GLOBAL AND LOCAL ECONOMIC REVIEW

Second Quarter 2024

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EDITORIAL

Dear Reader,

In June 2023, it was announced that the National Insurance Board's (NIB) contribution rates and insurable wage ceilings would be increased effective July 1, 2024. The contribution rate for employees increased from 3.9% to 4.65% and employers increased from 5.9% to 6.65%, bringing the total contribution rate to the fund to 11.3%. Meanwhile, the insurance wage ceiling increased to $810 from $740 per week.

In 2022 the NIB's reserves stood at $1.4 billion, however the National Insurance Fund (NIF) has continued to incur a deficit since 2016, putting added pressure on reserves. Consecutive actuarial reviews have stated that the Fund was in severe risk of depletion in the near-term. The most recent, "Eleventh Actuarial Valuation of The National Insurance Board of The Bahamas as at December 31, 2018", revealed that under current parameters the pension branch of the Fund could be exhausted by 2028. This actuarial review also recommended an increase of 2% in the contribution rate every two years until 2036 noting that the required contribution rate to pay all expenditures of all branches during the next 60 years is 22.55 percent.

NIB is crucial to the well-being of the average Bahamian citizen. As seen in the aftermath of Hurricane Dorian and the COVID-19 pandemic, NIB's support was invaluable to thousands of Bahamians who benefitted in some way. Given the shifts in demographics and increased life expectancy, it is imperative that periodic adjustments are made to to align with these trends and to ensure the fund's long-term financial health. Beyond raising contributions and the wage ceiling, we must explore other measures to alleviate the financial strain on the Fund.

One common proposal is to increase the retirement age; however, we firmly believe that reducing administrative expenses is vital for the Fund's sustainability. NIB's 2021 Annual report highlighted a concerning deficiency of $60.4 million, with administrative costs accounting for nearly 13.5% of total expenditure and 20.95% of net contribution income. Comparatively, administrative costs in other Caribbean nations average around 15% of contribution income. While we recognize the unique challenges posed by our archipelagic nature, leveraging technology should help mitigate these costs.

If a significant portion of NIB's revenue continues to be consumed by costs rather than being invested, we risk finding ourselves at this same juncture in the future.

Yours faithfully,

Anthony Ferguson
President, CFAL

LOCAL ECONOMIC HIGHLIGHTS

Second Quarter 2024

- Preliminary data for the nine months of FY2023/24 (July – March) indicates that the overall deficit declined by $35.5M (14.2%) to $214.2M compared to the same period of FY2022/23.
- According to estimates from the Bahamas National Statistical Institute, in 2023, The Bahamas 2023 experienced moderate growth of 2.6% in real terms.
- National debt stood at $11.85B as of March 2024, of which $11.51B is comprised of Direct Charge and $333.96M of Contingent Liabilities.
- Year to date as of May 2024, The Bahamas saw total visitor arrivals of 4.2M, an increase of 13.5% from the same period last year. Sea arrivals continue to dominate with growth of 15.66%, while air arrivals rose 3.92%.
- The local stock market, BISX, was stable during the quarter, seeing a change of +0.22%.

LOCAL ECONOMIC REVIEW

Fiscal Review

Preliminary data for the nine months of FY2023/24 (July – March) indicates that the overall deficit declined by $35.5M (14.2%) to $214.2M compared to the same period of FY2022/23. Over the period, total revenues increased by $112.4M or 5.4% to $2.19B, representing 66.0% of the budgeted revenues for FY2023/24. Tax revenues experienced growth of 7.5% or $136.9M, while non-tax revenues declined 8.9% or $23.1M to $235.4M. Growth in tax revenues was mainly driven by increases in Excise Taxes of $15.1M (or 943.8%) to $16.7M, VAT of $58.5M (or 6.3%) to $993.9M, and Taxes on Property of $18.4M (or 14.5%) to $145.6M. Marine License Activities and License to Conduct Special Business Activity also saw noteworthy growth of 75% and 51.6% respectively. Total expenditure for the period increased 3.3% or $76.9M to $2.4B. Employee Compensations increased $35M (or 5.9%) to $629M, Grants grew $2.1M (or 35.0%) to $8.21M and Public Debt Interest increased $17.3M (or 4.4%) to $409.1M. Revenues and expenditure for FY2023/24 are projected to come in at $3.32B and $3.45B respectively, resulting in a deficit of $131.1M or 0.9% of GDP.

