

Mayotte's economy in 2017

And yet there were clear signs of recovery at the end of the year...

Mayotte's economy, marked by a wait-and-see policy by economic actors in 2016, showed resilience right at the beginning of 2017, despite a number of difficulties related to a tense social climate, prior to showing signs of recovery again at the end of the year. This favourable upturn in the economic situation was based on household consumption, which remained strong, and a return on investments, allowing business leaders to gradually regain confidence in their activities. The Business Confidence Index (BCI) consequently saw a modest rise in the first half of the year to a level close to its long-term average, prior to gaining momentum in the third quarter to well above that level at the end of the year.

Household consumption and business investment, in an environment of price stability, drove imports, which rose again. The labour market made headway with its "formalisation", after a relative stability at the beginning of the year.

Overall, business leaders resumed a positive activity starting in the second half of the year, as was the case for the trade sector. However, following a positive year in 2016, the market service sector saw its activity decline throughout the year.

In a generally favourable context, the financing of the economy by the banking system continued in 2017, bolstered by the upturn in business investment loans, as well as the good performance of loans allocated to households. Furthermore, the collection of savings, driven by dynamic overnight deposits, continued on its upward path in 2017. Finally, the quality of the portfolio of local credit institutions is continuing to improve, with a fall in the rate of non-performing loans.

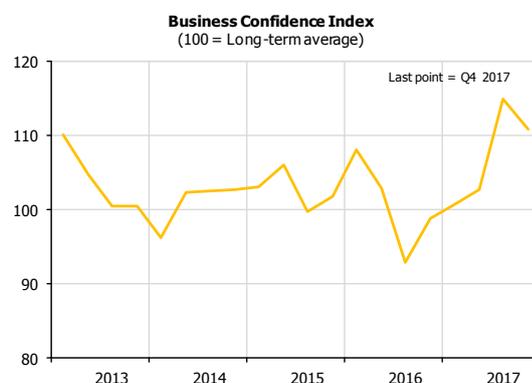
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POSITIVE TREND FOR MACROECONOMIC INDICATORS

Return of positive business climate

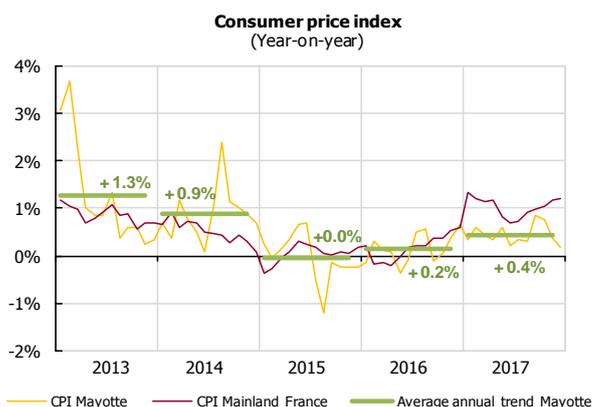
2017 marked a return of the BCI above its long-term average throughout the year. After a moderate rise in the first half of the year, the indicator leaped to a record level in the third quarter (+15.0 points above its long-term average). This economic upswing continued at the end of the year, with a positive economic outlook.

After having shown resilience, business leaders regained a business climate they consider positive.



Source: IEDOM economic survey.

Inflation held in check



Source: Insee, monthly data.

In 2017, prices rose by an average of 0.4% (against +0.2% in 2016). There was a change in the dynamics of previous years with a marked return of inflation in energy prices (+5.8%, against -2.6% in 2016) and a more rapid increase in food prices (+2.5%, after +1.1% in 2016).

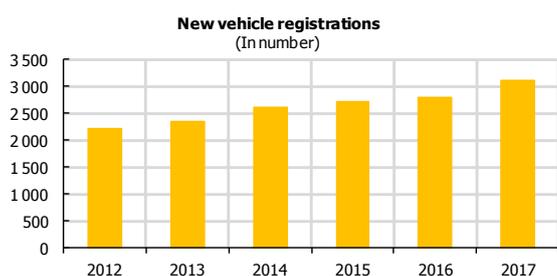
However, prices of manufactured goods continued to fall at a faster rate (-3.1%, after -2.7% in 2016).

Formalisation of the labour market continues

In 2017, the number of category A end-of-month jobseekers (DEFM A) registered at the Pôle Emploi employment agency gathered pace (+9.4%, against +4.6% in 2016 – seasonally adjusted data), and reached 13,235 people at the end of December 2017. This sharp rise was equally divided between men and women and between all age categories. Indeed, the number of male and female jobseekers rose by 9.8% and 8.9%, respectively. The number of category A jobseekers under 25 saw renewed growth (+12.8%, against -5.0% in 2016). At the same time, the number of jobseekers over 50 and those between 25 and 49 continued to rise at a fast pace (+9.3% and +8.2%, respectively).

