

2010 in Reunion: a return to growth

After experiencing a slowdown comparable to that of mainland France in 2009, with GDP down 2.6% compared with 2008, economic activity in Reunion bounced back throughout 2010. The Business Climate Index (*Indicateur du climat des affaires* or "ICA") has progressively moved closer to its long term average, even speeding up in the final quarter. Household consumption has made a positive contribution to this growth, despite a backdrop of rising consumer prices. Investment on the other hand remained flat throughout the year, despite some signs of recovery. Foreign trade has intensified, both in terms of imports and exports.

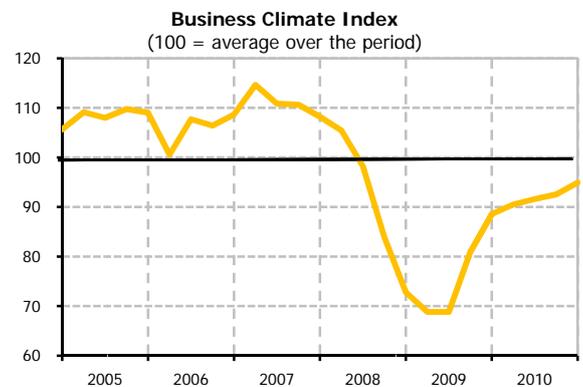
On a sectoral scale, change is extremely variable. While the agri-food industries, commerce, trade and tourism sectors have benefited from increased business, findings are less positive in agriculture, manufacturing industries and public works. Furthermore, increased business has not managed to limit unemployment, which has a rate according to the ILO of 28.9%. An increase of 4,800 of those in active employment but above all 9,500 additional unemployed, have thus increased the active population.

In this context, financing of the economy by the local banking system remained relatively sluggish in 2010. Household financing, supported by housing loans, nevertheless grew at a faster rate than that granted to companies.

A PROGRESSIVE RECOVERY

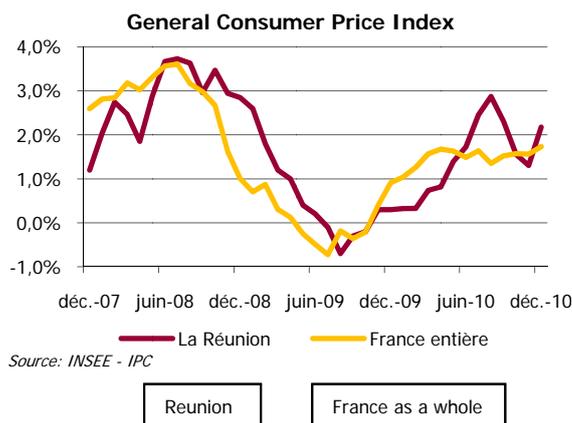
Continued growth of the ICA

The island's economic situation has recovered little by little, although not yet recovering to pre-crisis levels. After posting strong growth in H2 2009, the Business Climate Index (*Indicateur du climat des affaires* or "ICA") showed more moderate growth in the first three quarters of 2010, only to accelerate again in the final quarter. The index has nevertheless remained below its long term average.



Source: IEDOM business survey

Prices on the up again



2010 marked the return to inflation on the island, after a very moderate 2009 (+0.5%). This growth intensified over the year, and annual rolling prices reached 2.2% in December 2010, compared with 1.8% for France as a whole. The hike in service prices contribute to almost half of this increase. Energy prices also made a significant contribution to this rise, linked to the net increase in oil prices (+13% year on year). Other items showed more moderate increases.

Reunion

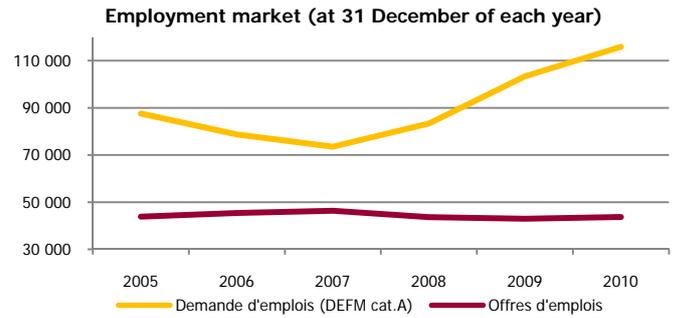
France as a whole

New adjustments to the job market

In December 2010, 12,600 additional job seekers (DEFM A / End-of-month job seekers category A) were added to the unemployment figures (Pôle Emploi, French National Job Centre) compared with December 2009, that is to say an increase of 12.2%. This increase nevertheless slowed compared with 2009, during which the increase totalled +24.7 %.

