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Republic Bank

Main Highlights...

Republic Bank

Geopolitics

US Foreign Policy

Tensions escalate between the US and China

- The US's imposition of an additional 10 percent tariff on products made in China is expected to have a substantial impact, with the London-based Economist Intelligence Unit (EIU-UK) projecting that it will shave approximately 0.3 percentage points off China's GDP in the 2025-2027 period.
- China retaliated by imposing a 15 percent tariff on US coal and liquefied natural gas (LNG), as well as a 10 percent tariff on US crude oil, agricultural machinery, and certain vehicle imports. Additionally, China has implemented export controls on a range of critical minerals and targeted some US companies with regulatory actions, including initiating an anti-trust investigation into Google and placing Illumina (biotech) and PVH (apparel) on its "unreliable entity list".

Tense US/China relations impacting Europe

Given Europe's connections to both China and the US, the US-China trade tensions represent a double-edged sword for the continent. The global value chains that connect European and US-designed goods to Chinese production sites and Western sales markets have provided solid economic growth, especially for Germany's export-driven economy. However, this model also leaves Europe vulnerable to external shocks, such as the potential for a renewed trade war under the Trump administration.

The threat of higher tariffs and trade restrictions from the US could deal a substantial blow to the EU economy. According to estimates by the consulting firm Roland Berger, a 10 percent decline in EU exports to the US over a four-year period could result in an economic loss of up to $408 billion for Europe.

Canada and Mexico to bargain with the US to avoid trade tariffs?

- Both Mexico and Canada have offered concessions to avoid US tariffs. Canada's Prime Minister, Justin Trudeau, promised $1.3 billion in border security funding, while Mexico's President Claudia Sheinbaum pledged to station 10,000 troops on the US-Mexico border, building on the 15,000 already there.

US/Iran relations remain frosty

- The new US administration has reinstated the tough sanctions campaign against Iran that featured in the previous term of President Trump. This includes a goal to drastically reduce Iran's oil exports, particularly to China, a major market for Iranian oil.
- The presidential directive cancels certain exemptions, and Mr. Trump is pushing the European countries that signed the Iran nuclear deal to reimpose the UN restrictions that were lifted.
- The US aims to limit Iran's nuclear activities, its development of ballistic missiles, and its support for regional allies.

Geopolitics

- While the use of similar policies during Mr. Trump's first presidency did not achieve all of the identified objectives, Iran is now in a more precarious position, having lost the support of its regional allies, and facing growing economic difficulties.

War in the Democratic Republic of Congo (DRC) intensifies

The conflict between the Democratic Republic of Congo (DRC) armed forces and Rwandan-backed rebel group M23 escalated after M23 rebels launched an assault on DRC's regional capital Goma on January 26th. The M23 rebels have since taken control of the city. This represents a significant military defeat for the DRC government, as Goma is a crucial logistics hub for mining operations and humanitarian efforts. However, the mining of key minerals like copper, cobalt, and gold, which are major contributors to the DRC's economy, is expected to remain largely unaffected, as the mining operations are concentrated in other provinces. China's deep involvement in the DRC's mining sector, through investments and political support, is a central element of the complex economic and political relationship between the two countries, presenting both opportunities and challenges. Chinese companies own approximately 80 percent of copper and cobalt mines in the DRC, extracting essential minerals that are vital for China's industrial demands.

Implications

- Escalating tensions between the US and China will have a direct impact on both economies but at this stage it is expected to be more localised and sector-specific in the US.
- While the war in in the DRC has not significantly disrupted activity in the country's mining sector, this could change if the conflict intensifies and spreads to other regions.

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Trade

Spotlight on Services

Global or international trade can be described as the exchange of goods and services between countries and or the members of different countries. Goods, for example clothing, electronics, crude oil or food, are tangible, can be owned, returned and have their quality measured. Services on the other hand, such as consulting, entertainment, tourism or banking, where the customer is essentially buying access to expertise or an activity rather than a physical item, are intangible and cannot be owned, returned or have their quality easily measured. This article can be considered ‘service-oriented’ as its focus is on the services component of global trade.

Modes of services trade

The World Trade Organisation’s (WTO) General Agreement on Trade in Services (GATS), entered into force in 1995, remains the only set of multilateral rules covering international trade in services. The Agreement reflects the gradual transfer of responsibility for many services from government-owned suppliers to the private sector and the increased potential for trade in services brought about by advances in information and communication technology. GATS defines trade in services in terms of four modes of supply (Figure 1).

Figure1: Modes of international trade in services

Mode 1: Cross-border supply This occurs when businesses from one territory sell services to customers located in another territory. For example international shipping, or when an architect in country A sends building plans to a developer in country B.	**Mode 2: Consumption abroad** This refers to domestic businesses selling services to foreign customers present in their market. Examples are tourism or medical services provided to foreign visitors
Mode 3: Commercial presence This consists of services sold by foreign companies to domestic customers through local affiliates, subsidiaries or representative offices in the customer's market. An example is a foreign hotel group selling vacation packages to domestic residents.	**Mode 4: Movement of natural persons** This characterises services provided by a services professional or an employee of a services firm who is temporarily present in the territory of the customers. For example, an IT specialist that travels abroad to develop new software for a local client.