The unemployment rate as defined by the International Labour Organization (ILO), calculated by Insee, fell in 2017 after two years of sharp rises (-1.2 points, against +3.5 points in 2015) and stood at 25.9% of the working population, *i.e.* 17,300 unemployed (200 more than in 2016). This decline in the unemployment rate is firstly due to a rise in the employment rate¹ (+1.8 points to 38.5%), whereas it had remained relatively stable since 2014. But it is also due to an increase in the activity rate² (+1.6 points), which now stands at 52.1% of the working population. However, the absorption of demand by job creations remains largely insufficient, whereas the latter rose compared to the previous year (+3,500 jobs, against +1,200 in 2016). Finally, people seeking employment have confirmed their willingness to be formalised, as can be seen with the decline in the “halo around unemployment”³ (21,900 people, *i.e.* 2,200 less than in 2016).

Strong household consumption



Source: Préfecture of Mayotte, seasonally adjusted by IEDOM.

After a complicated start to the year, household consumption gradually picked up during the year, showing its strength and its capacity to absorb negative shocks to continue to provide major support to the island's economic activity.

While business leaders in the trade sector stated that their activity had deteriorated at the beginning of the year, they subsequently said that there was an improvement in the second half of the year. At the same time, investment prospects held up for the third year in a row, showing an intention to invest by retailers.

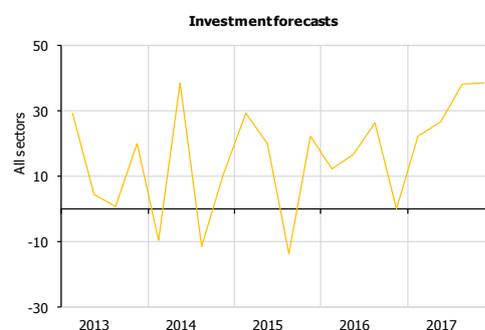
Overall, the indicators related to household consumption rose at a faster pace, with the exception of imports of everyday products, which rose at a slower rate (+4.3%, against +7.2% in 2016). Consequently, imports of household capital goods rose by 21.1% and registrations of new vehicles by 10.9% (increase for the fifth year in a row). Finally, outstanding bank consumer loans maintained a sharp growth rate (+18.3%, against +19.3% in 2016).

Recovery in investment

In 2017, the gradual return to a positive economic outlook was stimulated by both household consumption and investment, which returned to generally well-oriented indicators. The wait-and-see behaviour of investors, which predominated in 2016, would appear to be subsiding, giving way to an optimistic trend for the realisation of projects. Consequently, the positive trend for the economic indicators mentioned below is in line with the investment forecasts announced by business leaders.

The trend for investment-related indicators shows this renewed confidence: imports of professional capital goods rose by 15.3%, against 1.7% in 2016. Similarly, the outstanding amount of bank investment loans returned to positive growth (+14.3%, against -11.9% in 2016). However, its share in the loans allocated to companies is continuing to decline and stood at 66.4% (against 67.6% in 2016). However, this slight decline is tempered by the fact that there was strong bank activity and therefore a substantial overall increase in outstanding bank amounts.

This willingness to invest concerns all sectors, with the exception of the agribusiness and tourism industries, which are marked by volatile investment prospects.

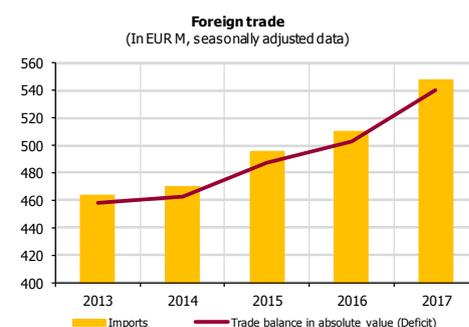


Source: IEDOM economic survey, seasonally adjusted data.

Imports gather pace

Imports continued on their upward path and stood at EUR 547.9m (+7.4%, after +3.0% in 2016 – seasonally adjusted data). This increase is due to all import items. Indeed, imports of household and professional capital goods and everyday and intermediate products all increased by 21.1%, 15.3%, 4.3% and 2.2%, respectively. Finally, contrary to the previous year, exports rose by 8.4% and stood at EUR 7.7m in 2017.

