Monthly Economic and Financial Developments (MEFD)

September 2021

Remarks by the Governor
01 November, 2021

The Bahamian economy continues a steady but paced recovery from the Covid-19 pandemic, as evident from the resumption in tourism and associated foreign currency receipts through the private sector. Economic activity has also been stimulated throughout by the varied foreign investment inflows, particularly into tourism related ventures and residential properties that have sustained construction activity. That said, the recovery path remains drawn out for The Bahamas, given constraints that the pandemic still imposes on the demand for international travel, and the impact that access to and administration of vaccines is having on travel confidence.

The performance of tourism for the first three quarters of the year continues to support the Central Bank's view that the economy will grow mildly, within the 2 percent range for 2021. It mainly reflects the timing of when tourism restarted in 2021, rather than the current level of business being experienced. In particular, it was only during second quarter of 2021 that stopover business substantially resumed, and at least the middle of the summer before cruise visitors started to return. When business resumed, occupancy levels were anecdotally more recovered than it was forecasted that they would be. Nevertheless, there was no substantial re-entry in the earlier months that would compare even partially to the healthy closeout of the 2019-2020 winter season. The upbeat seasonal performance in the current half of 2021 will not significantly make up for this difference.

On the upside, tourism is positioned to record full calendar year business in 2022. This, combined with continued recovery in occupancy rates and the return-to-use of residual room inventory will generate forecasted economic growth for 2022 anywhere between 6% and 8%. It will allow for much needed return of employment in the sector and downstream improvement in other parts of the private sector and in public finances. The recovery path still has to be seen against a double-digit contraction in the economy in 2020, which is still not expected to be fully erased before 2023, at the earliest; and the ongoing expansion in the employable workforce, which along with furloughed persons have added to the jobless rate.

The observed upturn in private sector activity is also evident in strengthened foreign exchange market transactions. On the inflow side, commercial banks' purchases of foreign exchange from the private sector increased by 30.5% in first three quarters of 2021. On the expenditure side, private sector demand for foreign exchange, through purchases made from commercial banks, rose by 21.5% over the same months. Deducting the inflows from outflows, the private sector returned to being a net supplier of foreign exchange to commercial banks, as compared making a net drawdown on such resources in 2020. This also substantially reduced commercial banks' net reliance on the Central Bank for foreign exchange, and net drawdown against the external reserves. At the same time, the net inflows of foreign exchange from Government borrowing lessened.

Yet the external reserves were maintained at a healthy position. As of today's date, the first of November, the balances were $2.57 billion. Even with a deduction for the IMF's Special Drawing Rights allocation, the balances would be about $2.32 billion and still very favorably compared to the estimated $2.29 billion position recorded around the beginning of November 2020.

With the private sector's foreign exchange activities shifted to a more sustainable state, the Central Bank has now removed all of the conservation measures imposed on the economy in 2020, including access to investment currency for portfolio investments outside The Bahamas.

That said, the size of the public sector's net borrowing requirements and the stimulus impact of such government expenditure, still require a prudent mix of deficit financing in Bahamian dollars and foreign currency. Although this optimum is shifting more towards domestic currency financing, it still maintains a requirement for significant foreign currency funding in the mix, and this informs the consultative process that is maintained between the Central Bank and the Ministry of Finance. Nevertheless, our near-term outlook does tolerate some reduction in the reserves, for justifiably increased domestic financing of both public and private sector investments.

Turning briefly to the banking sector, private sector lending conditions are still mildly contractionary. It reflects risks and credit quality challenges that institutions were managing even prior to the pandemic. The credit bureau, having transitioned into operations will help improve the climate for lending in the medium term. In the meantime, given the dominant nature of bank lending to the households and enterprises that rely on the fortunes of tourism, a necessary requirement for stronger uptick in lending is also the pass-through benefits of tourism in expanding the pool of viable borrowers.

Indications from the latest lending conditions survey reveal that the volume of applications for business and personal loans increased during the first half of 2021, and a corresponding overall net increase in the volume of approved credit. Although the success rate for mortgage application was slightly lower, more loans were approved overall. Consumer credit applications had both a higher success rate and also a significantly greater number of approved requests. Nevertheless, more than half of the unsuccessful applications for both mortgages and other personal credit were still due to lack of affordability, due to preexisting debt servicing levels that were considered too high. Under-employment is also still a factor in unsuccessful credit applications. In the meantime, debt consolidation relief was the largest single reason for consumer credit applications—about one-third. Such active lending for debt consolidation also signals less capacity, even for qualified borrowers to finance new big-ticket expenditures.

As a further push to improve the environment for lending, particularly for enterprises, the Central Bank along with the Ministry of Finance are at the advance stage of a diagnostic exercise to establish an online registry for moveable collateral. Broad private consultation on the proposal will begin as soon as the Government is fully briefed through the Cabinet. A moveable collateral registry would facilitate and encourage increased, secure lending for business ventures by both banks and sophisticated private financiers.

To sum up, the outlook for the Bahamian economy is for a very mild onset of real GDP recovery in 2021, with a much healthier rebuilding in 2022, that would benefit both the fiscal balance and the reengaged tourism sector employees. Lending institutions will see further incremental uptick in non-performing loans, but remain significantly in a safe and sound capital position. From a monetary policy perspective, the Central Bank is taking a more relaxed position concerning protection of the Bahamian dollar currency peg, and is accommodative to increased domestic financing of both the public and private sectors. The downside risk to the outlook are still mostly around potential COVID-19 setbacks not all of which would be within the domestic control of The Bahamas; and costs on fuel and other imports that could consume more of our foreign exchange earrings.