TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

FINANCIAL STABILITY REPORT 2023

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Financial Stability Report 2023

Turks and Caicos Islands Financial Services Commission

TABLE OF CONTENTS

ACKNOWLEDGEMENTS 4
PREFACE 5
LIST OF ABBREVIATIONS 6
FOREWORD 8
Macroeconomic Developments 9
Financial Sector Developments 9
Financial System Soundness and Resilience 10
Sectoral Exposures 10
Financial Stability Outlook 10
1.0 CURRENT AND EMERGING RISKS TO FINANCIAL STABILITY 11
2.0 STRESS TESTING 14
2.1 Macroeconomic Solvency Stress Test 14
2.2 Liquidity Stress Test 15
3.0 MACROECONOMIC ENVIRONMENT 16
3.1 Global Macroeconomic Developments 16
3.2 Regional Macroeconomic Developments 18
3.3 Domestic Economic Developments 19
3.3.1 Rating Update 21
4.0 ANALYSIS OF THE FINANCIAL SYSTEM 22
4.1 The Banking Sector 24
4.1.1 Asset Quality and Credit Risk 24
4.1.2 Liquidity and Funding Risk 25
4.1.3 Earnings and Profitability 26
4.1.4 Capital Adequacy 27
4.2 Banking System Sectorial Exposure 28
4.2.1 Household Sector 28
4.2.2 Corporate Sector 29
4.2.3 Financial Institutions 30
4.2.4 Public Sector 31
4.3 Insurance Sector 32
4.4 Investment Business Sector 33
4.5 Trust Sector 33
4.6 Money Service Businesses (MSB) Sector 34
5.0 KEY POLICY INITIATIVES 34

5.1 Further Development of The Stress Testing Framework 34
5.2 Building A Framework For Digital Assets 35
5.3 Enhancing Supervisory Framework 35
5.4 Publication of the Residential Property Price Index 35
ANNEX 36
APPENDIX 38

LIST OF FIGURES

Figure 1	2023 and 2022 global growth estimates and projections	11
Figure 2a	Country group real GDP growth estimate (year-over-year % change)	13
Figure 2b	Select territories' real GDP growth estimate (year-over-year % change)	13
Figure 3	TCI tourist arrivals and tourism earnings	16
Figure 4	TCIG fiscal balance and public debt performance (2016-2022)	17
Figure 5	Financial intermediation in the TCI	18
Figure 6	Financial institutions' assets	19
Figure 7	Banking sector concentration as measured by the HHI	19
Figure 8	Banking sector asset classification	21
Figure 9	Sectoral distribution of credit	21
Figure 10	Banking sector funding sources	22
Figure 11	Total NPLs and NPL ratio	23
Figure 12	NPL coverage and loan loss provisioning ratio	23
Figure 13	NPL distribution by sector	24
Figure 14	Liquidity profile of the banking sector	24
Figure 15	The banking sector's income, profit and expenses	25
Figure 16	Banking sector profitability ratios	26
Figure 17	Banking sector capital adequacy	26
Figure 18	Investment products breakdown by type	27
Figure 19	Household sector exposure and indebtedness	30
Figure 20	Household sector loan quality	31
Figure 21	Corporate sector exposure and indebtedness	31
Figure 22	Growth in banks' lending to the top five corporate subsectors	32
Figure 23	Ratio of corporate sector NPLs to total corporate loans for top 5 subsectors	32
Figure 24	Indicators of exposure to financial institutions	33
Figure 25	Indicators of Public Sector Exposures	33
Figure 26	AFSI and sub-indices	34
Figure 27	Macro-financial index	35
Figure 28	BSI and sub-components	35
Figure 29	Cobweb map of risk exposures	36

LIST OF TABLES

Table 1	WEO estimates and projections for GDP growth	11
Table 2	Main economic indicators for selected Caribbean territories	14
Table 3	Domestic macroeconomic indicators	16
Table 4	Banking sector's annual financial soundness indicators	20
Table 5a	Financial soundness indicators – Life insurance sector	28
Table 5b	Financial soundness indicator – General insurance sector	28
Table 6	Banking sector credit and liquidity stress test results	38

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PREFACE

The Financial Services Commission is responsible for monitoring and promoting stability in Turks and Caicos Island's (TCI) financial system, including the identification and assessment of potential risks. The Commission defines financial stability as the ability of the financial system to absorb shocks and continue to provide essential services to stakeholders in good and bad times. In this report, the Commission documents relevant developments and vulnerabilities in TCI's financial system, highlighting risks to its stability.

The operational effectiveness of the financial system holds significant importance for the real economy, serving as a platform for credit provision and facilitating payments. Unforeseen events can pose threats to financial stability, and as such, keen monitoring of the system is important to ensure that the system is able to absorb losses and mitigate risk.

This report aims to achieve several objectives, including:

(i) Providing an overview of the risks and threats to financial sector stability in the TCI, and analysing the system's resilience in light of these identified challenges;
(ii) Assessing trends in specific risk indicators and the outcomes of stress test exercises; and
(iii) Examining emerging risks to system stability and their anticipated implications.

The report delves into developments within the international, regional, and domestic macro-financial landscape, with a particular focus on the domestic financial system. This encompasses banks, investment firms, domestic insurance companies, trust companies, and money service businesses (MSBs). Emphasis is placed on the domestic banking sector, which is recognised as the primary driver of financial intermediation and most susceptible to shocks (anticipated and unanticipated) due to its extensive connections to the broader economy. Financial institutions which are licensed to operated exclusively outside the TCI are not covered in the report.

As of 31 December 2023, the international financial sector was predominantly characterised by over 8,000 small international insurers, with the majority being Producer Affiliated Reinsurance Companies (PARCs). These PARCs primarily reinsured low-value motor and health-related risks for related or affiliated entities. Additionally, the Commission oversaw a small number of captive insurers.

Furthermore, corporate service providers, non-profit organisations, and designated non-financial businesses and professionals are subject to supervision for anti-money laundering (AML), combating the financing of terrorism (CFT), and weapons proliferation risks.

This document, unless otherwise stated, references data available as at 31 December 2023.

The report is published to promote public understanding and transparency around risks in the financial sector and is available for download at http://www.tcifsc.tc.

LIST OF ABBREVIATIONS

AFSI	Aggregate Financial Stability Index
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BSI	Banking Stability Index
CAIR	Caribbean Association of Insurance Supervisors
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CPI	Consumer Price Index
FSI	Financial Soundness Index
FVI	Financial Vulnerability Index
GDP	Gross Domestic Product
HHI	Hirschman-Herfindahl Index
IADB	Inter-American Development Bank
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
LAC	Latin American and Caribbean
MaFi	Macro-Financial Index
MSB	Money Services Businesses
NPL	Non-Performing Loan
PARC	Producer Affiliated Reinsurance Company
RBA	Risk-Based Approach
RBS	Risk-Based Supervision
RHS	Right Hand Side
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk-weighted Assets
TCI	Turks and Caicos Islands
UK	United Kingdom
US	United States of America
WECI	World Economic Climate Index
WEO	World Economic Outlook

LIST OF CARIBBEAN ISLAND ABBREVIATIONS

Caribbean: Tourism Dependent Countries	
Antigua & Barbuda	A&B
Aruba	ARB
The Bahamas	BHS
Barbados	BAR
Belize	BLZ
Dominican Republic	DOM
Grenada	GRN
Jamaica	JAM
St. Kitts & Nevis	SKN
St. Lucia	SLA
St. Vincent & the Grenadines	SVG
Turks & Caicos Islands	TCI

Caribbean: Non-Tourism Dependent Countries

Haiti	HTI

Caribbean: Commodity Exporter

Guyana	GUY
Suriname	SUR
Trinidad & Tobago	T&T

FOREWORD

Dear Readers,

It is my pleasure to present the Turks and Caicos Islands Financial Services Commission's 2023 Financial Stability Report. This report represents the Commission's assessment of systemic risks in the domestic financial system and the global, regional, and local concerns that may impact financial system stability.

This Financial Stability Report discusses a global economy which - while impacted by a myriad of issues including elevated inflation, high interest rates and geopolitical turbulence - persist in its post-pandemic resurgence. The report considers the ramifications of these macroeconomic factors on the current and future health of the financial system. Additionally, it highlights key initiatives prioritised by the Commission to fortify the financial sector's resilience against potential future shocks.

The TCI's financial system remained resilient to systemic risk factors; however, vigilance must be maintained. Banking, which represented the largest portion of the financial system's assets, remained strong, despite threats from global macroeconomic and geopolitical developments. Asset quality was good; influenced by improvements in debt servicing capacity. However, this improved performance is dependent on a strong local economy which remains vulnerable to shocks from the global and/or US economies. The current high interest rate environment, while presenting opportunities for banks, can impact debt servicing capacity. The banking sector remained highly liquid holding significant amounts of liquid assets to meet short-term obligations.

While insurance was the largest non-bank financial sector, most of the risk is reinsured outside the TCI. The vulnerability in this sector is the continued access to comprehensive, appropriate and affordable reinsurance as climate change intensifies the impact of natural disasters in the Caribbean.

The report also highlights the domestic financial system's readiness to confront potential adverse developments. Stress tests were used to assess the economy's resilience to severe but plausible hypothetical shocks. These tools aid in maintaining financial system stability during favourable phases of the financial cycle and in bolstering its resilience during periods of heightened financial and economic strain. The stress tests affirmed the stability and resilience of the financial system.

Plans include overhauling the liquidity stress testing framework, assessing and advising on the regulation of virtual assets and virtual assets services providers, establishing a publicly assessable beneficial ownership register, and transitioning to a full risk-based supervisory (RBS) framework across all supervised entities. These initiatives are expected to strengthen the TCI's regulatory framework and mitigate risks to financial stability.

Niguel Streete

EXECUTIVE SUMMARY

Macroeconomic Developments

Notwithstanding recent shocks to the global economy, robust economic growth and gradual disinflation have lowered the risk of a hard landing. Global economic growth has shown resilience to challenges such as the global pandemic, the Russia-Ukraine conflict, and high inflation resulting from disruptions to global supply chains. Consequently, global growth was estimated at 3.2 per cent in 2023 and is projected to remain flat for 2024 and 2025, denying recession fears but still below the historical (2000-2019) average of 3.8 per cent. Growth projections for advanced economies have increased due to a stronger outturn in the US economy, one of the TCI's main trading partners and contributors to tourism. However, a deceleration in growth in China stemming from its property market crisis poses a threat to the global economic outlook. Global headline inflation is projected to fall as central banks' monetary policy restrictions to control inflation remain in place and supply chain issues are resolved. This projected disinflation, combined with a robust global economy has lowered the likelihood of a hard landing. However, further escalation of the Russia-Ukraine conflict, the conflict in Gaza, and the property market downturn in China threaten growth and inflation projections. This has both direct and indirect implications for financial stability in the TCI through tighter financial conditions and elevated borrowing costs.

Despite a marginal deceleration in 2023, TCI's economic environment was broadly stable during the review period. Annual real gross domestic product (GDP) growth slowed to a projected 13.7 per cent in 2023, from 14.1 per cent in 2022. The slowdown was due to the normalisation of tourism to pre-COVID-19 trends and a falloff in the momentum in the construction and transportation, and storage and communication sectors. Nonetheless, the labour market showed improvement evidenced by a fall in the unemployment rate to 7.0 per cent from 8.0 per cent in 2022. However, elevated inflation continues to weigh on the purchasing power of consumers and businesses. Fortunately, inflation is projected to fall in 2024-25 due to still tight international monetary policies, a softening in labour markets, and pass-through effects from lower energy prices. For the external sector, driven by a strong tourist industry, the current account balance increased in 2023. Nevertheless, inflationary pressures contributed to a widening of the country's trade deficit on account of the higher cost of imports. Due to strong economic performances and prudent fiscal management, the TCI's Government has consistently maintained a fiscal surplus for several years, which has provided a buffer against COVID-19 and other shocks without the need to increase borrowing. The short to medium-term economic outlook shows signs of strength as the government unveils plans to improve the tourism product and expand market share in new and existing markets. However, recession fears in the US, geopolitical tensions in the Middle East and Europe and weather-related events present downside risks to the outlook.

Financial Sector Developments

Banking, the largest financial industry sector (assets being 179 per cent of GDP), had a largely positive performance over the review period. Banks' balance sheets remained relatively strong despite a deceleration in asset growth. This slowdown was reflected in a reduction in balances due from financial institutions outside the TCI and a normalisation of investment growth. Banks' funding structure was unchanged, with deposits remaining the main source of financing for loans and advances. For 2023, profitability improved and asset quality remained strong. Overall, indicators of financial soundness including capital adequacy, liquidity, asset quality, and profitability, pointed to a healthy banking system.

The non-bank financial services sector, though small, represents an important aspect of the financial industry. The sector comprises insurance, trust, money service businesses, and investment companies.

Concerning insurance, a significant portion of the risk is reinsured with companies outside the TCI which mitigates the risk in the jurisdiction. Combined profitability for the insurance sector[1] increased in 2023, predicated on the recovery of underwriting income from the effects of Hurricane Fiona[2] in general insurance, coupled with lower reinsurance ceded for life insurance. Consequently, the financial soundness indicators point to a stable insurance sector with adequate liquidity and capital levels, in compliance with regulatory requirements. Investment businesses and trust companies also reported expansions of their respective asset bases at year-end 2023 while investment businesses experienced growth in profits.

Financial System Soundness and Resilience

Despite tight global financial conditions stemming from the current high interest rate environment, financial stress indicators for the TCI were largely unchanged in 2023. The Aggregate Financial Stability Index (AFSI) and the Macro-Financial Index (MaFI) suggest a strong financial system with low systemic risk. However, the Banking Stability Indicator (BSI) declined marginally over the review period due to a slight increase in liquidity risk indicators. Despite this, the banking sector remained highly liquid and adequately capitalised to meet short and long-term obligations.

As a means of prudential assessment, the banking system was stressed to ascertain its ability to cope with financial and economic shocks. A solvency stress test of the banks' regulatory capital considering inflation and stagflation adverse macroeconomic scenarios revealed that the sector was adequately capitalised to absorb shocks to the TCI's economy in the medium term. Importantly, under the stagflation stress scenario, one bank showed some weakness, with its capital trending below the regulatory minimum. Nonetheless, this bank does not pose a systemic threat to the domestic financial sector. From a liquidity stress perspective, two banks demonstrated weaknesses under the bank run scenarios, and as such may be required to use contingent lines to meet stressed outflows.

