



Landsbanki Føroya

GOVERNMENTAL BANK

THE FAROE ISLANDS

7 NOVEMBER 2007

INFORMATION MEMORANDUM 2007



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1. FACT SHEET

Location

The Faroe Islands is located in the North Atlantic (62°N 7°W), approximately 430 kilometres southeast of Iceland, 600 kilometres west of Norway and 300 kilometres northwest of Scotland. The Faroes is comprised of 18 islands, separated by narrow sounds or fjords.

Land Area

1400 square kilometres; 545 square miles

Main Population Centres (1 Jan 2007)

Tórshavn (capital): 19,315

Klaksvík: 4,884

Language

The written and spoken language is Faroese. The Faroese language is a North Germanic language closely related to Icelandic and to the dialects of western Norway. Nordic languages and English are understood and spoken by most Faroese.

Religion

Approximately distributed as follows:

Evangelical Lutheran Church: 85%

Christian Brethren: 10%

Other: 5%

History

The Faroe Islands is believed to have been discovered and inhabited in the 8th century or earlier by Irish settlers. The Norwegian colonization began about hundred years later and developed throughout the Viking Age. The settlers established their own parliament on Tinganes in Tórshavn. The Faroese Parliament is believed to be the oldest in Europe.

Norway and Denmark joined in a double monarchy in the late 14th century. When Norway in 1814 was ceded by cession to the King of Sweden, the Faroe Islands and Greenland remained under the sovereignty of the Danish Monarch.

Due to the large geographical distance to Norway and Denmark, the Faroese always constituted a special jurisdiction and they were able to maintain their distinct language and culture over the centuries.

The Political System

The Faroe Islands is a self governing country within the Kingdom of Denmark which also comprises Greenland.

Since 1948, the Faroe Islands has had Home Rule – a political system by which so-called "Joint Matters" are under Danish State authority, while "Special Matters" are deemed matters of Faroese State competence and are under Faroese control.

For example, the Faroe Islands is an independent area with regard to customs and excise duties and taxation.

According to the Home Rule Act, the judiciary, defence and foreign affairs are among those Joint Matters that currently cannot be taken over by the Faroese Government.

The Faroese Parliament (Løgting) is the legislative assembly for Faroese affairs, and also appoints the Prime Minister (Løgmaður), who – along with his/her cabinet ministers - constitutes the Faroese Government (Landsstýri).

The Løgting has at most 32 MPs elected from seven constituencies. In addition to electing the Løgting, the Faroese people elect two representatives to the Danish Parliament. The Faroese head of state is the Danish head of state, Queen Margrethe II.

Head of the Faroese Government

The Prime Minister, Jóannes Eidesgaard (Social Democrat), since 3 February 2004.

Present Government

The Faroese Government (Landsstýri) consists of at least two Cabinet ministers led by the Prime Minister. The present cabinet is comprised of seven ministers, including the Prime Minister. The Faroese Government coalition is currently made up of representatives from the Social Democrats, the Unionist Party and the Conservatives.

Currency

The Faroes is part of the Danish currency area. The Faroese currency unit, the króna, has the same value as the Danish krone.

1 Euro = 7.45 DKK

1 US\$ = 5.95 DKK¹

Main industries

Fishing, fish processing and fish farming.

GDP (Nominal GDP at market price)

Calculation Statistics Faroes:

DKK 9,699 million (2003)

Estimation Governmental Bank:

DKK 9,753 million (2004), DKK 9,991 million (2005) and DKK 10,963 million (2006)

Export (fob) of Goods (2006)

DKK 3,869 million

Export of Services (2006)

DKK 593 million (estimated by the Governmental Bank)

Main export product groups (2006)

Fish and fish products: 94.1%

Ships: 3.9%

Other: 2.0%

Import (cif) of Goods (2006)

DKK 4,678 million

¹ 31-12-2006

Labour force (2006)
Approximately 28,500

Labour force divided by industries (approximate)

Fishing, fish processing and manufacturing: 25%

Construction and private services: 40%

Public services: 35%

Education

Education is mandatory from 7 to 16 years of age. Primary school is compulsory through the ninth class, after which education can be continued in a High School, Business, Technical, Industrial Fishing, or Mariners school.

There are also colleges for Marine Engineering, Nautical, Teacher, Business and Nurse training. There is one university in the Faroe Islands – Fróðskaparsetur Føroya.

Transportation

The transportation of people and goods to and from the Faroe Islands is by both air and sea. Regular flights and a car and cargo ferry are available all year round to Denmark, Iceland, Norway and Great Britain. The flight time to Copenhagen (Denmark) is 2 hours and 15 min.

The Faroe Islands has a modern infrastructure with good roads and tunnels. The roads are mainly asphalted, dual-track carriageways. A bridge connects the two largest islands and two sub-sea tunnels connect these two islands with two other major islands.

2. RECENT DEVELOPMENTS 2006–2007

Below are the recent developments since the latest publication of the Information Memorandum.

2.1 Population

The population of the Faroe Islands totalled 48,219 in January 2006.

2.2 Political

The last election was held on 20 January 2004.

In February 2004, the Social Democrats (Javnaðarflokkurin), the Conservatives (Fólkaflokkurin) and the Unionists (Sambandsflokkurin) formed a coalition government. The present Cabinet is comprised of seven ministers, including the Prime Minister. An election is scheduled to be held no later than January 2008.

2.3 International Relations

A new and more flexible Home Rule Act was ratified by Parliament in 2005. The new act will make it easier for the Faroese Government to take over so-called "Special Matters".

The Parliament also ratified another important new treaty with Denmark regarding foreign relations. The new act will allow the Faroese Government on its own to negotiate and become signatory to certain bilateral and multilateral agreements, if these only concern Special Matters for which the Faroese Government has full responsibility.

2.4 Economy

The Faroese economy is growing steadily. However, only estimates are available for 2004 and onwards, but there is no denying the rapid growth. Real GDP growth went from 0.4% in 2005 to 8.1% in 2006, and the massive growth is set to continue in 2007.

Total wages increased 7.1% in 2006, after three years of minimal increases in total wages. After contractual wages increased on average nearly 5% from 2003 to 2006, the contractual wage increase has declined to around 1% annualized growth for 2007.

2.5 Industries

Fishery

In 2006, the total catch decreased 1.1% in tonnes and increased 8.2% in value. The catches of saithe (*Pollachius virens*), cod and haddock seem to have the greatest impact on the changes in value and the overall total catch. The changes, however, do not seem to be significantly different from recent years. The Faroese fishing industry seems to be facing a peak for the second year running, strongly helped by good prices. See APPENDIX G.

Aquaculture

It is anticipated that the Faroese aquaculture industry will confront some major challenges in the years ahead. In 2004 and 2005, the industry suffered as production was cut by over half. Prices have gone up and there are some positive signs for the industry. Recent events have indicated a change in the structure of the industry. Major industry operators and Faroese banks have formed a large company with a large market share in an effort to increase global

competitiveness and cut costs. The efforts seem to be having some results, as the industry is slowing growing. The recession in the industry did not have a significant impact on general economic growth in the country.

Construction

Measured in total industry wages, the level of activity was high in 2005 which was 0.8% lower than a record high in 2004. In 2006 the total wages grew by 15.9%, compared to 2005, a very big increase.

Transportation

A second sub-sea tunnel, between Borðoy and Eysturoy opened in May 2006. The tunnel connects the second largest city with the two largest islands. Roadways now connect some 85% of the population.

In October 2005, the old ferry Smyril, which sailed between Tórshavn and Suðuroy, was replaced with a new ferry.

Faroe Jet, a privately owned Faroese airline, started flying between the Faroe Islands and Denmark in May 2006. This meant the end of a short era of dominance by the publicly owned Atlantic Airways as the sole aviation operator in the Faroe Islands, after the Danish airline company, Maersk Air, ended service to Vágur Airport as of 30 October 2004. Faroe Jet filed for bankruptcy in December 2006, and Atlantic Airways is now again the sole aviation operator in the Faroe Islands.

The Faroese Government has announced, that the "air transport market" to and from the Faroe Islands will be liberalized, and become part of the European Common Aviation Area. Atlantic Airways will be partly privatized in the near future. See section 7, page 27.

Oil

During 2004, the Ministry of Petroleum was replaced by an oil administration and the responsibilities of the ministry have been divided between the Ministry of Trade and Industry and the Ministry of the Interior. Petroleum affairs will continue as an administration with the official name "Faroese Earth and Energy Directorate".

In July 2006, Statoil started the first exploration drilling on basaltic rock, which covers large areas of the possible Faroese oil fields. Drilling by other companies on basaltic rock is set to follow.

In late 2007, BP did some exploration drilling. Atlantic Petroleum, mostly owned by Faroese investors, has grown tremendously the last year, as a result of good results from exploration drilling outside the Faroese oil field region.

2.6 Labour Market

Last year, unskilled workers reached a wage settlement. Wages increased by 0% in 2005 and 0% in 2006, while the pension payment increased by 1% in 2005 and 2% in 2006. The main public sector agreement was settled in October 2005, resulting in a 1-year agreement, and an increase in wages of 0.9% in 2005. The developments in contractual wages are shown in Appendix H, Table 4.

In 2006, total wage payments increased by 7.1%. The first nine months of 2007 showed an 8% increase, compared to the same period in 2006.

Unemployment declined to 1.3% in September 2007. The average unemployment rate for 2006 was 2.7%.

In times of low growth, the Faroese labour force migrates to neighbouring countries in search of work, and migrates back to the islands in times of high growth. The migration statistics are therefore a major business cycle indicator.

Since 2004, there has been a net emigration from the Faroe Islands. In 2004, the emigration was 166, in 2005 it was 447 and in 2006 the emigration went down to 78. The fertility rate is among the highest in Europe.

2.7 Foreign Trade

The BoP increased from a deficit of DKK 227 million in 2005 to a deficit of DKK 142 million in 2006. Trade deficits were DKK 614 million in 2006. The BoP for the Faroe Islands is strongly influenced by the acquisition and sale of ships. See Appendix E.

2.8 The Financial System

The major banks have reported very positive earnings for both 2006 and for the first half of 2007.

The Faroese Securities Market (VMF) now has three listed companies P/F Atlantic Petroleum, P/F Føroya Banki and P/F Eik Banki – the two banks were listed in 2007. New bond issues of the Faroese Government have all been listed on the market as well. The publicly held companies will be listed on VMF when they are privatized. It is not clear at present if all of them or only some will be listed. Confer Section 7 & 8.

The 500 and 1000-króna notes were released during 2004 and 2005. The release of the 1000-króna note in September 2005 completed the issuing of new notes, which had been in progress from 2001.

2.9 The Public Sector

The budgeted deficit for 2005 was set at DKK 280 million. However, the actual deficit was reported at DKK 211 million. The budget for 2006 showed a surplus of DKK 142 million.

The repayments of principal and interest on loans in 2004 were DKK 208 million (DKK 131.5 million in interest and DKK 76.5 million in repayments). Furthermore, DKK 750 million of the bond debt was refinanced in 2005.

In November 2005, the remainder of the 5% 2018-loan to the Danish State (approximately DKK 1.5 billion) was repaid by issuing bond debt with varying durations on the Faroese Securities Market on OMX Nordic Exchange Iceland.

In November 2006, DKK 800 million of short-term bonds was not re-financed.

Municipalities

The number of municipalities was reduced from 48 to 34 during 2004. The long-term goal to create larger municipal areas is to provide a basis for decentralizing public administration, social services and to strengthen local government.

3. GEOGRAPHY AND POPULATION

The Faroe Islands is an isolated archipelago in the North Atlantic. The distance to the closest neighbour, the Shetland Islands, is just over 300 km. The distance to Iceland is about 450 km and to Norway roughly 675 km. The sailing distance to Copenhagen is about 1500 km.

The Faroe Islands consists of 18 islands, mostly separated by narrow sounds. Of the 18 islands, 17 are inhabited. The total area is 1,400 km². The largest island is Streymoy (375 km²) and the capital, Tórshavn, is situated there.

The population of the Faroe Islands totalled 48,219 in January 2006. Of this number, 19,315 lived in the capital Tórshavn and 4,889 in Klaksvík, which is the second largest town.

The distance from the northernmost point of the archipelago to the southernmost is 113 km, and the distance from east to west is 75 km. The highest point, Slættaratindur, is 882 m and the average elevation above sea level is just over 300 m; the total coastline is approximately 1,000 km.

The climate is typically oceanic; the weather is moist, changeable and at times windy. Due to the influence of the Gulf Stream, there is little variation between winter and summer temperatures. For example, the average temperatures in Tórshavn during the coldest and warmest months are 3°C and 11°C, respectively. The shortest period of daylight is five hours and the longest 19 hours.

