Monetary, Credit and Financial Conditions Report

Eastern Caribbean Central Bank
The ECCB welcomes your questions and comments on this publication.
The Monetary, Credit and Financial Conditions Report is a publication of the Eastern Caribbean Central Bank. It contributes to the Eastern Caribbean Central Bank’s objective of monetary stability, exchange rate stability and financial stability by identifying, monitoring and communicating the conditions and risks associated with the ECCU’s financial system. The ultimate objective is to enhance the resilience of the ECCU’s financial system by taking action to reduce or remove any threat to financial sector stability. This objective is a key strategic priority of the Eastern Caribbean Central Bank and supports the bank’s objectives as it relates to growth, sustainability and employment.

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<th>Actual Data</th>
<th>Forecasted Data</th>
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<td>Global and International Economic Data</td>
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<td>Up to December 2022</td>
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Preface – From the Governor

Foreword

A little more than a year ago, lockdowns and border closures intensified worldwide to contain the spread of Covid-19. The global pandemic forced everyone to navigate through a new normal filled with tragedy, challenges and also opportunities. The virus eliminated lives, livelihoods, and brought changes to living and doing business. Some of these changes are still with us and can continue to be so for a long time.

Following major disruptions to world tourism, travel and trade, the ECCU recorded a double-digit decline in real GDP in 2020. Current projections point to a V-shaped economic recovery. The downturn, coupled with the need for substantial government support to individuals, household and businesses led to worsening of fiscal deficits and debt in the region in 2020. Meanwhile, domestic monetary and credit conditions deteriorated. Some tightening in the terms and conditions of lending is expected in the short to medium term, due largely to rising uncertainty and risk aversion. Overall, our regional financial sector stood firm, as the banking system entered the pandemic with relatively good capital and liquidity buffers. There were, however, fragilities in the non-bank sector. Financial vulnerabilities, liquidity pressures, insolvency risks will remain elevated in the medium term.

Against this backdrop, the Currency Union experienced an expansion in its foreign reserve portfolio, and currency stability in 2020. Developments in the real effective exchange rate supported ECCU’s competitiveness. The payments system remained sound, even when the crisis restricted banking and other commercial activity. The Covid-19 related uptake in card and other cashless transactions was encouraging.

Policy responses helped to contain negative macro-financial feedback effects of the pandemic. The ECCB, supported easing of money and credit conditions in the ECCU through a reduction of its discount rate, increase in its credit allocation to member governments, guidance on loan moratoria by financial institutions, and support of credit guarantees launched by the ECPCGC. To top it off, efforts continued apace to launch the ECCB Digital Currency (DCash) Pilot.
Almost a year after the start of the first wave of Covid-19 in the ECCU, we present you with the first ever published Monetary, Credit and Financial Conditions Report. This Report will provide you with in-depth information on how money, credit and financial conditions evolved over the period January to December 2020. In essence, it covers the impact of Covid-19 one year on, and reveals the key risks in the short to medium term. It is a forward-looking analysis, which we are legally mandated to prepare to help our policy makers. The analysis underscores the importance of: (i) optimal policy and regulatory frameworks; (ii) adequate capital and liquidity buffers; (iii) access to credit, money and capital markets in the ECCU; and (iv) financial innovation.

While some recent developments with immunization, travel and tourism are positive, the pandemic is not over yet. We must continue to confront this global economic shock with new outlooks and approaches. In order to innovate ourselves out of this downturn, our behaviours and our mind-set must support growth and development. Citizens and civil society should stay informed with our coverage of data and information to help take wise financial and investment actions. The development of money and capital markets remains a strategic objective of the ECCB, that should be supported by all.

A launch-pad out of the current challenges is the Programme of Action for Recovery, Resilience and Transformation for the ECCU which was approved by the Monetary Council of the ECCB in October 2020. The Programme consists of four (4) broad pillars namely: Financial Stability; Resilient and Inclusive Growth; Fiscal and Debt Sustainability; Payments Modernisation and Digital Transformation. Each pillar has specific policy actions or projects that will support the growth and development of member countries. The Programme serves to strengthen the recovery in the post Covid-19 period, aimed at building economic resilience and transforming our regional economy. Let us all work together to achieve this vision!

