Current Trends in the Greenlandic Economy

Anders Møller Christensen and Carina Moselund Jensen, Economics

Greenland was only to a moderate extent affected by the international economic crisis that hit the world economy in 2008. According to the national accounts, economic growth was positive in all years until 2010, which is the last year covered by the statistics. Underlying factors include the block grant from Denmark, which provides a firm source of income, and a fairly stable fishing volume. The Chairmanship of the Economic Council in Greenland estimates economic growth at 3 per cent in 2011, cf. the Economic Council's Report 2011.[1]

Growth in 2010 and 2011 is mainly attributable to considerable construction activity, primarily in Nuuk, and a strong increase in oil and mineral exploration activities. Furthermore, incomes were boosted by rising world market prices for the predominant export industry, fisheries, in 2010 and into 2011, which means that finances in this industry have generally improved substantially. At the same time, previous years' steady deterioration of terms of trade ceased.

There is a considerable risk that economic activity will decline in 2012. Prawn fishing plays the economically most important role in the Greenlandic fishing industry. Prawn quotas have been reduced by almost 20 per cent, and oil exploration activities will be somewhat lower than in 2011 as no exploratory drillings have been planned in the waters off western Greenland this year. A potential increase in mineral exploration activity is scarcely able to make up for this.

National accounts

In December 2011, Statistics Greenland published output-based national accounts for the years 2003 to 2010. This makes it possible to produce more or less the same tables and analyses as for most other economies. Highlights of demand and supply are shown in Table 1.

It is clearly seen that there has been a pronounced surge in investment, which in 2010 constituted more than 50 per cent of the gross domestic product, GDP. A large part of this growth relates to investments in oil and mineral exploration, in the national accounts referred to as in-

[1] See htpp://dk.nanoq.gl/Emner/Landsstyre/Departementer/Departement_for_finanser/OekonomiskRaad.aspx (in Greenlandic and Danish only).

DEMAND AND SUPPLY, REAL GROWTH Table 1

Per cent	(Share of GDP 2010)	2004	2005	2006	2007	2008	2009	2010
Private consumption	(51.1)	6.3	5.2	3.1	-1.1	-1.1	0.3	4.4
Public consumption	(53.8)	-0.1	0.5	6.6	1.0	6.7	-2.7	-0.3
Total gross investment	(55.1)	-7.2	41.7	2.1	35.1	45.1	-4.2	33.3
Excl. investment in intangible fixed assets	(27.0)	-8.5	37.9	3.1	24.0	36.3	0.8	-17.7
Exports of goods and services	(27.9)	12.7	2.9	-3.5	-1.4	10.6	-12.9	6.5
Final consumption equal to total addition	(188.0)	3.8	7.1	2.6	4.7	12.3	-4.2	10.2
Imports of goods and services	(88.0)	3.0	12.6	-3.5	8.7	26.8	-10.6	23.3
Gross domestic product	(100.0)	4.3	3.7	6.6	2.4	3.0	0.8	1.2

Note: Investment in intangible fixed assets mainly comprises investments relating to oil and mineral exploration.
Source: Statistics Greenland.

vestment in intangible fixed assets. This includes e.g. costs for oil exploration in the sea off the west coast of Greenland. Most of these investments are made by foreign companies using foreign labour on foreign drilling and supply vessels and are offset by large imports of services in the national accounts. But there is a small impact on Greenland's GDP to the extent that local firms are involved, and the activities also provide tax revenue for Greenland.

Growth has also been high in more traditional areas of investment. There has been considerable construction of housing, student residences and places of education, particularly in Nuuk, and hydropower capacity has been expanded. Within a few years, hydropower will be the main source of energy for the largest Greenlandic towns. In addition, very large investments have been made in the telecommunications infrastructure in the form of submarine cables linking Greenland to both Canada and Iceland.

FACTS ABOUT GREENLAND

Population (number of people, beginning of 2012)	56,749
Of which in Nuuk (capital)	16,181
Population aged 18-66 years	38,469
Employment[1] (2010)	28,386
Unemployment[2] (2010)	2,412
Gross domestic product (kr. billion, 2010)	12.3
Per capita (kr. 1,000)	217.5
Disposable gross national product (kr. billion, 2010)	16.1
Per capita[3] (kr. 1,000)	285.2

Source: Statistics Greenland and own calculations.

[1] Number of people in primary employment, average of monthly data, approximate ILO definition.

[2] Number of people affected by unemployment, average of monthly data.

