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SIÈGE

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2010 Balances of Payments of New Caledonia and French Polynesia

PORTRAIT

The economic evolutions of the two **French overseas Territories** were divergent in 2010. While French Polynesia again found itself on the sidelines within the world economy bankruptcy process, New Caledonia reaped the benefits of the world economic recovery and the knock-on effect of major projects.

Despite these divergent movements, **the two French overseas Territories saw a significant fall in current account balances in 2010.**

New Caledonia posted a record current account deficit. It is mainly the expansion in economic activity, which has to do with major projects in the nickel sector, which explains the dynamism of imports of goods and services; the increase in exports of products from the nickel industry, which took advantage of the increase in the price of nickel, is not enough to prevent a drop in the balance.

In French Polynesia, current account have regained their balance after a significant excess in 2009. A negative exchange effect and increases in energy bills are contributing towards the rise in imports of goods and the increase in current account. However, It does remain balanced due to activity in the services sector, especially where transport is concerned, whilst the tourist industry, in structural excess, remains depressed.

Both French overseas Territories have seen a net inflow of capital investment.

In New Caledonia, direct investments from outside have seen a sharp rise due to the two metallurgy plants being set up.

In French Polynesia, the considerable reduction in large outflows of capital explains why the financial account has regained a positive balance.

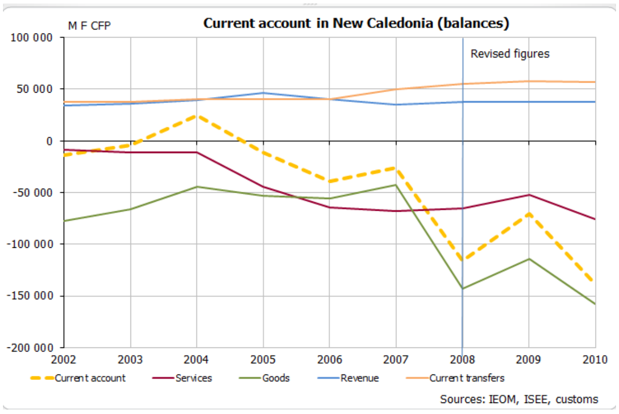
Main entries in the balance of payments in 2010 (balances) — Amounts in billions of F CFP

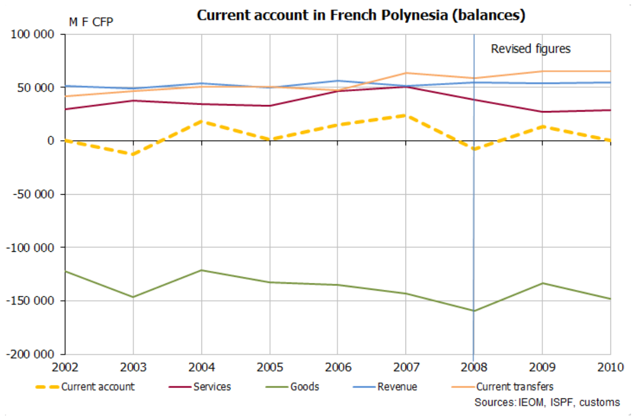
	New Caledonia	French Polynesia
Current account (I) including	**-139.1**	**0.2**
Goods	-158.2	-147.9
Services	-75.4	28.7
Revenue	37.9	54.6
Current transfers	56.6	64.8
Capital account (II)	0.2	-0.01
Net lending/borrowing (III) = (I) + (II)	**-138.9**	**0.1**
Financial account including	-126.0	10.1
Direct investments (IV)	122.8	0.5
Portfolio investments (V)	11.7	-0.2
Outstanding balance (VI) = (III) + (IV) + (V)	**-4.3**	**0.4**
Other investments	-8.6	9.8
Errors and omissions	12.9	-10.2
For GDP log	*752**	*537***

*2009 estimate/**2006 estimate — Sources: IEOM, ISEE, ISPF

CURRENT ACCOUNT

Current account in New Caledonia saw a record deficit in 2010 (of 139 billion F CFP, or more than 18% of its GDP). This notable drop is mainly due to the increase in the deficit on the goods exchange balance and, to a lesser extent, the services balance. **In French Polynesia, current account have balanced out** (at 163 million F CFP) after the significant excess posted in 2009. The considerable rise in imports of goods explains this drop, whilst the excess on the services balance sheet is increasing slightly.
Balances in incomes and current transfers, with a structural excess, are stable within both **French overseas Territories**.





