

Island of Réunion at a Glance

STRUCTURAL CHARACTERISTICS

Capital	Saint-Denis
Surface area	2,520 km ²
Geographical location	Indian Ocean, Archipelago of the Mascareignes, Paris at 9,180 km, Port Louis at 210 km
Languages spoken	French and Reunionese Creole
Currency	Euro
Status	French Overseas Department and Region (DROM) and Outermost Region (RUP)
Global HDI ranking (2007)	32
National representation	7 MPs and 3 senators
State representation	Prefect

From Bourbon to Island of Réunion

The Island of Réunion was a stopover point on the trade routes in the Indian Ocean and was visited for several centuries by Arab and Portuguese sailors, etc. The French arrived on the island for the first time in 1638, but it only became a fully-fledged colony in 1663. The King of France bought the island in 1764 when the East India Company went bankrupt. At the time, it had 22,000 inhabitants, including 18,000 slaves. In the early 19th century, the development of the island relied on sugarcane production. France bought low-price sugar agglomerates, which were moulded in dozens of “factories” adjacent to colonial properties.

On 20th December 1848, the abolition of slavery was proclaimed in Réunion. The island, with 103,000 inhabitants, including 60,000 slaves, adopted its current name in the same year. The economic and social system was reorganised on the basis of “recruiting” which, in reality, remained quite close to the former slavery system. It was towards the end of the 1950s that the momentum of an unprecedented boom began and gathered pace. It was the time of economic take-off and profound changes in infrastructure and landscapes with the upgrading of facilities (road, air and port) and the construction of hydropower plants, hospitals and schools.

A common institutional status for the French Overseas Territories

Réunion has been a French Department since the Departmentalisation Law of 19th March 1946 and also became a Region following the Law of 31st December 1982. Unlike regions in metropolitan France, its territory comprises a single Department. It also has extended competences for local public finance, since the Region determines the base, rate, exemptions and distribution of the taxation of dock dues. The constitutional reform of 28th March 2003 confirmed this dual institutional anchoring by creating the name “French Overseas Departments and Regions” (DROM).

Réunion also became an Outermost Region (RUP) in 1997. The system of RUPs provides for the applicability of the principle of the corpus of Community law. Like with French law, some adaptations to Community law may be authorised in respect of the specific characteristics and constraints of Outermost Regions. In this context, the Department benefits from financial support under the EU's regional policy and its “convergence” objective, which aims to support the structural development of the EU's least developed regions.

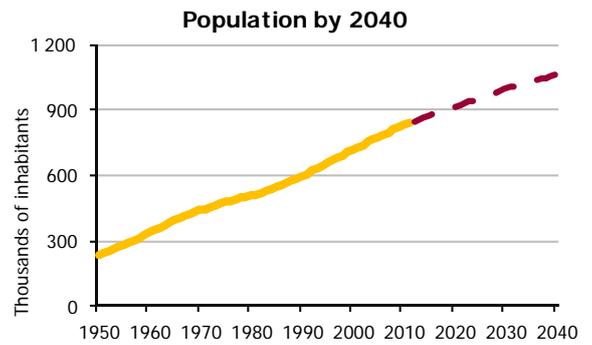
DEMOGRAPHIC TRANSITION CONTINUES

Réunion's population is racially mixed, multicultural and pluricultural as a result of the migratory movements from Europe, Africa, India, China and the Indian Ocean Islands. Its demographic transition, which began in the 1930s, is continuing, but the birth rate is still above that of mainland France. At 1st January 2011, Réunion's population had reached 839,500 inhabitants, *i.e.* a 2.4-fold increase in 50 years. Population growth is largely due to natural increase. However, the pace of the increase in the number of inhabitants, which stands at +1.5%, is slowing down slightly. Réunion's population may exceed the symbolic threshold of one million inhabitants towards 2030, according to the central hypothesis of the demographic projections made by Insee.

