Monthly Economic and Financial Developments (MEFD)

June 2021

Remarks by the Governor
3 August, 2021

Based on the latest available data the, Bahamian economy began a slow recovery from the COVID19 pandemic during the first half of 2021. This was due to resumption of most tourism sector business, except for cruise activity. Outside of tourism, it is estimated that construction continued to receive important stimulus from foreign investment inflows. Given anecdotal reports of strong demand for upscale residential properties, such support could continue alongside the impulse from Hurricane Dorian related rebuilding. In the meantime, the economy is experiencing moderately higher inflation because of increased costs on imports, as the pandemic has caused supply shortages for some goods, and fuel prices have risen.

In the outlook, the recovery is projected to continue, with much stronger growth in 2022 than in 2021; but with a return to 2019 levels of activity not forecasted to be fully achieved before 2023.

The rebuilding in tourism has been most marked in respect of the second quarter of 2021; although on a year-to-date basis, the half-year outcome is still lower than in 2020. Two other factors also stand out in tourism. The first is that there has been a relatively faster recapture of business in the Family Islands compared to New Providence and Grand Bahama. The second is that the vacation rental market has experienced stronger demand recovery than hotels. In the meantime, the cruise sector business will only begin to resume in the second half of 2021.

The first-half tourism improvement was evident in strengthening foreign currency inflows through the banking system. In particular, commercial banks' foreign currency purchases rose by 10% compared to 2021. With fewer restrictions on local commerce and travel, the sale of foreign currency for travel and other uses outside The Bahamas strengthened by approximately 7%.

Turning to the financial sector, the pandemic has resulted in increased lending risks and credit losses to domestic institutions. However, banks continue to maintain high levels of excess capital and retained earnings to absorb these losses and have, in most respects, already made sizeable allowances for losses. The associated non-performing loans are expected to continue to rise in the near-term, as more clarity emerges about the employment status of borrowers who experienced difficulties as a result of the pandemic. At present, the non-performing loans rate has risen to 9.5% of private sector loans, compared to an estimate just below 8% before the pandemic struck.

In June, Banks were still extending repayment deferral arrangements on just 2.3% of loans to businesses and households. This was a considerable reduction from slightly more than one third of such facilities one year ago. This however, understates the remaining difficulties for borrowers, because some forbearance also continues for many who are still only able to partially resume loan payments. Underemployment continues to be a factor for some borrowers who have returned to work.

Bank lending has continued to be constrained, because of heightened risks and subdued demand for credit. As such, there has been further overall reduction in credit to the private sector in the first half of 2021. On the flip side, liquidity has accumulated further. With the credit bureau now in operation, there are now improved prospects for lending and credit risk management, although favourable results from the credit bureau are most likely over the medium-term, in line with general improvement in the economy.

In the present environment, with bank credit expansion not placing pressures on foreign exchange usage, and the Government still required to finance an important share of the deficit in foreign currency, the external reserves have increased to near $2.6 billion as at mid-July. These balances are expected to decrease over the remainder of 2021, but not to any level that would cause concern. In particular, there remains important accumulations in the reserves from re-insurance receipts from Hurricane Dorian. The economy would benefit more from having those resources spent at a faster pace on rebuilding. In the context of the domestic liquidity, the Central Bank also expects that the foreign reserves are at a level to allow the economy to support more private sector capital raising in Bahamian dollars.

Taking account of the improved forex market conditions, the Central Bank has already removed the majority of the conservation measures that were introduced in 2020. The remaining measures relate to capital market investments, principally through the local broker dealers or securities market firms, and the investment currency market. These restrictions are under review for timing, that would see them removed before the end of 2021. However, it must be emphasised that in the very near-term, risks to the econcomy have increased, even if in the months further out they continue to subside. It is our capacity to maintain control over the COVID19 risks, that will help to define the economy's near-term trajectory; that is, around sustainability of foreign exchange market conditions, arresting further deterioration in public finances, and keeping financial stability risks in check.