4. THE POLITICAL SYSTEM

Until 1948, the Faroe Islands was formally a county of the Kingdom of Denmark, although the islands have always enjoyed some special privileges in a number of respects.

Act No. 137 of the Kingdom of Denmark (the Home Rule Act) promulgated on 23 March 1948 accorded Home Rule to the Faroe Islands whereby it obtained the status of a self-governing community within the Kingdom of Denmark. In the Act, the Faroese language and the Faroese flag are acknowledged.

In May 2005, the Home Rule Act was supplemented with Act No. 91/2004. The new act makes it easier for the Faroese Government to take over all matters, except matters that are directly linked to full sovereignty. Acceptance from the Danish authority in each case is no longer necessary.

The Faroe Islands elects two representatives to the Danish Parliament (Folketinget). On 8 February 2005, the Conservatives (Fólkaflokkurin) and the Republicans (Tjóðveldi) each won a seat in the Folketinget, while the Unionists (Sambandsflokkurin) lost their seat.

4.1 The Government and Administration

The fundamental principle of the Home Rule Act is that the administration of all local matters should be transferred to the Faroese authorities. On the other hand, matters of common interest for the realm are handled by the High Commissioner, who represents the Kingdom's authority in the Faroe Islands.

Matters relating to the Faroe Islands have been divided into Special Matters and Joint Matters.

Special Matters

In these areas, the Faroese Parliament (Løgting) has legislative authority and the Faroese Government (Landsstýri) has executive power.

The areas that are assigned to the legislative and administrative bodies in the Faroe Islands are, for instance, financial and economic matters, industry, foreign trade and resources in the subsoil. In early 2002, the educational system was officially assigned to the Faroe Islands and the State block grants from Denmark were reduced accordingly.

The new Act No. 91/2004 gives the Faroese Government the authority to take over all matters except:

- The Danish Constitution
- Danish internal affairs
- The Danish Supreme Court
- Foreign affairs, security and defence policies
- Currency and monetary policy

Joint Matters

These are administered by the Danish Government according to the laws of the Kingdom of Denmark.

The provisions of the Home Rule Act from 1948 stipulate, however, that the administration of certain matters of common concern can be wholly or partly assigned to the Faroese Government or undertaken by the Danish and Faroese authorities jointly.

However, the new Act No. 91/2004 gives the Faroese Government the authority to take over all matters except matters that are directly connected with full independence, as shown above.

Today, the Faroese Government administers the social welfare system and the health services, etc. Legislative competence still resides in the Danish Government, but legislation has to be ratified by the Faroese Parliament for it to be applicable to the Faroe Islands.

To cover Joint Matters, the Faroe Islands receives State block grants from Denmark. Areas that generally concern the Faroe Islands only, especially matters concerning Home Rule procedures, rest with the Office of the Danish Prime Minister. The Office of the High Commissioner is under the Danish Prime Minister. The general rule, however, is that Faroese matters, managed by the Danish Government are handled by the relevant Danish ministry.

If the new Act No. 91/2004 from 2005 is fully implemented, and the Faroese Government takes over all matters possible, the only Joint Matters will be: the Danish Constitution; Danish internal affairs; the Danish Supreme Court; foreign affairs, security and defence policies, and currency and monetary policy.

4.2 The Parliament and Government

The Faroe Islands is governed by the Faroese Parliament², which is the legislative body dealing with Special Matters and Joint Matters. Laws passed by the Faroese Parliament pertaining to Special Matters are termed "Løgting Acts", and must formally receive the consent of the Prime Minister of the Faroe Islands (Løgmaður). Legislation regarding Joint Matters passed by the Danish Parliament (Folketinget) must be ratified by the Faroese Parliament to be applicable to the Faroe Islands. These laws are termed "Danish Kingdom Law Recommendations".

Composition of the Faroese Parliament (Føroya Løgting)³

	2002		2004	
	Percentage of votes	Number of seats	Percentage of votes	Number of seats
Fólkaflokkurin (Conservatives, moderate autonomists)	20.8	7	20.6	7
Sambandsflokkurin (Conservatives, unionists)	26.0	8	23.7	7
Javnaðarflokkurin (Social Democrats, mod. unionists)	20.9	7	21.8	7
Sjálvstýrisflokkurin (Conservatives, mod. autonomists)	4.4	1	4.6	1
Tjóðveldi (Republicans, for independence)	23.7	8	21.7	8
Miðflokkurin (Christian Centre Party)	4.2	1	5.5	2

Note: Due to the nature of the special at-large distribution system, votes and seats do not necessarily coincide

² www.logting.fo

³ Note: Due to the nature of the special at-large distribution system, votes and seats do not necessarily coincide.

The Faroese Parliament is elected every four years, however, a majority of the members of Parliament or the Prime Minister may call an unscheduled election. There is universal suffrage for those over the age of 18. The Parliament consists of up to 32 members of which 27 are directly elected from the various constituencies and up to five are distributed according to a special at-large system. There are seven constituencies⁴ comprised of geographical regions and at present there are six political parties represented in the Parliament. The last election was held on 20 January 2004 and the outcome is discussed below. In addition to being divided into the usual spectrum of political left and right, the electorate is also divided in accordance with the respective attitude towards the political relationship with Denmark, in particular to what extent the Faroe Islands should or should not be independent of Denmark.

The executive or administrative body is the Faroese Government (Landsstýri)⁵, which is appointed by the Faroese Parliament. In February 2004, the Social Democrats (Javnaðarflokkurin), the Conservatives (Fólkaflokkurin) and the Unionists (Sambandsflokkurin) formed a coalition government. Autonomy is still being pursued by gradually assuming more of the joint matters on a step-by-step basis.

The Faroese Parliament elected in 1994 was the first parliament to function under a new system of governing based upon ministerial directorates. The executive currently is divided into seven ministries:

- The Office of the Prime Minister
- The Ministry of Finance
- The Ministry of Fisheries & Maritime
- The Ministry of Trade and Industry
- The Ministry of Social Affairs & Health
- The Ministry of Education and Culture
- The Ministry of the Interior

A director general, who reports to the minister in charge, heads each ministerial directorate. The directorates are again split up into different divisions with sub-directors. The number of ministers was intended to match the number of directorates, however, for political considerations the number of ministers may vary. At present, there are seven ministers comprising the Faroese Government:

Jóannes Eidesgaard (Social Democrats)

Prime Minister

Minister for Constitutional Affairs, Central Administration and Foreign Policy

Bjarni Djurholm (Conservatives)

Deputy Prime Minister

Minister for Trade and Industrial Affairs

⁴ They are: Vágur, Northern and Southern Streymoy, Eysturoy, Norðoyggjar, Sandoy and Suðuroy.

⁵ www.tinganes.fo

Magni Laksáfoss (Unionists)
Minister for Finance and Economic Affairs

Bjørn Kalsø (Unionists.)
Minister for Fisheries and Maritime Affairs

Hans Pauli Strøm (Social Democrats)
Minister for Social Affairs & Health

Jógvan á Lakjuni (Conservatives)
Minister for Educational and Cultural Affairs

Jacob Vestergaard (Conservatives)
Minister for the Interior

Jóannes Eidesgaard, Bjarni Djurholm and Jógvan á Lakjuni were elected to the Parliament and yielded their seats to their alternates upon entering the government.

4.3 Foreign Relations

In general, the Danish Government has the responsibility for the foreign affairs of the whole Kingdom, including the Faroe Islands. However, it has become common practice for the Faroese government itself to conduct negotiations involving fishing and trade agreements with other countries.

Agreements with Denmark

The economic crisis in the first half of the 1990s, led to many agreements between the Danish and the Faroese governments during the 1990s.

The latest agreement entered into force on 10 June 1998. It deals with Faroese debt repayments, rescission of previous agreements, etc. The Danish Government also observed in this agreement the Faroese government's objective to make the Faroe Islands a sovereign state.

Four rounds of negotiations were held without reaching an agreement on how to settle the transition period between the then current status and future independence.

Now, the Faroese Government is pursuing a new course. The current Government passed a new and more flexible Home Rule Act, and the plan is to take over some Special Matters.

International Organizations

The particular status of the Faroe Islands, as well as the unique structure of trade and industry, makes it difficult to share common interests and views with Denmark on a number of areas regarding international co-operation and bilateral or multilateral agreements. Therefore, various treaties and international agreements, which are subject to the consent of the Danish Parliament and which are of special Faroese concern, are to be submitted to the Faroese Parliament for review.

Because of this, Denmark's participation in international economic organizations does not automatically include the Faroe Islands.

Negotiations are often conducted with the Faroe Islands at a later stage and this explains the time lag before the Faroe Islands joins various international organizations. For instance, Denmark subscribed to GATT in 1950 and the Faroe Islands in 1954.

The current Faroese Government also applied for full and independent Faroese membership in the Nordic Council. The application is currently being discussed in the Nordic Council of Ministers.

Relations to the European Union

Although Denmark has been a member of the European Community since 1973, the membership does not extend to the Faroe Islands. In 1974, the Faroese Parliament voted unanimously against applying for membership.

Instead of membership, the Faroe Islands has a trade agreement with the EU.

In principle, the agreement with the EU has been a mutual free trade agreement similar to the type made by the EU and the EFTA countries in the 1970s. The agreement with the EU originates from 1992 and has been adjusted and amended over the years.

On 28 November 2003, the Faroe Islands and the EU entered into an agreement on Faroese membership in the Pan-European System of Cumulation of Origin. This was a positive development in the negotiations with the EU for Faroese industry and the society as a whole. The "Cumulation Agreement" was fully implemented on 1 December 2005.

Recently, some political parties have sought to re-open the question to investigate the current conditions of membership in the European Union, but discussions have not gained any momentum. Instead it seems like the majority of the Faroese Parliament wishes to apply for Faroese membership in EFTA (European Free Trade Association), and the present Faroese Government is currently pursuing EFTA membership, but no final decision has been made, and it is not exactly clear what the positions off the current members of EFTA might be.

The European Free Trade Association (EFTA) is an intergovernmental organization promoting free trade and the strengthening of economic relations. EFTA's Member States are Iceland, Liechtenstein, Norway and Switzerland. Three of the four EFTA Member States are part of the European Economic Area (EEA). EFTA also has free trade agreements with many countries outside the EU, and is constantly entering into more free trade agreements around the world.

5. THE ECONOMY

5.1 The Economy in General

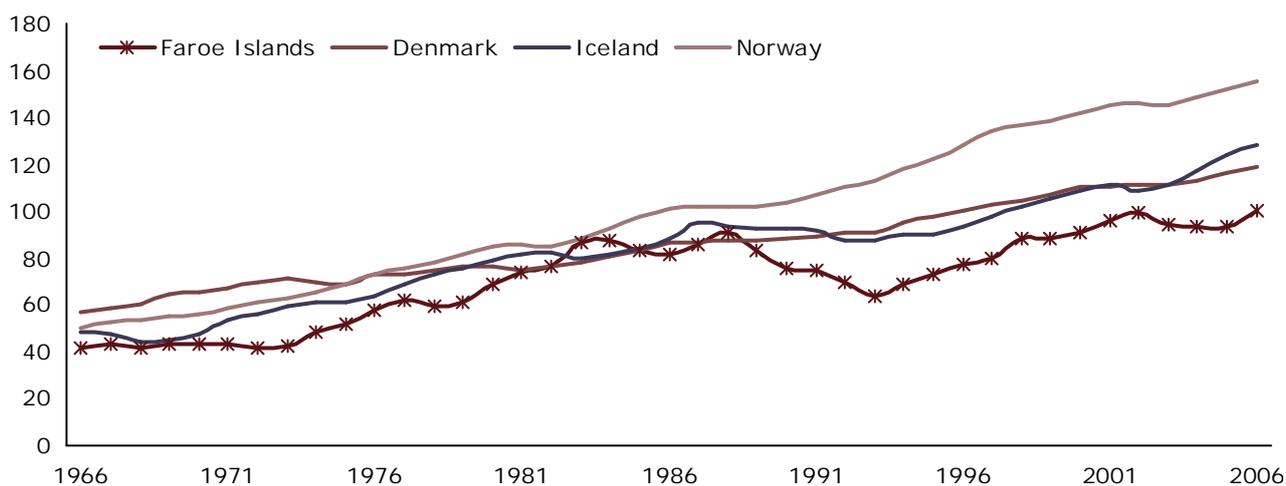
The Faroe Islands is an industrialized country with a standard of living comparable to other Nordic countries. The economy has, however, a high dependence on the fishing industry, compared to other Nordic countries.

Any economy with a high dependence on fisheries is bound to be vulnerable to the cyclical changes in prices and catches. These cyclical changes are volatile and have left their mark over time on the economic history of the islands.

