

2010 Outlook for Reunion

STRUCTURAL CHARACTERISTICS

Contextual data

Administrative capital		Saint-Denis
Surface area		2,520 km ²
Geographical location	Indian Ocean, the Mascarene Islands, 9,180 km from Paris, 210 km from Port Louis	
Languages spoken		French and Reunion Creole
Currency		Euro
Status	Overseas Department and Region (DROM) and ultra-peripheral region (RUP)	
Global HDI rank (2007)		32
National representation		5 deputies and 3 senators
State representation		Prefect

From Bourbon to Reunion

A stopover on the Indian Ocean trade routes, Reunion has received, for several centuries, visits from sailors – Arab, Portuguese, etc. The French landed there for the first time in 1638, but the island only became a full colony in 1663. When the French East India Company went bankrupt, the island was bought by the King of France in 1764. It had 22,000 inhabitants, including 18,000 slaves. At the beginning of the nineteenth century the island's development was based on sugar cane farming. France bought sugarloaves baked in dozens of "factories" adjoining colonial properties.

The abolition of slavery on Reunion was declared on 20 December 1848. The island, with a population of 103,000 inhabitants, including 60,000 slaves, was given its current name back the same year. The economic and social system was reorganised around the concept of "Indentured labour" which, in practice, is still relatively close to the previous system of slavery. It was from the end of the fifties that the island really started to flourish, with the economy really taking off, the island seeing profound changes to infrastructures and landscapes with the improvement of facilities (road, air and port) and the construction of the hydroelectric barrage, hospitals and schools.

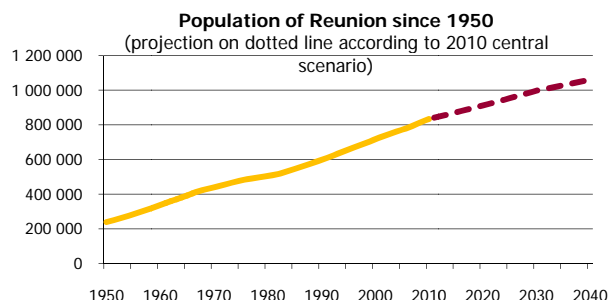
An institutional status common to French overseas territories

In the departmentalisation act of 19 March 1946, Reunion became a **French department** as well as a **Region**, following the law of 31 December 1982. Unlike regions in mainland France, its territorial footprint covers a single department and it has extended powers, in particular in matters of local public finances where the Region determines the bases, rates, exemptions and the distribution of dock duty. The constitutional reform of 28 March 2003 confirmed this dual institutional footing, creating the name of "**Overseas Departments and Regions**" (DROM).

Reunion also became an **ultra-peripheral region** (RUP) in 1997. The RUP system envisages the applicability of all community law. Under French law, certain adaptations to community law may be authorised in respect of "*special characteristics and constraints of ultra-peripheral regions*". Within this framework, the department benefits from financial support as part of the EU's regional policy and its "convergence" objective which seeks to support the structural development of the least developed regions in the Union.

CONTINUED DEMOGRAPHIC TRANSITION

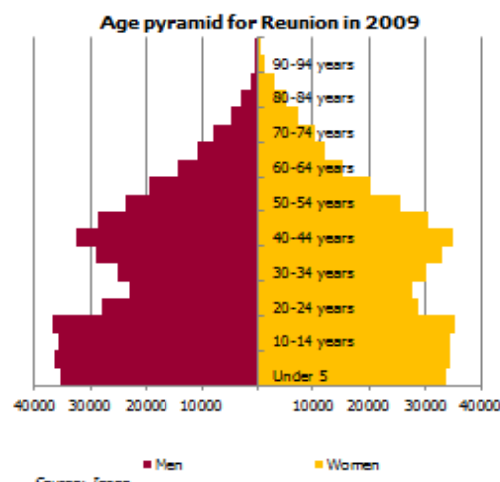
The result of migratory movements from Europe, Africa, India, China and islands in the Indian Ocean, the population of Reunion is mixed, multicultural and multi faith. Reunion is continuing with its demographic transition, which began in the 30s, with a birth rate notably higher than that of mainland France. The population of Reunion thus reached 833,500 inhabitants on 1 January 2010, that is to say a 2.5 times increase in 50 years. Population growth can mainly be explained by natural growth. Nevertheless, the growth rate in the number of inhabitants on the island, which stands at +1.5%, continues to show slight signs of slowing. The population of Reunion could pass the symbolic threshold of a million inhabitants by around 2030, according to the central hypothesis of demographic projections carried out by the INSEE.



