FINANCIAL STABILITY REPORT

OCTOBER 2023

CENTRALE BANK
VAN SURINAME

FINANCIAL STABILITY REPORT

OCTOBER | 2023

DIRECTORATE OF PRUDENTIAL SUPERVISION

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CONTENTS

FOREWORD.....vi

EXECUTIVE SUMMARY.....viii

I. OVERVIEW OF THE DOMESTIC FINANCIAL SECTOR.....1

II. OPERATING ENVIRONMENT.....5
1. Global Environment.....5
2. Domestic Environment.....5
2.1 Macroeconomic Performance.....6
2.2 Outlook 2023.....8
3. Credit-to-GDP Gap.....9
4. Credit Rating.....9
5. Risk Exposure.....10

III. PERFORMANCE OF SURINAME'S FINANCIAL SECTOR.....12
1. Commercial Banks.....12
1.1 Market Activity.....12
1.2 Main Threats.....13
1.3 Measures to Mitigate Risks.....14
1.4 Financial Soundness.....16
1.5 Implementation of the IMF-program.....20
1.6 Stress Test Results.....20
2. Insurance Companies.....28
2.1 Market Activity.....28
2.2 Main Threats.....32
2.3 Measures to Mitigate Risks.....33
2.4 Financial Soundness.....33
3. Pension Funds.....36
3.1 Market Activity.....36

3.2 Main Threats..37
3.3 Measures to Mitigate Risks...38
3.4 Financial Soundness..39
3.5 Stress Testing..39
4. Credit Unions...41
4.1 Market Activity..41
4.2 Main Threats...41
4.3 Measures to Mitigate Risks...41
4.4 Financial Soundness 42

IV. SPECIAL TOPICS 43
1. Macro Prudential Policy Framework 43
2. Roadmap for Restructuring the Banking Sector and Reform of the Governance of Banks..47
3. Financial Inclusion 48
4. Financial Interconnectedness of the Banking and Insurance Sector 51
5. Residential Property Price Index.. 53

APPENDICES 55

SAMENVATTING...73

ABBREVIATIONS

ABS	General Bureau of Statistics
AFI	Alliance for Financial Inclusion
AFSI	Aggregate Financial Stability Index
AIG	American International Group
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AQR	Asset Quality Review
BIS	Bank for International Settlements
BNETS	Banking Network Suriname N.V.
BRU	Bank Resolution Unit
BSI	Banking Stability Index
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CBvS	Central Bank of Suriname
CCyB	Countercyclical Capital Buffer
CFATF	Caribbean Financial Action Task Force
CMO	Commodity Markets Outlook
D-SIBs	Domestic Systemically Important Banks
EFF	Extended Fund Facility
EUR	Euro
EWS	Early Warning System
FATF	Financial Action Task Force
FATF-ICRG	Financial Action Task Force-International Cooperation Review Group
FC	Foreign Currency
FE	Financial Education
FI	Financial Inclusion
Fitch	Fitch Ratings Inc.
FSAC	Financial Stability Advisory Committee
FSC	Financial Stability Committee
FSR	Financial Stability Report
FX	Foreign exchange
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index

IDB	Inter-American Development Bank
IDR	Issuer Default Rating
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
M2	Broad money
MEAI	Monthly Economic Activity Index
MER	Mutual Evaluation Report
MFIs	Microfinance
MI-GLIS	Land Registration and Land Information System
Moody’s	Moody’s Investors Service
MoFP	Ministry of Finance and Planning
MP	Macroprudential Policy
MPIs	Macroprudential Indicators
NBFIs	Non-Bank Financial Institutions
NFIES	National Financial Inclusion and Education Strategy
NOP	Net Open Position
NPL	Non-Performing Loan
NRA	National Risk Assessment
OMO	Open Market Operations
OPEC	Organization of the Petroleum Exporting Countries
RD	Restricted Default
RMT	Reserve Money Targeting
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
RWA	Risk-Weighted Assets
SD	Selective Default
SDD	Simplified Due Diligence
SDMO	Suriname Debt Management Office
SNEPS	Suriname National Electronic Payment System
SPS	Planning Office Suriname
SRD	Surinamese dollar
USD	U.S. dollar
WEO	World Economic Outlook

Foreword

Financial stability is widely regarded as an important precondition for sustainable economic growth. The Central Bank of Suriname (CBvS) 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.

In the past year, the monetary authorities have demonstrated a strong collaborative commitment to facilitate the process of improving the financial and macroeconomic environment. In this regard, the Financial Stability Committee has served as a forum for both authorities to discuss, on a quarterly basis, the different risks the financial sector faces so that necessary pre-emptive measures, to mitigate systemic risk, can be taken.

Employing the results of the Asset Quality Review (AQR) conducted by Deloitte Financial Advisory B.V. (Netherlands), a post-AQR roadmap with a time horizon until 2026 has been set out for all banks. These measures herein will enable the banking sector to be more robust and, as such, better withstand macroeconomic shocks, but also absorb shocks, which are generated within the banking sector.

