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TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

2022 FINANCIAL STABILITY REPORT HIGHLIGHTS

In this issue:

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 macrofinancial outlook.

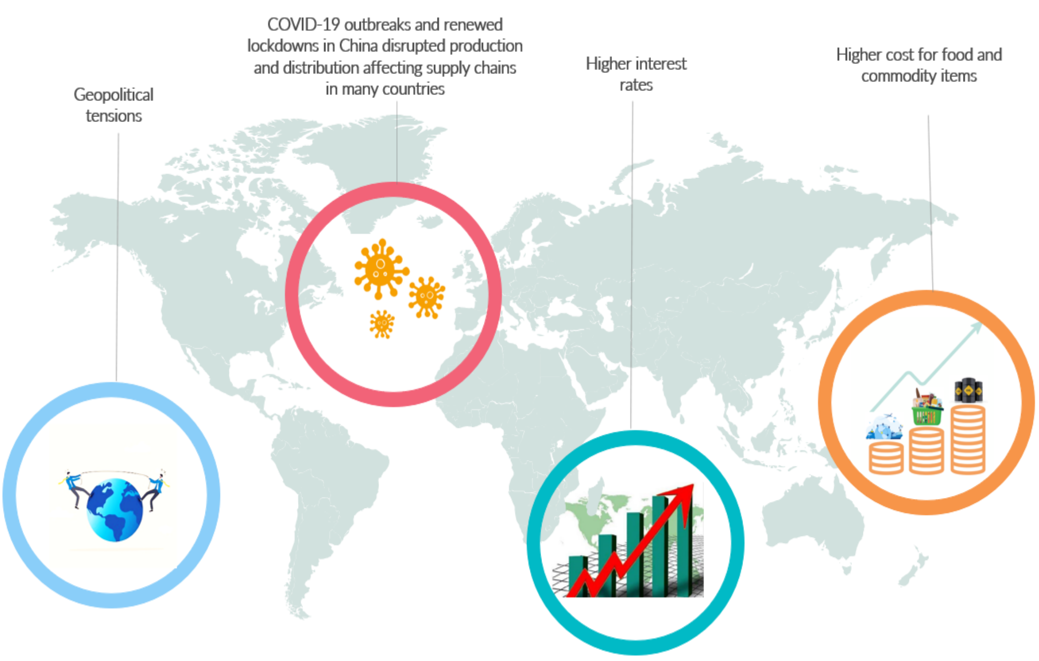
The report aims to:

- 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:

- Risks to financial stability in the TCI were amplified in 2022 on account of persistent geopolitical tensions, growing inflationary pressures driven by higher food and commodity prices, rapid increases in interest rates, worsening growth prospects and the lingering pandemic.
- Growth in the global economy slowed to 3.2% in 2022 with growth forecasts downgraded in all major trading partners in the second half of the year. High inflation across the global economy has been driven primarily by the impact of the Russia/Ukraine conflict on energy and food prices.
- Domestic economic growth slowed in 2022, however the macroeconomic environment was broadly stable. The annual real growth of Gross Domestic Product (GDP) declined to a projected 6.2% in 2022, from 9.0% estimated for 2021. The tourism and construction sectors exhibited the strongest performance in the economy. Inflationary pressures intensified, reflected in a projected 6.0% increase in the Consumer Price Index (CPI) in 2022, relative to 4.5% in 2021.
- Financial institutions remained stable and resilient with adequate capital and liquidity positions in excess of statutory requirements as well as improved asset quality and profitability in some sectors.
- Financial stress was elevated in 2022, relative to 2021. Composite indicators of systemic risks pointed to deterioration in financial stability in 2022 mainly driven by the high inflation environment .
- Given the current financial climate, characterised by high inflationary pressures and lower-than-expected economic growth rates, risks to financial stability are likely to stay elevated in the near-term.
- Continued economic and financial surveillance will therefore be critical going forward to ensure timely identification of risks and implementation of coordinated and well-informed policy actions to contain the impact.
- Despite the above, the TCI financial system is well-positioned to continue to support the domestic economy.

