

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 (OMR)
Global HDI ranking (2010)	54
National representation	7 MPs and 4 senators and 1 representative at the Economic, Social and Environmental Council
State representation	Prefect

Historical background

The Island of Reunion was a stopover point on the trade routes in the Indian Ocean and was visited for several centuries by Malaysian, Arab and European sailors. 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.

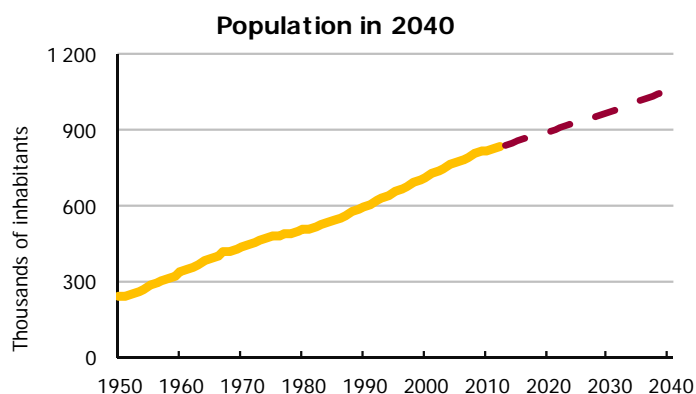
On 20th December 1848, the abolition of slavery was proclaimed in Réunion. The island, with 103,000 inhabitants at the time, including 60,000 slaves, adopted its current name in the same year. The economic and social system was reorganised on the basis of "recruiting" which, in reality, remained quite 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 a period of economic take-off with profound changes of infrastructure and landscapes, with the upgrading of facilities (road, air and port) and the construction of hydropower plants, hospitals and schools.

Institutional organisation

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 (OMR) in 1997. The system of OMRs provides for the applicability of the principle of the corpus of Community law. However, this may be adapted with respect to the specific characteristics and constraints of Outermost Regions. The department benefits from European funds under the EU's regional policy and its "convergence" objective, which aims to support the structural development of the EU's least developed regions. The 2007-2013 programming for these funds stands at EUR 1.9bn, which mainly focus on regional competitiveness, employment and territorial cooperation. The future programmes (2014-2020) plan to scale up financing for research and innovation, as well as for education and training.

DEMOGRAPHIC TRANSITION CONTINUES



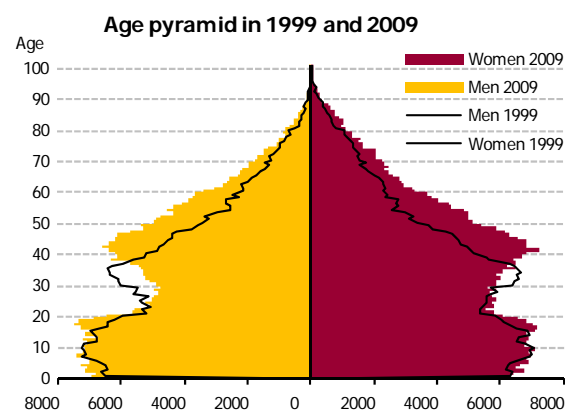
Source: INSEE (Censuses; pop. estimations at 1st January; projections).

Réunion's population is racially mixed, multicultural and multifaith 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, although the birth rate is still above that of mainland France. Réunion's population, which had reached 837,900 inhabitants at 1st January 2012, has seen a 2.3-fold increase in 50 years. This growth is largely due to natural increase, although the pace is gradually slowing down. However, according to the central hypothesis of the population projections made by INSEE, Réunion's population is expected to exceed the symbolic threshold of one million inhabitants towards 2030.

Demographic indicators	Réunion	France
Population (thousands, millions for France, at 01/01/2012)	837.9	65.8 ⁽¹⁾
Percentage of under 20s (at 01/01/2012)	33.0	24.7 ⁽¹⁾
Percentage of 20-59 year-olds (at 01/01/2012)	54.3	51.5 ⁽¹⁾
Percentage aged 60 and over (at 01/01/2012)	12.7	23.8 ⁽¹⁾
Population density (inhab./km ² , at 01/01/2012)	334	115 ⁽²⁾
Average annual pop. growth rate (% , 2002-2012)	1.2	0.6 ⁽³⁾
Birth rate (for 1,000 inhabitants, 2011)	16.9	12.6
Mortality rate (for 1,000 inhabitants, 2011)	4.8	8.7
Infant mortality rate ⁽⁴⁾ (for 1,000 births, 2011)	7.3	3.5
Total fertility rate (2011)	2.36	2.01
Life expectancy at birth for women (years, 2011)	82.9 ⁽⁵⁾	84.8
Life expectancy at birth for men (years, 2011)	76.5 ⁽⁵⁾	78.4
Percentage of illiterate people aged 16-65 ⁽⁶⁾	21	9

