

# DANMARKS NATIONALBANK

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## THE GREENLANDIC ECONOMY

# Booming economy and severe labour shortages



### Expansion with regional differences

Greenland has managed to weather the covid-19 pandemic with fewer negative consequences than most countries. Labour shortages are severe, and the risk of overheating of the economy has increased. Nuuk is experiencing the strongest labour market pressures, while South and East Greenland are experiencing the lowest.



### More sustainable fisheries

Currently, large segments of coastal fisheries are not sustainable. The recommendations of the Greenland Fisheries Commission will ensure more sustainable fisheries and are a mainstay in long-term strengthening of the industry.



### Public sector reforms are needed

Debts of the government of Greenland, local government and government-owned companies are growing. As a result, the risk exposure of the Greenland Treasury is also growing. And an unresolved fiscal sustainability issue will call for reforms in the coming years.

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## Booming economy with regional differences

In 2020, the Greenlandic economy grew by close to 1 per cent, so Greenland has fared better than many other countries in weathering the covid-19 pandemic. Geography has been a key component in this respect. All passenger transport in and out of Greenland takes place by air, and nearly all travellers pass through Kangerlussuaq Airport, providing good opportunities for effectively containing the risk of infection through travel restrictions. Except for isolated cases, Greenland made it through 2020 as an infection-free country, which reduced the need for lockdowns and restrictions. The tourism industry has borne the brunt of the negative impacts of the pandemic.

In 2021 and 2022, the economy is set to grow by a further 1.8 per cent and 2.5 per cent, respectively, according to the assessment in Greenland's Economic Council report from September 2021, see *table 1*. This means that the solid economic growth that has been characterising Greenland since 2016 will continue. Employment is on the rise, and building and construction activity is soaring, driven by large infrastructure investments, especially the establishment of new airports in Nuuk and Ilulissat. And catch volumes are increasing in the economically important – and biologically sustainable – offshore prawn fisheries.

### Regional labour shortage differences

The boom especially manifests itself in growing employment and severe labour shortages.

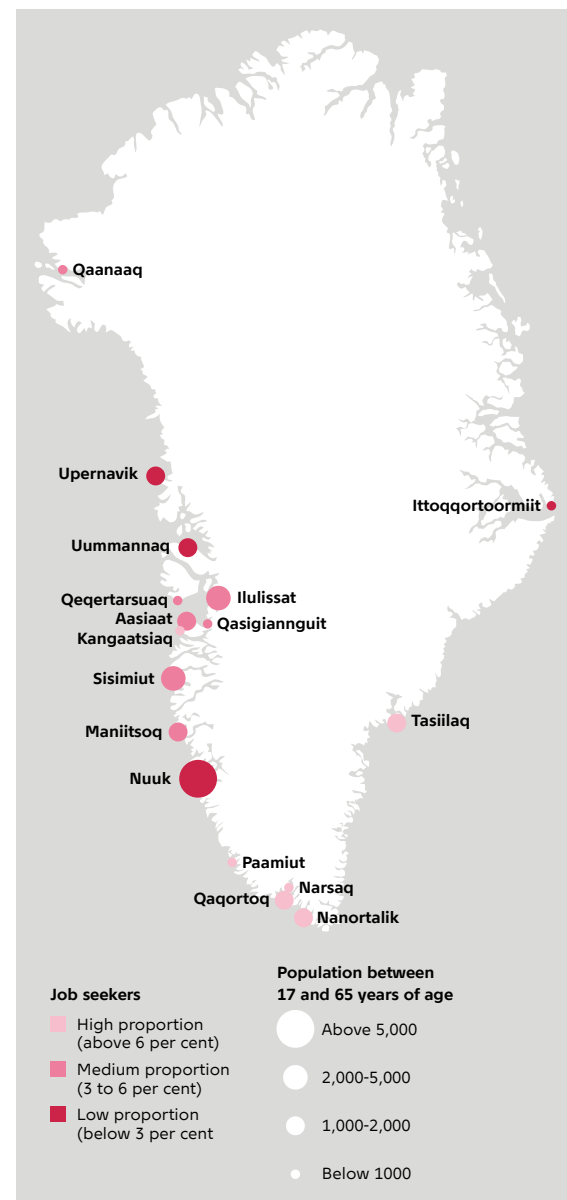
A shortage of qualified labour has been a characteristic of the labour market for a number of years and in a number of areas, including building and construction, health care, education and mining. Unskilled labour is also in short supply. In many cases, Greenland has attempted to address labour shortages by attracting foreign labour.

