FINANCIAL STABILITY REPORT

OCTOBER 2022

CENTRALE BANK VAN SURINAME

Financial Stability Report

October | 2022

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CONTENTS

ABBREVIATIONS

AFSI	Aggregate Financial Stability Index
AML/CFT	Anti-Money Laundering/Combatting 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
EFF	Extended Fund Facility
EU	European Union
EUR	Euro
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
IOU	I Owe You (Informal document acknowledging debt)
M2	Broad money
Moody's	Moody's Investors Service
MOU	Multilateral Memorandum of Understanding
NOP	Net Open Position
NPC	National Payments Council
OMO	Open Market Operations

NPL	Non-Performing Loan
OMO	Open Market Operations
PDA	Public Debt Act
RMT	Reserve Money Targeting
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
SDR	Special Drawing Right
S&P	Standard & Poor's Ratings Services
SMEs	Small and Medium-Sized Enterprises
SNEPS	Suriname National Electronic Payment System
SRD	Surinamese 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 and soundness of all financial subsectors.

As the Covid-19 pandemic started to approach its end, the confidence in the world economy elevated, underpinned by a hesitant recovery of economic activities. Global monetary tightening and supply bottlenecks hampered the recovery and simultaneously pushed the level of inflation internationally. A combination of increasing international food, commodity and shipping prices as well as strengthened domestic demand resulted in heightened inflationary pressures. In addition, the depreciation of the exchange rate in June 2021, and higher utility prices also contributed to an end-of-year inflation of 60.7 percent. The open market operations and several budgetary measures has kept inflation from rising further.

The banking system remained solvent, of which some banks due to the effects of depreciation and the implementation of IFRS. However, the overall quality of the loan portfolio of banks deteriorated, reflecting the adverse developments in previous years. Following the resumption of global economic activities, the domestic economy recovered, as real growth significantly improved from negative 16.0 percent in 2020 to an estimated positive growth of 1.4 percent in 2021, generated by key economic sectors, in particular "Trade", "Hotel & Restaurants" and "Transport, Storage & Communication".

The government managed to alter its 2020 deficit of 9.7 percent of GDP into a surplus of 1.8 percent of GDP in 2021, mainly due to increased receipts following the deprecation and a 10 percent solidarity levy. However, some targets and benchmarks under the current three-year IMF

program are now under discussion, as these were not met. Unforeseen factors, such as substantial imported inflation, have led to higher than anticipated inflation. Also, VAT was not implemented per July 1, 2022, as was projected. This widened the primary fiscal deficit and increased the volumes of liquidity that had to be sterilized by the Bank through its open market operations.

The Financial Stability Report is produced by the Directorate of Prudential Supervision of the Bank that has direct responsibility for monitoring financial soundness indicators, assessing financial risks and vulnerabilities and making recommendations regarding appropriate mitigating actions to strengthen financial stability. 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 other stakeholders with a comprehensive assessment of the performance and the resilience of the financial sector of Suriname. The report also serves 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.

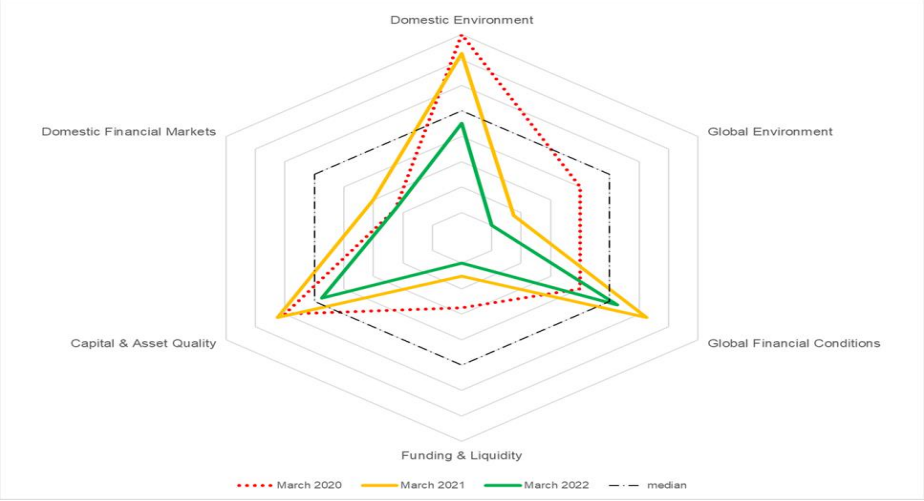
Section I of this report sets out the broad overview of the financial sector in Suriname and provides an appropriate institutional context for the report. It discusses the legal mandate of the CBvS, the main laws governing the financial sector, the institutional composition of the sector and the monetary 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 significantly lower in March 2022 (green line), when compared with March 2021 (orange line) or with March 2020 (red dotted line). As the Covid-19 pandemic started to approach its end, the confidence in the (world) economy elevated, diminishing financial risk. This became apparent in the "global environment" dimension, where the MSCI World Growth Index[1] increased, implying built-up confidence in the world economy. Another dimension, the "domestic environment", also improved as the result of an increase of international reserves with 69.9 percent, while Central Bank credit to the banking sector decreased with 22.1 percent. As the capital and liquidity stance improved, risks from this type of dimension lowered and were depicted by a closer movement towards the center.

Section III mainly focuses 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 risk-mitigating measures adopted by these institutions. The last part is devoted to the exchange rate developments in 2020 and onwards.

Commercial banks

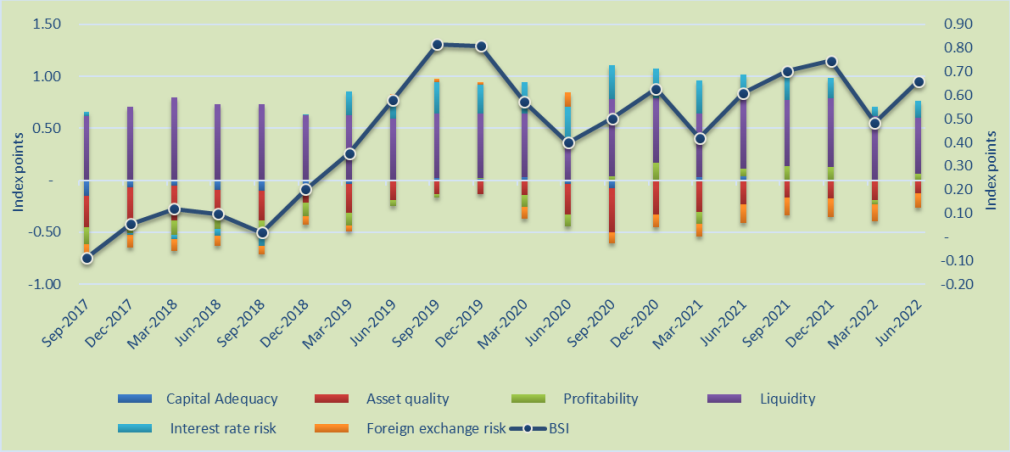
The depreciation of the exchange rate in June 2021 has significantly impacted many financial soundness indicators (FSIs). The implementation of the International Financial Reporting Standard (IFRS) method of accounting also significantly affected several FSIs. In particular, one main FSI, namely the capital adequacy ratio (CAR) changed, next to other factors, due to the switch to IFRS accounting.

As the economy slowly recovered, the CBvS continued supporting the banking system in 2021, by extending the adjusted supervisory policy, in the form of permitting banks to impose moratoria on certain loan repayments. Furthermore, the Covid-19 credit facility was also prolonged up till May 2022. On an aggregate level, banks became more resilient in terms of solvency and liquidity. The overall quality of the loan portfolio, on the other hand, deteriorated due to a significant increase of the "loss" category, reflecting declining economic activity and high inflation. As in previous periods, the liquidity stance was according to the standard.

[1] Morgan Stanley Capital International World Growth Index captures securities across 23 developed market countries.

Figure 2

Banking Stability Index



Source: Central Bank of Suriname

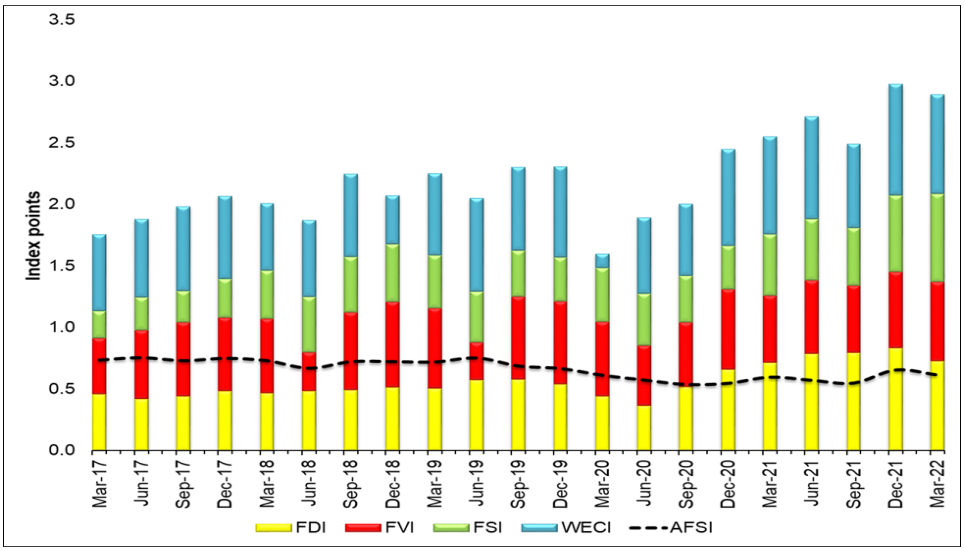
The stability of the banking sector, as measured by an increase of the banking stability index (BSI) (Figure 2), improved at the end of June 2022 when compared with December 2021. This is largely due to an increase of capital, as mentioned earlier.

Still, the Credit-to- GDP gap remained negative, as a result of lower nominal credit growth in local currency, in combination with negative credit growth in foreign currency.

The aggregate financial stability index (AFSI), which aims to detect imbalances in the economy that can lead to instability of the financial system, improved in March 2022, when compared with March 2021. All four sub-indices increased, which resulted in the higher AFSI for March 2022. As in December 2020, the main contributing factor to the positive development in 2021 and onwards till March 2022, was the upward movement of the exchange rate since assets and liabilities in foreign currency are expressed in SRD. One particular sub-index, the financial soundness index (FSI) went up, due to an increase of the net foreign assets of the Central Bank of Suriname, in particular its SDR holdings. The WECI sub-index rose marginally, as it was negatively affected by the level of uncertainty in the world due to the war between Russia and Ukraine starting in February 2022.

Figure 3

Aggregate Financial Stability Index



Source: Central Bank of Suriname

As of June 2022, the four categorized Domestic Systemically Important Banks (D-SIBs) remained highly systemic with a cumulated total score of 4.24, which is an increase in comparison with December 2021 (4.21), and December 2020 (4.02). One systemic bank showed a lower capital adequacy ratio (CAR) than the prescribed CAR at the end of June 2022.

The aggregate regulatory capital adequacy ratio (CAR) continued its upward trend as the CAR increased with 2.7 percentage points to 14.5 percent in December 2021, while the non-performing loans (NPL) ratio declined from 14.6 percent to 12.8 percent (December 2020). Profitability indicators, however, showed a different picture, as the return on equity (ROE) and return on assets (ROA), declined with respectively 5.2 and 0.2 percentage point. Higher operational expenses and monetary losses due to implementation of IFRS both contributed to the lower profits in 2021. As in previous years, liquidity of the aggregate banking sector remained satisfactorily above 100 percent. It is worth noting that the capital base of some banks increased due to the depreciation of the exchange rate, but also due to the implementation of IFRS.

Insurance companies

Life Insurance

As in previous years, life insurance companies comfortably met the minimum required capital standard ratio of 100 percent. The ratio, available capital in relation to required capital, stood at 236.0 percent in 2021, implying ample capital as a

means of reassurance and protection to run the business. Although above the standard, the aforementioned capital adequacy ratio and other capital ratios declined or deteriorated when compared with 2020. The capital ratio, which measures equity capital adequacy in relation to the size of insurance business, deteriorated in 2021 when compared with 2020, with ratios of 271.2 and 54.4 percent respectively. The liquidity stance is worrisome as the liquidity ratio fell further from 29.3 percent in 2020 to 14.1 percent in 2021. However, as in 2020, profitability remained satisfactorily in 2021, and sufficient to absorb the so-called technical losses. Profitability was realized due to high investment income and revenues. As in 2020, both sources of income were realized by the effect of exchange rate depreciation.

Non-Life Insurance

In 2021, although less than in 2020, as with life insurance companies, non-life insurance companies had more than sufficient available capital, taking into consideration the regulatory requirement. The available capital in relation to required capital stood at 567.8 percent in 2021, far above the regulatory minimum standard of 100 percent. As in 2020, but to a lower extent, upward exchange rate movements contributed significantly to revenues, which stood at SRD 241.8 million in 2021, while investment income amounted SRD 50.5 million. Consequently, the industry remained profitable, as underwriting losses also drastically fell to almost zero in 2021. The liquidity position, on the other hand, gives rise to concern as the liquidity ratio of 47.4 percent moved further away from the regulatory minimum of 95.0 percent (2020: 52.7%).

Pension Funds

Data for 2021 indicate an aggregated solvency position of pension funds of 110 percent, which is above the standard of 100 percent. In 2021, a pension fund which underwent a liquidation process, had transferred its assets, including its foreign investments to an insurance company. The transfer resulted in a decline of foreign investments in favor of local investments.

Credit Unions

The credit union sector managed to comply with the minimum ratio capital ratio of 7 percent, despite the negative solvency ratio of the open-bond credit unions (-41%). The high insolvency of the open-bond credit unions is reflected in other financial stability indicators, such as equity to total assets and return on assets. Both indicators are negative, respectively minus 13 percent and minus 6 percent. 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 Bank has intensified its stringent supervision to address the non-compliance of the credit union sector.

Stock exchange

In 2021, the market capitalization of the Suriname Stock Exchange increased by 1.6% compared with 2020 in absolute terms and registered a greater turnover of SRD 1.2 million (2020: SRD 0.2 million). This increase was due to the large number of traded stocks of three listed companies. The market value-weighted index of the Suriname Stock Exchange increased in volume by 2.0 percent relative to 2020, due to the increase of the share prices of three 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. In addition to 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. However, concentration risk remains the main serious risk, despite a slight improvement of the asset quality in 2022. Closer monitoring of the banks in these areas is therefore warranted.

Section V contains special topics, such as (1) Operationalization of the Reserve Money Targeting Framework, (2) Straight Through Processing and Ease of Payments, and (3) Interconnectedness of the Banking Sector.

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 (CBvS) 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 established on, April 1, 1957, and has played a crucial role in the financial and economic development of Suriname. Following the Bank Act 1956 (which was 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.

As of October 2022, the six main laws that govern the financial sector of Suriname are:

1. Bank Act 1956 (as revised in 2005). The Central Bank Act 2022 that grants CBvS institutional independence has been approved by the National Assembly but awaits publication;
2. Banking and Credit System Supervision Act 2011 (for supervision of banks and credit unions). The amended Banking and Credit System Supervision Act awaits approval from the National Assembly;

3. Pension and Provident Fund Act 2005 (for supervision of the pension sector);
4. Banking and Credit System Supervision Act 1968 (as revised in 1968, currently only applicable for supervision of insurance companies);
5. Money Transaction Offices Supervision Act 2012 (for supervision of exchange offices and money transfer offices);
6. Capital Market Act 2014 (for supervision of the Stock Exchange).

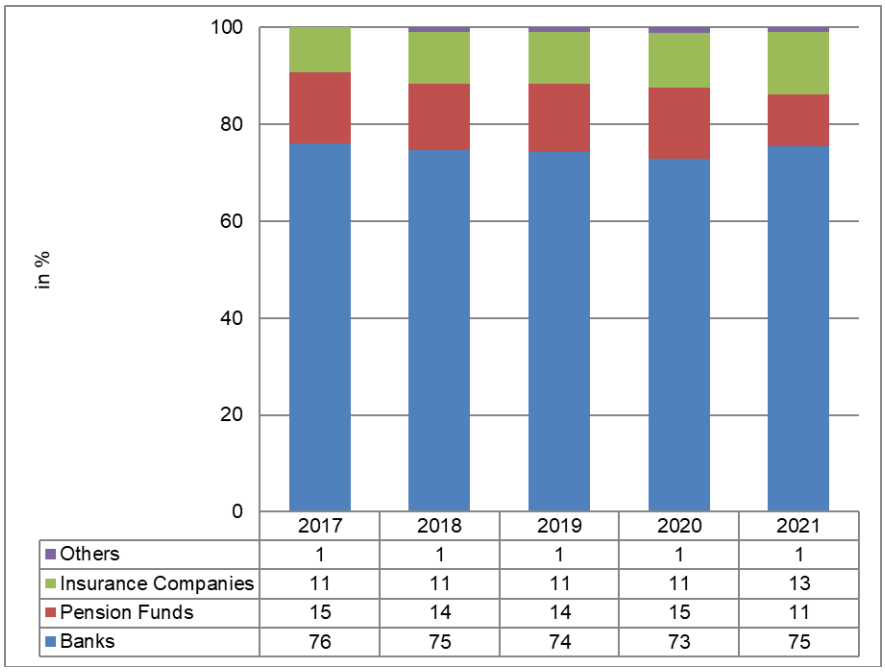
Legislation for the establishment of a Deposit Protection System and for the Recovery and Settlement of Credit Institutions are being drafted, while a Credit Bureau Bill awaits approval from the National Assembly.

As of December 2021, the list of financial institutions under active 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, 17 foreign exchange offices, 6 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, term deposits and Central Bank Certificates. Other traded securities include the stocks of eleven companies listed on the local Stock Exchange.

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 in 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 weekly open market operations. In addition, the CBvS introduced Central Bank Certificates with a maturity of six months to sterilize more structural liquidity.

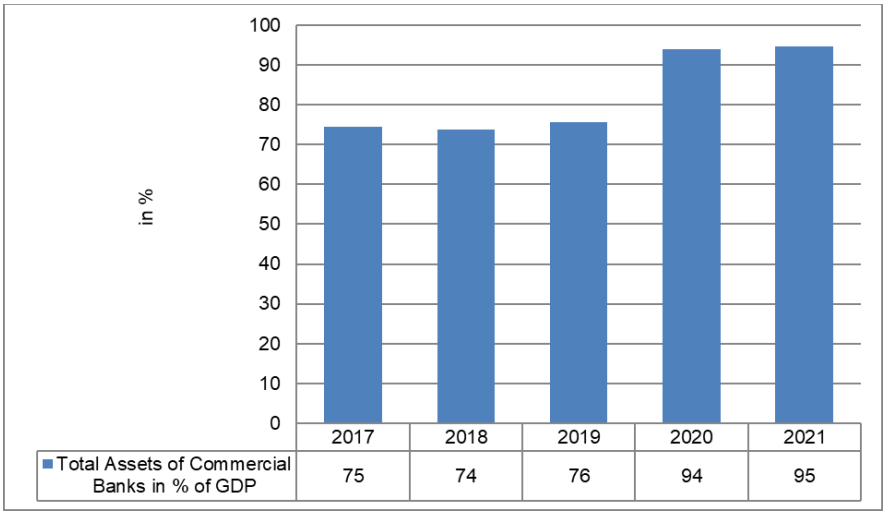
Figure I.1
Distribution of Financial Sector Assets



	2017	2018	2019	2020	2021
Others	1	1	1	1	1
Insurance Companies	11	11	11	11	13
Pension Funds	15	14	14	15	11
Banks	76	75	74	73	75

Source: Central Bank of Suriname

Figure I.2
Total Commercial Bank Assets



	2017	2018	2019	2020	2021
Total Assets of Commercial Banks in % of GDP	75	74	76	94	95

Source: Central Bank of Suriname

II. OPERATING ENVIRONMENT

1. Global Environment[2]

The global economy recovered in 2021 amid a resurgence of the Covid-19 pandemic. With the wide availability of vaccination against the Covid-19 virus, there was a resurgence in economic activity and the global economy grew by 5.9% in 2021. As the Covid-19 measures eased, the demand for goods increased but the supply lagged behind. As a result, the level of inflation rose considerably, especially in the United States of America (USA) and also in some advanced and emerging markets and developing economies. International trade picked up in line with the global recovery, increasing the volume of world trade by 15.8 percent in 2021. In the commodity market and in particular the oil market, commodity prices have also risen significantly. In 2021, the average crude oil price equaled US$ 69.1 per barrel, which is 67.3 percent higher than in 2020. This increase was caused by a recovery in oil demand. In contrast, the average gold price slightly dropped in 2021 to US$ 1,746.5 per troy ounce, driven by decreased investors' demand for gold.

2. Domestic Environment

The newly appointed Government that took office in July 2020, embarked on a stabilization and recovery program, restoring fiscal sustainability by improving public finances and restructuring of the public debt. Within this context, discussions held with the International Monetary Fund (IMF), resulted in the signing of a 36-month arrangement under the Extended Fund Facility (EFF) in December 2021, whereby an amount of SDR 472.8 million (equivalent to USD 688.8 million) will be transferred in equal tranches for the duration of the program. As of June 2022, Suriname has received two disbursements from the IMF under the EFF. The first disbursement of USD 55.1 million was made in December 2021 with the commencement of the program, followed by USD 54.3 million in March 2022 after the first review.

In 2021, the monetary policy of the Bank focused on exchange rate stabilization, further operationalization of the reserve money targeting (RMT) regime and fulfilment of the "pre-conditions" under the IMF program. On June 7, 2021, the Bank switched from a managed-floating exchange rate regime to a flexible exchange rate

[2] The International Monetary Fund (WEO of October 2021, January 2022), The World Bank (Commodity Markets Outlook of October 2021).

regime. This switch took place under the implementation of the new monetary policy framework, the RMT regime, that abandoned the exchange rate, as the nominal anchor to control inflation in favor of the base money supply.

In July 2021, the Bank implemented auctions of term deposits (TDs) for banks through an auctioning system as part of the implementation of the RMT. The auctions of these TDs are part of the Bank's open market operations (OMOs), which are used to adjust the base money supply to influence the level of liquidity within the banking system and provide signals about the direction of monetary policy (see Special Topics).

The introduction of the flexible exchange rate system in conjunction with the OMO's served as an important foundation for macroeconomic recovery, which was enhanced by signing a Memorandum of Understanding (MOU) between the Bank and the Ministry of Finance and Planning to refrain from any form of monetary financing during the IMF program.

2.1 Macroeconomic Performance

Real Sector

Real economic growth of the Surinamese economy was projected at 1.4 percent for 2021 (2020: -16.0%) amidst a high end-of-period inflation of 60.7 percent. This growth, fueled by private consumption, was generated by the sectors "Trade" (1.8 pp), followed by "Hotel & Restaurants" (0.3 pp) and "Transport, Storage & Communication" (0.2 pp). The relaxation of Covid-19 restrictions in the second half of 2021 stimulated private demand.

The abovementioned high inflation in 2021 stemmed from both international and domestic factors. International factors included higher prices for crude oil, important commodities, such as grains, soy and animal feed, and increased shipping costs. On the other hand, domestic factors included the depreciation of the SRD, higher utility prices (water and energy) and higher sales tax rates.

External Sector

In 2021, a deterioration of the goods account was the main reason for the decrease of the current account surplus in the balance of payments (BOP). The current account surplus decreased by US$ 102.5 million or 39.4 percent to US$ 157.4 million compared with 2020 due to an increase in imports by US$75.6 million, related to the previously mentioned increase in private consumption, as well as a decrease in export revenues by US$139.5 million, mainly due to lower gold export volumes. In addition, the surplus in the financial account turned into a deficit of US$ 38.8 million because of increased liabilities of the Bank and the Government. The international reserves increased

correspondingly by US$ 407.2 million to US$ 992.2 million at the end of 2021. These reserves, including revaluation differences, were sufficient to cover 6.3 months of imports of goods and services, including those of the mining sector, whose imports are mostly self-financed. If the mining imports were excluded, the international reserves would cover 8.2 months of imports.

Government Sector

The aforementioned domestic factors of inflation, together with a 10 percent solidarity levy led to an increase in government receipts and as such, the government altered its 2020 deficit of 9.7 percent of GDP into a surplus of 1.8 percent in 2021. In accordance with the debt restructuring process, the government repaid only multilateral loans while debt service payments to commercial and bilateral creditors were put on hold. In addition, newly incurred bilateral and commercial debt was not allowed, which resulted in a slowdown in the growth of government debt in 2021. Total government debt increased by 5.2 percent (2020: 108.7%) to SRD 49.4 billion which is 128.9 percent of GDP (2020: 122.5% of GDP). Due to its foreign currency component, the main explanatory factor of the change in government debt in 2021 was the depreciation of the exchange rate.

Monetary sector

The exchange rate depreciation in 2021 had a large impact on monetary aggregates. Reserve money increased by 48.0 percent in 2021, compared with 2020, to an amount of SRD 19.0 billion. This increase was caused by an increase in net foreign assets of SRD 7.1 billion, initiated by the effect of the exchange rate depreciation of 52.8 percent and by an increase in international reserves of US$ 417.0 million. Narrow money (M1) grew from SRD 16.1 billion to SRD 23.8 billion in 2020, which represents a growth of 47.9 percent. This increase was fueled by a growth of demand deposits by 54.0 percent, which was also affected by the large exchange rate depreciation. In 2021, 71.6% of demand deposits were denominated in foreign currencies. Broad money (M2) increased by SRD 14.4 billion (43.9%) to an amount of SRD 47.3 billion in 2021. Liquidity inflows from abroad derived from international reserves and private sector credit of respectively SRD 12.1 and SRD 2.0 billion contributed to this increase.

In 2021 nominal credit growth in local currency declined, while nominal credit growth in foreign currency improved. Declined economic activity due to the Covid-19 pandemic, among other factors, caused total SRD credit growth to decline to 4.2 percent in 2021 to an amount of SRD 7.3 billion (2020: 26.1%) caused by all sectors except the "Agricultural", "Forestry,"

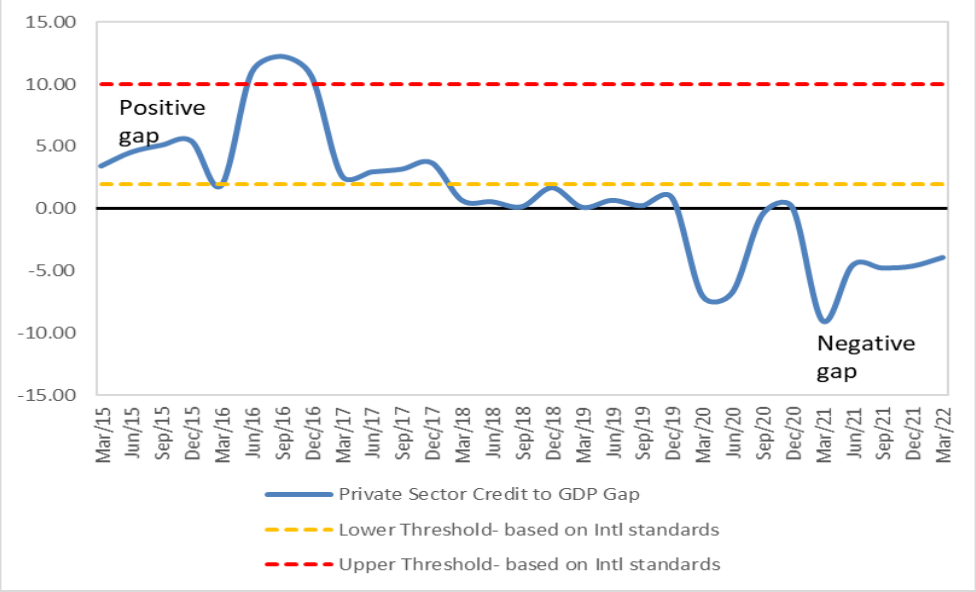
"Industry," "Trade," and "Services" sectors. The negative credit growth in foreign currency, both USD and EUR, decreased with respectively -4.4 percent and -26.1 percent to USD 396.7 million and EUR 73.7 million (2020; -9.0%, -50.4%) caused by all sectors.

2.2 Credit-to-GDP Gap

The credit-to-GDP gap serves as a macro prudential tool to determine the Countercyclical Capital Buffer (CCyB) rate for the banking system. The CCyB would provide banks with an additional capital buffer to protect them against potential future losses that may occur in case of a rapid credit expansion, which may increase system-wide risk. The CBvS keeps track of this indicator but has yet to determine the CCyB rate in order to effectively monitor the credit-to-GDP gap.