Source: Trade 4 MSMEs

Notable traded services

<u>Travel</u>

According to *The International Trade in Services* by Peter Rickards, travel is the single largest service export, accounting for around US$1.25 trillion in global exports annually. Travel includes services provided by a country to foreign tourists, students and business travellers, and covers services like accommodation, meals, tourist attractions and education expenses. It does not include the transport to and from the country, which is captured in transport services.

Trade

Transport

Transport services capture the movement of people, animals and goods across borders by air, sea, road and rail. During the 1970s transport accounted for around one-third of all services traded globally. Over the past few decades, transportation costs have declined and there has been strong growth in other services trade. As a result, the share of transport in global services trade has declined to be below 20 percent.

Business services

The rise of multinational firms and outsourcing has led to a considerable increase in business service exports over the past few decades. International trade in business services covers a wide array of commercial activities, including technical and trade-related services (such as engineering, leasing and merchanting services); professional and management consulting services (such as legal, accounting and advertising); and research and development (R&D) services (which includes the initial purchase or development of intellectual property). R&D does not include charges for using intellectual property, which is a separate category of service exports.

Financial and insurance services

Financial and insurance (F&I) services are the third most traded service around the world, with financial services accounting for the vast majority of these. Financial services are measured by transaction charges and margins, asset management fees and other intermediation charges while insurance services are measured by the value of premiums paid to insurers net of any claims.

Information, telecommunications & computing

The fastest growing component of the global trade in services has been information, telecommunications & computing (ITC) services. These services have grown strongly because they are increasingly being used in the production of many other goods and services, in part driven by lower ITC costs.

Intellectual property

Trade in intellectual property (IP) occurs when businesses use IP that is owned in another country and includes charges for the use of patents, trademarks, copyrights, franchises and trade secrets. The majority of global IP trade consists of intra-firm transactions, such as payments between a subsidiary and the firm's headquarters.

Trends and developments

As the lion's share of global manufacturing shifted from advanced countries to developing ones from the second half of the last century, services remained largely the province of advanced countries and regions such as Europe, the United States, the United Kingdom and Japan. The ensuing dynamic was that developing countries were net exporters of manufactured goods with advanced countries being net consumers, while the reverse obtained when it came to services, with advanced countries being net providers. The services were often high-value professional and intellectual property services which were exported to developing economies. The advanced economies also trade large volumes of services with each other.

Trade

According to Eurostat, in 2023 the European Union (EU) was the world's largest trader of services. Its exports of services were valued at €1,340 billion and its imports at €1,177 billion. Based on 2022 data for world trade in services, the EU accounted for more than a quarter of global exports (25.2 percent) and close to a quarter of global imports (23.4 percent). By comparison, the shares of the United States were 16.7 percent for exports and 13.7 percent for imports, while those for China were 6.5 percent for exports and 8.8 percent for imports.

International trade in services, selected countries, 2013, 2022 and 2023

	Exports (€ billion)		Imports (€ billion)		Share of world total, 2022 (%)	
	2013	2023	2013	2023	Exports	Imports
World (¹)	3 027.8	5 403.8	2 927.5	4 937.2	100.0	100.0
EU (²)	692.1	1 340.4	570.3	1 176.5	25.2	23.4
Australia	44.2	69.1	56.6	83.8	0.9	1.3
Brazil	28.3	41.8	69.7	76.6	0.7	1.5
Canada	70.5	134.8	87.1	142.5	2.3	2.8
China	155.9	307.1	248.9	499.3	6.5	8.8
Hong Kong	78.9	91.2	56.6	73.4	1.5	1.2
India	112.3	312.2	59.3	165.0	5.4	3.4
Japan	101.9	191.4	128.7	211.0	3.0	4.1
Mexico	20.6	51.5	31.9	69.1	0.9	1.3
Russia	52.8	38.1	96.7	69.7	0.9	1.4
Singapore	106.9	303.4	112.7	273.3	5.9	5.7
South Africa	12.9	13.1	13.5	17.2	0.2	0.3
South Korea	77.8	115.1	82.6	138.9	2.3	2.7
Türkiye	49.7	94.0	19.6	45.4	1.6	0.8
United Kingdom	282.3	540.3	165.0	364.3	8.9	6.2
United States	541.7	949.4	350.7	691.9	16.7	13.7

Note: United Arab Emirates: not available.

(¹) Excludes intra-EU trade. 2022 instead of 2023.

(²) Extra-EU trade.

