Summary

The Faroes Economic Council has revised the 2022 - 2023 GDP growth rates to taking into account updated statistics. Statistics Faroe Islands has issued final GDP growth rates in current prices for the years 1998 to 2021. In cooperation with Statistics Faroe Islands, the Faroe Islands Economic Council estimates following GDP growth rates in current prices: 10.8% in 2022, 2.7% in 2023 and 1.3% in 2024.

The growth in GDP in 2022 was largely driven by inflation rates. One of the major contributors to GDP growth in 2022 was exports of fish products, and the export value in 2022 stemmed from higher prices, as volumes were lower. Prices are not expected to rise as steeply in 2023 and 2024 compared to 2022, and the growth rates of GDP in current prices in 2023 and 2024 are therefore not expected to derive from rising prices, as in 2022, which result in lower growth estimates for GBP in current prices for both of these years. Among other factors, the relatively low GDP growth in current prices in 2024 is caused by a slight dip in export volumes as compared to 2023, while private and public investments are forecasted to remain at the same level as in 2023.

	2020	2021	2022	2023	2024
GDP growth in current prices	-2.7%	8.0%	10.8%	2.7%	1.3%

Note: 2020 and 2021 figures were calculated by Statistics Faroe Islands. 2022, 2023 and 2024 are estimates issued by the Faroese Economic Council. **Source:** Statistics Faroe Islands and Faroese Economic Council.

There are no signs of stagnation in the Faroese economy. Global inflation rates have benefited Faroese exports as the export value grew by 26% in 2022 due to higher prices on fish products. The big price increase in demersal and farmed fish in particular generated higher export values in 2022. Exports outlook for the next two years are influenced by increasing salmon harvest volumes and larger exports of pelagic fish caused by a growth in the blue whiting quota. Import prices on raw materials used in production are also up in 2022, however higher export prices have compensated for this rise, as the Faroese trade balance remains in surplus.

Domestically, households in the Faroe Islands are affected by the inflation and interest rate hikes. The consumer price index has risen steadily in the course of 2022; it is particularly household goods, such as food and heating oil, which, alongside hiked interest rates, are driving a spike in the consumer price index. In the most recent survey, households are a bit more optimistic, but they are negative when assessing their financial situation today compared to one year ago, and do not consider it to be the right time for any major purchases. The higher cost of living is diminishing disposable income, and this is reflected in the sale of food, home furnishings and clothes, which fell by 10-15% in the fall of 2022. Whether private consumption will fall in the coming year is however difficult to predict, due to the unemployment rate being at a historic low, the numbers of wage earners being record high in January 2023, and the total wage expenditures in 2022 exceeding than of the year prior. This means that all residents in the Faroe Islands capable of working are employed, which means that most households can maintain an ordinary level of consumption, even though they receive less for their money.

Not unexpectedly, the retail industry reports that consumers have substituted to cheaper goods and sales of expensive home furnishings are decreasing. The retail industry therefore expects lower sales in the coming year. Moreover, construction of residential property has decreased as the cost of loans as well as construction material has risen so significantly that households have become reticent to invest in construction of new housing or houses in need of repair. In the case of large-scale public and private projects, on the other hand, there is great demand again in the building industry and the major construction companies are booked for at least the next 2 years. In spite of hiked interest rates and inflation the tourism industry reports that international travellers remain interested in the Faroe Islands as a travel destination, however, there are fewer bookings and thus uncertainty remains about how the summer of 2023 will pan out.

The new coalition is planning for a DKK 141 million surplus on the national budget in 2023. This is due to a higher revenue forecast as compared to the September 2022 draft budget and reprioritisations have been made on both investments and operations. It remains uncertain, however, that the surplus will ultimately amount to DKK 141 million in 2023. High inflation and interest rate hikes will most likely put great pressure on public sector wage negotiations. In the projections made by the Faroese Economic Council, the Treasury's expenditures are projected to increase by 5% and revenues to increase by 4%, arriving at a forecasted result of a DKK 31 million deficit in 2024.

In spite of rising prices and higher interest rates, it is hard to detect any sign of recession; a surplus of DKK 141 is therefore insufficient considering that the Faroese economy is still booming with very low unemployment and high revenue growth for the Treasury. Although households have been hit by the rising cost of living in the last year, the value of Faroese export products has grown considerably in parallel, which has stimulated the Faroese economy.

Population forecasts show that the number of older people is growing at a relatively faster rate than the number of people in the work force. As the number of older people grows, public expenditure on welfare services such as healthcare and elderly care will grow significantly, which in turn will have a major impact on the long-term fiscal sustainability if no new reforms are introduced to either increase revenues and/or decrease expenditures. The Faroe Islands is thus faced with a sustainability challenge. Measured relatively to the DK 26 billion GDP in 2023, a surplus of DKK 141 million (0.5% of GDP) is not a significant surplus. Both in relation to the ebullient economy and in relation to the sustainability challenge – in this sense the surplus in 2023 should be higher. The government must therefore make long-term fiscal plans – not just for the Treasury but also for the municipalities - as major challenges lie ahead now that the elderly care has been allocated to the local governments (ij 2015). It is abundantly clear that financial reforms will be required.