Monthly Economic and Financial Developments (MEFD)
December 2022

Remarks by the Governor
30 January, 2023

The latest economic data, through the fourth quarter of 2022, indicated a continued healthy recovery of the Bahamian economy from the COVID-19 related setback. It is likely that the economy grew by between seven and nine percent in 2022, mostly driven by rebounded tourism inflows. Foreign investment activities also provided steady stimulus, concentrated in tourism development projects and residential real estate. Meanwhile, the economy imported a significant uptick in inflation, in line with cost escalation in The Bahamas' major trading partners, and the United States in particular. The economic rebound has had a positive impact on net foreign exchange inflows and the Central Bank's international reserves. As well, the Government's revenue recovered significantly, causing the fiscal deficit to shrink.

Although official data were not available, it is expected that the unemployment rate eased considerably in 2022, from the deteriorated state of the previous two years. Neverthless, the pace of the labour market's recovery still trails the GDP performance, because the recovery has, above all, had to restore jobs lost or placed on hold during the pandemic, even as new persons continued to enter the labour force.

As to tourism momentum, the recovery, though incomplete, is considerably advanced. In the overall trends, the gains from recovered stopover volumes were amplified by rising average nightly room rates for both resort properties and vacation rental units. In the stopover segment, by November, the seasonal rebound in air arrivals had broken even of the pre-pandemic high for the same month, which is a comparison against November 2018 that also preceded Hurricane Dorian. On a monthly basis, the cruise sector's seasonal rebound had already significantly eclipsed the pre-pandemic base. However, both cruise and stopover visitors still have calendar year shortfalls to recoup. For the 11 months through November, total air arrivals had converged to just 82 percent of the pre-pandemic high, and sea arrivals were at about 95 percent of the same comparisons. This remaining calendar year performance gap in both markets underscores the further healthy boost in the annual visitor volumes that is expected to occur during 2023.

The foreign exchange markets continue to provide more quantifiable, real-time indicators of the recovery. On the inflow side, commercial banks' total foreign currency purchases from the private sector rose by approximately one-third to $7.2 billion in 2022, propelled by both tourism and foreign investment receipts. In the meantime, as private sector demand strengthened, commercial banks' sales of foreign exchange to accommodate international payments increased by almost 30 percent, to approximately $7.0 billion. Since private sector inflows were stronger than the outflows, there was a corresponding reversal in commercial banks' transactions with the Central Bank, favouring a net inflow to the external reserves in 2022. In the meantime, because of the shift in timing of the Government's external bond issue from the second half of 2021 to the first half of 2022, the public sector transactions also netted a significant uplift to the external reserves—that is before the SDR transaction was taken into account.

In the context of these developments the Central Bank's external reserves increased by approximately $140 million to $2.6 billion in 2022. At the close of January 2023, the external balances were still very close to this level, just before the anticipated seasonal build up that is expected through the first half of the year. It is likely that as domestic demand further picks up, and commercial bank lending increases marginally in relation to 2022, the external reserves will close out 2023 at a stable to slightly decreased position from their present levels. This continues to be a healthy assessment for the reserves, which is also in keeping with anticipated further rebuilding from Hurricane Dorian, and use of re-insurance proceeds that are still inside the reserves.

Turning to the banking sector, the environment also continued to feature rising liquidity, as deposit base growth, fuelled by converted proceeds from foreign exchange inflows, contrasted with a further reduction in credit to the private sector. While the economy has improved the debt servicing capacity of many existing borrowers, it has not yet resulted in any meaningful increase in the qualified pool of new borrowers, either for consumer loans, mortgages or enterprise lending. As to credit risks, at the end of 2022, the average delinquency rate on private credit had fallen back below eight percent, which was also slightly below the non-peforming loans rate that was also trending lower just before the pandemic's interruption. The Central Bank expects this improvement to continue over the medium-term. In the meantime, commercial banks' lending is expected to increase incrementally in 2023, although this is still dependent on the characteristic of new potential borrowers who are entering the job market, as those gaining posts in tourism are considered riskier prospects.

Returning to the outlook, The Bahamas is still in recovery mode, benefiting from significant pent up demand for travel and capacity that is still being restored in the airline and hotel sectors. This will allow the economy to experience above average growth again in 2023. While, there are headwinds which have drawn out the recovery timeline, they are not likely to contract the econcoy in the near-term. COVID-19 still poses downside risks, as does the cost of imported energy, imported inflation, and increasing international interest rates which are a result of central banks work to bring inflation lower. Of course, many of these developments are also driven by spillovers from the war in Ukraine.

While the Central Bank is keeping these risks in sight, a robust and recovered foreign exchange environment, alongside the healthy outlook for external reserves, continues to justify an accommodating monetary policy posture. This includes tolerance for banks to expand credit to the private sector credit even if some modest reduction in the external reserves occurs in the process.