CBvS has recently established a Bank Resolution Unit (BRU) aimed at taking preventive and early intervention measures. Currently, the BRU resides under the Directorate of Prudential Supervision, but will eventually be placed under another directorate.

CBvS has intensified its macroprudential supervision by implementing biannual top-down stress meetings with individual banks. Banks responded very well and made valuable suggestions to enhance the stress testing methods. Macroprudential liquidity indicators, such as the liquidity coverage ratio and the net stable funding ratio, are next on the list of topics to be discussed with the banks.

In order to efficiently perform the open market operations (OMO), which target inflation by managing base money, CBvS works closely with the Ministry of Finance and Planning (MoFP). In addition, frequent consultations with the banks as intermediaries formed part of the strategy to reach the ultimate goal of price stability. Timely and accurate information from both parties is therefore crucial, while MoFP is expected to cautiously monitor expenditures and work towards a targeted budget surplus.

The recently promulgated “Central Bank Act 2022” (SB. no.65 April 17, 2023), enables CBvS to perform its duties to the fullest extent possible, having gained institutional, financial and personal independence, in line with international best practices, under the current legislation.

CBvS has diligently collaborated with the IMF by initiating proposals for the necessary adjustments in the macroeconomic framework and structural benchmarks. CBvS is committed to meet the coming benchmarks, such as the recapitalization of CBvS and the establishment of an electronic trading platform for inter-bank/cambio foreign exchange trading. At this stage, CBvS is expected to reach an agreement with the MoFP for the recapitalization, while the electronic market platform is now in a test phase.

The Financial Stability Report is produced by the Directorate of Prudential Supervision of the Central Bank of Suriname 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

Key Exposure

The exchange rate for the U.S. dollar rose from SRD 20.89 per U.S. dollar at the end of December 2021 to SRD 31.77 at the end of December 2022 and continued its upward trend to SRD 38.18 at the end of October 2023. In addition to other cost-push factors, the high exchange rate pass-through propelled annual inflation, which peaked at 54.6 percent in 2022, albeit slightly lower than 2021 (60.7%). In tandem, real growth was sluggish in the previous two years. As households tried to cope with lower purchasing power by relying on credit for consumption purposes, private credit soared in 2022. Through the years, firms, including financial institutions, and households, attempted to hedge themselves against the effects of further depreciation, which resulted in substantial financial dollarization. Suriname has experienced substantial financial dollarization

Threats to the Financial Sector

Banks are exposed to exchange rate risk, largely due to the high share of risk-weighted assets (RWA) in foreign currency (FC), which aggregately amounted to 74 percent as of June 2023. In previous years, depreciation would boost the CAR, because of exchange rate gains due to banks' positive Net Open Position (NOP) and capital in FC. However, the share of RWA in FC subject to depreciation, reached the point where, the extra capital required for the higher RWA in FC, outweighed the aforementioned exchange rate gains. The high share of foreign currency Non-Performing Loans (NPLs) (40%) has also affected the total NPL ratio (excluding Government NPLs), which persistently exceeded the benchmark. Credit risk is therefore worrisome. In addition, if Government NPLs[1] are included, the share of the foreign currency NPLs in total NPLs amount to 70 percent. Concentration risk also arises, as the Government is the largest borrower at several banks, with total liabilities to the banks peaking at 67 percent in terms of aggregate Tier 1 bank capital. Liquidity risk is prevalent as stress test show that several banks could not withstand a bank-run of five days.

In 2022, banks have relied extensively on income from OMOs (Open Market Operations) due to the high interest rates, moving away from their role as financial intermediary. As market participants will get used to OMOs, interest rates will tend to go downward. In addition, profitability had also been driven by exchange rate gains, next to profits from a one-time transaction.

Although pension funds currently comply with the coverage ratio, high inflation has eroded the purchasing power of the pensions. It is expected that the robust position (as indicated by the coverage ratio including cash and receivables) of pension funds will decrease significantly if the Government implements an (unbalanced) indexation of pensions. In addition, credit risk may threaten the solvency position, as persistent inflation could affect the ability of households and firms to repay their loans. The current loan portfolio is 20 percent of total assets.

[1] Currently, no provisions are made for Government NPLs. However, IFRS prescribe provisioning for Government NPLs.

Credit risk for the insurance sector could emerge during times of high inflation due to reduced payment capacity. In addition, approximately 85 percent of the loans extended are in foreign currency. Loans represent 28 percent of total investments. However, conclusive evidence of non-performing loans in the insurance sector is not yet available, awaiting granular data from the companies.

Like the insurance sector, credit unions are also exposed to credit risk in times of high inflation. In addition, inadequate governance at several credit unions can lead to ineffectiveness, which will result in weak financial positions of credit unions.