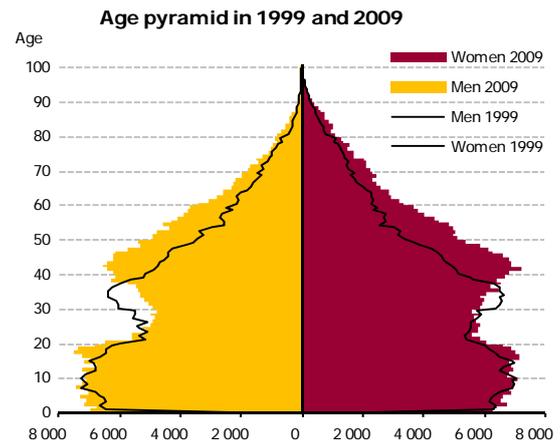
Demographic indicators	Réunion	France ⁽¹⁾
Population (thousands, millions for France, at 01/01/2011)	839.5	65.4
Percentage of under 20s (2010)	34.0	25
Percentage of 20-59 year-olds (2010)	53.7	52
Percentage aged 60 and over (2010)	12.3	23
Population density (inhab./km ² , at 01/01/2010)	332.6	102.7 ⁽²⁾
Average annual pop. growth rate (% , 2001-2011)	1.4	0.6 ⁽³⁾
Birth rate (for 1,000 inhabitants, 2009)	17.4	12.7
Mortality rate (for 1,000 inhabitants, 2009)	5.0	8.5
Infant mortality rate (for 1,000 births, 2009)	7.5	3.5
Total fertility rate (2009)	2.4	2.0 ⁽⁴⁾
Life expectancy at birth for women (years, 2009)	82.7	84.8
Life expectancy at birth for men (years, 2009)	74.9	78.2
Percentage of illiterate people aged 16-65 (% , 2007)	21	9 ⁽⁵⁾

(1) INSEE 2011 population survey; (2) Density of French population in 2010; (3) Between 2002 and 2012; (4) TFR in 2009; (5) IVQ 2004-2005 survey conducted by Insee on the population in metropolitan France aged between 18 and 25.

Source: Insee



Source: INSEE (Censuses; pop. estimates at 1st January; projections)

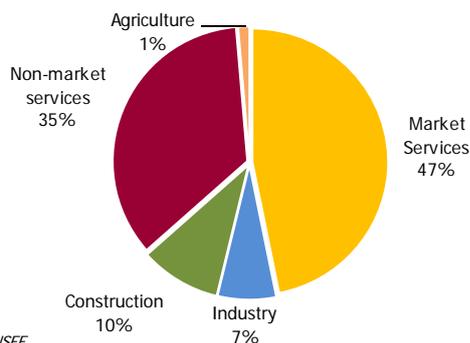


Sources: Insee - Civil Registry

ECONOMY AT A GLANCE

Between 1997 and 2007, Réunion's economy was characterised by structurally dynamic growth, allowing it to partly catch up in terms of wealth per capita at the national level. Gross Domestic Product almost doubled over this period, with an average annual growth rate of 5% at constant prices. Final consumption and investment, bolstered by tax incentives and the implementation of major construction projects, were the main sources of growth over the period. The change in the tax policy focus and the completion of these works exacerbated the effects of the economic crisis in Réunion in 2009 (growth down 2.7% in constant euros). Following stagnation in 2010, activity picked up in 2011 (1.2% increase in GDP in constant euros). However, the Department is slow in finding new drivers to make its growth sustainable.

Breakdown of added value in 2007



Source: INSEE

Key economic indicators

	Réunion	France
GDP (billions of constant euros, 2010)	14.4 ⁽¹⁾	1,937.3
GDP growth rate (% , constant euros, 2011)	1.2 ⁽¹⁾	1.7
GDP per capita (constant euros, 2010)	17,520 ⁽¹⁾	29,885
Import dependency rate ⁽²⁾ (% , 2010)	28.6	27.7
State expenditure in the Territory (millions of euros, 2010)	5,377	-
Local authority debt (% of GDP, 2010)	11.6	8.3 ⁽³⁾
European aid for the period 2007-2013 (billions of euros)	1.9	-

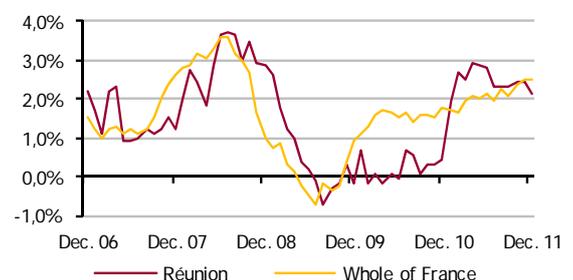
(1) Cerom estimation 2010, 2011 data for the amount not available; (2) (Imports)/GDP; (3) Public debt notified or in the sense of Maastricht.

