# ANNUAL FINANCIAL STABILITY REPORT 2022

THE EASTERN CARIBBEAN CENTRAL BANK

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The Financial Stability Report is a publication of the Eastern Caribbean Central Bank. It aligns with the Eastern Caribbean Central Bank's financial stability objective by identifying, monitoring and communicating on systemic risks. The view is to enhance the resilience of the ECCU financial system by taking action to reduce or remove any threat to financial system stability. This 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.

Preparation of this Report is the primary responsibility of the *Financial Stability Unit*, a unit within the Research, Statistics and Data Analytics Department. Contributors to the Report are as follows:

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Mr Kimani A. Robertson, Saint Vincent and the Grenadines

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## PREFACE FROM THE GOVERNOR

Global economic developments were dominated by high inflationary levels exacerbated by the War in Ukraine. Consequently, advanced economy central banks responded with monetary policy actions designed to reduce/ease these inflationary pressures. The region's economic recovery in 2022 continued, bolstered by strong tourism arrivals. The region was, however, impacted by these inflationary effects and consequently, member governments responded with fiscal policy actions to support households facing high prices. The ECCU continued to be exposed to risks associated with climatic events such as hurricanes and other tropical cyclones. These climatic events both destroy physical infrastructure and have significant negative implications for the financial sector.

The ECCB continued its commitment to financial stability in the ECCU through the launch of the credit bureau and its continued implementation of its new BASEL II/III framework. The ECCU credit bureau serves to mitigate increases in credit risk by sharing information with registered financial intermediaries. In so doing financial institutions are able to employ appropriate risk management in their credit underwriting practices. The ECCB also continues its efforts towards the implementation of the hybrid Basel II/III framework (Basel II/III) in the Eastern Caribbean Currency Union (ECCU). This new regulatory framework is expected to better align banks' capital requirements with risks and enhance the resilience and reputation of the ECCU's financial system. Implementation of this hybrid framework is being executed through a phased approach. Phase I of the implementation roadmap corresponds with Pillar 1 of Basel II//III - Minimum Capital Requirements, while Phases II and III correspond with Pillar 2 - Supervisory Review Process and Pillar 3 - Market Discipline, respectively.

This 8th Edition of the Financial Stability Report reveals a global economy which is buffeted by high levels of inflation, and an ECCU whose post pandemic recovery is taking shape in spite of higher levels of inflation. This report, therefore, presents the implications of these macroeconomic developments on the overall financial soundness and stability of commercial banks, credit unions and insurance companies in 2022. The report also highlights the initiatives and policies undertaken in the period under review and highlights the resilience of the financial sector to future risks.

We thank all contributors to this Publication, in particular, the Single Regulatory Units. May this Report update you on financial stability issues in our region, and ultimately inspire you to start or continue to be a part of the call for collective action towards further development of our region!

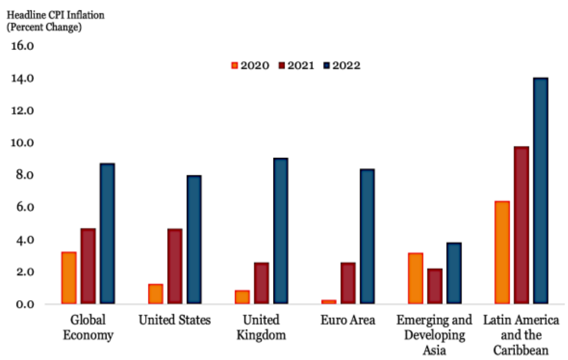
# CHAPTER 1
# RISKS AND VULNERABILITIES IN THE ECCU

## Chapter 1
## Risks and Vulnerabilities in the ECCU

### Macro-financial Environment 2022

**Global macro-financial conditions deteriorated in 2022 compared to 2021 as geopolitical tensions exacerbated inflation pressures globally.** Headline inflation (consumer price index) rose globally to record levels in 2022 (8.7 per cent from 4.7 per cent in 2021)[1] as the war in Ukraine exacerbated commodity price shocks, and supply-demand imbalances lingered from the coronavirus (COVID-19) pandemic (Figure 1). Inflation reflected significant increases in food and energy prices. The rise in food prices averaged 143.2 points,[1] largely on account of energy price inflation, which affected the cost of food production, storage, and transportation.

**Figure 1:** Headline CPI Inflation in Selected Regions

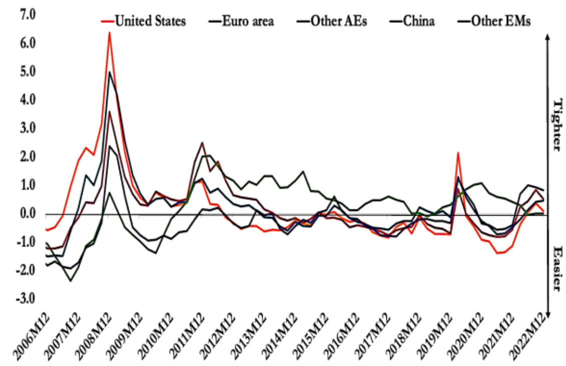



Source: IMF April 2023 database

**The surge in inflation was evident in all major regions (Figure 1), with many countries recording their highest rates in decades.** In the United States, the main trading partner of the ECCU, inflation averaged 8.0 per cent in 2022, the highest rate in about 40 years (Figure 1). The year-on-year food inflation posted by the US Bureau of Labour Statistics show that US food prices increased by 10.4 per cent in 2022. Additionally, core inflation, measured by excluding food and energy prices, rose an average of 6.6 per cent in 2022 compared with 2021, reflecting a broader increase in the prices of other goods and services.

**The high inflation prompted a widespread tightening in global monetary policy conditions.** Central banks in many developed and developing economies responded by rapidly raising interest rates over the course of the year (2022). Consequently, financial conditions tightened in most regions (Figure 2), reflected by tighter lending standards across the banking system, and a reduction in investors' appetite for risky assets such as commercial bonds and equities[2].

**Figure 2:** Global Financial Conditions in Selected Regions.
(Standard Deviations from the mean)




Source: IMF Database

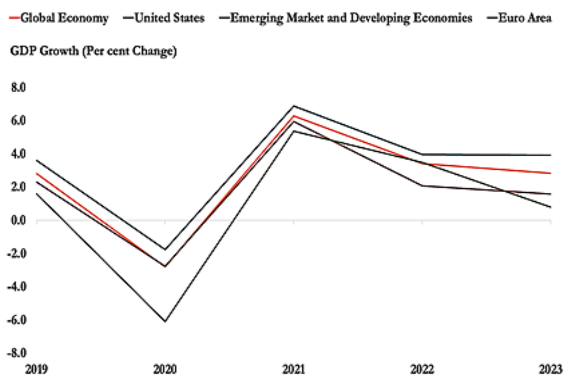
**The market corrections triggered by the tightening of policy rates, reduced consumer spending, thus dampening growth outturns.** Global economic activity decelerated in 2022 (3.4 per cent) relative to 2021 (6.1 per

[1] International Monetary Fund World Economic Outlook, April 2023 Database

[2] International Monetary Fund World Economic Outlook, October 2022

cent)**Error! Bookmark not defined.**. The slowdown in growth was evident in all regions with expectations for growth to slow even further in 2023 (Figure 3).

**Figure 3:** GDP Growth Rate by Region




Source: IMF

The US economy slowed in 2022 by 2.1 per cent, down from 5.9 per cent in 2021 (Figure 3) as personal consumer expenditure, which accounts for more than two-thirds of economic activity, declined[3]. Noteworthy, the decline in expenditure occurred amid a buoyant labour market, likely signalling that the rising inflation forced consumers to roll back on spending.

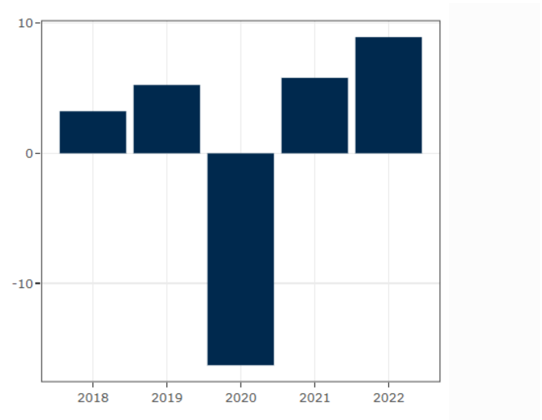
**Amid pre-existing vulnerabilities and rising uncertainties about the outlook for inflation, there is the risk that a disorderly tightening of monetary policy may worsen conditions and threaten global financial stability.** The under-tightening of rates could cause inflation to become entrenched, while overtightening could lead economies to prolonged recession. Additionally, with a strong labour market, there is the risk of inflation persisting for longer than expected which can have a recessionary impact on the global economy.

