

FINANCIAL STABILITY REPORT



OCTOBER 2021



CENTRALE BANK
VAN SURINAME



FINANCIAL STABILITY REPORT

OCTOBER | 2021

DIRECTORATE OF PRUDENTIAL SUPERVISION

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ABBREVIATIONS

AFSI	Aggregate Financial Stability Index
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BIS	Bank for International Settlements
BSI	Banking Stability Index
CAR	Capital Adequacy Ratio
CBvS	Central Bank of Suriname
CCB	Countercyclical Capital Buffer
CDC	Collective Defined Contribution
CIS	Commonwealth of Independent States
CSD	Central Securities Depository
DC	Defined Contribution
DvP	Delivery versus Payment
ECB	European Central Bank
EU	European Union
EUR	Euro
EWI	Early Warning Indicators
FATF	Financial Action Task Force
Fitch	Fitch Ratings Inc.
Fed	Federal Reserve Bank of the United States
FSR	Financial Stability Report
FX	Foreign exchange
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IAIS	International Association of Insurance Supervisors
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
M2	Broad money

Moody's	Moody's Investors Service
MMOU	Multilateral Memorandum of Understanding
NPC	National Payments Council
NPL	Non-Performing Loan
NRA	National Risk Assessment
PDA	Public Debt Act
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
RWA	Risk-Weighted Assets
S&P	Standard & Poor's Ratings Services
SMEs	Small and Medium-Sized Enterprises
SNEPS	Suriname National Electronic Payment System
SRD	Suriname dollar
T-bills	Treasury bills
USD	U.S. dollar

FOREWORD

Financial stability is widely regarded as an important precondition for sustainable economic growth. The Central Bank of Suriname defines ‘financial stability’ as the range of conditions where the financial system, including the national payment system, is able to withstand shocks without major disruption in financial intermediation and economic performance. To achieve financial stability, central banks worldwide employ macroprudential policy tools to help mitigate systemic risk among financial institutions and between the financial system and the real economy.

Pursuant to the Bank Act, the Bank has a mandate to supervise the entire financial sector, but since banks are the largest financial subsector, representing 75 percent of financial sector assets, the emphasis in this Financial Stability Report is on the banking industry. The report, however, covers the performance of all financial subsectors in 2020. Suriname has not been spared from the effects of the Covid-19 pandemic. Real growth contracted considerably by 15.9 percent, accompanied by double-digit inflation in 2020, which resulted from budgetary measures and depreciation of the exchange rate. Contraction of the economy and increased costs have challenged the credit portfolio of banks. In addition, government deficits remained high, putting pressure on the national debt ratios.

However, several decisive policy measures were put into place by the authorities to safeguard a manageable policy outcome, while awaiting the approval of the International Monetary Fund for a US\$ 690 million three-year program under the Extended Fund Facility. This program contains important steps to improve the institutional capacity for policymaking, including modernizing both the monetary and fiscal framework. The program also comprises intensified supervision and an asset quality review of the domestic banks.

The Directorate of Prudential Supervision of the Bank has direct responsibility for monitoring financial soundness indicators, assessing financial risks and vulnerabilities and to make recommendations for appropriate mitigating actions. This report is a result of the coordinated efforts of all the three Directorates of the Bank, namely the Directorate of Prudential Supervision, the Directorate of Monetary and Economic Affairs and the Directorate of Banking Affairs. The objective of this annual publication is to inform policy makers, market participants, professionals and other interested parties on the performance and resilience of the financial sector in Suriname.

Maurice L. Roemer
Governor

EXECUTIVE SUMMARY

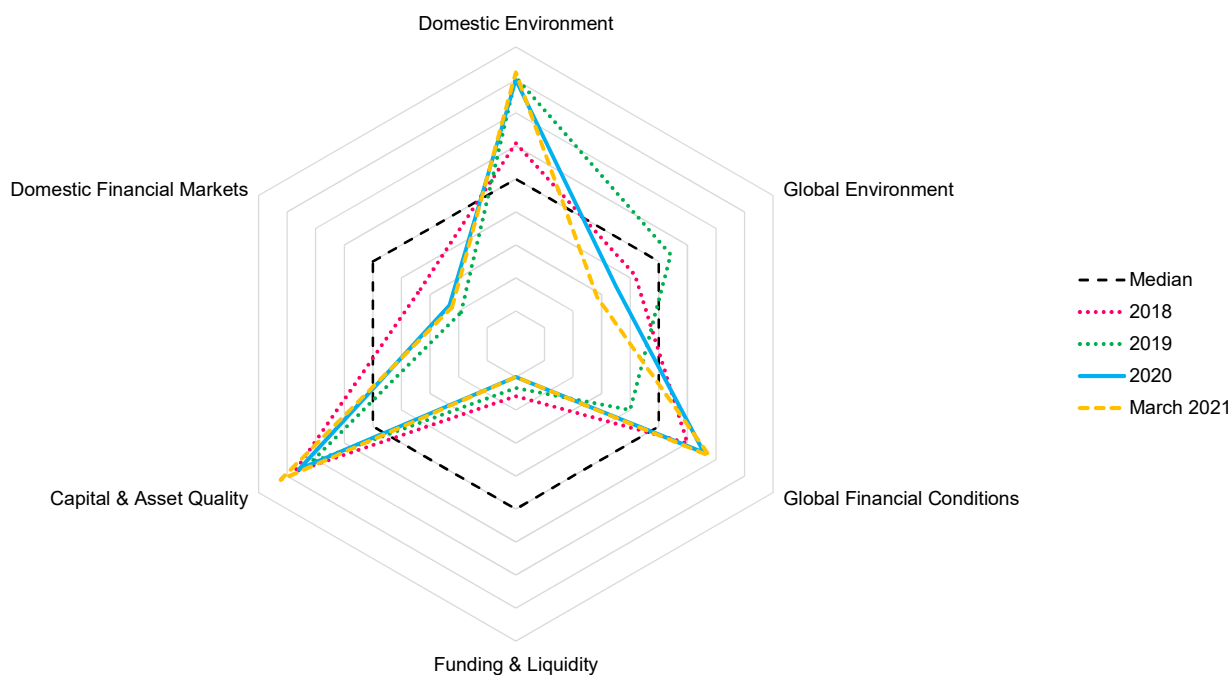
This Financial Stability Report (FSR) of the Central Bank of Suriname (CBvS) is intended to provide economic and financial decision makers and stakeholders with a comprehensive assessment of the performance and the resilience of the financial sector and to increase understanding of the various measures that the CBvS is taking to monitor and safeguard the soundness and stability of the domestic financial sector.

Section I of this report sets out the broad overview of the financial sector in Suriname and provides an appropriate institutional context for the report. It discusses the legal mandate of the CBvS, the main laws governing the financial sector, the institutional composition of the

sector and the monetary and macroprudential policy stance in general.

Section II identifies the key economic and financial risks arising from the global and domestic environment, and analyzes their consequences for the Surinamese financial sector and economy. The cobweb diagram (Figure 1) provides a summary of the risk exposure of financial institutions in Suriname to potential systemic shocks in their overall operating environment. Movements from the center of the diagram hereby represent an increased risk and movements towards the center a decreased risk to financial stability. The normal level of risk is illustrated by the black dotted band.

Figure 1
Risk Profile of the Financial Sector



Source: Central Bank of Suriname

According to Figure 1, the overall risk exposure of the financial system was slightly lower in 2019 (green dotted line) relative to 2020 (blue line). Where the world lockdown due to the Covid-19 pandemic increased the risk in the “global financial conditions” dimension, it is also clear that the post-lockdown normalization of the world commodity markets (specifically the gold market), resulted in a decreased risk in the “global environment” dimension. The increased risk in the “global financial conditions” in 2020 was the result of sharp falls in the MSCI World Index¹ during the first half of 2020. Furthermore, an increased risk is noted in the “domestic financial markets” dimension, as the result of an adjustment of the official foreign exchange rate of the U.S. dollar with 90 percent in September 2020 as well as of an increased interest margin. The risk exposure up to March 2021 (orange dashed line) is a continuation of the situation in December 2020.

Section III mainly focusses on the financial performance and key challenges of commercial

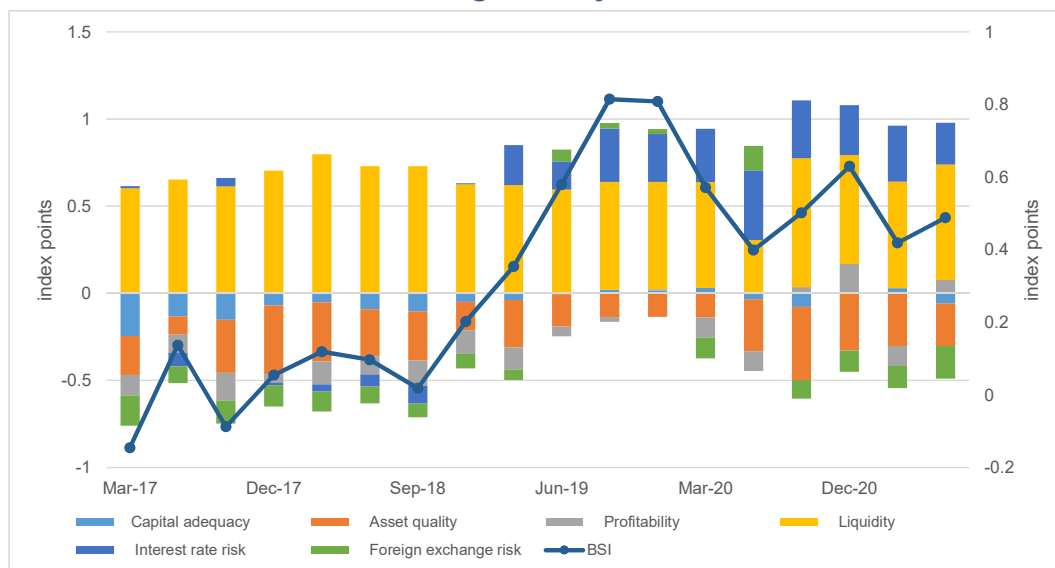
banks, insurance companies, pension funds, credit unions, the stock exchange operating in Suriname as well as the mitigating measures adopted by these institutions. The last part is devoted to the exchange rate developments in 2020 and onwards.

Commercial banks

The Surinamese banking system has gradually strengthened its capital position since 2016, while liquidity remained at an adequate level. Asset quality, on the other hand, deteriorated as a result of weaker business volumes, following the sharp contraction of the economy as the outbreak of the Covid-19 pandemic continued in 2020.

The banking stability index (BSI) (Figure 2) mirrors the deterioration of asset quality causing the index to decline from 0.81 in December 2019 to 0.61 in December 2020. The index decreased further to 0.42 in March 2021 due to lower profitability. The overall stability of the domestic banking industry improved at the end of June 2021, as the economy showed signs of

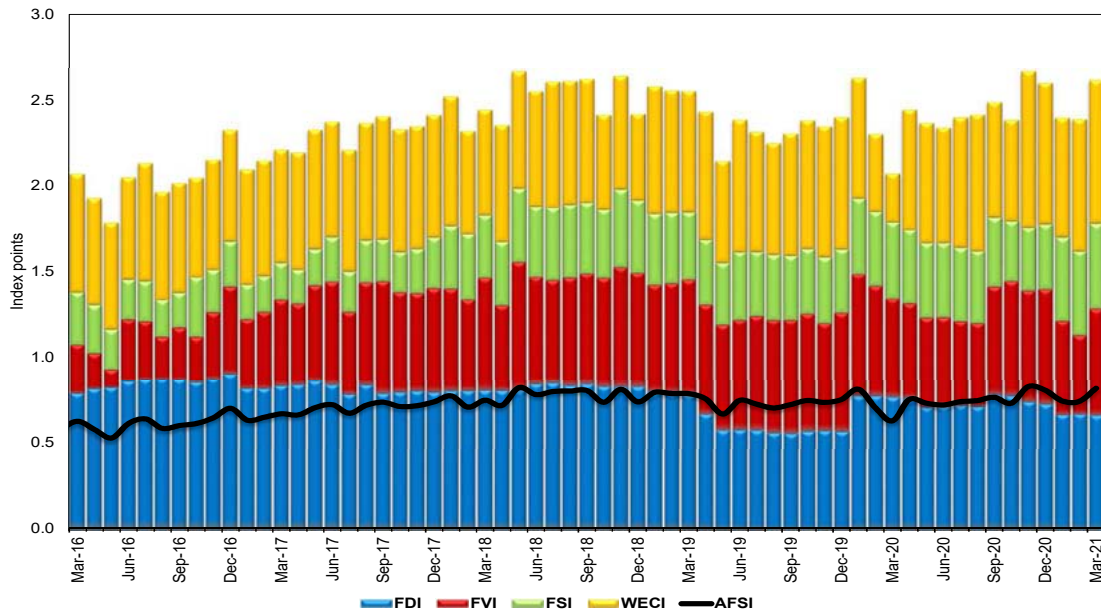
Figure 2
Banking Stability Index



Source: Central Bank of Suriname

1 The MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries*. With 1,561 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Figure 3
Aggregate Financial Stability Index



Source: Central Bank of Suriname

recovery. Profitability had increased while asset quality had improved.

The aggregate financial stability index (AFSI) (Figure 3) consists of several sub-indexes and is used to assess the stability of the banking sector. It is a single financial stability index, which consists of microeconomic, macroeconomic and international indicators for banking sector performance. An increase in the ASFI implies increased financial stability and vice versa.

The AFSI for the banking sector improved slightly when compared with 2019. The AFSI recorded a monthly average of 0.747 in 2020 relative to a monthly average of 0.743 for 2019, despite some downturns resulting from the Covid-19 pandemic in 2020. The main reason for the improvement was the upward adjustment of the exchange rate, while increased inflation and sharp falls in the MSCI World Index negatively impacted the AFSI.

The aggregate regulatory capital adequacy ratio (CAR) increased steadily since 2016 from 5.5 percent to 11.8 percent at the end of December

2020, complying with the regulatory minimum of 10 percent. The banking system was profitable in 2020 when compared with 2019, as the return on equity (ROE) doubled from 16.7 percent to 34.8 percent.

Exchange rate gains and interest gains contributed significantly to profits. The non-performing loan (NPL) ratio, on the other hand, increased from 10.6 percent to 14.6 percent, a further deviation from the NPL threshold of 5 percent. Same as in 2019, liquidity in the banking sector remained satisfactory in 2020. Liquidity indicators, namely liquid assets to total assets and liquid assets to short-term liabilities stood at respectively 51.5 percent and 101.3 percent.

Insurance companies

Life insurance

Insurance companies had ample adequate capital in relation to required capital to meet the minimal standard as set by the supervisor. The ratio stood at 233.6 percent in 2020, a decrease when compared with 2019, but comfortably exceeding the minimum required ratio of 100 percent. Also in 2020, life insurance companies held sufficient equity capital in relation to their

insurance business with a ratio of 97.9 percent, given that a ratio lower than 300 percent is considered adequate.

The liquidity position of the life insurance companies improved slightly in 2020, but still remained below the minimum percentage of 90 percent. The liquidity ratio stood at 55.6 percent in 2020, whereas it was 43.4 percent in 2019. The growth of the liquid assets, related to an increase of term and saving deposits, was higher than the growth of the total liabilities. Notwithstanding an increase in underwriting losses in 2020, life insurance companies were still able to operate profitably due to their high investment income, which was largely driven by the depreciation in September 2020.

Non-Life Insurance

In 2020, as with life insurance companies, non-life insurance companies also had more than sufficient available capital taking into consideration the regulatory requirement. The ratio, available capital in relation to required capital jumped from 428 percent in 2019 to 705.4 percent. Upward exchange rate adjustments propelled revenues from SRD 1.3 million in 2019 to SRD 319.2 million in 2020, while investment income soared from SRD 31.8 million in 2019 to SRD 109.2 million in 2020. Consequently, the industry remained very profitable, as it can more than sufficiently absorb underwriting losses of SRD 61.2 million. The liquidity position improved from 43.4 percent in 2019 to 55.6 percent, but was still beneath the regulatory minimum of 95 percent.

Pension funds

The solvency of a pension fund is determined by the investments minus financial resilience in percentage of the provision for pension commitments. The financial resilience depends on the risk degree assigned to the committed investments. The solvency also depends on the chosen pension scheme, due to the relationship of the weighted assets with the provision for pension commitments. Preliminary data for 2020 indicated that the solvency increased to 109 percent from 101 percent in 2019, which

is, for a large part, attributable to an increase of the foreign currency assets. The latter is due to the upward adjustment of the exchange rate in September 2020. The liquidity ratio of the pension sector declined slightly from 11.5 percent (2019) to 11.1 percent (2020), showing a declining trend for three consecutive years.

Credit unions

In 2020, the open-bond credit unions struggled to comply with the required 7 percent solvency ratio, thereby dragging the aggregate solvency ratio below the required minimum. The Bank currently does perform a more stringent supervision to address the non-compliance. The liquidity ratio of the open-bond credit unions was also not satisfactory, as the liquidity ratio was only above the 100 percent minimum when the loan portfolio would be included. The closed bond credit unions did comply with the minimum ratio in 2020.

Stock exchange

As of December 2020, the market capitalization of the Suriname Stock Exchange increased by 2.6% compared with 2019 in absolute terms, but registered a lower turnover of 0.2 million SRD instead of 0.4 million SRD in 2019. Next to a lower trading of stocks, the main reason for this decline (41%) was that the 5-year bond of the government-owned State Oil Company had reached maturity. The market value-weighted index of the Suriname Stock Exchange increased volume by 4.0 percent relative to December 2019, due to the increase of the share prices of four listed companies out of the eleven listed companies.

Section IV takes account of forward-looking risks and discusses the results of recently conducted stress tests of the banking sector for June 2021 compared with December 2020. The stress tests examined the capital levels in individual banks and the banking system as a whole in the face of a number of single-factor stress-testing exercises. Combinations of these risks are also tested in a multiple-factor stress-testing scenarios. In addition to the solvency

stress tests, two liquidity stress tests were performed with favorable results. Overall, the stress tests show that the banking system, as a whole, can withstand several possible adverse shocks, even against the background of a contracting economy. However, concentration risk aggravated and remains the main serious risk, while the quality of the assets having deteriorated in 2020 when compared with 2019. Closer monitoring of the banks in these areas is therefore warranted.

Section V contains special topics, such as the credit-to-GDP gap, the development of the payment system, and a methodology to identify domestic systemically important banks.

Finally, the Statistical Appendix provides information on the evolution of key macroeconomic and financial soundness indicators. The financial soundness indicators pertain to commercial banks, insurance companies, pension funds and credit unions.

I. OVERVIEW OF THE DOMESTIC FINANCIAL SECTOR

The Central Bank of Suriname is the monetary authority of Suriname and functions as supervisor/regulator of the financial sector, as banker to the commercial banks, and as cashier, banker and financial advisor to the Government. The CBvS was founded on April 1, 1957 and has played a crucial role in the financial and economic development of Suriname. Following the Bank Act 1956 (revised in 2005), most of the duties assigned to the CBvS refer to financial stability issues. The core duties of the CBvS are:

- a. To promote the stability of the monetary unit of Suriname;
- b. To provide for the monetary circulation in Suriname to the extent that it concerns banknotes as well as facilitating payments by giro;
- c. To promote the development of a sound banking and credit system in Suriname;
- d. To supervise the banking and credit system, the pension and insurance system, foreign exchange transactions, and transfer of financial resources to and from abroad, all of this subject to the applicable statutory regulations; the supervision also aims to preserve the integrity of the institutions operating in these sectors and sub-sectors;
- e. To promote and facilitate the flow of payments between Suriname and foreign countries;
- f. To promote the balanced socio-economic development of Suriname.

The CBvS therefore has the legal power to ensure the smooth functioning of the financial sector and the payment and settlement systems, which requires a good understanding of key macroeconomic trends, developments in the financial sector and sources of risks in the systemically important banks and financial markets in the economy.

Meanwhile, an entirely revised Central Bank Act has been drafted, to be approved early 2022 by Parliament. The new act explicitly states financial stability as a core function of the CBvS and provides the legal basis for the institutional independence of the Central Bank of Suriname.

As of October 2021, the six main laws that govern the financial sector of Suriname are:

1. Bank Act 1956 (as revised in 2005);
2. Banking and Credit System Supervision Act 2011 (for supervision of banks and credit unions);
3. Pension and Provident Fund Act 2005;
4. Banking and Credit System Supervision Act 1968 (as revised in 1986, currently only for supervision of insurance companies);
5. Money Transaction Offices Supervision Act 2012 (for supervision of cambios and money transfer houses); and
6. Capital Market Act 2014 (for supervision of the Stock Exchange).

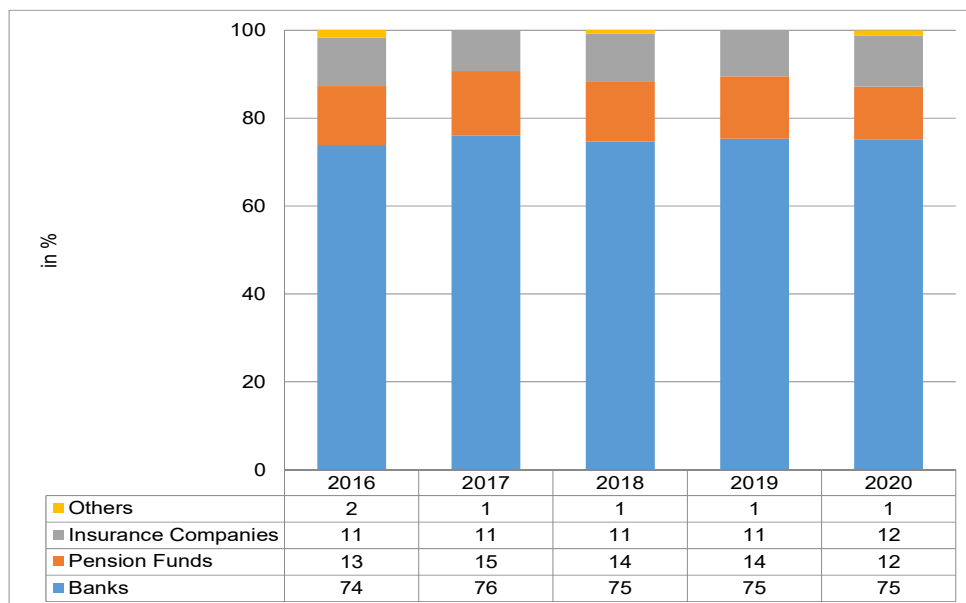
Legislation for the establishment of a Deposit Protection System and the first Credit Bureau are awaiting approval from Parliament, while other legislation, such as the Credit Institutions Recovery and Resolution Act and the Insurance Supervision Act are in advanced stages of drafting. In addition, the Bank Act, the Banking and Credit System Supervision Act, the Pension and Provident Fund Act and the Money Transaction Offices Supervision Act are in the process of revision.

As of December 2020, the list of registered financial institutions under supervision of the Bank consisted of 10 commercial banks, 6 finance and investment companies, 25 credit unions, 12 insurance companies (4 life insurance, 6 non-life

insurance, 2 funeral insurance), 29 active pension funds, 2 provident funds, 25 foreign exchange offices, 7 money transfer houses and 1 stock exchange. In Suriname, commercial banks are the premier financial institutions, holding 75 percent of the assets of the financial system, excluding the CBvS (Figure I.1), while representing 95 percent of Gross Domestic Product (GDP) (Figure I.2). The financial instruments in Suriname mainly consist of demand deposits, term deposits, savings deposits, foreign currency deposits, Treasury bills and CBvS gold certificates and term deposits. The CBvS gold certificates are perpetuities denominated in grams of gold at a 5 percent annual interest rate. One of the distinguished features of the gold certificate is that

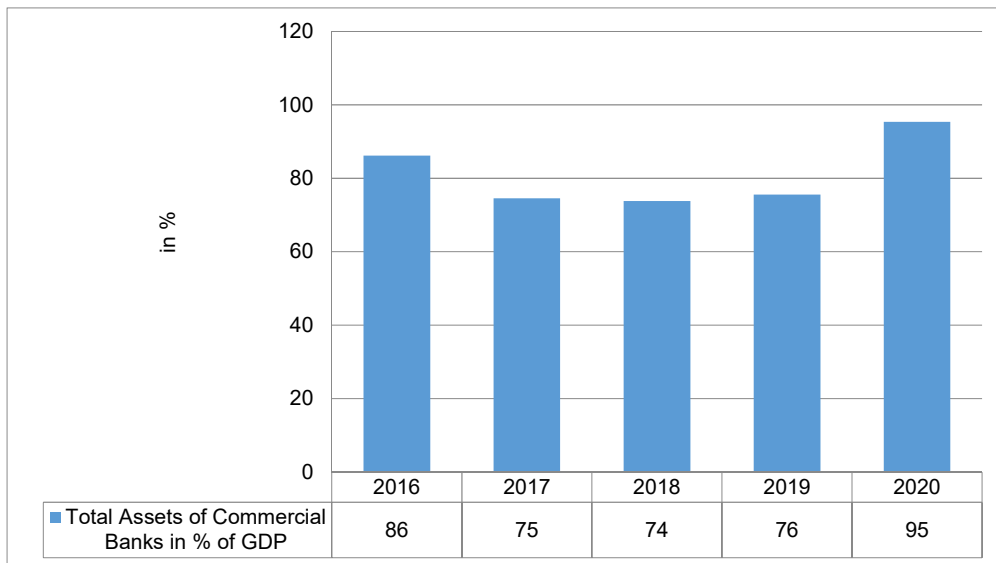
the maximum return on this security is equal to its nominal value, which has been reached after 20 years on March 2015. This implies that, as of March 2015, investors no longer earn interest on these securities. The sale of new gold certificates was discontinued following the 9/11 events that pushed up international gold prices and prompted speculation. The investors that hold these securities still have a relatively stable investment as their value changes with the international gold price and the official rate of the U.S. dollar. The CBvS term deposits, which have maturities of 1 week, 1 month and 3 months, are used to conduct open market operations. Other traded securities include the stocks of eleven companies listed on the local Stock Exchange.

Figure I.1
Distribution of Financial Sector Assets



Source: Central Bank of Suriname

Figure I.2
Total Commercial Bank Assets



Source: Central Bank of Suriname

II. OPERATING ENVIRONMENT

1. Global Environment¹

The Covid-19 pandemic severely hit the economies of many countries and contributed to a contraction of the global economy with by 3.5 percent in 2020. The economic activity of advanced economies declined by 6.5 percent. This was due to a sharp fall in the demand and supply of services. The downturn of the pandemic in the second half of 2020 caused a solid economic upturn, which was largely driven by recovery of retail sales. However, a renewed rise in Covid-19 cases has undermined economic recovery.

Emerging markets and developing economies have been hit by the pandemic, particularly economies with the most Covid-19 cases and those dependent on services, tourism, or industrial commodity exports. These economies shrunk by 6.0 percent in 2020. China is the only economy that managed to register economic growth in 2020.

A weak global aggregate demand appeared to have dominated the effect of supply interruptions. Oil prices lagged the global recovery in commodity prices due to of the extended impact of the pandemic on global oil demand.

The majority of the commodity prices recovered in the second half of 2020 after sharp deteriorations induced by the pandemic. Crude oil prices, however, lagged behind the broader recovery, whereby the average² price declined by 32.7 percent in 2020 to US\$ 41/barrel. The deterioration regards the largest one-year decline ever recorded since the global financial crisis.

Containment measures and the associated drop in global demand, partly compensated by large production cuts in OPEC+ (Organization of the Petroleum Exporting Countries, as well as Russia and other non-OPEC oil exporters) caused the severe decline. Metal prices improved rapidly in the second half of 2020, after sharp falls in the first half, due to strong demand from China. In addition, agriculture prices rose with 4.6 percent in 2020, largely due to production shortfalls in some oils and metals, very strong demand for raw materials, and a depreciation of the U.S. dollar. Precious metals recovered significantly by 26.7 percent in 2020. The surge in prices mirrored a flight to safe-haven assets, heightened uncertainty during the pandemic, low interest rates as major central banks continued expansionary monetary policies, and a depreciation of the U.S. dollar. Subsequently, the prices of gold and silver rose sharply by respectively 27.2 and 26.5 percent in 2020.