Sectoral Exposures

The debt servicing capacity for both the household and corporate sectors improved over the review period due to growth in TCI's GDP. Household credit in the form of personal loans continued to dominate the credit portfolio of banks in 2023. Growth in credit to the corporate sector was driven primarily by an expansion in the construction and land development sub-sector. Despite higher interest rates increasing overall debt servicing costs, debt servicing capacity remained broadly resilient.

Banks' exposure to other financial institutions remained stable, with large exposures to parent banks in the form of placements. Banks continued to have very little exposure to public debt.

Financial Stability Outlook

Given the current financial climate, characterised by global disinflation and the resilience of the world economy to various challenges, risks to financial stability are likely to lessen in the near term. Notwithstanding this, the current high interest rate environment in the TCI has increased the borrowing costs for households and corporations alike. As a result, debt servicing costs have increased exposing banks to the likelihood of distressed borrowers. However, the strength of the TCI's economy indicates an improvement in the debt servicing capacity of borrowers. Also, given the robust capital base and strong profitability prospects, the financial sector is expected to remain resilient and adequately capitalised to absorb losses.

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[1] This excludes Producer Affiliated Reinsurance Companies (PARCs)

[2] Hurricane Fiona made landfall in the TCI in September 2022

Notwithstanding the outlook, downside risks remain. The risk of recession looms over several of the major economies, inclusive of the US and UK, which could threaten the local tourism outcomes. If adverse shocks that cause inflation to remain protracted were to be realised, tight financial conditions may trigger further distress in the form of heightened liquidity and credit risks in the international and domestic environments. Continued economic and financial surveillance will therefore be critical to ensure the timely identification of risks and implementation of coordinated and well-informed policy actions to contain their impact.

1.0 CURRENT AND EMERGING RISKS TO FINANCIAL STABILITY

Lack of Insurance for Depositors

Currently, no deposit insurance exists in the TCI, which is a risk to financial system stability in the event of a bank failure. Deposit insurance guarantees that depositors will have immediate access to their insured funds if a bank fails, thereby reducing the possibility of a bank run and preventing panic from spreading throughout the banking sector. As such, the lack of insurance to protect depositors in the event of bank insolvency heightens the possibility of a loss of confidence in the banking industry and ultimately leads to financial instability.

On the upside, systematically important banks remain highly liquid.

The Commission supports the Government's policy, as set out in the Credit Union Ordinance, to establish a deposit insurance scheme for TCI's credit unions. The Commission has recommended that this policy be extended to all deposit-taking institutions in the TCI.

Climate Change and Cyber Risks Are Threats to Financial Stability In the Medium to Long Term

Long-term, potentially irreversible, changes to the planet[3] at a global level, can severely impact health and human welfare and ultimately financial stability. These include, but are not limited to, sea level rise from collapsing ice sheets; carbon release from thawing permafrost; and disruption of ocean or atmospheric currents. While the Caribbean is responsible for a minute proportion of the emissions that are at the helm of climate change, the region is disproportionately affected by the adverse effects. A significant risk, especially to the TCI, emanates from reinsurance companies de-risking from the region given the severity of natural disasters and the volume and value of claims caused by climate change. As such, the region aims to manage the risk as best it can through several avenues including participation in the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and catastrophe bonds, given the devastating effects that climate change can have on people, their livelihoods and ultimately financial stability[4].

The unchecked proliferation of increasingly powerful, general-purpose Artificial Intelligence (AI)[5] technologies could lead to increased cyber risk and radically reshape economies and threaten financial stability. Alongside productivity benefits and breakthroughs in fields as diverse as healthcare, education and climate change, advanced AI carries major societal risks including cyber risk and risk to governance. Cyber risk can be proliferated through greater AI use heightening the financial systems' vulnerability to cyber-attacks targeting technological infrastructure. Globally, cyber-attacks have nearly doubled since before the COVID-19 pandemic. While most reported losses are small (around $0.5 million),

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[3] Long-term temperature rises over 1.5 degrees Celsius are projected to result in various risks to natural and human systems, including more extreme weather events, sea level rises, risks to marine and terrestrial ecosystems, and risks to human health and wellbeing.

[4] The Global Risk Report – World Economic Forum (2024)

[5] Artificial intelligence, or AI, is technology that enables computers and machines to simulate human intelligence and problem-solving capabilities.

the risk of extreme losses has risen. The financial sector is particularly susceptible, with nearly one-fifth of all incidents affecting financial firms. Although cyber incidents have not yet caused systemic disruptions, severe attacks on major financial institutions could threaten macro-financial stability by undermining confidence, disrupting critical services, and exploiting technological and financial interconnectedness[6]. Risks to governance and management materialise through the growing dependence on critical third parties for datasets, AI algorithms, and IT outsourcing (such as cloud computing), amplifying systemic risk[7] through ethical, privacy, security, confidentiality, and compliance concerns.

Correspondent Banks De-risking Poses A Threat To The TCI's Financial System

In recent times, several Caribbean countries have experienced a decline in correspondent banking relationships (de-risking) due primarily to AML/CFT[8] and reputational risk concerns. Economic development in the Caribbean relies on a stable and secure financial sector. Critical to this, particularly for the region's small and open markets, are the abilities to access international finance and credit, engage in trade with other countries, and attract foreign investment. Correspondent banking relationships are vital for these activities, enabling financial institutions, governments, and citizens to conduct cross-border transactions. Thus, the continued withdrawal of these relationships could adversely affect tourism, trade, remittances, investments, MSMEs[9], and the overall working-class population in the Caribbean.

Two significant drivers of the de-risking trend are the rising cost of compliance with AML/CFT standards, and the growing reputational risks associated with money laundering and terrorist financing. According to the Centre for Global Development, regulators in the US, UK and several other countries have raised their AML/CFT compliance standards. The corresponding increase in costs to banks to adhere to these standards has made correspondent banking services less lucrative. The rising cost argument is especially true for smaller Caribbean countries such as the TCI, which may not be able to generate sufficient transaction volumes to cover rising compliance costs.

Reports on money laundering and drug trafficking in the Caribbean have heightened the perception that the region is high-risk. The US Department of State's International Narcotics Control Strategy (INCS) in its 2023 report continued to classify some Caribbean countries as major money-laundering jurisdictions and drug transit countries. Drug-related criminal activities remained a significant problem for the region due to its location between South America and the USA. The abovementioned factors have contributed to the perception that Caribbean countries, including the TCI, present high reputational risks to international banks, compounding the challenges in maintaining correspondent banking relationships.

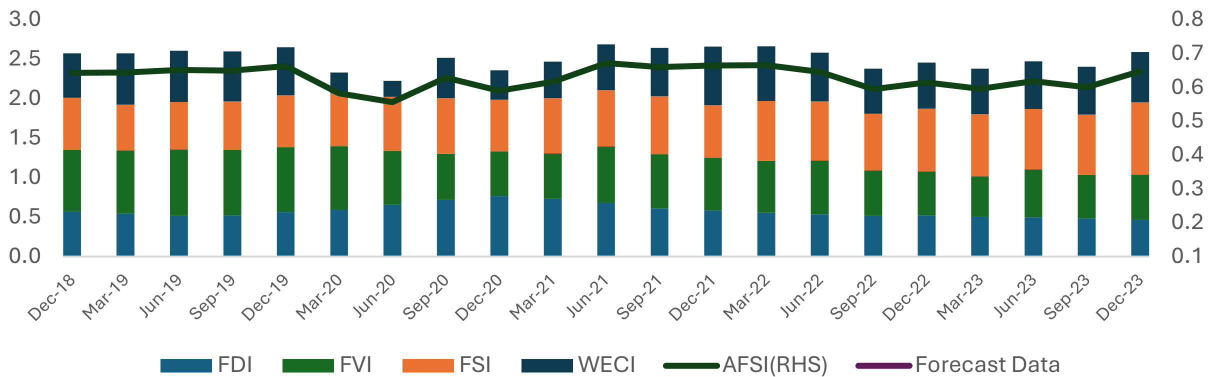
ASFI, MAFI and BSI Trends Indicate Relative Stability in the Financial Sector

Despite global and regional macroeconomic and geopolitical challenges, TCI's financial system remained stable with low systemic risks. This is evident by the trend in the Aggregate Financial Stability

[6] Global Financial Stability Report 2024 - IMF
[7] The Global Risk Report – World Economic Forum (2024)
[8] Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)
[9] Micro, small and medium

Index (ASFI[10]), the Macro-financial Index (MaFi)[11] and the Banking Stability Indicator (BSI)[12]. The stability in the sector is mainly explained by disinflation in the local economy, an increase in the government's fiscal balance, and an improvement in the financial soundness of the banking sector stemming from an increase in solvency (**refer to Figures 1, 2 & 3**).

Figure 1: AFSI and Sub-Indices



Source: TCI Financial Services Commission

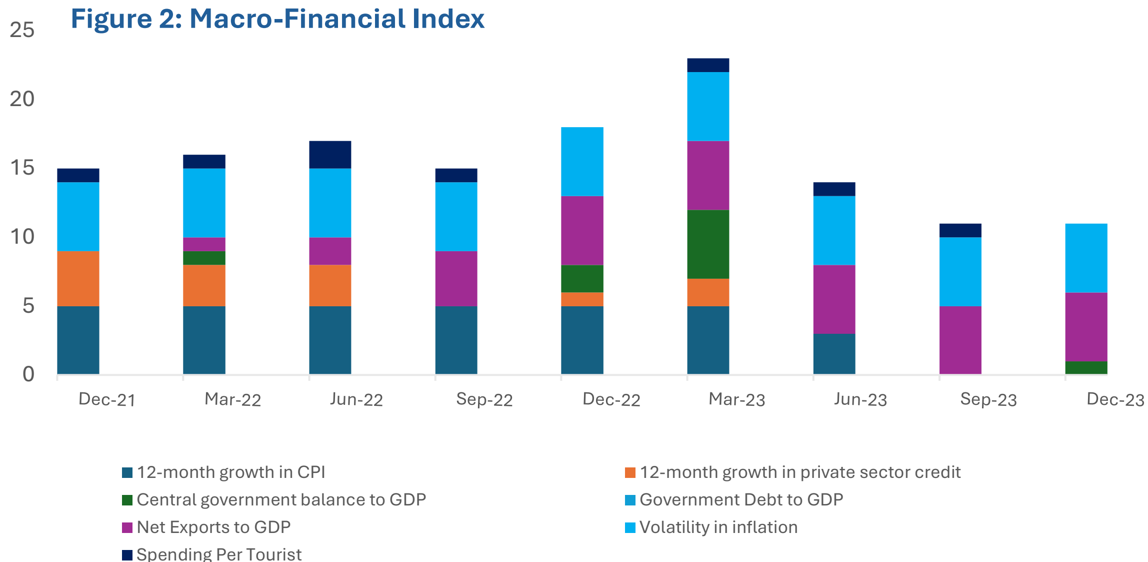


Figure 2: Macro-Financial Index

Source: TCI Financial Services Commission

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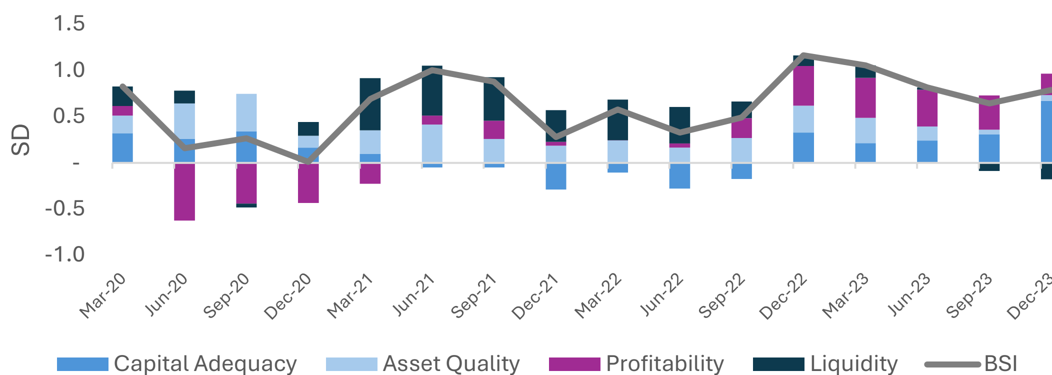
[10] The AFSI is a composite index generated as a weighted average of normalised macroeconomic data and financial statement variables to form an aggregate measure of financial stability. The index is grouped into four sub-indexes namely, financial development index (FDI), financial vulnerability index (FVI), financial soundness index (FSI) and the World Economic Climate Index (WECI). An increase in the value of the AFSI shows an improvement in financial stability and a decrease indicates deterioration.

[11] The MaFi is an early warning signal-based indicator of systemic risk that computes scores based on the number of standard deviations of each indicator from their base period mean value. Computation of the overall value of the index requires aggregation of the signal scores (scores range from 0-5 with 5 representing the most severe signal) across all indicators. In the period leading up to instability, the signals will increase in terms of both the number of variables signalling and the severity of the signals. Increases in the value of the index reflect a deterioration in financial stability.

[12] The BSI is computed as the weighted sum of selected, normalised indicators that reflect the IMF's core financial soundness indicators of capital adequacy, profitability, asset quality and balance sheet liquidity. A higher value represents an improvement in financial stability and a decrease symbolises a deterioration.

Figure 3: BSI and Sub-Components



Source: TCI Financial Services Commission

2.0 STRESS TESTING

Solvency Stress Tests Show Resilience but Pockets of Weakness Exists For Liquidity

The macro-financial environment, coupled with pockets of geopolitical turbulence, posed relevant challenges for banks; accordingly, strengthening banks' resilience is one of the top priorities of the Commission. By using stress tests, one can ascertain how well banks can cope with financial and economic shocks; the results help identify vulnerabilities to be addressed early in the supervisory engagements with banks. Macroprudential stress tests were applied to banks' solvency and liquidity positions to assess resilience to hypothetical shocks. These tests measured banks' loss exposure using assumptions of severe, yet plausible shocks to both credit and liquidity positions. The stress test scenarios showed that the banking sector remains broadly resilient to the contemplated credit shocks, while two banks displayed weaknesses in the liquidity risk factors[13].