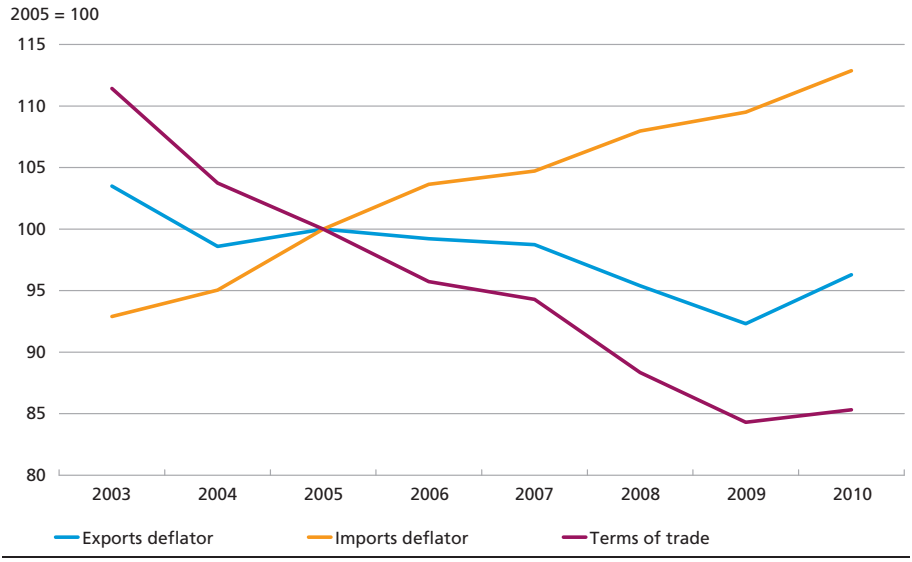
[3] By comparison, disposable GNP per capita in Denmark was approximately kr. 317,100 in 2010. Disposable GNP was approximately 0.2 per cent higher than GDP.

Both public and private consumption have moved more or less in parallel with consumption in Denmark since 2003, but with somewhat larger fluctuations in growth from year to year, mainly because the economy is less diversified and hence more dependent on fluctuations in e.g. fisheries than the Danish economy. The sum of public and private consumption exceeds Greenland's GDP, which is possible because of transfer income from abroad in the form of block grants from the Danish government and agreements with the EU. This means that Greenland's disposable gross national product is more than 33 per cent larger than its GDP.

It is a cause for concern that exports of goods and services have been stagnating in recent years. This has led to very large deficits on the balance of goods and services in the national accounts since imports have been rising steadily, even if the previously mentioned large import content in oil and mineral exploration is disregarded.

While exports have been more or less stable since 2004, imports at constant prices have risen considerably since 2003. Add to this a very unfavourable development in terms of trade, in that export prices have been stagnant or falling, while import prices have been rising steadily, cf. Chart 1. If export prices had risen at the same rate as import prices, so that the terms of trade had been unchanged during this period, the value of Greenlandic output in 2010 would have been just over kr. 1 billion higher than the actual value, corresponding to 8.5 per cent.

EXPORTS AND IMPORTS DEFLATORS AND TERMS OF TRADE — Chart 1



Source: Statistics Greenland.

Balance-of-payments statistics for Greenland are not yet available, but there can be no doubt that economic growth in recent years has been loan-financed to a large extent, cf. the section on loans and bank deposits.