Timothy NJ Antoine
Governor
1.0 Overview

The financial sector in the ECCU remained broadly stable in 2020, despite the global pandemic and the subsequent economic recession. The broad economic contraction experienced across the ECCU would have been primarily attributed to and broadly in line with the fall of in global economic activity, as well as the lower tourist arrivals and the rise in unemployment associated with related industries. The analysis of the monetary, credit and financial conditions can be captured across five (5) broad categories. These are; (1) macroeconomic risks, (2) inward spill-over risks, (3) excessive credit and leverage, (4) banking risks, and (5) monetary and financial conditions.

In the public sector, governments were challenged by lower revenue while increasing expenditure on COVID-19 responses particularly in the health and social sectors. Risks associated with the slow-down in global economic activity including rising food and other non-energy prices will likely persist in the near to medium term.

Given the challenges, which the ECCU faced, the risks to the banking sector will remain elevated in the short to medium term. However, high levels of capital would provide some resilience for the sector. It is anticipated that with the expiration of the moratoria on loan principals, that the ratio of non-performing loans to total loans ratio will increase especially if industries such as tourism record a protracted recovery period. This increased level of NPLs can have a negative feedback effect on economic activity within the ECCU.

Broader monetary conditions remained subdued as banking sector liquidity remained elevated, and member governments manage their borrowings from commercial banks. Other sectors such as credit unions and insurance recorded moderate risk levels. Delinquencies in the credit union sector are expected to increase following the removal of the loan moratoria.
2.0 International Economy and Financial Markets

Global economic activity continues to be hamstrung by the COVID-19 pandemic. Following a sharp rebound in global economic activity during the second quarter, global growth has once again slowed due to a resurgence in COVID-19 cases. During the first three quarters of 2020, major advanced economies recorded a contraction in economic activity. Across the ECCU’s main trading partners, the USA, Canada, UK, and the Euro Area, economic output recovered in Q3, although activity remains below its level for the corresponding periods of 2019. Overall initial estimates suggest economic output contracted by 3.4 per cent, 5.5 per cent and 10.0 per cent for the USA, Canada, and the UK, respectively (Figure 1).

Overall global economic trade (imports and exports) recovered during the third quarter of 2020 as the effects of the virus waned. After falling sharply at the beginning of the pandemic, global trade rebounded sharply during the third quarter of 2020 (Figure 2).

According to the IMF January 2021 WEO, the global economy contracted by 3.5 per cent for 2020. The contraction is expected to be deepest in the UK, followed by the Euro Area (Table 1).
Global output is expected to be about 1.4 percentage points higher by the end of 2022 compared with its pre-pandemic growth trend. Factors which are likely to contribute to this increase include fiscal policy support in economies, improvement in global trade and other policy support in large countries.

Despite the positive outlook for the medium term, risks are heavily skewed to the downside. The outlook remains highly uncertain. It will depend on the evolution of the pandemic and the distribution of vaccines. It will also depend on the responses of households, businesses, and financial markets to these developments.

Against this backdrop, a normalizing and firming of economic output across the ECCU is not expected until 2022/23. Even with diminished downside risks, economic conditions are unlikely to improve substantially in the near term. Changes in commodity prices reflect the partial and uneven recovery in the global economy.

