



Financial Sector Developments in the Caribbean

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OVERVIEW OF PRESENTATION

- I. Macro Environment & Macro-Prudential Indicators
- II. Micro Prudential Indicators
- III. Systemic Risks
- IV. Correspondent Banking Challenges

State of the Financial Sector in the Caribbean

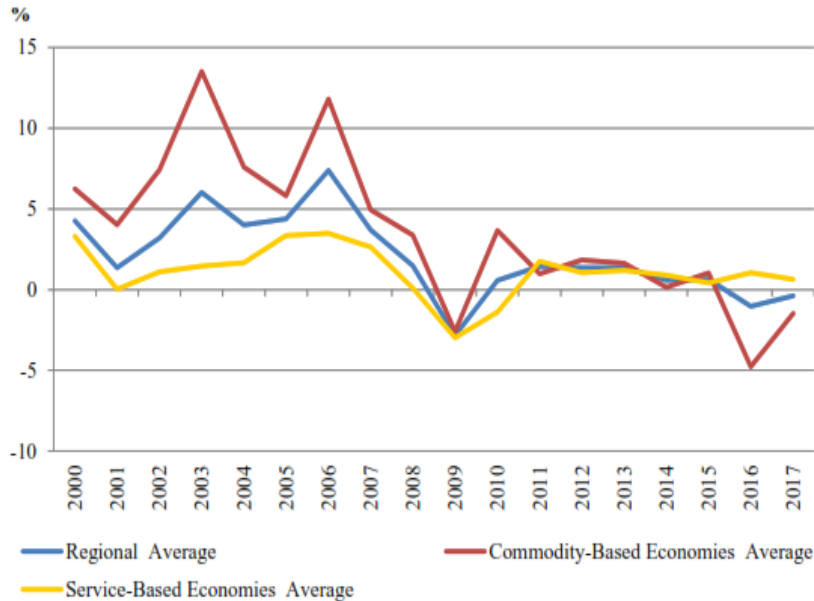
- The sectors still face elevated vulnerabilities, correlated with real economic trends but with manageable risks
 - Commodity based economies face weaker conditions than service based economies
- No recent institutional failures
- Stress tests at country level generally point to manageable risks
- Mixed results for systemic risk indicators

Macroeconomic Environment

- Macro imbalances & challenges:
 - Low average growth
 - High unemployment
 - High fiscal deficits
 - Balance of payment deficits
 - High sovereign indebtedness
- Adverse credit ratings & rising US interest rates are placing upward pressures on debt costs