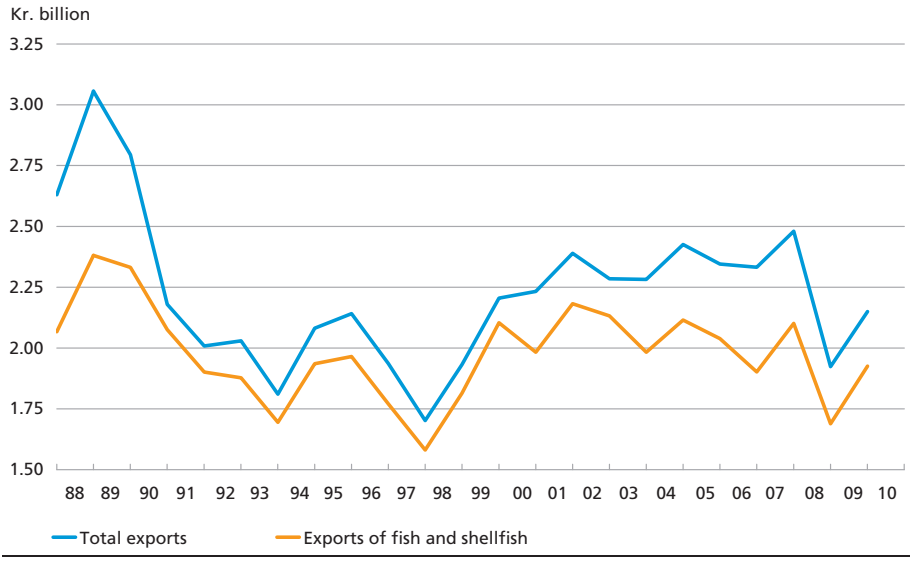
Balance of trade

In 2010, Greenland's balance of trade showed a deficit of kr. 2.4 billion, corresponding to almost 20 per cent of GDP, the largest deficit ever. Exports of goods totalled kr. 2.1 billion, while imports totalled kr. 4.5 billion. But in the first nine months of 2011, the trade deficit was kr. 450 million lower than in the same period of 2010, reflecting higher prices for fish and shellfish.

In a long-term perspective there is a structural problem in that no new export industries have been developed to supplement fisheries. Exports of fish and shellfish fluctuate somewhat from year to year, but the export value is roughly the same now as 20 years ago, cf. Chart 2. Now, as then, fisheries account for approximately 90 per cent of Greenlandic exports.

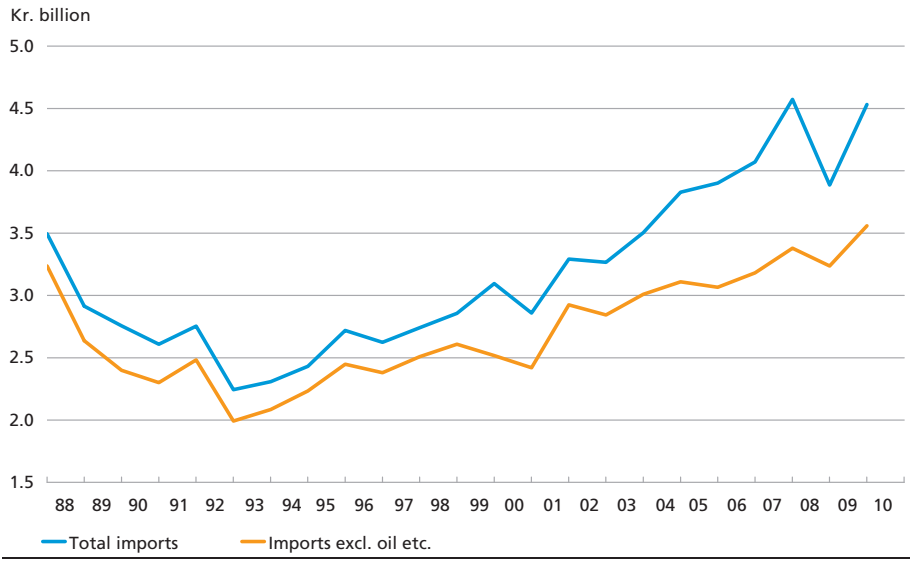
The possibilities for developing fisheries must be deemed to be limited as volumes are on the high side from a long-term sustainability perspective according to the biologists' advice. In accordance with the advice, prawn quotas have been reduced in 2012, and further reductions are expected in 2013, cf. the section on fisheries.

EXPORTS Chart 2



Note: Preliminary data for 2007-10.
Source: Statistics Greenland.

IMPORTS Chart 3



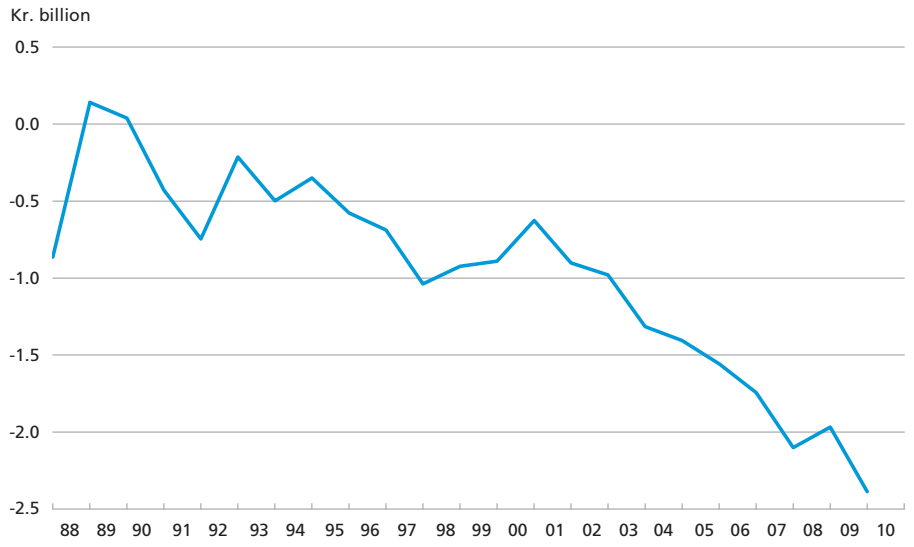
Note: Preliminary data for 2007-10.
Source: Statistics Greenland.