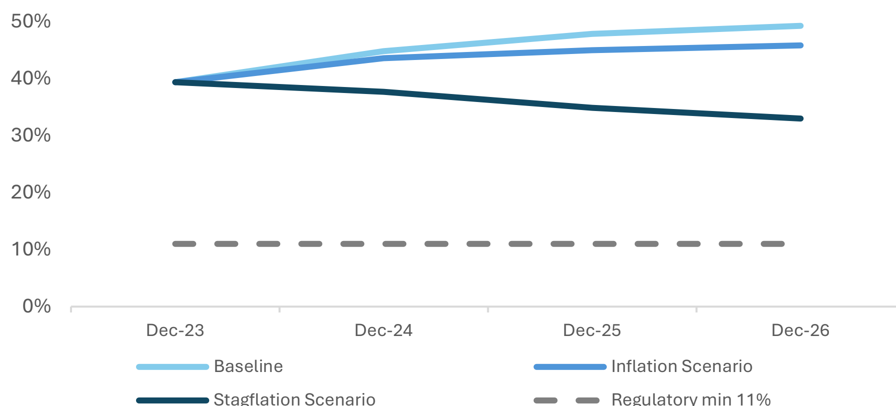
2.1 Macroeconomic Solvency Stress Test

The multi-factor, multi-period macroeconomic stress test was carried out to assess vulnerabilities to solvency stemming from shocks to banks' credit portfolios. The stress considered two shock scenarios including different intensities of local economic recessions due to a strong US slowdown. The first scenario takes into consideration a high inflation situation while the second accounts for the introduction of stagflation[14].

The solvency stress test results showed that the banking industry remains resilient and will continue to be so for the medium term. Under the inflation scenario, the industry's CAR declined to 45.8 per cent but remains well above the 11 per cent regulatory requirement. Furthermore, under even more severe stress (stagflation scenario), the capital registered an even more drastic fall to 33.0 per cent but remained above the CAR regulatory requirement (**refer to Figure 4**). As such, no capital injections would be required to restore CAR to 11 per cent for the review period. However, it is important to note that one bank exhibits weakness under the stagflation scenario, resulting in capital declining to 6.8 per cent in December 2026.

[13] Assumptions/shocks for each test are summarised in the Annex.
[14] Stagflation or recession-inflation is a situation in which the inflation rate is high or increasing, the economic growth rate slows, and unemployment remains high.

Figure 4: Capital Adequacy Ratio (CAR) Remains Well Above Regulatory Minimum of 11 Per Cent Amid Shock Scenarios



Source: TCI Financial Services Commission

Except for that one bank that failed the solvency stress, the assessment found no substantial capital erosion because of hypothetical increases in NPLs (see Figures A1 to A3 in the Annex). The Commission will continue its close monitoring of banks' solvency and capital levels by imposing appropriate reporting requirements and other measures deemed suitable to ensure the preservation of financial stability.

2.2 Liquidity Stress Test

For the second consecutive year, two banks have shown weaknesses under the liquidity stress scenario and may be required to use contingent lines or external sources of funding to meet stressed outflows. The liquidity stress assesses a simultaneous seven-day run on demand and time deposits. The first scenario assumed a daily run rate of 20 per cent on demand deposits and 5 per cent on time and savings deposits. The results show that two banks were not able to withstand the seven-day bank run. The second scenario examined the effect of a 20 per cent daily withdrawal rate on large depositors' accounts for up to seven days. Results indicated that all banks were able to withstand the seven-day bank run on their largest deposit accounts (**see Table 1**). The Commission will maintain its prudent approach in monitoring liquidity contingency plans to ensure that banks are practically managing vulnerabilities through appropriate measures.

Table 1: Liquidity Stress Test Results

Liquidity Test		**Dec-21**	**Dec-22**	**Dec-23**
Bank run on demand & time deposit accounts	No. of banks with liquidity drainage before 7 days	0	2	2
Bank run on large depositors' accounts	No. of banks with liquidity drainage before 7 days	0	0	0

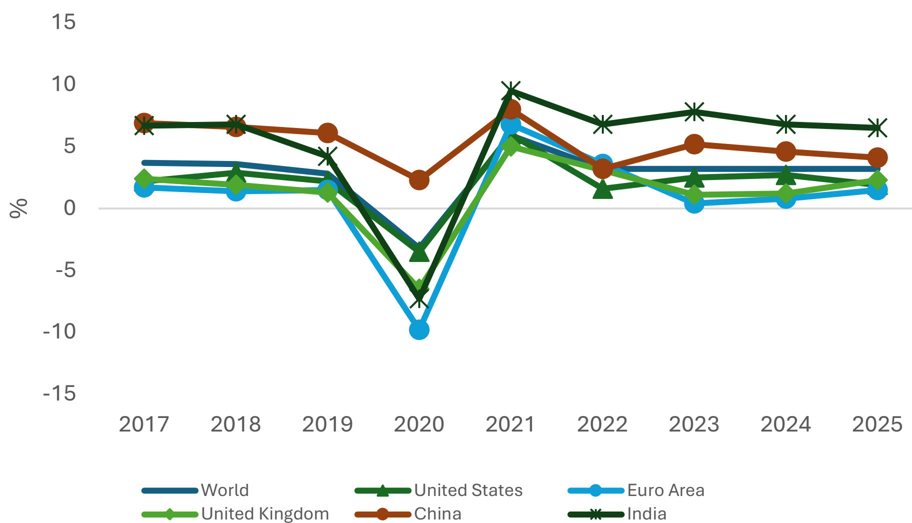
Source: TCI Financial Services Commission

3.0 MACROECONOMIC ENVIRONMENT

3.1 Global Macroeconomic Developments

Although Faced with Challenges, Global Economic Activities Remain Robust

Figure 5: IMF Global Growth Estimates and Projections



Sources: IMF World Economic Outlook April 2024

Despite shocks to the global economy including the COVID-19 pandemic, the Russia-Ukraine conflict, and rising inflation due to disruptions to trade and rising commodities prices, global economic activities remained resilient in 2023. The International Monetary Fund (IMF) in its World Economic Outlook (WEO) report for April 2024 highlighted that global growth, which was estimated at 3.2 per cent in 2023, is projected to remain flat in 2024 and 2025 (**see Figure 5**). The revised 2024 growth projection was 0.1 percentage points (ppts) higher than in January 2024 and 0.3 ppt higher than the October 2023 forecast. The upward revision reflected stronger-than-expected economic activities in the United States of America, China, and several large emerging market economies. It is important to note, that despite this improved estimate, the global growth forecast continues to trend below the historical (2000-2019) annual average of 3.8 per cent. This underperformance is on account of restrictive monetary policy, the withdrawal of pandemic-era fiscal support and low underlying productivity growth.

The 2023 growth estimate for advanced economies has increased due to higher growth estimates in the US economy. Growth in the advanced economies is projected to increase from 1.6 per cent in 2023 to 1.7 per cent in 2024 and 1.8 per cent in 2025. The current growth estimate was 0.2 ppt higher than the January 2024 WEO figure. This update reflects a higher estimated growth outturn in the US market, one of the TCI's main trading partners and a key contributor to tourist arrivals. The US economic growth is projected to increase from 2.5 per cent in 2023 to 2.7 per cent in 2024, before falling to 1.9 per cent in 2025 as the lagged effects of monetary and fiscal tightening materialise, coupled with a softening in the labour market that is anticipated to weigh on aggregate demand[15].

In the United Kingdom (UK), growth is expected to trend upward between 2023 and 2025, while in China the property market crisis has slowed its economic activity. Economic growth in the UK, another major trading partner of the TCI, is projected to increase slightly from 0.1 per cent in 2023 to 0.5 per cent in 2024, as the lagged negative effects of high energy costs subside. The growth projection for 2025 has improved to 1.5 per cent as disinflation improves financial conditions and causes real incomes to recover. Growth in China is estimated to decelerate from 5.2 per cent in 2023 to 4.6 per cent in 2024, and down to

[15] World Economic Outlook, April 2024

4.1 per cent in 2025. This slowdown primarily stems from the ongoing property market crisis in China which started with the 2021 default of Evergrande Group, one of China's largest property developers. This crisis not only threatens China's economic stability but also poses contagion risks to global markets.

Global Disinflation Expected as Monetary Policy Restrictions Continue, However, Downside Risks Remain

Global headline inflation is expected to fall due to ease in monetary policy and normalisation of supply chains. Global headline inflation is expected to decrease from 6.8 per cent in 2023 to 5.9 per cent in 2024 and 4.5 per cent in 2025. This reflects faster-than-expected disinflation in most regions resulting from supply chain issues being resolved and maintenance of tighter monetary policy as central banks raise interest rates to combat the effects of inflation and softening in labour markets. Of note, advanced economies are expected to reach their inflation targets sooner than both emerging and developing economies[16].

The combination of robust global economic activity coupled with disinflation has lowered the probability of a hard landing; however, downside risks remain. Global economic activity has proven to be very resilient to past shocks with growth projected to hold steady in 2024 and 2025. Inflation for most economies show signs of cooling, with headline inflation[17] trending towards pre-pandemic levels. These observed movements have reduced the likelihood of a hard landing[18]. However, there is still a threat of downside risk materialising. These risks include:

- The Russia-Ukraine conflict can escalate and further disrupt the supply of wheat and corn, thus increasing food prices given both countries are major producers of these commodities.
- The conflict in Gaza, considering the involvement of Iran and the Red Sea attacks[19] by the Houthis[20], could spill over into the wider region, which is a major oil and natural gas exporter, causing a hike in energy prices.
- The current property market crisis in China could worsen, leading to lower growth in that market with a threat of contagion for trading partners.

These downside risk scenarios could threaten global growth and further exacerbate inflationary pressures, forcing central banks to prolong restrictive monetary policy actions. Given the TCI's reliance on the global economy for tourism and trade, the above geopolitical and macroeconomic developments have increased the financial stability risk stemming from the global real environment (**see Figure 6 - cobweb diagram[21]**).

[16] World Economic Outlook, April 2024

[17] Headline inflation is a measure of the total inflation within an economy, including commodities such as food and energy prices, which tend to be more volatile and prone to inflationary spikes.

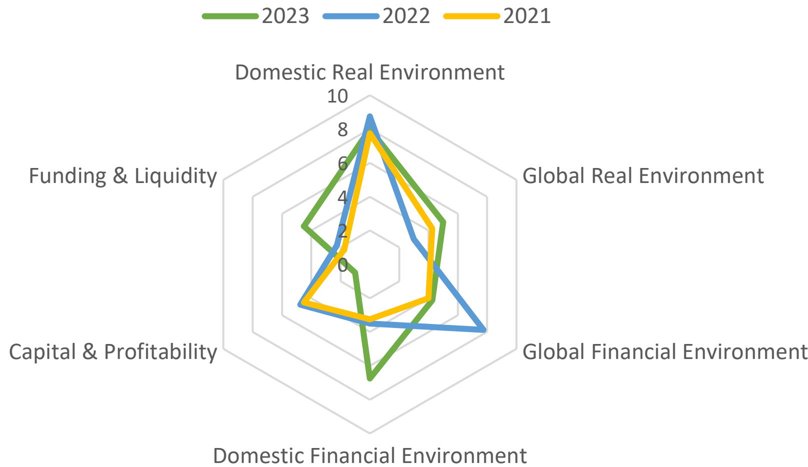
[18] A hard landing occurs when the economy contracts sharply due to the central bank's efforts to control inflation.

[19] The Red Sea crisis began on 19 October 2023, when the Houthi movement in Yemen launched missiles and armed drones at Israel, demanding an end to the invasion of the Gaza Strip. The Houthis have since seized and launched aerial attacks against dozens of merchant and naval vessels in the Red Sea, drawing hundreds of air strikes on missile sites and other targets by US and allied forces.

[20] The Houthi movement, officially known as Ansar Allah, is a Shia Islamist political and military movement that emerged from Yemen in the 1990s. It is an armed group that controls most parts of Yemen, including the capital, Sanaa. The group rose to prominence in 2014, when it rebelled against Yemen's government, causing it to step down and sparking a crippling humanitarian crisis.

[21] The cobweb diagram depicts domestic economic and financial risk exposures across six risk categories: (i) domestic real environment, (ii) domestic financial environment, (iii) global real environment, (iv) global financial environment, (v) capital & profitability and (vi) funding & liquidity. Movements away from the centre of the diagram represent an increase in the risk to financial stability, while movements towards the centre of the diagram represent a reduction in financial stability risks.

Figure 6: Cobweb Map of Risk Exposures



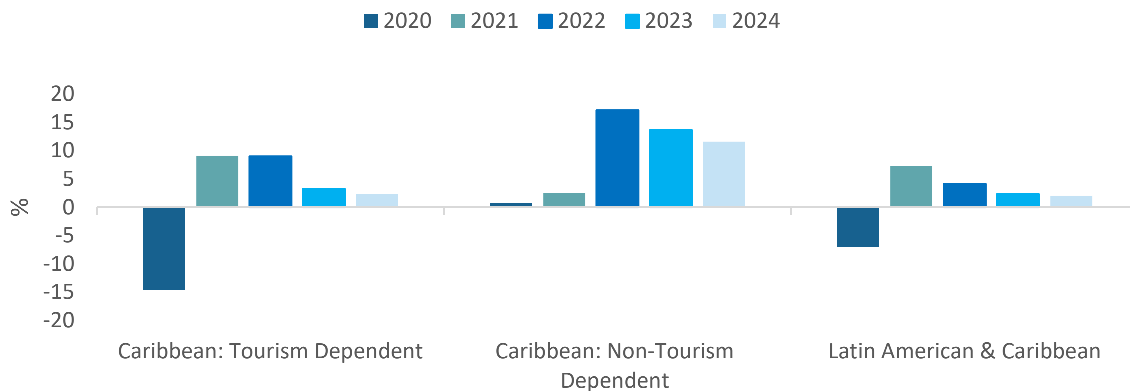
Source: TCI Financial Services Commission

3.2 Regional Macroeconomic Developments

Deceleration in Growth for LAC in 2024 but Recovery Forecasted in 2025

Economic activity in Latin America and the Caribbean (LAC) has slowed due to monetary policy restrictions and a weaker external environment. Growth in the LAC region is projected to decline from an estimated 2.3 per cent in 2023 to 2.0 per cent in 2024, before recovering to 2.5 per cent in 2025. Although the pace of economic recovery from the effects of the COVID-19 pandemic was above expectations, the region is still expected to experience a deceleration in growth as the effects of monetary policy restrictions to combat inflation persist. The weakening of the external environment is a key contributor to the current slowdown in economic growth. This is due to a softening in growth in main trading partners like China and the shift in US consumer demand towards non-tradable goods. The weakening of prices for key commodities has also impacted growth in the region, especially for commodity-exporting countries. For the Caribbean in particular, growth has moderated to 8.3 per cent as at year-end 2023, in comparison to 14.0 per cent in 2022. The observed deceleration in economic activity in the Caribbean reflects a normalisation to pre-pandemic growth trends. Importantly, for tourism-dependent Caribbean countries, tourism figures are returning to trend after post-pandemic recovery fades. Commodities-exporting Caribbean countries would have also seen a reversal of the favourable terms of trade associated with high oil and gas prices (**See Figure 7**).