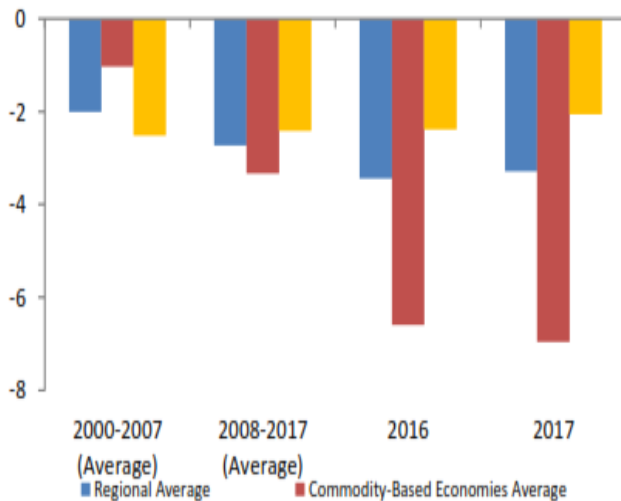
Macroeconomic Environment

Weighted Average Real GDP Growth of CARICOM Economies

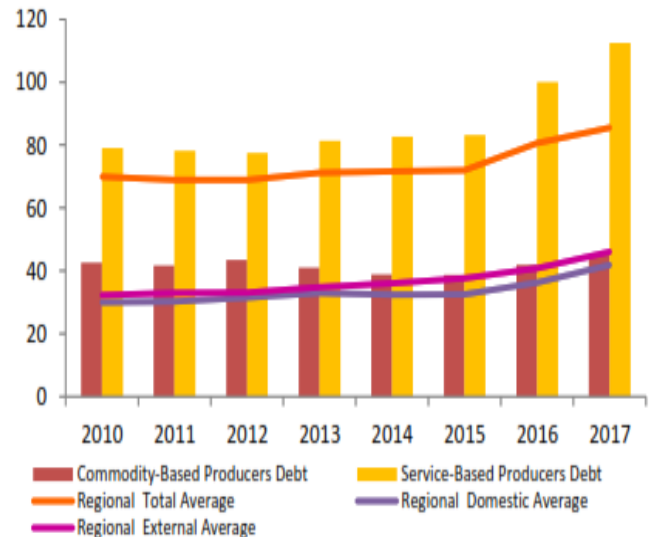


Macroeconomic Environment

Fiscal Balance (% of GDP)



Sovereign Debt (% of GDP)



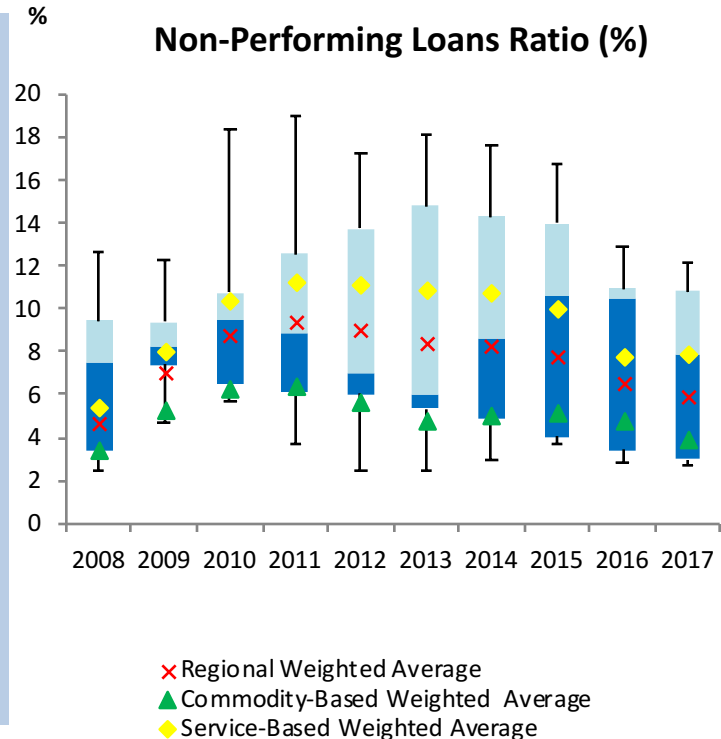
- Fiscal imbalances increased in the aftermath of the financial crisis, giving rise to a sharp increase in sovereign indebtedness.

Macro-prudential Indicators

- The regional banking system is stable as measured by:
 - Capital adequacy ratios, which remain in excess of statutory norms, in part because banks shifted from private sector lending to holding more cash
 - Liquidity ratios which have continued to improve
 - Moderate decline in non-performing loans
 - Recovery of profitability
- The insurance sector is adequately capitalised

Asset Quality — Non-Performing Loans (NPLs)

- Asset quality, as measured by the ratio of NPLs to total loans, continued to improve during 2017.
- Reflects efforts to address problem loans, including through asset sales, debt restructuring assets and more aggressive resolutions.
- But...NPL ratios are still above 2008 levels.

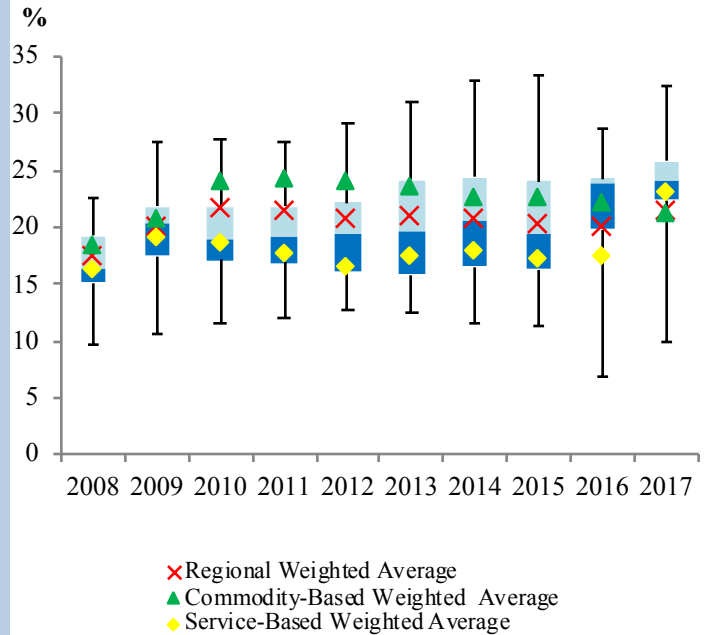


Source: Caribbean Economic Research Team (CERT)

