



ECONOMIC CONJUNCTURE

Annual summary 2024

A year of weak economic momentum

In 2024, economic activity in the territory lacked momentum. The business climate indicator (ICA) declined by 10 points compared with the previous year and fell below its long-term average. This pessimism reflects a marked slowdown in business volumes: according to the business leaders surveyed, turnover in the market sector increased by only 1% (after +5% in 2023).

Inflation fell below the 2% threshold, but only at the very end of the year. The labour market continued to weaken, creating only half as many net jobs (2,400) as in 2023, with job growth now relying significantly on employment creation in the public sector. Labour income grew more slowly than prices, limiting gains in purchasing power. The slowdown in activity and the accompanying uncertainties discouraged investment. In this context, all sectors recorded weaker performances than in 2023, including the financial sector, where outstanding loans slowed.

2024 was a transitional year, characterised by weak growth. A new cycle is expected to begin in 2025, during which the cushioning role of public spending is likely to diminish significantly in a context of national fiscal consolidation, but where a recovery in private consumption and a rebound in investment could ultimately materialise.

2024 : a year of weak economic momentum

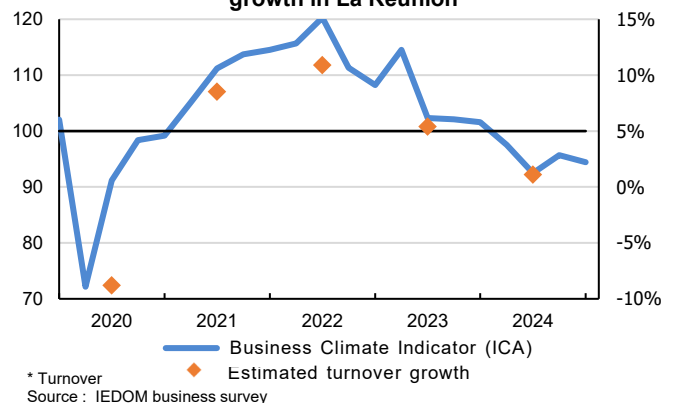
Business climate at its lowest level since 2013, excluding the Covid period

The business climate indicator (ICA), which summarises the opinions of business leaders surveyed in the IEDOM business survey, averaged 95 over the year, representing a decline of 10 points compared with 2023. This is its lowest level since 2013, excluding the Covid period. This indicates that growth in market-sector activity slowed further in 2024. No quarter stands out in particular, as the ICA remained below its long-term average (100) throughout the year (*Chart 1*).

This subdued climate is explained by weak business volumes. Turnover in the market sector increased by 1% in value, according to the business leaders surveyed. This is lower than in the previous year, when turnover grew by 5%. In addition, respondents have reported a negative assessment of the trend in their activity for six consecutive quarters.

Business leaders remain pessimistic about the start of 2025. They do not anticipate a short-term rebound in activity.

1 - Business climate and estimates of turnover growth in La Réunion*

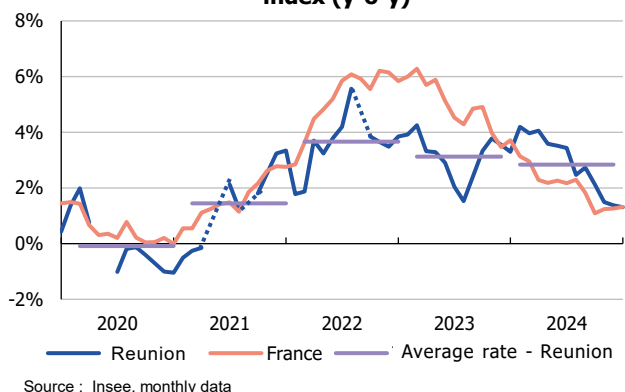


Inflation falls below 2% at year-end

Inflation fell below the 2% threshold at the end of the year, reaching +1.3% year-on-year in December. This favourable development reflects the slowdown in economic activity in the territory and the normalisation of monetary policy within the Eurosystem since July 2022. On an annual average basis, however, inflation remained

relatively high in 2024, rising by 2.8%, after 3.1% in 2023, compared with 2.0% in mainland France (*chart 2*).

