



**Landsbanki Føroya**

GOVERNMENTAL BANK

INFORMATION MEMORANDUM 2006  
THE FAROE ISLANDS



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## 1. FACT SHEET

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### **Location**

The Faroe Islands is located in the North Atlantic (62°N 7°W), approximately 430 kilometers southeast of Iceland, 600 kilometers west of Norway and 300 kilometers 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 2006)**

Tórshavn (capital): 19,315

Klaksvík: 4,889

### **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 maintained a special jurisdiction along with their distinct language and culture.

### **The Political System**

Together with Denmark and Greenland, the Faroe Islands constitutes the Kingdom of Denmark, which is a constitutional monarchy.

Since 1948, the Faroe Islands has had Home Rule – a political system by which so-called Joint Matters are under Danish State authority, while Faroese or Special Matters 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 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 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 number is seven, 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 = 7.46 DKK

1 US\$ = 6.32 DKK<sup>1</sup>

**Main industries**

Fishing, fish processing and fish farming.

**GDP (Nominal GDP at market price)**

DKK 9,699 million (2003)

The estimated GDP for 2004 is DKK 9,764 million and DKK 10,000 million for 2005

**Export of Goods (2005)**

DKK 3,586 million

**Export of Services (2005)**

DKK 635 million

**Main export product groups (2005)**

Fish and fish products: 93.9%

Ships: 5.4%

Other: 0.7%

**Import of Goods (2005)**

DKK 4,266 million

**Labour force (2005)**

Approximately 28,500

**Labour force divided by industries (approximated)**

Fishing, fish processing and manufacturing: 1/3

Construction and private services: 1/3

Public services: 1/3

**Education**

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

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<sup>1</sup> 31-12-2005

There are also colleges for Marine Engineering, Nautical, Teacher, Business and Nurses 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 car and cargo ferries 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 2005–2006

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Below are the recent developments since the latest publication of 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 and the outcome is discussed below.

In February 2004, the Social Democrats (Javnaðarflokkurin), the Conservatives (Fólkaflokkurin) and the Unionists (Sambandsflokkurin) formed a coalition government. The present Cabinet number was reduced to seven, including the Prime Minister. The former Government planned to make the Faroe Islands an independent country, but the current Government is pursuing a new course. The plan is to take over some special matters, and to pass a new and more flexible Home Rule Act.

### 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 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

There was negative growth of –2.75% in 2003. Estimates are still only available for 2004, 2005 and 2006. For 2004, the growth is estimated to have been 0.7%, for 2005 2.4%, while the estimated growth for 2006 is 6.4%.

Despite contractual wage increases of 4% in 2004, total wages and salaries paid in 2004 increased by only 0.9%. Total wages increased 2.9% in 2005. The first six months of 2006 saw total wages increase by 6.1%, compared to the same period in 2005.

### 2.5 Industries

#### **Fishery**

In 2005, the total catch grew 11.7% and 12.5% in value. The catch of saithe (*Pollachius virens*) especially contributed to this growth with a dramatic rise, almost doubling the catch value. The Faroese fishing industry seems to be facing a peak, as the total catch is at the second highest level for the past ten years. The early indicators for 2006 show a small growth in catch value. See Appendix G, Tables 1 and 2.

#### **Aquaculture**

The Faroese aquaculture industry is confronting some major challenges in the years ahead. The industry suffered in 2004 and 2005 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.

#### **Construction**

The level of activity measured in total industry wages was high in 2005. Only 0.8% lower than in record high 2004. First quarter for 2006 shows a growth at 3.9% compared to first quarter of 2005 and

5.1% compared to 2004. This indicates a stagnation, as the contractual wages are increasing at the approximately the same level.

### **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. 85% of the population are now connected by road.

In October 2005, the old ferry Smyril, which sails from Tórshavn to 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 for the publicly owned Atlantic Airways as the sole aviation operator in the Faroe Islands, since Danish airline company, Maersk Air, ended service to Vágur Airport as of 30 October 2004.

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 on 1 January 2007. Atlantic Airways, will be partly privatized in the nearby 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 Petroleum Administration".

Also during 2004, a second oil licensing round was opened and a number of companies expressed interest in applying for these licenses. The licenses were awarded in January 2005 to 8 oil companies, organized into 5 consortia.

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.

## **2.6 Labour Market**

Last year unskilled workers had their wages settled. 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. In addition to the increased wages, the agreement was improved in other ways. In the autumn and winter of 2006, wage negotiations will again begin for the public employees.

In 2005, the total wage payments increased by 2.9%. The first quarter of 2006 showed an 8,6% increase, compared to first quarter 2005.

Unemployment reached 2.8% in May 2006. The average unemployment rate for 2005 was 3.8%.

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.

In 2002, there was a net immigration of 391 to the Faroe Islands. The net immigration has steadily declined over the last years, and in 2005 there was a net emigration of 422 from the Faroe Islands.



## 2.7 Foreign Trade

The BoP fell from DKK 778 million to DKK 535 million in 2005. Trade deficits were DKK 680 million in 2005. The BoP for the Faroe Islands is strongly influenced by the purchasing and selling of ships. See Appendix E.

## 2.8 The Financial System

The major banks, which experienced losses in 2004, have reported very positive earnings for both 2005 and for the first half of 2006.

The Faroese Securities Market (VMF) had its first corporate listing - P/F Atlantic Petroleum - in June 2005. New bond issues of the Faroese Government have all been listed on the market as well. Some of the publicly held companies will be listed on VMF when they are privatized. It is not clear if all of them or only some will be listed. Confer Section 7, page 25.

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 has 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 has a projected deficit of DKK 212 million. At this time, the budget outlook for 2006 has not been revised.

The repayments of principal and interest on loans in 2004 were DKK 208 million (DKK 131.5 million in interests 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 (approx. DKK 1.5 bill.) was repaid by issuing bond debt with varying duration on the Faroese Securities Market on Iceland Stock Exchange (ICEX).

There are plans not to re-finance the DKK 800 million off short-term bonds in November 2006. However these plans have not been finalized.

### **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

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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 km<sup>2</sup>. The largest island is Streymoy (375 km<sup>2</sup>) 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

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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 will make 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 (Tjóðveldisflokkurin) 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. The legislative authority still lies with 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 Department of the Danish Prime Minister. The Office of the High Commissioner is under this department. The main 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 Parliament<sup>2</sup>, which is the legislative body dealing with special matters and joint matters, etc. 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). Laws on 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)<sup>3</sup>

	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
Tjóðveldisflokkurin (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

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 constituencies<sup>4</sup> 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 attitude towards the political relationship with Denmark, in particular to what extent the Faroe Islands should or should not be independent of Denmark.

<sup>2</sup> www.logting.fo

<sup>3</sup> Note that due to the nature of the special at-large distribution system, votes and seats do not necessarily coincide

<sup>4</sup> They are: Vágar, Northern and Southern Streymoy, Eysturoy, Norðoyggjar, Sandoy and Suðuroy

The executive or administrative body is the Faroese Government (Landsstýri)<sup>5</sup>, 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 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

**Bárður Nielsen (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 Interior

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

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<sup>5</sup> [www.tinganes.fo](http://www.tinganes.fo)

### 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 present status and future independence.

Now, the Faroese Government is pursuing a new course. The Government has 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 Faroese Government has also applied for full and independent Faroese membership in the Nordic Council. The application is currently being discussed in the Nordic Council.

#### **Relations to the European Union**

Although Denmark has been a member of the European Community since 1973, the membership does not include 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 Faroese government is currently pursuing EFTA membership, but no final decision has been made, and it is not clear what the positions of the current members is.

The European Free Trade Association (EFTA) is an intergovernmental organisation 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 making more free trade agreements around the world.

