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THE GREENLANDIC ECONOMY

Strong growth and labour shortages



Risk of overheating

Following several years of solid growth in the Greenlandic economy, unemployment is low and labour market pressures high. This has resulted in a strong risk of overheating and a consequent need for tight fiscal policy.



Airport projects will lead to increased pressure

Planned large-scale investments in three airports in order to improve the infrastructure and business opportunities will increase pressures in the economy, especially if the projects overlap. The Economic Council in Greenland recommends a phased implementation of the projects.



Independence and industrial policies

The wish for greater independence combined with a high standard of living is difficult to realise. Among other things, it requires a broader business sector and focus on efficiency and sustainability in both the public and private sectors, especially within fisheries.

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The Greenlandic economy has been growing strongly in recent years. The main contribution has come from larger catches of fish and shellfish that have sold at good prices, but consumption and investment have also picked up, as has raw material extraction.

If the plans for large-scale investments in airports are realised as expected, this will increase the risk that the economy overheats in the coming years. In 2014-16, real economic growth was 4.4 per cent p.a. In its report from October, the Economic Council in Greenland forecasts that growth in the gross domestic product, GDP, declined to 1.2 per cent in 2017 and will be around 3 per cent in both 2018 and 2019.

The booming economy has led to labour shortages in many sectors and geographical areas. Unemployment figures are compiled with a lag, but based on the indicators available the Economic Council has calculated that unemployment – calculated in more or less the same way as in Denmark – has dropped from more than 10 per cent of the labour force in 2014 to less than 5 per cent in 2018. In many cases, it has been sought to counter the labour shortage by attracting foreign labour, including unskilled labour. Public finances reflect the favourable cyclical position. With 2014 as an exception, recent years have seen surpluses on the current and investment balance, even though deficits have been budgeted for in several years. It would be prudent to tighten fiscal policy by keeping a short rein on other expenses if the airport construction projects are realised.

Given the heavy dependence of the economy on a single sector, fisheries, the government of Greenland and its predecessor, the home rule, has for many years been careful not to accumulate too much government debt. Hence, the debt-to-GDP ratio has been shrinking. At end-2017, the government, local government and government-owned companies had interest-bearing gross debt totalling approximately 22 per cent of GDP, while interest-bearing net debt was approximately 6 per cent. By comparison, Denmark's EMU debt, which comprises more or less the same elements as the interest-bearing gross debt, was 36 per cent of GDP.

Facts about Greenland

Box 1

Currency	Danish kroner
Population (number of people, beginning of 2018)	55,860
of which in Nuuk (capital)	17,796
Population aged 18-64 years	36,244
Employment ¹ (2016)	24,922
Unemployment ² (2016)	1,971
GDP (kr. billion, 2016)	18.2
per capita ³ (kr. 1,000)	326.2

Source: Statistics Greenland, Statistics Denmark and own calculations.

1. Average of monthly data.
2. Approximated ILO definition, average of monthly data.
3. By comparison, GDP per capita in Denmark was approximately kr. 361,000 in 2016.

Strong growth in the Greenlandic economy

Table 2

	2012	2013	2014	2015 ¹	2016 ¹	2017 ²	2018 ²	2019 ²
GDP	1.4	-1.7	5.3	0.3	7.7	1.2	2.9	3.0
Imports of goods and services	-30.0	-6.6	-11.5	-1.8	6.4	-1.7	7.0	9.7
Total supply	-13.9	-3.8	-1.2	-0.3	7.1	0.5	4.3	5.2
Private consumption	-1.4	-1.8	2.3	0.0	3.8	1.2	1.9	2.6
Public consumption	1.0	4.1	-0.2	-0.4	3.5	0.7	0.6	0.6
Gross investment	-38.6	-20.9	-22.2	16.0	11.1	2.7	5.2	18.9
of which exploration for raw materials	-59.9	-49.2	-52.7	68.4	-41.8	-19.8	19.6	12.1
of which buildings and structures	3.2	-21.1	-11.0	19.5	31.0	4.4	2.7	24.4
Exports of goods and services	-3.9	2.4	11.8	-10.5	12.8	-2.3	11.0	2.9

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

Source: Statistics Greenland.

¹ Preliminary data.

² The Economic Council's forecasts.