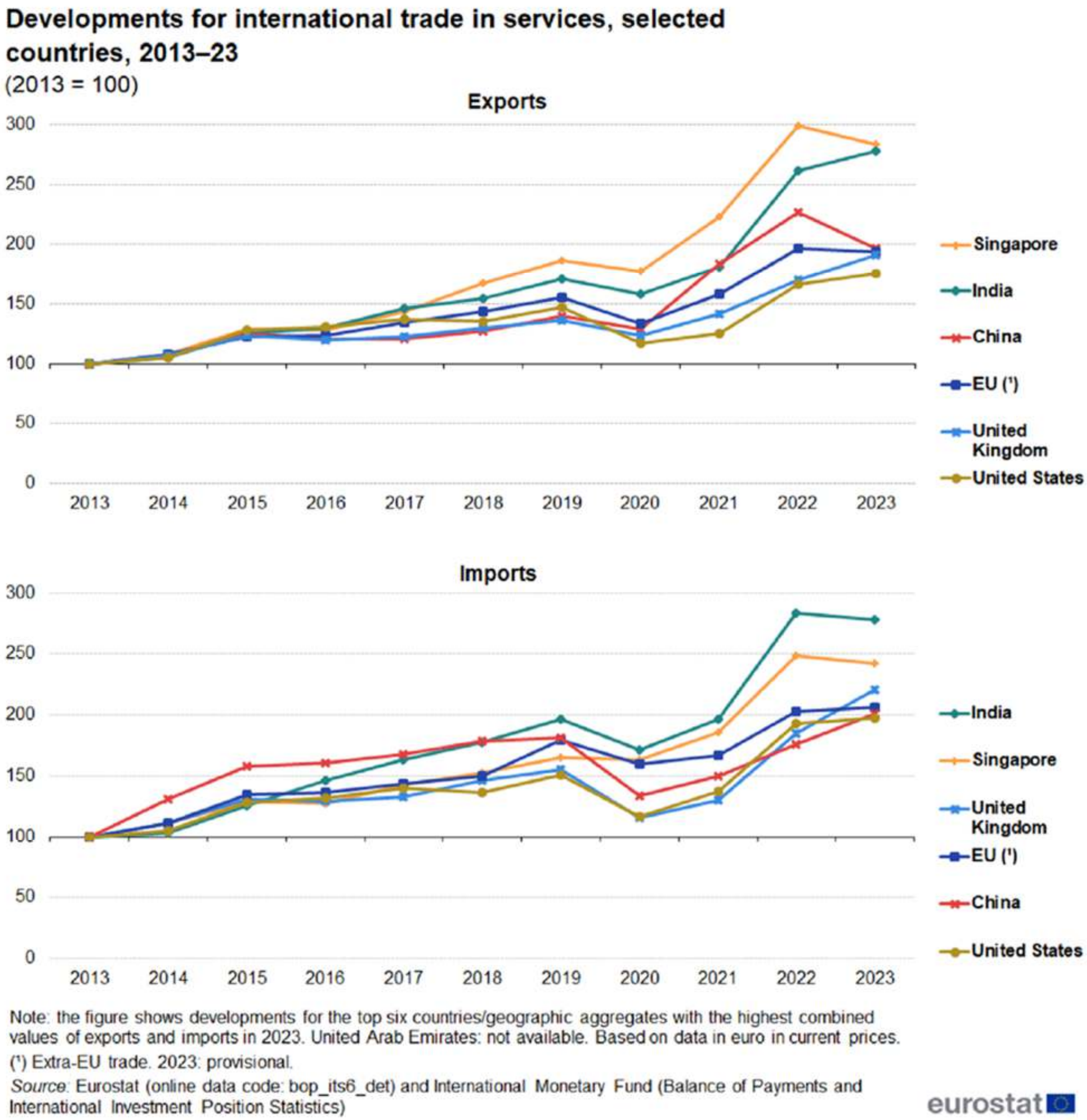
Source: Eurostat (online data code: bop_its6_det)

eurostat

Notwithstanding the continued dominance of advanced countries, over the last quarter century, the previously mentioned dynamic has been changing. While developing countries still trade less services in total than advanced economies, they are increasingly important for services trade. Developing country service exports have grown at twice the rate of exports from advanced countries over the past few decades. This growth has been driven by the Asian region, in particular China, which is now the world's fourth largest services exporter. In fact, notwithstanding the EU's dominance in the quantum of its services exports and imports, as seen in the charts below, its growth rates have been eclipsed by India and Singapore, whose imports and exports of services were almost tripled in 2023 compared to 2013. The export and import services of China doubled over the same period.

Trade

Leading regions in services trade with indices (Y-axis) representing the value of exports and imports



Looking at the global picture, since 2011, trade in services has been expanding at a faster pace than trade in goods. The WTO's World Trade Report 2019 found that commercial services trade grew 5.4 percent each year on average, between 2005 and 2017, totalling US$ 13.3 trillion in 2017. Undoubtedly, digitally delivered services has been a major contributor to this growth. According to the latest WTO (2023) estimates, global exports of digitally delivered services more than tripled since 2005, growing 8.1 percent per year on average during 2005-2022, outpacing the growth in exports of both goods (5.6 percent) and other services (4.2 percent). While tourism and other services requiring cross-border mobility of people fell in this period, digitally delivered services exports continued to rise, reaching US$ 3.82 trillion in 2022, and representing a 54 percent share of total global services exports. According to the WTO's World Trade Statistics 2023, the share of services in global trade reached 24.7 percent in 2023, up from 22.2 percent in 2022.