## 5. THE ECONOMY

### 5.1 The Economy in General

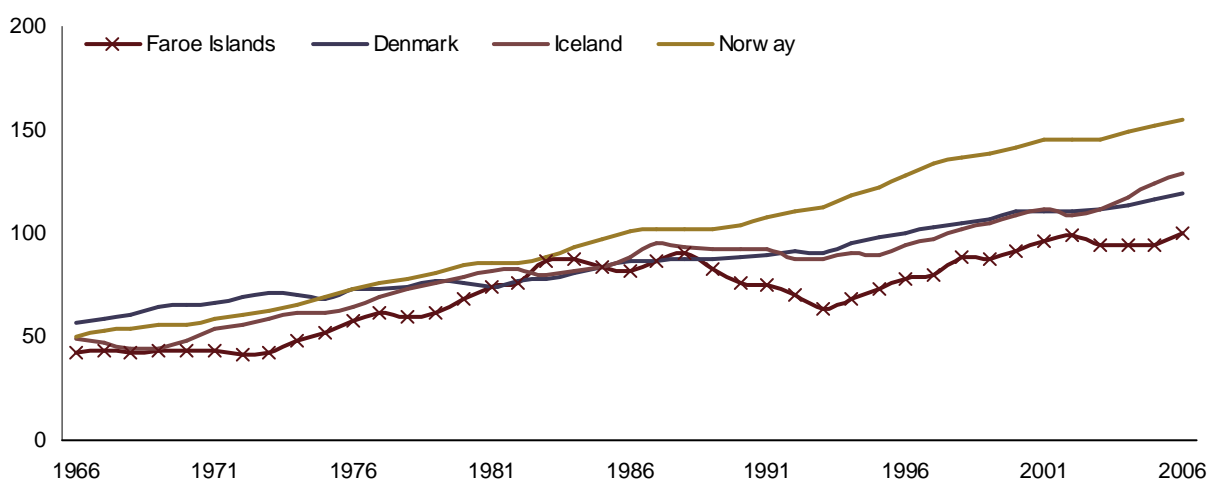
The Faroe Islands is an industrialized country with a standard of living comparable to other Nordic countries. The economy has, however, a high dependence on the fishing industry, compared to other Nordic countries.

Any economy with high dependence on the fishing industry 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 more than 95 percent of the export value (Appendix E, Table 3).

The Faroese economy is thus very sensitive to the international market for fish. Consequently, the export income can fluctuate significantly from one year to the next because of 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, the Faroese Disposable Income per capita has varied considerably, from the economic crisis in the beginning of the 1990s and through the growth period from 1994 to 2002 (Appendix C, Table 1).

More than a quarter of GDP is derived from the fishing and fish processing industries (Appendix C, Table 2). The chart on the next page shows Faroese and Danish GDP distribution in 2002, and it is clear that the Faroese economy is more dependent on primary industries than the Danish.

#### Recent Developments in the Economy

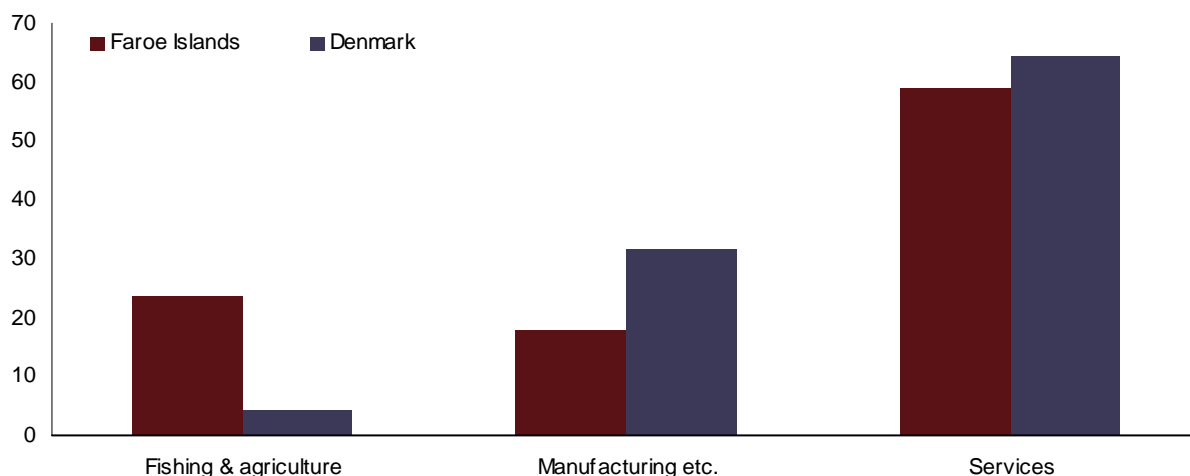
The Faroese economy experienced an extraordinary growth period after the depression years 1990-1994. In the years 1999-2001, the growth of nominal GNP (at market price) was over 8% p.a. The growth was 4.0% in 2002. Growth stopped in 2003 and became negative with -2.75%. In 2004 the growth is estimated to have been 1%, and for 2005 the growth is estimated to be around 2%. The outlook for 2006 is a growth of approximately 6%.

The average year-on-year inflation in 2005 was 2.0%, an increase but not alarming. The price level is shown in Appendix H, Table 6.



Another influential factor for the Faroese economy is the annual grant from Denmark, which steadily grew over the years up to 2002 when the 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 2002, %**



Source: Statistics Denmark and Statistics Faroes

The recent developments in wages illustrate a similar pattern. From 1997 to 2002, total wages and salaries paid have increased by approximately 10% p.a. The business cycle flattened off in 2003 as total wages and salaries paid in 2003 were only 0.4% higher than in 2002. Despite contractual wage rises of 4% in 2004, total wage payments increased by 0.9% in 2004. In 2005 wages increased 2.9%. The first five months of 2006 showed an increase of 6.8% in payments compared to the same period in 2005. This, in effect, means that wages in real terms are rising.

## 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 ("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, a problem concerning 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 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 enforced 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 as much 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 catches 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 somewhat less. This even understates the actual value increase, because the catch of the cheaper blue whiting has grown by a multiple of 13 since 1996.

However, in 2003 there was a drop in the value of the catch by 11% that can be attributed to both falling prices and volume. Especially the price for haddock and saithe was significantly lower in 2003. The declining trend for the value of the catch continued in 2004 the value of the catch is down approximately 13%, compared with 2003.

In 2005 the total catch grew 11.7% and 12.5% in value. Especially the catch of Saithe (*Pollachius virens*) contributed to this with a dramatic increase, almost doubling the catch value.

#### 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 in 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 industry<sup>6</sup> 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.

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. However, in 2004, this restriction was removed for the Faroese fish farming industry.

The industry experienced a record harvest in 2003. The 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 bottom in the summer of 2003<sup>7</sup>. Now the authorities demand ISA vaccination of the fish, which likely will help the situation greatly.

There has been a tendency towards more processing of sea-farmed fish. Traditionally, farmed fish has been exported iced or frozen, but a growing share has been processed to smoked or dinner-ready portions.

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 165 tons or 3.4 kilos per person in 2005.

Catches have varied greatly between zero and 900 tons 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 one percent of GDP in factor prices is derived from farming. The seven and a half million litres of milk produced in 2005 meets the domestic demand. The production has been relatively stable during the last three years – 2003 to 2005. 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 tons, which corresponds to 60% of the total demand. The production of beef and beef products amounted to around 180 tons in 2005. This is just

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<sup>6</sup> Farming of salmon and trout

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

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 381 million in 2005 (Appendix H, Table 3). The level of activity is still high, but it seems like there is only a small possibility for further growth with the current low unemployment.

### **Transport**

#### Internal

The transportation facilities in the Faroe Islands are good. With the new tunnel to Gásadalur, which was finished in February 2003, road connections now link all villages on each island and also between some of the islands.

In December 2002, the first subsea 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 subsea 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 Landsins<sup>8</sup>, maintains most of these routes, while numerous private companies offer passenger and cargo services on request.

#### External

In May 2006 the privately owned airline company Faroe Jet started flying between the Faroe Islands and Denmark. Since October 2004 the national carrier of the Faroe Islands, Atlantic Airways, was the only operator on the Faroese routes.

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

So far, 181,305 passengers have travelled through Vágur Airport in 2006.

In March 2003, the old Norröna<sup>9</sup> 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 winter schedule has been revised to offer new service to Bergen, Shetland and Scotland in addition to the normal service to Denmark. Almost 54,000 passengers travelled to the Faroe Islands by sea in 2003; 6,000 were in transit to another country.

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<sup>8</sup> A timetable of the routes for the ferries and buses is available at [www.ssl.fo](http://www.ssl.fo) and for helicopter services at [www.atlantic.fo](http://www.atlantic.fo)

<sup>9</sup> [www.smyril-line.com](http://www.smyril-line.com)

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 tourist industry in order to diversify the Faroese economy. Information offices have been set up around the islands and a national tourist council, Ferðaráð Føroya<sup>10</sup>, 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.