(1) At 01/01/2013, INSEE 2012 population survey; (2) In 2011 in mainland France; (3) Between 2003 and 2013; (4) Number of deaths before the age of one/number of live births in 2009, 2010 and 2011; (5) Average between 2009 and 2011; (6) In 2007 in Réunion and in 2012 in mainland France.

Source: INSEE.

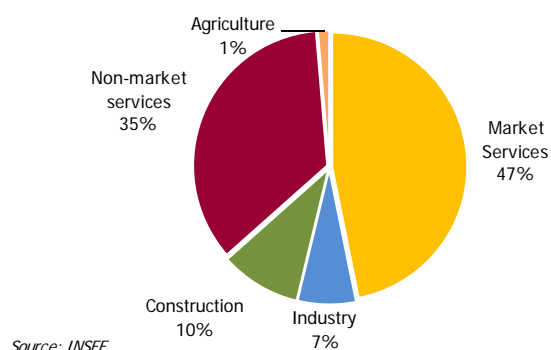


Source: INSEE - Civil Registry.

ECONOMY AT A GLANCE

In the recent past and up until 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 (GDP) almost doubled between 1997 and 2007, with an average annual growth rate of 5% in real terms (excluding the effect of inflation). Final consumption and investment, bolstered by tax incentives and the implementation of major construction projects, were the main engines of growth during this period. The change in the tax policy focus and the marked slowdown in the construction industry 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



Key economic indicators

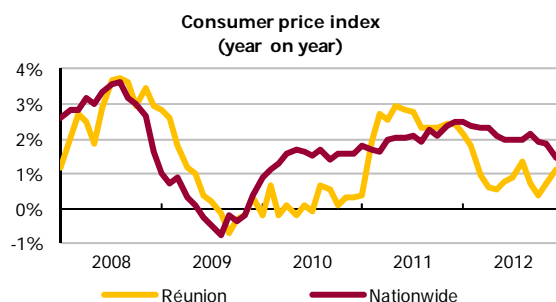
	Réunion	France ⁽²⁾
GDP (billions of constant euros, 2010)	14.4 ⁽¹⁾	2 032.3
GDP growth rate (% , constant euros, 2011)	1.2	0.0
GDP per capita (constant euros, 2010)	17,520 ⁽¹⁾	31,059
State expenditure in the Territory (% , 2010)	36.1	-
Debt of local authorities (% of GDP, 2010)	11.6	8.5 ⁽³⁾
European aid for the period 2007-2013 (billions of euros)	1.9	-

(1) Cerom estimation 2010, 2011 data for the amount not available; (2) 2012 data, unless specified otherwise; (3) Public debt notified or in the sense of Maastricht.

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

Moderate inflation

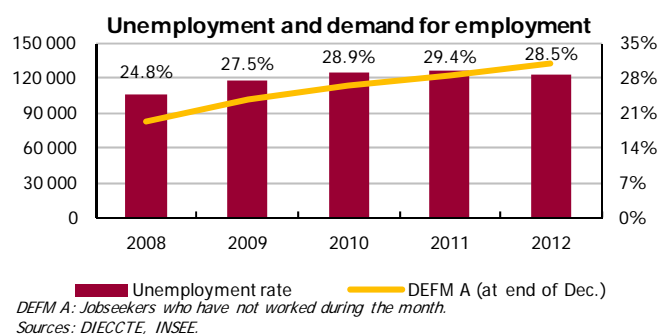
Inflation has remained moderate in Réunion in recent years (annual average of +1.7% between 2005 and 2012). It is on average the same as at the national level. The average increase in the consumer price index follows trends in the prices of the "services" item, which is the main component of the index, and "food" item. Oil prices are prone to high volatility, but contribute little to the overall price increase for the entire period. At the end of December 2012, the consumer price index had risen by 0.9% year on year, against +2.1% in 2011.



