Monthly Economic and Financial Developments (MEFD)
March 2022

Remarks by the Governor
02 May, 2022

There continues to be a strong momentum of recovery in the Bahamian economy from the restrictive conditions of the COVID19 pandemic. This reflects stabilized and improved conditions in the major source markets for tourism that has supported the revival of international travel. Alongside tourism, the economy is experiencing sustained contributions from foreign investments, providing healthy stimulus to construction. It is expected that the economy could be fully recovered over the course of next year—that is 2023—possibly slightly ahead of the projections made at the end of 2021. That said, there continues to be a distinction, between recovery from the low point of the pandemic—for which the falloff in the economy was quite drastic—and the still very mild annual growth projections that lie beyond the recovery phase. Improving the post-recovery prospects would help to push unemployment below the pre-pandemic baseline, and produce generally improved indicators of credit quality and fiscal balance sheet health. In addition, the Bahamian economy faces important downside risks from the shift in policies in the United States and other major countries fighting inflation, and strain placed on the global economy by the war in Ukraine. For the near-term, though, it is expected that tourism will continue to benefit on net from release of pent-up demand carried over from the travel lockdown phase.

Speaking in more detail to tourism, this would have marked the first January to March quarter of undisrupted business since 2019. Based on airport departure data—a good benchmark for the stopover sector—quarterly visitor volumes appear to have regained about 75 percent of the traffic experienced in the same period of 2020, which had been spared the brunt of the lockdown. However, this still leaves important gains to be recouped before the 2019 pre-pandemic base-line for the winter season would be eclipsed. Vacation rental market indicators were also broadly improved, in terms of increased occupancy levels and higher average nightly room rates. Recent trends have also been characterized by an expanded share of the business going to the Family Islands, where more than half of all listings were noted; and the average occupancy rates trended higher than in New Providence and Grand Bahama.

In the financial sector, during the first quarter, the foreign currency inflows through commercial banks were almost two-thirds higher than were experienced in the same period of 2021. Similarly, there was a healthy resumption in domestic demand, reflected in a one-third boost in commercial bank sales of foreign exchange to the private sector.

In the first quarter, the seasonal pattern of private sector net contribution to gains in the Central Bank's external reserves was also re-established, as commercial banks made a net sizable sale of foreign exchange to the Central Bank. This, added to proceeds from the Government's foreign currency borrowing, boosted the reserves by $523 million over the quarter. Taking net private sector receipts for April into account, the reserves as of the beginning of May were just above $3 billion. The Central Bank expects further seasonal accumulation in the external reserves over the remainder of the peak tourism months, before some reduction sets in over the second half of 2022. Nevertheless, we believe that conditions have improved enough, such that by the end of 2022, some net gains will remain in the reserves compared to the end of 2021. This is an upward revision to the forecast for the reserves.

The strength of the reserves and improved tourism outlook continue to support a more accommodating monetary policy position for credit expansion. In this outlook, capacity has also increased for the Government to sustainably finance more of the deficit in local currency. Nevertheless, private sector credit conditions have remained contractionary during the first quarter of 2022, with a further net repayment on mortgages and consumer loans—although there was a modest increase in outstanding credit for other purposes, including business activities. It should be noted that the domestic lending environment is still characterized by elevated risks, and a constrained pool of eligible borrowers, which even predated the pandemic.

That said, the latest lending conditions survey covering the second half of 2021, points to increasing applications for credit, and a higher average rate of approval for applications. On average, more than four out every five requests were for consumer loans, with the largest single concentration being for debt consolidation. Again, the more common reasons for unsuccessful credit applications were high debt service burden, insufficient or unverifiable income and underemployment.

Although recent data points to less uptick in average loan delinquency rates than was projected to occur during the pandemic, there is still additional rebuilding needed to improve beyond the pre-pandemic baseline. As the credit bureau's operations mature, confidence around lending is expected to increase. In this regard, a renewed and coordinated public education campaign is being organised around the bureau over the remainder of this year. In addition, over the second quarter of this year, the Central Bank intends to launch a public consultation process for the moveable collateral registry, in preparation for infrastructure that would increase the potential for secured lending for business purposes.

Returning to the near-term risks in the economy, these are varied. One is the projected impact of rising interest rates in the United States and other major economies which are intended to slow inflation, and could particularly dampen the medium-term post-recovery prospects for tourism. In the meantime, the inflation on imported fuel and other goods and services is expected to add to the leakage rate of foreign exchange from the economy. So far as oil prices are concerned, inflation could also make international travel less affordable—a potential drag on tourism. There are also lingering gaps in health system infrastructures at home and abroad, that could lead to frustration from additional waves of COVID-19 infections.

While there, therefore, remains a net positive outlook for near-term growth and the potential for accumulation of external reserves, efforts must continue to strengthen the economy's resilience. For its part, the Central Bank expects to maintain a cautious, but balanced, approach to managing foreign exchange risks, and to safeguarding the stability of the financial sector. The Central Bank will also sustain its focus on improving financial inclusion as this would provide enhanced medium-term benefits to the economy.