Capital Adequacy

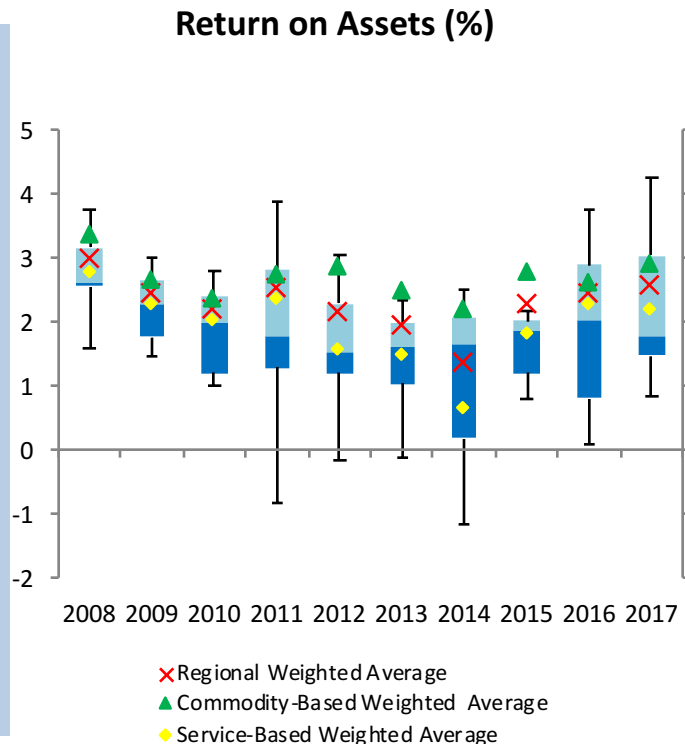
- Banks are well capitalized, principally with Tier 1 capital.
- Average capital adequacy ratio remained high at 21.5% in 2017.
- In low return environment, some capital reduction is now considered prudent for authorities like Bahamas.

Capital Adequacy Ratios (%)



Return on Assets (ROA)

- Profitability is recovering
- The average ROA was recently lowest in 2014 when large loan write-offs occurred in The Bahamas and Belize.
- The ROA recovery has been slower in the Eastern Caribbean currency area and Suriname remaining below 1%.

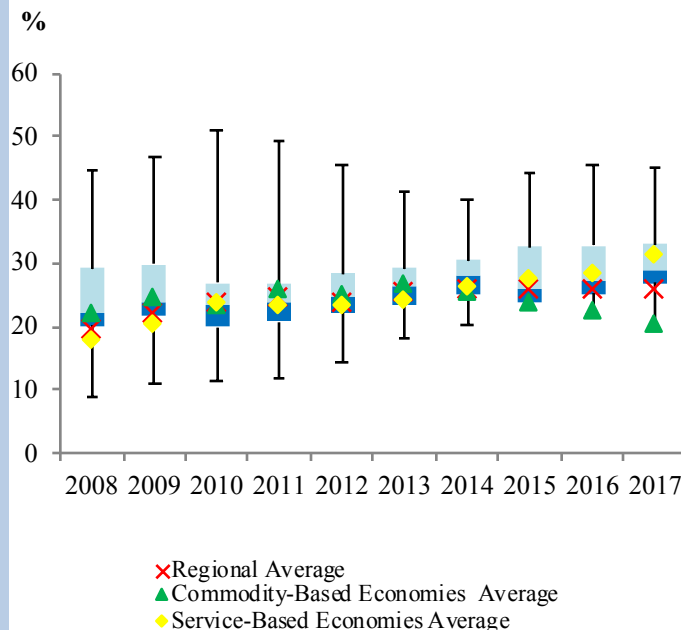


Source: Caribbean Economic Research Team (CERT)

Liquidity

- Given the modest growth of credit to the private sector, regional banking systems remained very liquid, with less dispersion.
- The average liquid assets ratio stayed at around 26%, with Belize, Trinidad and Tobago and Barbados experiencing declines, contrasting with the increases of Guyana, The Bahamas and the ECCU.

