



Monthly Economic and Financial Developments (MEFD) June 2022

***Remarks by the Governor
02 August, 2022***

The Bahamian economy continues to recover from the COVID-19-imposed contraction. This reflects the strong rebound in tourism and ongoing support from foreign investments that include healthy demand for upscale residential real estate. The investments in residential real estate and in commercial tourism developments, are providing steady support for the construction sector. Alongside the economy's recovery, outlook for the Government's finances has also steadily improved. In the meantime, The Bahamas continues to experience rising inflation—a pass-through from higher prices on imported fuel and other goods.

The recovery is driven significantly by a return to pre-pandemic levels of tourism. In this regard, there is room for additional gains, as a result of pent-up demand for travel previously unmet, particularly during the first year of the pandemic. The tourism turnaround has featured both rebounded visitor volumes and steady-to-improved average pricing for stopover accommodations. Moreover, performance in the vacation rental market remains strong, with significant benefits accruing to the Family Islands.

The momentum in tourism is being sustained, despite other challenges in the international economic environment, which are expected to discourage some travel. Such headwinds are expected to reduce, but not eliminate the total economic gains being experienced, through at least the end of 2023. By this point, the major part of the recovery from COVID-19 is likely to be completed, leaving other external factors to become more dominant in influencing travel sector trends. At present, headwinds include elevated labour shortages that are holding back the airline industry's ability to swiftly restore seating capacity; fuel costs that are making travel less affordable for some consumers; and increasing central bank interest rates, which, while intended to fight off inflation, would also make travel less affordable for some households.

In 2022, the foreign exchange markets resumed a more entrenched seasonal pattern of positive net inflows through the private sector. Over the first half of the year, commercial banks reported a 50 percent rise in total purchases of foreign exchange from the private sector. The system also experienced a one-third rise in local demand for foreign exchange, mostly to pay for imported goods and services. Net of such usage, the private sector contributed to more than half of the net foreign exchange that was consequently retained by the Central Bank over the first 6 months of 2022, and which helped provide the strong increase in external reserves. The foreign reserves also increased due to the Central Bank's purchase of net proceeds from foreign currency borrowings by the Government. In contrast, transactions with the Government had explained more than four-fifths of a much lesser buildup in reserves that occurred in the first half of 2021.

At the end of June, the reserves were estimated at \$3.2 billion, and as of the beginning of August, the balances were still around those same levels.

Over the remainder of 2022, a normal seasonal contraction in the reserves is expected. However, it is still forecasted that balances will end the year at a higher level than at the end of 2021.

The increased holdings of foreign reserves and the positive near-term outlook for these balances leave the banking system in a position to sustainably accommodate more domestic credit expansion. Positioned as such, the system is able to accommodate both the public sector's projected net borrowing needs and expanded lending to the private sector.

So far however, lending to the private sector has remain subdued, still reflecting limited opportunities for banks to expand credit to new prospective borrowers, given heightened risks that still persist within the environment. Where creditworthy borrowers exist, the Central Bank is reviewing what additional flexibility banks could be given, while continuing to observe prudent limits on the burden of debt borrowers take on.

While the lending environment remains risky, the average delinquency or non-performing loans rate now appears to have peaked since the most stressful periods of the pandemic. It has declined at a steady, incremental pace since the beginning of 2022. Nevertheless, the Central Bank is continuing to target for the non-performing loans rate to be reduced considerably further, below the levels that existed before the pandemic. Even then, these averages were considered too high to support a healthier private sector lending environment.

Turning to the economic outlook, the economy is projected to grow at a healthy pace of at least 5 percent in 2022 and gains are also expected in 2023—continuing to reflect a bounce back from COVID-19.

In this environment, it is important to continue lay a foundation for sustained and strengthened growth, particularly beyond the COVID-19 recovery phase. This would impact the speed at which the unemployment rate falls to below pre-COVID levels, and the pace at which the Government's finances improve.

In the meantime the Central Bank's varied initiatives remained focused on boosting the domestic financial sector's near- to medium-term support for economy activity. This includes a renewed push for adoption of the Bahamian digital currency, particularly to impact inclusion and efficiencies in underserved communities in the Family Islands. We also anticipate progress with the proposed moveable collateral registry, which would help improve the ease of access to credit for business purposes. Further reforming exchange control remains in the mix, continuing to emphasise those aspects of policies that affect the ease of doing business and long-term investments. Given downside risks to the economy, policy changes targeting portfolio investments and liquid financial flows continue to require a very gradual approach, as these would have a more immediate impact on our ability to maintain the currency peg.