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TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

2021 FINANCIAL STABILITY REPORT HIGHLIGHTS

In this issue:

- Macroeconomic Environment
- Financial System Development
- Financial Sector Performance
- Risk & Vulnerabilities
- Key Policy Initiatives

Preface

The Commission periodically conducts assessments on the strength and resilience of the TCI financial system. The Financial Stability Report examines key developments in TCI's macroeconomic and financial landscape and the resulting challenges posed to the stability of the financial system. The report also includes updates on the performance of the banking and non-banking sectors, highlights on regulatory developments, and offers perspectives on the near-term macro-financial outlook for the TCI.

The report aims to:

- **provide an overview of the developments in the TCI financial system;**
- **describe the overall risks and vulnerabilities to financial stability posed by global, regional and domestic factors, and discuss the loss-absorbing capacity of the system in the context of those assessed risks; and**
- **highlight the on-going policy efforts of the Commission to enhance resilience and foster informed discussions on financial stability issues.**

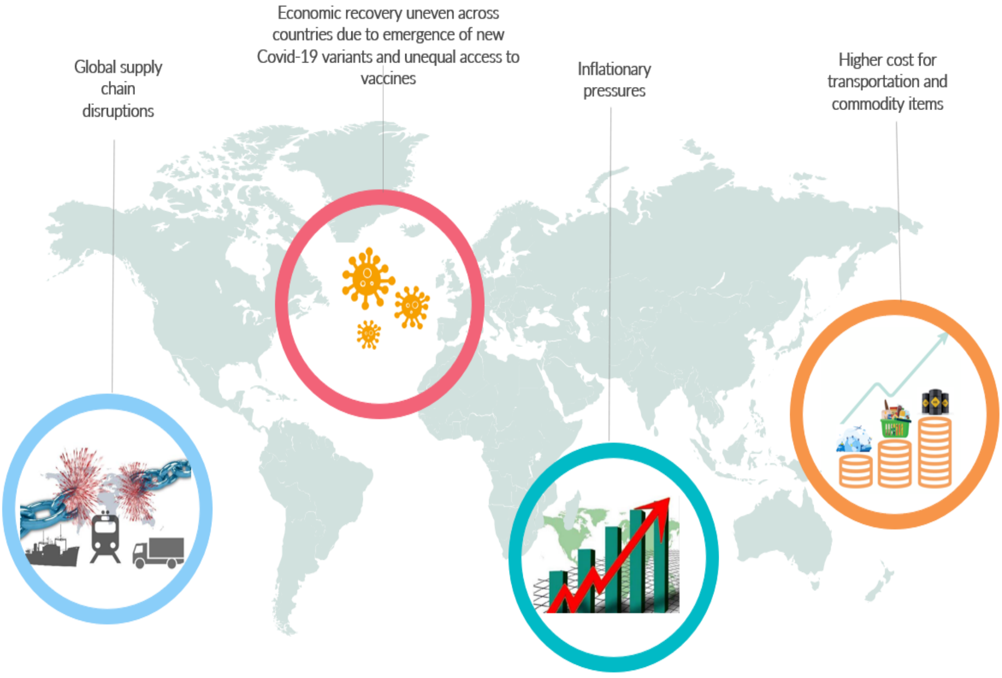
In Summary:

- Global economic activity improved in 2021 with growth estimated at 5.9% for the year.
- During the third and fourth quarters of 2021, global growth began to lose momentum due to (i) the emergence of the Omicron and Delta variants of the Covid-19 virus in several parts of the world, (ii) imbalances in supply and demand associated with bottlenecks in the global supply chain, and (iii) persistent inflationary pressures .
- The domestic macroeconomic environment was broadly stable during the review period. Gross Domestic Product (GDP) is estimated to have grown in real terms by 13.6% in 2021. Unemployment rate fell to 9.0% from an estimated 11.0% in 2020. Increasing international food and commodity prices resulted in inflationary pressures in the TCI; the Consumer Price Index (CPI) grew to 4.5%. TCI government retuned to a positive fiscal balance of $11.6 million for the period ending December 2021.
- Financial institutions remained adequately capitalised and had high liquidity positions in excess of statutory requirements.
- The banking system, the largest domestic financial intermediary on the islands, remained sound and broadly robust to macroprudential stress tests.
- Non--bank financial institutions, experienced growth in assets except for the Trust and Money Service Business sectors. Risks within these institutions remain within acceptable levels.
- Looking ahead, global financial conditions are likely to remain vulnerable to unexpected increases in interest rates and disruptions to the global economic recovery. Sustained increases in inflation in the US and other TCI trading partners could pose threat to the country's growth trajectory through weakened household income, causing visitors to cut back on travelling costs, thereby affecting tourism, the country's main contributor to GDP.
- Despite the above the TCI financial system is well-positioned to continue to support the domestic economy.

