



Monthly Economic and Financial Developments (MEFD) June 2024

***Remarks by the Governor
29 July, 2024***

Based on the latest data through the first half of 2024, the Bahamian economy continued to expand at a healthy pace. Although the speed of growth has moderated since completion of the recovery from the pandemic, activity remained slightly accelerated in comparison to the economy's expected medium-term potential. This reflects strong tourism gains, including in the most important stopover segment, and sustained foreign investment inflows--still significantly targeting tourism developments and residential real estate. The Government's improved revenue position also benefited from these trends. The outcome also remained positive for employment, including through construction activities. In the meantime, the inflation rate further subsided, as the pass-through from higher prices on imported goods and services receded. In addition, monetary and credit trends reflected additional improvement in credit quality, and modest firming in lending to the private sector.

Further to tourism, indications are that earnings maintained a healthy growth pattern. In the high yielding stopover segment, the data on air arrivals, departures trends through Nassau International Airport, and vacation rental activity, all point to improvements up through May and June of 2024. Air arrivals strengthened on a year-to-date basis, but as expected, were significantly moderated from their 2023 pace, which still featured a very strong recovery component. In the vacation rental segment, performance gains were reflected in increased room night sales, on an expanded inventory of available rental listings throughout The Bahamas. As well, indications are that average pricing for vacation rental units were also higher than in the previous year. The cruise segment of the market also experienced healthy outcomes.

The foreign exchange market indicators underscore that even with the post-recovery moderation in the speed of economic growth, the net retention of foreign currency in the external reserves was greater. Inflow moderation was evident from a more constrained increase in commercial banks' purchases of foreign currency from the private sector of 2.2% during the first half of 2024, compared to a rise of 3.5% in 2023. However, demand for foreign exchange, seen in commercial banks' sales, fell by 2.6% over this period, given moderated outlays for oil imports and reduced outflows on credit cards and related transactions. As a result, the commercial banks' net sale of foreign exchange to the Central Bank was over 50% greater than in 2023, at just over \$400 million through June 2024. The government sector was also a net contributor to the reserves buildup of more than \$150 million in this period, which was in contrast to a net usage of external balances of over \$200 million in 2023.

Given these transactions, the external reserves grew by approximately \$580 million through the end of June. This contrasted with an improvement of around \$100 million in 2023. Over June and towards the end of July, the reserves fluctuated at around \$2.9 billion.

On a seasonal basis, the Central Bank still anticipates the customary reduction in the external balances over the second half of the year. In addition, as stronger credit trends stimulate more spending in the economy, it is forecasted that balances could end the year below the levels at which they closed out 2023.

For the year to date, commercial banks' lending to the private sector rose at doubled the pace of 2023, even though the increase was still a very modest \$74 million. However, this reflected growth across all major components: mortgages, consumer loans and business lending. At this point last year, only the commercial loans portion was expanding. In the meantime, banks also continued to experience a reduction in the average private sector loan delinquency rate. The non-performing loans rate, or the fraction of loans that were three months or more behind in payments, fell to almost 6.0% as of June 2024, from almost 7.5% at the same point in 2023.

Given the very healthy outlook for the external reserves, and the accumulated liquidity within the system, the Central Bank's monetary policy position will remain accommodative to increased private sector lending. Along with moderately faster expansion in private sector credit, the Central Bank also expects greater capacity within the system to fund more of the Government's debt operations in local currency.

Turning to the outlook, as noted, the pace of economic growth is still being tempered from the post-pandemic highs. However, the 2024 expansion is expected to retain some above average momentum, as a result of the aggressive marketing campaigns for tourism and residual pent-up demand for travel. The Bahamas also retains upside potential from ongoing investments to increase cruise destination capacity; and from stopover accommodations that are still anticipated to be restored in parts of the country. Over the medium-term such outcomes are expected to provide steady benefits for employment and further improved public finance trends.

Some risks to the economic outlook have subsided. Although still decreasing towards its target range in most major economies, inflation is more under control, positioning major central banks to further reduce interest rates from their recent highs. Despite ongoing uncertainty about when this process will fully conclude, the overhang from higher interest rates is already subsiding. In addition, there is less of a risk of a short-term reduction in output, or correction of the magnitudes that could seriously hinder tourism demand, or frustrate the ease of funding foreign investment flows. However, other downside economic risks remain, from the wars in the Middle East and Ukraine, which could have negative impacts on the cost and ease of global trade. The ever-present threats of hurricanes, now elevated for 2024, could also disrupt tourism and government finances.

Against this backdrop, the Central Bank's posture, although accommodating for credit, remains sufficiently guarded to undertake measures, as needed, to uphold the stability of the financial system and safeguard the adequacy of the external reserves.