

Mayotte's economy in 2013

Economic upturn slowed by uncertainties at the end of the year

2013 was the year prior to Mayotte's accession to the European status of Outermost Region (OMR) and the application of the ordinary rules of taxation, which came into force on 1st January 2014. The start of 2013 followed on from the end of 2012, with a positive economic trend. However, the second half of the year was marked by uncertainties and a lack of visibility, prompted by the perspective institutional, economic and tax changes, which had an effect on the confidence of business leaders.

Consequently, the business climate initially continued to improve: companies benefitted from a positive trend for their activities and continued to invest. However, towards the end of the year, they adopted a wait-and-see policy and postponed their projects. Indeed, despite a level of activity considered to be reasonable, there was a marked decline in the Business Climate Indicator starting in the third quarter, before it stabilised in the fourth quarter. The labour market continues to be sluggish, with the number of job offers well below demand. Household consumption did, however, show small signs of improvement and slowly picked up in a context of moderate inflation.

At the sectoral level, market-related services benefitted from an upturn in activity. There was a more mixed picture for activity in the construction industry, which suffered from extended payment periods. In the middle of the year, it was also affected by cement supply problems. The tourist industry stabilised at a low level throughout the year. Finally, the decline in the retail sector came to an end, and there was a slight upturn in its activity at the end of the year.

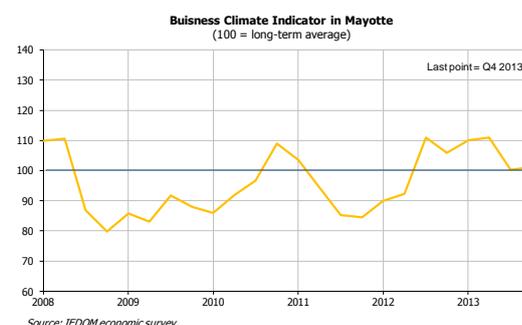
In this context, the financing of the economy by the local banking system remained buoyant, supported by the sharp increase in business investment loans. The level of collection fell for the first time in four years. The credit risk borne by locally established credit institutions continued to deteriorate, but at a slower pace than over the past two years.

MIXED PICTURE FOR THE YEAR

Less positive business climate at the end of the year

The improvement seen at the end of 2012 continued at the beginning of 2013, meaning that the Business Climate Indicator (BCI) kept increasing and remained well above its long-term average (+11.0 points in the second quarter).

However, in the third quarter, there was a marked decline in the BCI (-10.7 points). It fell to its long-term level and remained there in the fourth quarter. This trend reflects business concerns over the island's economic future, given the major changes that occurred at the beginning of 2014.



Inflation driven by food and services



2013 was marked by a highly erratic trend for prices. They rose overall once again in 2013, but at a moderate rate year-on-year (+0.3%, against +2.8% in 2012), although the annual average was similar to 2012 (+1.3%, against +1.4% in 2012), *i.e.* a higher increase than in France as a whole in 2013 (annual average of +0.9%).

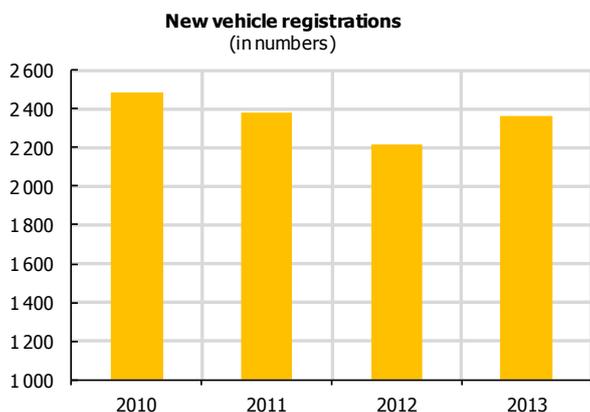
As in 2012, this inflation was driven by food products and drinks (+1.8%, year-on-year) and services (+1.2%), while its level was moderated by manufactured goods (-1.5%).

Technical reduction in number of jobseekers registered at Pôle Emploi

In 2013, there was a constant fall in the number of jobseekers. According to the Pôle Emploi employment agency, part of the number of jobseekers removed from the register was due to the fact that many files had not been updated. Consequently, at 31 December 2013, the number of jobseekers (end-of-month – DEFM A) registered at Pôle Emploi fell by 27.2% year-on-year to 6,551 people (seasonally adjusted data).