In 2004, about 100,000 tourist accommodations or stays were registered in the Faroe Islands. Tourism remained fairly constant at around 90,000 between 2000 and 2003, but in 2004 there was an increase of 11%, of which the main part of the increase can be attributed to domestic (Faroese) visitors. About 2/3 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.

Tourism is not a major industry in the Faroe Islands. Given the progress in the Faroese tourism industry that has taken place to date and that is anticipated in the future, however, 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 insurance companies active in the Faroese market.

### **Oil**

On 22 December 1992, the Danish Government agreed to transfer the rights to the subsoil mineral resources 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 km<sup>2</sup>. 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 commercial quantities. 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

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<sup>10</sup> [www.tourist.fo](http://www.tourist.fo)

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 emerged. 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 normalized. 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 Vágur 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 latest in 2007. The findings from this well 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 market<sup>11</sup> 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.

In the autumn and winter wage negotiations will again begin for the public employees, after agreeing on a 0.9% wage increase for a short one year term.

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

Last year, unskilled workers had their wages settled. 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, and resulted in a 1-year agreement and an increase in wages of 0.9% in 2005. In addition to the increased wages, the agreement was improved in other ways. In the autumn and winter of 2006, wage negotiations will begin again for public employees.

Unemployment insurance<sup>12</sup> has been in effect since 1992. Employers and workers each pay 1%<sup>13</sup> of each wage payment to the unemployment compensation program. The unemployment 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 6,134 million, a 2.9% increase.

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.

The table above shows that people of working age moved abroad during the crisis, while those of pension age remained. In 1996, the net emigration stopped and the movement pattern reversed to that prior to 1990 – although at a slightly higher rate of immigration.

Unemployment is still at a low level. As economic growth has slowed since 2002, unemployment has steadily increased. In 2002, unemployment was 2.3% on average. In May 2006, it was 2.8%.

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

## 5.4 Foreign Trade

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

Over the last few years, the trade balance was negative in 1999 and 2000, positive in 2001 and 2002, and in 2003 the trade balance again went negative, especially because of the situation in the aquaculture industry, lower prices for fish in general and large imports of vessels<sup>14</sup>. The trade balance was also slightly negative in 2004. The trade balance deficit increased in 2005.

Around 99% 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

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<sup>12</sup> www.als.fo

<sup>13</sup> As of 1 September 2003

<sup>14</sup> The ferry Norróna alone contributed with DKK 700 million in the negative direction

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, invalidating 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 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 grant, lower interest payments, and wage transfers from Faroese working in foreign countries.

In 2003, the BoP entered negative territory and fell to approximately DKK -85 million as the main contributing negative factors are non-recurring. The BoP for 2004 was DKK 778 million and for 2005 the BoP was DKK 535 million. Current estimates indicate the BoP remaining in positive territory for the coming years.

### **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 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 level 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 regulations 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 of the same kind.

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 services<sup>15</sup>. Apart from oil exploration-related industries, the impact has been limited.

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<sup>15</sup> [www.trade.fo](http://www.trade.fo)

## 6. THE FINANCIAL SYSTEM

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Four banks 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.

In November 2003, the first bonds were issued on the new Faroese Securities Market (VMF) at Iceland Stock Exchange (ICEX), and in June 2005 the first company (Atlantic Petroleum) was listed on the VMF market.

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 1992<sup>16</sup>, 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 merge<sup>17</sup>. The merger entered into force on 1 January 1994 and the merged bank continued under the name Føroya Banki<sup>18</sup>.

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.

Given the gloomy outlook for the aquaculture industry, the two major banks had to set aside in their first-half financial reports for 2003 considerable reserves against possible losses for the first time since the early 1990s. The other two banks Norðoya Sparikassi<sup>19</sup> and Suðuroyar Sparikassi<sup>20</sup> are not involved with financing this industry and both showed positive results halfway through 2003. In 2004, the losses of the major banks seemed to be restrained, and all banks have reported very positive earnings in 2005 and for the first half of 2006. Føroya Sparikassi<sup>21</sup> reported that around 60% of its first half earnings for 2006 were from overseas activity.

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 (mortgage credit institution, financing ships), Húsálánsgrunnurin (mortgage credit institution, financing residential houses) and Framtaksgrunnur Føroya (Faroese Business Development Fund, which provides equity capital to Faroese companies).

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

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<sup>16</sup> The Financing Fund's board of directors consists of five members appointed by the Faroese Minister of Finance

<sup>17</sup> 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 pretences. In an agreement dated 10 June 1998, the Faroese Government received compensation of about DKK 1 billion

<sup>18</sup> [www.foroyabanki.fo](http://www.foroyabanki.fo)

<sup>19</sup> [www.ns.fo](http://www.ns.fo)

<sup>20</sup> [www.sparsu.fo](http://www.sparsu.fo)

<sup>21</sup> [www.sparikassin.fo](http://www.sparikassin.fo)

## 7. PRIVATIZATION

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One of major economic goals off the present government coalition is the privatization of publicly owned companies. So far the freight division off 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 merged company.

In 2005 in his annual address to the parliament, the prime minister presented an intended time-line for the privatization process of the large publicly owned companies. It was as follows:

**Føroya Banki** (Faroese Bank) sells off in 2007, 2008 and 2009

**Føroya Lívstrygging** (Faroese Life Assurance Company) sale scheduled for ultimo 2006. However, only 50% will be sold.

**Húsálánsgrunnurin** (Housing Fund) sale scheduled for ultimo 2006.

**Føroya Tele** (Faroese Telecom) sells off in 2006 and 2007.

**Atlantic Airways** sale of 33% scheduled for 2006 and 33% when the company is finally listed on the Faroese Securities Market.

Clearly the intended time schedule has not been followed, but it gives a picture off the government's plans. Laws on the privatization of Føroya Banki and Føroya Lívstrygging have been passed by the Faroese Parliament with great majority and other laws are set to follow. The total equity of these companies, minus the Housing Fund, was ultimo 2005 DKK 1.641 million. In 2006 DKK 600 million were paid as extraordinary dividends from the Financing fund of 1992 (the principal shareholder of Føroya Banki) to the government treasury.

At the present time, none of the above referenced publicly held companies or any part of them has been sold.

## 8. THE FAROESE SECURITIES MARKET

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The Faroese Securities Market (VMF)<sup>22</sup> on the Iceland Stock Exchange<sup>23</sup> 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 duration on the Faroese Securities Market on the Iceland Stock Exchange (ICEX).

In June 2005, the first company (Atlantic Petroleum) was listed on the VMF market on ICEX.

The newly established Faroese Securities Market, that is organized in such a way that Faroese companies will be 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.

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<sup>22</sup> www.vmf.fo – The company P/F Virðisbrævamarknaður Føroya was founded in 2000

<sup>23</sup> On 30 March 2004 the Iceland Stock Exchange and the Faroese Securities Market (Virðisbrævamarknaður Føroya Pf) entered into an agreement relating to the listing of Faroese securities on ICEX and facilitation of trading of Faroese securities

## 9. CURRENCY

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The currency of the Faroe Islands is the Faroese króna, issued by the National Bank of Denmark. Unique Faroese notes are in circulation in the Faroe Islands and are constituted by a currency board as defined by Danish law as equal in value to the Danish krone. The basis of the Faroese króna is an equal amount of Danish krone deposited in an account in the Danish central bank. Though the notes 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 notes are fungible in the Faroe Islands.

A new series of Faroese notes 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.

Concerning the future of Faroese currency, the Danish people rejected the Euro in 2001. This essentially preserved the status quo for the time being.

## 10. THE PUBLIC SECTOR

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### 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%<sup>24</sup>, although the tax ceiling is 50%, excluding payments of about 2.6% to different funds.

Income tax levied by the 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 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 were 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 and savings 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.

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.

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<sup>24</sup> Depending upon which municipality one resides

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.

Outlays for effective guarantees have been massive historically. In 1991, private guarantees amounted to DKK 642 million; this was 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 current plan is not to refinance the DKK 800 million One-year bonds in November 2006 and 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 mill, deficit in 2004.

For 2005, the Government account showed a deficit of DKK 211 million, while the budgeted deficit for 2006 is set at the same level.

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 DKK 1,494 million debt 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 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. Beginning in 2002, tax revenue income began to stagnate and this tendency has continued through 2003 and 2004, partly due to lower taxation. Growth in income from VAT is also falling because of lower economic growth.