MACROECONOMIC ENVIRONMENT

Global Macroeconomic Developments

- The global economy is estimated to have grown by 5.9 per cent in 2021, after a sharp contraction of 3.1 per cent in 2020, according to the International Monetary Fund (IMF) .



Regional Macroeconomic Conditions

Estimated GDP growth of 6.3% in 2021 for Latin American and Caribbean countries.

Tourism in the region is projected to grow slowly at 2.3% in 2021, remaining at just 60% of pre-pandemic levels.

For commodity exporters, Guyana's economy is estimated to grow by 5.6% in 2021 while a more modest performance is expected in Suriname and Trinidad and Tobago.

The Domestic Economy

01 GDP Growth (%)

Real GDP is estimated to have grown by 13.6 % in 2021 following a contraction of 26.8% in 2020.

02 Inflation %

CPI went up to 4.5%in 2021 compared to 2.3% in 2020 driven by imported inflation, including higher cost of energy and food prices in the global economy.

03 Government spending($mn/%)

TCI government had a positive fiscal balance of $11.6 million for the period ending December 2021. Public debt declined by 49.1% over the period.

04 Unemployment (%)

Unemployment rate fell by two percentage points to 9.0 per cent in 2021 from 11% in 2020.

FINANCIAL SYSTEM DEVELOPMENT

Total Financial System Assets

$3,977 Million in 2021

16.5%

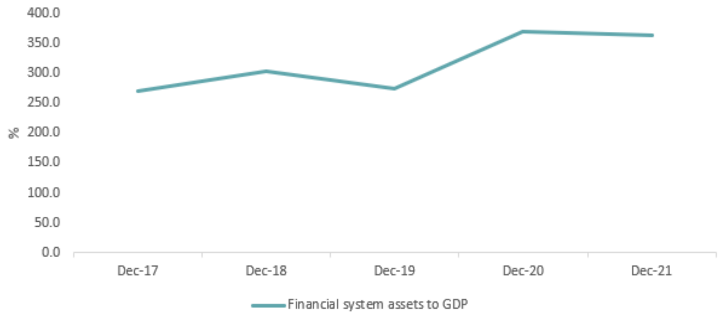
Sector Growth

24.5%	Banks
15.1%	Domestic Insurers
4.1%	Investment Businesses

Sector Declines

-29.9%	Trust Companies
-16.9%	Money Service Businesses

Financial Intermediation



Measured as a share of financial system assets to GDP, financial intermediation declined slightly by 7.6 percentage points to 362.6 % at year-end 2021

Financial Sector Performance

Banks

Healthy capital buffers, of just over 25% of risk-weighted assets, and strong liquidity positions (62.2% of total assets). Profitability indicators improved in the sector albeit still below pre-pandemic levels.

Domestic Insurers

Favourable asset growth with solvency and liquidity remaining at acceptable levels, above the minimum requirement. Improved sector profitability despite losses incurred in the life insurance sector on account of increased policyholder benefit payments.

Investment Businesses

Increased asset base of 4.1% over the review period. Three banks continued to account for almost 50% of the consolidated investment business portfolio. 62% of banks' total portfolio was owned by non-resident investors.

Money Service Businesses

Reduction in assets and lower profit levels recorded for 2021. Remittance activities declined due to changes in exchange rate policy for one of TCI's main remitting countries.

Trust Companies

On-balance sheet assets declined after a temporary spike in 2020 due to difficulties in transferring clients' funds during the pandemic. Combined net income showed a rebound of over 200% in 2021.

Banking Sector Resilience

Credit Test

The banking sector as a whole has capital levels that would allow it, at an aggregate level, to maintain levels above the regulatory minimum during stress scenarios.

Liquidity Test

Liquidity test revealed that the sector could generally withstand a simultaneous run-on demand, time and savings deposits over a seven-day period.

RISKS AND VULNERABILITIES

- Rapid digitalization in the financial system and slow regulatory/supervisory response.
- Rising interest rates may lead to higher financing costs for financial institutions and more expensive borrowing for households and businesses.
- Undiversified economy and over-reliance on tourism product.
- Tightened global financial conditions due to high levels of inflation causing spill-over effects in the domestic economy.

KEY POLICY INITIATIVES

01 Enhancing the supervisory framework

Further the transition to risk-based supervision for supervised entities; updating of regulatory guidelines; assessing insurers' preparedness for transitioning to IFRS 17 standard.

02 Improving financial stability surveillance

Broaden systemic risk monitoring to include sectoral analysis on the household and private sectors. Progress the development of a Residential Property Price Index (RPPI) for the TCI.

03 Broadening stress testing framework

Enhancements to the top-down stress testing approach to include macro scenarios and multifactor shocks.

04 Addressing developments in the financial sector landscape

Progress work on policy and regulatory treatment of virtual assets.

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