Source: Insee (Census; pop. estimates at 1 January; projections)

Demographic indicators	Reunion	Mainland France
Population (in thousands, estimates at 1 January 2009)	833,5	62,8
Proportion under 19 (2009, %)	34,4	24,8
Proportion from 20-59 (2009, %)	53,7	57,8
Proportion over 60 (2009, %)	11,7	17,4
Population density at 1 January 2009 (inhab/km ²)	333	112
Annual average population growth rate (2000-2010, %)	1,5	0,6
Birth rate (rate per 1000 inhabitants, 2009)	17,3	12,8
Mortality rate (rate per 1000 inhabitants, 2009)	5	8,5
Child mortality rate (rate per 1000 births, 2009)	7,6	3,9
Fertility rate (in 2008)	2,48	2
Women's life expectancy at birth (in years, in 2008)	82,1	84,2
Men's life expectancy at birth (in years, in 2008)	74,6	77,6
Proportion of illiterate people from 16-65 (2008, %)	21	9

Source: Insee



Source: Insee

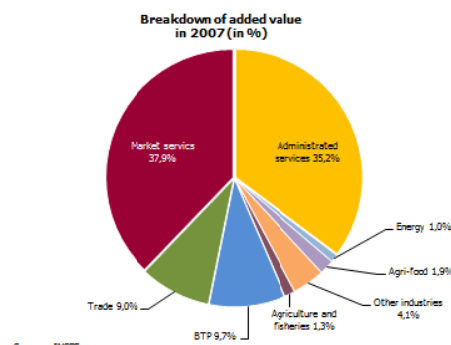
THE OUTLOOK FOR THE ECONOMY

The economy of Reunion is notable for its dynamic growth. Between 1997 and 2007 GDP almost doubled with a growth rate of 5% on average a year, at constant prices. The main driver of growth, final consumption has grown an average of 6% a year. Another driver of growth, investment has tripled in a decade, accelerating since 2003 thanks to fiscal measures supporting the economy and the implementation of large projects to stimulate the Building and Public Works sector (+ 14 % on average between 2003 and 2007). Growth has thus allowed Reunion to partly catch up with France itself, with an almost 10 point rise in GDP per inhabitant over 10 years, although this represents just 60% of the rate nationwide. On 2010, Reunion's GDP expressed in a constant currency basis remained stable (- 0.2 %), after a 2.7% fall in 2009. It increased 2.3% in value.

Main economic indicators	Reunion	Mainland France
GDP (in billions of current Euros, 2009)	14,4 ¹	1907,1
GDP Growth rate (in % in constant Euros, 2009)	-2,7 ²	-2,6
GDP per capita in current Euros, 2009)	17 520 ¹	29571
Inflation rate (in %, at end of Dec. 2010, year on year)	2,2	1,8
Unemployment rate (in %, 2010)	28,9	9,3
Number of cat A. jobseekers (end Dec 2010)	113 200	2725200
Total imports (in millions of Euros, 2010)	4 265	455,66 bill.
Total exports (in millions of Euros, 2010)	284	387,69 bill.
Coverage rate ² (in %, 2010)	6,7	85,1
Import dependency rate ³ (in %, 2007)	18,3	14,1
Government expenses in the collectivity (in millions of Euros, 200)	5 377	-
Liabilities of the collectivities of La Réunion (in % of GDP, 2009)	12,3	8,2
Financial support from Europe for the 2007-2013 period	1.9 bill	-