Good fishing opportunities and high prices

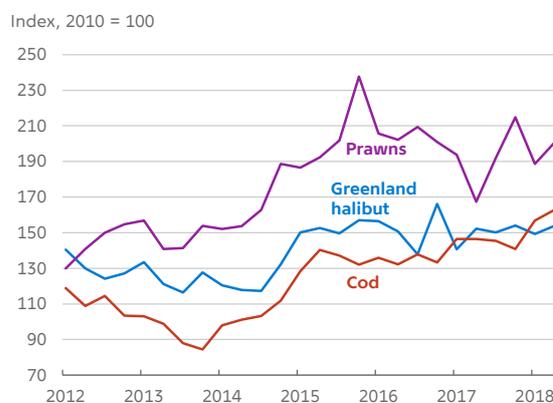
The current upswing has been generated by growth in catches and processing of fish and shellfish. This reflects the position of fisheries as the predominant Greenlandic export industry. Around 95 per cent of exports of goods stem from fisheries, of which almost half from prawns, making this the economically most important species in Greenlandic fisheries.

For some years, prawn prices have been relatively stable at a level which is twice as high as the price level in 2010, cf. Chart 1.

Moreover, after having bottomed out in 2015, catches of *prawns* have increased, cf. Chart 2. This development has continued into 2018, catches in the 1st half of the year being more than 20 per cent higher than in the corresponding period of 2017. Prawn fisheries have been MSC certified as sustainable, which is a requirement for selling to many of the large purchasers of fish and shellfish. This certifica-

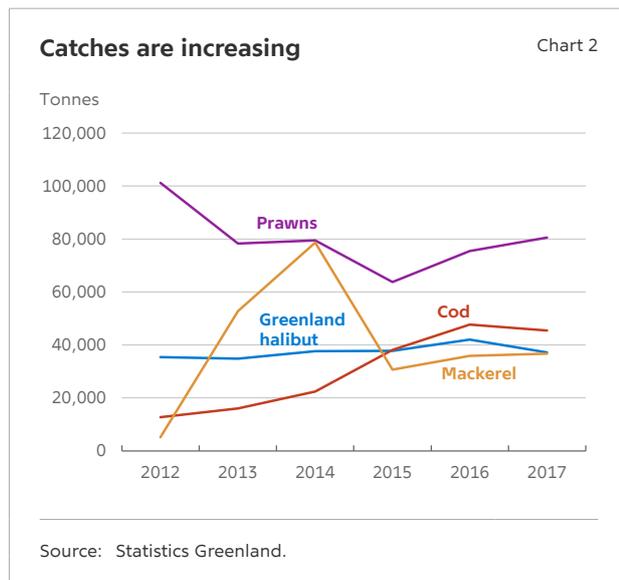
Stable and high fish prices

Chart 1



Note: The most recent observation is from the 2nd quarter of 2018.

Source: Statistics Greenland.



tion means that, with small variations, the politically fixed quotas comply with biological advice and hence the latest knowledge about the level of fishing that is sustainable in the long run.

Greenland halibut is the second most important species in Greenland. It is caught both in open seas and close to the coast. Like prawn fishing, fishing in open seas has been MSC certified. Coastal fishing, which is not MSC certified, takes place from small, open boats – and in the winter also from snow scooters and dog sledges. Coastal fishing is of great importance to many local communities, especially in the Disko Bay and areas further north. The size of the coastal quotas has a direct impact on many households and is consequently a delicate political matter.

In 2017, catches of Greenland halibut in Greenlandic waters fell by more than 10 per cent, which can to some extent be attributed to a very severe winter. In the 1st half of 2018, catches were 7 per cent higher than in the corresponding period of 2017.

Stocks of Greenland halibut show diverging trends in open seas and in coastal waters. Biological advice for 2019 concerning fishing in open seas in the Davis Strait and Baffin Bay has increased by more than 10 per cent, while advice concerning coastal areas has been reduced by 10-20 per cent, depending on the area. In the latter areas, the fish caught are getting smaller year by year, which could indicate that fishing intensity is unsustainable. If the coastal

stocks are overfished, this does not in itself have any implications for stocks in open seas.

Catches of *cod* fell by approximately 5 per cent in 2017, following a lengthy period with an upward trend. In all years, catches exceeded the biological advice, which was aimed at ensuring the build-up of spawning stocks. Catches have continued to fall in 2018.

All in all, the fisheries sector is doing well and prices are good, but there is also a tendency for some species to be overfished in areas that are not MSC certified. That gives cause for concern.

Business development and increased independence

There is a widespread wish in Greenland for greater independence from Denmark without a marked decrease in the standard of living. Among other things, the Act on Greenland Self-Government describes the functions that are undertaken by the Danish government and can be transferred to the Greenlandic government. The Danish government annually spends a large three-digit million amount in Danish kroner on these areas. If they are transferred to the Greenlandic government, this will not affect the subsidy from Denmark to Greenland, the block grant. However, the grant will be reduced if revenue from raw material extraction at some point exceeds a certain threshold value.