Liquid Assets Ratios (%)



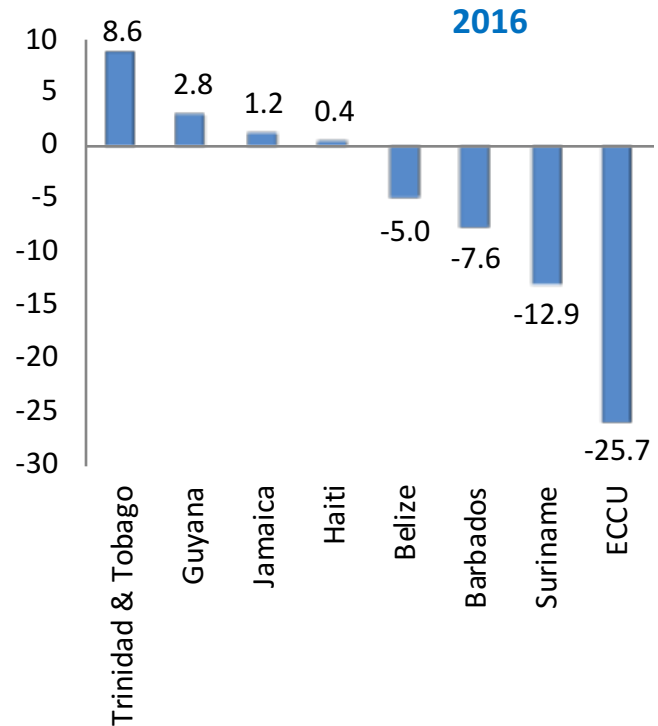
Systemic Risks

- Systemic Risk is being assessed using a variety of measures, including:
 - Credit- to- GDP gaps
 - Aggregate financial stability index
 - Banking stability index
 - Signals-based index
 - Composite indicator of systemic stress
 - Cross-border contagion channels

Credit-to-GDP Gaps

Current level of credit-to-GDP relative to long-term trend

- Economies are at various stages in the credit cycle.
 - ECCU, Belize, Barbados & Suriname are estimated to be in the downturn phase.
 - Trinidad & Tobago (highest gap), Guyana, Bahamas, Haiti and Jamaica reflect excess credit build-up.

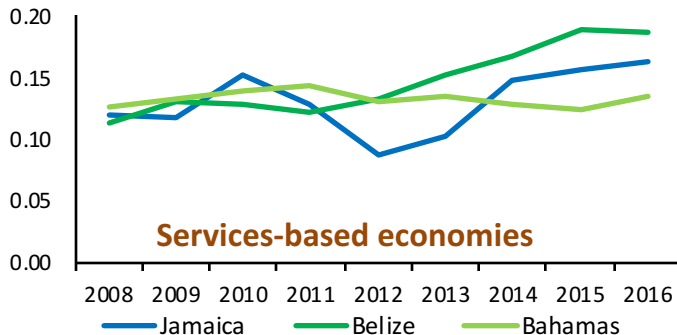
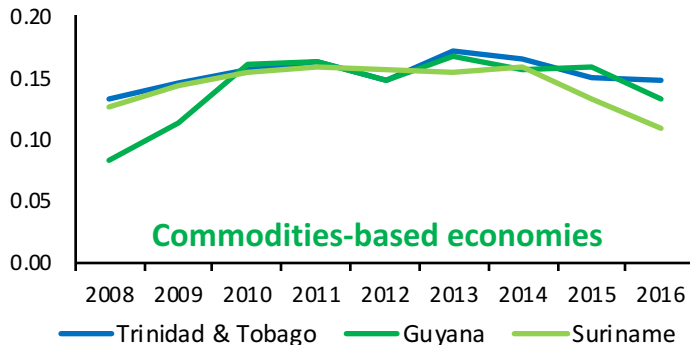