[3] 2.8 per cent in 2022 versus 8.3 per cent in 2021

## ECCU Economic Developments

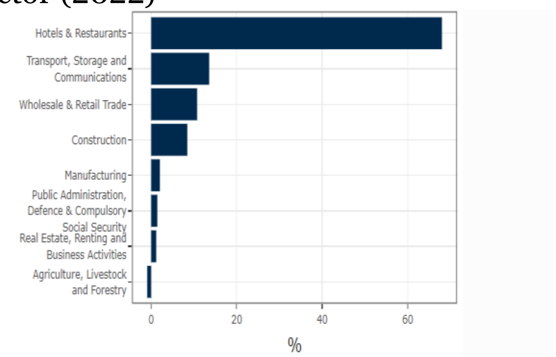
**Economic activity in the ECCU is estimated to have strengthened, recording growth of 8.9 per cent in 2022, following an expansion of 5.8 per cent in 2021 (Figure 4).** Growth was driven by developments in tourism (proxied by the hotels and restaurants sector), and other auxiliary sectors. Growth was observed in all of the eight member countries except for Montserrat, which recorded a contraction of 1.2 per cent in 2022.

**Figure 4: Real GDP Growth Rates (%)**




Sectoral data show that the boost in activity was driven largely by major services sector, primarily hotels and restaurants (68.0%), transport, storage and communication (13.6%), and wholesale and retail trade (10.8%) (Figure 5).

**Figure 5:** Real GDP Growth Rates by Sector (2022)

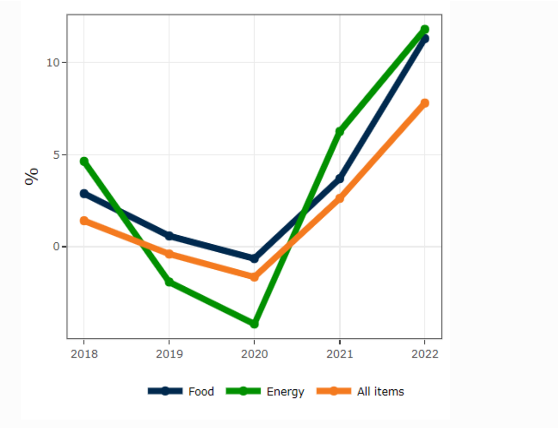


Tourism output in the ECCU continued to improve in 2022, as global travel began to gain greater traction, following pandemic-related travel concerns and restrictions. Total visitor arrivals to the region increased to a high of 2,853,785 in 2022 from 901,579 in the previous year. All categories of arrivals rose relative to a year prior, as global pent-up demand for travel led to a resurgence in air and cruise travel.

Despite the pandemic induced desire for air and cruise travel, the high observed in 2022, is only a fraction of the pre-pandemic highs. The ECCU recorded 4,548,078 total visitor arrivals in 2017, 4,804,949 in 2018, and 4,974,086 total visitor arrivals in 2019. The 2022 high accounts for only 62.7% of total visitor arrivals in 2017, 59.4% of total visitor arrivals in 2018 and 57.3% of total visitor arrivals in 2019. Comparatively, these figures show that although the tourism output in the ECCU is improving, the region is still recovering from the pandemic related restrictions and has more to grow to equalise pre-pandemic figures.

**Inflationary pressures intensified both globally and regionally in 2022, following the outbreak of military conflict in Ukraine from February 2022.** ECCU inflation climbed to 7.8 per cent at the end of 2022 following 2.6 per cent in the corresponding period of 2021 (Figure 6). The surge in the general price level was predominantly driven by energy and food prices, which rose by 11.8 per cent and 11.3 per cent respectively. These price increases have led to higher price levels in other components of the consumer basket, including transportation and communication (11.3 per cent) and housing and utilities (8.0 per cent).

**Figure 6**: Selected Categories of Inflation




All member countries recorded increases in inflation, with Montserrat as the only exception. Montserrat's inflation rate stood at -0.3 per cent in December 2022, associated with lower prices of housing, electricity, water and fuels. Among the other seven member countries, inflation ranged from 2.9 per cent in Grenada to 10.8 per cent in Anguilla.

In the year 2022, the five issuing governments indicated to the Regional Government Securities Market (RGSM) their intention to raise a total of $1.25b and successfully received $1.19b. This accounts for a 10.6 per cent increase in the offer amount ($1.13b) and a 13.3 per cent increase in the amounts received ($1.05b) when compared to 2021.

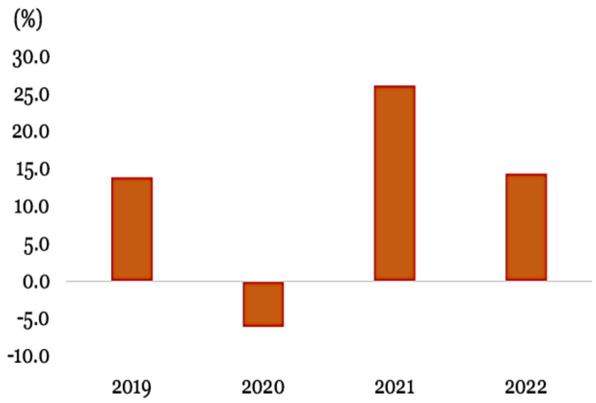
Weighted average interest rates varied from as low 2.0 per cent to 3.1 per cent for treasury bills whilst the bonds varied from 4.0 per cent to 7.0 per cent. In 2021, those rates were slightly higher with treasury Bills ranging from 2.7 per cent to 4.0 per cent and the bonds from 5.3 per cent to 7.1 per cent. The 2021 rates were linked to the uncertainty in the market influenced by the Pandemic. Treasury Bills are the most dominant securities on the market and as such the rates allotted often differ from the ceiling rate due to the competitiveness centred on those bills. In 2022 a 3-year and a 10-year bond were allotted at 6.0 per cent and 7.21 per cent respectively. No such tenors were issued in the previous year, 2021.

Investors participating in the RGSM include financial corporations (Private and Public), non-financial corporations (Public and Private), households, pension funds, and commercial banks. These institutions have dominated the market for several years accounting for, on average, 35 per cent of the market share. The banks continued to dominate investments on the RGSM in 2022 by investing $370.4m, an 8.9 per cent increase relative to investments of $340.1m in 2021. In terms of the other investor groups, notable increases in investments for 2022 were recorded for Other Depository Corporations (93.4 per cent), Credit Unions and Co-operatives (70.1 per cent) and Public Non-Financial Corporations (51.0 percent). Investments in 2022 declined for other private financial corporations (52.8 per cent) and households (7.0 per cent).

In 2022, all issuing member governments, on average, received an 18.8 per cent increase in the funds raised relative to 2021, except for the Government of Grenada. In comparison to 2021, notable increases were received by the Commonwealth of Dominica (31.3 per cent), Saint Lucia (19.1 per cent) and Antigua and Barbuda (15.7 per cent). The Government of Grenada received $115m in 2022, a 4.2 per cent reduction in the funds raised via the market. This reduction reflected a $5m decline in the offer amount declared by the Government of Grenada in 2022; in 2021, the offer amount was $120m.

**The rising food and energy prices likely weighed on real income of households and businesses and the ability to service their debt obligations, resulting in tighter lending standards.** Deposits of households and businesses, held at credit institutions (commercial banks and credit unions)[4] , accumulated at a slower rate in 2022 relative to 2021 (Figure 7). This can be attributable to the negative impact of higher inflation on real income, pushing customers to save less to compensate for the loss in purchasing power.

**Figure 7:** Growth rate of Net Debt Position of Households and Businesses to Commercial Banks and Credit Unions



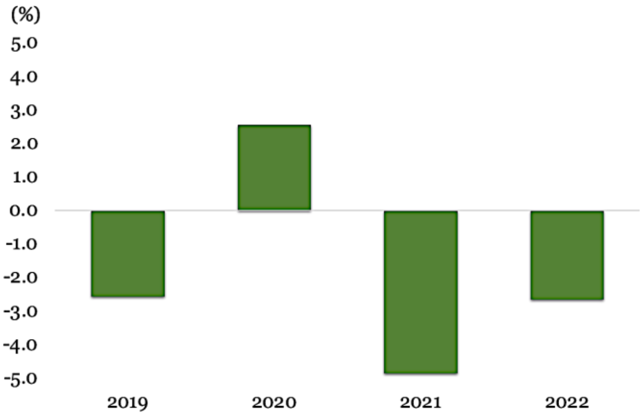

Source: ECCB and SRUs

Additionally, the proportion of total loans to deposit[5], which conveys how much deposits are going towards loans, declined to 71.4 per cent in 2022 from 73.4 per cent in 2021 (Figure 8). The lower credit growth is likely a result of tightened lending terms and conditions in response to the deterioration in real income and the potential negative impact on the debt servicing capacity of customers.