2. Domestic Environment

The biggest challenge for the Surinamese economy in the short term, is to restore macroeconomic balance and confidence in the Suriname dollar. To this end, large exchange rate fluctuations must be stabilized. Meanwhile, through the introduction of monetary instruments, the Central Bank of Suriname has taken steps to manage the monetary aggregates and indirectly the floating exchange rate. However, sustainable macroeconomic recovery requires the implementation of a coherent package of measures.

1 The information used for this section comes from the International Monetary Fund (WEO of January 2021 and October 2020) and the World Bank (Global Economic Prospects of January 2021; CMO from October 2020 and April 2021).

2 The average price of Brent (38° API), Dubai Fateh (32° API), and West Texas Intermediate (WTI, 40° API), proportionally weighted.

2.1 Macroeconomic Performance

Real Sector

The economy contracted by 15.9 percent in 2020³ and the downturn was noticeable in almost all sectors of the economy. The local and international response to the Covid-19 pandemic, which started in the beginning of March 2020, contributed to a large extent to the contraction of economic activity. In particular, the decline in activity in the industrial sector (22.5 percent), agricultural, livestock and forestry sector (21.9 percent), the construction sector (24.2 percent) and the hotel and restaurants sector (75.0 percent) is the greatest.

The end-of-period inflation rate accelerated from 4.2 percent in 2019 to 60.8 percent in 2020, while the average inflation went from 4.4 percent to 34.9 percent, respectively. The high inflation in 2020 can mainly be attributed to the increase in the parallel market exchange rate and the devaluation of the official exchange rate in September 2020. As a result, food and fuel prices rose significantly, which jointly accounted for more than half of the end-of-year inflation in 2020.

External Sector

The external current account deficit of 2019 turned into a surplus of US\$ 274.8 million (8.3 percent of GDP) in 2020. This improvement can be attributed to a significant increase of the trade balance with 99.5 percent to approximately US\$ 1.1 billion in 2020. The outcome of the trade balance was mainly driven by a sharp decline in the imports of goods by US\$ 314.6 million (19.7 percent), triggered by retracted domestic demand associated with fiscal austerity- and the Covid-19 measures. The exchange rate devaluation of 90 percent, to the level of USD/SRD 14.29, in September 2020 has also contributed to the decline in imports.

The increase in exports by US\$ 214.4 million (10.1 percent) also contributed to the surplus on the trade balance. The export of goods amounted to US\$ 2.3 billion in 2020, with gold account-

ing for the largest share (83.6 percent) as well as the highest growth rate (13.1 percent). The share of the mining exports increased to 90.2 percent despite a decline in both the share (6.6 percent) and growth (9.7 percent) of oil due to diminished international demand for oil in 2020. The export of timber, in the category of non-mining exports, also increased by US\$ 18.0 million (25.0 percent). It is worth mentioning that gold was the main source of foreign exchange revenue for the Surinamese economy in 2020.

After four years of increasing deficits on the services account, the deficit decreased in 2020 by US\$ 197.7 million (30.1 percent) in 2020. This decrease can partly be attributed to the impact of Covid-19 on the economy, which is reflected in the strong decline by 31.0 percent on the expenditure side, mainly attributable to Staatsolie N.V. and travel expenses. The deficit on the primary income account increased by 9.1 percent (US\$ 412.7 to US\$ 450.1) in 2020. This increase can primarily be explained by a strong decline in inflows due to reduced investment income from commercial banks. On the other hand, the surplus on the secondary income account increased by 38.3% to US\$ 124.1 million due to increased remittances from the Netherlands followed by the USA and France, through money transfer houses.

The financial account showed an outflow of approximately US\$ 260.8 million in 2020. Most of these outflows can be ascribed to the outbound transfer of assets by commercial banks (US\$ 71.1 million) and other sectors (US\$ 96.3 million). With respect to the liabilities of other financial transactions, Staatsolie N.V. repaid its debt to Credit Suisse and the CBvS honored its financial obligations to the International Monetary Fund (IMF) resulting from a Stand-By Arrangement in 2016/17. For direct investments as portfolio investments, the inflow and outflow remained respectively small, which indicates that there were no significant investments and loans between Suriname and the rest of the world in 2020.

Overall, the international reserves decreased by US\$ 62.7 million, reaching US\$ 584.7 mil-

3 Provisional figure of the Planning Office (<https://www.planningofficesuriname.com/>).

lion in December 2020. This was equivalent to 3.8 months of imports of goods and services, including those of the large-scale mining sector, whose imports are mostly self-financed. If the imports of mining companies would be excluded, the international reserves would cover 5.4 months of imports. The international reserves declined as the result of the provision of foreign currencies for cash balances (US\$ 44.6 million) and repayments to the IMF (US\$ 41.1 million) in 2020. However, it is noteworthy that the outflows in the international reserves have been mitigated by positive revaluations of US\$ 20.7 million that is almost entirely attributable to exchange rate differences.

Government Sector

Government revenues increased by 10.0 percent to SRD 7.0 billion in 2020, mainly due to income taxes and royalties from the mining sector. The revenues from the mining sector grew by 27.8 percent, whilst the revenues from the non-mining sector almost remained the same compared to the previous year. The increase in revenues can also be explained by the devaluation of the SRD (from 1 USD/SRD 7.52 to 1 USD/SRD 14.29) and the increase of income and payroll tax tariffs with 10 percent, better known as the solidarity levy. The Government has also increased sales tax with 2 percent, however a significant decrease was accounted for by a fall in sales tax receipts and other indirect taxes (e.g. import duties). The decline in these revenues can be ascribed to the Covid-19 pandemic.

The total expenditure in 2020 was SRD 11.8 billion and remained relatively stable compared to 2019. In 2020, the payroll expenses and interest payments increased significantly at the expense of, especially, capital expenditures. The payroll expenses grew due to the increase of civil servants in 2020, while the increase in interest expenses could be attributed to growing government debt.

The deficit decreased from SRD 5.0 billion in 2019 to SRD 4.8 billion in 2020. In 2019, the deficit was the equivalent of 21.2 percent of GDP. The largest domestic source of financing was Central Bank borrowing. In 2020, domestic

sources accounted for 117 percent of financing, whereas 5 percent came from foreign sources. According to the definition of the Government Debt Act, total debt increased from 86.6 percent of GDP in 2019 to 111.4 percent in 2020. The main contributor to this increase was domestic debt, mainly due to additional debt obligations to the CBvS. In 2020 domestic and external debt ratios were respectively 53.9 percent and 57.6 percent of GDP (2019: 28.6% and 57.9%).

Monetary Sector

Monetary policy

The CBvS took some measures to strengthen monetary policy stance in 2019 - 2021. The main policy action was in September 2020 when the exchange rate was adjusted in order to promote the efficient operation of the foreign exchange market. On June 7th, 2021, the exchange rate regime was liberalized, allowing the USD/SRD exchange rate to stabilize around SRD 21. In July 2021 the CBvS engaged in weekly open market operations to target the level of reserve money consistent with output and inflation targets.

Monetary aggregates

The reserve money expanded from SRD 9.5 billion in 2019 to SRD 12.7 billion in 2020, an increase of 34.4 percent. When accounted for exchange rate adjustment, M0 would have been SRD 12.6 billion at the end of 2020. This represents an increase of 33.3 percent compared to 2019. The exchange rate adjustment had no significant impact on M0 as this adjustment was implemented only in the last quarter of 2020.

Narrow money (M1) grew from SRD 9.9 billion to SRD 16.1 billion in 2020. This represents a growth of 62.6 percent, while in 2019 this growth was only 12.6 percent. The transferable deposits, which account for almost 80 percent of total M1 in 2019 and 2020 caused this growth. This balance sheet item increased from 8.8 percent in 2019 to 59.0 percent in 2020.

M2 increased significantly from SRD 20.3 billion in 2019 to SRD 32.9 billion in 2020. This implies an increase of 62.1 percent.

Correcting for devaluation, M2 growth was SRD 32.7 billion, reflecting an increase of 61.3 percent.

Net foreign assets and domestic credit, to both government and the private sector caused this substantial growth of M2. Liquidity creation for the government amounted to SRD 6.2 billion. Compared to 2019, credit to the private sector increased from SRD 116.6 million to SRD 2.6 billion.

Domestic credit

The nominal growth of credit in local currency increased in 2020 compared to 2019, while credit in both U.S. dollar and euro declined. The nominal growth of credit in local currency amounted to 26.1 percent. Within the productive sector, Construction contributed 19.9 percent to this increase. Credit to the non-productive sector increased by 28.5 percent, due to an increase of credit to the Trade sector. In the category Others, Credit to the Government attributed to the increase from SRD 601.1 million in 2019 to SRD 1.5 billion in 2020. Although the nominal growth increased, the loan-to-deposit ratio increased by only 0.8 percentage point (2019: 78.1%; 2020: 78.7%), implying that lending increased more or less at the same rate as the reserve base.

A drop in demand for credit by both the productive and the non-productive sectors caused nominal U.S. dollar credit growth to decline further from 6.9 percent in 2019 to 9.0 percent in 2020. Credit to the productive sector dropped by 7.0 percent, while to the non-productive sectors declined by 9.8 percent. The decline in credit demand from the sectors Mining, Trade and Service, contributed for 80.5 percent to the decrease in total U.S. dollar credit. The decrease is also reflected in the USD loan-to-deposit ratio, which declined from 40.1 percent in 2019 to 37.0 percent in 2020.

In contrast, the euro credit growth declined by 50.4 percent in 2020. Credit to the non-productive sector fell by 50.7 percent of which the largest drop was in the Service Sector (28.0 percent) and the category Others (66.3 percent).

With such a sharp decline in nominal credit growth, the EUR loan-to-deposit ratio deteriorated sharply by 32.6 percentage points (2019: 70.6%; 2020: 38.0%).

Credit Rating

In 2020, the credit rating agencies adversely adjusted their ratings and outlooks on Suriname (see Table II.1).

Standard & Poor's adjusted their rating from B with a stable outlook to Selective Default (SD). In addition, Moody's Investors Service lowered its rating from B2 with a stable outlook to Caa3

Table II.1
Credit Rating Overview

Year	Rating agency		
	S&P	Moody's	Fitch
2016	B+/negative	B1/stable	B+/negative
2017	B/negative		B-/negative
2018	B/stable	B2/negative	B-/stable
2019	B/stable	B2/stable	B-/negative
2020	SD	Caa3/negative	C

Source: Central Bank of Suriname

with a negative outlook. The common points on which these rating agencies adjusted their ratings are:

- Less than good prospects for obtaining external financing;
- The economic and financial effects of the Covid-19 pandemic, which could put pressure on Suriname's fiscal and financial challenges;
- The drop in oil prices that could negatively affect government deficits and financing needs.

Fitch Ratings Inc. also downgraded its outlook on Suriname from B- with a negative outlook to C. This adjustment was based on the performance of Suriname's 2023 and 2026 government bonds. After the Government of Suriname failed to pay the interest of US\$ 25.4 million to the bondholders on the agreed date, it also requested a second solicitation to reschedule external debt service during 2020.

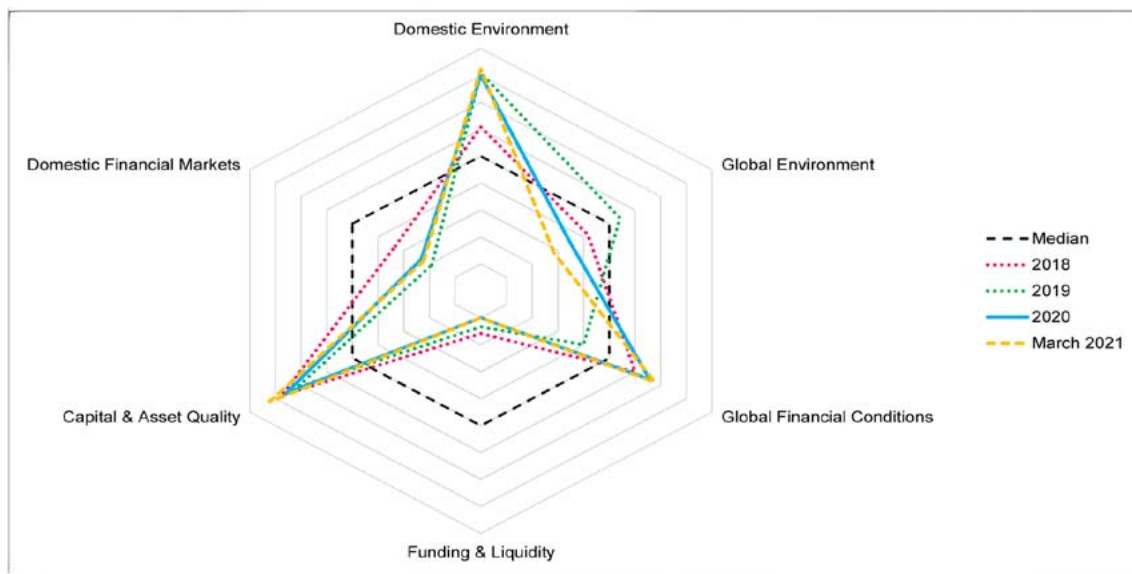
3. Risk Exposure

The key economic and financial risks arising from the global and domestic environment and their consequences for the Surinamese financial sector are represented in the cobweb diagram (Figure II.1). It provides a summary of the risks to which the financial system (in Suriname the banking system) can be exposed in the event of potential shocks. Movements from the center of the chart indicate an increase in financial stability risks, while movements toward the center of the chart indicate a decrease in financial stability risks. The black dotted line illustrates the normal level of risk.

According to Figure II.1, the overall risk exposure of the financial system was lower in 2019

(green dotted line) relative to 2020 (blue line). Where the world lockdown due to the Covid-19 pandemic increased the risk in the “global financial conditions” dimension, it is also clear that after the normalization of markets post-lockdown, a decreased risk in the “global environment” dimension is noticeable. Furthermore, an increased risk is noted in the “domestic financial markets” dimension, as the result of an adjustment of the official foreign exchange rate of the U.S. dollar with 90 percent in September 2020 as well as of an increased interest margin. The risk exposure in March 2021 (orange dashed line) is a continuation of the situation in December 2020.

Figure II.1
Risk Profile of the Financial Sector



Source: Central Bank of Suriname

III. PERFORMANCE OF SURINAME'S FINANCIAL SECTOR

1. Commercial Banks

1.1. Size

The banking sector in Suriname is highly concentrated. The total market share is dominated by four systemic banks¹, which account for more than 83 percent of the total commercial banks assets. The Central Bank of Suriname monitors the vulnerabilities of a concentrated banking sector through a number of indicators, such as the size of the banking sector as a proportion of the GDP, sectoral concentration and interbank exposures. Commercial banks in Suriname hold 75 percent of the total financial system assets. This represents 95 of GDP, a 19 percentage point increase when compared to 2019. Concerning the sectoral concentration, the most exposures are in the sectors Trade, Other (loans to households and business loans) and Government (including T-bills). The CBvS also focusses on interbank exposures, which is the interconnectedness between banks through claims, liabilities,

investments in securities and in shares. At the end of 2020, the banking sector consisted of ten commercial banks. The license of a secondary bank that obtained a banking license under resolution conditions as of 2017, in order to operate as a commercial bank, has been extended for another year.

The total assets of commercial banks were SRD 36.5 billion as of December 2020. Compared to 2019, this constitutes a balance growth of SRD 12.8 billion, which was among other things due to the exchange rate adjustment in September 2020. The exchange rate was SRD 7.396 during the first 9 months of 2020 and was then adjusted to SRD 14.018 in September 2020. Table III.1 illustrates the sector's growth in assets over the last five years.

The Herfindahl-Hirschman index (HHI)² for the whole banking system is 1,894, which is above the benchmark of 1,800.

Table III.1
Banking Sector of Suriname

Commercial banks	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Banks	9	10	10	10	10
Local banks	8	9	9	9	9
Foreign bank	1	1	1	1	1
Total Assets (x SRD 1000)	17,807,963	20,048,553	22,001,978	23,776,351	36,586,019
Total Assets system banks (x SRD 1000)	15,134,320	16,448,571	17,757,477	18,856,364	30,173,497
Assets in % of total financial system assets	73.9	76.0	75.1	74.9	75.1
Assets in % of GDP	86.2	74.5	73.8	75.5	95.4

Source: Central Bank of Suriname

1 In Suriname, there are four systemic banks (see paragraph V.1 for more details).

2 The Herfindahl-Hirschman index (HHI) is a commonly accepted measure of the extent or degree to which a relatively small number of firms account for a relatively large percentage of the market (market concentration). It is calculated by squaring the market share of each firm competing in a market, and then adding the resulting numbers. The HHI can range from close to zero to 10,000, with index values exceeding 1,800 indicating very high market concentration.

Although the HHI is higher than the benchmark, the market concentration of the banking system seems to be normal. The lower the HHI is, the more power consumers hold in that industry.

1.2. Market Activity

In a highly concentrated and interconnected banking sector, any bankruptcy of banks with a large market share can threaten the stability of banking services and this increases the likelihood of a systemic crisis. Because the structure of the banking sector has a major impact on the stability and efficiency of banking services, the notion of stability of the banking sector, is its ability to maintain its service to their retail and business clientele in times of crisis without the need for support operations. It is therefore of enormous importance to ensure that the banking sector, among other things, is strengthened, in order to ultimately achieve sustainable growth. Furthermore, banks must continue to work on an ethical culture, a sustainable earnings model and comply with all regulations and requirements issued by the CBvS. The continuous development and improvement of services using innovation has been a process in the banking sector for several years.

Covid-19 Pandemic

As a result of the worldwide outbreak of the Covid-19 pandemic, economic activity had declined sharply in 2020 and it declined even further due to the many lockdowns. During this time, economic growth and employment in the banking sector have been jeopardized. Therefore, the CBvS had taken the necessary timely measures in order to maintain the solvency and liquidity of the banking system, thus safeguarding the stability of the financial system during this health crisis, e.g. by offering a stimulus package to provide some relief within the banking system. Furthermore, banks were allowed to give moratoriums on loan repayments, especially when making an assessment whether (i) there has been a significant increase in credit risk or there is a default, (ii) loans are impaired after the moratorium period is over and (iii) loans that

are not expected to remain in good standing reflect the increase in credit risk accordingly. The banks need to send a monthly annex (report) to the CBvS. Hence, accordingly, the CBvS was committed to ensuring that banks and other financial institutions affected by the consequences of Covid-19 and the resulting economic contraction could weather this crisis in an orderly manner. In addition, the commercial banks were enabled by the CBvS to provide special loans funded by a one-time reduction of the SRD cash reserve requirement by 7.5 percentage points in the month May of 2021. The released liquidity of approximately SRD 570 million is used to simulate credit to the small and medium enterprises and individuals affected by the Covid-19 crisis. These special credits have an interest rate of 7 percent and consist of new credit, but also supplements to existing credit. From the released cash reserves, only 9.3 percent was used for the small and medium companies per December 2020.

After earlier concerns regarding whether the virus could be transmitted through currency bills or contact with ATM surfaces, banks began to promote more no-touch forms of payment. This meant that banks became more creative with their services and financial products. The Covid-19 pandemic has managed to stimulate more digital banking, while providing the opportunity for further innovations regarding contactless payments in 2020. Digital banking is stimulated more recently also on mobile banking, like payment applications and “mobile wallets”. The benefits (in particular less cash and stimulating financial inclusion) of electronic payments are recognized and the further development of efficient and secure payments are pursued. With the increases in both cashless transactions and the proportion of employees working from home, banks needed to continue to invest in digital resilience and use multi-layered cyber defense systems, taking into account a new aspect in the provisions of services to non-account holders, which entails more/higher risk with regard to AML/CFT compliance.

1.3. Financial Soundness

The financial soundness indicators for 2020 showed that the banking sector had strengthened their capital position in order to be able to achieve economic recovery through responsible credit growth support. Two key desiderations will be the strength and durability of the economic recovery during the Covid-19 pandemic and also the exchange rate adjustment in September 2020. While banks have shored up their financial positions, there has been a significant rise in non-performing loans (NPLs). In addition, economic recovery remains a challenge.

Capital Adequacy

Capital Adequacy ratio (CAR) increased during 2020 because of growth in retained earnings. As can be seen from Table III.2, the combined CAR improved during 2020 (11.8%) and is 1.8 percentage point above the required minimum of 10 percent. However, based on the last onsite rating of individual banks, additional risk premiums will be applied to the required minimum. The Tier-1 ratio, which is indicative for the strength of banks' core capital structure as of end-December 2020 decreased to 10.5 percent, representing a 0.3 percentage point decrease compared to end-December 2019 (see Figure III.1 and III.2). These movements were mostly explained by changes in the risk-weighted assets (RWA) of banks and the steady increase of regulatory capital (Tier 1 and Tier 2 capital). The regulatory capital increased by SRD 556.6 million in 2020, whereas the total RWA increased by SRD 4.4 billion. Overall, the combined CAR of banks was above the respective regulatory minimum. The

leverage ratio was 4.4 percent in 2020, which is the same as 2019, and above the 3% minimum requirement (Basel III). It can therefore be determined that the higher the ratio, the more the likelihood that the banks can withstand negative liquidity shocks.

The combined net open position of the commercial banks was SRD 328 million in 2020. The net open position amounted to 20.8 percent compared to the Tier 1 capital at the end of 2020, which is somewhat above the regulatory maximum of 20 percent. Taking the secondary bank into consideration, the overall net open position amounts to 26 percent compared to the Tier 1 capital.

Asset Quality

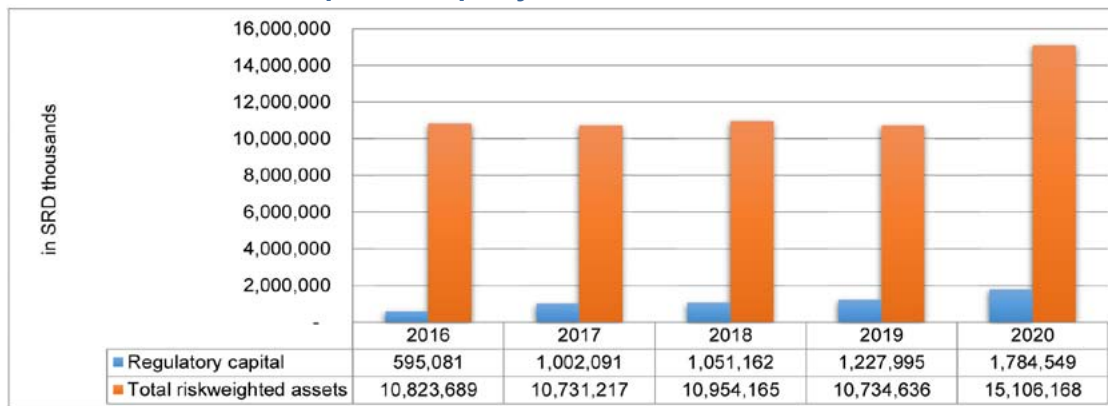
The asset quality of banks slightly deteriorated relative to the years before as a result of weaker business volumes and rising loan impairment charges in 2020. Even more, the Covid-19 pandemic triggered a sharp slowdown in economic activity, causing substantial income shortfalls for households and businesses, which in turn affected credit growth and asset quality. The percentage of non-performing loans has increased, and the number of loans with increased credit risk has risen. The non-performing loan ratio has increased from 10.6 percent in December 2019 to 14.6 percent in December 2020, which is thrice the norm of 5 percent used by the CBvS. In total, the non-performing loans in 2020 increased with approximately SRD 831 million as compared to 2019 (2020: 1.807 billion; 2019: 977 million). In specific, the loans in the 'doubtful' category increased with approximately 632 million (Figure III.3). However, the increase in

Table III.2
Capital Adequacy of Commercial Banks

	2016	2017	2018	2019	2020
Tier 1 (<i>x SRD 1000</i>)	595,081	938,842	984,337	1,154,035	1,581,288
Tier 2 (<i>x SRD 1000</i>)	-	63,249	66,826	73,960	203,261
Regulatory capital (<i>x SRD 1000</i>)	595,081	1,002,091	1,051,162	1,227,995	1,784,549
Total riskweighted assets (<i>x SRD 1000</i>)	10,823,689	10,731,217	10,954,165	10,734,636	15,106,168
Capital Adequacy ratio (%)	5.5	9.3	9.6	11.4	11.8
Tier 1/Riskweighted assets (%)	5.5	8.7	9.0	10.8	10.5
Tier 1 Leverage ratio (%)	5.5	4.3	4.4	4.4	4.4

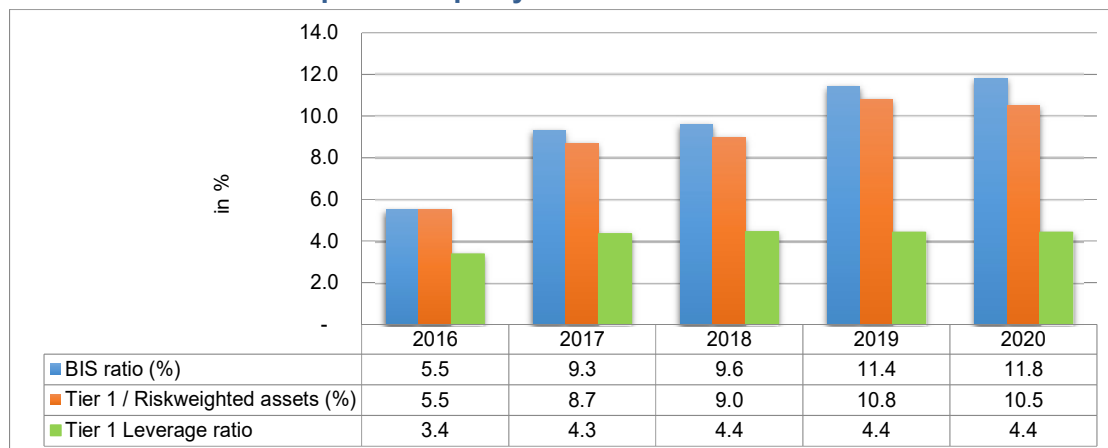
Source: Central Bank of Suriname

Figure III.1
Capital Adequacy of Commercial Banks



Source: Central Bank of Suriname

Figure III.2
Capital Adequacy of Commercial Banks



Source: Central Bank of Suriname

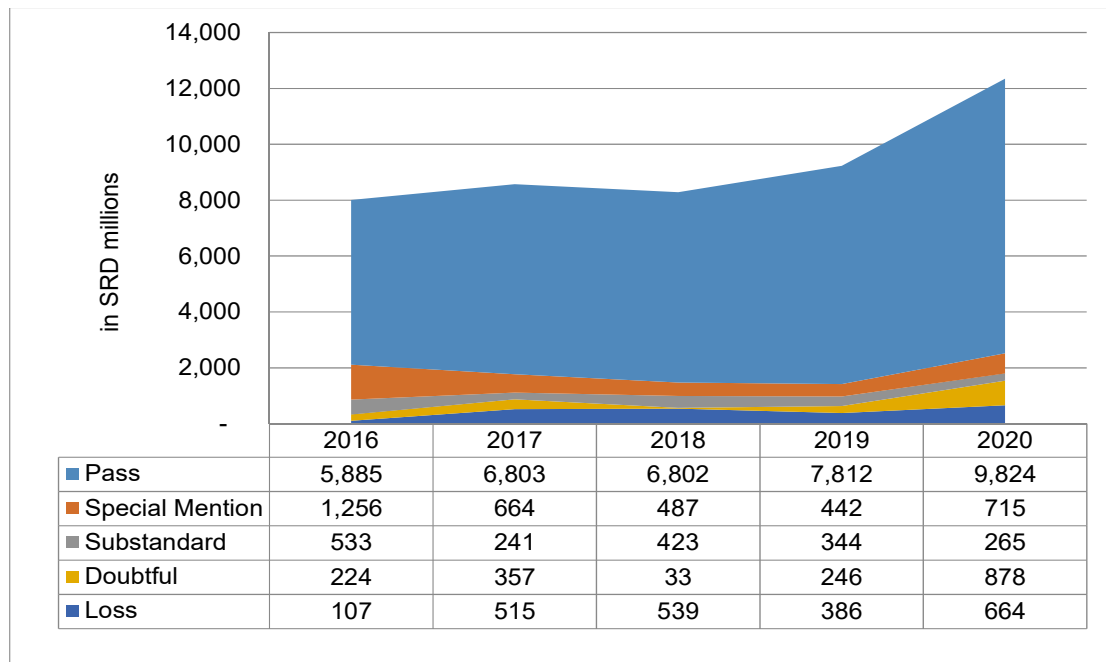
provisions is not noticeable in the doubtful category, which indicates that certain banks are still short of provisions. The gross delinquency ratio as of December 2020 further increased to 20.4% compared to December 2019.