Hence it is a serious concern that no new export sectors have been developed. Tourism has shown some development, and, in particular, a number of oil and mineral exploration activities are being carried out, but so far this has not led to increased extraction. In one case, the olivine mine at Maniitsoq, commenced activities were closed down again. On the other hand, the gold mine in South Greenland reopened in 2011 with approximately 80 employees. This will contribute to export earnings in late 2011 and into 2012.

Imports of goods have risen at a steady pace, reflecting the general trend in activity, cf. Chart 3. Most goods for investment and private consumption are imported. 2010 saw particularly high growth in the value of imports of energy goods and office machines, etc., while imports of consumer goods fell slightly.

As a result of the stagnating exports and steadily rising imports, Greenland's trade balance has shown large and increasing deficits in recent years, cf. Chart 4. The deficits on the trade balance and, not least, the balance of goods and services have grown, while Greenlandic residents have increased their net debts via loans from banks and mortgage banks, cf. the section on loans and bank deposits. This is consistent with net borrowing corresponding to the sum of capital transfers and the current account of the balance of payments. As stated above, no statistics are available yet of the balance of payments or Greenland's net foreign debt and how they are developing.

TRADE BALANCE Chart 4



Note: Preliminary data for 2007-10.
Source: Statistics Greenland.

Private consumption

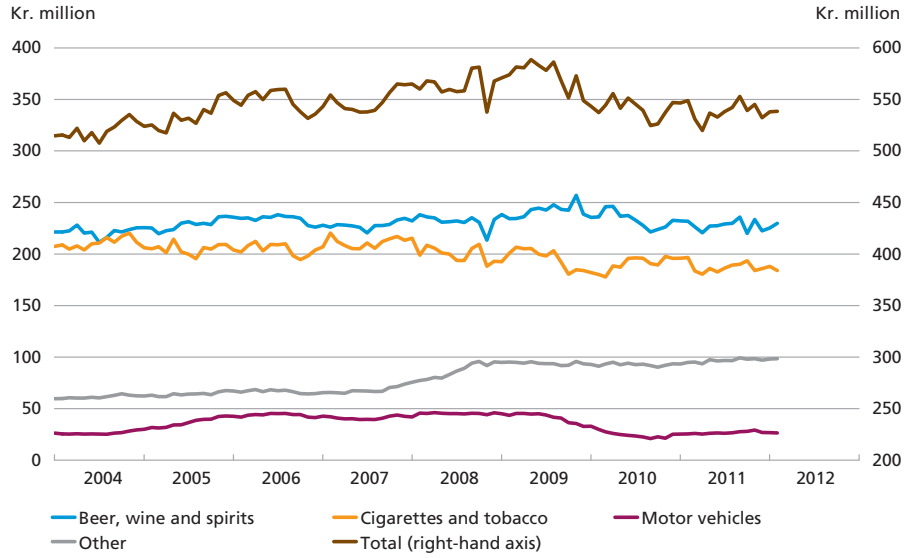
The most important economic indicator for private consumption is the Greenlandic government's monthly statement of revenue from excise duties.

Given that excise duties have been unchanged since the autumn of 2007, changes in revenue reflect changes in private consumption of the relevant categories of goods. As Chart 5 shows, revenue has declined since 2009, chiefly reflecting lower sales of alcohol and tobacco as well as cars. The fall in revenue from tobacco and alcohol taxes continued in 2011, while other areas of consumption were more or less constant. In this context it should be noted that sales of tax-free tobacco and alcohol before arrival in Greenland were discontinued in 2011, so the development in consumption has been a little weaker than the revenue from taxes indicate.

Loans and bank deposits

Private individuals, firms and the public sector mainly bank with the two locally represented banks, Grønlandsbanken and BankNordik, but it is not unusual to have a bank account in Denmark. The Danish mortgage banks have also increased their activities in Greenland in recent years. So in order to illustrate developments in the Greenlandic population's deposits and loans, the Danish banks and mortgage banks must also be taken into consideration.