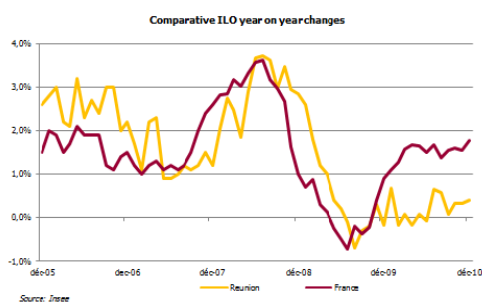
¹CEROM estimate; ² exports/ imports
³(imports + import duty)/(production + imports + import duty - exports - variation in stocks)

Source: Insee, Customs, Job Centre, Cerom, AFEI, Public Treasury, Region, Department



Source: INSEE

Moderate price hikes since 2005



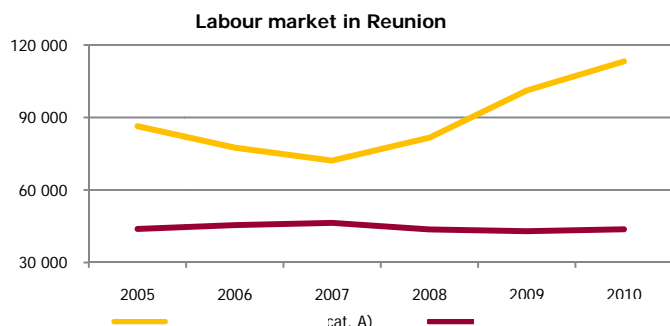
Source: Insee

Price hikes were moderate between 2005 and 2010 in Reunion (+ 1.8 % on average a year), although greater than that observed on a national level (+ 1.5%). The average growth of the consumer price index follows changes in prices of "services", the main component of the index, and "foodstuffs", which has experienced high increases. Conversely, prices for oil products are subject to significant fluctuations, but contribute little to general price rises over the period as a whole. Price rises in 2010 remained measured, despite being more notable than in 2009: + 2.2 % annual average after + 0.3 %.

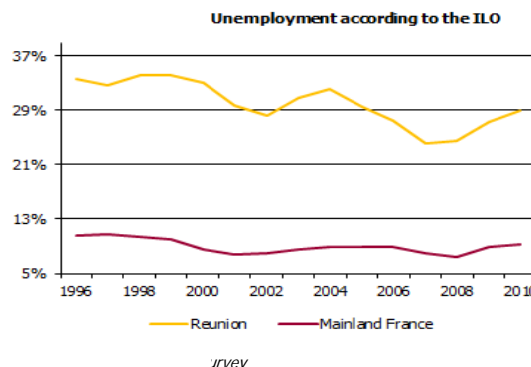
Imbalance of the labour market

Reunion is the second most dynamic French region in terms of job creation, with the total number of jobs on the island growing 2.9% a year on average between 2005 and 2008 (compared with 2.9% for France as a whole). Just over nine jobs in ten are salaried jobs. Over two thirds of these salaried jobs are in the services sector. Non market services make up most jobs, but this share is tending to fall.

Despite this dynamism, unemployment has remained notably higher than in mainland France (20 points more on average over the last decade). Nevertheless, the number of category A job seekers fell until 2007 when it began to grow, totalling 113,200 job seekers at the end of 2010.



Source: Pôle emploi - Dares



Total jobs	2000	2008 (p)	Evol. (1)
Total jobs	188 893	246 928	3.4%
Unsalariated jobs	21 347	20 201	-0.7%
Salaried jobs	167 546	226 727	3.9%
Agriculture	3 106	2 679	-1.8%
Industries	12 769	16 599	3.3%
Building/public works	9 682	19 479	9.1%
Commerce	22 431	30 310	3.8%
Market services	36 355	66 394	7.8%
Non market services	83 203	91 266	1.2%

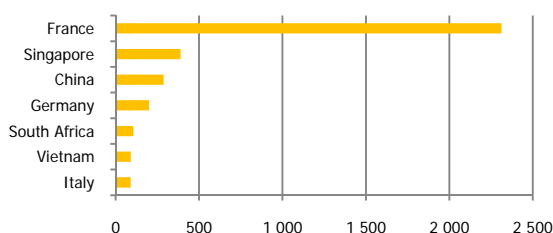
(p) provisional; (1) Average change per year source: Insee

Source: Insee

A trade gap suffering from a structural deficit

Like other overseas territories and most island economies, the economy of Reunion largely depends on imports for its supplies of goods and raw materials, which leads to a trade gap suffering from a structural deficit. The island mainly exports sugar and fishing products, other exports mainly being re-exported products. Also, mainland France is by fair the main supplier and customer of the island.

