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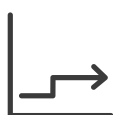
THE GREENLANDIC ECONOMY

Economic growth halted and growing government deficit



Economic growth halted in 2020

The coronavirus pandemic has ended years of solid growth. Travel restrictions have left their mark on sectors heavily reliant on foreign visitors. However, the special nature of the Greenlandic business structure reduces the impact of the global economic downturn.



Debt is growing, albeit from a low level

Additional expenditure related to emergency flights, relief packages, etc. and less revenue from direct and indirect fisheries taxes put a strain on the central government's finances. The outlook is for an increase in government, local government and government-owned company debt taken as one, but from a low level.



Public sector efficiency measures are required

For a number of years, growth in public consumption has exceeded budgeted levels. To ensure a sustainable balance between government revenue and expenditure, efficiency measures are required in public sector administration and service production going forward.

CONTENTS

- 2 ECONOMIC GROWTH HALTED IN 2020
- 4 STRONG YEARS IN FISHERIES, BUT PRICE UNCERTAINTY
- 5 GOVERNMENT FINANCES UNDER PRESSURE
- 7 PUBLIC SECTOR IN NEED OF REFORM

Economic growth halted in 2020

The coronavirus pandemic has ended years of strong economic growth in Greenland. A number of lockdowns and travel restrictions were imposed in the spring, and the spread of infection was largely prevented in Greenland. However, with the spread of infection in other countries, there are still significant risks and to address these, new travel restrictions and other measures were introduced in September. Lockdowns and travel restrictions have taken a particular toll on tourism and aviation, which are faced with major challenges.

Relief packages have kept corporations and employees afloat while lockdowns and restrictions impacted the business sector. The general relief packages were phased out by the end of September, while relief packages targeting the tourism sector, etc. have been extended until the end of 2020. Moreover, a special relief package has been introduced to protect earnings from coastal fishing against lower fish and shellfish prices.

The Greenlandic economy is less affected by the pandemic than many other economies. There are several reasons for this. Firstly, Greenland quickly managed to contain the infection in the country, so internal lockdowns and restrictions could be lifted quickly. Secondly, the business structure helps to reduce Greenland's dependence on global economic trends. Fisheries are the predominant export industry, and catches have not been impacted by changes in global market conditions. Fisheries risks are associated, in particular, with the possibility of lower fish and shellfish prices. Thirdly, Greenland has a large public sector, facilitated by the Danish government's block grant to Greenland, among other factors. Finally, the import content of both consumption and investments is high. This means that the spillover effects on other sectors from a slowdown in tourism and aviation are weaker than in other economies in which domestic supply plays a greater part.

From 2016 to 2019, annual economic growth averaged 2.8 per cent, driven by growing fisheries and high world market prices as well as increasing consumption and investment volumes. In its report from September, the Economic Council in Greenland forecasts a pause in growth in 2020, i.e. broadly unchanged activity from 2019. 2021 is expected to see

Facts about Greenland

Box 1

Currency	Danish kroner
Population (number of people, beginning of 2020)	56,081
of which in Nuuk (capital)	18,326
Population aged 17-64 years	38,162
Employment ¹ (2018)	26,848
Unemployment ¹ (2018)	1,582
GDP (kr. billion, 2018)	19.3
per capita ² (kr. 1,000)	344.9

Source: Statistics Greenland and Statistics Denmark.

1. Average of monthly data.

2. By comparison, GDP per capita in Denmark was approximately kr. 389,000 in 2018.

some recovery in tourism, meaning that the economy may grow by about 2 per cent, see Table 1.

The shortage of qualified labour is widespread in many sectors and geographies. Employment has been rising for a number of years, leading to a build-up of labour market pressure. Although unemployment rose during the spring, the rate of unemployment remains low, currently at about 5 per cent of the labour force, assessed on the basis of the number of job seekers in the municipalities. This represents a 50 per cent reduction since 2014. In many cases, Greenland has attempted to address labour shortages by attracting foreign labour.