This dependence is evident in the Export Account of Goods, of which fish products, on average, account for about 95% of the export value (Appendix E, Table 3).

The Faroese economy is thus very sensitive to the international market for fish. Consequently, export income can fluctuate significantly from one year to the next because of the changes in catch and price, and these fluctuations spread quickly throughout the economy.

Disposable income pr. capita, PPP-adjusted, index (Faroe Islands 2006 = 100)



Source: OECD, Statistics Faroes and Governmental Bank

As can be seen from the chart above, Faroese Disposable Income per capita has varied considerably. Since 1966, the growth has been 2.4%, with a standard deviation of 6.0. Compared to the other countries in the chart, growth has been steady, but not nearly as stable.

The massive growth of recent years can mostly be explained by consumption and investment growth. Invested capital is greatly increasing, and Faroese capital is seeking investment opportunities abroad at a much greater level. However, the fishing industry still plays a very significant role in the economy; its relative size is decreasing, however, leaving a more diverse economy.

Recent Developments in the Economy

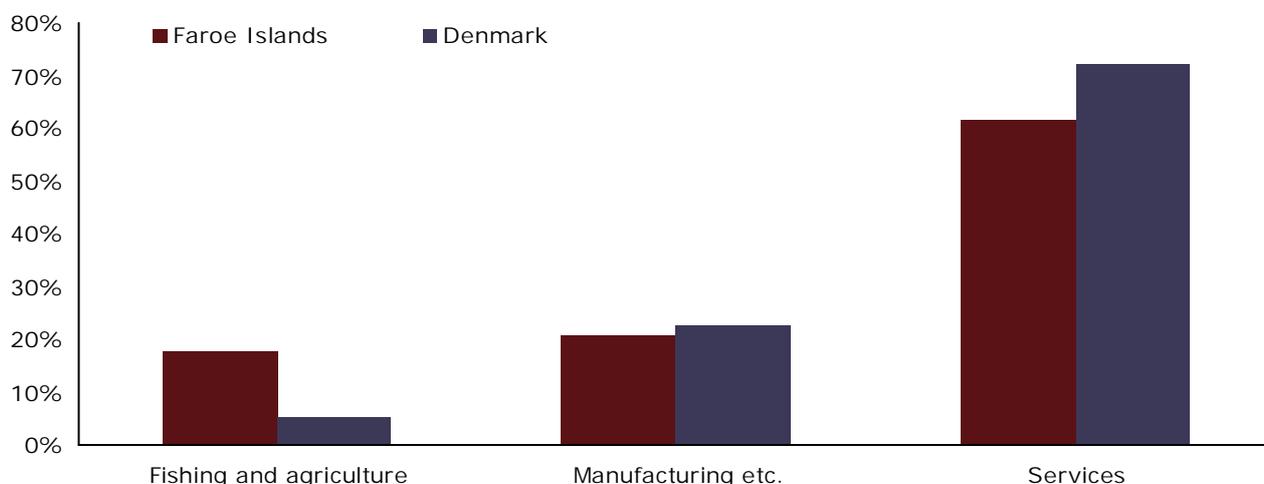
As mentioned above, the Faroese economy has a strong tendency to diverge at times from consistent, steady growth. In recent years, there has been strong growth, except for 2003-

2004. The estimated growth for 2006 and 2007 shows a very strong growth rate, close to world growth leaders.

Average year-on-year inflation (measured by Consumer Price Index (CPI)) in 2006 was 1.5%; a decrease compared to 2005. This is a more than acceptable level in light of general economic development and low unemployment. The CPI is shown in Appendix H, Table 6.

Another influential factor in the Faroese economy is the annual grant from Denmark, which steadily grew over the years up to 2002 when the then Faroese Government lowered the grant, and made the grant a fixed amount of DKK 615.5 million for the following and coming years.

GDP distribution on industries 2006, %



Source: Statistics Denmark and Governmental Bank

Total wages paid increased 2.2% in 2005 and 7.1% in 2006. The unemployment rate is at an historical low, recent numbers showing levels of 1.3% unemployment. Data for the first nine months of 2007 show an increase in total wages paid at around 8%. Total wages paid is by far the strongest and most reliable source of economic data for the Faroese economy. Recent data confirms the strong growth rate.

In 2005, wages paid increased 2.9%. Despite contractual wage increases of 4% in 2004, total wage payments increased by only 0.9% in 2004. The business cycle flattened out in 2003, as total wages paid in 2003 were only 0.4% higher than in 2002. For the period 1997 to 2002, total wages paid increased by approximately 10% p.a.

5.2 Industries

The Fishing Industry

Before the mid-1970s, the Faroese fishery was mainly based on fishing on the high seas. The extension of national fishing boundaries, however, necessitated, to a significant degree, a reorganization of the Faroese fishing industry towards exploiting the resources in the Faroese exclusive economic zone (the so-called "200 mile zone"). Today, a significant part of the fish export value still comes from fishing in foreign waters and on the high seas, although most of the fishing in foreign waters is reimbursed by reciprocal rights in the Faroese exclusive economic zone.

After the transition period, the problem of surplus capacity became clear and this grew worse during the expansion of the fleet in the 1980s. In addition, the fleet was becoming increasingly more effective due to more efficient fishing methods, partly because more modern fishing equipment was increasingly used. This increasing pressure, mixed with a deterioration of the fishing stocks from natural causes, resulted in a slump in catches, especially for cod, haddock and saithe, which make up most of the Faroese catch destined for human consumption.

Beginning in the early 1970s, the fishing industry also became increasingly subsidized and this twisted the market forces in unfortunate ways. Finally, in 1992, the subsidies were replaced by a capital subsidy and later in 1998, removed altogether. Now the fishing industry relies very little on subsidies, although some indirect measures (e.g. tax breaks for fishermen) have been implemented instead.

In the late 1980s, a condemnation plan was initiated whereby the ship owners were paid to give up their fishing vessels. This resulted in a capacity reduction of around 30%. The intent of this plan was to increase the catch for each remaining vessel and in the end, increase the competitiveness and the total catch.

Approaching the mid-1990s, the cod stock turned out to be in better shape than previously estimated and the catch of cod increased gradually from 1993 to 1997. The export value, however, did not increase in an equivalent manner because a large portion of the export was unprocessed fish. Over a five-year period, this has changed partly because of more local processing, but more specifically because of a general increase in world market prices, especially for cod. In 2002, the prices were lower again, but the total catch was one of the best ever.

Statistically, total catches by Faroese ships in general increased from 1993 to 2002, but there were differences among the various species, as can be noted in Appendix G, Table 1.

The general increase in prices and the overall growth in the catch within the Faroese exclusive economic zone have resulted in an elevation of the export value. From 1998 to 2002, the total export value increased by 47%, while the landed weight increased only somewhat less. This understates the actual value increase, however, because the catch of the cheaper blue whiting has grown by a multiple of 13 since 1996.

In 2005, the total catch grew by 11.7% and total value by 12.5%. Especially the catch of Saithe (*Pollachius virens*) contributed to these figures by a dramatic increase, almost doubling its respective catch value.

The year 2006 showed the same tendency as previous years. The industry seems to be stagnating, however. While the total catch value increased some 10%, the main catches have decreased.

Fishery Management

Quotas (TAC) were introduced by law in 1994, but by June 1996 the quotas were replaced by a new system of "Fishing Days". The new system focuses on viability and takes into account the differences in fishing gear and relative size of the vessels. The number of Fishing Days in a fishing year (commencing on 1 September) is set by law on the recommendation of an advisory board comprised of representatives from in and around the industry. The recommendation is based on estimates of the fish stocks and the level of fishing effort. Each ship within each group thus gets a certain number of fishing days during which it may fish.

Therefore, the TAC quota is a guiding factor rather than an exact amount. Fishing days are partly tradable.

The advantages of a fishing-days system compared to a quota system are mainly that vessels can take all their catch ashore rather than throwing fish overboard and the system furthermore curtails the fraudulent practice of landing fish under a false name. The disadvantages are mainly that the system is not efficient in protecting specific species and it does not take into account technological improvement over the years. For these reasons, it is necessary to adapt the number of fishing days to the catching capability, which increases over the years.

Although there has been significant restructuring within the fishing industry, there still is an over capacity of vessels, although not to the same scale as earlier. Other means, such as limiting the number of fishing days and encouraging the fishing of other species are being used to diversify and, hence, reduce the capacity indirectly. The Faroese fishing fleet catches various species of fish (see Appendix G, Table 1). Restrictions are also enforced by limiting and banning fishing in specific areas for longer or shorter periods. This is especially useful for the protection of spawn and juveniles.

Lately, there has been much debate on whether or not to auction or sell fishing rights, rather than allocate them gratis. The Parliament rejected a bill to introduce auctions. However, the Minister of Fisheries has established a commission to look further into the case.

Aquaculture

The fish farming industry⁶ is a relatively new industry in the Faroe Islands. It started in the early 1980s and has since emerged into the second largest export industry in the Faroese economy. Production has been volatile over the years, and the industry is currently in a redevelopment phase.

In the early 1990s, the industry was in distress and the number of licenses went from 60 to about 15 through a series of mergers and acquisitions. Vertical integration took place such that companies now, wholly or partly, own the production from smolt to processing factory. This also allowed for larger permits and a foundation for better planning in production, less strain on the environment and a better financial result. The boom in the industry has also attracted foreign direct investment, but foreign ownership was restricted to 33% of equity by law. In 2004, this restriction was removed relative to the aquaculture industry. The industry experienced a record harvest in 2003. Production was around 62,000 tonnes and the export value DKK 964 million, which corresponds to 25.8% of total export. After a period of high growth, yet volatile prices, the industry ran into major problems with infectious salmon anaemia (ISA) and expectations were greatly reduced. Thus, the record harvest was a result of selling out the stock.

The harvest in 2004 was much less than in previous years – around 37,000 tonnes. The harvest took a new plunge in 2005 with 19,000 tonnes. Little growth is expected for 2006. In 2007, the harvest is expected to grow again, as the aquaculture industry is recovering and preparing for the coming years. The harvest in 2007 is expected to be around 19,000 tonnes and in 2008 around 24,000 tonnes. For the industry, future price development is of great importance and the price has improved slightly since it reached rock bottom in the summer of

⁶ Farming of salmon and trout

2003⁷. Governmental authorities do now demand ISA vaccination of the fish, which likely will help the situation greatly.

The fish farming industry conducts research to improve the quality and efficiency of production. There is also ongoing research in the farming of other species of fish, mainly cod and halibut, but so far this has not proven to be commercially viable.

Whaling

The pilot whale still contributes to the meat supply in the Faroe Islands. Total catch was just under 500 tonnes or 10.3 kg per person in 2006.

Catches have varied greatly between zero and 900 tonnes in recent years. Although these catches are significant to the Faroese, the annual catch is only about 0.1% of the total stock of pilot whales in the North Atlantic. Therefore, the catch poses no threat to the pilot whale stocks.

Agriculture

Farming in the Faroe Islands is not a major sector of trade. Only about 1% of GDP in factor prices is derived from farming. The over seven million litres of milk produced in 2006 meets the domestic demand. The production has been relatively stable during the last three years – 2004 to 2006. The domestic production of other dairy products is open to competition from abroad, yet about 75% of the home market is supplied by domestically produced products.

The 2003 production of mutton was approximately 800 tonnes, which corresponds to 60% of the total demand. The production of beef and beef products amounted to around 180 tonnes in 2005. This is just a small percentage of the total consumption; meat imports, therefore, remain at a comparatively high level.

Construction

The construction industry in the Faroe Islands has had a very significant impact on the economy, compared to other countries. Most Faroese homes are spacious and the Faroe Islands has generally high private housing standards.

During the 1980s, many houses, roads, tunnels, harbours, etc. were built or upgraded all over the country. However, when the depression hit, only about 20 houses were built per year, compared to a couple of hundred previously. Worker compensation fell from DKK 348 million per year to DKK 98 million in 1995.

Recently, both private and public construction has been booming again and compensation of employees has risen back to DKK 437 million in 2006 (Appendix H, Table 3). The level of activity is still high, but it seems likely that there is only a small possibility for further growth given the current low unemployment.

Transport

Internal

The transportation facilities in the Faroe Islands are good. Road connections now link all villages on each island and also between some of the islands.

⁷ Source: Statistics Norway - <http://www.ssb.no/laks>

In December 2002, the first sub-sea tunnel in the Faroe Islands was opened between Vágur and Streymoy. This is the first partly user-financed investment of its kind in the Faroe Islands. A second sub-sea tunnel between Borðoy and Eysturoy opened in May 2006.