Given that the block grant constitutes just over half of the Greenlandic government's total revenue, other revenue must increase considerably if the wish to become independent of the block grant is to come true. This can seem impossible. Without large revenues from raw materials, this will, as a minimum, require a broader business sector than at present and higher efficiency in both the public and private sectors. The public sector accounts for a very large share of the economy. In 2016, public consumption accounted for 43 per cent of GDP, compared with 25 per cent in Denmark. This share will have to be reduced. To be able to create a corresponding number of private sector jobs at the Greenlandic wage level, which is high by international standards, the qualifications of the labour force must be high.

However, steps have been taken towards creating a broader business sector.

Tourism has prospered in recent years, and the plans to change the airport structure are to some extent based on a wish to support this development.

After some years without raw material extraction, a ruby extraction project is now a reality. It employs approximately 30 people. Around the turn of the year, a project to extract anorthosite, an aluminium oxide, will also commence, providing roughly the same number of jobs.

A number of other raw material projects are also approaching the extraction stage. They make valuable contributions to a more diversified business structure, but will not be sufficient to create an economic basis for replacing the block grant.

Exploration for raw materials is also increasing, but remains at a far lower level than at the beginning of the decade, when companies spent billions of kroner on test drillings for oil in the sea west of Greenland.

Development of the fisheries sector and draft legislation

The work on a new fisheries act for Greenland has been underway for some years. A core issue in this debate is the allocation of quotas to coastal fishing and fishing in open seas, respectively, especially as regards prawns. Legislation has been proposed that would transfer quotas from fishing in open seas to coastal fishing. Shipping companies operating in open seas have indicated that they will test such legislation in the courts of law. Presumably, uncertainty about the future has also led to postponement of investments and the development of the sector that they would bring.

The political agreement concluded in connection with the reformation of the government of Greenland, Naalakkersuisut, in October 2018 entails that the existing drafts for a new fisheries act were halted. Instead, a fisheries commission will be set up with representatives from all parts of the industry. The aim is for the commission to conclude its work during 2019.

Greenland is a global pioneer when it comes to taxing catches of fish and shellfish. The resource taxes are designed in such a way that the amount payable per kilo caught varies with the market price of the product. The higher the price, the higher the tax payable by all sector participants. If prices are high, the taxes ensure that the whole society benefits from the higher-than-normal earnings made because society has given a vessel access to catch a given volume of a limited natural resource. Besides the resource tax, participants pay ordinary taxes on the vessel's profit after deduction of the resource tax, and likewise employees are taxed in the same way as other wage earners.

In 2017, resource taxes generated revenue of approximately kr. 275 million, which was almost the same as the combined excise duties on beer, wine, spirits and cigarettes. In this connection it should be mentioned that alcohol consumption per adult is lower in Greenland than in Denmark, while excise duties are much higher. The resource taxes must be deemed to be a much better means of securing that society gets a yield from its resources than increasing the number of fishermen. The latter would lead to a decline in productivity in the country's dominant export industry. If more labour than necessary is applied to catch the same volumes of fish, this is in reality a step away from the ambitions to increase independence and reduce reliance on the block grant, not least in the current situation with widespread labour shortages.

Qualifications of the labour force

Instead, there is a need to increase the supply of qualified labour so as to reduce the need for imported labour. This will increase productivity per permanent resident in Greenland.

If this need is to be met, it will require a large-scale educational effort right from the school or pre-school level, as well as an increase in the number of hours each person works per year.

As regards the latter, the Economic Council has pointed out that for many people the relationship between an increase in earned income and the resultant taxation and scaling down of social benefits

means that for a large income interval disposable income hardly rises even though people work more.

High qualifications and adaptability are required for a number of existing jobs, and that will undoubtedly also apply to many future jobs. There is some way to go before Greenlandic labour can fill most of the expected jobs within mining and tourism.

The foundation for boosting the qualifications of the labour force must be laid in the schools. Greenland already spends many resources on its schools, so it is a question of ensuring a good return on the resources spent rather than increasing spending.

Airports and their funding

For some years, Naalakkersuisut has had plans to radically change the airport structure.

Today, all passenger transport to and from Greenland takes place by air, and flying is also the dominant form of domestic transport, except over short distances, where sailing also plays a role. No roads exist between the individual towns and settlements, and the considerable distances between the inhabited areas, combined with deep fjords, mountains and a cold climate, rule out the option of linking the country via roads. So it is evident that the location and size of the airports, as well as the flight schedules, are of great interest and can easily lead to conflicts between different regions.

