CURRENT TRENDS IN THE GREENLANDIC ECONOMY

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INTRODUCTION AND SUMMARY

Greenland is faced with considerable economic problems. Activity has been declining for some years and emigration is reducing the population.

In 2014 the government deficit was almost 2 per cent of the gross domestic product, GDP, which is a large deficit by Greenlandic standards. But the liquidity of the government is good, and gross debt is modest, approximately 5 per cent of GDP.

Rising prices for fish and shellfish, the predominant Greenlandic exports, have generated good earnings for large parts of the fisheries sector, although catches of prawn, which is by far the most important single species, continue to fall. The decrease is presumably climate-related. Catches of other traditional species have not been able to make up for this decline, but mackerel could turn out to be important.

Activities in connection with extraction of and exploration for raw materials have diminished considerably. At present, no mines are in operation, but during 2015 one company will start to extract rubies.

Following a trough in 2014, investment in building and construction is set to rise. At the same time, there are indications that private consumption has ceased to fall. Hence, economic growth is expected to become positive this year, but there are no signs that a solution is being found to the large structural problems in the form of a very narrow business sector in Greenland.

NATIONAL ACCOUNTS AND BALANCE OF TRADE

Economic activity contracted for three years in a row up to and including 2014, cf. Table 1. Due to an expected increase in investment in building and construction, the outlook points to positive economic growth in 2015. After that, developments in the fisheries sector will presumably determine whether activity rises or falls. There will also be some important, albeit not very large, contributions to economic growth from one or two small mine projects.

The downturn follows a number of years with strong growth. From 2003 to 2011, activity increased by an average of just over 3 per cent a year, primarily because investments surged. But in 2012 and 2013, the most recent years for which national accounts data is available, investments plummeted. The fall was particularly strong, exceeding 60 per cent, for investments in mineral and oil exploration. Traditional investments in building and construction also decreased notably. The lower level of investment was, on the whole, matched by lower imports, but also had a negative impact on activity, not least in the building and construction sector.

Investment is expected to have declined further in 2013 and 2014. Exploration activities have been reduced still further, and the Greenlandic government's investments in building and construction have fallen drastically.

Both public and private consumption have been stagnant in recent years and export volumes have shrunk. On the other hand, prices for

Demand and supply, real growth Table 1

Per cent	(Share of GDP in 2013)	2009	2010	2011	2012	2013	2014	2015
Private consumption	(47.9)	-0.7	1.7	2.7	-0.7	-0.4	-2.0	0.9
Public consumption	(55.1)	3.7	-1.4	-1.1	0.4	3.7	1.0	0.5
Total gross investment	(26.1)	-23.7	75.2	27.4	-42.3	-30.3	-10.7	3.9
Excl. investment in raw materials exploration	(19.2)	-23.4	4.2	15.4	-10.5	-19.8	-6.5	10.2
Exports of goods and services	(30.4)	-11.3	12.5	-1.7	-4.9	-4.6	-4.7	0.8
Final consumption equal to total addition	(159.4)	-6.7	16.5	7.9	-15.1	-6.8	-3.0	1.2
Imports of goods and services	(59.4)	-14.6	37.6	14.2	-29.9	-13.6	-5.1	1.0
Gross domestic product, GDP	(100.0)	-0.7	2.5	2.2	-0.3	-1.9	-1.6	1.4

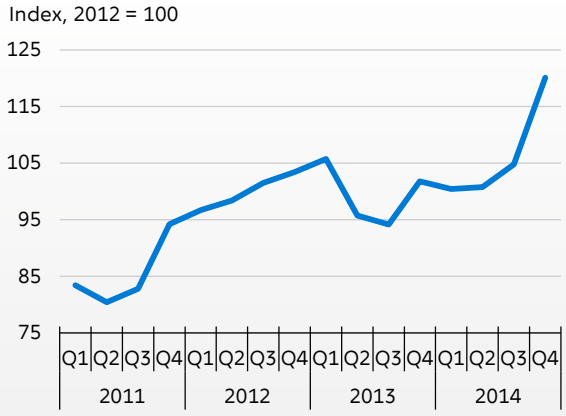
Source: 2009-13 Statistics Greenland (November 2014), 2014-15 the Economic Council (mechanical update of forecasts from September 2014).

exports of fish and shellfish have risen strongly, cf. Chart 1. Prices rose further in 2014 and were on average 25 per cent above the 2011 level for the full year, with higher increases for prawns and lower increases for Greenland halibut and cod. In value terms, fish and shellfish made up approximately 95 per cent of total exports of goods in 2014.