Labour market imbalanced

Between 2005 and 2008, Réunion was France's second most dynamic region in terms of job creation, with an annual average growth rate of 2.9% (against +0.9% nationwide). This increase brought down unemployment on the island which is, however, well above the level in metropolitan France. Since the crisis, there has been a marked slowdown in job creation and the number of category A jobseekers (total number looking for a full-time job) rose to 132,530 at the end of 2012. The deterioration of the labour market particularly affects the over 50s, among which the number of jobseekers is now higher than among the under 25s. The number of jobseekers who benefit from the RSA minimum income allowance is continuing to increase, due to the lengthening of periods of unemployment and the ageing of the population in question.

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

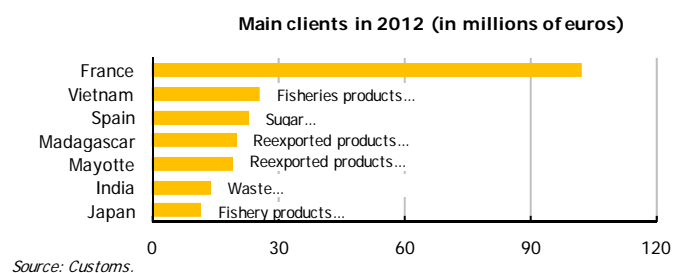
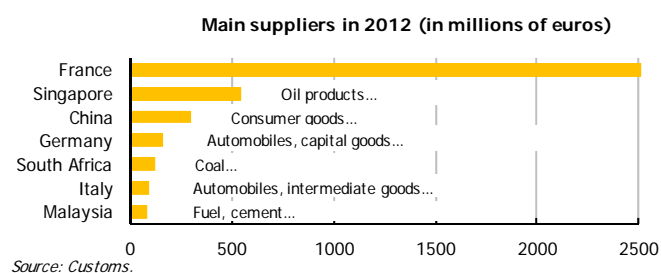


Employment (thousands)	2001	2011 (p)	AAGR 01-11 ⁽¹⁾
Total employment	208.8	255.7	2.0%
Self-employment	15.8	24.4	4.4%
Paid employment	193.0	231.3	1.8%
Agriculture	2.6	2.8	0.6%
Industry	14.7	16.6	1.2%
Construction	11.1	14.2	2.5%
Trade	25.4	31.6	2.2%
Market services	50.1	72.4	-0.4%
Non-market services	89.2	93.8	0.5%

(p) Provisional; (1) AAGR: 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 primarily concern re-exported products. Mainland France continues to be by far the island's main supplier and client.



Import values (millions of euros)	2012
Agricultural, fishery and aquaculture products	106.5
Oil products and hydrocarbons	716.5
Agrifood industry products	762.0
Intermediate goods	498.5
Mechanical, electric, electronic and IT equipment	747.5
Transport equipment	596.6
Household consumer goods	962.2
Other industrial products	269.3
Total	4,659.2

Source: Customs.

Export values (millions of euros)	2012
Agricultural, fishery and aquaculture products	4.9
Industrial and household waste	28.2
Agrifood industry products	183.4
<i>incl. sugar and rum</i>	<i>90.7</i>
<i>incl. fishery products</i>	<i>67.0</i>
Mechanical, electric, electronic and IT equipment	19.3
Transport equipment	23.3
Other products	47.8
Total	306.8

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 added value, the market service sector was the island's main economic sector in 2007, ahead of the non-market service sector.

Key sector indicators	2012	AAGR 02-12 ⁽¹⁾	2012	AAGR 02-12 ⁽¹⁾	
Agricultural production (EUR M, 2011)	399.4	1.6%	Cement imports (tonnes)	306.7	-0.4%
Sugarcane production (thousands of tonnes)	1,836	0.1%	Resources allocated to social housing (EUR M)	329.5	10.9%
Sugar production (thousands of tonnes)	209	0.8%	Number of tourists (thousands)	446.5	0.5%
Meat production (equiv. tonnes carcass)	52,239	1.4%	Number of nights (thousands)	842.8	-2.5%
Fishery product exports (tonnes)	4,416	-1.7%	Number of passengers at airports (thousands)	2,095	3.4%
Construction industry workforce (at end of December)	16,164	1.4%	Number of health professionals	2,121	2.5%
Building permit authorisations	8,400	0.6%	Number of students (public and private education)	222,256	-0.1%

(1) AAGR: Average annual growth rate.

Sources: Customs, Deal, Sicabat, Ariv, Daaf, eRcane, Construction industry paid annual leave fund.

(1) AAGR: Average annual growth rate.