The period 2015-Q1 to 2018-Q4 showed positive gaps, which lie between the benchmark level of 2 and 10 percent, as shown in Figure II.1. The positive gaps shifted to negative after 2019, as the economy suffered a large contraction in 2020. The decline in nominal credit growth for local currency as well as the negative growth in nominal credit for foreign currency in 2021 was reflected in the quarterly negative gaps in 2021. The upswing from March to June 2021 was attributable to the effect of depreciation, as the nominal amount of private credit in foreign currency expressed in Surinamese dollars, went up.

Figure II.1
Private sector Credit-to-GDP gap



Source: Central Bank of Suriname

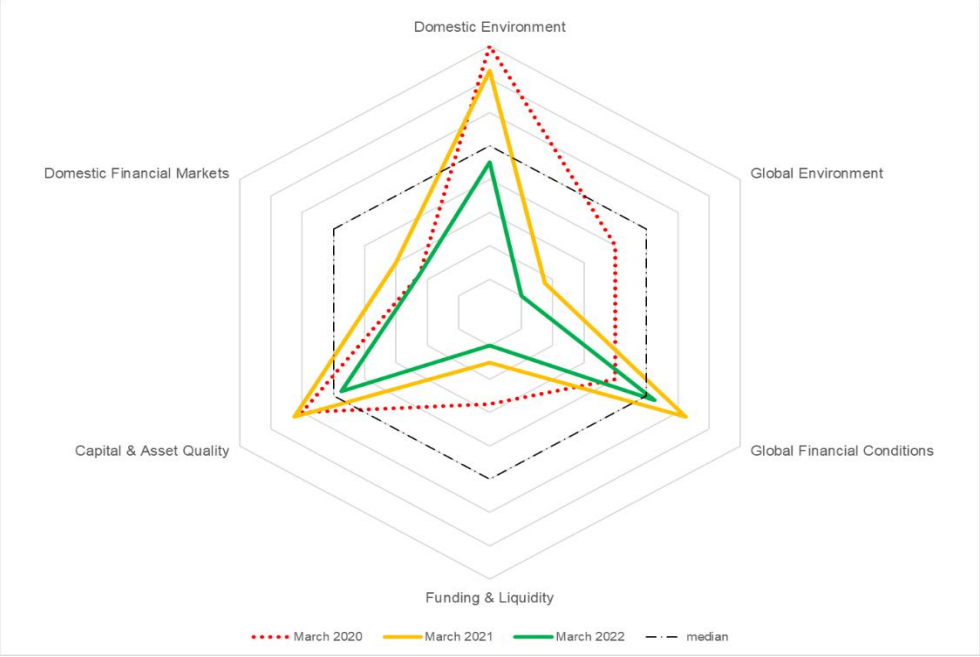
2.3 Credit Rating

Both S&P Global Ratings (S&P) and Fitch Ratings (Fitch) downgraded Suriname in 2021. S&P lowered Suriname's long-term foreign-currency sovereign credit rating to Selective Default (SD) from CCC, following the government's proposed standstill on foreign-currency-denominated debt service payments. Fitch on the other hand has affirmed Suriname's Long-Term Foreign Currency Issuer Default Rating (IDR) at 'RD', Short-Term Foreign Currency IDR at 'C', and Country Ceiling at 'CCC'. Subsequently, Fitch has withdrawn Suriname's Long-Term and Short-Term-FC IDRs and Country Ceiling ratings.

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.2). This illustration 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.

Figure II.2
Risk Profile of the Financial Sector



Source: Central Bank of Suriname

According to Figure II.2, the overall risk of the financial system was lower in March 2022 (green line) relative to March 2021 (orange line). This can be explained as follows:

- Domestic environment rank improved. Within this dimension, the international reserves in USD increased with 69.9 percent, while central bank credit to the banking sector decreased with 22.1 percent.
- Global environment ranking improved. In the aftermath of the Covid-19 pandemic, the MSCI World Growth Index[3] increased, implying build-up confidence in the world economy. Increased international gold prices also contributed to the improvement.
- Global financial environment ranking increased, which is largely due to a decrease of the average CBOE VIX[4].
- Funding and liquidity improved as a result of higher liquidity ratios of the Surinamese banking system in March 2022.
- Capital and asset quality improved. The Surinamese banking system had increased capital alongside decreased non-performing loans.
- Domestic financial markets improved. As of June 7, 2021, the CBvS switched to a flexible exchange rate regime. Following this regime, the exchange rate depreciated by 48%. As a result, foreign currency assets and liabilities expressed in SRD showed increases.

As the Covid-19 pandemic started to approach its end, the confidence in the (world) economy elevated, diminishing the financial risks. Russia's invasion of Ukraine on February 24, 2022, caused unrest around the world and increased financial risks after March 2022.

[3] Morgan Stanley Capital International World Growth Index captures securities across 23 developed market countries.
[4] The Chicago Board Options Exchange Market Volatility Index (VIX), also known as the "fear index" signals the level of fear or stress in the stock market. The higher the VIX, the greater the level of fear and uncertainty in the market, with levels above 30 indicating tremendous uncertainty.

III. PERFORMANCE OF SURINAME'S FINANCIAL SECTOR

1. Commercial Banks

1.1 Size

Suriname had ten commercial banks as of December 2021, of which four domestic systemic banks (see below for elaboration). The Central Bank of Suriname monitors the vulnerabilities of a concentrated banking sector through a number of indicators, such as the sectoral concentration, interbank exposures, and interconnectedness (see Special Topics).

The total assets of commercial banks were SRD 53.9 billion as of December 2021 (Table III.1), representing 95.0 percent of GDP, a slight increase compared with 2020 (93.8 percent). Compared with 2020, a balance growth of SRD 17.3 billion was recorded, largely attributable to an exchange rate depreciation in June 2021[5].

The Herfindahl-Hirschman index (HHI) for the whole banking system is 1,908 in June 2022, which is above the benchmark of 1,800. Although the HHI is 108 points higher than the benchmark, the market concentration of the banking system seems to be normal.

1.2 Market Activity

Banks are financial intermediaries between depositors and borrowers, in order to finance sustainable economic growth. Given that the banking sector is the largest within the financial sector, along with a high concentration and interconnectedness, the failure of a systemic bank can threaten the

Table III.1

Banking Sector of Suriname

Commercial banks	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Banks	10	10	10	10	10
Local banks	9	9	9	9	9
Foreign bank	1	1	1	1	1
Total Assets *(x SRD 1000)*	20,048,553	22,001,978	23,776,351	36,586,019	53,896,893
Total Assets system banks *(x SRD 1000)*	16,448,571	17,757,477	18,856,364	30,173,497	45,477,602
Assets in % of total financial system assets	74.5	74.6	74.4	72.9	75.5
Assets in % of GDP	83.4	85.3	80.0	93.8	95.0

Source: Central Bank of Suriname

[5] As of June 7, 2021, Suriname switched to a flexible exchange rate regime. Following the regime change, the exchange rate depreciated by 48%. The exchange rate went from SRD 14.00 to SRD 21.00 for USD 1.00.

financial system and possibly trigger a crisis. Continuous innovation in new products, new markets and business channels due to the fierce competition between banks create changes in their risk profiles. Therefore, regulations and guidelines from the Central Bank of Suriname are to maintain safe and sound practices by banks in managing their businesses and risks as well as to retain the public's confidence to safeguard the stability of the financial system as a whole. Subsequently, banks are required to sustain a good governance structure and to encourage responsible behavior of board and senior management.

International Monetary Fund (IMF)

Within the context of the IMF program, signed in 2021, Suriname agreed to strengthen the institutional capacity to combat corruption and money laundering as well as improve governance. The latter also includes improving the independence of the Central Bank of Suriname by amending the Bank Act and the Banking and Credit System Supervision Act 2011. Furthermore, as recommended by IMF earlier, a Bank Resolution Act is being drafted. In the context of stabilizing the financial system and in advance of the financial agreement with IMF, the reporting of banks has been enhanced and intensified since September 2021.

Covid-19 pandemic

As the Covid-19 pandemic continued in 2021, some businesses were forced to close down at various times, leading to a decrease of the resilience of businesses and households. This influenced banks' lending activities, thereby jeopardizing their financial positions. Therefore, the Bank continued its effort to maintain the solvency and liquidity of the banking system and protect the stability of the financial system during this time, by extending facilities, such as moratoria[6] on loan repayments and the Covid-19 credit facility. The Covid-19 credit facility, worth SRD 570 million, was funded by a one-time release of SRD cash reserves and aimed at small and medium-sized companies applying for a new credit or seeking to supplement an existing credit. At the end of December 2020, 11.8 percent was used, compared with 9.3 percent in 2021. This facility was discontinued in May 2022, after a survey among the banks revealed no further interest in the facility. As per May 2022, total credit given to the private sector amounted to SRD 75 million. From the date of availability (May 2020) of the Covid-19 credit facility until its termination, 36 loans had been issued,

[6] In particular, when determining whether (i) a significant increase in credit risk has occurred or there has been a default, (ii) loans are impaired after the moratorium period has expired, and (iii) loans that are not expected to remain in good standing in accordance with the increase in credit risk.

whereas 9[7] loans accounted for 83.8 percent of the total credit. The increase in credit with 5.4 percentage points in June 2021 compared with March 2021 was due to the credit extension of SRD 27 million to two large companies (Figure III.1). The largest share of credit went to the sector Services (31.8%), followed by Trade (28.1%), Road Construction (26.7%) and Agriculture (1.9%).

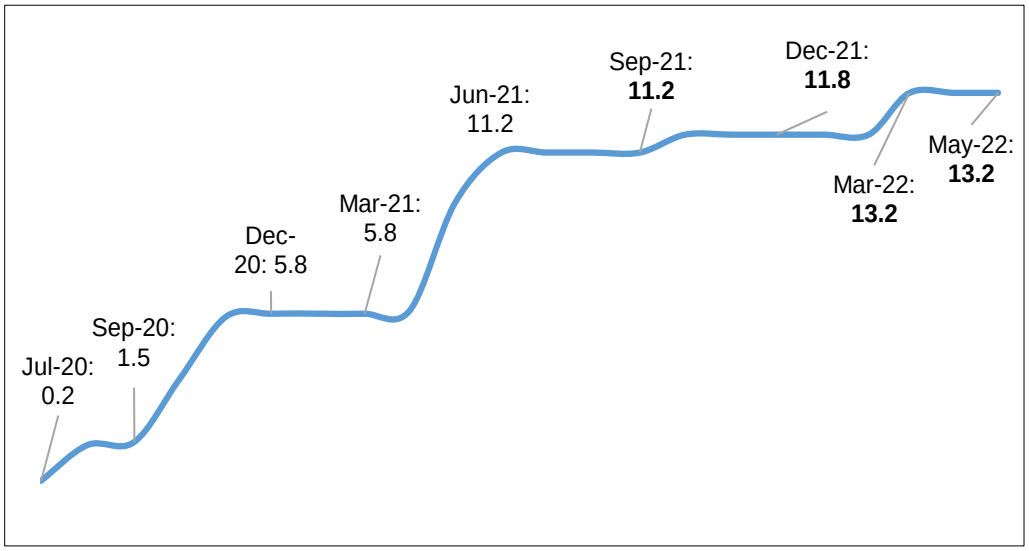
The emergence of Covid-19 led to an immense surge in the need for digital payments. Banks had to create more services and financial products, which could be provided through digital systems and channels, to continue their businesses. The emphasis that banks are placing on mobile banking, including payment apps and "mobile wallets," is being driven by recent innovations in digital banking. The benefits (in particular less cash and more financial inclusion) of electronic payments are recognized, and the development of efficient and secure payments are pursued. Banks are required to continue investments in systems to manage these risks and use multi-layered cyber defense systems for safety and security of digital transactions and services.

Financial Inclusion

The Central Bank of Suriname is a member of the Alliance for Financial Inclusion (AFI) with the aim to increase access and usage of quality financial services for the underserved. In 2021, banks via the Suriname Bankers Association have made a commitment with the Government to support financial inclusion. They have adjusted their policies and procedures to accommodate individuals, especially the poor populace and businesses and residents who are living in extremely remote areas of the country. However, this entails more/higher risks with regard to compliance (AML/CFT). In this regard, the customer acceptance policy in the AML/CFT Directive 2016 is adjusted accordingly by adding Simplified Due Diligence (SDD) to ease and equalize the access to financial services, and at the same time monitor and mitigate the associated risks. This will also support the efforts to shift informal economic activity gradually to the formal economy.

[7] The volume of these loans was equal to or more than SRD 1.0 million per loan.

Figure III.1
Credit to The Private Sector in % of Covid-19 Credit Facility



Source: Central Bank of Suriname

1.3 Financial Soundness

According to the financial soundness indicators for 2021, the banking system's capital position was strengthened and can thus endure the impacts of an economic downturn, such as the Covid-19 pandemic. Although the ratio of the non-performing loans (NPLs) improved in 2021 compared with 2020, the overall quality of the loan portfolio deteriorated, due to the significant increase of the Loss category. Moreover, economic recovery remains uncertain, due to the recent war between Russia and Ukraine, causing an increase in energy and food prices globally and an adverse impact on both households and businesses. Banks will have to encounter the repercussions of this new crisis, which necessitate updating their risk models and stress test scenarios.

Capital Adequacy

The capital adequacy ratio (CAR) improved in 2021 with 2.7 percentage points to 14.5 percent in December 2021, which is mainly due to the relative increase in capital (Table III.2). This increase in the Tier-1 ratio showed a substantial rise of 2.6 percentage points to 13.1 percent. Two important events in 2021 led to an increase in capital. As mentioned above, in June 2021 the official exchange rate was adjusted. Suriname has the highest levels of financial dollarization in the Caribbean[8]. In December 2021, the dollarized assets and liabilities were respectively 71.9 percent and 69.1 percent.

[8] https://www.elibrary.imf.org/view/journals/002/2019/392/article-A001-en.xml

The depreciation of the exchange rate has also resulted in the increase of the risk-weighted assets (RWAs). In December 2021, the total RWAs increased by SRD 6.0 billion to SRD 21.1 billion (Figure III.2) compared with 2020. The actual effect of the exchange rate depreciation can be distinguished clearly in the comparison of the rates between June 2020 and May 2021. The capital and income components in USD and EUR have grown significantly, which has mostly caused the Tier -1 capital to increase by 82.5 percent during this time. The total RWAs increased by 27.7 percent at the same time as regulatory capital increased by 20.8 percent. Another factor contributing to higher Tier-1 capital is the application of IAS 29 Hyperinflation accounting[9], by one of the banks. The required minimum of the CAR as stipulated in the Capital Adequacy Regulation is 10 percent. However, based on the last on-site rating, for some of the individual banks, additional capital is required, which is added as risk premium to the minimum capital. The CAR of three of the ten banks is below the required regulatory minimum of 10 percent. The leverage ratio increased to 4.9 percent (Figure III.3) in December 2021, which is an improvement compared with 2020 (4.3%). This is above the 3 percent minimum requirement of Basel III. It can be determined that the higher the ratio, the more the likelihood that banks can resist negative shocks to their balance sheets.

The combined net open position (NOP) for the commercial banks was SRD 1.1 billion in 2021. The NOP amounted to 39.4 percent relative to the Tier-1 capital at the end of 2021, which was far above the prescribed standard of 20 percent. Three banks have contributed to this development.

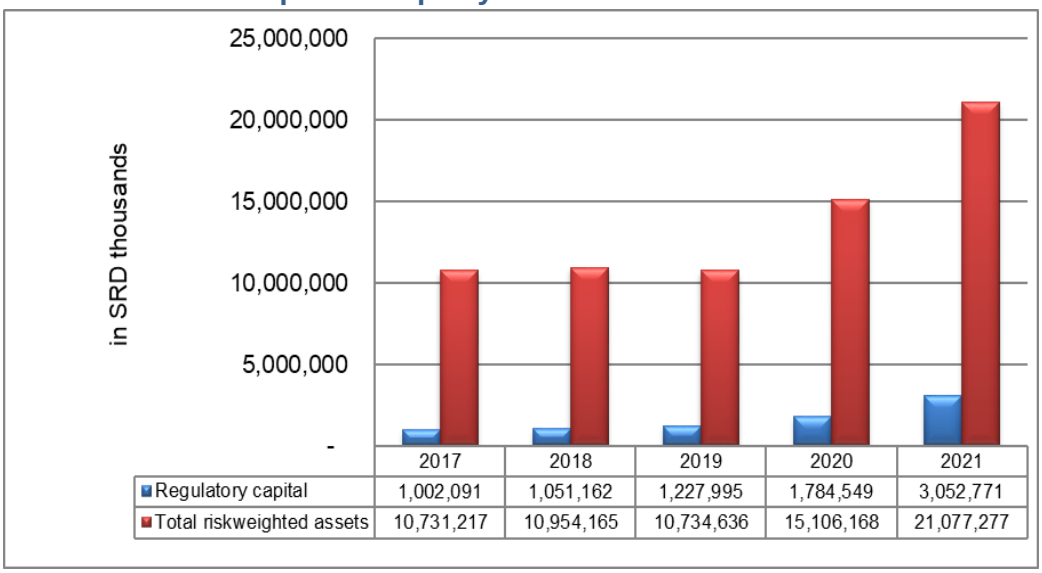
Table III.2
Capital Adequacy of Commercial Banks

	2017	2018	2019	2020	2021
Tier 1* *(x SRD 1000)*	938,842	984,337	1,154,035	1,581,288	2,752,302
Tier 2 *(x SRD 1000)*	63,249	66,826	73,960	203,261	300,469
Regulatory capital *(x SRD 1000)*	1,002,091	1,051,162	1,227,995	1,784,549	3,052,771
Total riskweighted assets *(x SRD 1000)*	10,731,217	10,954,165	10,734,636	15,106,168	21,077,277
Capital Adequacy ratio (%)	9.3	9.6	11.4	11.8	14.5
Tier 1/Riskweighted assets (%)	8.7	9.0	10.8	10.5	13.1
Tier 1 Leverage ratio (%)	4.3	4.4	4.8	4.3	4.9

Source: Central Bank of Suriname
*Note: Tier 1 Leverage ratio corrected for 2019 and 2020

[9] The most affected capital component is *Paid-up common share* that grew in November 2021 compared with October 2021 by 276.1 percent, due to restatement with the CPI (consumer price index) since 2005.

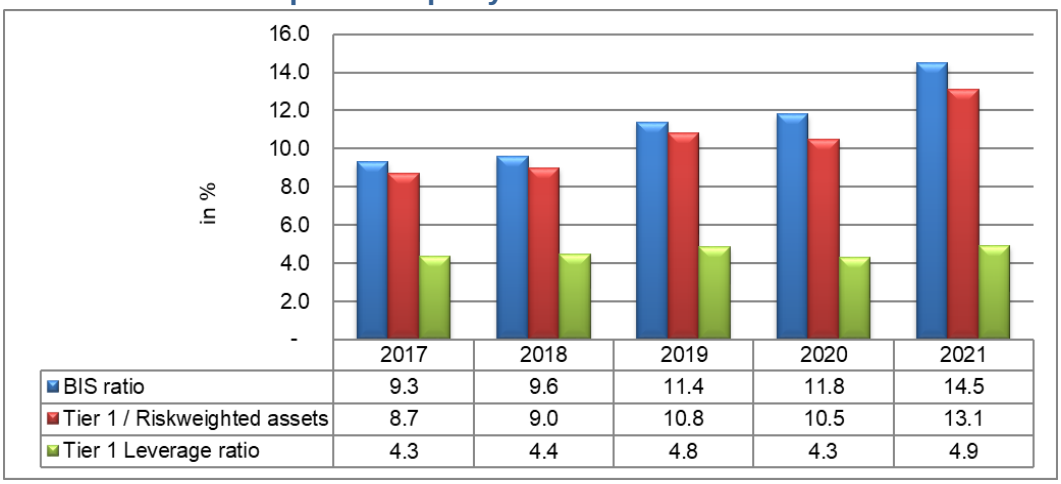
Figure III.2
Capital Adequacy of Commercial Banks



	2017	2018	2019	2020	2021
Regulatory capital	1,002,091	1,051,162	1,227,995	1,784,549	3,052,771
Total riskweighted assets	10,731,217	10,954,165	10,734,636	15,106,168	21,077,277

Source: Central Bank of Suriname

Figure III.3
Capital Adequacy of Commercial Banks



	2017	2018	2019	2020	2021
BIS ratio	9.3	9.6	11.4	11.8	14.5
Tier 1 / Riskweighted assets	8.7	9.0	10.8	10.5	13.1
Tier 1 Leverage ratio	4.3	4.4	4.8	4.3	4.9

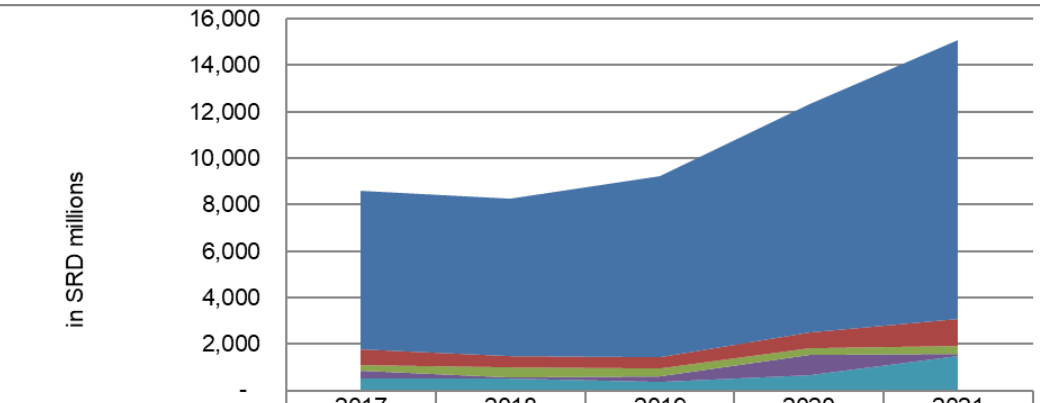
*Note: Tier 1 Leverage ratio corrected for 2019 and 2020
Source: Central Bank of Suriname

Asset Quality

The non-performing loans ratio improved in 2021 (12.8%) compared with 2020 (14.6%) as a result of the relatively high increase of the gross loans in comparison to that of the non-performing loans (Figure III.4). The expansion of the gross loans is mainly an effect of the depreciation of the exchange rate in June 2021. From May to June 2021 these loans increased with 19.8 percent from SRD 12.5 billion to SRD 15.0 billion, mainly attributable to the conversion of the USD

loans to SRD. Due to the conversion, USD loans increased with SRD 2 billion to SRD 6.4 billion and EUR loans with SRD 0.5 billion to SRD 1.7 billion. Given the decline in economic activity brought on by the Covid-19 pandemic and the economic crisis, the level of gross loans in December 2021 (SRD 15.1 billion) increased marginally since June 2021 (SRD 15.0 million). These factors caused substantial income shortfalls for households and businesses in especially the hospitality and tourism sectors and related supply companies. Although the non-performing loans ratio improved, the quality of these loans deteriorated, because the Loss category has more than doubled (122.1%) in December 2021 compared with the previous year. There is also a significant increase (61.6%) in the Special Mention category. The total provisions of the banks declined in December 2021 (SRD 740.2 million) in comparison with December 2020 (SRD 831.3 million). As showed in Figure III.5, the provisions for all the categories increased in December 2021, except for the category Loss, which decreased significantly. This is mainly caused by one of the large banks that has written off a large EUR loan. The IFRS 9 has been introduced formally in January 2018 with a transition period of three years.

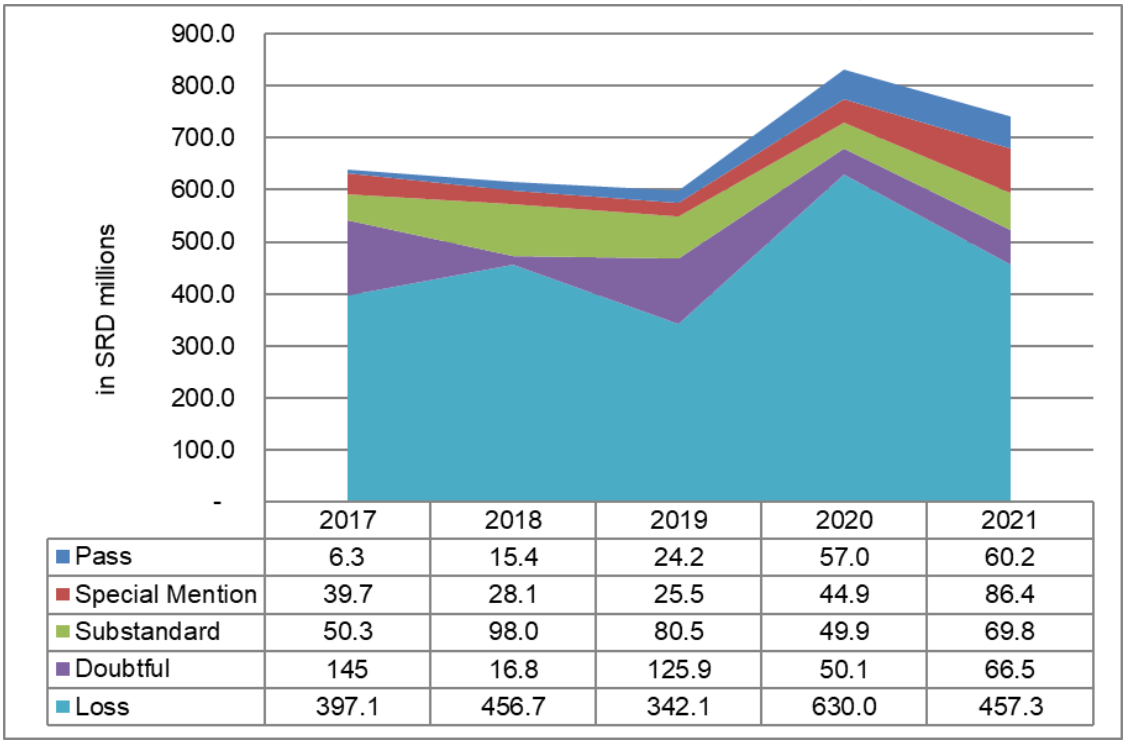
Figure III.4
Commercial Banks Classification of Loans



	2017	2018	2019	2020	2021
Gross Delinquency ratio	20.7%	17.9%	15.4%	20.4%	20.4%
Gross NPL ratio	13.0%	12.0%	10.6%	14.6%	12.8%
Pass	6,803	6,802	7,812	9,824	12,005
Special Mention	664	487	442	715	1,156
Substandard	241	423	344	265	324
Doubtful	357	33	246	878	125
Loss	515	539	386	664	1,476

Source: Central Bank of Suriname

Figure III.5
Commercial Banks Provisions for Non-Performing Loans



	2017	2018	2019	2020	2021
Pass	6.3	15.4	24.2	57.0	60.2
Special Mention	39.7	28.1	25.5	44.9	86.4
Substandard	50.3	98.0	80.5	49.9	69.8
Doubtful	145	16.8	125.9	50.1	66.5
Loss	397.1	456.7	342.1	630.0	457.3

Source: Central Bank of Suriname

According to Surinamese legislation, financial statements of the year 2020 have to comply with IFRS, with comparative figures for 2019. One bank has already implemented IFRS in their monthly reporting. As reported, the provisions according to IFRS 9 are far above those required by Directive 2 of the Central Bank of Suriname. This directive has been revised in line with the aforementioned standard but is yet to be formalized.

Earnings and Profitability

The banking sector remained profitable in 2021 as in the two previous years. However, due to the additional tax, the profit after tax is relatively low compared with 2020. The Government imposed a solidarity levy[10] of 10% on January 20, 2021, which was valid from February 1, 2021, to January 1, 2022. An important part of the income and expenses of banks are in USD and EUR. As a result of exchange rate depreciation, these foreign currency components highly contributed to the increase of each of them. Although the net interest margin increased with 76.9 percent in 2021 compared with 2020, there is also a significant increase of the expenses (66.6%), mainly driven by the

[10] This implied that the portion of the year income above SRD150,000. - of natural persons was taxed 48 percent instead of 38 percent and companies were required to pay 46 percent instead of 36 percent tax of their profit.

staff and operating expenses. Furthermore, the monetary losses due to the application of IAS 29 Hyperinflation accounting of IFRS also contributed to the relative lower increase of the profit in 2021 at one of the systemic banks. This is expressed in the profitability, as measured by return on equity (ROE) and return on assets (ROA), which are respectively at 29.6 percent and 1.8 percent for 2021. Table III.3 shows that these ratios declined with respectively 5.2 percentage points and 0.2 percentage point.

