



ECONOMIC CONJUNCTURE

Annual summary 2025

A timid recovery, despite lower interest rates and inflation

Business conditions improved moderately in 2025. The economic recovery was held back by Cyclone Garance, the chikungunya epidemic, and budgetary and international uncertainties. The effects of the recovery in private-sector employment and lower inflation have not yet fully fed through to household consumption, while households' financial savings increased. Interest rates continued to fall in 2025, supporting a turnaround in residential investment and an increase in new lending to businesses in the second half of the year. Financial performance improved in 2025 for a majority of sectors, including services, which account for a large share of the territory's economy. However, an acceleration in the recovery in 2026 is threatened by the consequences of the conflict in the Middle East for hydrocarbon prices and by constrained public finance prospects.

Economic activity in Réunion still shows only a timid recovery in 2025

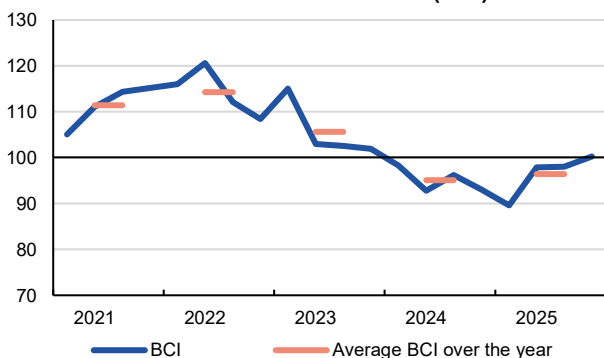
Business conditions recovered in 2025

The business climate indicator (BCI), which summarises the opinions of business leaders surveyed in IEDOM's economic conditions survey, rose slightly to an average of 96.4 points over the year, after 95.1 points in 2024. The BCI reached its low point in the first quarter of 2025 and has since recovered, stabilising at its long-term average. It suggests that a recovery is under way, bringing to an end the gradual slowdown in activity growth observed since mid-2022.

However, this recovery remains timid. It was first hampered by the consequences of two local exogenous shocks: Cyclone Garance and the chikungunya epidemic. In late February, Cyclone Garance caused considerable damage in Réunion, affecting farms, buildings (mainly detached houses) and roads. Half of the companies surveyed by IEDOM reported being affected by the consequences of the cyclone. For the island's economy as a whole, insured losses alone amounted to **€400 million**, according to France Assureurs. In addition, in the first half of the year, the spread of chikungunya in Réunion reached epidemic levels. More than three-quarters of the companies responding to IEDOM's economic conditions survey reported that the epidemic had had an impact on their activity in the second quarter, including absenteeism and lower turnover.

In the second half of the year, the recovery was held back by a high level of budgetary uncertainty. In particular, discussions surrounding the adjustment of payroll tax exemptions provided for under the LODEOM scheme and the abolition of public investment aid (ultimately abandoned) drew significant attention in Réunion. Parliamentary debates in the autumn on the draft Finance Bill contributed to freezing investment and spending decisions by economic agents. **63%** of Réunionese professionals surveyed in the economic conditions survey considered that their activity was affected by this political uncertainty at the national level.

Business climate indicator (BCI)



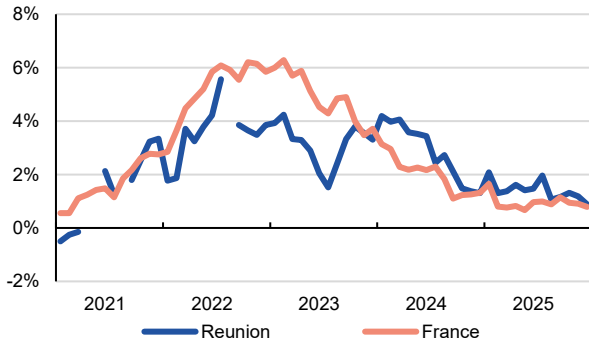
Source : Economic conditions survey - ©IEDOM

Business leaders estimate that their turnover increased by 0.3% on average in 2025, compared with -0.8% the previous year. Opinion balances on activity, staffing levels and investment forecasts returned to positive territory and were trending upwards at the end of the year.