The loan loss provisions in the non-performing loan portfolio show an increase of SRD 181.52 million in 2020, while those in the performing loan portfolio show an increase of 52.1 million (Figure III.4). Some banks have made additions to their loan loss provisions, as a result of weak or inadequate credit risk management resulting in deterioration of their credit portfolio. Although

most banks meet the minimum requirement for provisions, some of them still need to make additional provisions for their loan losses. As aforementioned, banks must ensure that these provision deficits are eliminated by improving the quality of their loan portfolio (e.g. additional provisions category doubtful) as well as by taking the necessary measures.

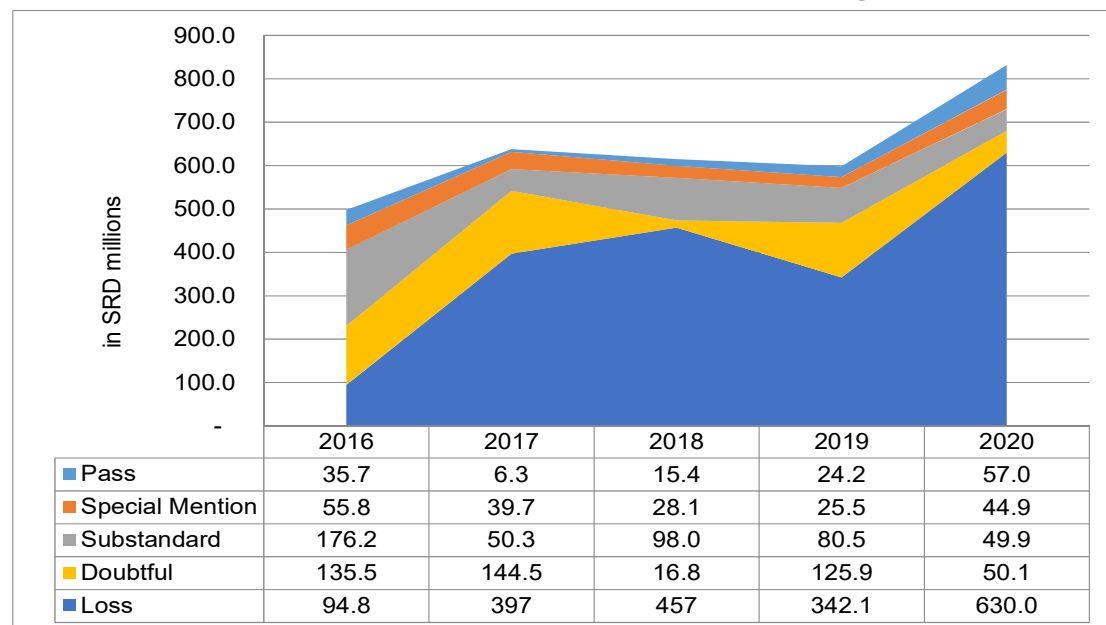
The International Financial Reporting Standards (IFRS) 9 have entered into force in January 2018. In Suriname, the law requires that as of financial year 2020 companies of public interest need to comply with IFRS, with comparative fig-

Figure III.3
Commercial Banks Classification of Loans



Source: Central Bank of Suriname

Figure III.4
Commercial Banks Provisions for Non-Performing Loans



Source: Central Bank of Suriname

ures for 2019. A few commercial banks already implemented IFRS as the reporting standard. However, there could be a mismatch between

the level of provisions required by the CBvS regulation and the IFRS 9 standard. Nevertheless, banks must always meet the requirements as

mentioned in the Regulation of the CBvS. The revised regulations, which are in accordance with IFRS, have yet to be issued.

Earnings and Profitability

As a whole, the banking sector remained profitable in 2020. As shown in Table III.3, the banking sector had a gross income of SRD 601.4 million in 2020. This is an increase of 162.5 percent in comparison to 2019. The profitability, as measured by return on equity and return on assets, stood at respectively 34.8 percent and 2.0 percent. Both ratios increased mostly driven by foreign currency gains of SRD 406 million and annualized interest income that had grown by SRD 36 million. Provisioning increased in 2020, thereby dampening profits, although mitigated at the systemic banks by a release of provisions of approximately SRD 84 million in the month of December. In contrast, the banks registered lower cumulative interest-based expenses of SRD 3.6 million, but also an increase in the operating expenses, such as staff and occupancy expenses, audit, legal and professional fees of SRD 115.8 million. Subsequently, 2020 ended profitably, thus resulting in improvements of the profitability ratios compared to 2019.

Liquidity

The banking sector remained liquid in 2020, with liquidity indicators, namely liquid assets to total assets, liquid assets to short-term liabilities and total loan to deposit ratio, standing at respectively 51.5 percent, 101.3 percent and 40.2 percent. Another indicator is the liquidity coverage ratio (LCR) for the banking sector. The commercial banks jointly report a liquidity surplus in SRD, USD and EUR based on the LCR. Taken together, the LCR of banks in all the currencies and the aforementioned liquidity indicators show a relatively comfortable position. Hence, the liquidity ratio of 2020 compared to 2019 (Figure III.5) shows an increase from 93.4 percent to 101.3 percent. Although, the adequacy and effectiveness of liquidity risk management is not satisfactory for all banks, the CBvS is in regular consultation with banks that need to improve their liquidity position and liquidity risk management.

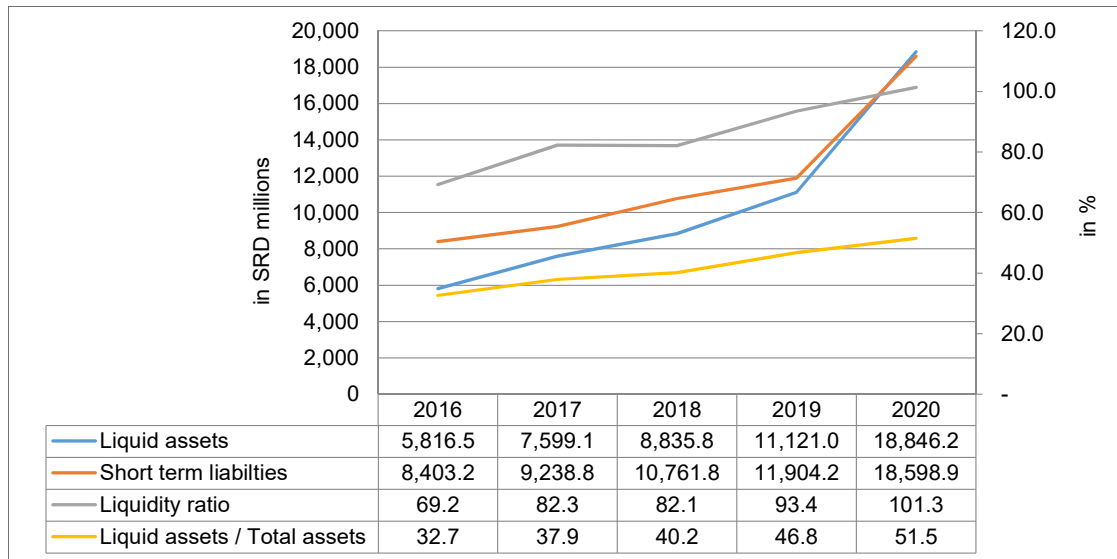
The total loan-to-deposit ratio decreased from 47.9 percent in December 2019 to 40.2 percent in December 2020 (Figure III.6). This was due to a decrease in the loan-to-deposit ratio in FX from 37.8 percent to 28.5 percent.

Table III.3
Commercial Banks Earnings and Profitability

	2016	2017	2018	2019	2020
Gross income	-105,084	161,189	23,550	229,153	601,442
Total income	475,317	860,447	780,901	1,065,733	1,581,891
Expenses	580,400	699,258	757,351	836,580	980,449
Net interest Margin	538,867	526,087	474,917	729,430	708,607
Profit after tax	-143,513	110,916	-33,862	155,980	458,634
Average equity	953,602	994,382	1,235,095	1,373,324	1,727,358
Average assets	15,961,750	18,928,258	21,025,265	22,889,164	30,181,184
ROE (%)	-12.1	0.2	0.0	0.2	0.3
ROA (%)	-0.7	0.0	0.0	0.0	0.0
% Change average equity	2.6	4.3	24.2	11.2	25.8
% Change average assets	42.7	18.6	11.1	8.9	31.9
% Change gross income	-173.5	-253.4	-85.4	873.1	162.5

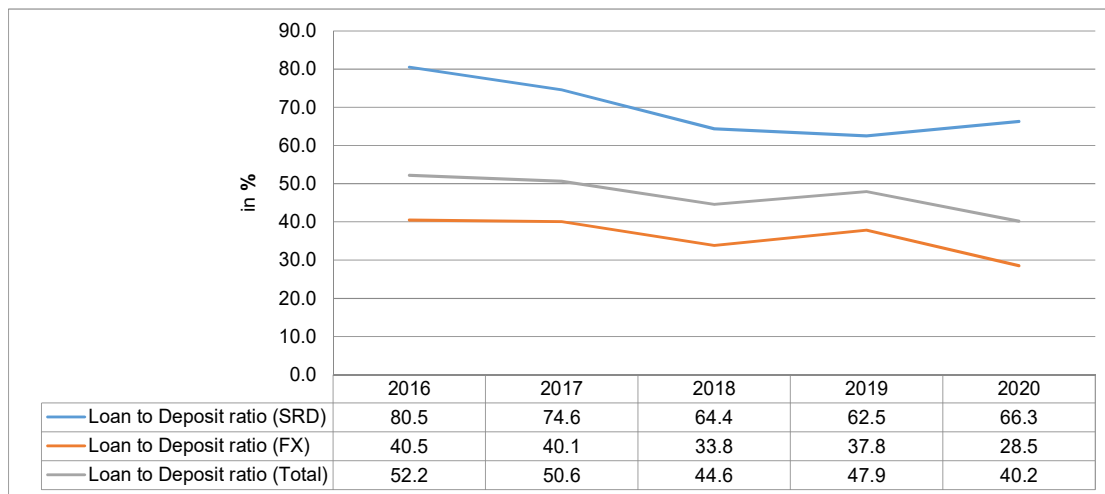
Source: Central Bank of Suriname

Figure III.5
Commercial Banks Liquidity Indicators



Source: Central Bank of Suriname

Figure III.6
Commercial Banks Loan -To-Deposit Ratio



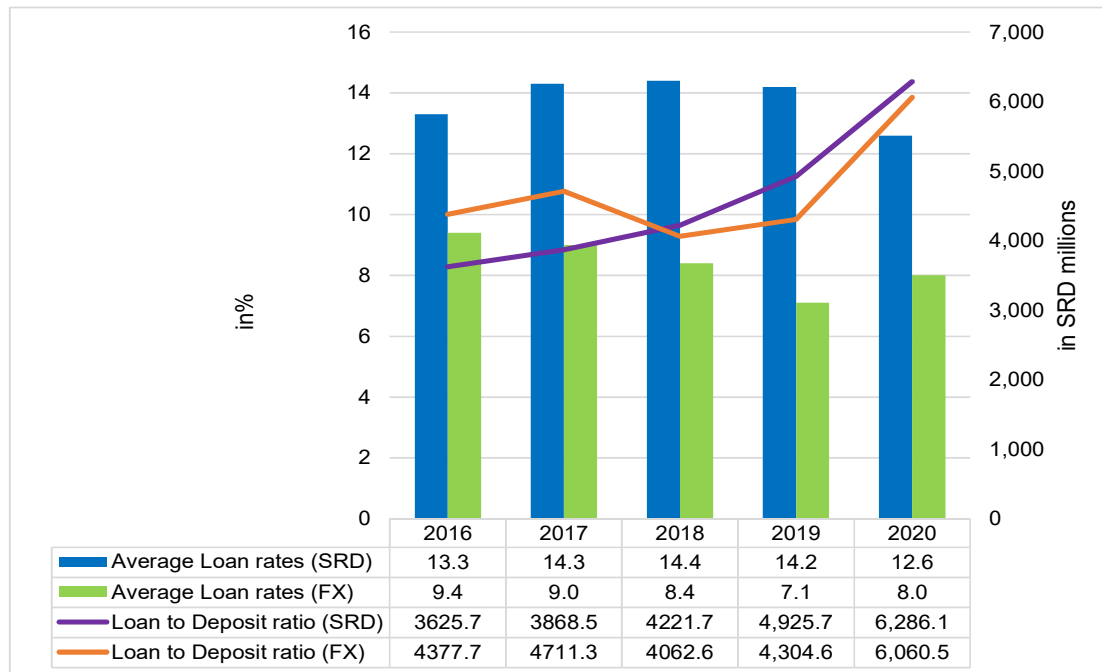
Source: Central Bank of Suriname

The FX deposits grew more strongly, as a result of the exchange rate adjustment in September 2020. Hence, the total deposits increased by SRD 11.5 billion and the total loans increased with SRD 3.1 billion in 2020.

According to Figure III.7, loans in both SRD and FX increased. This could be explained by the fact that some banks have extended their loan limits

in SRD as well as in foreign currency. It should be noted that cash reserve requirements are included in the calculation of the loan-to-deposit ratio. If the cash reserve requirements of 39 percent for SRD and 50 percent for foreign currency are excluded, the loan-to-deposit ratio would be much higher. This will then indicate that banks have in principle fewer funds available for new lending.

Figure III.7
Commercial Banks Average Loan Rates and Loan Growth



Source: Central Bank of Suriname

Banking Stability

The banking stability index (BSI) was 0.81 in December 2019 and decreased to 0.61 in December 2020 (see Figure III.8) due to deterioration of the asset quality as a result of weaker business volumes and rising loan impairment charges in 2020. The index decreased further to 0.42 in March 2021 due to lower profitability. In June 2021, the overall stability of the domestic banking industry improved, compared to March 2021, as a result of improved capital adequacy and improved asset quality.

Aggregate Financial Stability

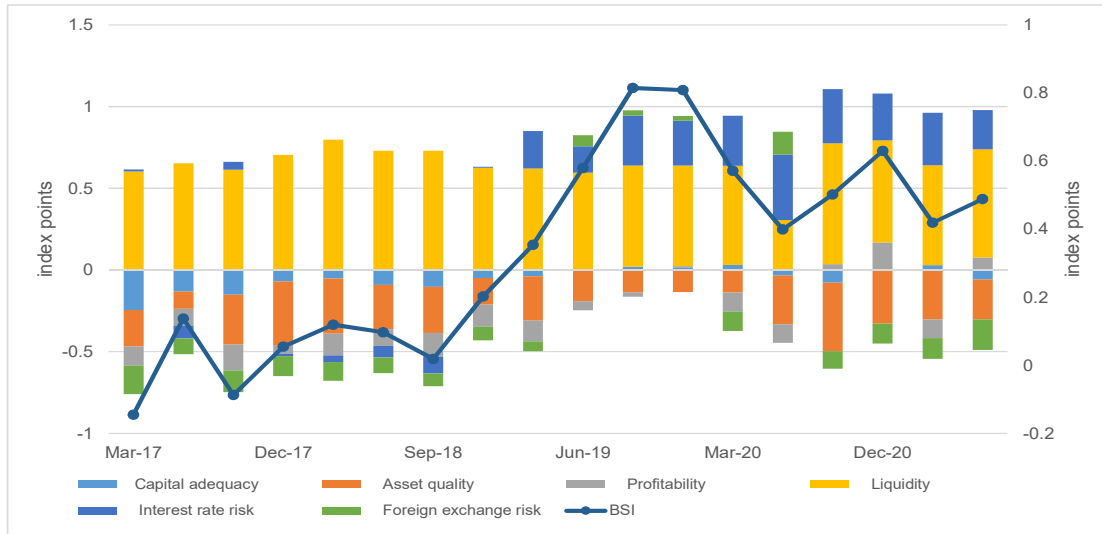
The aggregate financial stability index (AFSI) (Figure III.9) is used to assess the stability of the banking sector. It is a single financial stability index which consists of microeconomic, macroeconomic and international indicators for banking sector performance.

An increase in the ASFI implies increased financial stability and vice versa. The AFSI consists of four sub-indices, namely:

1. the “Financial Development Index” (FDI): measures the level of development of the financial system (in the case of Suriname: the banking system).
2. the “Financial Soundness Index” (FSI): measures the solvency of banks.
3. the “Financial Vulnerability Index” (FVI): measures how well banks are able to absorb shocks.
4. the “World Economic Climate Index” (WECI): measures how the domestic economy responds to global economic developments.

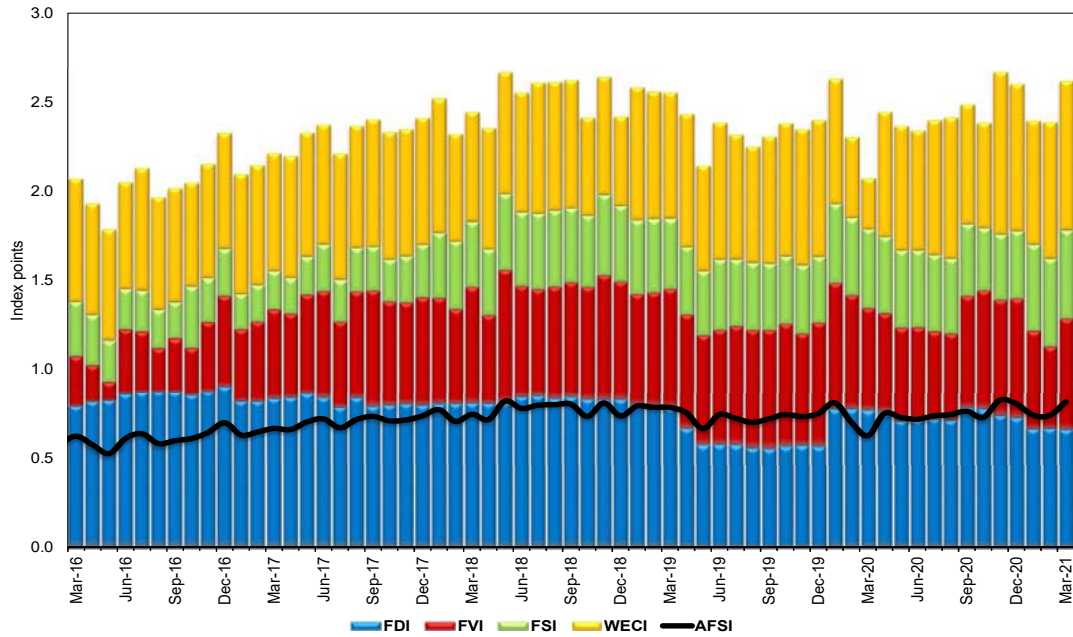
The AFSI for the banking sector, improved slightly when compared with 2019. The AFSI recorded a monthly average of 0.747 in 2020 relative to a monthly average of 0.743 for 2019, despite some downturns resulting from the Covid-19 pandemic in 2020.

Figure III.8
Banking Stability Index for Suriname



Source: Central Bank of Suriname

Figure III.9
Aggregate Financial Stability Index for Suriname



Source: Central Bank of Suriname

The sub-indices FDI and FSI recorded minimal increases, whereas the other two sub-indices, FVI and WECl, decreased.

The FDI improved as the result of increased total credit to GDP in 2020. This can be attributed to an increase of the rate of return in the FX-market because of an upward adjustment of the official exchange rate of the U.S. dollar with 90 percent. Consequently, the value of the assets and liabilities denominated in foreign currencies, increased sharply, reflecting the mechanical effect of the devaluation.

The FVI decreased as a consequence of increased inflation in 2020 compared to 2019, while the decreases WECl can be attributed to sharp falls in the MSCI World index during the first half of 2020.

The Covid-19 pandemic brought the world to a standstill during the period under review. As the pandemic became manageable, the world economy slowly restored as was reflected in the improved AFSI, a development that continued up to March 2021.

The ability of Surinamese commercial banks is assessed in order to determine if they can withstand the impact of an increase in credit risk induced by macroeconomic shocks. The key macroeconomic variable, i.e. the real GDP, is currently utilized to analyze the vulnerability and risk exposures of banks' overall loan portfolios. This analysis showed that in a worst-case situation with a real GDP contraction of 15.9 percent, the NPL ratio would be 21.8 percent. The CAR of the banking system was 11.8 percent, above the minimum requirement of 10 percent, which indicates that the banking system could withstand such an enormous fall of real GDP.

1.4 Main Threats

- **Global pandemic**

The global Covid-19 pandemic has a direct impact on the domestic economic growth. During this pandemic, the banking sector became more creative with their services as aforementioned. Looking at the NPLs in

2020, which increased from SRD 977 million to SRD 1.8 billion, it is apparent that the performance of some loans were affected.

- **Cyber risk**

As the world is becoming increasingly reliant on digital financial services, the number of cyberattacks may increase. Given strong interconnections, an attack on for example a major bank, or on a core system or service used by many clients, could quickly spread through the entire financial system causing widespread disruption.

- **Pressures on the exchange rate**

Depreciation has a negative impact on the solvency ratio of banks. In addition, the two categories of risk due to the high degree of financial dollarization are liquidity risk and solvency risk.

- **De-risking**

One of the biggest threats of commercial banks in Suriname is the de-risking by correspondent banks. "De-risking," or "de-banking," refers to the practice of financial institutions exiting relationships with and closing the accounts of clients perceived to be "high risk." Rather than manage these risky clients, financial institutions opt to end the relationship altogether, consequently minimizing their own risk exposure while leaving clients bank-less.

To decrease the institutional risk, banks need to build a sound integrity framework based on international standards. The CBvS continues to pay attention to developments in the area of de-risking, both in the financial sector in Suriname as well as internationally.

1.5 Key Challenges

- **Recovery of financial resilience**

Banks need to implement an innovative policy to fulfill its intermediary function in the credit market more efficiently, to strengthen the solidity and to cope with stricter regulations. Banks with inadequate capital will have to strengthen their capital position in the coming years and must maintain higher capital buffers in relation to their risk profile. This

means that there will be little or no room for dividend payments and that the issuance of shares and bonds could be considered.

- **Reducing financial dollarization**
In December 2020, 69.5 percent of deposits in the banking sector were denominated in foreign currency. With regard to the loans, FX loans represent 49.0 percent of the total loans. Some banks have set internal limits for their foreign currency deposits and lending and their policy aimed at reducing dollarization of the loan portfolio remains in full force to further control foreign currency risks. In addition, when it comes to FX loans, banks must comply with the VW 48 requirement that limits the extension of FX loans to FX earners.
- **Developing funding diversity**
In Suriname, the access to the stock market is limited; there is hardly trading in stocks and bonds. With the enactment of the Capital Market Act (2014), CBvS is authorized to exercise supervision of the capital market and its market participants. The framework for the functioning of an effective capital market will be set up and the aim is to develop an active interbank money market in order to regulate domestic liquidity.

1.6 Measures Adopted To Mitigate Risks

Banks that do not meet the minimum ratios and the limits are contacted and closely monitored in order to meet the requirements, stipulated in the guidelines issued by the CBvS.

- **Adjusted policy**
The Bank is still in close consultation with the Management and Supervisory Boards of some banks about the development of their CARs. As can be seen from Table III.2, the total CAR further improved during 2020 (11.8%). It is now 1.8 percent above the required minimum of 10 percent.
- **Increased monitoring**
The increased monitoring of banks since September 2016 through additional reporting requirements concerning the liquidity coverage ratio, net open position, credit classification and provisioning and large exposures

is ongoing. Due to the Covid-19 pandemic, the on-site inspection planning for 2020 was not fully carried out. Before the pandemic there was 1 AML/CFT/compliance inspection at a bank. In 2018, it was described in detail what the 'adjusted policy' means. The amended policy that was already formulated, will be maintained. Part of this policy was an increase in the reporting frequency. The tightening of the off-site monitoring of banks and the accompanying requests for additional reports have continued. All banks comply with this reporting obligation.

- **Strengthening the regulatory and supervisory framework**
In 2020, the emphasis was further placed on strengthening the banking sector and tightening monitoring on banks. Due to the pandemic, the CBvS could not carry out on-site inspections, which means that the off-site inspection has been intensified. The Supervision Directorate worked on the development of knowledge and skills of its employees and expertise areas have been defined. Due to the Covid-19 pandemic, the examiners only participated in online courses.
- **Continuous tightening of off-site analysis**
Despite the Covid-19 pandemic, bank examiners have intensified the off-site analysis. The focus is not only on whether individual banks comply with the laws and regulations for solvency, liquidity and controlled business operations, but also on acting from a risk-based approach. This means more data requests, more process reviews, appropriate monitoring of risks and a strong emphasis on risk management and corporate governance. The banks' client files are thoroughly screened and client transactions are scrutinized.
- **Fourth Mutual Evaluation**
Due to the Covid-19 pandemic, the CFATF Fourth Mutual AML/CFT Evaluation Round has been moved to the first quarter of 2022. Nevertheless, the National Risk Assessment (NRA) is in full swing.

Employees of the Banking Supervision De-

partment are also part of the CBvS NRA working group. In order to create awareness and increase cooperation, the department held various sessions, in particular with stakeholders, to complete the NRA report. The report was presented to the Governor of the CBvS on 1st of March 2021.

- **Compliance rating**

In the first half of 2018, the on-site compliance rating was introduced in accordance with the system of CFATF. For each part of the AML/CFT regulation, an assessment must be made as to whether or not a bank meets the minimum requirements. The CBvS uses a rating focused on both technical compliance and effectiveness. The following ratings have been determined: (i) compliant, (ii) largely compliant, (iii) partially compliant, (iv) non-compliant and (v) not applicable. The compliance rating will be maintained going forward.

- **Coping with financial dollarization**

The CBvS is aware of the liquidity and solvency risks due to the high degree of financial dollarization and therefore, in addition to microprudential surveillance that manages risks of individual institutions, employs the following macroprudential tools that specifically address system-wide risks.

- o **Reserve requirements in foreign currency**

These reserves have been introduced by the CBvS as a buffer in the event of a bank run in foreign currency. Partly due to the fact that Suriname does not

yet have a deposit-guarantee scheme, the reserve requirement, that was last increased to 50% in 2013, has not been adjusted since.

- o **Allocation of foreign currency credit**

Banks are required to provide foreign currency loans to clients with a cash flow in foreign currency. The CBvS initially advised the banks to provide foreign currency loans primarily to export or export-supporting companies, but since the introduction of the VW48, the banks are obliged to exclusively allocate FX credit to FX earners to prevent currency mismatches.

2. Insurance Companies

2.1 Size

The assets of the insurance companies³ went from SRD 3,470.8 million in 2019 to SRD 5,680.7 million in 2020 which came down to an increase of 63.7 percent. This increase did not have much impact on the share of the assets of the insurance companies in the total assets of the financial sector in 2020, as this share were approximately 11.1 percent in 2019 and 12.2 percent in 2020.

The total assets of the insurance companies were approximately 11.0 percent of the GDP in 2019 compared to 14.8 percent in 2020. This increase was due to the disproportionate growth of the assets of the insurance sector in relation

Table III.4
Structure of Insurance Sector

	2019			2020		
	Number	% of Total insurance assets	% of Total financial assets	Number	% of Total insurance assets	% of Total financial assets
Life insurance	4	47.9 ^[1]	5.3	4	48.1	6.8
Non-life insurance	6	52.1 ^[2]	5.8	6	51.9	5.4
Total	10	100	11.1	10	100	12.2

Source: Central Bank of Suriname

³ Since the funeral insurance sector is not significant, it is not included in this report. Financial information of one life insurance company and one non-life insurance company are not available and is also not included. The data of 2020 are based on preliminary figures.

to the nominal growth of GDP as the assets of the insurance sector grew with 63.7 percent and GDP increased with 21.8 percent.

For the last five years, the structure of the insurance companies has remained the same. The CBvS supervised 4 insurance companies operating in life insurance, 6 companies operating in non-life insurance and 2 companies operating in funeral insurance (Table III.4). The Government owns 40.0 percent of the shares of one non-life insurer whereas the remaining insurers are all domestic privately-owned companies.

Table III.5 shows the insurance penetration and the insurance density over the period 2016-2020, which reflects the importance of the insurance industry. While insurance penetration is measured as the percentage of the gross premium to GDP, insurance density is calculated as the ratio of gross premium to the total population (per capita premium).

