

Wallis and Futuna's Economy in 2012 Economic activity remains stable

The Territory's economic activity levelled off in 2012, following a recovery in 2011.

Government transfers to the Territory remain high and make an important contribution to the stability of the local economy. Public procurement continues to be one of the drivers of the economy and especially benefits companies in the construction industry, thanks to ongoing large-scale projects, notably to host the Pacific Mini Games in September 2013.

Household consumption experienced a slowdown in 2012, but remained dynamic despite high inflation, driven by the hike in commodity prices, which had an impact on consumer purchasing power. However, there was a marked slowdown in business investment in 2012. Paid employment remained at the same level as in 2011, driven by the public sector.

Banking activity was dynamic in 2012: the stock of loans reached the highest level since 2008, while deposits fell slightly. The loan portfolio was strengthened considerably, which brought down the rate of doubtful loans to below 5% at 31st December 2012, against 6.2% at the end of 2011.

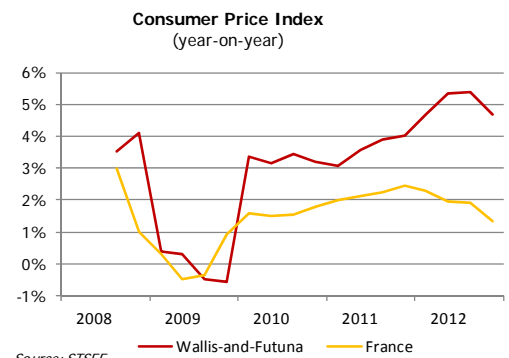
Cyclone Evan caused serious material damage in mid-December. All the Territory's vital forces are currently mobilised to repair this damage.

MIXED MACROECONOMIC INDICATORS

Price hike due to cost of energy

Prices increased by 4.7% on average over the year, against 4% in 2011. This increase was mainly due to the hike in energy prices (+7.9%), as a result of the rise in world oil prices. Prices for services rose by 3.7%, mainly due to the increase in transport costs (+7.1% over the year). Finally, food prices rose by 5.4%.

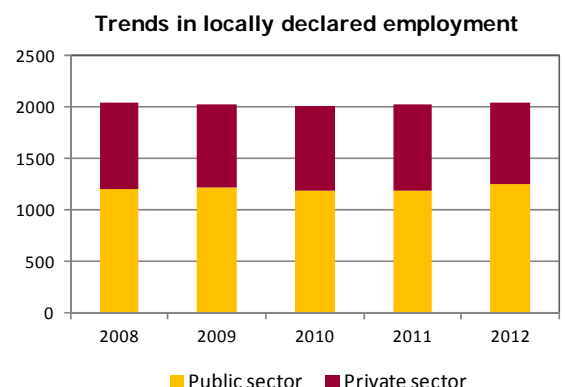
Last November, the Parliament passed the law on economic regulation in the Overseas Territories (Lurel Law), which aims to combat the high cost of living in the Overseas Territories. In this context, Decree n° 2012-1459 of 26th December 2012 provides for a price moderation agreement for consumer products to be signed every year between the State and the main suppliers and distributors in the Territory operating in the supply chain. Working meetings were scheduled at the beginning of the year to implement the provisions set out in the Decree.



Paid employment remains stable

At 30th June 2012, 2,044 employed workers were declared at the *Caisse des Prestations Sociales* (Social Security Fund), against 2,031 at the same date in the previous year.

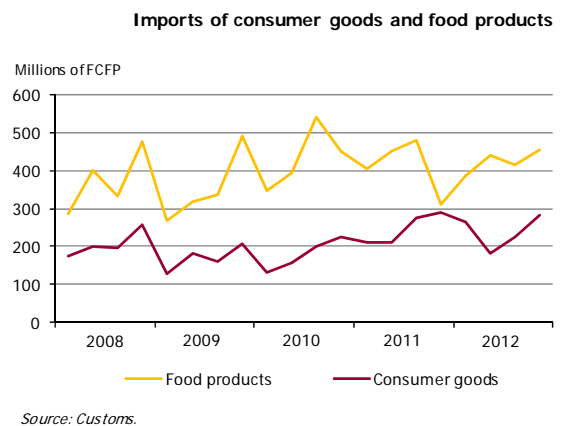
The public sector accounts for 61.5% of paid employment (1,258 people) and its workforce increased during the year (+5.7%). Private sector employment fell by 6.5% over this period. The private sector currently has 786 employed workers, its lowest level since 2008.