Sources: Insee, Customs, Employment agency, Cerom, AFD, General Treasury, Region, Department.

Moderate price increases since 2005

Since 2005, price increases have remained moderate in Réunion (annual average of +1.8%), although they are slightly higher than those observed at the national level (+1.5%). The average increase in the consumer price index follows trends in the prices of the "services" item, which is the main component of the index, and "food" item, which has risen sharply. Oil prices are prone to high volatility, but contribute little to the overall price increase for the whole period. At the end of December 2011, the consumer price index had risen by 2.1% a year against +2.5% in 2010.

Year-on-year comparison of CPI trends

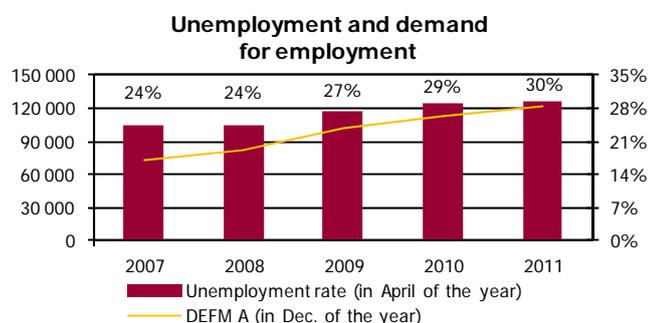


Source: Insee

Labour market imbalanced

Between 2005 and 2008, Réunion's economy made it France's second most dynamic region in terms of job creation, with an annual average growth rate of 2.9% (against +0.9% for the whole of France). This increase brought down unemployment on the island, although it remained well above the level in metropolitan France. Since the crisis, job creation has slowed significantly and the number of category A jobseekers (total number of registered jobseekers looking for a full-time job) rose to 122,240 at the end of 2011.

Just over nine jobs out of ten are in paid employment, over two-thirds of which are concentrated in the service sector. Non-market services account for the most jobs, but this share is on a downward trend.



Sources: DIECCTE, INSEE

DEFM A: Jobseekers who have not worked during the month

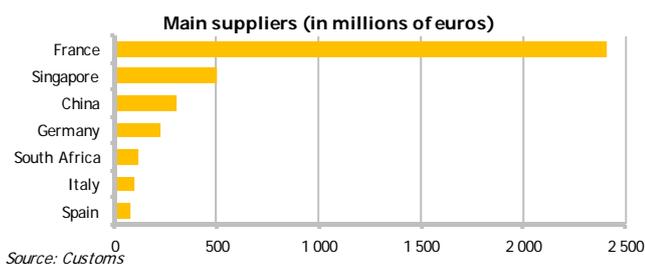
Employment (thousands)	2000	2010 (p)	10/00 ⁽¹⁾
Total employment	200.6	245.9	2.1%
Self-employment	15.9	20.3	2.5%
Paid employment	184.7	225.6	2.0%
Agriculture	2.6	2.7	0.5%
Industry	14.1	16.3	1.5%
Construction industry	10.5	15.2	3.8%
Trade	24.3	31.7	2.7%
Market services	46.7	68.1	3.8%
Non-market services	86.6	91.6	0.6%