Liquidity

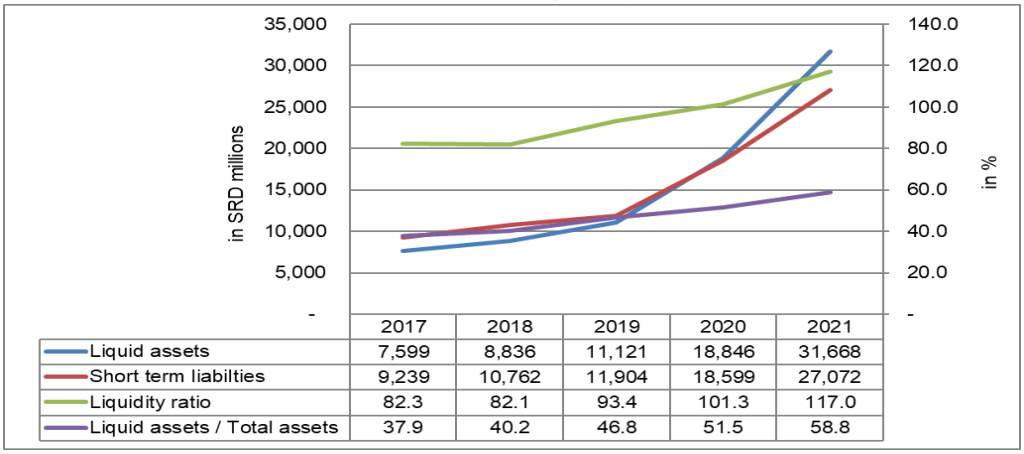
In 2021, the liquidity of the banking sector improved further in comparison with 2020 as shown in Figure III.6. The liquid assets to short-term liabilities increased from 101.3 percent to 117.0 percent, while the liquid assets to total assets went from 51.5 percent to 58.8 percent. The liquidity position of the banks is also calculated via the liquidity coverage ratio (LCR). The combined liquidity position in SRD, USD, and EUR is in surplus. This is also the case with regard to the individual currencies. The Central Bank of Suriname often consults with banks who have issues regarding their liquidity positions, liquidity adequacy and effectiveness of their liquidity risk management.

Table III.3
Commercial Bank Earnings and Profitability

	2017	2018	2019	2020	2021
Gross income	161,189	23,550	229,153	601,442	794,813
Total income	860,447	780,901	1,065,733	1,581,891	2,428,582
Expenses	699,258	757,351	836,580	980,449	1,633,769
Net interest Margin	526,087	474,917	729,430	708,607	1,253,509
Profit after tax	110,916	-33,862	155,980	458,634	600,633
Average equity	994,382	1,235,095	1,373,324	1,727,358	2,689,196
Average assets	18,928,258	21,025,265	22,889,164	30,181,184	45,241,455
ROE (%)	16.2	1.9	16.7	34.8	29.6
ROA (%)	0.9	0.1	1.0	2.0	1.8
% Change average equity	4.3	24.2	11.2	25.8	55.7
% Change average assets	18.6	11.1	8.9	31.9	49.9
% Change gross income	-253.4	-85.4	873.1	162.5	32.2

Source: Central Bank of Suriname

Figure III.6
Commercial Banks Liquidity Indicators



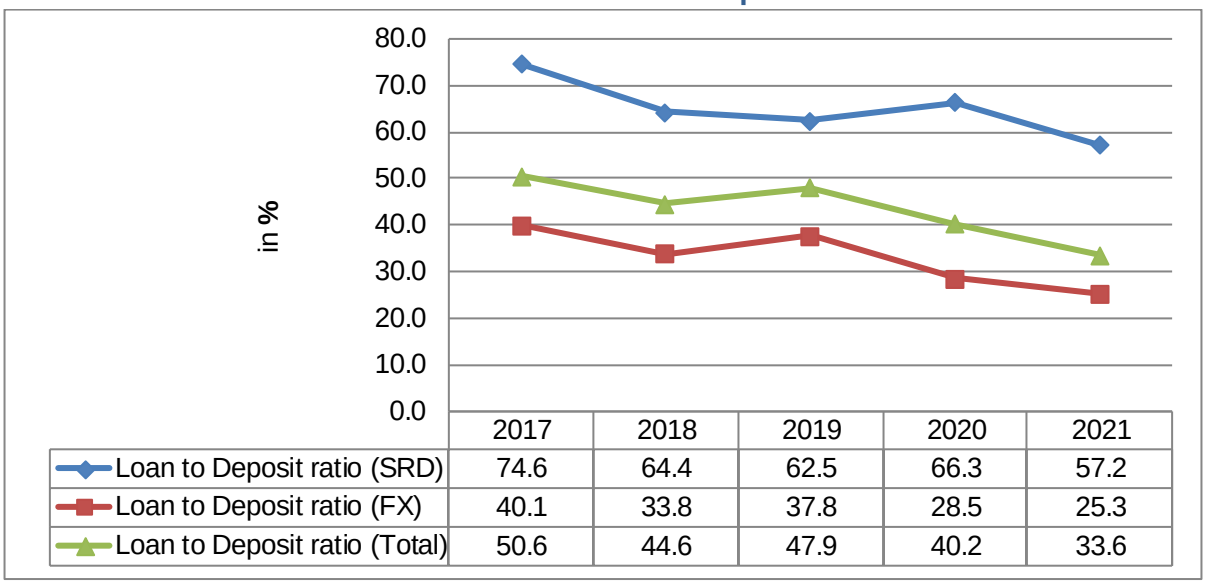
	2017	2018	2019	2020	2021
Liquid assets	7,599	8,836	11,121	18,846	31,668
Short term liabilties	9,239	10,762	11,904	18,599	27,072
Liquidity ratio	82.3	82.1	93.4	101.3	117.0
Liquid assets / Total assets	37.9	40.2	46.8	51.5	58.8

Source: Central Bank of Suriname

The total loan-to-deposit ratio decreased from 40.2 percent in December 2020 to 33.6 percent in December 2021 (Figure III.7). This is the result of the relatively high increase of the total deposits (46.0 percent) compared with the total loans (28.9 percent), mainly caused by the depreciation of the exchange rate in June 2021. At the end of 2021, the share of FX deposits was 73.8 percent of total deposits, while the FX loans comprised 55.5 percent of total loans.

As illustrated in Figure III.8, the average SRD loan rate of the banking sector increased, while the average FX loan rate decreased. In 2021, compared with 2020, the share of SRD loans extended with loan rates of 16 percent and higher increased, while the portion with rates lower than 16 percent decreased. The expansion of FX loans is mainly driven by the depreciation of the exchange rate. To a large extent, the decrease of the portion of FX loans with loan rates above 9 percent, has caused the decline in the average FX loan rates.

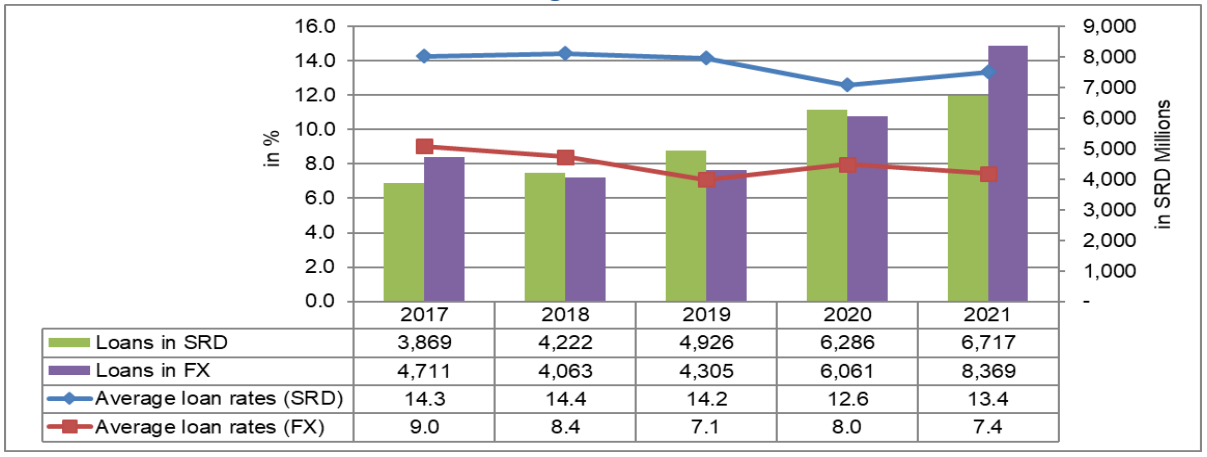
Figure III.7
Commercial Bank Loan-To-Deposit Ratio



	2017	2018	2019	2020	2021
Loan to Deposit ratio (SRD)	74.6	64.4	62.5	66.3	57.2
Loan to Deposit ratio (FX)	40.1	33.8	37.8	28.5	25.3
Loan to Deposit ratio (Total)	50.6	44.6	47.9	40.2	33.6

Source: Central Bank of Suriname

Figure III.8
Commercial Bank Average Loan Rates and Loan Growth



	2017	2018	2019	2020	2021
Loans in SRD	3,869	4,222	4,926	6,286	6,717
Loans in FX	4,711	4,063	4,305	6,061	8,369
Average loan rates (SRD)	14.3	14.4	14.2	12.6	13.4
Average loan rates (FX)	9.0	8.4	7.1	8.0	7.4

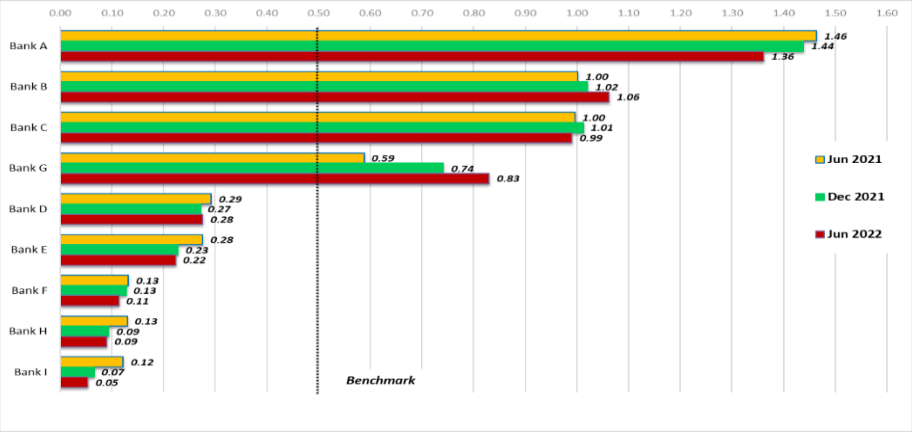
Source: Central Bank of Suriname

Systemically Important Banks in Suriname

As of June 2022, four out of the nine active banks are categorized as Domestic Systemically Important Banks (D-SIBs). The D-SIBs scores of June 2022, were compared to the scores of December 2021. Figure III.9 indicates that four commercial banks have high systemic impact. These banks represent 85.2 percent of the Surinamese banking system assets and show a cumulated total score of 4.24, which is an increase in comparison with December 2021 (4.21). The remaining banks are not

Figure III.9

Total Score of the Surinamese Commercial Banks*



Source: Central Bank of Suriname
* Total score higher than 0.5 means high systemic importance

categorized as systemic banks as their total scores are individually below the benchmark of 0.5.

The increased total score is attributed to increases in the categories "Size", "Complexity" and "Interconnectedness". The changes in the category "Size" are due to the increase in letters of credit, while changes in the category "Complexity" resulted from an increase in investment in foreign bonds. The higher score in the category "Interconnectedness" was the result of an increase in foreign currency loans and advances to Non-Bank Financial Institutions. As of June 2022, three out of the four D-SIBs have higher CARs when compared with the suggested CARs in relation to their systemic importance.

Banking Stability

The Banking Stability Index (BSI), declined from 0.75 in December 2021 to 0.66 in June 2022, as shown in Figure III.10. However, this development is largely attributable to profitability, which was lower in June 2022. As accumulated data are used for the calculation of the profitability indicators, figures in December will be higher than figures in June. In contrast, the remaining indicators such as solvency and asset quality have improved. The improvement of solvency is attributable to an increase in capital due to the application of inflation accounting as mentioned above, but also to exchange rate gains.

Figure III.10
Banking Stability Index

Source: Central Bank of Suriname

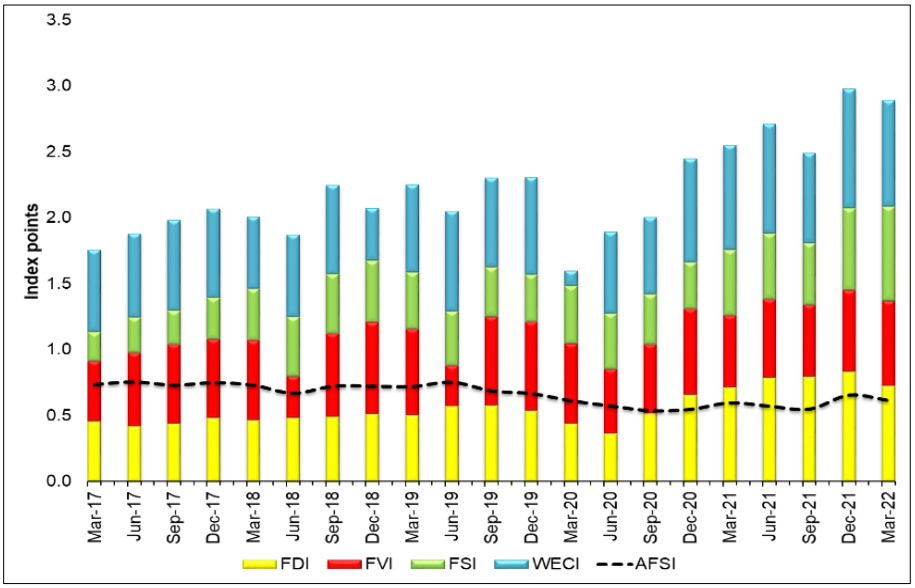
Aggregate Financial Stability

The Aggregate Financial Stability Index (AFSI) (Figure III.11) aims at detecting imbalances in the economy that can lead to instability of the financial system. It is a single index, which consists of microeconomic, macroeconomic and international indicators for banking sector performance. An increase in the AFSI implies increased financial stability and vice versa. The AFSI consists of four sub-indices, which are aggregated into one AFSI. These four sub-indexes are the:

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

The AFSI of March 2022 compared with that of March 2021 improved with 0.162 point to the level of 0.871 point, indicating a positive development. All sub-indices show increases during the period under consideration. The main cause of this increase is the depreciation of the SRD by 48 percent. All foreign currency assets and liabilities

Figure III.11
Aggregate Financial Stability Index for Suriname



Source: Central Bank of Suriname

expressed in SRD increased. The changes of the several indices are explained in detail below.

The FDI improved from 0.391 point to 0.602 point, as total credit increased with 24.9 percent, and as FX credit grew due to the SRD depreciation as the result of Suriname adopting a flexible exchange rate regime in June 2021.

The FVI increased slightly from 0.544 point to 0.641 point, also because of the aforementioned depreciation. If there were no depreciation, this sub-index would actually increase to only 0.584 points. This can be attributed to an increase of Net Exports to GDP with 3.6 percentage points.

The FSI increased with 0.218 point to 0.716 points, from being 0.498 points in March 2021. Besides the SRD depreciation, this increase was due to increase in the net foreign assets of the Central Bank of Suriname, in particular the SDR holdings, which increased from SRD 13.8 million to SRD 3.6 billion.

The WECI increased marginally with 0.014 point from March 2021 to 0.804 point in March 2022. As the Covid-19 pandemic became manageable; the world economy came into motion and improvement was noticeable. As Russia invaded Ukraine, in February 2022, the level of uncertainty in the world rose once again, leading to a slightly increased WECI.

1.4 Main Threats

- **Global pandemic**

  During the pandemic, the banking sector became more creative with their services. However, the quality of its loans deteriorated further in 2021, reflected in the increase of the NPL's to SRD 1.9 billion in 2021 (2020: SRD 1.8 billion) and the deteriorating quality of the loan portfolios. The combination of increased credit losses, loan loss provisions and decline in interest income have also more or less impacted the capital base of some banks.

- **Cyber risk**

  Lock downs have increased the use of digital tools and processes by customers and banks. Also, the way of communication shifted from physical meetings to video and voice platforms. This digital acceleration created the need for safeguarding of adequate security arrangements such as data security controls and maintaining confidentiality, integrity and availability of network to ensure business continuity. Although there were no massive cyber-attacks, such as fraud and phishing attacks reported, banks must stay ahead of these changing operational risks due to the digital transformation.

- **Pressures due to the exchange rate**

  The depreciation of the exchange rate has impacted the solvency of banks with low or no USD and/or EUR capital components due to the high degree of financial dollarization, i.e., dollarized deposits and loans.

- **De-risking**

  De-risking is a main threat of banks in the Caribbean region, including Suriname, whereby correspondent banks in the U.S.A. and Europe increasingly discontinued their relationships with regional banks. In response to this issue, local banks have jointly set standards for the banking industry based on FATF recommendations while the Central Bank of Suriname is currently strengthening the requirements in the AML/CFT Directive 2016.

1.5 Key Challenges

- **Recovery of financial resilience**

  Banks in Suriname are facing the consequences of the economic crisis and the Covid-19 pandemic. The decrease in asset quality and earning performance have forced them to increase their loan loss provisions and limit their capacity to increase capital. Apart from that, some banks are still in the process of the implementation of IFRS, which demands

additional provisions. These issues could undermine the ability of banks to distribute credit and contribute to economic recovery.

To address the risk of insolvency and to strengthen the resilience of banks, dividend payments can be reduced or even prohibited, and the issuance of shares and bonds can also be considered.

- **Financial dollarization**

  The dollarization ratios of December 2021 showed an increase compared with December 2020 in both the assets (from 67.5% to 71.9%) as well as in the deposits (from 65.4% to 69.1%). This is mainly attributable to the depreciation of the exchange rate in June 2021, which has enlarged the FX components expressed in SRD.

- **Developing funding diversity**

  Although the exchange in stocks is limited, the annual statement of 2021 of the Suriname Stock Exchange noted a significant increase in trading in amount as in number compared to 2020, which was primarily attained by one large insurance company and the two large banks. In the Capital Market Act 2014, the Central Bank of Suriname is responsible for supervision of the capital market and its market participants. The process of setting up a framework for the functioning of an effective capital market is ongoing and the aim is to develop an active interbank money market in order to regulate domestic liquidity.

- **IFRS**

  The Annual Accounts Act of 2017 requires companies, such as banks, to comply with IFRS of the International Accounting Standards Board, with a transition period of three years. Hence, the first annual account based on these standards is required for the financial year 2020. At least, two banks have already complied with these Standards earlier, while some banks were still in the process of implementation in 2021.

1.6 Mitigating Measures

The Central Bank of Suriname has issued guidelines and regulations regarding minimum ratios and limits, and banks that do not meet these are notified and closely monitored as they need to comply with the requirements.

- **Adjusted policy**

  The Bank is in continuous dialogue with the management and supervisory boards of banks, which do not meet the minimum capital requirements. The total CAR improved further during 2021 (14.5%), which is 4.5 percentage points above the required minimum of 10 percent as stipulated in the Capital Adequacy Regulation.

- **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 has continued in 2021. This reporting is incorporated in the expanded enhanced reporting since September 2021, in dialogue with the IMF, and consists of the following: projections of balance sheet and profit & loss, stress testing, liquidity budget & realizations, lending availability, interconnectedness, funding structure and Covid-19 facilities. Also, the reporting frequency has increased.

- **Strengthening the regulatory and supervisory framework**

  The strengthening of the banking sector and the tightening of off-site monitoring continued in 2021. The current regulations (Capital Adequacy and Credit Exposure Classification and Provisioning) were adjusted, due to the Annual Accounts Act (2017) that requires IFRS as the standard for annual accounts of public interest organizations. Consequently, the regulation Financial Reporting and External Auditing was drafted. In consultation with the IMF expanded reporting models and the introduction of new appendices for the off-site monitoring were implemented. Also, the banks must report more frequently (daily, weekly, monthly and quarterly) to the Central Bank of Suriname. Moreover, a foreign external audit firm is engaged in conducting an asset quality review for all commercial banks in 2022. As mentioned earlier, the Banking and Credit System Supervision Act 2011 is revised to keep up with the current developments and a Bank Resolution Act is in the making. The Supervision Directorate is working on the development of knowledge and skills of its employees and expert areas, via participation in online courses. In regard to national co-operation, as recommended by CFATF, MOU's have been signed among the Central Bank of Suriname, the Financial Intelligence Unit Suriname (FIU) and the Gaming Board in order to exchange information concerning money laundering, the financing of terrorism and the implementation of policies and activities. This is effectuated through a Tripartite Supervisory Consultation, which is comprised of the management and the staff of the three supervisors, respectively.

- **Intensifying off-site analysis**

  The persisting Covid-19 pandemic in 2021 has restrained the Central Bank of Suriname to conduct on-site bank inspections. Therefore, the off-site

monitoring was intensified by requiring banks to provide quarterly updates of their action plans. These plans consist of findings and recommendations of on-site inspections regarding both prudential and AML/CFT or a combination of both. Banks with a Camel rating of 3 or lower or with the rating 'non-compliant' are obliged to submit their plans within a specific timeframe set by the Central Bank of Suriname. Documents regarding new or updated policy and procedures mentioned in the quarterly template are required to be submitted as evidence of compliance. Banks with Camel rating 2 or higher or with the rating 'partially compliant' or 'largely compliant' were also required to provide the Central Bank of Suriname updates via the quarterly template.

- **Fourth Mutual Evaluation**

  The public version of the National Risk Assessment (NRA) was published on the 15th of November 2021, while the Government already received the full extended version in March. The report was presented to the Governor of the Central Bank of Suriname on the 1st of March 2021. Due to the Covid-19 pandemic, the Fourth Mutual Evaluation Round was postponed to the 28th of February 2022.

- **Compliance rating**

  In the first half of 2018, the compliance rating was introduced in accordance with the rating model of CFATF, which is applied to the inspected banks after assessing to what extent these banks meet the requirements as set in the AML/CFT Directive. The result of the assessment is plotted into respective parts of the compliance rating model, which is based on the various topics of the Directive. Every item of each topic is rated on both technical compliance and effectiveness. The following ratings are assigned: (i) compliant, (ii) largely compliant, (iii) partially compliant, (iv) non-compliant and (v) not applicable.

- **Coping with financial dollarization**

  To manage the risks associated with the high degree of financial dollarization both micro- and macro-prudential tools, listed below, are issued by the Central Bank of Suriname to safeguard the individual banks and the stability of the financial system as a whole.

  - *Reserve requirements in foreign currency*: these reserves have been introduced by the Central Bank of Suriname as a buffer in the event of a bank run in foreign currency, but also because Suriname does not yet have a deposit-guarantee scheme. The FX reserve requirement was last

increased to 50% in 2013 and has not been adjusted since.

- *Limits on foreign currency loans:* the Central Bank of Suriname has tightened the requirements for foreign currency loans in 2017 through the VW 48 Directive. Banks are permitted to extend FX loans only to companies and persons with regular and uninterrupted foreign currency income from abroad, as well as to persons and companies that have foreign currency income in Suriname.
- *Capital Adequacy Regulation:* in the calculation of the capital adequacy, the element of the risk-weighted value of the aggregate open position in foreign currencies (both on- and off-balance) is added since 2014.
- *Limits on foreign currency position:* the Regulation for Open Foreign Currency positions issued by the Central Bank of Suriname in 2015 sets limits for exposures to exchange risks that may arise from foreign currency movements against the Suriname dollar and provide guidelines for the management of foreign currency exposures.

- **Emergency Liquidity Assistance**
  In September 2019, the Central Bank of Suriname set up an Emergency Liquidity Assistance (ELA) facility with the aim to support solvent banks experiencing temporary liquidity problems. The terms of the ELA were modified in July 2021.

2. Insurance Companies

2.1 Size

In 2021, the total assets of the insurance sector amounted to SRD 9,215.1 million compared with SRD 5,617.0 million in 2020, reflecting an increase of 64.0 percent. In 2021 the share of the total assets of the insurance sector in that of the total financial sector was 13.0 percent (2020: 12.0 percent). The total assets of the insurance companies were approximately 18.0 percent of GDP in 2021 compared to 15.0 percent of GDP in 2020.

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

Table III.4

Structure of Insurance Sector

	2020			2021		
	Number	% of Total insurance assets	% of Total financial assets	Number	% of Total insurance assets	% of Total financial assets
Life insurance	4	55.8	6.7	4	61.1	8.0
Non-life insurance	6	44.2	5.3	6	38.9	5.0
Total	**10**	**100**	**12.0**	**10**	**100**	**13.0**

Source: Central Bank of Suriname
Data of 2020 and 2021 are based on preliminary figures[11].
Small differences in the decimals of the numbers may occur, due to rounding differences

Table III.5

Insurance Penetration and Density

	2017	2018	2019	2020	2021
Insurance penetration (%)	3.0	3.0	3.0	3.0	6.0
Insurance density (in SRD)	1,198.7	1,367.1	1,586.0	1,896.1	4,882.3

Source: Central Bank of Suriname
Data of 2020 and 2021 are based on preliminary figures
Small differences in the decimals of the numbers may occur, due to rounding differences

Table III.5 shows the insurance penetration and the insurance density over the period 2017-2021, which reflects the importance and the development 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). The average global insurance penetration was approximately 7.0[12] percent in 2019, whereas in Suriname, it was only 3.0 percent in the four last years before 2021. In 2021, the insurance penetration rocketed to 6.0 percent, almost reaching the aforementioned global average. A significant increase was also noticeable in the insurance density ratio, which rose from SRD 1.8 thousand in 2020 to SRD 4.9 thousand in 2021.

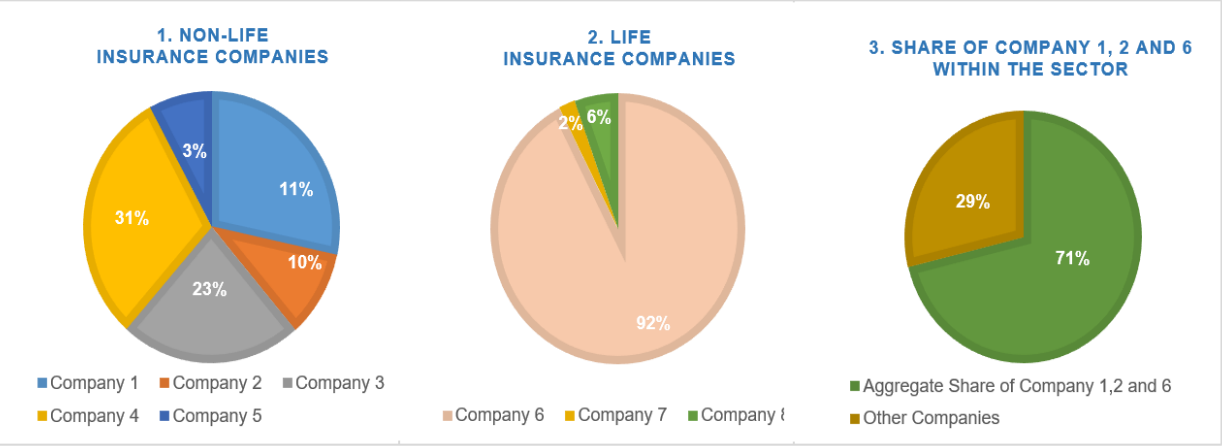
The increase of the insurance penetration and insurance density was a result of economic distress, which made insurance expensive and an acquisition of the portfolio of a pension fund. The insurance premium grew with 160.0 percent in 2021, while

[11] In this report, all numbers and analysis are based on the financial information of three life insurance companies and five non-life insurance companies, since at the time of preparing this report the financial information of the remaining companies was incomplete or inadequate. Hence, those companies are left out of this report.
[12] Source: https://www.statista.com/topics/6529/global-insurance industry/#:~:text=The%20policy%20is%20a%20legal,mostly%20driven%20by%20emerging%20markets.

nominal GDP grew with 33.6 percent and the population with just 1.0 percent.