In closing

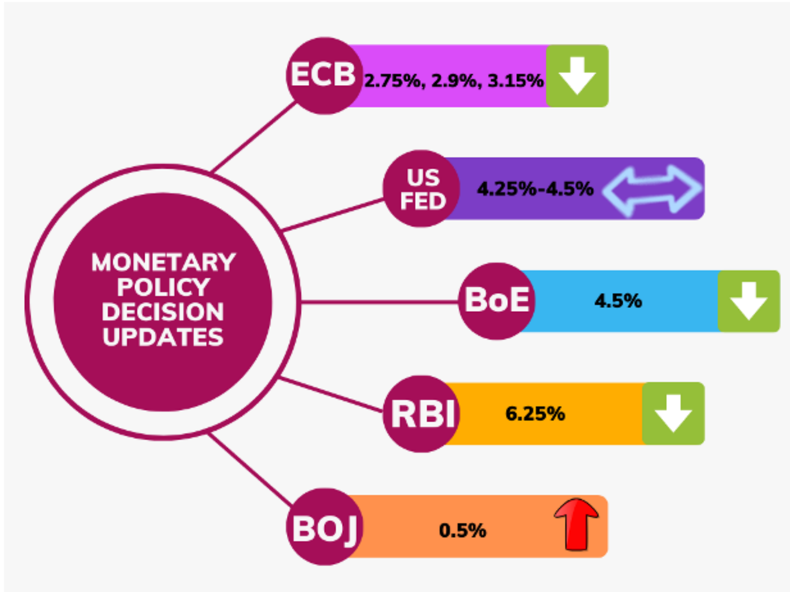
Technological progress and greater access to the internet have enabled services businesses to reach customers without needing to be in physical proximity with them, thus reducing the cost of trading services. Trade in services has also led to opportunities for small businesses to become early exporters. WTO findings have shown that services-based small businesses are on average two years younger than small firms in manufacturing sectors when they start exporting. However, the small firms in services sectors are overall less internationalised than their peers in manufacturing activities, suggesting areas for policy improvement.

Implications

While we in the Caribbean are familiar with the provision of services in terms of international and regional tourists, advances in information, telecommunications and computing (ITC) present opportunities to provide a range of services to people remotely. Examples of services include, counselling, auditing, research, accounting, strategic planning, training, graphic design, architectural design and tutoring. Services are generally easier to customise and personalise thus providing opportunities to differentiate the service and price. The provision of services should be encouraged and facilitated, because in addition to its potential to increase employment and diversification, services generally do not have the high barriers to entry and economies of scale that often present challenges to Caribbean citizens and states alike.

Banking and Finance

Monetary Policy Updates



European Central Bank (ECB)
Effective February 2025, the interest rates on the deposit facility, the main refinancing operations, and the marginal lending facility decreased to 2.75 percent, 2.90 percent, and 3.15 percent, respectively. In the ECB's view, the disinflation process remains on track and inflation is on course to return to the 2 percent target over the course of 2025. However, the process has not been entirely smooth, with ongoing price adjustments in certain sectors keeping domestic inflation high, despite the downward trend. Wage growth is moderating as expected and profits are partially cushioning the impact on inflation.

US Federal Reserve (US FED)
Following three consecutive rate cuts, the Fed held policy rates at 4.25- 4.50 percent at its January 2025 meeting. In December, the Federal Open Market Committee (FOMC), the body responsible for setting interest rates, revised the previously forecasted number of interest rate reductions for 2025 from 4, to just 2. However, this can change based on economic developments. Factors that spurred the decision to maintain the rates include, the fact that risks to the Fed's full employment and low inflation goals are "roughly in balance," and that economic activity continues to expand at a solid pace. Fed Chair, Jerome Powell, indicated general optimism about the economy's direction, stating, "We see things as (being) in a really good place for (Fed) policy and for the economy."

Bank of England (BoE)
Given reducing inflationary pressures, the Bank of England cut its benchmark interest rate to 4.5 percent in February 2025 from 4.75 percent. This follows a similar cut in the previous meeting in November 2024. With inflation approaching its 2 percent target, the BoE has decided to gradually reduce interest rates to prevent an acceleration of price pressures. Inflation has been close to the 2 percent target since the middle of 2024 but remains on a bumpy path. The BoE expects inflation to temporarily rise to 3.7 percent in 2025 (due to increased energy prices) then fall to the 2 percent target.

Banking and Finance

Reserve Bank of India (RBI)

The Reserve Bank of India cut its interest rate by 25 basis points to 6.25 percent in February 2025, the first reduction in five years. The decision was taken as the Bank seeks to stimulate the economy with inflation easing towards its 4 percent target. The rate change comes at a time when India's GDP growth is expected to slow to a four-year low of 6.7 percent in 2025 and follows a range of measures previously announced, including an injection of $18bn (£14.48bn) into the domestic banking system, to ease a cash shortage. RBI governor Sanjay Malhotra said the bank was keeping its policy stance "neutral", to support growth.