(p) Provisional; (1) Annual average growth rate

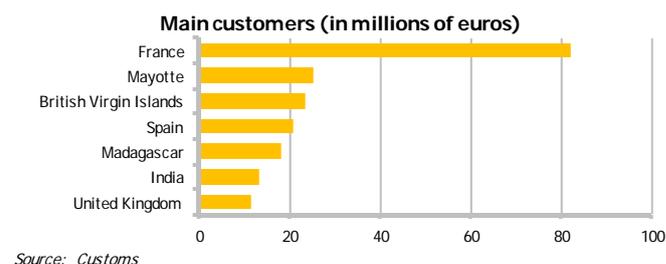
Source: Insee

Trade balance structurally in deficit

Like other French Overseas Departments and the bulk of island economies, Réunion's economy largely relies on imports for its supplies of goods and raw materials, which creates a structural trade balance deficit. At the same time, the island mainly exports sugar and fishery products; the other exports mainly concern re-exported products. Metropolitan France continues to be by far the island's main supplier and customer.



Source: Customs



Source: Customs

Import values (millions of euros)	2011
Agricultural and fisheries products	101.2
Intermediate goods	483.5
Oil products and hydrocarbons	674.2
Transport equipment	699.3
Agrifood industry products	737.4
Electrical and domestic appliances/computer products	895.6
Household consumer goods	942.2
Total	4,775.2

Source: Customs.

Export values (millions of euros)	2011
Agricultural and fisheries products	2.0
Intermediate goods	3.3
Oil products and hydrocarbons	11.3
Industrial and household waste	25.6
Electrical appliances and transport equipment	56.1
Agrifood industry products	171.5
<i>Incl. sugar and rum</i>	<i>87.3</i>
Total	286.9

Source: Customs.

MAIN SECTORS OF ACTIVITY

The structure of Réunion's economy is characterised by the predominance of both market and non-market services. In terms of value added, the market service sector was the island's main economic sector in 2007, ahead of the non-market service sector.

Main sector indicators	2011	11/01 ⁽¹⁾	2011	11/01 ⁽¹⁾
Agricultural production (millions of euros)	378.4 ⁽²⁾	0.8% ⁽³⁾	Cement imports (tonnes)	342.3 0.8% ⁽²⁾
Sugar cane production (thousands of tonnes)	1,884	0.4%	Amount of Single Budget Line (millions of euros)	101.6 1.8%
Sugar production (thousands of tonnes)	206	0.2%	Number of tourists	471,300 1.1%
Poultry, swine and beef prod. (equiv. tonnes carcass)	22,374	-0.1%	Number of nights (thousands)	833.6 9.6%
Fisheries product exports (millions of euros)	66.0	3.6% ⁽³⁾	Number of passengers at airports (thousands)	2,192 8.0%
Construction industry workforce (at end of December)	17,065	1.7%	Number of health professionals	12,421 5.9%
Electrical certificates of conformity from Consuel	7,634	-2.8%	Number of students (public and private education)	240,037 0.2%

(1) Average annual growth rate for the period 2001-2011;

(2) In 2010; (3) From 2002 to 2010

Sources: Customs, Consuel, Daaf, eRcane, CERBTP.

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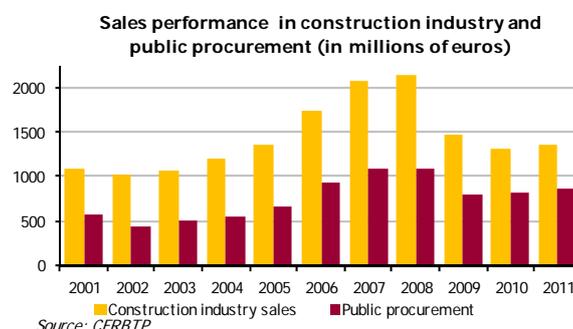
Sources: Education authority, Dress, CCIR, Insee, IRT, Customs, Deal.

Modern and concentrated sugar industry

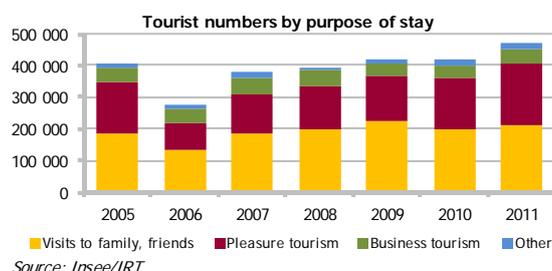
Sugarcane has shaped the identity of Réunion. Today, the sugar industry has been upgraded and is based on two sugar refineries (Bois Rouge and le Gol). Over the past ten years, the Department has produced an average of 201,000 tonnes of sugar a year, which remains well below European quotas (338,000 tonnes). With a third of goods exported, sugar is the main source of the island's goods exports. The 2011 crop year shows a stabilisation in sugar production; it is just below the 2010 level, but remains above the ten-year average (+2.4%).