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



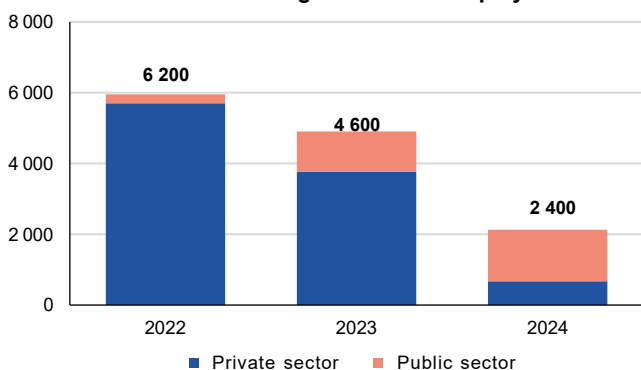
This level is explained in particular by dynamic service prices, which accounted for around half of the overall index. Service prices increased by an annual average of 3.1%, driven by higher transport service prices (+4.5%) and rents and related services (+5.9%). Significant damage to the agricultural sector caused by Cyclone Belal in mid-January also contributed to a sharp rise in fresh fruit and vegetable prices, which increased by an annual average of 22.2%.

The labour market slows

The labour market created 2,400 net jobs in 2024 (*Chart 3*), approximately half as many as in 2023 (+4,600 net jobs). More than half of these net job creations came from the public sector, where the number of employees increased by more than 1.4%. By contrast, net job creation in the market sector was divided by three compared with 2023 and turned negative from the second quarter of 2024 onwards.

The number of jobseekers registered with France Travail (categories A, B and C) increased by 0.8% year-on-year at end-December, reflecting the slowdown in the labour market. The unemployment rate averaged 17.4% over the year (19.0% in 2023).

3 - Change in salaried employment

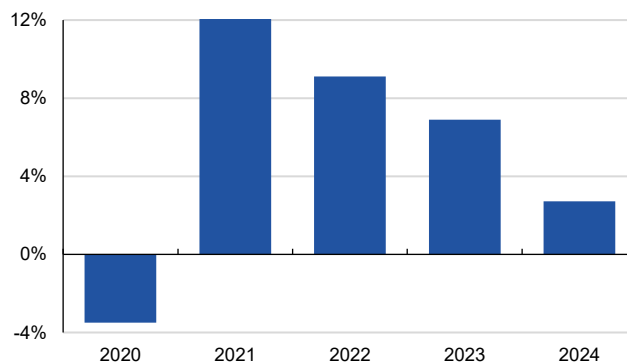


Household consumption continues to weaken

In this context, household consumption remained sluggish. Wage dynamics, like job creation, slowed significantly.

Average earnings per employee in the private sector increased by 2.1% in 2024 (after +4.1% in 2023), a pace below inflation (+2.8%) and therefore implying a loss of purchasing power. The private-sector wage bill rose by 2.7% in 2024, 2.5 times less than in 2023 (*Chart 4*). Households in La Réunion did not offset the slowdown in income by making greater use of credit. Outstanding consumer credit decelerated, rising by 5.0% year-on-year at end-2024, after +5.6% at end-2023.

4 - Change in the private-sector wage bill



The slowdown in consumption was particularly visible in the automotive market. New vehicle sales, measured by the number of registrations, declined by 10.1% in 2024. The second-hand vehicle market also contracted, by 1.0%.

Overall, business leaders in the retail sector responding to the business survey confirmed the weakening of household consumption, reporting a decline in their activity for the fifth consecutive quarter.

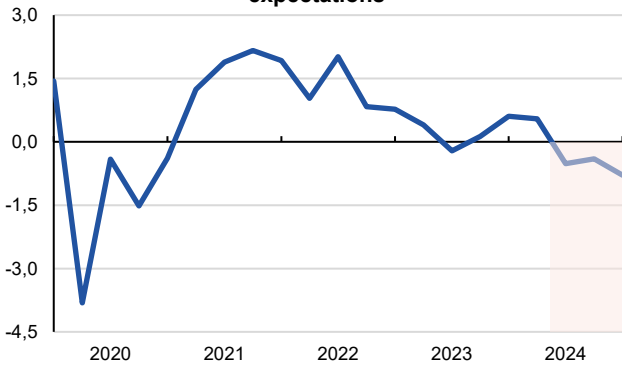
Although imports of consumer goods increased (+4.5% for non-durable consumer goods and +2.6% for durable goods), this trend followed sharp declines in 2023 (-2.6% and -9.4% respectively), partly reflecting restocking effects.