The number of registered job seekers has been declining sharply for a number of years, most prominently in Greenland's towns and especially for people ready to enter the labour market, see *chart 1*. In August 2021, 1,316 people were registered as job seekers, down from 3,348 in August 2013.

The job seeker statistics are a compilation of the number of people approaching their municipality

**Nuuk is experiencing the strongest labour market pressures, while South and East Greenland are experiencing the lowest**

Chart 1



Note: The dark red dots indicate towns in which the number of registered job seekers accounts for less than 3 per cent of the 17 to 65-year-olds. In Nuuk, the percentage is 2.2 per cent in August 2021. The size of the dot indicates the size of the city or town, with Nuuk as the largest and Ittoqqortoormiit as the smallest.

about unemployment-related issues in the course of one month. So, the statistics are impacted by administrative practices, which may differ from one municipality to the next. The number of job seekers is about 1,000 people higher than unemployment numbers show, as unemployment numbers are not revised on an ongoing basis. When it comes to labour shortages, there are wide regional differences, with the greatest shortages being in Nuuk. In August, 280 job seekers were registered in Nuuk, and less than half of these were registered as ready to enter the labour market. Nuuk has about 13,700 people in working age groups (17 to 65 years of age), so, in fact, Nuuk has full employment. For a number of years, Nuuk has seen large-scale migration from small towns and settlements, and housing shortages are the principal barrier to further expansion of the city. Nuuk has about 19,000 inhabitants, or one in three of Greenland's inhabitants, see box 1. Development of Nuuk has been planned through the municipal company *Nuuk City Development A/S*, including expansion of the city to completely new areas, infrastructure development in the form of a tunnel project, new schools and day care facilities, among other things. Until 2026, investments worth kr. 2 billion have been planned. The establishment of a new airport in Nuuk began in 2019, with expected completion in 2024.

### Job seekers in South and East Greenland

It is a different picture in South and East Greenland. Over the past decade, the population in South Greenland has been decreasing, driven by fisheries moving further north due to climate change. Employment in South Greenland towns is declining, and the number of job seekers is high. Population numbers in East Greenland are more stable, but small settlements are tending towards depopulation as people migrate to Tasiilaq, the largest town on the east coast. In August 2021, the number of job seekers in Tasiilaq was equivalent to just under 15 per cent of the 17 to 64-year-olds.

Plans are to establish an airport in Qaqortoq through the government-owned company *Kalaallit Airport – Domestic A/S* to support developments in South Greenland. The airport, whose capital expenditure was originally estimated to amount to kr. 670 million, will not be financially and operationally viable and must therefore be funded by the Greenland Treasury. The first round of tenders was cancelled in August 2020 because the bids received were far above the allocated capital budget. The

### Facts about Greenland

Box 1

Currency	Danish kroner
Population (number of people, beginning of 2021)	56,421
of which in Nuuk (capital)	18,800
Population aged 17-64 years	38,217
Employment <sup>1</sup> (2019)	26,991
Unemployment <sup>1</sup> (2019)	1,387
GDP (kr. billion, 2019)	19.9
per capita <sup>3</sup> (kr. 1,000)	355.2

Source: Statistics Greenland and Statistics Denmark.

1. Average of monthly data.

2. By comparison, GDP per capita in Denmark was approximately kr. 399,000 in 2019.

second tender is expected to be clarified in the 2nd half of 2021.