Bank of Japan (BOJ)

In January 2025, the Bank of Japan increased its policy rate to 0.5 percent from 0.25 percent, the highest since 2008. This was also the first rate hike since July 2024. The bank expects rising wages to keep inflation stable around its 2 percent target. The bank suggested that there was scope to increase rates further before they reach to a level that is considered neutral to the economy.

Mergers and Acquisitions (M&A)

Mergers and Acquisitions (M&A) in the banking industry is expected to increase in 2025 due to the easing of some factors that hindered activity between 2022 and 2024. Firstly, interest rates continue to trend downward as most major central banks gradually relax their monetary policy stance. The lower interest rates are expected to spur economic activity, thus leading to greater profits which can be used to facilitate M&A activities. Figure 1 highlights some of the activities expected this year by banks as they attempt to realise their M&A objectives.

Figure1- Banks' expected activities in 2025

Economies of scale and scope

Size has become increasingly important in the banking sector due to the increase in operating costs associated with technology investments and compliance. By undertaking acquisitions and integrating the businesses with existing operations, banks can achieve economies of scale by spreading the higher fixed costs over a larger customer base.

Capability driven deals

A primary objective of all banks is to always look for new capabilities. These capabilities include technological asset innovations that improve its product and service offerings thus leading to a strategic advantage. Such capabilities allow these firms to tap into new revenue streams in an extremely competitive market.

Portfolio Optimisation

In an attempt to increase efficiencies, banks are constantly reviewing their portfolios to identify non-core assets that can be divested. By divesting such assets, which incude capital-intensive, high risk or low-margin businesses, banks will be able to concentrate on core competencies, streamline stucture and re-direct capital into more attractive areas.

Sales of Non-performing loans (NPLs)

Banks can strengthen their balance sheet and improve capital ratios by selling NPLs as credit quality has been deteriorating in some loan books. Alternatively, with the rise of private credit facilities recently, there may be more opportunities to purchase underperforming loan portfolios.

Banking and Finance

Global Banking Risk Themes 2025

Financial institutions face increasing pressure navigating a competitive landscape with increasing risks. S&P Global Market Intelligence foresees a few major changes in 2025, with low risk of major financial sector disruptions, amid global policy uncertainty (Figure 2).

Figure 2- Banking risk 2025

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Banking and Finance

Implications

- With some economies experiencing slowing inflation and steady global growth projected for 2025 and 2026, central banks are nonetheless navigating a complex landscape trying to balance price pressures and regional economic disparities. In 2025, there is expected to be a further normalisation of monetary policy.
- As a result of declining inflation, lower interest rates, and recovering valuations through much of 2024, it is likely that there would be increased M&A activity for 2025.

Commodities

Energy

Oil & Gas

- To support oil prices, the OPEC+ group cut a total of 5.9 million barrels of oil per day (b/d) from its output, in a series of agreements dating back to 2022.

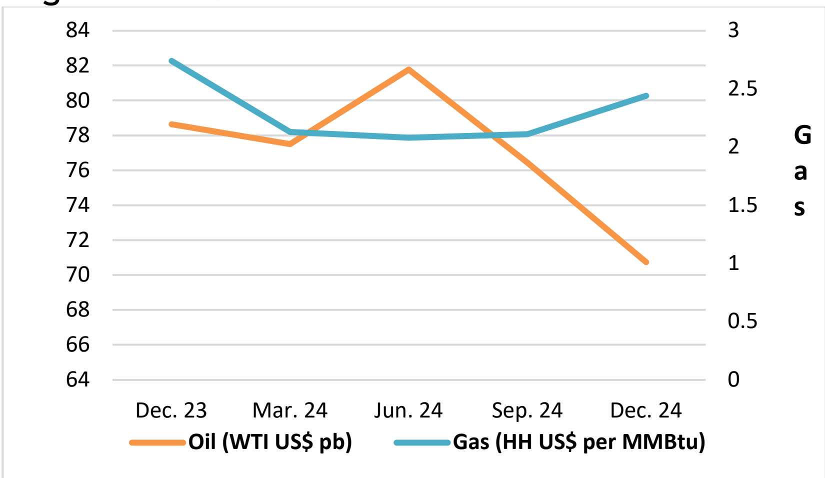
- The latest in the series, a 2.2 million b/d cut, implemented in November 2023, was supposed to expire at the end of 2024. However, faced with downward price pressures, the group took the decision to extend these cuts to the end of March 2025, intending to gradually return the output to the market thereafter.

- Oil and gas prices moved in divergent directions in the fourth quarter of 2024 (Figure 1). The West Texas Intermediate oil price fell by 7.4 percent compared to the previous quarter to US70.74 per barrel, while Henry Hub Gas prices rose by 15.6 percent to US$2.44 per million British thermal units (MMBtu).