Goods

The trade deficit (goods balance) was especially marked in the two French overseas Territories in 2010, after the reduction observed in 2009, reaching the record level of 158 billion F CFP in New Caledonia (after 114 billion) and 148 billion in French Polynesia (after 133 billion). Imports rose for different reasons: in New Caledonia, dynamism of economic activity due to metallurgy projects in progress, especially including the construction of the plant in the North, and the rise in domestic demand, combined with the sharp rise in energy bills; in French Polynesia, the effect of the negative exchange rate due to the appreciation of the currencies of key partners of the territory in relation to the Pacific franc and the rise in the prices of raw materials. Exports are recovering within both **French overseas Territories**: increase in nickel prices in New Caledonia (where exports make up 95% of products from the nickel industry); exceptional sale of a cruise ship by a shipowner local to French Polynesia, while the drop in the price of raw pearl is having an impact on income.

From customs data to goods exchange data on the balance of payments

Customs data is the primary source used to calculate the goods balance. It is, however, subject to a number of balance of payments withdrawals: exclusion of operations which neither result in transfer of ownership, nor payment; imports accounted at CAF value (cost, insurance and freight) taken to their FAB value (postage paid) so that they are comparable with exports.

Goods balance in 2009 and 2010 — Amounts in billions of F CFP

	Income			Expenditure			Balances		
	2009	2010	Variation	2009	2010	Variation	2009	2010	Variation
New Caledonia	87.4	116.5	29.1	201.6	274.7	73.1	-114.2	-158.2	-44.0
French Polynesia	12.9	14.4	1.5	145.8	162.3	16.5	-132.9	-147.9	-15.0

Source: IEOM balance of payments

Services

The deficit on service exchanges in New Caledonia is hovering around (-75 billion F CFP after -52 in 2009) while **the excess on service exchanges in French Polynesia is improving** (29 billion F CFP after 27 in 2009). The work to build the plant in the North of New Caledonia explains the significant rise in imports of "other business" and "construction services". In French Polynesia, the services balance, which has a structural excess, is improving due to the increase in income from air transport but the downturn in tourism is continuing, reducing the Travel balance.

Estimate of the Travel line

The "Travel" line credits all expenditure in New Caledonia/French Polynesia by non-residents and debits that of residents of New Caledonia/French Polynesia outside the French overseas Territories, whatever the reason for the travel (tourism, business trips, health, school trips). Transport income and expenditure relating to international travel is not, however, posted on this line, but under transport services.

Since 2008 in New Caledonia and since 2009 in French Polynesia, the "Travel" line has been measured through ISEE and ISPF tourism surveys.

Services balance in 2009 and 2010 — Amounts in billions of F CFP

	Income			Expenditure			Balances		
	2009	2010	Variation	2009	2010	Variation	2009	2010	Variation
New Caledonia									
Services including	42.8	49.3	6.5	94.6	124.7	30.1	-51.8	-75.4	-23.6
Other business	5.5	11.0	5.5	43.6	66.5	22.9	-38.1	-55.5	-17.4
Construction services	2.9	3.3	0.4	1.2	2.8	1.6	1.7	0.5	-1.2
French Polynesia									
Services including	88.5	86.0	-2.5	61.2	57.3	-3.9	27.2	28.7	1.5
Air transportation	15.2	17.8	2.6	15.0	15.0	0.0	0.2	2.8	1.3
Travel	37.8	36.2	-1.6	14.0	14.3	0.3	23.7	21.9	-1.8

Source: IEOM balance of payments

Income and current transfers

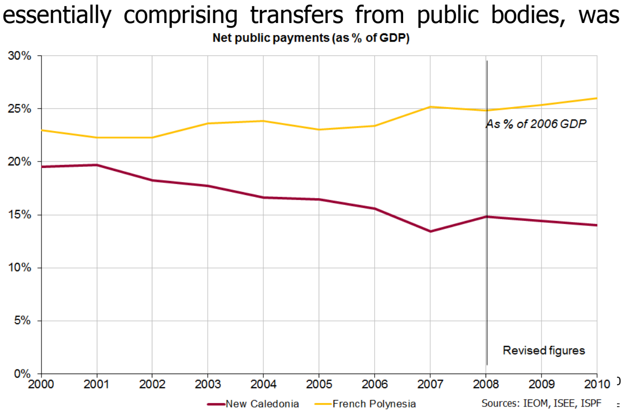
Income

The income balance – structurally positive due to the extent of pay earned by Government officials – **was virtually stable in both overseas Territories in 2010** (38 billion F CFP in New Caledonia and 55 billion in French Polynesia). **In New Caledonia,** the balance of employee pay has remained virtually unchanged and the balance on income from investments is going slightly negative. **In French Polynesia,** the balance on income is rising slightly due to the low value of the decimal point in the public sector and the increase in civil servants paid by the Government, while dividends, both paid and received, are falling.

