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## Greenland Challenged Despite Strong Fisheries



**Growth continues  
to be strong**

### The economic

growth is estimated to have been 7-8 per cent in 2016, driven mainly by favourable conditions in the fisheries sector.

Strong economic growth in 2016 and 2017 is to a large extent attributable to fisheries, which have seen volume growth for most species, including the primary species: prawn, Greenland halibut and cod. Rising building and construction investments have also boosted growth.



**The sustainability  
of the economy  
is challenged**

### A diversified

business structure is required if economic growth is to continue, but this will be difficult to achieve.

Despite the good times for the fisheries sector, the Greenlandic politicians need to address a number of major challenges if growth is to continue. Fisheries remain the predominant Greenlandic export industry, and lower prices and catches would have a severe impact.



**Conflicting  
Greenlandic  
interests**

### The subsidy

from Denmark makes up more than half of the Greenlandic government's revenue. More independence would mean lower subsidy and higher expenditure.

Basically, Greenland's fiscal policy is not sustainable. The number of people of working age is set to decline and the number of older people will increase, with resultant higher public spending. More revenue is required, preferably from other sectors than fisheries.

## High economic growth

Greenland is in a strong boom, primarily thanks to favourable conditions for the fisheries sector. In the assessment of the Economic Council in Greenland, the growth rate was 7-8 per cent in 2016 and will be 3-4 per cent in 2017. This is mainly attributable to a positive development within fisheries and rising building and construction investments, but private consumption has also picked up considerably. In 2018, the growth rate is expected to be 2 per cent, cf. Table 1.

The strong growth in 2016 was mainly attributable to developments within fisheries. Catch volumes generally increased, including for the primary species: prawn, Greenland halibut and cod.

The reason for the increasing volumes of prawn is that the quota reflects the biological advice of the Greenland Institute of Natural Resources. With a small lag, the quota adjusts to the advice, i.e. what is deemed to be a sustainable level if future catches are to be as large as possible. Following a number of years with falls, the recommended volumes were raised for 2016 and the higher level was maintained for 2017. This means that prawn fisheries are set to increase further this year. Prawn fisheries are MSC certified as being sustainable.

### Risk of overfishing

Fishing for Greenland halibut primarily takes place close to the coast using small boats. There are many indications that this coastal fishing or fishing in sheltered waters, which takes place in the fjords or between the coast and the open sea, is too intense, especially in the Disko Bay. Quotas are very flexible, as full exploitation of the quota in an area often results in the quota being increased. The Greenland halibut caught are getting smaller and smaller so that a greater effort is needed in order to catch a given volume. Conversely, fishing for Greenland halibut in open seas has been MSC certified. Potential overfishing of stocks in sheltered waters does not in itself affect open sea stocks.

Catches of cod have risen strongly in recent years. Biologists are concerned that spawning stocks have not built up in open seas, meaning that the same year classes are being fished.

### Bountiful years in the fisheries sector are reflected in consumption

Weighted by the values of the species, volumes of prawn, Greenland halibut and cod increased by 15 per cent in 2016. In 2015, prices for prawn, Greenland halibut and cod rose by 25 per cent, to the

**The Greenlandic economy is growing**

Table 1

	2011	2012	2013	2014 <sup>1</sup>	2015 <sup>1</sup>	2016 <sup>2</sup>	2017 <sup>2</sup>	2018 <sup>2</sup>
Gross domestic product	1.5	1.5	-3.0	-0.8	1.7	7.8	3.4	2.1
Imports of goods and services	16.1	-29.8	-5.7	-15.6	-5.2	-1.5	3.8	6.6
Total utilities	8.1	-13.8	-4.1	-6.5	-0.7	4.7	3.5	3.5
Private consumption	2.4	-1.3	-2.3	-1.7	2.1	4.6	2.4	1.9
Public consumption	-0.9	0.6	2.4	-0.8	-1.9	0.7	0.7	0.4
Gross investment	23.7	-40.1	-21.1	-24.0	11.7	6.8	6.0	11.0
Of which exploration for raw materials	36.4	-62.0	-47.4	-57.5	47.8	10.1	0.0	0.0
Of which buildings and structures	-1.8	8.9	-21.0	-15.2	15.5	19.6	8.8	5.8
Exports of goods and services	4.7	-2.0	3.5	-6.3	-10.9	10.4	7.8	4.1

Note: Demand and supply, annual real growth in per cent.

Source: Statistics Greenland.

<sup>1</sup> Preliminary data.

<sup>2</sup> Economic Council's forecast.

highest level in the period covered by the statistics. They stayed at this level in 2016, cf. Chart 1. In the 1st quarter of 2017, prices fell by 5 per cent relative to the average for 2016.

