

# French Polynesia's economy in 2017

## A situation conducive to job creation

The positive trend in the business confidence index over the past few years confirms the strong performance of economic activity in French Polynesia. This has improved the financial situation of economic agents and in 2017, not only led to a marked revival in productive investments, but also to a more active recruitment policy to meet the increased activity. This trend was especially marked in the service sector, with the construction industry still in decline.

Households, for their part, increased their purchase of everyday consumer goods and their investments in housing. Over a 12-month period, the housing loan production of credit institutions rose by 7.1%.

The money supply, which rose by 2.9% over the year, after +6.6% in 2016, stood at FCFP 490bn. In a market which remains liquid, the volume of banking activity in 2017 confirmed the recovery in loan production, combined with ever-dynamic deposit collection.

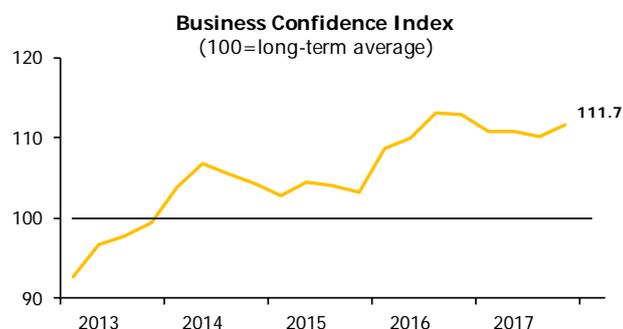
## ENVIRONMENT CONDUCIVE TO JOB CREATION

### Favourable climate maintained

The Business Confidence Index (BCI) rose in 2017. It levelled off in 2017 well above its long-term average and rose in the last quarter of the year.

Business leaders continued to be optimistic in 2017, especially in the service and industry sectors. Managers in the construction industry, for their part, are more cautious.

Overall, the increase in activity has fostered the recovery in investments and recruitments.

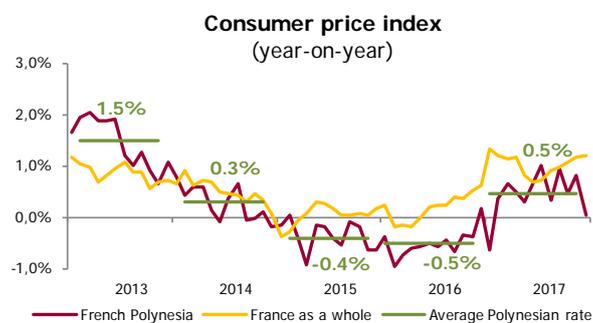


Source: IEOM economic survey.

### Moderate consumer prices

The consumer price index (CPI), which had declined during the two previous years, rose slightly, +0.5% on average in 2017.

At the end of the year, it levelled off thanks to its main components (including food products 0% and transport +0.2%). Consequently, the sharp rise in the alcoholic beverages/tobacco item (+8.9% over twelve months), following the 39% increase in tobacco prices on 1 April 2017, was cushioned by the fall in prices for clothing (-7.7%) and communications (-3.9%), with the increase in competition in mobile phones and Internet.



Sources: ISPF, INSEE.

## Expansion of the labour market

The strengthening of the labour market is continuing. The paid employment index, which was down by an annual average of -0.1% for 2012-16, rose by 1.8% at the end of December 2017. Excluding the construction industry (-0.6%), all sectors contributed to this, particularly industry (+4.1%) and the hotel-catering industry (+3.4%).

Following the first nine months of the year, the number of salaried employees had risen by 2.8% year-on-year, returning to their highest level since early 2011 (64,000, against 63,500 in January 2011). There has been a growth in job creations, 1,700 between September 2016 and September 2017 (1,100 a year before), and they are focused in the service sector (1,500).

## Recovery in household consumption

Employment dynamics, which are reflected in the increase in the payroll, +2% between September 2016 and September 2017, and the moderate increase in prices, are both opportunities for household consumption.

The automotive market, which is also supported by the extension of the public incentive system to buy non-polluting cars, is booming: new private vehicle registrations, 4,918 in 2017, rose by 47.4% compared to the previous year, which is close to their best performance for ten years (5,058 in 2008). Similarly, imports of household goods rose, both for everyday products (+2%) and food products (+3.4%).

Retailers interviewed quarterly by IEOM recognised that they had benefited from a buoyant situation, which prompted them to recruit, and also allowed them to shore up their cash flow situation and scale up their investment effort. They are supported by financial and tax aid for this for the refurbishment and equipment of local shops set up by the Government.