Finally, household financial vulnerability increased sharply. The number of cases filed with the IEDOM over-indebtedness commission rose by 28.8% year-on-year, reaching 1,709 cases.

Uncertainty discourages investment

The slowdown in activity and economic uncertainty discouraged investment in 2024. Business leaders responding to the business survey therefore assessed their investment outlook negatively over most of the year (*Chart 5*). This pessimism is reflected in a 6.9% decline in imports of capital goods. The increase in the cost of credit also acted as a brake on investment. The average rate on new equipment loans to businesses rose from 3.87% on average in 2023 to 4.58% in 2024. As a result, outstanding business investment loans contracted by 4.3% over the year.

5 - Balance of opinion on investment expectations



Source : IEDOM business survey

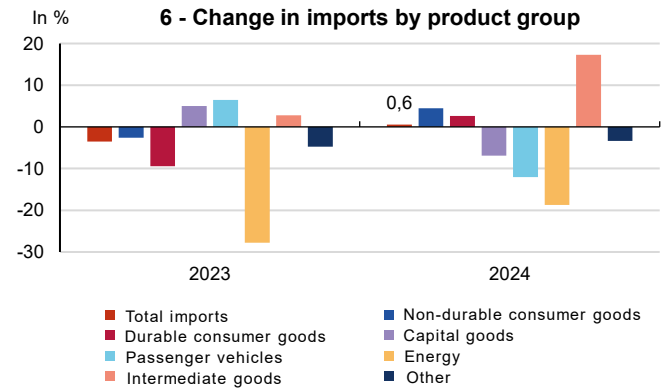
With regard to households, residential investment reached a cyclical low in 2024, with an estimated 45% decline in the production of mortgage loans. The number of transactions in the existing housing market fell again by 15.5%, after -15.3% in 2023.

Lastly, public investment declined in 2024. Several major structuring projects — such as the new bioclimatic airport terminal, the floating dock at the Grand Port Maritime, as well as renovation works on several secondary schools on the island — were completed. At the same time, the launch of new projects was delayed.

A very slight increase in imports masking sharp fluctuations

Imports increased slightly by 0.6% year-on-year (-3.5% in 2023), in line with weakened domestic demand (Chart 6). This 'near' stability nevertheless conceals marked differences across imported products, some of which are linked to the decarbonisation of the electricity mix. Imports of biofuels (rapeseed) and wood pellets (+17.3% combined year-on-year) partly substituted for imports of fossil fuels (-18.7% in 2024, after -27.8% in 2023).

6 - Change in imports by product group



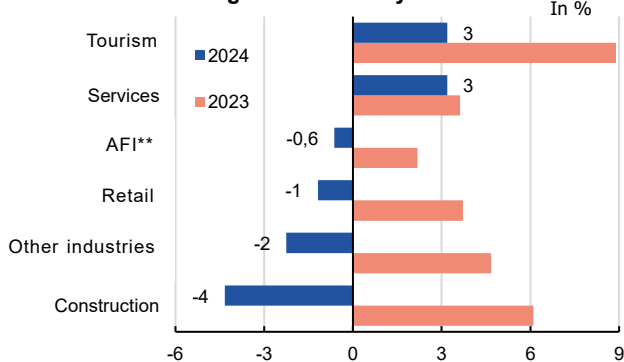
Source : French customs

Exports, by contrast, recorded a moderate increase of 3.2% in value. This growth stemmed in particular from a rebound in sugar exports (+44% in value, +36% in volume) and a 10% increase in exports of Patagonian toothfish.

A decline in commercial performance across all sectors

In 2024, turnover estimates reported by business leaders surveyed in the business survey were lower than in 2023 across all sectors (Chart 7). Four sectors recorded a decline in turnover. The construction sector posted the largest decrease, at -4%. This was followed by manufacturing (-2%), trade (-1%), and agriculture and agri-food industries (-0.6%).

7 - Change in turnover by sector*



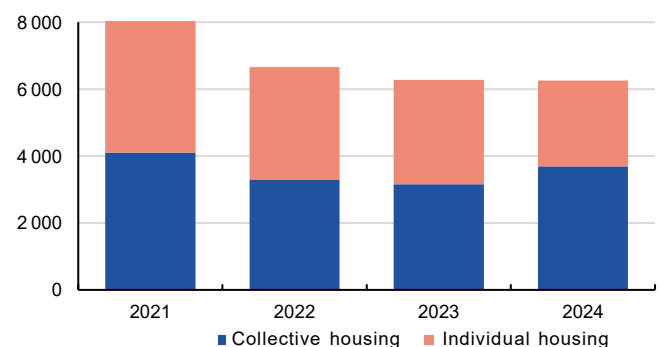
* Turnover ; ** Agriculture and agri-food industries
Source : IEDOM economic survey

Tourism and market services remained the sectors showing the most dynamic commercial activity. Their estimated turnover increased by an average of 3%. However, these increases were lower than in the previous year, particularly in the tourism sector.