Source: Caribbean Economic Research Team (CERT)

Aggregate Financial Stability Indices

- The Aggregate Financial Stability Index (AFSI): a composite measure reflecting the different aspects of the macro-financial environment.
- A weighted average of normalized bank balance sheet and macroeconomic partial indicators (including international factors).
- Sub-indices:
 - financial development index (10% weight)
 - financial vulnerability index (40% weight)
 - financial soundness index (40% weight)
 - the world economic climate index (10% weight)

Aggregate Financial Stability Indices



- Aggregate index continued to be above pre-crisis levels in 2016:
 - Softening for commodities based economies (Trinidad Guyana and Suriname); but improving for services economies.
 - Drivers: deterioration from increasing inflation, higher NPLs and declining capital (Suriname), loan quality and liquidity; and reduction of liquid assets, in the context of growing credit relative to GDP (Trinidad)

Source: Caribbean Economic Research Team (CERT)

Banking Stability Index

- Index (BSI) is weighted average of normalized indicators:
 - Asset quality or NPLs (50%)
 - Profitability (20%)
 - Liquidity (20%)
 - Foreign exchange rate risk (5%)
 - Capital adequacy (5%)
- Improvement is skewed to service economies versus some decline for commodities-based economies.

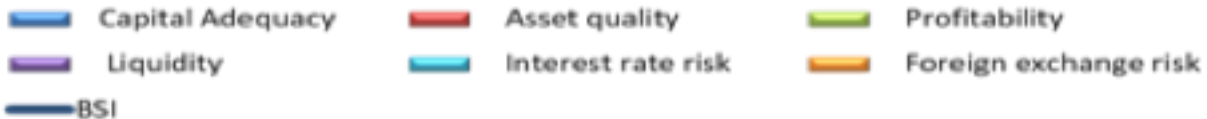
Banking Stability Index

Services-based economies

Bahamas



Barbados

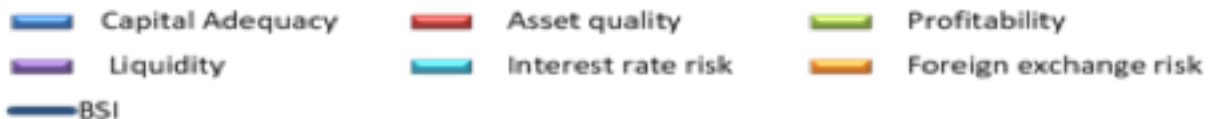
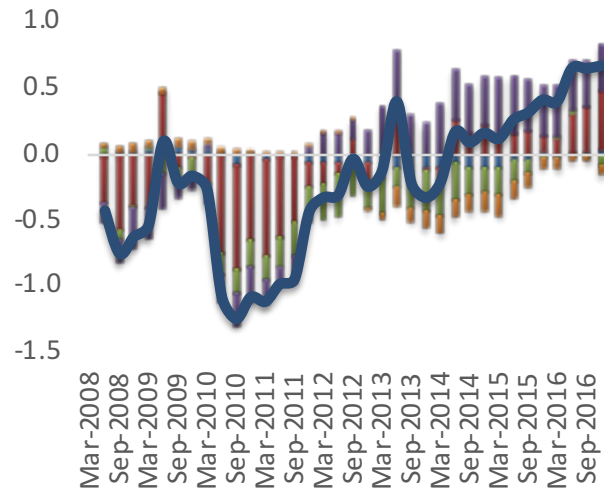
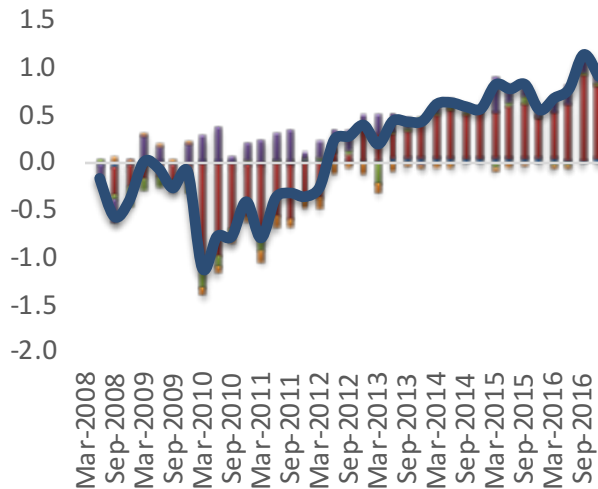