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 1997<sup>25</sup>, expenses decreased every year even with growing interest expense. In 1998, expenses also dropped due to lower interest payments<sup>26</sup>.

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

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 and in 2005 the increase in expenses was 1.0%.

### **Policy**

The current economic policy could be called neutral. 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.

For 2006 and 2007, the Government will try to decrease expenses, and in 2007 gain a surplus in the public budget. 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.

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<sup>25</sup> Assuming exception of the capital injections into the banks in 1992 and 1993

<sup>26</sup> 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



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 in relation 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 till 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 1992<sup>27</sup> 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 Iceland Stock Exchange.

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 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 which shall be repaid with interest if and when there is be found oil in the Faroese soil. The Government instead at year end 2005 the market value of DKK 3,125 million in bond debt listed on the Faroese securities market on the Iceland Stock Exchange.

## 10.7 The Municipalities' Debt

The Faroe Islands at present have 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 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"<sup>28</sup>. 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

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<sup>27</sup> Founded with the purpose to restructure the banks

<sup>28</sup> 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

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.

## 11. SUMMARY AND OUTLOOK

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### 11.1 Summary

The Faroese economy is slowly growing. The growth is consistent with the leading European economies. However, GDP for 2004, 2005 and 2006 are based on estimates, and the newest estimates show a positive growth track, but the national income is still lower than in other Nordic countries measured in GDP per capita.

Unemployment is very low. The average for 2005 was 3.8% and the newest numbers for 2006 show a decrease in unemployment to an average of 3.3%. There has been a modest inflation of 0.6% in 2004 and an increase in 2005 to 2.0%.

The very important fishing industry seems to be at a peak. Both total catch and catch value have increased in a positive direction, and it seems that the industry is at a peak, as it will be very difficult to preserve the large catches.

Aquaculture once contributed one-quarter of the Faroese export, and although the industry is far from its past strength it is slowly but surely growing. Recent developments have been positive for the industry.

The public budget has showed a deficit since 2004, and it seems to be a difficult task to cut public service expenditure or to increase taxes. Government incentives have been focused on maintaining high activity rather than to balance the budget.

### 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 a large growth for 2006.

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 upcoming privatization of large Faroese companies can contribute greatly to the economic development. Especially the listings of these companies on the Faroese Securities Market on the Iceland Stock Exchange can give the economy a much needed boost with, among other things, a larger share of foreign venture capital.

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 an increase in activity is highly needed.

The major economic crises of the mid-nineties had a great impact on all parts of the Faroese economy. The effects of the crises have worn off and there is a new day for the economy with some great challenges ahead. Overall the Faroese economy is moving in a positive direction.

## APPENDIX

## Appendix A – Governmental Debt

<b>Total Net Debt of the Faroese Government</b>			<b>TABLE 1</b>
<b>DKK</b>	<b>31-12-2003</b>	<b>31-12-2004</b>	<b>31-12-2005</b>
<b>Debt</b>			
DKK 4023 million, 1998-2018	1,651,000,000	1,575,000,000	-
DKK 500 million, 2018	500,000,000	500,000,000	500,000,000
<i>Subtotal</i>	<i>2,151,000,000</i>	<i>2,075,000,000</i>	<i>500,000,000</i>
Other Debts in Denmark	1,940,000	-	-
Debt in Faroe Islands	111,265,000	-	-
Bonds	1,503,500,000	1,534,360,000	3,124,790,000
<b>Total debt</b>	<b>3,767,705,000</b>	<b>3,609,360,000</b>	<b>3,624,790,000</b>
<b>Assets</b>			
Deposits in Faroese Governm. Bank	1,820,143,000	1,472,400,000	1,293,000,000
Deposits in commercial banks	258,000,000	196,000,000	174,000,000
<b>Total liquid assets</b>	<b>2,078,143,000</b>	<b>1,668,400,000</b>	<b>1,467,000,000</b>
<b>Net debt</b>	<b>1,689,562,000</b>	<b>1,940,960,000</b>	<b>2,157,790,000</b>
% of GDP at market prices	17.4%	19.9%	21.6%

## Appendix B – Guaranteed Debt

Guaranteed External Debt		TABLE 1		
1000 DKK		Remaining debt		
Company	Principal	2003	2004	2005
SEV (The Utility Company)	DKK 50,000	6,494	1,299	0
Telefonverk Føroya Løgtings (The Telephone Company)	DKK 33,000	0	0	0
	DKK 28,860	0	0	0
	DKK 29,400	0	0	0
<b>Total Guaranteed External Debt</b>		<b>6,494</b>	<b>1,299</b>	<b>0</b>

Guaranteed Debt distributed on Borrowing Groups		TABLE 2						
1000 DKK	1998	1999	2000	2001	2002	2003	2004	2005
Government Institutions	81,327	29,880	18,893	10,152	2,886	0	0	0
Landsbanki Føroya	38,739	38,739	36,479	30,948	15,611	6,797	714	0
Social security service	18,853	0	0	0	0	0	0	0
Municipalities	186,778	178,869	156,954	142,254	124,704	109,329	94,894	80,689
Municipal Institutions	31,818	27,273	22,078	16,883	11,688	6,494	1,299	0
<b>Public Debt</b>	<b>357,515</b>	<b>274,761</b>	<b>234,404</b>	<b>200,237</b>	<b>154,889</b>	<b>122,620</b>	<b>96,907</b>	<b>80,689</b>
Fishing	24,300	5,642	4,250	3,342	1,728	0	0	0
Fish Processing	0	0	0	0	0	0	0	0
Transport	7,922	4,403	2,867	0	0	0	0	0
<b>Private Debt</b>	<b>32,223</b>	<b>10,045</b>	<b>7,117</b>	<b>3,342</b>	<b>1,728</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Guaranteed Debt</b>	<b>389,737</b>	<b>284,806</b>	<b>241,521</b>	<b>203,579</b>	<b>156,617</b>	<b>122,620</b>	<b>96,907</b>	<b>80,689</b>

## Appendix C – Key Figures

Key Figures on Faroe Islands and Denmark					TABLE 1
	Faroe Islands		Denmark		
	2004	2005	2004	2005	
Area (square kilometers)	1,400		43,100		
Population (ultimo)	48,379	48,219	5,411,405	5,427,459	
Population density (inhabitants/square kilometers)	35	34	126	126	
GDP at market price/capita (DKK)*	206,433	207,387	269,872	285,863	
Disposable income/capita (DKK)	231,005	231,817	262,941	262,163	
GDP at market price/capita (USD)**	37,756	32,793	49,358	45,202	
Disposable income/capita (USD)	42,250	36,656	48,091	41,455	

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

\*\* Using the exchange rates from Danmark National Bank ultimo 2004 (5.47) and ultimo 2005 (6.32)

GDP Distribution on Industrial Branches, 2002			TABLE 2
	Faroe Islands	Denmark	
Agriculture, Fishing etc.	22%	4%	
Mining	1%	1%	
Manufacturing	10%	17%	
Construction	6%	4%	
Energy and Water Distribution	2%	2%	
Private services	37%	46%	
Public Services etc.	22%	25%	
<b>Total</b>	<b>100%</b>	<b>100%</b>	

Balance of Payments, 1996 - 2005										TABLE 3
	1996	1997	1998	1999	2000	2001	2002	2003	2004*	2005*
<b>The Faroe Islands</b>										
Total (mill. DKK)	857	873	1,491	1,160	853	1,301	1,184	-86	778	534
Per capita (1,000 DKK)	20	20	33	26	18	28	25	-2	16	11
Percent of GDP	15	14	20	15	10	14	12	-1	8	5
<b>Denmark</b>										
Total (bill. DKK)	15	4	-10	21	19	40	27	46	36	46
Per capita (1,000 DKK)	3	1	-2	4	3	7	5	8	7	9
Percent of GDP	1	0	-1	2	1	3	2	3	2	3

\* Somewhat estimated numbers from Landsbanki Føroya

Net Foreign Debt, 1996 - 2005										TABLE 4
	1996	1997	1998	1999	2000	2001	2002	2003	2004*	2005
<b>The Faroe Islands</b>										
Total (mill. DKK)	3,163	2,106	-211	-1,430	-2,458	-3,572	-4,385	-3,419	-2,967	...
Per capita (1,000 DKK)	72	48	-5	-31	-53	-76	-92	-71	-61	...
Percent of GDP	55	34	-3	-18	-29	-37	-44	-35	-30	...
<b>Denmark</b>										
Total (bill. DKK)	253	285	285	152	218	221	225	170	83	-36
Per capita (1,000 DKK)	48	54	54	29	41	41	42	31	15	-7
Percent of GDP	24	26	25	13	17	17	17	12	6	-2