Throughout 2019-2020, the activity of the life-insurance industry was dominated by one large life-insurance company, which belongs to a financial holding company. The assets of the relevant life-insurance company accounted for approximately 90.0 percent of the total assets of the life insurance industry in this period.

In the same period, one large non-life insurance

company belonging to the already above-mentioned financial holding company accounted for approximately 26.6 percent of the total assets of the non-life insurance industry and another large non-life insurance company accounted for approximately 30.6 percent.

The mentioned financial holding company owned three insurance companies, which together accounted for approximately 66.0 percent of the total insurance industry assets.

In Suriname, the insurance market is highly concentrated as reflected by the Herfindahl-Hirschman index (HHI)⁴. In 2020, the index for the life insurance segment was 7,849 compared to 8,149 in 2019, whereas in 2020 the index for the non-life insurance segment was 8,796 compared to 7,857 in 2019. Index values exceeding 1,800 indicate very high market concentration.

2.2 Market Activity

The main life insurance products sold in Suriname were term insurance (e.g. credit insurance), whole-life insurance and annuities whereas the main non-life insurance products were medical and personal accidents insurance, fire & damage insurance and motor vehicle insurance.

Insurance companies made reinsurance arrangements abroad as there is no domestic reinsurer in Suriname.

Table III.5
Insurance Penetration and Density

	2016	2017	2018	2019	2020
Insurance penetration (%)	3.0	3.0	3.0	3.0	4.0
Insurance density (in SRD)	1,198.7	1,367.1	1,586.0	1,803.2	1,916.5

Source: Central Bank of Suriname

Since population data over 2019-2020 are not available, an estimate was made by using the growth percentage of the population in previous years.

4 The HHI is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers. The HHI number can range from close to zero to 10,000. Index values exceeding 1,800 indicate very high market concentration.

Example:

Gross premium company 1 / gross premium sector = A. Gross premium company 2 / gross premium sector = B.

Gross premium company 3 / gross premium sector = C.

$(A \times A) + (B \times B) + (C \times C) = \text{HHI}$

2.3 Financial Soundness Indicators

Life Insurance

In September 2020 the CBvS officially set the foreign exchange rate for the US\$ at US\$ 1 = SRD 14.29 which is an increase of 90.0 percent compared to the previous exchange rate of US\$ 1 = SRD 7.52. This increase had an impact on almost all metadata used in the FSIs and thus also on the indicators. The increase of the foreign exchange rate had a substantial impact on the benefits driven by the foreign exchange differences and the investment income and therefore on the profits of the insurance sector. This is further explained in the several FSIs mentioned below.

Table III.6 reflects the FSIs for the life insurance industry over the period 2016 - 2020.

Required Solvency

As a protection method and as reinsurance, the insurance companies always have adequate capital⁵ available.

The regulator sets a minimal required capital for insurance companies⁶ and the ratio available capital compared to required capital should be at least 100.0 percent. In 2020, the industry had a capital surplus of SRD 167.0 million and in 2019 a surplus of SRD 104.1 million. The ratio available capital compared to required capital was respectively 233.6 percent in 2020 and 258.1 percent in 2019 reflecting a small decline.

In 2020, the capital grew with 71.9 percent compared to 2019, whereas the technical reserves grew with 89.9 percent in the same period. The

Table III.6
Financial Soundness Indicators of Life Insurers

(in %)	2016	2017	2018	2019 ^[1]	2020 ^[1]
Required solvency					
Available capital/ required capital	250.39	256.85	278.69	231.9	233.6
Capital adequacy					
Net premium written to capital	121.6	105.5	79.0	107.8	71.4
Capital to total assets	6.3	9.7	9.9	10.2	9.3
Capital to technical reserves	7.6	12.5	12.8	12.9	11.7
Asset quality					
(Real estate + unquoted equities + debtors)/ total assets	24.3	23.8	23.6	15.3	14.5
Reinsurance and actuarial issues					
Risk retention ratio (net premiums/gross premiums)	97.4	97.2	97.2	97.9	97.8
Earnings and profitability					
Combined ratio (loss and expense ratio)	144.8	154.1	189.8	135.8	165.1
Claim ratio (net claims/net premiums)	76.6	69.3	94.8	106.8	133.4
Expense ratio (expenses/net premiums)	68.1	84.8	95.0	29.0	31.7
Liquidity					
Liquid assets to total liabilities	67.0	68.3	60.5	36.9	27.3

Source: Central Bank of Suriname

5 This revaluation reserve reflects unrealized gains held by the insurer and can increase rapidly in value over time but can also decrease rapidly in times of financial crisis. Based upon this, the revaluation reserve is not included in the available capital when calculating the capital adequacy ratios.

6 For the life-insurance industry the required capital is calculated as follows:

Required capital (A) = 5.0 percent of the actuarial liabilities
Capital surplus/deficit = Available capital - Required capital

growth of the technical reserves influenced the required capital. The life insurance companies also sell insurance products in foreign currency, by which the written premiums converted into SRD were also influenced by the foreign exchange rate movement. This influence is reflected by the rise of the technical reserves.

The capital increased in 2020 compared to 2019. This increase was primarily caused by the growth of the retained earnings with SRD 117.3 million, equivalent to a percentage of 133.4 percent. In 2020, the life insurance industry made a profit of SRD 137.2 million of which a great part, approximately 85.0 percent, was retained. The main cause for this increase was the foreign exchange rate adjustment.

This caused the revenue from foreign exchange differences to increase from SRD 194.2 thousand in 2019 to SRD 162.3 million in 2020, which equaled a growth of 83,474.9 percent. The investment income grew from SRD 90.5 million in 2019 to SRD 144.7 million in 2020, an increase of 59.9 percent. The life insurance industry had investments in term deposits and saving accounts in foreign currency, which rose in SRD terms causing an increase in the investment income and benefits from foreign exchange differences. The industry also provided loans in foreign currency and with the increase of the foreign exchange rate the repayments of these loans rose in SRD value.

Capital Adequacy

Capital adequacy can be determined by different capital adequacy ratios. In this paragraph three ratios, namely the insurance risk ratio, the capital to assets ratio and the capital to technical ratio are used to evaluate capital.

The insurance risk ratio compares the net premium written to the capital and is intended to determine whether an insurer's equity capital is adequate in relation to the size of its insurance business. In general, a ratio lower than 300.0 percent is considered adequate and the life insurance industry met this requirement with respectively 65.5 percent and 97.9 percent in

2020 and 2019, indicating that the life insurance industry had indeed sufficient capital in relation to the size of their insurance business.

The capital to assets ratio measures the extent to which the capital of an insurer can bear asset risks. In 2020, the ratio was 10.1 percent and in 2019 this ratio was 11.3 percent, indicating that the capital slightly declined in relation to the assets. The capital grew with 71.9 percent whereas the assets grew with 89.5 percent in 2020. The value of the total investment assets in 2020 grew with 91.2 percent, mainly because of the increase in the SRD value of the in foreign exchange denominated securities, term deposits and loans. The claims on head office and accounts receivables also increased in value with respectively 128.4 percent and 71.6 percent. These increases were the main reasons behind the increase of the assets in 2020.

The capital to technical reserves ratio, which provides a measure of the extent to which the capital of an insurer can bear liability risks, was 12.7 percent in 2020 and 14.2 percent in 2019, also indicating a small deterioration of the capital compared to the technical reserves. The technical reserves grew with 89.9 percent in 2020 compared to 2019, which is already mentioned in the solvency section.

Asset Quality

An indicator of asset quality is the share of real estate, unquoted equities, and receivables in total assets as these assets have the largest probability of being impaired. The ratio was 14.5 percent in 2020 compared to 15.3 percent in 2019, indicating that only a small part of the total assets has a large probability of becoming impaired. Therefore the asset quality could be defined as adequate.

Reinsurance and Actuarial Issues

The reinsurance strategy of the life insurance industry has remained unchanged in the last years, which is reflected by the risk retention ratio. The ratio remained around 98.0 percent in the last five years.

Earnings and Profitability

The loss ratio, indicates whether the net premium earned is enough to cover the sum of the total claims and policyholder benefits. A percentage above a 100.0 percent indicates that this is not the case. In 2020 the ratio amounted to 133.4 percent compared to 106.8 percent in 2019. The ratio declined in 2020 compared to 2019 because the increase of 13.7 percent of the net premium earned in named years was far less than the increase of 42.0 percent of the sum of the total claims and policyholder benefits.

The expense ratio is the relation between the net premium earned and the total expenses, and indicates whether the net premium earned is enough to cover the total expenses. The ratios of respectively 31.7 percent in 2020 and 29.0 percent in 2019 showed that the net premium earned was adequate. The combined ratio, which is calculated as the sum of the loss ratio and the expense ratio, was 165.1 percent in 2020 compared to 135.8 percent in 2019. The ratios above 100.0 percent signified that the net premium earned was not enough to cover both the sum of the total claims and policyholder benefits and the expenses.

This resulted in an underwriting loss of respectively SRD 65.6 million in 2019 and SRD 135.6 million in 2020. However, due to the foreign exchange differences and the investment income the industry still managed to make a profit in both years of respectively SRD 5.8 million in 2019 and SRD 137.3 million in 2020.

Liquidity

The liquidity ratio compares the liquid assets with the total liabilities. It is an indicator of the insurer's ability to meet its obligations with the usual minimum for the life insurance industry being 60.0 percent. In 2020 and 2019, the ratio was far below 60.0 percent, respectively 27.3 percent in 2020 and 36.9 percent in 2019, in-

dicating that the industry did not have enough liquid assets to cover their liabilities.

In 2020, the ratio reflected a small decline compared to 2019, which meant that the liquidity of the assets deteriorated in relation to the total liabilities. This is due to the disproportionate growth of the total liabilities and the liquid assets in these years as respectively the total liabilities grew with 91.9 percent and the liquid assets with 42.0. One of the main reasons of the growth of the total liabilities was the increase of actuarial liabilities with 90.0 percent.

The life-insurance companies had insurance liabilities in foreign currency and with the rise of the exchange rate, the liabilities also rose in SRD terms.

Non-life Insurance

Similar to in the life insurance industry, the surge of the exchange rate also had an impact on the metadata of the FSIs and thus on the indicators of the non-life insurance industry. Table III.7 reflects the FSIs for the non-life insurance industry over the period 2016 - 2020.

Required Solvency

In 2020, the solvency surplus⁷ was SRD 812.7 million compared to SRD 405.3 million in 2019. The ratio available capital compared to required capital was respectively 705.4 percent and 428.8 percent, which indicated that the industry met the capital requirements of the regulator.

In 2020, the capital increased compared to 2019. The factors behind the growth of the capital in the non-life insurance industry were similar to the growth of the capital in the life insurance industry. In 2020, the non-life insurance industry made a profit of SRD 398.0 million and a large part, approximately 94.0 percent, was retained. The capital also improved because of the foreign exchange reserves. This reserve increased with 46.9 percent in 2020.

7 The required capital for the non-life insurance industry is calculated as follows:

18.0 percent of the gross premium written (A)

Claims without reinsurance recoveries (1)

Gross Claims (2)

Required Capital [(1)÷(2)] x A

Solvency surplus/deficit = Available capital – required capital

Table III.7
Financial Soundness Indicators of Non-Life Insurers

<i>(in %)</i>	2016	2017	2018	2019	2020
Required solvency					
Available capital/required capital	417.64	380.99	389.55	428.8	705.4
Capital adequacy					
Net Premium/Capital	120.033	135.083	141.3	122.203	72.8577
Capital to total assets	29.1	31.8	28.3	29.2	37.4
Capital to technical reserves	96.9	102.4	78.5	96.8	141.7
Asset quality					
(Real estate + unquoted equities + debtors)/ total assets	45.4	48.0	55.3	45.1	38.0
Reinsurance and actuarial issues					
Risk retention ratio (net premiums/gross premiums)	87.2	89.9	76.9	72.8	73.4
Earnings and profitability					
Combined ratio (loss and expense ratio)	115.1	100.1	93.7	97.4	109.2
Loss ratio (net claims/net premiums)	89.9	67.8	61.6	61.9	47.6
Expense ratio (expenses/net premiums)	25.2	32.3	32.1	35.5	109.2
Liquidity					
Liquid assets to total liabilities	78.4	83.8	99.9	43.4	55.6

Source: Central Bank of Suriname

Capital Adequacy

In 2020, the insurance risk ratio for the non-life insurance industry was 68.3 percent compared to 114.7 percent in 2019, which indicated that the capital was adequate as generally a ratio lower than 300.0 percent is considered adequate.

The capital adequacy ratio, amounted to respectively 39.9 percent in 2020 and 31.1 percent in 2019, which indicated that the capital improved compared to the assets.

The capital to technical reserves ratio was 151.2 percent in 2020 compared to 103.1 percent in 2019. This also indicated an improvement of the capital compared to the technical reserves.

Asset Quality

An indicator of asset quality is the share of real estate, unquoted equities, and receivables in total assets as these assets have the largest probability of being impaired. The ratio was 38.0 percent in 2020 and 45.1 percent in 2019, which is a small improvement since the percentage of the assets with the largest probability of being impaired, slightly declined in 2020.

Reinsurance and Actuarial Issues

If the risk retention ratio, which reflects the retention of the assumed risks by the non-life insurance companies, of the last five years is evaluated, the conclusion can be drawn that the reinsurance strategy of the non-life insurance companies did not change as the ratio remained around 73.0 percent.

The reinsurance strategy in the individual categories also remained unchanged as the categories Fire and Damage and Medical and Other were the categories in which the most reinsurance was purchased, as shown by the retention rates in Table III.8. This table gives an overview of the net premium written and retention rates in 2019-2020.

The non-life insurance industry noted a combined ratio of 109.2 in 2020 indicating that the net premium earned was not enough to cover the sum of the total claims and policyholder benefits and the total expenses, following an underwriting loss of SRD 61.2 million. Nevertheless, the non-life insurance industry experienced a considerable increase of SRD 334.5 million in the profits in 2020.

Table III.8
Net Premium Written by Line of Business of Non-Life Insurers

<i>(in SRD millions)</i>	2019 ^[1]		2020 ^[1]	
	NPW	Retention	NPW	Retention
Fire and damage	102.5	0.7	110.3	0.7
Motor insurance				
Third party liability	111.2	1.0	119.5	1.0
Accidental damage	35.8	1.0	47.6	1.0
Medical & personal accident	365.8	0.7	388.3	0.7
Other general insurance	30.5	0.3	24.2	0.3
Total	645.9	0.7	689.9	0.7

Source: Central Bank of Suriname

^[1]Data of 2019 and 2020 is based on preliminary figures

The primary reason for this increase was the rise of the foreign exchange rate. The revenues from foreign exchange differences went from SRD 1.3 million in 2019 to SRD 319.2 million in 2020, which resulted in a considerable growth of 23,782.4 percent. The investment income grew from SRD 31.8 million in 2019 to SRD 109.2 million in 2020, an increase of 243.6 percent. The non-life insurance industry had invested in term deposits and saving accounts in foreign currency, which rose in SRD value following the devaluation. Furthermore, the increase of the foreign exchange rate resulted in higher revenues

from mortgages converted into SRD, since investments in mortgages denominated in foreign currency were also made. Table III.9 gives an overview of the earnings and profitability in 2020 and 2019.

Liquidity

The liquid assets to total liabilities ratio is an indicator of the insurer's ability to meet its obligations and a minimum percentage of 95.0 percent is considered adequate for the non-life insurance sector. The minimum requirement for non-life insurers is higher than for the life insurers due to the former's greater unpredictability of time and size with regards to payments. In 2020, this ratio was 55.6 percent compared to 43.4 percent in 2019. Although this was an improvement, the ratio was still below 95.0 percent. The improvement was related to the fact that the growth of the liquid assets, namely 56.3 percent, was greater than the growth of the total liabilities of 22.1 percent. The increase of the term deposits, with 84.5 percent, and the saving accounts, with 296.9 percent, in 2020 were the main cause of the growth of the liquid assets.

Table III.9
Earnings and Profitability of Non-Life Insurers

<i>(in SRD millions)</i>	2019	2020
Gross premium written	887.5	940.5
Premium ceded	241.7	250.6
Net premiums written	645.9	689.9
Change in unearned premiums	3.7	13.3
Net premiums earned	642.2	676.6
Net claims	389.3	404.3
Total underwriting costs	236.2	334.9
Other technical benefits/costs	1.1	1.3
Underwriting income	17.8	-61.2
Investment income	31.8	109.2
Foreign exchange differences	1.3	319.2
Other income	20.9	88.0
Income before tax	71.8	455.15
Taxes	8.3	57.2
Net income (loss) after tax	63.5	398.0

Source: Central Bank of Suriname

Small differences in the decimals of the numbers may occur, due to rounding

2.4 Main Threats

The upward adjustment of the exchange rate caused a spike in prices and costs which is likely to influence the profits of the industry. Furthermore, a shortage of foreign currency compelled the insurance companies to allow foreign

currency policyholders to pay their premium in SRD's. Unfortunately, the exchange rate adjustment led to higher premiums. The country is still coping with the Covid-19 pandemic and the financial difficulties that came along with it. Current legislation is not sufficient to respond adequately to factors that threaten the insurance sector. An important reason is that the legislation does not offer adequate possibilities to impose sanctions upon companies that do not comply with the guidelines of the regulator.

2.5 Key Challenges

Operating profitably in an economy with double digit inflation is the key challenge of the insurance industry in Suriname. On June the 7th 2021, the CBvS officially announced the implementation of a flexible exchange rate and adjusted the foreign exchange rate from US\$ 1 = SRD 14.290 to US\$ 1 = SRD 21.00.

2.6 Measures Adopted to Mitigate Risks

On March 11 2021, the CBvS issued guidelines for the suitability of the management, members of the supervisory boards and qualified participants for insurance companies, with the aim to ensure that the companies are governed and owned by suitable people, thus protecting the companies against mismanagement and potential negative influence of unqualified and unreliable board members and qualified participants.

Draft legislation will soon be enacted by Parliament. This new legislation will create more possibilities for the supervisors to protect the industry against possible risks.

3. Pension Funds

3.1 Size

In 2020, 40 pension funds, of which 32 active and 8 inactive, were supervised by the CBvS. Compared to 2019 the number of supervised pension funds stayed the same. The majority of the active (99 percent) and all of the inactive (100 percent) pension funds are collective defined contribution (CDC) funds. All inactive funds are in the process of liquidation.

The civil servant pension plan which is a Pay-As-You-Go fund, is also supervised by the CBvS (Table III.10), but is not included in this analysis.

3.2 Market Activity Liabilities

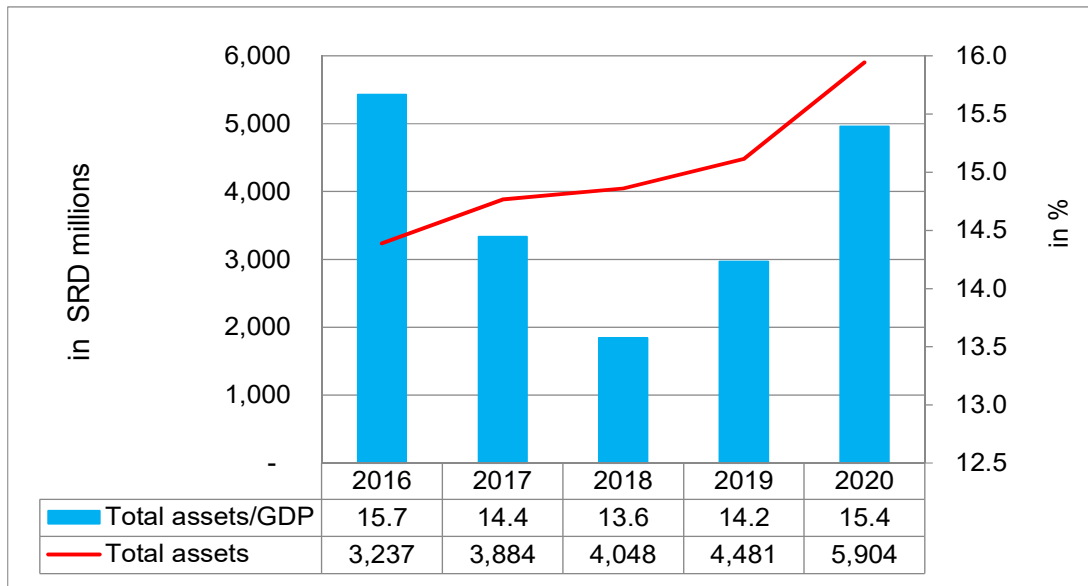
The pension obligations as a percentage of total assets increased slightly in 2020 (Figure III.10), as the pensionable salary has not been adjusted (yet), the pension provision has not been determined yet or the financial statements have not been submitted (Figure III.11). The pension liability is based on the full-funding method.

Table III.10
Structure of Private Company Pension Funds 2020

Categories	Number	% of Total Pension Assets	% of Total GDP
Active			
Defined benefit	1	0.5%	0.1%
Defined contribution	2	0.4%	0.1%
Collective defined contribution	28	99.1%	21.2%
Pay As You Go ^{*)}	1	0.0%	0.0%
Non-Active			
Defined benefit	0	0	0
Defined contribution	0	0	0
Collective defined contribution	8	0	0
Total	40	100.0%	21.4%
Memorandum Item			
Civil Servant Pension Fund	1	0	0

Source: Central Bank of Suriname
(*) relates to the Civil Servants Pension Fund

Figure III.10
Pension Funds Total Assets



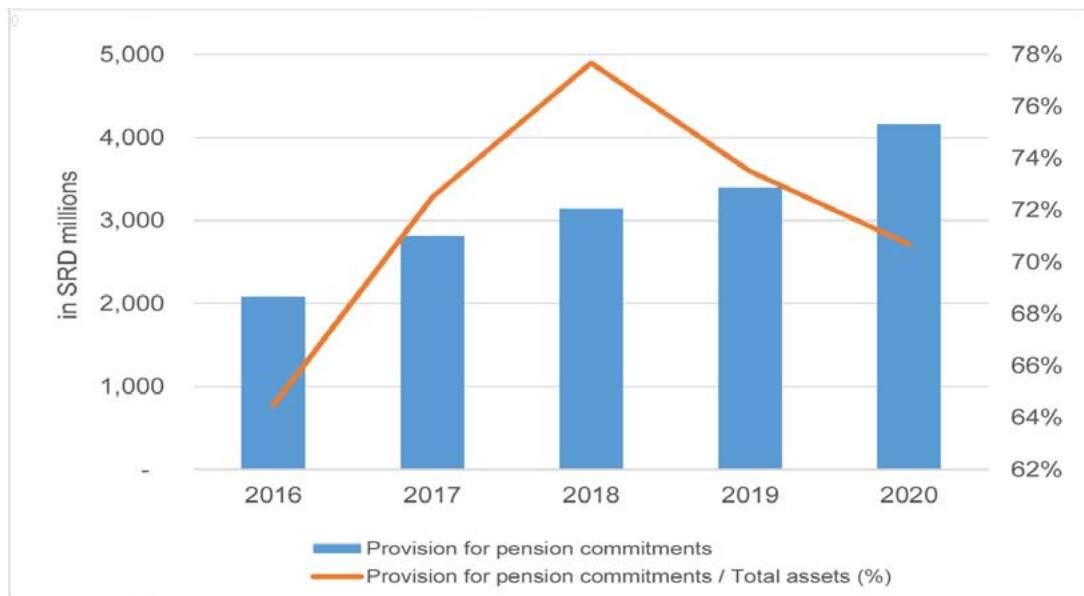
Source: Central Bank of Suriname

Investments

The ratio between local and foreign investments decreased compared to 2019. In 2020, 12.2 percent (2019: 13.2 percent) of the total assets of the pension funds were placed abroad,

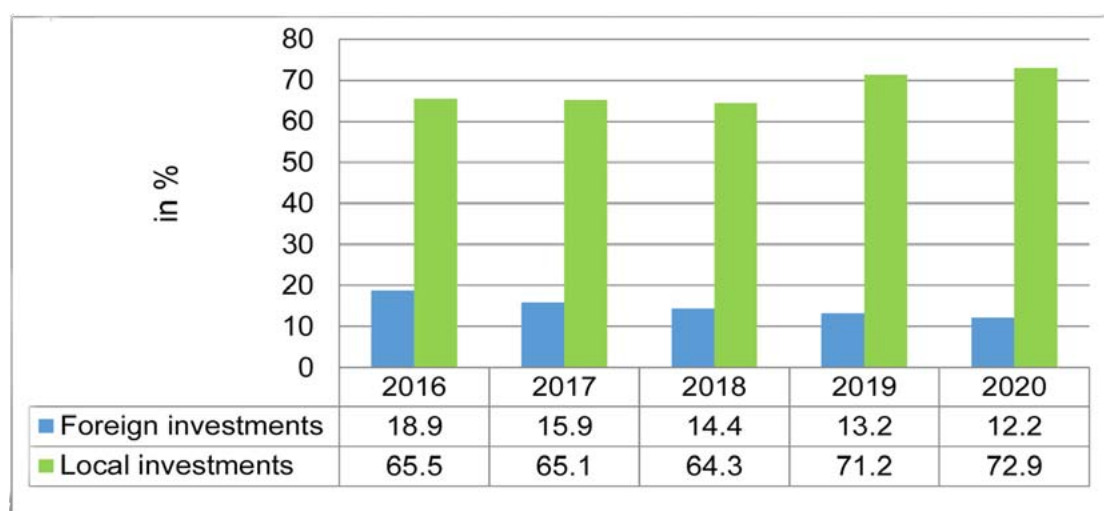
while the remaining 72.9 percent was placed in local financial instruments (Figure III.12). Locally, pension funds have been mainly investing in real estate, mortgages and term deposits, whereas foreign investments are predominantly in bonds. (Table III.11).

Figure III.11
Pension Commitments



Source: Central Bank of Suriname

Figure III.12
Pension Fund Investments in Percent of Total Assets



Source: Central Bank of Suriname

Table III.11
Structure of Pension Fund Investment Portfolio

Investments (in SRD millions)	2019		2020	
	Amount	In % of total investments	Amount	In % of total investments
Real estate	1,123.5	29.7%	1,225.1	24.4%
Mortgages	395.7	10.5%	907.2	18.1%
Personal loans	34.5	0.9%	35.9	0.7%
Private loans	117.7	3.1%	126.1	2.5%
Shares	220.1	5.8%	226.2	4.5%
Bonds	697.4	18.5%	957.3	19.1%
Term deposits	681.3	18.0%	804.8	16.0%
Saving accounts	190.1	5.0%	178.4	3.6%
Gold certificates	21.6	0.6%	51.1	1.0%
Treasury bills	75.0	2.0%	75.8	1.5%
Current account with the employer	122.2	3.2%	184.3	3.7%
Investments to which the bank has no objection			5.6	0.1%
Other	99.3	2.6%	246.2	4.9%
Total investments	3,778.5	100.0%	5,024.1	100.0%

Source: Central Bank of Suriname

3.3 Financial Soundness

Solvency

The solvency of a pension fund is determined by the total investments minus financial resilience as a percentage of the provisions for pension commitments. The financial resilience depends

on the degree of risk assigned to the committed investment products.

In 2020, the coverage ratio of the sector⁸ (109.9%) increased compared to 2019 (101%) (Table III.12). The increase of the ratio was due to the pension provision that had not been determined by pension funds yet and financial

⁸ Active pension funds under supervision of the Bank, without the Civil Servants Pension Fund.

statements that had not been submitted, and on the other hand, the increase in total assets due to, among other things, the increase in the exchange rate. In fact, the coverage ratio is higher because the calculation of the ratio is based on the total investments instead of on the total assets. The solvency guidelines for pension funds will be amended with regard to this issue (Table III.13).

Table III.12
Coverage Ratio of Pension Funds

2016	2017	2018	2019	2020
118.4%	101.6%	92.5%	101.5%	109.9%

Source: Central Bank of Suriname

- Not all decisions of the boards are recorded properly in writing.
- The backlogs of pension funds in providing the statements of the accrued pension entitlements to their participants.

Credit risk

- The absence of an enforcement policy by some pension funds to collect granted loans.
- There is a disclosure of a provision for, among others, bad loans in some annual reports.
- There are some pension funds with receivables from sponsors (e.g. loans) that are not being repaid.

