Monthly Economic and Financial Developments (MEFD)
March 2025

Remarks by the Governor
28 April 2025

Preliminary indications are that the Bahamian economy expanded at a slower pace during the first quarter of 2025, compared to the same quarter in 2024, moving closer to its expected medium-term potential, tempered by capacity constraints in stopover tourism. The economy continued to attract healthy foreign investment inflows, providing a corresponding boost to construction and related employment. In the latest estimates, average retail price inflation moderated significantly, because of reduced cost pressures on imported goods and services, and savings on electricity costs. In line with moderated net private sector inflows and in the absence of net foreign currency borrowings by the public sector, seasonal growth in bank liquidity and external reserves tapered when compared to the same period in 2024. However, private sector credit expanded at a faster pace, and credit delinquencies declined further, compared to a year ago.

With regard to tourism, the constrained hotel sector capacity underpinned slower quartely earnings potential than in 2024. In the latest available data, total air arrivals to The Bahamas contracted, based on both the overall indicators through February and estimated departures through the Nassau Lynden Pindling International Airport (LPIA) through March. Reduced air traffic is estimated to have impeded hotel sector performance most, while vacation rental sales, an important segment of the stopover market, further expanded, also attracting incrementally appreciated average daily rental rates. The cruise industry maintained healthy growth, with capacity continuing to expand, given ongoing investments in onshore destinations throughout the country.

Turning to foreign exchange indicators, net inflows decreased during the first quarter of 2025, owing to reduced contributions from both the private and public sectors. In particular, commercial banks' total purchases of foreign currency from the private sector were approximately unchanged during the first quarter—underscoring comparatively subdued growth in economic activity within the sector. However, given stronger private sector credit expansion, gross foreign currency sales—which mostly signal expenditures on imports of goods and services—was 2.4 percent higher. As a result, commercial banks' net foreign currency sales to the Central Bank contracted by approximately 10.0 percent. This outcome, along with a net sale of foreign currency by the Central Bank to the public sector, as opposed to a sizeable net purchase of foreign currency borrowing proceeds in 2024,[1] resulted in a two-third reduction in the seasonal growth in reserves during the first quarter of 2025.

[1]Compared to 2024 when the public sector made net foreign currency sales to the Central Bank of $214.0 million, the sector made a net purchase from the Central Bank of approximately $120.0 million in 2025.

External reserves grew by $171.0 million over the first quarter of 2025, and as at the end of April were approaching $2.8 billion—moderately less than the estimated $2.9 billion at this point last year. Over the remainder of 2025, the private sector is expected to make a net drawdown on the reserves, due to an expected strengthening in private sector credit growth. The Central Bank is supportive of this outcome, as the reserves are still healthy overall, and expected to remain more than adequate to back the value of the Bahamian dollar against the United States currency. In addition, the elevated liquidity in domestic banks continues to be ample to accommodate stronger lending.

As to private sector credit trends, lending during the first quarter strengthened, compared to the same period in 2024. The acceleration was concentrated in consumer credit and commercial loans. However, the pace of growth in residential mortgages was slower than in 2024. Lending risks also subsided further. In particular, the average delinquency rate, for loans at least three months or more behind in payments, was 5.5 percent, compared to 6.3 percent in March 2024.

Turning to the outlook, the downside risks facing the economy have increased, particularly in light of the tariffs imposed by the United States and uncertainty over how trade policy tensions between the US and its major trading partners will be resolved. With the IMF's outlook for the US and the global economy, consequently downgraded, but positive, The Bahamas could also experience slowing from weakened US consumer confidence and its potential pass-through to lower travel demand. In addition, the inflation outlook is potentially elevated, as higher costs on goods imported into the US would be expected to have some pass-through to increased costs on goods and services that The Bahamas sources from the United States. The risk of increased costs could also mount from supply chain disruptions, potentially from diverted or impeded trade flows.

In the fiscal sector, consolidation trends are expected to continue despite increased uncertainty, given sustained reforms by the government to broaden the revenue base, such as towards cruise tourism and the domestic minimum corporate tax.

Aside from this, it continues to be a medium to long-term ideal as to how the economy can achieve a more diversified trade policy exposure, either in terms of the destination markets for exports, or the origin of imports, whether for goods or services.

The likely magnitude of trade policy uncertainty outcomes for The Bahamas still does not justify any precautionary response in monetary policy, or in prudential measures for the domestic banking sector. The Central Bank is therefore maintaining its accommodative outlook towards stronger private sector credit growth in 2025. Nevertheless, the Central Bank will closely monitor credit risk indicators, as on the margin some borrowers could face increased challenges repaying their obligations. That said, lending institutions continue to have both the experience and flexibility to manage such cases.