English Summary

Together with Statistics Faroe Islands, the Economic Council has adjusted its assessment of growth of GDP in current prices for the current year. The Economic Council now estimates the growth to be 1.8%, somewhat higher than the expected growth of 0.5% in the previous report.

This revised assessment of growth in GDP for this year is due to new conditions. A decline in export is expected this year because of shrinking quotas, decrease in fish farming harvests and lower prices in certain groups, all of which hampers growth. At the same time, an increase in domestic demand boosts growth.

	2014	2015	2016	2017	2018
Est. GDP-growth in current prices	7,5%	5,6%	6,8%	6,2%	1,8%

In average, expenses other than for elder care have grown more in the municipalities than in the central government. That elder care has been transferred to the municipalities is therefore not the only reason for the massive growth in expenses. As such, the growth in municipal expenses suggests a lack in fiscal policy management, especially in the municipal sector.

Growth in public investments from 2016 to 2018 is clear and evident. This stems from investments made by the central government, the municipalities and by publicly controlled companies. Investments by publicly controlled companies has increased significantly since 2015.

As is the case in public expenses, so public investments are also positively correlated with the business cycle, be it in investments made by the central government, the municipalities or by publicly controlled companies.

Neither intermunicipal, central governmental-municipal or central governmental efforts have been made to significantly curb overheating in construction, even though this is simply a matter of making long-term investment priorities. Though, a few semi-public investments have been postponed, and some private investments have been halted, i.e. postponed until more can be achieved with the same amount of investment expenditure.

Apart from debt ceilings, the central government has no mechanism to influence municipal decision-making regarding construction, nor can the central government stipulate municipal frameworks for investments or operating expenses. This, together with the diminutive size of many municipalities, makes for an unfortunate municipal structure in the Faroe Islands.