Inflation Halved

Inflation in Réunion was halved compared with the previous year, standing at **+1.4%** on average in 2025. This decline reflects the slowdown in activity in the territory, lower energy prices and the tightening of Eurosystem monetary policy from June 2024 onwards. Measured year-on-year, inflation in Réunion stood at **0.9%** at end-December, the same level as in mainland France, where inflation had been higher than in Réunion for the previous two years.

Annual change (y-o-y) in the consumer price index



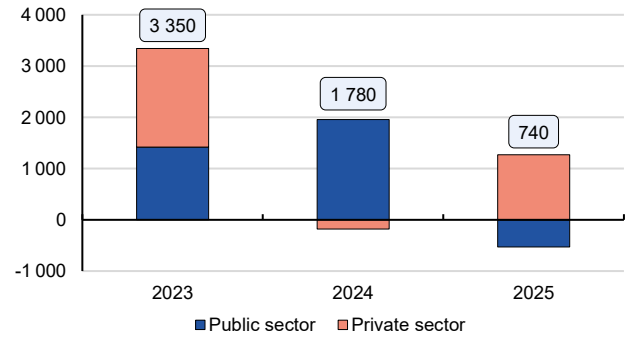
Source : Insee, monthly data - ©IEDOM

In detail, the fall in energy prices (-7.6% on average over the year) made a significant contribution to the moderation of inflation (-0.5 percentage point) in 2025. Food prices rose by 2.1%, contributing +0.4 percentage point. This change masks two opposing trends. On the one hand, prices of fresh products (fruit, vegetables and fresh fish) fell by an average of 1.3%, despite high levels linked to the agricultural damage caused by Garance (+19% month-on-month in March). This decline can only be understood in the context of the sharp increase in fresh product prices in 2024 following Cyclone Belal. On the other hand, prices of non-fresh products continued to rise by 2.6%. Service prices remained as dynamic in 2025 as in the previous year: they rose by 3.2%, after +3.1%, and contributed 1.5 percentage points to the overall increase. Lastly, prices of manufactured goods remained stable (+0.1%, after +0.4% in 2024).

Employment: a standstill in the public sector, recovery in the private sector

Employment in the public and private sectors followed opposite trajectories. In 2025, after an increase in jobs in 2024, the public sector recorded net job losses, in connection with the decline in the number of subsidised jobs known as PEC contracts (parcours emploi compétences), from 12,000 to 10,000 contracts. At the same time, the private sector, where employment had edged down in 2024, offset public-sector job losses in 2025 by once again creating net jobs. Overall, the number of jobs increased moderately, by 740 contracts, after +1,780 in 2024. This was the third-lowest increase in employment recorded over the past fifteen years.

Change in net job creation



Sources : INSEE, employment estimates; quarterly estimates Urssaf

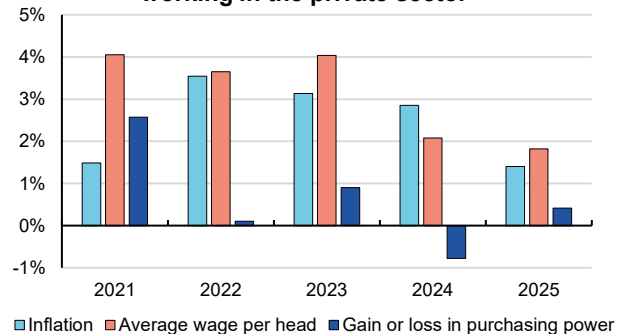
The number of jobseekers registered at the end of the month (DEFM) at end-December rose slightly year-on-year, by 0.5%, for categories A, B and C. For category A, i.e. registered jobseekers who had not worked at all during the month, the number also increased by 0.5%.

The unemployment rate stood at 16.3% of the labour force, on average, in 2025, after an average of 17.4% in 2024. It reached its lowest level ever recorded, despite the small number of jobs created. The improvement in the employment rate of older workers supported this trend, thanks to better integration into the labour market and stronger incentives to remain in employment.