However, due to an increase in imports higher in value than for exports, the trade deficit grew by 7.3% in 2017 to EUR 540.2m.



Source: Regional Customs Department, seasonally adjusted by IEDOM.

¹ The employment rate is the ratio of the population with a job (employed working population) to the corresponding total population.

² The activity rate is the ratio of the employed working population to the total working population (total employed working population and number of unemployed).

³ ILO has provided a strict definition of unemployment, but which does not take into account the fact that some people want to work, but are “classified” as inactive, either because they are not rapidly available to work (two weeks), or because they are not actively looking for a job. These people form what INSEE calls a “halo” around unemployment.

MIXED SECTORAL ACTIVITY

Stop to farm fish exports

As a result of a stop in activity caused by a lack of production of fry, which are raw materials for fish farming, there have been no farm fish exports since November 2016. Consequently, the industry needs to restructure itself in order to resume a sustainable activity. However, the time it will take for this recovery remains uncertain given the fact that major investments are required to kick-start it.

Sluggish activity for the agribusiness industry

As in 2016, activity in the agribusiness industry remained sluggish, despite a slight upturn in the second quarter. Indeed, the turbulent social climate in the sector has undoubtedly contributed to the deterioration in activity. However, business leaders are expecting a recovery in activity in early 2018 and are optimistic about their investment prospects.

Reduced industrial activity

Following the same trend as in the agribusiness sector, business leaders' perception of industrial activity remains volatile with a slight improvement in the second quarter, but which did not materialise at the end of the year. However, an upturn in activity is expected at the beginning of the year. In addition, business leaders in the sector maintain their positive positions in terms of their investment intentions, for both the past and coming year.

Construction industry struggles to recover a positive path

Following a relatively variable year in 2016, marked by the low level of activity, 2017 remained on the same trend, with major difficulties for business leaders in the sector to make their activities sustainable. The volatility in charges and payment periods are factors which disrupt activity, as is the case with the resulting cash flow difficulties. However, this deterioration needs to be qualified in terms of the previous year given that there are certain positive economic factors, in particular a return on investment in the private sector which benefits part of the construction sector. Indeed, in the third quarter, business leaders stated that their activity was relatively stable, while their investment prospects remained optimistic throughout the year and in particular for early 2018.

Orders from the private sector are increasingly frequent and thereby give the sector a reliable source of activity. In 2017, the main actors behind this private recovery were companies, with an increase in the outstanding amount for bank property loans which topped the EUR 100m mark and stood at EUR 103.9m at the end of the year (+28.6% compared to 2016). Similarly, the outstanding amount of bank housing loans to households rose by 6.9% and stood at EUR 196.9m. This strength in property loans provides fresh support to an activity which traditionally relies on public procurement.

Improvement in trade activity in the second half of the year

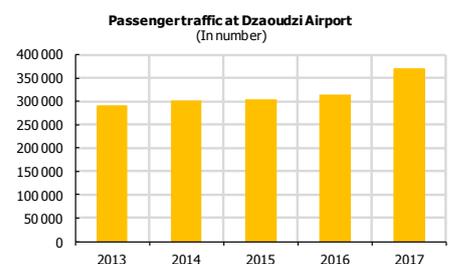
Following a complicated start to the year, activity in the trade sector stabilised in the third quarter and subsequently recovered at the end of the year. The good level of performance of household consumption is the main source of this growth. It is also driven by banking activity, which continues to see sharp growth. Cash flow, which had been sluggish during most of the year, saw a marked improvement at the end of the year, giving signs of an upturn in activity which was reinforced by the decline in charges. Furthermore, business leaders in the sector have confirmed their willingness to invest in 2018. Consequently, the indicators are generally well-oriented, meaning that activity should grow stronger next year.

Decline in market service activity despite an improvement in the economic environment

After encouraging signs in 2016, business leaders noted a decline in their activity throughout the year, in contradiction with their expectations, with the exception of the last quarter where they had forecast a decrease in activity. Paradoxically, all the indicators related to the situation in the sector improved: increase in cash flow, decline in charges and shorter payment periods. Consequently, companies in the market service sector remain pessimistic about the sustainability of their activities. This effect was especially marked at the end of the year given the negative forecasts concerning 2018. Investment forecasts do, however, remain on an upward trend.

Airline activity benefits tourism

The slight progress in the tourism sector is due to the development of airline traffic and, in particular, the evolution in the number of passengers, which rose by 17.8% in 2017 (against +3.4% in 2016). Airline activity is strong, with the arrival of direct lines between mainland France and Mayotte, as well as new competitors. The number of flights, which fell by 24.0% compared to 2016, reflects an increasingly high seat-occupancy rate.