### Risk of economic overheating

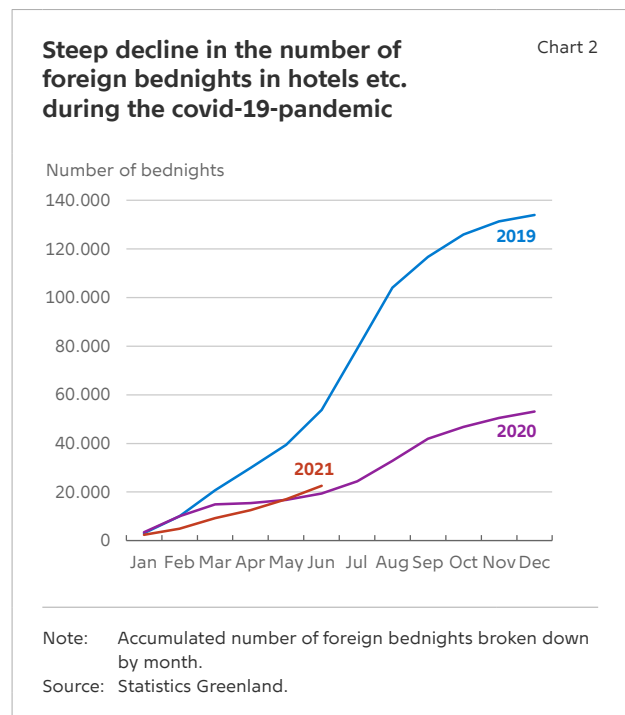
The labour market situation limits the number of new initiatives that can be undertaken without causing the economy to overheat. In the current situation where foreign labour is needed to prolong the economic upswing, fiscal policy could be tightened by showing restraint in incurring additional expenditure. Higher labour force mobility within Greenland may also, to some extent, resolve labour shortages in Nuuk and other towns further north. But widespread housing shortages in Greenland's growing towns present a challenge to labour mobility.

In the longer term, increased education levels are key to expanding the labour supply and employment. The rate of unemployment among individuals with no post-primary and lower secondary education was 8.4 per cent in 2019 compared with 2.5 per cent for individuals with vocational training and 0.5 per cent for individuals with higher education. Among people who have completed a qualifying education or training programme, there is virtually no unemployment.

## Covid-19 and two lost tourism seasons

The tourism industry has borne the brunt of the negative impacts of covid-19. The foreign tourist season is concentrated on the summer months, which have seen tourist numbers far below pre-pandemic numbers in both 2020 and 2021. In the 1st half of 2021, there were 75 per cent fewer international flight passengers from Greenland relative to the pre-pandemic situation in 2019, and cruise lines have temporarily suspended operations. In the 1st half of 2021, the number of foreign bednights has almost halved relative to 2019, see *chart 2*. Foreign labourers rather than tourists account for a large portion of foreign bednights.

Greenland was largely free from coronavirus infection until mid-2021 when the first infection chains were identified in Sisimiut and Nuuk, among other locations. The infection is under control, but new cases of infection are being reported this autumn, particularly among unvaccinated children and adolescents. The sharp setback in tourism goes to show how sensitive the industry is to the infection situation, both in and outside Greenland. With the emergence of new infectious virus strains, the risk of infection will persist in the future, and temporary travel restrictions and lockdowns could be required. So, for the Greenland tourism industry, an effective rollout of vaccinations to the population is key. This will reduce the risk of pockets of infection spreading



in Greenland, but infection may still be brought into the country, requiring authorities to take a position on new travel restrictions.

Increased tourism is a key element of Greenland's objective of broadening the business sector. Currently, approximately 2.5 per cent of Greenland's value added is generated by hotels and restaurants, tour operators and tourist excursion operators, among others.