Economic activity in The Bahamas for 2023 experienced moderate growth of 2.6% in real terms, according to the annual estimates released by the Bahamas National Statistical Institute (BNSI). The total value of goods and services produced during the year was estimated at $14.3 billion in nominal prices and $12.8 billion in real prices, with most industries and islands experiencing growth. Industries with the most substantial increases using the production approach include: Accommodation and Food Services increasing $226M (or +26%), Construction of $113M (or +22%), Transportation and Storage of $98 million (or +16%) and Arts and Other Services of $97M (or +10%). Contributions to nominal GDP by island include New Providence of $11.028 billion (or 76.9%), Grand Bahama of $1.546 billion (10.8%) and Family Islands of $1.765 billion (12.3%). The International Monetary Fund (IMF) projects that real GDP growth of 2.3% for 2024.

As of March 2024, The Bahamas' national debt stood at $11.85B, increasing $70.1M or 0.59% over the quarter and $354M year over year. Direct Charge accounted for 97.18% of national debt and saw an increase of $86.97M (or 0.76%) to $11.51B. While Contingent Liabilities accounted for 2.82% of national debt and declined $16.9M (or 4.82%) over the quarter. The total Direct Charge was comprised of 44.75% or $5.15B external debt and 55.25% of $6.36B internal debt. The National Debt to GDP stood at 82.3% at the end of March 2024, compared to 84.2% as of December 2023. For the same periods, the Direct Charge to GDP stood at 79.9% and 81.2% respectively.

Tourism

The tourism sector continues to experience strong growth with visitor arrivals expanding 13.47% year over year. As of May 2024, total visitor arrivals into The Bahamas YTD totaled 4.8 million from 4.2 million in May 2023. Sea arrivals continue to dominant making up 82.93% of total arrivals YTD. Sea arrivals saw an increase of 540.4K (or 15.66%) to 3.99M from 3.45M, while air arrivals expanded 30.9K (or 3.92%) to 821.3K from 790.4K. Growth in tourism arrivals were mixed throughout the archipelago. Major islands such as Abaco (+16.2%), Grand Bahama (+8.2%), New Providence (+3.8%), and Eleuthera (+2.7%) saw growth, while Andros (-10%), Berry Islands (-8.0%), and Bimini (-6.7%) experienced declines. According to the Central Bank of The Bahamas' (CBOB) MEFD Report for May 2024, entire place listings occupancy rate stood at 48.3% (2023: 48.7%) while hotel comparable listings occupancy stood at 46.8% (2023: 45.2%).

Monetary and Financial Developments

During Q1 2024, the banking sector saw an expansion in liquidity as deposits grew with a decline in domestic credit. External reserves grew over the period by $396.6M or 15.8% compared to the $57.1M from the same period last year. Excess reserves grew $257.4M (14.0%) to $2.09B, while excess liquid assets saw growth of $323.9M (11.2%). At the end of March, external reserves stood at $2.91B, which is equivalent to 36.2 weeks of the current year's total merchandise imports compared to 32.4 weeks in the same period of 2023.

Rising domestic inflation continues to remain a concern within The Bahamas. According to the most recent CPI numbers released by BNSI for April 2024, the CPI rose 1.7% compared to the same period last year. The major categories contributing to this increase include: Health (6.3%), Food and Non-Alcoholic Beverages (4.2%), Education (4.0%), Housing, Water, Electricity, Gas and Other Fuels (3.6%), Miscellaneous Good and Services (2.7%), and Restaurant and Hotels (2.1%). For the same period, Transport saw a decline of 2.0%. The index stood at 122.60 at the end of April, compared to 121.71 in December 2023.

Capital Market Developments

The local stock exchange, BISX, gained 0.22% or 6.48 points during Q2 2024 from 2,937.08 to 2,943.54. Year to date the index was up 3.22%. Top performers for Q2 2024 include FINCO (+13.28%), APD Limited (+8.38%), and AML Foods Limited (+6.68%). Detractors to performance included Consolidated Water BDRs (-11.94%), FOCOL Holdings Limited (-5.32%), and Commonwealth Brewery (-4.63%). During the quarter, FOCOL Holdings Limited conducted a preference share offering for approximately $40 million.

The local fixed income market continues to be dominated by monthly offerings of government securities, specifically Bahamas Government Registered Stock (BGS) and Treasury Bills which seek to raise new capital and refinance existing securities. The CBOB had three BGS offerings over the quarter: two benchmark offerings, and one short term offering. Benchmark rates ranged from 3.64% for 3 years to 6.59% for 30 years, while the 1-year rate was 3.25%. The average Treasury Bill discount rate as of the end of Q1 2024 stood at 2.75%, while weighted average rates on deposits and consumer loans stood at 0.51% and 10.23% respectively.