<table>
<thead>
<tr>
<th></th>
<th>Canada</th>
<th>USA</th>
<th>U.K.</th>
<th>Euro Area</th>
<th>China</th>
<th>World</th>
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<td>2.2</td>
<td>1.4</td>
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<td></td>
</tr>
<tr>
<td>2020</td>
<td>-5.5</td>
<td>-3.4</td>
<td>-10.0</td>
<td>-7.2</td>
<td>2.3</td>
<td>-3.5</td>
<td></td>
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<tr>
<td>2021</td>
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<td>5.1</td>
<td>4.5</td>
<td>4.2</td>
<td>8.1</td>
<td>5.5</td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>4.1</td>
<td>2.5</td>
<td>5.0</td>
<td>3.6</td>
<td>5.6</td>
<td>4.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: IMF WEO January 2021
Global energy prices have rebounded to just below their pre-pandemic levels (Figure 3). Meanwhile, non-energy commodity price indexes have more than fully recovered. The impact of lower energy prices for most of 2020 has been a boon for the ECCU. It helped lower the demand for foreign exchange, narrowed the current account deficit, and supported the ECCU consumer’s purchasing power.

**Figure 3: International Commodity Price Indices**

Global financial market conditions remain highly accommodative;

- Central banks kept policy rates low and used other tools to provide additional stimulus.
- The US Federal Reserve recently adopted a new flexible average inflation targeting framework and restated its accommodative stance. Yields for sovereign bonds are near record lows in some instances below 1.0 per cent (Figure 4).
- Benchmark interest rates in the USA continue to track near the zero-lower bound.
- Rates on short-term maturities, T-bill, and 2-year rates and the Fed funds rate a key benchmark rate, are near zero.

Against this backdrop investment income is likely to suffer over the near term. However, this is also a good time to borrow against the low interest rate environment. For ECCU Member Governments with high cost external debt, this may be a good time to consider swapping high-cost debt with low-cost debt.

**Figure 4: Benchmark Interest Rates, USA**
3.0 Regional Economic Development

The COVID-19 pandemic posed substantial economic and health related challenges in 2020. The re-activation of the ECCU economy and the reopening of national borders were accompanied by some resumption in visitors and re-employment of some workers, but increases in virus infections.

The key economic developments in 2020 were as follows:

- The ECCU economy is estimated to have contracted by 14.0 per cent in 2020.
- Total visitor arrivals to the ECCU fell by 65.4 per cent, while total stay-over visitor arrivals declined by 68.4 per cent over January - December 2019/20.
- The total value of exports fell by 16.8 per cent ($128.2m) while the total value of imports contracted by 22.8 per cent ($1.9b) during January - December 2019/20.
- Consequently, the trade deficit narrowed to $5.8b from $7.5b in 2019.
- The overall CPI index for the ECCU is estimated to have contracted during 2020. The majority of ECCU member countries experienced deflation ranging from -0.7% to -2.8%.

- Against this backdrop, strategies undertaken by member governments comprised the provision of social safety nets, new digital transformation initiatives and additional direct support for businesses (Figure 5). The ECPCGC also launched its operations to provide partial credit guarantees to businesses. Notably, the ECCU Programme of Action, a guide for developing additional innovative and dynamic policies at the national level, was approved by the Monetary Council.

Fiscal conditions across the ECCU continued to deteriorate through the first nine months of 2020.

- Up to December 2020, the aggregate overall fiscal deficit was EC$1.2b compared with a deficit of...
EC$426.4m in the same period of 2019.

- Total current revenue collections across the region declined by EC$916.6m while total capital revenue rose by EC$60.6m.
- Total current grants increased by EC$60.7m and total capital grants rose by EC$8.2m.
- Total current expenditure and total capital expenditure fell by EC$35.8m and EC$58.1m respectively.

- The reduction in total spending did not offset the fall in total revenue.

The prognosis for 2021 rests on recent developments concerning COVID-19 and the evolution of the pandemic and the corresponding public health response internationally and regionally. With the emergency approval of several COVID-19 vaccines and the subsequent efforts towards global distribution, it is expected that tourism will begin a slow but restrained recovery in 2021. However, the challenges associated with COVID-19 variants are likely to, if unchecked, negatively affect tourism. Typically, the region collects the bulk of its revenue during the first quarter of the year. With a projected soft upcoming tourism season, we expect fiscal developments to worsen in 2021, absent any adjustment measures.
4.0 Monetary Conditions, Credit and Payments

Domestic monetary conditions deteriorated while credit conditions improved in 2020 relative to 2019, due to the shutdowns and related economic consequences of the COVID-19 crisis (Figure 6).