Both passenger and cargo transport is provided on a daily basis to all but two of the inhabited islands and most villages. Ferries and helicopter services are available to the islands that are not directly linked to the road system, and bus service is the most common form of transport for the other areas. The public transport company, Strandfaraskip Landsins⁸, maintains most of these routes, while numerous private companies offer passenger and cargo services on request.

External

The national carrier of the Faroe Islands, Atlantic Airways, is currently the only operator offering routes to and from the Faroe Islands.

Depending on the season, there are four to seven daily flights to Denmark (Copenhagen and Billund); Atlantic Airways also flies to Iceland, Aberdeen, Norway, Sweden and London. There are several flights each week to these destinations. The number varies according to the season.

The first nine months of 2007, 172,212 passengers travelled through Vágur Airport. The total number of passengers in 2006 was 208,254.

In March 2003, the old *Norröna*⁹ was replaced with a new DKK 700 million combined cruise and cargo ship that can carry roughly 1,500 passengers and 800 cars. This project is the biggest single investment of its kind ever to take place in Faroese history. The schedule has been revised to offer service to Bergen, Iceland and Scotland in addition to the normal service to Denmark. Over 70,000 passengers travelled to the Faroe Islands by sea in 2006.

Icelandic and Faroese freight companies provide cargo carriage to and from the Faroe Islands. The most important routes are to Denmark, Scotland, Norway and Sweden.

Tourism

For many years, efforts have been made to develop the tourism industry in order to diversify the Faroese economy. Information offices have been set up around the islands and a national tourist council, *Ferðaráð Føroya*¹⁰ (later merged with other governmental institutions in *Samvit*), was established.

The first task for the industry was to market the Faroe Islands as a tourist destination. At the same time, the industry has had to build up a domestic network, designed to service organized tourism. There was and still remains a need to develop products and services.

About 100,000 tourist accommodations or stays were registered in the Faroe Islands. About two-thirds of the total accommodations were foreign visitors – mostly from the Scandinavian countries. The direct income effect of the tourism industry is estimated to be about DKK 150 million.

⁸ A timetable of the routes for the ferries and buses is available at www.ssl.fo and for helicopter services at www.atlantic.fo

⁹ www.smyril-line.com

¹⁰ www.tourist.fo

Tourism is not a major industry in the Faroe Islands. However, given the progress in the Faroese tourism industry that has taken place to date and that is anticipated in the future, it can be expected that tourism slowly will become a more reliable source of income throughout the Faroe Islands.

Insurance

On 1 January 1997, the Faroese Parliament passed a new insurance industry law. The monopoly was abolished and a Faroese insurance supervisory body was appointed. Now, any Faroese company that complies with the statutory requirements may enter the insurance business on the condition that they obtain permission from the Faroese Government.

In 1998, the company, Trygd, re-started its business in housing and car insurance and subsequently expanded into ship insurance. Trygd and the old monopoly incumbent, Tryggingarfelagið Føroyar, are at present the only non-life insurance companies active in the Faroese market.

In the last year, competition has increased in the life insurance market.

Oil

On 22 December 1992, the Danish Government agreed to transfer the rights to the mineral resources in the subsoil of the Faroe Islands to the Faroese Government.

The initial oil exploration phase started in 1994 and since then many firms have been exploring the subsoil. Oil reserves (Foinaven and Schiehallion) have been located in UK territory near the Faroese border.

In February 2000, the first licensing round was opened. The area offered for licensing lies to the southeast of the Faroe Islands and covers approximately 14,000 km². It is divided into 56 whole blocks and 26 partial blocks. The licensing round closed in May and 17 oil companies submitted 23 applications. In August, seven licenses were awarded to 12 oil companies, organized into five consortia.

Three consortia, represented by Statoil, BP and Amerada Hess, drilled their first wells in the summer of 2001. Statoil concluded their operations in September 2001 with essentially a dry well, as only traces of oil were found. BP finished drilling shortly thereafter. Although some oil was found, it was not of sufficient commercial quantity. The Amerada Hess group then started drilling the Marjun well in license area 001. In November 2001, the Ministry of Petroleum and the Environment announced that oil and gas had been found in significant volume, but it was not possible to say if it was enough to start production. Later studies have brought no significant clarification. In the summer of 2003, ENI Agip drilled one well in area 002, but it came up dry.

During 2004, the Ministry of Petroleum was replaced by an administration, and the responsibilities of the ministry were divided between the Ministry of Trade and Industry and the Ministry of the Interior. Petroleum affairs will continue as an administration with the official name "Faroese Petroleum Administration". This administration will be responsible for all the administrative tasks related to petroleum exploration on the Faroe Shelf.

Also during 2004, a second licensing round opened and a number of companies expressed interest in applying for these licenses. The licenses were awarded in January 2005 to eight oil companies, organized into five consortia.

The influence of the oil industry has begun to emerge. Oil companies have established offices in Tórshavn where housing prices jumped in anticipation of potential oil prospects. With time, expectations have become more moderate, the exuberant talk has moderated and circumstances have normalised. There are also other visible activities apart from oil company initiatives. The offshore base was placed in Runavík and proved reliable and effective during the exploration activities. This has led to and will undoubtedly continue to lead to further activity, both directly and indirectly. So far, the harbour facilities in Runavík have been expanded, and the various companies servicing the oil industry have established a presence there. The same goes for air transport for the oil industry, which is performed via Vágar Airport. A temporary offshore terminal was built to host the helicopter transport (mostly personnel) between land and the offshore installations.

It is hard to estimate the outlook for future activity. The Marjun drilling site did not strike oil in the expected sediment and, therefore, the oil companies have had to review their plans. It is still unclear when Amerada Hess will follow up on the promising find they had in 2001.

The seismic and other data obtained from the drilled wells is still being interpreted and much valuable information about the Faroese subsoil has been obtained in the process.

In July 2006, Statoil started the first exploration drilling on basaltic rock which covers large areas of the possible Faroese oil fields. Also BP, Shell and Anadarko will drill on basaltic rock at the in 2007. The findings from these wells are expected to give valuable information on how to interpret the seismic results from the subsoil that is covered with basalt.

5.3 Labour Market

In general, the Faroese labour market¹¹ is characterized by a relatively large workforce in the fishing sector and the public sector. Unskilled and skilled workers work 40 hours per week, according to agreement. Public employees and office staff work 37-38 hours per week. The holiday law grants five weeks of paid annual leave. Salaried staff receives a holiday allowance of 1.5% of their annual wages in addition to their base salary, while hourly paid workers receive a 12% holiday allowance for every hour worked.

Usually wage negotiations are held every other year and almost all unskilled workers, public employees and shop assistants have their wages adjusted according to negotiated settlements. For skilled labourers and people working in the service trades, the settlements are regarded as guidelines. Lately, there is growing interest in negotiating longer wage agreements. Several of the latest settlements, for example, have been for more than two years.

Last year, unskilled workers agreed upon their wages. Wages increased by 0% in 2005 and 0% in 2006, while the pension payment increased by 1% in 2005 and 2% in 2006. The main public sector agreement was reached in October 2005, and resulted in a 1-year agreement and an increase in wages of 0.9% in 2005. In addition to increased wages, the agreement was improved in other ways. In the autumn and winter of 2006, wage negotiations began again for public employees.

Unemployment insurance¹² has been in effect since 1992. Employers and workers each pay 1%¹³ of each wage payment to the unemployment compensation program. The unemployment

¹¹ Tables 3 through 5 in Appendix H show a variety of figures concerning the labour market

¹² www.als.fo

¹³ As of 1 September 2003

benefit from the insurance program is set at a maximum of 70% of the income of an unskilled worker (Appendix H, Table 4). The unemployed worker can stay in the system for a total of 798 days over a period of five years.

A Family Leave Fund was established in June 2001. Employers and workers pay 0.25% of total wages to the fund, which provides for up to 24 weeks of paid leave after childbirth with a maximum of DKK 25,000 per month.

In 2001, 2002 and 2003, total wage payments increased by 13.7%, 8.3% and 0.4%, respectively. In 2004, total wage payments increased by 0.9% from DKK 5,000 million to 5,967 million. Total wage payments in 2005 were DKK 6,001 million, a 2.2% increase. As mentioned above, total wage compensation increased 7.1%.

During the economic crisis of the early 1990s, the Faroe Islands experienced an unemployment rate of around 20%, which is now dramatically lower. The rate gradually fell and is hovering around 3%. From 1989 to 1995, the population in the Faroe Islands decreased by 9% from 47,838 to 43,393. The workforce was reduced by 12%. Most moved to Denmark. The net emigration eased the pressure on the unemployment insurance fund and lowered the actual unemployment figures.

Unemployment is still at a low level. Recent numbers showing less than 2% unemployment. In 2006, unemployment was 2.7% on average.

In times of low growth, the Faroese labour force migrates to neighbouring countries in search of work, as well as immigrating back to the islands in times of high growth. Emigration statistics are therefore a major business cycle indicator.

5.4 Foreign Trade

The Faroe Islands is an independent customs area. Import duties and the rules pertaining to import and export are determined by the Faroese Government. In this respect, the other divisions within the Danish Kingdom are considered "foreign".

The trade balance was slightly positive in 2004. The trade balance deficit increased in 2005. The deficit is still present in 2006, but is slightly decreased. The annual grant from Denmark is a major factor contributing to BoP.

Around 95% of the registered export of goods is fish and fish products. The import is widely spread between ordinary consumer goods, goods for production and investment goods. In 2005, 77% of the export and 59% of the import was with EU countries. Outside the EU, Norway is the main business partner (see Appendix E, Table 2).

When the Faroe Islands declined membership in the Common Market in 1974, a trade agreement was concluded instead. The trade agreement was fundamentally a free trade agreement and as such reported to GATT by the EU. As a condition of the 1991 trade agreement, the Faroe Islands in 1993 implemented a value-added tax regime and excise duties replaced the fiscal import duties. The value-added tax now stands at 25%.

At the end of 1998, a new agreement was concluded between the Faroese Government and the EU, rescinding the following sections of the trade agreement: price arrangements, reference ceilings for export, restrictions on salmon, statistics control and other product specific agreements. Thus, some 95-97% of all Faroese exports are listed as free trade.

On 28 November 2003, the Faroe Islands and the EU entered into an agreement on Faroese membership in the Pan-European System of Cumulation of Origin. This was a positive development in the negotiations with the EU for Faroese industry and the society as a whole. The agreement was fully implemented on 1 December 2005.

The Faroe Islands also has free trade agreements with Norway, Iceland and Switzerland. Trade with the rest of the world is based on WTO regulations. The current coalition has set EFTA membership as a target for the coming years.

The Balance of Payments (BoP)

From the early 1970s to the beginning of the 1990s, there was a deficit, and in the latter years a very large deficit in the BoP. In 1990, the foreign net debt had accumulated to DKK 8.533 million, corresponding to DKK 176,000 per inhabitant.

This picture changed significantly, beginning in the early 1990s. During the ten years from 1992 through 2001, the surplus in the BoP was more than DKK 1,000 million or 13% of GDP on average per year (Appendix E, Table 1). Because of the big surpluses since 1993, the net debt has turned into net assets of about DKK 2,967 million in 2004. (See Appendix F, Table 1) The main reasons were a surplus in trade, the Danish block grant, lower interest payments, and wage transfers from Faroese working in foreign countries.

Adapting to the International Economic Environment

The Faroese economy is open, as the export and import of goods and services are about 45-50% of GDP. Changes in the international economy thus have a larger impact on the Faroese economy than most other countries. It is, therefore, essential for the Faroe Islands to be able to adapt to changes from the outside world.

In order to encourage Faroese businesses to respond effectively to international competition and to attract foreign direct investment, some important trade and industry legislation has been put into force. Accounting procedure legislation governing the various types of limited liability companies, as well as legislation regulating the accounting industry, entered into force in 1994. A much-needed revision is underway, and will reference a greater number of international accounting standards. The law will enter into force in 2007.

Companies can be registered as either public limited liability companies with a share capital minimum of DKK 500,000 indicated by the acronym P/F, or as private limited liability companies with a minimum share capital of DKK 80,000 indicated by the acronym sP/F.

The act regarding accounting procedures contains provisions governing the accounting principles to be employed, and requires that the accounts of all limited liability companies be available to the public. This regulation ensures that those who invest money and give loans can have better insight into the activities of a business and make it easier to compare a specific business with others engaged in the same type of business.

Government authorities, in co-operation with employer associations, are continuously trying to attract foreign investment to the Faroe Islands by sending out material and providing information services¹⁴. Apart from oil exploration-related industries, the impact has been limited.

