

BOND ISSUE

Issuer: The Government of the Faroe Islands

Descriptive information

Key figures of the Faroese economy

| Outstanding Bonds | Annual Coupon | Maturity | Issued amount (DKKm) | Outstanding amount End of 2019 (DKKm) | Outstanding amount End of 2020 (DKKm) |
|--------------------------------|---------------|-----------|----------------------|---------------------------------------|---------------------------------------|
| FO-LB 200611 | 1.000% | 11-Jun-20 | 1,345 | 1,345 | 0 |
| FO-LB 210622 | 0.500% | 22-Jun-21 | 1,350 | 1,350 | 1,350 |
| FO-LB 220602 | 0.000% | 2-Jun-22 | 1,300 | - | 1,300 |
| FO-LB 230627 | 0.625% | 27-Jun-23 | 550 | 550 | 550 |
| FO-LB 250602 | 0.125% | 2-Jun-25 | 1,645 | - | 1,645 |
| NOK Blt *) | 1.810% | 3-May-32 | 448 | 448 | 448 |
| Total Outstanding Bonds | | | | 3,693 | 5,293 |

*) NOK 550 million Bond Issue (Coupon 2,70%) swapped to DKK.

| Economic growth (DKKm) | 2014 | 2015 | 2016 | 2017 | est. 2018 | est. 2019 |
|------------------------|--------|--------|--------|--------|-----------|-----------|
| Nominal GDP | 16,000 | 16,942 | 18,103 | 18,708 | 19,269 | 21,005 |
| Nominal growth (%) | 8.4 | 5.9 | 6.9 | 3.3 | 3.0 | 9.0 |

| Trade Balance (DKKm) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|-------|-------|-------|------|-------|
| Trade Balance | 348 | 758 | 1,492 | 1,556 | 279 | 1,424 |
| Trade Balance, Ships and airplanes excl. | 583 | 1,182 | 1,789 | 1,865 | 402 | 1,754 |

Note: Exports fob and Import cif.

| Current Account (DKKm) | 2014 | 2015 | 2016 | 2017 |
|------------------------|-------|-------|-------|-------|
| Current Account | 1,545 | 1,500 | 3,021 | 3,273 |
| In % of GDP | 9.7 | 8.9 | 16.7 | 17.5 |

| Central Government financial assets and liabilities (DKKm) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Government total assets | 5,143 | 5,292 | 5,540 | 6,230 | 6,402 | 6,228 |
| Government total debt ¹⁾ | 5,740 | 6,113 | 6,051 | 6,132 | 5,635 | 4,866 |
| Net assets | -597 | -821 | -511 | 98 | 767 | 1,362 |
| Securities and deposits | 2,536 | 2,792 | 2,905 | 3,479 | 3,666 | 3,477 |
| Gov. debt securities and dep. ²⁾ | 3,204 | 3,321 | 3,146 | 2,653 | 1,969 | 1,389 |
| In % of GDP | 20.0 | 19.6 | 17.4 | 14.2 | 10.2 | 6.6 |

1) Including DKK 500 million to Danish Government. The loan is written off in June 2018.

2) Including liquidity for appropriations transferred from previous years.