At the same time, 43,700 offers were received by Pôle Emploi in 2010, that is to say an increase of 1.8% after two years of contraction.

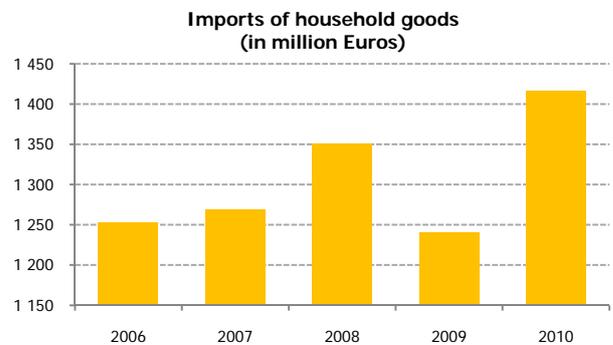
According to the Insee (French National Institute of Statistics and Economic Studies), those in active employment increased 5.2% in one year in Q2 2010. Around a third of this growth springs from the increase in the number of people actively employed (+4,800), the rest coming from an increase in the number of unemployed (+9,500): the unemployment rate (according to the ILO) thus totals 28.9 %, that is to say an increase of 1.6 points compared with 2009 (against +2.9 points between 2009 and 2008). Unemployment in Reunion stood at 98,500 in Q2 2010.



Recovery in household consumption

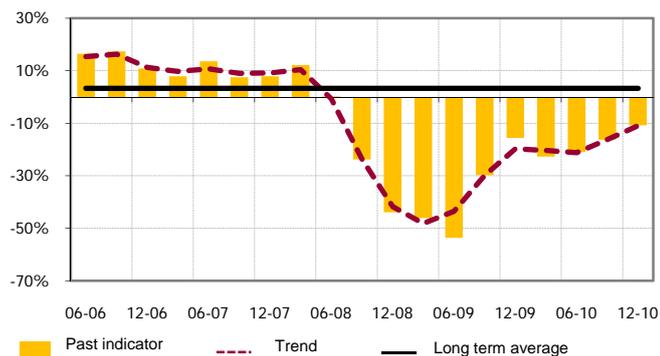
Household consumption, which remained steady in 2009, increased in 2010. At the end of December 2010, cumulative imports of household goods increased 14.1% compared with 2009 (against -8.2 % between 2008 and 2009). In detail, imports of home equipment grew +26.4% and day-to-day products +8.4%.

Sales of private cars also improved somewhat in 2010. In the first nine months of the year (last available figures), they grew 8.7% compared with the same period in 2009.



Investment remains flat

Balance of investment projections



The poor economic outlook resulted in low investment forecasts in 2010. The balance of opinion of company heads participating in the IEDOM business survey was thus worse than the long term average throughout the year, despite slight improvements being seen each quarter.

Imports of goods aimed at businesses (excluding acquisitions of planes by Air Austral) fell (-1.4 % compared with 2009, against -15.7 % one year previously). The increase in imports of intermediary goods (+14.4 %) was fully offset by the net reduction in imports of equipment (-7.7 %), a sector whose weighting is two times greater.

There are nevertheless perceptible signs of recovery of investment, over and above the slowing decline in the import of business goods reported above. Outstanding investment loans granted to companies on the island by all credit establishments were up at the end of December 2010 compared with December 2009. Sales of utility vehicles for their part grew 7.0% in the first nine months of 2010 compared with the same period in 2009.

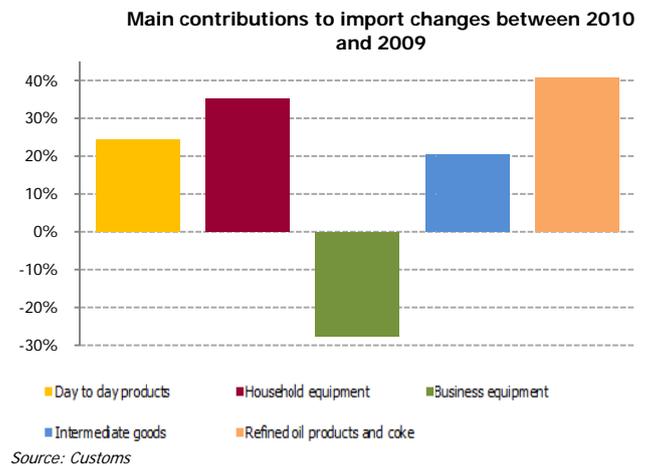
Finally, outstanding household loans have shown a notable increase: +4.8 % year on year in December 2010.