### Greenland's gross domestic product, GDP, has grown during the pandemic, and the boom is forecasted to continue in 2021 and 2022

Table 1

	Share of GDP in 2019	2017	2018	2019	2020*	2021*	2022*
GDP	100.0	0.1	1.8	1.7	0.9	1.8	2.5
Private consumption	36.1	0.9	0.4	1.9	1.5	1.5	1.0
Public consumption	44.8	1.7	2.7	4.3	1.5	0.4	0.4
Gross investment	31.4	-4.1	-3.0	46.6	0.2	4.8	8.0
Exports of goods and services	38.8	-3.8	8.4	-5.3	-5.0	3.0	2.0
Imports of goods and services	51.1	-3.5	5.0	18.9	-2.2	3.0	3.0

Note: Demand and supply, annual real growth in per cent.  
Source: Statistics Greenland (2017-19) and Economic Council (\*forecast for 2020-22).

## Lower fish and shellfish prices in 2020

Fisheries are the predominant industry, and goods exports consist mainly of fish products with varying degrees of processing. The most important export species are prawns, Greenland halibut and cod. In 2020, demand for fish and shellfish declined, driven by lower sales to restaurants, canteens etc. in the export markets. As a result, prices of key fish products decreased by between 10 and 20 per cent from the 1st quarter of 2020 to the 1st quarter of 2021. Lower fish prices are a contributing factor in the 10-plus per cent decline in export values in the 1st half of 2021 relative to 2020.

However, fish price fluctuations of this order are far from unusual, and in a longer-term perspective prices remain high, *see chart 3*. Price trends for fish and shellfish constitute a separate element of uncertainty, not just for the fisheries sector, but also for the Greenland Treasury.

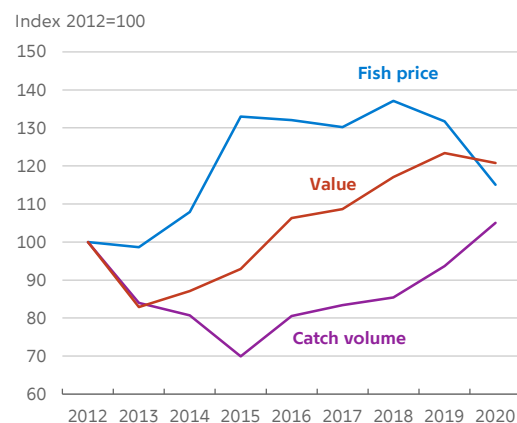
In the pre-covid-19 years, taxes on fish and shellfish catches, 'resource taxes', reached a record high of about kr. 400 million. The resource taxes are designed in such a way that the rate payable per kilo caught varies with the market price of the product. When the price goes down, the tax rate will decline for all sector participants. A price fall for fish and shellfish may substantially reduce resource taxes. To this should be added spillover effects on the Greenland Treasury of lower income and corporation taxes.

On the other hand, in contrast to prices, catch volumes in the important prawn fisheries have shown a positive trend. Prawns are the most important species in Greenlandic fisheries, accounting for about half of Greenland's goods exports. Prawn fisheries have been MSC-certified as sustainable, so the politically determined fishing quotas comply with scientific advice on sustainable fisheries.

Greenland halibut is caught both in open seas and in coastal waters. Like prawn fisheries, offshore Greenland halibut fisheries have been MSC-certified. Coastal fisheries, which are not MSC-certified, take place from open dinghies or small boats and are greatly important to many local communities, particularly in the Disko Bay and areas further north. For several years, quotas for coastal Greenland halibut fisheries have exceeded scientific advice, *see chart 4*.

**Fish and shellfish prices dropped in 2020, but catch volumes increased**

Chart 3

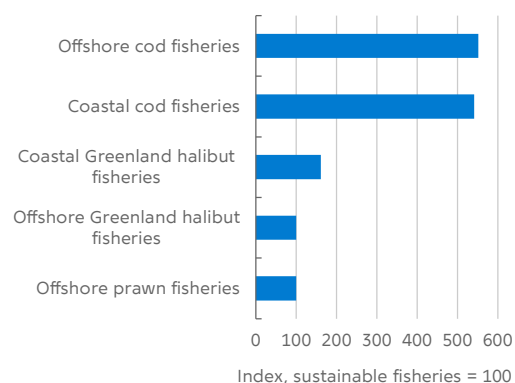


Note: Catches of the three most important species: prawns, Greenland halibut and cod. Weighted using 2012 values as weights.