So 2015 and 2016 were incredibly good years for the fisheries sector. Earnings were high, and this had a knock-on effect on government revenue and private consumption in particular. Several operators within the sector are also planning to invest in new trawlers, but this will not have an immediate impact on Greenland's gross domestic product, GDP, as the trawlers will be built abroad. New trawlers will increase productivity in the sector. Due to plans to amend legislation in this area, cf. the section on challenges in the coming years, some trawler owners have postponed their decisions until the future terms and conditions are known.

### New mining operations and more building and construction

Following some years without mining operations, minerals are now again being extracted in Greenland. This spring, a ruby mine opened south of Nuuk, and an anorthosite mine is being constructed, with Sisimiut as its nearest town. Both projects are fairly small, with fewer than 100 employees in the operational phase, but the signal value is important, not least because Greenland has dropped from a top position to still lower positions in the Fraser Institute's annual comparison of raw material extraction conditions in various countries.

Activity is high in the building and construction sector. Large projects include the completion of a new container port and the Danish government's building of a closed prison, both in Nuuk. The above mining projects and general investments via the Finance Act also contribute to growth. Looking ahead, realisation of contemplated new airports in Nuuk, Ilulissat and Qaqortoq and urban development in Nuuk could further boost activity, with a resultant risk of cost-increasing bottlenecks.

### Good times in the fisheries sector lead to improved public finances

The boom means that a budgeted deficit on the Greenlandic government's current and investment budget for 2016 made way for a surplus due to higher revenue as a result of the strong growth in fisheries. Liquidity improved, and the already modest debt was reduced. Forecasts of public finances in the current year are not followed closely in the period

Increasing catches of fish and high prices

Chart 1



Note: Catches of prawn, Greenland halibut and cod. Weighted using the 2012 values as weights.

Source: Calculations based on data from Statistics Greenland.

between the passing of the Finance Act and the presentation of the government accounts some 1.5 years later. The current cyclical position means that the budgeted CIL deficit in 2017 will probably not be realised. Instead, there will be a surplus.

## Challenges in the coming years

Although the Greenlandic economy is currently faring well, the Greenlandic politicians need to address a number of major challenges if growth is to continue. The widespread wish for greater independence adds to these challenges.

### Unsustainable fiscal policy in the long term

Basically, the fiscal policy is not sustainable. These years, a very large share of the population is of working age. In the longer term, this share will fall, and there will be more senior citizens and old people. Public spending, especially for pensions and for hospital treatment of these age groups, will increase. This is a factor that the current funding rules do not take into account. There is a need for more revenue, preferably from new business sectors.

Fisheries remain the predominant Greenlandic export industry, with a resultant risk to the economy if

prices or catches of fish and shellfish decline. Experience says that at least one of them will fall from time to time.

So there is a need for a broader business structure. The current ruby project is important, but it is so small that far more is required if raw material extraction is to be a major business sector. Tourism can undoubtedly be developed further, but the attraction is unspoilt arctic nature, which puts a limit to the growth opportunities. Moreover, activity should preferably be spread over the whole year. A high level of costs and a small, geographically very scattered population makes it difficult to envisage any sizeable manufacturing industry or production of services linked to anything but infrastructure and tourism, except, perhaps, for activity in relation to exploitation of the unused hydropower resources in Western Greenland.

#### **The level of education is rising too slowly**

A broader business structure with increased employment for those born in Greenland requires a higher level of education. Progress can be seen in this area, but it is slow. It is particularly concerning that the Danish Evaluation Institute in two reports from 2015 and 2016, respectively, has pointed out that the standards in primary and lower secondary schools and teacher training programmes are far too low. Initiatives have been taken to upgrade teacher training, but it will take time before they ripple through to the general level in schools. Stronger political support, including from local politicians, and support from parents for raising standards could accelerate the necessary changes. For example, a broader business structure requires stronger language skills if the jobs created are not to be taken by immigrant workers.

#### **Investing in airports may not be profitable**

A number of very large construction projects are currently being considered.

Naalakkersuisut has established a 100 per cent government-owned company, Kalaallit Airports A/S, with a view to constructing, owning and operating airports at Nuuk, Ilulissat and Qaqortoq, including investigating the possibilities of extending the runways at Nuuk and Ilulissat to 2,200 metres. That would make it possible to fly directly from these two airports to large areas of Europe and North America. Today, traffic from these regions mainly goes via the airport at Kangerlussuaq, with connecting smaller aircraft to the final destinations in Greenland. The airport in Kangerlussuaq was constructed by the

Americans in 1941 so that they could get military aircraft to the UK during World War II and hence it was not intended for civil purposes. It was placed in Kangerlussuaq, which had no permanent settlement at the time, in order to ensure a high degree of regularity.

