Monthly Economic and Financial Developments (MEFD)

June 2020

Remarks by the Governor
04 August 2020

The Bahamian economy contracted sharply over the first half of the 2020, as a result of losses from the COVID-19 Pandemic, and the first quarter reduction in activity in parts of the archipelago that were damaged by Hurricane Dorian. International tourism was shut down completely in the second quarter, other than the controlled reopening in June. Non-essential domestic activities were also closed down for most of the period, although construction was allowed to resume ahead of other sectors—providing some stimulus during the period. Otherwise, Government assistance and unemployment benefits offered modest income replacement for households facing job losses.

As to available data on the economy and the impact of the export sector closure, on a quarterly basis, foreign exchange inflows through the banking system fell by over 50% during April through June, in comparison to 2019, and were lower by almost 25 percent for the first half of the year. On the other hand, private sector purchases of foreign exchange from commercial banks—which signalled domestic demand adjustment—decreased less proportionately, by 22 percent during the second quarter and by about 7 percent for the year to date.

This differential meant that, over the last three months of the quarter, the Central Bank switched to being a net supplier of foreign exchange to the banking system, channelling net inflows from the Government's debt operations. Ordinarily, the Central Bank would not supply net foreign exchange to the system until the second half of each year. Nevertheless, with ongoing replenishment, the foreign reserves balances remained relatively stable, fluctuating near the $2 billion level from March through the end of July.

The external reserves remain adequate to fully support the value of the Bahamian dollar fixed exchange rate, even with a sizeable reduction still expected over the remainder of 2020. This continues to underscore the importance for the Government to preserve its access to international capital markets to help finance the deficit as it moves to stabilize the economy; and for the Government to adopt prudent reforms that would raise market confidence.

It also highlights the value of the direct conservation measures adopted by the Central Bank in April to protect the foreign reserves, while the emphasis remained on targeted credit support and forbearance for businesses and households experiencing direct hardship.

That said, the Central Bank has not yet seen the amount of reliance on private sector deposits that were earlier projected. Higher spending against such withdrawals would also have been a pressure point on the foreign reserves. It is likely, though that the families most encountering employment hardships are those least likely to have saved meaningful amounts ahead of the economic crisis. This reinforces the Central Bank's messaging on the importance of making households more financially resilient; the need to encourage and provide more means for families to save ahead of financial setbacks; and to proactively limit the consumer debt burden that persons ordinarily take on.

Commercial banks COVID-19 loan payment deferrals have impacted about one-third of the outstanding Bahamian dollar private sector credit. As conditions are managed going forward, lenders have been encouraged by the Central Bank to limit their forbearance to just borrowers with identified needs, and to begin to adjust loan loss provisioning as they obtain clearer information about when individual borrowers are likely to return to their jobs.

Outside of the COVID-19 impact, which is still delayed, the delinquency rate for private credit continued to fall over the first half of 2020, to just below 8 percent of total loans compared to just under 9 percent of such claims in June of 2019. While the Central Bank expects that this rate will soon start to deteriorate, it does not raise any specific solvency concerns, as commercial banks would be able to fully absorb such losses from current levels of excess capital.

In the meantime, banks have maintained a very conservative lending posture, with credit to the private sector contracted on net over the first half of the year.

Given the ongoing weight of tourism, the Central Bank now forecasts that the economy could shrink by 15 to 20 percent in 2020, following at least a 6-month material pause in activity, with only a gradual recovery to the tourism sector's normal seasonal pattern. It is projected that a complete recovery in global tourism could be delayed through at least 2023. However, proximity to the USA could put The Bahamas on a slightly more accelerated recovery path.

This means, nevertheless, that monetary and fiscal policies must stay protective of the Bahamian dollar currency peg, ensuring that the external reserves are stabilized or incrementally improved during 2021. There is therefore an ongoing urgency to expand other foreign currency earning activity, with foreign direct investments being at the top of this list.

To conclude, the economic environment remains highly uncertain, justifying continued caution in managing foreign exchange sector risks. For the time being though, there is no need for the Central Bank to introduce any additional measures. The advice to households is for them to remain disciplined in their finances, and to concentrate most on meeting their essential needs. Borrowers should maintain close contact with their financial institutions, and be open about any hardships they are experiencing. Those who can should resume payments on any blanket accommodation they received.