

# HIGHLIGHTS

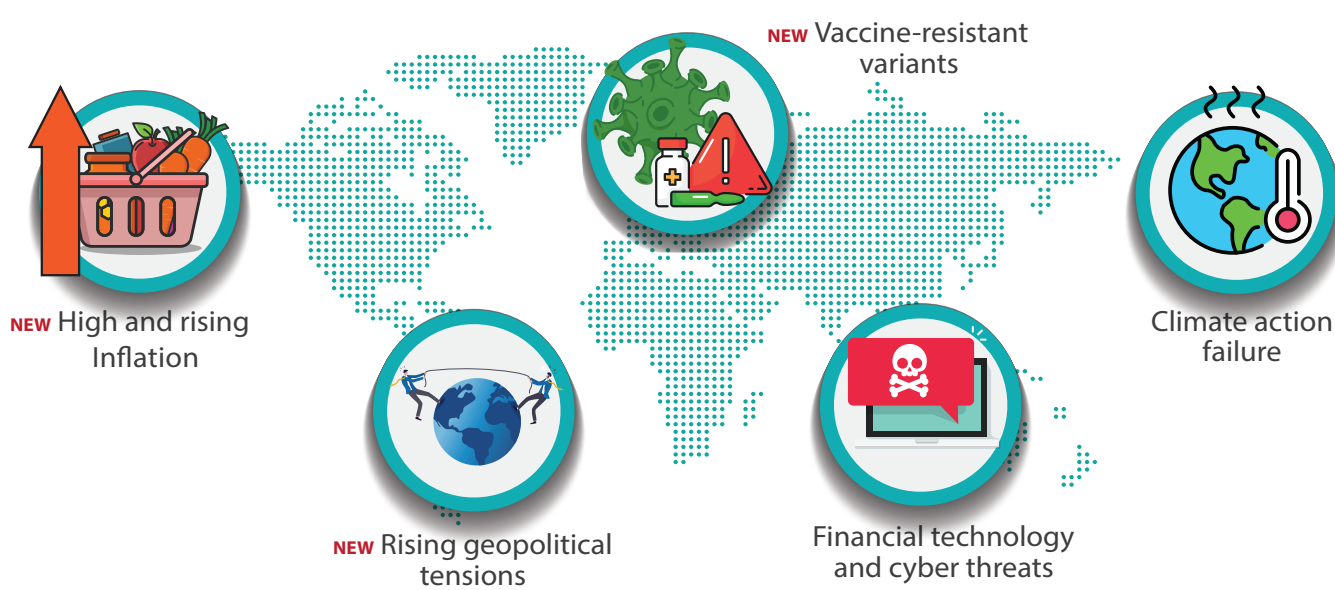
## Central Bank of Trinidad and Tobago Financial Stability Report 2021



### In Summary:

- In 2021, global financial stability risks retreated as countries rolled back COVID-19 restrictions. However, spillovers from geopolitical tensions and escalating inflation are key downside risks.
- In the Caribbean region, pre-existing vulnerabilities increase susceptibility to rising global interest rates. In addition, persistent concerns surrounding the withdrawal of correspondent banking services cloud the outlook.
- Domestic economic conditions improved in the second half of 2021. Retrenchments fell during the year, creating space for household balance sheet repair.
- The domestic financial sector remained resilient throughout the year. Overall, institutions' capital and liquidity buffers were stable, with improvements in asset quality and profitability ratios in some sectors.
- In 2021, domestic financial stability risks moderated as the effects of the pandemic subsided. Domestic macroprudential surveillance points to three areas of systemic concern for 2022. High sovereign exposure concentrations and cyber risks carried over from the previous year, while tighter global financial conditions — on account of rising interest rates — are an emergent risk.
- Over the period, the Central Bank advanced strategic initiatives to support financial stability. Work progressed on legislative reform, regulatory amendments to improve compliance with international standards, and building the Central Bank's supervisory and analytical capacity.

### GLOBAL FINANCIAL STABILITY RISKS



### DOMESTIC MACRO-FINANCIAL CONDITIONS



**Domestic economic activity** was subdued in 2021, but there were early signs of a recovery at the end of the year.

The **Central Government's financial position** improved during fiscal year 2020/2021, with the overall deficit narrowing to 8.1 per cent of GDP.

**Household debt-to-GDP and corporate sector credit-to-GDP ratios** declined by 572 and 760 basis points, respectively, while NPLs for both sectors were low and stable over 2021.

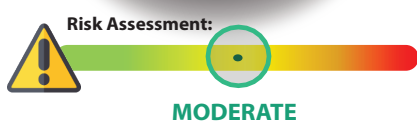
### DOMESTIC FINANCIAL STABILITY RISKS

*Macroprudential Early Warning Indicators suggest that aggregate financial stability conditions improved as pandemic restrictions receded, reinforcing favourable financial conditions at the end of 2021. Downside risks persisted, contributing to slightly elevated systemic risk levels at the end of the year. For 2022, the relevant domestic financial stability risks are:*

#### Rising International Interest Rates



#### Increasing Cyber-Attacks



#### Elevated Sovereign Concentrations in the Banking and Insurance Sectors



**Overall financial stability risk posed by these factors is assessed as MODERATE.**

### FINANCIAL SECTOR RESILIENCE

*Direct and indirect linkages in the domestic financial sector have broadened and intensified recently, driven by mergers and acquisitions among market participants, new market entrants, and an evolving regulatory landscape. Deeper concentrations and growing interconnections increase the likelihood of shock transmission throughout the financial sector, giving rise to systemic risk.*



#### BANKING SECTOR

Performance mostly improved over the period with higher capital and profitability levels at the end of 2021. Credit, liquidity, and market risks were contained.

#### INSURANCE SECTOR

The sector was resilient over the year with healthy profitability. However, general insurers sought greater protection for climate-related risks, which weighed on reinsurance ratios.

#### PENSION SECTOR

Despite asset growth of around 8 per cent, funding has not improved – 65 plans reported deficits at the end of the period. Government securities and equity dominated the funds' asset allocation.

#### PAYMENTS SYSTEMS

Digital payment activity continued to expand in both wholesale and retail systems. In 2021, online and mobile banking channels outpaced cheque payments by an even wider margin.

### POLICIES TO SAFEGUARD FINANCIAL STABILITY



#### Legislative Reform and Governance for Financial Institutions

- Occupational Pension Plan Reform.
- Measures to ensure Insurance Act (IA) 2018 compliance.
- Framework for Domestic Systemically Important Banks.
- Guidelines for the Management of Credit, Market, and Outsourcing Risks.
- Thematic Reviews for Corporate Governance and Cyber Risk.



#### Compliance with Global AML/CFT and Tax Standards

- Legislative amendments for fines and penalties.
- Finalisation of National Risk Assessment.
- KYC Guideline for Electronic Money Issuers.



#### Strengthening Risk-Based Supervision and Analytical Capability

- Internal Capital Adequacy Assessment Process (ICAAP) submissions from licensees in progress.
- Draft Leverage Ratio Guideline, Reporting Framework and Instructions under review.



#### Review of Payments Systems Developments

- Greater interest in the Regulatory Innovation Hub and Sandbox.
- Electronic Cheque Clearings System project ongoing.
- Drafting of Payments System Bill.