Figure 7: Country Group Real GDP Growth Estimate



Sources: IMF World Economic Outlook April 2024

Quick Action by Regional Central Banks Tamed Inflation in the LAC

The prompt monetary policy responses from central banks in the LAC have tempered the inflation trend. According to the WEO, inflation[22] in the LAC was anticipated to decline from an estimated 7.8 per cent in 2022 to 4.7 per cent in 2023, thereafter to 3.7 per cent in 2024. This reduction in inflation is consistent with the global trend as import prices decline due to lower international prices and domestic currency appreciation. The monetary policy intervention by regional central banks since 2021 also helped to put inflation on a downward trajectory. Due to early movement in policy rates, most central banks within the region are now well-placed to move ahead with actions to reverse the tight monetary policy stance as inflation cools. Some LAC countries such as Brazil and Chile already started to cut interest rates beginning in the second half of 2023.

3.3 Domestic Economic Developments

Table 2: Domestic Economic Indicators 2020 to 2025

Indicator	Actuals			Estimate	Projections	
	2020	2021	2022*	2023	2024	2025
Nominal GDP (Bil. $)	0.91	1.18	1.35	1.54	1.62	1.70
Real GDP Growth (%)	-33.8	29.6	14.1	13.7	5.4	5.1
Unemployment rate (%)	11.0	9.0	8.0	7.0	6.0	5.0
Balance of Merchandise Trade ($ Bil.)	-345.8	-474.1	-678.8	-798.2	-838.1	-880.0
Current Account Balance ($ Mil.)	-26.2	196.1	394.4	422.8	-	-
CPI growth (%)	2.3	4.5	6.0	5.5	3.0	2.5

*Some figures may have been revised
Sources: Ministry of Finance and Treasury Department

Economic Growth Continues in 2023, Momentum Decelerates Marginally

Real economic activity for the TCI extended its positive trend in 2023, albeit slowing marginally from 2022's figures as growth in key sectors normalised. Real GDP is estimated to have grown by 13.7 per cent in 2023, slightly lower than the previous year's growth of 14.1 per cent. The deceleration in economic growth was underpinned by a normalisation of tourism to pre-COVID-19 trends and a slowdown of the momentum in the construction, transport, storage and communication industries. GDP was however buoyed by improvements in the real estate and financial sectors. The prompt and successful vaccination programme enabled the authorities to ease entry requirements for incoming visitors to the TCI. As a result, tourism, the main income earner for the country, continued its upward path in 2023. Concurrently, labour market outcomes improved further, as the unemployment rate fell to 7.0 per cent in 2023 from 8.0 per cent in 2022 (**refer to Table 2**). However, still elevated inflation continues to place pressure on businesses and consumers. Nonetheless, it should be noted that inflation is anticipated to fall in 2024-25 and reflects a broad-based decline in global core inflation[23] because of still-tight monetary policies, a related softening in labour markets, and fading pass-through effects from earlier declines in energy prices[24]. However, the risks to the inflation outlook include the ongoing conflict in Ukraine, upheaval in the Middle East and elevated prices in the US. These developments have the potential to indirectly impact TCI by keeping prices for key commodity imports inflated.

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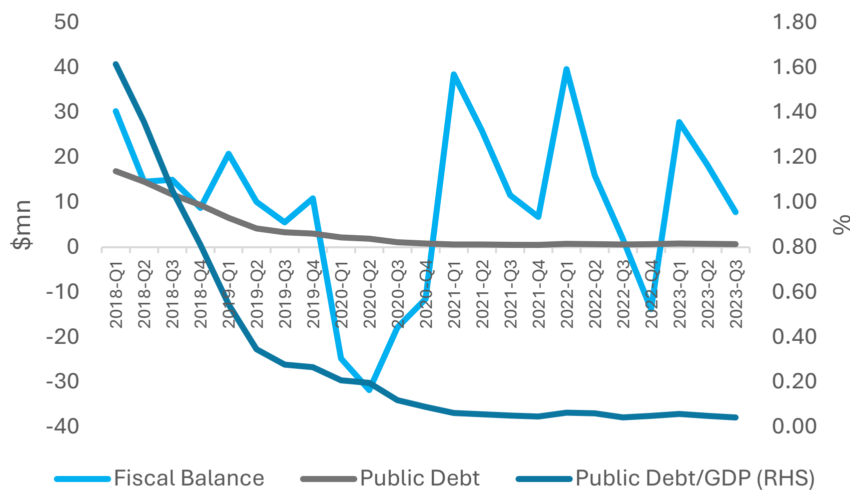
[22] Excluding Venezuela and Argentina
[23] Core inflation is the change in the costs of goods and services but does not include those from the food and energy sectors. Food and energy prices are exempt from this calculation because their prices can be too volatile or fluctuate wildly.
[24] IMF World Economic Outlook, April 2024

For the external sector, the current account balance experienced a 7.2 per cent increase in 2023 due to a higher service balance supported primarily by robust tourism activity[25]. Tourism is a component of trade in services, which is calculated as exports of tourism services less imports of tourism services. As a result, the services balance was buoyed by the strong outcomes in the tourism sector. Nevertheless, the country's trade deficit widened (+17.6 per cent) due mainly to higher costs for goods and services, especially commodities, in 2023. Prices rose by an average of 7.4 per cent globally in 2023, slowing from the 8.1 per cent price growth recorded in 2022 albeit still significantly above the 2017-21 trend[26] (**see Table 2**).

Government Surplus Remains Robust Following Strong Revenue Performance

TCI is anticipated to achieve a substantial general government surplus for the fiscal year 2023-2024, driven by a strong economic performance and prudent control of capital expenditures. As of 31 December 2023, revenues amounted to $314 million, exceeding budget projections by 6 per cent, while expenditures stood at $240.9 million, representing an 18 per cent reduction from the budgeted amount. Import duties, hotel and restaurant taxes, and stamp duties emerged as the primary contributors to the increased revenue. It is important to note that TCI's fiscal reserves serve as a crucial pillar of financial stability, as demonstrated during the tumultuous first year of the pandemic and in the aftermath of natural disasters such as Hurricane Irma in 2017. Due to its careful fiscal management, marked by consistent surpluses over several years, the government amassed significant savings. This enabled the government to effectively navigate the unexpected crises while maintaining its creditworthiness. At the onset of the pandemic, the TCI government held $209 million in readily available financial assets, providing a buffer against the COVID-19 impact and reducing the necessity for additional borrowing. The government has since bolstered its cash reserves to $350 million as of 31 December 2023[27].

Figure 8: TCI Government's Fiscal Balance and Public Debt Performances Improve



Sources: TCI Financial Services Commission and Treasury Department

Prudent Fiscal Management Rewarded with Low and Stable Debt Balance

Over the years, the government has significantly reduced its debt and is projected to remain a sizeable net creditor[28] and maintain a significant surplus in the foreseeable future. As at 31 December 2023, the government recorded a public debt of $0.68 million, compared to $0.73 million at the end of 2022. The debt servicing capacity of the

[25] It is important to note that the export of tourism services is the provision of travel services in the TCI to non-TCI residents. In other words, it is foreign tourist spending in the TCI and is considered an export.

[26] Economic Intelligence Unit, 2023.

[27] S&P Capital IQ

[28] A nation is a net creditor if it has more invested in foreign nations than they have invested in it. This usually implies the nation is running a trade surplus as it is taking some of the money earned on exports and investing it abroad.

domestic economy, measured by the ratio of public debt to GDP[29], remained unchanged at 0.04 per cent over the review period. Strong economic activity and fiscal policy efforts to keep the debt burden manageable have translated into a low and stable debt-to-GDP figure for the past thirteen quarters. Recently, the TCI has only taken on small loans from the Caribbean Development Bank for technical assistance with specific projects. These loans have low interest rates, and it is anticipated that the interest payments will account for less than 5 per cent of revenues until 2027[30] (**see Figure 8**).

Strong Economic Outlook Balanced by Global Macroeconomic Risks and Weather-Related Events

In the short to medium term, economic growth is expected to be buoyed by momentum in the tourism, real estate, and construction industries. Despite the global challenges, the TCI's tourism sector is expected to maintain its positive trend following the decline initiated by the COVID-19 pandemic. This improvement is largely predicated on the effective operationalisation of the National Tourism Strategy and Implementation Plan for the TCI, which was published in March 2023. The plan aims to expand the tourism product by, among other things, increasing total tourist arrivals from 1.6 million in 2019 to 3.2 million in 2032; growing tourism revenue from $825 million in 2019 to $1.7 billion in 2032, while simultaneously stemming the decline in visitor spend; expanding the total registered accommodation rooms from 4,008 in 2019 to 6,143 by 2032; and improving the overall sentiment score from 9.1/10.0 in 2022 to 9.6/10.0 by 2027. The plan also aims to improve air connectivity from Providenciales to all other tourism destinations, and diversify the current offering of tourism products. Furthermore, plans are underway to expand marketing in the current major tourist markets (USA, Canada, and UK), and gain market share in new potential markets in Europe (Germany, Italy, France, Spain, Benelux[31]), Latin America (Brazil, Colombia, Chile, Argentina) and the Caribbean region. Furthermore, the construction and real estate sectors are anticipated to continue making significant contributions to the economy, evidenced by the recent completion of various resort and development projects, and a robust pipeline of ongoing initiatives.

Potential downside risks to the outlook include weather-related shocks, recession fears in the US and ongoing geopolitical tensions in regions such as Europe and the Middle East that could adversely affect commodity prices and subsequently keep inflation elevated. The TCI's vulnerability to weather-related events, given its location in the Atlantic hurricane belt, poses a significant risk to the outlook. Nevertheless, the impact of past major storms on growth, such as Hurricane Irma in 2017, was mitigated by TCI's strong financial reserves. Furthermore, the National Wealth Fund, established in 2016 to stabilise the economy against external shocks or natural disasters, stood at $51 million as of 31 December 2023[32]. In addition, the government participates in the Caribbean Catastrophe Risk Insurance Facility (CCRIF)[33] to help mitigate any hurricane-related costs.

3.3.1 Rating Update

Outlook Changed to Positive Buoyed Primarily by Strong Growth Expectation

[29] Annual GDP was converted to a quarterly series using the cubic last method.
[30] S&P Capital IQ
[31] The Benelux Union or Benelux is a politico-economic union and formal international intergovernmental cooperation of three neighbouring states in western Europe: Belgium, the Netherlands, and Luxembourg.
[32] S&P Capital IQ
[33] CCRIF was designed as a regional catastrophe fund for Caribbean governments to limit the financial impact of hurricanes and earthquakes to Caribbean governments by quickly providing short term liquidity when a policy is triggered.

On 27 March 2024, S&P Global Ratings adjusted the outlook for Turks and Caicos Islands (TCI) from Stable to Positive, while affirming its 'BBB+' long-term and 'A-2' short-term foreign and local currency sovereign credit ratings[34]. The shift to a positive outlook reflects S&P Global Ratings' belief that the TCI's economy will continue to experience robust growth, primarily driven by the tourism sector. Should this growth align with S&P's projections, there is potential for an upward revision in the ratings of the TCI over the rating horizon.

A change in growth expectations, alteration of ties with the UK, and/or modification in TCI's institutions or finances could result in a change in the island's ratings. In an adverse scenario, ratings could be downgraded over the next two years if growth falls below expectations, leading to revenue pressures that result in sustained fiscal deficits, significantly weakening public finances. Additionally, any unforeseen scaling back in institutional ties with the UK that adversely affects governance could trigger a downgrade. Conversely, an improvement in ratings could occur within the next two years if GDP growth remains steady in accordance with S&P's forecasts. TCI's strengths in its institutions, public sector finances, and debt management would further enhance its economic resilience and consequently improve ratings.

4.0 ANALYSIS OF THE FINANCIAL SYSTEM

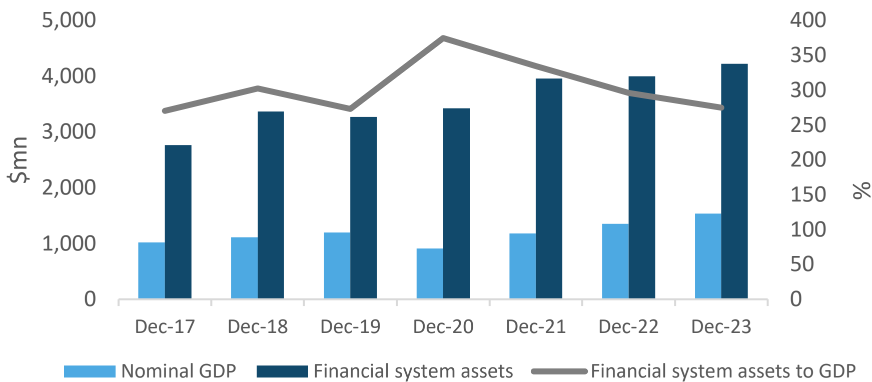
TCI's Financial System is About 2.7 Times Its GDP With the Banking Sector Responsible For The Majority Of Assets

The TCI features a large financial system relative to its economy, with assets amounting to about 275 per cent of GDP. Banking represents the largest sector of the financial system, with assets of about 179 per cent of GDP (USD 2.74Bn) and is dominated by three Canadian banks and one British-Belizean bank. The largest banks operate via a traditional business model, with credit and liquidity as the main sources of risk. The other two banks are niche players specialising in offshore wealth management. All three Canadian Banks are large retail Systematically Important Banks (SIBs) for the TCI economy. Of the three SIBs, two are branches and one is a subsidiary.

The Commission regulates the banking system in the TCI based on the Basel Accords. The system lacks a significant component of the financial safety net in numerous markets: deposit insurance. Consequently, there is no mechanism in place to mitigate the risk of loss for bank depositors. Deposit insurance plays a crucial role in sustaining the smooth operation of the economy, as it preserves the stability of the financial system by safeguarding the essential financial intermediation function of banks. The Commission aims to continue to coordinate with other relevant stakeholders to establish deposit insurance in the TCI, especially given its importance to financial stability in the jurisdiction.

[34] S&P Global Ratings' issuer credit ratings make a distinction between foreign currency ratings and local currency ratings. A Foreign Currency Credit Rating on an issuer will differ from the local currency rating on it when the obligor has a different capacity to meet its obligations denominated in its local currency, vs. obligations denominated in a foreign currency.