Despite the smaller catches of prawns, the value of total exports of goods increased by 10 per cent in 2014. This is partly attributable to higher prices, partly to larger catches of especially mackerel and to a lesser extent Greenland halibut.

The high prices for fish also mean that earnings have been good in large parts of the fisheries sector. This has mitigated the income and tax effects of the decrease in volumes.

Export prices for fish and shellfish Chart 1



Note: Price index for exports of cod, Greenland halibut and prawns weighted by the species' export values in 2012.
Source: Statistics Greenland.

Facts about Greenland Box 1

Population (number of people, beginning of 2015)	55,984
Of which in Nuuk (capital)	16,992
Population aged 18-66 years	38,229
Employment[1] (2013)	25,461
Unemployment[2] (2013)	2,725
Gross domestic product, GDP (kr. billion, 2013)	13.6
Per capita (kr. 1,000)	241.0
Disposable gross national income, GNI (kr. billion, 2013)	17.6
Per capita[3] (kr. 1,000)	311.5

Source: Statistics Greenland 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. 341,000 in 2013. Denmark's disposable GNI was approximately 1.5 per cent higher than GDP.

Lower consumption and investment meant that the value of Greenlandic imports fell for the third year running in 2014. Combined with rising exports this means that the deficit on the Greenlandic trade balance has more than halved since 2011, to kr. 1.3 billion in 2014.

The latest figures for overall inflation, stated as the annual rate of increase in the consumer price index, are from January 2015, when inflation was 1.5 per cent. In Denmark prices fell by 0.1 per cent, calculated in the same way.

POPULATION

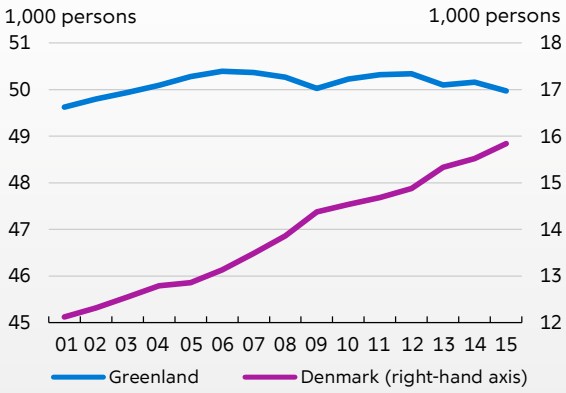
The economic downturn is presumably the main reason why the population of Greenland has declined in recent years. At the beginning of 2015, it was just under 56,000, which meant that it had fallen by 300 during 2014. In the last three years, annual net emigration has been approximately 600, which is much higher than the excess of births, i.e. the number of live births less the number of people who die. By comparison, annual net emigration was approximately 200 in the boom years 2009-11.

Net emigration mainly comprises people born in Greenland who move to Denmark. Since 2000, the number of people born in Greenland and living in Denmark has risen by 4,000 to around 16,000, while the number of people born and living in Greenland has been more or less stable at 50,000, cf. Chart 2. So almost one quarter of the people born in Greenland live in Denmark. For those born in the period 1969-75, it is no less than one third. Emigrants can be found within most age groups, so it is not merely a question of many young people moving to Denmark to get an education and staying for some years. However, among those aged 21-30, the share of people born in Greenland who live in Denmark is now smaller than it was at the beginning of the century. This is probably because education and training opportunities in Greenland have improved. Lower proficiency in foreign languages, including Danish, may also play a role.