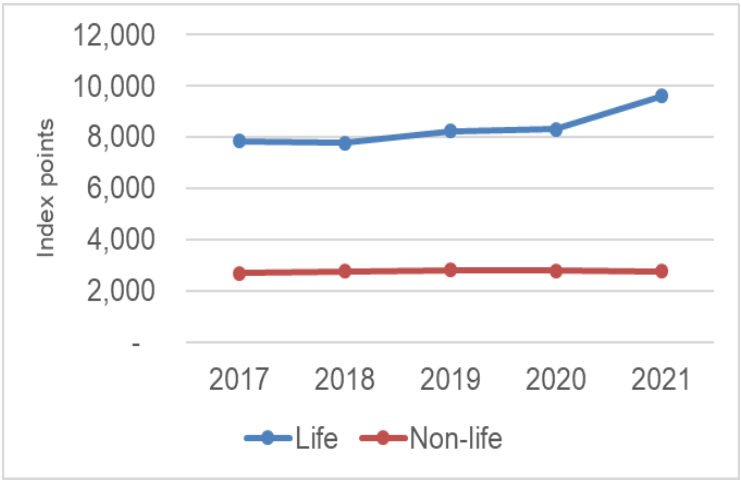
Figure III.12 gives an overview of the structure of respectively the non-life insurance sector, the life insurance sector and the total insurance sector in 2021 based on the total assets. The market share of the non-life insurance sector is primarily occupied by three big companies and two smaller companies. In contrast, one life insurance company dominates the life. insurance sector with 92.0 percent, making this sector highly concentrated.

Figure III.12
Total Assets of the Insurance Sector in 2021



Source: Central Bank of Suriname
Data are based on preliminary figures
Small differences in the decimals of the numbers may occur, due to rounding differences

Figure III.13
The HHI for the Life and Non-life Insurance Sector 2017 – 2021



Source: Central Bank of Suriname

One non-life insurance company, one medical insurance company and one life insurance company, all three subsidiaries of the same holding company, comprise 71.0 percent of the total insurance sector.

In 2021, the Herfindahl-Hirschman Index (HHI)[13] for the life insurance segment was 9,602 compared to 8,302 in 2020, indicating this subsector is highly concentrated. The increase in the HHI for this sector was due to the increase of premiums and, as already mentioned in the section insurance penetration and density, the acquisition of the portfolio of a pension fund. The index for the non-life insurance segment was 2,750 in 2021 and 2,776 in 2020, indicating that this subsector is less concentrated.

Figure III.13 illustrates the trend of the index for the life and non-life insurance sector in the period 2017 - 2021.

2.2 Market Activity

The main life insurance products underwritten in Suriname are term insurance (of which credit insurance), whole-life insurance and annuities while the main non-life insurance products are 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.

2.3 Financial Soundness

Life Insurance

The depreciation of the exchange rate in 2021 had an impact on the unrealized profits produced by the assets and insurance activities denominated in foreign currency. This is further explained in the several FSI's mentioned below.

Required Solvency

As a protection method and as reassurance that the insurance companies always have adequate capital[14] available, the supervisor sets a minimal required capital for insurance companies[15].

The ratio available capital to required capital should be at least 100.0 percent. A percentage less than 100.0 percent means

[13] The Herfindahl-Hirschman Index (HHI) is a commonly accepted measure of the extent or degree to which relatively small number of firms account for a relatively large percentage of the market (market concentration). The HHI number can range from close to zero to 10,000. Index values exceeding 1,800 indicate very high market concentration.

[14] 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.

[15] 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

that the companies do not meet the requirements of the supervisor.

In 2021 and 2020, the industry met the supervisory requirement with a surplus of respectively SRD 319.6 million and SRD 263.6 million, which is reflected by ratios above 100.0 percent respectively 236.0 and 310.7 percent.

Capital Adequacy

Capital adequacy can be determined by several capital adequacy ratios. In this paragraph the three ratios, the insurance risk ratio, the capital-to-assets ratio and capital-to-technical-reserves ratio are used to evaluate the 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. In 2021, the life insurance industry met this requirement with 271.2 percent. However, the ratio deteriorated compared with 2020 in which the ratio was only 54.4 percent. The deterioration was caused by the disproportionate growth of the capital and the net premium written. The capital grew with 42.7 percent in 2021, whereas the net premium written grew with 611.9 percent in the same year. As aforementioned, the premium written rose primarily because of the acquisition of the portfolio of a pension fund and the raise of the premiums in 2021 due to economic distress in Suriname.

The capital-to-assets ratio, which measures the extent to which the capital of an insurer can bear asset risks, declined slightly as it was 9.9 percent in 2021 and 12.4 percent 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, also declined to 11.8 percent in 2021 from 15.5 percent in 2020.

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 10.1 percent in 2021 compared to 12.6 percent in 2020, indicating that only a small part of the total assets have a large probability of becoming impaired. Therefore, the asset quality can be defined as adequate.

Reinsurance Strategy

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 would indicate that the life industry is generating a loss on settlements.

The ratio of the life insurance industry improved as it declined from 289.5 percent in 2020 to 227.9 percent in 2021. The net premium earned increased from SRD 41.2 million in 2020 to SRD 116.2 million in 2021, an increase of 182.0 percent. The total claims and policyholder benefits, on the other hand, went from SRD 119.2 million in 2020 to SRD 264.8 million in 2021, reflecting a growth of 122.1 percent. The expense ratio represents the percentage of the sector's net premium earned that goes towards total expenses, in other words, it indicates whether the net premium earned is sufficient to cover the total expenses. Although the expense ratio of the sector improved from 156.8 percent in 2020 to 119.9 percent in 2021, the net premium was still insufficient. The combined ratio, which provides a greater sense of the profitability of the sector and is calculated as the sum of the loss ratio and the expense ratio, was 347.8 percent in 2021 compared with 446.2 percent in 2020. The net premium earned was by far not enough to cover both the total claims and policyholder benefits and the total expenses in given years, which resulted in a technical loss of respectively SRD 287.9 million and SRD 142.6 million. However, just as in 2020, the industry was able to make a profit of SRD 163.0 million due to the exchange rate differences of SRD 188.8 million and investment income of SRD 290.0 million.

Liquidity

The liquidity ratio compares the liquid assets with the total liabilities. Internationally, the used minimum for this ratio for the life insurance industry is 60.0 percent. In 2021 and 2020, the ratio was far below 60.0 percent, respectively 14.1 percent and 29.3 percent, indicating that according to international standards the industry did not have enough liquid assets to cover its liabilities. Table III.6 gives an overview of the FSI's of the life insurance industry over the period 2017 – 2021.

Table III.6
Financial soundness indicators of life insurers

(in %)	2017	2018	2019	2020	2021
Required solvency					
Available capital/required capital	256.85	278.69	258.10	310.7	236.0
Capital adequacy					
Net premium written to capital	94.0	71.5	97.9	54.4	271.1
Capital to total assets	11.1	12.2	11.3	12.4	9.9
Capital to technical reserves	14.4	15.4	14.2	15.5	11.8
Asset quality					
(Real estate + unquoted equities + debtors)/ total assets	17.0	18.6	15.3	12.6	10.1
Reinsurance and actuarial issues					
Risk retention ratio (net premiums/gross premiums)	97.2	96.8	97.9	98.0	100.0
Earnings and profitability					
Combined ratio (loss and expense ratio)	154.1	189.8	135.8	446.2	347.8
Claim ratio (net claims/net premiums)	96.6	109.0	106.8	289.5	227.9
Expense ratio (expenses/net premiums)	57.6	80.8	29.0	156.8	119.9
Liquidity					
Liquid assets to total liabilities	42.4	43.4	36.9	29.3	14.1

Source: Central Bank of Suriname
Information based on three life insurance companies.
Data of 2020 and 2021 are preliminary figures
Small differences in the decimals of the numbers may occur, due to rounding differences

Non-life Insurance

Similar to the life insurance industry, the surge of the exchange rate also had an impact on the FSI's of the non-life insurance industry. Table III.9 presents the FSI's of the non-life insurance industry over the period 2017 - 2021.

Required Solvency

In 2021, the solvency surplus[16] was SRD 927.8 million compared with SRD 759.1 million in 2020. The ratio available capital to required capital was respectively 567.8 percent and 664.7, indicating that the industry met the regulatory capital requirement.

[16] 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.

The capital grew from SRD 893.5 million in 2020 to SRD 1,126.1 million in 2021. A greater part of the profit after tax of SRD 314.6 million was added to the general reserves, which primarily contributed to this growth.

Capital Adequacy

The insurance risk ratio for the non-life insurance industry deteriorated, as it was 77.6 percent in 2020 and 99.5 percent in 2021, but was still adequate as, generally, a ratio lower than 300.0 percent is considered adequate.

The capital-to-assets ratio amounted to respectively 36.0 percent in 2020 and 31.4 percent in 2021, which indicated that the capital practically remained constant compared to the assets in named period.

The capital-to-technical-reserves ratio was 141.2 percent in 2020 and 130.6 percent in 2021. The capital slightly declined compared to the technical reserves in given period but was still sufficient to cover the technical liabilities.

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 43.5 percent in 2021 and 39.7 percent in 2020, indicating that less than half, but still a great part of the assets, had a large probability of being impaired.

Reinsurance Strategy

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 75.0 percent.

Table III.7
Net Premium Written (NPW) by Line of Business of Non-Life Insurers

(in SRD millions)	2020		2021	
	NPW	Retention	NPW	Retention
Fire and damage	111.5	0.7	204.4	0.6
Motor insurance				
Third party liability	119.5	1.0	178.3	1.0
Accidental damage	47.6	1.0	77.0	1.0
Medical & personal accident	388.1	0.7	608.7	0.7
Other general insurance	26.8	0.3	51.0	0.7
Total	693.5	0.7	1,119.4	0.7

Source: Central Bank of Suriname
Information based on five non-life insurance companies.
Data of 2020 and 2021 are preliminary figures
Small differences in the decimals of the numbers may occur, due to rounding differences

The reinsurance strategy in the individual categories also remained unchanged. Table III.7 gives an overview of the net premium written by line of business of non-life insurers in 2020 and 2021. In both years the insurers obtained the most reinsurance in the categories 'Fire and damage', 'Medical & personal accidents' and 'Other general insurance'.

Earnings and Profitability

The non-life insurance industry noted a combined ratio of 100.1 percent in 2021, a small improvement compared with the combined ratio of 121.8 percent in 2020. A percentage above 100.0 percent indicates that the net premium earned is not enough to cover the sum of the total claims and policyholder benefits and the total expenses. In 2021, the industry reported a technical result of negative SRD 0.5 million and a profit after tax of SRD 314.6 million. In 2020, these were respectively, negative SRD 147.9 million and SRD 390.3 million. The exchange rate gains of SRD 241.8 and the other technical earnings and expenses of SRD 249.1 million contributed mainly to the profit after tax. Table III.8 gives an overview of the earnings and expenses of the non-life insurance sector in 2020 – 2021.

Liquidity

The liquid assets-to-total liabilities ratio is an indicator of the insurer's ability to meet its short-term obligations. Internationally, a minimum percentage of 95.0 percent is considered adequate for the non-life insurance sector. There is a higher minimum requirement for non-life insurers due to the greater unpredictability of time and size with regards to payments.

Table III.8

Earnings and Profitability of Non-Life Insurers

(in SRD millions)	2020	2021
Gross premium written	936.6	1488.4
Premium ceded	243.1	367.9
Net premiums written	693.5	1120.6
Change in unearned premiums	16.1	109.0
Net premiums earned	677.4	1011.5
Net claims	399.5	545.5
Total underwriting costs	425.7	467.5
Other technical benefits/costs	0.0	1.0
Underwriting income	-147.9	-0.5
Investment income	40.9	50.5
Foreign exchange differences	353.4	241.8
Other income	220.0	249.1
Income before tax	466.4	540.85
Taxes	76.0	226.3
Net income (loss) after tax	**390.3**	**314.6**

Source: Central Bank of Suriname
Information based on five non-life insurance companies.
Data of 2020 and 2021 are preliminary figures
Small differences in the decimals of the numbers may occur, due to rounding differences

As in 2020 in 2021, the non-life insurance industry reported a ratio below 95.0 percent, respectively 52.7 and 47.5 percent. In the period 2017 - 2021, the industry did not have enough liquid assets to cover the total liabilities.

Table III.9 gives an overview of the FSI's of the non-life insurance industry over the period 2017 – 2021.

2.4 Main Threats

According to the Fourth Round Mutual Evaluation of the Caribbean Financial Action Task Force (CFATF), Suriname is a "medium to high risk" country. This means that not enough is done to combat money laundering, terrorist financing, corruption and proliferation (financing and spreading weapons of mass destruction). Suriname must take actions, including putting legislation and regulation in place, establishing mechanisms for monitoring the risks and applying means to reduce these risks. If Suriname is placed on the blacklist[17]

[17] A country which is placed on the Blacklist by the CFATF may be subject to economic sanctions by members of the organization. Economic sanctions may prohibit companies which are not on the blacklist from trading or doing business with a country on the blacklist.

Table III.9
Financial soundness indicators of non-life insurers

(in %)	2017	2018	2019	2020	2021
Required solvency					
Available capital/required capital	423.6	424.5	428.8	664.7	567.8
Capital adequacy					
Net Premium/Capital	109.5	118.8	114.7	77.6	99.5
Capital to total assets	39.3	33.7	31.1	36.0	31.4
Capital to technical reserves	126.2	93.3	103.1	141.2	130.6
Asset quality					
(Real estate + unquoted equities + debtors)/ total assets	49.5	50.6	45.1	39.7	43.5
Reinsurance and actuarial issues					
Risk retention ratio (net premiums/gross premiums)	89.9	76.9	72.8	74.0	75.6
Earnings and profitability					
Combined ratio (loss and expense ratio)	101.1	93.4	97.4	121.8	100.1
Loss ratio (net claims/net premiums)	68.7	61.3	61.9	60.8	55.5
Expense ratio (expenses/net premiums)	32.3	32.1	35.5	61.0	44.6
Liquidity					
Liquid assets to total liabilities	35.9	37.8	43.4	52.7	47.5

Source: Central Bank of Suriname
Data of 2020 and 2021 are preliminary figures
Information based on five non-life insurance companies.
Small differences in the decimals of the numbers may occur, due to rounding.

this will have major impact on the financial sector including insurance companies, e.g., reinsurance abroad will be hard to obtain and products like travel insurance will become unavailable. A company with foreign subsidiaries may experience difficulties managing its subsidiaries.

2.5 Key Challenges

- Operating profitably in an economy with high inflation is still the key challenge of the insurance industry in Suriname. The inflation rate of around 60.0 percent (2021) results in too frequent increases of prices and costs, making efficient pricing and financial management extremely difficult.
- With the promulgation of the Financial Statements Act on September 24, 2017, all categories of companies in Suriname mentioned in the act, including insurance companies, are obliged to prepare their financial statements according to the international financial reporting standards (IFRS). Specifically, this means that on the conversion date

January 1, 2021, the annual accounts of insurance companies should be fully based on the rules of IFRS. The insurance companies need to have a good understanding of IFRS as well as of the specific standards that have an impact on the classification, measurement and disclosures associated with these standards. It is a challenge for the sector to meet these requirements, especially due to lack of expertise and higher administration costs, which come along with the implementation of these standards.

2.6 Mitigating Measures

- To mitigate the integrity risk in insurance, directors, supervisory board members and qualified shareholders of insurance companies are assessed, in accordance with the Fit & Proper guideline. The anti-money laundering and fraud combatting policies and procedures of one insurance company were evaluated.
- The current laws and regulations applicable to the insurance sector were evaluated in order to improve, upgrade and complement them and to upgrade the quality of insurance supervision. To support this process the Bank collaborated with several international organizations for technical assistance. In 2022, The Banking and Credit System Supervision Act 1968 (G.D. 1968 no. 63 as last amended by O.G. 1986 no. 82) still applies to the insurance industry, whilst a new insurance act is awaiting to be adopted by Parliament.
- In addition, the following guidelines were drafted or revised:
    - Corporate Governance Code
    - Guideline for the Regulation and Supervision of Insurance Intermediaries
    - Anti-Money Laundering Guidelines
    - Guidelines for Related Party Transactions
    - Guideline regarding the Available Capital, Solvency Capital Requirement and Deposit (revised)
    - Guideline for the Technical Reserves and the Investment Portfolio (revised)
    - Guideline application for Declaration of No Objection and Establishment of Statutes (revised)
    - Actuarial Guideline

3. Pension Funds

3.1 Size

The Central Bank of Suriname supervises pension funds and the provident funds. In 2021, 41 pension funds, of which 30 active and 11 inactive funds, were supervised by the CBvS. Of the 4 registered provident funds, only 1 is active. Compared to 2020 the total number of supervised pension funds increased by 1. The non-operational funds do not engage in activities any longer. In 2021, 2 pension funds have started the process of liquidation.

The civil servant pension fund which is a Pay-As-You-Go plan, is also supervised by the CBvS (Table III.10). This pension fund is, based on the number of benefit recipients, the largest pension plan under supervision of the CBvS. Data of this pension fund are not included in the analysis as its financing method differs from the other pension funds.

The majority (99 percent) of the active pension funds and all (100 percent) inactive pension funds under supervision of the CBvS are collective defined contribution (CDC) funds. Two active pension funds are defined contribution (DC) funds while another active pension fund is a defined benefit (DB) fund. One of the two DC funds started the liquidation process in 2021.

***Table III.10**
Structure of Private Company Pension Funds 2021

Categories	Number	% of Total Pension Assets	% of Total GDP
Active			
Defined benefit	1	0.4%	0.1%
Defined contribution	2	0.4%	0.1%
Collective defined contribution	26	99.2%	19.9%
Pay As You Go**	1	0.0%	0.0%
Non-Active			
Defined benefit	0	0	0
Defined contribution	0	0	0
Collective defined contribution	11	0	0
Total	**41**	**100.0%**	**20.0%**
Memorandum Item			
Civil Servant Pension Fund	1	0	0

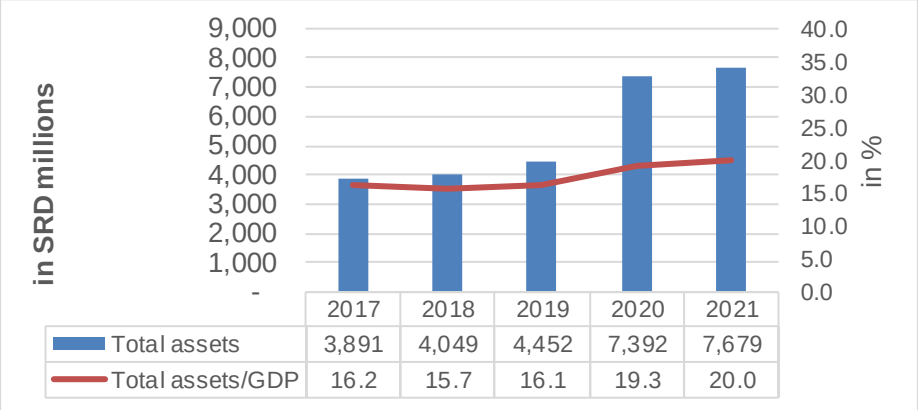
Source: Central Bank van Suriname
*Excluding provident funds
**This relates to the civil servants' pension fund

Assets

The total assets of the pension sector increased in 2021 compared to 2020. The increase is, however, less significant than the increase in 2020 compared to 2019 (Figure III.14). The main reasons are the further depreciation of the exchange rate of the USD in 2021 and a decrease in reporting backlogs resulting in more updated data. As a result, the foreign currency assets have increased in SRD. On the other hand one of the largest pension funds has started the process of liquidation in 2021. The assets of this pension fund were transferred to an insurance company in order to reinsure the pension entitlements of the participants and pensioners.

Figure III.14

Pension Funds Total Assets



	2017	2018	2019	2020	2021
Total assets	3,891	4,049	4,452	7,392	7,679
Total assets/GDP	16.2	15.7	16.1	19.3	20.0

Source: Central Bank van Suriname

Liabilities

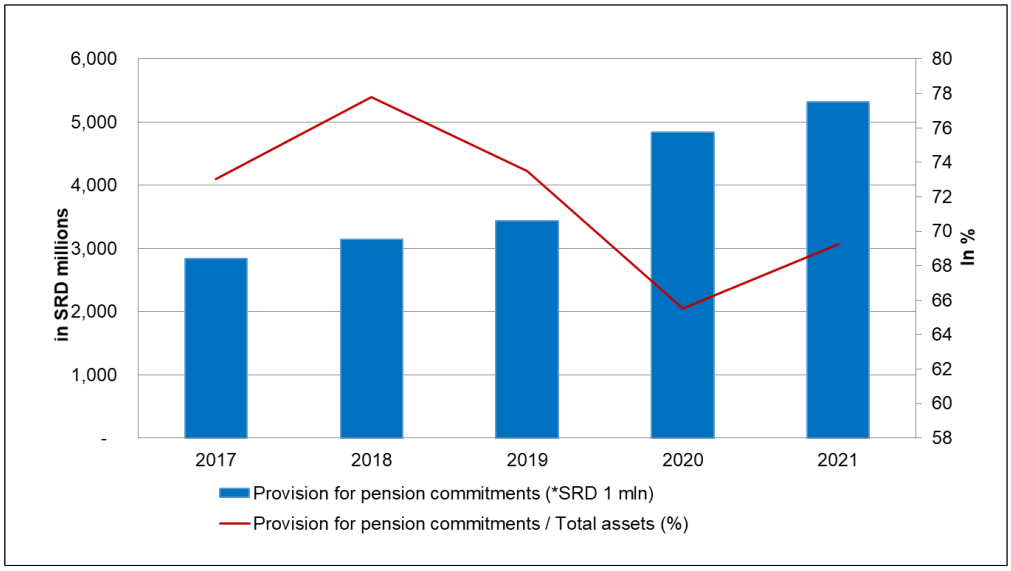
The pension obligations as a percentage of total assets increased slightly in 2021 compared to 2020 (Figure III.15), due to the fact that more pension funds submitted updated data about their pension provisions to the CBvS.

3.2 Market Activity

In 2021 the ratio between local and foreign investments changed significantly compared to 2020. In 2021, 8.6% percent of the total assets of the pension funds were placed abroad (2020: 17.3% percent), while the remaining 75.8% percent was placed in local financial instruments (Figure III.16). The foreign investments had decreased as a result of the transfer of the assets of one of the pension funds, that is in the process of liquidation, to an insurance company.

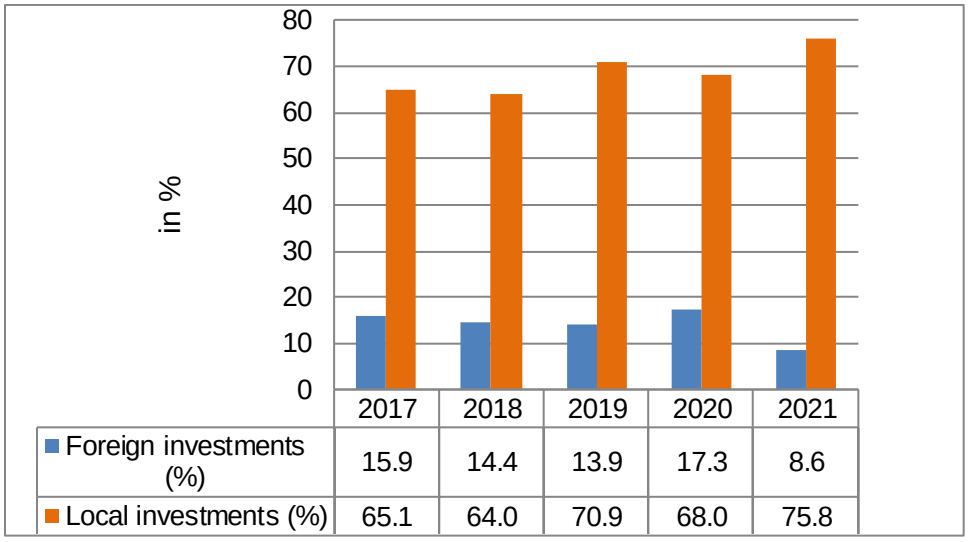
Locally, pension funds have been mainly investing in real estate, mortgages and term deposits, while the foreign investments are dominated by bonds (Table III.11).

Figure III.15
Pension Commitments



Source: Central Bank van Suriname

Figure III.16
Pension Fund Investments in Percent of Total Assets



	2017	2018	2019	2020	2021
Foreign investments (%)	15.9	14.4	13.9	17.3	8.6
Local investments (%)	65.1	64.0	70.9	68.0	75.8

Source: Central Bank van Suriname

Table III.11
Structure of Pension Fund Investment Portfolio

Investments *(in SRD millions)*	2020		2021	
	Amount	In % of total investments	Amount	In % of total investments
Real estate	1,699.4	27.0%	1,932.8	29.8%
Mortgages	988.0	15.7%	1,226.6	18.9%
Personal loans	8.2	0.1%	9.8	0.2%
Private loans	108.2	1.7%	178.8	2.8%
Shares	308.9	4.9%	273.2	4.2%
Bonds	1,620.0	24.7%	760.9	11.7%
Term deposits	883.6	14.0%	883.0	13.6%
Saving accounts	180.4	2.9%	286.1	4.4%
Gold certificates	51.3	0.8%	73.2	1.1%
Treasury bills	84.9	1.3%	90.7	1.4%
Current account with the employer	127.2	2.0%	139.6	2.2%
Investments to which the bank has no objection	6.4	0.1%	26.3	0.4%
Other	234.2	3.7%	600.7	10.3%
Total investments	**6,300.8**	99.0%	**6,481.8**	101.0%

Source: Central Bank van Suriname

3.3 Financial Soundness

Solvency

The coverage ratio is the ratio that reflects the solvency of the pension sector and may not be below the standard of 100. 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 risk degree assigned to the committed investment objects. There are also other financial soundness indicators used to measure the performance of the pension funds. The indicators are based on the aggregate financial data of the pension funds under supervision of the CBvS.

In 2021, the coverage ratio of the sector (110%) decreased compared to 2020 (114%). The decrease of the ratio compared to 2020 (Table III.12) is caused by the pension commitments that have increased relative to total assets. The increase of the pension commitments is due to the fact that more updated data were provided to the CBvS. In reality, the coverage ratio is higher, because on the basis of the solvency guidelines, the calculation of the coverage ratio is based on the total investments instead of the total assets.

Other Indicators

For the ROA and ROI, a ratio must exceed four percent (4%) to be considered acceptable. If the ROA and ROI are lower than 4%, this is an indication that the pension

Table III.12
Financial Soundness Indicators of Pension Funds

Indicators	2017	2018	2019	2020	2021
Coverage ratio[1]	100.7	92.3	99.3	114.3	109.6
Return on assets	6.0	4.1	8.5	17.5	15.9
Return on investments	7.4	5.3	10.0	20.5	18.9
Pension benefit paid/contributions	57.8	60.4	67.3	61.1	47.0

Source: Central Bank van Suriname
[1] The coverage ratios of the years 2018 and 2019 were below the standard of 100% due to backlogs in submission of reports.

sector is not generating enough return to be able to meet its obligations in the payment phase. The ratios "pension benefit paid/contribution" reflects the liquidity position of the pension sector. For pension benefit paid/contribution, a ratio of less than 100 is considered acceptable, because the main source of expenditure should be less than the direct source of income. The lower the ratio, the better for the soundness of the sector. Due to the late submission of annual reports and actuarial reports the indicators for 2020 and 2021 are based on extrapolation of data.

3.4 Main Threats

Operational risk

- Overall, there were nine changes in boards of six pension funds, as board members reached the end of their terms or were replaced by their employers. Frequent changes of management positions could, among other things, indicate red flags.
- The backlogs in submitting the certified annual reports on time.
- The lack of a described accounting system.
- Not all pension funds comply sufficiently with the regulations of the CBvS as well as their statutory rules and/or their other regulations.
- Some pension funds have shortcomings with regard to recordkeeping.
- Not all decisions of the boards are recorded properly in writing.
- The backlogs in providing the statements of the accrued pension entitlements to their participants.
- Most pension funds do not have written administrative procedures.
- Most pension funds do not have a code of conduct.

Credit risk

Conditions that indicate credit risk and/or an increase of this risk:

- The absence of written procedures for providing loans including a proper credit risk management system, measured by credit history, capacity to repay, capital, the loan's conditions, and associated collateral.