The main suppliers in 2010 (in millions of Euros)

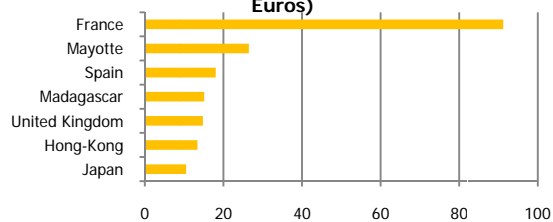


Source: Customs

Imports in value (in millions of Euros)	2010
Agricultural and fishing products	91.6
Intermediate goods	477.3
Oil products and hydrocarbons	521.8
Transport equipment	529.6
Agri-food products	652.8
Electrical, electronic and computer products	834.4
Day to day products for households	920.9
Total	4,028.3

Source: Customs

The main customers in 2010 (in millions of Euros)



Source: Customs

Imports in value (in millions of Euros)	2010
Agricultural and fishing products	4.9
Intermediate goods	12.0
Oil products and hydrocarbons	13.0
Industrial and household waste	28.1
Electrical products and transport equipment	86.9
Agri-food products*	236.3
<i>o/w sugar</i>	97.7
Total	381.0

THE MAIN BUSINESS SECTORS

The structure of Reunion's economy is characterised by the preponderance of services, whether market or non market. In terms of added value, the market services sector became the leading economic sector of the island in 2007, ahead of non market services, which nevertheless remains the leading employer sector.

Main sectoral indicators	2010	2010/ 2000 ¹	2010	2010/ 2000 ¹	
Agricultural production (in millions of Euros)	378.4	0.8%	Cement imports (tonnes)	376.3	2.1% ²
Sugar cane production (in thousands of tonnes)	1 877	0.3%	LBU amount (in millions of Euros)	.	1.2%
Sugar production (in thousands of tonnes)	206.8	0.2%	Number of tourists	420 300	-0.2%
Poultry, pork and bovine products (in carcass equi. tonnes)	21 858	-0.1%	Hotel capacity (number of rooms)	2 156	-2.5%
Fishing products exports (in millions of Euros)	58.3	3.5%	Number of airport passengers (in thousands)	2 090	3.4%
Building/ Public works workforce (at end Dec.)	16 785	2.4%	Number of health professionals	11 036	6.0%
Electrical compliance declarations by Consuel	7 378	0.4%	Number of schoolchildren (public and private)	240 444	0.4%

¹Average annual growth rate

Source: Customs, Consuel, Daaf, eRcane

²Average annual growth rate: ²2002 and 2010

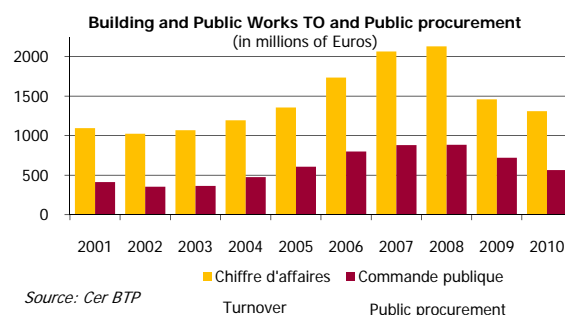
Source: Local education authority, DRESS, CCIR, Insee, IRT, Customs, Cer BTP

A modern and focussed sugar industry

Sugar cane has forged Reunion's identity. Today, the sugar industry has modernised and focussed on two sugar refineries (Bois Rouge and Le Gol). The department has produced an average of 200,000 tonnes of sugar a year over the last ten years, which remains below the quotas allocated (338,000 tonnes). Making up a third of exported goods, sugar represents the main source of goods exported from the island. The 2010 campaign saw a stabilisation of sugar production, very slightly less than that of 2009 but still above the ten yearly average (+3.1%).

