Remarks by the Governor
30 October 2023

The available data through the third quarter of 2023 continue to show healthy recovery and transition of the Bahamian economy, away from setbacks of the COVID19 pandemic. Tourism underpins the recovery, with aggressive marketing efforts taking advantage of the relaxed global travel conditions. Indications are that support from foreign direct investments is also being maintained at healthy levels. As a result, the outlook for employment remains positive. Meanhwile, the inflation expectations for The Bahamas have moderated, even though transitional firming remained evident due to the delayed pass-through from higher electricity costs. In the financial sector, trends are characterised by steadily reducing credit delinquency rates, while the outlook for lending to the private sector is gradually improving. Nevertheless, there is a more discernible abatement in the speed of economic growth. With private sector demand more caught up to the rest of economy and the government more reliant on local currency borrowing, some consequent net reduction in the Central Bank's foreign reserves continue to be expected over the remainder of this year.

The near-term risks to the economy remain concentrated around imported inflation, escalating geopolitical tensions, and the multiple adverse impacts that rising international interests rates could have on the financing costs for the public and private sectors.

Based on trends in tourism, and the observed level of foreign currency inflows through the private sector, the economy is still expected to grow at an above average pace in 2023, in the three to four percent range. This compares to the majority of the COVID-19 rebound that grew the economy by about 14.0% in 2022. In the first half of 2023, there continued to be some residual recovery in stopover tourism, compared to the pre-pandemic highs. Alongside increased average prices for hotel rooms and vacation rentals, this helped to expand the sector's total economic contribution. However, over the first eight months of the year, neither air nor sea arrivals numbers experienced signficant, additional seasonal headcount growth compared to the pre-pandemic estimates. Compared to seasonal performance in the same months of the pre-COVID-19 period, sea arrivals levelled off favourably about 42.0% above the pre-pandemic highs, however, air visitors fluctuated on average about 2.0% below the high. The varied, anticipated boost in hotel and cruise capacity in 2024, could create the headroom to improve these seasonal indicators.

The foreign exchange markets provide a good indicator of the collective impacts of tourism, investments and other inflow activities on the economy. They are also a reliable early gauge of the annual variations in the level of activity in most parts of the economy. In this regard, during the first nine months of 2023, total foreign inflows through the banking sector rose just 2.5% compared to 2022. The recovery-driven improvement in receipts in the same period in 2022 was 40.0%. In the meantime, the demand for foreign exchange increased by 7.1% in 2023, compared to approximately 30.1% in 2022. While these trends underscore healthy conditions overall, the relatively stronger growth in foreign exchange sales led to a smaller net retention, and therefore decreased net sale of foreign exchange from commercial banks to the Central Bank.

Given net foreign exchange trends, the external reserves of the Central Bank remained on course to contract this year. In particular, the Central Bank's net foreign exchange purchase from the commercial banks decreased by almost one-third during January through September 2023. Moreover, there was an approximate $700 million reversal in transactions with the government sector, from a net purchase or boost to reserves over the same months in 2022, to a net sale of foreign exchange in the first three quarters of the current year. As a result, the external reserves fell incrementally over the nine-months to September 2023, compared a net accumulation of nearly $750 million in the same period last year. As regard the leading influence of the government's debt management operations, some of the drawdown in reserves already experienced could be reversed over the remainder of the year, given some planned foreign currency borrowing, but the cumulative impact in 2023 is still expected be a reduction.

As of the end of October, the external reserve balances were at $2.5 billion. This is about 5.0% below the closing levels for 2022. These balances continue to be healthy and more than adequate to support the value of the Bahamian dollar fixed exchange rate. The outlook for the reserves also continue to be supportive of increased expansion in private sector credit and an increased share of financing of the fiscal deficit in local currency.

In the banking sector, there are steadily improving indicators of credit quality, with the outlook for lending shifting more positively. As at September, just 6.8% of estimated private sector loan balances had fallen behind in repayments by 90 days or more, compared to 8.1% of all credit balances at the same point in 2022, and an average setback during the height of the pandemic of to almost 10.0% of loan balances. In addition, a gradual, though still very mild pattern of growth, was established in total lending to the private sector over the first 9 months of 2023. It included a bottoming out of multiple years of reduction in consumer lending and additional gains in business loans. However, the residential mortgage segment was further contracted overall.

In line with these trends, based on the latest lending conditions survey for the first half of 2023, commercial banks also reported a further uptick in applications for credit, concentrated in consumer and business loans. Banks also approved an increased volume of the applications for credit.

Turning to the outlook, economic risks and the Central Bank's policy stance, the economy is projected to experience continued growth in 2023, although more moderated. By 2024, activity could settle closer in line with the economy's medium-term growth potential. This evolution is expected to sustain continued high levels of banking liquidity, and comfortably adequate external reserves. From a policy perspective, it continues to leave the Central Bank open to accommodating more growth in lending to the private sector and the domestic markets in a sustainable state to finance an expanded share of the fiscal deficit in local currency. In any event, the outlook is also expected to encompass continued fiscal consolidation that should reduce the government's total borrowing requirements.

Nevertheless, there are downside risks that justify caution. Imported inflation could impede the economy's ability to retain foreign exchange, while escalated energy costs could make the tourism product more expensive and less attractive. In addition, the rising interest rates, which push back against inflation, could impose higher costs on the government's foreign currency debt, and could slow the pace of foreign investments that rely on debt financing. Weaved throughout these trends are geopolitical tensions from the war in Ukraine, and now the Middle East.

In these respects, the Central Bank's monetary policy posture is cautiously balanced and measured.