- The absence of an enforcement policy by some pension funds to collect granted loans.
- The disclosure of a provision for, among other things, bad loans in (some) annual reports.
- Increase in receivables from plan sponsors that are not repaid.

Inflation risk

The pension sector is dealing with the effects of the depreciation of the SRD. In 2021 the USD exchange rate was SRD 21.14 while this was SRD 14.29 in 2020. Pension funds have part of the assets in foreign currency and investment products that have a positive correlation with inflation. This largely contributes to mitigating inflation risk.

3.5 Key Challenges

Covid-19 Pandemic

In 2021, the pension sector was not spared from the consequences of the Covid-19 pandemic, as pension funds depend on their employers for premium contributions and some of the employers suffered loss of income due to lockdowns. However, easing measures from the CBvS towards the pension funds turned out overall not to be necessary.

3.6 Mitigating Measures

- The CBvS started a project to liquidate non-operational institutions. The policy is aimed to liquidate the inactive institutions through court, so that these institutions will no longer appear on the publication list of the CBvS. The 2 pension funds which started the liquidation proces in 2021 are not included in aforementioned project, because the liquidation of these pension funds will take place by its boards.
- Conditions for the approval of board members became stricter in 2021. There is a new directive for board members regarding fit and proper requirements, in which high requirements are set on the education and knowledge of new board members.
- Introduction of a new procedure for the change of the external auditor or actuary.
- Compilation of preventive supervision guidelines for the purpose of more awareness of board members of their responsibilities.
- Composition of rules and procedures for shortened on-site inspections due to Covid-19.
- The CBvS developed, among other things, an early warning system for early detection of risk developments as a precursor to the introduction of risk-based supervision.

- The reporting procedures and formats have been improved to allow for more analyses.

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 2021, the credit union sector consisted of 25 credit unions (Table III.13), whose assets made up 0.10 percent[18] of the total assets 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 (≤ 1year) and long-term deposits (> 1 year) of transportation, funeral costs, the purchase of personal computers.

Table III.13
Number of Credit Unions

	2017	2018	2019	2020	2021
Open-bond credit unions	1	1	1	1	1
Closed-bond credit unions	21	21	21	22	22
Saving funds	1	1	1	1	1
Representative organization	1	1	1	1	1

Source: Central Bank of Suriname

[18] Excluding money transaction companies

- **Loans:**
  - Personal loans: short-term loans, e.g., for medical costs, cost of repair.
  - 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 carries a higher interest rate, and it has a fixed term.
- **Other:**

  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 sets guidelines regarding liquidity and solvency, and the reports are currently being scrutinized for solvency, liquidity, and notable patterns. Other financial soundness indicators, such as claims to members versus liabilities to members and capital adequacy, are also monitored. Guidelines and reporting statements have been amended and new prudential guidelines have been drafted, which have already been approved in April 2021.

Solvency

Every credit union is required to maintain a regulatory capital that is equal to a minimum of 7 percent of its total risk weighted assets. In 2021, the sector as a whole did comply (8%), although, the open-bond credit unions had a negative solvency ratio (-41%). To address non-compliance, the Bank performed 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 fail to improve the credit unions performance, the Bank may instruct them to observe a certain line of conduct or warn them that all or certain bodies of the credit unions are only authorized to do their activities with the consent of one or more people chosen by the Bank. In the worst-case scenario, the Bank can invoke the emergency regulations.

Liquidity

A credit union must have actual liquid assets equivalent to the required liquid assets

(100%) to meet the liquidity guidelines. In 2021, the closed-bond credit unions did comply with this minimum, both including (254%) and excluding (153%) the loan portfolio. However, the open-bond credit unions did not comply with the minimum ratio, when excluding the loan portfolio (87%).

Claims on Members vs. Liabilities to Members

Both open (20%) and closed-bond credit unions (57%) complied with the regulatory maximum of 80 percent in 2021. Although the open-bond credit unions were beneath the maximum ratio, they do not operate optimally. 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 loss, the institution can invest these resources in term deposits, 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 its total assets. In 2021, the closed-bond credit unions did comply (18%) with the minimum ratio. However, the open-bond credit unions did not comply (-13%) due to their negative equity.

Return on Assets

This 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 0.2 percent whereas that of the open-bond credit unions was -6 percent.

4.4 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 Bank 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.
- **Credit**
  - The risk that a debtor (borrower) will not be able to meet its financial obligation. During on-site inspections, it has shown 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 the monthly payment from the salaries of members. At the same time, the number of non-performing loans shows an increase in the open-bond credit unions, which is caused by lax monitoring of the loan portfolio. Due to aforementioned, there are no guidelines concerning non-performing loans, but the credit unions are being recommended to make provisions for loan losses.

4.5 Key Challenges

The majority of the credit unions cannot comply with the reporting requirements. Despite the different opportunities, which the Bank created during the years, the credit unions (70-80%) still have significant arrears in reporting.

4.6 Mitigating Measures

- The aforementioned risks are being monitored through meetings and increased supervision.
- Currently, the Bank still deals with the monitoring of the non-reporting credit unions. With the implementation of the Strategic Plan 2021-2024, this project has been converted into the project "Systematically Working on the process of dismantling the inactive credit unions & pension and provision funds". In this context, the non-responsive or non-viable credit unions will be settled. In 2021 the Bank started the process, to settle the 17 non-responsive credit unions, which has continued in 2022.

  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.
- A simplified guideline on Anti-Money Laundering and Counter Terrorism Financing (AML/CFT) is being prepared for the credit union sector. At this moment the department does not conduct off-site and on-site inspections because the guideline is still in draft. Furthermore, the manual for the examiners for AML/CFT supervision will be drafted.
- In addition to AML/CFT supervision, guidelines for corporate governance also need to be drafted. In this context, the application form for permission of the management,

board and the supervisory committee and the instructions for completing this form, are already in draft.

- 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 take adequate provisions to cover expected credit losses. As a result, guidelines regarding provisions are also in draft.

5. Stock Exchange

5.1 Size

In 2021, the market capitalization of the Suriname Stock Exchange increased by 1.6 percent relative to 2020 in absolute terms. In terms of percentage of GDP, the market capitalization decreased by 1.6 percentage point to 3.5 percent of GDP in 2021 (Table III.14)

5.2 Market Activity

The Suriname Stock Exchange trades stocks of eleven listed companies. The number of brokers remained unchanged at seven (Table III.15).

5.3 Performance

Compared with 2020, the turnover of the Suriname Stock Exchange increased by 406 percent from SRD 0.2 million in 2020 to almost SRD 1.2 million in 2021. This sharp increase can be attributed to the large number of stocks traded of the listed companies Assuria, DSB and Hakrinbank.

Table III.14

Market Capitalization Ratio & Turnover

Period	Market capitalization (mln SRD) [I]	GDP (mln SRD) [II]	Market capitalization ratio I:II (%)	Turnover (mln SRD)
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
2021**	1,995.3	56,985.0	3.5	1.2

Sources: Suriname Stock Exchange, Central Bank of Suriname

* Preliminary GDP General Bureau of Statistics (ABS)

** Preliminary GDP Planning Office Suriname (SPS)

Table III.15

Number of Listed Securities & Brokers

	2018	2019	2020	2021
Stock Exchange	1	1	1	1
Listed Stocks & Bonds	12	12	11	11
Brokers	7	7	7	7

Source: Suriname Stock Exchange

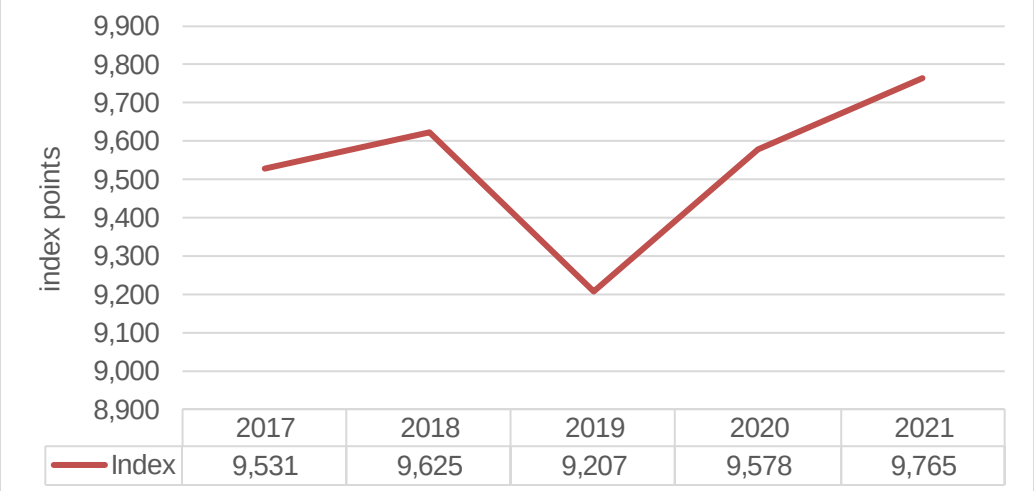
In total 24,508 stocks were traded in 2021 compared to 6,917 in 2020, which implies an increase of 254 percent.[19] The index of the Suriname Stock Exchange, which represents the market value of a predetermined basket of shares, also increased in 2021 (Figure III.17). An increase of the share prices of three listed companies, Assuria, CIC, and Surinaamse Brouwerij, led to this change of the index from 9,578 in 2020 to 9,765 in 2021.

5.4 Key Challenges and Outlook

The development of the domestic capital market, which includes the stock exchange, and the creation of awareness regarding the benefits of this segment of the financial market, as an alternative for mobilizing finance for businesses, proves to be very challenging.

Figure III.17

Suriname Stock Exchange Index



Source: Suriname Stock Exchange, Central Bank of Suriname

[19] Source: Suriname Stock Exchange

Although a more comprehensive approach is required in this regard, the CBvS has issued Central Bank Certificates (CBCs) in June 2022, which can be traded only on the securities trading platform of the Association for Securities Trading in Suriname. Although the main purpose of the CBCs is to maintain reserve money at a level consistent with a predetermined inflation target, the CBvS also aims to promote secondary market securities trading in an effort to encourage the development of the primary money and capital market.

6. Foreign Exchange Market

6.1 Exchange Rate Policy

In pursuance of a managed-floating exchange rate regime, the CBvS conducted periodic model-based assessments of the exchange rate since September 2020. The first assessment revealed an overvaluation of the Suriname dollar, after which the CBvS introduced minimum and maximum exchange rates for the U.S. dollar to allow 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. The outcome of another exchange rate assessment warranted an additional depreciation of the exchange rate. On 20 May 2021, the CBvS raised the maximum selling rate to SRD 21.00 per USD.

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. The amendment of the regulation enabled the CBvS to strengthen the international reserves. Following the adjustment of the maximum selling rate in May 2021, the CBvS in collaboration with the Ministry of Finance and Planning, conducted targeted foreign exchange interventions in late May and early June 2021 to support the efforts to address the overvaluation of the Suriname dollar. Another supporting measure regarded the CBvS' issuance of a one-off 3-month term deposit against at fixed interest rate through the commercial banks in order to mop up excess liquidity in the economy.

As the Government of Suriname 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 and abandoned the use of minimum and maximum exchange rates, as of 7 June 2021. The CBvS also adopted a new monetary policy framework,

which entails a reserve monetary targeting (RMT) regime by conducting open market operations. The switch to a flexible exchange rate regime implied that the CBvS abandoned the exchange rate as a nominal anchor for monetary policy purposes. Instead, reserve money now serves as an intermediate policy target for controlling inflation.

As of 21 July 2021, the CBvS conducts weekly open market operations by auctioning Central Bank term deposits against variable interest rate bids. The term deposits serve to adjust the base money supply to a targeted level in order to achieve a predetermined inflation rate. The liquidity management measures of the CBvS, combined with prudent fiscal policy, are instrumental in stabilizing the exchange rate and reducing inflation.

On 22 December 2021, the Executive Board of the International Monetary Fund approved a 36-month arrangement under the Extended Fund Facility (EFF) for Suriname to an amount of about USD 688 million. The CBvS is committed to adhere to the agreed exchange rate and monetary policy performance criteria as well as governance benchmarks and targets under the program in order to address the macroeconomic imbalances and the identified governance risks.

6.2 Market Activity

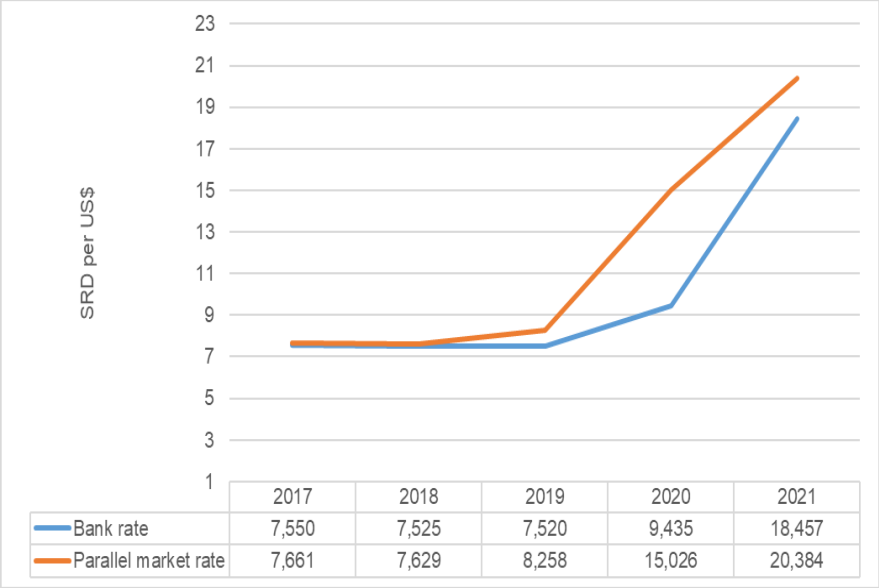
In 2021, nine commercial banks and seventeen authorized exchange bureaus (cambios) conducted spot foreign exchange transactions with the public. Figure III.18 depicts the development of the average USD selling rates of the CBvS and the parallel market.

The average exchange rates showed a sharp rise in 2021, which reflects the application of maximum exchange rates by the CBvS during March-June 2021 and the transition to flexible exchange rates, as of 7 June 2021. The adoption of a flexible exchange rate regime and supporting fiscal measures resulted in a reduction of the margin between the CBvS' exchange rate and the parallel market rate. By December 2021, this margin had narrowed down to less than 0.5 percent on average.

Figure III.19 illustrates that trading volumes in U.S. dollar increased in 2021 compared with the 2020. In 2021, sales volumes of commercial banks and cambios on the FX market were around USD 219 million. Compared with 2020, USD sales volumes increased by 44 percent.

Figure III.18

Official and Parallel Market Average USD Selling Rate

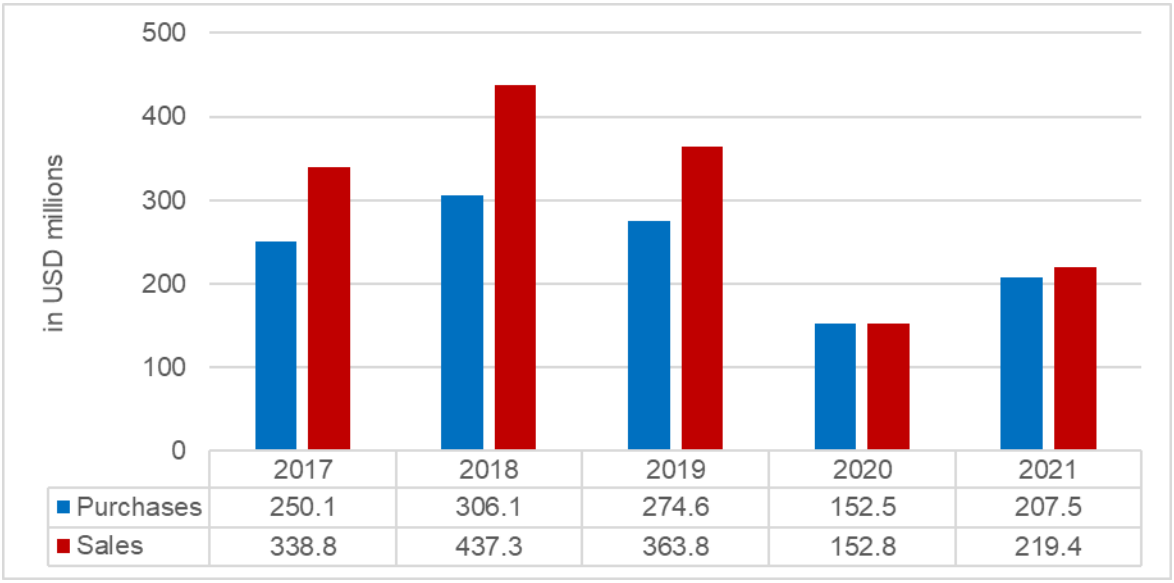


	2017	2018	2019	2020	2021
Bank rate	7,550	7,525	7,520	9,435	18,457
Parallel market rate	7,661	7,629	8,258	15,026	20,384

Source: Central Bank of Suriname

Figure III.19

USD Trading Volumes

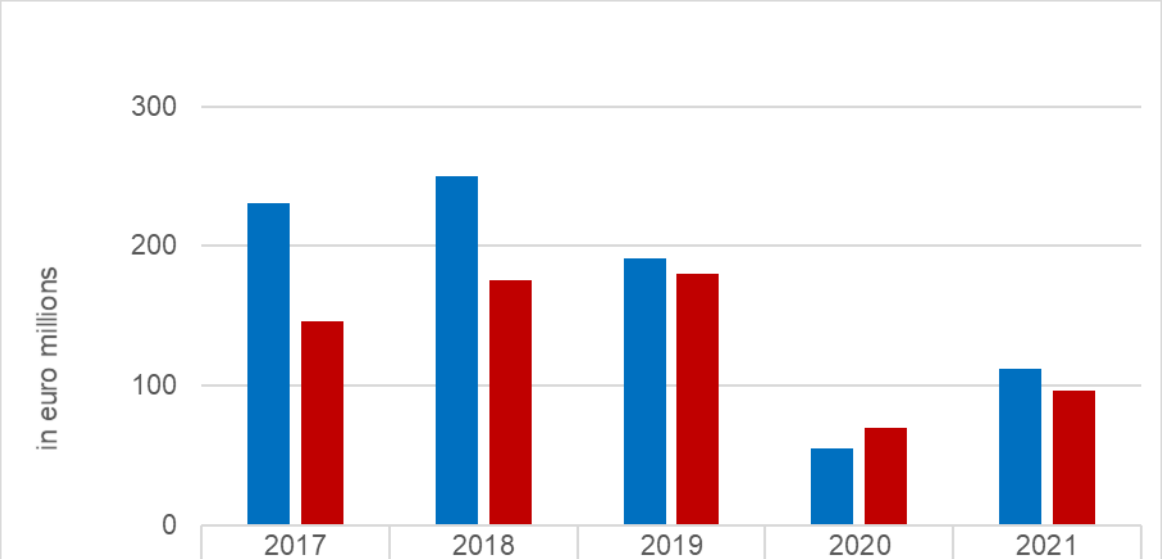


	2017	2018	2019	2020	2021
Purchases	250.1	306.1	274.6	152.5	207.5
Sales	338.8	437.3	363.8	152.8	219.4

Source: Central Bank of Suriname

Figure III.20

EUR Trading Volumes



	2017	2018	2019	2020	2021
Purchases	230.9	249.6	190.7	55.2	112.0
Sales	146.1	175.7	180.2	69.3	96.8

Source: Central Bank of Suriname

Figure III.20 portrays the trading volumes in euros. The euro segment of the FX market registered an increase in sales volumes by 40 percent in 2021 compared with 2020.

The improvement of the trading volumes in 2021 reflected the effects of applying market-determined exchange rates and the effects of economic recovery, as the Surinamese government and the rest of the world gradually removed Covid-19 restrictions that triggered increased demand for imported goods and services.

6.3 Key Challenges and Outlook

In collaboration with the government, the CBvS managed to address the overvaluation of the Suriname dollar. The key policy challenges remain in accumulating international reserves, sustaining exchange rate stability and reducing inflation.

- The CBvS faces the challenge to strengthen the international reserves autonomously without causing distortions on the foreign exchange market. The amendment of the regulation on the repatriation and the surrender requirements of the export proceeds has enabled the CBvS to strengthen the international reserves. However, under the conditions of the IMF program, the CBvS is not allowed to conduct foreign exchange transactions directly with exporters and has agreed to refrain from these

practices during the course of the program. The CBvS may buy or sell foreign currency to/from banks and cambios through auctions. However, the foreign currency purchases by the CBvS are not without risk, while the sales of foreign currency are conditioned and limited. On the one hand, the risk of exchange rate pressures increases when the CBvS would purchase foreign currency through auctions. On the other hand, the sales of foreign currency are allowed only when disorderly market developments occur defined as intraday depreciation of the Surname dollar by more than 2 percent, while these sales are limited to a maximum amount per day and per quarter. In fact, the most viable option to accumulate its international reserves, yet not the ideal option, under the current circumstances is when the government considers it necessary to sell foreign currency to the CBvS. The CBvS has to strike the right balance between accumulation of the international reserves and preventing imbalances on the foreign exchange market.

- An important condition for reducing inflation is to sustain exchange rate stability by continuing to manage excess liquidity in the economy system through open market operations under the reserve money targeting regime. The challenges that the CBvS faces are that the term deposit auctions do not capture currency in circulation, as part of reserve money, and that the interest rate transmission channel is not functioning properly in the banking system. In order to deal with these challenges, the CBvS has included the issuance of Central Bank Certificates to large investors and the public in the monetary toolkit. The prospects are that this product will enable the CBvS to sustain exchange rate stability and achieve the objective of lowering inflation.
- Going forward, the CBvS will continue monetary tightening by absorbing excess liquidity in the economy through open market operations, while every effort is made to strengthen the international reserves position. Occasionally, exchange rate pressures may occur in the economy, which is a distinctive feature of a flexible exchange rate regime that absorbs economic shocks through exchange rate changes. For this reason, prudent fiscal policy and policy coordination between the monetary authorities are warranted.

IV. STRESS TESTING OF THE BANKING SYSTEM

1. Introduction

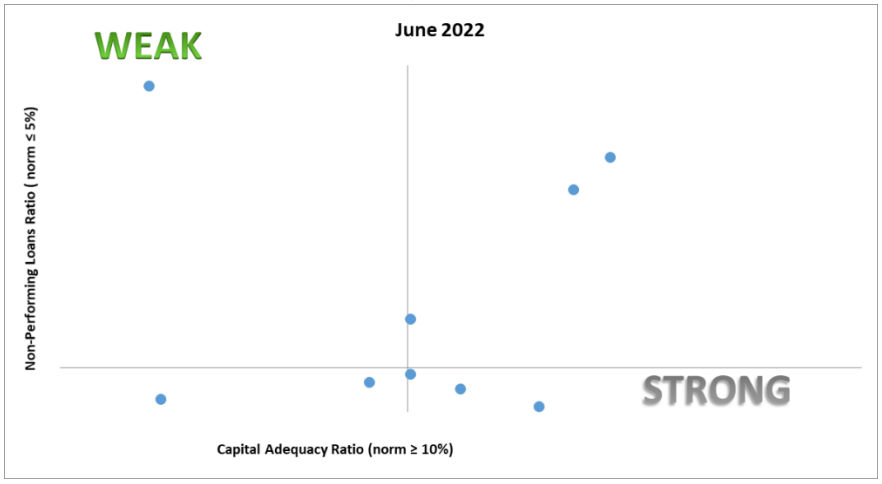
Financial stability, which entails among other things, a sound banking system, that ensures the efficient allocation of funds to boost economic growth. The stability of the banking sector, however, is also affected by the macroeconomic environment. In 2021, a positive growth of the Surinamese economy was projected in the presence of high inflation caused by exchange rate depreciation, import inflation, higher utility prices and increased sales tax rates. The magnitude of the impact of macroeconomic developments on the balance sheets of individual banks, however, also depends on the strength of banks' balance sheet, resulting from their individual risk management practices.

Overall, the banking system was more resilient at the end of June 2022 when compared with December 2021. As usual, the stress test encompasses all nine commercial banks and assesses the impact of plausible adverse shocks in the level of capital adequacy requirement for the banking system as a whole as well as for the individual banks. The tests focus on: (i) commodity price risk, (ii) concentration risk, and (iii) foreign exchange risk in single and multi-factor shock settings. Also, liquidity stress tests are performed to assess the system's resilience to liquidity shocks. Two types of liquidity stress tests were performed. The first test examines the liquidity positions in case of withdrawals of banks' largest depositors, while the second test focuses on the ability of banks to withstand daily deposits withdrawals over a period of five days.

A glance at the capital adequacy position of the aggregate banking system in June 2022 shows that the system as a whole operates above the minimum capital adequacy requirement (CAR) of 10.0 percent. The CAR of the aggregate banking system was 15.40 percent (Dec 2021: 14.27%), which is largely attributable to two systemic banks. The relatively high increase of capital is mainly due to two factors in 2021. First, the application of IAS 29 Hyperinflation accounting, by two of the systemic banks, which had a positive effect on their Tier-1 capital. Second, exchange rate gains as a result of the adjustment of the official exchange rate also contributed to higher capital. During the first quarter of 2022, the interest obtained from investment in the OMO term deposits also contributed 40 percent in total interest income of banks, which lead to an increase in profitability and consequently in capital. The asset quality of banks, measured by the non-performing loan

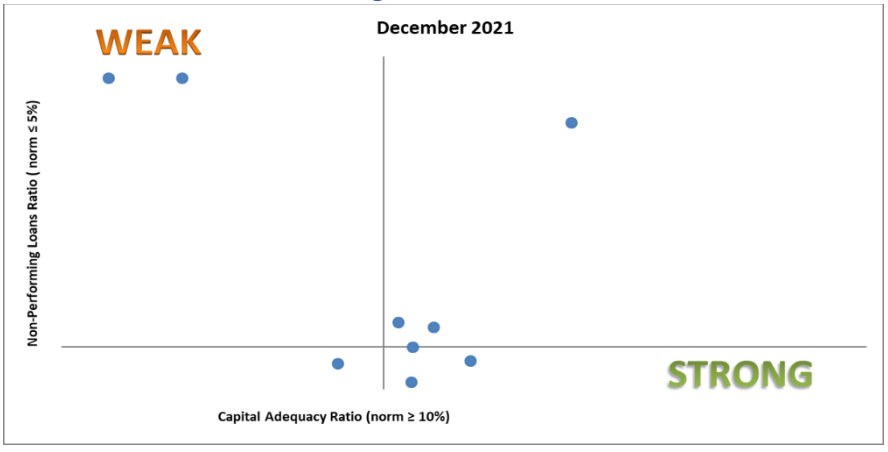
(NPL) ratio also showed some improvement, as this ratio decreased to 12.09 percent (Dec 2021: 12.71%), although still higher than the maximum standard of five percent. The improved resilience of the banking sector is graphically illustrated below in the Figures IV.1 and IV.2, where only one bank is categorized as weak (northwestern quadrant) in June 2022, which indicates a positive development, as two banks were in this quadrant in December 2021. Three banks stayed strong in the southeastern quadrant in both periods.

Figure IV.1
Bank Strength in June 2022



Source: Central Bank of Suriname

Figure IV.2
Bank Strength in December 2021



Source: Central Bank of Suriname

2. Provisioning

The starting point for the scenarios was a banking system, which as a whole met the minimum required CAR, although on a bank-by-bank basis, three non-systemic banks did not comply with the minimum regulatory CAR. Furthermore, according to directives, not all banks were adequately provisioned at the end of June 2022. It was therefore necessary to supplement individual bank's capital to make up for insufficient provisioning prior to conducting the stress test. As a result, the CAR of 15.40 percent for the banking system has been adjusted to 15.17 percent due to under provisioning of one systemic bank and one non-systemic bank. The required recapitalization costs to upgrade these banks in line with the required CAR of 10.0 percent would be SRD 174.75 million (0.31% of GDP). The adjusted CAR constitutes the basis in the following scenarios.