Table III.13
Indicators of Pension Funds

Indicators	2016	2017	2018	2019	2020
Return On Assets	19.3	6.0	4.1	8.1	11.4
Income/Expenditures	247.0	100.3	78.8	136.2	165.7
Return on investments	22.9	7.4	5.2	9.5	13.4
Return on equity	58.1	23.6	19.9	35.8	40.8
Liquidity ratio	8.0	12.2	15.4	11.5	11.1
Pension benefit paid/contributions	45.4	57.5	61.6	55.0	61.5
Investment income/Total invested assets	22.9	7.4	5.2	9.5	13.4

Source: Central Bank of Suriname

3.4 Main Threats

The main threats the pension sector faces are operational risk, credit risk and inflation risk.

Operational Risk

- Overall there were 16 changes in boards of 7 pension funds, as members reached the end of terms in the board or were replaced by their employers. Frequent changes of management positions could, among others, entail the risk of lost knowledge and expertise.
- The backlogs in submitting the certified annual reports on time.
- The lack of a described accounting system.
- Not all pension funds comply sufficiently with neither the regulations of the CBvS nor their statutory rules and/or their other regulations.
- Some administrations show shortcomings with regard to recordkeeping.

Inflation Risk

- The pension sector is dealing with the effects of the devaluation of the SRD. Pension funds have part of their assets in foreign currency, but have few or no other investment products that have a positive correlation with inflation.

3.5 Measures Adopted to Mitigate Risks

The main measures taken to mitigate these risks are:

- Conditions for the approval of board members have become stricter. A new draft directive for board members regarding fit and proper requirements was developed, in which high requirements are set on the education and knowledge of new board members. This draft was approved in 2021.
- Introduction of a new procedure for the change of the external auditor or actuary.
- Compilation of preventive surveillance guide-

lines for more awareness of board members of their responsibilities.

- Composition of rules and procedures for shortened on-site inspections due to Covid-19.
- Development of an early warning system for early detection of risks.
- The reporting procedures and formats have been adjusted.

4. Credit Unions

4.1 Size

Credit unions are member-owned financial institutions and are generally of two types, open-bond and closed-bond credit unions. Open-bond credit unions have an open charter and are thus open to anyone, while membership of closed-bond credit unions is restricted to employees of a company, a residential area, a ministry or a certain organization. At the end of 2020, the credit union sector consisted of 25 credit unions, which is 19 percent of the total financial institutions under supervision of the CBvS (Table III.14). Furthermore, the total assets of the credit unions account for 0.12 percent⁹ of the financial sector.

4.2 Market activity

The main products of the credit unions are:

- **Savings:**
 - Saving accounts or members' shares: the periodic savings of members.
 - Deposit accounts: accounts from which the member can withdraw funds at any moment, comparable with current accounts at commercial banks.

- Term-deposits: short-term deposits (≤ 1 year) and long-term deposits (> 1 year).

- **Loans:**

- Personal loans: short-term loans, e.g. for medical costs, cost of repair of transportation, funeral costs, the purchase of personal computers.
- Mortgage loans: loans granted for a longer period (10-15 years), usually for the purpose of buying real estate or renovating houses.
- Current account credit: loans suitable for members that have a business as they can be used to finance inventory or working capital.
- Micro-credit: part of microfinance utilized for small loans to people with low income, in particular to finance their small-scale enterprises. In most cases, these members do not have adequate collateral and because of the high-risk exposure of the credit union, the amount of credit is limited. It also carries a higher interest rate and has a fixed term.

- **Other products:**

Some credit unions are agents of insurance companies and sell insurance products, such as fire & damage insurance and vehicle insurance.

4.3 Financial Soundness

The Credit Union Supervision Department has issued regulations regarding liquidity and solvency and the reports are currently being monitored for solvency, liquidity and significant changes in trends. Furthermore, other financial soundness indicators are being monitored, such as claims to members versus liability to members and capital adequacy. In context of preserv-

Table III.14
Number of Credit Unions

	2016	2017	2018	2019	2020
Open-bond credit unions	1	1	1	1	1
Closed-bond credit unions	21	21	21	21	22
Saving funds	1	1	1	1	1
Representative organization	1	1	1	1	1

Source: Central Bank of Suriname

⁹ Excluding money transaction companies.

ing a sound credit system and the developments in the financial sector on national and international level, it was decided to evaluate these guidelines for the credit union sector. As a result, these guidelines and reporting statements have been amended and new prudential guidelines have been drafted, which have already been approved by the Governor of the CBvS.

Solvency

Every credit union is required to maintain regulatory capital that is equal to a minimum of 7 percent of the total risk weighted assets. In 2020, the sector did not comply with the minimum ratio, due the open-bond credit unions. Despite the investments in foreign currency at the commercial banks, term deposits and bonds of Staatsolie N.V., the open-bond credit unions have a negative solvency ratio. To address non-compliance, the CBvS performs a more stringent supervision through more frequent correspondence with the credit unions and the requirement to submit a plan of action with regard to the enhancement of their equity. If these measures do not result in an enhancement, the CBvS may instruct the credit unions to follow a particular line of conduct or may notify the credit unions that all or certain bodies of the credit unions are only authorized to perform their tasks subject to approval by one or more persons designated by the CBvS. In the extreme case, the CBvS can proceed with use of the emergency regulations.

Liquidity

To comply with the liquidity guidelines a credit union must have actual liquid assets that are equal to the required liquid assets (100%). In 2019, the open-bond credit unions did not comply with this minimum, both including and excluding the loan portfolio, whereas these credit unions complied with the minimum ratio in 2020, if the loan portfolio is included. However, the closed bond credit unions, both including and excluding the loan portfolio, did comply with the minimum ratio in 2019 and 2020.

Claims on Members vs. Liabilities to Members

Both open (24%) and closed-bond credit unions (66%) complied with the maximum of 80 percent in 2020, which means the credit unions can grant more loans. If there is no demand for loans, this can result in a structural loss, because the interest charges of the core activities will be higher than the interest income. In order to avoid a structural losses the institution can invest these resources in term deposits, (Staatsolie N.V.) bonds, shares or other investment products. These investments can increase their equity to meet the capital and solvency requirements.

Equity to Total Assets

Every credit union is required to have a total equity that is equal to a minimum of 10 percent of the total assets. In 2019 and 2020 neither the closed-bond nor the open-bond credit unions complied with the minimum standard. However, in 2020 the closed-bond credit unions did comply with the minimum ratio.

Return on Assets

The return on assets (ROA) ratio measures how efficiently a credit union has managed its assets and has generated profit during a certain period. Nonetheless, the main purpose of credit unions is promoting thrift and providing credit at competitive rates to its members. Since closed-bond credit unions have a restricted membership, their ROA was 1 percent, whereas that of the open-bond credit unions was -1 percent.

Anti-money Laundering

A guideline on Anti-Money Laundering and Counter Terrorism Financing (AML/CFT) is being prepared for the credit union sector. The department now has a drafted guideline regarding AML/CFT.

Currently, the department does not conduct off-site and on-site inspections because the guideline is still in draft. Furthermore, a manual for the examiners regarding AML/CFT supervision and guidelines concerning corporate governance have been drafted.

Non-Performing Loans

During on-site inspections, it shows that arrears in loans are minimized or eliminated, because the closed-bond credit unions have an agreement with the company they are affiliated with, to automatically withhold in the monthly payment from salaries of the members. At the same time, the number of non-performing loans shows an increase at the open-bond credit unions, which is caused by lax monitoring of the loan portfolio. Due to the aforementioned, there are no guidelines concerning non-performing loans, although the credit unions are being recommended to make provisions for loan losses. Currently, with the issuance of the Act on Financial Statements, the department amended the reporting statements based on IFRS requirements, which requires the credit unions to make adequate provisions to cover expected credit losses. The guideline concerning loan provisions has already been approved.

4.4 Key Challenges

Due to the main threats, most credit unions cannot comply with the reporting requirements, which forms a key challenge for the supervisor. Despite the different opportunities, which the CBvS created during the years, the credit unions (70-80%) still have significant backlogs in reporting.

4.5 Main Threats

In 2008, the Bank attempted to address the non-reporting credit unions by deciding to do open on-site inspections. By conducting these inspections and having meetings, the CBvS was able to identify the main threats the credit unions face:

- Governance
 - no written policies;
 - incomplete boards;
 - inactive board members;
 - no annual meetings;
 - inactive members.
- Compliance
 - lack of knowledge regarding finance;
 - no or poor administration;
 - no reports and analysis.

4.6 Measures Adopted to Mitigate Risks

Currently, the CBvS still deals with the monitoring of the non-reporting credit unions. Through the project “Non-responsive institutions”, the Bank aims for the credit unions to fulfill their role as financial intermediaries and to comply with laws and regulations. In this context, the licenses are granted to the nine (9) operating credit unions while the non-responsive or non-viable will be resolved. It is also necessary to mention that only five (5) of the operating credit unions comply with the reporting obligations on a regular basis.

Given the small scale of the credit unions in the local financial landscape, this segment has no significant influence on the stability of the overall financial sector. Yet, considering that credit unions may develop further as deposit-taking institutions, it is necessary to monitor their key financial soundness indicators.

5. Stock Exchange

5.1 Size

In 2020, the market capitalization of the Suriname Stock Exchange increased by 2.6 percent relative to 2019 in absolute terms. In terms of a percentage of GDP, the market capitalization decreased by 1.0 percentage point to 5.1 percent of GDP in 2020 (Table III.15).

5.2 Market Activity

The Suriname Stock Exchange trades stocks of eleven listed companies. In 2020, the 5-year bond of the government-owned State Oil Company matured and was therefore de-listed from the Stock Exchange. The number of brokers remained the same (Table III.16).

5.3 Performance

Compared to 2019, the turnover of the Suriname Stock Exchange fell by 41% from SRD 0.4 million in 2019 to SRD 0.2 million in 2020. The main reason for this decline was the de-listing of the 5-year bond of the government-owned State

Table III.15
Market Capitalization Ratio & Turnover

Period	Market capitalization (mIn SRD) [I]	GDP (mIn SRD) [II]	Market capitalization ratio I:II (%)	Turnover (mIn SRD)
2016	2,097.6	20,663.0	10.2	5.9
2017	2,062.3	26,893.0	7.7	1.3
2018*	1,879.0	29,822.0	6.3	2.8
2019*	1,915.1	31,483.0	6.1	0.4
2020**	1,964.0	38,353.3	5.1	0.2

Source: Central Bank of Suriname

* Preliminary GDP General Bureau of Statistics (ABS)

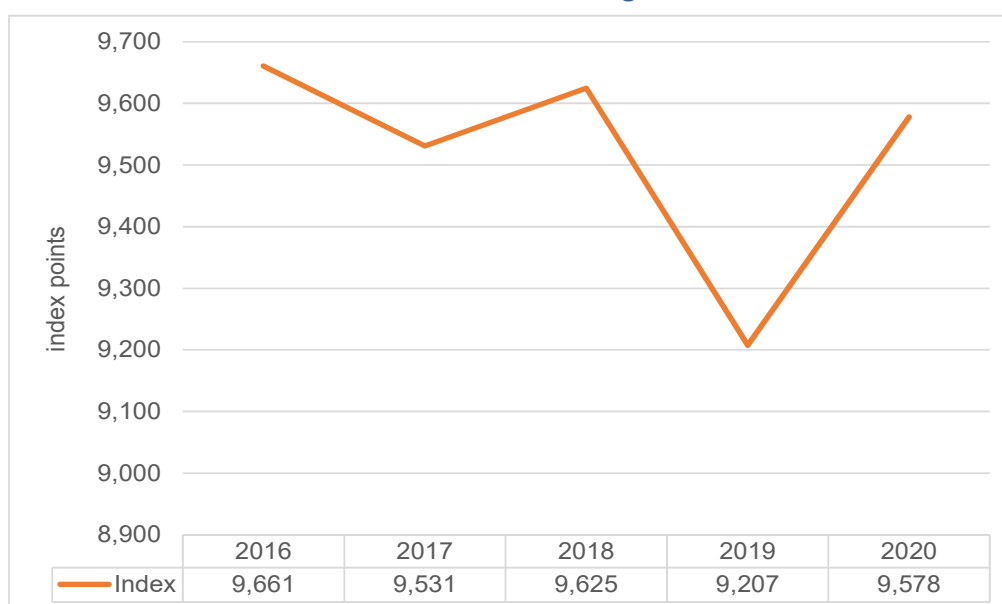
* Preliminary GDP Planning Office Suriname (SPS)

Table III.16
Number of Listed Securities & Brokers

	2016	2017	2018	2019	2020
Stock Exchange	1	1	1	1	1
Listed Stocks & Bonds	12	12	12	12	11
Brokers	7	7	7	7	7

Source: Central Bank of Suriname

Figure III.13
Suriname Stock Exchange Index



Source: Central Bank of Suriname

Oil Company. In 2020, no bonds were traded compared to 133 bonds traded in the previous year. Fewer trading of stocks also caused to the decline of the turnover in 2020. In total 6.917 stocks were traded in 2020 compared to 8.586 in 2019. This was a decline of 19%¹⁰.

¹⁰ Source: Suriname Stock Exchange

The index of the Suriname Stock Exchange, which represents the market value of a predetermined basket of shares, increased in 2020 (Figure III.13). This change can be attributed to the increase of the share prices of four listed companies, Hakrinbank, Self Reliance, Surinaamse Brouwerij and Torarica.

5.4 Key Challenges and Outlook

The Surinamese capital market is in dire need of institutional strengthening and basic financial infrastructure for securities trading. Without these elements the capital market of Suriname will remain underdeveloped. Efforts from not only the public sector but also the private sector are needed.

For now, the Association for Securities Trading in Suriname, has guaranteed the continuity of the current securities trading platform. The Board of this Association aims to do the following:

- Publication/Advertisement of the stock exchange bulletin in the local newspapers;
- Enhancement of the website.

6. Foreign Exchange Market

6.1 Exchange Rate Policy

The elections in May 2020 caused additional speculative and hoarding activity on the foreign exchange market. Pre-election pressure on the exchange rate and rumors of impending post-election devaluations have been a mainstay of the pre-election climate in Suriname.

In addition to the election jitters, early 2020 the New York Fed terminated the 2019 service agreement for the delivery of USD banknotes unilaterally, because of unwarranted risks associated with this delivery service to the Central Bank of Suriname. Moreover, the seizure of a euro money shipment of the CBvS in April 2018 by the Dutch judiciary was still not resolved. The ensuing stagnation of money shipments exacerbated the macroeconomic imbalances, particularly the limited availability of cash U.S. dollars in the domestic foreign exchange market.

As the international reserves reached critically low levels and excess liquidity accumulated in the banking system, the overvaluation of the Suriname dollar worsened. Furthermore, the small size and limited depth of the foreign exchange market in Suriname have the disad-

vantage that a few dominant market players can pursue undesired behavior that seriously disrupts and curtails a proper functioning of the foreign exchange market.

Under these challenging circumstances, steering from the CBvS was required to deal with the adverse effects caused by the aforementioned factors on the foreign exchange market. As such, the CBvS stepped up its endeavors to stabilize the exchange rate and tighten monetary policy.

As of 15 April 2020, the monetary authorities switched from a de jure free-floating exchange rate regime to a managed-floating exchange rate regime, which they effectively implemented on 22 September 2020 with the adjustment of the exchange rate from SRD 7.52 per USD to SRD 14.29 per USD. Under this exchange rate arrangement, the CBvS followed a model-based approach to determine the exchange rate, which was subject to a periodic assessment based on the latest available external sector data, macroeconomic developments and conditions on the domestic foreign exchange market. If the model outcome deemed an adjustment of the exchange rate necessary, the CBvS would do so accordingly.

During the course of 2020, the CBvS implemented other measures in an effort to stabilize the exchange rate, namely:

1. Increase of the required reserve ratio in SRD to 39% in December 2020, which has absorbed a significant part of excess liquidity in the banking system;
2. Absorption of the remaining amount of excess reserves through open market operations by offering Central Bank term deposits to the banking system;
3. Searching for alternative ways to resume cash money shipments in order to secure the provision of cash U.S. dollars to the foreign exchange market;
4. Strengthening of the international reserves by purchasing part of the proceeds of exporters and cambios.

The periodic assessment based on the outcome of the exchange rates models revealed mixed results with regard to the overvaluation of the

Suriname dollar in the first months of 2021. Against this background, the CBvS temporarily introduced minimum and maximum exchange rates for the U.S. dollar to set the basis for more exchange rate flexibility. On 1 March 2021, the CBvS applied a minimum selling rate of SRD 14.29 per USD and a maximum selling rate of SRD 16.30 per USD. Thereafter, the outcome of another exchange rate assessment warranted an additional adjustment of the exchange rate. On 20 May 2021, the CBvS raised the maximum selling rate to SRD 21.00 per USD.

In collaboration with the Ministry of Finance and Planning, the CBvS then conducted targeted foreign exchange interventions in late May/early June 2021 to further stabilize the exchange rate. Earlier, on 3 March 2021, the Government had amended the regulation concerning the repatriation and surrender requirements of export proceeds, which enabled the CBvS to acquire part of the proceeds of exporters and support the availability of foreign currency for the import of essential goods.

As the implementation of the Recovery Plan 2020-2022 progressed and the Government reached a Staff Level Agreement with the International Monetary Fund on 29 April 2021, regarding the implementation of an IMF-supported program, Suriname adopted a flexible exchange rate regime, as of 7 June 2021. This switch of the exchange rate arrangement implies that the CBvS has abandoned the exchange rate as a nominal anchor for monetary policy purposes. Instead, reserve money serves as an intermediate policy target for controlling inflation. Initially, the CBvS through the commercial banks offered a one-off 3-month term deposit with a fixed interest rate to the public in order to mop up excess liquidity in the economy. However, as of 21 July 2021, the CBvS conducts weekly open market operations by auctioning Central Bank term deposits. The liquidity management measures combined with prudent fiscal policy have been instrumental in achieving exchange rate stability.

6.2 Market Activity

In 2020, nine commercial banks and twenty-three authorized exchange bureaus (cambios) conducted spot foreign exchange transactions with the public.

Figure III.14 depicts the development of the average USD selling rate of the CBvS and the parallel market. The average exchange rates were trending upwards during the course of 2015-2017 but portray a decline in 2018. In 2019, the CBvS held the exchange rate at SRD 7.52 per USD, while the parallel market rate increased on average. The sharp rise in the average exchange rates in 2020 relates to the exchange rate adjustment on 22 September 2020, that also sparked heavy speculation on the parallel market.

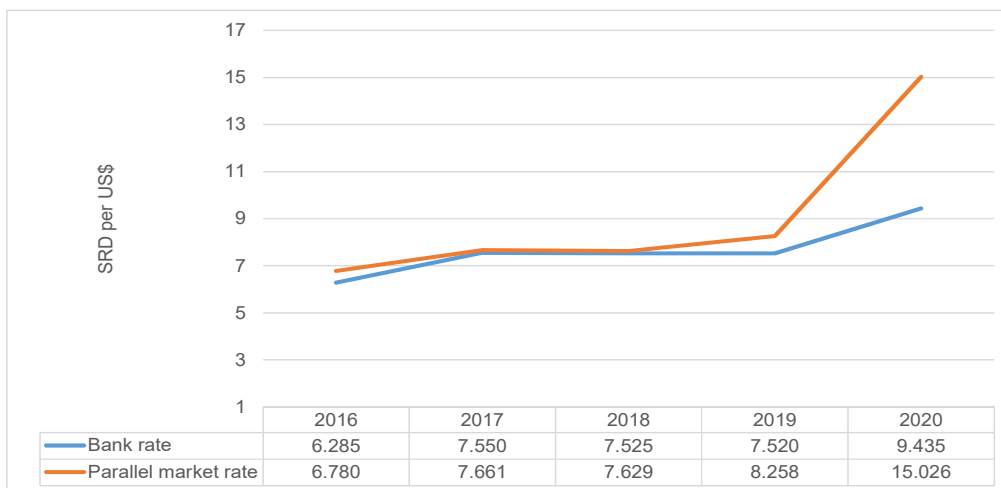
The macroeconomic stabilization measures of the monetary authorities in the context of the Recovery Plan 2020-2022 have resulted in stable supply and demand conditions on the foreign exchange market, which is reflected in stable exchange rates. As of mid-June 2021, the margin between the CBvS' exchange rates and the parallel market rates has declined. Early October 2021, this margin was 0.3%.

Figure III.15 illustrates that trading volumes in U.S. dollar decreased in 2020 compared to the previous year. Figure III.16 also portrays lower trading volumes in euros compared to 2019.

In 2020, sales volumes of commercial banks and cambios on the FX retail market was around USD 152 million and EUR 69 million. Compared to 2019, USD sales volumes decreased by 58 percent. In the euro segment of the FX market, there was an increase in sales volumes of up to 61 percent compared to the previous year.

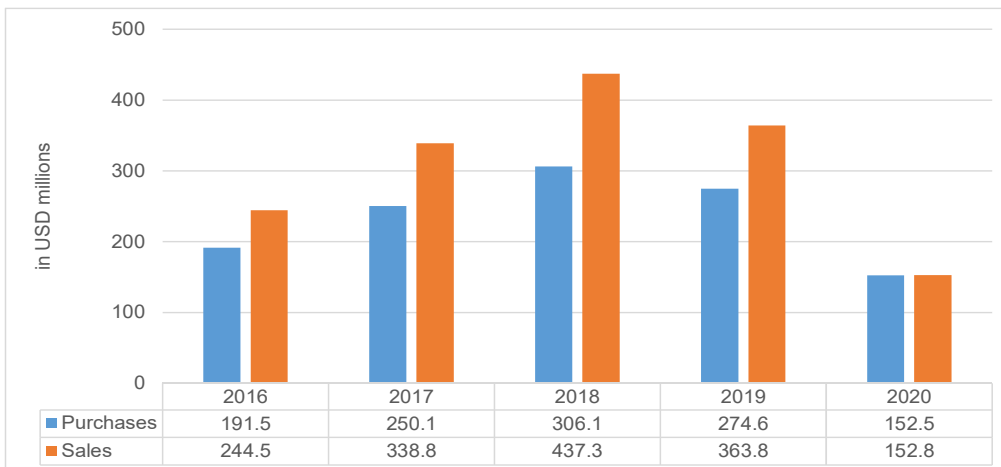
Overall, the lower trading volumes are a reflection of the challenging macroeconomic conditions and the adverse effects of the unlawful seizure of a money shipment of the CBvS by the Dutch judiciary and the negative macroeconomic effects caused by the coronavirus pandemic as the world's economies, including Suriname, initiated lockdowns to reduce widespread infections.

Figure III.14
Official and Parallel Market Average USD Selling Rate



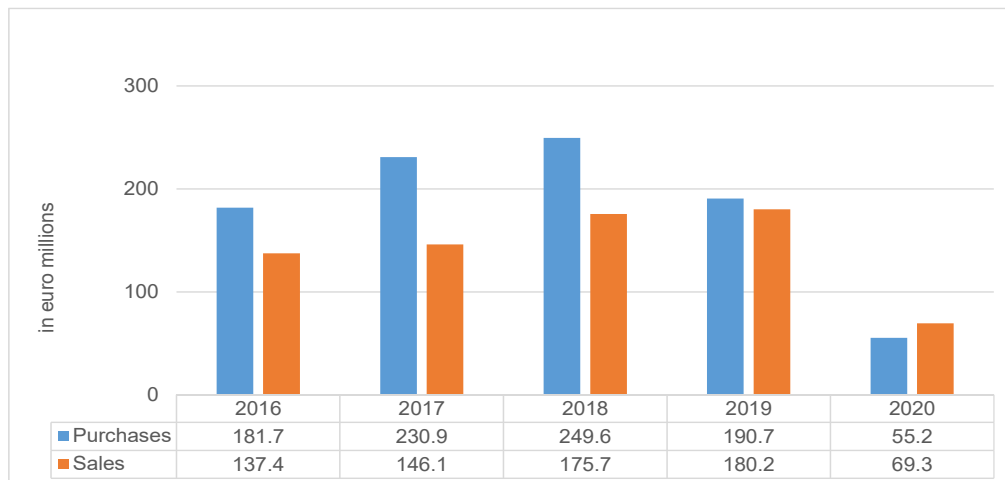
Source: Central Bank of Suriname

Figure III.15
USD Trading Volumes



Source: Central Bank of Suriname

Figure III.16
EUR Trading Volumes



Source: Central Bank of Suriname

6.3 Key Challenges and Outlook

In collaboration with the Government, the CBvS managed to stabilize the exchange rate. The key policy challenges remain in the accumulation of the international reserves and the absorption of excess liquidity in the banking system.

The amendment of the regulation on the repatriation and the surrender requirements of the export proceeds have enabled the CBvS to strengthen its international reserves. However, under the conditions of the IMF program, the CBvS will be constrained to acquire foreign currency freely on the foreign exchange market. The CBvS may buy or sell foreign currency through auctioning, only when disorderly market conditions occur. Otherwise, the CBvS has to rely on the Government to strengthen the international reserves. Under these circumstances, the CBvS faced with the challenge to strengthen the international reserves autonomously.

As the CBvS achieved the required exchange rate flexibility, it will continue to manage excess liquidity in the banking system through enhancement of the reserve money targeting (RMT) framework. The RMT is deemed the most suitable framework given the country's current conditions and institutions, including the main transmission channels of monetary policy, the technical capacity, and the current

developmental stage of the financial markets. Increased efforts are under way to develop and operationalize an electronic platform for open market operations and foreign exchange interventions as well as for foreign exchange trading. The key challenge is the development of the interest rate channel for monetary policy purposes, as this monetary mechanism is almost non-existent in Suriname.

Other measures that should support the efforts of the CBvS to stabilize the exchange rate include:

- Enhancing the monitoring of foreign exchange market developments;
- Strengthening and improving the supervision of the institutions on the foreign exchange market;
- Holding regular consultations with the stakeholders on the foreign exchange market to promote responsible behavior.

Going forward, the CBvS will pursue active monetary policy to sterilize excess liquidity in the banking system in such a way that financial and monetary stability are maintained and economic expansion is not impeded. Corrective measures from the Government are also warranted to address the fiscal deficit, while the CBvS makes every effort to strengthen its international reserves position.

IV. STRESS TEST OF THE BANKING SYSTEM

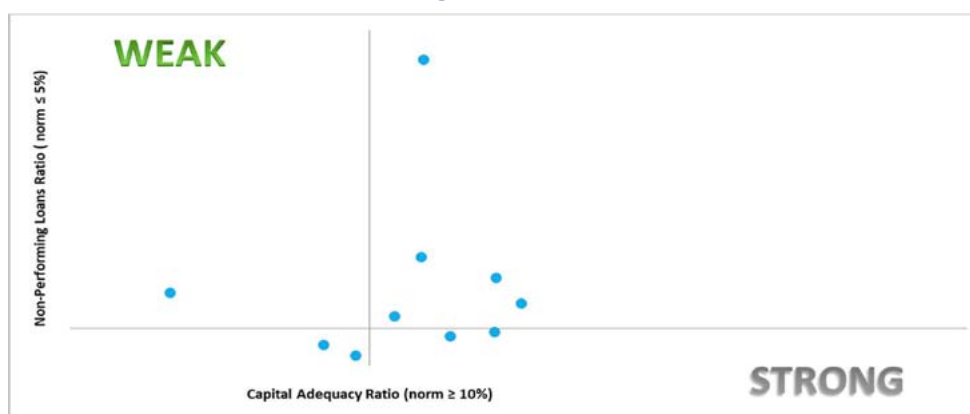
1. Introduction

A decline in economic activity, followed by adjustments in macroeconomic policies, to mitigate possible losses, could affect the balance sheets of banks, and thus their resilience against adverse events. The contraction of the economy coupled with changes in the exchange rate regime are examples of macroeconomic developments and policies. The magnitude of the impact of these changes will depend on the strength of bank balance sheets. The stress test encompasses nine commercial banks and assesses the impact of plausible adverse shocks on the level of capital adequacy for the banking system as a whole as well as for the individual banks. The results are based on banking system data as of June 2021 and were compared with data of December 2020. The tests focus on: (i) credit risk i.e. increase in non-performing loans, (ii) concentration risk, (iii) foreign exchange risk in single and multi-

factor shock settings, i.e. risks are assumed to materialize in separation or in combination. Two types of liquidity stress tests were performed to determine the resilience of the banking system to liquidity shocks. The first test examines the liquidity positions in case of withdrawals of banks' largest depositors, while the emphasis of the second test is on the ability of banks to withstand daily deposit withdrawals over a period of five days.