Figure 9: Financial Intermediation Dips for The Third Consecutive Year



Source: TCI Financial Services Commission

The banking sector's assets remained highly concentrated within the three Canadian-owned banks, accounting for approximately 97 per cent of the total market share. Financial intermediation, which is calculated as the value of financial assets as a percentage of GDP, declined for the third consecutive year to 275 per cent, falling from a high of 374 per cent in 2020 (**refer to Figure 9**). The change can be attributed to stronger growth in GDP (+14 per cent) relative to the expansion of financial system assets (+6 per cent). Identifying financial assets as a percentage of GDP facilitates the benchmarking of the state of financial development in the TCI to other countries.

Aggregate assets of the banking sector amounted to 179 per cent of GDP at year-end 2023, relative to 199 per cent the previous year. Banking assets concentration, measured by the Hirschman-Herfindahl Index (HHI)[35], declined for a second consecutive year signalling a further reduction in asset concentration risk in the sector. The HHI declined to 3,306 points as at December 2023 indicating a slight improvement in competitiveness; nevertheless, the market remains highly concentrated (**refer to Figure 10**).

Figure 10: Banking Sector Competitiveness Improved Further

Source: TCI Financial Services Commission

The non-bank financial system includes Insurance, Trust Companies, Money Services Businesses and Investments which make up a very small portion of the financial industry and as such poses relatively less risk to the stability of the TCI financial system. There were six Trust Companies and four Money Service Businesses operating in the TCI as at 31 December 2023. Under the Investment Services, there were seven Investment Dealers and 11 Mutual Funds and Exempt Mutual Fund Managers operating in the TCI.

[35] The HHI is defined as the sum of the squared share of all banks' assets. It takes into consideration each bank's share of assets within the sector and is an indication of the degree of asset concentration. A market with an HHI of less than 1,500 is considered competitive, an HHI of 1,500 to 2,500 is moderately concentrated, and an HHI of 2,500 or greater is highly concentrated.

The domestic insurance industry remained relatively small with significant reinsurance outside the island; this significantly reduces the risk for the TCI. While life insurance represents the smaller portion of total insurance, it should be noted that reinsurance for this segment declined in 2023 due to a change in ownership of one of the companies and recommendations from the actuary.

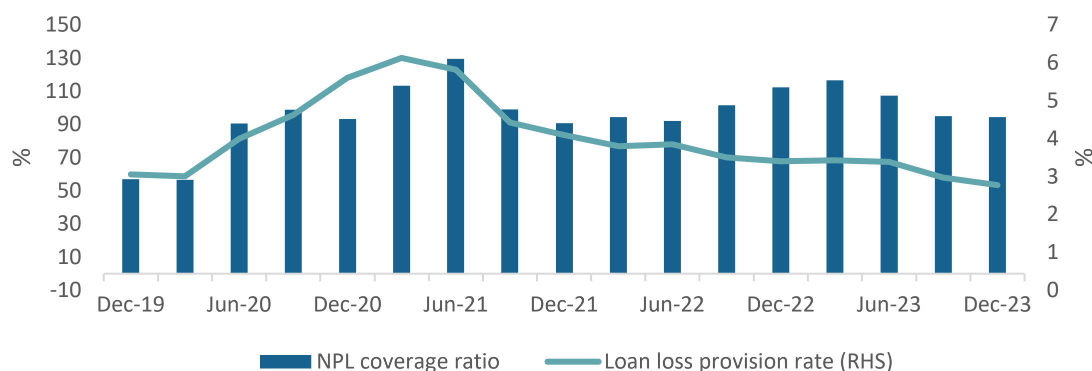
The insurance sector was dominated by over 8,000 small international insurers, the overwhelming number of which were Producer Affiliated Reinsurance Companies (PARCs)[36], which primarily reinsured low-value motor and health-related risks for related or affiliated entities. It is also important to note that most of the domestic insurance risk is reinsured (above 60 per cent) which reduces the risk in the TCI economy. Currently, the domestic insurance sector is transitioning to the IFRS 17 standard that requires insurers to recognise profits as insurance services are delivered (rather than when premiums are received) and to provide information about insurance contract profits the company expects to recognise in the future[37]. IFRS 17 became effective on 1 January 2023.

4.1 The Banking Sector

4.1.1 Asset Quality and Credit Risk

Industry Asset Quality Remains Solid with the Trend Relatively Unchanged

Figure 11: NPL Coverage and Loan Loss Provisioning Ratio



Source: TCI Financial Services Commission

Banks' asset quality was relatively unchanged over the review period as non-performing loans (NPLs) remained low. The ratio of non-performing loans (NPLs) to total loans remained at low levels over the review period, indicating high asset quality. The current high asset quality (low credit risk) has contributed to the stability of the banking sector (**refer to Figure 7**); however, deterioration in global macroeconomic conditions could present downside risks. Specifically, accelerated inflation or a reduction in growth globally or in the United States could materially impact debtors' ability to repay loans within the TCI. This is especially true considering the dependence of the real economy on tourism. In such an event, banks might see a significant increase in NPLs and will consequently be required to increase their loan provisions. Of note, the solvency stress test (**see Macroeconomic Solvency Stress Test**) highlights that the banking sector is adequately capitalised to absorb credit losses stemming from macroeconomic shocks.

Provision for loan losses declined in 2023; however, banks continue to be adequately capitalised to absorb excess NPLs. Total provisions set aside by banks declined by 13.2 per cent year-over-year to $23.7

[36] Formerly Producer Owned Reinsurance Companies (PORCS)
[37] IFRS

million as at end-December 2023. This resulted in a subsequent decline in the NPL coverage ratio[38] to 94.4 per cent from 112.4 per cent, signifying that NPLs have exceeded the banks' provisions. Consistent with the reduction in provisions and an increase in total loans, banks' loan loss provisioning rate[39] declined as at year-end 2023 to 2.8 per cent, compared to 3.4 per cent in the prior period signifying that banks do not expect loan quality to deteriorate in the near term (**Figure 11**). Despite the reduction in provisioning, the Financial Soundness Indicator (FSI) ratios[40], suggests that banks have sufficient capital to withstand NPL losses not covered by provisions (see Table 3 in Appendix).

The distribution of NPLs exhibited slight changes in 2023. Construction and land development displayed the largest change with a 6.8ppt reduction in its contribution to total NPLs. This was followed by the household sector (personal loans), the largest share of NPL, with a 6.6ppt increase in its NPL contribution (see Figure B1 in Appendix). The structural break in the distribution observed after June 2022 is due to NPL write-offs in the tourism sector.

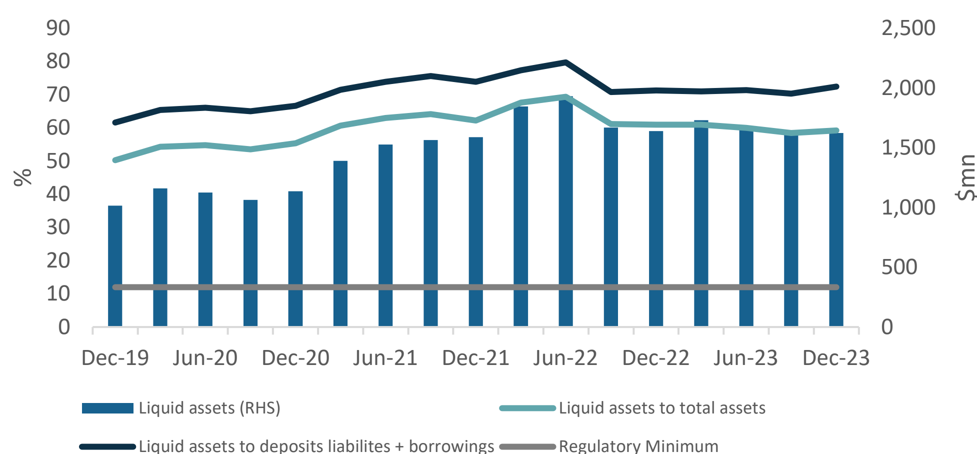
4.1.2 Liquidity and Funding Risk

Banking Sector Liquidity Position Remains Robust

The banking sector maintained high levels of liquidity over the review period evidenced by healthy liquidity ratios. The aggregate level of liquid assets to total assets was well above the regulatory minimum of 12 per cent (**see Figure 12**), while the liquid assets to short-term liabilities ratio remained relatively high and trended upward year-over-year (see Table 3 in Appendix**)**. Also, liquid assets continue to account for the largest share of banks' total asset holdings at over 60 per cent (**see Figure 12**). The high levels of liquid assets maintained by the banking sector could be due to the unavailability of investment opportunities in the TCI, given the absence of Capital and Money Markets. Importantly, the largest share of banks' liquidity emanates from placements with parent companies or affiliates outside the TCI. These placements mainly consist of demand and fixed deposits maturing within one year.

Deposits Continue To Be The Primary Source of Funding for Credit Growth

Figure 12: Liquidity Profile of The Banking Sector



Source: TCI Financial Services Commission

Customer deposits continued to account for the dominant share of banks' funding base and remained the main source of credit financing (see Figure B2 in Appendix). In particular, the gross loans to customer deposits ratio (LDR) trended well below 100 per cent (see Table 3 in Appendix),

[38] Measures provisions as a share of NPLs
[39] Measured by the ratio of loan loss provisions to total loans.
[40] Non-performing loans net of provisions for loan losses to total capital or paid-up capital

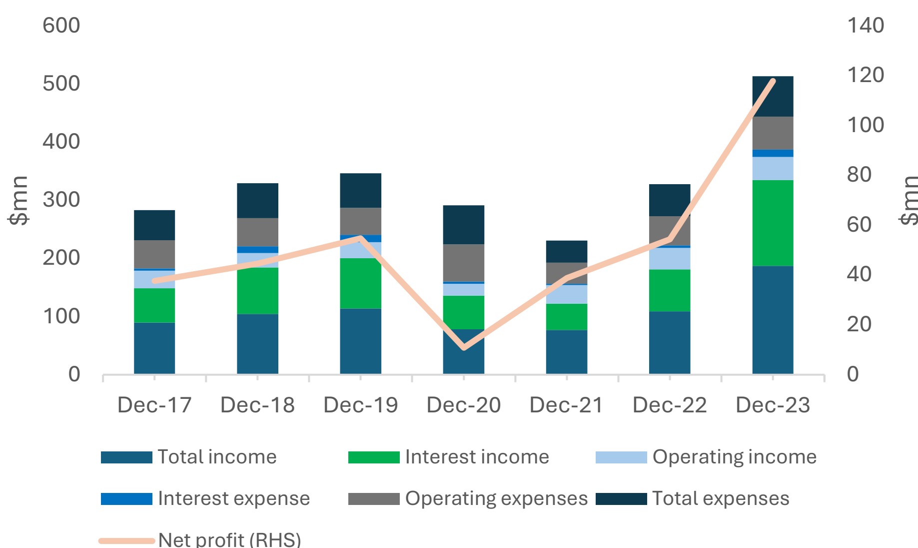
indicating that deposits are more than sufficient to finance loan growth. As such, the banking sector has no significant reliance on more expensive wholesale funding for credit expansion, and in the current high interest rate environment this is an advantage. Notably, an LDR that is too high indicates that banks' funding position has deteriorated, while an LDR that is too low implies that banks may not be earning as much as they could. Overall, the banks' liquidity and funding risk indicators remain robust (see Table 3 in Appendix), implying that sufficient liquidity exists to meet short-term obligations and that the banking sector is primarily financed by deposits instead of more expensive wholesale funds.

4.1.3 Earnings and Profitability

Banking Sector Income And Profitability Surpasses Pre-COVID Outcomes

Banks' profitability remained robust over the review period showing strong improvements in both the top and bottom lines. During 2023, annualised interest income and operating income increased by 104.0 per cent and 8.1 per cent to $147.7 million and $39.7 million, respectively. Due to the current interest rate environment, new loans attracted higher rates because of their link to international benchmarks, including SOFR[41], LIBOR[42] and the effective federal funds rate (EFFR)[43]. Moreover, variable-rate loans such as mortgages would have been repriced higher and a combination of these actions boosted interest income for the year. On the other hand, banks' interest expenses ballooned by 167.4 per cent, while operating expenses were 13.6 per cent higher, finishing the year at $56.8 million. The huge growth in the interest expense can be attributed to a surge in interest paid on deposits (+170.0 per cent), while growth in operational expenses was driven mainly by increases in bad debt written off (+75.3 per cent) and management fees and head office expenses (+46.3 per cent). The upsurge in interest paid on deposits is also reflective of the current higher interest rate environment. A contraction in provisions for loan losses partly offset the increase in annual operating expenses. Against this background, profit for the sector improved by 117.1 per cent to $117.9 million in 2023 (**refer to Figure 13**).

Figure 13 Banking Sector: Top and Bottom Lines Continue to Improve



Sources: TCI Financial Services Commission and Bank Financials

In line with the improvement in banks' bottom line, the profitability ratios for the sector also showed better results in 2023. The return on equity (ROE) for the sector jumped to 28.6 per cent, up from 16.4 per cent in 2022, a 12.3 percentage points increase. A decomposition of the

[41] The Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and loans.

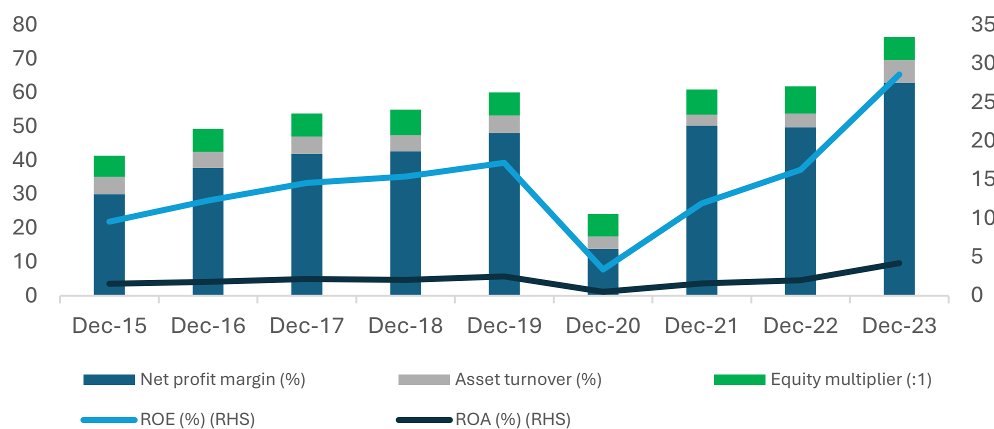
[42] The London Interbank Offered Rate (LIBOR) was a benchmark interest rate at which major global banks lent to one another in the international interbank market for short-term loans. It is important to note that this rate is being phased out and is being replaced by the Secured Overnight Financing Rate (SOFR).