Net foreign assets (NFA) increased driven largely by a rise in commercial bank net foreign assets.

- The increase in NFA is expected to have a minimal impact on the decline in monetary conditions.
- Central bank net foreign assets, a component of NFA is estimated to decline as;
  - The impact coronavirus measures on the tourism, and retail sectors hindered inflows of foreign currencies to the domestic economies.
  - A widening of the interest rate spread is expected for 2020 relative to the level at the end of 2019.
    - This is largely due to an increase in the weighted average lending rate as banks respond to the rising credit risk due to the impact of the pandemic on households and businesses.

4.1 Monetary Conditions

Monetary liabilities (M2) are projected to decline in 2020, relative to the level at the end of December 2019.

- The decline is largely on account of the dampening effects of the lay-offs and reduced working hours on incomes of households and businesses
- All forms of private sector deposits held at commercial banks are estimated to decline relative to 2019 (Figure 7).
Figure 6: ECCU Monetary Survey Components

Source: ECCB and Staff projections

As of December 2020, the velocity of money (GDP/M2), slowed from its value recorded in December 2019 due to contractions in spending and lower business income.

4.2 Credit Conditions

Domestic credit is estimated to have expanded in 2020, relative to the level at the end of December 2019. The expansion in domestic credit can be traced to the acquisition of loans by households whose incomes were not materially affected by the pandemic. These households would include those in the public sector and private sectors who were not retrenched.
4.3 Currency Stability

Evolution of Foreign Reserve Flows in 2020

Amid the challenging global environment and uncertainty plaguing 2020, the currency union experienced an expansion in its foreign reserve portfolio. The central bank's investment portfolio benefitted from valuation changes as fixed income securities trended prices upwards. On average, the level of reserves increased by 4.5 per cent above its 12-month trailing average year-to-date. This movement was incited by the accommodative monetary policy stance of the US Federal Reserve and a shift in investor risk sentiments during the ongoing pandemic.

The observed reserves growth in 2020 can be decomposed further. Valuation changes were the main driver, accounting for 70.0 per cent of the growth in reserves. Meanwhile, level increases contributed marginally. The present stock of foreign currency reserves ($4.6b) continues to be an adequate anchor for the union’s exchange rate system. Other adequacy measures support this position.

Two of the main measures of reserves adequacy monitored by the bank, remained above their target levels during the year. The import cover, which measures the number of months of financing coverage for the currency union’s imports, averaged roughly 6.0 months of imports during 2020. One common rule of thumb is that foreign exchange reserves covering a minimum of three months of imports are adequate and suitable for currency stability.
At current levels, the foreign reserve holdings double the global benchmark. Similarly, the cover ratio (backing ratio) averaged 99.4 per cent in 2020, higher than the average (97.6 per cent) observed over the last five years. For the first time since 2008, the ratio breached 100.0 per cent for several consecutive periods. One important consideration is the impact of the central bank’s credit operations on the backing ratio. Figure 8 illustrates the trend of both the backing ratio and credit extended by the ECCB.

Regarding the EC dollar’s relative value compared to the currency union’s main trading partners, we note a continued decline in the real effective exchange rate (REER). Compared to 2019, the REER declined by 1.1 per cent to an estimated 89.9 (Figure 9). During the period 2011 to 2016, the REER was stable with no observed trend but has since exhibited a downward slope. The decline was particularly pronounced in 2020, partly as a consequence of disinflation and deflation in member countries. Inflation rates over the review period have been below zero. In addition, the US dollar has experienced a downward movement in recent periods.
The REER also provides some information relating to the equilibrium value of the currency. Since the EC dollar has in essence weakened against other major currencies it has fallen further below its fair value. This is important for currency stability as it supports competitiveness and inward trade flows. According to the REER, we can conclude that the EC dollar was undervalued by an estimated 10.0 per cent in 2020. Figure 10 shows the degree of undervaluation relative to its fair value over the past ten periods.