After several years of government budget surpluses, the outlook is for a deficit. The central government's finances are affected by relief package expenses, less revenue from fisheries taxes and additional expenditure related to emergency flights. According to a preliminary estimate by the Economic Council, the deficit could amount to about kr. 500 million in 2020.

Foreign tourism season is lost

The tourism sectors have been severely affected by lockdowns and travel restrictions, causing the number of foreign visitors to plummet.

The 2020 level of activity in Greenland is largely equal to the 2019 level

Table 1

	Share of GDP in 2018	2016	2017	2018	2019	2020	2021
GDP	100.0	4.7	0.5	3.2	1.3	-0.2	2.1
Private consumption	36.2	1.5	1.3	1.1	2.7	0.7	3.4
Public consumption	44.1	1.8	2.3	1.8	0.7	0.4	0.7
Gross investment	23.8	10.9	-0.7	12.3	31.9	-1.6	-0.1
Exports of goods and services	40.8	15.2	-5.4	4.2	4.8	-5.0	1.0
Imports of goods and services	45.0	11.0	-3.1	5.7	20.4	-3.0	-0.1

Note: Demand and supply, annual real growth in per cent.
Source: Statistics Greenland (data 2016-18) and Economic Council (estimate for 2019-21).

In 2019, the number of international flight passengers reached 93,000 after several years of growth. Passengers have been few and far between since March, see Chart 1. Numbers of hotel bednights, restaurant visits, cruise visits, etc. by foreign visitors have also decreased to a minimum or stopped altogether. The foreign tourism season is concentrated in the summer months. The drop in foreign visitor numbers is the primary reason for the decline in exports this year, see Table 1.

Targeted relief packages have been launched to keep domestic tourism afloat during a period of travel restrictions. These relief packages include, for instance, discounts on bednights and tourist excursions and travel subsidies for some trips in Greenland.

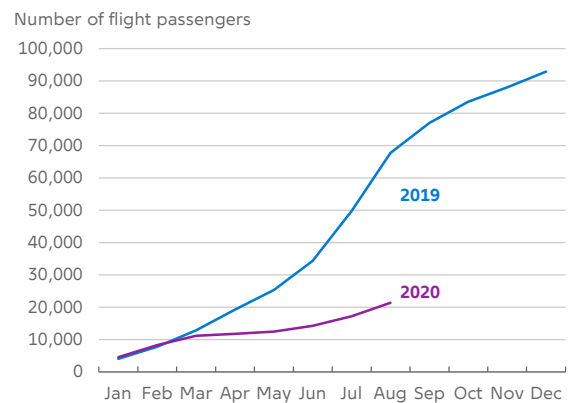
For as long as the outside world is having problems containing the risk of infection, the tourism industry will be challenged; therefore, it is very uncertain when the number of foreign visitors will return to pre-coronavirus levels. Increased tourism is a key element of Naalakkersuisut's, the government of Greenland, objective of broadening the business sector.

Continued labour market pressure

Recent years have been marked by widespread labour shortages and a strong need for foreign labour. The number of registered job seekers has declined sharply since 2016. Since March, there has been a slight increase of some 200 job seekers relative to same month last year. In September, a total

Sharp drop in numbers of international flight passengers

Chart 1



Note: Accumulated number of flight passengers broken down by month. Since March, Greenlandic and Danish passengers have dominated international flights, while foreign passenger numbers have been very low.
Source: Statistics Greenland.

of 1,615 job seekers approached their municipality about unemployment-related issues. This indicates that the slowdown in sales in hotels, restaurants, tourism and transport still translates into only a modest increase in the unemployment rate. Relief packages targeting corporations and employees have undoubtedly helped to reduce the impact on the labour market.

The labour market downturn is significantly lower than in other countries. The key challenge remains the pronounced variation in the population's labour market attachment. This represents a structural challenge that is inextricably related to education levels. The rate of unemployment among individuals with no post-primary and lower secondary education was 9.3 per cent in 2018 compared with 2.8 per cent for individuals with vocational training and 0.5 per cent for individuals with higher education.