[4] Commercial banks and credit unions are the dominant lending institutions in the ECCU.

[5] Focused on the loans and deposits of households and businesses held at commercial banks and credit unions.

**Figure 8:** Growth in Loans to Deposit Ratio of Credit Institutions

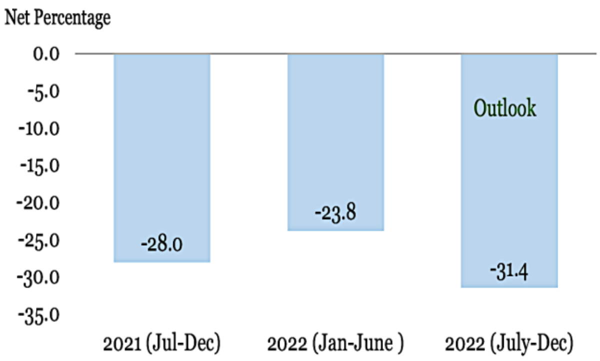



Source ECCB and SRUs

The results of the Business Outlook Survey[6], confirmed that terms and conditions for credit in the ECCU tightened in the first half of 2022 with expectations for further tightening in the second half of 2022 (

**Figure 9**).

**Figure 9:** Change in Terms and Conditions for Lending.




Source: ECCB

Of the businesses that applied for some form of credit, most applied for loans to finance inventories and working capital. This suggests that businesses experienced cash flow challenges probably due to the higher inflation. The tightening in lending terms and conditions, however, may have limited the access to the required finance, forcing businesses to utilise savings. Small and medium sized businesses, which usually have smaller cash reserves, could likely be most affected by the tighter credit conditions.

## Key Risks and Vulnerabilities

### Credit Risk

**Risk materialisation in credit to households and businesses remained low despite the negative implications of higher inflation on real income.** The adverse impact of higher inflation on real income negatively impacted the debt servicing capacity of households and businesses and increased the likelihood of loan defaults. The growth in total credit (commercial banks and credit unions), however, slowed from 3.9 per cent in 2021 to 3.6 per cent in 2022, suggesting that the credit institutions likely tightened lending terms and conditions. Nevertheless, the NPL ratios of commercial banks and credit unions remain above the prudential benchmark indicating that caution in lending needs to be maintained to manage increases in credit risks.

### Solvency Risk

**In the commercial banking sector, solvency risks remained low across the entire bank-financial sector.** Capital adequacy ratios were above the prudential limit of 8.0 per cent as established under the augmented Basel I regime. These ratios remained elevated under solvency stress tests as at the end of December 2022. Although the ECCU financial system remains solvent, there are, however, elevated solvency risks

[6] The Business Outlook Survey is conducted semi-annually and provides a snapshot of the sentiments of businesses on the impact of current and future economic conditions on business performance.

within specific commercial banks in the ECCU. Despite elevated risks in these institutions, risk to the stability of financial system remains low.

### Liquidity Risks

**Liquidity risks within the ECCU financial system also remained limited. Commercial banks, credit unions and insurance companies all maintained, on average, high levels of liquidity into the 2022 period.** Liquidity positions of commercial banks remain robust – averaging 55.0 per cent in 2022. The high liquidity acts as a buffer to unexpected shocks to the commercial banks and ultimately enhances the resilience of the financial sector.

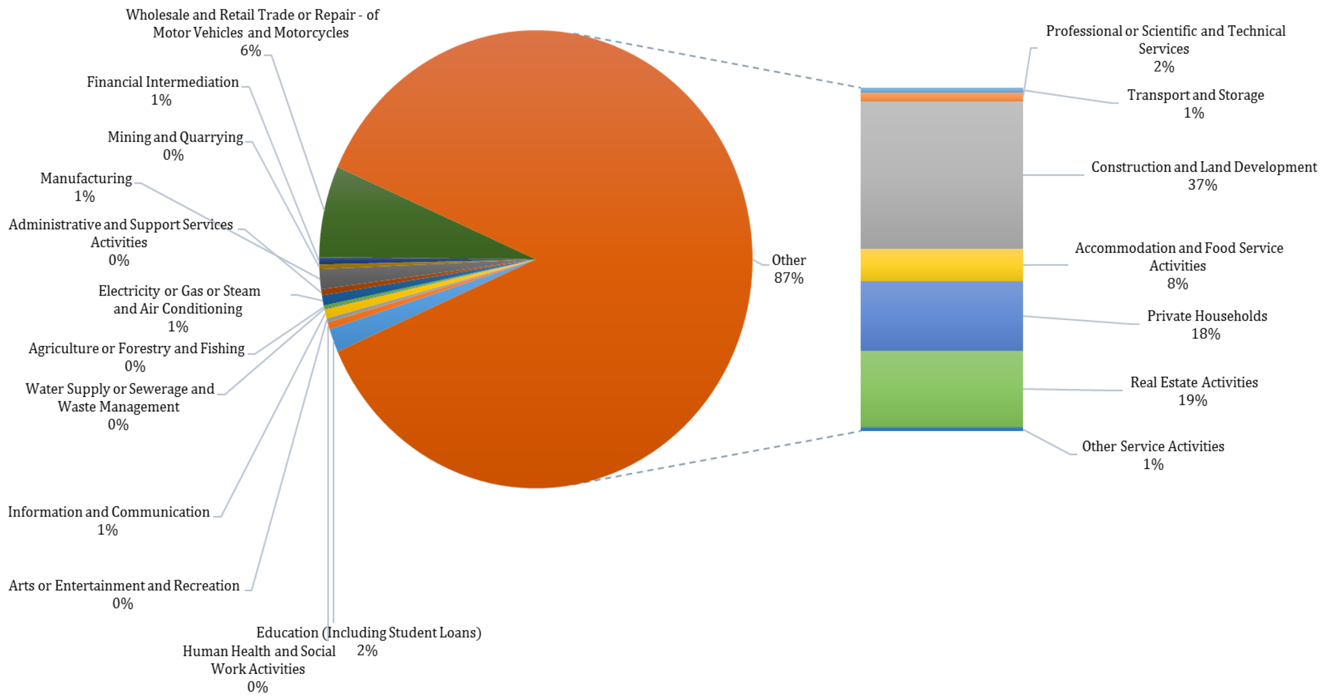
In the insurance sector, liquidity risk was slightly elevated as insurance firms received lower premiums in 2022 (averaging 153.0 per cent), when compared with 2021 (160.0 per cent). Despite the lower liquid assets to the liquid liabilities' ratio, the liquidity position of insurance firms remained strong. Interestingly, although insurance companies are highly exposed to debt securities, their impact on insurance investment portfolios were lower as the securities are primarily concentrated in the ECCU and CARICOM region and to a limited extent in international markets. Consequently, the sudden changes in monetary policy rates did not have a significant impact on the liquidity of firms.

### Concentration Risk

**Loans to the Construction and land development sector far exceeded loans to the other two sectors (Figure 10).** In the ECCU, loans are concentrated around three main sectors: construction and land development, real estate activities, and private household loans. With the exception of loans to private households, all loans at the end of December 2022 increased when compared with the end of September 2022. The loan clustering observed at the ECCU level is mirrored in each ECCU member with the exception of Antigua and Barbuda, which also reported high loan numbers for the wholesale and retail trade of motor vehicles.

Concentration risk becomes an issue when there is an unequal distribution of loans among economic sectors (Lütkebohmert, 2008). The clustering of loans in the area of construction and land development, real estate activities, and the private households can give rise to default contagion due to the nexus among these sectors. For example, defaults in construction and land development, can negatively impact the real estate activities, which can – over time - cause economic stress in the ECCU. Moreover, given that the ECCU is exposed to extreme climatic activities namely, volcanic activity and hurricanes, contagion posed by disaster is also applicable. The unpredictable nature of these climatic activities, can make disaster mitigation difficult, often severely impacting the construction and land development, and the real estate sectors. This could induce negative economic implications for the insurance sector, particularly through increases in the cost of insurance premiums and number of claims.

**Figure 10:** Loan Concentration by Economic Sector as at September 2022




Source: ECCB Estimates

Additionally, the fallout from the increased inflationary pressures, especially the rising costs of food and energy, on real income of households, could make it more difficult for households to honour their debt obligations.