According to the last population census conducted in August 2012, there were 19,000 people registered as unemployed on the island for 52,300 active workers, *i.e.* an unemployment rate of 36.3%.

Modest recovery in household consumption



Source: Mayotte Préfecture, data seasonally adjusted by IEDOM.

Following a deterioration in 2012, household consumption initially struggled to pick up in 2013, prior to small signs of improvement at the end of the year. Traders report a decline in activity, but there was a marked improvement starting in the third quarter.

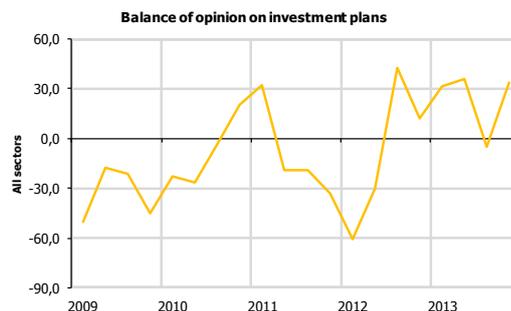
Imports of food products and textiles rose by 26.2% and 7.9%, respectively. The exception was imports of capital goods for households, which stagnated (-0.2%). Similarly, following two years of consecutive decline, the number of new vehicle registrations rose by 6.7% to 2,365. In addition, the stock of outstanding consumer loans rose by 4.1% in 2013.

However, the financial situation of households remains fragile: confiscations of bank cards and the number of natural persons banned from holding a bank account rose in 2013 by 17.5% and 1.9%, respectively.

Revival in investment

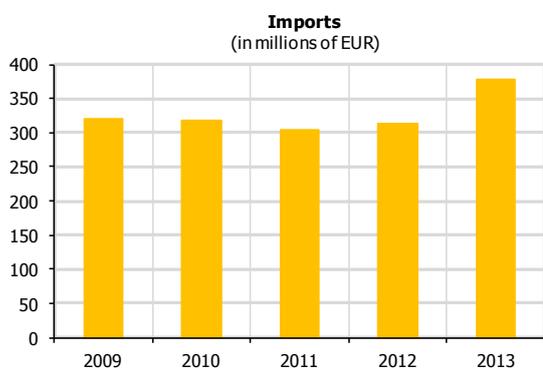
Following on from the end of 2012, the trend remained positive for investment plans in 2013. Apart from a fall in the third quarter, which reflected business concerns with regard to the institutional changes that took place on 1st January 2014, the balance of opinion of business leaders remained positive throughout the year.

There was a marked increase in the stock of outstanding bank loans for investment (+17.2% year-on-year), as was the case for housing loans to companies (+19.5%). Furthermore, there was a sharp rise in imports of professional capital goods throughout 2013 (+135.2%), boosted by large-scale investment operations in the electricity sector.



Source: IEDOM economic survey, seasonally adjusted.

Rise in imports



Source: Regional Customs Department, data seasonally adjusted by IEDOM.

Imports rose by 20.5% in 2013. They benefitted from both the revival in investments (increase in imports of professional capital goods) and the slight recovery in household consumption at the end of the year (rise in imports of household goods).

Exports remained at a low level and mainly comprised re-exports. They were down by 16.5% in 2013, and now only account for 1.6% of imports (against 2.3% in 2012).

GENERALLY POSITIVE TREND FOR SECTORAL ACTIVITY

Difficulties in aquaculture sector and ylang-ylang exports stopped

Following the restructuring in the industry in 2012, activity in the aquaculture sector was steady and strong during the first three quarters of 2013: farm fish exports rose by 35.3% over the period to 63 tonnes. However, in the last quarter, the activity suffered from administrative delays, which blocked the launch of a development project for the industry. Consequently, supplies did not increase and there were no exports in the last quarter. In the end, exports fell by 6.9% in 2013 compared to 2012.

Exports of essence of ylang-ylang were stopped in 2013, following the sharp declines in 2011 and 2012 (-72.0% and -79.8%, respectively). The low level of activity that had been maintained was reduced to product deliveries to the local market, mainly for tourists.

Imports of poultry species were irregular throughout the year and even stopped in the fourth quarter. They were down 12.3% compared to 2012.