MOST RECENT CYCLICAL TENDENCIES

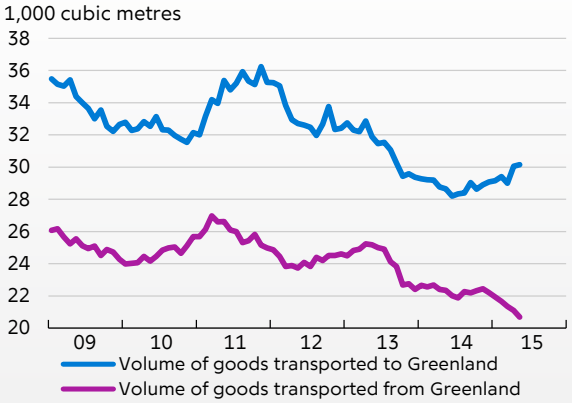
There are indications that domestic demand in Greenland began to pick up in late 2014. For example, freight volumes transported to Greenland by the Royal Arctic Line, RAL, began to increase slightly during the autumn of 2014, cf. Chart 3. It should be noted that most of the goods for meeting domestic demand, with oil as the main exception, are imported and transported by RAL, which also handles virtually all exports of fish and shellfish, with mackerel as a significant exception. RAL freight volumes from Greenland continue to fall, chiefly as a result of the smaller prawn quotas.

Country of residence of people born in Greenland, 1 January Chart 2



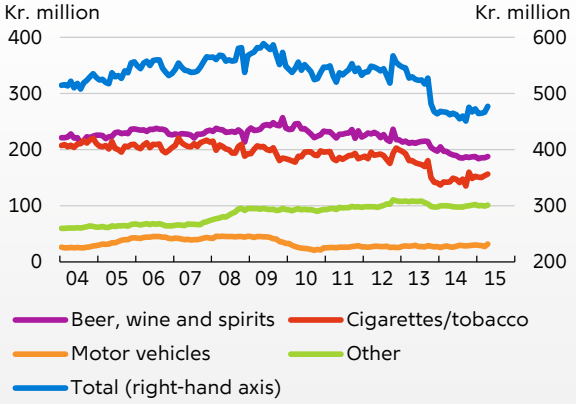
Source: Statistics Greenland and Statistics Denmark.

Freight to and from Greenland by Royal Arctic Line Chart 3



Note: 12-month averages. The most recent observations are from May 2015.
Source: Royal Arctic Line.

Import duties Chart 4



Note: 12-month sums. The most recent observations are from April 2015.
Source: Greenlandic government.

Revenue from import duties indicates that private consumption is no longer falling, cf. Chart 4. Total revenue from duties is rising marginally after having declined by 17 per cent since 2008. The fall in this period is predominantly attributable to lower revenue from tobacco and alcohol duties. Alcohol consumption per adult is now lower in Greenland than in Denmark.

No current statistics of the development in unemployment are available, but monthly compilations are made of the number of people registered as job seekers. This is a count of the people who have contacted the local authorities with unemployment problems at least once within that month. In the first four months of 2015, the number of job seekers was a little lower than in the corresponding period of 2014, but a little higher than in 2013. However, the figures are difficult to

Main items of the government accounts Table 2

Kr. million	2008 A[1]	2009 A[1]	2010 A[1]	2011 A[1]	2012 A[1]	2013 A[1]	2014 A[1]	2015 FA[2]
1. Operational expenses	2,787	2,870	2,984	2,685	2,735	2,720	2,660	2,686
2. Statutory expenses	837	850	852	870	879	984	1,008	1,062
3. Subsidies	1,592	2,330	1,634	1,897	2,009	2,150	2,220	2,198
4. Capital expenditure	930	808	719	1,095	969	597	896	608
5. Total expenses	6,144	6,859	6,189	6,547	6,591	6,452	6,784	6,554
6. Agreed income[3]	3,661	3,799	3,828	3,864	3,922	3,976	3,967	4,031
7. Direct taxes	876	828	1,019	1,135	1,143	1,051	1,027	1,045
8. Indirect taxes	792	776	772	800	860	824	936	910
9. Other revenue	498	509	567	593	601	672	700	529
10. Total income	5,827	5,913	6,187	6,392	6,526	6,523	6,630	6,515
11. Actual CIL balance: (10)-(5)	-317	-946	-2	-156	-65	71	-154	-27
12. CI balance	-93	-511	203	54	150	78	-222	-64
13. Increase in unused funds in Construction and Renovation Fund	88	87	214	148	-82	-198	470	-200
14. CIL balance adjusted (11)+(13)	-229	-859	212	-8	-147	-127	316	-227