## Market Risks

**Risks associated with international financial market volatility remained low but varied across the financial system.** The variation in market risk can be attributed to specific factors in individual institutions, which can be traced to the asset mix of firms, duration of investments, the nature and currency profile of firm liabilities and overall risk appetite. In regard to commercial banks, assets traded on the international exchanges continued to occupy a relatively minor share of the total investments of the commercial banking sector. In 2022, total US equity and investment fund shares held accounted for 0.4 per cent ($27.8m) of total investments, and US corporate bonds accounted for 5.0 per cent ($0.3b).

Market risks in the insurance sector also remained low and contingent upon the factors outlined above, along with the general performance of the RGSM, the debt market to which insurance firms are heavily exposed. The higher levels of auctions on the RGSM, and the issuances by ECCU member governments indicate a lower level of risk for insurance firms. This lower level of risk is also reinforced by the general fiscal performance of ECCU member governments during the 2022 period.

## Insurance Sector Vulnerabilities

**As risks to the insurance sector continue to increase, attention is paid to the extent to which losses are not covered by insurance.** This difference is known as the protection gap. This gap is broken into the risk protection gap and the insurance protection gap. Specifically, the risk protection gap examines the differences between total losses and insured losses within a society - and is relatively easy to estimate. The insurance protection gap on the other hand examines the difference between "covered loss and total economic loss, or the amount of insurance actually purchased versus, the amount of insurance which is economically beneficial[7]."

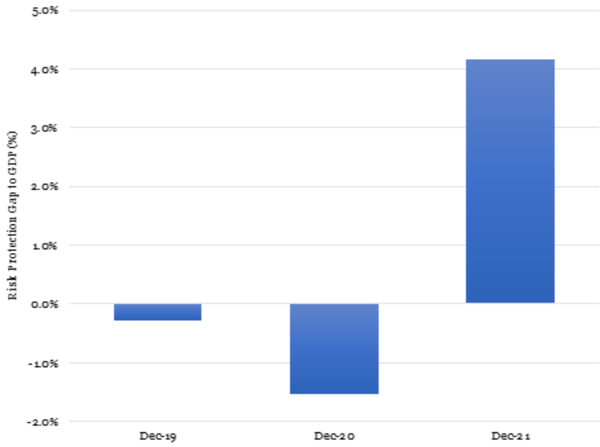
In the ECCU, the risk protection gap is estimated at approximately 4.1 percent of GDP. This level is greater than previous years and is mainly attributable to losses in Saint Vincent and the Grenadines during the 2021 period. Additionally, the higher risk protection gap is reflective of both a low insurance coverage for populations as well as increased environmental risks (

Climatic risks remain a key risk for the ECCU's financial system. These risks arise in several forms including hurricanes, torrential rain, floods, i.e. climatic events. With an increase in the intensity of these risks, it is expected that the risks for financial system increase as well.

**Figure 11**).

Climatic risks remain a key risk for the ECCU's financial system. These risks arise in several forms including hurricanes, torrential rain, floods, i.e. climatic events. With an increase in the intensity of these risks, it is expected that the risks for financial system increase as well.

**Figure 11: ECCU Insurance Sector - Risk Protection Gap Estimate 2019 – 2021**




In addition to environmental risks, households in the ECCU will be faced with higher premiums in 2023 mainly for general insurance services. The higher premiums are expected to range from 15 - 30 percent and are mainly on account of the increased claims recorded during the 2022 period - due to a more intense hurricane season.

[7]Schanz, Kai-Uwe (2018) "Understanding and Addressing Global Insurance Protection Gaps." The Geneva Association.

# CHAPTER 2 DEPOSIT-TAKING INSTITUTIONS AND THE PAYMENT SYSTEM

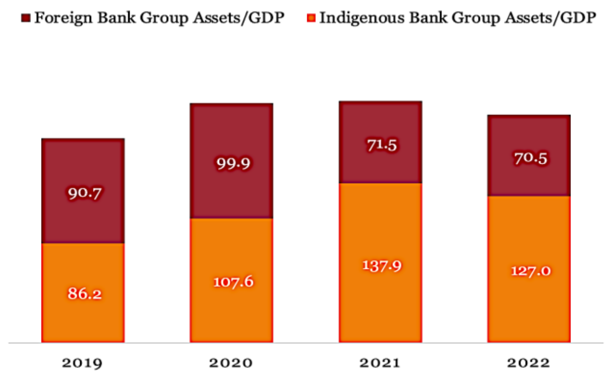
# Chapter 2

## Deposit-Taking Institutions & the Payment System

### Commercial Banks

**The commercial banking sector maintained its dominant position throughout 2022 even as the number of banks declined.** In 2022, CIBC First Caribbean International Bank divested its operations in two of the ECCU countries to a consortium of indigenous banks. The closure of the foreign branches continued the trend observed in 2019, to bring the number of banks to twenty-seven (27) as at December 2022 (a 22.9 per cent decline from 2019) (Appendix I). Consequently, the asset base of the domestic banking group expanded to 64.3 per cent of the total commercial banking assets in 2022, up from 44.0 per cent in 2018 (prior to the acquisitions). Commercial banks assets to GDP stood at 197.0 per cent in 2022. (Figure 12).

**Figure 12:** Commercial Bank Assets to GDP by Banking Group (in per cent)

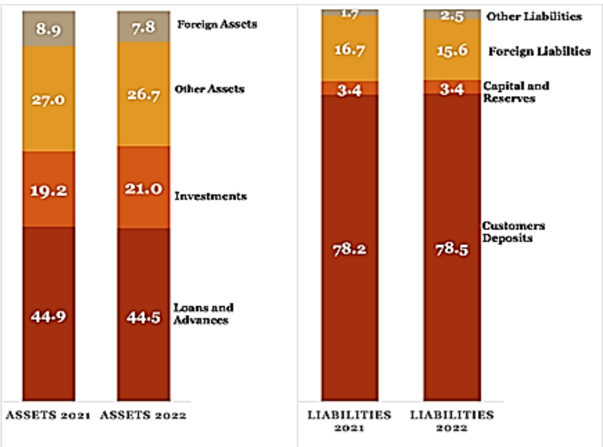



Source: ECCB

**The composition of assets and liabilities changed minimally in 2022, while balance sheet activity grew slightly.** Total loans and advances (loans), the primary earning asset of the banking sector, grew at a slower rate in 2022 (1.8 per cent to $13.8b) compared with 2021 (2.9 per cent). The slower growth in total loans was largely driven by a decline in public sector loans (0.7 per cent to $19.8b; down from $19.9b in 2021). Conversely, loans to the private sector increased (2.3 per cent in 2022) after growing by 1.7 per cent in 2021.

Despite the reduction in the growth rate in total loans, new lending increased (3.0 per cent in 2022) after falling (45.1 per cent) in 2021. The value of the new loans represented 4.8 per cent of total loans, shifting upwards from 4.0 per cent in 2021. Most of the new loans were extended to the private sector. The share of loans to assets (44.5 per cent) was slightly below the 2021 level (Figure 13) as the growth in total assets was weaker relative to the growth in total loans.

**Figure 13:** Composition of Banking Sector Balance Sheet (in per cent)

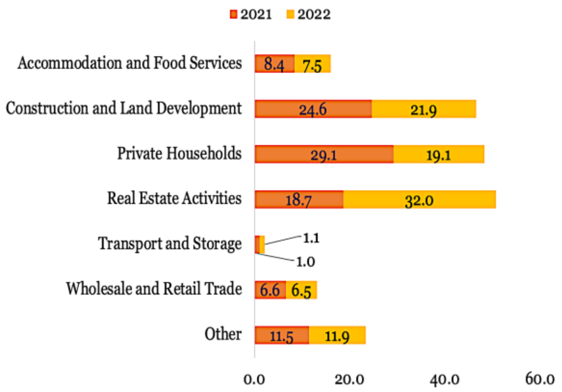



Source: ECCB

Private sector loans continued to account for the largest proportion of total commercial bank credit (85.7 per cent or $11.9b in 2022 up from 85.3 per cent in 2021) and contributed 75.3 per cent to GDP, down from 80.3 per cent in 2021. Loans for real estate activities made up the major portion of private sector loans in

2022 compared with 2021, when personal loans held the highest share (Figure 14). The rise in the stock of real estate loans was mainly driven by 'other real estate activities' which includes renting or leasing of property such as apartment buildings, homes, and non-residential buildings.

