

The economy of Wallis and Futuna in 2011 Well-oriented business activity

Economic activity remained high in 2011, in the wake of 2010 where the accent was on recovery, even though the social climate was affected by uncertainties connected with high cost of living. Public procurement, which is especially beneficial to construction companies, was very substantial due to start-up of structuring large scale projects.

Corporate investment was well oriented and household consumption remained high despite a marked rise in prices and a slowdown at the end of the year. Paid employment was stable in comparison with the year before.

Government transfers to the Territory remained significant and largely contributed to this favourable trend of the local economy.

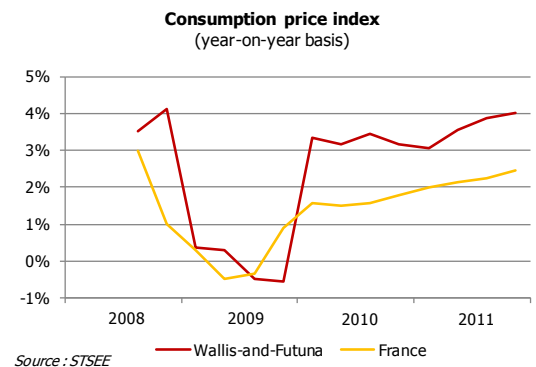
Banking activity was buoyant, especially at the end of the year. For the first time since 2008 there was, overall, a 3% increase for the year in outstanding credits after consolidation of the portfolio

A PROGRESSIVE RECOVERY

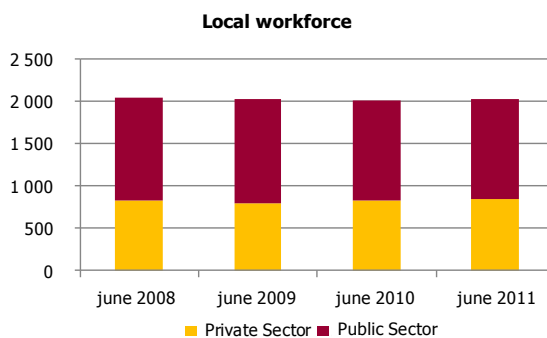
Rise in prices related to energy costs

The year-on-year consumption price index increased 4.0% at the end of December. This surge in prices mainly resulted from an increase in energy prices (+10.8 %) due to the rise in worldwide oil rates. Foodstuffs (+3.8 %) also contributed to this increase. The price of services rose by 2.3% whereas they were stable in 2010 partly due to the increase in transport prices.

An agreement was signed at the end of the year in relation to the social protests against the high cost of living. The aim of this agreement is to set up forums of exchange in order to enable better control and monitoring of the pricing mechanisms.



Workforce remains stable



On 30 June 2011, 2,031 employees were declared to the local retirement fund compared with 2,020 at the same period the year before.

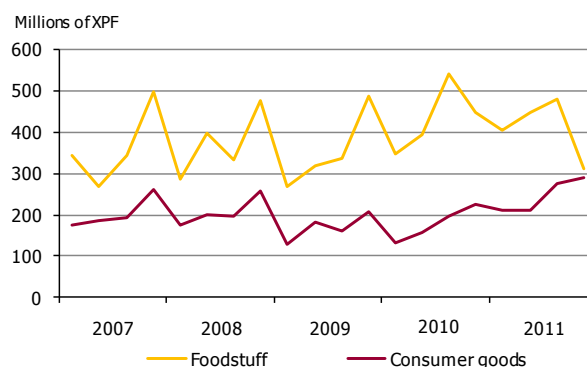
The public sector accounted for 59% of the workforce (1,190 people) and the number of employees in this sector remained unchanged over the period. Job losses in the private sector during the second half of 2010 were compensated by the creation of new positions in the first quarter of 2011.

Household consumption on the rise

Household consumption which recovered in 2010 remained well-oriented. There was an upturn of 39% in imports of consumer goods compared with 2010 which recorded almost XPF 1 billion. They were supported by an increase in imports of household capital goods (+ 41% over a year) while the imports of foodstuffs decreased by 5% compared to 2010 but remained higher than 2009 and 2008. Private car sales rebounded with 76 registrations during the year against 53 in 2010. This registration level which is akin to that of 2009 remained however below that of 2002-2008 (more than 140 vehicles registered annually)

Against this backdrop, the financial situation of households seems to be in a weak position. Over 1,200 cheque-related payment incidents were recorded in 2011 against 830 in 2010. The number of persons whose access to banking facilities was restricted remained high, totalling 400.