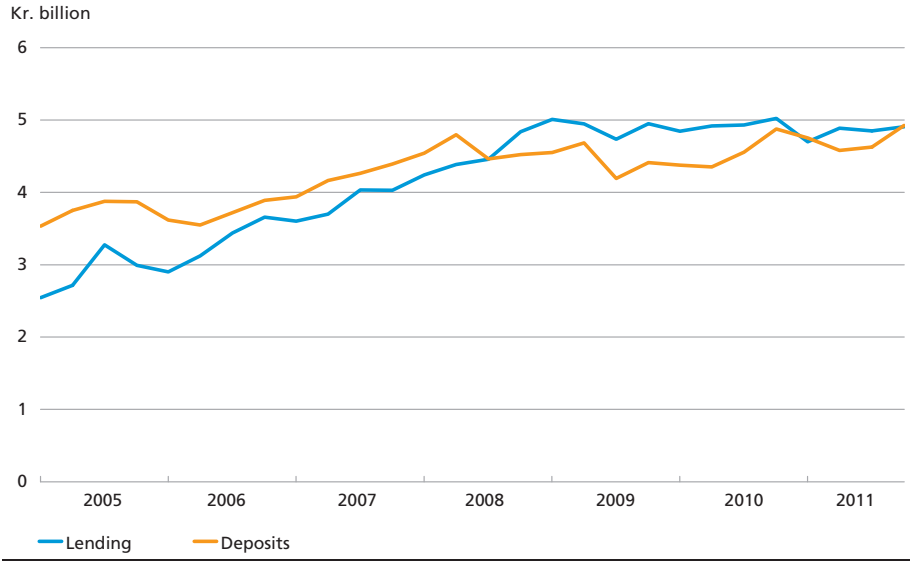
IMPORT DUTIES Chart 5



Note: 12-month sums. The most recent observations are from February 2012.
Source: Greenlandic government.

Chart 6 shows that residents in Greenland have gone from having a customer funding surplus of approximately kr. 1 billion in 2004 with banks in the Danish currency area – Denmark, the Faroe Islands and Greenland – to having more or less balanced loans and deposits. During

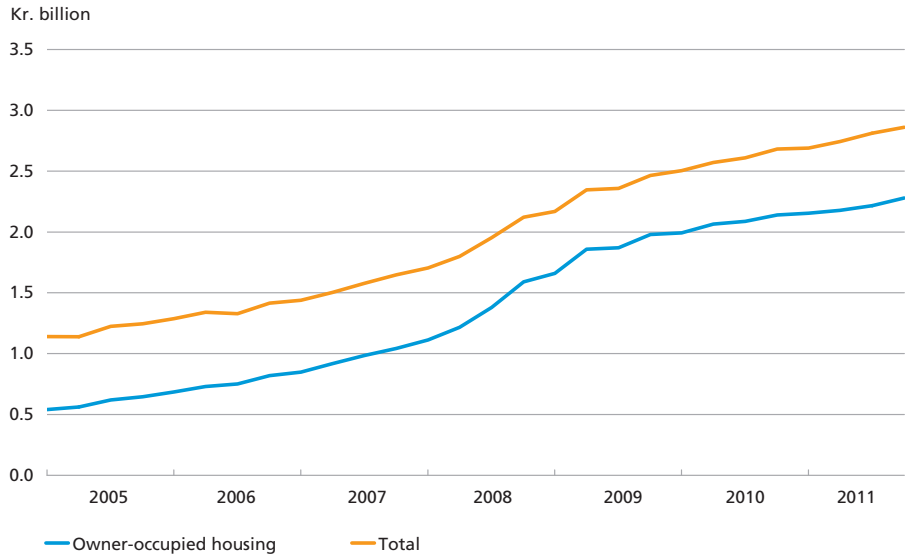
BANKS' LENDING TO AND DEPOSITS FROM GREENLAND Chart 6



Note: The most recent observations are from the 4th quarter of 2011.
Source: Danmarks Nationalbank.

MORTGAGE BANKS' LENDING TO GREENLAND BROKEN DOWN BY PROPERTY CATEGORIES

Chart 7



Note: The most recent observations are from the 4th quarter of 2011.
Source: Danish Financial Supervisory Authority.

the same period, mortgage banks have increased their outstanding loans in Greenland from around kr. 1.2 billion to around kr. 2.9 billion, cf. Chart 7. This is attributable to a greater prevalence of owner-occupied housing, as well as a declining tendency for rental housing to be funded directly by the government and local authorities. All mortgage loans are fixed-rate loans with amortisation, and the mortgaged properties may only be situated in Nuuk or a few other towns. As the figures show, net lending to Greenland from the previously mentioned sources has risen by approximately kr. 3 billion in seven years. Moreover, in the autumn of 2010, the government raised a loan of kr. 250 million from the Nordic Investment Bank, NIB, for partial financing of a hydroelectric power plant. This loan is not included in the statistics.