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 and Finance Act 2015.
1. Account data.
2. Finance Act 2015.
3. Agreed income mainly comprises the block grant from the Danish government (kr. 3.642 million in 2014), partnership and fisheries agreements with the EU (kr. 202 million in 2014) and sale of fishing rights (kr. 108 million in 2014).

interpret as they are affected by factors such as local administrative practices.

PUBLIC FINANCES

The main items of the government accounts are shown in Table 2.

Since 2010, the balance of the current and investment (CI) budget has been the key budget element of economic policy, the target being to post a surplus in normal years. This was achieved in all years in the period 2010-13, but in 2014 the situation reversed, and a deficit of kr. 222 million was posted, corresponding to approximately 1.5 per cent of GDP, compared with a budgeted surplus of kr. 21 million when the Finance Act was passed. Due to repayment of debt by several companies owned by the Greenlandic government, the deficit on the current, investment and lending (CIL) balance was a little smaller.

The unfavourable development is mainly attributable to lower-than-expected revenue from indirect taxes, as well as adoption of somewhat higher capital expenditure than budgeted for in 2014.

However, when assessing the impact of public finances on activity, it is necessary also to look at the Construction and Renovation Fund. When capital expenditure is approved, it is charged to the investment budget, and the amount is transferred to the Fund. When the project is actually carried out and paid for, often in subsequent years, it is financed via disbursements from the Fund. In 2014, the Fund's capital increased by kr. 470 million, and hence activity did not total kr. 896 million, but only just over kr. 400 million. So compared with the level in the preceding years, actual capital expenditure was very low in 2014. In 2013 it was almost twice as high, although capital expenditure in the government accounts was considerably lower. The fact that capital expenditure was so low has undoubtedly contributed to the weak economy in 2014.

The very low actual capital expenditure is also the single most important reason why the government's liquidity improved in 2014 despite the large deficit on the CIL balance and the absence of borrowing. Hence the Greenlandic government's gross debt is still kr. 600 million, or just under 5 per cent of GDP.

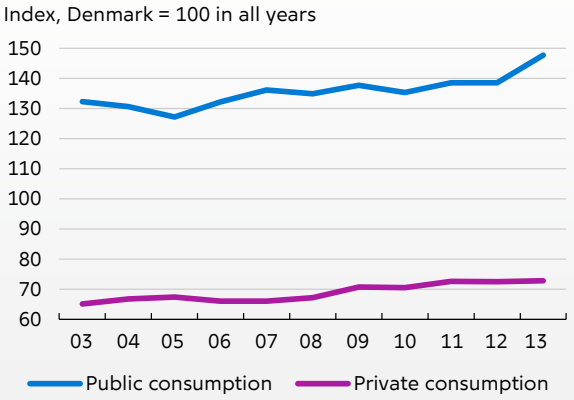
Due to the election to the Greenlandic parliament, Inatsisartut, in the autumn of 2014, the Finance Act for 2015 was not passed until May 2015. It operates with deficits on both the CI and CIL balances. To the extent that construction projects previously approved are also carried out, this may result in a substantial change in the level of activity. In 2015, considerable investment in building and construction will take place that is not funded by the Greenlandic government. Corporate actors are building a new container port at Nuuk, and the Danish government is building a closed prison near Nuuk.

A special characteristic of the economy is that the most important source of income, the block grant from the Danish government, is not affected by the economic development in Greenland, but is adjusted annually over the Danish Finance Act to reflect the increase in the general price and wage index in Denmark. Income from partnership and fisheries agreements with the EU is not cyclical either. This provides a good point of departure for the budget process, but also entails that financing of higher public consumption requires a more-than-proportional increase in revenue from taxes and duties, which can be difficult to achieve.