A glance at the capital adequacy position of the aggregate banking system in June 2021 shows that the system as a whole operates above the minimum capital adequacy reserve requirement (CAR) of 10.0 percent. The CAR of the aggregate banking system is 12.74 percent, which is higher than in 2020 (Dec 2020: 11.73%). The asset quality of banks, measured by the non-performing loan (NPL) ratio also showed improvement, as this ratio decreased to 13.37¹ percent (Dec 2020: 14.62%), which is still higher than the maximum standard of 5.0 percent.

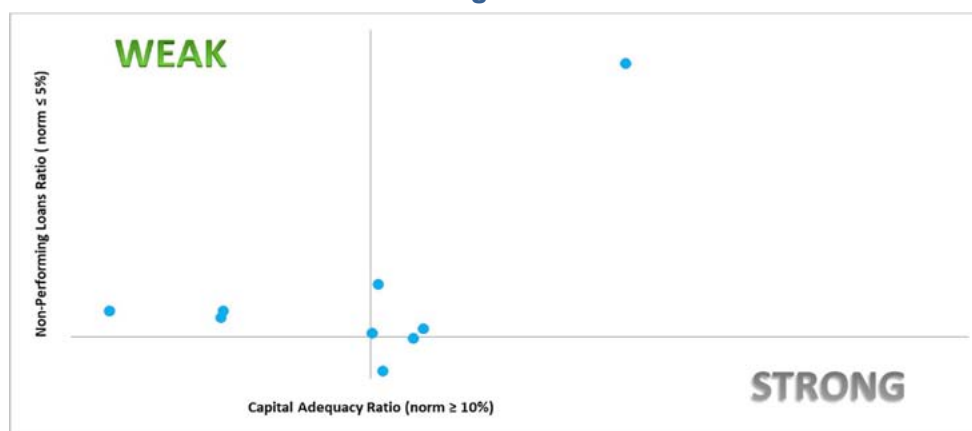
Figure IV.1a
Bank Strength in December 2020



Source: Central Bank of Suriname

1 The NPL ratio consists of three currencies. The NPL in SRD and NPL in foreign currency (USD and EUR).

Figure IV.1b
Bank Strength in June 2021



Source: Central Bank of Suriname

The improved risk profile of the commercial banks (Figures IV.1a and IV.1b) is illustrated by the migration of most individual banks (represented by dots) away from the northwest quadrant (highest risk) toward or into the southeast quadrant (lowest risk) of the graph.

2. Provisioning

As of June 2021, banks comply with the regulatory provisioning requirements, with the exception of two banks. Aggregately, bank provisioning has decreased from 46 percent as of December 2020 to 40 percent as of June 2021. After assigning the appropriate provisions to the specific banks, the CAR for the overall banking system declined with 14 basis points to 12.60 percent. The capital injection needed to keep all banks at the regulatory minimum of 10.00 percent as of June 2021 amounted to SRD 72.5 million or 0.19 percent of GDP (Dec 2020: 0.08 percent of GDP). As a result, three banks operate below the regulatory CAR. This will be the basis for the following scenarios.

3. Solvency Stress Tests

3.1 Credit Risk

Scenario: Tests are conducted by using different percentages of NPLs to help gauge the vulnerability of the banking system's credit portfolio.

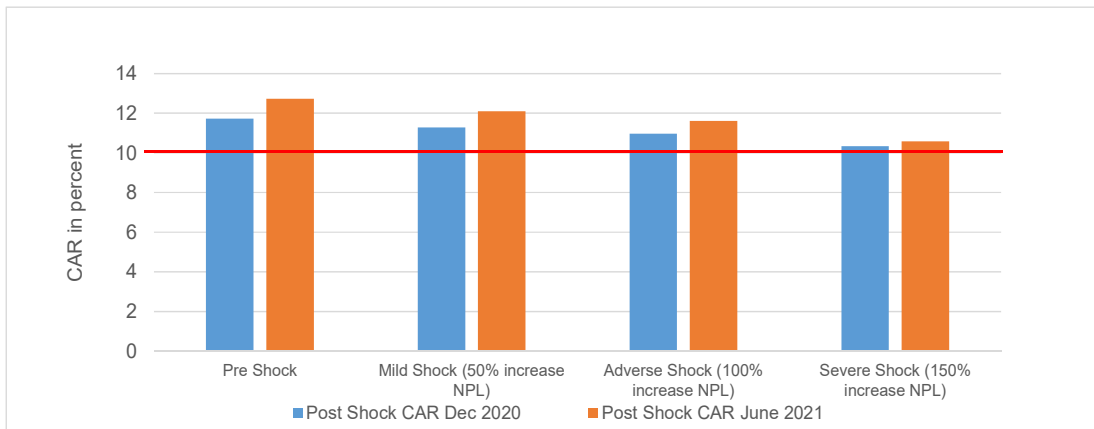
Methodology: The starting point for the credit risk is the existing NPL ratio of 13.37 percent for June 2021. Several tests with assumptions ranging from a 50 to 200 percent increases in NPLs have been conducted to determine the sensitivity of the system to this type of risk. An increase in NPLs implies that banks must undertake additional provisioning to manage the risk profile of their loan portfolio. This additional required provisioning will result in a reduced CAR. Next, the necessary capital injection is determined.

Results: The banking system remained resilient through all the shocks, as the aggregate CAR would be still above the regulatory 10 percent (Figure IV.2.). However, under the mild and adverse shocks, two additional banks would fall below the minimum CAR, while the severe shock would drag four additional banks below the minimum CAR. The additional capital injection under the last shock would be SRD 326.88 million, equivalent to 0.85 percent of GDP (Dec 2020: SRD 55.30 million or 0.18% of GDP).

3.2 Concentration Risk

Scenario: The stress test considers credit risk as a result of a possible default of the single largest borrower across banks and ultimately considers the possible default of the top 5 borrowers. The risk stems from the fact that a relatively large portion of the loan portfolio is concentrated with a few top borrowers.

Figure IV.2
Results of Overall NPL Increase



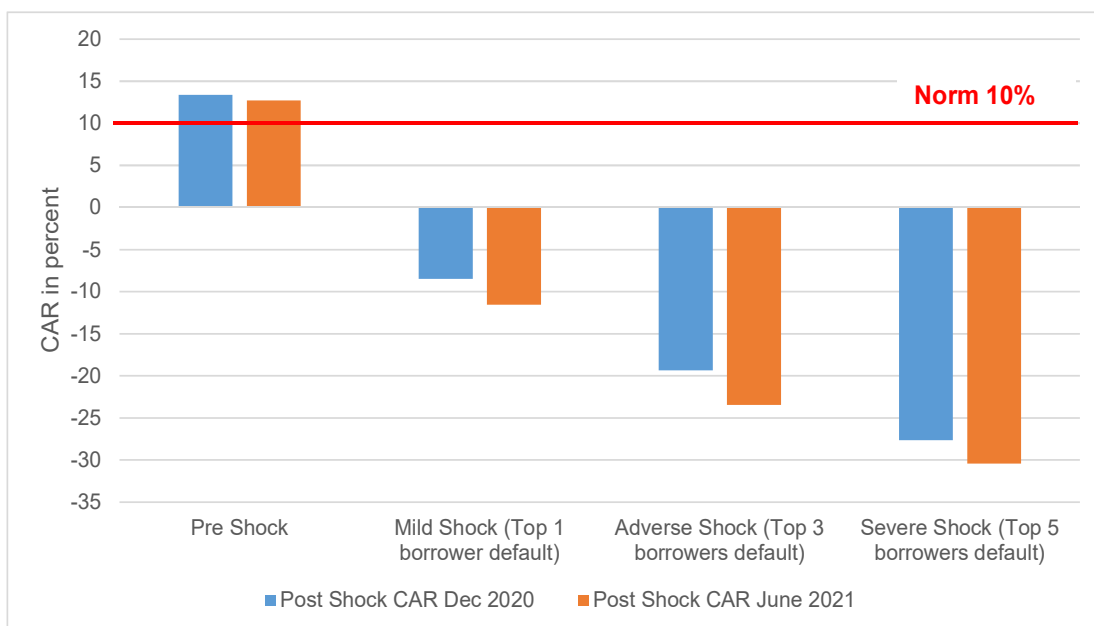
Source: Central Bank of Suriname

Methodology: Large borrower is defined as a borrower with a loan exceeding 10 percent of tier one capital, comprising common stock and retained earnings. A default of these borrowers will require additional provisioning, which will be subtracted from the regulatory capital. The test aggregates the possible defaults of large borrowers and measures the impact on the aggregate CAR, by assuming 100 percent additional

provisioning.

The current stance on the top 5 borrowers showed that the total volume of the aggregated top five borrowers increased with 55.61 percent in June 2021 as compared with December 2020. This can be attributed to the increase in the credit volume of the banks as well as the effect of the devaluation on some banks.

Figure IV.3
Results of Default of Top Borrowers



Source: Central Bank of Suriname

Results: As of December 2020, concentration risk poses a serious threat. The banking system would also become insolvent, in case the top one large borrowers across all banks would fail to meet their respective obligations. The additional capital injection for this shock will be SRD 3.72 billion, equivalent to 9.71 percent of GDP. A default of the top three large borrowers, will lower the aggregate CAR further to -23.44 percent (Dec 2020: -19.34%). The whole banking system will need an additional capital injection of SRD 5.71 billion (14.90% of GDP). A default of the top five large borrowers, will bring the CAR of the system to -30.43 percent (Dec 2020: -27.67%). The additional capital injection under this default would amount to SRD 6.85 billion (17.87% of GDP). Figure IV.3 displays the results of the aggregated CARs if concentration risk would materialize.

3.3 Foreign Exchange Risk

Scenario: The aim of this stress test is to assess the impact of exchange rate fluctuations on the CAR of banks. Foreign exchange (FX) risk warrants special attention given the high dollarization of bank deposits and loans.

Methodology: Exchange rate movements affect banks (both on-balance and off-balance sheet) instantly, but also in the face of currency mismatches through the net open positions. Thus, the value of all foreign currencies assets expressed in local currency would increase, leading to an increase of the Risk Weighted Assets (RWA). The net open position (NOP) of banks, i.e. banks having net foreign liabilities (short) or net foreign assets (long), are also included in this test. The existing short or long open positions of banks are multiplied by the change in the exchange rate. Both lead to an increase in the RWA of each bank's balance sheet, which in turn would require higher provisioning and therefore additional capital. In case the capital structure of banks consist of foreign currencies, these also need to be adjusted in case of exchange rate movements. Foreign exchange NPLs expressed in SRD will increase, and requires additional provisioning. Also, a de-

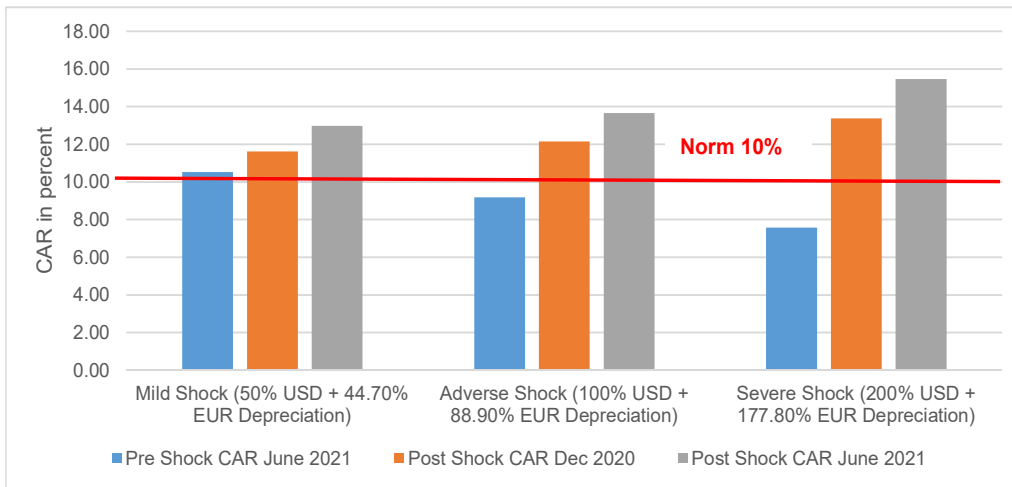
preciation could lower the ability of customers to repay banks, the so-called exchange-rate-induced credit risk. This development would require additional provisioning and will result in a reduced CAR.

The long net open position in U.S. dollar for the banking system increased from SRD 293.92 million in December 2020 to SRD 721.02 million in June 2021. The net open position in euro also increased from SRD 32.69 million in December 2020 to SRD 40.12 in June 2021.

This stress test consists of two parts: (i) Exchange rate risk : Depreciations of the U.S. dollar and euro against the Suriname dollar, and (ii) a combination of exchange rate risk with exchange rate induced credit risk of 50, 100 and 200 percent.

Results: (i) Exchange rate risk: USD/SRD and EUR/SRD depreciation. In each shock a new pre-shock CAR is first calculated due to increases in the RWA and regulatory capital, as part of the capital of some banks are in foreign currencies. The banking system can withstand large currency depreciations due to its long aggregate NOP. However, some individual banks will fall below the regulatory minimum. Under the mild shock (50% USD/SRD and 44.7% EUR/SRD depreciation) and under the adverse shock (100% USD/SRD and 89.40% EUR/SRD depreciation), three additional banks (two large banks and one small bank) would fall below the minimum CAR. Under the severe shock (200% USD/SRD and 178.80% EUR/SRD depreciation), four additional banks fall below the minimum CAR. In all three shocks, one mid-size bank that was under the minimum CAR went above the minimum CAR, which was attributed to a long net open position in U.S. dollar. This resulted in an increase in the CAR of the banking system as compared with December 2020. This will also be seen in the second part of the test. The total capital injection for the severe shock needed to bring the banking system up to the necessary CAR of 10.0 percent will be SRD 757.45 million equivalent to 1.97 percent of GDP (Dec 2020: SRD 244.94 million or 0.82% of GDP). The results of the aggregated CARs

Figure IV.4
Results of USD/SRD and EUR/SRD depreciation



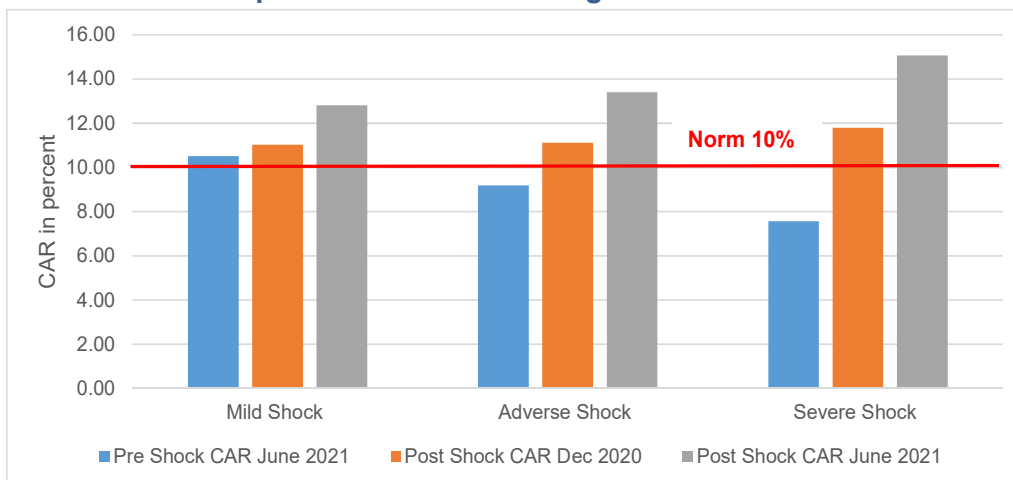
Source: Central Bank of Suriname

for the USD/SRD and EUR/SRD depreciation are presented in Figure IV.4.

(ii) Combination of exchange rate risk with exchange-rate-induced credit risk. Adding the exchange-rate-induced credit risk i.e. foreign exchange (FX) NPL increase, will lead to a lower CAR, when compared with the first test, but still above the minimum CAR in all shocks. As in the first shock, several banks will go below the 10 percent minimum. Under the mild shock (50% USD/SRD and 44.70% EUR/SRD depre-

ciation, 36.20% USD NPL increase and 33.43% EUR NPL increase), two additional banks fall below the minimum CAR. Under the adverse shock (100% USD/SRD and 89.40% EUR/SRD depreciation, 72.40% USD NPL increase and 66.85% EUR NPL increase) and the severe shock (200% USD/SRD and 178.80% EUR/SRD depreciation, 144.80% USD NPL increase and 133.71%), three additional small banks fall below the minimum CAR. As described in the first part, one large bank went above the minimum CAR as it could absorb the credit loss in

Figure IV.5
Results of Depreciations and Exchange Rate Induced Credit Risk



Source: Central Bank of Suriname

an event of an increase in FX NPL, due to a large long net open position in June 2021. The additional required capital injection for the severe shock will be SRD 849.31 million, equivalent to 2.21 percent of GDP (Dec 2020: SRD 301.35 or 1.00% of GDP). The results of the aggregated CARs for the USD/SRD and EUR/SRD depreciations, and the combination of depreciations with exchange rate induced credit risk are presented in Figure IV.5.

3.4 Multi-Factor Risk

Scenario: This scenario comprises the above-mentioned single shocks, namely an increase of total NPLs, an additional FX-induced credit loss and a depreciation of the Suriname dollar against the U.S. dollar and euro.

Methodology: The multi-factor shock analysis is based on the experience that shocks rarely materialize in isolation. Several single shocks are thus aggregated into one multi-factor shock. The results of the various single factor stress tests are added up under the assumption that the individual effects are linear and mutually exclusive.

As before, losses require additional provisioning and therefore reduce the regulatory capital accordingly.

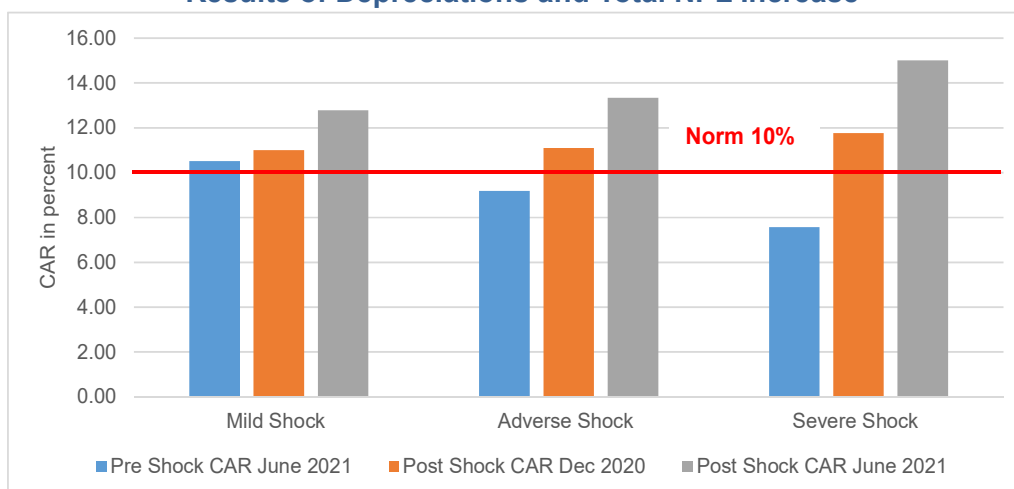
Results: The results of the multi-factor shocks improved in June 2021 in terms of CAR, when compared with December 2020. Despite the high NPL ratio of 13.37 percent, the whole banking sector could absorb all losses in local currency as well as in foreign currency due to the long net open position of several banks. Under the severe shock, four additional banks go below the minimum 10 percent. Fortunately, the CAR of the banking system is still above the regulatory CAR under the severe shock as compared with December 2020. The additional capital injection for this shock will be SRD 850.69 million, equal to 2.22 percent of GDP (Dec 2020: SRD 302.41 million or 1.01 % of GDP). Figure IV.6 presents the results of the aggregated CAR affected by total NPLs, additional FX-induced credit loss and depreciation in the SRD scenarios.

4. Liquidity Stress Tests

4.1 Large Deposit Withdrawal Risk

Scenario: The first liquidity stress test assesses risks arising from concentration of funding, i.e. what would happen with banks' liquidity position in case large depositors would withdraw their funds.

Figure IV.6
Results of Depreciations and Total NPL Increase



Source: Central Bank of Suriname

Table IV.1
Liquidity of Banks after Large Deposit Withdrawals

Largest Deposits Withdrawals	Top Depositor	(in %)	Dec-20	Jun-21
			Post-Shock Ratio	Post-Shock Ratio
Mild Shock	Top 1	Liquidity Ratio	64.30	68.49
		Liquid Asset Ratio	49.30	52.96
Adverse Shock	Top 3	Liquidity Ratio	62.62	66.78
		Liquid Asset Ratio	47.49	51.01
Severe Shock	Top 5	Liquidity Ratio	61.43	65.62
		Liquid Asset Ratio	46.23	49.71

Source: Central Bank of Suriname

Methodology: The test was carried out for the largest deposit withdrawal (top 1), the three largest deposit withdrawals (top 3) and the five largest deposit withdrawals (top 5).

Results: After applying the shocks it became obvious that no bank became illiquid (Table IV.1), neither in December 2020 nor in June 2021. Thus, all banks remain liquid under these scenarios. Compared to December 2020, the liquidity ratios have improved in June 2020.

4.2 Deposits Outflow Risk

Scenario: The second liquidity stress test assesses banks' ability to withstand a sustained deposit outflow. The impact for the banks would then be measured in terms of the number of days banks would be able to survive a liquidity drain without resorting to liquidity from outside (other banks or CBvS).

Methodology: The test encompassed a sustained five day outflow of aggregate SRD and FX deposits and assumed the following:

- The liquidity drain affects all banks proportionally, depending on their volumes of demand and time deposits;
- The daily outflow of deposits would be 5 percent per day for the first three days and 10 percent per day for the remaining two days ;
- The daily fire sales of liquid assets will be 80%, while the daily fire sales of non-liquid assets will be 1%.

Results: The banking system appears to be broadly resilient, as it would survive deposit outflows of up to five days (Table IV.2) in December

2020 as well as in June 2021.

Table IV.2
Number of illiquid Banks after Deposits Outflow

Day	Withdrawal of deposits by	Number of banks becoming illiquid	
		Dec-20	Jun-21
1	5%	0	0
2	5%	0	0
3	5%	0	0
4	10%	0	0
5	10%	0	0

Source: Central Bank of Suriname

5. Conclusion

Overall, the resilience of the banking system has strengthened in June 2021, as a result of higher aggregated CAR and lower NPLs, when compared to December 2020. Even so, the banking system still faces risks and vulnerabilities, which need to be closely monitored. The credit risk is gradually becoming a concern due to the existing high NPL ratio of 13.37 percent. The ratio is expected to increase further due to the current economic downturn and the effects of the Covid-19 pandemic, which could increase various risks within the banking environment. For the credit risk test, banks were only capable to absorb the credit loss of an additional increase in NPLs, under the mild shock. The foreign exchange risk in the banking system has been reduced. The reduction in foreign exchange risk is attributed to a long net open position of individual banks, which has a positive impact on the CAR of the banking system. A particular challenge is

concentration risk, as the banking system would already become insolvent in case the top 1 borrower defaults. Consequently, the recapitaliza-

tion costs for the concentration shock are huge. Both liquidity stress tests show that the aggregate liquidity stance is satisfactory.

Table IV.3
Commercial Banking System Stress Testing Results

Solvency Test			Dec-20	Jun-21
Pre-shock CAR			11.73	12.74
Pre-Shock CAR adjusted for Provisions			11.58	12.60
Minimum Regulatory CAR			10.00	10.00
Single-Factor Tests *			(in %)	
			Post-Shock CAR	Post-Shock CAR
Credit Risk				
a. Risk Caused by Increased Non-Performing Loans			Overall NPLs á	
Mild shock	50%		11.28	12.11
Adverse shock	100%		10.97	11.60
Severe shock	200%		10.35	10.58
b. Concentration Risk			Top Borrower Default	
Mild shock		Top 1	-8.49	-11.56
Adverse shock		Top 3	-19.34	-23.44
Severe shock		Top 5	-27.67	-30.43
Foreign Exchange Risk				
a1. Exchange Rate Risk (US\$) ¹			Depreciation	
Mild shock	50%		11.48	12.88
Adverse shock	100%		11.85	13.49
Severe shock	200%		12.81	15.19
a2. Exchange Rate Risk (US\$+EUR) ¹			Depreciation US\$ + EUR	
Mild shock	50% + 44.50%		11.63	12.97
Adverse shock	100% + 88.90%		12.15	13.66
Severe shock	200% + 177.80%		13.38	15.47
b1. Exchange Rate induced Credit Risk ²			US\$ NPLs á	
Mild shock		36.20%	9.41	10.45
Adverse shock		72.40%	7.96	9.07
Severe shock		144.80%	5.64	7.40
b2. Exchange Rate induced Credit Risk ²			US\$ +EUR NPLs á	
Mild shock		36.20% + 33.43%	9.38	10.40
Adverse shock		72.40% + 66.85%	7.92	8.98
Severe shock		144.80% + 133.71%	5.57	7.26
1c. Depreciation and Exchange Rate induced Credit Risk (US\$) ³			Depreciation US\$ NPLs á	
Mild shock	50%	36.20%	10.81	12.45
Adverse shock	100%	72.40%	10.81	12.76
Severe shock	200%	144.80%	11.21	14.02
c2. Depreciation and Exchange Rate induced Credit Risk (US\$+EUR) ³			Depreciation US\$+EUR US\$+EUR NPLs á	
Mild shock	50% + 44.50%	36.20% + 33.43%	11.02	12.82
Adverse shock	100% + 88.90%	72.40% + 66.85%	11.12	13.40
Severe shock	200% + 177.80%	144.80% + 133.71%	11.81	15.07
Multi-Factor Test *				
			Overall NPLs á US\$ Depreciation	
Mild shock	1.25% + 36.20% + 33.43%	50%	11.00	12.45
Adverse shock	2.50% + 72.40% + 66.85%	100%	11.29	12.76
Severe shock	5.00% + 144.80% + 133.71%	200%	11.94	14.02
			US\$+EUR Depreciation	
Mild shock	1.25% + 36.20% + 33.43%	50% + 44.50%	11.01	12.79
Adverse shock	2.50% + 72.40% + 66.85%	100% + 88.90%	11.10	13.35
Severe shock	5.00% + 144.80% + 133.71%	200% + 177.80%	11.77	15.00

Source: Central Bank of Suriname

* All tests are conducted with 20% (substandard), 50% (doubtful) and 100% (loss) provisioning for additional non-performing loans.

¹ Balance sheet adjustment and NOP

² Balance sheet adjustment and NPL increase

³ Balance sheet adjustment, NOP and NPL increase

V. SPECIAL TOPICS

1. Systemically Important Banks in Suriname

Background

The financial crisis of 2008 has revealed that failure of major financial institutions can have significant risks for national economies as well as for the global economy. Such institutions are called Systemically Important Financial Institutions (SIFIs) if they are large, highly interconnected, and unable to exit the market without causing major disruption to the financial system and adverse economic consequences¹.

In response to the wide-range impact of large global financial institutions, a framework dealing with global systemically important banks (G-SIBs) was issued in November 2011 by the Basel Committee on Banking Supervision (BCBS). The framework contains an assessment methodology to identify the G-SIBs and a regulatory approach to reduce the economic impact of their default.

Although, some important banks are not significant at a global level, they can be significant at a national level. Hereby, the BCBS issued a framework for Domestic Systemically Important Banks (D-SIBs), which was finalized in October 2012. The framework is principles-based and contains twelve (12) principles, which are broadly divided into two (2) groups². The D-SIBs framework guides national authorities to establish a methodology for identifying systemic banks in a domestic context, which will enable them to under-

take regular assessments of the degree to which banks are systemically important.

Methodology

The reason for identifying SIFIs is that commercial banks are a dominant player in the financial system. In case of Suriname, nine commercial banks operate in the financial system. They have total assets that exceed an average of 70 percent of the financial system assets, in the period 2008 to 2020 period.

