Press Release
21 December 2016

Central Bank: No Pressure on the Bahamian Dollar from Credit Downgrade

The Central Bank wishes to advise the public that the recent downgrade of The Bahamas' sovereign debt to BB+/B from BBB-/A-3, will not exert pressure on the sustainability of The Bahamas' fixed exchange rate regime.

The adjustment in the country's credit rating by Standard and Poor's, reflects the agency's assessment of economic prospects,including the expected pace of growth estimates relative to the Government's fiscal consolidation imperatives and developments within the banking sector. It will however, cause increases in the interest costs on some existing external debt and present some higher costs for new debt.

The Bahamian dollar, remains supported by the Central Bank's external reserves, for which the outlook is for stable to incrementally firming balances. In this regard, net foreign exchange earnings prospects for The Bahamas have been enhanced by the expected increase in hotel sector capacity during 2017 and 2018. In the near-term, external balances will also be supported by re-insurance inflows for private sector rebuilding in the aftermath of Hurricane Matthew.

External reserves currently stand at an estimated $928.6 million or approximately 17.4 weeks of merchandise imports—compared to the 12 weeks international benchmark. Modest declines in external balances are still expected from these levels over the remainder of the year; however, the start of the winter tourist season should precipitate the traditional build-up in reserve levels.

The Central Bank, meanwhile, expects a steady, gradual improvement in banking sector indicators as the economy recovers. Important reforms, including the anticipated establishment of a credit bureau will also provide a sounder framework for prudent lending practices over the medium-term. The Central Bank is also active, alongside key stakeholders throughout the Caribbean, on strategies to reduce threats from the loss of correspondent banking relationships. While it is accurate that at least 16 percent of licensees have had negative experiences, all of those entities affected have either successfully established new relationships or have been able to rely on the remaining networks which they secured.

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