In the slightly longer term, Greenland is faced with a challenge as the baby boomers from the 1960s approach or reach retirement age. The Economic Council has calculated a fiscal indicator, which shows that fiscal tightening to the tune of kr. 1 billion is required if government debt as a ratio of GDP is not to rise towards 2040. That roughly corresponds to the Greenlandic government's revenue from direct taxes. If tightening is to take place by increasing revenue, this will require a broader business sector than at present, e.g. in connection with extraction of raw materials. If it is to be achieved via lower spending, it is worth noting that public consumption is remarkably high. In fact, public consumption per capita is 50 per cent higher than in Denmark, cf. Chart 5. However, the impression is not that public service in Greenland is 50 per cent better. So, besides a possible higher preference for collective solutions than in Denmark, the primary reason for the very high public consumption must be lack of economies of scale because the population is scattered across a very large area.

In some respects the high level of spending has clearly not resulted in high quality. In the spring

Public and private consumption per capita Chart 5



Source: Calculations based on data from Statistics Greenland and Statistics Denmark.

of 2015, the Danish Evaluation Institute published a highly critical report on the primary and lower secondary school system in Greenland, which is functioning poorly. This is disheartening as better schools are the key to economic development in Greenland. Responsibility for schools was transferred to Greenland many years ago.

The problems related to the general lack of economies of scale may have intensified in recent years. On the one hand, the population has become more concentrated as people have migrated to Nuuk, Sisimiut and Ilulissat and away from most other towns and settlements. But on the other hand, the number of populated locations remains unchanged, which means that there are now far more very small settlements than previously. Today, 30 settlements have a population of less than 100, compared with 16 in 2000. If an acceptable level of service is to be maintained for those remaining in a very small settlement, costs per capita can be high. An element of the coalition agreement from December 2014 between the parties Siumut, the Democrats and Atassut is to ensure development in all of Greenland.

Statistics Greenland and Statistics Denmark have compared price levels for private consumption in Greenland and Denmark. The results show that goods and services are 2.4 per cent more expensive in Greenland than in Denmark. The prices of tobacco and alcohol are almost 70 per cent higher in Greenland due to far higher duties; food is 20 per cent more expensive; rent, water, heating, etc. are 16 per cent cheaper; and the price of childcare institutions is almost 60 per cent lower. Most other products are slightly more expensive in Greenland. Since there is no VAT in Greenland, this means that higher transport costs, possibly combined with less competition, generally match the level of Danish VAT.

No price comparisons have been made of public consumption or investment, but undoubtedly both are rather more expensive in Greenland than in Denmark, cf. above.

However, lack of economies of scale cannot fully explain the very high level of public consumption in Greenland. The Faroe Islands also have a scattered population, although distances are smaller than in Greenland. Nevertheless, public consumption per capita in the Faroe Islands is currently at par with that of Denmark and has traditionally been a little lower.

FISHERIES

The opportunities for sustainably increasing fisheries are limited.

The most important species is prawns. Fishing is regulated by quotas and on the whole the politically determined quotas reflect biological advice. Catches are MSC certified as sustainable, which may have contributed to recent years' favourable price development. Quotas have decreased substantially in recent years and have been set at 73,000 tonnes in 2015, down from 124,000 tonnes in 2011. Presumably this is mainly attributable to climate change as prawns are caught in still more northerly waters. The prawn quota is likely to decrease further in 2016.

Fishing for Greenland halibut has increased slightly in recent years, primarily reflecting larger catches in fjords and close to the coast. Biologists are expressing concern as to whether the volume of fishing is expedient as the fish are getting smaller and smaller so that a larger effort is required in order to catch the same volume.

Cod is becoming more plentiful in the waters off western Greenland, but in order to allow spawning stocks to build up in Greenlandic waters, biologists recommend a cautious approach to cod fishing. The Greenlandic government has fixed the quota at 25,000 tonnes for 2015.

