HIGHLIGHTS



In Summary:

- The active and comprehensive response to the novel coronavirus (COVID-19) pandemic has helped soften risks to global financial stability in 2020. Nonetheless, the emergence of new coronavirus strains and the uncertain path and timing to majority vaccination for many countries shadows the outlook.
- In addition to growth challenges worsened by the pandemic, the Caribbean region has unique financial stability concerns, including environmental risks, withdrawal of correspondent banking services and increasing market concentration and interconnectedness.
- underperformed in 2020 and weighed heavily on economic indicators. This was cushioned somewhat by less severe contractions in the non-energy sector, as restrictions eased in the second half of the year. The domestic financial sector remained resilient in

Domestically, the energy sector is estimated to have

- 2020 in the face of the unprecedented shock to economic activity. Institutions maintained healthy capital and liquidity buffers, while facing lower asset quality and profitability ratios.
- identified high sovereign concentration in the financial system and rapid digitalisation in the financial services industry, which have intensified since 2019 on account of the pandemic. Though household debt contracted minimally over the year, financial institutions maintained significant exposure to the household sector. Risks related to high banking concentration and interconnections in the financial services industry have also been raised as an area of concern. The Central Bank continues to promote financial

The 2020 vulnerability and risk assessment has

stability through a number of strategic initiatives, as well as operational and developmental projects. These initiatives aim to improve risk-based supervision; ensure compliance with international standards; and strengthen the Central Bank's capability in supervision and resolution. Notable milestones include the Financial Institutions (Capital Adequacy) Regulations, 2020 and the new Insurance Act (IA) 2018 which became effective from May 2020 and January 2021, respectively.

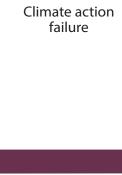


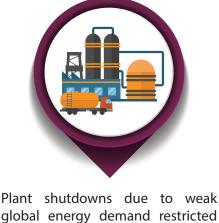
private sector debt



house prices

1. GLOBAL FINANCIAL STABILITY RISKS





growth in the energy sector, negatively affecting domestic economic activity.



retrenchments climbed to 2,744 in 2020, compared to 1,530 in 2019.



contributed to a negative shock to Government revenue in fiscal year 2019/2020. Domestic and external borrowings helped finance the deficit.

3. FINANCIAL SECTOR PERFORMANCE



Credit risk heightened, evidenced by increasing

non-performing loans

and provisioning levels.

However, regulatory capital - just under 20% of risk-weighted assets and other capital ratios remained well-above the new regulatory minimum ratios after transitioning to the Basel II/III standards.



indicators were favourable, though

profitability and

investment yields weakened due to global financial market volatility. Return on equity averaged 11% and 12% for the long-term and general insurance sectors ('life' and 'non-life' prior to the new IA 2018), respectively. Liquidity levels remained stable. 4. VULNERABILITIES AND RISKS



by just under 2% but

funding challenges

among individual plans

persisted. Deficit

positions may be due to lower than expected returns on investments, the impact of changes in market conditions on asset values and the actuarial valuation of plan liabilities.



Although there was an upward thrust in the

use of digital payment

channels, the value of electronic payments (large-value and retail) fell due to lockdowns. Payments facilitated by the Automated Clearing House accounted for the greatest share of retail payments, as the value of retail cheque payments declined by over 30% in 2020.



household sector

digitalisation in

the financial

services industry

High banking interconnections in industry

VULNERABILITIES

Fire sales



environment

Cyber-attacks

Slowdown fuelled by low energy sector activity and the COVID-19 pandemic

KEY TRIGGERS

Slower pace of economic growth and development



Deterioration of

household balance

sheets

investor confidence and

Decline in

profitability,

Disruption in financial services

share performance **CONTAGION CHANNELS**

Tighter credit conditions

FEEDBACK LOOP TO ECONOMIC AND FINANCIAL SECTORS



consumer loan

portfolios

Loss of confidence in digital transformation

Spillovers of

adverse financial

performance to

other segments of

the financial sector **RISK ASSESSMENT**

Rise in distressed assets

Moderate

Low

Elevated High

Very High 5. EFFORTS TO PROMOTE CONTINUED FINANCIAL STABILITY



Improving Risk-Based

Basel II/III - Strengthening Communication with Pension Plan

Members - Insurance Act and Regulations



Ensuring

Compliance with International

AML/CFT and **Tax Transparency** - Compliance with International Standards

- Risk-Based AML

Supervision

Standards for

- Administrative **Monetary Penalties** Framework

- Basic Banking for Unbanked/Underserved Persons

> - National Risk Assessment



Analytical Capability in Supervision and Resolution

- National Crisis Management Plan - Stress Testing - Mergers and Acquisitions

Strengthening

Technical and



Order - Regulatory Innovation Hub and

Sandbox

- Developing Comprehensive Payments System Legislation