Monetary Policy Committee Press Briefing

Remarks by John Rolle
Governor

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From all indications, the Bahamian economy grew slower in 2019 than in 2018. It reflected the losses caused by Hurricane Dorian, which limited the returns from tourism. Aside from the setback in Abaco and Grand Bahama, the tourism industry was still healthy, given some important shifts in demand to the undamaged islands of the archipelago; and the magnitude of growth experienced over the first half of the year before the storm hit. In this outcome, there continued to be a strong expansion in the vacation rental market.

Foreign investment activity also provided steady stimulus through construction activity, with the onset of hurricane rebuilding efforts beginning to have similar effects.

The economy could still contract in 2020, as neither construction efforts nor the pickup in business elsewhere in The Bahamas might fully compensate for the absence of a meaningful tourism contribution from Abaco and Grand Bahama during the peak of the season. In addition, the dependence on imports for rebuilding is likely to cause a deduction from the GDP estimate, even though The Bahamas will have more than ample access to foreign exchange to pay for such spending. This includes reinsurance payouts, the surplus foreign reserves which tourism helped to provide, and the increased access to foreign currency borrowing that the government will have. It is important to note that the economy has always been subjected to such foreign exchange needs after setbacks. Hence, the emphasis during good times to ensure that access through these channels continues to be strengthened.

Now it is most important to ensure that the rebuilding happens on an efficient timeline, which from the Central Bank's estimate would be signaled from a comfortable drawdown in the reserves during 2020--even to the point that the balances fall modestly lower than they were at the end of 2018.

At the end of 2019, the external reserves reached $1.7 billion, which was more than $500 million above the closing balances for 2018. There is still some additional inflows expected from borrowing and reinsurances that would pass through the balances during 2020.

The commercial banks have been able to withstand the shock of the hurricane and show increased leniency to customers in the damaged areas, without encountering major balance stress. Just under 10 percent of commercial banks' loans to the private sector were to borrowers in Abaco and Grand Bahama. Although, as expected, the delinquency rates on these islands have risen since September, this has not halted the countrywide fall in the non-performing loan rates—the fraction of loans that are at least 3 months behind in payments— which was estimated at 8.1% at the end of December 2019. The full extent of financial strain in the damaged zones will become more apparent after borrowers, especially in Grand Bahama, have exhausted the grace periods they were granted by commercial banks. Nevertheless, the Banks have seen a good volume of credit repayment from insurance claims payouts. This strengthens the Central Bank's position on the general importance of hurricane insurance coverage to uphold the stability of banks and to protect depositors, where lending is of a long-term nature involving mortgages.

As a general comment, and unrelated to the hurricane experience, lending to the private sector was still subdued but expanded in 2019 after an overall reduction in 2018. The Central Bank expects that there will still be a cautious element to lending in 2020, but with further growth. It is the Credit Bureau that will set the stage to remove some of this uncertainty and help lenders to better single out lower risk borrowers.

To promote the credit bureau development the Central Bank will soon define a wider list of creditors other than financial institutions that would have to report data to the Bureau so that the information covered can be as comprehensive as possible. This includes the utility companies, certain tax information sources and categories of private businesses that might be important sources of credit.

From a monetary policy perspective, the Central Bank's strategy is to continue to support forbearance for borrowers in the hurricane-damaged islands, particularly for those who have the capacity to take on more debt to finance their recovery needs.

More central to the recovery, we will continue to monitor the restoration of financial services in Abaco. These services have already returned to a more satisfactory state in Grand Bahama. In Abaco, conditions will be much more improved by the end of the first quarter, with greater access to ATM facilities, and with more temporary branch structures in place. By the end of the quarter, the Central Bank will also have extended the Sand Dollar or digital currency pilot to Abaco, to help with the recovery of basic payment services.

Our medium-term policy posture is not being altered. We will sustain our efforts to reduce the excess levels of liquidity inside the banking system, by selling off more of the Central Bank's holdings of government debt. High liquidity still represents a medium-term vulnerability because it could promote a higher than desirable rate of lending, and unsustainable spending on imports. We are also focused on reducing excess capital on commercial banks' balance sheets, and staying aggressive in getting the private sector credit delinquency rates much lower.