An attempt was made to identify and adopt an appropriate measure to address systemically important banks in Suriname. First, the D-SIBs framework was carefully followed. For assessment, principle 5 of the framework, which contains four bank-specific factors such as (a) size, (b) interconnectedness, (c) substitutability/financial institution infrastructure, and (d) complexity (including the cross-border activity), was used to identify the D-SIBs in Suriname. Because the D-SIBs framework is principles-based, the Brämer & Gischer³ method was followed. This method employed the indicator-based approach of G-SIBs, which enables defining the D-SIBs⁴ by means of benchmarks. The indicator-based approach gives a clear guidance to the affected institutions as to in which areas they can reduce exposure, or change their way of doing business. The indicator-based approach uses readily available data such as balance sheet and supervisory data.

1 Weistroffer C. (2011), Identifying Systemically Important Financial Institutions (SIFIs). Deutsche Bank Research.

2 Basel Committee on Banking Supervision (2012). A framework for dealing with domestic systemically important banks. Bank for International Settlements (BIS).

3 Brämer, P. & Gischer H. (2012). Domestic Systemically Important Banks: An Indicator-Based Measurement Approach for the Australian Banking System. Working Paper No.3/2012.

4 The main difference between G-SIBs and D-SIBs is the indicator "cross-jurisdictional activity".

The categories that formed the measurement of Surinamese commercial banks are presented as follows.

- i) **Size:** The size of a financial institution is a crucial indicator of systemic risk. The greater the size of a bank, the greater the potential damage that arises from its failure. In this case, other banks are unlikely to be able to replace the activities of a major institution. Furthermore, the failure of a well-known bank can undermine the confidence in the banking system as a whole.
- ii) **Interconnectedness:** In various ways, interconnection can give rise to contagion effects causing financial stability implications. As a troubled bank is unable to repay its interbank liabilities, the probability of distress at other banks increases. This can set off a chain reaction of failures in other banks, and so on.
- iii) **Non-Substitutability:** This category is modified from “Substitutability”⁵ to “Non-Substitutability” as the latter represents the importance of a bank as a service provider to customers outside the financial sector with no direct access to the money market or the capital market. Higher concentration of loans to specific sectors can easily have a negative impact on economic activity since great parts of the loans are provided to one sector. This is the reason why the risk of loss increases for a bank.
- iv) **Complexity:** A collapse of a bank is likely to be greater, if its business, structure, and operations are more complicated. It depicts the number of complex agreements with different customers, which increase the costs and time required to resolve the bank.
- v) **Domestic Sentiment:** The last official category ‘cross-jurisdictional activity’ is created to express the global reach of a bank, but it is replaced by choosing the ‘domestic sentiment’ to emphasize the domestic relevance of an institution.

⁵ It reflects the importance of a bank as service provider to other financial institutions.

⁶ Category score value higher than 0.1 and for the total score higher than 0.5 both mean high systemic importance.

When deposits of households are at risk, worriedness spreads across a country, which might involve a general reduction of national savings or even bank runs.

As described above, each of the five categories has an unequal weight in determining the final score. To define a D-SIB, the category score as well as the final score must be benchmarked. The BCBS did not define a definite threshold value to differentiate between systemically important banks and non-systemically important ones. So, Brämer & Gischer (2012) defined a working definition for systemically important banks. The category scores value higher than 0.1 or a total score higher than 0.5 is used for benchmarking the systemically important banks⁶. These benchmarks for D-SIBs were also used to define D-SIBs in Suriname.

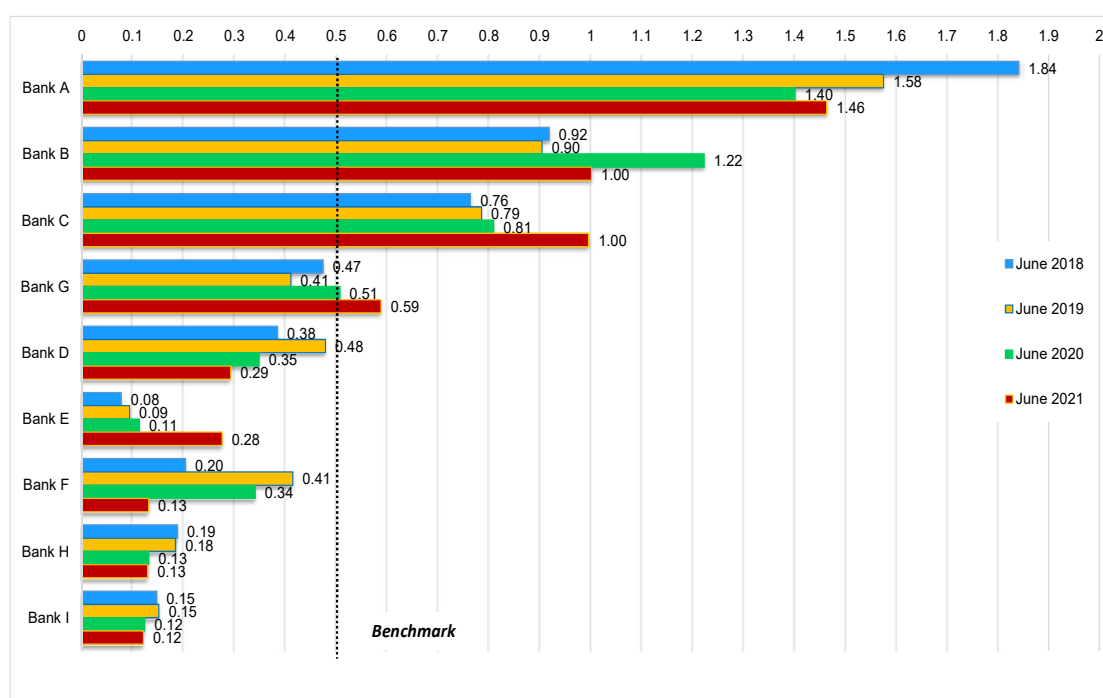
D-SIBs in Suriname

An assessment of systemic importance in the domestic banking system was done and due to their final score, four commercial banks have a high systemic impact (See Figure V.1). These banks represent more than 80 percent of the Surinamese banking system assets showing a cumulated total score of 4.05 at the end of June 2021. Bank G is designated as D-SIBs since December 2019. The remaining banks are not categorized as systemic banks as their individual scores fall below the benchmark.

In conclusion, the CBvS must monitor the D-SIBs regularly due to their systemic importance. Although, it is noteworthy that if the category score of the remaining banks (non-systemic banks) exceeds the 0.1 benchmark, monitoring is also required.

Monitoring of the D-SIBs can be accomplished by enhancing the quality of the D-SIBs capital through a Higher Loss Absorbency (HLA) requirement in order to reduce any probability of becoming non-viable by raising their loss absorbency capacity. This particular requirement is yet to be determined by the CBvS.

Figure V.1
Total Score of the Surinamese Commercial Banks*



Source: Central Bank of Suriname

* Total score higher than 0.5 means high systemic importance

2. Calibrating the Countercyclical Capital Buffer: The Role of Credit-to-GDP Gap

Introduction

A sustained rapid credit expansion can result in cyclical imbalances and build-up of systemic risks to financial stability. Consequently, strong credit growth has preceded many historic episodes of financial instability resulting in high leverage and, eventually systemic banking crises. However, although many financial crises are typically followed by credit booms, not all credit booms are followed by financial crises. Indeed, international evidence has indicated that periods of high credit growth are followed by the occurrence of systemic crises between 2 and 5 years. This experience may be considered useful to construct early warning indicators (EWI) for

crises. As a starting point, the Basel Committee on Banking Supervision (BCBS) established, among other things, the credit-to-GDP⁷ gap indicator as an EWI for systemic banking crises or severe financial sector distress. The credit-to-GDP gap measures the deviation between the credit-to-GDP ratio in an economy and its long-term Hodrick-Prescott⁸ (HP) filtered trend. The “Credit-to-GDP ratio” for Suriname is defined as the total bank credit to the private sector and the government in local and foreign currencies (expressed in Suriname dollars) relative to the GDP.

Objective

The credit-to-GDP gap serves as a macroprudential tool to dampen the potential procyclicality of capital regulation, which is one of the main objectives of Basel III. Under the Basel III inter-

7 Gross Domestic Product (GDP).

8 The HP filter is a standard mathematical tool used in macroeconomics to establish the trend of a variable over time. A one sided, recursive, HP filter is used to ensure that only information is available at each point in time used for the calculation of the trend.

national banking regulation, banks need to follow procedures for assessing the specific countercyclical capital buffer (CCyB) requirement. This instrument protects banks from periods of excessive credit growth, as a source of systemic risk.

The aim of setting up the CCyB is to increase the Capital Adequacy Requirement (CAR) in order to strengthen the resilience of the banking system in the event of upcoming financial difficulties, by accumulating capital during the expansionary phase of the credit cycle. This should help banks to minimize the risk of the supply of credit being limited by regulatory capital requirements that could weaken the performance of the real economy and result in additional credit losses in the banking system.

The BCBS established thresholds that may assist policymakers in considering macroprudential action, such as activating the CCyB rate. The BCBS suggests that when a country's credit-to-GDP gap exceeds the 2 percent benchmark level, capital requirements should be increased by setting the CCyB rate between 0 and 2.5 percent of risk-weighted assets (RWA). When the positive gap reached the benchmark level of 10 percent or more, the buffer rate would reach the aforementioned maximum of 2.5 percent of

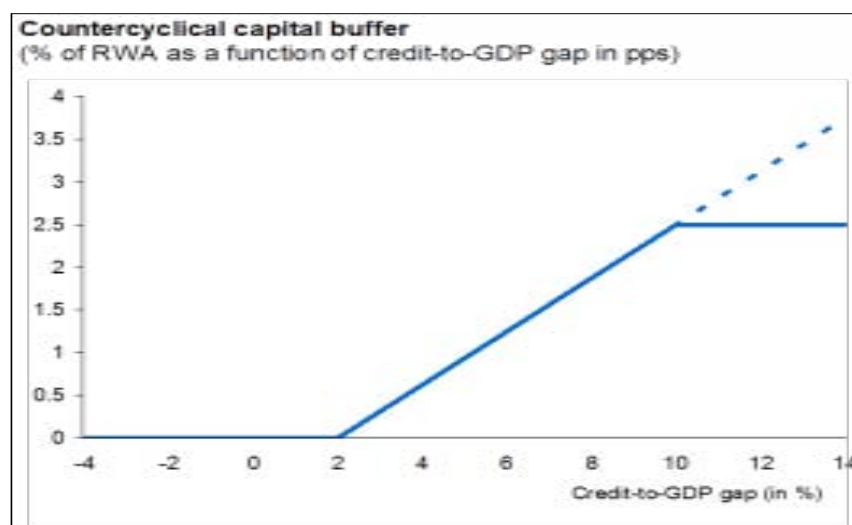
RWA. (See Figure V.2). Under exceptional circumstances, the CCyB rate can be more than 2.5 percent of RWA. If the credit-to-GDP gap is negative, then the CCyB should be released. Also, the total capital requirement cannot become less than the CAR, thus the CCyB cannot become negative.

Implied Countercyclical Capital Buffer Rate

The BCBS established rules between the credit-to-GDP gap and the countercyclical capital buffer. If the credit-to-GDP gap is below or equal to the lower threshold of 2 percent, the CCyB rate is zero. If the gap reaches its maximum level of 10 percent, the benchmark CCyB rate increases linearly to its maximum level of 2.5 percent of RWA (See Figure V.1). This rate is used as guidance to calibrate the CCyB rate ranging from 0 percent to 2.5 percent for the banking system.

The Directive 1 (Solvency)⁹ of the CBvS states that in the event of serious shortcomings on the part of the credit institution with regard to the quality of the assets, the level and degree of risk diversification, these institutions are required to hold capital that need to be higher than the prescribed level. However, the CBvS has yet to determine the CCyB rate when monitoring the credit-to GDP gap. To achieve this, the CBvS

Figure V.2
Countercyclical Capital Buffer vs. Credit-to-GDP gap



Source: Central Bank of Suriname

9 Directive effective since 1 July 2015.

may monitor the credit-to-GDP gap and use the BCBS rules as guidance to calibrate the CCyB rate for the banking system.

Credit Growth

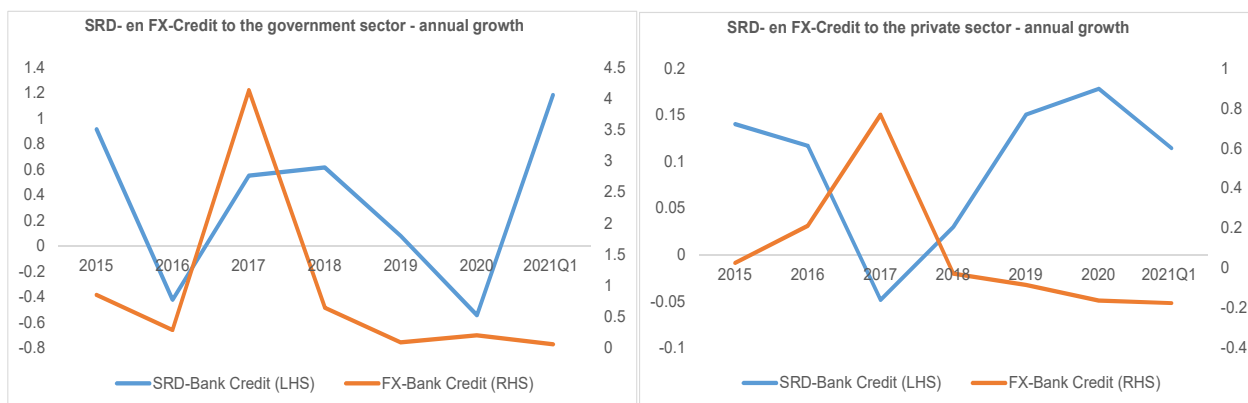
The growth of the total credit to the private sector and government increased to 9.0 percent in 2021Q1, as compared to -4.4 percent in 2020Q1. This annual growth is mainly attributed to the growth in credit to the government in local currency from -54.2 percent in 2020Q1 to 118.5 percent in 2021Q1 (See Figure V.3, left-hand side). This accumulation is the result of an increase in

loans destined to minimize the Covid-19 effect on the real economy.

The growth of the bank credit to the private sector in local and foreign currencies decreased respectively to 11.5 percent and -17.6 percent in 2021Q1 (2020Q1: 17.8% and -16.3%) (See Figure V.3, right-hand side).

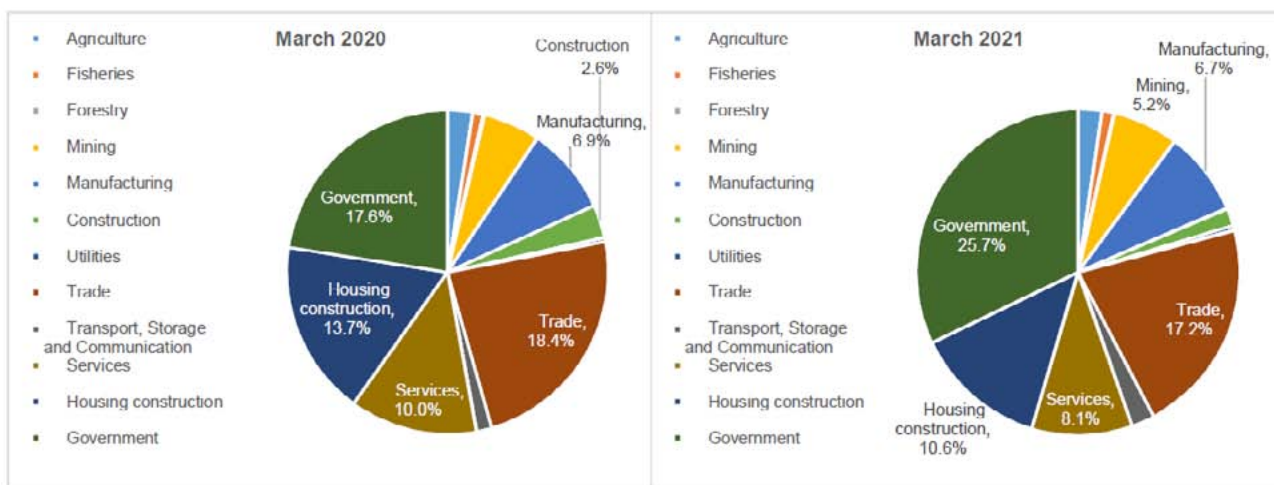
Figure V.4 depicts the proportion of total credit in local and foreign currencies by economic activity, as compared with March 2020. The sectors Government, Construction, Trade, Services and Manufacturing have the largest proportions and are ranked in the top 5.

Figure V.3
Credit to the Government and Private Sector



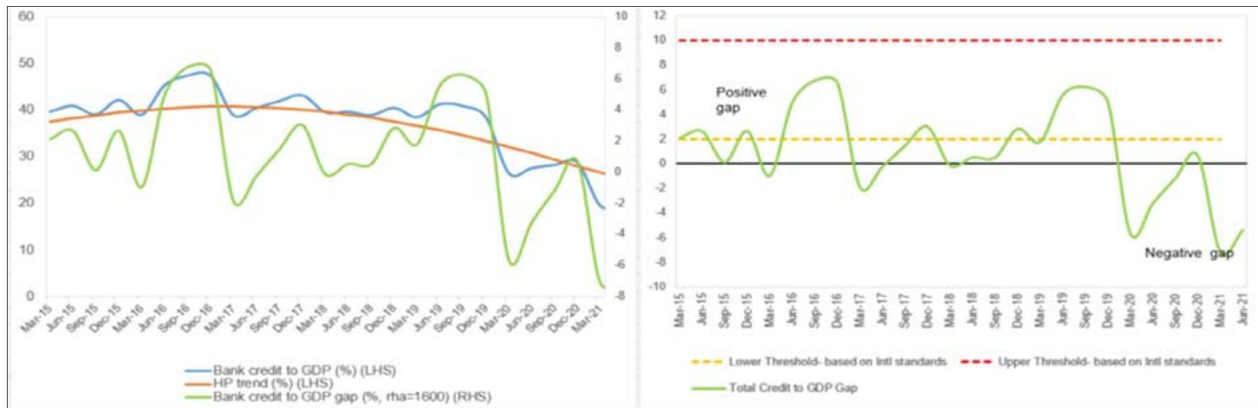
Source: Central Bank of Suriname

Figure V.4
Shares of Bank Credit by Economic Activity



Source: Central Bank of Suriname

Figure V.5
Total Credit-to-GDP Ratio, Trend, and Gap



Source: Central Bank of Suriname

Also, the share of the sector Government increased to 25.7 percent in March 2021 (March 2020: 17.6%). However, the shares of the remaining top 5 sectors decreased.

Credit Gap

Figure V.5 (left-hand side) displays the credit-to-GDP ratio, trend and gap with a time span of 5 years ranging from March 2015 to March 2021. The period 2015Q1 to 2016Q4 showed positive gaps that lie between the benchmark level of 2 percent and 10 percent, excluding the periods 2015Q3 and 2016Q1, as shown in Figure V.5 (on the right). After that period, the last positive gap was in 2017Q4. At that point, the gap shifted from positive to negative until 2021Q1. The negative gaps were characterized by relative high inflation and a GDP growth between 1.1 percent to 4.9 percent, as well as by an economic downturn in 2020.

3. Suriname National Electronic Payment System: Developments 2015-2021

Participants in SNEPS

Since its establishment in 2015, the Suriname National Electronic Payment System (SNEPS) has undergone major developments. As owner and administrator of this system, the Central Bank of Suriname recognizes its positive impact

on the payment processes. The most notable improvements are timesaving, increased security, fewer risks and better transparency in interbank transactions, which in turn contribute to the efficiency of the national electronic payment system. Its initial participants were the nine (9) primary banks from that period and the CBvS. In June 2016, the following year, two SNEPS participants fused and another one was welcomed. By including this new participant in the system, the CBvS is one-step closer to reaching its goal, which consist of eliminating barriers that limit payments and supporting efforts to achieve greater financial inclusion.

Multi Currencies in SNEPS

The system was designed to support multiple currencies, which facilitated the introduction of a second currency in SNEPS, the USD, which is the most used foreign currency in Suriname. In addition to the before mentioned benefits, this implementation also reduced the pressure on the demand for cash USD, which was skyrocketing at that time. The decision to affect the use of USD in SNEPS not only made USD bank processing possible, but also facilitated a 24 hours payments finality on the clients account. The CBvS officially introduced the USD currency processing on the 31st of August 2019 in SNEPS. Almost 2 years after this, on 22 March 2021,

EUR transaction processing was added to the system. As was the case with USD, the EUR transaction processing was by design, because it is the second most widely used foreign currency in Suriname. The implementation of these two foreign currencies greatly increased the number of transactions processed through SNEPS.

Fee in SNEPS

Upon the introduction of SNEPS, the participants used the system free of charge. However, in order to promote fair competition and an efficient payment system, the CBvS implemented fees and charges for using SRD RTGS (Real Time Gross Settlement) and ACH (Automated Clearing House) transactions. As of January 1, 2018, fees were charged for each participant using this system. This consisted of two parts: an annual fee and a transaction-based fee (for each settled transaction in the system). This lasted until March 2019 when these fees were eliminated. The objective for this was to promote electronic payments in local currency, because of the prospect of implementing other currencies in SNEPS and shifting these costs towards the foreign currencies. In May 2021, however, the SNEPS fees were reinstated. The two-part structure of the fees (annual and transaction-based) was retained, but the concept of shifting costs only towards foreign currencies was abandoned in favor of value-based charges. This was done to keep the transaction costs for the public as

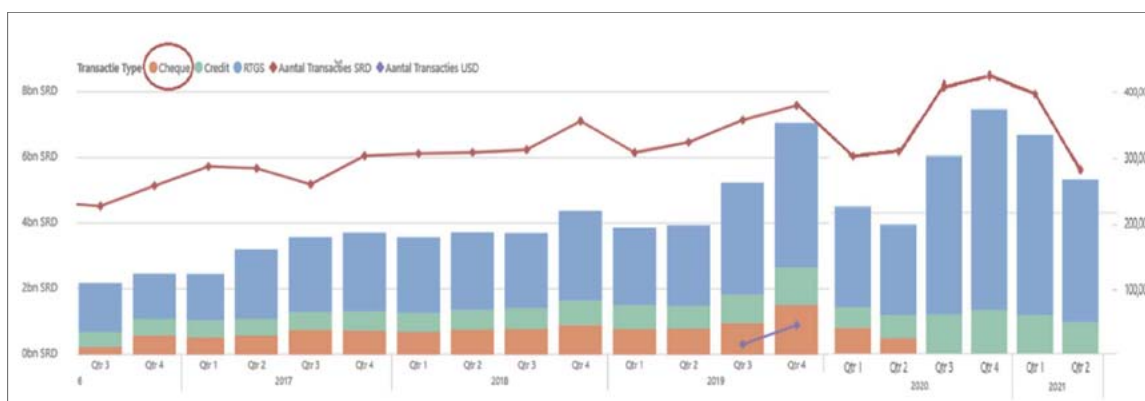
low as possible by making almost 80 percent of the retail payment, processed by SNEPS, free of charge.

STP and Checks

In order to speed up the processing of the electronic payments, the CBvS has required all banks to switch to Straight Through Processing (STP). STP is the automated end-to-end processing of payment without the need for re-keying of or reformatting data. At present, four out of the nine participants have STP while four have already started projects for implementation. The CBvS is currently in the process of setting rules that will obligate T+1 finality for payments. Adhering to these rules will require the remaining participants to implement STP.

Until August 2020, paper-based payments, among which are cash and checks, dominated the payment transactions in Suriname. These payment methods involve high risk of money laundering and fraud. The checks clearing system facilitates the deposit of checks to any bank, not just to the bank against which it is drawn. The processing and settlement time, took three days (T+3) processing from Client A at Bank X to Client B to Bank Y. Because of these risks and the long period of settlement, the commercial banks no longer support the use of checks. This is demonstrated in Figure V.6, which illustrates the evolution of the transactions processed in SNEPS.

Figure V.6
Evolution of Transactions Processed in SNEPS



Source: Central Bank of Suriname

Future perspectives

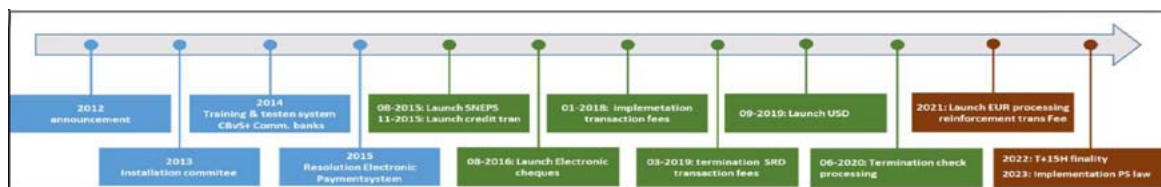
The CBvS has been involved in various reform activities over the past few years and will continue to improve the financial infrastructure for the coming years.

In order to increase the safety, efficiency and integrity of the payment system, the CBvS has planned to support the participants in upgrad-

ing their intra-banking system, which will allow them to connect straight through with SNEPS and facilitate a same day settlement finality. Another major goal is to implement an Electronic Payment System Act by the end of 2023, thus allowing SNEPS to have a legal basis.

Figure V.7 displays a timeline that illustrates the SNEPS milestones achieved and to be achieved.

Figure V.7
Achieved and to be Achieved SNEPS Milestones



Source: Central Bank of Suriname

STATISTICAL APPENDIX

Appendix 1

Suriname: Selected Macroeconomic Indicators

Production ^{1]}	2015	2016*	2017*	2018*	2019*	2020*
GDP market prices (mln SRD)	17,515.0	20,663.0	26,893.3	29,821.7	31,482.5	38,353.3
Real GDP growth (%)	-3.4	-4.9	1.6	4.9	1.1	-15.9
GNI per capita (US\$)	8,632.0	5,517.4	5,521.8	6,160.7	6,417.7	6,111.7
Government Finances**						
Revenue (mln SRD)	3,649.8	3,519.0	5,114.4	5,970.0	6,434.4	7,065.3
Expenditures (mln SRD)	5,107.8	5,612.0	7,134.7	7,934.0	12,291.5	11,363.4
Overall balance (mln SRD) ^{2]} (Cash basis)		-2,198.1	-2,239.8	-2,956.9	-5,857.1	-4,298.1
Overall balance in % of GDP (Cash basis)		-10.6	-8.3	-9.9	-18.6	-11.2
Overall balance (mln SRD) ^{2]} (Commitment basis)	-1,601.2	-2,081.8	-2,107.5	-2,028.2	-5,042.9	-4,807.0
Overall balance in % of GDP (Commitment basis)	-9.8	-10.1	-7.8	-6.8	-16.0	-12.5
Balance of Payments						
Merchandise exports (mln US\$)	1,652.3	1,438.7	1,991.9	2,070.1	2,126.6	2,345.1
Merchandise imports (mln US\$)	2,028.2	1,252.0	1,279.7	1,486.2	1,702.0	1,329.1
Trade balance (mln US\$)	-375.9	186.7	712.2	583.8	424.6	1,016.0
Net services, income and current transfers (mln US\$)	-410.5	-347.2	-643.1	-702.6	-872.8	-756.8
Current account balance (mln US\$)	-786.4	-160.5	69.2	-118.7	-448.3	259.2
Overall balance (mln US\$)	-265.8	79.4	21.7	147.9	-207.6	-83.4
Gross international reserves (mln US\$)	330.2	381.1	424.4	580.7	647.5	584.7
Import cover ratio (months) ^{3]}	1.5	2.7	2.8	3.4	3.2	3.8
Financial Sector						
Base money supply [M0]	2,468.7	2,928.7	3,544.9	4,849.0	9,454.0	12,709.8
Money stock [M1] (mln SRD) ^{4]}	4,926.4	6,840.1	7,754.5	8,801.1	9,909.7	16,110.6
Broad Money [M2] (mln SRD) ^{5]}	10,639.3	16,193.0	17,601.5	19,196.3	20,289.2	32,879.3
Net Credit to the government (mln SRD)	2,635.7	2,350.4	3,847.4	3,496.1	4,977.2	11,213.6
Credit to the private sector in SRD (mln SRD)	6,275.5	3,797.5	3,825.1	4,243.4	4,950.9	5,500.5
Credit to the private sector in USD (mln USD)		425.1	431.5	399.2	339.6	288.7
Credit to the private sector in EUR (mln EUR)		152.5	130.2	107.8	91.2	72.1
Weighted average nominal SRD deposit rate (%)	7.7	8.5	9.1	9.2	8.8	7.1
Weighted average nominal SRD lending rate (%)	13.4	14.1	14.3	14.4	15.2	15.1
Exchange Rate and Inflation						
Official average buying rate (SRD per US\$)	3.3	6.2	7.4	7.4	7.4	9.2
Official average selling rate (SRD per US\$)	3.4	6.3	7.6	7.5	7.5	9.4
Annual average inflation (%)	6.9	55.5	22.0	6.8	4.4	34.9
End-of-period inflation (%)	25.1	52.4	9.2	5.4	4.2	60.8
Central Government Debt Ratios						
External debt (% of GDP) ^{6]}	29.4	34.5	61.2	56.2	57.9	57.6
Domestic debt (% of GDP) ^{6]}	22.9	22.8	25.7	25.3	28.7	57.6

Source: Central Bank of Suriname, Ministry of Finance, Suriname Debt Management Office, General Bureau of Statistics, and Planning Office

** Data presentation according to international definition following the methodology as stipulated in the Government Finance Statistics Guide (IMF Manual).