3. Solvency Stress Tests

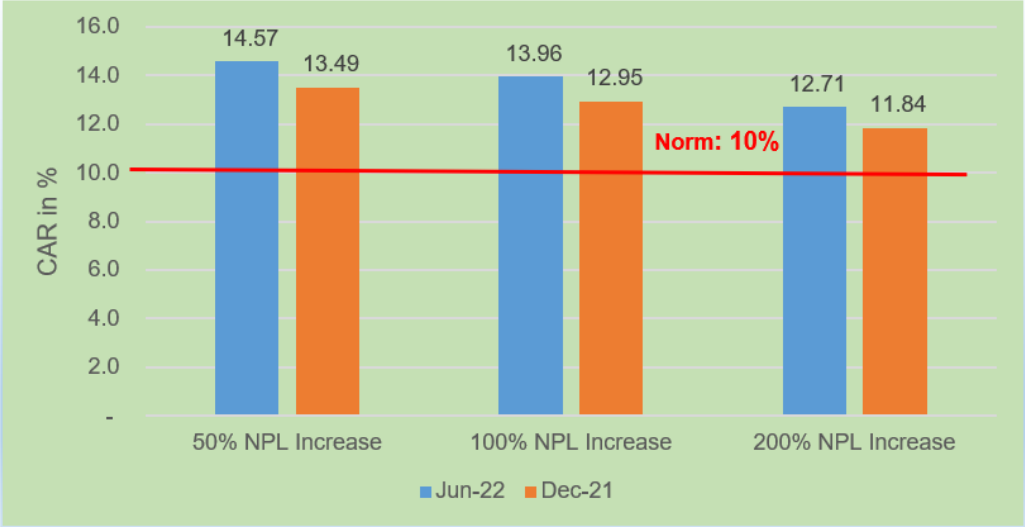
3.1 Credit Risk

Scenario: Tests are conducted by using different percentages of NPLs to help gauge the vulnerability of the banking system's credit portfolio. It is worth noting, that one systemic bank has classified some government loans as NPLs. These NPLs are not included in the regular stress tests as no provisions are made for government loans by this particular bank. However, additional stress tests are conducted to determine the effect of these NPLs on the CAR.

Methodology: The starting point for the credit risk is the adjusted existing NPL ratio of 7.82 percent for June 2022, excluding the aforementioned government NPL. 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 book 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.3). However, on a bank-by-bank basis, two additional banks (one systemic bank and one non-systemic bank) would fall below the minimum CAR under all shocks. The capital injection under the mild, adverse and severe shock would be respectively SRD 290.59 million (0.51% of GDP); SRD 419.09 million (0.74% of GDP) and SRD 676.10 million

Figure IV.3
Results of Overall Non-Performing Loans Increase



Source: Central Bank of Suriname

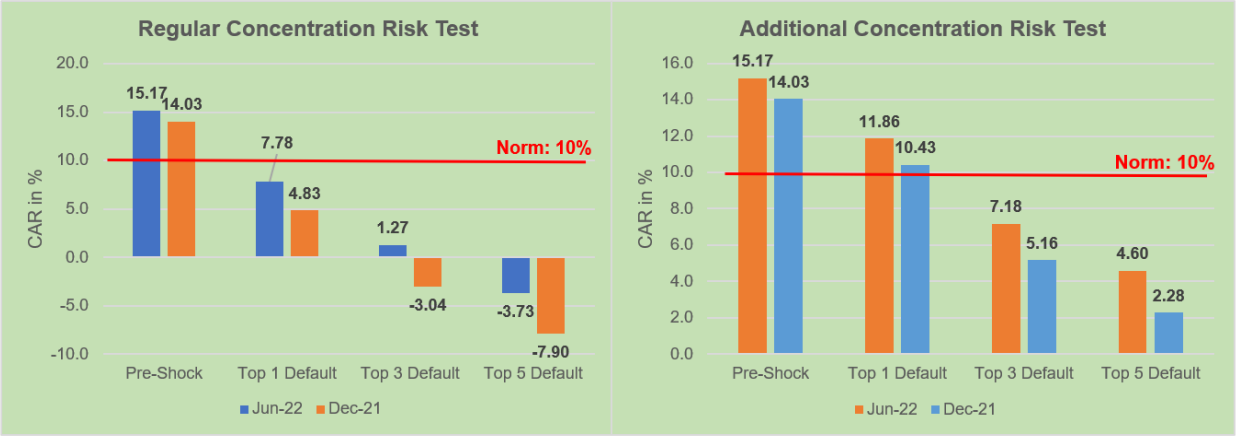
(1.19% of GDP), which is an improvement compared with December 2021. However, if the government NPLs are included, the aggregate CAR would drop to 8.57 percent under the adverse shock, and 3.78 percent under the severe shock, as the government NPLs have a share of 54 percent in total NPLs of the banking sector.

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.

Methodology: Large borrower is defined as a borrower with loans exceeding 10 percent of tier one capital, comprising common stock and retained earnings. A default of these borrowers will require additional provisioning, which is 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 stance on the top 5 borrowers showed that the total volume of the aggregated top five borrowers decreased with 2.9 percent in June 2022 as compared with December 2021. This was mainly attributable to the repayments of government loans.

Figure IV.4
Results of Default of Top Borrowers



Source: Central Bank of Suriname

Results: As of June 2022, concentration risk posed a serious threat. The CAR of the banking system would fall below the minimum required norm of 10 percent if the top 1 largest borrower fails to repay his debt. The additional capital injection for this shock would be SRD 682.3 million, equivalent to 1.20 percent of GDP (Dec 2021: 4.83%). Three systemic banks and one non-systemic bank would be able to absorb these losses. A default of the top 3 large borrowers, would lower the aggregate CAR further to -1.27 percent (Dec 2021: -3.50%). The whole banking system would need an additional capital injection of SRD 2.17 billion (3.82% of GDP). In case of this scenario, only one systemic bank and one non-systemic bank would be able to bear the losses. In December 2021, all banks breached the required norm. A default of the top 5 large borrowers, would bring the CAR of the system to -3.73 percent (Dec 2021: -8.69%). The additional capital injection under this default would amount to SRD 3.0 billion (5.26% of GDP). According to these results, only one non-systemic banks is able to withstand this shock.

Figure IV.4 displays the results of the aggregated CARs if concentration risk would materialize. Considering that the Government is the largest borrower, with a share of 40.28 percent, additional stress tests were performed, excluding the Government as a large borrower.

The results indicated that in both points in time, the aggregate CAR would improve. However, the results are still worrisome when excluding the Government as borrower, as the banking system would already fall below the regulatory capital standard under the second shock (default of the top 3 borrowers).

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 currency assets expressed in local currency would increase, leading to an increase of the Risk Weighted Assets (RWA). The RWA has a dominating effect as 65 percent of the total RWA is in foreign currency. The net open position (NOP) of banks, i.e., banks having net foreign liabilities (short FX position) or net foreign assets (long FX position), are also included in this test. Since 2019, the aggregated NOP of the banking system has an upward trend, mainly the NOP in USD. The existing short or long open FX positions of banks are multiplied by the change in the exchange rate. Both lead to an increase in the RWA of banks' balance sheets, which in turn would require additional capital. In case the capital structure of banks consists of foreign currencies, these also need to be adjusted in case of exchange rate movements. Also, a depreciation could lower the ability of borrowers to repay banks, the so-called exchange-rate-induced credit risk. This development would require additional provisioning and will thus result in a reduced CAR.

The long NOP in U.S. dollar for the banking system increased from SRD 928.75 million in December 2021 to SRD 1,242.27 million in June 2022. The NOP in euro decreased from SRD 150.13 million in December 2021 to SRD 96.94 million in June 2022.

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 given depreciations of 50, 100 and 200 percent.

Results: (i) Exchange rate risk: USD/SRD and EUR/SRD depreciation.

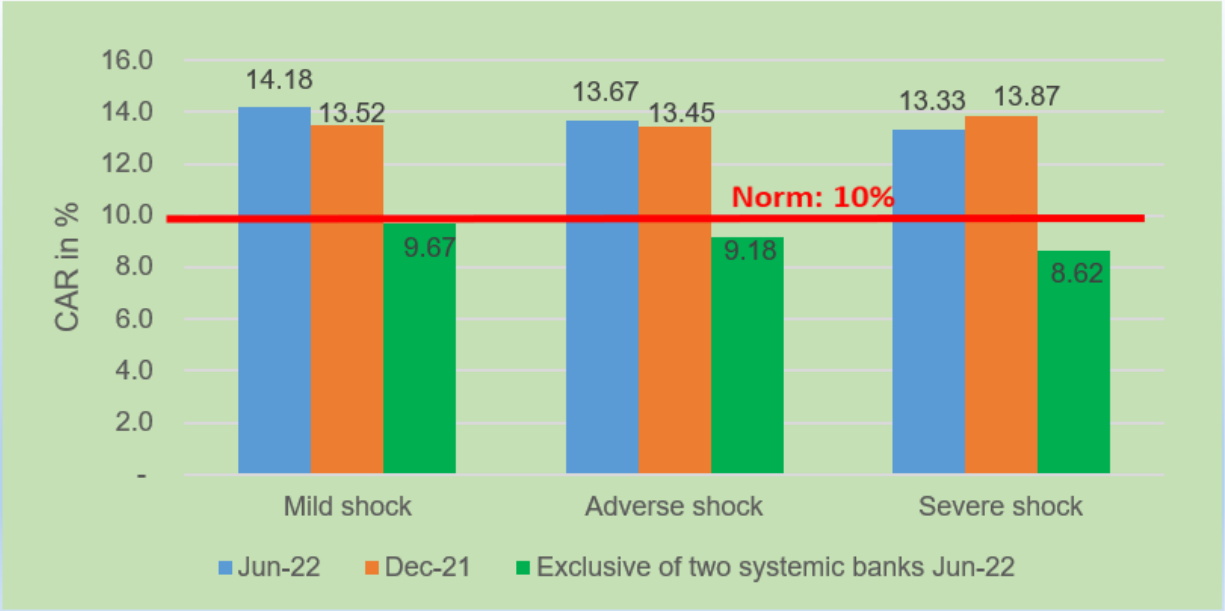
In the past, the banking system was able to withstand large currency depreciations due to its long aggregate NOP. However, on a bank-by-bank basis, some banks would currently not be able to withstand depreciations, despite an increase of their long FX positions. This is due to a high share of dollarized RWA in their total RWA. Under the mild[20] shock and under the adverse[21] shock, two additional banks (one systemic

[20] 50% USD/SRD and 44.7% EUR/SRD depreciation
[21] 100% USD/SRD and 89.40% EUR/SRD depreciation

bank and one non-systemic bank) would fall below the minimum CAR. Under the severe[22] shock, four additional banks (two systemic banks and two non-systemic banks) fall below the minimum CAR. Despite seven of the nine banks being under the minimum CAR under the latter shock, the aggregated post-shock CAR is still above the norm (13.33%). As mentioned earlier, the high post shock CAR is attributable to two systemic banks. The results of the FX stress tests, excluding these two systemic banks show, that the post-shock CAR falls below the norm under all three shocks. The post-shock CAR under the mild, adverse and severe shock is respectively 9.56 percent, 9.01 percent and 8.38 percent. The total capital injection under the severe shock required to bring the banking system up to the regulatory CAR of 10.0 percent would be SRD 463.39 million equivalent to 0.81 percent of GDP. The results of the aggregated CARs for the USD/SRD and EUR/SRD depreciation are presented in Figure IV.5.

Figure IV.5

Results of USD/SRD and EUR/SRD depreciation



Source: Central Bank of Suriname

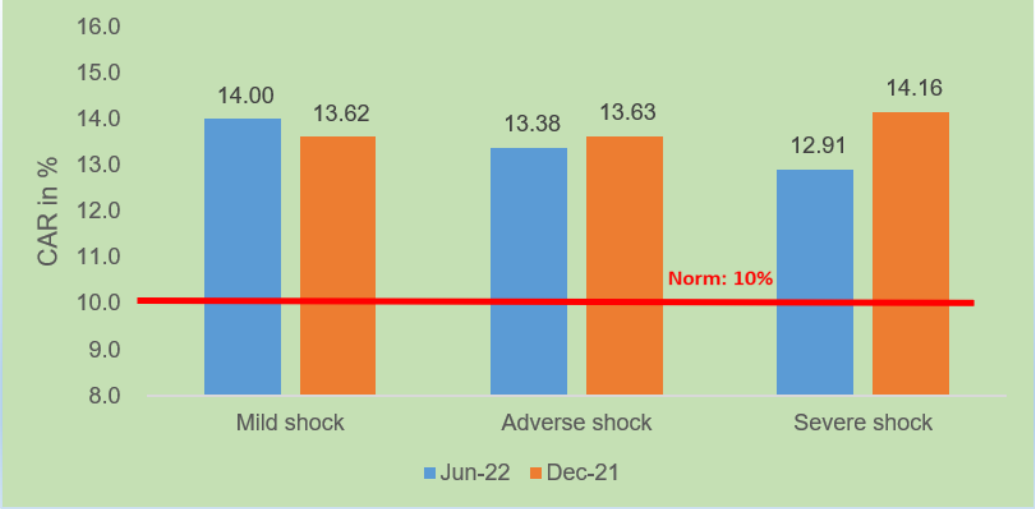
[22] 200% USD/SRD and 178.80% EUR/SRD depreciation

(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 under all shocks on an aggregate level. However, on a bank-by-bank basis, the results are worrisome. Under the mild[23] and adverse[24] shock, respectively two and three additional banks fall below the minimum CAR, while four additional banks fall below the 10 percent minimum norm under the severe[25] shock. Under the latter shock, seven out of the nine banks fall below the minimum CAR. As described in the first part, the high post-shock CAR is attributable to two systemic banks. The results, excluding the two systemic banks, show that the aggregated post-shock CAR falls below the minimum norm of 10 percent under each shock.

The required capital injection for the severe shock would be SRD 661.61 million, equivalent to 1.16 percent of GDP (Dec 2021: SRD 432.56 or 0.76% 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.6.

Figure IV.6

Results of Depreciations and Exchange-Rate-Induced Credit Risk



Source: Central Bank of Suriname

[23] 50% USD/SRD and 44.70% EUR/SRD depreciation, 36.20% USD NPL increase, and 33.43% EUR NPL increase
[24] 100% USD/SRD and 89.40% EUR/SRD depreciation, 72.40% USD NPL increase, and 66.85% EUR NPL increase
[25] 200% USD/SRD and 177.8% EUR/SRD depreciation, 144.80% USD NPL increase, and 133.71% EUR NPL increase

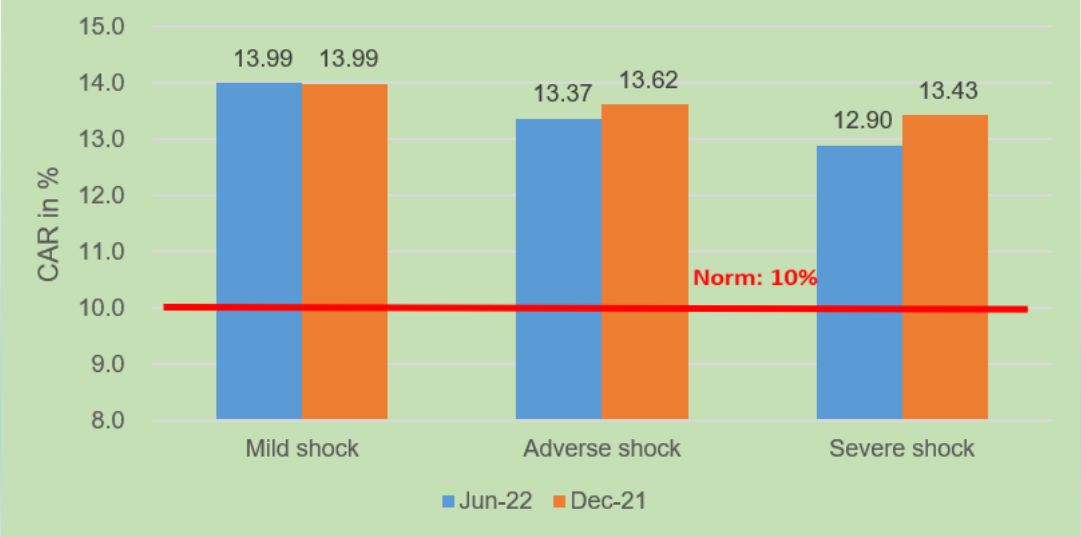
3.4 Multi-Factor Risk

Scenario: This scenario comprises the abovementioned 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. It is worth noting that despite the increase of the NOP, several banks are not able to absorb losses due to their high share of dollarized RWA. Only one systemic bank can absorb all losses in local currency as well as in foreign currency due to its substantial long FX position.

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 under the assumption that the individual effects are linear and mutually exclusive.

Results: 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 due to two systemic banks. The capital injection for this shock would be SRD 672.25 million, equal to 1.18 percent of GDP (Dec 2021: SRD 441.23 million or 0.77 % of GDP). Figure IV.7 presents the results of the aggregated CAR affected by increase in total NPLs, additional exchange-rate-induced credit loss and depreciation scenarios

Figure IV.7
Results of Depreciations and Total NPL Increase



Source: Central Bank of Suriname

3.5 Reverse Stress Tests

Methodology: A reverse stress test offers insight in the performance of the loan portfolio as it calculates what percentage of standard loans would have to default for regulatory capital to fall below the minimum capital requirement.

Results: If 20.7 percent of aggregate standard loans become non-performing, the banking system would breach the regulatory 10.0 percent minimum CAR. This is an improvement when compared with December 2021, where 18.02 percent of the performing loans would be sufficient to become non-performing.

4. Liquidity Stress Tests

The liquidity stress tests cover the regular stress tests and an additional stress test with the assumption that term deposits cannot be withdrawn due to contractual obligations.

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.

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: According to the FX stress tests, no bank becomes illiquid, neither in December 2021 nor in June 2022 (Table IV.1). However, the SRD tests show that one non-systemic bank became illiquid in case of the largest deposit withdrawal. The results for the additional stress test do not differ from the regular stress test.

Table IV.1
Liquidity of Banks after Large Deposits Withdrawal

Largest Depositors Withdrawal	Top Depositor	in %	Dec-21 Post-shock Ratio		Jun-22 Post-shock Ratio	
			SRD	FX	SRD	FX
Mild Shock	Top 1	Liquidity Ratio	60.92	79.44	71.87	74.14
		Liquid Asset Ratio	42.14	61.77	46.50	57.96
Adverse Shock	Top 3	Liquidity Ratio	58.00	78.13	69.41	72.32
		Liquid Asset Ratio	39.22	59.90	43.57	55.68
Severe Shock	Top 5	Liquidity Ratio	56.89	77.24	67.83	71.07
		Liquid Asset Ratio	38.15	58.66	41.78	54.16

Source: Central Bank of Suriname

Table IV. 2
Number of illiquid Banks after Deposits Outflow

Day	Withdrawal of deposits by	Number of banks becoming illiquid			
		Dec-21		Jun-22	
		SRD	FX	SRD	FX
1	5%	0	0	0	0
2	5%	0	0	0	0
3	5%	0	0	0	0
4	10%	0	0	0	0
5	10%	0	0	0	0

Source: Central Bank of Suriname

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.

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 total 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 up to five days in both, SRD and FX (Table IV.2) in both points in time. The additional stress test reveals the same results.

5. Conclusion

Overall, the resilience of the banking system as a whole, slightly improved in June 2022 in terms of CAR. However, the results are still worrisome. The higher aggregate CAR is largely attributable to just two systemic banks. Concentration risk poses the highest threat, while the foreign exchange risk increased and needs to be monitored more closely. Credit risk is moderate and needs to be monitored on a bank-by bank basis. The severe multifactor stress test, which includes deprecation and higher NPLs would put seven out of the nine banks below the minimum CAR, including the three non-systemic banks that were already below the regulatory minimum. Liquidity risk remained contained, as the different scenarios for liquidity risk show that the banking system can withstand outflows of deposits within a reasonable amount of time.

V. SPECIAL TOPICS

1. Operationalization of the Reserve Money Targeting Framework

Introduction

The Bank, in the context of the IMF-supported program under the Extended Fund Facility (EFF)[26], has started the process of moving to a more market-oriented monetary policy framework using open market operations (OMOs) to achieve its main goal of price stability. The Bank has effectively operationalized a reserve money targeting (RMT) framework in a market-based manner by switching from a managed floating to a flexible exchange rate regime in June 2021 and starting OMOs through term deposit auctions in July 2021. The term deposit auctions are conducted weekly (every Wednesday). The Bank determines how much excess liquidity should be mopped up from the banking system, based on a predetermined level of a base money supply target that is in line with the inflation target. The Bank conducts weekly term deposits (TDs) auctions with tenors of 1-week, 1-month, and 3-months, whereby the primary banks can place bids at the interest rate and for the amount they wish to invest.

The weighted average interest rate of the 1-week instrument[27] that is established in the term deposit auctions after each Open Market Operation (OMO) is called the OMO-rate. This rate serves as the policy rate and as reference rate for short-term interest rates in the interbank market and ultimately for deposit and lending rates of commercial banks. However, as the interest rate transmission mechanism is not yet functional, and the Bank's policy impulses have not been passed onto the balance sheets of the commercial banks.

Figure V.1 shows the movement of the market interest rates relative to the OMO rate from July 2021 to May 2022. Commercial banks' deposit and lending rates have remained practically unchanged during this period as the OMO-rate was not used as a reference rate, implying that the interest rate channel has not been activated. Possible reasons for this include the limited development of interbank- and money markets, high unremunerated

[26] The Bank and the Ministry of Finance & Planning conducted months of negotiations and agreed with the IMF on the implementation of required measures prior to the approval of the IMF program (EFF) on December 22, 2021.

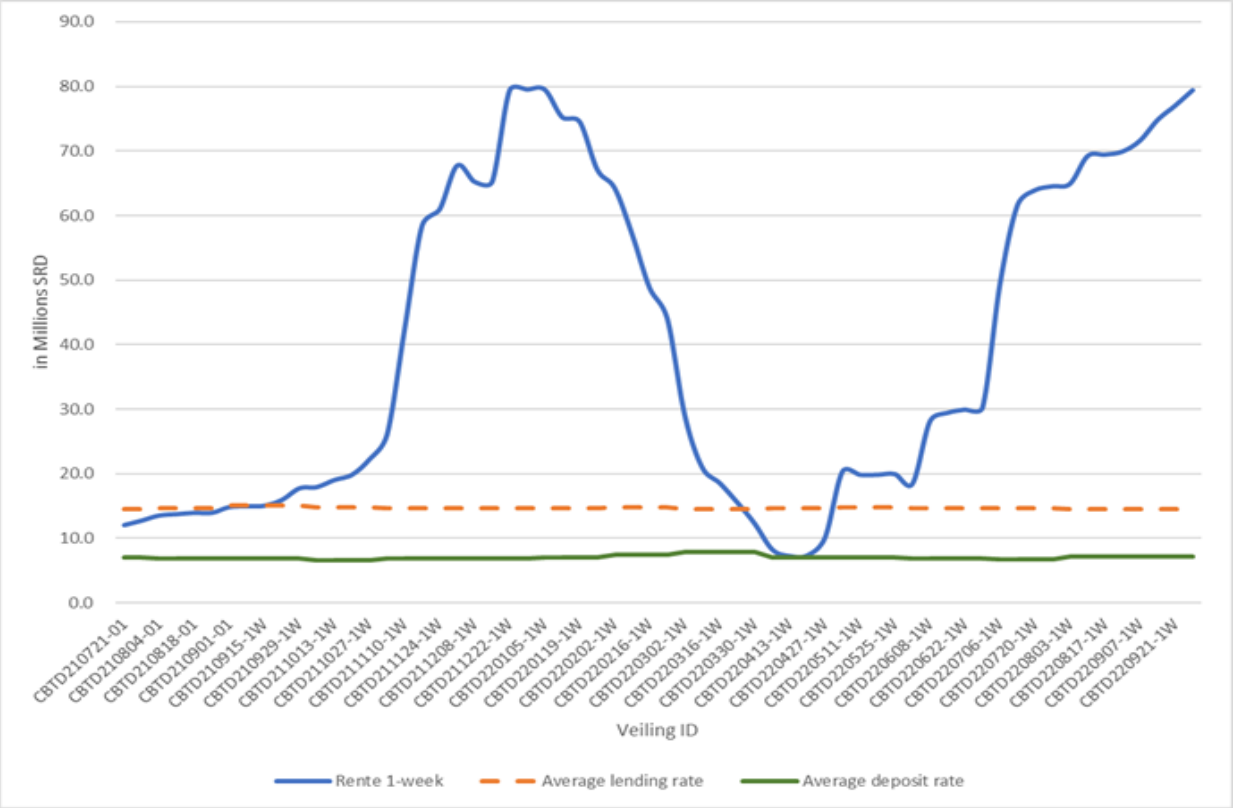
[27] The Bank also deploys term deposits and certificates with longer maturities, ranging from one month to six months in case of structural excess liquidity.

reserve requirements, and ample bank liquidity. To further develop the interest rate transmission mechanism, the Central Bank has issued Central Bank Certificates (CBCs) to broader market segments, including non-bank financial institutions and the general public, since June 2022.

Development of OMO's

On a net basis, the Bank succeeded in mopping up cumulatively SRD 3.4 billion[28] from 21 July 2021 to September 30, 2022, through TD-auctions (Figure V.2). The cumulative interest paid by the Bank in return amounted to almost SRD 1.5 billion[29].

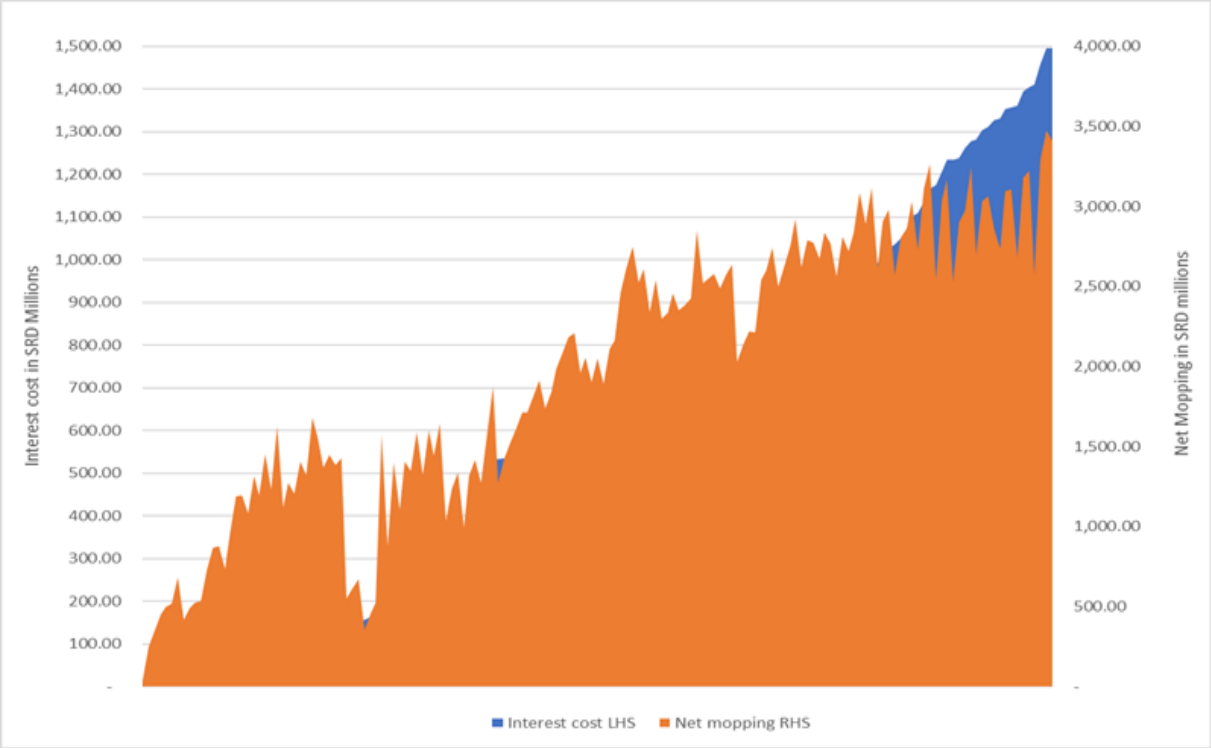
Figure V.1
OMO and Bank Deposit and Lending Rates



Source: Central Bank of Suriname

[28] If the cumulative mopping up through the 1-week instrument is measured on a weekly basis, it amounts to SRD 180.7 million through September 28, 2022.
[29] Includes accrued interest expense on outstanding Term Deposits.