Current transfers

In both **overseas Territories, the balance of current transfers,** essentially comprising transfers from public bodies, was **virtually stable in 2010** (56 billion F CFP in New Caledonia and 65 billion in French Polynesia).

In 2010, **net public payments** (balance of services provided by public bodies, payment of employees in the public sector and current transfers from the public bodies sector) amounted to 107 billion F CFP (after 108 billion in 2009) in **New Caledonia**, where their impact on GDP had had a tendency to fall since 2000 (14% of GDP in 2010 compared with 20% in 2000). Higher in **French Polynesia**, they are increasing slightly, and have reached 139 billion F CFP (after 136 billion in 2009), or about 26% compared with 2006 GDP.



Current transfers

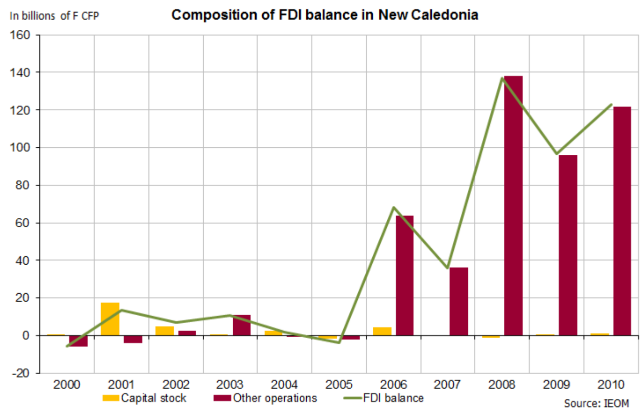
Current transfers include both current transfers from public bodies, sending of employees' funds and other transfers such as compensation and some insurance premia covering goods. This heading usually sets out a balance with a considerable excess within the two French overseas Territories due to the impact of transfers from public bodies. They especially include, on the income side, social payments made (mainly pensions), investment costs and provisions for local communities, and, on the expenditure side, payments received by the Government such as social security contributions and taxes.

THE FINANCIAL ACCOUNT

Inflows into the financial account exceeded outflows from the two French overseas Territories in 2010. It is essentially from metallurgy projects in progress that the balance of financial flows (126 billion F CFP) posted a net increase in **New Caledonia** (+63 billion compared with 2009). In **French Polynesia**, the rise in the balance on the financial account (+32 billion, reaching 10 billion) is mainly the result of the fall in net capital outgoings.

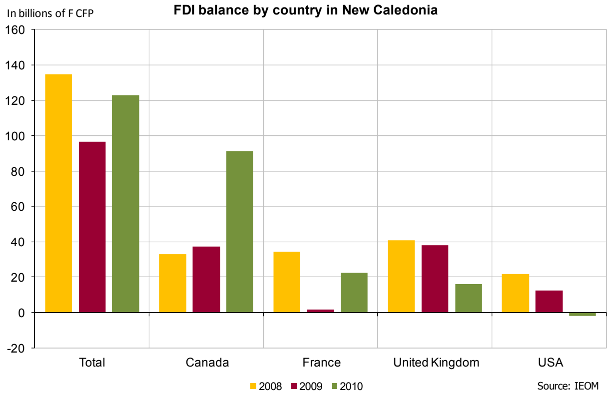
Direct investments

In New Caledonia, the balance on direct foreign investments (FDI) posted a significant increase to 123 billion F CFP (after 96 billion in 2009). This capital contribution is mainly from the financing of the two metallurgy plants being built (plant in the North primarily, and the plant in the South): we note an increase of 26 billion F CFP in intra-group loans and deposits made for these nickel industry-related projects.