- This trend is expected to continue in 2025, with oil production expected to grow faster than demand and gas supply expected to grow slower than demand.

- The decision of the new US administration to aggressively increase production could control prices over the medium-term. Additionally, its efforts to persuade Saudi Aribia to use its influence in OPEC+ to increase the group's output, as a means of ending the Russia-Ukraine war, if heeded, could impact prices in the short-term.

Figure 1- Oil & Gas Prices



Source: EIA

Coal

- After expanding by 2.5 percent in 2023, the International Energy Agency (IEA) estimated 1 percent growth in global coal demand in 2024, reaching a record 8.77 billion tonnes (Bt).

- The slowdown was the result of a deceleration in the growth of demand in Asia and a fall in demand in advanced economies. This trend is expected to continue in 2025.

- Electricity generation continues to be the main driver of coal demand, reaching a record 10,700 terawatt-hours (TWh) in 2024.

Commodities

Renewables

- The growth in global renewable energy supply is expected to continue over the long-term.

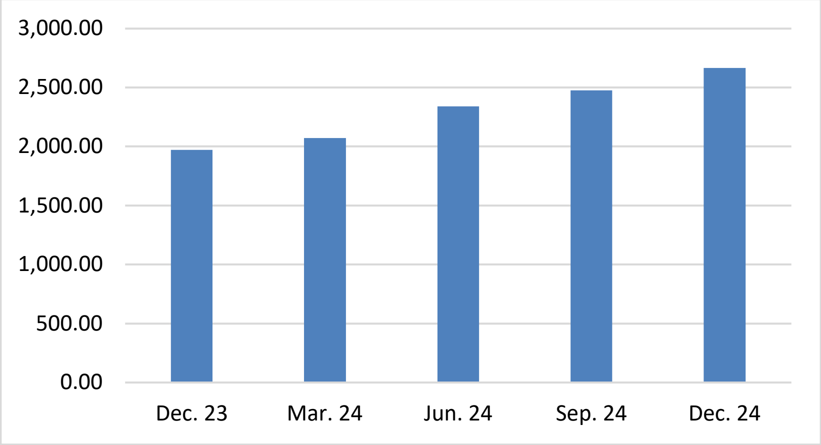
- However, the decision by the US administration to ramp up domestic oil and gas production and to seek to withdraw from the Paris Climate Agreement could slow the progress of the global sustainable energy thrust over the medium-term.

Metals

Gold

- Spurred on by global uncertainty, gold prices rose steadily in 2024, reaching record highs in the fourth quarter.
- This rally occurred notwithstanding the 7 percent rise in the dollar in 2024.
- In the fourth quarter of 2024, gold prices increased by 35.1 percent to reach US$2,663.4 per troy ounce (Figure 2) and averaged US$2,386.2 per troy ounce for the entire year, compared to US$1,940.5 in 2023.
- Prices remained elevated in January 2025 and seem set to register further substantial increases for the remainder of the year, driven by increasing trade restrictions and geopolitical tensions, among other things.

Figure 2: International Gold Prices (US$ per troy ounce)



Source: World Gold Council

Steel

- According to the World Steel Association, global steel output fell by 0.8 percent y-o-y in 2024.

- China, the largest steel producer by some distance, experienced a 1.7 percent decline in production during the year, partly owing to weak domestic construction activity. Nonetheless, the country's steel exports recorded robust growth, helping to suppress international prices.

Commodities

- In 2024, there was an 11 percent fall in flat steel prices in the EU, while rolled coiled steel prices in the US declined by 22.8 percent during the fourth quarter of 2024, compared to the corresponding period in 2023.

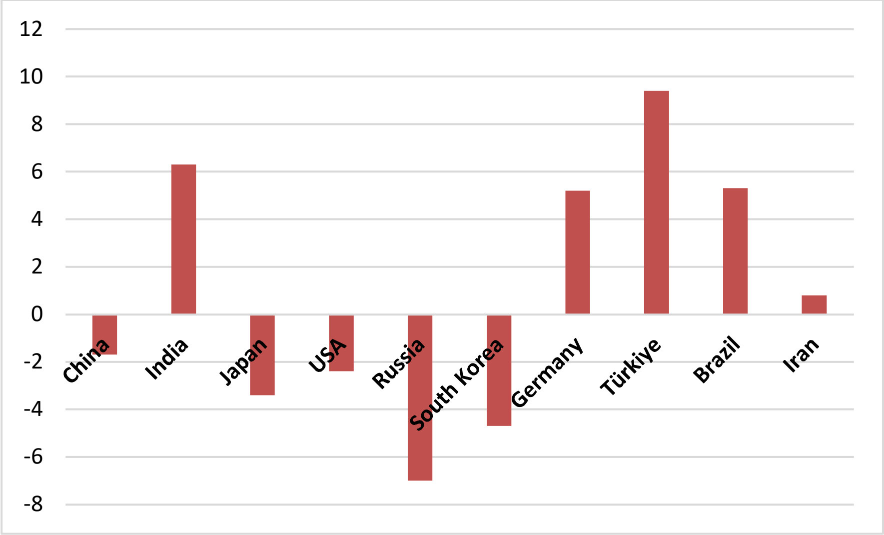
- China accounted for 53.3 percent of the 1,882.6 million tonnes of steel produced globally in 2024.