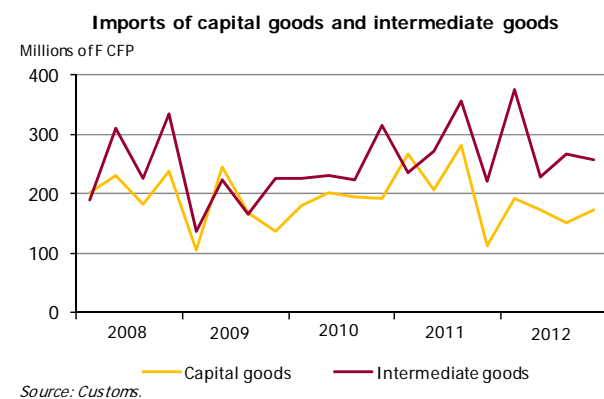
Slowdown in household consumption

Household consumption, which saw strong growth in 2011, declined slightly. After increasing two years in a row, imports of consumer goods fell by 3.3% compared to 2011 to F CFP 954m. This decrease is due to the reduction in imports of household goods (-17.5%), while imports of pharmaceutical, perfume and maintenance products rose by 8.9%. The trend for food imports remained positive (+3.3%), although they have not surpassed the level reached in 2010 (F CFP 1.73bn). Sales of private vehicles rose and reached their highest level since 2008, with 103 new registrations during the year, against 77 in 2011. However, the number of new registrations remained lower than between 2002 and 2008 (over 140 vehicle registrations annually).

The financial situation of households is improving. In 2012, 1,027 cheque payment defaults were reported, against 1,274 in 2011. The number of people banned from holding a bank account remained high, with a total of 397. Furthermore, outstanding consumer loans have risen by 11% in a year.



Decline in business investment



Business investment declined and annual imports of capital goods fell sharply (-20.3%), while the trend for imports of intermediate goods remained positive (+6.4% in a year). These imports reached their highest level since 2007, mainly thanks to a particularly dynamic first quarter (+69.9% compared to December 2011). Business investment did, however, recover at the end of the year, with a 13.9% increase in imports of capital goods quarter-on quarter.

There was a decline in commercial vehicle registrations (-33%), the lowest level since 2005.

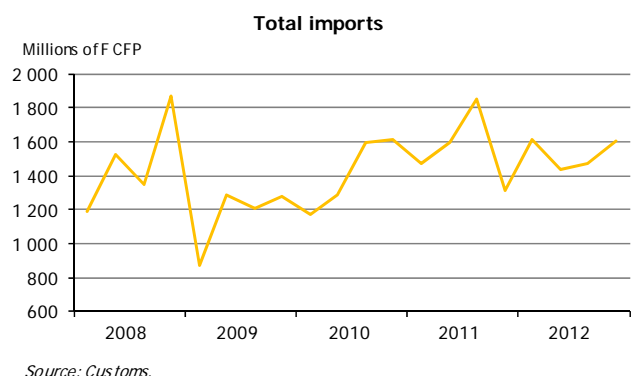
On a constant basis (excluding an operation integrated at the end of the year), financing allocated to businesses for investments had fallen by 14% at the end of 2012.

Slight fall in imports

Imports in the archipelago stood at F CFP 6.13bn, down 1.8% compared to 2011. The number of cargo ship arrivals was lower than in the previous year (19, against 21 in 2011). Capital goods were the main reason for the fall in imports (-20.3%). Conversely, imports of products from agricultural and food industries increased by 3.3% year-on-year and accounted for over a quarter of the Territory's imports. The increase in the value of imports of energy products (+9.1% year-on-year) can largely be explained by the rise in world oil prices.

In 2012, 20.5 tonnes of seafood products were exported, totalling F CFP 13.25m.

Tax revenues for the year stood at F CFP 2.24bn (-0.6%). 72.5% came from customs duties, which are strongly correlated with the level of imports, in the absence of income tax and corporate tax. Direct taxes and miscellaneous taxes accounted for 9.7% and 17.9% of the Territory's tax revenues, respectively. Head taxes, which are borne by all imported goods, and customs duties, which are applied to products from outside the European Union, levelled off at approximately F CFP 847m and F CFP 300m, respectively.



CONSTRUCTION AND RETAIL INDUSTRIES, DRIVERS OF THE ECONOMY

Construction industry, a vehicle for economic growth

In 2012, the construction industry once again played an important role in the archipelago's economy, with a particularly strong activity during the year. Several major projects launched in 2011 continued: the construction of the Kafika sports hall (F CFP 535m), works to improve drinking water production (F CFP 248m), which are nearing completion in Wallis and ongoing in Futuna, and works to refurbish the State High School (F CFP 305m). The works that began at the Mata'Utu commercial port in 2010, estimated at F CFP 1.2bn, have been delayed. Most of these large-scale projects are expected to reach completion in 2013.

Furthermore, activity in the building sector increased at the end of the last quarter, due to the damage caused when Cyclone Evan hit Wallis in mid-December.

Cement imports rose in value by +15.4% compared to 2011 to over F CFP 100m, the highest level in the last five years.

There was a significant drop in the amount of public procurement notified in 2012. However, the activity benefits from multi-annual construction projects launched in 2010 and 2011.

Building demand from the general public remained low, due to the absence of real estate financing mechanisms in the Territory.

Slowdown in retail activity

In both Wallis and Futuna, the retail sector is mainly made up of a fabric of small retail businesses, most of them grocery stores, in addition to a few supermarkets. The retail sector accounts for 28% of registered businesses and employs some 260 people, *i.e.* 34% of private sector employment.