A difficult year for the construction sector

The construction sector recorded a difficult year in 2024. Business leaders surveyed reported an average decline of 4% in turnover.

8 - Housing starts by type of dwelling



Source : Deal Réunion ©IEDOM

Housing construction declined again. Housing starts fell by 9.3% in 2024, after -12.9% in 2023 (Chart 8). This contraction was driven mainly by individual housing projects, whose number dropped by 24%, while collective housing projects (apartment buildings and residential developments) increased by 4% and have remained relatively stable since 2021. Business volumes are not expected to recover in the short term, as the number of building permits declined by 16.3%.

Activity in the public works sector was also weak, with investment spending by the main public contracting authorities declining. One rare positive sign was the moderation in construction material prices: the construction and public works general index published by CerBTP increased by only 1.2% on average in 2024, after two years of exceptional rises (+3.8% in 2023 and +14.8% in 2022).

Mixed conditions in agriculture and agri-food industries

Business leaders in the agriculture and agri-food industries surveyed in the business survey reported a 0.6% decline in turnover in 2024. This slight decrease nevertheless masks contrasting situations across subsectors.

The 2024 sugarcane campaign was particularly poor. Volumes of cane processed fell by 20.8% compared with 2023 and by around one third compared with the ten-year average.

By contrast, activity in the fishing sector was more favourable. Exports of Patagonian toothfish increased by 10%. The livestock sector also recorded growth. Poultry slaughter volumes rose by 15.5% (after +6.9% in 2023), while pork slaughter volumes recovered slightly (+0.7%) following a downturn in 2023 (-11.7%)

Tourism and market services : are clouds gathering ?

Turnover in the tourism and market services sectors continued to increase (+3%), but at a slower pace than in 2023. As regards market services, business leaders remain pessimistic.

Banking activity slows in line with the territory's economy

Slower growth in outstanding loans

At end-December 2024, growth in outstanding performing loans to the economy of La Réunion granted by financial institutions, whether or not they are locally established, slowed to 0.9%, after 1.9% in 2023 and 3.5% in 2022. This slowdown mainly reflects the lacklustre pace of economic activity and the resulting weakness in demand. Outstanding loans granted by local institutions stagnated (-0.2%), while accounting for 72% of total outstanding performing loans.

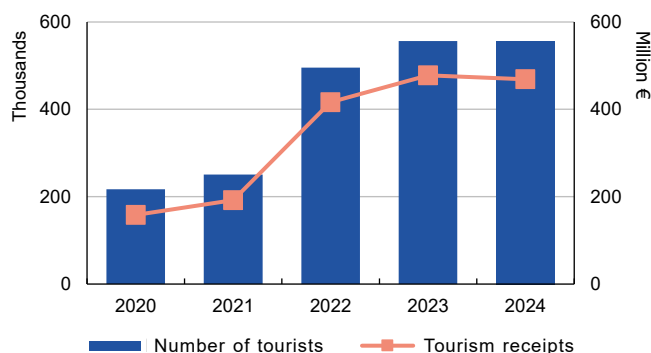
The increase in central bank interest rates initiated in mid-2022 continued to be passed through to borrowing costs in the first half of the year. For business investment loans, the average interest rate excluding insurance and ancillary charges rose by 58 basis points in the first half of 2024 compared with the second half of 2023. For household housing loans, the increase amounted to 79 basis points. However, since mid-2024, the ECB has begun easing its key interest rates, with the refinancing rate declining from 4.25% in May 2024 to 3.15% in December.

As a result, corporate bank indebtedness increased slightly by 0.9% year-on-year, while household indebtedness grew at a pace close to that of 2023 (+2.8% year-on-year). Outstanding loans to local authorities declined by 1.0%. Monetary statistics nevertheless show a slight inflection from midyear onwards: business

They assessed developments in their activity, order books and cash flow as rather unfavourable. Despite some notable achievements, such as the inauguration of the first data centre in the territory, business volumes remained subdued.