Dynamic year for agrifood industry

Activity was dynamic in the agrifood industry in 2013; the sector also benefitted from a positive trend for investment plans. There was only a decline in activity and investments in the second quarter.

Industrial activity mixed

Industrial activity was rather mixed and marked by fluctuations throughout the year. It was positive at the beginning and end of the year, and on a downward trend in the second and third quarters. The sector did, however, report the largest investments in 2013, which were made in the electricity sector with the aim of upgrading the grid and meeting increasing energy demand on the island.

Recovery in construction industry hampered by extended payment periods

The signs of recovery that were seen at the end of 2012 were confirmed at the beginning of 2013 and allowed a good level of activity to be maintained in the construction industry. During the "manpower requirements" survey conducted by Pôle Emploi, business leaders in the sector even said that they had positive forecasts for the trend in their workforce, whereas it had been necessary to make certain decisions in the previous year. However, this trend was limited by several factors during the year. Construction companies suffered from payment periods that they deemed to be too long, and which reduced their cashflow and increased their charges. Subsequently, in the middle of the year, 6,000 tonnes of cement comprising a chromium-6 rate of over 0.0002%, which does not comply with European standards, were seized, leading to major disruptions in the industry. Finally, at the end of the year, with the approach of the island's changeover to ordinary rules of taxation and the status of OMR, uncertainties, especially over the future financing methods for public procurement, undermined business leaders' confidence. Consequently, although the level of activity was positive throughout the year, it only increased slightly, and there was even a slowdown in activity in the last quarter. As a result, business leaders' forecasts for the first quarter of 2014 are pessimistic.

Deterioration ends in retail industry and upturn in services

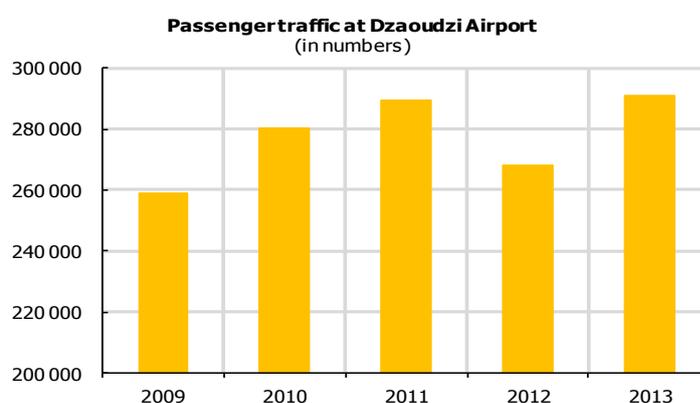
As was the case with household consumption, there was a continued low level of activity in the retail industry. Business in the industry had deteriorated at the beginning of the year, but increased in the second half of the year. However, forecasts are pessimistic for the beginning of 2014.

In 2013, activity in the sector for market-related services increased throughout the year, before falling in the last quarter. Business leaders in the industry have also expressed concern about the first months of 2014.

Tourist industry stable but weak

In 2013, there was a more positive trend for air traffic, with an 8.5% increase in the number of non-transit passengers recorded at Dzaoudzi Airport. The start of the activity of the airline company EWA in the second half of the year, which operates on subregional links, offers new development prospects for the island's regional area.

However, the tourist industry continues to have a low level of activity. It did nevertheless stabilise in 2013, following a decline in 2012, marked by the 5.0% drop in the number of tourists who visited the island. Tourist industry professionals continue to experience difficulties in returning to a sustainable economic situation.



Source: Mayotte Airport, data seasonally adjusted by IEDOM.

BANKING ACTIVITY SUPPORTED BY LOAN MARKET

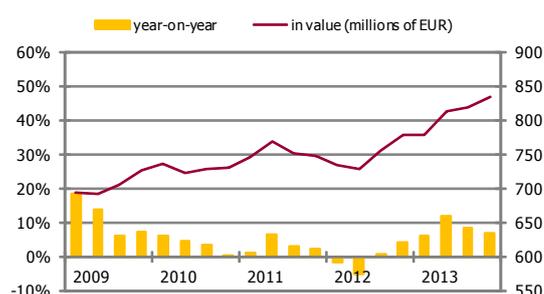
Decline in assets held by clients in Mayotte

Despite a 5.3% increase in the last quarter, at the end of 2013, there had been a fall of 3.1% (EUR -13.4m), for the first time in four years, in collections of financial assets held in Mayotte. Consequently, the total outstanding amount stood at EUR 416.6m at 31 December 2013.