The bank’s CPI-based REER has trended downwards over the over the past 4 years ...

A downward sloping REER has been observed since peaking at 95.3 in January 2017.

Source: ECCB
5.0 Financial Stability

5.1 Key and Emerging Banking Sector Issues

i. Total Non-Performing Loans (NPLs) for the ECCU. Over the six-month period ended 31 December 2020, there was an upward trend in NPLs culminating with an ECCU average of 11.4 per cent. Licensed Financial Institutions (LFIs) may experience a further surge in their NPLs and NPL ratios over the next year, given the adverse economic impact of COVID-19.

ii. COVID-19 Loan Moratoria. As at 31 December 2020, commercial banks granted moratoria on 13,072 loans with a total outstanding balance of $3.7b, which represents 27.9 per cent of total loans. Approximately 40.0 per cent (4,920 loans) of the number of loan moratoria was granted by foreign branch banks.

The ECCB supported the ECCU Bankers’ Association customer relief programmes which extended the moratoria for COVID-19 loans to September 2021. During the fourth quarter of 2021, a portion of these facilities is expected to become impaired given the size of the portfolio.

To date, no LFI has accessed the Lombard Facility at the ECCB for liquidity support. A core commercial bank liquidity indicator, the adjusted net liquid assets ratio remained high as at December 2020. The Adjusted Net Liquid Assets Ratio was 45.1 per cent during the period, over the prudential range of 20.0 – 25.0 per cent. This comprehensive ratio incorporates the various aspects of liquidity measurement. The ECCB continues to closely monitor developments relating to the COVID-19 pandemic.

5.2 The Credit Union Sector

Total loans and deposits for the credit union sector are estimated to have increased for December 2020 relative to December 2019. The decline is largely associated with the economic shock of the coronavirus restrictions and lockdown measures on jobs and the economy.
Total credit to the private sector is estimated to have increased for 2020 albeit at a slower rate; mainly on account of the impact of coronavirus measures on the labour market (Figure 11). Although economies have reopened and travel restrictions have loosened, it is likely that the households and businesses severely affected by the restrictions may continue to experience difficulties in meeting loan obligations.

This, along with the high NPL are expected to increase credit risk, leading credit unions to remain cautious and tighten lending. Against the backdrop of increasing credit risk, credit unions and other lending agencies are expected to tighten lending conditions. Five of the six countries with data for the credit union sector up to June 2020 record NPL ratios above the 5.0 per cent benchmark. The NPL ratios for the five countries range from 5.6 per cent to 14.6 per cent.

Similar to credit, total deposits for the sector increased for 2020 relative to the level at the end of 2019 but at a slower pace (Figure 12). Consequent to the economic loss suffered by households and businesses from the restrictions and border closure, members may draw down on deposits and shares to facilitate day to day expenses. Alternatively, credit union members are able to borrow against their shares to finance their expenses.

### 5.3 The Insurance Sector

The insurance sector for the ECCU remained broadly stable through 2020. The absence of natural disasters for the year helped contain claim payments. Initial estimates suggest that the overall amount of premiums written by the sector during 2020 (or first nine months) fell by 10 per cent. Key metrics of solvency remained broadly favourable.
Capital was 1.6 times the level of technical reserves, implying the sector’s capital base could fully cover their claims should the need arise. Net premiums to capital are estimated to fall during 2020, implying that capital can cover more than the risk that sector has retained see Table 2. The liquidity position of the sector remained adequate, the survival ratio, which measures insurers’ ability to meet expenses and claims from liquid assets, improved during 2020. The survival ratio moved from 293 to well over 300 per cent, see Table 2.