- Five of the top ten steel producing nations recorded contractions in output in 2024 compared to the previous year (Figure 3).

- The demand for steel fell in 2024, due to weak construction sector activity in most major economies. The global construction sector continued to be constrained by high interest rates, economic and other uncertainties, and weak residential property sales.

- The UK government has committed to invest £2.5 billion to support the country's ailing steel industry. The government aims to enhance the sector's long-term viability through the adoption of more modern equipment such as electric arc furnaces. The government is also seeking to convince the US government not to impose tariffs on UK steel and aluminium.

Figure 3: Output Growth of the Top 10 Steel Producers (% Change)



Source: World Steel Association

Food

Food Price Index	• Global food prices, as measured by the United Nations Food and Agriculture Organisation's Food Price Index rose by 6.7 percent y-o-y in December. However, the average value of the index for all of 2024 was 2.1 percent lower than the figure recorded for 2023.
Cereal sub-index	• Cereal prices declined for the second consecutive year in 2024, falling by 13.3 percent from 2023 levels.
Sugar sub-index	• In 2024, sugar prices averaged 13.2 percent below the figures of the previous year, due to improved output among the major producer nations.
Vegetable oil sub-index	• As a consequent of falling global supplies, vegetable oil prices increased by 9.4 percent y-o-y in 2024.
Meat sub-index	• Meat prices rose 2.7 percent in 2024, as the decline in pig meat prices was offset by rising bovine, ovine, and poultry meat prices.
Dairy sub-index	• With butter prices surging in 2024, dairy prices were 4.7 percent above the level reached a year earlier.

Implications

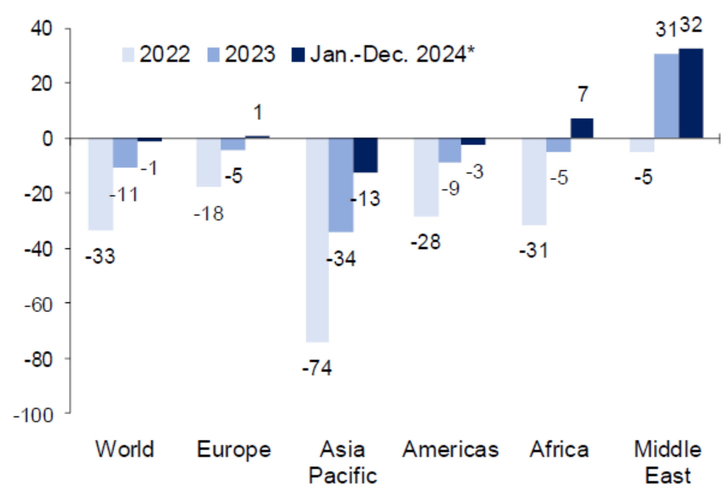
The uncertain global environment is expected to keep the investment appeal of gold elevated for the foreseeable future, an environment that will likely be welcomed by producers. As it relates to other commodities, the impact of ongoing global uncertainties is expected to be a mixed bag in 2025. Moreover, with tariffs and other protectionist policies on the rise, ongoing geopolitical tensions and the potential for weather-related disruptions, there is no shortage of fuel for global uncertainties.

Tourism

Recent Performance

- In 2024, international tourist arrivals reached 99 percent of pre-pandemic levels, with most destinations surpassing 2019 levels.
- During the year, an estimated 1.4 billion international overnight visitors were recorded. This represents 140 million more tourists or an 11 percent increase over 2023. This was the result of strong demand, robust performances in large source markets, and the ongoing recovery of destinations in Asia and the Pacific.
- Among the major regions, the Middle East recorded the largest growth in arrivals compared to 2019 levels (32 percent). However, the region only registered 1 percent year-on-year (y-o-y) arrival growth in 2024 (Figure 1).
- Europe welcomed 5 percent more tourists in 2024, when compared to 2023, while Africa saw a 12 percent increase.
- Arrivals in Asia and the Pacific continued to recover, reaching 87 percent of pre-pandemic levels.
- Tourist arrivals in the Americas were 97 percent of pre-pandemic levels (213 million), with the figures in the Caribbean and Central America exceeding 2019 levels, fuelled by strong US outbound travel. The Caribbean welcomed 7 percent more tourists than in 2019.