Household Consumption Remains Hesitant

Household consumption remained subdued, continuing the trend seen in an already sluggish 2024. It was weakened by a wait-and-see attitude among households, which postponed purchases of durable goods, imports of which fell again (-4.9%). Revenue from octroi de mer, a tax levied on the import or production of goods, contracted by 3.7% over the year, confirming this decline. Against this backdrop, the automotive market stood out. After three consecutive years of decline, including -10.1% in 2024, sales of vehicles to private individuals recovered in 2025 (+7.0%), although they did not return to pre-Covid levels. It should be noted that sales of hybrid and electric vehicles lost momentum following the increase in octroi de mer on electric vehicles and the easing of European legislation on combustion-engine vehicles.

Change in the purchasing power of households working in the private sector



Source : Acoss, Urssaf, Insee

This sluggish consumption is all the more surprising, as the average wage per head in the private sector is now rising faster than inflation, at **+1.8%** compared with **+1.4%** in 2025, generating a slight gain in households'

purchasing power. Under these conditions, their financial savings, measured by the value of their assets deposited with local banking institutions, rose by 5.9% year-on-year at end-2025, after +3.4%.

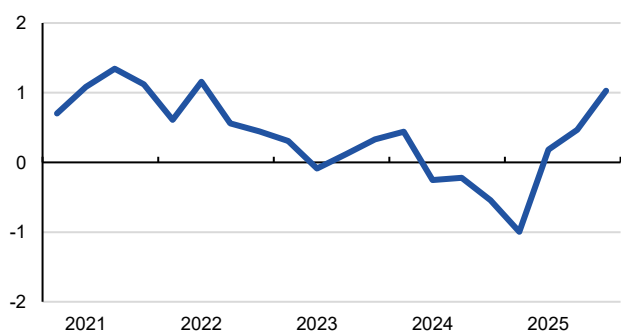
In addition, the vulnerability of the most financially fragile households remained high. The number of files submitted to IEDOM's over-indebtedness commission reached 2,044, up 19.3%, after +28.5% the previous year. This increase was higher than that recorded in mainland France (+9.8%). It was partly reflected in flows of fiduciary money, which is the payment method most used by these households: cash deposits with IEDOM fell by 4.0% in 2025, the sharpest decline since the introduction of the euro, excluding Covid. According to the Pigé barometer carried out among Réunion residents, two out of three say they struggle to pay their day-to-day expenses.

Investment Prospects Brighten

After reaching a low point in the first quarter of 2025, 12-month investment forecasts among companies responding to the survey rebounded sharply, reaching their highest level in three years. Year-on-year, imports of investment goods increased by 3.6% in value terms, after -8.2% in 2024. Outstanding investment loans granted by locally established banking institutions rose by 3.9%, after +1.9% the previous year.

For households, residential investment picked up again in 2025, against a backdrop of falling interest rates. The total value of transactions increased by 14.1%,

Opinion balance on investment forecasts



Source : IEDOM economic conditions survey - © IEDOM

approaching the total amount invested in 2023. Outstanding housing loans recovered to +0.3% at year-end, after -0.2% the previous year, but remained below trend.

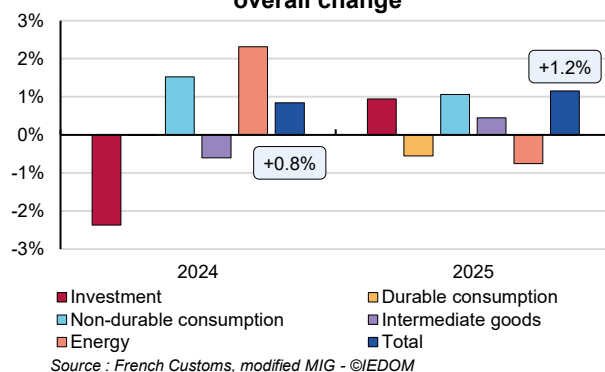
Foreign Trade Increased

Imports rose by 1.2% year-on-year, after +0.8% in 2024. Their level remained well below the 2022 peak, but was part of an economic environment characterised by lower inflation.

Imports of non-durable consumer goods were the main contributors to this increase, contributing +1.1 percentage points. Imports of investment goods rebounded in 2025, contributing +0.9 percentage point to the overall increase, as did intermediate goods, although to a lesser extent (+0.5 percentage point).

Conversely, the fall in oil prices in 2025 contributed to the decline in imports of energy goods, which made a negative contribution of around -0.8 percentage point to total imports. Lastly, durable consumer goods also reduced the value of imports, with a contribution of -0.6 percentage point.

