Monthly Economic and Financial Developments (MEFD)
September 2019

Remarks by the Governor
04 November, 2019

Today we are releasing the Central Bank's monthly economic report, which covers development through the end of the third quarter of 2019. It offers some preliminary observations on outcomes since Hurricane Dorian. This quarterly report also highlights the most recent lending conditions survey, covering observations for the first half of 2019.

Economic activity came to a halt in Abaco and Grand Bahama during September 2019, as a result of Hurricane Dorian. Neither island recorded any tourism activity, given the complete shutdown of the infrastructure. The rest of The Bahamas was not entirely spared, as these regions experienced either visitor declines or much reduced arrivals gains for both hotels and vacation rental properties.

However, the timing of the storm's during the slower part of the tourist season, allowed The Bahamas to preserve strong tourism performance over the first nine months of the year. This momentum is sufficiently strong, that the Central Bank expects The Bahamas will still record positive growth in 2019, underpinned by tourism, but much lower than had the storm not occurred. In addition, foreign investment stimulus is expected to be sustained, with inflows targeting expansion in resort and cruise infrastructure in New Providence, Grand Bahama, and several Family Islands.

The setback from the Hurricane is projected to be more noticeable in 2020, with resort facilities in Abaco absent during the peak winter season, and Grand Bahama's economy only expected to be partially recovered. An overall contraction in the economy or a flat outcome is possible.

While the rebuilding is forecasted to stimulate strong construction activity, an adequate supply of skilled labour will be essential to maximise the speedy of restoration. There is nevertheless a financial resources gap, given significant uninsured or underinsured families who could face a lengthy recovery process as they rely either on public assistance or have to rebuild out of incomes. Even as revised projections indicate that insurance payouts to the private sector could exceed $1 billion, the losses, most to private sector assets could surpass 20% of GDP—or more than $2.5 billion. Nevertheless, it is expected that key commercial assets will recover faster than the housing stock.

The Bahamas has some scope to limit tourism loss during the recovery process, by attracting displaced businesses to New Providence and other undamaged islands. This opportunity is greater in the vacation rental market, as average occupancy rates were in the 50% range over the past year, giving undamaged properties room to accommodate significantly expanded business. There is scope, but not on the same scale to absorb some lost business from hotel properties.

The economic infrastructure in the Northern Bahamas should be sufficiently restored, to support resumed growth in 2021.

Beyond the storm, the other fundamentals either posing risk or opportunities for the Bahamian economy remain. The global economic outlook has softened, given heightened trade policy tensions and the uncertainties from the process of the UK's withdrawal from the EU. One bright spot is that US consumer confidence has stayed strong, as have employment conditions. This would help to sustain the rising demand for Bahamian tourism.

Turning to the financial sector, our current focus is on securing a swift restoration of services to Grand Bahama and Abaco. While online banking is universally available to customers, ATM's or automatic banking machines provide the only cash services available in Abaco. Banks face the logistical challenges of rebuilding premises and eventually finding housing for returning staff. In Grand Bahama, the return is much further along. Some banks have resumed branch operations under limited operating hours, with cash ATMs also operational.

The logistical challenges aside, commercial banks' balance sheets are in a comfortable state to withstand credit stresses from Abaco and Grand Bahama. The damaged islands account for some 12% of banks' outstanding credit, against which increase loan losses could result, in spite of the accommodations granted. But there are no concerns around these.

Banks have offered a 6-month moratorium on loan payments in the affected communities. Under Central Bank guidelines, they are also exercising greater flexibility in extending new credit against higher debt service ratios than otherwise, and under less demanding down payment requirement to assist families with their recoveries.

Prior to the Hurricane, there were signs of a marginal turn around in private sector lending, as the contraction in credit tapered off. The Central Bank expects overall lending to begin to expand over the near-term, as new lending outpaces ongoing repayments.

Some results from the Lending Conditions Survey released today show that demand for credit is now trending stronger than in 2018. Banks have also approved a larger share of recent applications than in the past. The most common reason for unsuccessful loan applications continue to centre around households already carrying too much debt or putting up insufficient collateral to secure the debt.

Hurricane rebuilding will place an increase demand on foreign exchange usage. In this context, the Central Bank expects that external reserves could decrease slightly during 2020. However, the reserves are projected to end 2019 at exceptionally strong levels, potentially above $1.5 billion, as reinsurance inflows and proceeds from the Government's foreign currency financing accumulate. These resources will be spent on construction materials, foreign services, and other recovery related imports during 2020.

Access to foreign exchange of this mix is an essential part of The Bahamas' ability to recover from hurricanes, without putting the value of the Bahamian dollar in jeopardy. For the Government and households, it is, therefore, most advantageous to reduce debt as much as possible in ordinary times, so that comfortable space can exist to borrow in times of emergencies. This goes hand in hand with other strategies to invest in more climate resilient infrastructure.

As of today, the external reserves are just above $1.5 billion, which is about $200 million higher than at this same point last year. It captures some of the initial reinsurance inflows, but also stronger net retention of tourism and foreign investment receipts from over the first nine months of the year. Some of The Bahamas' rebuilding will also use foreign exchange from ongoing earnings on tourism and foreign investment activities, and some costs will be covered from savings which some families and business have stored up.

As to the outlook, the Central Bank will maintain an accommodative posture for private credit growth, including more generous concessions for families in the hurricane damaged areas. The Bank will also continue to focus on containing medium-term risks to foreign reserves, through the gradual reduction in its holdings of Government debt. Heightened attention is also being placed on financial sector disaster recovery strategies, which will include how the digital currency can support more rapid return of commerce and dissemination of social and humanitarian assistance after natural disasters. The Central Bank will also explore how homeowner insurance practices could be strengthened, to make families more financially resilient.