Qualifications and skills are greatly needed in the labour market – a need that will undoubtedly grow in the future. In that context, education is crucial, and a particular focus area is ensuring that a higher percentage of the youth cohorts enrol in and complete qualifying education and training programmes.

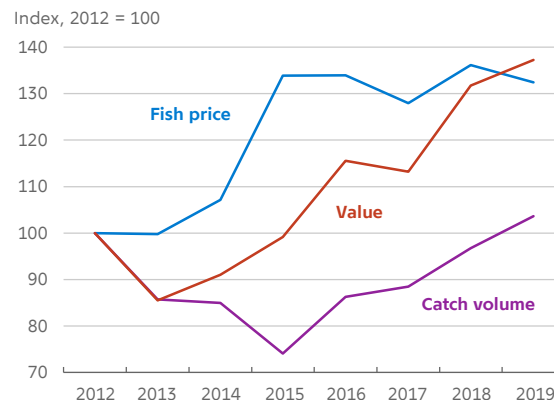
Strong years in fisheries, but price uncertainty

The fisheries industry has enjoyed a series of strong years with increases in catches of fish and shellfish and high world market prices, see Chart 2. This has been reflected in incomes, consumption and investments and forms the basis of the solid economic growth seen in recent years. Goods exports consist mainly of fish products with varying degrees of processing. The most important export species are prawns, Greenland halibut and cod, in that order.

Prawns are the most important species in Greenlandic fisheries, accounting for more than half of goods exports. Prawn fisheries have been MSC-certified as sustainable, which is a requirement for selling to large buyers of fish and shellfish. The MSC certification means that, with small variations, the politically determined quotas comply with the biological advice and hence the latest knowledge about long-term sustainable levels of fishing.

Several years of increases in fish and shellfish catches and high prices

Chart 2



Note: Catches of the three most important species: prawns, Greenland halibut and cod. Weighted using 2012 values as weights.

Source: Statistics Greenland and own calculations.

In the 1st half of 2020, prawn catches were 10 per cent higher than in the prior-year period, driven, among other factors, by the commissioning of new trawlers. Thanks to strong earnings in the industry, the offshore fleet is being modernised. In 2019, several shipping companies commissioned new trawlers, imported from abroad, each costing triple-digit millions of Danish kroner.

Greenland halibut is caught both in open seas and in coastal waters. Like prawn fishing, Greenland halibut 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 greatly important to many local communities, especially in the Disko Bay and areas further north. The size of coastal quotas has an impact on many households and is consequently a matter of political sensitivity – and even more so with the increase in the number of licences issued for coastal fishing. In 2019, 2,189 coastal fishing licences for Greenland halibut were issued, up from 1,271 licences in 2013. The Greenland halibut caught in coastal waters are getting smaller year by year, which biologists see as a sure sign that fishing intensity is too high.

For the better part of a decade, prices of fish products have been trending upwards, with variations

over time and from one species to the next. For instance, prawn prices have doubled from 2010 to 2020, while Greenland halibut prices are up by 50 per cent and cod prices by 80 per cent.

However, with the global economic downturn and lower demand, uncertainty about future fish prices has increased. The fisheries industry expects export prices to decline by up to 20 per cent, which will affect both fisheries earnings and central government revenue.

In 2018 and 2019, taxes on fish and shellfish catches, 'resource taxes', reached a record high of about kr. 400 million. The resource taxes are designed in such a way that the rate payable per kilo caught varies with the market price of the product. When the price goes down, the tax rate will decline for all sector participants. A 20 per cent price fall for fish and shellfish will reduce resource taxes by approximately kr. 150 million. To this should be added spillover effects on central government finances of lower income and corporation taxes.

