Monthly Economic and Financial Developments (MEFD)
September 2022

Remarks by the Governor
31 October, 2022

From all indications, the Bahamian economy continues to recover at a healthy pace from the COVID19 setback. This reflects a steady tourism rebound and increasing foreign investment inflows. As expected, the uptrend has contributed to a marked improvement in the Government's budgetary performance, through a sizable reduction in the fiscal deficit and increased sustainability of financing in the domestic market. However, the economy is facing increased inflation, through higher costs on imported goods and services. While the growth outlook is positive, the risks to the economy are expected to stay elevated over the near-term, largely as a result of the uncertainties in the international environment.

Turning to tourism, the Central Bank expects that the sector will complete its recovery over the course of 2023. In the case of the cruise market, the monthly seasonal performance has already eclipsed pre-pandemic levels. In the stopover segment, however, the monthly gap is still closing. The monthly comparisons show that air arrivals in August had regained approximately 90 percent of the pre-pandemic baseline. While in the month over month comparisons, the 2019 outcomes could be matched by the end of the third quarter of 2022, the Central Bank's baseline measure for complete recovery is still a comparison of the closing months of the year against the final four months of 2018. This was a record performance period that predated both the pandemic and Hurricane Dorian.

Although tourism is still completing its recovery, private sector foreign currency inflows through the commercial banks are on course to surpass the pre-pandemic records. This reflects the added impulse from significant and rising foreign investment flows, in areas such as residential real estate and tourism infrastructure, which have both stimulated construction activities. Over the first nine months of 2022, measured forex inflows have increased by 40 percent in comparison to 2021. This leaves forecasted outcomes for 2022 on course to outpace the pre-pandemic high of $6.0 billion that was recorded in 2018.

Within the more sustainable mix of foreign exchange inflows and usage, the private sector contributed to nearly half of the estimated $746 million growth in external reserves over the first nine months of 2022. In 2021, by contrast, the sector was still making a net drawdown on the reserves. As of today's date, the reserves are approximately $3.0 billion. Over the remainder of 2022, balances are expected to decrease, in line the normal seasonal pattern of elevated third and fourth quarter net imports. However, balances are still expected to close out the year higher than they were at the end of 2021.

Turning to monetary conditions, domestic credit trends for the private sector remained contracted over the first nine months of the year, and are expected to become only mildly positive over the near-term. In the context of strengthening deposit growth, the liquidity in the system is therefore likely to remain elevated, keeping average deposit rates from rising. It is in this context that retail depositors particularly, are encouraged to invest more in the available medium and long-term domestic bonds of the Government. The Central Bank will target this market segment, as it works with the Government to introduce a savings bond scheme. Existing liquidity is already supporting stable to increased investments in Government instruments by financial institutions and institutional investors.

As to credit quality, an improving trend has also been established. The delinquency rate on private sector credit has declined gradually over the course of 2022. In this context the Central Bank also continues to deliberately target significant medium-term reduction in delinquencies. Tackling the delinquency rate and increasing the pool of qualified borrowers, which are both favourably influenced by overall economic conditions, are important to stimulating more lending.

While continuing to manage the downside risk to the economy, this takes me to highlighting three important policies which the Central Bank has either signalled or is about to announce.

The first is the expanded scope for banks and credit unions to lend to the private sector, against more relaxed debt service thresholds and less stringent down payment requirements. Although within lending institutions' overall credit risk management practices this change is only expected to have a small impact on total credit trends, it gives lenders more flexibility within which to identify credit worthy borrowers.

The second policy change is the announced limited window in which domestic investors can purchase Bahamas Government foreign currency bonds, without having to pay the 5 percent investment currency market premium. Net capacity exists both within the external reserves and within the recovered levels of gross foreign exchange flows for such limited duration outflows. The Central Bank, however, is closely monitoring market demand response and will continually assess if and when a cutoff should be imposed.

Third, in relation to domestic money services, the Central Bank is lifting the moratorium on new applications for licenses to offer money transmission and payments services. With pandemic conditions abated, this sub-sector is in a better position to establish a stable footing and provide expanded services to the Bahamian public. While money services activities could benefit from some consolidation over medium-term, however, this sector can also begin to profit from innovative, viable and sound new business models—though in keeping with strong financial inclusion outcomes.

Returning to the outlook and monetary policy, the outlook remains sustainable for the foreign reserves and the Bahamian dollar currency peg. Also, there remains a strong recovery element in growth for both 2022 and 2023, associated with pent-up demand for travel. This is net of the projected slowdown in the global economy, as leading central banks increase interest rates to neutralize inflation; and as energy prices stay elevated, largely due to the war in Ukraine. The downside economic risks, continue to warrant a prudent, measured approach to foreign exchange market policies. However, accommodating increased private sector lending and increased domestic financing of the fiscal deficit are also compatible with this approach.