Source: Mayotte Airport, seasonally adjusted by JEDOM.

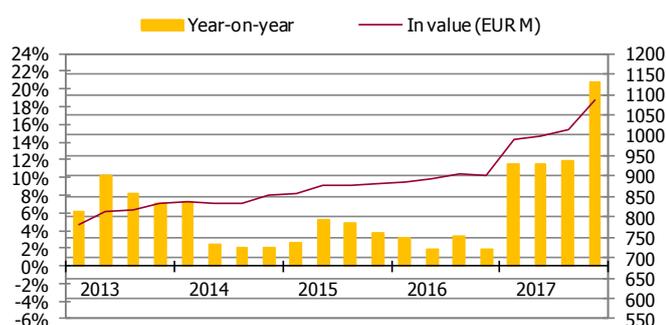
GROWTH IN BANKING ACTIVITY IN 2017

Collection of savings increases again

In 2017, the **financial assets held by economic agents in Mayotte** rose by 9.8% year-on-year. They thereby confirm the trend seen for three years now. Bolstered by the positive trend for collection from companies, they stood at EUR 625.6m at 31 December 2017. With EUR 393.7m collected, **overnight deposits** continue to be the driving force behind this increase. However, there was a 3.6% decline in **liquid and short-term investments**, from an outstanding amount of EUR 150.3m to EUR 144.8m, following the 17.3% drop in investments indexed on market rates. Finally, **long-term savings**, which amounted to a total of EUR 87.1m, continued on their upward trend (+1.2%, after +4.7% in 2016).

Dynamic demand for financing

Trend in outstanding performing loans for all credit institutions



Source: IEDOM, Surfi.

The total amount of gross outstanding loans allocated to the economy by all the credit institutions (whether established locally or not) rose by 10.1% and stood at EUR 1,119.7m at the end of 2017.

The **consumer credit** of households in Mayotte continued its sharp rise in 2017 and rose by 18.3%, after +19.3% in 2016. The outstanding amount for credit thereby reached EUR 211.1m at 31 December 2017.

At the same time, growth in housing loans to households and property loans allocated to companies remained strong with +6.9% and +28.6% year-on-year, respectively.

Contrary to 2016, when they declined (-8.9%), there was a sharp rise in business investment loans in 2017 (+14.3%). They stood at EUR 276.7m and account for 66.4% of loans

allocated to companies. This growth was mainly concentrated in the second half of 2017 (+14.2%).

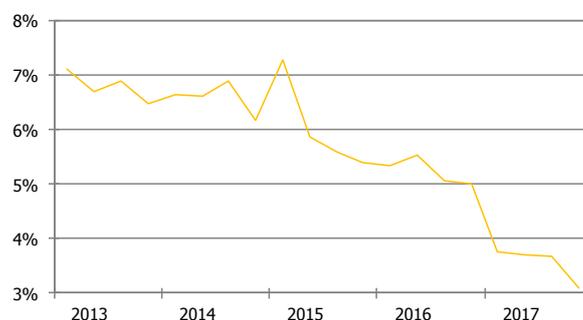
Decline in local loss rate

The outstanding amount of **gross non-performing loans** declared by locally established credit institutions (ECILs) decreased by 27.3%,⁴ after a 3.9% decline in 2016, and stood at EUR 28.1m. The rate of non-performing loans fell by 2 points and now stands at 3.1%.

This decline in the loss rate was mainly seen in the first quarter of the year (-24.3%) and consequently levelled off in the following quarters.

Following a sharp decline in 2016 (-37.1%), provisions remained relatively stable over the period and stood at EUR 12.5m (+2.3%). The provisioning rate of ECILs consequently stood at 44.4%.

Rate of gross non-performing loans of locally established credit institutions



Source: IEDOM, Surfi.

HIGHLY UNCERTAIN ECONOMIC OUTLOOK IN 2018

2018 started on a positive path and, even if the recurrence of all types of social conflicts seen in 2017 called for caution, observers were expecting a renewed strengthening of the business climate. The general social movement at the start of the year, which led to much of the department's economy being blocked and an unprecedented cash flow crisis for companies, is likely to radically reverse the trend.

Beyond settling core issues related to the security of goods and persons and the upgrading of basic infrastructure (health, education, vocational training, etc.), initiatives are expected from the various stakeholders in terms of economic development and improving the social dialogue in companies, which are all challenges for confidence to return in Mayotte.

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⁴ Evolution due to the reclassification of debts from local institutions.