After recording an improvement in profitability during 2019, the sector is expected to make a loss for 2020 as measured by the combined ratio. The combined ratio is the addition of the expense and loss ratios. The main contributing factor is the expense ratio as net premiums (basic income) earned by the sector fell. The fall in net premiums is consistent with higher unemployment and lower policy sales in the context of the Pandemic. The combined ratio increased from 104.8 per cent to 106.9 per cent for 2020, see Table 2.

From a macroprudential standpoint, the insurance sector was solvent and with sufficient levels of liquidity. However, the drop in premium income, coupled with an ultra-low-interest-rate environment, is likely to impact profitability negatively. The lapse in insurance policies could potentially hurt lending institutions. For example, if a hurricane were to occur and many property insurance policies lapsed, banks could suffer substantial losses. However, bank financial institutions have begun to implement policies to mitigate against these risks.
Table 2: Financial Stability Indicators Insurance Sector-Estimates

<table>
<thead>
<tr>
<th>Insurance Metrics</th>
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<th>2019</th>
<th>2020&lt;sup&gt;Est&lt;/sup&gt;</th>
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<tr>
<td><strong>Capital Adequacy (XCD)</strong></td>
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</tr>
<tr>
<td>Net premium/capital</td>
<td>29.3%</td>
<td>31.1%</td>
<td>29.6%</td>
</tr>
<tr>
<td>Capital/technical reserves</td>
<td>166.1%</td>
<td>166.1%</td>
<td>161.3%</td>
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<tr>
<td><strong>Reinsurance and Actuarial Risk (XCD)</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Risk retention ratio</td>
<td>35.9%</td>
<td>38.7%</td>
<td>40.5%</td>
</tr>
<tr>
<td><strong>Earnings and Profitability (XCD)</strong></td>
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<tr>
<td>Loss ratio</td>
<td>15.3%</td>
<td>13.4%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Expense Ratio</td>
<td>96.8%</td>
<td>91.4%</td>
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<tr>
<td>Combined Ratio</td>
<td>112.1%</td>
<td>104.8%</td>
<td>106.9%</td>
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<td><strong>Liquidity (XCD)</strong></td>
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<tr>
<td>Liquid assets/current liabilities</td>
<td>130.5%</td>
<td>130.5%</td>
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<td>Survival Ratio</td>
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<td>62.9%</td>
<td>62.6%</td>
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Source: Single Regulatory Units, and ECCB Staff Calculations

There is considerable uncertainty about how COVID-19 and the associated economic downturn will affect ECCU insurers, especially over the medium term. The number of cases in the Eastern Caribbean increased at the end of December 2020, along with the mortality rate. Nonetheless, given the severe economic downturn, we expect that insurers’ ability to collect premiums will be impacted; hence we expect a downturn in profits in the insurance sector for 2020 due to change in the economic environment. Investment income is also likely to be affected due to changes in interest rates and stress placed on Governments. Overall, the sector remained stable in 2020.
6.0 Regional Financial Markets

Despite a slow-down in market activity in the second half of 2020, the performance of the Regional Government Securities Market (RGSM) remained relatively stable as new investment flows into the RGSM was approximately EC$1.1b. As at 31 December 2020, total funds raised from the inception of the RGSM was estimated at EC$15.5 billion; 81.1 per cent of which represent short-term financing instruments. Member states continue to meet debt service obligations and actively access both the formal and OTC market to raise funds at relatively competitively low rates to support economic activity as the crisis continued.

- Annual funds raised by five (5) participating governments declined by 16.9 per cent (EC$227.0m) in 2020, partly due to a 16.0 per cent ($199.5m) reduction in securities offerings as the number of auctions fell by 12.0 per cent to a total of 58.0 relative to the prior year. Investors also placed fewer competitive bids (320) resulting in the total value of bids declining from EC$1.9b in 2019 to EC$1.5b in 2020.
- Notwithstanding, issuing governments have fulfilled their short-term debt financing needs at average rates ranging from 2.0 to 4.3 per cent.
- Some attracted rates as low as 1.5 percent on 91-day treasury bills reflective of supply factors and fluctuating investor demand across issuers. Treasury notes issued during the year raised EC$79.9m for member governments at an average rate of 6.8 per cent.

