# Monthly Economic and Financial Developments (MEFD)
March 2021

***Remarks by the Governor***
***3 May, 2021***

During the first quarter of 2021, the Bahamian economy remained under the constraints of the COIVD-19 Pandemic, with significant weakness in tourism, decreased spending among Bahamian households, and the corresponding strain on public finances. There was nevertheless some resilience in construction, as private sector rebuilding was maintained in the aftermath of Hurricane Dorian, and foreign investments inflows continued.

Despite a gradual reopening of tourism, the industry remained significantly behind the performance levels of 2020. Relatively, the onshore business resumption has been faster for the Family Islands than for New Providence and Grand Bahama; while domestic tourism provided healthy support for the vacation rental market.

So far, only the stopover market has benefited from the restart. Cruise activity is still only expected to resume, after home porting arrangements from inside The Bahamas begin over the summer months—which could take advantage of a significantly vaccinated American population and pent up travel demand.

The foreign exchange markets provide a reliable gauge of earnings and demand trends in the local economy. On the earnings side, commercial banks' purchases of foreign exchange from the private sector, which highly correlate with export activities, decreased by approximately 30% in comparison to the first quarter of 2020.[1] Speaking to the compressed spending capacity of domestic residents and businesses, the demand for foreign exchange usage, mainly for imports of goods and services fell by 14%.

As regard the foreign reserves, balances contracted over the quarter by $126 million to $2.26 billion at the end of March. At today's date, reserves are still around $ 2.26 billion. These are very comfortable holdings to absorb the drawdowns that are expected over the remainder of 2021. Afterwards, the coverage for the Bahamian dollar fixed exchange rate will still be robust. There has traditionally been less negative pressure on the reserves in the first quarter of the year—with 2021 being no different—because on a seasonal basis, the peak in private spending usually occurs in later months of the year. This has helped to explain some of lessened pressures observed in the first quarter. So far, credit to the private sector has not generated strong impulse for foreign exchange, because even within the selective accommodation ranges for new financing that the Central Bank has sanctioned, lending institutions are still very restrained in the current risky environment. However, public sector expenditures that have

[1] Foreign direct investments and international financial services contributions would have cushioned more sizeable reductions in inflows from tourism.

been a source of stabilisation to domestic demand have also stimulated important foreign exchange usage.

As the tourism business recovers, foreign exchange pressures will lessen further in comparison to 2020. While conditions will still justify some important share of foreign currency borrowing to finance the Government's deficit, the share that the Government is able to sustainability raise in Bahamian dollars is increasing. There is also a maintained scope, in the outlook for the reserves to absorb projected domestic investment expenditures, on continued rebuilding of housing and infrastructure in the hurricane damaged areas of The Bahamas.

Turning to the banking sector, additional credit losses continue to be expected over the course the recovery from the pandemic, although the system is not forecasted to experience the magnitude of write-offs that occurred after the 2008 recession. Already, banks have more than fully provisioned for losses on existing non-performing loans (NPLs), and they hold more than adequate capital for other shortfalls that could materalise. The NPL rate at the end of March was 8.7%; compared to a decade low of around 8.0% before the pandemic struck.

As to the overhang of loans that are still benefitting from deferred payment arrangements, these were only about 7% of private sector balances in March, compared to just over 1/3 of total loans earlier on in the pandemic. The deferrals highlight the pool of potential borrowers from which new delinquencies are most likely to be estimated. However, as employment is resumed, more of these arrangements are expected to return to payment status.

This quarter, the Central Bank is also releasing its semi-annual Bank Lending Conditions Survey, covering the second half of 2020. The results show that private appetite for credit was sharply scaled back in that period. The number of requests for loans fell by more than half (58%) compared to the year before. Banks also screened applications more carefully, approving only two-thirds of requests. In comparison, the year earlier, an average of 4 out of every 5 applications were approved. The most common reasons for unsuccessful requests continued to be assessments of already high debt levels or insufficient earnings. Banks also refused applicants who were considered to lack sufficient security or collateral backing for new debts.

As to the near-term outlook, the economy is expected to experience only incremental growth in 2021, with much healthier gains in 2022. However, uncertainty is also higher in the near-term. In particular, both access to vaccines and the pace of vaccination still leaves global tourism exposed to the risk of further setbacks. The upside potential for The Bahamas is the next-door progress in the US—but the downside risk is less immediate progress inside The Bahamas with inoculation and containment.

In the near-term, the Central Bank only anticipates marginal expansion in domestic credit. Hence, liquidity should remain at elevated levels in the Banking system. On a more positive note, lenders will begin to transition to use of the credit bureau over the course of 2021; providing more confidence around the quality of new lending that could be provided.

As to monetary policy, the Central Bank will continue to closely monitor foreign exchange market conditions to maintain a sustainable outlook for the reserves. As certainty around the outlook improves, the Bank will actively review foreign exchange conservation measures, so as to permit resumed market access for investment currency. In addition, a medium-term focus will be maintained on steering bank liquidity and capital to lower levels that would reduce associated financial stability risks.