¹⁴ www.trade.fo

6. THE FINANCIAL SYSTEM

Five banks – Eik Banki, Føroya Banki, Norðoya Sparikassi, Suðuroyar Sparikassi and Kaupthing Bank – service the financial market in the Faroe Islands. Savings traditionally were deposited in banks, but lately asset management and investment banking have grown in importance.

The Faroese financial market has experienced much turbulence in the last decade. In 1992 and 1993, huge write-offs were demanded in bank assets. Through the Financing Fund of 1992¹⁵, the Faroese Government injected new capital into Sjóvinnubankin and Føroya Banki with loans provided by the Danish Government. Altogether, the injection amounted to about DKK 3 billion, resulting in the banks becoming publicly owned.

In August 1993, it was decided that Føroya Banki and Sjóvinnubankin should merge¹⁶. The merger entered into force on 1 January 1994 and the merged bank continued under the name Føroya Banki¹⁷.

Today, the situation has turned around and the financial institutions are well consolidated. The economic upturn has largely limited losses and the reality lecture on healthy business practices offered by the depression has so far yielded good results on the balance sheets.

The high level of activity in the Faroese economy has given rise to greater profits within the financial sector. Eik Banki (until December 2006 Føroya Sparikassi) has shown the best results. Around half of Eik Banki's activity is overseas. Føroya Banki has also shown positive results, and the bank has plans to move activity abroad. Norðoya Sparikassi and Suðuroyar have also shown positive results. Their activity is mostly in housing funding. Kaupthing Bank, a Faroese branch of the parent Icelandic bank, is mainly involved in industrial financing.

Because of a revision in the banking law, banks and savings banks now compete on equal terms. The law also affords the same conditions for Faroese financial institutions as for Danish financial institutions relative to the Danish Central Bank. This legislation thus enables the Faroese banks to participate in the international capital markets. Various public financing institutions hold about a 10% share of the total financial assets and play an important role in selected areas of the financial market. The most important are the Føroya Realkreditstovnur (a mortgage credit institution, financing ships), Húsalánsgrunnurin (a mortgage credit institution, financing residential houses) and Framtaksgrunnur Føroya (Faroese Business Development Fund, which provides equity and loan capital to Faroese companies).

Recent developments suggest that the level of competition is set to increase, as foreign banks have revealed plans to enter the Faroese market and the current operating banks have launched several new products.

¹⁵ The Financing Fund's board of directors consists of five members appointed by the Faroese Minister of Finance

¹⁶ On 22 March 1993, Den Danske Bank exchanged the major part of its stock in Føroya Banki to the Financing Fund of 1992, in return for 30 percent of the stock in Sjóvinnubankin. A commission investigated the exchange and concluded that the Faroese Government did not have the necessary information and, therefore, had negotiated under false assumptions. In an agreement dated 10 June 1998, the Faroese Government received compensation of about DKK 1 billion.

¹⁷ www.foroya.fo

7. PRIVATIZATION

One of major economic goals of the present government coalition is the privatization of publicly owned companies. So far the freight divisions of the National Faroese Transport Company and the merged company consisting of Faroe Seafood and United Seafood have been sold. The Business Development Fund of the Faroe Islands, a publicly held fund, is still the major stakeholder in the resulting merged company operating under the trade name of Faroe Seafood.

The prime minister has announced the current government plan to privatize certain large publicly held companies. The current situation for the referenced companies is as follows:

Føroya Banki (Faroese Bank) two-thirds sold

Føroya Lívstrygging (Faroese Life Assurance Company) sale scheduled for a later date. However, only 50% will be sold.

Húsalánsgrunnurin (Housing Fund) sale scheduled for a later date.

Føroya Tele (Faroese Telecom) sell off planned.

Atlantic Airways sell off scheduled for late 2007

At the present time, only Atlantic Airways is scheduled to be sold on VMF at a mentioned time. It will be up to the new Parliament and Government to decide the faith of the other referenced companies.

8. THE FAROESE SECURITIES MARKET

The Faroese Securities Market (VMF)¹⁸ on the Iceland Stock Exchange¹⁹ had its first three listings in 2003. The Faroese Government bonds expiring in 2006, 2008, 2010 and 2018 have all been listed on the market.

The DKK 3,074 million debt with the Danish State will be re-financed by issuing bond debt with varying durations on the Faroese Securities Market on the OMX Nordic Exchange Iceland.

In June 2005, the first company (Atlantic Petroleum) was listed on the VMF market on ICEX (later OMX Nordic Exchange Iceland).

The newly established Faroese Securities Market, which is organized in such a way that Faroese companies are essentially listed on the Icelandic stock exchange, will afford domestic issuers easier access to capital for both existing and future initiatives. This is of great importance, especially when a Faroese company desires to expand within the Faroe Islands or abroad. Industries that are capital intensive, like fish farming, and companies that are innovative and avant-garde also benefit from having access to a localized securities market.

Such a market will enable investors to safely invest in Faroese companies. Because pension savings are expected to increase considerably in the coming years, the lack of a securities market would mean that this capital would not be available to help Faroese industry, but would be exported abroad.

The securities market is also a tool to assist in the privatization of the publicly owned companies, and can give ordinary people a better understanding of how business works, and what influences the success or failure of an investment.

Thus, a securities market is anticipated to generate greater potential for growth than if no exchange were available.

Three companies are listed on VMF: Eik Banki, Føroya Banki and Atlantic Petroleum. The market value of the companies is currently at around 80% of GDP.

¹⁸ www.vmf.fo – The limited liability company, P/F Virðisbrævamarknaður Føroya, was founded in 2000.

¹⁹ On 30 March 2004, the Iceland Stock Exchange and the Faroese Securities Market (Virðisbrævamarknaður Føroya P/F) entered into an agreement relating to the listing of Faroese securities on ICEX and the facilitation of trading of Faroese securities.

9. CURRENCY

The currency of the Faroe Islands is the Faroese króna, issued by the Danish National Bank. The Danish National Bank considers the Faroese króna to be a "special version" of the Danish krone and unique Faroese banknotes are in circulation in the Faroe Islands. The Faroese currency is pegged to the Danish krone by the *de jure* Faroese currency board. Thus, the basis of the Faroese króna is an equal amount of Danish kroner deposited in an account in the Danish National Bank. Although the banknotes used in the Faroe Islands are Faroese, the coins are the same as those in circulation in the remainder of the Danish Kingdom. Faroese and Danish banknotes are fungible in the Faroe Islands. The Danish National Bank is the lender of last resort and all local Faroese accounts are denominated in Danish kroner.

A new series of Faroese banknotes have been issued. A new 50-króna note was issued in the summer of 2001 and was followed by a 100-króna note in early 2003 and a 200-króna note in early 2004. The rest of the series, 500 and 1000-króna notes, were issued in 2004 and 2005.

With regard to the future of Faroese currency, the Danish people rejected the Euro in a referendum in 2001. The Faroese did not participate in this referendum. This essentially preserved the status quo for the time being.

10. THE PUBLIC SECTOR

10.1 Public Income

The Faroese Government fixes and collects duties, taxes, income taxes, customs duties, production and vehicle taxes, whereas municipal government income derives mainly from income taxes.

Two classes of income are defined: wage income, which is, for the most part, defined as "A-income", and business income, mainly defined as "B-income".

A-income

A-income has to be transferred to an account in a financial institution, post giro or the exchequer. Upon receipt of an individual's wages from an employer, the receiving bank automatically deducts and transfers the appropriate withholding tax to the exchequer via the Customs and Tax Administration centralized tax system. Each tax payment is calculated based on the income up to the date of the latest wage payment, converted into annual income. Adjustments are made after the close of each year; excess tax is refunded, extra tax owed is collected.

The highest tax rate (government and municipality combined) in 2006 is between 49.4% and 58.4%²⁰, although the tax ceiling is 50%, excluding payments of about 2.6% to different funds.

Income tax levied by the Customs and Tax Administration is calculated on a sliding scale, thus with various allowances the highest marginal rate at present is 34% in 2006.

A gross tax system was introduced in 1997. This means that instead of providing for tax deductions, specific subsidies are allowed to compensate for certain expenses.

Municipal taxes are assessed using the same calculation of income as that of the Customs and Tax Administration, except that a flat tax rate is used. The economic situations of the municipalities differ greatly and for the year 2006 municipal taxes ranged from 15% to 24%. On average, the tax is 20.6%.

B-income

B-income is based on the annual accounts of a business and is, therefore, collected by the Treasury the year after the accounting year.

Corporate taxes before 1999 were 27%, but are since lowered to 18%, except for companies in the oil industry. The tax rate for these companies remains at 27%. Of the tax amounts, 62% is paid to the national Treasury, and the remaining 38% to the local municipal authorities.

Other Taxes

Interest on deposits in Faroese banks is not included in the income subject to income tax. Instead, a yearly tax of 35% of the interest is deducted from the interest payment by the financial institutions and transferred to the Treasury. All income from securities (interest, dividends and capital gains) is taxed at 35%. There is no property or wealth tax.

²⁰ Depending upon in which municipality one resides.

Because of the trade agreement (1 January 1992) with the EU, the Faroese Customs Act is based on the international Customs Cooperation Council's (CCC) Harmonized Commodity Description and Coding System and customs duties are based on the EU GATT rates. The agreement was replaced by a new agreement in January 1997. In addition, the fiscal duties levied on imports were replaced by a value-added tax (VAT) and excise duties on some consumption items.

The corporations that do not pay VAT, for example banks and insurance companies, have to pay a five percent tax on total paid wages.

10.2 Public Expenditure

The distribution of government expenditure for different items follows the new budgeting procedures and shows the actual financial outlays (Appendix H, Table 1). Investments in large assets are financed largely by current provisions and are booked immediately as expenses in the appropriate fiscal year.

There are exceptions to this rule, however. Lately, a new procedure has emerged wherein public limited companies are created to operate and manage public services and large, public construction projects, etc. This has been the case for Faroese Telecom, the sub-sea tunnel between Vágur and Streymoy, and the sub-sea tunnel between Eysturoy and Borðoy, etc.

The composition of expenditures has changed since the early 1990s. Expenditure to the fishing industry has fallen considerably since 1991 due to the change in subsidies to the industry. The policy is to emphasize the need for the industry to be cost efficient and independent of public funds.

Historically, outlays for effective guarantees have been massive. In 1991, private guarantees amounted to DKK 642 million; they were zero in 2003. New outlays from 1999 and onward have been at a minimum and the public guaranteed debt is decreasing. In 2005, all guaranteed debt was only DKK 81 million with municipalities as the only group with guaranteed debt.

The interest line item in the budget increased as the public sector took over a greater part of the private debt during the depression (see Appendix F, Table 1; Appendix H, Table 1.). In 1995, interest was 16% of the total budget, but after the debt agreement with Denmark in 1998, interest payments were halved.

In December 2003, the Faroese Government decided to pay DKK 500 million toward the debt with the Danish State. This resulted in yet another cut in interest payments. The DKK 800 million One-year bonds in November 2006, thereby greatly lowering the debt and at the same time the liquidity.

The most significant expenditures in the budget are social welfare services, which account for over one-third of the total.

10.3 The Public Financial System

The annual budget is presented to the Faroese Parliament before October and must be approved before 1 January of the following year. In practice, approval occurs before Christmas.

Beginning with the 1991 fiscal year, the Budget Act was considerably changed compared to preceding years in order to obtain a better governing instrument. Blanket approvals for government investments and certain other expenditures are not permitted. Instead, government investments and other expenditures have to be approved in the budget for the year in question.

The accounts and bookkeeping of the government exchequer are audited by the National Audit Office. Once audited, the books are passed on to a committee, consisting of members selected by the Faroese Parliament, which is responsible for the finances of the government.

10.4 The Current Public Budget Status

The Government account showed a surplus of DKK 697 million in 2001, DKK 191 million in 2002, DKK 22 million in 2003 and a DKK 152 million deficit in 2004.

For 2005, the Government account showed a deficit of DKK 211 million. The budgeted deficit for 2006 was set at the same level, but the result showed a DKK 142 million surplus due to an increase in tax revenue.

For 2007, the Government's plans are to reach a surplus.

The repayments of principal and interest on loans in 2005 were DKK 2,001 million (DKK 136 million in interests and DKK 1,865 million in repayments). This is due to a refinancing of the DKK 1,494 million debts with the Danish State.

The estimated repayments of principal in 2006 are DKK 46 million and interest will be DKK 118 million. The debt of DKK 800 million is partly set to be repaid with the proceeds of DKK 600 million in extraordinary dividends from the Financing fund of 1992 and partly by issuing new bonds or by a reduction in liquidity.

Income

Economic growth increased the level of public income dramatically both in 2000 and 2001, where the growth was around 10 percent. Tax and VAT revenues stagnated in 2003 to 2005 but have shown big growth in 2006 and 2007 as the economy has grown quickly.