1] From 2016, the base year 2015 is used, according to guidelines from SNA 2008, and ISIC rev 4.

2] Includes statistical discrepancies.

3] Based on imports of goods and services.

4] Includes domestic and foreign currency deposits.

5] Includes domestic and foreign currency time and savings deposits.

6] Based on national definitions; see www.sdmo.org for debt ratios in % of GDP, compiled in accordance with international definitions.

Appendix 2 Financial Soundness Indicators: Commercial Banks

(in %)	2017		2018		2019		2020		2021
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Capital Adequacy									
Regulatory capital/RWA	8.7	9.3	9.1	9.6	11.0	11.4	11.7	11.8	12.7
Regulatory Tier 1 capital/RWA	8.0	8.7	8.7	9.0	10.3	10.8	10.8	10.5	11.2
Capital (net worth)/assets	5.5	5.9	4.7	4.8	5.2	5.2	5.4	4.9	5.0
Asset Quality									
NPLs/gross loans	13.2	13	12.0	12.0	11.3	10.6	13.5	14.6	13.4
NPLs net of provision/capital	62.2	52.1	43.0	40.3	36.8	34.9	46.2	60.4	54.3
Earnings and profitability									
ROA	0.6	0.9	0.5	0.1	0.6	1.0	0.3	2.0	1.2
ROE	11.9	16.2	8.3	1.9	10.7	16.7	4.2	34.8	22.0
Liquidity									
Liquid assets/total assets	37.5	37.9	41.3	40.2	43.5	46.8	49.1	51.5	55.1
Liquid assets/total short-term liabilities	81.0	82.3	86.9	82.1	87.3	93.4	95.5	101.3	110.7

Source: Central Bank of Suriname

Appendix 3A Financial Soundness Indicators: Life Insurance Companies

(in %)	2016	2017	2018		2019	2020		2021
	Dec ¹	Dec ¹	Jun ¹	Dec ¹	Dec ¹	Jun ²	Dec ²	Jun ²
Required capital								
Available capital/required capital	249.0	255.0	260.0	278.0	248.0	236.0	309.0	259.0
Capital Adequacy								
Net premium/capital	107.0	94.0	30.0	71.0	104.0	45.0	56.0	29.0
Capital/total assets	11.0	11.0	11.0	12.0	11.0	10.0	12.0	11.0
Capital/technical reserves	14.0	14.0	15.0	15.0	14.0	13.0	16.0	14.0
Asset Quality								
(Real estate + unquoted equities + debtors)/total assets	18.0	17.0	22.0	19.0	17.0	18.0	24.0	13.0
Reinsurance and actuarial issues								
Risk retention ratio (net premium/gross premium)	97.0	97.0	97.0	97.0	98.0	100.0	98.0	98.0
Earnings and profitability								
Return on equity	75.0	17.0	4.0	5.0	1.0	-0.4	93.0	42.0
Return on assets	8.0	2.0	0.4	1.0	0.4	-0.1	12.0	4.0
Investment income/total investment assets	7.0	7.0	3.0	6.0	7.0	3.0	8.0	3.0
Combined ratio (loss and expense ratio)	145.0	154.0	165.0	190.0	226.0	148.0	395.0	155.0
Loss ratio (net claims/net premium)	104.0	97.0	134.0	109.0	141.0	114.0	259.0	129.0
Expense ratio (expenses/net premium)	41.0	58.0	30.0	81.0	85.0	34.0	137.0	26.0
Liquidity								
Liquid assets/total liabilities	48.0	42.0	60.0	43.0	37.0	29.0	29.0	69.0

Source: Central Bank of Suriname

¹Data based on the information of three life insurance companies

²Data based on the preliminary information of three life insurance companies

Appendix 3B Financial Soundness Indicators: Non-Life Insurance Companies

(in %)	2016		2017		2018		2019		2020		2021
	Dec ¹	Jun ²	Dec ¹	Jun ¹	Dec ¹	Jun ¹	Dec ¹	Jun ³	Dec ³	Jun ³	
Required capital											
Available capital/required capital	467.0	494.0	424.0	889.0	425.0	884.0	395.0	814.0	666.0	1,148.0	
Capital Adequacy											
Net premium/capital	91.0	78.0	110.0	57.0	119.0	59.0	113.0	63.0	72.0	44.0	
Capital/total assets	39.0	30.0	39.0	38.0	34.0	35.0	32.0	33.0	40.0	41.0	
Capital/technical reserves	128.0	102.0	120.0	117.0	93.0	113.0	106.0	113.0	151.0	177.0	
Asset Quality											
(Real estate + unquoted equities + debtors)/total assets	47.0	25.0	50.0	51.0	51.0	48.0	39.0	46.0	40.0	41.0	
Reinsurance and actuarial issues											
Risk retention ratio (net premium/gross premium)	87.0	91.0	90.0	77.0	77.0	77.0	73.0	78.0	74.0	75.0	
Earnings and profitability											
Return on equity	34.0	(2.0)	7.0	7.0	3.0	4.0	9.0	5	34.0	22.0	
Return on assets	13.0	(1.0)	3.0	3.0	1.0	2.0	3.0	2	14.0	9.0	
Investment income/total investment assets	10.0	4.0	3.0	2.0	(3.0)	2.0	3.0	2.0	13.0	2.0	
Combined ratio (loss and expense ratio)	120.0	115.0	101.0	93.0	93.0	98.0	95.0	95.0	107.0	92.0	
Loss ratio (net claims/net premium)	94.0	81.0	69.0	63.0	61.0	65.0	61.0	56.0	59.0	56.0	
Expense ratio (expenses/net premium)	25.0	35.0	32.0	31.0	32.0	33.0	34.0	39.0	48.0	36.0	
Liquidity											
Liquid assets/total liabilities	35.0	37.0	36.0	36.0	38.0	34.0	46.0	44.0	53.0	55.0	

Source: Central Bank of Suriname

¹Data based on the information of five non-life insurance companies

²Data based on the information of four non-life insurance companies

³Data based on the preliminary information of five non-life insurance companies

Appendix 4 Financial Soundness Indicators: Pension Funds

Indicators (in %)	2016		2017		2018		2019		2020		2021
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Return On Assets	-	19.3	-	6.0	3.3	3.9	4.5	5.7	9.5	12.6	11.0
Income/Expenditures	-	247.0	-	100.3	168.8	224.0	216.7	227.5	314.3	243.3	265.7
Return on investments	-	22.9	-	7.4	3.7	4.5	5.1	6.2	10.6	14.1	12.2
Liquidity ratio	-	8.0	-	12.2	11.3	14.1	17.4	13.9	14.9	17.8	23.5
Pension benefit paid/contributions	-	45.4	-	57.5	57.0	71.2	71.7	67.6	62.0	58.2	69.7
Investment income/Total invested assets	-	22.9	-	7.4	3.7	4.5	5.1	6.2	10.6	14.1	12.2
Solvency ratio	-	118.4	-	101.6	92.5	92.5	100.8	100.8	111.6	111.6	111.6

Source: Central Bank of Suriname

Appendix 5 Financial Soundness Indicators: Credit Unions

Indicators (in%)	Norm	2016		2017		2018		2019		2020		2021
		Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Solvency												
Regulatory capital/Risk weighted assets	> 7.0	5.5	6.1	6.6	6.6	6.6	5.2	4.3	2.0	2.3	12.8	7.5
Equity/Total assets	> 10.0	6.1	6.8	7.0	4.5	7.1	5.9	6.5	4.1	4.2	11.3	8.5
Liquidity												
Actual liquid assets/Required liquid assets	>100.0	96.5	92.5	93.4	79.5	80.8	90.9	93.5	97.3	121.8	135.4	132.5
Claims vs Liabilities												
Claims on members /Liabilities to members	< 80.0	67.6	66.0	67.7	69.9	66.7	62.7	58.6	58.9	53.4	52.9	47.6
Profitability												
Return on assets (ROA)	> 1.5	0.3	0.4	0.2	-0.8	-0.1	-1.8	-0.3	-0.4	1.0	0.3	0.2

Source: Central Bank of Suriname

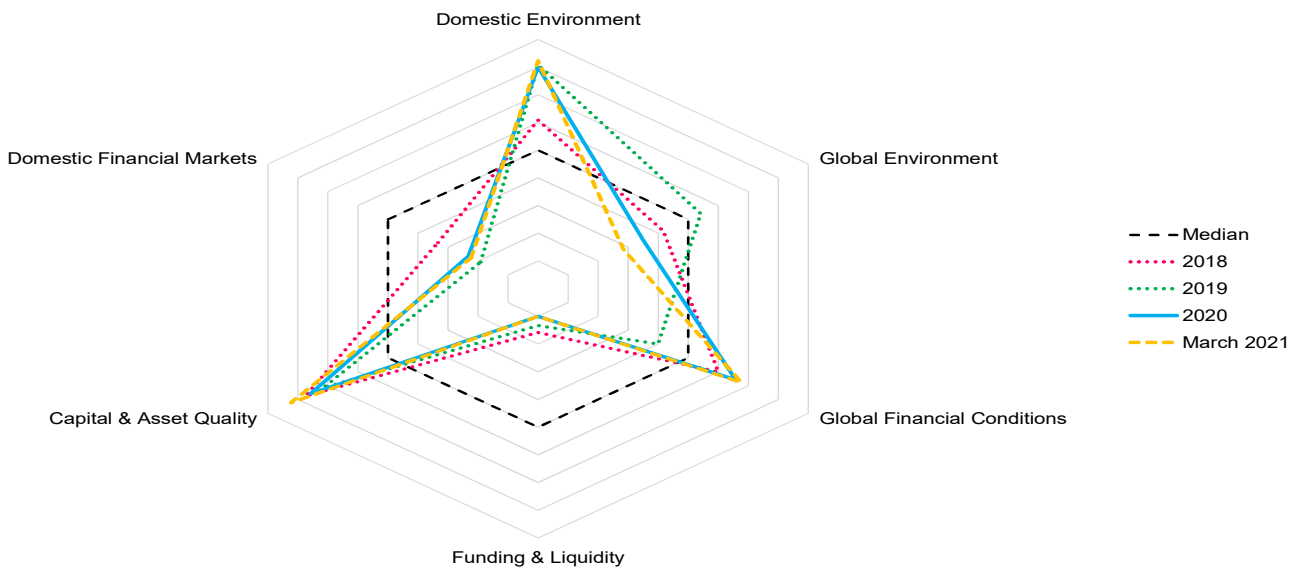
Samenvatting

Met dit Financial Stability Report (FSR) van de Centrale Bank van Suriname (CBvS) wordt beoogd om economische en financiële beleidsmakers en stakeholders een uitgebreide beoordeling te geven over de prestaties en de weerbaarheid van de financiële sector en om het inzicht te vergroten in de verschillende maatregelen die de CBvS neemt om de soliditeit en stabiliteit van de binnenlandse financiële sector te waarborgen.

In Hoofdstuk I van dit verslag wordt een algemeen overzicht gegeven van de financiële sector in Suriname en wordt een passende institutionele context voor het verslag geschetst. Er wordt ingegaan op het wettelijk mandaat van de Bank, de belangrijkste wetten die van toepassing zijn op de financiële sector, de institutionele

samenstelling van de sector en het monetaire en macroprudentiële beleid in het algemeen. In Hoofdstuk II worden de belangrijkste economische en financiële risico's in kaart gebracht die voortvloeien uit de mondiale en lokale omgeving, en worden de gevolgen geanalyseerd die deze risico's kunnen hebben voor de Surinaamse financiële sector en economie. Het radardiagram (Figuur 1) geeft een overzicht van de risico's waaraan financiële instellingen in Suriname zijn blootgesteld, met name potentiële systemische schokken in hun werkomgeving. Bewegingen vanuit het centrum van het diagram geven hierbij een verhoogd risico weer en bewegingen naar het centrum een verlaagd risico voor de financiële stabiliteit. Het normale niveau van risico is geïllustreerd door de zwarte stippellijn.

Figuur 1
Risicoprofiel van de Financiële Sector



Bron: Centrale Bank van Suriname

Volgens Figuur 1 was het niveau van de totale risicoblootstelling van het financiële stelsel lager in 2019 (groene stippellijn) dan in 2020 (blauwe lijn). Waar de wereldwijde lockdown als gevolg van de Covid-19 pandemie het risico in de dimensie “mondiale financiële omstandigheden” verhoogde, is het ook duidelijk dat na de normalisering van de markten na de lockdown een verminderd risico in de dimensie “mondiale omgeving” merkbaar is. Voorts is er een toegenomen risico in de dimensie “lokale financiële markten” ten gevolge van een aanpassing van de officiële wisselkoers van de US-dollar met 90% en vanwege een hogere rentemarge. De risicopositie in maart 2021 (oranje stippellijn) is een voortzetting van de situatie in december 2020.

Hoofdstuk III richt zich voornamelijk op de financiële prestaties en belangrijkste uitdagingen van commerciële banken, verzekeringsmaatschappijen, pensioenfondsen, kredietcoöperaties en de effectenbeurs die actief zijn in Suriname,

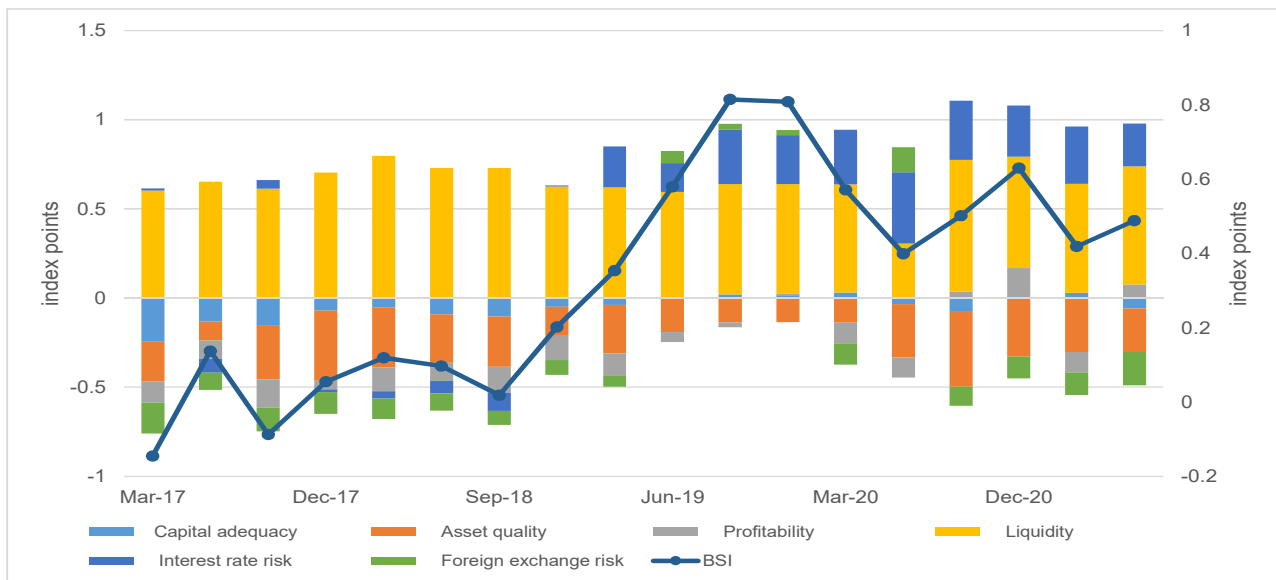
alsmede op de door deze instellingen genomen risico-bepalende maatregelen.

Commerciële banken

Het Surinaamse bankwezen heeft zijn kapitaalpositie sinds 2016 geleidelijk versterkt, terwijl de liquiditeit op een adequaat niveau bleef. De kwaliteit van de kredietportefeuille daarentegen verslechterde als gevolg van lagere omzetten, als gevolg van de sterke inkrimping van de economie toen de uitbraak van de Covid-19 pandemie in 2020 aanhield.

De bancaire stabiliteitsindex (BSI) (Figuur 2) weerspiegelt de verslechtering van de kwaliteit van de activa, waardoor de index daalde van 0,81 in december 2019 tot 0,61 in december 2020. De index daalde verder tot 0,42 in maart 2021 als gevolg van een lagere winstgevendheid. De algehele stabiliteit van de lokale banksector is eind juni 2021 verbeterd, nu de economie tekenen van herstel vertoont. De winstgevendheid nam toe, terwijl de kwaliteit van de activa verbeterde.

Figuur 2
Bancaire Stabiliteitsindex



Bron: Centrale Bank van Suriname

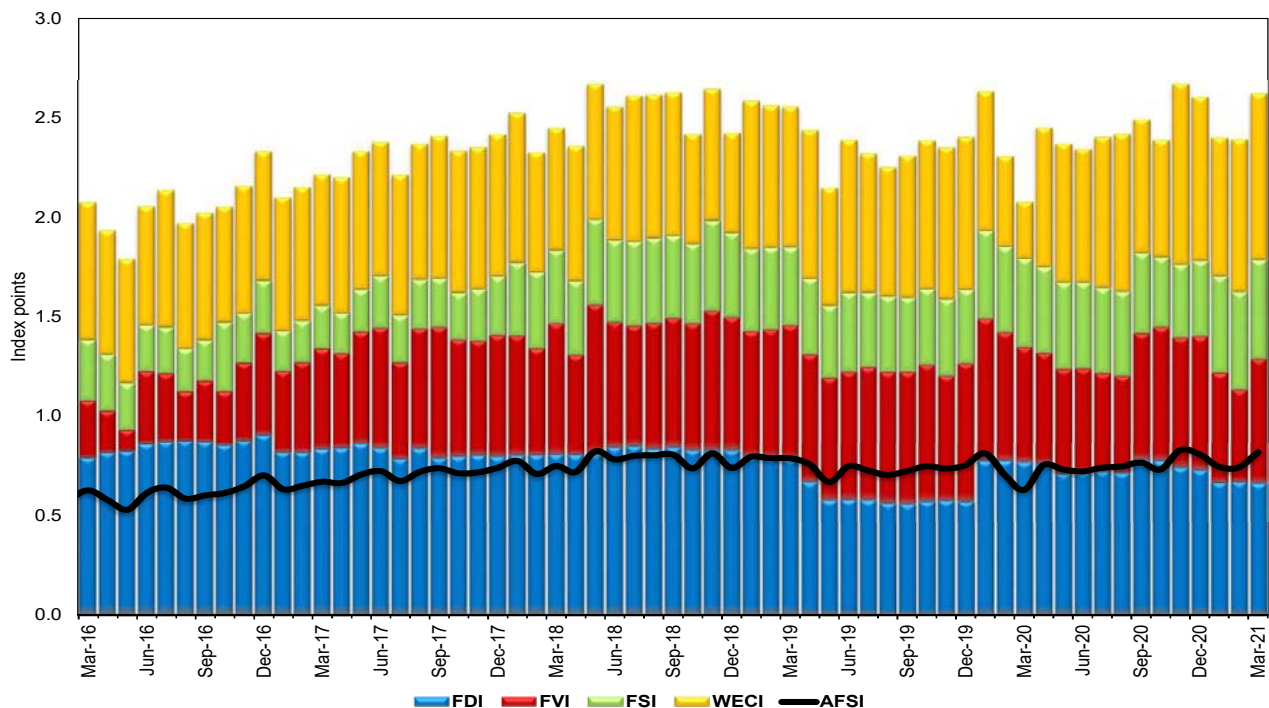
De algehele financiële stabiliteitsindex (AFSI) (Figuur 3) bestaat uit verschillende sub-indexen en wordt gebruikt om de stabiliteit van de banksector te beoordelen. Het is een eenvoudige financiële stabiliteitsindex, die bestaat uit micro-economische, macro-economische en internationale indicatoren voor het functioneren van de banksector. Een stijging van de ASFI impliceert een grotere mate van financiële stabiliteit en omgekeerd.

De AFSI voor de banksector is enigszins verbeterd in vergelijking met 2019. De AFSI registreerde een maandgemiddelde van 0,747 in 2020 ten opzichte van een maandgemiddelde van 0,743 voor 2019, ondanks enkele inzinkingen als gevolg van de Covid-19-pandemie in 2020. De belangrijkste reden de verbetering was de opwaartse aanpassing van de wisselkoers, terwijl de toegenomen inflatie en scherpe daling van de MSCI World-index, de AFSI negatief beïnvloedden.

De solvabiliteitsratio (CAR) is gestaag toegenomen van 5,5 procent in 2016 tot 11,8 procent in december 2020, waarmee wordt voldaan aan het voorgeschreven minimum van 10 procent. Het bankwezen was winstgevend, aangezien het rendement op eigen vermogen (ROE) verdubbelde van 16,7 procent tot 34,8 procent.

Wisselkoerswinsten en renteopbrengsten droegen aanzienlijk bij tot de winst. De ratio voor niet presterende leningen (oftewel de ratio voor Non-Performing Loans afgekort NPL) steeg daarentegen van 10,6 procent naar 14,6 procent, een verdere overschrijding van de NPL-norm van 5 procent. Net als in 2019 bleef de liquiditeit in de banksector in 2020 op een bevredigend peil. De liquiditeitsindicatoren, namelijk liquide activa ten opzichte van totale activa en liquide activa ten opzichte van kortlopende verplichtingen, kwamen uit op respectievelijk 51,5 procent en 101,3 procent.

Figuur 3
Geaggregeerde Financiële Stabiliteitsindex



Bron: Centrale Bank van Suriname

Verzekeringsmaatschappijen

Levensverzekeringen

De verzekeringsmaatschappijen beschikten over ruim voldoende kapitaal ten opzichte van het vereiste kapitaal om te voldoen aan de minimumnorm, zoals vastgesteld door de toezichthouder. De ratio in 2020 was 233,6 procent, een daling ten opzichte van 2019, maar ruimschoots boven de minimaal vereiste ratio van 100 procent. Ook in 2020 hielden de levensverzekeraars voldoende eigen vermogen aan in relatie tot hun verzekeringsbedrijf met een ratio van 97,9 procent, aangezien de ratio lager dan 300 procent als adequaat wordt geclassificeerd. De liquiditeitspositie van de levensverzekeraars is in 2020 licht verbeterd, maar nog steeds onder het minimumpercentage van 90 procent. De liquiditeitsratio kwam in 2020 uit op 55,6 procent, terwijl dat in 2019 nog 43,4 procent was. De groei van de liquide activa, die verband hield met een toename van de termijnen spaardeposito's, was groter dan de groei van de totale passiva. Ondanks een toename van de verzekeringstechnische verliezen in 2020 waren de levensverzekeraars nog steeds in staat winstgevend te opereren dankzij hun hoge beleggingsopbrengsten, voornamelijk vanwege koerswinsten.

Schadeverzekeringen

Net als de levensverzekeraars beschikten ook de schadeverzekeraars in 2020 over meer dan voldoende beschikbaar kapitaal, rekening houdende met hetgeen vereist is. De verhouding tussen het beschikbare en het vereiste kapitaal steeg van 428 procent in 2019 naar 705,4 procent. Opwaartse wisselkoersaanpassingen stuwden de inkomsten van SRD 1,3 miljoen in 2019 naar SRD 319,2 miljoen in 2020, terwijl de beleggingsinkomsten sterk stegen van SRD 31,8 miljoen in 2019 naar SRD 109,2 miljoen in 2020. Als gevolg hiervan bleef de sector zeer winstgevend, aangezien het de verzekeringstechnische verliezen van SRD 61,2 miljoen ruimschoots kon opvangen. De liquiditeitspositie verbeterde van 43,4 procent in 2019 tot 55,6 procent, maar blijft nog steeds achter bij het minimum van 95 procent.

Pensioenfondsen

De solvabiliteit van een pensioenfonds wordt bepaald door de beleggingen minus het weerstandvermogen in procenten van de voorziening voor pensioenverplichtingen. Het weerstandvermogen is afhankelijk van de mate van risico toegewezen aan de gepleegde beleggingen. De solvabiliteit is afhankelijk van de gekozen pensioenregeling, vanwege de verhouding van de gewogen activa tot de voorziening voor pensioenverplichtingen. Uit voorlopige gegevens over 2020 blijkt dat de solvabiliteit welke is gestegen van 101 procent in 2019 naar 109 procent, voor een groot deel is toe te schrijven aan een stijging van de activa in vreemde valuta als gevolg van de opwaartse aanpassing van de wisselkoers in september 2020. De liquiditeitsratio van de pensioensector is licht gedaald van 11,5 procent (2019) naar 11,1 procent (2020), waarmee gedurende drie opeenvolgende jaren een dalende trend wordt vertoond.

Kredietcoöperaties

In 2020 hadden de open kredietcoöperaties moeite om aan de vereiste solvabiliteitsratio van 7 procent te voldoen, waardoor de totale solvabiliteitsratio onder het vereiste minimum kwam. De Bank oefent momenteel een strenger toezicht uit om de niet-naleving aan te pakken. De liquiditeitsratio van de open kredietcoöperaties voldeed evenmin, aangezien de liquiditeitsratio alleen boven het minimum van 100 procent lag wanneer de kredietportefeuille zou worden meegeteld. De gesloten kredietcoöperaties voldeden in 2020 wel aan de minimumratio.

Effectenbeurs

Per december 2020 steeg de marktkapitalisatie van de Surinaamse Effectenbeurs ten opzichte van 2019 in absolute zin met 2,6%, maar was er een lagere omzet van SRD 0,2 miljoen in plaats van SRD 0,4 miljoen in 2019. De belangrijkste reden voor deze daling (41%) was het van de beurs halen van de 5-jarige obligatie van Staatsolie Maatschappij, naast een daling in de verhandeling van aandelen. De marktwaarde-gewogen index van de Surinaamse Effectenbeurs steeg met 4,0 procent ten opzichte van

december 2019, door stijging van de koersen van vier van de elf genoteerde bedrijven.

Hoofdstuk IV neemt toekomstgerichte risico's in beschouwing en bespreekt de resultaten van recent uitgevoerde stresstesten van de banksector voor juni 2021 ten opzichte van december 2020. Bij de stresstesten zijn de kapitaal-niveaus van individuele banken en van het bankwezen als geheel onderzocht in het licht van een aantal enkelvoudige stresstest scenario's. Combinaties van deze risico's worden ook getest in een multipel stresstest scenario. Naast de stresstesten voor de solvabiliteit zijn ook twee stresstesten voor de liquiditeit uitgevoerd, die gunstiger resultaten hebben opgeleverd. Al met al blijkt uit de stresstesten dat het bankwezen als geheel bestand is tegen verschillende mogelijke negatieve schokken, zelfs tegen de achtergrond van een krimpende economie

in 2020. Het concentratierisico blijft echter het belangrijkste ernstige risico, terwijl de kwaliteit van de activa in 2020 is verslechterd in vergelijking met 2019. Een nauwlettendere monitoring van de banken op deze gebieden is derhalve geboden.

Hoofdstuk V gaat over speciale onderwerpen, zoals de krediet/BBP-kloof, de ontwikkeling van het betalingssysteem, en een methode om lokale systeemrelevante banken te identificeren.

De Statistische Appendix van het rapport geeft, tot slot, informatie over de ontwikkeling van de belangrijkste macro-economische en financiële soliditeitsindicatoren (FSIs). De laatstgenoemde indicatoren hebben betrekking op de commerciële banken, de verzekeringsmaatschappijen, de pensioenfondsen en de kredietcoöperaties.