Remarks by the Governor
02 November, 2020

The COVID-19 pandemic continues to weigh negatively on the Bahamian economy. Delayed resumption of tourism has significantly deprived the economy of private sector foreign exchange inflows and employment, even though construction and foreign investment projects are providing impulses.

With the peak winter tourism season approaching, and the recovery further behind than was expected, it is now projected that the economy will experience lower inflows next year, in 2021, than were forecasted in the earlier months of the pandemic. It was always anticipated that when tourism reopened, seasonal activity would be a diminished fraction of the occupancy rates normally enjoyed, and that thereafter the gradual strengthening of business might span more than 24 months. This would place the expected full recovery of tourism at some point in 2023.

It should be cautioned, that although the economy could experience moderate growth in 2021, it would only be in comparison to the very restrained outcome of 2020. As a result, fiscal challenges will remain very significant, and the monetary policy priorities will have to stay focused on managing the reduced availability of foreign exchange from private sector activity and safeguarding the stability of the domestic financial sector. The Central Bank expects that will be a continued reliance on public expenditures to stabilise the economy and that a prominent share of the deficit financing will have to be in foreign currency.

The fact that policy options are available for The Bahamas to manage economic risks, should not be taken as an understatement of the severity of the immediate headwinds facing the economy. The Government will have to continue to engender confidence among both the domestic and external holders of its debt, in order to preserve its access to deficit financing. This comes down to a factor of sustaining confidence that the medium-term fiscal consolidation strategy will pay down the accumulated debt from the pandemic, within a timeframe that does not protract the economy's exposure to devastating hurricanes that could further derail debt reduction efforts. The Government will be under increased obligations to economise on expenditures and to undertake reforms to strengthen revenue collections.

The Central Bank's data on foreign exchange transactions, which are a good barometer of private sector activity, revealed that over the first nine months of 2020, inflows from foreign investments, tourism and other export earnings contracted by almost one-third. The demand for foreign exchange to pay for imports and other external obligations fell by nearly 15.0%; still placing the reduced usage more than $750.0 million higher than private inflows. As intended, proceeds from the Government's foreign currency borrowing have helped to cover this difference, in a manner consistent with the public sector's sizeable role in stabilising domestic consumption.

Through the end of the third quarter of 2020, external reserves stood at $2.1 billion. At the start of November, balances were nearer to $2.3 billion. With the latest inflows, the reserves are now expected to end 2020 higher than they were in 2019. That said, the projected near-term reduction in holdings has only shifted into the first half of 2021.

As just stated, managing foreign exchange usage is one of our top policy priorities. Exclusion of access to foreign exchange for non-essential uses is the prudent stance that the Central Bank expects to maintain, at least the first half of 2021, and potentially longer, if the recovery is too delayed or subdued. This particularly applies to the moratorium on financing of portfolio investments outside The Bahamas, and the wider margin within which commercial banks have been required to trade in foreign exchange before they can replenish supplies through the Central Bank. The moratorium on commercial banks dividend payment outflows also continues, although this policy could be reassessed earlier, in the first quarter of 2021.

The economic environment still does not leave scope for expansionary monetary policy. Such would only accelerate use of the external reserves. Instead, the Central Bank's posture is to selectively accommodate increased credit to businesses and households, but paced alongside any strengthening outlook for foreign exchange earning activities.

There also remains an interim focus on encouraging forbearance on delayed repayments of loans for borrowers. However, as banks compile better information about borrowers who might become permanently unemployed, they are expected to classify these exposures as non-performing and to begin to provision for losses. Banks have also been required, since the end of the three to six-month period of blanket deferrals, to have those borrowers who are still earning income resume payments. With such adjustments already occurring, approximately 15.8% of private credit remained in deferred repayment status as of September, compared to about 37.0% at the onset of the economy's closure. Also, the non-performing rate for private sector loans, which could still rise more significantly in the year ahead, has only shifted slightly higher since April. That said, the Central Bank's stress testing still gives us confidence that commercial banks have adequate excess capital to absorb any extreme losses that the sector might experience.

As expected, the present environment is also not conductive to commercial bank driven private sector credit growth. Outstanding private sector credit has fallen slightly over the first three quarters of 2020. In contrast, there has been an increase in deposits, as the foreign exchange financed Government spending in the economy and reinsurance proceeds still present from Hurricane Dorian have augmented private sector liquidity. Moreover, as the latest lending conditions survey reveals, demand for credit as seen from new loan applications was almost 60.0% lower in the first half of 2020. However, the applications success rate in obtaining credit was only slightly reduced from prior survey periods. Being turned down for credit continued to be influenced by the weak financial state of loan applicants, most commonly being assessed as having insufficient capacity in earnings or job security to afford the loan.

Returning to the economic outlook, the pace and timing of the recovery will depend largely on how effectively domestic interventions manage the spread of COVID-19 inside The Bahamas, and the speed of global efforts to contain infections and make a vaccine widely available. As such, domestic economic policies must remain equally focused on preserving monetary and financial stability; while assigning the appropriate role to fiscal interventions to support essential domestic demand. As said before, fiscal interventions are still expected to stay within the bounds that the medium-term fiscal framework can credibly sustain. For its part, the Central Bank's stability focus will encompass sustainability of the currency peg.