The Danish grant will remain at the current level, until the Government decides to take over additional areas of administrative control. This will cause further reductions. Income in the near future will be very much dependant on the level of activity, which again is influenced by the size of export and prices.

Expenditures

From 1989 to 1997²¹, expenses decreased every year even with growing interest expense. In 1998, expenses also dropped due to lower interest payments²².

In 1999, expenses started to increase: in 1999 by 7%, 2000 by 6% and 2001 by 7.5% and in 2002 by 10%.

²¹ When excluding the expenses for restructuring the banks in 1992 and 1993.

²² The lower interest payments were a result of the agreement of 10 June 1998 with the Danish Government. The agreement lowered the interest rate and the repayments.

In 2003, the Government stopped the accelerating growth in expenses, and this resulted in an increase in expenses of 3.7% in 2003, 4.2% in 2004; in 2005 the increase in expenses was 1.0%, and in 2006 expenditure grew around 3%.

Policy

The current economic policy could be called slightly expansive. The Government has been reluctant to restrict public spending and supported expansion through tax cuts, investments and expenditures. The expenditures are mainly in infrastructure, social welfare, health care and administration.

The Government will initiate national tax cuts, but the municipal taxes will increase, as a greater services burden will be shifted to them.

The Government has been working on privatizing some of the publicly owned companies to make a more clear distinction between public and private services, finance the reduction of debt and to help launch the Faroese Securities Market (see section 8).

10.5 Payments from Denmark

In addition to tax revenues, public expenditure in the Faroe Islands is also financed by the Danish Government. Beginning with fiscal year 1988, most of the grant subsidy from the Danish Government is in the form of a general block grant (Appendix H, Table 2). In addition to the general grant, the Danish Government spends some DKK 280 million directly in the Faroe Islands to cover Joint Matters, mainly for public order and judicial administration.

The Danish block grant for 1999, 2000 and 2001 was fixed in real terms and has been so since 1995. The grant for 2002 was reduced by DKK 366 million to DKK 630 million partly related to the official transfer of public education to the Faroese authorities. The Faroese and the Danish Governments have agreed that the grant will be fixed in real terms at DKK 615.5 million per year from 2003 until 2006. Any further takeover of executive areas pursuant to the Home Rule Act will precipitate further cuts in the block grant.

10.6 Government Foreign Debt

From 1992 to 1997, the debt to the Kingdom of Denmark increased from DKK 500 million to DKK 5,594 million. According to the agreements with the Danish Government, the Faroese Government injected DKK 2,500 million into the Financing Fund of 1992²³ and rearranged foreign debt elsewhere with loans from the Danish Government.

According to the agreements with the Danish Government, Faroese budget deficits would not be financed by the Danish Government, but by the Faroese Government. In December 1994, the Faroese Government for the first time issued bonds for public sale. In addition to meeting the liquidity demands of the Treasury, the aim was also to create a bond market in the Faroe Islands. This would give the Faroese population an additional opportunity to place extra liquidity and work as a credit rating for the Faroese Government. The bonds are registered with the Danish Securities Centre and since 2003 are quoted on the Faroese Securities Market on the now OMX Nordic Exchange Iceland.

It is common practice now when there is a financing need that the Government refinances maturing bond loans by issuing new bond loans. In November 2003 and November 2005, the

²³ Established with the purpose to restructure the banks.

Government also issued bonds in order to make extraordinary repayments on loans from the Danish State. Debt to the Danish State has also been repaid by reducing liquid reserves.

The Faroese Government has repaid all interest bearing debt to the Danish State, but has still a non-interest bearing loan from the Danish State that shall be repaid with interest if and when oil is found in the Faroese subsoil. The Government instead issued bonds, at the market value of DKK 3,125 million on the Faroese securities market on the Iceland Stock Exchange, now OMX Nordic Exchange Iceland.

10.7 The Municipalities' Debt

The Faroe Islands at present has 34 municipal councils, which vary in size and population from 44 to 19,382 inhabitants. Some of them have a net debt of DKK 60,000 per inhabitant while others have modest debt or no debt at all. For those that have large debt, interest and instalments comprise a large part of the municipal budget.

The temporary debt solidarity agreement of 1995 expired in 2001 and was replaced by individual solutions. Some of the municipalities needed assistance from the "Municipalities Loan and Guarantee Fund"²⁴. Twelve municipalities co-operated in a refinancing plan in 2000 with a five-year loan from FKI, a special loan association with a guarantee from the above-mentioned fund.

In 1995, the Faroese Government set up a committee to make a proposal for a new municipal system and the report was published in 1998. It recommended a system of seven to nine municipalities with clearer distinctions between the national government and the local municipalities.

There has been much discussion following the report and the view on merging municipalities is controversial, but sentiments seem to be moderating. Some municipalities have merged over the last few years, and several municipalities have decided to follow suit. The number of municipalities was reduced from 48 to 34 in 2004.

The long-term goals for creating larger municipal areas are to provide a basis for decentralizing public administration, social services and to strengthen local government.

²⁴ A fund was set up into which one percent of the municipal councils' tax income from 1994 to 1996 was paid. In 1996, the fund had on deposit from the municipalities DKK 98 million and loans outstanding of DKK 14 million.

11. SUMMARY AND OUTLOOK

11.1 Summary

The Faroese economy is growing strongly. The growth is set to continue in 2007, but is not likely to continue growing at such a fast rate.

The main reason for a projected decline in growth rate is that unemployment is very low. The average for 2006 was 2.7% and the newest numbers for 2007 show a historically low level of unemployment at 1.3%. Inflation, measured by the Consumer Price Index, was 1.5% in 2006.

For the second year running, the very important fishing industry seems to be cresting. Total catch value has increased in a positive direction, but it would seem that the industry is peaking, as it will be very difficult long-term to preserve the large catches.

The Faroese economy is growing mostly due to other activities than the fishing industry. Consumption is growing strongly, construction is continually increasing and initial investment in newly-listed companies would seem to indicate that they are performing strongly as well.

The public budget is again in surplus after showing a deficit since 2004. Cutting public service expenditure still seems to be a difficult task.

11.2 Outlook

The outlook for the Faroe Islands seems to be positive. The economy is growing. Unemployment is low and total wages have increased. Paid wages, a useful indicator of economic growth, have increased and the current estimates show continued growth for 2007.

Bottlenecks have developed in several industries. The level of activity is high and it will be difficult with the current unemployment for the activity in these industries to grow much faster than the current growth.

The listing of Faroese companies has shown itself to be a success, providing a good return on capital to Faroese citizens. Further liberalization and privatization will most likely give further growth.

As a welfare society, it is very difficult to make dramatic cuts in the public budget. If the current Government's plans to reach a budget surplus are to be effective, then productivity growth will be needed as unemployment is low.

In general, the Faroese economy is moving in a positive and new direction. The fishing industry is still a major player, but the role of formerly inactive capital and investments are playing a strong role in the very strong growth rate seen today.

APPENDIX

Appendix A – Governmental Debt

Total Net Debt of the Faroese Government									TABLE 1
DKK Million End of year	1998	1999	2000	2001	2002	2003	2004	2005	2006
<i>Liabilities</i>									
Kingdom of Denmark	4,646	4,512	4,381	4,243	4,098	2,197	2,118	500	500
Bond Loan	570	300	300	300	300	1,504	1,534	3,125	2,225
Other Debts	393	508	508	625	726	683	483	584	592
Total debt	5,609	5,320	5,189	5,168	5,124	4,384	4,135	4,209	3,317
<i>Assets</i>									
Deposits in Faroese Governmental Bank	1,104	1,490	1,790	2,321	2,412	1,820	1,472	1,293	901
Deposits in commercial banks	146	180	285	316	487	425	350	403	392
Others in circulation	297	359	406	570	479	395	460	425	619
Financial assets	1,697	1,708	1,867	2,083	2,246	2,263	2,380	2,411	2,048
Total assets	3,244	3,737	4,348	5,290	5,624	4,903	4,662	4,532	3,960
Net assets	-2,365	-1,583	-841	122	500	519	527	323	643
% of GDP at market prices	-32.5%	-20.4%	-9.8%	1.3%	5.0%	5.4%	5.4%	3.2%	5.9%

Appendix B – Guaranteed Debt

Guaranteed External Debt		TABLE 1		
1000 DKK		Remaining debt		
Company	Principal	2004	2005	2006
SEV (The Utility Company)	50,000	1,299	0	0
Telefonverk Føroya Løgtings (The Telephone Company)	33,000 28,860 29,400	0 0 0	0 0 0	0 0 0
Total Guaranteed External Debt		1,299	0	0

Guaranteed Debt distributed on Borrowing Groups									TABLE 2
1000 DKK	1999	2000	2001	2002	2003	2004	2005	2006	
Government Institutions	29,880	18,893	10,152	2,886	0	0	0	0	
Landsbanki Føroya	38,739	36,479	30,948	15,611	6,797	714	0	0	
Social security service	0	0	0	0	0	0	0	0	
Municipalities	178,869	156,954	142,254	124,704	109,329	94,894	80,689	58,735	
Municipal Institutions	27,273	22,078	16,883	11,688	6,494	1,299	0	0	
Public Debt	274,761	234,404	200,237	154,889	122,620	96,907	80,689	58,735	
Fishing	5,642	4,250	3,342	1,728	0	0	0	0	
Fish Processing	0	0	0	0	0	0	0	0	
Transport	4,403	2,867	0	0	0	0	0	0	
Private Debt	10,045	7,117	3,342	1,728	0	0	0	0	
Total Guaranteed Debt	284,806	241,521	203,579	156,617	122,620	96,907	80,689	58,735	

Appendix C – Key Figures

Key Figures on Faroe Islands and Denmark					TABLE 1
	Faroe Islands		Denmark		
	2005	2006	2005	2006	
Area (square kilometers)		1,400		43,100	
Population (ultimo)	48,183	48,350	5,427,459	5,447,084	
Population density (inhabitants/square kilometers)	34	35	126	126	
GDP at market price/capita (DKK)*	207,355	226,743	285,947	301,485	
Disposable income/capita (DKK)	231,825	231,024	282,665	299,832	
GDP at market price/capita (USD)**	32,809	38,108	45,215	50,696	
Disposable income/capita (USD)	36,657	38,847	44,697	50,418	

* GDP figures for 2005 and 2006 for Faroe Islands are estimates from Landsbanki Føroya

** Using the exchange rates from Danmark National Bank ultimo 2005 (6.32) and ultimo 2006 (5.95)

GDP Distribution on Industrial Branches, 2006			TABLE 2
	Faroe Islands	Denmark	
Agriculture, fishing and quarrying	18%	5%	
Manufacturing	12%	15%	
Electricity, gas and water supply	2%	2%	
Construction	8%	6%	
Wholesale and retail trade	14%	12%	
Transport, post and telecommunication	11%	9%	
Finance and business activities	10%	24%	
Public and personal services	29%	27%	
Total	100%	100%	

Balance of Payments, 1998 - 2006										TABLE 3
	1998	1999	2000	2001	2002	2003	2004	2005*	2006*	
The Faroe Islands										
Total (mill. DKK)	1,445	1,160	853	1,301	1,184	-86	777	-227	-142	
Per capita (1,000 DKK)	32	26	18	28	25	-2	16	-5	-3	
Percent of GDP	20%	15%	10%	14%	12%	-1%	8%	-2%	-1%	
Denmark										
Total (bill. DKK)	-10	21	19	40	27	46	36	59	40	
Per capita (1,000 DKK)	-2	4	19	7	5	8	7	11	7	
Percent of GDP	-1%	2%	1%	3%	2%	3%	2%	4%	2%	

* Somewhat estimated numbers from Landsbanki Føroya

Net Foreign Debt, 1998 - 2006										TABLE 4
	1998	1999	2000	2001	2002	2003	2004*	2005	2006	
The Faroe Islands										
Total (mill. DKK)	-211	-1,430	-2,458	-3,572	-4,385	-3,419	-2,967	
Per capita (1,000 DKK)	-5	-32	-53	-76	-92	-71	-61	
Percent of GDP	-3%	-18%	-29%	-37%	-44%	-35%	-30%	
Denmark										
Total (bill. DKK)	285	152	218	221	225	170	83	-21	34	
Per capita (1,000 DKK)	54	29	41	41	42	31	15	-4	6	
Percent of GDP	25%	13%	17%	17%	17%	12%	6%	-1%	2%	