Contribution of imports by product group to the overall change



Source : French Customs, modified MIG - © IEDOM

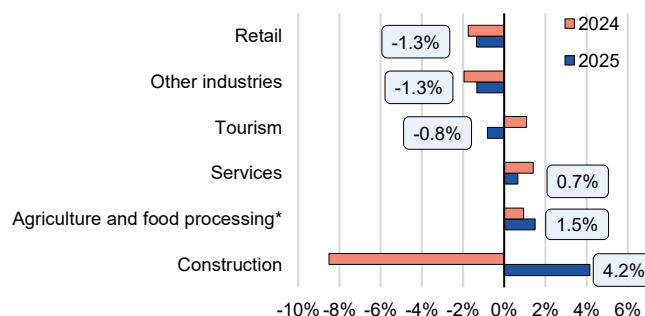
Exports increased moderately, by 2.3% in value terms, but declined in volume. Sugar exports returned to their historic low of 2023, after rebounding in 2024. In the rest of the sector, rum exports increased slightly (+1.0%) in 2025. Exports of fish and crustaceans fell by 2.9%. They were penalised by lower sales of toothfish, amid uncertainty over customs duties in the United States, one of the largest buyers of toothfish, where exports plunged by 30% in 2025.

Business Conditions Improve in Almost All Sectors

The economic recovery materialised unevenly across sectors of activity. Companies responding to the economic conditions survey estimated that their turnover increased slightly: +0.3% on average in 2025, after -0.8% the previous year. However, this average masks significant heterogeneity.

These improvements went hand in hand with a decline in business vulnerability, as the number of business failures fell in 2025 (-1.2%). The reduction in failures in the construction sector (-10.5%) accounted for most of this decline.

Change in turnover by sector



* food-processing industries

Source : IEDOM, economic conditions survey- © IEDOM

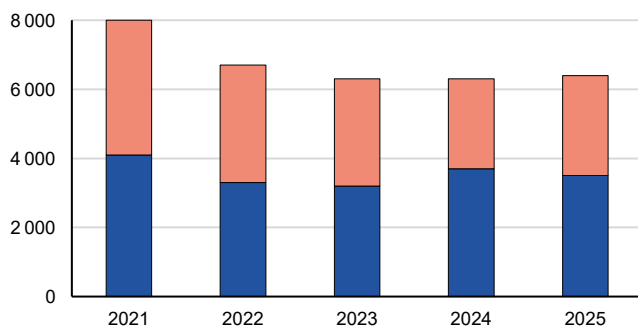
A Slight Improvement in Optimism in Market Services

After activity in the market services sector reached a low point in the first quarter of 2025, it gradually recovered over the year. According to the companies surveyed by IEDOM, this enabled the sector to record turnover growth, albeit modest, of +0.7%. This remains significant, as the sector accounts for more than one-third of the value added generated in the territory. The recovery was accompanied by an improvement in companies' cash positions and a rebound in 12-month investment forecasts.

The Construction Sector Recovers

According to the companies surveyed by IEDOM, the construction sector saw a rebound in activity in mid-year, after two years of decline. Turnover was once again on an upward trend in 2025 (+4.2%, after -8.5% the previous year). Selling prices stopped falling and operating expenses eased, in line with the moderation of input costs. As a result, the general building and public works index compiled by CerBTP fell by 0.1%. Against this backdrop, business failures in the sector fell sharply (-10.5%), but remained 50% higher than in the period before 2020. For the first time since 2021, the number of housing starts for detached houses increased, from 2,600 to 2,900 units. However, operating balances remained deteriorated, reflecting a still fragile financial situation, as shown by higher expectations of business failures than in other sectors. This fragility was accentuated by the decline, at end-September, in payment appropriations for public construction, civil engineering and roads, which were down compared with the previous year (-1.7%). In particular, public construction was in a transition phase in 2025, with the completion of major projects, such as the airport terminal, and the launch of new large-scale works, including the connection between the RN1 and the NRL, with the removal of the flyover and construction of the final interchange at La Possession.

Housing starts by type of dwelling



Source : Insee ©IEDOM ■ Collective housing ■ Detached housing

The new-build property market was also affected by the end of the Pinel and Girardin tax schemes. The pace of construction therefore remained limited, although it followed the trend in housing needs estimated by INSEE and DEAL at **6,000 homes per year** in a recent study¹.