Conclusion

The Bahamas saw moderate economic growth in 2023 and is projected to continue this trend into 2024, with real GDP projected to grow by 2.3% according to the IMF. Tourism continues to be the main driver of economic growth with arrivals numbers surpassing the previous year's numbers. However, inflation and rising national debt remain a detractor to growth. Debt servicing continues to take up a significant chunk of the government's budget, taking away from other development priorities. As of March 2024, public debt interest made up 66.8% of the FY2023/2024 budget. The government should continue to pursue policies to narrow the fiscal deficit. to allow for some sizable reduction in debt levels while also ensuring economic development.

GLOBAL ECONOMIC HIGHLIGHTS
Second Quarter 2024

- For the most part, economic output amongst the world's developed economies remained stable in the second quarter, but signs of a slowdown are showing as GDP growth slows. The International Monetary Fund kept its global growth forecast for 2024 of 3.2%.

- Developed market central banks have adjusted their stance as growth slows and inflation rates have been reduced. While headline inflation continues to cool in many instances, overall inflation continued to surpass central bank targets.

- While economic growth recovered in China, concerns remain about the sustainability of growth, particularly with issues in the property sector. India continues to benefit from the shift of capital from China, and remains one of the fastest growing emerging economies.

- Most developed equity indices posted positive returns in the second quarter as continued stabilization in inflation rates drove gains across most sectors. Bond yields were relatively stable during the quarter, leading to mixed results across the globe and muted performance in most sectors of the bond market.

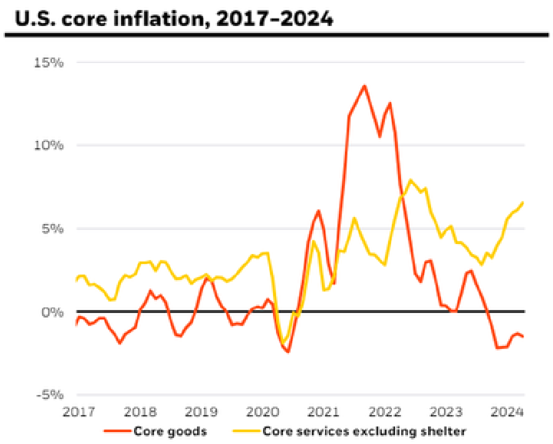
- In the commodities market, continued geopolitical uncertainty has provided stable returns for investors and commodity prices remain elevated across most assets.

GLOBAL ECONOMIC REVIEW

United States

Major US markets continued to post strong positive results in the second quarter, largely driven by gains in the world's largest technology companies as hype surrounding Artificial Intelligence persisted during the quarter. The NASDAQ and S&P 500 jumped 8.26% and 3.92% respectively while the Dow Jones Industrial Average fell -1.73%. The US Federal Reserve (FED) opted to leave rates unchanged following its June policy meeting, but have changed tone to begin highlighting the risk of leaving rates too high for too long. This increases the likelihood that rate cuts will begin in the second half of the year. The Fed's benchmark interest rate remains in the range of 5.25 – 5.50% although inflation remains above the 2% target. The Consumer Price Index rose at an annual pace of +3.3% in May, the lowest reading in three years, which also provides support for the FED's change in tone. Nonetheless, bond yields were relatively stable during the quarter which remains a welcoming sign for conservative fixed income investors whom were subject to increased volatility in bond prices over he past 18 months.

US high yield issues gained +1.09% and US Treasuries 1 – 10 years rose 0.65% while US corporates were relatively flat at +0.12%. The US economy grew by 1.4% in Q1-2024 from the previous year, as the effects of higher interest rates reverberated throughout the economy. GDP grew 0.4% over the quarter. However, the economy remains resilient despite the Fed's tightening of monetary policy as unemployment levels continue to beat expectations at 4.1%, slightly higher than in the previous quarter. The purchasing manager's index, which is regarded as the benchmark business activity survey came in at 51.6, showing that manufacturing remains in an expansionary state in the US.