**Figure 14:** Distribution of Private Sector Loans (in per cent)




Source: ECCB

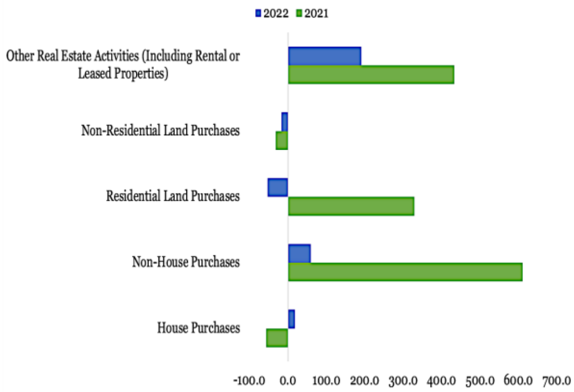
Most of the new lending to the private sector was granted to households (81.0 per cent, representing 35.6 per cent of the total value of new loans). However, the real estate sector recorded the highest growth in the number of new loans in 2022 after falling significantly in 2021 (Figure 15). 'Other real estate activities' accounting for the largest per cent change in new loans to the real estate sector (Figure 16).

**Figure 15:** Change in Composition of New Loans to the Private Sector


Source: ECCB

The higher growth in the number of real estate loans particularly 'Other real estate activities' can be associated with the boost in tourism arrivals with an increase of over 50 per cent in the number of stayover visitors compared with 2021.

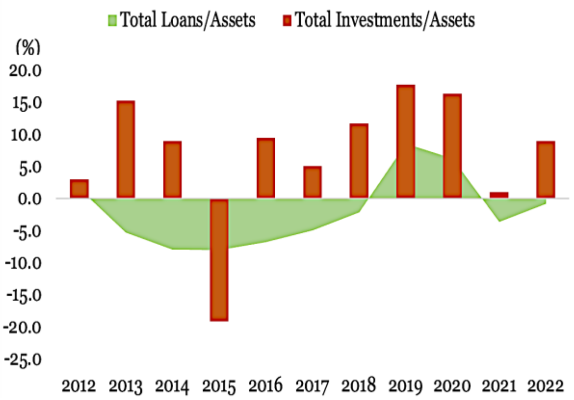
**Figure 16:** Change in Composition of New Loans for Real Estate Activities (in per cent).




Source: ECCB

Meanwhile, investment, the second largest income generating asset group, grew at a faster rate than loans (11.9 per cent to $6.5b in 2022, up from 7.6 per cent in 2021), and registered an increase in the share to total assets from 19.2 per cent in 2021 to 21.0 per cent in 2022 (Figure 17). The higher growth rate in the share of investments relative to the share of loans continued the trend observed over time (Figure 17), indicating that banks are increasing the reliance on other forms of assets for generating income. In 2022, income earned on investments rose 77.6 per cent to $42.6m compared with 2021.

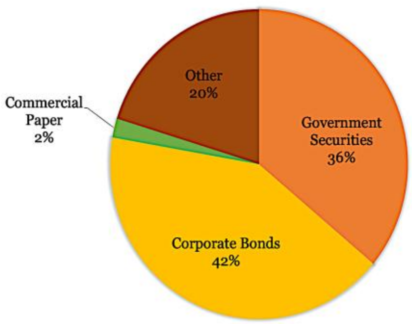
**Figure 17**: Growth in Share of Loans and Investment to Total Assets




Source: ECCB

**Though at low levels, the rising share of investments can potentially increase exposure to the external market.** Debt securities continued to occupy the largest portion of the investment portfolio of the banking sector, accounting for 70.6 per cent ($4.6b) of total investments in 2022, up from 63.9 per cent in 2021. Most of the debt securities were in the form of corporate bonds (Figure 18), valued at $1.9b in 2022, an increase from $1.5b in 2021.

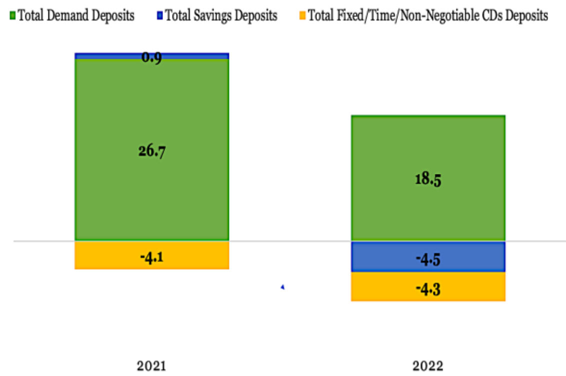
**Figure 18:** Composition of Debt Securities in 2022




Source: ECCB

Deposits, which remained the largest component of commercial bank liabilities (78.5 per cent in 2022, up from 78.2 per cent in 2021), increased marginally (3.1 per cent to $24.4b) relative to 2021. The private sector maintained the major share of total deposits (54.1 per cent in 2022) but grew slower (2.4 per cent to $13.2b) than in 2021 (7.1 per cent). The slower growth rate in share of private sector deposits was largely reflected declines in savings and fixed/time/non-negotiable CDs Deposits (Figure 19).

**Figure 19:** Growth in Private Sector Deposit Types (in per cent)




Source: ECCB

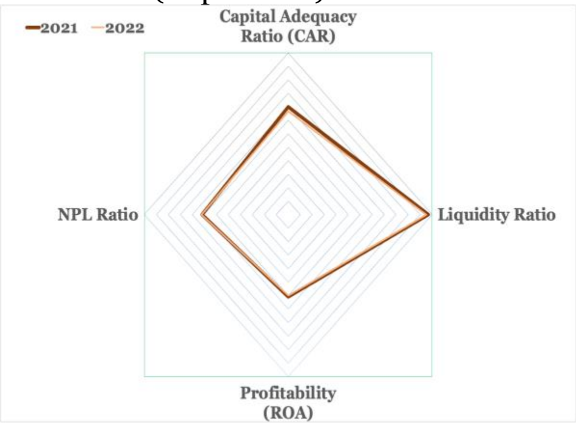
The rate of decline in savings and fixed/time/non-negotiable CDs (fixed) deposits can be attributed to the negative impact of high inflation on real income, as the private sector hold less income in the form of savings or drawn down on existing savings to complement the decline in purchasing power.

**Key performance indicators point to a well-capitalised commercial banking sector with adequate liquidity and relatively strong asset quality.** Capital and liquidity levels changed slightly in 2022 relative to 2021. (Figure 20). The Capital adequacy ratio (16.7 per cent) and liquidity levels (55.0 per cent) remained well above the prudential benchmark of 8.0 per cent and 20.0 per cent respectively.

The profitability of the banking sector, measured by the return on assets (ROA), declined marginally in 2022 (Figure 20), as the earning capacity of the banking sector, measured by the credit-deposit ratio, fell slightly to 56.6 per cent from 57.4 per cent.

Additionally, the NPL ratio was relatively unchanged (Figure 20).

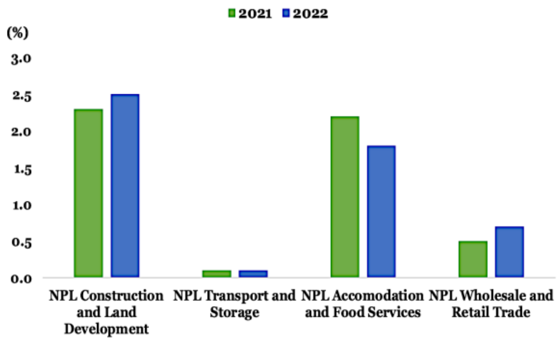
**Figure 20:** Change in Key Performance Indicators (in per cent)




Source: ECCB

Among the main economic sectors, the NPL ratio continued to be highest for the sectors hardest hit by the 2020 COVID-19 pandemic (Figure 21).

**Figure 21:** NPL ratio by Major Economic Sectors

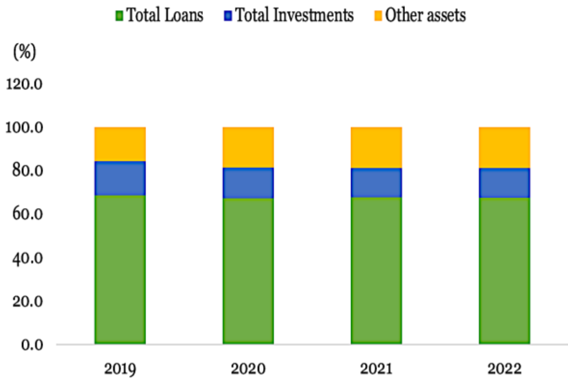



Source: ECCB

## Credit Unions

**The credit union sector expanded in 2022 relative to 2021.** Total assets of the sector grew at a faster rate in 2022 (10.6 per cent to $5.8b) compared with 2021 (8.5 per cent). The growth in assets was mainly driven by loans, which remained the major component of credit union assets in 2022 (67.5 per cent compared with 67.6 per cent in 2021), though the proportion remained relatively unchanged (Figure 22).