Increased foreign trade

Throughout 2010 foreign trade performed positively, and returned to their level at the beginning of 2008 (a high point after two years of downward trends).

Imports increased 7.5% (still excluding the acquisition of planes by Air Austral), bringing with it revenue from dock dues (*octroi de mer*) (+10.3%). This growth was mainly enabled by the increase of oil product imports and household equipment and, to a lesser extent, by day-to-day products and intermediary goods. Imports of business equipment on the other hand made a negative contribution to this area.

For their part, exports rose 14%. Over half of this growth can be explained by the rise in exports of products from agri-food industries. Re-exports (of business equipment, oil products and industrial and household waste) were the other main contributors.

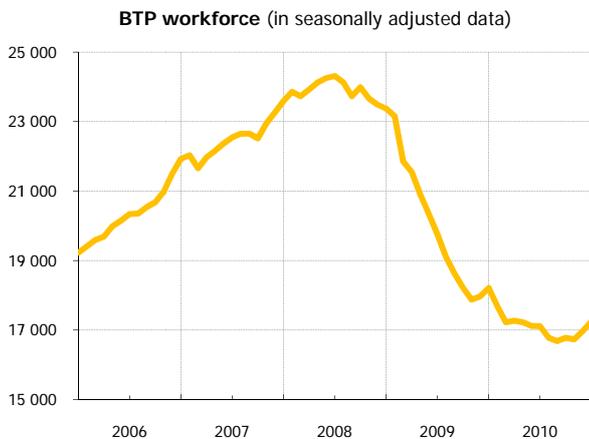


VARIABLE CHANGE ON A SECTORAL SCALE

A mixed year for agriculture

Growth in the "Agriculture, livestock and fishing" sector deemed by professionals to have shown a net rise in the sector in Q2, nevertheless stalled according to them as of Q3. Taking the year as a whole, certain indicators were positive, such as cattle and poultry slaughter (respectively +3.4% and +2.2%) and above all exports of fishery products (+34.9%), while others declined, such as pig slaughter (-1.6%) and milk collection (-5.1%).

An improvement in public works at the end of the year



The situation in the construction and public works sector remains difficult in 2010, despite the appearance of certain positive signs at the end of the year. Certificates delivered by the CONSUEL fell 24.1% over one year, that is to say the third consecutive year of falls (-13.8% in 2009 and -12.9% in 2008). Likewise, public orders further contracted compared with the previous year. Against this backdrop, the workforce in the sector fell 5.3% at the end of December, year on year. Nevertheless, over the last three quarters of the year, the opinion of company heads participating in the business survey remained better than the long term average. In Q4, and for the first time in more than two years, the workforce in the sector increased 2.7% (in CVS data) compared with the previous quarter. Furthermore, cement and clinker imports grew 15.6% (year on year), after falling more than 30% the previous year.

Sustained growth of activity in the manufacturing industries...

Closely linked to the public works sector, to which it is a significant taxpayer, the activity of manufacturing industries remained flat over most of the year, but the trend appeared to recover over the last quarter, and forecasts of businessmen for the beginning of 2011 are optimistic.

... but more dynamic for the agri-food industries

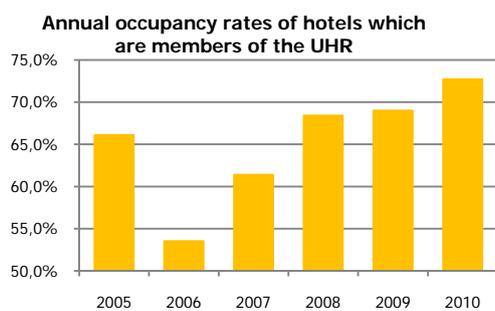
Affected by significant fluctuations throughout the year, activity in the agri-food sectors was generally positive in 2010. The 12.6% rise in exports of agri-food products between 2009 and 2010, supported by exports of sugar and fishery products, confirms this finding.