In the tourism sector, activity appears to have reached a cruising speed. La Réunion welcomed just over 556,000 non-resident tourists in 2024, representing an increase of 0.4% year-on-year (Chart 9). However, receipts from inbound tourism declined slightly, by 1.9% compared with 2023, amounting to €468.8 million.

9 - Tourist arrivals and expenditure during stays



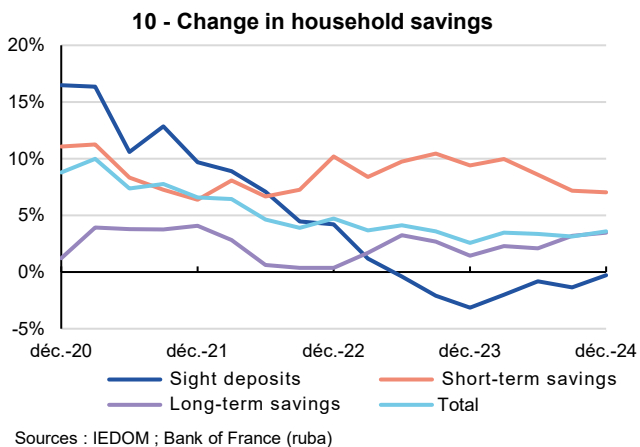
Source: IRT-MTA

Hotel occupancy on the island remained broadly stable, with the number of overnight stays down by 0.7%. In this segment, capacity increased with the opening of several new establishments during the year, while numerous projects are currently in the financing phase.

investment loans increased by 3.2% between June and December 2024 (after +0.3% over the previous half-year), while household consumer credit rose by 2.9% over the same period (after +2.0% previously).

Dynamic savings and time deposits

The normalisation of monetary policy improved returns on low-risk savings products (Livret A, time deposits, etc.), which benefited from inflows of savings from economic agents in La Réunion. These savings increased by 3.3% year-on-year at end-December 2024, compared with +1.7% in 2023 and +1.8% in 2022. This growth was driven largely by a 10.7% increase in short-term savings, in particular market-rate-indexed products, which surged by 30.5%. By contrast, outstanding sight deposits declined by 2.1%. Long-term savings (including life insurance) increased by 3.7%.



With regard to households, bank savings held by residents of La Réunion increased by 3.6%, a faster pace than in the previous year (+2.6% in 2023, [Chart 10](#)). Households reallocated their savings towards short-term investments (+7.0%), to the detriment of sight deposits (-0.3%) and, to a lesser extent, long-term savings (+3.5%).

Companies made similar reallocations, but to a more pronounced extent: short-term investments increased by 15.3%, while sight deposits declined by 4.9%.

Rising banking risk

The financial difficulties faced by households and businesses led to an increase in banking risk. Doubtful loans (i.e. loans for which a risk of non-repayment has been identified) rose by 22.7% year-on-year. They accounted for 3.8% of total outstanding loans at end-2024, compared with 3.1% in 2023. The provisioning ratio declined from 35.8% to 29.8% in 2024.

As one cycle ends, another begins in an uncertain environment

2024 clearly marked a turning point between two economic cycles. It was characterised by a renewed slowdown in activity, as early-year inflation, political uncertainty and, to a lesser extent, the high cost of bank funding almost extinguished the main drivers of growth, namely private consumption and investment. The public sector nevertheless continued to play its role as an economic buffer, as reflected in net job creation.

However, the impact of this buffer is expected to diminish in 2025. National fiscal consolidation is likely to weigh on the level of local public spending, beginning with a reduction in the number of subsidised employment contracts (PEC) following the reform of their financing. The passage of Cyclone Garance over La Réunion is also expected, pending the release of private or public financial resources to repair the damage, to leave a mark on the accounts of both businesses and households. It is also likely to

temporarily increase the prices of fresh food products and reduce the benefits of the decline in inflation.

Although its impact is still difficult to assess, the chikungunya epidemic affecting the territory, which may already have affected more than 100,000 people in the first quarter of 2025, could weigh on the level of economic activity.

In this context, the rebalancing of the territory's economic output will depend on the ability of economic actors to resume consumption and investment, benefiting on the one hand from lower inflation and, on the other, from a decline in borrowing costs. It will also depend on the impact on La Réunion's economy of national, European and international economic policy decisions, which, in the first months of 2025, have continued to increase uncertainty surrounding business conditions.

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