GLOBAL MACROECONOMIC DEVELOPMENTS



REGIONAL MACROECONOMIC CONDITIONS

THE DOMESTIC ECONOMY

1 Gross Domestic Product
Real GDP grew by 6.2% in 2022.

2 Inflation
Consumer price index grew to 6.0% in 2022 compared to 4.5% in 2021.

3 Unemployment
Unemployment rate fell to 8.0% in 2022 from 9.0 % in 2021.

4 Fiscal Balance & Public Debt
Fiscal balance fell to \$1.8M in 2022 from \$11.6M in 2021. Public debt declined to \$0.5M in 2022 from \$0.6M in 2021.

FINANCIAL SYSTEM ASSETS

Total System Assets

$4,058 Million in 2022

↑ **2.5%**

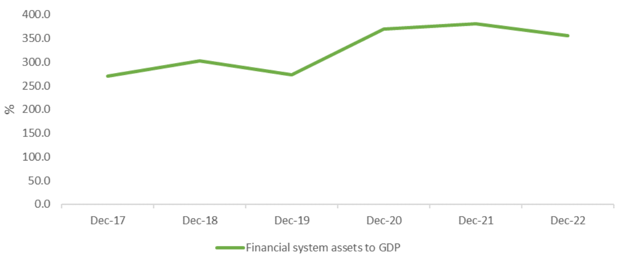
Sector Growth

↑ 5.2%	Banks
↑ 6.6%	Domestic Insurers
↑ 40.9%	Money Service Businesses

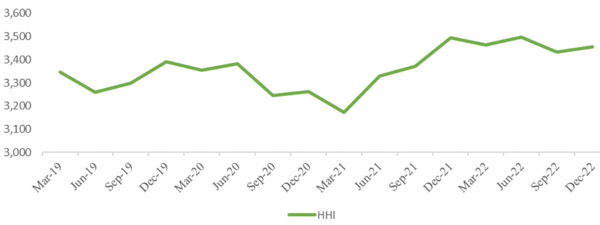
Sector Declines

↓ -15.5%	Trust Companies
↓ -3.2%	Investment Businesses

FINANCIAL INTERMEDIATION



Measured as a share of financial system assets to GDP, financial intermediation declined by 24.7 percentage points to 356.0 % at year -end 2022.



Aggregate assets of the banking sector amounted to 235.8 per cent of GDP at year-end 2022. Furthermore, Banking assets concentration, measured by the Hirschman-Herfindahl Index (HHI), declined by 1.1 per cent to 3,456 as at December 2022

FINANCIAL SECTOR PERFORMANCE

BANKING

Banks' capital, profit and asset quality improved in 2022. Liquidity risk require close monitoring.

INSURANCE

Financial soundness indicators pointed to a stable insurance sector. However, there was an increase in claims for general insurance sub-sector, which affected its profitability.

INVESTMENTS

Investment businesses continued to account for the highest share of assets within the non-bank financial sector. However, the sector recorded a decline in assets in 2022.

MSBs

The MSB sector recorded increases in both assets and profit in 2022. The value of funds transmitted rebounded on account of increased sending activity mainly to the Dominican Republic and Jamaica.

TRUSTS

Trust companies' asset base reduced in 2022 but profits reported by the sector increased for the year.

BANKING SECTOR RESILIENCE

Credit Test

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

VS

Liquidity Test

Liquidity tests pointed to elevated liquidity risks as two banks were not able to withstand the hypothetical seven-day bank run on deposits.

RISKS AND VULNERABILITES

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 STRESS TEST

Partner with the Caribbean Regional Technical Assistance Centre (CARTAC) to revise the top-down stress testing framework to include multifactor shocks and macroeconomic scenarios.

02 SURVEILLANCE

Partner with CARTAC in a mission to improve financial stability surveillance. The mission will assess the Commission's progress in implementing several recommendations made during the previous 2022 mission.

03 SUPERVISION

Continue the work on transitioning to a risk-based supervisory (RBS) framework

Revise the operational risk guideline.

Develop guidance for credit union supervision.

Enhance the supervisory framework for investment businesses.

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