\* Somewhat estimated numbers from Landsbanki Føroya

<b>Economic Development, 1995 - 2005</b>										<b>TABLE 5</b>
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004**</b>	<b>2005**</b>
GDP, million DKK	5,788	6,175	7,278	7,758	8,581	9,589	9,973	9,699	9,764	10,000
GDP, real growth %*	5.6%	4.0%	15.1%	1.9%	5.5%	6.8%	1.3%	-3.3%	-0.6%	1.8%
Investment quota in %	12.9%	15.8%	20.5%	24.0%	30.5%	27.1%	22.0%	27.0%	17.6%	18.7%
Budget surplus % of GDP	0.2%	1.3%	2.9%	8.4%	7.0%	7.3%	1.9%	0.2%	-1.6%	-2.1%
Inflation (CPI), %	2.7%	2.8%	4.7%	5.1%	4.9%	2.7%	0.5%	1.3%	0.6%	2.0%

\* Growth in nominal GDP minus growth in consumer price index (CPI)

\*\* Figures for 2004 and 2005 (except the CPI) are estimates from Landsbanki Føroya

## Appendix D – National Accounts

Gross Domestic Product, 1996 - 2005										TABLE 1
Million DKK	1996	1997	1998	1999	2000	2001	2002	2003	2004*	2005*
GDP at Market Prices	5,788	6,175	7,278	7,758	8,581	9,589	9,973	9,699	9,764	10,000
- Production tax & subs.	241	204	-18	-44	-23	-24	-40	-28	-20	-20
- Product tax & subsities	910	915	938	1,007	1,081	1,146	1,241	1,286	1,278	1,275
GDP at Factor Cost	5,118	5,464	6,358	6,795	7,523	8,467	8,772	8,441	8,506	8,745
<i>This being divided into</i>										
Compens. of Employees	3,492	3,766	4,229	4,524	4,979	5,694	6,221	6,246	6,278	6,471
Gross Operating Surplus	1,626	1,698	2,128	2,271	2,544	2,774	2,551	2,196	2,227	2,274

\* Figures for 2004 and 2005 are estimates from Landsbanki Føroya

Gross Domestic Product at Factor Cost, 1996 - 2005										TABLE 2
Million DKK	1996	1997	1998	1999	2000	2001	2002	2003	2004*	2005*
Non-financial sector	3,109	3,358	3,971	4,230	4,723	5,410	5,491	4,979	4,899	5,034
Financial sector	418	364	284	267	316	358	357	427	419	433
Public Services	1,283	1,360	1,306	1,403	1,507	1,654	1,816	1,943	2,090	2,187
Households	692	709	1,091	1,209	1,319	1,402	1,470	1,489	1,504	1,492
Imputed Financial Services	-383	-327	-294	-313	-341	-356	-363	-396	-406	-402
<b>Total</b>	<b>5,118</b>	<b>5,464</b>	<b>6,358</b>	<b>6,795</b>	<b>7,524</b>	<b>8,468</b>	<b>8,772</b>	<b>8,442</b>	<b>8,506</b>	<b>8,744</b>

\* Figures for 2004 and 2005 are estimates from Landsbanki Føroya

Supply and Disposal										TABLE 3
Million DKK	1996	1997	1998	1999	2000	2001	2002	2003	2004*	2005*
Gross Domestic Product	5,788	6,175	7,278	7,758	8,581	9,589	9,973	9,699	9,764	10,000
Import, Goods	2,145	2,363	2,497	3,176	4,163	3,983	3,717	4,677	3,588	3,749
Imports, Services	667	651	608	671	791	886	1,047	994	1,053	1,116
For Final Use	8,600	9,189	10,384	11,605	13,535	14,458	14,737	15,371	14,405	14,865
Exports of Goods	2,447	2,594	2,961	3,297	3,857	4,294	4,235	3,913	3,668	3,586
Export of Services	413	411	342	388	435	465	540	509	565	635
For Domestic Disposal	5,740	6,184	7,081	7,920	9,243	9,699	9,961	10,949	10,126	10,608
<i>Private Consumption</i>	3,236	3,348	3,756	4,085	4,489	4,747	5,169	5,568	5,512	5,673
<i>Government Consumpt.</i>	1,733	1,837	1,835	1,976	2,134	2,350	2,595	2,765	2,899	3,067
<i>Private Investment</i>	400	628	874	1,317	1,761	1,833	1,637	2,098	1,563	1,700
<i>Public Investment</i>	180	244	286	363	473	495	621	690	733	683
<i>Increase in Stocks</i>	191	127	331	180	386	275	-61	-171	-581	-515

\* Figures for 2004 and 2005 are estimates from Landsbanki Føroya

Gross Savings and the Finance of Investments, 1996 - 2005										TABLE 4
Million DKK	1996	1997	1998	1999	2000	2001	2002	2003	2004*	2005*
GDP at Market Prices	5,788	6,175	7,278	7,758	8,581	9,589	9,973	9,699	9,764	10,000
Net Interest	-340	-330	-97	-103	33	7	114	46	38	34
Net Wages etc.	-28	-25	280	291	309	224	245	307	335	332
Net Transfers	1,097	1,130	1,111	1,135	1,173	1,179	813	811	812	812
<b>Disposable Income</b>	<b>6,517</b>	<b>6,950</b>	<b>8,572</b>	<b>9,080</b>	<b>10,096</b>	<b>11,000</b>	<b>11,145</b>	<b>10,864</b>	<b>10,949</b>	<b>11,178</b>
Public and Private Cons.	4,625	5,102	5,583	6,050	6,612	7,096	7,764	8,332	8,411	8,740
<b>Gross Savings</b>	<b>1,892</b>	<b>1,848</b>	<b>2,989</b>	<b>3,030</b>	<b>3,484</b>	<b>3,903</b>	<b>3,381</b>	<b>2,531</b>	<b>2,538</b>	<b>2,438</b>
Capital Inflows	-1,146	-873	-1,499	-1,170	-864	-1,300	-1,184	86	-823	-570
<b>Finance of Investments</b>	<b>746</b>	<b>975</b>	<b>1,490</b>	<b>1,860</b>	<b>2,620</b>	<b>2,603</b>	<b>2,197</b>	<b>2,617</b>	<b>1,715</b>	<b>1,868</b>

\* Figures for 2004 and 2005 are estimates from Landsbanki Føroya

Capital Formation Quota, 1996 - 2005										TABLE 5
Million DKK	1996	1997	1998	1999	2000	2001	2002	2003	2004*	2005*
Total Capital Investment	746	975	1,490	1,860	2,620	2,603	2,197	2,617	1,715	1,868
GDP	5,788	6,175	7,278	7,758	8,581	9,589	9,973	9,699	9,764	10,000
<b>Capital Formation Quota</b>	<b>13%</b>	<b>16%</b>	<b>20%</b>	<b>24%</b>	<b>31%</b>	<b>27%</b>	<b>22%</b>	<b>27%</b>	<b>18%</b>	<b>19%</b>

\* Figures for 2004 and 2005 are estimates from Landsbanki Føroya



## Appendix E – Balance of Payments

Balance of Payments										TABLE 1
Million DKK	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Export (fob)	2,447	2,594	2,961	3,297	3,857	4,294	4,235	3,913	3,668	3,586
Import (fob)	2,145	2,363	2,497	3,176	4,163	3,983	3,717	4,677	3,588	3,749
<b>Trade Balance</b>	<b>302</b>	<b>231</b>	<b>464</b>	<b>121</b>	<b>-306</b>	<b>310</b>	<b>518</b>	<b>-765</b>	<b>80</b>	<b>-163</b>
<i>ships excluded</i>	289	263	464	428	226	472	632	250	70	419
Export Services	413	411	342	388	435	465	540	509	565	635
Import Services	667	651	608	671	791	886	1,047	994	1,053	1,116
<b>Net Services</b>	<b>-254</b>	<b>-240</b>	<b>-267</b>	<b>-283</b>	<b>-356</b>	<b>-420</b>	<b>-507</b>	<b>-486</b>	<b>-488</b>	<b>-481</b>
Net Transfers and Income	661	889	1,294	1,322	1,515	1,411	1,172	1,165	1,185	1,178
Omissions	148	-7								
<b>Transf. and Omissions</b>	<b>809</b>	<b>882</b>	<b>1,294</b>	<b>1,322</b>	<b>1,515</b>	<b>1,411</b>	<b>1,172</b>	<b>1,165</b>	<b>1,185</b>	<b>1,178</b>
<b>Balance of Payments</b>	<b>857</b>	<b>873</b>	<b>1,491</b>	<b>1,160</b>	<b>853</b>	<b>1,301</b>	<b>1,184</b>	<b>-86</b>	<b>778</b>	<b>534</b>
% of GDP	14.8%	14.1%	20.5%	15.0%	9.9%	13.6%	11.9%	-0.9%	8.0%	5.3%