[43] The effective federal funds rate (EFFR) is a critical interest rate in the U.S. financial system, representing the average rate at which depository institutions (such as banks and credit unions) lend balances to each other overnight. The New York Fed publishes the EFFR for the prior business day on the New York Fed's website at approximately 9:00 a.m.

ROE, using DuPont Analysis, showed an improvement in the net profit margin of 13.1 percentage points, attributed to a larger increase in net profit (+117.1 per cent) relative to income (+71.9 per cent). Furthermore, an improving asset turnover ratio showed the growing efficiency of the sectors' assets in producing revenues, while the equity multiplier decreased slightly, signalling a decline in the leverage ratio of the banks.

Correspondingly, the return on assets (ROA) increased to 4.2 per cent in 2023, almost doubling the 2022 figure (2.2 per cent) (**see Figure 14**). A higher ROA is indicative of a sector that is more efficient and productive at managing its balance sheet to generate profits.

Figure 14 Banking Sector: Profitability Ratios Upward Trend



Sources: TCI Financial Services Commission and Bank's Financials

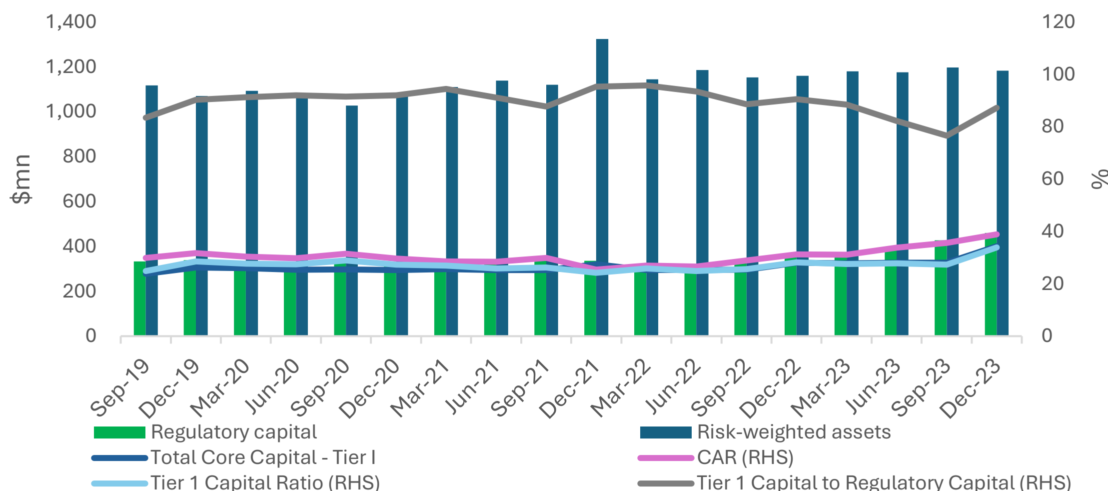
4.1.4 Capital Adequacy

Banks' Balance Sheet Positions Strong, Evidenced By Robust Capital Adequacy

The solvency position of the banking sector also remained strong during the review period, indicating robust buffers in the event of shocks to the balance sheets. The aggregate Capital Adequacy Ratio (CAR)[44] of 38.9 per cent at the end of 2023 remained well above the regulatory requirement of 11 per cent of risk-weighted assets and reflected an increase of 7.7 percentage points, relative to 2022; the second consecutive year of improvement. Similarly, banks' tier 1 capital ratio improved by 5.7 percentage points to 33.9 per cent in 2023, also the second consecutive year of growth (**see Figure 15**). Regarding the composition of capital, Total Core Capital[45] experienced a 22.4 per cent increase, bettering the improvements made in the previous two years. This was an important development given that core capital represents the most stable and reliable form of the industry's capital and acts as a cushion to absorb losses during times of financial distress. By having a strong core capital base, the industry enhances its ability to maintain stability in adverse economic conditions. Risk-weighted assets (RWA)[46] also exhibited a slight increase (+2.0 per cent) during the period.

[44] Capital adequacy ratio is the ratio of regulatory capital to risk-weighted assets.
[45] Total Core Capital consists of common equity tier 1 (CET1) capital, which includes common shares, retained earnings, and other comprehensive income.
[46] RWAs link the minimum amount of capital that banks must have, with the risk profile of the bank's lending activities (and other assets). The more risk a bank is taking, the more capital is needed to protect depositors.

Figure 15 Banking Sector: Capital Adequacy Remains Resilient



Sources: TCI Financial Services Commission and Bank's Financials

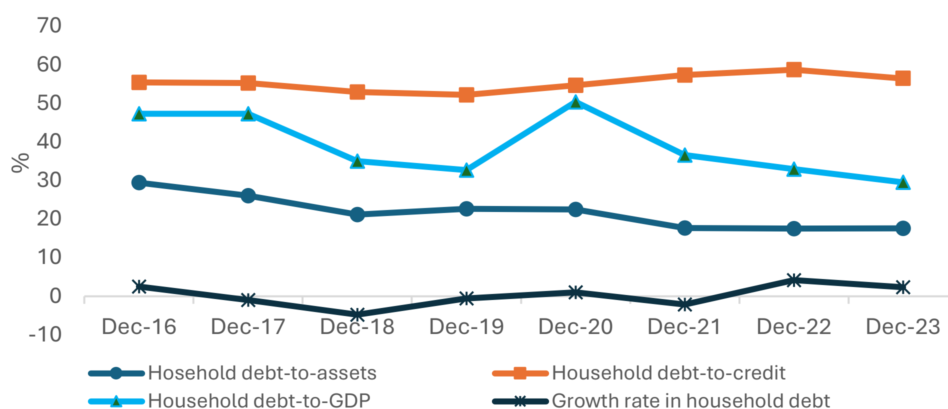
4.2 Banking System Sectorial Exposure

4.2.1 Household Sector

Household Sector Continues to be Banks' Highest Credit Exposure, Nonetheless with Improved Debt Servicing Capacity

Household debt, represented as personal credit[47], remained the largest credit exposure for banks in 2023. The share[48] of credit to this sector has moderated slightly to 56.5 per cent at year-end 2023. Household debt as a percentage of total assets remained relatively flat period-over-period at 17.6 per cent.

Figure 16: Household Sector Exposure and Indebtedness



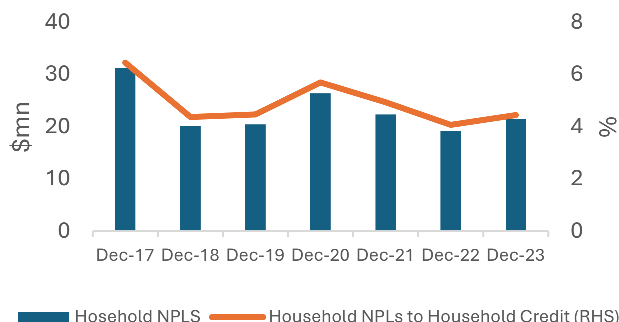
Source: TCI Financial Services Commission

Households' ability to repay debt improved in 2023 despite the higher interest rate environment. The debt servicing capacity of households[49] continued its improving trend observed since the spike in 2020. Specifically, household debt to

[47] Total household debt is proxied by the sum of residential mortgage loans, consumer loans (which includes loans for motor vehicles and other durables) and personal credit card receivables.
[48] Measured as household debt to total loans.
[49] Measured by the ratio of household debt to GDP

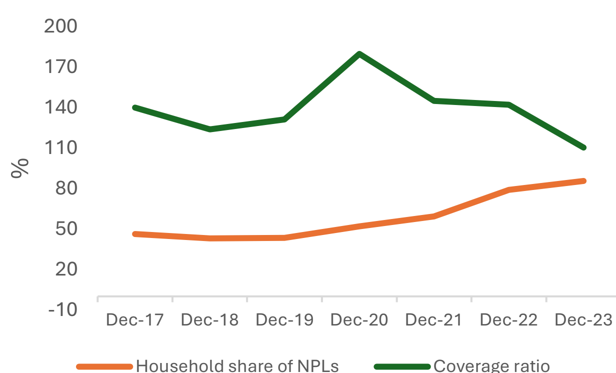
GDP ratio decreased to 29.5 per cent in 2023, amid a faster pace of growth in nominal GDP (+14.1 per cent) relative to the increase in household debt (+2.4 per cent) (**see Figure 16**).

Figure 17a: Household Sector Loan Quality



Source: TCI Financial Services Commission

Figure 17b: Household Sector Loan Quality



Source: TCI Financial Services Commission

Households' NPL ratio increased marginally year-over-year, however, the sector continued to maintain adequate loan loss provisions. As at year-end 2023, households continued to retain the largest share of banks' NPLs, at 86.5 per cent. The quality of households' credit portfolios has declined slightly over the review period. Specifically, the total value of household NPLs increased by 11.9 per cent to $21.5 million at year-end 2023. This has resulted in an increase in households' NPL ratio from 4.1 per cent in 2022 to 4.5 per cent in 2023. Importantly, banks continued to maintain adequate coverage of NPLs for the household sector, as the ratio of provisions to non-performing household credit exceeded 100.0 per cent for the review period (**see Figures 17a and 17b**).

4.2.2 Corporate Sector

Corporate Sector Credit Expanded and Debt Servicing Capacity Continues Its Improvement

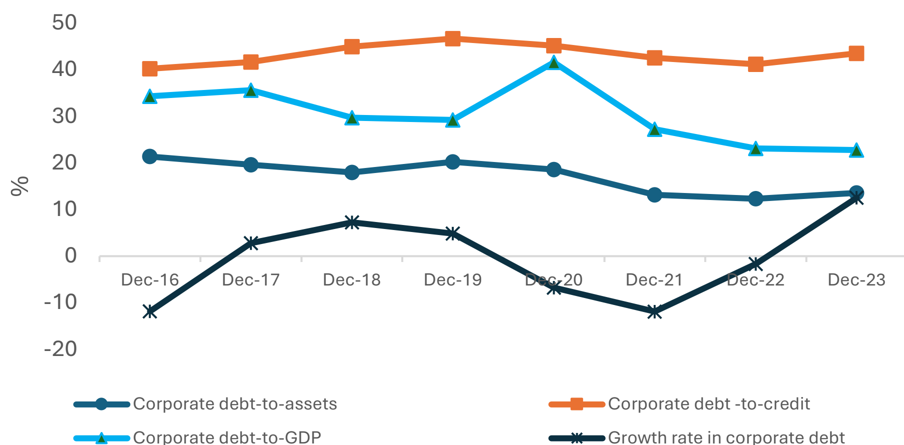
Driven by growth in the construction and land development, and public utilities sub-sectors, corporate loans expanded year-over-year. Banks' exposure to the corporate sector, as measured by corporate sector debt[50] to total banking assets, increased by 1.3 ppts, to 13.6 per cent at year-end 2023. The upward movement in the ratio was attributed to a 12.5 per cent annual growth in corporate sector debt in 2023, compared to a decline of 1.6 per cent the previous year. Specifically, expansion in the construction and land development, and public utilities sub-sectors significantly contributed to the growth in corporate credit (**see Figure 19**).

The corporate sector experienced credit growth and improved debt servicing capacity for the review period. The corporate sector debt-to-credit ratio increased by 2.3 ppts to 43.5 per cent in 2023, reflecting a faster growth rate in corporate credit relative to total loans. Despite the increase in corporate credit, the

[50] Corporate sector debt includes loans to commercial businesses (which includes agriculture, fishers, mining and quarrying, manufacturing, public utilities, construction, distributive trades, tourism, entertainment, transport, professional services and commercial credit card receivables).

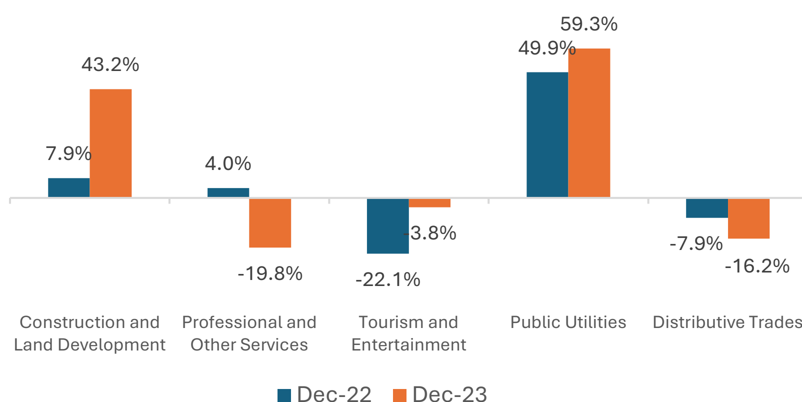
debt servicing capacity of the sector, represented by the ratio of corporate debt to GDP, improved, illustrated by a 0.3 ppts decline, from 23.1 per cent in 2022 to 22.8 per cent in 2023 (**see Figure 18**). This reflects a faster pace of growth in nominal GDP relative to corporate loans. The observed trajectory in the debt servicing capacity indicated an improvement in the ability of the corporate sector to repay debt.

Figure 18: Corporate Sector Exposure and Indebtedness



Source: TCI Financial Services Commission

Figure 19: Growth in Banks' Lending to the Top Five Corporate



Source: TCI Financial Services Commission

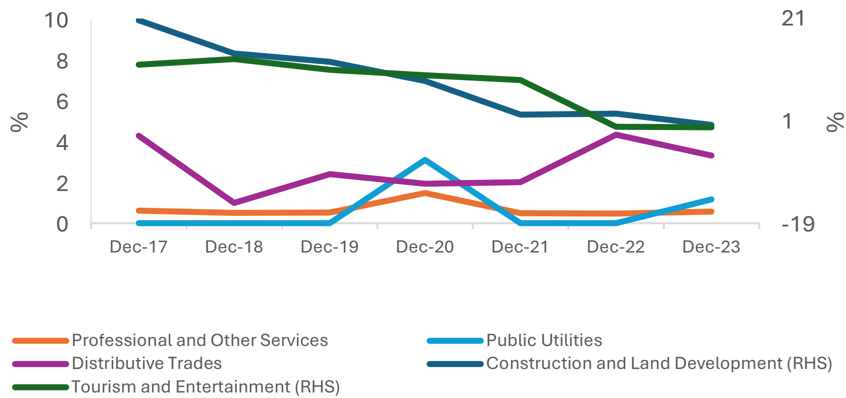
The asset quality improvement in the corporate sector was evidenced by lower NPL ratios for majority of the sub-sectors. The quality of banks' corporate sector loans, as measured by the ratio of the top five corporate sectors' NPLs to total corporate sector loans, improved over the review period. The ratio fell to 0.9 per cent at year-end 2023, from 1.3 per cent at year-end 2022. This movement resulted from a reduction in the ratio for all sub-sectors, except public utilities. The construction and land development sub-sector recorded the largest improvement, falling 2.18 ppts, from 2.6 per cent in 2022 to 0.5 per cent in 2023. Importantly, public utilities which were without any non-performing loans in 2022, recorded an NPL ratio of 1.2 per cent (or US $990K) at year-end 2023 (**see Figures 20a and 20b**).

