Remarks by the Governor
29 April 2024

Indications are that the Bahamian economy expanded at a more moderated pace in the first quarter of 2024, when compared to the same period in 2023. This signalled completion of the recoveries from both COVID19 and Hurricane Dorian. The performance follows the pattern of moderated, but still healthy, gains in tourism, and sustained foreign investment inflows in support of construction activity. These trends support continued employment gains and revenue-driven reduction in the government's deficit. The economy is also experiencing more restrained inflation, and gradually improving domestic credit conditions. Growth is projected to continue in the medium-term, but more in line with potential that is slightly under two percent per annum, although downside risks remain from a combination of external factors that could impede tourism, leave the cost of public debt elevated, and keep the funding cost of private foreign investments more extended.

Turning to tourism, indications are that earnings growth tempered during the first quarter. This was expected, as visitor arrivals regained and surpassed pre-pandemic levels. Although, with hotel room capacity more constrained in the stopover sector, healthy average pricing increases were still evident for accommodations, helping to support the inflow boost. Over the quarter, projected vacation rentals returns also expanded, due to improved pricing and increased sales volumes that were almost in step with increased room listings. Meanwhile, capacity limits have had less hindrance on cruise visitor growth, although the pace of gains was, as expected, also more tempered. In the medium-term outlook, capacity boost is expected to benefit both cruise and stopover visitor volumes.

In the foreign exchange markets, the evidence of moderation was also evident. Over the first quarter of the year, commercial banks' total foreign currency purchases from the private sector rose by 5.4 percent year-over-year, slowing from the 9.2 percent pace of expansion estimated during the first quarter of 2023. In the meantime, private sector foreign currency demand contracted slightly, mainly due to a lower volume of portfolio investments and decreased payments for goods imports. On a net basis, there was consequently a larger seasonal boost to the external reserves through the private sector than in 2023.

The public sector's debt operations were also a seasonal net contributor to the external reserves in first quarter of 2024, compared to net drawdown on the external balances in 2023. This was because some foreign currency borrowing over the first quarter helped reduce short-term domestic debt accumulated in the first half of the fiscal year.

Over the first quarter of 2024, the external reserves accumulated at a significantly stronger pace, of just over $500 million, compared to less than $100 million in the same period in 2023. Through the end of April, this seasonal build-up was further extended, leaving balances near $2.9 billion. The Central Bank still expects that the reserves will contract over the remainder of the year to be less than they were at the end of 2023. This would absorb accelerated growth in private sector credit, which the Central Bank is encouraging, while still leaving the external balances at comfortable levels to support the Bahamian dollar fixed exchange rate.

It is the restored, heathy state of foreign exchange flows, and comfortable outlook for the external reserves that continue to frame very gradual exchange control liberalisation policies. In April, this included a further delegation of authority to commercial banks to approve a wider range of transactions involving foreign currency purchases by the public, without needing the prior approval of the Central Bank. One of the important categories is investment currency to fund portfolio transactions outside The Bahamas. Commercial banks will begin approving these transactions in June, once the reporting framework is established to track usage. This means that once Bahamians have established investment accounts abroad, either through local or international financial institutions, they will be able to fund these accounts up to $100,000 annually, without having to obtain direct approvals from the Central Bank. In instances where the individual demand exceeds this limit, the applications will have to be made directly to the Central Bank. Such approvals could be subject to phased access to investment currency.

Turning to credit, conditions are improving incrementally, with the Central Bank expecting more strengthening this year. The latest lending conditions survey for the second half of 2023 documents that banks were both receiving and approving a greater volume of credit applications. However, the gains were only noticed for consumer credit and commercial loans, with a comparative falloff in mortgage applications compared to the same period in 2023. So far in 2024, the private sector lending expansion was largely concentrated in commercial credit. However, both consumer loans and mortgages were leaning slightly towards growth overall, as opposed to both being in a contracted state at this point last year. In the meantime, the average delinquency rate on loans, that were three months or more in arrears, continued to decline to 6.3 percent in March—more than a percentage point lower than one year ago.

The Central Bank is of the view that it is important for the delinquency rate to continue to fall, and for the credit bureau to be relied upon to help improve the quality of future lending. Our near-term objective is see all important non-bank providers of credit join the credit bureau, both reporting data and making use of the information aggregated by the bureau. This would include all of the public utility providers and lenders licensed by other Bahamian regulators.

In the meantime, the government will soon bring finalised draft legislation for the Collateral Assets Registry to Parliament for enactment. This will clear the way to implement the registry, under the ambit of the Registrar General Department, alongside other complementary reforms being actively targeted for the Registrar.

Turning to the outlook, the economy is expected to continue to expand in 2024, but more eased, in line with its true medium-term potential, as the post-pandemic stage of recovery is over.

Nevertheless, it also speaks to robust, fully-recovered foreign exchange markets, and therefore continued healthy evolution of the external reserves. The outlook will also generate continued employment creation, especially in tourism and in construction related foreign investments, and further fiscal consolidation from uplift to government revenues. The Bank's monetary policy posture will continue to be accommodative of faster credit expansion, but with caution remaining downside economic risks.

As to the lingering risks to the outlook, the most concentrated are around the ongoing conflicts in the Middle East and Ukraine, which if they constrain international trade and escalate the cost of oil, could, in turn, stall tourism demand. Tourism performance could also be hampered if central bank interest rates are forced to be kept high, longer than expected to bring inflation further under control. The higher interest rate environment would also continue to impose more costs on the public sector's external debt and add to the cost of financing for private foreign investments.