September saw the announcement of a special relief package targeting coastal fishing for prawns, crabs and cod. This scheme is designed as a partial price guarantee, meaning that the first 15 per cent of any price fall from the 2019 level will be covered by the fishermen, while price falls from 15 to 25 per cent will be covered by the central government.

In other words, this relief package is not based on regulation that reduces access to coastal fishing opportunities, but rather targeted at protecting earnings from lower world market prices. Year-on-year price fluctuations for the various species in the order of 15 to 25 per cent are not unprecedented and should normally be regarded as part of the occupational risk in fisheries. The relief package is initially set to expire at the end of 2020.

Proposed new fisheries act in 2021

In spring 2019, Naalakkersuisut established a fisheries commission to prepare proposals for future framework conditions for fisheries. The terms of reference state that the objective is to achieve "the greatest possible long-term economic gain from fishing on a sustainable basis".

At the end of 2019, the commission presented its preliminary considerations on the future fisheries act in a discussion paper. This paper points to a need for stat-

utory allocation of multi-year individual quotas, with one aim being to ensure efficient investment planning in the fisheries sector. The transferability of quotas is to help ensure economically efficient use of fishing opportunities and capacity throughout the fisheries sector. But the paper also points out that fisheries policy may need to balance fisheries efficiency with local and social needs. The commission is expected to complete its work in February 2021 so that Naalakkersuisut can present a fisheries bill.

Government finances under pressure

Government finances have been showing healthy surpluses for a number of years, driven by favourable cyclical factors. This trend is set to be reversed this year due to higher expenses for emergency flights to and from Greenland, relief packages, etc. and less revenue from direct and indirect taxes from, for instance, fisheries, see Box 2.

The Economic Council in Greenland estimates that the 2020 deficit could be close to kr. 500 million. The 2021 finance bill budgets for a kr. 175 million deficit, while savings and public sector efficiency measures are to ensure that revenue and expenditure balance in the years 2022 to 2024.

In the current situation, more than usual uncertainty surrounds the outlook for government finances. This uncertainty also extends to the expected central government cash outflow. On 1 January 2020, the central government's liquidity totalled kr. 1.3 billion, and borrowing facilities need to be ensured to provide for the expected development in government finances. The 2021 finance bill provides for the raising of loans totalling kr. 1.5 billion to prevent future government liquidity issues.

Growing debt, but from a low level

Government debt is rising, but from a low level. At end-2018, the government of Greenland, local government and government-owned companies had interest-bearing gross debt totalling approximately 19 per cent of GDP, while interest-bearing net debt was approximately 5 per cent. By comparison, Denmark's EMU debt, which is largely comparable to interest-bearing gross debt, was 34 per cent of GDP.

Relief packages targeting corporations and employees

Box 2

Relief packages were introduced to keep corporations and employees afloat if restrictions and lockdowns caused sales to decline by at least 30 per cent and generally affected earnings opportunities.

Emergency package targeting corporations in the hotel and restaurant business to cover overheads and a *general business package* targeting corporations in other sectors.

Borrowing facilities for Greenlandic corporations, equivalent to government guarantee schemes in Denmark. Under this scheme, government guarantees are provided for 70 per cent of bank lending to corporations suffering sales declines due to the coronavirus pandemic.

Labour market package to ensure wage compensation for furloughed employees totalling 90 per cent of the wage bill, however up to a maximum of kr. 20,190 per employee.

Activity package targeting the tourism industry with a kr. 500 discount on bednights and a kr. 300 discount on tourist excursions. The discount scheme is designed to strengthen domestic tourism.

September saw the introduction of a new *relief package targeting coastal fishing* for prawns, crabs and cod. The scheme targeting coasting fishing is designed as a partial price guarantee, meaning that the first 15 per cent of any price fall from the 2019 level will be covered by the fishermen, while the next 10 per cent of the price fall, i.e. from 15 to 25 per cent, relative to 2019 prices, will be covered by the central government. This relief package is fundamentally different from other initiatives in that it is not based on regulation that reduces access to business opportunities. Rather, the scheme covers earnings losses due to cyclical market price fluctuations.