## Dynamic private investment

Household property investment maintained a positive trend. There was a rise in the growth rate for outstanding home loans: +4.8% in 2017, after +2.6% in 2016. Over an 11-month period, the local production of property loans reached FCFP 24.5bn (FCFP 23.5bn in 2016).

In the productive sector, business investment forecasts over a 1-year period are optimistic. Outstanding investment loans, which were stable in 2016, rose by 6.1% in 2017. The local production of business investment loans stood at a total of FCFP 19.8bn from January to November (FCFP 17.1bn in 2016).

In addition, imports of business capital goods, excluding exceptional items, stood at +3.7% over the year and imports of intermediate goods at +5.6%.

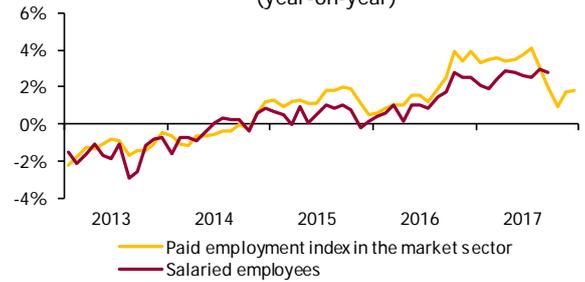
## Upturn in foreign trade

Local exports stood at FCFP 13bn, up 16.7% compared to the previous year (FCFP 11.1bn in 2016), thanks to most products. Revenues from raw pearls sales, which account for two-thirds of the total, rose by 26.3%; sales of fish (+4.5%), vanilla (+33.5%) and monoi (+14.6%) also recorded good performances.

At the same time, imports rose by 7.3% in a year, largely driven by automotive products (+26.8%) and energy products (+26.4%), bolstered by the upturn in oil prices in 2017 (+21%).

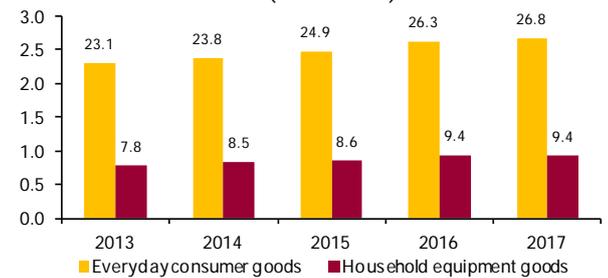
Excluding exceptional goods (aircrafts, ships, etc.), the foreign trade deficit reached FCFP 155bn, *i.e.* over a quarter of French Polynesia's GDP.

Trend in paid employment (year-on-year)



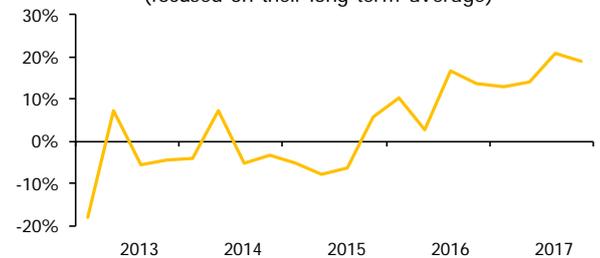
Sources: GPS, ISPF.

Imports of household goods (FCFP billions)



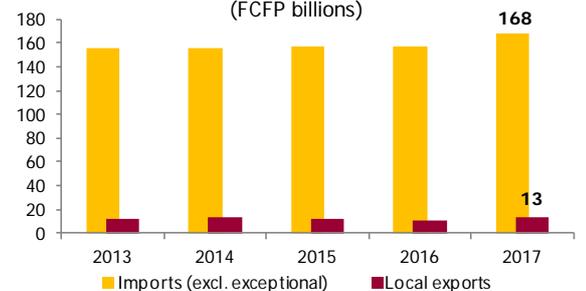
Sources: ISPF, Customs.

One-year investment forecasts (focused on their long-term average)



Source: IEOM economic survey.

Foreign trade (FCFP billions)



Sources: ISPF, Customs.

# DISSEMINATION OF GROWTH IN VARIOUS SECTORS

## Vitality of the service sector

As with the previous year, market services benefited from the upturn in household consumption and the number of tourist visits in 2017. Total turnover in the service sector from January to September rose by 6.7%, thanks to the retail sector (+4.5%), automotive trade (+9%), the accommodation and catering sector (+8%) and transport sector (+1.8%).