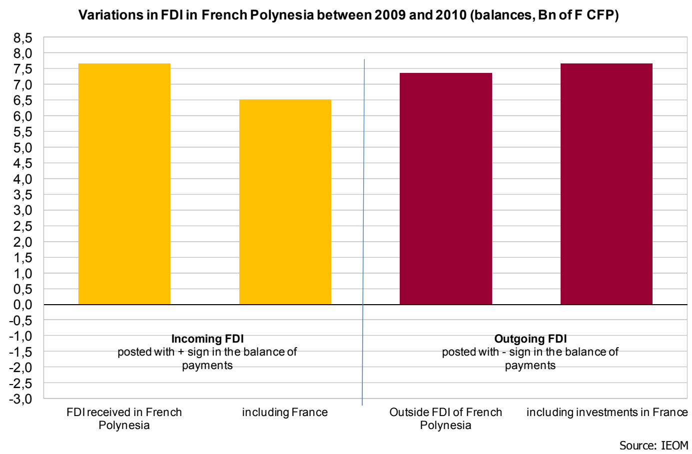


Meanwhile, net property investments by non-residents in New Caledonia, which account for 6.5% of net incoming direct investments, are rising due to the increase in property purchases by inhabitants.

Capital largely comes from Canada and, to a lesser extent, France.



French Polynesia posted slight net FDI income in 2010 (0.5 billion F CFP). This virtually unchanged situation is the result of the significant increase both in direct investments outside by residents and investments by non-residents in French Polynesia. However, these increases are explained by the few very major operations carried out in the hospitality management sector and do not therefore reflect any sign of recovery of activity sustained by investment.



Direct investments

Direct investments (DI) cover operations carried out by investors to acquire, increase or liquidate sustainable interest in a company and hold (or liquidate) influence in its management or the capacity to use it. Traditionally, direct investment relations are established whenever an investor holds at least 10% of the capital stock of the company in which they have invested. Below this threshold, share operations are classified within portfolio investments.

DI not only include the initial transaction, which establishes the relations between the investor and the company in which the investment is made, but also all subsequent transactions between them and between related companies (including loan operations, advances and deposits, in the short and long term). The purchase (or sale) of property is also considered an DI operation. DI are broken down into geographical areas according to the first counterpart country (rather than the source or the ultimate destination of the investment).

Portfolio investments

Continuing the fall begun in 2008, fewer transactions in equity securities issued by non-residents took place in 2010 across both overseas Territories. As in 2009, sales of securities issued outside **New Caledonia** were greater than purchases (net incomings close to 12 billion); in **French Polynesia**, transactions in equity securities, balanced in 2010, posted a significant drop (almost 11 billion F CFP).

Portfolio investments in 2009 and 2010 (balances) — Amount in billions of FCFP

	2009	2010	Variation
New Caledonia			
Portfolio investments including	14.5	11.7	-2.8
Issues and negotiations (-)	-47.5	-21.7	25.8
Refunds (+)	62.1	33.4	-28.7
French Polynesia			
Portfolio investments including	-10.9	-0.1	10.8
Issues and negotiations (-)	-40.8	-15.5	25.3
Refunds (+)	29.9	15.4	-14.5

Source: IEOM balance of payments

Portfolio investments

Portfolio investors include all "firm" operations on negotiable securities (such as shares, UCITS, bonds, money market instruments) between residents and non-residents: purchases on issue, negotiations and refunds (apart from those included within direct investments). In practice, the balance of payments of New Caledonia and that of French Polynesia almost exclusively cover purchases or sales by residents of New Caledonia/French Polynesia of securities issued outside the community. An assets balance below zero (creditor resp.) means that purchases of securities outside the community were higher (lesser resp.) than sales.

Other investments and the overall balance on the balance of payments

The balance on operations lending to and borrowing from outside posted net outgoings in New Caledonia and net incomings in French Polynesia. In **New Caledonia**, these net outgoings (-8 billion F CFP after -48 billion) come mainly from the banking sector, whose net assets rose by 13 billion F CFP, improving its net position outside, whilst the net commitments of the "other sectors" (companies and households) increased by 18 billion F CFP. However, in **French Polynesia**, these net incomings (10 billion F CFP after -11 billion in 2009) are due to the deterioration in the net international position of the banking sector outside in 2010, signifying an increasing requirement for financing from outside. The errors and omissions heading is positive in New Caledonia (13 billion F CFP, or 2% of its GDP) whereas it is negative in French Polynesia (-10 billion F CFP, or 2% of its GDP).

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