* Somewhat estimated numbers from Landsbanki Føroya

Economic Development, 1998 - 2006									TABLE 5
	1998	1999	2000	2001	2002	2003	2004**	2005**	2006**
GDP, million DKK	7,278	7,758	8,581	9,589	9,973	9,699	9,753	9,991	10,963
GDP, real growth %*	...	1.4%	5.4%	8.8%	3.5%	-4.0%	-0.1%	0.4%	8.1%
Investment quota in %	20.6%	24.0%	30.5%	27.1%	22.0%	27.0%	17.8%	26.7%	25.8%
Budget surplus % of GDP	2.9%	8.4%	7.0%	7.3%	1.9%	0.2%	-1.6%	-2.1%	1.3%
Inflation (CPI), %	4.7%	5.1%	4.9%	2.7%	0.5%	1.3%	0.6%	2.0%	1.5%

* Growth in nominal GDP deflated by the consumer price index (CPI)

** Figures (except the CPI) are estimates from Landsbanki Føroya

Appendix D – National Accounts

Gross Domestic Product, 1998 - 2006									TABLE 1
Million DKK	1998	1999	2000	2001	2002	2003	2004*	2005*	2006*
GDP at Market Prices	7,278	7,758	8,581	9,589	9,973	9,699	9,753	9,991	10,963
- Production tax & subs.	-18	-44	-23	-24	-40	-28	-20	-20	-28
- Product tax & subsities	938	1,007	1,081	1,146	1,241	1,286	1,275	1,272	1,289
GDP at Factor Cost	6,358	6,795	7,523	8,467	8,772	8,441	8,498	8,739	9,702
<i>This being divided into</i>									
Compens. of Employees	4,229	4,524	4,979	5,694	6,221	6,246	6,273	6,466	6,896
Gross Operating Surplus	2,128	2,271	2,544	2,774	2,551	2,196	2,225	2,272	2,805

* Figures are estimates from Landsbanki Føroya

Gross Domestic Product at Factor Cost, 1998 - 2006									TABLE 2
Million DKK	1998	1999	2000	2001	2002	2003	2004*	2005*	2006*
Non-financial sector	3,971	4,230	4,723	5,410	5,491	4,979	4,892	5,028	5,478
Financial sector	285	266	315	357	356	426	419	435	491
Public Services	1,306	1,403	1,507	1,654	1,816	1,943	2,089	2,186	2,211
Households	1,091	1,209	1,319	1,402	1,470	1,489	1,504	1,492	1,896
Imputed Financial Services	-294	-313	-341	-356	-363	-396	-406	-402	-374
Total	6,358	6,795	7,523	8,467	8,772	8,441	8,498	8,739	9,702

* Figures are estimates from Landsbanki Føroya

Gross Savings and the Finance of Investments, 1998 - 2006									TABLE 3
Million DKK	1998	1999	2000	2001	2002	2003	2004*	2005*	2006*
GDP at Market Prices	7,278	7,758	8,581	9,589	9,973	9,699	9,753	9,991	10,963
Net Interest	-136	-103	33	7	114	46	38	40	40
Net Wages etc.	280	291	309	224	245	307	335	327	318
Net Transfers	1,111	1,135	1,173	1,179	813	811	812	812	812
Disposable Income	8,533	9,080	10,096	11,000	11,145	10,864	10,938	11,170	12,133
Public and Private Consumption	5,591	6,060	6,623	7,096	7,764	8,332	8,428	8,732	9,442
Gross Savings	2,942	3,020	3,473	3,903	3,381	2,531	2,511	2,438	2,691
Capital Inflows	-1,445	-1,160	-853	-1,301	-1,184	86	-777	227	142
Finance of Investments	1,497	1,860	2,620	2,603	2,197	2,617	1,734	2,664	2,834

* Figures are estimates from Landsbanki Føroya

Capital Formation Quota, 1998 - 2006									TABLE 4
Million DKK	1998	1999	2000	2001	2002	2003	2004*	2005*	2006*
Total Capital Investment	1,497	1,860	2,620	2,603	2,197	2,617	1,734	2,664	2,834
GDP	7,278	7,758	8,581	9,589	9,973	9,699	9,753	9,991	10,963
Capital Formation Quota	21%	24%	31%	27%	22%	27%	18%	27%	26%

* Figures are estimates from Landsbanki Føroya

Appendix E – Balance of Payments

Million DKK	1998	1999	2000	2001	2002	2003	2004	2005	2006
Export (fob)	2,961	3,297	3,857	4,294	4,235	3,913	3,689	3,587	3,869
Import (fob)	2,497	3,176	4,163	3,983	3,717	4,677	3,610	4,298	4,483
Trade Balance	464	121	-306	310	518	-765	79	-711	-614
<i>ships excluded</i>	468	432	185	421	636	250	37	-178	-558
Export Services*	342	388	435	465	540	509	565	549	593
Import Services*	608	671	791	886	1,047	994	1,026	1,221	1,278
Net Services	-267	-283	-356	-420	-507	-486	-461	-672	-685
Net Transfers and Income*	1,255	1,322	1,515	1,411	1,172	1,165	1,159	1,156	1,157
Omissions	-7								
Transfers and Omissions	1,248	1,322	1,515	1,411	1,172	1,165	1,159	1,156	1,157
Balance of Payments	1,445	1,160	853	1,301	1,184	-86	777	-227	-142
% of GDP	19.8%	15.0%	9.9%	13.6%	11.9%	-0.9%	8.0%	-2.3%	-1.3%

Numbers in %	Exports (fob)				Imports (cif)			
	2003	2004	2005	2006	2003	2004	2005	2006
Denmark	23.3	19.4	14.4	12.0	25.9	32.9	26.7	30.1
Italy	3.2	3.7	2.8	2.6	1.2	1.5	1.3	1.9
Great Britain	22.1	25.7	28.6	26.4	3.5	5.3	4.7	4.2
Germany	6.9	5.2	5.1	5.8	21.1	7.5	6.2	7.6
France	9.4	8.3	8.2	9.9	2.6	3.1	2.1	2.6
Spain	12.0	10.1	9.7	8.1	0.6	0.7	7.0	0.8
Sweden	1.2	1.3	1.3	0.7	4.4	7.0	5.4	6.1
Other EC countries	2.0	4.0	6.7	5.7	5.3	8.1	5.2	7.8
Total EC countries	80.1	77.7	76.8	71.2	64.6	66.1	58.6	61.0
Canada	2.7	0.5	2.0	1.6	0.2	0.3	0.3	0.2
Norway	5.1	7.7	5.9	11.8	23.2	18.4	18.1	20.2
Iceland	2.8	5.1	1.8	2.7	3.2	4.2	2.5	3.1
Russia	1.0	0.6	3.7	3.0	0.4	0.3	0.2	0.2
USA	2.2	1.2	0.9	0.7	1.0	1.0	8.8	1.4
Japan	4.1	4.0	3.5	3.3	1.7	2.1	1.6	2.5
Other countries	2.0	3.4	5.5	5.7	5.7	7.7	9.9	11.4
Total non EC countries	19.9	22.5	23.2	28.8	35.4	34.0	41.4	39.0
Total in mill. DKK	3,913	3,689	3,587	3,869	4,865	3,762	4,486	4,678

Million DKK	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cod	659	656	839	872	1,069	941	816	653	595
Haddock	314	308	340	313	378	331	320	332	319
Pollock	297	294	316	390	417	318	270	449	574
Salmon	437	846	866	936	813	805	685	440	374
Trout	18	49	29	52	130	160	77	59	99
Blue whiting	19	10	45	89	80	128	88	126	171
Herring	54	37	62	129	98	42	29	112	123
Mackerel atlantic	61	38	75	169	152	63	106	106	69
Prawn	246	247	218	317	245	221	147	98	89
Other fish products	735	665	768	942	780	755	939	991	1,229
Total exports of fish products	2,841	3,149	3,557	4,208	4,162	3,765	3,477	3,367	3,642
Other products	21	24	40	28	12	9	23	25	151
Vessels	100	124	259	58	61	139	189	195	76
Total exports of products	2,961	3,297	3,857	4,294	4,235	3,913	3,690	3,587	3,869

Imports (cif) by Product, 1998 - 2006									TABLE 4
Million DKK	1998	1999	2000	2001	2002	2003	2004	2005	2006
<i>Intermediate goods for</i>									
Agriculture and fish breeding	239	264	299	368	276	297	220	102	121
Construction industry	193	240	292	343	383	357	367	373	454
Other industries	543	594	719	769	790	757	695	717	865
Fuel etc.	188	265	509	489	415	446	531	717	862
Machinery, capital equipment	253	357	438	622	441	475	376	363	506
Transport equipment ex. ships	166	208	210	250	260	229	210	225	339
Goods for household consumption	771	819	912	978	1,049	1,067	1,087	1,128	1,280
Sum less imp. of fish and ships	2,353	2,747	3,379	3,819	3,615	3,626	3,486	3,626	4,427
Salt	6	6	9	8	7	8	7	10	9
Fresh fish	21	6	6	6	19	3	19	24	20
Frozen fish	56	77	92	46	36	13	13	13	23
Fish for reduction	64	31	30	58	41	62	58	36	68
Fish import	147	120	137	117	103	85	97	84	120
Ships and airplanes	103	434	794	223	178	1,154	179	777	132
TOTAL	2,602	3,301	4,309	4,159	3,897	4,865	3,762	4,486	4,678

Appendix F – Debt etc.

Total Net Foreign Debt, 1995 - 2004										TABLE 1
Million DKK	1995	1996	1997	1998	1999	2000	2001	2002	2003*	2004*
Public Debt	6,996	6,817	6,321	4,413	3,569	3,159	2,860	2,104	777	927
Private Debt	-2,594	-3,654	-4,215	-4,624	-4,999	-5,617	-6,432	-6,489	-4,196	-3,894
Net Debt (incl. Denmark)	4,402	3,163	2,106	-211	-1,430	-2,458	-3,572	-4,385	-3,419	-2,967

* Change in the methodology of the time series

Total Foreign Debt and Assets										TABLE 2
Million DKK	1997	1998	1999	2000	2001	2002	2003*	2004*		
Liabilities	7,390	5,757	5,372	5,032	4,895	4,582	3,668	3,579		
Assets	1,069	1,344	1,803	1,873	2,035	2,478	2,892	2,652		
Net Public sector	6,321	4,413	3,569	3,159	2,860	2,104	777	927		
Liabilities	2,094	1,702	1,333	1,228	1,298	1,186	2,360	2,426		
Assets	6,309	6,326	6,332	6,845	7,730	7,675	6,556	6,320		
Net Private sector	-4,215	-4,624	-4,999	-5,617	-6,432	-6,489	-4,196	-3,894		
<i>Liabilities</i>	401	241	140	264	413	371	784	696		
<i>Assets</i>	3,489	3,059	3,043	2,756	3,270	2,904	2,877	2,847		
<i>Net financial corporations</i>	-3,088	-2,818	-2,903	-2,492	-2,857	-2,533	-2,094	-2,151		
<i>Liabilities</i>	1,693	1,461	1,193	964	885	815	1,577	1,730		
<i>Assets</i>	2,820	3,267	3,289	4,089	4,460	4,771	3,679	3,473		
<i>Net non-financial corporations</i>	-1,127	-1,806	-2,096	-3,125	-3,575	-3,956	-2,103	-1,742		
Liabilities	9,484	7,459	6,705	6,260	6,193	5,768	6,029	6,005		
Assets	7,378	7,670	8,135	8,718	9,765	10,153	9,448	8,971		
Total net debt	2,106	-211	-1,430	-2,458	-3,572	-4,385	-3,419	-2,967		

* Change in the methodology of the time series

Appendix G – Fishing industry

Total Catches by Species, 1998 - 2006 (weight)									TABLE 1
Tons live weight	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cod	25,568	19,369	22,404	27,676	38,443	37,334	25,282	18,880	13,599
Haddock	20,252	16,832	14,926	14,815	23,856	24,565	22,356	19,978	16,574
Tusk	2,194	2,446	2,457	2,764	2,182	2,076	2,688	2,578	3,332
Ling	3,290	2,701	2,318	2,510	2,144	2,901	3,858	3,729	4,199
Saithe	25,487	30,849	35,093	45,047	50,758	42,521	42,518	62,103	60,118
Whiting	1,553	1,582	1,602	1,299	1,028	641	1,196	1,539	1,551
Ocean Perch	7,347	7,018	5,966	5,492	3,632	2,928	4,721	2,966	4,758
Catfish	237	254	271	278	263	461	447	290	278
Blue ling	1,173	1,916	1,537	1,619	969	2,084	1,311	1,429	1,700
Other demersal fish	60	109	111	90	59	88	116	171	135
Demersal species, total	87,161	83,076	86,685	101,590	123,334	115,598	104,492	113,662	106,243
Halibut	366	404	338	245	372	347	462	430	405
Lemon sole	418	390	383	693	1,183	1,002	841	607	707
Plaice	399	293	257	250	422	425	445	375	365
Grey skate	136	163	125	93	33	106	310	304	264
Monk fish	1,793	2,322	2,175	2,054	1,861	2,346	3,323	4,240	4,344
Greenland halibut	3,459	3,499	4,463	3,469	2,164	2,199	1,874	1,212	901
Other flat fish	39	31	27	48	17	24	35	45	46
Flat species, total	6,610	7,102	7,768	6,853	6,049	6,449	7,290	7,214	7,032
Roe and milt	280	276	249	677	631	436	314	389	276
Liver	188	84	98	204	70	0	51	350	379
Roe and others, total	468	360	347	881	701	436	365	739	655
Other species, total	17,655	9,647	7,372	11,597	9,880	8,143	5,299	8,217	14,372
Total	111,894	100,185	102,172	120,921	139,964	130,625	117,445	129,832	128,302

