English summary: Economic Growth Slows Down

The Economic Council, in collaboration with Statistics Faroe Islands, has estimated GDP growth for the years 2024–2026. These GDP estimates are calculated in current prices. GDP growth is projected to be 3.0% in 2024, 5.0% in 2025, and 5.7% in 2026, as shown in the table below.

	2022	2023	2024	2025	2026
GDP in current prices (billion DKK)	25,2	26,9	27,7	29,1	30,8
Annual growth in current prices (%)	9,5	6,7	3,0	5,0	5,7
Annual real growth (%)	3,6	2,5			
Inflation (%)	7,7	4,7	2,0		

Note: GDP figures for 2022 and 2023 are actual values from Statistics Faroe Islands, while figures for 2024, 2025, and 2026 are estimates from the Economic Council.
Source: Statistics Faroe Islands and the Economic Council.

Statistics Faroe Islands has compiled GDP figures up to 2023. In 2022, GDP grew by 9.5% in current prices, with real growth at 3.6%. In 2023, growth in current prices and real terms was 6.7% and 2.5%, respectively. The table also shows that inflation declined in 2024, meaning it no longer boosts GDP growth in current prices as significantly as it did in 2022 and 2023.

Optimism Declines

Employment and wage payments reached record highs in 2024. The unemployment rate was only 1% in January 2025. This indicates that jobs are available for everyone, supporting private consumption. According to the latest consumer survey from Statistics Faroe Islands, slightly more households report that they just manage to make ends meet compared to the survey made in the summer 2024. However, prices are no longer rising at the same paste as they have recently and people have benefited from wage increases, tax cuts, and lower interest rates, which may improve household optimism. On the other hand, an increasingly uncertain world may make people more cautious. One possible sign of this caution is a decline in car sales and stagnant sales of durable household goods.

Unemployment has been low in the Faroe Islands for an extended period, which may limit the country's production capacity. However, mechanisms to attract foreign labor have helped ease labor shortages in certain industries and reduced pressure on wage growth. The introduction of the fast-track system for third-country nationals in November 2021 led

to a significant influx of foreign workers. The growth in foreign labor peaked in 2022 and has since declined, indicating that the surge in foreign employment is tapering off.

The construction industry indicator has fallen for the third consecutive half-year and, in the latest tendency survey, has dropped below the average level. The construction sector reports fewer orders and expects lower demand for labor in the coming year. According to the Faroese Association of Consulting Engineers and Architectural Firms consulting firms are also seeing a slowdown, suggesting fewer construction projects in the near future. In contrast, the retail sector is more optimistic. The latest economic tendency survey from Statistics Faroe Islands shows a significant improvement in retail expectations since the summer of 2024, including an upward trend in expected sales. The service sector is also optimistic, with recent positive trends and growing overall demand.

Exports Decline, but Trade Surplus Increases

Total exports declined in 2024, but imports fell even more, resulting in an increased trade surplus. Overall, the outlook for export industries is positive. Resource-based industries report more orders and a more optimistic production outlook for the coming year compared to the last survey. The expected increase in resource-based production is likely driven by significant growth in aquaculture this year and next year. However, the fishing industry is expected to produce less next year due to declining quotas, including a reduction in the Barents Sea cod quota and a halving of the North Atlantic herring quota.

About half of Faroese exports went to the EU in 2024, while 10% went to the USA. Global financial markets have been unsettled by threats from the U.S. president to impose additional tariffs on imports from the EU and other regions. If economic growth in Europe slows down due to these tariffs, consumer purchasing power in Faroese export markets may decline, negatively affecting demand for Faroese fish products. Furthermore, if the U.S. imposes tariffs on European goods, it could also extend to Faroese products, particularly impacting salmon exports to the USA.

Public Spending Continues to Grow

Public spending was higher in 2024 than in 2023, partly due to wage increases and salary adjustments for various professional groups. Additionally, the public workforce grew in 2024 compared to 2023. Public pension expenditures are also rising due to an increasing number of retirees. Municipal wage payments are growing as well. However, public investments declined in 2024 compared to 2023, and the government budget deficit is projected to be DKK 300 million in 2025 and DKK 265 million in 2026. This deficit amounts to about 1% of GDP each year, which is unsustainable in an economy with virtually no unemployment. A government budget deficit means that national debt will increase in the coming years, leading to higher interest expenses and requiring a larger portion of tax revenues to service the debt.

In January 2024, the Economic Council published a report on fiscal sustainability, showing that due to demographic changes, public expenditures will outpace revenues in

the future unless structural reforms are implemented. Therefore, controlling spending is essential. The Economic Council continues to recommend the implementation of a fiscal policy framework to ensure political decision-making aligns with clear fiscal goals for the next 5 to 10 years. Additionally, it is necessary to review revenue sources and introduce measures to increase them. The government must ensure that public revenues and expenditures are balanced over time, or public debt will continue to grow unsustainably.

Structural Reforms Are Needed to Ensure Fiscal Sustainability

The government has proposed increasing the retirement age to 70 between 2035 and 2042. If adopted, this measure would improve fiscal sustainability. In several areas, operational structures can be reorganized to increase efficiency. The Faroe Islands have many small institutions in primary education, social services, and elderly care. Small institutions make efficient operations more challenging and require a higher number of staff per user compared to larger institutions, particularly when 24-hour staffing is necessary.

Elderly care and daycare services, which are large and resource-intensive sectors, are managed by municipalities. However, municipalities vary greatly in size, age demographics, and revenue base. The government must review the municipal structure, as not all municipalities will be able to meet future challenges. Reducing the number of municipalities would create stronger administrative capacity to handle daycare and elderly care services. Another option is to reassess whether daycare and/or elderly care should remain under municipal control. In any case, municipal funding must be reviewed.

The government should also establish a committee to develop concrete efficiency plans for the three major welfare sectors: social services, healthcare, and education. Unit costs must be reduced, or public expenditures will continue to rise indefinitely. Comprehensive reforms are needed across all welfare sectors.

Investment Priorities

Public gross debt (EGS debt) is projected to be 30% of GDP by the end of 2025, amounting to DKK 8.8 billion. The recommended maximum general government gross debt (EMU debt) level is 60%, which would correspond to a debt of DKK 17.4 billion.

It is necessary and important to prioritize investments. If the purpose of investments is to improve fiscal sustainability, those investments that will ease the public operational burden in the long run must be given the highest priority. This can, for example, be achieved by constructing larger units within the school, public, and elderly care sectors.

To ensure sustainable societal development, there must be a balance between the present and the future, where investments benefit future generations without creating an excessive financial burden. Therefore, it is essential to prioritize correctly among social services such as nursing home accommodations, infrastructure, the education system, IT projects, and other initiatives.

The Faroe Islands should maximize the value of every Króna spent, which is why cost-benefit analyses should be conducted for major projects. This ensures that projects providing the greatest societal benefit are prioritized first.