Figure V.2
Cumulative Stock of OMO and Cumulative Interest Cost



Source: Central Bank of Suriname

On May 9, 2022, in addition to the term deposit instrument, the Bank introduced the Central Bank Certificates (CBCs) as a supplementary financial instrument that serves to support the regular OMOs (auctions of TDs for commercial banks). The CBCs are offered through an auction platform to banks, non-bank financial institutions and other legal entities (the so-called "CBC auction participants") since June 16, 2022. While the auction participants make up the "wholesale" segment, the public and small businesses make up the "retail" segment, which may invest in CBCs at a predetermined interest rate.

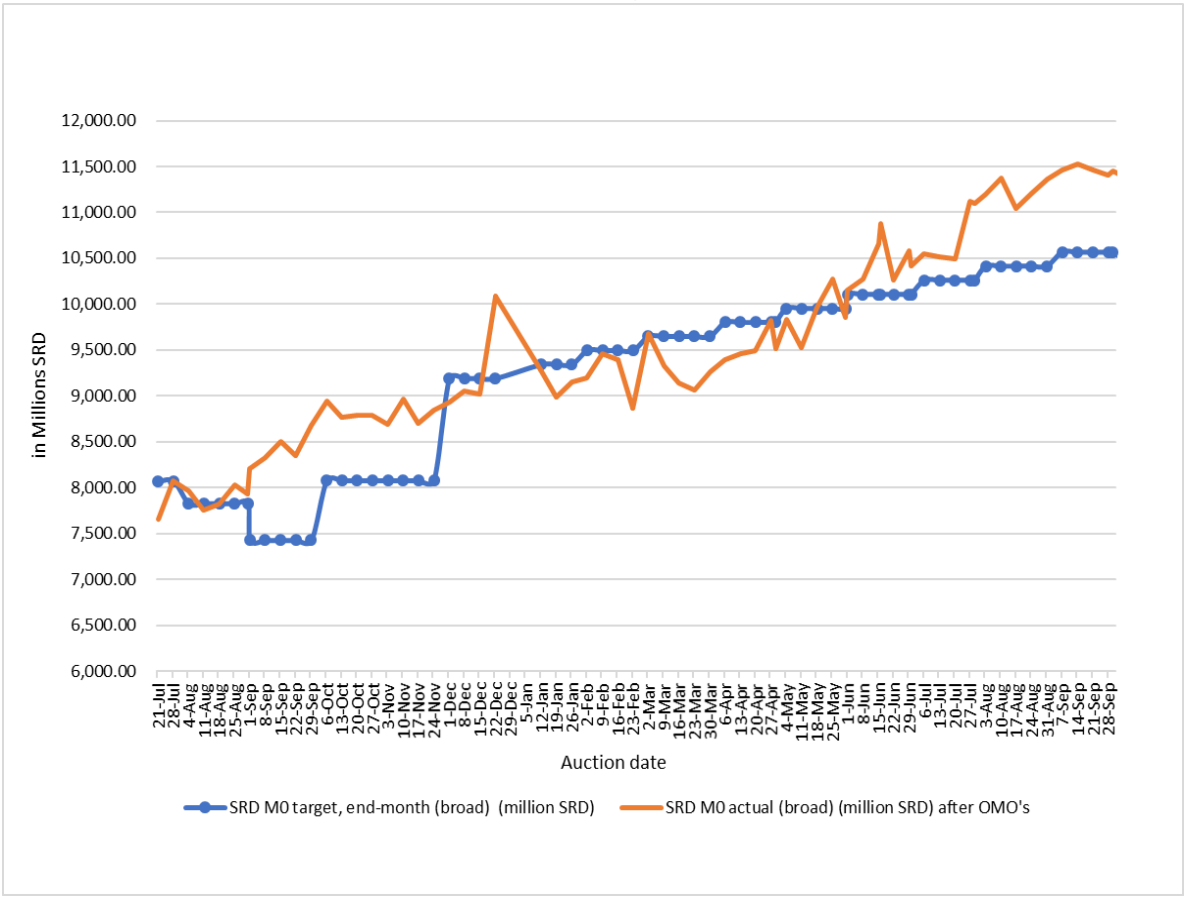
The interest of the wholesale segment is determined by competitive bids. The weighted average of all successful wholesale bid rates then applies to the retail segment. The CBC will only be issued in case of structural excess liquidity. The primary objective of this instrument is to maintain reserve money at a level consistent with the Bank's inflation and growth target. The secondary objective is to trigger the further development of the money and capital markets, including the interest rate transmission mechanism. The Bank continues to monitor the development of OMOs and the establishment of interest

rates and will intervene in a market-based manner if necessary.

Development of the SRD- M0 Compared to the Target Path

During the 4th quarter of 2021, the Bank did not meet its SRD-M0 target (Figure V.3). This was partly due to OMO volumes not being fully allocated and increased government spending. Following the recalibration of the SRD-M0 targets and with the acceptance of the OMOs as a credible policy instrument, the Bank succeeded in keeping the actual SRD-M0 below the target during the period January-April 2022. However, from mid-May until the end of September a turnaround was registered, as the actual SRD-M0 target deviated from the target path because of increased net government spending and maturing term deposits.

Figure V.3
SRD M0 Broad Target vs. Actual

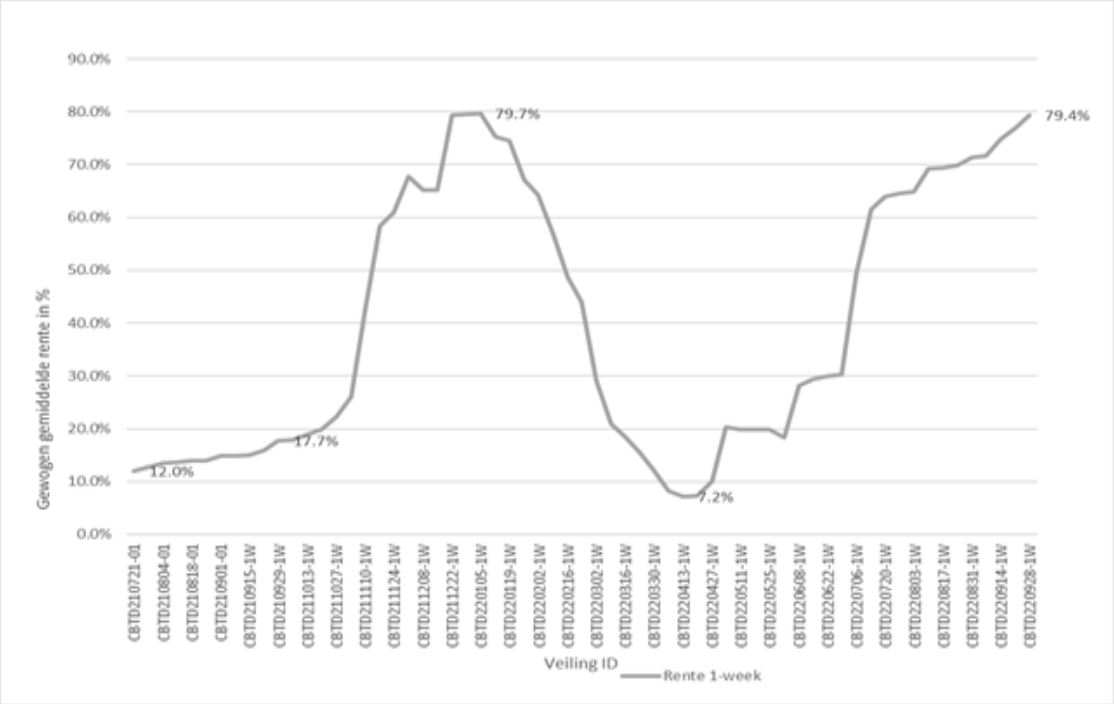


Source: Central Bank of Suriname

Development of the Yields

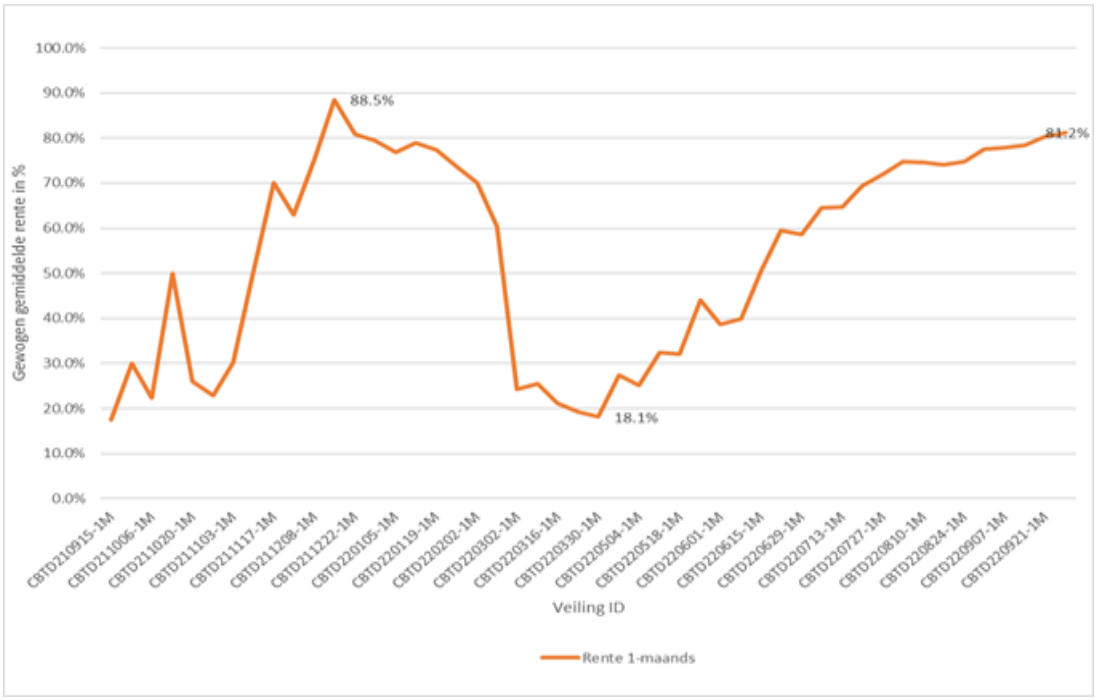
Following a peak at end-2021, interest rates in the first months of 2022 showed a downward trend partly due to lower OMO volumes. Competition among primary banks to obtain TDs increased. In the first week of April 2022, the lowest allocated interest rate on the 1-week TD was 7.2 percent (Figure V.4.). The OMO rate started to peak from May and continued throughout June until September were the OMO-rate of 79.4% was registered. Interest rates on the 1-month TD increased gradually from the start of the operation, peaking at 88.5 percent in November 2021. After this period, the interest rate showed a downward trend but has more recently climbed again and continued this course throughout September 2022 (Figure V.5). The interest rate of the 3-month TD instrument showed a declining trend at the beginning of the operations but has gradually increased again since April 2022 (Figure V.6).

Figure V.4
Yield – 1 Week



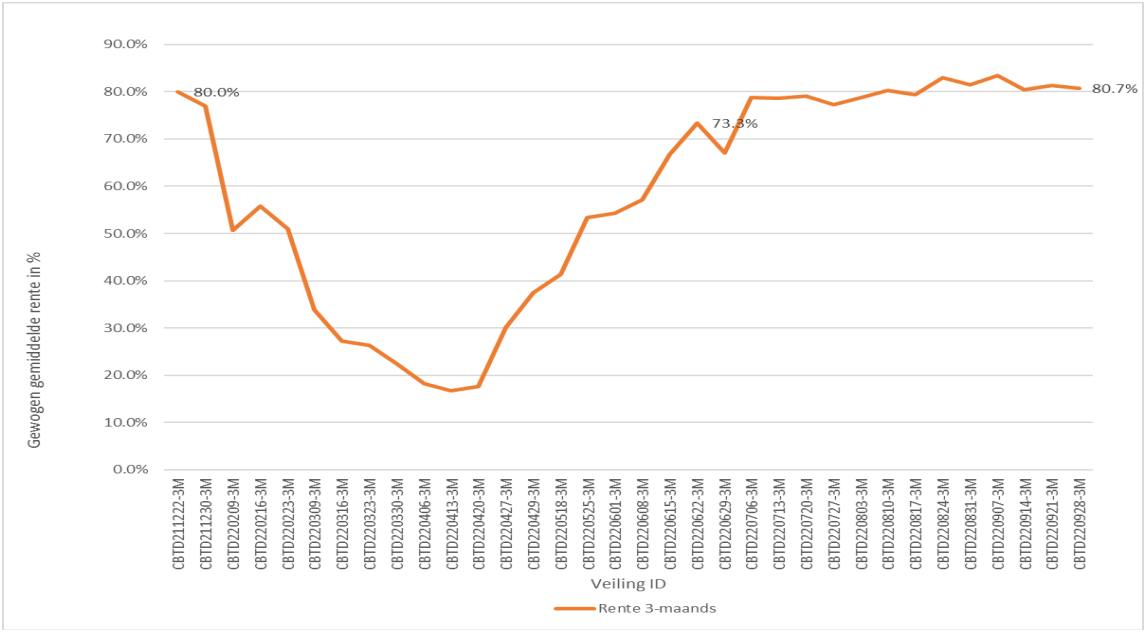
Source: Central Bank of Suriname

Figure V.5
Yield – 1 Month



Source: Central Bank of Suriname

Figure V.6
Yield – 3 Months



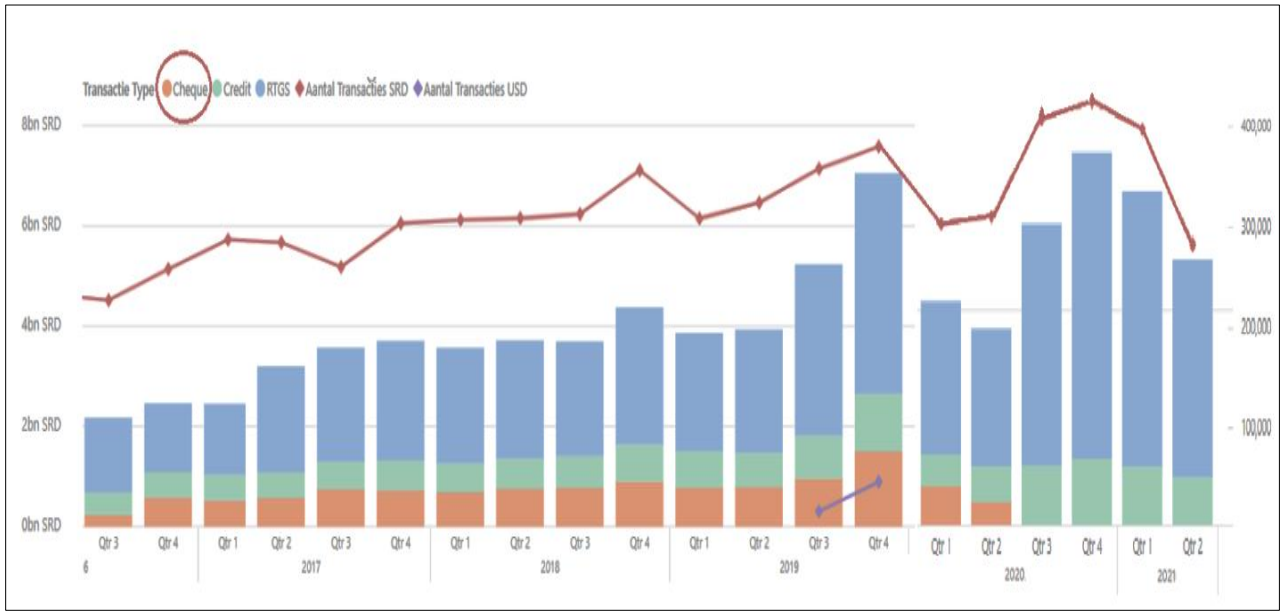
Source: Central Bank of Suriname

2. Straight Through Processing and Ease of Payments

In 2021, the Suriname National Electronic Payment System (SNEPS) fees were reinstated in April and the processing of the third commonly used currency, the euro, was implemented in SNEPS in March. The plans were to increase the safety, efficiency and integrity of the payment system by supporting the participants in upgrading their intra-banking system to connect straight through with SNEPS. Currently seven (7) of the ten (10) participants are capable of connecting straight through, while two (2) are in the final stages of the implementation process. The remaining participant is facing some internal challenges, which will be addressed as soon as possible.

In addition to this, employing SNEPS for a countrywide increase of the efficiency and ease of payments is also one of the main goals of the Bank for 2022. The chosen approach for this, is the integration of other strategic components of the national payment system in SNEPS. In the first half of 2022, the process was started to onboard two influential players in the national payment system. These players are BNETS (Banking Network Suriname N.V.), which is the only card switching company in the country, and a secondary bank, that is one of the leading e-payments service providers in the country. The integration of these parties in SNEPS will contribute to payments transparency, payments safety and payments efficiency. As an added bonus, this development will also potentially increase in financial inclusion as these service providers are enabled to process and settle payments timelier, move easily and more effectively, which increases the attractiveness of these services to the broader population.

Figure V.7
Evolution of Transactions Processed in SNEPS



Source: Central Bank of Suriname

Figure V.7 represents updated version of the payment's evolution in SNEPS. This graph shows an increasing trend in the payment volumes and gross amounts. This phenomenon is in accordance with the Bank's goal to increase the safety, efficiency and integrity of payments by shifting the cash-based payments to electronic payments.

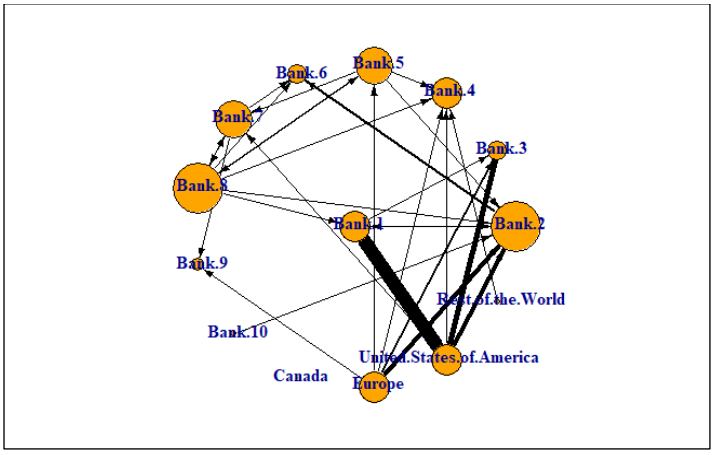
3. Interconnectedness of the Banking Sector

Introduction

The financial crisis of 2007/08 has highlighted the importance of interconnectedness as a key dimension of systemic risk. Many financial institutions experienced financial distress due to common asset holdings. Analysis of the financial networks can provide insight into modelling and identifying the complexity of relationships among financial institutions.

Since 2019, the Bank has started to investigate the risk of interconnectedness within the banking system through network exposures, indices and interbank contagion

Figure V.8
Interconnection net exposures as of end-December 2019



Source: Central Bank of Suriname

models. Due to the absence of granular data including foreign bank data, only domestic interconnections are taken into account (See Figure V.8). Future research will also be on the risk of interconnections among banks, insurance companies, pension funds and credit unions in the domestic financial system.

In order to conduct the analysis, quarterly data will be used to examine the domestic interconnections among 11 banks, including two secondary banks. The current interconnections refrain to interbank deposits, loans and shares.

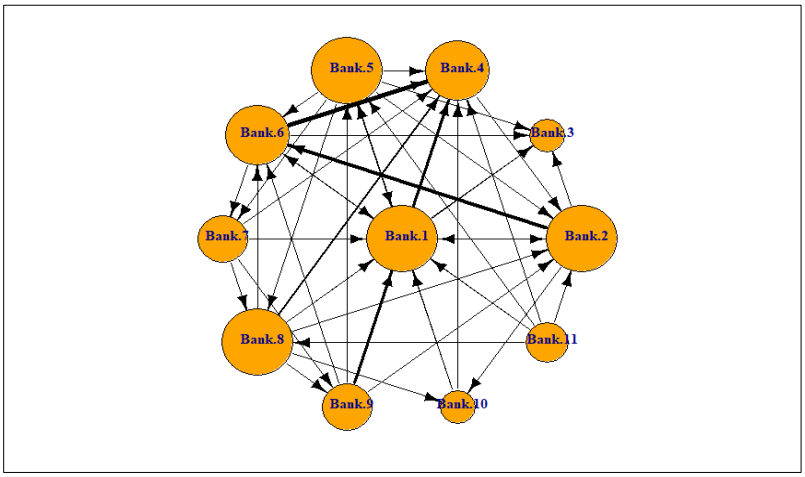
The data from the last quarter of 2019 to the first quarter of 2022 reveal that, despite a decrease in the volume of interbank deposits and loans, the interconnectedness among banks is still significant. Almost all non-systemic banks have most of their deposits and interbank loans at the Domestic Systemically Important Banks (D-SIBs). The level of systemic risk could increase if systemic banks fail to meet their obligations. This will have a contagion effect that could cause non-systemic banks to fail as well. In the analysis below, data from March 2022 will be compared to data of December 2021 to analyze the interconnection among banks.

Interconnectedness

The Surinamese interbank network for December 2021 and March 2022 are visualized in Figure V.9 and V.10. The thickness of the lines[30] indicates strong interconnections between banks.

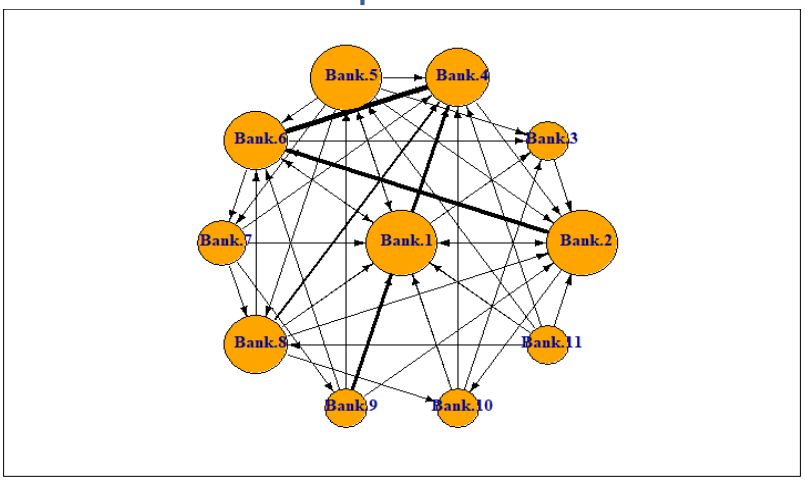
[30] The thickness of the lines reflects the volume of assets of one bank held by another bank.

Figure V.9
Interconnection net exposures as of end-December 2021



Source: Central Bank of Suriname

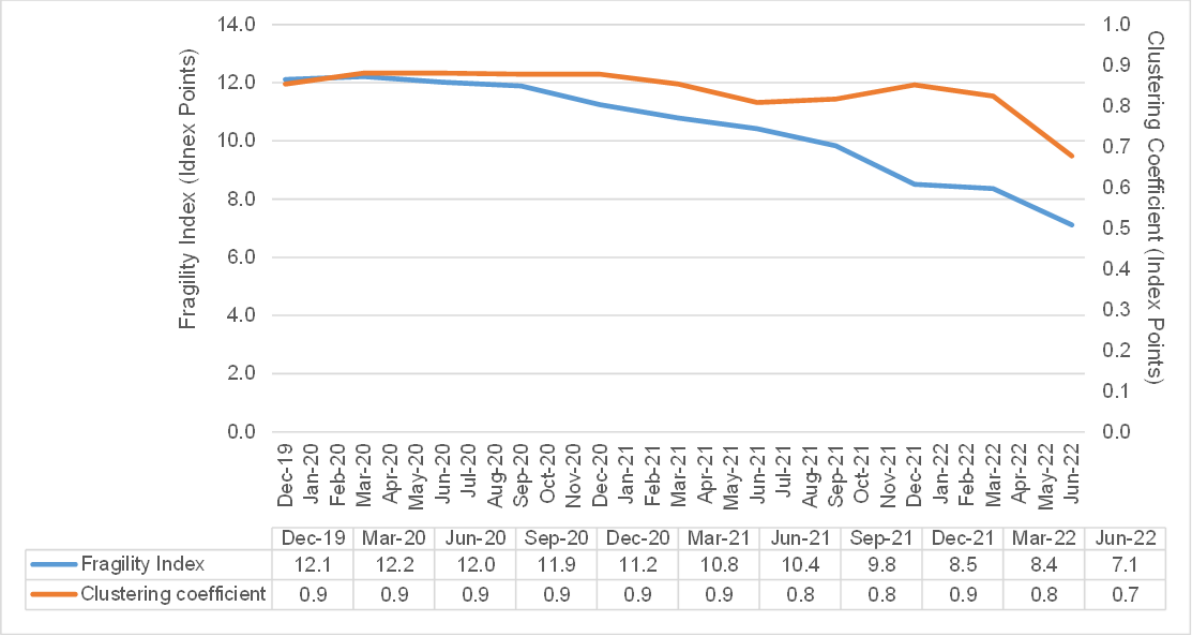
Figure V.10
Interconnection net exposures as of end-March 2022



Source: Central Bank of Suriname

This thickness slightly decreased in terms of volume at the end of March 2022. Based on topological characteristics, the statistical measures, such as fragility index and clustering coefficient, will be used to examine trends and changes in the network exposure. The fragility index measures how quickly the failure of any one node triggers failures across the network. While the clustering coefficient, as a measure of systemic risk, quantifies the degree of interconnectedness of other nodes, there is the probability that two nodes have a direct link to a node that is also linked together. According to these two indices, the network exposures has decreased.

Figure V.11
Fragility Index and Clustering Coefficient of the Network



	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Fragility Index	12.1	12.2	12.0	11.9	11.2	10.8	10.4	9.8	8.5	8.4	7.1
Clustering coefficient	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.8	0.7

Source: Central Bank of Suriname

Figure V.11 displays the development of the Fragility Index and Clustering Coefficient. trend, indicating a reduction in the potential of contagion paths. As of March 2022, the index is 8.36, as compared to December 2021 (8.51), which is above the benchmark of 2.0 and therefore still high.

As of March, the clustering coefficient implies that there is 82.4 percent chance, as compared to December (85.2%), that a neighbors' nodes can be connected to each other. Although the outcome of both indices has decreased, the banking system is still vulnerable to systemic risks[31].

Since December 2019 until December 2021, the fragility index has been on a downward

Interbank Contagion Model

This model provides a measurement of the domino effect of capital losses and failures induced when banks fail to meet their obligations. It enables quantification of potential capital losses at the institutional level and identifies vulnerabilities and the ability to track potential contagion paths. The simulation was carried out using the Bank Network 2.0 Microsoft Excel add-in developed by Espinosa-Vega and Solé (2010).

[31] The term systemic risk refers to a risk of collapse of an entire financial sector that generates a financial spillover, resulting in a severe economic downturn.

Methodology:

If a bank fails, other banks are expected to be able to roll over their funding sources, eliminating the need for fire sales. If the number of losses is larger than the amount of capital of a particular institution, then the institution becomes insolvent. The simulation assumes a 100 percent loss of the assets of a bank held by another bank, as the latter bank is unable to fulfill its repayment obligation.

Results:

Since December 2019, interconnectedness among banks, in terms of fragility, has decreased gradually but is still well above the benchmark of 2.0. The clustering coefficient was more or less stable around 0.80 during the same period, indicating that banks have remained interconnected at the same level.

The results show that the four D-SIBs could have the highest percentage of failed capital[32] and the highest induced failures[33]. In March 2022, several out of the 11 banks were the vulnerable, exhibiting high hazard rates[34], compared with December 2021, when five banks were vulnerable. Also, one systemic bank had the highest induced failures due to its interconnection with weaker non-systemic banks, which were also interconnected to each other.

As of March 2022, the depth of interconnectedness declined when compared with December 2021. Banks were less interconnected, as measured by decreases of both the fragility index and the clustering coefficient but were still vulnerable to systemic risks. The decline in both coefficients was attributable to a decrease in interbank deposits and loans between banks. In March 2022, the results of the interbank contagion model showed that the four D-SIBs would have a higher percentage in failure of capital and also higher induced failures. Compared with December 2021, four non-systemic banks are now considered as vulnerable banks.

[32] Failed Capital: The average amount of capital lost per bank due to the failure of this bank.
[33] Induced Failures: The number of bank failures induced by the failure of this bank.
[34] Hazard Rate: The percentage of other banks whose failure will result in the failure of this bank.