This trend is due to the sharp fall in liquid and short-term investments (-12.2%, *i.e.* EUR -18.9m), which was not offset by the more moderate increases in overnight deposits (+1.7%, *i.e.* EUR +3.6m) and long-term saving (+2.9%, *i.e.* EUR +1.9m). This drop in collections concerned non-financial companies (-3.1%, *i.e.* EUR -4.3m) and the other agents (-38.9%, *i.e.* EUR -25.9m). However, with an increase in collections of EUR 16.8m (+7.5%, after +3.0% in 2012), household savings were fuelled by the strong growth in overnight deposits (+15.5%, *i.e.* EUR +9.6m) and liquid or short-term investments (+5.3%, *i.e.* EUR +5.1m), which have been boosted by Livret A and Blue Booklet accounts (+20.3%, *i.e.* EUR +3.6m).

Continued growth in lending activity

Trend in outstanding performing loans for all credit institutions



Source: IEDOM, Surfi.

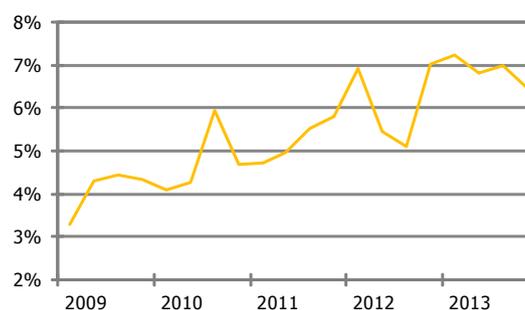
The total stock of outstanding loans to the economy allocated by all the credit institutions (whether established locally or not) rose by 6.7% and stood at EUR 884.2m at the end of 2013 (after +4.7% in 2012 and +3.5% in 2011). The stock of outstanding performing loans rose by the same proportion (+7.0%, to EUR 833.5m). This growth was fuelled by the sharp increase in corporate loans (+16.5%, *i.e.* EUR +50.7m), maintained by investment loans (+17.2%, *i.e.* EUR +38.1m) and housing loans (+19.5%, *i.e.* EUR +10m), for which the trend was very positive. The total stock of outstanding loans allocated to households in Mayotte stagnated in 2013 (+0.5% to EUR 259m, after +4.9% in 2012), as a result of the fall in housing finance for the first time in four years (-2.2%, *i.e.* a decrease of EUR 3.2m, after +11.1% in 2012 and +5.8% in 2011).

More moderate deterioration of risk

In 2013, there was a slowdown in the growth rate for gross nonperforming loans borne by local credit institutions (+2.6%, *i.e.* EUR +1.3m, after +22.3% in 2012), which reached a total outstanding amount of EUR 50.7m at the end of 2013.

This reduced deterioration in the portfolio also concerns locally established credit institutions, which report an improvement in their rates of nonperforming loans for the first time since 2009 (6.5%, *i.e.* -0.5 points).

Rate of gross nonperforming loans of locally established credit institutions



Source: IEDOM, Surfi.

2014: A YEAR OF TRANSITION

Mayotte's accession to the European status of OMR gives signs of hope for economic agents, who see it as an opportunity to scale up and accelerate the economic, social and environmental development of the island. However, the implementation of European funds also gives rise to a climate of uncertainty, as the technical and financial methods for this have not yet been finalised. Consequently, companies do not have sufficient visibility in terms of eligible projects, their methods and their financing timeframe. In addition, the application of the ordinary rules of taxation also gives cause for concern to households over their level of taxation, especially at local level, and to actors in the production sector over the volume of public procurement that could maintain their level of activity in 2014.

Despite the continuation of public transfers, which are based on the indexation of civil service salaries and the revaluation of the different benefits and will support final consumption, the trends observed in late 2013, which had undermined the business climate, are expected to continue, at least during the first half of 2014. Consequently, the business leaders interviewed forecast a general decline in activity in most sectors during the first months of the year, pending the clarification of the ongoing reforms.

However, in order to gear up to benefit from the potential created by the institutional changes, economic agents will need to maintain a positive investment trend, which could be supported by dynamic bank financing. The economic upturn, signs of which were seen at the beginning of 2013, but with a slowdown at the end of the year, could return, but probably not before the end of 2014, which should be a transition year.

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