English summary

The Economy Still Under Pressure The Economic Council has provided an updated forecast of the GDP growth for the years 2024–2025. The GDP growth forecast for 2023–2025 is in current prices and is estimated to be 5.6% in 2023, 4.7% in 2024, and 3.3% in 2025.

The real economic growth for 2023 has not yet been finalized, and the GDP estimates for 2023, 2024, and 2025 are only in current prices. The trend in the number of employees can give an indication of real growth; the number of employees has increased in recent years. The number of employees grew by 1% in the period from July 2023 to June 2024, compared to the same period the previous year. The estimated growth in current prices is around five percent, while inflation is currently three percent. The growing activity is also reflected in the fact that the number of foreign workers in the labor market continues to grow. Finally, it can be pointed out that wage payments have increased by 6% in the 12-month period up to June 2024, compared to the same period the previous year.

GDP and GDP Growth in Current Prices

	2021	2022	2023	2024	2025
GDP mil. DKK	22,980	25,162	*26,578*	*27,822*	*28,730*
GDP growth p.a	7.7%	9.5%	*5.6%*	*4.7%*	*3.3%*

Note: 2021 and 2022 are official GDP releases by Statistics Faroe Islands. 2023, 2024, and 2025 are estimates by the Economic Council.
Source: Statistics Faroe Islands and the Economic Council

The household confidence index is higher in the latest consumer survey from Statistics Faroe Islands compared to the January 2024 survey, which may be related to wage increases, tax reductions, and prospects for lower interest rates. Prices are no longer rising at the same pace as they did two years ago, and the consumer price index increased by 3.0% in the second quarter compared to the same quarter last year. The price increase was primarily due to housing interest costs and the price of fuel oil. Food prices also increased but at a slower pace than in the past two years. There is work for everyone, and unemployment remains very low; it was 1.1% in July 2024.

The good confidence of households is also reflected in the confidence index for both the trade and service industries. In the construction industry, it is expected that the demand for labor will decrease in the coming year, but the number of months with secured work remains unchanged. On the other hand, confidence in the resource industries has somewhat decreased. The quotas for both herring and mackerel have been reduced in 2024 compared to 2023, partly due to the new coastal states agreement on mackerel. Likewise, the cod quota in the Barents Sea will decrease in 2024 and 2025. However, the salmon harvest has increased, and together with an increased blue whiting quota, exports overall are helping to drive GDP growth in 2024.

Imports decreased in the first half of 2024 compared to the same period the previous year, partly due to lower imports of ships, raw materials, and fuel. Exports also decreased, but not as much as imports, so balance of trade is in surplus (June 2024).

Real estate agents report that first-time buyers are having difficulty entering the housing market, especially in the capital region. Many are looking outside the capital region for the same reason. Additionally, the cost of materials when building houses has risen significantly, making people hesitant to build new houses. The shortage of housing is a significant bottleneck, hindering continued population and economic growth in the Faroe Islands. Therefore, municipalities with significant population growth should expedite the development of land plots, especially for building apartments and other smaller housing units, to meet the urgent need more quickly. The government should also contribute by building rental housing.

There is a strong demand for labor, and one way to increase the labor force in the Faroe Islands is to attract foreign workers. Labor market policies should ensure that foreign workers coming to the Faroe Islands meet a need that is high productive value-creating for the Faroese economy. Many of the workers who have come to the Faroe Islands through the Fast Track system from third countries work in fish processing plants, and they are covered by the fish factory system (FV), which is a system that provides unemployment benefits during periods of inactivity at fish factories due to factors such as a lack of raw materials. To qualify for FV benefits, the workplace must be approved by the Faroese Unemployment Office (ALS) under the FV system. According to the lates annual report from ALS, about 1,500 people were in the fish factory system in 2023, of which around 40% were foreigners. According to ALS, there are even cases where unemployment benefits are essentially the basis for some foreigners' stay in the Faroe Islands. The fish factory system also hinders workers from seeking employment in industries where they would contribute more to the economy and value creation in the Faroe Islands. Systems like the fish factory system which all wage earners and employers in the Faroe Islands help fund, should not be used to ensure that employers can meet the 40-hour workweek requirement.

The labor shortage will continue to grow for many years due to demographic trends. Raising the retirement age increases the labor supply. If the retirement age is not increased as life expectancy grows, it will lead to an imbalance between rising pension costs and the relatively fewer tax revenues from work incomes. The remaining life expectancy as a pensioner has already increased by four years since 1988 because the retirement age has not been adjusted to the increasing life expectancy. Therefore, it is necessary to accelerate the adjustment between working life and retirement life. This is crucial for ensuring the sustainability of the fiscal policy.

The Economic Council estimates the budget deficit to be around 560 million DKK in 2024 and 280 million DKK in 2025, considering that not all the revenues from fishing and aquaculture fees will be available for political authorities to control in 2024 and 2025, as a portion must go into the Economic Fund. One purpose of the Economic Fund is to smooth out tax income from the fishing and aquaculture industries. This is done by paying 250 million DKK from the fund into the budget each year from the fishing industry and 150 million DKK from the aquaculture industry. Revenues from fishing and aquaculture that exceed these amounts go into the Economic Fund and are spread over seven years. However, the Ministry of Finance plans to increase the amounts going directly into the fiscal budget. For the fishing industry, the amount will be raised from 250 million DKK to 350 million DKK, and for the aquaculture industry from 150 million DKK to 250 million DKK. This means that the state’s revenue will become even more vulnerable to fluctuations in the fishing and aquaculture industries, and the goal of smoothing out revenues from fishing and aquaculture fees will be diminished.

The government should develop long-term financial plans for both the national and municipal budgets, as there are significant challenges ahead due to demographic developments. It is not enough to patch up the budget with vague measures worth 35 million DKK per year, as planned, according to the framework from the Ministry of Finance. Major reforms that truly make a difference are needed to get fiscal policy back on track. A specific reform, where the retirement age is raised and thereafter follows the expected increase in life expectancy, along with efficiency improvements in the public sector, will make a significant contribution to ensuring fiscal sustainability.

Fiscal policy rules have returned to the political agenda in the Faroe Islands. In the Prime Minister’s ólavsøka speech (opening parliamentary speech), it was announced that the coalition aims to “reach an agreement on fiscal policy rules that limit how much money we politicians can spend and ensure that everything we do is funded.” The Economic Council fully supports this and once again urges the political system to implement such fiscal policy rules. It can be pointed out that such rules are already legislated in most of the neighboring countries.

It must also be noted that about one-third of public spending is managed in the municipal sector. Therefore, it is essential that a fiscal policy framework covers the entire public sector and not just the national financial management.