Nearly all travellers to and from Greenland pass through the airport at Kangerlussuaq and transfer to smaller aircraft for their final destinations, in some cases with stops en route. Only very few passengers have Kangerlussuaq as their final destination. The airport, which was constructed by the Americans for military purposes in 1941 and has sufficiently long runways to cater for practically all aircraft, is very seldom closed due to adverse weather conditions. But since the permafrost is melting under parts of the runway, heavy expenditure will be required within a few years if the current runway length of 2,810 metres is to be maintained.

For a number of years, an expansion of the airport at Nuuk has been considered so as to allow non-stop flights from Europe to Nuuk, where most passengers

are heading. However, other regions of Greenland have had concerns about this solution.

In 2015, Inatsisartut, the parliament of Greenland, made a decision in principle to modernise the infrastructure and strengthen business development in Greenland.

Consequently, Naalakkersuisut in 2016 proposed extending the runways at Nuuk (Central Greenland) and Ilulissat (North Greenland) to 2,200 metres and building a new airport of 1,500 metres at Qaqortoq (South Greenland). This will make it possible to fly from Europe to the first two destinations with most aircraft types, thereby bringing most business travellers directly to Nuuk and most tourists directly to Ilulissat. Total investments were forecast at approximately kr. 4 billion, which is more or less half of the Greenlandic government's total annual revenue.

To implement the project, Naalakkersuisut established a 100 per cent government-owned company, Kalaallit Airports A/S. The airports were to be funded via a capital injection of almost kr. 2.1 billion, supplemented with government-guaranteed loans for another kr. 2 billion or so. Hence, the project entailed a substantial financial risk for the Greenlandic government. The profitability of the overall project with three airports was doubtful and if the assumptions failed, the government would bear a large risk relative to both the size of the economy and government revenue.

In September 2018, Naalakkersuisut and the Danish government concluded an agreement in principle to the effect that Denmark will help to boost business development in Greenland, inter alia via Danish contributions to the funding of the required airport structure.

This part of the agreement means that Kalaallit Airports will be split into two companies, one for the airports at Nuuk and Ilulissat, which is co-owned by the Danish government, and one for the airport at Qaqortoq, in which the Danish government will not participate.

To fund the airports at Nuuk and Ilulissat, the Danish government plans to contribute kr. 700 million in equity in addition to the kr. 1,400 million from the Greenlandic government – and will acquire a corresponding stake in the company. In addition, the Danish government will provide guarantees for loans

of kr. 450 million to the company and grant the company on-landing for the same amount.

This agreement reduces the Greenlandic government's risk and borrowing requirement, as well as the interest payable on the loans to be raised. In return, the Danish government will gain influence as a minority shareholder.

Immediately after the conclusion of the agreement, political unrest arose. Partii Naleraq left the Greenlandic government in protest. The three remaining coalition parties continued as a minority government, but with a cooperation agreement with the party Demokraatit in the area of traffic and freight. The cooperation agreement means that those elected to the Inatsisartut from the parties to the agreement, as well as their deputies, have signed a declaration to work towards adopting the agreement with the Danish government this autumn and towards realising the Qaqortoq airport plans.

So it must be deemed to be highly probable that the airport project will be implemented via two companies, the one comprising the airport at Qaqortoq operating at a deficit, but nevertheless being realised for regional policy reasons.

A special issue in relation to the internal discussion in Greenland is whether the airport in Kangerlussuaq is to be rebuilt as a heliport or as a 1,500 metre runway, entailing that the end of the runway where the problems with shrinking permafrost are most pronounced will be closed.

After the conclusion of the agreement with the Danish government, the USA has expressed an interest in contributing to the funding of airports in Greenland. No specific details are available. Today, the Americans primarily use the Thule Air Base airport.

Construction work in Nuuk and Ilulissat cannot commence until 2019 at the earliest and is planned to take place at more or less the same time. Labour will primarily come from abroad as spare capacity in the Greenlandic construction industry is negligible. To reduce the risk that the construction sector and related sectors overheat, the Economic Council recommends constructing the airports one by one. That will also make it possible subsequently to benefit from the experience gained in connection with the first activities.

Airport locations

Chart 3



Note: The red crosses indicate the airports mentioned in the text.

ABOUT ANALYSIS



As a consequence of Danmarks Nationalbank's role in society we conduct analyses of economic and financial conditions.

Analyses are published continuously and include e.g. assessments of the current cyclical position and the financial stability.

The analysis consists of a Danish, an English and a Greenlandic version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

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ECONOMICS AND MONETARY
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