make the regulation more effective in order to increase the productivity in the domestic fleet.

Significant investments have been made in the fish farming industry during the last few years, and the fish farming industry currently represents close to half of the fishing product export. Currently one of the most significant problems in the fish farming industry is the presence of sea lice. Salmon sea lice is a common issue in the fish farming industry, due to salmon lice larvae being able to travel through the fiords around the country. Statistics show that the mortality rate of salmon is increasing and a particular reason for this is sea lice. Simultaneously there is a challenge of keeping the number of salmon lice down without increasing use of treatment, particularly due to the effect on general fish health and increased mortality rate which is a consequence of this treatment. The Economic Council recommends that authorities monitor the progress to ensure suitable decisions being made if or when necessary. The goal is to prevent an increase of risk in the fish farming industry and thereby in the economy, to not face a sudden severe recession.