HIGHLIGHTS

Central Bank of Trinidad and Tobago
Financial Stability Report 2023

In Summary:

- In 2023, global financial stability risks eased as inflation receded in several economies. However, geopolitical tensions and national elections in several advanced and emerging economies could adversely impact global growth and inflation, and affect trade policies. Risks from cyber incidents and climate change are also increasingly posing concerns for financial stability.
- Although the global financial system fared well in 2023 amid a gradual uptick in interest rates, financial fragilities remain. Some notable risks include stresses in the commercial and residential real estate sectors and high correlation across asset markets. Over the medium term, the vulnerabilities related to accumulating private and public sector debt, which could amplify the effect of deteriorations in debt-servicing capabilities.
- Domestic economic activity held steady during the first nine months of 2023. An expansion in non-energy activity overshadowed a decline the energy sector activity. The improved non-energy activity supported a marginal decline in the unemployment rate in 2023.
- The domestic financial sector remained healthy throughout 2023. Overall, institutions remained well capitalised, and liquidity buffers were broadly stable. Asset quality and profitability ratios improved in some sectors.
- Domestic financial stability risks emanating from elevated international interest rates subsided, but other risks remain relevant over the near term. These risks relate to sovereign debt concentrations, increasing cyberattacks, lower liquidity buffers, and higher climate-related insurance costs.
- The Central Bank continued to promote financial stability through various legislative and regulatory initiatives, such as activating the additional Basel III capital buffer, continuing to build out the liquidity coverage ratio requirements, and issuing its cybersecurity and recovery planning guidelines.

GLOBAL FINANCIAL STABILITY RISKS

DOMESTIC MACRO-FINANCIAL CONDITIONS

Domestic economic activity continued to show signs of recovery over the first nine months of 2023.

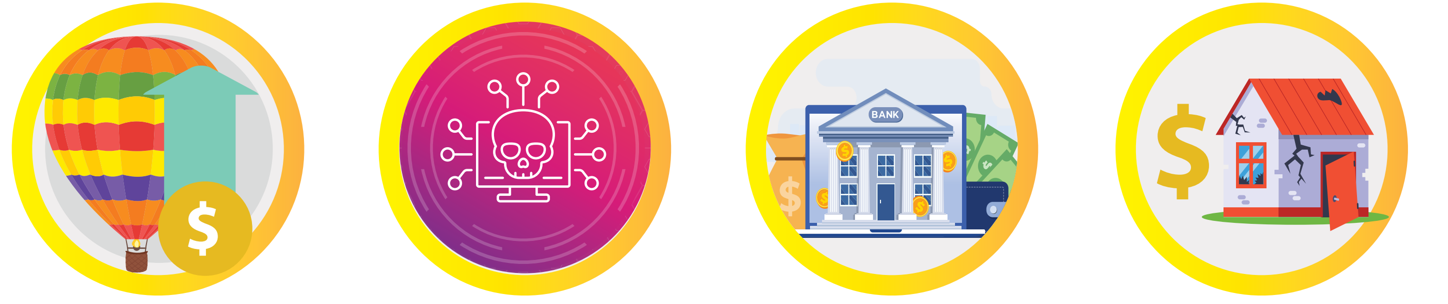
The Central Government's financial activities resulted in an overall deficit of $3.4 billion (1.7 per cent of GDP) in Fiscal Year 2022/2023.

Non-Performing Loan ratios for the **Household** and **Corporate sectors** improved over 2023.

DOMESTIC FINANCIAL STABILITY RISKS

Several Early Warning Indicators suggest that risks to financial stability appeared moderate over 2023. The soundness of the financial sector benefited from the ongoing economic recovery in non-energy activity and disinflation. Favourable financial conditions supported credit growth over the year; however, credit growth requires monitoring as overly accommodative financial conditions could amplify credit risk in the medium term. For 2023, the relevant domestic financial stability risks are:

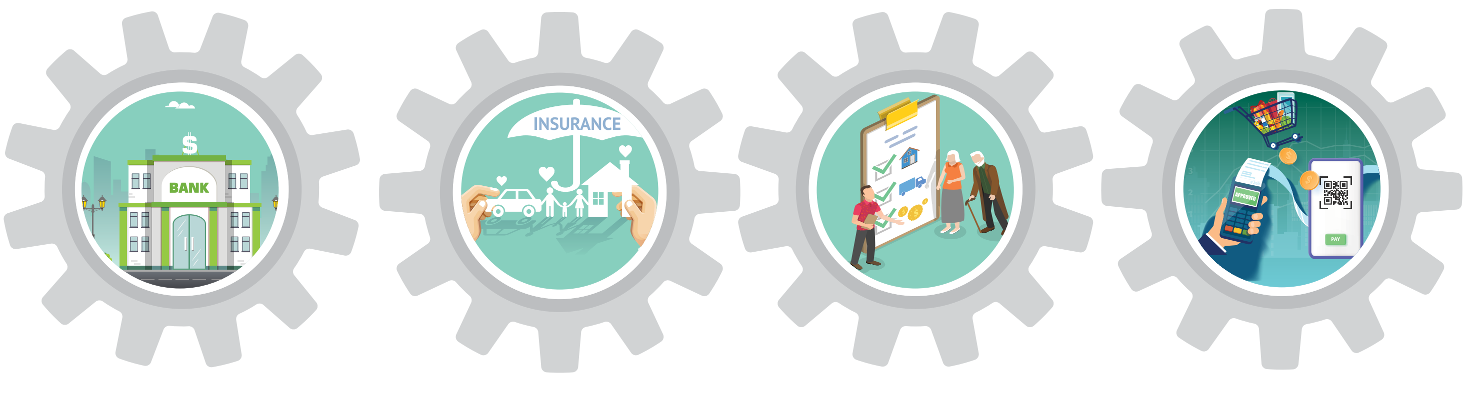
Sovereign Debt Concentrations in the Banking and Insurance Sectors	Increasing Cyber-attacks	Lower Liquidity Buffers	Higher Climate-Related Insurance Costs
Risk Assessment: MODERATE	Risk Assessment: ELEVATED	Risk Assessment: ELEVATED	Risk Assessment: MODERATE



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

FINANCIAL SECTOR RESILIENCE

Asset concentrations within the major sectors were mixed at the end of 2023. Regarding asset mix, some institutions increased their sovereign exposure, which reduced their liquid assets during the year. The rise in sovereign exposure resulted from institutions' uptake of government debt.



BANKING SECTOR

Performance improved over the period with lower capital and higher profitability at the end of 2023. Credit, liquidity and market risks were contained.

INSURANCE SECTOR

Profitability fluctuated over the year due to factors, such as significant one-off transactions and market volatility, but remained resilient. The general insurers saw an uptick in their net loss ratio.

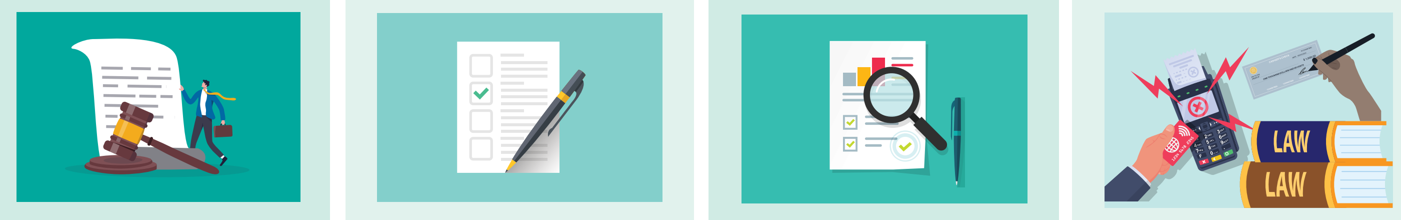
PENSION SECTOR

Assets increased mainly because of valuation improvements. The year saw 51 plans reporting deficits, down from 55 plans in 2022. The majority of the sector maintained defined benefit structures.

PAYMENTS SYSTEMS

Electronic payment activity continued to expand. In 2023, the Central Bank granted full registration to three firms and provisional registration to one firm to operate as e-money providers.

POLICIES TO SAFEGUARD FINANCIAL STABILITY



Implementation of New Supervisory Standards

- ✓ Activated the Basel III capital add-on Leverage Ratio requirements.
- ✓ Continued to make preparations to implement the Liquidity Coverage Ratio (LCR).
- ✓ Issued the Leverage Ratio Guideline to the banking industry.

Compliance with Global AML/CFTand Tax Standards

- ✓ Collaborated on a regulatory framework for administrative monetary fines for AML/CFT breaches.
- ✓ Completed National Risk Assessments.
- ✓ Preparation began for 2026 Caribbean Financial Action Task Force Fifth Round Mutual Evaluation.

Strengthening Risk-Based Supervision and Analytical Capability

- ✓ An Own Risk and Solvency Assessment (ORSA) Guideline is under development.
- ✓ Issued the Cyber Risk Best Practices Guideline.
- ✓ Implemented the Recovery Planning Guideline for Financial Institutions.
- ✓ Issued the framework the determining a domestic systemically important bank (D-SIB).

Review of Payments Systems Developments

- ✓ Amended legislation to increase wallet sizes and transaction limits to improve e-money usage.
- ✓ Granted full registration to three entities and provisional registration to one entity to operate as E-Money Issuers (EMIs).
- ✓ Work on Draft Payments System and Services Bill in progress.