Greenland is currently working to certify fishing for lumpfish roe as sustainable in the expectation that this will increase value added.

Overall, the possibilities of increasing total catches of traditional species must be deemed to be limited, but continuous shifts will be seen between the various species. Although Greenlandic waters are extensive, biologists in most respects have knowledge of the fish and shellfish to be found.

However, climate change means that mackerel, and possibly also other schooling fish, can be found in large numbers in Greenlandic waters for part of the summer. In 2014, almost 80,000 tonnes of mackerel were caught, and the quota for 2015 has been fixed at 85,000 tonnes. The quota is determined unilaterally by Greenland with a view to being acknowledged as a coastal state and hence being granted a share of the overall North Atlantic mackerel quota, which could ensure more expedient management of fisheries. Since 2014, the overall quota has been shared between the EU, Norway and the Faroe Islands.

TOURISM AND EXTRACTION OF RAW MATERIALS

Tourism is frequently mentioned as an area with a large growth potential. But in general expectations have not been met. As a result of the continuous decline in cruise tourism, the taxes payable by tour operators for each passenger in Greenlandic waters were abolished in the spring of 2015 in the hope that the tide would turn.

At present there are no mining activities in Greenland, but the management of a ruby project expects to start extraction during 2015. An extraction licence has been obtained and the mining company is now making the necessary investments. In the operating phase, there will be approximately 80 employees.

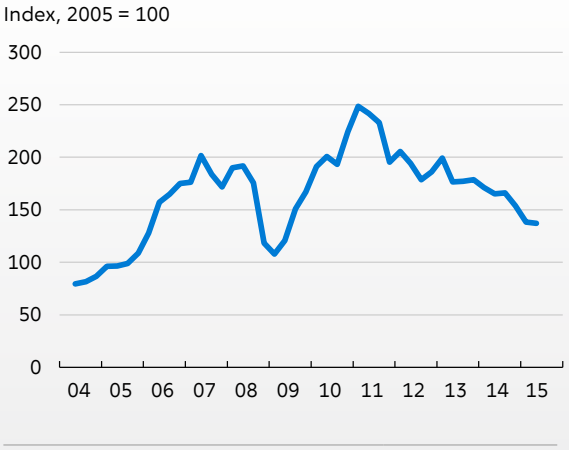
A project on the same scale relating to extraction of the rock anorthosite, which can be used for e.g. production of fibreglass, paint and aluminium oxide, is currently in the application phase, but according to the information available, investment can be initiated rapidly if an extraction licence is granted.

Extraction of raw materials offers the most realistic opportunity to expand the Greenlandic business sector. A number of impediments, including a substantial level of costs that is on the high side of the Danish level, a geographically very scattered population with a resultant lack of economies of scale, high transport costs and, not least, a low level of education, make it difficult to develop internationally competitive traditional industries. Opportunities to find employment in the raw materials sector may contribute strongly to raising the level of education.

Back in 2010 and 2011 there was considerable exploration activity for oil and other types of hydrocarbon in the waters off western Greenland. Exploration costs amounted to approximately kr. 5 billion, which is included as part of the investment in oil and mineral exploration in the national accounts. Traces of hydrocarbon were found, but the amounts were insufficient for commercial exploitation. Since then, no exploratory drilling has taken place in Greenlandic waters, and with the current world market prices for oil, extraction is not attractive for the companies. Consequently, exploratory activities have been put on the back burner.

Minerals have also been the target of considerable exploratory activity for several years. In continuation of the exploratory activities, the Greenlandic authorities have granted an extraction licence for a large iron project in the Nuuk Fjord. But falling world market prices for iron and other metals, cf. Chart 6, have led to a change of ownership of the project and it is not expected to start up for some years.

Metal prices Chart 6



Source: Thomson Reuters Datastream.

Two companies have applied for permission to extract "rare earth elements" in southern Greenland, in one case combined with extraction of uranium. Again, falling prices have made the projects less attractive to investors than previously.

The Greenlandic listed company Nuna Minerals, which explores for minerals in Greenland, suspended payments in May 2015.