English Summary

The Economic Council and Statistics Faroe Islands estimate the growth in GDP for 2019 in current prices to be around 6.6%. The Economic council has also adjusted its GDP growth estimates in current prices for the year 2018.

The assessment of the economic development is based the assumptions that the salmon harvest is expected to increase in 2019 compared to 2018, while the salmon price is expected to be stable. We expect mackerel and blue whiting prices to increase slightly, and the herring price to fall. An expected increase in the domestic demand, especially in private consumption, sustains the economic growth; in addition, the export quantities are also expected to increase.

	2015	2016	2017	2018	2019
Est. GDP-growth in current prices	5,9%	6,9%	3,3%	2,9%	6,6%

In order to avoid a tightening of the finances in recession periods and with regard to the financial sustainability challenges in the long run, the Treasury surplus should have been higher during the current economic boom. Unfinanced tax cuts and other financial stimuli should not implemented during the present ascending business cycle, because this will lead to inflation and financial unsustainability.

The demographic development is the particular social factor, which most obviously will affect the fiscal sustainability of the public sector in the coming years. The problem stems from the aging of the population in the years to come. The projections indicate that we, the next 30 years, face a doubling of the capacity needs within the eldercare and healthcare. The Economic Council has the opinion that the political system largely has ignored this particular problem.

Distorting structures prevent industrial adjustments towards productivity growth
Examples of this are special tax rules for seamen and people working abroad. Symbolic payments for the access to the natural resources also distort this particular adjustment towards productivity growth. In addition, the sales fee on all exported unprocessed fish distorts the adjustments towards productivity growth. The fee is in fact a subsidy (a pillow) to land fish processing operations. Overall, the Economic Council is of the opinion that the rules regarding the fishing industry are too stiff and distorting with imprudent restrictions. Abolition of these special regulations would set free a workforce that is needed – now and in the long run – where we need productivity growth/economic growth in order increase the attraction for living and staying in the Faroe Islands. This will lessen the fiscal sustainability challenges linked to a changing demography.

The economic development is a causal factor with regard to migration to and from the Faroe Islands. Therefore, it is important to sustain productivity growth/economic growth that provides for a higher standard of living. Moreover, this will sustain the immigration where young people to a higher degree choose the Faroe Islands as their place of residence, which by itself improves the financial sustainability.