Total Catches by Species, 1998 - 2006 (value)									TABLE 2
Million DKK	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cod	310.4	294.9	395.6	501.8	536.0	562.6	389.5	340.2	263.1
Haddock	210.1	212.0	225.2	211.4	264.6	190.3	177.2	198.7	201.3
Tusk	13.6	18.5	17.8	21.0	14.4	11.8	10.9	12.9	24.8
Ling	29.7	33.1	28.6	38.5	28.5	32.0	33.5	40.7	58.8
Saithe	191.9	161.0	171.5	223.1	246.9	159.1	139.9	248.5	314.0
Whiting	9.9	11.6	13.4	10.6	6.0	3.5	9.1	14.2	15.9
Ocean Perch	63.6	59.9	54.3	56.9	34.1	24.0	39.6	26.4	53.0
Catfish	1.9	2.0	2.3	2.5	2.1	4.7	3.6	3.1	3.2
Blue ling	8.6	15.1	13.7	14.6	10.9	19.4	13.6	15.9	21.9
Other demersal fish	0.3	0.7	0.9	0.7	0.4	0.7	0.8	1.6	1.2
Demersal species, total	840.1	808.8	923.2	1,081.2	1,143.9	1,008.1	817.6	902.1	957.3
Halibut	12.6	14.9	14.6	11.7	12.9	11.4	18.3	19.2	19.9
Lemon sole	7.7	6.1	6.8	14.4	25.8	22.1	19.4	13.9	15.8
Plaice	5.6	4.2	4.1	4.8	7.6	7.1	7.9	6.9	6.1
Grey skate	0.5	0.9	0.5	0.3	0.1	0.6	2.7	2.7	2.4
Monk fish	42.5	72.0	79.4	71.8	57.1	57.8	77.8	120.5	136.0
Greenland halibut	48.8	48.2	80.5	64.9	42.5	41.9	41.2	28.3	20.1
Other flat fish	0.1	0.1	0.1	0.1	0.1	0.4	0.2	0.2	0.2
Flat species, total	117.7	146.5	186.0	168.0	146.3	141.2	167.4	191.8	200.7
Roe and milt	3.2	3.1	2.9	17.7	16.9	4.5	3.9	4.1	3.1
Liver	0.6	0.1	0.1	1.1	0.6	0.0	0.3	1.9	2.3
Roe and others, total	3.8	3.2	3.0	18.8	17.5	4.5	4.2	6.1	5.5
Other species, total	74.2	40.1	29.1	52.6	58.1	48.0	44.9	35.5	65.5
Total	1,036	999	1,141	1,321	1,366	1,202	1,034	1,135	1,229

The Faroese Fishing Fleet, 2003 and 2005* TABLE 3

	In number		GRT(1000)		Mean weighted age	
	2003	2005	2003	2005	2003	2005
Steel trawlers						
Salt fish trawlers	5	6	8	16	11	20
Wet fish trawlers	57	40	18	19	26	23
Other trawlers	16	23	15	13	17	26
Total	78	69	41	48	20	23
Other steel vessels						
Long liners	20	23	5	7	36	36
Purse seiners	11	10	15	17	19	15
Freezing ships	4	3	2	1	27	29
Other	15	12	3	2	28	39
Total	50	48	25	27	22	30
Total steel vessels	128	117	66	75	21	27
Wooden vessels	58	41	3	2	49	49
Total fishing vessels	186	158	69	77	23	28

*Data not available for 2004

The Faroese Fleet, 2001 - 2005 TABLE 4

	In number					Gross Register Tonnage (1000)				
	2001	2002	2003	2004*	2005	2001	2002	2003	2004*	2005
Fishing vessels	185	188	186		158	69.9	69.3	69.7		78
Cargo vessels	20	21	21		15	11.1	11.6	12.1		48
Passenger vessels	12	12	12		10	14.4	14.4	54.1		56
Sand dredgers	11	11	11		7	3.3	3.3	3.3		3
Gas- and o.tankers	2	2	2		2	1.8	1.8	1.8		2
Research survey v.	1	1	1		1	0.5	0.5	0.5		1
Coast guard vessels	4	4	4		2	2.6	2.6	2.6		2
Leisure vessels**	8	10	12			0.7	0.7	0.9		
Other	7	9	17		54	0.8	0.8	5.8		23
Total	250	258	250		249	105.1	105.0	150.7		213.0

*Data not available for 2004

Note: Only vessels above 20 gross register tonnage

**Changed registration method after 2003

Appendix H – Other

The Government Budget Distributed on Economic Items							TABLE 1
Million DKK	2000	2001	2002	2003	2004	2005	2006
Public service expenditure	2,120	2,302	2,510	2,602	2,711	2,737	2,851
Sales	-586	-612	-666	-647	-668	-598	-626
<i>Net public service expenditure</i>	<i>1,534</i>	<i>1,690</i>	<i>1,844</i>	<i>1,956</i>	<i>2,043</i>	<i>2,139</i>	<i>2,225</i>
Investment expences	176	186	251	260	208	185	254
Investment income	0	0	-3	-1	0	-15	-27
Transfer expences	1,465	1,471	1,551	1,538	1,533	1,571	1,493
Transfer income	-3,767	-4,165	-4,035	-3,947	-3,854	-3,884	-4,364
Transfers to public sector	73	109	164	184	202	195	233
Financial	-84	13	37	-14	19	19	43
Surplus (negative is surplus)	-603	-696	-191	-22	152	211	-142

The Government Budget Distributed on Economic Type							TABLE 2
Million DKK	2000	2001	2002	2003	2004	2005	2006
Salary etc.	1,306	1,418	1,544	1,632	1,748	1,743	1,775
Purchase of goods and services	646	694	766	791	804	836	874
Purchase of assets, net	75	100	96	82	71	78	107
Rent, maintenance, taxes and other costs	92	90	103	98	88	81	96
Sale of goods and services	-571	-593	-650	-631	-648	-579	-605
Supervision and inspection duties	-8	-10	-7	-10	-8	-9	-11
Other operating income	-6	-9	-8	-6	-11	-10	-10
Construction and fixed assets production	164	132	145	139	134	133	238
Net Purchase of fixed assets, etc.	13	53	103	121	74	37	-10
Transfers abroad, etc.	22	22	28	26	21	29	27
Transfers to households	955	993	1,079	1,107	1,145	1,162	1,164
Subsidies	170	132	125	122	102	134	140
Transfers to public and other entities	101	108	120	87	109	102	107
Investment subsidy, etc.	3	7	4	5	5	6	4
Interest costs, etc.	214	208	196	191	151	138	51
Costs	3,175	3,346	3,643	3,754	3,784	3,880	3,946
Taxes and duties	-2,572	-2,882	-3,103	-3,064	-3,021	-3,047	-3,482
Claims, compensations, etc.	-28	-29	-29	-30	-33	-31	-36
Ordinary income transfer	-12	-10	-8	-16	-16	-20	-22
Other income transfer	-9	-11	-12	-10	-10	-9	-10
Transfers from Denmark	-1,005	-1,023	-670	-659	-673	-661	-658
Interest income and dividend	-142	-210	-212	-167	-101	-116	-156
Internal public transfers	90	79	95	95	77	82	80
Transfers to municipalities	115	91	104	127	143	137	126
Purchase VAT	69	98	115	114	113	108	150
Internal public transfers	-81	-70	-83	-79	-62	-60	-56
Transfers from municipalities	-119	-90	-67	-72	-69	-71	-67
Net purchase of securities	21	50	57	24	43	72	84
Loan, etc.	38	23	19	29	12	71	60
Repayment for loans	-142	-59	-38	-66	-36	-124	-101
Income	-3,777	-4,043	-3,833	-3,777	-3,633	-3,671	-4,088
Total budget surplus (negative is surplus)	-602	-697	-191	-22	152	210	-142

Million DKK	1998	1999	2000	2001	2002	2003	2004	2005	2006
Agriculture	5	5	6	6	7	7	7	8	10
Fishing	808	751	834	980	1,009	874	777	834	951
Fish Farming	82	111	125	159	161	129	92	60	92
Mining/oilexploration	9	11	13	68	38	34	21	22	25
Primary Sector	904	878	978	1,213	1,215	1,043	897	924	1,076
Fish Processing	272	309	346	373	413	411	396	380	362
Technical Repairs/Processing	88	93	108	124	130	131	128	131	145
Manufacturing	124	147	178	201	218	224	219	223	231
Energy/Water Distribution	37	37	40	43	47	46	50	47	48
Construction	185	219	265	304	346	347	384	377	437
Secondary Sector	706	805	937	1,045	1,154	1,159	1,176	1,159	1,223
Trade and Repairs	387	428	463	505	568	589	596	585	629
Hotels and Restaurants	39	46	52	56	63	71	70	70	76
Sea Transport	144	165	165	177	199	211	222	229	226
Other Transport	76	84	98	125	146	141	146	155	181
Communications	120	126	132	147	156	162	165	163	168
Financing and Insurance	207	222	205	213	223	225	238	246	286
Business-to-business Services	101	111	131	148	160	179	193	207	235
Household Services	23	26	28	31	36	37	40	42	47
Public Administration etc. *	626	665	718	776	1,737	1,839	2,003	2,088	2,140
Education*	226	238	245	269	-	-	-	-	-
Health & Social Services*	481	523	558	598	-	-	-	-	-
Culture etc.	70	91	83	102	102	148	119	128	134
Not divided	28	23	2	1	1	1	4	4	5
Tertiary Sector	2,528	2,748	2,880	3,149	3,390	3,600	3,795	3,918	4,125
Total	4,137	4,431	4,795	5,407	5,759	5,803	5,869	6,001	6,424

Note: Change in the methodology of the time series. Public administration are from 2002 no longer divided into Education and Health & Social services

DKK pr. hour	jan-98	jan-99	jan-00	jan-01	jan-02	jan-03	jan-04	jan-05	jan-06
Workers (\$1,a)	86.5	88.1	92.2	96.3	101.9	107.5	112.5	117.5	120.6
Skilled Workers	96.9	98.9	104.1	108.9	116.7	124.5	129.9	135.4	136.5
Civil Servants					159.8	169.5	175.4	181.6	183.2
Office workers	103.7	106.9	110.1	113.4	119.6	124.1	137.6	144.4	145.8

Note: Holiday allowance and pension included

In number and percentage	1999	2000*	2001	2002	2003	2004	2005	2006	2007**
Total number of full time	1,210	1,008	770	596	663	960	1,052	765	497
Total unemployed percent	5.3	4.2	3.1	2.3	2.5	3.5	3.8	2.7	1.8

* From 2000 the method has changed to a more international comparable method

**Average of the first five months

Note: Not all part time unemployment is included – among others thus part time employed in fish processing

Medium price index. 1975 = 100	1998	1999	2000	2001	2002	2003	2004	2005	2006
Medium index per year	367.3	386.1	405.2	416.1	418.3	423.6	426.3	434.8	441.3
Percent increase per year	4.7%	5.1%	4.9%	2.7%	0.5%	1.3%	0.6%	2.0%	1.5%

2001 = 100	2005-1	2005-2	2005-3	2005-4	2006-1	2006-2	2006-3	2006-4	2007-1
Index per quarter	103.6	103.9	105.1	105.1	104.5	106.2	106.7	106.5	107.5
Percent increase per quarter	0.7%	0.3%	1.2%	0.0%	-0.6%	1.6%	0.5%	-0.2%	2.0%



Landsbanki Føroya

GOVERNMENTAL BANK

Landsbanki Føroya | Staravegur 5 | P.O.Box 229 | FO-110 Tórshavn | Faroe Islands | Tel. +298 308120 | Fax +298 318537
www.landsbankin.fo | landsbankin@landsbankin.fo | VTal: 382809