Banking Stability Index

Services-based economies

Belize

Currency Union — ECCU

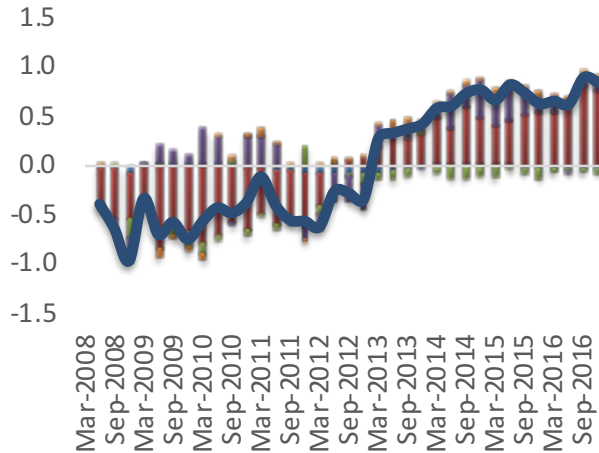


Source: Caribbean Economic Research Team

Banking Stability Index

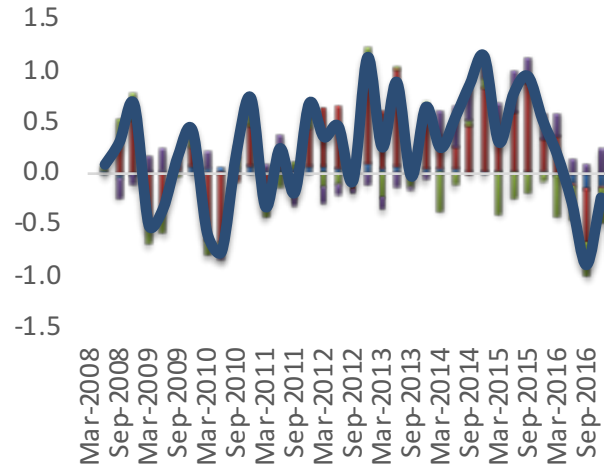
Services-based

Jamaica



Commodities-based

Suriname



Capital Adequacy

Asset quality

Profitability

Liquidity

Interest rate risk

Foreign exchange risk

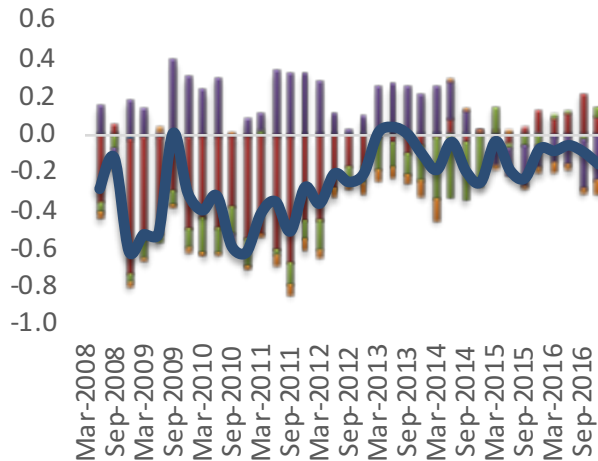
BSI

Source: Caribbean Economic Research Team

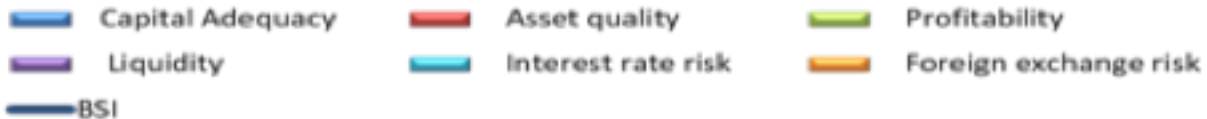
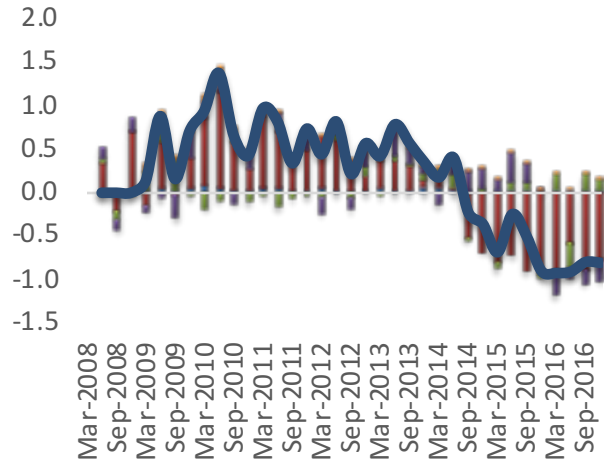
Banking Stability Index