Hence, the statistics support the view that economic growth has been loan-financed in recent years, particularly in relation to construction activities in Nuuk. To provide a balanced picture, it should be noted that total gross lending has now increased to around 65 per cent of GDP, which is far lower than in Denmark, where the corresponding figure is around 200 per cent.

Immigration and emigration

Recent years have seen net immigration of people born outside Greenland, cf. Chart 8. At the same time, net emigration of people born in

NET IMMIGRATION Chart 8

Source: Statistics Greenland.

Greenland has been somewhat lower than in the period 2005-08. Since the excess of births in Greenland, i.e. the difference between the number of births and deaths, is around 400 p.a. these years, the population has been rising slightly. A main reason is that the job situation in Denmark has deteriorated, so vacancies in Greenland are filled more rapidly than previously. As a result, some functions are now carried out by people living in Greenland instead of short-term temporary staff, as was previously common, especially within healthcare. This in turn will reduce costs per treatment and hence ensure a better quality of public consumption than previously for a given amount in kroner.

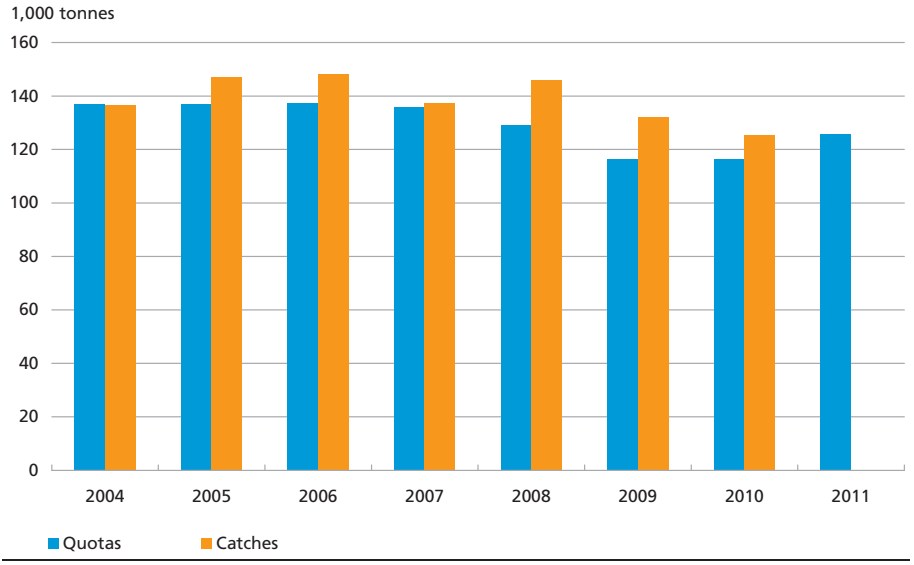
The increase in raw materials exploration in Greenland could be another reason why people born outside Greenland take up permanent residence. However, most exploration activities are carried out in the summer months by non-residents.

Given the close ties between the Danish and Greenlandic labour markets, the reversal of net migration flows is, at any rate, an indication that economic growth has been stronger in Greenland than in Denmark in recent years.

Fisheries

Prawn fishing plays the most important role in an economic context. Prawn quotas and catches have fluctuated around 120,000 tonnes in

GREENLANDIC VESSELS' QUOTAS AND CATCHES OF PRAWNS Chart 9



Note: Due to the flexible quota system, catches may legally exceed the quotas in some years.
Source: Greenlandic Ministry of Fisheries, Hunting and Agriculture.

recent years, cf. Chart 9. Due to rising world market prices in 2010, prawn fishing has become a profitable business.

In accordance with the biologists' advice, quotas have been reduced by almost 20 per cent in 2012, and further reductions are expected in 2013. Underlying factors include a falling biomass and an increase in the volume of small, prawn-eating cod. However, the cod are still too small to provide profitable fisheries by way of compensation.

