Monthly Economic and Financial Developments (MEFD)

March 2019

Remarks by the Governor

2 May 2019

Today we are releasing the Central Bank's monthly analysis of domestic economic developments for the month of March. It contains the latest money and credit trends and an assessment of economic conditions through the first quarter of 2019. The Bank has also provided the results of the latest survey of private sector lending conditions that is attached to the published slides. The collective analysis helps the Bank to determine whether policy adjustments are necessary on any level that would affect credit other financial developments that affect the safety and soundness of the local banking system, and/or the health of the external reserves that back up the value of the currency.

Overall, the Bahamian economy is still benefiting from the expansion in the United States economy and other developed countries. Although there is more uncertainty around the speed at which these countries will grow over the next few years, the support for tourism has been maintained, and linked most to healthy confidence of US households.

In this regard, available information points to continued growth in the Bahamian economy during the first quarter of 2019, with tourism providing the strongest support, and foreign investments continuing to drive construction activity.

In the case of tourism, the arrivals and other performance data show extremely strong growth in onshore business for both hotels and vacation rentals. At major hotel properties, the increased sales occurred alongside appreciated room rate pricing. These results still contain a sizeable onetime lift from Baha Mar, which did not have all its rooms available for sale in the first quarter of 2018. In the vacation rentals market, average pricing only rose slightly from 2018.

Early indications are also that the cruise sector experienced growth; but Grand Bahama was an exception, with a reduction in the number of ships that stopped at the port in January.

Trends in the foreign exchange transactions of banks give a broader perspective on the economy's performance. On a net basis, the increase in foreign reserves during the first quarter benefited from almost $300 million in net flows though the private sector. Compared to the first quarter of 2018, commercial banks' total foreign exchange purchased from the private sector rose by 14 percent to about $1.5 billion. From these receipts, commercial banks fully accommodated higher spending by businesses and consumers on goods and services from abroad, and then sold a larger residual to the Central Bank, that funded the increase in external reserves.

That said, the seasonal growth in foreign reserves was lower than in the first quarter of 2018 because of the public sector's influence. In 2018 there was notable net foreign currency borrowing by the government, which contributed to some of the rise in reserves. This year, the government made a net purchase of foreign exchange from the Central Bank.

At the end of March the external reserves were around $1.4 billon. As we expected, these are lower than at the same point in 2018. This is because the Government continued to drawdown on the funds that it borrowed at the end of 2017, and because of two bulky transactions in 2018 when the Grand Bahama hotel was purchased and when the Nassau Airport Development Company refinanced some US dollar debt with local currency.[1]

In terms of the international measures of months of non-oil imports that reserves could pay for, The Bahamas remains well above the considered minimum comfort level of 3 months.[2]

Turning to credit and other developments in the banking sector. The liquidity position of commercial was improved over the quarter, in line with seasonal foreign currency inflows. However, this also reflected a continued reduction in outstanding credit to the private sector, which was most pronounced in consumer loans. Credit to government also contracted because some of the Government's debt shifted out of banks into the private sector's holdings; and the net amount owed by the Government to the banking system decreased, after it received the transfer of the unclaimed deposits in banks that were identified during the reform of the dormant account system in late 2018.[3]

For the private sector, commercial banks experienced further reduction in loans delinquencies during the first quarter. However, this is still occurring at very gradual pace, and with month to month changes that sometime show no improvement. The more considerable reductions in recent years have still been from the bulk sales of delinquent loans to private investors and to the Government's Resolve entity.

Taken all together, the Central Bank still does not see any evolving trends that would pose any near-term risks to the external reserves and therefore the support for the Bahamian dollar. There is therefore no need to adjust our relaxed posture towards potential credit growth in the near-term.

The economy is expected to continued to grow at a moderate pace, providing potential for further gains in external reserves.

A growing economy will also generate the employment income necessary to push the credit delinquency rate lower. However, to eliminate the drag that defaulted loans have on new lending credit, the Central Bank is continuing to promote firmer direct interventions by commercial banks to speed up resolution of bad debts. It means a more aggressive push to selloff foreclosed properties, and more sustained efforts to restructure some debts, as well as more aggressive write-offs and recognition of losses on loans that are difficult to recover. These interventions are needed to position financial institutions in a healthier state for future negative shocks—which eventually do occur.

The Central Bank's medium term efforts are focused on making sure that new bank lending is able to happen in a prudent setting, by having the credit bureau provide reliable information to more easily identify riskier borrowers. The second focus is to continue to gradually extract the excess liquidity from the system, by selling off more of our holdings of Government debt to private investors.

[1] The transactions collectively drew down approximately $129 million of the reserves (NAD refinancing: $69.5 million and Grand Lucayan initial capital investment: $60.0 million). Proceeds from the pending sale of the Grand Bahama hotel property will reverse almost half of this drawdown.

[2] The external reserves also equated to more than 100 percent of the Bahamian dollar currency liabilities of the central bank, relative to the legally required minimum of 50 percent.

[3] The credit extended to government is calculated on net basis, by deducting deposits from all amounts owed to the banking system in the form of loans, overdraft or debt securities.

Keeping the Government's fiscal reforms and deficit reduction plans on track will support these monetary policy objectives, by reducing the rate of new borrowing that relies on banking sector financing.

The Central Bank's medium-term posture is also to ensure appropriate balance between local and foreign currency financing of prospective Bahamian sponsored public and private sector investments in various infrastructure projects and developments. Although these will boost foreign exchange earnings potential, they will also require considerable imports of construction materials and other fixtures. The Bank will expect and therefore accommodate the right mix of funding to cover the imported inputs.

As a final comment, I would also draw attention to the latest survey on lending conditions, which covered the second half of 2018. It indicates rising demand for credit and a slightly improved success rate in being granted credit.

When applicants did not have their loan applications approved, the reasons most commonly stated by lending institutions were that the applicants were either already too heavily in debt, or that applicants would be pushed to such point if they were given the requested loan. The next major category of denials were for persons who just had not been employed long enough yet.

Such experiences collectively underscore the importance of the Get Money Smart financial literacy campaign, which is to provide households with knowledge on how to improve their financial health.

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