Gross debt will gradually rise to about 30 per cent of GDP in 2022 following a number of investments in government-owned companies and the decision to build new airports in Nuuk, Ilulissat and Qaqortoq. To this should be added potential borrowing of up to kr. 1.5 billion for liquidity reserves, see above.

The government of Greenland's risk exposure is generally significant due to the government-owned companies. This exposure has increased in recent years following the acquisition of all shares in Air Greenland in 2019 and the establishment of Kalaallit Airports. The government of Greenland owns a total of 14 companies, accounting for much of the overall output and value creation in Greenland. These companies include the Royal Greenland fisheries group, the Air Greenland airline company, the KNI trading and service group, the Royal Arctic Line shipping company and TELE Greenland. In 2018, the government-owned companies employed a total of about 5,000 people. To this should be added some 800 employees in government-controlled activities in airports, Mittarfeqarfiit, and power supply, Nukissiorfiit. Moreover, about 11,000 people out of the total number of people in employment in Greenland in 2018, 26,800, were employed in public service and administration. In other words, well over half of the labour force is employed either by government-owned companies or in the public sector.

Establishment of new airports

Greenland's infrastructure is currently undergoing extensive modernisation with the establishment of new airports in Nuuk, Ilulissat and Qaqortoq, see Chart 3.

All passenger transport in and out of Greenland takes place by air. Because of the considerable distances between inhabited areas and the infeasibility, for geographical and climate reasons, of connecting individual towns and settlements by road, flying is also the dominant form of domestic transport. Sailing only plays a part over short distances. Nearly all travellers to and from Greenland pass through the airport in Kangerlussuaq and transfer to smaller aircraft for their final destination, which is Nuuk for most passengers. For a number of years, an expansion of the airport in Nuuk has therefore been under consideration to allow non-stop flights from Europe or the USA to Nuuk. The establishment of new airports is a politically sensitive issue that continues to create tensions between regional interests.

The government-owned company Kalaallit Airport was formed in 2016 for the purpose of building, owning and operating new Atlantic airports in Nuuk and Ilulissat and a regional airport in Qaqortoq. The airports in Nuuk and Ilulissat were subsequently spun off into the company Kalaallit Airport International, in which the government of Greenland holds a two-thirds stake, while the Danish government holds a

one-third stake. This reduces the borrowing needs of the government of Greenland and the risk associated with the two airport projects. Moreover, the loan interest will be lower than would otherwise have been the case.

The blasting work for the airports in Nuuk and Ilulissat has commenced. However, the projects have been delayed by up to 12 months due to inclement weather and coronavirus pandemic. Initial efforts will be concentrated in Nuuk, and the relocation of staff and equipment to Ilulissat is scheduled for 2022. The airport in Nuuk is expected to be completed by the end of 2023, while the airport in Ilulissat is expected to be completed in 2024.

The airport in Qaqortoq has got off to a more difficult start. In August, Kalaallit Airport had to cancel the tender for construction work and airport buildings because the bids received were significantly over budget. Work is currently ongoing to find a way of reducing the project costs. Management-wise, 2020 has also been a challenging year for Kalaallit Airport. In August 2020, the company hired a new CEO, and it is currently seeking a new Chairman of the Board.

The future infrastructure attracts considerable political attention, and work has been initiated to examine the economics of the regional runways in eight towns, currently served, inter alia, by helicopters. The towns are Uummannaq, Qasigiannuguit, Kangaatsiaq, Qeqertarsuaq, Narsaq, Nanortalik, Ittoqqortoormiit and Tasiilaq, of which Tasiilaq is the largest with close to 2,000 inhabitants. Among the issues to be examined is whether constructing and operating these runways will make economic sense, considering various choices of aircraft types, etc. The political process surrounding the regional runways is expected to begin in autumn 2020.