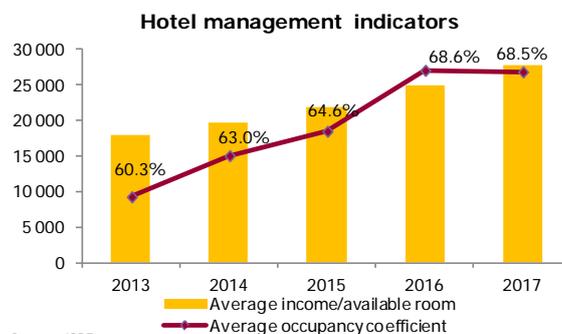
The service sector, which employs eight people in ten and accounts for over 80% of wealth creation in French Polynesia, makes a strong contribution to the regeneration of the economy.

## More tourists in onshore accommodation

The total number of tourist visits from January to November,<sup>1</sup> rose by 3.5%, thanks to the contribution from onshore tourists (+5.9%). There was, however, a decline in cruise tourism (-6.6%), which was affected by the careening of locally-based liners (MS Paul Gauguin, Windspirit).

French Polynesia's main outbound tourism markets remain unchanged over the period, the first being the USA (34% of the total), followed by France (21%), then the rest of Europe (14%), the Pacific region (13%) and Japan (7%).

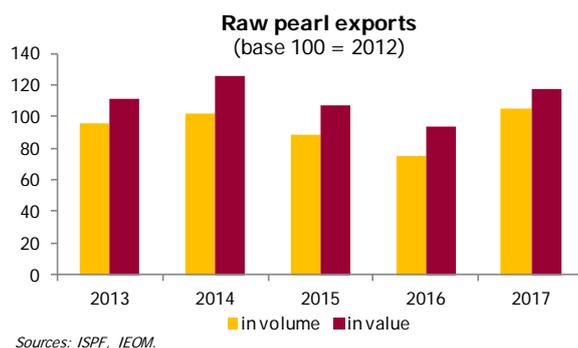
In French Polynesia's hotel industry, the average income per available room rose by 11% in 2017 (+14% in 2016) and there was an increase in the volume of available rooms (+6.5%). Indeed, takeovers and the reopening of hotels continued (Novotel in Bora Bora taken over by a local group in April), in order to capitalise on the expansion of the provision of airline services in 2018 (arrival of the airline companies French Bee and United Airlines).



## Rise in primary sector exports

There was an overall increase in primary sector exports in 2017. For raw pearls (+26.3%), this increase is only due to the rise in volumes (14.8 tonnes in 2017, against 10.5 in 2016). However, it is due to a price effect for fish (+4.5%) and vanilla (+33.5%). The latter suffered from the decline in production, related to the delay in the regeneration of plantations.

Copra harvests continued to decline, -4.5%, after -21.9% in 2016, and reached 11.8 tonnes, with farmers now seeking to diversify towards new more lucrative outlets (virgin coconut oil, coconut water).

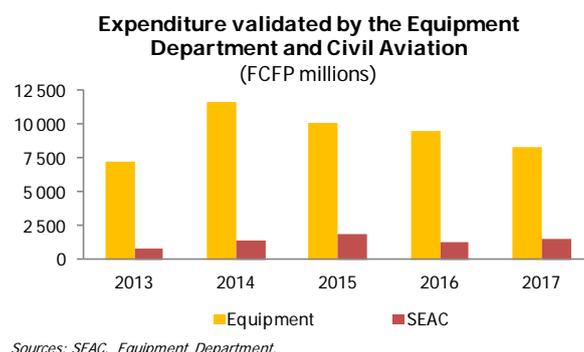


## Construction industry supported by real estate

Total turnover in the construction industry stagnated over the first three quarters of the year (-0.6% year-on-year) and fell by 3% for civil engineering. Expenditure validated by the Equipment Department fell by 13.2% over the year (FCFP 8.3bn, against FCFP 9.5bn in 2016).

The construction industry is, however, bolstered by the dynamism of household property investment. This trend is expected to continue, with the local legal mechanism to aid household investment (AIM), introduced in August 2014, renewed and expanded in November 2017<sup>2</sup>.

Finally, the Polynesian Housing Office (OPH), the traditional operator for social housing in French Polynesia, increased its delivery of housing units by 25% compared to the previous year (466 in 2017) and aims to rise to 650 in 2018, *i.e.* +39%.