| Central Government Accounts (DKKm) | Realized 2016 | Realized 2017 | Realized 2018 | Realized 2019 | Budget 2020¹⁾ |
|---|--------------------------|--------------------------|--------------------------|--------------------------|-------------------------------------|
| Taxes, direct | 2,472 | 2,716 | 2,876 | 2,971 | 3,029 |
| Taxes, indirect | 2,218 | 2,333 | 2,457 | 2,608 | 2,604 |
| Transfers from Denmark | 695 | 698 | 696 | 698 | 689 |
| Sales of goods and services | 728 | 743 | 727 | 779 | 720 |
| Revenue from fees | 482 | 574 | 569 | 642 | 609 |
| Other | 29 | 39 | 41 | 46 | 47 |
| Operating revenues, ex. interest | 6,624 | 7,103 | 7,366 | 7,744 | 7,698 |
| Personel cost | -2,178 | -2,277 | -2,392 | -2,518 | -2,709 |
| Transfers to individuals | -1,682 | -1,721 | -1,792 | -1,880 | -1,969 |
| Other transfers | -492 | -494 | -563 | -516 | -489 |
| Purchase of goods and services | -1,404 | -1,445 | -1,468 | -1,533 | -1,491 |
| Other expenses | -458 | -472 | -490 | -486 | -449 |
| Operating expenses, ex. interest | -6,214 | -6,409 | -6,705 | -6,933 | -7,107 |
| Primary Operating Balance | 410 | 694 | 661 | 812 | 591 |
| Interest income and dividends | 142 | 221 | -1 | 274 | 100 |
| Interest expenses | -63 | -80 | -24 | -55 | -26 |
| Operating Balance | 489 | 835 | 636 | 1,031 | 665 |
| Sale of fixed assets | 27 | 26 | 22 | 14 | 15 |
| Sales of shares | 58 | - | | | |
| Repayments of loans, domestic | 91 | 48 | 41 | 16 | 15 |
| Capital revenues from Denmark | 0 | | 500 | | |
| Total capital revenues | 176 | 74 | 563 | 30 | 30 |
| Construction of fixed capital 2) | -296 | -296 | -427 | -437 | -435 |
| Acquisition of fixed capital | -14 | -20 | -41 | -18 | -10 |
| Injection of cap. into publ. Ltd.'s | -95 | -35 | -35 | -35 | -50 |
| Net lending, domestic | -24 | -19 | -8 | -8 | -8 |
| Total capital expenses | -429 | -370 | -511 | -498 | -503 |
| Budget surplus/deficit | 236 | 539 | 688 | 563 | 192 |
| Debt repayment | -1,360 | -1,010 | -10 | -800 | -1,345 |
| Gross financing surplus/deficit | -1,124 | -471 | 678 | -237 | -1,153 |
| New borrowing | 1,350 | 1,000 | - | - | 2,945 |
| Net financing surplus/deficit³⁾ | 226 | 529 | 678 | -237 | 1,792 |

1) Government Budget Act as approved by the parliament in December 2019.

2) At the beginning of the fiscal year 2020, appropriations transferred from previous years are DKK 72 m.

3) Because of the covid-19 pandemic the government expects higher expenditure and lower revenues in 2020.

Expected deficit is approx. DKK 1,1 bn in 2020, and approx. DKK 0,5 bn in 2021.

Net government borrowing in 2020 is DKK 1,6 bn.

| Population and labour force | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Population by end of year | 48,638 | 49,142 | 49,823 | 50,481 | 51,299 | 52,110 |
| Labour force (15-74) | | 29,493 | 29,625 | 29,912 | 31,132 | 31,667 |
| Unemployment rate in % (Oct.) | 3.1 | 2.2 | 2.6 | 2.1 | 1.2 | 0.9 |

| Consumer Price Index | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| CPI in % (average infl. rate) | -1.0 | -1.7 | -0.3 | 1.1 | 1.2 | 1.3 |

Comments

Political status:

The Faroe Islands are a self governing area within the Kingdom of Denmark.
The Faroe Islands are in monetary union with Denmark.

Credit rating:

March 4th 2008 Moody's Investors Service assigned The Faroese Government a first time rating of Aa2 and stable outlook.

April 18th 2011 Moody's Investors Service downgraded the long-term issuer rating of the Faroese Government to Aa3 with negative outlook.

July 31st 2015 Moody's Investors Service restated the rating Aa3, but changed the outlook to neutral.

August 16th 2019 Moody's Investors Service upgraded the long-term issuer rating of the Faroese Government to Aa2 with stable outlook.

Government reserve liquidity:

According to Faroese parliament act, the Faroese Government always holds a reserve liquidity of 15% of GDP.
The Government can draw on the reserve liquidity, but in case it uses this possibility, it is expected to restore the reserve liquidity within reasonable time.