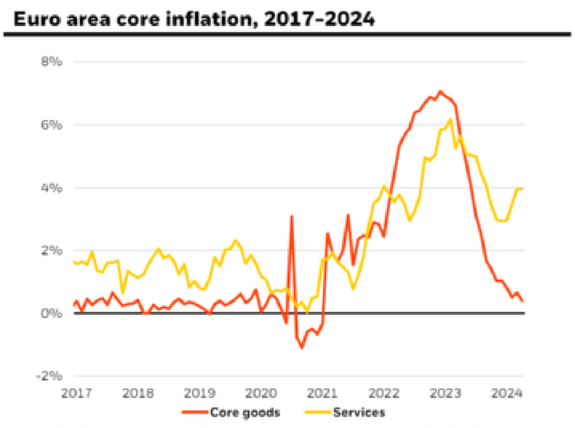
Europe

Eurozone equities were weak during the second quarter with the Stoxx Europe 600 Index falling -0.24%. This comes despite the euro area reporting a +0.3% increase in GDP during the first quarter of 2024 after growth was flat in the Q4-2023. Amongst major European economies, Spain (+2.0%) saw the largest expansion while Ireland (-6.5%) reported the biggest contraction. France and Germany saw growth of +0.2%, driving overall euro area growth +0.5% higher year over year. In a positive note for the region, Germany finally returned to growth after several quarters of contraction. The Euro area purchasing managers' index came in at 45.80, well below the previous quarter reading of 49.9 as the manufacturing sector remains in a contractionary state.

While efforts to fight inflation were bearing fruit, the Eurozone saw its annual inflation rate remain at 2.4% in April, with expectations of a slight acceleration to 2.6% in May and 2.5% in June. Core inflation, which excludes energy and food, came in at 2.9% in the latest reading.

Despite this, The European Central Bank cut its key policy interest rate by 25 basis points to 3.75%, while guiding the market that it was not committed to further rate cuts due to stubbornly high inflation. Nonetheless, the ECB retains a more cautious tone than the United States and will likely remain ahead of the FED in cutting rates. The ECB will likely allow higher inflation levels in a big to stave off any drastic economic slowdown.

Similarly, the UK continued to grapple with stubbornly high inflation, albeit subsiding at +2.8%, a continued reduction from higher rates in 2023. The key policy rate was unchanged at 5.25% during the quarter and unlike the ECB, the Bank of England has not begun cutting rates. The economy showed a bright spot recently as the May reading of GDP growth saw a +0.4% month over month gain, double economist expectations. This provides some stable footing for the Labor party which recently won the election in a landslide to begin its mandate for the country and economy. UK stocks, as measured by the FTSE 100, posted a comparatively small gain of +2.66% in the second quarter but continue to lag their U.S. counterparts.



Asia Pacific

The Shanghai SE Composite fell -1.44% in Q2 as China's economic output grew 5.3% in the first quarter. However, future estimates continue to point to lower growth levels due to an aging population and slower expansion in productivity. Efforts to contain weakness in the property sector remain ongoing. According to IMF projections, China is expected to see GDP growth of 5% in 2024 and 4.5% in 2025.

Unemployment levels improved to 5.0% overall with youth unemployment (ages 16 – 24) remaining around the 15% range. Unlike most western economies, the People's Bank of China remains stimulative, keeping its key policy rate at 2.65% since June. We expect officials to remain accommodative to offset any resulting weakness from the property sector. However, Chinese stocks continue to struggle as the fear of government regulation on technology companies have caused Chinese companies to miss out on the global surge in technology stocks.

Taiwanese equities have performed well as the chip sector reaps the benefits of an Artificial Intelligence boom. Japanese equities continued its strong performance but due to weakness in the Japanese dollar, saw a negative return. The Nikkei has continued to hit record highs as investors applaud the Bank of Japan's ultralow interest rate policy. Japan's Central Bank has shifted to a positive rather than zero policy rate as economic growth increased 0.4% in Q4-2023. The Japanese economy continues to fluctuate between expansion and contraction. Both China and Japan have bucked inflation trends, with inflation levels below targets.

Emerging Markets

The MSCI Emerging Markets Index gained +4.41% in the second quarter, outperforming the MSCI World Index which gained +2.18%. Many EM countries continue to rebound, even as global growth moderated, and interest rates remain elevated. Any reduction in developed market rates should bode well for Emerging Market economies. Brazil saw growth pickup in the first quarter of 2024, rising 2.5% year over year as the industry and services sector expanded. Notably, the policy rate declined to 10.50% in May, down 25 basis points from March with expectations of further rate cuts in the coming quarters.

Brazil's Ibovespa declined -13% on a USD basis during the quarter as elevated interest rates pressured stocks. Meanwhile, Turkey's stock market again saw strong performance it continues to return to orthodox monetary policy, with its key policy rate being retained at 50%. South Africa contracted 0.1% in the first quarter 2024, driven by weakness across the majority of its core sectors and the rolling blackouts as power issues remain.