Commodities-based economies

Trinidad & Tobago



Guyana



Correspondent Banking Threats

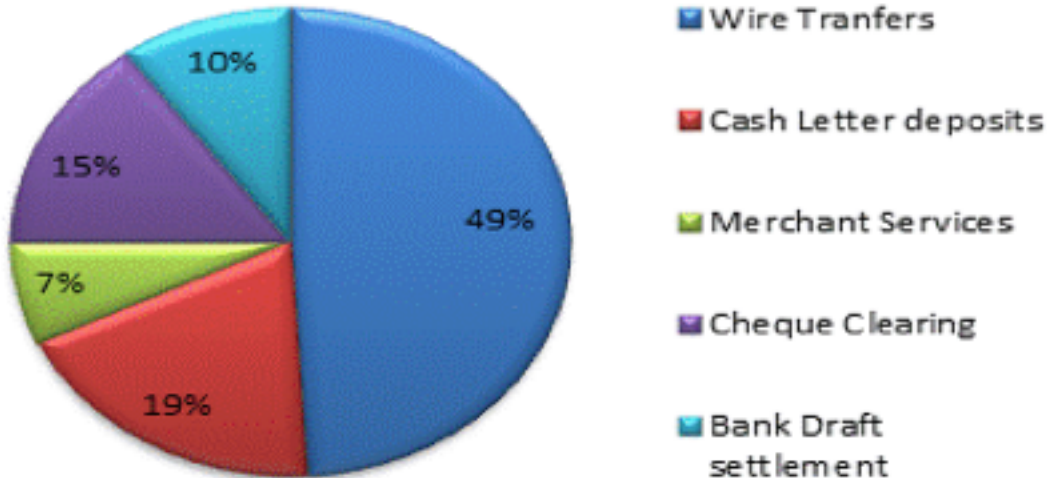
Either fully withdrawn or “de-risked” relationships in other constraining ways, responding to a combination of concerns related to elevated anti-money laundering (AML)/counter financing of terrorism (CFT) risk assessments and economic considerations related to correspondent banking business models.

- The Caribbean is one of the regions most affected by declining corresponding banking relationships (World Bank, 2015).

Trends :

- Fewer institutions available to facilitate international transactions
- Increased of vulnerability of the domestic financial sectors
- Financial exclusion risks for some population segments and industries

Areas of Impact Lines



Source: Caribbean Association of Banks, 2016

Areas of Impact

- Money transmission/remittance services firms
- Indigenous owned banks
- Stand-alone international banks
- Inward and outward cash shipment services

Strategic Responses

A coordinated regional approach ...

Collect data to quantify impacts on inclusion and cost transactions.

Use technical assistance and national risk assessments to improve AML/CFT systems.

Use uniform international benchmarks to improve AML/CFT standards.

Engage international stakeholders to address perceptions & other obstacles.

Use data to inform international engagement, but also areas for reform and strengthening of AML/CFT systems.

Strategic Responses

Reduce longterm vulnerabilities

Accelerate financial inclusion initiatives.

Reduce dependence on cash through payments system reform.

Embrace consolidation of smaller banks.

Make it easier for small banks to share technology costs.

Conclusion

- Average financial sector conditions are improving, but shaped by the varying strength of macro conditions across service versus commodity export dependent economies.
 - Low growth and high debt impose constraints on the environment
- Elevated NPLs represent the area for most significant required improvement.
- Access to correspondent banking services remains a concern for which both near-term and longer-term risk reduction strategies are being deployed.



THANK YOU