Faroese Exports and Imports Distributed on Markets, 2002 - 2005										TABLE 2
Numbers in %	Exports				Imports					
	2002	2003	2004	2005	2002	2003	2004	2005		
Denmark	20.5	23.3	19.4	14.4	31.4	25.9	32.9	26.7		
Italy	4.1	3.2	3.7	2.8	1.8	1.2	1.5	1.3		
Great Britain	24.4	22.1	25.7	28.6	4.6	3.5	5.3	4.7		
Germany	6.7	6.9	5.2	5.1	7.6	21.1	7.5	6.2		
France	7.9	9.4	8.3	8.2	3.4	2.6	3.1	2.1		
Spain	11.3	12.0	10.1	9.7	2.1	0.6	0.7	7.0		
Sweden	1.2	1.2	1.3	1.3	6.5	4.4	7.0	5.4		
Other EC countries	3.0	2.0	4.0	6.7	6.0	5.3	8.1	5.2		
<b>Total EC countries</b>	<b>79.1</b>	<b>80.1</b>	<b>77.7</b>	<b>76.8</b>	<b>63.4</b>	<b>64.6</b>	<b>66.1</b>	<b>58.6</b>		
Canada	1.9	2.7	0.5	2.0	0.1	0.2	0.3	0.3		
Norway	7.1	5.1	7.7	5.9	18.7	23.2	18.4	18.1		
Iceland	1.1	2.8	5.1	1.8	4.6	3.2	4.2	2.5		
Russia	0.7	1.0	0.6	3.7	1.1	0.4	0.3	0.2		
USA	2.7	2.2	1.2	0.9	1.2	1.0	1.0	8.8		
Japan	4.0	4.1	4.0	3.5	2.3	1.7	2.1	1.6		
Other countries	3.4	2.0	3.4	5.5	8.6	5.7	7.7	9.9		
<b>Total non EC countries</b>	<b>20.9</b>	<b>19.9</b>	<b>22.5</b>	<b>23.2</b>	<b>36.6</b>	<b>35.4</b>	<b>34.0</b>	<b>41.4</b>		
<b>Total in mill. DKK</b>	<b>4,234</b>	<b>3,912</b>	<b>3,689</b>	<b>3,586</b>	<b>3,896</b>	<b>4,864</b>	<b>3,738</b>	<b>4,266</b>		

Exports by Product, 1997 - 2005										TABLE 3
Million DKK	1997	1998	1999	2000	2001	2002	2003	2004	2005	
Chilled fish	856	752	1,104	1,142	1,400	1,477	1,288	1,166	1,026	
Frozen fish	1,029	1,310	1,275	1,486	1,608	1,580	1,368	1,173	1,334	
Salted fish	300	361	449	544	678	653	642	543	512	
Smoked fillets	34	50	39	47	67	29	14	29	41	
Dried fish	90	148	112	156	222	220	238	364	350	
Canned fish	64	93	102	94	125	127	109	83	54	
Other conservation of fish	94	100	42	57	74	74	104	81	50	
Other fish products	1	0	0	9	20	1	0	1	1	
<b>Total, Export of fish products</b>	<b>2,467</b>	<b>2,815</b>	<b>3,124</b>	<b>3,534</b>	<b>4,194</b>	<b>4,162</b>	<b>3,764</b>	<b>3,439</b>	<b>3,367</b>	
Other products	20	21	24	40	28	12	9	23	25	
Vessels	88	99	123	258	58	61	139	189	195	
<b>Total</b>	<b>2,575</b>	<b>2,934</b>	<b>3,270</b>	<b>3,832</b>	<b>4,281</b>	<b>4,235</b>	<b>3,912</b>	<b>3,651</b>	<b>3,586</b>	

Imports by Product, 1997 - 2005									TABLE 4
Million DKK	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>Intermediate goods for</i>									
Agriculture and fish breeding	200	238	264	299	368	276	297	220	102
Construction industry	166	192	240	292	342	383	357	366	365
Other industries	417	507	564	682	729	740	756	687	639
Fuel etc.	255	187	265	508	488	415	446	531	716
Machinery, capital equipment	206	226	330	408	590	411	475	367	304
Transport equipment ex. ships	131	161	202	203	240	242	229	208	221
Goods for household consumption	710	790	841	941	1,014	1,102	1,067	1,083	1,060
Other goods	44	45	43	48	49	49			
<b>Sum less imp. of fish and ships</b>	<b>2,130</b>	<b>2,346</b>	<b>2,750</b>	<b>3,381</b>	<b>3,820</b>	<b>3,618</b>	<b>3,625</b>	<b>3,463</b>	<b>3,405</b>
Salt	7	6	6	9	8	7	8	7	10
Fresh fish	28	21	6	6	6	19	3	18	24
Frozen fish	36	56	77	92	46	36	13	13	14
Fish for reduction	43	64	30	30	58	41	62	58	36
<b>Fish import</b>	<b>114</b>	<b>146</b>	<b>120</b>	<b>137</b>	<b>118</b>	<b>103</b>	<b>85</b>	<b>96</b>	<b>84</b>
<b>Ships and airlines</b>	<b>120</b>	<b>99</b>	<b>430</b>	<b>790</b>	<b>220</b>	<b>175</b>	<b>1,154</b>	<b>179</b>	<b>776</b>
<b>TOTAL</b>	<b>2,364</b>	<b>2,591</b>	<b>3,300</b>	<b>4,308</b>	<b>4,158</b>	<b>3,896</b>	<b>4,864</b>	<b>3,738</b>	<b>4,266</b>

## 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
<b>Net Debt (incl. Denmark)</b>	<b>4,402</b>	<b>3,163</b>	<b>2,106</b>	<b>-211</b>	<b>-1,430</b>	<b>-2,458</b>	<b>-3,572</b>	<b>-4,385</b>	<b>-3,419</b>	<b>-2,967</b>

\* 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	
<b>Net Public sector</b>	<b>6,321</b>	<b>4,413</b>	<b>3,569</b>	<b>3,159</b>	<b>2,860</b>	<b>2,104</b>	<b>777</b>	<b>927</b>	
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	
<b>Net Private sector</b>	<b>-4,215</b>	<b>-4,624</b>	<b>-4,999</b>	<b>-5,617</b>	<b>-6,432</b>	<b>-6,489</b>	<b>-4,196</b>	<b>-3,894</b>	
<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	
<b>Net financial corporations</b>	<b>-3,088</b>	<b>-2,818</b>	<b>-2,903</b>	<b>-2,492</b>	<b>-2,857</b>	<b>-2,533</b>	<b>-2,094</b>	<b>-2,151</b>	
<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	
<b>Net non-financial corporations</b>	<b>-1,127</b>	<b>-1,806</b>	<b>-2,096</b>	<b>-3,125</b>	<b>-3,575</b>	<b>-3,956</b>	<b>-2,103</b>	<b>-1,742</b>	
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	
<b>Total net debt</b>	<b>2,106</b>	<b>-211</b>	<b>-1,430</b>	<b>-2,458</b>	<b>-3,572</b>	<b>-4,385</b>	<b>-3,419</b>	<b>-2,967</b>	