4.2.3 Financial Institutions

Parent Bank Holdings Account for Majority of Placements with Financial Institutions

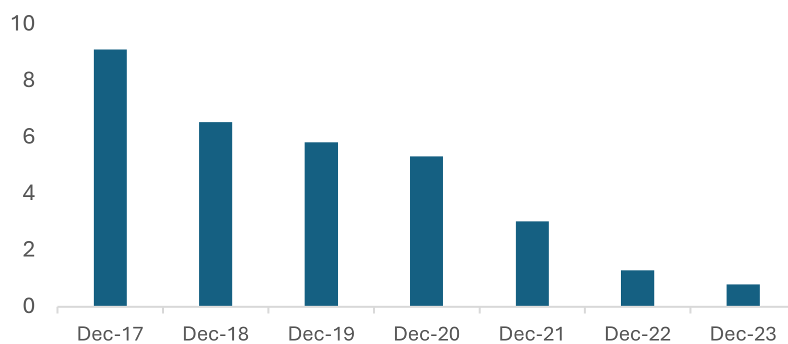
Banks' loans and advances to financial institutions, both locally and abroad, remained low and stable in 2023; however, assets placed with financial institutions were a significant exposure for the banking sector. At year-end 2023, credit granted to other financial institutions was relatively flat at 0.1 per cent of total bank credit exposures. However, the ratio of the banks' asset placements to total assets remained significant for 2023, nonetheless, the ratio declined by 3.1 ppts to 60 per cent at year-end 2023 (**see Figure 21**), as intra-group exposure declined. The three largest banks accounted for approximately 92.8 per cent of claims on financial institutions, 87.7 per cent of which were with their parent banks abroad. Of note, although the placement of assets with financial institutions represents counterparty risk, this is mitigated by the fact that a significant portion of the placements were with parent companies and affiliates.

Figure 20a: NPLs to total corporate loans for top 5 subsectors



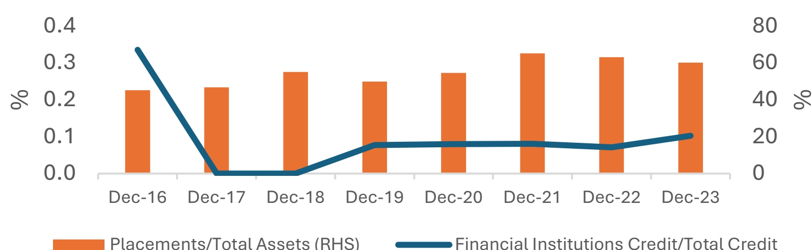
Source: TCI Financial Services Commission

Figure 20b: Top 5 Corporate NPLs / Total Corporate Credit (%)



Source: TCI Financial Services Commission

Figure 21: Indicators of Exposure to Financial Institutions



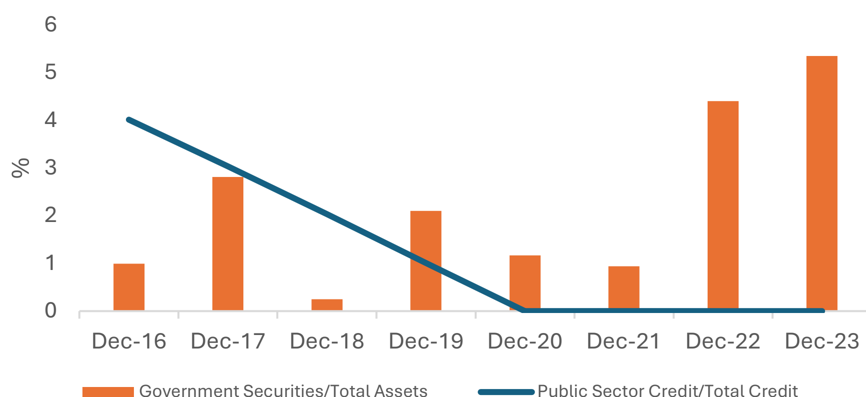
Source: TCI Financial Services Commission

4.2.4 Public Sector

Investment in Foreign Government Securities Trend Higher and Loans to Public Sector Near Zero

The TCI banking system continued to have little exposure to the public sector; however, investment in foreign government securities has increased. As at 31 December 2023, the public sector's share of total credit was maintained at nearly zero per cent, continuing the trend from the three previous years. On the other hand, the ratio of investments in other governments' securities to total assets increased by 0.95 ppts to 5.35 per cent at year-end 2023 (**see Figure 22**). This performance was consistent with banks' increased holdings of short-duration government securities, given their attractive returns in the current high-interest rate environment.

Figure 22: Indicators of Exposure to Financial Institutions



Source: TCI Financial Services Commission

4.3 Insurance Sector

Table 4a: Financial Soundness Indicators – Life Insurance Sector

Ratio	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Solvency Ratio - Standard minimum 8%						
Total Equity / Total Liabilities	444.7	411.3	455.5	403.2	374.0	320.6
Return on Equity						
Net Income / Total Equity	8.0	6.2	5.1	0.5	5.9	9.8
Liquidity - Standard minimum 60%						
Liquid Assets / Total Liabilities	429.1	420.9	490.9	470.9	383.2	370.2

Table 4b: Financial Soundness Indicators – General Insurance Sector

Ratio	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Solvency Ratio - Standard minimum 25%						
Total Equity / Total Liabilities	45.6	43.4	34.3	33.6	34.4	54.9
Return on Equity						
Net Income / Total Equity	10.7	24.4	25.0	26.0	-1.0	9.8
Combined Ratio - Standard max 100%						
Total Underwriting Expenses / Net Earned Premiums	79.7	64.4	72.0	68.3	104.0	83.2
Liquidity - Standard minimum 95%						
Liquid Assets / Total Liabilities	138.9	131.1	121.9	127.0	125.3	136.7

Profitability Improves in the Insurance Sector

The combined profitability of the insurance sector surged due to a recovery in underwriting income and lower reinsurance ceded for the general and life insurance sub-sectors respectively. The combined profit for the insurance sector grew by 1066.7 per cent over the review period, moving to $4.7 million in 2023. This reflected a general insurance sub-sector which rebounded from its 2022 loss, and the life insurance sub-sector which continued its upward momentum. More specifically, the general insurance sub-sector, which contributed more to total income (76.3 per cent), recorded a profit of $3.6 million in 2023, compared to a loss of $0.2 million in 2022. This profit turnaround was mainly driven by an

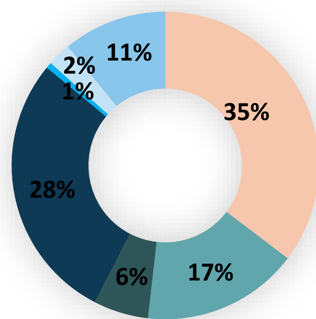
underwriting income of $3.6 million in 2023, as the sub-sector recovered from the 2022 underwriting loss which stemmed from claims associated with Hurricane Fiona. Of note, the increase in profit for the life insurance sub-sector was mainly attributed to a 77.2 per cent reduction in reinsurance ceded, which moved from $1.1 million in 2022 down to $0.3 million in 2023. This reduction in reinsurance has increased the risk of losses from claims in the life insurance sub-sector; hence, earnings may potentially be more volatile in the future.

Solvency and Liquidity Risk Metrics Remained Within Regulatory Limits

Financial Soundness Indicators (FSIs) for the insurance sector were strong over the review period. This is evidenced by solvency and liquidity indicators for both the life and general insurance sub-sectors continuing to trend well above their respective regulatory minimums (**see Tables 4a and 4b**). From a liquidity risk perspective, this implies that the insurance sector has enough liquid assets to meet short-term liabilities such as withdrawals and policy surrender, as well as large claims to be paid over a short period. The robust solvency indicators provide evidence that the sector is well positioned to meet its long-term obligations.

4.4 Investment Business Sector

Figure 23: Investment Products Breakdown by Type



Equities ■ Bonds ■ Cash and Cash Equivalents ■ Mutual Funds ■ Money Markets ■ Derivatives ■ Other

Source: TCI Financial Services Commission

Assets managed by investment businesses for clients increased by 12.6 per cent to $1,350.9 million as of December 2023, rebounding from a 7.5 per cent decline in 2022. This growth spanned across all sectors, with investment dealers (+13.5 per cent), mutual funds (+8.6 per cent), and exempt mutual funds (+10.6 per cent) experiencing expansions. Equities remain the predominant investment product, accounting for 35 per cent of the total, followed by mutual funds (28 per cent), bonds (17 per cent), and other assets (11 per cent) (**refer to Figure 23**).

4.5 Trust Sector

Assets and Net Income for the Trust Sector Increased Year-over-year.

As at December 2023, the trust sector on-balance sheet assets increased by 9.8 per cent to $4.0 million compared to $3.7 million for 2022. This was mainly attributed to growth in loans and advances as well as amounts due from related parties. Although to a smaller extent, increases in cash and cash equivalents, and other assets, also contributed to asset growth. Total consolidated income for the sector increased by 6.2 per cent to $15.8 million during the period, compared to $14.8 million for 2022. Income from services, the largest income generator for trust companies, (approximately 99 per cent of total income), grew by 7 per cent during the review period. Total consolidated expenses increased by 3 per cent to $8.1 million in 2023, relative to $7.8 million the previous year. This reflected a 6 per cent year-over-year expansion in other expenses (71 per cent of the share of total expenses), which was offset by a 9 per cent

reduction in expenses related to services. Consequently, net profit for the sector increased by 10 per cent to $7.7 million, compared to $7.0 million recorded in 2022.

4.6 Money Service Businesses (MSB) Sector

Remittances Expand Amidst a Profitability Improvement in 2023

The MSB sector improved its profit outturn in 2023 due to growth in two of the three revenue lines. Total revenue expanded by 22.5 per cent (or $618K) in 2023 to $3.4 million. This reflected a 30.8 per cent increase in remittance fees, coupled with a 40.1 per cent increase in other income. On the cost side, total expenses increased (+16.5 per cent or $410 thousand) to end the period at $2.9 million. As a result of the faster expansion of revenues relative to expenses, net profit subsequently grew by 80.4 per cent in 2023.

The total value of funds remitted in 2023 increased (+9.5 per cent) for the second consecutive year to end at $145.3 million. Outbound funds accounted for 92.0 per cent of total remitted funds while the value increased to $133.7 million (+9.4 per cent) in 2023. This was mainly reflected in double-digit increases in outbound activity to Jamaica (+10.7 per cent), the United States (+18.7 per cent), and the United Kingdom (+19.4 per cent). The Dominican Republic continued to be the largest recipient of outbound funds, accounting for 34.3 per cent of total outbound activity, followed by Haiti (16.1 per cent) and Jamaica (14.0 per cent) which rounded out the top three. It is important to note that outbound activity to Haiti picked up pace in 2023 after declining in 2022 (-3.1 per cent) and 2021 (-40.9 per cent) amid the introduction of a new foreign exchange policy, which became effective in October 2020[51].

Remittance inflows reversed the downtrend witnessed in 2022, climbing by 9.9 per cent to $11.6 million in 2023. The United States of America continued to account for the largest portion of inflows to the TCI, amassing 58.4 per cent of the total in 2023.

5.0 KEY POLICY INITIATIVES

Initiatives to Safeguard Financial Stability Are A Top Priority for The Commission

The Commission will continue undertaking policy initiatives geared toward strengthening the resilience of the financial system and safeguarding its stability. Some of the key initiatives that have been identified for immediate attention include:

5.1 Further Development of The Stress Testing Framework

The Commission continues to collaborate with the Caribbean Regional Technical Assistance Centre (CARTAC) to enhance its stress testing framework for the financial sector. Further to the recently completed work on macroeconomic solvency stress testing for the banking sector, the Commission has requested assistance in upgrading the current liquidity stress testing framework. This improvement should aid in accurately assessing banks' ability to meet liquidity requirements under stressed conditions, as a key component of effective risk management and pursuit of financial stability.

[51] To stabilize the exchange rate, Haiti's central bank, Banque de la Republique d 'Haiti (BRH), mandated that remittance transfers be paid in Haitian gourde currency at the official exchange rate except for direct foreign currency transfers to account holders.

5.2 Building A Framework For Digital Assets

In collaboration with other key stakeholders, the Commission aims to build out a framework for the regulation of digital assets. The objective is to define and implement digital asset legislation and regulation that mitigates risk whilst facilitating innovative businesses in the Turks and Caicos Islands.

5.3 Enhancing Supervisory Framework

Work will continue regarding transitioning to a risk-based supervisory (RBS) framework across the spectrum of supervised entities and further develop its risk-based approach (RBA) to anti-money laundering (AML) supervision. Additionally, the Commission will revise its operational risk guideline to consolidate the operational risk requirements across the various sectors it supervises. Other policy work will include the development of guidance for credit union supervision, enhancing the supervisory framework for investment businesses and the continued coordination with key stakeholders for the establishment of deposit insurance.

5.4 Publication of the Residential Property Price Index

The Commission, in partnership with the International Monetary Fund (IMF), will continue its work on developing a residential property price index (RPPI) for the TCI to monitor changes in the aggregate price for comparable residential dwellings. The Commission aims to publish the index in 2025. Residential real estate prices will be used as a key indicator for assessing the economy's dynamics and to measure risk exposures for lenders and investors in the real estate market.

ANNEX

Macroeconomic Stress Testing

Background

The Turks and Caicos Islands Financial Services Commission (TCIFSC) collaborated with the Caribbean Regional Technical Assistance Centre (CARTAC) to develop a multi-factor multi-period macro stress testing tool to enhance the solvency stress testing capabilities of TCI's banking sector. This model assesses how shocks to macroeconomic variables (GDP, Inflation, and unemployment) will impact the banking sectors' loan portfolio and by extension its solvency position over a three-year projected period. Credit concentration, market, and profitability risks are also considered in the model. Furthermore, the tool serves to replace the existing static solvency stress testing model. The macro stress testing tool is used to assess the regulatory capital adequacy ratios reported by banks.