Over the years, there have been many wishes for an Atlantic airport at Nuuk, but other wishes have also been expressed. Shortly after the transition to self-government in 2009, a transport commission was set up. In 2011 it concluded that it would be profitable to build an Atlantic airport at Nuuk if the airport at Kangerlussuaq were closed. Two Atlantic airports would not be profitable.

But the idea of only building an airport at Nuuk lacks political support. Kalaallit Airports is currently preparing detailed estimates of the costs related to the above three airports. Originally, the costs for runways, but not terminals, etc., were estimated at kr. 2.5 billion, but that is presumably far too low.

In recent years, approximately 80,000 passengers have flown to Greenland every year. So the investment per passenger is very high, even if the new infrastructure leads to a much higher number of travellers. Hence there is a risk that the company cannot fund returns on and depreciation of the structures by means of user payments. To the extent that the Greenlandic government must cover any deficit in the company, there will be fewer funds for other purposes, including business development.

#### **Construction projects entail a risk of bottlenecks**

There are also plans for a large urban development project in Nuuk, with housing and institutions for some 5,000 people. This is a local government initiative and a public-private partnership, PPP, is being contemplated. The project costs would amount to several billion kroner. As with the airports, the fundamental profitability of the projects, not pure funding considerations, determines whether it makes sense to realise them.

If the airport and urban development projects are to be carried out at the same time, this would invariably lead to bottlenecks and higher costs, as building and construction activity is also high in e.g. Denmark and Iceland.

The large construction projects entail a risk, directly or indirectly, to the Greenlandic government's financ-

es, primarily via the risk of higher expenses if the projects are not financially viable.

### Government revenues are also vulnerable

Advanced plans to amend fisheries legislation involve changing the distribution of the aggregate prawn quota from 43 per cent in sheltered waters and 57 per cent in open seas to fifty-fifty. At present, a prawn tax is levied on fishing in open seas only. This is a tax on catch volumes at a rate that fluctuates with world market prices, among other factors. Revenue was kr. 170 million in 2016. The difference in the taxation of fishing in sheltered waters and in open seas mainly reflects concerns for employment in factories on shore, but also reflects high productivity, and hence high value added, for operators fishing in open seas, with a resultant ability to pay. It would presumably not be possible to levy the same tax on fishing in sheltered waters as in open seas, and revenue from income and corporation tax would also come under pressure.

The subsidy (the block grant) from Denmark makes up just over half of the Greenlandic government's revenue. The block grant is indexed to wages and prices in Denmark. It will not be increased if the Greenlandic government takes over some of the areas financed by Denmark until now, but it will be reduced if income from raw material extraction in

Greenland reaches a high level. So transfer of more areas from Danish to Greenlandic administration would entail higher expenditure without any corresponding revenue.

### Difficult to combine a sound economy with independence

At the same time, there is a widespread political wish for greater independence in Greenland, but opinion polls show modest support if this is to be at the expense of the standard of living. So there is a conflict between the extensive support for large projects that have not been documented to be profitable or that entail high risk, support for plans to reduce productivity in the major business sectors and the resultant risk of fluctuating government revenue and finally support for a wish for greater independence. The latter requires strong budget discipline and increased revenue. This spring, the Greenlandic parliament, Inatsisartut, set up a constitutional committee tasked with preparing two proposals for a constitution. One proposal is to operate within the framework of the Danish Commonwealth, the other is to operate with a higher degree of independence. If there is a general wish for so much independence that the block grant will be discontinued, key elements of all initiatives must be profitability and a thoroughly prepared basis for decision.

## Facts about Greenland

Box 1

Currency	Danish kroner
Population (number of people, beginning of 2017)	55,847
Of which in Nuuk (capital)	17,316
Population aged 18-66 years	38,315
Employment <sup>1</sup> (2015)	25,167
Unemployment <sup>2</sup> (2015)	2,754
Gross domestic product, GDP (kr. billion, 2015)	13.7
Per capita (kr. 1,000)	243.4
Disposable gross national income, GNI (kr. billion, 2015)	17.7
Per capita <sup>3</sup> (kr. 1,000)	313.7

Source: Statistics Greenland, Statistics Denmark and own calculations.

1. Number of people in primary employment, average of monthly data.

2. Approximated ILO definition, average of monthly data.

3. By comparison, disposable GNI per capita in Denmark was approximately kr. 64,000 in 2015. Disposable GNI in Denmark was approximately 1.8 per cent higher than GDP.

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