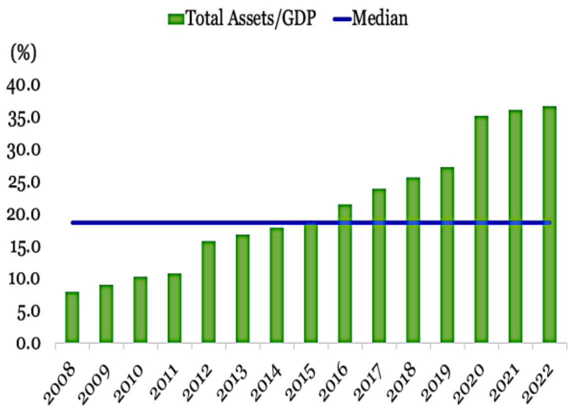
**Figure 22:** Composition of Credit Union Assets




Source: SRUs

Total assets of the sector contributed 36.6 per cent to GDP in 2022, up from 36.1 per cent in 2021. This is above the 15-year median contribution (18.6 per cent of GDP), indicating that the sector has expanded significantly over time (Figure 23).

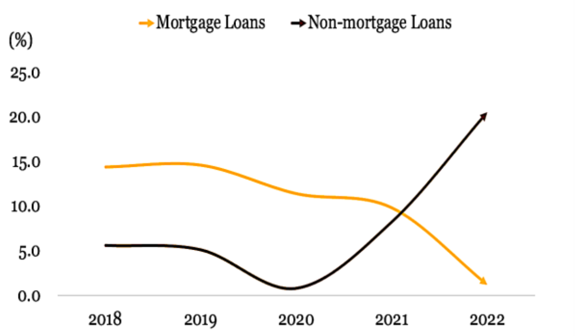
**Figure 23:** Credit Union Total Assets as a Share of GDP (in per cent)




Source: SRUs

Loans to the private sector grew by 10.5 per cent to $3.9b in 2022, up from $3.5b in 2021, further increasing the value of the loan portfolio of the sector. The median growth rate for loans over the period 2012-2022 registered 9.6 per cent. This signifies that the credit union sector plays a key role in the supply of credit to the private sector in the ECCU. Most of the loan growth in 2022 was influenced by non-mortgage loans which grew at a faster rate (20.5 per cent) than mortgage loans (1.2 per cent) and accounted for more than half (52.3 per cent) of the loan portfolio (Figure 24). Loan growth was recorded in all the ECCU countries[8].

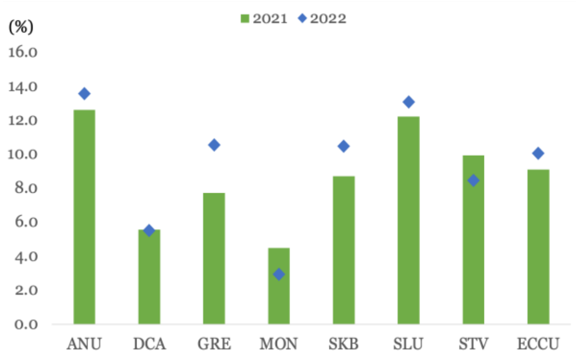
**Figure 24:** Growth of Loan Composition by Category (in per cent)




Source: SRUs

Total deposits remained the main source of funding for the credit union sector, increasing by 10.1 per cent to $4.8b in 2022; up from $4.4b in 2021. All the ECCU countries posted expansions in deposits[8] (Figure 25).

**Figure 25:** Growth of Total Deposits by Country (in per cent)



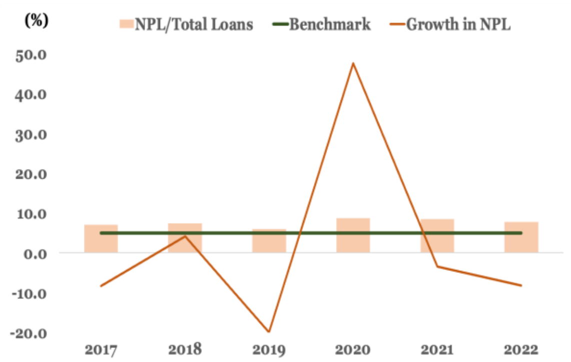

Source: SRUs

The proportion of deposits to assets rose to 83.5 per cent up from 51.5 per cent in 2021 indicating that credit union liquidity rose significantly.

[8] Data for the credit union sector in Anguilla is missing.

**Credit risk remained the major risk for the sector.** The ratio of non-performing loans to total loans (NPL ratio) registered a lower rate (7.7 per cent) compared with 2021 (8.4 per cent). This continued the decline observed in 2021 following the rate of 8.7 posted in 2020 during the coronavirus pandemic. Despite the decline, the ratio remains above the 5.0 per cent prudential benchmark (Figure 26).

**Figure 26:** Trend in Non-performing Loans (in per cent)




Source: SRUs

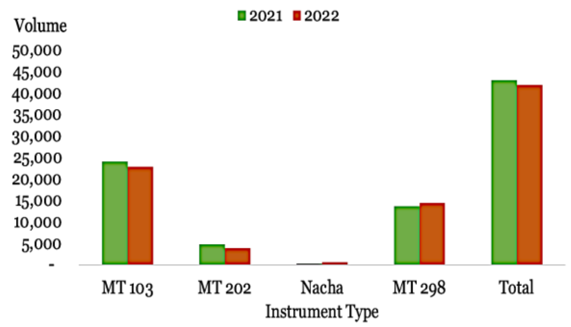
**The capital position of the credit union sector was adequate in 2022.** Capital adequacy, namely institutional capital to total assets, was above the benchmark. The ratio stood at 11.3 per cent in 2022; above the 10.0 per cent benchmark and slightly lower than in 2021.

## Payment System

**The payment system continued to function effectively and was assessed as safe.** During 2022 all market participants in both the ECACH (for settlement of retail payments) and RTGS (for settlement of large payment transactions) systems facilitated the clearance and settlement of financial services in a timely manner. The operational capacity of the ECACH was judged as adequate relative to the regular transaction processing needs of the system participants.

The total number and volume transactions on the RTGS system declined slightly in 2022 (41,977 transactions valued at $16.0m) compared with 2021 (42,992 transactions valued at $17.5m) (Figure 27). The decline was mainly driven by reductions in the volume of MT103 and MT 202 instruments[9].

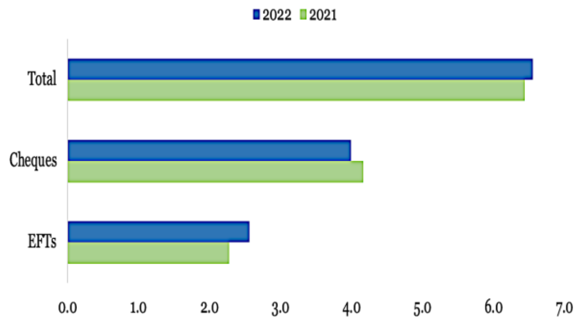
**Figure 27:** Volume of RTGS Transactions (in thousands)




Source: SRUs

Regarding the ECACH system, the volume of transactions increased in 2022 by 117,254 transactions from about 6.4m in 2021. The increase was mainly attributable to a rise in the number of Electronic Fund Transfers (EFTs). The number of cheques, the other instrument on the ECACH system, fell by 170,740 to $4.0m (Figure 28).

**Figure 28:** Volume of ECACH Transactions (in millions)




Source: ECCB

[9] MT103 is a standardized SWIFT message that is generated after cross-border/ international wire transfers are completed. The MT202 is a SWIFT message that facilitates the movement of funds between financial institutions.

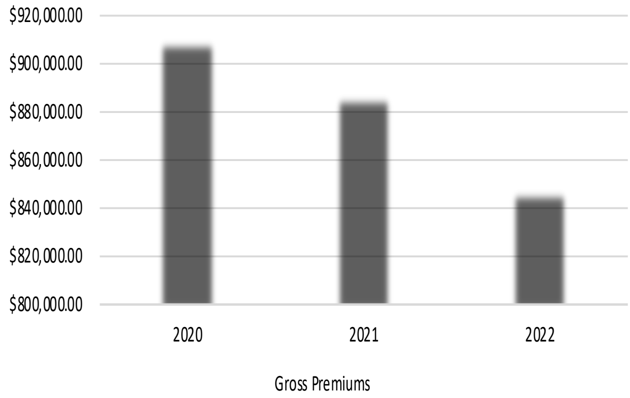
# CHAPTER 3 NON-DEPOSIT-TAKING INSTITUTIONS

## Chapter 3
## Non-Deposit-Taking Institutions
## The Insurance Sector

**The insurance sector maintained a fairly strong position in 2022 with marginally lower levels of liquidity and gross premiums written.** The asset base of the domestic insurance sector is estimated to have grown to 13.5 percent of GDP. This growth in assets is lower than the asset base of the sector in 2021 which was estimated at 15.4 percent of ECCU GDP. Insurance sector claims rose slightly, contributing to an increase in underwriting expenditure in the industry and the reduction of several key ratios. Nevertheless, the sector remains robust, maintaining sufficient liquid assets in the non-life and life insurance sectors to meet expected claims.