Figure 1: International Tourist Arrivals by region (% change over 2019)



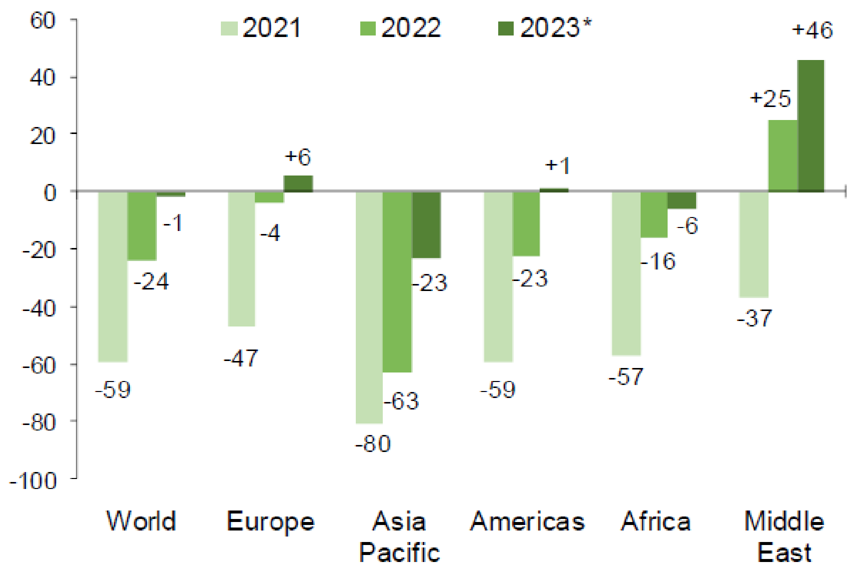
Source: UN Tourism (January 2025) * Provisional data

Tourism

Export revenues from tourism

- International tourism receipts, which refers to expenditures by international inbound visitors, including payments to national carriers for international transport and any other prepayment made for goods or services, received in the destination country, expanded in 2024.
- Preliminary estimates reveal that receipts reached US$1.6 trillion in 2024, approximately 3 percent more than the figure recorded in 2023.

Figure 2: International Tourism Receipts by region (% change over 2019)[1]



Source: UN Tourism (January 2025) * Provisional data

[1]Local currencies, constant prices

Travel Outlook

International tourism is expected to face several challenges in 2025, including high transport and accommodation costs, geopolitical risks, extreme weather and labour shortages. While these issues represent major downside risks, international tourist arrivals are expected to grow by 3-5 percent in 2025, when compared to 2024. This projection is based on the assumption that the Asia and Pacific region will continue to recover, and growth will remain solid in other regions.

United States
In President Donald Trump's first term in office, a travel ban was imposed on selected countries. During that period, travel to the US grew only marginally, with an average increase of 1 percent over the three pre-pandemic years (2017-2019) and the US as a destination experienced a loss of global market share. The US' policies and the sentiment at that time, negatively affected the travel market. This fact reinforces fears that the tariffs, restrictive immigration policies and nationalistic rhetoric that feature prominently in the president's second term, can potentially impact inbound travel to the US over the medium-term, resulting in a further erosion of its market share.

Tourism

Overtourism

The ***EIU Monitor February 2024, Volume 3 Issue 1,*** focused on overtourism, which according to (Milano et al., 2019) is "the excessive growth of visitors leading to overcrowding in areas where residents suffer the consequences of temporary and seasonal tourism peaks, which have caused permanent changes to their lifestyles, denied access to amenities and damaged their general well-being". Since publication, overtourism in ***Spain*** has gotten worse, as it expects even more tourists to visit in 2025 after an estimated record 94 million foreigners visited last year, 10 percent more than in 2023.

- The Bank of Spain has warned about tourism-related problems of congestion, natural resource degradation and housing, and called for a study on whether tourism fees should be increased.

- Barcelona also plans to shut all short-term rentals by 2028 to protect locals from rising housing costs.

- Foreign tourists spent some 126 billion euros (US$130 billion) during their stays in 2024, up 16 percent from the previous year. It is estimated that tourists would spend 36 billion euros in the first four months of 2025, 16 percent higher than in the same period of 2024, while visitor numbers should rise by 9 percent.

British Virgin Islands (BVI) recorded very strong arrivals figures over the past year, with visitor arrivals surpassing one million for the first time since 2016.

- Cruise ship visitors reached 768,293 – a 6.8 percent increase compared to 2023 – while overnight visitors rose by 16.7 percent to 305,876.

- Day-tripper arrivals also set a record at 17,970, reflecting a 35.1 percent increase from the previous year.

- BVI's thriving cruise tourism sub-sector has raised concerns among residents and stakeholders, who are questioning its net benefits, as cruise passengers typically spend less locally than overnight guests. Large groups of cruise passengers often overwhelm local resources and contribute minimally to the local economy during their brief visits. Communications and Works Minister Kye Rymer acknowledged that the BVI's current infrastructure cannot support mass tourism.

Tourism

Implications

- If the policies implemented by the US government prove to be a material deterrent to prospective tourists, this would likely benefit other destinations, including the Caribbean, as affected tourists are expected to seek alternative locations.
- It is important for all tourism destinations to strike an appropriate balance between the growth of the sector and their respective carrying capacity. Any failure in this regard could result in substantial negative consequences for the affected country's infrastructure, natural environment, and citizens, among other things.