



Recent Economic and Financial Developments Post-Hurricane Dorian Outlook*

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Indications are that the Bahamian economy maintained its modest upward trajectory during the period of the latest available data through July. Gains in tourism continued to be supported by the rise in the high value-added stopover visitor segment, while activity in the construction sector was fueled by a number of varied-scale foreign investment-related projects. In this environment, employment conditions continued to improve gradually, with the jobless rate falling to a decade low. Monetary sector developments were dominated by the growth in deposits, which outpaced the expansion in credit and resulted in an increase in bank liquidity; while external reserves expanded, buoyed by net foreign currency inflows from real sector activities.

Medium-term prospects for The Bahamas are still positive. However, the unprecedented devastation caused by hurricane Dorian and the disruption in travel itineraries to many airports will negatively impact the economy in the short-term. Rebuilding efforts in the aftermath of the storm and the return to normal conditions in several tourism markets which were not severely impacted will temper these overall adverse effects. The pace of recovery of hotel room inventory will impact the speed at which the economy returns to normal.

In the coming months, the measures implemented to rebuild and replace vital infrastructure, combined with efforts to assist those residents and businesses adversely affected by the storm, could hamper the Government's fiscal position. However, financing needs are likely to be met in part by inflows from several multilateral lending facilities; thereby mitigating the pressure on domestic funding sources. In the private sector, external re-insurance inflows are anticipated to cushion business and household financing needs; however, recovery gaps are likely for impacted persons and entities without adequate insurance protection.

The hurricane's near-term impact on external reserves will materialize over the remainder of the 2019 and most of 2020. Balances could still experience a net accumulation in 2019, as re-insurance and other external proceeds are placed on deposit for drawdown during rebuilding efforts. More of the net outflows against reserves are anticipated over the course of 2020, cushioned by the seasonal upturn in performance on other tourism assets. Nevertheless, reserve indicators are expected to remain above international benchmarks.

Given the adverse effects of the hurricane on the economy and the need to support the recovery effort in affected islands, the Central Bank has relaxed lending conditions on facilities extended to distressed households and businesses. For these impacted borrowers, commercial banks will be permitted to waive the Central Bank's mandated 15% equity or down payment requirement on consumer loans, and to waive the threshold debt service range of 40% to 45% on new credit that accommodates hurricane recovery. In these instances, lending institutions have been encouraged to adopt flexible but prudent credit assessment criteria, tailored to the particular financial circumstances of distressed borrowers. The Central Bank has also endorsed moderation on collection efforts against delinquent credit facilities of borrowers displaced by the Hurricane, even if such accommodation is tempered from the more aggressive resolution posture that the Central Bank urges more generally. The Bank will continue to closely monitor the situation and take appropriate measures to support the economic recovery and ensure the stability of the financial sector.

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