Agriculture Hit by Garance

The agriculture and food-processing sector was affected by Cyclone Garance in late February 2025. The cyclone crossed the island from north-east to south-west. The combined effects

of cyclonic winds and torrential rain caused damage to farms already weakened by drought, with agricultural losses estimated at €110 million by a government fact-finding mission. All types of production suffered crop losses and damage to productive assets, such as trees and structures. A total of 1.135 million tonnes of sugar cane were harvested, matching the historic low recorded in 2024, but with a much lower sugar content (11.69%, after 12.98%). Some crops nevertheless performed better than expected, including mangoes, passion fruit and especially lychees, following exceptional flowering. Activity in the livestock sector also increased, supported by pig slaughter volumes, which rose by 5.0%, after +0.7% in 2024. For the food-processing industry, the cyclone sometimes disrupted supply chains and weakened processing facilities, redirecting their demand for raw materials towards imports.

Against this backdrop, the recovery in productivity remained moderate in the sector. Companies surveyed as part of the economic conditions survey reported a **1.5%** increase in turnover in 2025 compared with 2024, a year that had already been marked by Cyclone Belal. They reported a weakening of order books at year-end, followed by a deterioration in cash positions and longer payment times. By contrast, their perception was more favourable regarding the volume of activity and staffing levels.

Tourism: Record Visitor Numbers, but Mixed Performance

Tourist numbers in the first half of 2025 extended the results of a record year in 2024. In line with the growth in global tourism, air traffic increased by 4.3% over the year. The number of hotel nights reached a new high, thanks to a significant increase of 5.1% in 2025, mainly captured by the west of the island and high-end establishments.

These performances were not reflected in the confidence of business leaders in the sector surveyed by IEDOM, who considered that their volume of activity remained limited. Although external tourism was dynamic, local tourism was sluggish, weakened by the lacklustre momentum of household consumption in Réunion.

Business leaders considered that their cash positions tightened over the year and judged that their order books deteriorated in the second half, in connection with lower-than-expected bookings for 2026. The destination could also lose attractiveness following fuel price increases linked to international tensions.

Turnover Declines in Industry and Retail Trade

According to business leaders, turnover in the industrial sector fell by 1.3% over the year. Survey respondents considered that their cash position and payment times deteriorated in 2025. Conversely, the volume of activity and staffing levels were better oriented, as were investment forecasts. Paid hours were dynamic year-on-year in the second half of the year. Uncertainty was higher in this sector, which is more exposed to geopolitical tensions affecting supply conditions. Hit by difficulties in the construction sector, activity volumes in the construction materials industry gradually recovered over the year, while still being considered deteriorated.

¹ 172,500 dwellings to be built between 2021 and 2050, Insee Analyses Réunion, No. 93, November 2024. Available here: <https://www.insee.fr/fr/statistiques/8282207>

Activity in the retail trade sector also deteriorated in 2025, according to the companies surveyed. Sector turnover remained on a downward trend (-1.3%), although to a lesser extent than the previous year. Selling prices in the sector fell for the second consecutive year. Investment forecasts showed a certain renewed optimism, while payment times deteriorated

at the end of the year. The improvement in expenses helped restore companies' cash positions, particularly in the retail and motor trade subsectors.

Banking activity finances the recovery in investment

Growth in outstanding loans

As at end-December 2025, household bank debt with locally established credit institutions increased by 1.4% year-on-year, after +0.9% in 2024. This took place in an environment of increasingly favourable interest rates: the interest rate on household housing loans fell by 76 basis points in 2025. Outstanding housing loans rose by 0.3%, following an exceptional decline in 2024 (-0.2%). Consumer loans grew at the same pace as in 2024 (4.4% in 2024 and 4.5% in 2025).

The trajectory of outstanding corporate loans benefited from the gradual improvement in the business climate and better financing conditions. The interest rate on equipment loans fell by 64 basis points in 2025. As a result, outstanding equipment loans increased by 4.2%, after 1.2% in 2024. Conversely, operating loans, which accounted for 14% of total outstanding corporate loans, fell by 11.9%, in line with the repayment of State-guaranteed loans taken out during the Covid period.