A highly dynamic Building and Public works sector before a slump in business since 2009

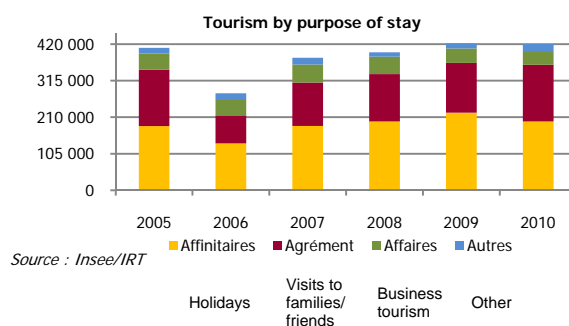
Building and Public works have been a driver of the island's economic development over recent years. Between 2002 and 2007, the sector's added value grew at the average rate of 16.1% a year. Furthermore, it employs just over 15,000 people in 2009, that is to say 12% of private salaried employees. From the middle of 2008, Building and Public works activity has seen a clear decline. The tightening up of access to credit and the clear slowdown in property demand, fed by uncertainties springing from the law on the economic development of overseas territories, has resulted in a contraction of the sale of new builds. At the same time, the completion of large scale projects (Route des Tamarins, etc.) and the abandonment or postponement of numerous projects by municipalities has meant that business in the sector has contracted significantly. In 2010 the situation in the Building and Public works sector deteriorated further, but some positive signs were observed at the end of the year.



Source: Cer BTP

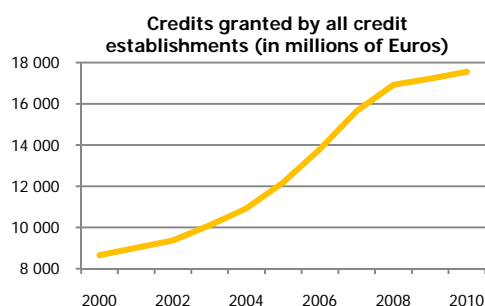
Tourism highly dependent on residents

The tourist sector represents the island's main source of exports. Tourist spending in Reunion (o/w over half is by local customers) represents only 2.6% of the total added value of the department, but the labour intensive nature of the sector makes it a significant driver of jobs, with 9,000 direct jobs. In 2010 Reunion welcomed 420,300 non resident tourists, in other words visitor rates approaching those of its best years.



Source: Insee/IRT

FINANCING OF THE ECONOMY



Source: IEDOM

The credit market in Reunion remains fairly concentrated. In 2010 there were ten banks and eleven financial companies subject to banking regulations established in the department, as well as four specialist financial institutions. The level of amenities in term of bank tellers and ATMs has improved greatly over recent years, although remaining lower than the national level. This situation does not nevertheless imply lesser access to banking services, due to the high concentration of the population in coastal zones.

Support by credit establishments for the dynamism of the economy in Reunion has taken the form of strong growth in loans granted to economic players as a whole (+8.7% on average a year between 2000 and 2008). The economic crisis has, since then, slowed this growth in credit and caused an increase in risks (6.2% of all loans in 2010). Finally, the locally established banking system grants

more credits than it receives deposits, which causes a structural burden on the refinancing conditions of local banks, and therefore on the cost of credit.

Business Indicators	2010
Bank credit facilities ¹ (in millions of Euros, at end of Dec.)	7 364
o/w operating credits (in %)	14.8
o/w investment credits (in %)	45.1
o/w construction credit (in %)	39.2
Average cost of business loans (in %, Jan. 2011)	4.57
Net bad debts (in millions of Euros)	294.0
Financial assets ² (in millions of Euros, at end of Dec.)	2 399

¹ credit facilities with all credit establishments

² with local credit establishments

Source: IEDOM

Household indicators	2010
Bank credit facilities ¹ (in millions of Euros, at end of Dec.)	6 552
o/w consumer credit (in %)	24.9
o/w housing credit (in %)	75.0
Net bad debts (in millions of Euros)	109.8
Financial assets ² (in millions of Euros, at end of Dec.)	7 657
o/w long term savings (in millions of Euros)	3 340
Number of overindebtedness cases	1 147

¹ credit facilities with all credit establishments

² with local credit establishments

Source: IEDOM

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