Monthly Economic and Financial Developments (MEFD)
December 2024

Remarks by the Governor
3 February 2025

Based on preliminary data, the Bahamian economy expanded at a healthy, but moderated pace in 2024, led by the performance in tourism and continued foreign investments also attracted into the sector. Employment gains continued to register, and developments remained supportive of the government's deficit reduction efforts. The Bahamas benefited from additional moderation in inflation, as average consumer price increases slowed at the international level, and domestic energy sector adjustments caught up with the external savings from reduced oil prices. In the monetary sector, domestic credit growth strengthened significantly, with lending conditions more improved and average loan delinquency rates further subsided. Nevertheless, as activity still subsisted below the levels that the Central Bank anticipated, the banking system's liquidity further expanded; and the external reserves grew modestly.

In 2024, the economy's growth rate is projected to have slowed, below the estimated 2.6 percent recorded in 2023. There was further moderation in stopover tourism activity, which although fully recovered from the pandemic, faced a constrained supply of hotel rooms. Based on available data, when compared to the same period of 2023, air arrivals, which are mostly stopover inflows, were approximately unchanged over the first 11 months of the year. However, over the same months in 2023, there was still a strong recovery element in growth of nearly 20 percent. In addition to capacity, market demand is also estimated to have been held back over the second half of 2024 due to increased disruptions during the hurricane season, and consumer uncertainty leading up to the US presidential elections in November. Looking ahead to 2025, accommodations constraints could continue to limit earnings gains. Moreover, the average nightly room rates are also expected to experience more subdued gains, following healthy average appreciation in the immediate years after the pandemic.

Meanwhile, the vacation rental market has supplemented stopover capacity and earnings growth. The rental inventory expanded by just over 5.0 percent during 2024, while rental sales also rose just below this pace. The market, though, is more mature. The average occupancy rates on listings decreased slightly and average nightly room rate rose at a much more tempered paced, as opposed to healthy appreciation both during and in the immediate years since the pandemic.

The cruise segment was unconstrained, with robust growth in 2024. It also continued to attract significant foreign direct investments into private destination facilities, particularly impacting Family Island economies. While the per visitor spending from the cruise segment is multiples lower than for onshore visitors, it is expected that the retained local content, per dollar of spending is higher than for stopover visitors. This is because it is more concentrated in cultural and recreational activities. Also, such expenditures significantly benefit small businesses and self-employed persons. This underscores the potential for further boost in returns from the sector, by expanding the menu of onshore activities in which these visitors can engage.

Tourism and investment trends continued to have positive impacts on employment during 2024. However, given the revised methodology adopted by the Bahamas National Statistics Institute (BNSI), the available data was not directly comparable to years prior to 2024. One noteworthy shift in the data, though, was the improved labour force participation rate for males, which now better tracks how the economy is benefitting males. In the meantime, as interest rates have fallen in the US and other major industrial countries, the funding environment for foreign direct investments also improved, making it easier for The Bahamas to sustain current inflows. As a caveat though, the near-term pace of interest rate reduction is expected to pause, until there is a better understanding of any impact to inflation from the new trade policies being pursued by the United States.

Again, the foreign exchange market trends also support the assessment that, post the pandemic recovery, the economy is expanding slower on both the earnings side and in business and consumer spending. At commercial banks, total purchases of foreign exchange from the private sector grew by just 2.3 percent to $7.3 billion in 2024, being only incrementally varied for the second consecutive year. The rate of growth in foreign currency sales to the private sector, which fund imports, and payments abroad on investments and other activities, increased marginally by 1.5 percent , also varying just slightly for a second year in a row, in the neighbourhood of $7.2 billion. Since inflows still dominated, the commercial banks had a larger net purchase of foreign exchange from the public and were therefore able to make a larger net sale of foreign exchange to the Central Bank. This development, and a reversal in the Central Bank transactions with the public sector, to a net purchase of foreign exchange rather than the notable net sale of foreign exchange in 2023, contributed to a net boost to the external reserves, by approximately $270 million to $2.62 billion in 2024. A third factor, which helped to grow the foreign reserves in 2024—adding to almost one-fourth of the gains—,was stronger earnings on the investment portfolio of the Central Bank. As of the beginning of February 2025, the reserves were estimated at $2.63 billion, just ahead of the rebound, which should occur during the busy portion of the tourist season.

Nevertheless, external reserves are projected to contract overall in 2025, because domestic banks are expected to grow credit to the private sector at a stronger pace than in 2024; and the system should continue to sustain a larger net share of the government's borrowing needs in local currency, as opposed to foreign currency.

In 2024, commercial bank credit growth was significantly accelerated. Lending to the private sector rose by almost $350 million or by about 6.0 percent as compared to about $60 million or just 1.0 percent in 2023. This pickup was across consumer credit and business lending; and it included a rebound in mortgage financing. In the meantime, the average non-performing loans rate, or the share of loans that were three months or more behind in payments, was further reduced to 5.5 percent by the end of 2024, down from 6.7 percent in 2023. This improves the climate for future lending.

Turning to the outlook, the economy is expected to continue to grow in 2025, but possibly slower than the rates achieved in 2024, as The Bahamas gets closer to its medium-term potential, which is still below 2.0 percent. For tourism, the cruise sector is likely to drive further record gains in visitor arrivals and this will boost the upside potential for earnings. However, the extent of growth in stopover activity will continue to have a greater influence on the overall trends in the industry's earnings. That said, sustained investments in both stopover and cruise capacity should set the stage for more permanent jobs when these investments transition into operations mode.

It is the economy's expansionary prospects, declining credit delinquency, and the more entrenched support of the credit bureau that favour continued strengthening in lending to the private sector in 2025.

From a monetary policy perspective, the Central Bank is supportive of this outlook, which corresponds to potential reduction in external reserves, but in an otherwise healthy foreign exchange environment. This would also target some reduction in bank liquidity. In line with broader objectives to remove liquidity from the system, the Central Bank will also accommodate faster repatriation of excess capital or dividends from the banking system, in keeping with medium-term plans that were paused during the pandemic.

To support the lending environment even further, the Central Bank will continue to assess how access to credit for productive business activities can be eased, including instances where exchange control still has impact. In addition, as far as the moveable collateral assets registry is concerned, concentrated efforts will be made over the first half of 2025 to complete the implementation of the register, in consultation with lending institutions and cooperation with the Attorney General's Office.

But there are downside risks which always justify a balance of some prudence in monetary policy. Uncertainties persist around unrest in the Middle East and the war in Ukraine. In addition, the escalation of global trade tensions could lead to higher inflation and stall further interest rate reductions in the major economies. Any consequential slowdown in the North American economies, or negative impacts on US households' purchasing power, would also limit near-term gains in tourism, whether in terms of growth in arrivals or the industry's ability to preserve pricing gains in accommodations.

The Central Bank will continue to monitor trends and pursue the appropriate policies to safeguard financial stability and the value of the Bahamian dollar.