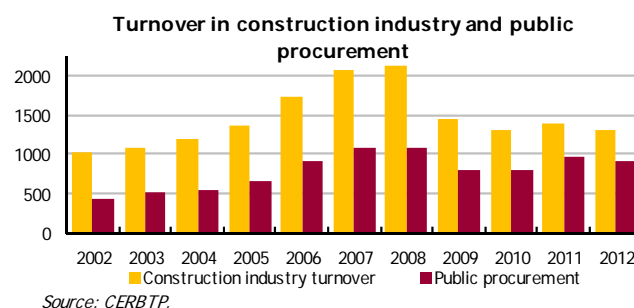
Sources: Education Authority, Dress, Insee, IRT, Customs, Deal, Airport company, syndicat mixte de Pierrefonds.

Modern and concentrated sugar industry

Sugarcane has shaped the identity of Réunion. Today, the sugar industry has modernised and is based on two sugar refineries (Bois Rouge and le Gol). Over the past ten years, the department has produced an annual average of 202,700 tonnes of sugar, which remains well below European quotas (338,000 tonnes). With a quarter of goods exported in value, sugar is the main source of the island's goods exports. Sugar production in 2012 was higher than the ten-year average (+3.0%).

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 added value of the sector increased at an annual average rate of 16.1%. 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 industry. 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 decline in sales of new properties. At the same time, the completion of major construction projects (Tamarins road, etc.) and the cancellation of projects by local authorities led to a sharp downturn in the industry's activity. The construction industry remained fragile in 2012. Turnover in the sector fell by 5.4%, following a 5.7% increase the previous year. The construction of new social housing units continued to support the industry (2.6% increase in the number of subsidised housing units programmed in 2012). However, construction start-ups were delayed at the end of the year and at the beginning of 2013, due to the uncertainties that successively weighed on the guarantees allocated to social landlords.



Tourism highly dependent on residents



The tourism industry is the island's main source of exports, although it still has little weight in total value added (2.6%). Due to its labour intensity, the industry provides an important number of jobs, with 6,750 people in direct paid employment in 2011. The number of tourist visits to Réunion declined in 2012, following a record year in 2011, with the department receiving 446,500 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 2012, 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 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 significantly slowed down this growth (annual average of + 2.2%) and has led to an increase in risks. Doubtful loans accounted for 6.3% of bank lending at the end of December 2012. Finally, the locally established banking system allocates more loans than it collects deposits, which weighs structurally on its refinancing conditions.

Monetary and financial indicators	2002	2012	France
Number of inhabitants per bank branch	8,105	3,535	1,661
Number of inhabitants per ATM	2,547	1,425	1,085
Number of bank accounts per inhabitant	2.2	2.3	3.7
Financial assets of economic agents ⁽¹⁾ (EUR bn)	6.4	11.5	1,695
Performing outstanding loans of economic agents ⁽¹⁾ (EUR bn)	8.7	16.4	1,542
Rate of doubtful loans ^{(1) (2)}	5.2%	6.3%	4.2%

(1) With local credit institutions; bn: billion.

(2) Doubtful loans/total loans.

Sources: IEDOM, data at 31st December; Banque de France.

Business indicators	2012
Average cost of credit for businesses (July 2012)	3.8%
Financial assets ⁽¹⁾ (millions of euros, at end Dec.)	2,490
Bank loans ⁽²⁾ (millions of euros, at end Dec.)	7,580
<i>incl. operating loans</i>	15.3%
<i>incl. investment loans</i>	43.8%
<i>incl. construction loans</i>	40.1%

(1) From local credit institutions.

(2) Total lending from credit institutions.

Source: IEDOM, data at 31st December.

Household indicators	2012
Net doubtful loans (millions of euros)	125
Financial assets ⁽¹⁾ (millions of euros, at end Dec.)	8,242
Bank loans ⁽²⁾ (millions of euros, at end Dec.)	6,999
<i>incl. consumer loans</i>	22.7%
<i>incl. home loans</i>	77.3%
Number of cases of overindebtedness	1,153

(1) From local credit institutions.

(2) Total lending from credit institutions.

Source: IEDOM, data at 31st December.

N.B.: The data used in this note are as of 31st December 2012 unless specified otherwise.

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Publication Director: N. de SEZE - Editor-in-chief: A. BELLAMY-BROWN

Edited and printed by: IEDOM

Printed: July 2013 – Legal Deposit: July 2013 – ISSN 1952-9619