The RGSM yield curve continues to trend upwards with rates on longer term maturities relatively unchanged mainly on account of the low issuance by sovereigns and low demand for these instruments (Figure 13).

Over the last 5 years, investment flows on the RGSM have been on a general decline relative to regional GDP, falling from an estimated 6.3 per cent in 2015 to 5.2 per cent in 2019. Over the period under review, investment flows relative to GDP increased to 6.6 per cent owing to relative declines in both GDP and annual funds raised. A prolonged crisis may further dampen the prospects for issuing securities on the Regional Government Securities Market.

Preliminary market surveillance data for 2020 indicate increased use of tailored debt instruments as governments continue to target fresh cash via the private credit market. As at 31 December 2020, the outstanding balance on private placement issuances on the Eastern Caribbean Securities Exchange totaled EC$1.4b and comprised of 58 securities. US dollar denominated securities recorded rates ranging between 5.0 per cent to 8.0 per cent while local
currency denominated bonds attracted rates from 1.0 per cent to 8.0 per cent. The average tenor for private placements ranged from 5 to 10 years.

**Figure 13: Regional Government Securities Market - Yield Curve**

As at 30 November 2020, the top 20 investors on the RGSM held approximately 66.0 per cent of all securities outstanding on both the public and the OTC market. These regional investors comprised of social security boards (6), financial services institutions (13) and one non-financial entity. It is anticipated that as member governments continue to roll over securities, it is likely that the key institutions within the financial system will acquire these fixed instruments. A key risk, however, is the likelihood that these large institutions may be unable to purchase these securities on account of reaching key thresholds/limits set for key sovereigns as per their investment guidelines.
7.0 Outlook, Risks and Policy Response

With the development of COVID-19 vaccines by Pfizer and Moderna, two (2) large pharmaceutical companies, and the subsequent acquisition and implementation of robust vaccination programmes globally, the world economy and the ECCU are expected to recover in 2021. The recovery is further premised on growth in international travel and the relaxation of lockdowns.

The ECCU economy is projected to grow by 3.4 per cent in 2021. On the upside, once global trade flows normalize, the region should benefit from increased inflows. Additionally, any further depreciation of the US dollar in the medium term, means that the period of relative competitiveness for our exports will continue into the upcoming year. The materialisation of these developments would support reserves accumulation and help maintain currency stability. The Union’s currency is expected to remain stabilized and firmly supported by a well-managed stock of international reserves. Given that most gains in the foreign asset portfolio were attributed to changing bond prices, we can expect some reversal in this trend as investor risk sentiment improves.

The ECCU’s financial system is projected to remain stable into 2021, however, risks are likely to persist especially for the region’s non-bank financial institutions. The credit union sector continues to play a pivotal role in financial intermediation in the ECCU financial sector, particularly for middle and lower income groups. It is estimated that a large proportion of individuals in these income groups were negatively affected by the labour market fall-out from the coronavirus restrictions. This is likely to result in some increase in credit risk across the financial sector.

The ECCU’s insurance sector also faces significant downside risks which will likely impact negatively on income and profitability of the sector. Key risks to the sector can emerge from the following: (i) increases in the occurrence and intensity of events - mainly hurricanes - associated with climate change; (ii) large restructuring of investment instruments stemming from unsustainable debt levels among institutional investors; (iii) protracted exposure to low interest rates in international capital markets. Additionally, challenges for the sector in the medium term include delayed transitioning to the new IFRS 17 standards, which would influence the way insurers record premium collection and, ultimately, their profitability.
In the ECCU’s Regional Government Securities Market, fundraising capacity will be partly reliant on employing appropriate strategies to dampen the effect of the shock and maintain overall market stability. Responsive investor relations strategies, complementary risk sharing mechanisms and the diversification of funding sources, particularly through private investments, may also improve prospects for refinancing and improve the resilience of the financial system.
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