Lastly, outstanding loans to local authorities contracted by 1.8%, after -0.1% in 2024, in the context of the year preceding the municipal elections, which is generally less conducive to the development of new projects.

Deposits increased across all investment horizons

The dynamics of household bank savings collected by local and non-local institutions returned to growth. Total outstanding deposits collected from households increased by 5.9%, after 3.6% in 2024.

Short-term investments were the only category in which growth slowed in 2025. They rose by 6.1% at end-December, close to their average annual growth rate over the past ten years. The decline in interest rates on regulated savings accounts reduced the attractiveness of this type of investment and may have slowed inflows, a trend also observed at national level.

Outstanding sight deposits recorded the most marked trend. As at national level, they moved back into positive territory after

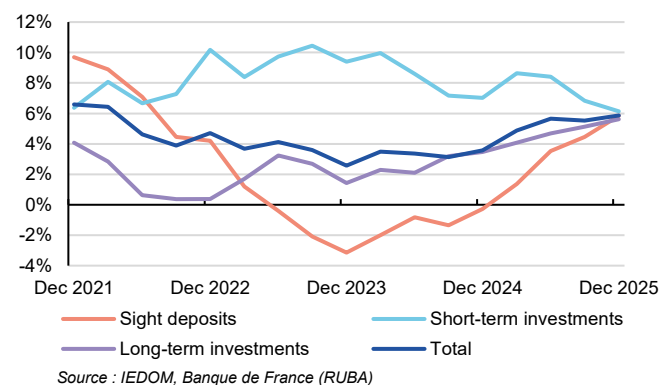
net outflows in 2023 and 2024. As a result, 2025 ended with a 5.8% increase in household sight deposits.

Long-term savings, including life insurance products distributed by banks, increased by 5.6% as at end-December 2025. They grew twice as fast as their ten-year average.

For businesses, outstanding bank deposits and investments increased by 6.0% year-on-year.

Sight deposits, which account for most of the outstanding amount, rebounded after three years of decline, in connection with repayments of State-guaranteed loans. Sight deposits increased by 5.3% year-on-year. Liquid investments also grew by 5.7%.

Annual change in household savings



Banking Risk on the Rise but Under Control

Banking risks remain broadly under control despite the increase in outstanding loans. Non-performing loans (i.e. loans for which a risk of non-repayment has been identified) rose by 2.3% year-on-year. These non-performing loans represented 4.0% of total outstanding loans as at end-2025, as in 2024. They stabilised at their pre-Covid level, which averaged 4.0% between 2015 and 2019. The provisioning rate stood at 39.8% at year-end, still below its pre-pandemic level of 55.5% over 2015–2019.

2026: will confidence return?

After a year of weak growth in 2024 and a timid recovery in 2025, the economic conditions for an acceleration in growth in Réunion in 2026 seemed to be in place. Inflation had fallen below the pace of wage growth, once again freeing up purchasing power for consumers. Interest rates had also declined, improving financing conditions for household and business investors.

However, uncertainty in the international economic environment, which increased significantly in 2025 with the implementation of a new trade policy in the United States, remained high in early 2026. In particular, the armed conflict between Israel and the United States on

the one hand and Iran, on the other, disrupted international hydrocarbon trade: gas and oil production capacity in the Middle East was damaged, while tanker traffic through the Strait of Hormuz is now being impeded.

For Réunion, the consequences of this conflict had already materialised in April through higher prices for petroleum products (petrol, fuel oil and aviation fuel) on which the island's transport sector depends. The exact scale of its impact on overall price increases and, ultimately, on household purchasing power is difficult to predict, as it is closely linked to the duration of the conflict. This situation already points to somewhat higher

inflation and weaker-than-expected growth for the territory in 2026.

In addition, budgetary room for manoeuvre remains constrained by efforts to reduce the national public deficit. Parliamentary debates on the 2026 Finance Bill concerning the abolition of public investment aid in the overseas territories and the adjustment of LODEOM exemptions illustrated the financial risk for French

overseas departments and regions of being fully involved in the national consolidation effort.

In this context, Réunion's economy should nevertheless remain well oriented in 2026. It can rely on a healthier entrepreneurial fabric, still favourable demographic dynamics and support from locally established banking institutions.

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