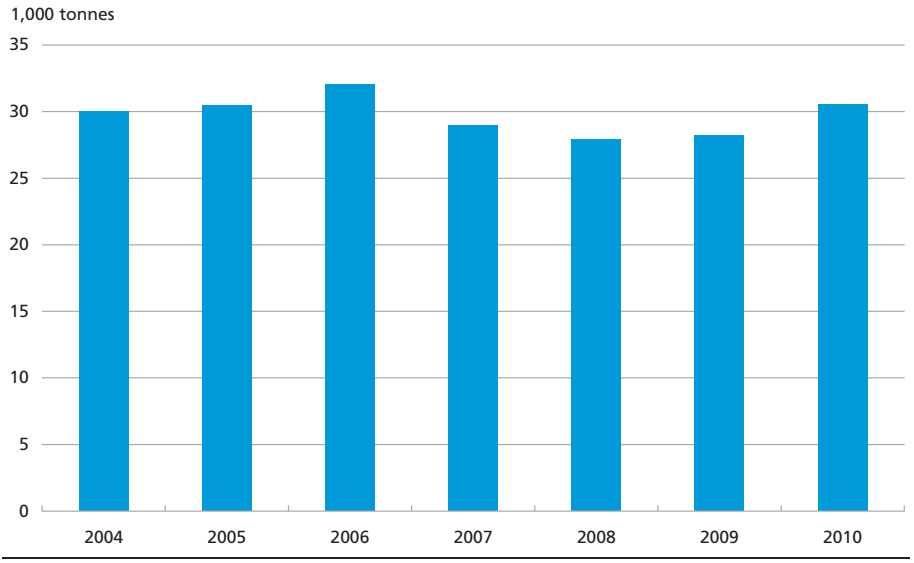
Catches of Greenland halibut – economically the second most important species – have been stable for some years, cf. Chart 10. It is hardly possible to increase catches if fisheries are to remain biologically sustainable.

Extraction of raw materials

Fisheries are set to decline in the coming years, which emphasises the need to develop other industries. This need has been apparent for some years, but a high level of costs, more or less matching that of Denmark, a geographically scattered population with resultant high transport costs and a lower level of education impede such developments. Extraction of raw materials looks like the most probable supplement to fisheries.

Considerable exploratory activities have taken place in recent years. Especially exploratory drillings for oil in the sea off western Greenland have attracted attention. Costs in this respect totalled around kr. 5 billion for 2010 and 2011. Most of the exploration is carried out using

GREENLANDIC VESSELS' CATCHES OF GREENLAND HALIBUT Chart 10



Source: Greenlandic Ministry of Fisheries, Hunting and Agriculture.

foreign labour and foreign capital stock, but a number of service sectors in the towns in question have seen a boost in activity. Traces of hydrocarbon have been found, but so far not in quantities that would provide a basis for extraction. Activities are set to decline considerably in 2012 as no exploratory drillings have been planned for this year. However, further drillings are expected in the coming years.

As regards minerals, there has also been considerable exploratory activity for a number of years, and some firms are currently investigating the profitability of extracting the finds. These include "rare earth elements" in southern Greenland, iron near the Godthåb Fjord, rubies south of Nuuk and zinc in northern Greenland. The level of activity is expected to be high in these areas this year.

There are also plans to utilise some of the large, unexploited hydropower resources for supplying an aluminium smelter at Maniitsoq with energy. The hydroelectric power plant and aluminium smelter would entail investments in the range of kr. 20 billion, to which should be added investments in urban development for those employed in the operations phase. In its spring session 2012, Inatsisartut, the Greenlandic parliament, will determine the degree of risk that Greenland is able to take on in connection with large-scale projects.

If the aluminium project and some of the large mining projects are realised, this will provide employment for several thousand people in the establishment phase and some thousands in the extraction phase. In

a country with a labour force of around 30,000, this will considerably increase the opportunities for finding well-paid employment. It is probably unrealistic that the investment phase can be completed mainly using local labour, but it is essential to developments in Greenland that the labour used in the operations phase is local to the extent that this is possible. That will require a substantial effort to raise the level of education in Greenland, where less than half of the population over the age of 25 has completed a qualifying education or training or is currently doing so.

However, all this should be taken with a grain of salt. For a number of years, there have been great expectations for future mining activities, etc., but so far they have not been met. Currently the only active mine is a gold mine in southern Greenland employing approximately 80 people.

Public finances

In the period 2007-09, the Greenlandic government had a deficit on its current, investment and lending budget, CIL. The budget balanced in 2010, but the Finance Acts for 2011 and 2012 show new CIL deficits, cf. Table 2.

The deficits are in part attributable to lending to the energy supply company Nukissiorfiit in connection with the ongoing conversion of the largest towns' energy supplies to hydropower. These investments will not only reduce oil consumption, they are also deemed to be profitable on market terms, but they have increased lending expenses by kr. 2-300 million p.a. since 2007. The Finance Act for 2012 operates with a balanced current and investment budget, CI.