Retail activity was marked by supply problems during the year. Imports of products for the automotive industry and agricultural, forestry and fisheries products fell by 17.8% and 14.3% respectively during the year.

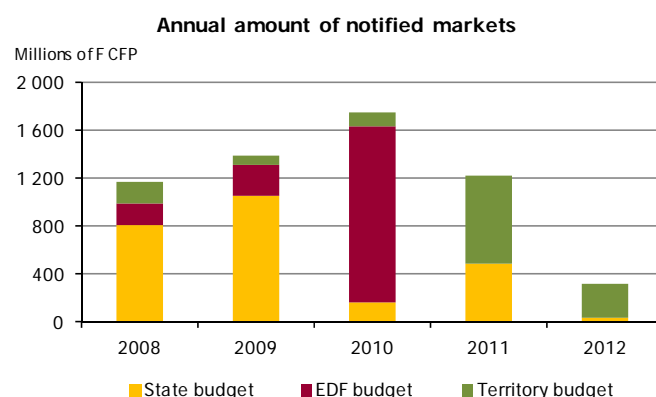
Slight rise in air traffic



Source: Civil aviation.

Tourism is not well developed on the island and the main reasons for passenger movements, both for arrivals and departures, are for family visits or business travel. The number of international passengers levelled off at approximately 29,500 people in 2012 (+0.2%). International flight movements have been rising constantly since 2007, despite the unattractive tariffs. The reduction in one-way tariffs, which now cost 50% of return tariffs against 65% previously, and the mechanism to support territorial continuity (which benefited 521 people in 2012, against 316 in 2011) contributed to this increase in air traffic.

The organisation of the Pacific Mini Games, which will be held in September 2013, contributed to the increase in traffic during the year. Indeed, the different delegations that will be attending the event come to the Territory of the Wallis-and-Futuna islands to meet the local organising team and see how the infrastructure works are progressing. At the same time, the organisers visit the different participating Territories to communicate on the event.



Sources: Finance Department, Europe Unit.

CONTINUED GROWTH FOR HOUSEHOLD AND CORPORATE FINANCE

Slight decline in savings

Over the year, financial investments fell by 1.5% and reached F CFP 8.78bn, mainly as a result of a decline in investments outside the issuing area (-32.6%), related to the sharp decrease in money market fund shares reaching maturity (-72.8%). Conversely, local deposits, the main component of savings (75%), rose by 16.3%. Economic agents clearly have a preference for less liquid deposits; the decrease in overnight deposits (-17%) can be explained by a partial reallocation towards term deposits (for which the stock was 3.4 times higher), particularly by local authorities, while the stock of special savings accounts remained stable.

Increase in bank finance

Outstanding credit allocated by all the banking institutions operating in Wallis-and-Futuna rose for the second year in a row. At the end of December 2012, outstanding bank loans had risen by 33.8%, with a record stock (F CFP 4.36bn). This improvement is due to new loan allocations from credit institutions, mainly during the first half of the year, but also to the inventory of financing allocated by a new institution located outside the issuing area. Credit allocated to companies, up by F CFP 955m (+61.3%), accounted for over half the total amount of outstanding credit (57.7%). Outstanding credit allocated to households rose by 15.1% in a year and reached its highest level since 2008. Local institutions accounted for 42.1% of local bank lending, against 46.2% at 31st December 2011.

Credit portfolio consolidated

At the end of 2012, the number of doubtful loans reported in the Territory had decreased significantly and stood at F CFP 96m, against F CFP 99m at the end of 2011. The rate of doubtful loans thus fell by 1.2 points to below 5%, its lowest level since September 2008.

OUTLOOK

Activity in the construction industry, a key sector for the local economy, is expected to remain stable in 2013, thanks to the continuation of the ongoing large-scale projects. The completion of these works in 2013, combined with the sharp fall in the amount of public procurement notified in 2012, could suggest there will be a possible slowdown in 2014. However, the launch of the project to rebuild the Leava quay in Futuna in 2014, under the 10th territorial EDF, as well as a number of smaller projects scheduled in the budgets of the previous years, could offset this possible downturn in activity. The financial package allocated to the Territory under the 10th EDF stands at F CFP 1.97bn, 93% of which is earmarked to rebuild the Leava quay located in Futuna. The geotechnical studies conducted in 2012 will continue in 2013 and the launch of the works has been scheduled for 2014.

The F CFP 5.85bn development contract for 2012-2016, signed between the Government and the Territory, will benefit infrastructure (F CFP 1.9bn), training (F CFP 1.6bn) and health (F CFP 1.1bn). In agreement with the Government, assistance for the elderly and disabled has been withdrawn from the development contract for 2012-2016, but will be subject to a separate social contract for an equivalent or higher amount. Negotiations are currently ongoing between the Government and the Territory.

The project to develop a mobile phone network on the archipelago is still under consideration. It is expected to be created and managed by the Territory's Postal and Telecommunication Services (PTS). The PTS aims to launch its network for the Pacific Mini Games next September, but has doubts about the possibility of meeting this deadline.