## Growth in industry

During the first nine months of the year, industry turnover rose by 4.5%, corroborating the opinion of business leaders interviewed for the IEOM business survey, who were expecting an acceleration in business volumes in the second half of 2017. Export revenues rose for monoi (+14.6% over the year), but fell by 8.9% for coconut oil, which was penalised by the decline in copra harvests.

<sup>1</sup> Latest available data.

<sup>2</sup> Law of the country n° 2017-39 of 30 November 2017 and amending the law of the country n° 2014-26 of 14 August 2014.

## RECOVERY IN BANKING ACTIVITY

Banking activity in French Polynesia recovered in 2017. While deposit collections continued to grow (+2.9% year-on-year in December), outstanding performing loans, which remained stable in 2016, saw an upturn (+3.4%). At the same time, local credit institutions continue to restructure their portfolios, both in-house by strengthening their collection processes, and externally through transfers of non-performing loans to specialised companies.

### Consolidation of overnight deposits and decline in long-term investments

The financial assets of Polynesian economic agents rose by +1.7% in 2017 (+5.1% in 2016), with the collection of net savings reaching FCFP 9.2bn at the end of the year. It is fuelled by overnight deposits (+10.5%) and savings accounts (+10%). As with the previous year, term deposits (-16.5% in 2017, after -10% in 2016), are subject to negative arbitrage, strained by the dissuasive remunerations offered by local banks, which are saturated with liquidity.

The 2017 financial year closed with a surplus of assets for households (FCFP +13.2bn between the end of 2016 and end of 2017); those for companies (FCFP -3bn) and local authorities (FCFP -1bn) are in decline.

### Increase in business and household loans

The pace of growth for outstanding performing business loans, which remained modest in 2016 (+0.7% year-on-year), picked up in 2017 (+4.5%), driven by investment loans (+5.1%) and, to a lesser extent, operating loans (+2.2%).

The growth in outstanding performing household loans, +3.1%, after +1.5% in 2016, is only due to property investment, facilitated by attractive interest rates and public incentive schemes. Consumer loans remained on a negative trend, -1.1% over the year (-3.3% in 2016).

However, outstanding performing local authority loans fell by 1.6%, with the investment credit allocated to the country not being sufficient to offset the amortisation of loans.

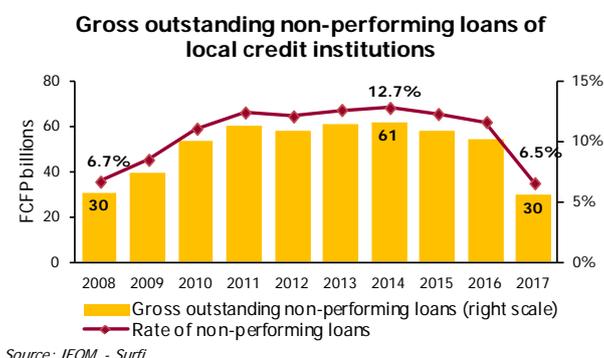
This is also the case for financing for credit institutions located outside the territory, which supply the cash flow or investment needs of Polynesian economic agents. After -2.5% in 2016, they stagnated in 2017 (-0.2%) due to the decline in the outstanding amounts of local authorities, which account for 60% of the total.

### Restructuring of the portfolios of local banks

The rate of gross non-performing loans reached a total of 12.7% in 2014, before the start of the restructuring of bank portfolios, with an improvement in credit risk management and the transfer of non-performing loans to specialised companies in mainland France.

Consequently, there was a drastic reduction in net non-performing loans, from FCFP 18.1bn at the end of 2016 to FCFP 10.9bn a year later, and the provisioning rate, which has been revised down, remains high (63.7% at the end of 2017, against 66.7% a year before).

At the end of 2017, the rate of non-performing loans stood at 6.5%, well below its 2016 level (11.6%) and similar to its level prior to the financial crisis in 2007-2008.



## OUTLOOK

The expectations of business leaders for the first months of 2018 are rather optimistic. While the financial situation of companies is getting stronger, the positive business trend should stimulate job creation and investment, in a favourable environment at both the international and local levels. The large-scale projects in the fields of aquaculture (Hao farm in Tuamotu for fish farming) and tourism (future complex of the Tahitian village on the west coast of Tahiti) should also have a knock-on effect.

At the same time, the public authorities are supporting the return to growth by conjunctural investment aid measures and are strengthening their bases by implementing general structural policies (social protection system) and sectoral policies (master plans in the primary sector, social housing).