World Economic Outlook Growth Projections

(Real GDP, annual percent change)	2023	PROJECTIONS 2024	2025
World Output	3.2	3.2	3.2
Advanced Economies	1.6	1.7	1.8
United States	2.5	2.7	1.9
Euro Area	0.4	0.8	1.5
Germany	-0.3	0.2	1.3
France	0.9	0.7	1.4
Italy	0.9	0.7	0.7
Spain	2.5	1.9	2.1
Japan	1.9	0.9	1.0
United Kingdom	0.1	0.5	1.5
Canada	1.1	1.2	2.3
Other Advanced Economies	1.8	2.0	2.4
Emerging Market and Developing Economies	4.3	4.2	4.2
Emerging and Developing Asia	5.6	5.2	4.9
China	5.2	4.6	4.1
India	7.8	6.8	6.5
Emerging and Developing Europe	3.2	3.1	2.8
Russia	3.6	3.2	1.8
Latin America and the Caribbean	2.3	2.0	2.5
Brazil	2.9	2.2	2.1
Mexico	3.2	2.4	1.4
Middle East and Central Asia	2.0	2.8	4.2
Saudi Arabia	-0.8	2.6	6.0
Sub-Saharan Africa	3.4	3.8	4.0
Nigeria	2.9	3.3	3.0
South Africa	0.6	0.9	1.2
Memorandum			
Emerging Market and Middle-Income Economies	4.4	4.1	4.1
Low-Income Developing Countries	4.0	4.7	5.2

Source: IMF, *World Economic Outlook*, April 2024

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2023/24 (starting in April 2023) shown in the 2023 column. India's growth projections are 6.9 percent in 2024 and 6.5 percent in 2025 based on calendar year.

INTERNATIONAL MONETARY FUND IMF.org

Recent elections saw the ruling party lose its majority for the first time since 1994 and will force the formation of a coalition government. The economy remains stagnant with expectations of a modest pickup in growth in 2024.

India remains a bright spot as growth accelerated by 7.8% year over year in Q1-2024. India like South Africa saw its ruling party lose support in its most recent elections, also forcing the formation of a coalition government.

Commodities

In the commodities market, ongoing geopolitical tensions including the conflict between Gaza and Israel continues to sustain high prices on precious metals as investors seek safe haven assets. Escalation also continues in the Russia-Ukraine war as battle for territory continues with hopes that these wars do not spread throughout other regions.

During the quarter, Gold futures rose +5.51%, to end the quarter at $2,366. Silver and Copper also saw gains of +17.34% and +8.09% respectively in Q2-2024. Despite weak data out of China, copper prices remained resilient, gaining +3.33%. Oil prices were flat in Q2-2024 and have settled at current levels. Barring a drastic escalation or de-escalation in global conflicts, prices are likely to remain largely unchanged. Cotton, lumber and cocoa were the worse performing commodities while Natural Gas led the way with a +47.53% quarterly surge.

Market Returns Q2 - 2024

	As at June 30, 2024			
	MTD	QTD	YTD	1 year
Equity Indices *(% local currency)*				
S & P 500	3.47	3.92	14.48	22.70
Dow Jones Industrial Average	1.12	-1.73	3.79	13.69
NASDAQ	5.96	8.26	18.13	28.61
FTSE 100	-1.34	2.66	5.57	8.40
Stoxx Europe 600	-1.30	-0.24	6.77	10.71
Shanghai SE Composite	-3.87	-1.44	-0.25	-7.33
Nikkei 225	2.85	-1.46	18.28	19.27
MSCI Emerging Markets	3.55	4.41	6.11	9.78
MSCI World	1.93	2.18	10.81	18.37
ICE BofA Bond Indices *(% local currency)*				
US Treasuries 1-10 years	0.83	0.65	0.32	3.40
US Corporates	0.61	0.12	0.02	5.02
US High Yield	0.93	1.09	2.60	10.41
UK Gilts 1-10 years	0.93	0.04	-0.70	6.64
Euro Government	0.26	-1.28	-1.95	2.47
Global High Yield & Emerging Markets	0.48	1.16	3.17	11.67
Global Broad Market Index	0.17	-1.21	-3.32	0.47
Currencies vs. USD				
British Pound	-0.76	0.17	-0.68	-0.46
Euro	-1.24	-0.70	-2.95	-1.80
Japanese Yen	2.27	6.28	14.07	11.48
Swiss Franc	-0.39	-0.32	6.82	0.36
Commodities *(% USD)*				
Gold	0.72	5.51	12.93	21.26
Silver	-3.95	17.34	21.39	28.18
Copper	-4.75	8.09	11.40	16.07
WTI Crude Oil	6.27	0.80	13.74	19.12