Construction industry shows strong momentum prior to "turbulence" since 2009

The construction industry has been a driver for the island's economic development in recent years. Between 2002 and 2007, the value added of the sector increased at an average rate of 16.1% a year. In 2007, it employed over 20,000 people, *i.e.* 10% of salaried employees. From mid-2008 onwards, there was a marked deterioration in the construction activity. The sharp slowdown in demand for real estate, fuelled by uncertainties over the law for the economic development of the French Overseas Territories (LODEOM), led to a decrease in sales of new properties. At the same time, the completion of major construction projects (Tamarins road, etc.) and the cancellation or postponement of a number of projects by municipalities led to a sharp downturn in the sector's activity. In 2011, there was a gradual pick up in the construction and public works sector, driven by the construction of new social housing units (24% increase in the number of subsidised housing units delivered) and public procurement (+6.2%).



Tourism highly dependent on residents



The tourism industry still has little weight in total value added (2.6%); it is the island's main source of exports. Due to its labour intensity, the industry provides an important number of jobs, with 9,000 direct jobs. In 2011, Réunion received a record number of 471,300 non-resident tourists. Over half of tourism spending on the island is made by local tourists.

FINANCING OF THE ECONOMY

Réunion's credit market remains relatively concentrated. In 2011, ten banks and eleven financial companies subject to the Banking Act were established in the Department, as well as four specialised financial institutions. The level of equipment in terms of bank branches and ATMs has risen sharply in recent years, although it remains lower than at the national level. However, this situation does not mean that there is less access to banking services as there is high population density in coastal areas.

Credit institutions' support to Réunion's economy for a long time involved a sharp increase in loans allocated to all economic agents (annual average of +8.7% between 2000 and 2008). The economic crisis has since slowed down this growth in bank lending and has led to an increase in risks (6.1% of total outstanding credits at the end of December 2011). Finally, the locally established banking system allocates more loans than it collects deposits, which weighs structurally on refinancing conditions for local banks, and therefore on the cost of credit.

Monetary and financial indicators	2001	2011
Number of inhabitants per bank branch	8 521	3 455
Number of inhabitants per ATM	2 787	1 532
Number of bank accounts per inhabitant	2.2	2.6
Financial assets of economic agents ⁽¹⁾	EUR 6.3bn	EUR 11.1bn
Healthy outstanding credit of economic agents ⁽¹⁾	EUR 8.3bn	EUR 16.0bn
Rate of doubtful loans ^{(1) (2)} (%)	5.4	5.8

(1) With local credit institutions ; Bn: billion

(2) Doubtful loans/ Total loans

Source: Iedom, data at 31 December.

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Business indicators	2011
Average cost of credit for businesses (%; Jan. 2011)	4.57
Financial assets ⁽¹⁾ (millions of euros, at end Dec.)	2,467
Banks loans ⁽²⁾ (millions of euros, at end Dec.)	7,563
<i>Incl. operating loans (%)</i>	14.7
<i>Incl. investment loans (%)</i>	45.5
<i>Incl. construction loans (%)</i>	39.0

(1) From local credit institutions

(2) Total lending from credit institutions

Source: Iedom, data at 31st December.

Household indicators	2011
Net doubtful loans (millions of euros)	102
Financial assets ⁽¹⁾ (millions of euros, at end Dec.)	7,907
Bank loans ⁽²⁾ (millions of euros, at end Dec.)	6,714
<i>Incl. consumer loans (%)</i>	23.9
<i>Incl. home loans (%)</i>	76.1
Number of cases of overindebtedness	1,239

(1) From local credit institutions

(2) Total lending from credit institutions

Source: Iedom, data at 31st December.

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