Source: Statistics Greenland and own calculations.

**Quotas for coastal Greenland halibut and cod fisheries exceed scientific advice and are not biologically sustainable**

Chart 4



Note: Quotas for selected fisheries relative to scientific advice in 2020. If the index exceeds 100, fisheries are not biologically sustainable. Prawns account for about 50 per cent of goods exports, Greenland halibut for 25 per cent and cod for 12 per cent.

Source: Statistics Greenland.

These fisheries are not sustainable, either biologically or economically. The Greenland halibut caught in coastal waters are getting smaller year by year, which is seen as a sure sign that fisheries intensity is too high.

## More sustainable fisheries

The Greenland Fisheries Commission was established in spring 2019 to prepare proposals for future framework conditions for fisheries. The terms of reference state that the main objective is to achieve the greatest possible long-term economic gain from fisheries on a sustainable basis.

The Greenland Fisheries Commission released its report on 23 September 2021, see *box 2*.

The Commission's work shows that biological sustainability is a precondition for optimum long-term economic resource utilisation, including cross-generational sustainability. In the management of fisheries resources, the Commission emphasises the importance of ensuring that each fisherman's catch right is restricted to the quota, that the duration of the right is known, and that the fisherman is entitled to transfer or sell his right.

In a number of respects, the current fisheries management does not comply with these requirements. Examples include fisheries segments where quotas are set above scientific advice and where more capital and labour are tied up in the industry than required by economically efficient fisheries.

Changes to the Fisheries Act will impact many families and so are politically sensitive. For instance in terms of the balance between offshore and coastal fisheries and the extent to which quotas should comply with scientific advice. The report will be considered by the Greenland parliament in autumn 2021.

The recommendations of the Greenland Fisheries Commission will ensure more sustainable fisheries and generate a higher economic return. Therefore, compliance with its recommendations is an important condition for the long-term strengthening of the industry.

### The Greenland Fisheries Commission's key messages on economically and biologically sustainable fisheries in Greenland

Box 2

1. Conserve resources for the future for the benefit of employment, earnings and welfare.
2. Provide the fisheries sector with a fixed and predictable framework to facilitate investment in continued development, and target any subsidies to the overall objectives of the fisheries policy.
3. Organise fisheries management to enable individual fishermen to achieve solid earnings and increase the overall resource taxes in fisheries, thereby allowing fair distribution of resource taxes through appropriate resource taxation.
4. Implement the arm's length principle in fisheries management to ensure transparency and equal treatment.
5. Expand ownership of resource utilisation in relation to shipping companies, not by deploying increased fisheries capacity.
6. Introduce labour market and education policy measures along with changes in fisheries policies to achieve socially sustainable transitions.

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Source: Greenland Fisheries Commission report, September 2021. Own translation.

## Growing debt and need of reforms

At end-2019, the government of Greenland, local government and government-owned companies had interest-bearing debt totalling about 22 per cent of GDP. By comparison, Denmark's EMU debt, which is largely comparable to interest-bearing debt, was 42 per cent of GDP in 2020. If the government of Greenland's cash resources are included, net interest-bearing debt accounts for about 9 per cent of GDP.

Debt is expected to increase to about kr. 9 billion in 2024, equivalent to up to 45 per cent of GDP, driven by infrastructure investments in government-owned companies, for instance the establishment of new airports in Nuuk and Illulissat, and in municipal companies such as town development companies, see *chart 5*.