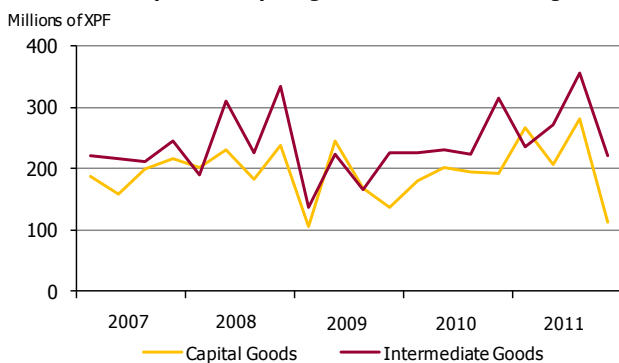
Imports of consumer goods and foodstuffs



Source: Customs

Recovery of Corporate Investment

Imports of capital goods and intermediate goods



Source: Customs

Corporate investment improved with an increase of imports in capital goods (+13 %) and intermediate goods (+9 %) over a year. These imports reached their highest level in 5 years despite a fall during the last quarter.

There was also an increase in the registrations of commercial vehicles with more than 20 new vehicles registered per quarter against an average of 16 in 2010. This recovery was subsequent to two consecutive years of declining sales.

High import levels

The archipelago recorded imports of XPF 6.2 million, a rise of 10% compared with 2010. Cargo ship stop overs topped those of the previous year (21 against 17 in 2010). There was an upturn in all product categories except for agricultural products and foodstuffs (- 5 %). Consumer goods and energy products were the most significant contributors to the increase in imports. In general, imports were affected by the appreciation of the currencies of the main supplier countries against the Euro. The rise in world-wide oil prices also had an impact on energy products.

In 2011, for the first time 45 tons of sea products were exported for a value of XPF 20 million.

Total Imports



Source: Customs

Tax revenues for the year amounted to XPF 2.3 billion. For the most part they stemmed from the level of imports and 70% of these revenues came from customs duties and do not include corporate income tax. Entry taxes to which imported goods are subject and custom duties applied to products from non-EU countries increased respectively 16% and 23% compared to 2010.

CONSTRUCTION AND COMMERCE, DRIVERS OF THE ECONOMY

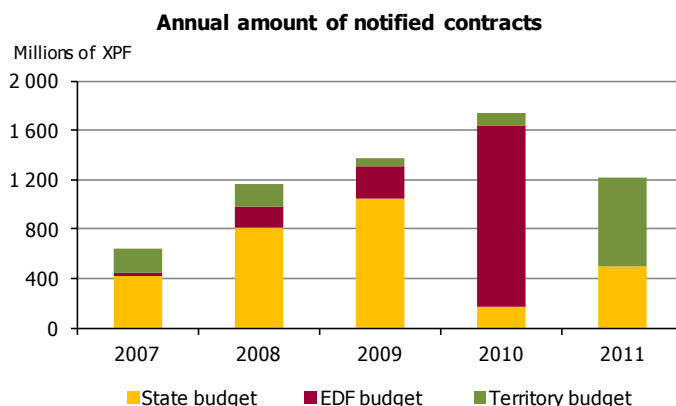
The construction sector, pillar of economic growth

The construction business remained buoyant. Most educational infrastructure falling within the scope of the 9th EDF (European Development Fund) and the hospital restoration works were completed during the 2011 financial year. Major projects followed with the start of the Lycée d'état renovation works amounting to XPF 305 million, construction of the Kafika multi-sports centre (XPF 535 million) and the works to improve drinking water production (XPF 245 million). Works, started in 2010, continued in 2012 on the Mata'Utu commercial port, estimated at XPF 1.1 billion.

Construction projects for commercial premises for Wallis as well as Fortuna were added to public procurement in 2011.

However, requests from private individuals for construction remained low due to lack of real estate financing solutions on the Territory.

There was a 33% rise in cement imports in 2011 with respect to 2010, standing at XPF 91 million (or + 1,000 tons) i.e. at the highest level for the last 5 years.



Sources: Financial department, Europe Unit

Overall well-oriented trade sector

In both Wallis and Fortuna, the trade sector is composed for the most part a group of small retail businesses, essentially foodstuff in addition to a few supermarkets. The opening in December 2011 of a 700 m² grocery store in addition to a warehouse of 500 m² in Fortuna complemented this range. The trade sector aggregates 22% of the patented businesses and employs approximately 300 people i.e 35% of employees in the private sector.

Business activities were strongly affected by supply problems at the start and end of the year. Imports of current consumer goods increased over a year whereas imports of foodstuffs slightly declined (XPF 1.6 billion in 2011 against XPF 1.7 billion in 2010).