When assessing the impact of public finances on activity, it is also necessary to look at the Construction and Renovation Fund. When a capital expenditure is approved, it is charged to the investment budget, and the amount is transferred to the Fund. When the project is carried out, often in subsequent years, it is financed via disbursements from the Fund. So an increase in the Fund's capital indicates that investment activity has been lower than projected in the CIL balance. Conversely, investment activity in 2010 was kr. 245 million higher than the investment expenses of kr. 719 million.

Income is dominated by the category agreed income, of which the block grant from the Danish government constituted just over 90 per cent in 2010. The size of the block grant is specified in the Act on Greenland Self-Government and is indexed by the annual increase in the general price and wage index over the Danish Finance Act. If the Greenlandic government's expenses increase in real terms, a budget-balance requirement means that other sources of income must increase by a

MAIN ITEMS OF THE GOVERNMENT ACCOUNTS Table 2

Kr. million	2005 R[1]	2006 R[1]	2007 R[1]	2008 R[1]	2009 R[1]	2010 R[1]	2011 PL[2]	2012 PL[2]
1. Operational expenses	2,404	2,462	2,604	2,787	2,973	3,078	2,778	2,901
2. Statutory expenses ..	740	750	788	837	850	852	890	885
3. Subsidies	1,674	1,532	1,530	1,591	2,229	1,534	1,840	1,881
4. Investment expenses	492	700	1,003	930	807	719	937	946
5. Total expenses	5.311	5.444	5.925	6.144	6.860	6.184	6.445	6.613
6. Agreed income[3]	3,430	3,485	3,555	3,661	3,799	3,828	3,883	3,936
7. Direct taxes	786	780	850	876	828	1,019	909	1,004
8. Indirect taxes.....	664	703	740	792	776	772	847	851
9. Other revenue.....	705	517	514	496	506	567	606	600
10. Total income	5,585	5,484	5,659	5,825	5,910	6,185	6,245	6,391
11. Actual CIL balance: (10)-(5)	274	40	-267	-318	-950	2	-200	-221
12. CI balance	304	65	-28	-94	-514	207	13	0
13. Net lending to Nukissiorfiit	30	25	239	223	132	223	281	263
14. Increase in unused funds in Construction and Renovation Fund	14	-19	148	95	60	-245	-100	-100
15. CIL balance adjusted (11)+(13)+(14)	318	46	120	0	-758	-21	-19	-58

Note: In 2011, block grants to local authorities were increased by kr. 302.6 million as care for the disabled was transferred to local authorities. Hence, this amount is transferred from the Greenlandic government's operational expenses to expenses for subsidies.

Source: Government Accounts, Finance Acts (FL) 2011 and 2012.

[1] Realised data.

[2] Preliminary data.

[3] Agreed income mainly comprises the block grant from the Danish government (kr. 3,495 million in 2010) and partnership and fisheries agreements with the EU (kr. 221 million in 2010).

higher percentage than expenses if inflation is at the same level in Greenland as in Denmark. Since the same currency is used, this is usually the case.

Owing to pressure on expenses as the population ages in the coming decades, combined with the fact that a dominant source of income is frozen in real terms, the Economic Council in its report assesses fiscal policy to be unsustainable in the long term. A fiscal indicator has been calculated which shows that tightening by almost kr. 1 billion is required to keep the government debt stable up to 2040. This calls for a considerable effort since public operating expenses, including at local level, total around kr. 6 billion.

Greenland has a favourable point of departure in that the government has net financial assets. At end-2010, gross debt was kr. 250 million, corresponding to approximately 2 per cent of GDP, while liquid assets in

the form of bank deposits and bonds totalled approximately kr. 1 billion. However, liquid assets have shrunk considerably in recent years. At end-2007, the government held liquid assets of more than kr. 2 billion. The government holds a number of other assets which have not been included in this calculation, including housing loans. Many of these loans are without interest and amortisation for a number of years and hence difficult to value.

The 2012 Finance Act budgets with the government raising further loans of kr. 800 million until 2015.

However, the favourable debt picture so far is complicated by the fact that firms wholly owned by the Greenlandic government at end-2010 had interest-bearing gross debts of kr. 3.6 billion, of which kr. 2.3 billion related to Royal Greenland A/S.

Looking further ahead, a large number of infrastructure projects are required. The Transport Commission, which was set up after the transition to self-government in the summer of 2009, submitted a report in the winter of 2011. The calculated capital requirements for new or improved airports and extended port facilities amount to at least kr. 2-3 billion. In addition, considerable residential construction will be required in Maniitsoq if the plans to build an aluminium smelter are realised. The list of investment wishes is long, and it will be necessary to prioritise the proposals according to their importance to the economy. It will also be a challenge to avoid overheating of the economy.