STATISTICAL APPENDIX

Appendix 1
Suriname: Selected Macroeconomic Indicators

Production[1]	2016	2017	2018*	2019*	2020*	2021*
GDP market prices (mln SRD)	20,663.0	26,893.3	29,821.7	31,732.3	38,719.5	58,798.7
Real GDP growth (%)	-4.9	1.6	4.9	1.2	-16.0	-2.7
GNI per capita (US$)	5,517.4	5,521.8	6,160.7	6,417.7	6,111.7	4,688.7
Government Finances**						
Revenue (mln SRD)	3,519.0	5,114.4	5,970.0	6,434.4	7,065.3	16,010.0
Expenditures (mln SRD)	5,612.0	7,134.7	7,934.0	12,291.5	11,363.4	15,119.2
Overall balance (mln SRD) [2] (Cash basis)	-2,198.1	-2,239.8	-2,956.9	-5,857.1	-4,298.1	1,015.0
Overall balance in % of GDP (Cash basis)	-10.6	-8.3	-9.9	-18.6	-11.2	1.8
Overall balance (mln SRD) [2] (Commitment basis)	-2,081.8	-2,107.5	-2,028.2	-5,042.9	-4,807.0	1,411.4
Overall balance in % of GDP (Commitment basis)	-10.1	-7.8	-6.8	-16.0	-12.5	2.5
Balance of Payments						
Merchandise exports (mln US$)	1,438.7	1,991.9	2,070.1	2,126.6	2,345.1	2,204.2
Merchandise imports (mln US$)	1,252.0	1,279.7	1,486.2	1,702.0	1,329.1	1,358.1
Trade balance (mln US$)	186.7	712.2	583.8	424.6	1,016.0	846.1
Net services, income and current transfers (mln US$)	-347.2	-643.1	-702.6	-872.8	-756.8	-680.5
Current account balance (mln US$)	-160.5	69.2	-118.7	-448.3	259.2	165.6
Overall balance (mln US$)	79.4	21.7	147.9	-207.6	-83.4	-417.0
Gross international reserves (mln US$)	381.1	424.4	580.7	647.5	584.7	992.2
Import cover ratio (months) [3]	2.7	2.8	3.4	3.2	3.8	6.3
Financial Sector						
Base money supply [M0] [4]	2,928.7	3,544.9	4,849.0	9,454.0	12,709.8	18,821.9
Money stock [M1] (mln SRD) [5]	6,840.1	7,754.5	8,801.1	9,909.7	16,110.6	23,823.0
Broad Money [M2] (mln SRD) [6]	16,193.0	17,601.5	19,196.3	20,289.2	32,879.3	47,316.0
Net Credit to the government (mln SRD)	2,350.4	3,847.4	3,496.1	4,977.2	11,213.6	9,851.3
Credit to the private sector in SRD (mln SRD)	3,797.5	3,825.1	4,243.4	4,950.9	5,500.5	6,213.8
Credit to the private sector in USD (mln USD)	425.1	431.5	399.2	339.6	288.7	262.2
Credit to the private sector in EUR (mln EUR)	152.5	130.2	107.8	91.2	72.1	47.1
Weighted average nominal SRD deposit rate (%)	8.5	9.1	9.2	8.8	7.1	6.9
Weighted average nominal SRD lending rate (%)	14.1	14.3	14.4	15.2	15.1	14.7
Exchange Rate and Inflation						
Official average buying rate (SRD per US$)	6.2	7.4	7.4	7.4	9.2	18.1
Official average selling rate (SRD per US$)	6.3	7.6	7.5	7.5	9.4	18.4
Annual average inflation (%)	55.5	22.0	6.8	4.4	34.9	59.1
End-of-period inflation (%)	52.4	9.2	5.4	4.2	60.8	60.7
Central Government Debt Ratios						
External debt (% of GDP) [7]	34.5	61.2	56.2	57.9	54.6	81.2
Domestic debt (% of GDP) [7]	22.8	25.7	25.3	28.7	53.8	42.6

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 banknotes in circulation and liabilities to other deposit-taking institutions in SRD and foreign currency.

5] Includes domestic and foreign currency deposits.

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

7] 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 %)	2018		2019		2020		2021		2022
Capital Adequacy	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Regulatory capital/RWA	9.1	9.6	11.0	11.4	11.7	11.8	12.7	14.3	15.4
Regulatory Tier 1 capital/RWA	8.7	9.0	10.3	10.8	10.8	10.5	11.2	12.9	14.0
Capital (net worth)/assets	4.7	4.8	5.2	5.2	5.4	4.9	5.0	5.7	6.2
Asset Quality									
NPLs/gross loans	12.0	12.0	11.3	10.6	13.5	14.6	13.4	12.8	12.1
NPLs net of provision/capital	43.0	40.3	36.8	34.9	46.2	60.4	54.3	43.6	41.9
Earnings and profitability									
ROA	0.5	0.1	0.6	1.0	0.3	2.0	1.2	1.8	1.2
ROE	8.3	1.9	10.7	16.7	4.2	34.8	22.0	29.6	18.4
Liquidity									
Liquid assets/total assets	41.3	40.2	43.5	46.8	49.1	51.5	55.1	58.8	56.5
Liquid assets/total short-term liabilities	86.9	82.1	87.3	93.4	95.5	101.3	110.7	117.0	114.4

Source: Central Bank of Suriname

Appendix 3A
Financial Soundness Indicators: Life Insurance Companies

	2017	2018		2019	2020		2021		2022
(in %)	Dec[1]	Jun[1]	Dec[1]	Dec[1]	Jun[1]	Dec[1]	Jun[2]	Dec[2]	Jun[2]
Required capital									
Available capital/required capital	255.0	260.0	278.0	248.0	236.0	307.3	259.4	241.9	212.8
Capital Adequacy									
Net premium/capital	94.0	30.0	71.0	104.0	49.3	54.9	30.4	267.4	67.7
Capital/total assets	11.0	11.0	12.0	11.0	9.3	12.3	10.2	10.2	10.2
Capital/technical reserves	14.0	15.0	15.0	14.0	11.8	15.4	13.0	12.1	10.7
Asset Quality									
(Real estate + unquoted equities + debtors)/total assets	17.0	22.0	19.0	17.0	17.5	12.6	13.0	6.7	9.0
Reinsurance and actuarial issues									
Risk retention ratio (net premium/gross premium)	97.0	97.0	97.0	98.0	99.8	97.7	97.9	99.6	99.3
Earnings and profitability									
Return on equity	17.0	4.0	5.0	1.0	-0.44	50.7	41.5	30.8	3.0
Return on assets	2.0	0.4	1.0	0.4	-0.05	6.3	4.4	3.2	0.3
Investment income/total investment assets	7.0	3.0	6.0	7.0	2.5	5.2	2.8	5.4	0.6
Combined ratio (loss and expense ratio)	154.0	165.0	190.0	226.0	147.6	446.2	154.9	301.2	124.9
Loss ratio (net claims/net premium)	97.0	134.0	109.0	141.0	114.0	289.5	129.4	212.5	112.1
Expense ratio (expenses/net premium)	58.0	30.0	81.0	85.0	33.6	156.8	25.6	88.7	12.8
Liquidity									
Liquid assets/total liabilities	42.0	60.0	43.0	37.0	32.9	69.6	23.6	73.7	14.7

Source: Central Bank of Suriname

[1]Data based on the information of three life insurance companies

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

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

	2017		2018		2019		2020		2021		2022
(in %)	Jun[2]	Dec[1]	Jun[1]	Dec[1]	Jun[1]	Dec[1]	Jun[1]	Dec[1]	Jun[2]	Dec[2]	Jun[2]
Required capital											
Available capital/required capital	494.0	424.0	889.0	425.0	884.0	395.0	814.0	620.1	1,148.0	592.8	960.7
Capital Adequacy											
Net premium/capital	78.0	110.0	57.0	119.0	59.0	113.0	67.0	83.2	46.3	95.3	64.1
Capital/total assets	30.0	39.0	38.0	34.0	35.0	32.0	30.8	33.7	38.2	33.1	34.3
Capital/technical reserves	102.0	120.0	117.0	93.0	113.0	106.0	106.3	131.4	167.4	136.3	143.6
Asset Quality											
(Real estate + unquoted equities + debtors)/total assets	25.0	50.0	51.0	51.0	48.0	39.0	46.4	39.0	40.9	42.4	42.1
Reinsurance and actuarial issues											
Risk retention ratio (net premium/gross premium)	91.0	90.0	77.0	77.0	77.0	73.0	78.2	74.0	74.8	75.3	73.1
Earnings and profitability											
Return on equity	-2.0	7.0	7.0	3.0	4.0	9.0	5,4	36.2	21.9	25.3	11.7
Return on assets	-1.0	3.0	3.0	1.0	2.0	3.0	1,8	14.4	8.9	10.2	4.5
Investment income/total investment assets	4.0	3.0	2.0	-3.0	2.0	3.0	1.9	2.4	1.6	2.2	2.2
Combined ratio (loss and expense ratio)	115.0	101.0	93.0	93.0	98.0	95.0	94.9	120.1	91.6	100.6	83.3
Loss ratio (net claims/net premium)	81.0	69.0	63.0	61.0	65.0	61.0	56.3	60.9	55.7	55.4	55.9
Expense ratio (expenses/net premium)	35.0	32.0	31.0	32.0	33.0	34.0	38.6	59.2	35.9	45.2	27.4
Liquidity											
Liquid assets/total liabilities	37.0	36.0	36.0	38.0	34.0	46.0	44.1	52.3	54.7	49.7	45.1

Source: Central Bank of Suriname

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

[2]Data based on the preliminary information of five non-life insurance companies

Appendix 4
Financial Soundness Indicators: Pension Funds

	2017		2018		2019		2020		2021		2022
Indicators *(in %)*	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Solvency ratio	-	101.6	119.9	119.4	112.9	118.1	143.0	151.2	152.5	147.1	133.7
Return on assets	-	6.0	3.3	3.9	4.4	5.7	16.5	16.8	14.6	14.8	11.6
Return on investments	-	7.4	3.6	4.5	5.1	6.2	18.6	18.8	16.2	17.0	13.2
Pension benefit paid/contributions	-	57.5	56.7	70.8	64.2	67.8	66.1	61.7	73.6	62.2	85.5

Source: Central Bank of Suriname

Appendix 5
Financial Soundness Indicators: Credit Unions

	Norm	2017		2018		2019		2020		2021		2022
Indicators *(in%)*		Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Solvency												
Regulatory capital/Risk weighted assets	*> 7.0*	6.6	6.6	6.6	4.0	4.3	4.0	2.3	15.1	8.7	8.6	8.8
Equity/Total assets	*> 10.0*	7.0	4.5	7.1	5.0	6.5	5.4	4.2	13.1	9.5	10.4	8.9
Liquidity												
Actual liquid assets/Required liquid assets	*>100.0*	93.4	79.5	80.8	87.5	93.5	93.4	121.8	143.0	138.9	130.6	132.7
Claims vs Liabilities												
Claims on members /Liabilities to members	*< 80.0*	67.7	69.9	66.7	63.0	58.6	62.5	53.4	52.0	46.4	45.9	46.5
Profitability												
Return on assets (ROA)	*> 1.5*	0.2	-0.8	-0.1	-2.8	-0.3	0.5	1.0	1.1	0.2	-1.5	-0.6

Source: Central Bank of Suriname

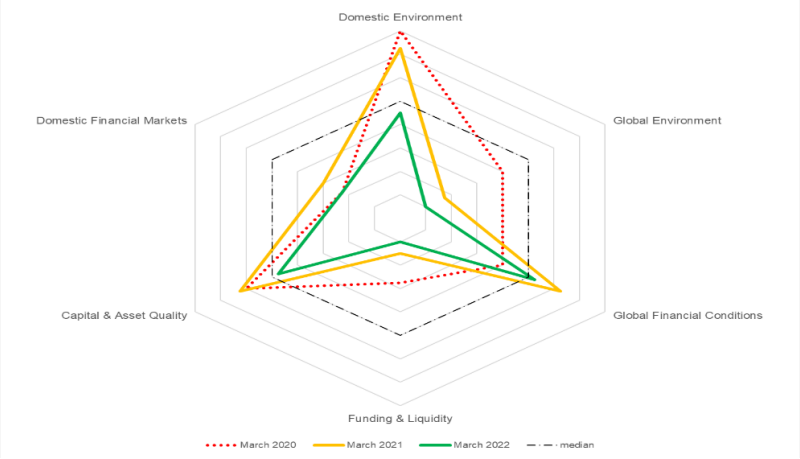
SAMENVATTING

Dit Financial Stability Report (FSR) van de Centrale Bank van Suriname (CBvS) is bedoeld om economische en financiële besluitvormers en andere belanghebbenden een uitgebreide beoordeling te geven van de prestaties en de veerkracht van de financiële sector van Suriname alsook om het inzicht te vergroten in de verschillende maatregelen die de CBvS neemt om de soliditeit en stabiliteit van de binnenlandse financiële sector te bewaken en te waarborgen.

Hoofdstuk I van dit rapport geeft het brede overzicht van de financiële sector in Suriname en biedt een passende institutionele context voor het rapport. Het bespreekt het wettelijk mandaat van de CBvS, de belangrijkste wetten die van toepassing zijn op de financiële sector, de institutionele samenstelling van de sector en het monetaire en macro-prudentiële beleid in het algemeen.

Hoofdstuk II identificeert de belangrijkste economische en financiële risico's die voortvloeien uit de mondiale en binnenlandse omgeving, en analyseert hun gevolgen voor de Surinaamse financiële sector en economie. Het spinnenwebdiagram (Figuur 1) geeft een samenvatting van de risicoblootstelling van financiële instellingen in Suriname aan potentiële systeemschokken in hun algehele bedrijfsomgeving. Bewegingen vanuit het midden van het diagram vertegenwoordigen hierbij een verhoogd risico en bewegingen naar het midden een verminderd risico voor de financiële stabiliteit. Het normale risiconiveau wordt geïllustreerd door de zwarte stippellijn.

Figuur 1
Risicoprofiel van de Financiële Sector



Bron: Centrale Bank van Suriname

Volgens Figuur 1 was de totale risicoblootstelling van het financiële stelsel in maart 2022 (groene lijn), aanzienlijk lager in vergelijking met maart 2021 (oranje lijn), alsook maart 2020 (rode stippellijn). Toen de Covid-19-pandemie haar einde begon te naderen, nam het vertrouwen in de (wereld)economie toe, waardoor financiële risico afnamen. Dit werd duidelijk in de dimensie mondiale omgeving', waar de MSCI World Growth Index[35] steeg, wat duidt op een groeiend vertrouwen in de wereldeconomie. Een andere dimensie, de dimensie 'binnenlandse omgeving', verbeterde ook als gevolg van een toename van de internationale reserves in USD met 69,9 procent, terwijl de kredietverlening door de centrale bank aan de banksector met 22,1 procent daalde. Naarmate de kapitaal- en liquiditeitspositie verbeterde, namen dit soort risico's af en werden weergegeven door een grotere beweging naar het centrum.

Hoofdstuk III richt zich voornamelijk op de financiële prestaties en de belangrijkste uitdagingen van commerciële banken, verzekeringsmaatschappijen, pensioenfondsen, krediet coöperaties, de beurs die in Suriname actief is, evenals de mitigerende maatregelen die door deze instellingen zijn genomen. Het laatste deel is gewijd aan de wisselkoersontwikkelingen in 2020 en verder.

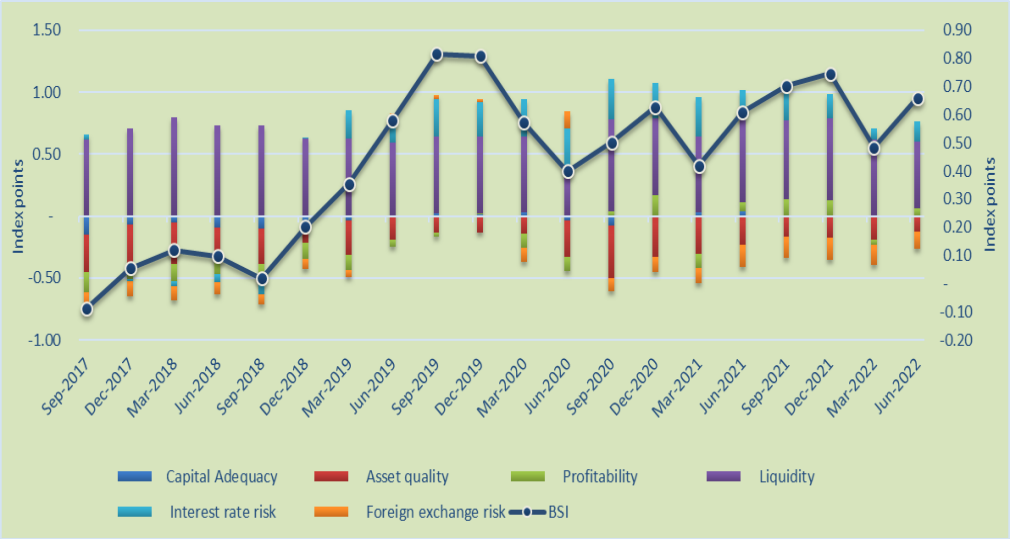
Commerciële banken

De opwaartse aanpassing van de wisselkoers in juni 2021 heeft een aanzienlijke impact gehad op veel financiële soliditeitsindicatoren (FSI's) van de financiële sector. De implementatie van de International Financial Reporting Standard (IFRS) had ook aanzienlijke gevolgen voor verschillende FSI's. Met name één belangrijke FSI, namelijk de solvabiliteitsratio (CAR), veranderde, naast andere factoren, als gevolg van de overstap naar IFRS.

Terwijl de economie langzaam herstelde, is de CBvS in 2021 het bankwezen blijven ondersteunen door het aangepaste toezichtbeleid uit te breiden, in de vorm van het toestaan van banken om moratoria op te leggen op bepaalde aflossingen van leningen. Verder is ook de Covid-19-kredietfaciliteit verlengd tot mei 2022. Op sectoraal niveau zijn banken veerkrachtiger geworden in termen van solvabiliteit en liquiditeit. De algehele kwaliteit van de kredietportefeuille van banken verslechterde daarentegen door een aanzienlijke toename

[35] Morgan Stanley Capital International World Growth Index captures securities across 23 developed market countries.

Figuur 2
Bancaire Stabiliteitsindex



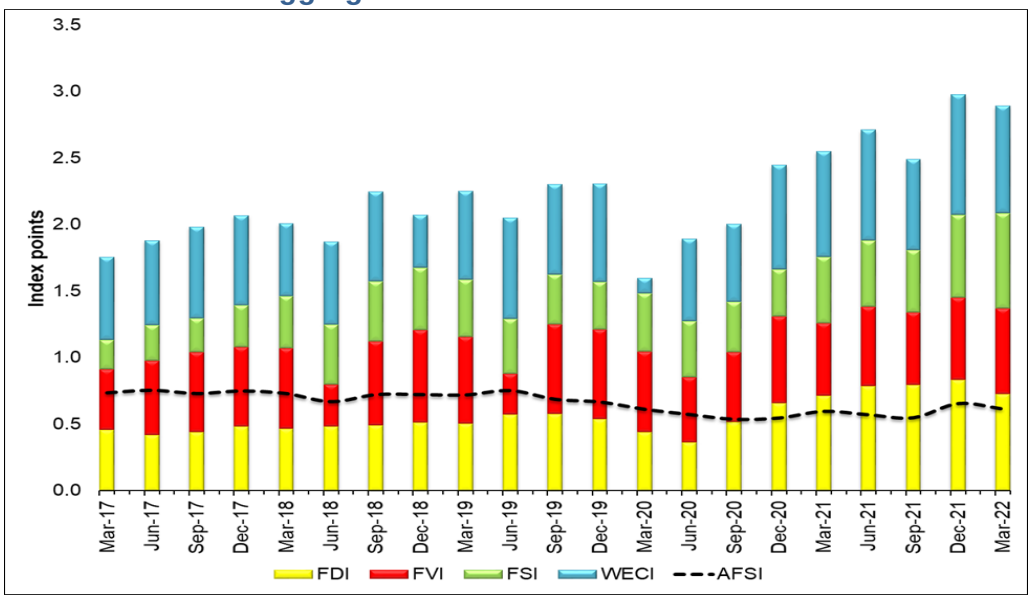
Bron: Centrale Bank van Suriname

van de verliescategorie, als gevolg van afnemende economische activiteit en hoge inflatie. Net als in voorgaande perioden was de liquiditeit conform de norm.

De stabiliteit van de banksector, gemeten aan de hand van een stijging van de bancaire stabiliteitsindex (BSI) (Figuur 2), verbeterde aan het eind van 2021 ten opzichte van december 2021. Dit komt vooral door een kapitaalverhoging, zoals eerder vermeld. De krediet-tot-bbp kloof bleef negatief als gevolg van een lagere nominale kredietgroei in lokale valuta, in combinatie met een negatieve kredietgroei in vreemde valuta.

De totale financiële stabiliteitsindex (AFSI), die tot doel heeft onevenwichtigheden in de economie op te sporen die kunnen leiden tot instabiliteit van het financiële systeem, verbeterde in maart 2022 ten opzichte van maart 2021. Alle vier sub-indexen waren gestegen, wat resulteerde in de hogere AFSI voor maart 2022. Net als in december 2020, was de belangrijkste factor die bijdroeg aan de positieve ontwikkeling in 2021 en daarna tot maart 2022, de opwaartse beweging van de wisselkoers, aangezien alle activa en passiva in vreemde valuta, omgerekend in SRD, toenamen. Een bepaalde sub-index, de financiële soliditeitsindex (FSI), ging omhoog als gevolg van een stijging van de netto buitenlandse activa van de Centrale Bank van Suriname, met name haar SDR-bezit. De WECI-sub-index steeg marginaal, negatief beïnvloed doordat het niveau van onzekerheid in de wereld opnieuw toenam.

Figuur 3
Geaggregeerd Financiële Stabiliteitsindex



Bron: Centrale Bank van Suriname

als gevolg van de onrust die in februari 2022 begon tussen Rusland en Oekraïne. Vanaf juni 2022 bleven de vier gecategoriseerde binnenlandse systeembanken (D-SIB's) zeer systematisch met een gecumuleerde totaalscore van 4,24, wat een stijging is in vergelijking met december 2021 (4,21) en december 2020. Volgens de systeemrelevantie, vertoonde één systeembank eind juni 2022 een lagere solvabiliteitsratio dan de voorgeschreven norm.

De geaggregeerde solvabiliteitsratio van banken zette zijn opwaartse trend voort, aangezien de CAR in december 2021 met 2,7 procentpunten steeg tot 14,5 procent, terwijl de oninbare leningen (NPL) daalden van 14,6 procent tot 12,8 procent (december 2020). De winstindicatoren lieten echter een ander beeld zien, aangezien het rendement op het eigen vermogen (ROE) en het rendement op activa (ROA) daalden met respectievelijk 5,2 procentpunt en 0,2 procentpunt. Hogere operationele kosten en verliezen als gevolg van de implementatie van IFRS hadden beide bijgedragen aan de lagere winst in 2021. Net als in voorgaande jaren bleef de liquiditeit van de totale banksector bevredigend boven de 100 procent.

Vermeldenswaard is dat de kapitaalbasis van sommige banken is toegenomen door de opwaartse aanpassing van de wisselkoers, maar ook door de implementatie van IFRS.

Verzekeringsmaatschappijen

Levensverzekering

Net als in voorgaande jaren voldeden levensverzekeraars ruimschoots aan de minimaal vereiste kapitaalnorm van 100 procent. De ratio, beschikbaar kapitaal in verhouding tot vereist kapitaal, bedroeg in 2021 236,0 procent, wat een ruim kapitaal impliceert als middel van geruststelling en bescherming om het bedrijf te voeren. Hoewel boven de norm, zijn de bovengenoemde solvabiliteitsratio en andere gebruikte kapitaalratio's gedaald of verslechterd in vergelijking met 2020. De kapitaalratio, die de toereikendheid van het eigen vermogen meet in verhouding tot de omvang van de verzekeringsactiviteiten, verslechterde in 2021 ten opzichte van 2020, met ratio's van respectievelijk 271,2 en 54,4 procent. De liquiditeit was zorgelijk, aangezien de liquiditeitsratio verder is gedaald van 29,3 procent in 2020 naar 14,1 procent in 2021. Net als in 2020 bleef de winstgevendheid echter bevredigend in 2021, en voldoende om de zogenaamde technische verliezen op te vangen. De winstgevendheid werd gerealiseerd dankzij hoge beleggingsinkomsten en -opbrengsten. Net als in 2020 zijn beide inkomstenbronnen gerealiseerd door het effect van afschrijvingen.

Schadeverzekering

In 2021 hadden schadeverzekeraars, hoewel minder dan het jaar ervoor, net als bij levensverzekeraars, ruim voldoende kapitaal beschikbaar, rekening houdend met de vereiste norm. De verhouding beschikbaar kapitaal ten opzichte van vereist kapitaal bedroeg in 2021 567,8 procent, ver boven de minimumnorm van 100 procent. Net als in 2020, maar in mindere mate, droegen opwaartse wisselkoersaanpassingen aanzienlijk bij aan de omzet die in 2020 uitkwam op SRD 241,8 miljoen, terwijl de beleggingsopbrengsten met SRD 9,6 miljoen stegen tot SRD 50,5 miljoen in 2021. Hierdoor bleef de sector winstgevend, aangezien ook de verzekeringstechnische verliezen drastisch daalden tot bijna nul in 2021.

De liquiditeitspositie daarentegen baart zorgen omdat de liquiditeitsratio van 47,4 procent verder verwijderd raakte de minimum norm van 95,0 procent (2020: 52,7%).

Pensioenfondsen

Geactualiseerde gegevens voor 2021 wijzen op een totale solvabiliteitspositie van 110 procent, welke boven de norm van 100 procent ligt. In 2021 had een pensioenfonds dat een liquidatieproces onderging, zijn vermogen, inclusief zijn buitenlandse beleggingen, overgedragen aan een verzekeringsmaatschappij. De overdracht leidde tot een daling van buitenlandse investeringen ten gunste van lokale beleggingen.

Kredietcoöperaties

De krediet coöperaties slaagden collectief om te voldoen aan de minimale kapitaalratio van 7 procent, ondanks de negatieve solvabiliteitsratio van de open krediet coöperaties (-41%). De hoge insolventie van de open krediet coöperaties wordt weerspiegeld in andere indicatoren voor financiële stabiliteit, zoals het eigen vermogen ten opzichte van de totale activa en het rendement op activa. Beide indicatoren zijn negatief, respectievelijk negatief 13 procent en negatief 6 procent. Ook de liquiditeitsratio van de open krediet coöperaties was niet bevredigend, aangezien de liquiditeitsratio pas boven het minimum van 100 procent zou liggen wanneer de kredietportefeuille zou worden meegenomen. De Bank heeft haar strenge toezicht geïntensiveerd om de niet-naleving aan te pakken.

Effectenbeurs

In 2021 is de marktkapitalisatie van de Surinaamse Effectenbeurs in absolute zin met 1,6% gestegen ten opzichte van 2020, met een hogere omzet van SRD 1,2 miljoen (2020: SRD 0,2 miljoen). Deze stijging was het gevolg van het grote aantal verhandelde aandelen van drie beursgenoteerde ondernemingen. De marktwaardegewogen index van de Surinaamse Effectenbeurs steeg in volume met 2,0 procent ten opzichte van 2020, door de stijging van de aandelenkoersen van drie van de elf beursgenoteerde bedrijven.

Hoofdstuk IV neemt toekomstgerichte risico's in beschouwing en bespreekt de resultaten van recent uitgevoerde stresstesten van de banksector. Naast stresstesten voor solvabiliteit zijn ook stresstesten voor de liquiditeit uitgevoerd, die gunstige resultaten hebben opgeleverd. Al met al tonen de stresstesten aan dat het bankwezen als geheel bestand is tegen verschillende mogelijke negatieve schokken. Het concentratierisico blijft echter het belangrijkste ernstige risico, ondanks een lichte verbetering in de kwaliteit van activa in 2022. Een nauwlettendere monitoring van de banken is derhalve geboden.

Hoofdstuk V handelt over speciale onderwerpen, zoals de operationalisering van het nieuwe monetaire raamwerk, de vergemakkelijking van het nationaal betalingsverkeer, en de onderlinge verwevenheid van de banksector.

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