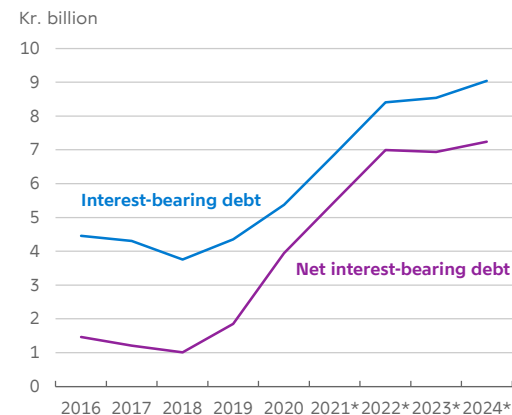
Government debt is on the rise – albeit from a low level – which will substantially increase the government of Greenland's risk exposure in a few years. Government-owned companies perform a number of activities that are vital to society and therefore indispensable. They cannot be shut down in case of financial distress and must be kept running. Therefore, unforeseen adverse developments in one or more of these companies could have major implications for the Greenland Treasury. Higher risk exposure stresses the importance of exercising ownership in the government-owned companies so as to create healthy and professional companies. So, high board turnover in several of the companies in recent years has attracted attention.

The government of Greenland owns a total of 14 public limited companies, including the Royal Greenland fisheries group, the Air Greenland airline company, the KNI trading and service group, the Royal Arctic Line shipping company and the telecommunications company TELE Greenland. These companies account for much of the overall output and value creation in Greenland.

In 2019, 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 11,200 people were employed in public service and administration. This means that a total of

**Growing debts of the government of Greenland, local government and government-owned companies**

Chart 5



Note: Total interest-bearing and net interest-bearing debt of the government of Greenland, local government and government-owned companies. 2021-2024 are estimates.  
Source: Political Economic Report, 2019, and Economic Report, 2021, Ministry of Finance.

17,000 people were employed either by government-owned companies or by the public sector, equivalent to 63 per cent of the total number of people in employment in Greenland (27,000) in 2019.

Higher risk exposure of government finances should be seen in the context of a longer-term fiscal sustainability issue. Over the coming years, the population's size, age structure and level of education will change, with major impacts on government finances. As a consequence of the large birth cohorts of the 1960s, Greenland will have many more older people and fewer of working age. At the same time, more and more people are completing education or training programmes after primary and lower secondary school.

To analyse the significance for the labour market and government finances, the DREAM group (Danish Research Institute for Economic Research and Modelling), the Greenland Ministry of Finance, Statistics Greenland and Greenland's Economic Council have developed a model, based on Greenlandic condi-



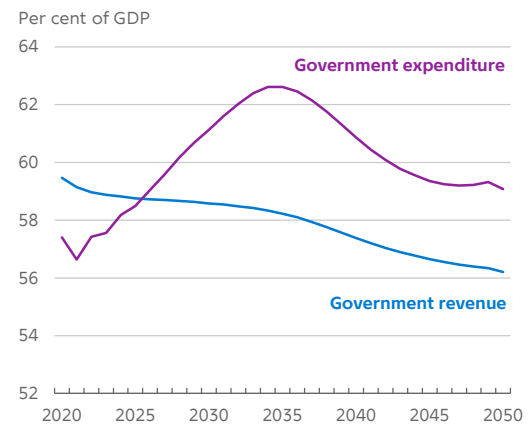
tions and data, which provides a coherent, long-term projection of the Greenlandic economy.

With the current welfare schemes, demographic changes will cause total government expenditure to systematically outpace revenue, leaving an annual funding gap of -5.4 per cent of GDP or just over kr. 1 billion (calculated in 2019 figures), see *chart 6*.

The magnitude of the sustainability issue highlights the need for reforms to strengthen the economy and finances in the longer term. No single reform can realistically resolve the sustainability issue – reforms in a number of welfare areas will be required. Analyses show that if the retirement age is raised in line with life expectancy and public sector efficiency measures are implemented, these measures will provide important contributions in terms of resolving the sustainability issue.

**Demographics cause government expenditure to outpace government revenue and create sustainability issues**

Chart 6



Note: Revenue and expenditure excluding interest rates. The difference corresponds to the primary government budget balance. Revenue includes the Danish block grant.

Source: DREAM, 2021.



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