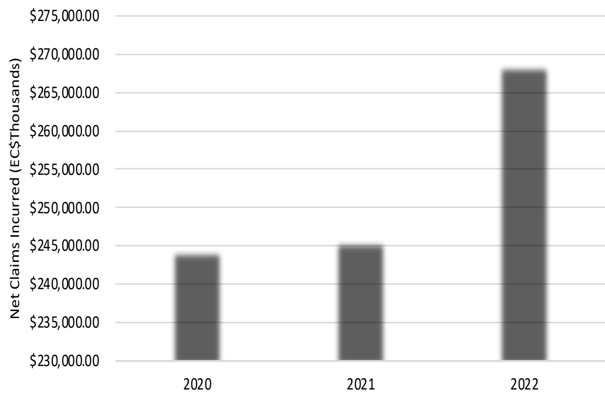
**Gross premiums in the ECCU insurance industry rose at a slower pace relative to previous years.** At the end of 2022, premiums written were estimated at EC$84 5.5m. This lower level of premiums written were reflected across the life, non-life and composite lines of business. The decline was steepest on the life insurance segment - owing mainly to a reduction in the life insurance business segment in the Commonwealth of Dominica in 2020 and which has not recovered since that time (Figure 29).

**Figure 29:** ECCU Insurance Sector - Gross Premiums (EC$ Thousands)



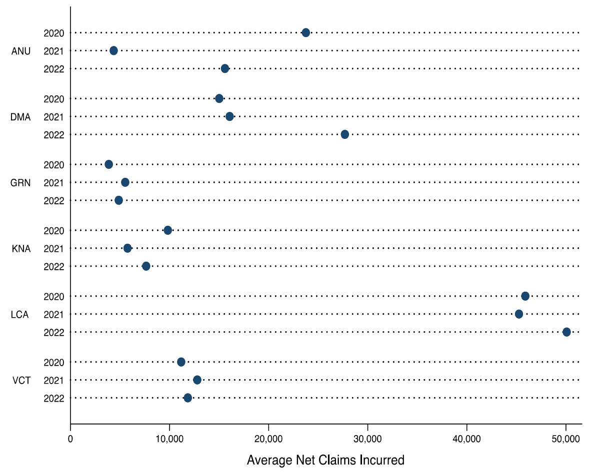

Net claims incurred for the industry rose to their highest level in three (3) years, increasing overall underwriting expenses for the industry - significantly higher than those recorded in previous years (Figure 30).

**Figure 30:** Net Claims Incurred in the ECCU - 2020 to 2022 (EC$ Thousands)




Claims remain driven by activity in the non-life insurance segment, which covers among other areas, vehicle, property, and health insurance. Claim expenses were especially elevated in Saint Lucia and Dominica in 2022 (Figure 31). These two countries recorded increased claims due to a trough system which affected both islands during the October/November 2022 period.

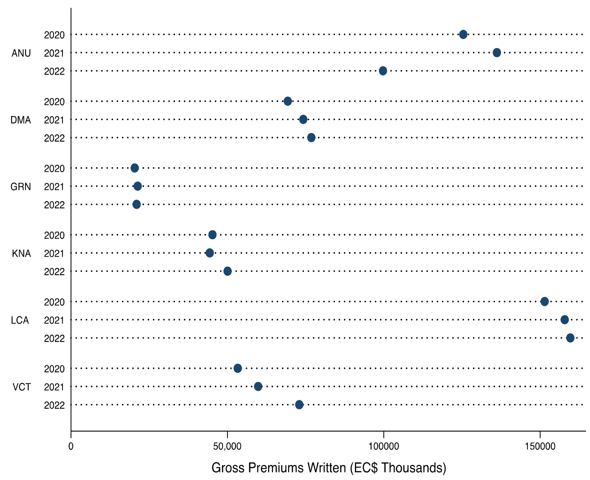
**Figure 31:** Average Net Claims Incurred (Non-Life Insurance Segment) - 2020 to 2022 (EC$ Thousands)




## Non-Life Insurance

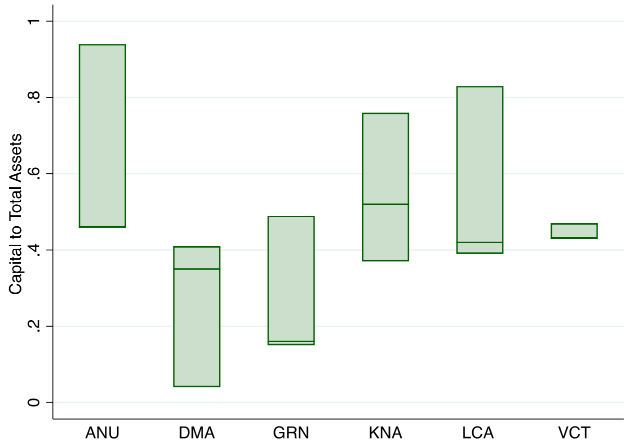
Gross premiums written in the non-life segment of the insurance industry declined to EC$480.3m at the end of 2022 from EC$493.8m at the end of 2021. Performance across this line of business was heterogeneous with, business in Saint Vincent and the Grenadines, Saint Kitts and Nevis, Saint Lucia and the Commonwealth of Dominica recording higher levels of premiums. Conversely, premiums written in Antigua and Barbuda were lower while premiums in Grenada were relatively unchanged from the previous year (Figure 32).

**Figure 32:** Gross Premiums Written (EC$Thousands)




The heterogeneity in performance was also seen in the capital to total assets ratio in the various countries during the 2020 to 2022 period. Although capital remains elevated, Saint Vincent and the Grenadines saw smaller increases in their level of capital over the period ended December 2022 ( Figure ***33***).

**Figure 33:** Capital to Total Assets Ratio - 2020 to 2022

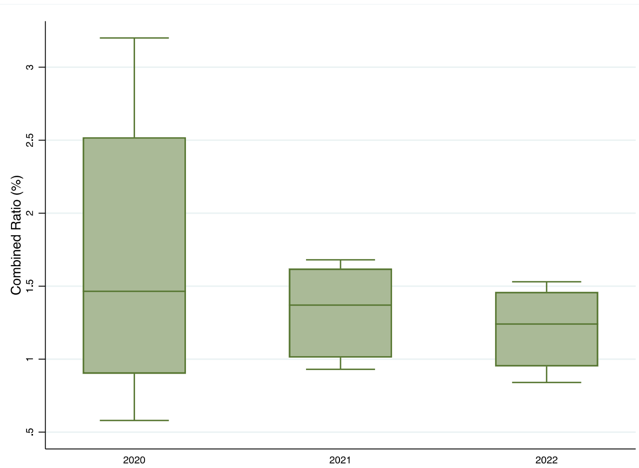



The non-life insurance sector saw less risk being ceded to reinsurers during the period ended December 2022. The risk retention ratio across the ECCU rose to 45.0 percent in comparison to 39.6 percent in 2021 and 41.9 percent in 2020. Risk retention varied across the currency union on a per country basis, but was highest in Saint Lucia and Grenada, with the greatest variance over the past three (3) years recorded in Saint Lucia (Figure 34).

**Figure 34:** Non-Life Insurance - Risk Retention Ratio (2020 to 2022)


Underwriting profitability improved as exhibited by a lower combined ratio across the non-life insurance segment. This decline in the ratio was driven primarily by significant improvements in the expense and loss ratios in member countries as at the end of December 2022, when compared with expenses and losses during the 2020 period (Figure 35).