Commerce and service sectors generally on the right track

The commerce sector has benefited from the sustained level of household consumption. Its business volume grew over the year, despite a decline in Q3.

After a sluggish start to the year, business volumes in the trade services sector posted clear growth throughout the year, before contracting at the end of the year. Professionals in the sector are pessimistic in their forecasts for the beginning of 2011.

A good year for tourism



Source: UHR

After a slight fall in Q1, the balance of opinion relating to activity in the sector is generally better than the long term average for the rest of the year. Hotel occupancy reached record levels, with an average occupancy rate of 72.3 %, that is to say an increase of 3.7 points compared with 2009. Furthermore, the number of passengers between the department and mainland France grew 9.2%: the symbolic threshold of one million travellers was breached.

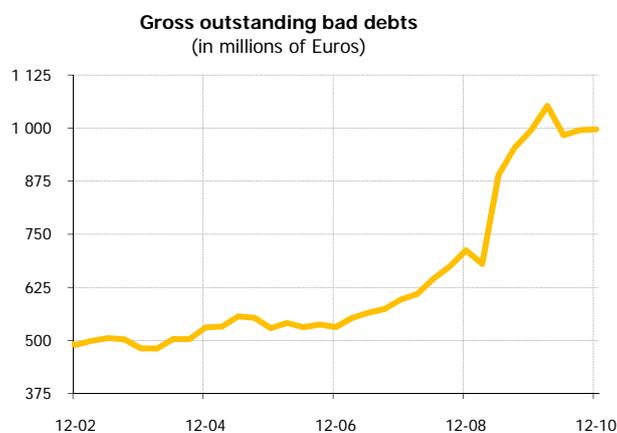
THE FINANCIAL SITUATION REMAINS FRAGILE

With the change on 30 June 2010 of regulatory declaration obligations incumbent on credit establishments (switch to SURFI, Système Unifié de Reporting Financier / Unified Financial Reporting System - and the abandonment of the BAFI system), the classification criteria of credit establishments in the monetary statistics of the IEDOM were reviewed. Thus a Local Established Credit Establishment (Etablissement de Crédit Installé Localement, ECIL) is deemed to be any establishment with an effective local representation, that is to say at least one permanent local agent. On the other hand, Credit Establishments Not Established Locally (Etablissement de Crédit Non Installé Localement, ECNIL) are those operating without local representation. The data published in this note may thus differ from that disseminated to date by the IEDOM. Nevertheless, all historic data has been reviewed according to the new methodology.

2010 was marked by a significant reform to the national regulatory framework of banking supervision, with the implementation in H2 of the new Surfi information system (*Système Unifié de Reporting Financier / Unified Financial Reporting System*). The establishment of this new system allows for a more exhaustive monitoring of the activity of credit establishments in the territory (cf. text box).

Financing of the economy by the local banking system remained relatively sluggish in 2010, total gross outstanding having grown just 1.3% over twelve months at the end of December 2010. Household financing posted better growth (+2.6% compared with December 2009) than business financing (+1.2% over twelve months), thanks in particular to the rebound of housing loans (+4.8% over twelve months). In terms of the collection of resources, the situation is comparable, with a limited rise (+2% over one year) of all financial assets collected.

After a 2009 which saw an explosion in bad gross debts borne by the local banking system (+33% compared with December 2008), 2010 saw a stabilisation of credit risk, with a maximum achieved in Q1 (1,052 million Euros). Gross bad debts borne by the local banking systems eventually fell below the bar of one billion Euros (a slight increase of +0.3% compared with the end of December 2009). They represent 5.7% of outstanding credits granted to customers of credit establishments at the end of 2010.



Source: Iedom

SEEKING NEW GROWTH DRIVERS

In 2011 the island's economy should benefit from the efforts made over the last two years to mitigate the effects of the crisis. The speeding up of social housing construction projects observed in 2010, the dissemination of best practice shown by the *Haut Conseil de la Commande Publique* (public procurement committee) and the increase in operations enabled by the Matignon protocol will, in particular, make it possible to speed up recovery from the crisis in the public works sector and related sectors. However, Reunion must also find new growth drivers to consolidate growth in coming years, favouring economic cooperation to better fit the regional context, making the most of the know-how and technological knowledge it boasts today.

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