\* Change in the methodology of the time series

## Appendix G – Fishing industry

Total Catches by Species, 1997 - 2005 (weight)									TABLE 1
Tons live weight	1997	1998	1999	2000	2001	2002	2003	2004	2005
Cod	35,306	25,568	19,369	22,404	27,676	38,443	37,334	25,282	18,880
Haddock	16,729	20,252	16,832	14,926	14,815	23,856	24,565	22,356	19,978
Tusk	2,337	2,194	2,446	2,457	2,764	2,182	2,076	2,688	2,578
Ling	3,654	3,290	2,701	2,318	2,510	2,144	2,901	3,858	3,729
Saithe	20,360	25,487	30,849	35,093	45,047	50,758	42,521	42,518	62,103
Whiting	917	1,553	1,582	1,602	1,299	1,028	641	1,196	1,539
Ocean Perch	8,579	7,347	7,018	5,966	5,492	3,632	2,928	4,721	3,988
Catfish	168	237	254	271	278	263	461	447	290
Blue ling	1,056	1,173	1,916	1,537	1,619	969	2,084	1,311	1,429
Other demersal fish	63	60	109	111	90	59	88	116	171
<b>Demersal species, total</b>	<b>89,169</b>	<b>87,161</b>	<b>83,076</b>	<b>86,685</b>	<b>101,590</b>	<b>123,334</b>	<b>115,598</b>	<b>104,492</b>	<b>114,685</b>
Halibut	456	366	404	338	245	372	347	462	430
Lemon sole	299	418	390	383	693	1,183	1,002	841	607
Plaice	456	399	293	257	250	422	425	445	375
Grey skate	163	136	163	125	93	33	106	310	304
Monk fish	1,591	1,793	2,322	2,175	2,054	1,861	2,346	3,323	4,240
Greenland halibut	4,493	3,459	3,499	4,463	3,469	2,164	2,199	1,874	1,212
Other flat fish	40	39	31	27	48	17	24	35	45
<b>Flat species, total</b>	<b>7,498</b>	<b>6,610</b>	<b>7,102</b>	<b>7,768</b>	<b>6,853</b>	<b>6,049</b>	<b>6,449</b>	<b>7,290</b>	<b>7,214</b>
Roe and milt	156	280	276	249	677	631	436	314	389
Liver	119	188	84	98	204	70	0	51	350
<b>Roe and others, total</b>	<b>275</b>	<b>468</b>	<b>360</b>	<b>347</b>	<b>881</b>	<b>701</b>	<b>436</b>	<b>365</b>	<b>739</b>
<b>Other species, total</b>	<b>10,430</b>	<b>17,655</b>	<b>9,467</b>	<b>7,372</b>	<b>11,591</b>	<b>9,880</b>	<b>8,143</b>	<b>5,299</b>	<b>8,577</b>
<b>Total</b>	<b>107,372</b>	<b>111,894</b>	<b>100,005</b>	<b>102,172</b>	<b>120,915</b>	<b>139,964</b>	<b>130,625</b>	<b>117,445</b>	<b>131,215</b>

Total Catches by Species, 1997 - 2005 (value)									TABLE 2
Million DKK	1997	1998	1999	2000	2001	2002	2003	2004	2005
Cod	300.6	310.4	294.9	395.6	501.8	536.0	562.6	389.5	340.2
Haddock	124.7	210.1	212.0	225.2	211.4	264.6	190.3	177.2	198.7
Tusk	12.0	13.6	18.5	17.8	21.0	14.4	11.8	10.9	12.9
Ling	27.1	29.7	33.1	28.6	38.5	28.5	32.0	33.5	40.7
Saithe	103.4	191.9	161.0	171.5	223.1	246.9	159.1	139.9	248.7
Whiting	4.3	9.9	11.6	13.4	10.6	6.0	3.5	9.1	14.2
Ocean Perch	63.5	63.6	59.9	54.3	56.9	34.1	24.0	39.6	45.0
Catfish	1.3	1.9	2.0	2.3	2.5	2.1	4.7	3.6	3.1
Blue ling	5.9	8.6	15.1	13.7	14.6	10.9	19.4	13.6	15.9
Other demersal fish	0.3	0.3	0.7	0.9	0.7	0.4	0.7	0.8	1.6
<b>Demersal species, total</b>	<b>643.1</b>	<b>840.1</b>	<b>808.8</b>	<b>923.2</b>	<b>1,081.2</b>	<b>1,143.9</b>	<b>1,008.1</b>	<b>817.6</b>	<b>920.9</b>
Halibut	17.8	12.6	14.9	14.6	11.7	12.9	11.4	18.3	19.2
Lemon sole	5.4	7.7	6.1	6.8	14.4	25.8	22.1	19.4	13.9
Plaice	6.1	5.6	4.2	4.1	4.8	7.6	7.1	7.9	6.9
Grey skate	0.6	0.5	0.9	0.5	0.3	0.1	0.6	2.7	2.7
Monk fish	33.6	42.5	72.0	79.4	71.8	57.1	57.8	77.8	120.5
Greenland halibut	65.4	48.8	48.2	80.5	64.9	42.5	41.9	41.2	28.3
Other flat fish	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.2	0.2
<b>Flat species, total</b>	<b>129.0</b>	<b>117.7</b>	<b>146.5</b>	<b>186.0</b>	<b>168.0</b>	<b>146.3</b>	<b>141.2</b>	<b>167.4</b>	<b>191.8</b>
Roe and milt	1.0	3.2	3.1	2.9	17.7	16.9	4.5	3.9	4.1
Liver	0.4	0.6	0.1	0.1	1.1	0.6	0.0	0.3	1.9
<b>Roe and others, total</b>	<b>1.4</b>	<b>3.8</b>	<b>3.2</b>	<b>3.0</b>	<b>18.8</b>	<b>17.5</b>	<b>4.5</b>	<b>4.2</b>	<b>6.1</b>
<b>Other species, total</b>	<b>49.3</b>	<b>74.2</b>	<b>40.1</b>	<b>29.1</b>	<b>52.6</b>	<b>58.1</b>	<b>48.0</b>	<b>44.9</b>	<b>44.4</b>
<b>Total</b>	<b>822.8</b>	<b>1,035.8</b>	<b>998.5</b>	<b>1,141.3</b>	<b>1,320.6</b>	<b>1,365.7</b>	<b>1,201.9</b>	<b>1,034.1</b>	<b>1,163.1</b>

The Faroese Fishing Fleet, 2001 - 2003					TABLE 3	
	In number		GRT		Mean weighted age	
	2002	2003	2002	2003	2002	2003
<b>Steel trawlers</b>						
Salt fish trawlers	4	5	4,719	8,426	18	11
Wet fish trawlers	56	57	17,760	18,249	25	26
Other trawlers	17	16	15,931	15,105	17	17
<b>Total</b>	<b>77</b>	<b>78</b>	<b>38,410</b>	<b>41,780</b>	<b>20</b>	<b>20</b>
<b>Other steel vessels</b>						
Long liners	19	20	4,538	4,871	35	36
Purse seiners	13	11	18,190	14,958	20	19
Freezing ships	4	4	1,706	1,706	26	27
Other	15	15	3,494	3,494	27	28
<b>Total</b>	<b>51</b>	<b>50</b>	<b>27,928</b>	<b>25,029</b>	<b>22</b>	<b>22</b>
<b>Total steel vessels</b>	<b>128</b>	<b>128</b>	<b>66,338</b>	<b>66,809</b>	<b>22</b>	<b>21</b>
<b>Wooden vessels</b>	<b>60</b>	<b>58</b>	<b>3,003</b>	<b>2,894</b>	<b>47</b>	<b>49</b>
<b>Total fishing vessels</b>	<b>188</b>	<b>186</b>	<b>69,341</b>	<b>69,703</b>	<b>23</b>	<b>23</b>

The Faroese Fleet, 1999 - 2003						TABLE 4				
	In number					Gross Register Tonnage (1000)				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Fishing vessels	183	185	185	188	186	60.3	67.3	69.9	69.3	69.7
Cargo vessels	15	19	20	21	21	7.2	9.9	11.1	11.6	12.1
Passenger vessels	11	11	12	12	12	13.2	13.2	14.4	14.4	54.1
Sand dredgers	10	11	11	11	11	2.6	3.3	3.3	3.3	3.3
Gas- and o.tankers	2	2	2	2	2	1.8	1.8	1.8	1.8	1.8
Research survey v.	1	1	1	1	1	0.5	0.5	0.5	0.5	0.5
Coast guard vessels	3	4	4	4	4	1.1	2.6	2.6	2.6	2.6
Leisure vessels	8	8	8	10	12	0.7	0.7	0.7	0.7	0.9
Other	9	5	7	9	17	2.6	0.5	0.8	0.8	5.8
<b>Total</b>	<b>242</b>	<b>246</b>	<b>250</b>	<b>258</b>	<b>266</b>	<b>90.0</b>	<b>99.8</b>	<b>105.1</b>	<b>105.0</b>	<b>150.7</b>