Methodology

Using the Bayesian averaging method, credit risk models were created by conducting a regression analysis of non-performing loans in households, tourism, construction, and other economic sectors against macroeconomic variables such as GDP, unemployment, inflation, and tourist arrivals. This was done to assess the sensitivity of non-performing loans to changes in the macroeconomic variables.

The credit risk models were then used to output a three-year projection of nonperforming loan ratios under baseline, adverse (Inflation), and severe (Stagflation) scenarios. These NPL ratios were used alongside the banking sectors' historical balance sheet and Income statement data to calibrate our macro stress testing model. The model outputs a three-year projection of the banking sectors' capital adequacy ratio under the aforementioned scenarios.

Results

The results of the stress test demonstrated that the banking sector is adequately capitalised to withstand economic shocks under both the Inflation and Stagflation scenarios. However, one bank was adversely impacted by the Stagflation scenario and would have fallen below the regulatory minimum by 2026 (see Macroeconomic Solvency Stress Test). Of note, this bank does not currently pose a systemic threat to the banking sector.

Decomposition of the changes in the banking sector's capital adequacy ratio under baseline and stress scenarios

Figure A1: Baseline Dec 2023 to Dec 2026

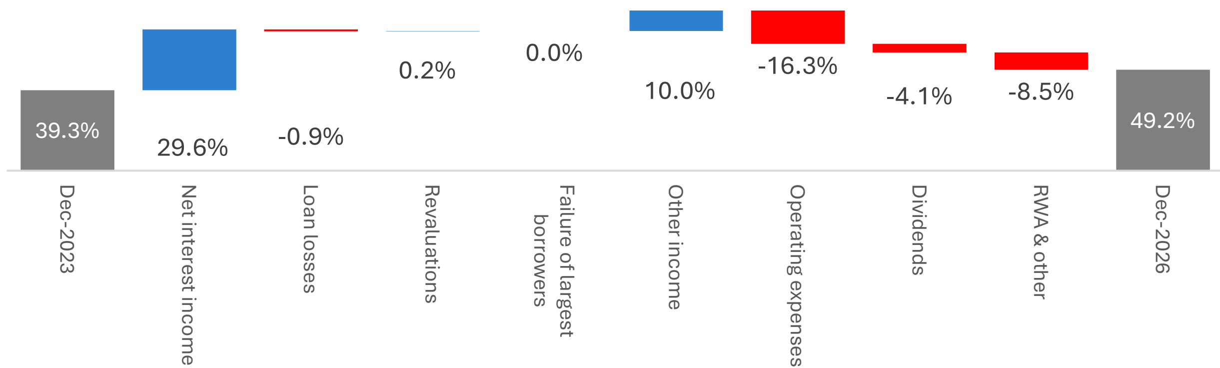


Figure A2: Inflation Stress Dec 2023 to Dec 2026

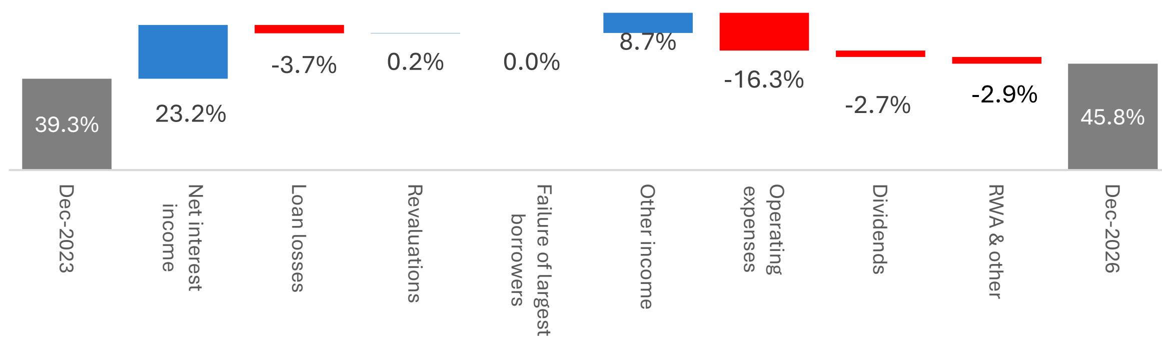
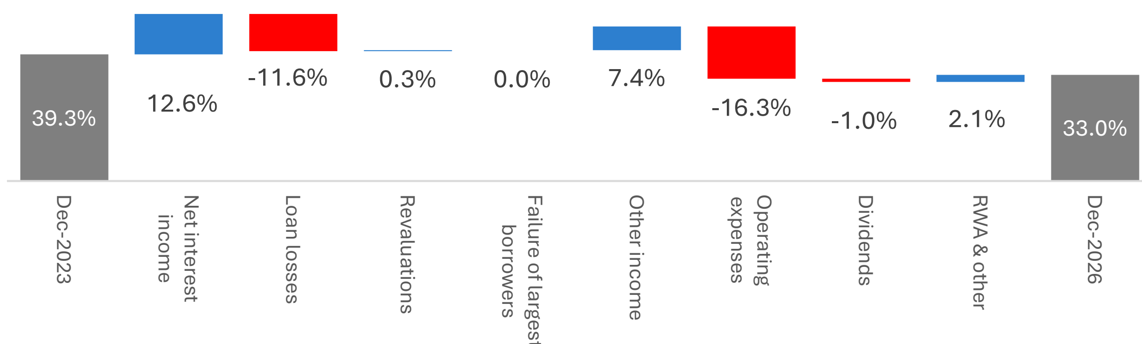


Figure A3: Stagflation Stress Dec 2023 to Dec 2026



Liquidity Stress Testing

The following assumption were used in the liquidity test:

(i) Daily attrition rate of 20% and 5% in demand and time deposit runs, respectively.

(ii) 50% of (remaining) liquid assets would be available on any given day to offset deposit withdrawals.

(iii) Ill-liquid assets are not available to offset deposit withdrawals.

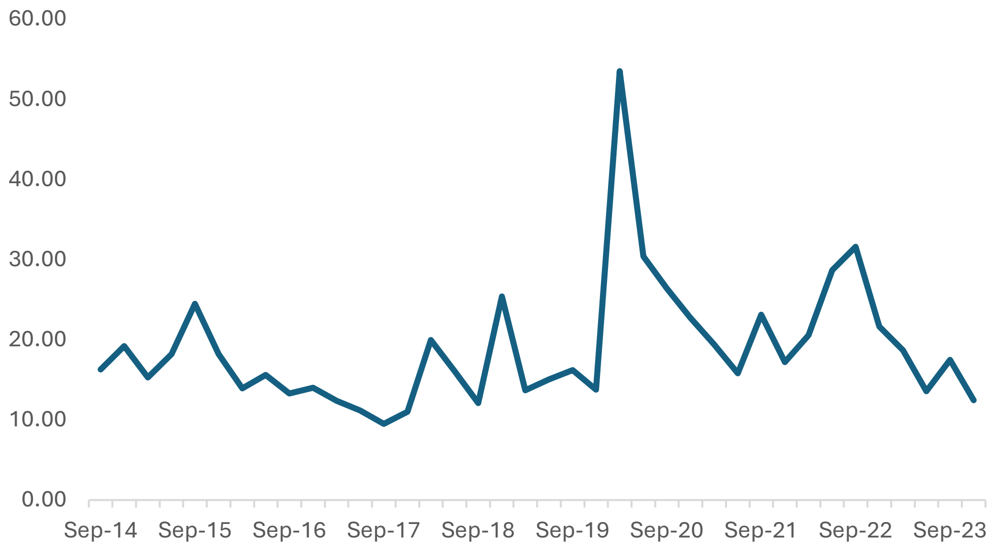
APPENDIX

Table 5: WEO Estimates and Projections For GDP Growth

		Estimate	WEO April 2024 Projections		Change from Jan 2024 Projections	
	2022	2023	2024	2025	2024	2025
World	**3.5**	**3.2**	**3.2**	**3.2**	**0.1**	**0.0**
Advanced	**2.6**	**1.6**	**1.7**	**1.8**	**0.2**	**0.0**
United States	1.9	2.5	2.7	1.9	0.6	0.2
Euro Area	3.4	0.4	0.8	1.5	-0.1	-0.2
United Kingdom	4.3	0.1	0.5	1.5	-0.1	-0.1
Canada	3.8	1.1	1.2	2.3	-0.2	0.0
Emerging and Developing	**4.1**	**4.3**	**4.2**	**4.2**	**0.1**	**0.0**
China	3.0	5.2	4.6	4.1	0.0	0.0
India	7.2	7.8	6.8	6.5	0.3	0.0
Brazil	3.0	2.9	2.2	2.1	0.5	0.2
Mexico	3.9	3.2	2.4	1.4	-0.3	-0.1
Latin America & Caribbean	4.2	2.3	2.0	2.5	0.1	0.0

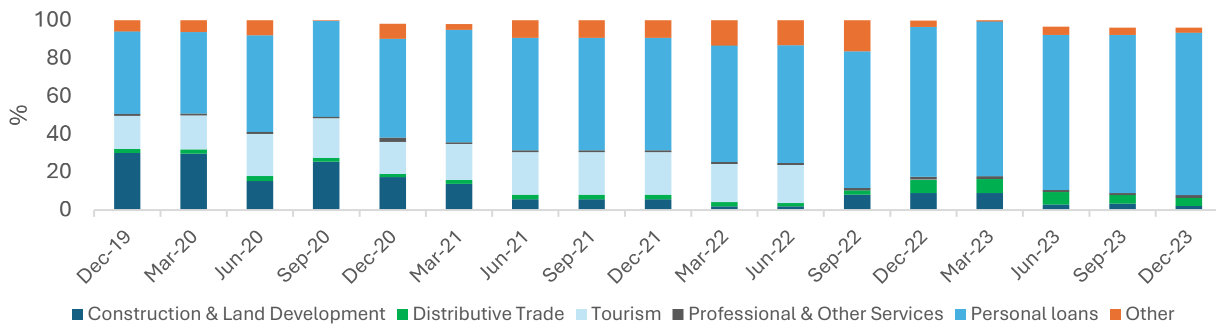
	2017	2018	2019	2020	2021	2022	2023	2024	2025
World	3.7	3.6	2.8	-3.2	5.9	3.2	**3.2**	**3.2**	**3.2**
Advanced	2.3	2.3	1.7	-4.6	5.2	2.4	**1.6**	**1.7**	**1.8**
United States	2.2	2.9	2.2	-3.5	6.0	1.6	2.5	2.7	1.9
Euro Area	1.7	1.4	1.5	-9.8	6.8	3.6	0.4	0.8	1.5
Canada	3.0	1.9	1.7	-5.3	5.7	3.3	0.1	0.5	1.5
United Kingdom	2.4	1.9	1.3	-6.5	5.0	3.1	1.1	1.2	2.3
Emerging and Developing	4.7	4.5	3.7	-2.1	6.4	3.7	**4.3**	**4.2**	**4.2**
China	6.9	6.6	6.1	2.3	8.0	3.2	5.2	4.6	4.1
India	6.7	6.8	4.2	-7.3	9.5	6.8	7.8	6.8	6.5
Brazil	2.0	2.0	-0.3	-8.3	6.2	2.1	2.9	2.2	2.1
Mexico	1.0	1.1	1.1	-4.1	5.2	2.8	3.2	2.4	1.4
Latin America & Caribbean	1.3	1.0	0.0	-7.0	6.3	3.5	2.3	2.0	2.5

Graph 1: The Chicago Board Options Exchange's Volatility Index



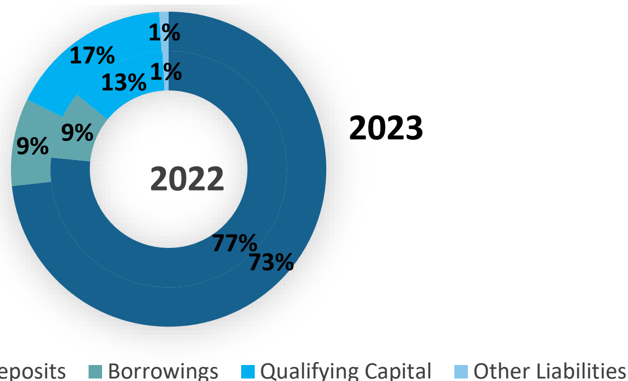
Source: Yahoo Finance

Figure B1: NPL Distribution by Sector



Source: TCI Financial Services Commission

Figure B2: Banking Sector Funding Sources



Source: TCI Financial Services Commission

Table 3: Banking Sector's Annual Financial Soundness Indicators

Ratio	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Capital Adequacy						
Regulatory Capital / Risk-weighted Assets	27.6	31.9	29.6	25.4	31.4	38.9
Regulatory Tier I Capital / Risk-weighted Assets	29.0	28.7	27.3	24.2	28.4	33.9
Total Capital / Net Assets	14.6	16.8	15.6	13.2	13.5	16.8
Asset Quality						
Non-performing loans / Gross Loans	5.4	5.4	6.0	4.5	3.0	2.9
Non-performing loans net of provisions for loan losses / Total Capital	6.9	6.0	1.1	1.0	-0.8	0.3
Provision for loan losses / Gross Loans	2.9	3.1	5.6	4.1	3.4	2.8
Non-performing Loans net of provision for loan losses / Paid-up capital	23.3	21.1	3.5	3.4	-3.1	1.4
Earning and Profitability						
Return on Assets (Net profit / Average net assets)	2.1	2.5	0.5	1.6	2.0	4.2
Return on Equity (Net profits / Average total capital)	15.4	17.2	3.4	12.0	16.3	28.6
Net interest income / Gross income	65.2	65.0	69.1	55.3	62.1	72.2
Non-interest expenses / Gross income	46.4	41.0	81.5	46.7	45.9	30.3
Liquidity						
Liquid assets / Total assets	53.9	50.3	55.4	62.2	61.0	59.2
Liquid assets / Short-term liabilities	82.9	60.5	65.4	72.6	70.8	72.8
Gross Loans / Customers Deposits	66.7	63.0	59.2	42.5	39.1	42.6
Liquid assets / Total deposits + borrowings	63.9	61.6	66.6	73.8	71.3	72.4

Source: TCI Financial Services Commission

Turks and Caicos Islands

Financial Services Commission

Financial Stability Report

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