Growing air traffic



Source: Civil Aviation

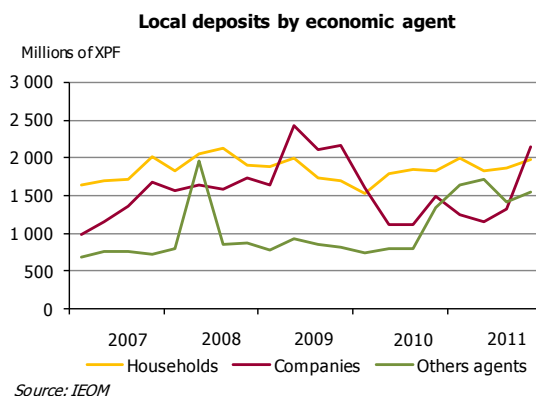
The island has a relatively small tourism sector and the arriving and the departing passengers to and from the island are mainly people visiting their families or on professional business. The number of international visitors reached 29,400 people in 2011 up by 2.7% despite more restrictive conditions of eligibility for the new territorial continuity aid scheme and the increase in prices during the year. Wallis and Fortuna's participation at the New Caledonia Pacific Games generated a rise in traffic during the second half of the year.

FINANCIAL RECOVERY OF HOUSEHOLDS AND BUSINESSES

Increase of local deposits over the year

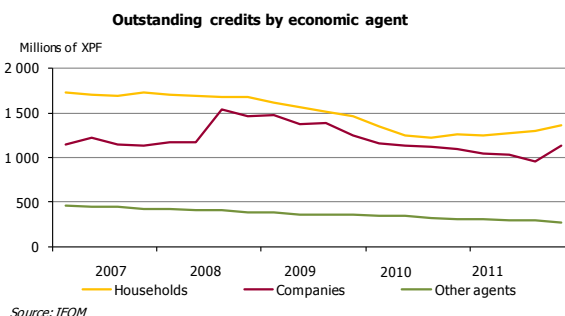
Local deposits increased by 1 billion over the year, amounting to XPF 5.7 billion mainly due to an increase in company deposits during the last quarter of the year which reached more than 2 billion on 31 December 2011.

The situation was strongly affected by a 13.3% increase in overnight deposits over the year. There was a slow-down in investments and life insurance contracts after a significant increase in 2010 (2.6% in 2011 against 18.8% in 2010). Finally, deposits of other economic agents declined by 2.4% over a year. Despite a rise in market-price linked investments, short term savings of public authorities decreased 10.1% compared with 2010.



Banking financing recovery

For the first time since 2008, outstanding loans granted by all banking institutions working on Wallis and Futuna experienced an upturn. As at late December 2011, outstanding banking loans rose 3.0% whereas they had declined by 13.5% in 2010. This improvement resulted from the grants of new loans by the local credit institutions mainly during the second half of the year. Therefore, the local institutions represent 53% of the local bank loans against 44% on 31 December 2010. The outstanding aids granted to businesses and households for all institutions combined respectively rose by 4.1% and 8.1% over the year.



Increase in money supply and consolidation of the credit portfolio

M3 money supply stood at XPF 7.8 billion at the end of 2011, up by 14.9% over the year due to the rise in overnight deposits during the last quarter of the year (+29.0 % in the last quarter and +23.2 % over a year). A sharp decrease in doubtful debts was recorded on the territory for 2011 which amounted to XPF 547 million. The rate of doubtful debts decreased 6.2 points standing at 16.2% i.e. the lowest level since September 2008. The clearance of the portfolio for one credit institution very significantly reduced the household doubtful debt rate to 15.3% against 27.5% in 2010.

OUTLOOK

The construction sector, which plays a key role in the local economy, should remain relatively buoyant in 2012. The sector will be supported by the continuation of the main projects, namely the renovation of the Lycée d'État and the Mata'Utu commercial port. At the same time, with a view to organising the 2013 Mini-Pacific Games, the work on the Kafika multi-sports centre for an amount of XPF 535 million started late 2011 and will extend over the upcoming year. Various smaller-scale projects are also in progress or at the preparation stage and should contribute to providing a workflow to smaller businesses and promote employment.

With regard to 10th EDF, the main project selected concerns rebuilding the port of Leava in Futuna which is expected to cost approximately the same amount as the Mata'Utu port. The design works should be carried out in 2012 and construction should begin in 2013.

Finally, as part of the special agreement between the State, New Caledonia and the islands of Wallis and Fortuna, a meeting was held last December between the partners. The forecast actions notably involve a partnership with New Caledonia OPT for the development of a mobile telephone network on the islands and strengthened corporation for organisation of the mini games.

It is worth noting that the development contract for the 2012-2016 period is about to be signed by the State and the Territory. This keenly anticipated project holds a great deal of promise for the future of the Territory.

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