Note: Only vessels above 20 gross register tonnage

## Appendix H – Other

The Government Budget Distributed on Economic Items							TABLE 1
Million DKK	1999	2000	2001	2002	2003	2004	2005
Public service expenditure	1,839	2,120	2,302	2,510	2,602	2,711	2,737
Sales	-399	-586	-612	-666	-647	-668	-598
<i>Net public service expenditure</i>	<i>1,440</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>
Investment expences	119	176	186	251	260	208	185
Investment income	-1	0	0	-3	-1	0	-15
Transfer expences	1,737	1,465	1,471	1,551	1,538	1,533	1,571
Transfer income	-3,592	-3,767	-4,165	-4,035	-3,947	-3,854	-3,884
Transfers to public sector	73	73	109	164	184	202	195
Financial	-425	-84	13	37	-14	19	19
<b>Surplus (negative is surplus)</b>	<b>-649</b>	<b>-603</b>	<b>-696</b>	<b>-191</b>	<b>-22</b>	<b>152</b>	<b>211</b>

The Government Budget Distributed on Economic Type							TABLE 2
Million DKK	1999	2000	2001	2002	2003	2004	2005
Salary etc.	1,211	1,306	1,418	1,544	1,632	1,748	1,743
Purchase of goods and services	465	646	694	766	791	804	836
Purchase of assets, net	75	75	100	96	82	71	78
Rent, maintenance, taxes and other costs	88	92	90	103	98	88	81
Sale of goods and services	-388	-571	-593	-650	-631	-648	-579
Supervision and inspection duties	-6	-8	-10	-7	-10	-8	-9
Other operating income	-4	-6	-9	-8	-6	-11	-10
Construction and fixed assets production	115	164	132	145	139	134	133
Net Purchase of fixed assets, etc.	3	13	53	103	121	74	37
Transfers abroad, etc.	22	22	22	28	26	21	29
Transfers to households	877	955	993	1,079	1,107	1,145	1,162
Subsidies	502	170	132	125	122	102	134
Transfers to public and other entities	107	101	108	120	87	109	102
Investment subsidy, etc.	4	3	7	4	5	5	6
Interest costs, etc.	226	214	208	196	191	151	138
<b>Costs</b>	<b>3,296</b>	<b>3,175</b>	<b>3,346</b>	<b>3,643</b>	<b>3,754</b>	<b>3,784</b>	<b>3,880</b>
Taxes and duties	-2,397	-2,572	-2,882	-3,103	-3,064	-3,021	-3,047
Claims, compensations, etc.	-25	-28	-29	-29	-30	-33	-31
Ordinary income transfer	-18	-12	-10	-8	-16	-16	-20
Other income transfer	-12	-9	-11	-12	-10	-10	-9
Transfers from Denmark	-973	-1,005	-1,023	-670	-659	-673	-661
Interest income and dividend	-167	-142	-210	-212	-167	-101	-116
Internal public transfers	70	90	79	95	95	77	82
Transfers to municipalities	141	115	91	104	127	143	137
Purchase VAT	65	69	98	115	114	113	108
Internal public transfers	-61	-81	-70	-83	-79	-62	-60
Transfers from municipalities	-142	-119	-90	-67	-72	-69	-71
Net purchase of securities	20	21	50	57	24	43	72
Loan, etc.	29	38	23	19	29	12	71
Repayment for loans	-474	-142	-59	-38	-66	-36	-124
<b>Income</b>	<b>-3,944</b>	<b>-3,777</b>	<b>-4,043</b>	<b>-3,833</b>	<b>-3,777</b>	<b>-3,633</b>	<b>-3,671</b>
<b>Total budget surplus (negative is surplus)</b>	<b>-649</b>	<b>-603</b>	<b>-696</b>	<b>-191</b>	<b>-22</b>	<b>152</b>	<b>211</b>

Compensation of Employees by Industries, 1997 - 2005									TABLE 3
Million DKK	1997	1998	1999	2000	2001	2002	2003	2004	2005
Agriculture	4	5	5	6	6	7	7	7	8
Fishing	686	808	751	834	980	1,009	874	777	834
Fish Farming	75	82	111	125	159	161	129	92	60
Mining/oilexploration	8	9	11	13	68	38	34	21	25
<b>Primary Sector</b>	<b>773</b>	<b>904</b>	<b>878</b>	<b>978</b>	<b>1,213</b>	<b>1,215</b>	<b>1,043</b>	<b>897</b>	<b>927</b>
Fish Processing	240	272	309	346	373	413	411	396	380
Technical Repairs/Processing	82	88	93	108	124	130	131	128	130
Manufacturing	114	124	147	178	201	218	224	219	223
Energy/Water Distribution	37	37	37	40	43	47	46	50	47
Construction	151	185	219	265	304	346	347	384	381
<b>Secondary Sector</b>	<b>624</b>	<b>706</b>	<b>805</b>	<b>937</b>	<b>1,045</b>	<b>1,154</b>	<b>1,159</b>	<b>1,176</b>	<b>1,162</b>
Trade and Repairs	360	387	428	463	505	568	589	596	585
Hotels and Restaurants	34	39	46	52	56	63	71	70	70
Sea Transport	134	144	165	181	210	255	257	261	285
Other Transport	59	76	84	96	123	144	138	143	156
Communications	111	120	126	132	147	156	162	165	163
Financing and Insurance	203	207	222	239	242	222	225	235	246
Business-to-business Services	101	101	111	129	147	160	178	193	207
Household Services	21	23	26	28	31	36	37	40	42
Public Administration etc.*	584	626	665	718	776	1,768	1,869	2,031	2,119
Education*	216	226	238	245	269	0	0	0	0
Health & Social Services*	461	481	523	558	598	0	0	0	0
Culture etc.	67	70	91	83	102	102	148	119	128
Not divided	18	28	23	23	63	39	32	36	44
<b>Tertiary Sector</b>	<b>2,369</b>	<b>2,528</b>	<b>2,748</b>	<b>2,947</b>	<b>3,269</b>	<b>3,513</b>	<b>3,704</b>	<b>3,888</b>	<b>4,046</b>
<b>Total</b>	<b>3,766</b>	<b>4,137</b>	<b>4,431</b>	<b>4,862</b>	<b>5,527</b>	<b>5,882</b>	<b>5,907</b>	<b>5,962</b>	<b>6,135</b>

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

Contractual Wages, January 1997 - January 2005									TABLE 4
DKK pr. hour	jan-97	jan-98	jan-99	jan-00	jan-01	jan-02	jan-03	jan-04	jan-05
Workers (§1,a)	85.7	86.5	88.1	92.2	96.3	101.9	107.5	112.5	117.5
Skilled Workers	96.1	96.9	98.9	104.1	108.9	116.7	124.5	129.9	135.4
Public Employees (9,14)	103.1	103.7	106.9	110.1	113.4	119.6	124.1	137.6	144.4

Note: Holiday allowance and pension included

Unemployment, 1998 - 2006									TABLE 5
In number and percentage	1998	1999	2000*	2001	2002	2003	2004	2005	2006**
Total number of full time	1,660	1,364	1,008	770	596	663	960	1,052	928
Total unemployed percent	7.5	5.9	4.2	3.1	2.3	2.5	3.5	3.8	3.3

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

\*\*Average of the first four months

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

Consumer Price Index, 1997 - 2005									TABLE 6
Medium price index. 1975 = 100	1997	1998	1999	2000	2001	2002	2003	2004	2005
Medium index per year	350.6	367.3	386.1	405.2	416.1	418.3	423.6	426.3	434.8
Percent increase per year	2.8%	4.7%	5.1%	4.9%	2.7%	0.5%	1.3%	0.6%	2.0%

Quarterly Consumer Price Index, 2004 - 2006									TABLE 7
2001 = 100	2004-2	2004-3	2004-4	2005-1	2005-2	2005-3	2005-4	2006-1	2006-2
Index per quarter	102.2	102.5	103.3	103.6	103.9	105.1	105.1	104.5	106.2
Percent increase per quarter	0.7%	0.3%	0.8%	0.3%	0.3%	1.2%	0.0%	-0.6%	2.0%