**Figure 35:** Combined Ratio (Non-Life Insurance) - 2020 to 2022

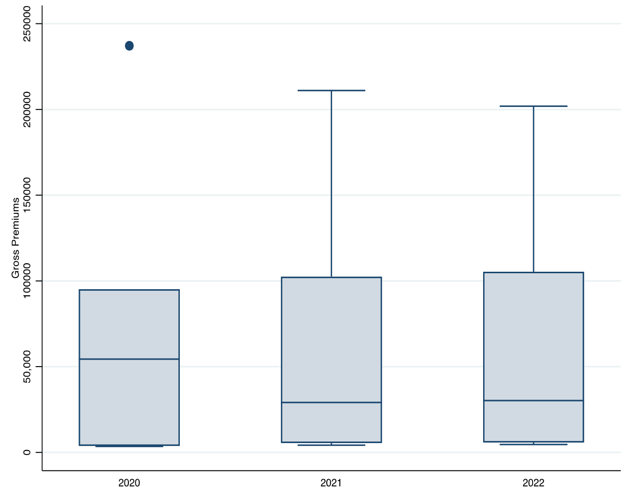



Liquidity within the non-life insurance segment remained strong at the end of December 2022, with both the liquid assets to technical reserves ratio and the liquid assets to current liabilities ratio estimated at 163.0 percent and 170.0 percent respectively. The high liquid assets to technical reserves ratio across the ECCU, indicates that firms in the non-life business segment - an especially vulnerable segment - have sufficient assets which can be sold to meet claims when they arise.

## Life Insurance

Gross premiums written for the life insurance segment of the insurance industry, declined marginally to EC$201.9m at the end of December 2022, when compared with EC$211.0m at the end of December 2021 (Figure 36).

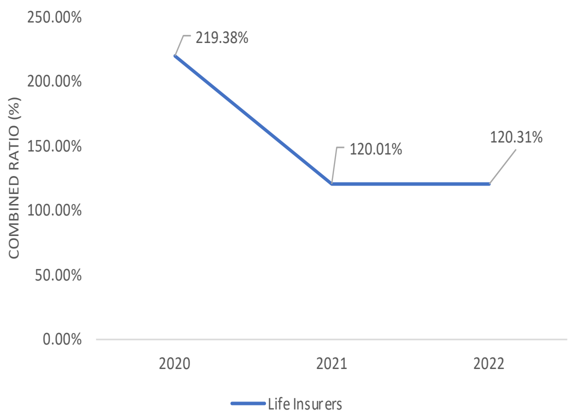
**Figure 36**: ECCU Life Insurance - Gross Premiums, 2020 to 2022




The declines in premium written was driven by marginally lower premiums in Antigua and Barbuda and Dominica and offset by marginal increases in premiums in Grenada and Saint Lucia. Given the nature of the life insurance business, and in the absence of a major public health crisis such as COVID-19, risk retention ratios in the ECCU averaged 94.0 percent over the 2021 and 2022 period.

Underwriting profitability remained robust as at the end of December 2022 when measured using the combined ratio. The ratio declined initially from 219.4 per cent in 2020 to 120.0 per cent in 2021 and increased marginally to 120.3 per cent in 2022 (Figure 37).

**Figure 37:** Combined Ratio (%) - Life Insurance - 2020 to 2022




Liquidity in the life-insurance industry declined to 102.7 per cent at the end of 2022 from 130.7 per cent at the end of 2021. This lower level of liquidity is reflective of a smaller level of liquid assets in Saint Lucia and Dominica during the 2022 period – relative to the 2021 period. Therefore, the life insurer's ability to meet expected claims despite being reduced relative to 2021 remained at 103.0 per cent at the end of 2022.

# CHAPTER 4 MICROPRUDENTIAL AND MACROPRUDENTIAL POLICY

# Chapter 4
## Microprudential and Macroprudential Policy

### The ECCU Credit Bureau

Mitigating increases in credit risk is important to maintaining the stability of any financial system. One method of achieving this objective is through ensuring that households are not overleveraged, and by extension, that financial intermediaries employ appropriate risk management in their credit underwriting practices. The ECCU Credit Bureau achieves this through sharing information with registered financial intermediaries. The ECCU credit bureau was created using the Harmonised Credit Reporting Legislation, which remains outstanding in several countries as at the end of December 2022. The information collected by the credit bureau will be used to create a credit report containing, amongst other information, a credit score, which can be utilized by financial intermediaries in the credit underwriting process.

Credit bureaus aid in not only limiting excessive debt growth, but also in managing debt levels and guiding regulators in developing more targeted policies on credit extension. Additionally, credit bureaus allow financial institutions to manage their credit risk - by having a clearer picture of the credit profile of households and their customers.

### Basel II/III Implementation

The Eastern Caribbean Central Bank (ECCB/the Central Bank) is forging ahead with its roadmap to implement the hybrid Basel II/III framework (Basel II/III) in the Eastern Caribbean Currency Union (ECCU). Basel II/III is expected to better align banks' capital requirements with risks and enhance the resilience and reputation of the ECCU's financial system. Having adopted a phased approach to implementing the Basel II/III framework, the ECCB attained the critical milestones listed below. Phase I of the implementation roadmap corresponds with Pillar 1 of Basel II//III- Minimum Capital Requirements while Phase II corresponds with Pillar 2- Supervisory Review Process and Phase III corresponds with Pillar 3- Market Discipline, respectively.

a. *Implementation of Phase I/Pillar 1*

Efforts continued to finalise and integrate the new Basel II/III prudential return 16 (PR16) into the existing prudential reporting framework and the ECCB conducted a pilot test of Prudential Return Form 16 (PR16) with selected banks. The way forward includes the go live reporting in the first quarter of 2024, to signal the full implementation of Phase I.

b. *Implementation of Phase II/Pillar 2*

The ECCB issued the Internal Capital Adequacy Assessment Process (ICAAP) Prudential Standard in April 2022 and LFIs will submit their first ICAAP reports in the third quarter of 2024. Additionally, the ECCB is developing supporting prudential standards and the framework for its Supervisory Review and Evaluation Process for Pillar 2 activities. The ECCB expects to fully implement Phase II of its roadmap by the end of June 2024.

The ECCB will continue to conduct assessments and engage in industry consultation on the implementation of additional capital and liquidity measures, including the capital buffers, Liquidity Coverage Ratio, and the Net Stable Funding Ratio in 2024.

c. *Implementation of Phase III/Pillar 3*

The Central Bank will commence the research and development of a framework for Phase III (market discipline) of the Basel II/III implementation roadmap. Phase III of the Bank's Basel II/III implementation programme is expected to be fully implemented by December 2024.

*d. Technical Assistance*

The ECCB continued to benefit from the Caribbean Regional Technical Assistance Centre's (CARTAC) technical assistance (TA) programme, for the implementation of Basel II/III. Over the period 10 to 14 October 2022, CARTAC provided training to build supervisory capacity related to Pillar 2, specifically stress testing with scenarios and Interest Rate Risk in the Banking Book (IRRBB). CARTAC also continued its TA with the development of prudential standards.

*e. Capacity Building/Industry Consultation*

The ECCB continued to provide ongoing technical support to both internal and external stakeholders. Training was also received by ECCB staff on the IRRBB and Market Risk prudential standards. Externally, bilateral engagements were held with several LFIs on Basel related issues, as well as industry sensitisation and training during the meetings of the Basel Working Group, which comprises the ECCB staff and representatives from the LFIs, to which Basel II/III apply.

## APPENDIX I

| COUNTRY | | Anguilla | Antigua and Barbuda | Dominica | Grenada | Monserrat | St. Kitts and Nevis | Saint Lucia | St. Vincent and the Grenadines | ECCU |
|---|---|---|---|---|---|---|---|---|---|---|
| **Deposit Taking Institutions** | Commercial Banks | 2 | 4 | 3 | 4 | 1 | 5 | 4 | 4 | **27** |
| | Credit Unions | 1 | 8 | 8 | 10 | 1 | 4 | 16 | 4 | **52** |
| | Other Depository Institutions[10] | 1 | 3 | 2 | 2 | 1 | 2 | 5 | 4 | **20** |
| | **Total** | **4** | **15** | **13** | **16** | **3** | **11** | **25** | **12** | **99** |
| **Non-Deposit Taking Institutions** | Insurance Companies | 25 | 23 | 18 | 25 | 6 | 17 | 25 | 23 | **162** |
| | Other Financial Institutions[11] | 23 | 20 | 31 | 7 | 9 | 80 | 25 | 91 | **286** |
| | **Total** | **48** | **43** | **49** | **32** | **15** | **97** | **50** | **114** | **448** |
| **Totals Number of Institutions** | | **52** | **58** | **62** | **48** | **18** | **108** | **75** | **126** | **547** |

[10] Other Depository Institutions include: Savings banks, Development banks, Mortgage banks, Building societies, and Micro-finance institutions.

[11] Other Financial Institutions include: National Foundation, Finance companies, Holding Companies, Investment funds, Mutual Funds, Specialized financial intermediaries, International Banks, Public exchange and securities markets, Trust Companies, Money Services Businesses, and other financial auxiliaries.