



Monthly Economic and Financial Developments (MEFD) September 2024

***Remarks by the Governor
4th November, 2024***

The Bahamian economy continued to expand over the first three quarters of 2024; however, the available indicators of growth slowed in comparison to 2023. These trends are further in line with the expected levelling off in gains since the economy completed its recovery from the pandemic. The indicators reflect slower growth in tourism earnings, due to constrained capacity in the stopover segment, and also moderation in the otherwise healthy cruise trends. In addition, foreign investments are supporting sustained construction activity and, along with tourism, driving employment growth. The economy continued to benefit from lower inflation in imported goods and services. The outlook for domestic credit also improved, in line with a decrease in the assessed risk of new borrowers and reliance on the credit bureau. Meanwhile, revenue growth is supporting the deficit reduction efforts within the government.

For 2024, the real GDP growth rate in The Bahamas is expected to slow further, below the estimated 2.6 percent recorded by the Bahamas National Statistical Institute (BNSI) for 2023. As to tourism's impact, over the first nine months of the year, visitor arrivals rose by a healthy 16.3 percent, but it was less than half the rate of growth experienced in 2023 and very closely anchored on a 19.8 percent boost in sea arrivals. Air arrivals, which capture high-yielding stopover visitors, increased by less than 1.0 percent over the first three quarters of the year, compared to a recovery-driven expansion of 20.9 percent in the same period last year. Since the recovery to prepandemic volumes, the sector has experienced constrained hotel room capacity, with the average pricing of accommodation, which contributed to some of the recent period gains, only marginally appreciating in 2024. While, as a buffer, the vacation rental inventory continued to increase, in 2024 these properties experienced incremental declines in both average prices and average occupancy, compared to the first three quarters of 2023. This shift, if maintained, over an extended period could begin to dampen new investments targeted at this segment.

Nevertheless, the outlook for stopover arrivals, which is heavily anchored by the performance of the United States and other major western economies, remains stable to positive, on balance. Although the global economic growth forecasts have been lowered over the course of 2024, the extreme likelihood of a recession has been avoided for now, which would have been even more damaging to consumer confidence and travel spending. This highlights the importance of efforts from within The Bahamas around marketing, strengthening airlift, and increasing hotel rooms, which could contribute to more supply-side industry growth.

Meanwhile, The Bahamas' cruise market outlook remains favoured by the significant investment in private destinations throughout the archipelago. This segment also has a significant captive market from which earnings can be boosted, if a larger share of existing passengers were enticed to disembark and if more local products and experiences were supplied to these visitors.

In the foreign exchange markets, the indications of moderating growth were revealed on both the supply and demand sides of transactions. The inflows, measured from commercial banks' purchases of foreign exchange, increased only incrementally by 1.8 percent over the first nine months of 2024—even slower

than the rise of 2.4 percent in 2023. In the meantime, private sector demand for foreign exchange also rose at a much slower pace of 1.5 percent, still large enough to moderately reduce the net sale of foreign exchange that banks subsequently passed on to the Central Bank. Nevertheless, the year-to-date trends in external reserves were reversed to a buildup of 15.3 percent, as opposed to a slight reduction over the same months in 2023. This was because the Central Bank's foreign exchange transactions with the government switched from net sales, which helped to fund a sizeable foreign debt repayment last year to net purchases of foreign exchange proceeds on foreign currency borrowing earlier in this year. At the beginning of November, the external reserves were estimated at \$2.68 billion, compared to approximately \$2.51 billion at the same point last year.

The Central Bank forecasts that external reserves could still decrease overall in 2024, from stronger private sector spending on imports. This continues to be in line with the Central Bank's posture to encourage accelerated lending to the private sector. Moreover, there has also been increased capital raising efforts in the private sector that are also stimulating investment-related imports. Even still, the coverage provided by the external reserves is expected to remain more than adequate to support the fixed exchange rate. The Central Bank is also prepared to tolerate some larger net outflows on dividends, against excess capital in the domestic banks, to stay ahead of potential future financial stability risks from any overly accelerated lending trends and to reduce some of the current pressures to generate earnings from fees.

That said, bank credit to the private sector is growing at a faster pace than in 2023--across residential mortgages, consumer loans, and business lending. Based on the most recent lending conditions survey, commercial banks are both receiving and successfully approving a higher overall volume of loan applications. At the same time, the average delinquency rate for borrowers who are three months or more behind in payments continues to decrease. As at September 2024, this corresponded to just under 6 percent of private sector loans, easing further below where the system was before the great recession of 2008. While being spurred on by better economic conditions, indications are that the lending climate has also improved modestly because banks are now using the credit bureau to help assess applications.

Turning to the outlook, again, the Central Bank continues to forecast growth overall for 2024, as well as for 2025 but more subdued. Though positive, on balance, a range of factors affects tourism. Cruise capacity has the potential to expand further if local supply-side conditions continue to strengthen. Meanwhile, demand-side forecasts are less uncertain for stopover visitors, given the averted risk of a recession in the United States and other major economies. Moreover, the projected reduction in major central banks' interest rates, as inflation comes under control, increases the ease of funding for potential foreign investments and reduces the expected cost of servicing the government's foreign currency debt, once other factors are taken into account. As a partial counterbalance, it is the uncertainty in the global political environment and the wars in Europe and the Middle East, which still pose downside risks for tourism and foreign investments.

Due to the recovered economic environment, it is also expected that the government will remain positioned to further reduce the deficit.

In its monetary policy assessment, the Central Bank will continue to accommodate and encourage increased lending to the private sector and, with this, tolerate some diminished holdings of the external reserves over the near term. The Central Bank will also continue to monitor trends that affect the stability of the financial sector and the foreign exchange markets and adjust its policies, if necessary, to ensure orderly developments.