Public sector in need of reform

Demographics will be changing rapidly over the coming years, putting government finances under pressure. The number of elderly people is set to grow, while the number of people of working age will decrease, see Chart 4. This is a familiar pattern in many countries, but it occurs later in Greenland as it is associated with the ageing of the large cohorts born in the 1960s. The Economic Council's analysis

Airport locations

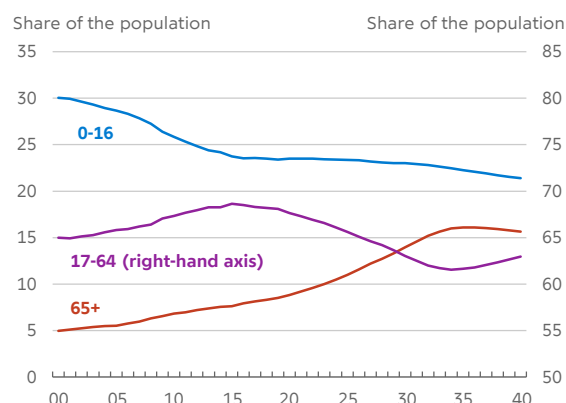
Chart 3



Note: The red crosses indicate the locations of the three airports to be built by the government-owned company Kalaallit Airport A/S. The red dots represent towns mentioned in the text.

More elderly people and fewer people of working age

Chart 4



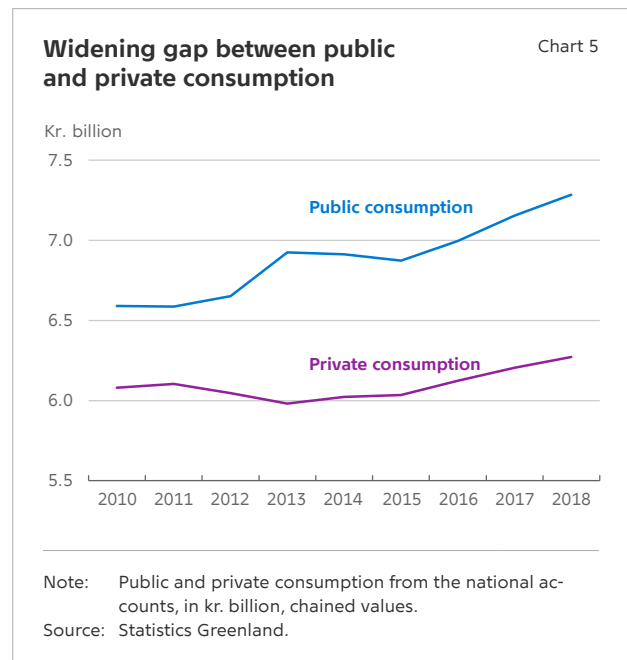
Note: Proportion of total population residing in Greenland from the latest population forecast until 2040.

Source: Statistics Greenland.

indicates that the impact of the ageing population will cause government expenditure to rise by 5-6 per cent of GDP with the current welfare standards for health, elderly care, etc. This means that growth in government expenditure will exceed growth in government revenue by kr. 1 billion over the next couple of decades. A budgetary improvement of that magnitude requires broad-based reforms, strengthening public sector efficiency and increasing labour force participation and employment rates, among other factors.

The need for reforms was also highlighted in Naalakkersuisut's long-term sustainability and growth plan from 2016, based on an assumed annual real growth rate in public consumption of 0.5 per cent. Public sector efficiency and modernisation, in particular, were to help bring about a lasting budgetary improvement, which is required to ensure long-term sustainability of government finances. In fact, public consumption increased by an average annual rate of 2 per cent from 2016 to 2018.

Moreover, Greenland is one of only a small number of countries in the world where public consumption exceeds private consumption, and the expenditure gap has widened over the past decade, see Chart 5. A small, geographically scattered population resulting in non-economies of scale in public sector service production may explain why the public sector is larger than in other countries. However, the public sector is a very significant and growing part of the economy. Public consumption accounts for 44 per cent of GDP. In Denmark, the figure is approximately 24 per cent.



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