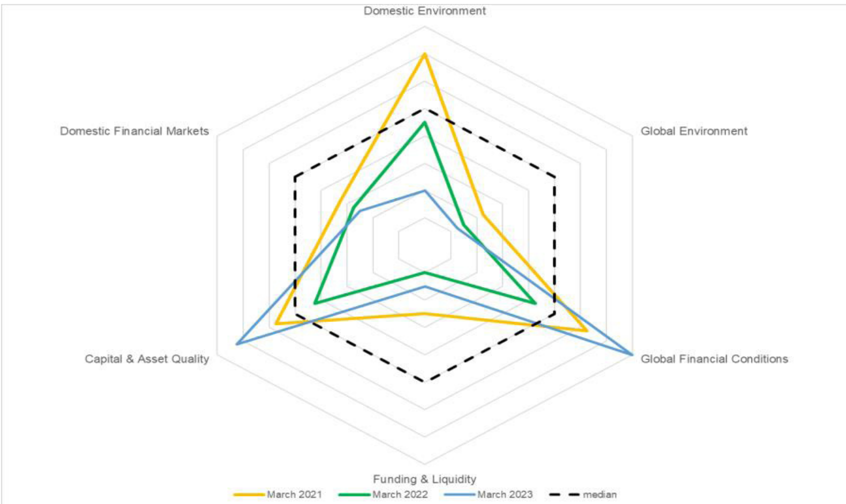
The implementation of IFRS, that has to apply from the 2020 financial year onwards, remained challenging for the financial sector. In addition, several banks face increasing provisioning requirements as these banks had extended significant credit to the Government. Although the entry year was postponed by a year, financial institutions, including pension funds, insurance companies and credit unions, were not able to implement the IFRS accounting standards, mainly due to a lack of financial resources. De-risking by the correspondent banks constitutes a major threat in the absence of full compliance with AML/CFT regulations, while a low credit rating of the country could expose domestic banks to more rigorous treatment by their international counterparts.

Section I of the 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 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 of the report identifies the key economic and financial risks arising from the global and domestic environment and analyses their consequences for the Surinamese financial sector and economy.

The cobweb diagram (Figure 1) provides a summary of the risk exposure of the banking sector in Suriname to potential systemic shocks in their overall operating environment. Movements from the centre of the diagram hereby represent an increased risk and movements towards the centre, a decreased risk to financial stability. The black dotted band illustrates the normal level of risk.

Figure 1
Risk Profile of the Banking Sector



Source: Central Bank of Suriname

According to Figure 1, notable changes in the overall risk exposure of the banking system for March 2023 (blue line), when compared with March 2022 (green line) originated from two dimensions, namely “global financial conditions”, and “capital and asset quality”. These two dimensions have expanded considerably, indicating significant increased risks in those areas. The risk score of the “global financial conditions” dimension increased due to heightened volatility in returns in international stock markets and a widening of the spread between bonds from emerging market economies. Capital and asset quality risk went up, following a rise of non-performing loans.

Despite the rise of CBvS credit to the banking sector over the reporting period, the domestic environment ranking improved. A lower inflation rate and increases in respectively net foreign assets, total assets, and international reserves accounted for the better performance. The risks associated with the global environment lowered due to an uptick in prices of gold and a reduction of the oil price. In addition, favourable foreign exchange selling rates translated into a lower risk rating for the domestic financial markets. Finally, funding and liquidity risk increased slightly as the loan-to-deposit ratio of banks rose and liquidity levels lowered.

Section III of the report mainly focuses on the financial performance and key challenges of commercial banks, insurance companies, pension funds and credit unions

Commercial Banks

The OMOs have affected the investment landscape of banks and their profitability. The SRD average loan rate slightly moved up from 13.4 percent (December 2021) to 13.6 percent as of December 2022. Aggregately, interest income from OMO operations therefore contributed significantly to profit, in addition to exchange rate gains, and led to a strengthened capital base for banks. The overall quality of the loan portfolio, on the other hand, deteriorated due to a significant increase of the “loss” category, largely due to a Government loan, in addition to high inflation. The liquidity stance was lower, but was according to the standard.

The stability of the banking sector, as measured by an increase of the banking stability index (BSI) (Figure 2), deteriorated as the index reached the lowest average value with 0.29 at the end of May, due to the aforementioned lower asset quality and lower liquidity.
On the other hand, the negative Credit-to-GDP gaps turned into a positive gap during the last quarter of 2022, slightly exceeding the bench-

Figure 2
Banking Stability Index

Source: Central Bank of Suriname

mark of 2 percent. This occurred as private credit growth in local currency went up, particularly in the second half of 2022.

As of May 2023, the four categorized Domestic Systemically Important Banks (D-SIBs) remained systemic with a cumulated total score of 4.39, which is an increase in comparison with December 2022 (4.35). All systemic banks comply with the suggested CARs in relation to their systemic importance.

In terms of interconnectedness, the nominal volume increased at the end of May 2023, which is attributable to a depreciation of 18.9 percent. However, in real terms, the FX claims decreased by 17.4 percent.

The aggregate regulatory capital adequacy ratio (CAR) continued its upward trend as the CAR increased with 2.3 percentage point to 16.8 percent in December 2022. Profitability indicators, partly driven by interest income from OMO and exchange rate gains, mirrored the upward trend, as the return on equity (ROE) and return on assets (ROA) increased with 18.5 and 1.5 percentage points, respectively. This occurred despite higher operational expenses. The high NPL loans remain a concern, as the NPL portfolio deteriorated further due to a large increase in the loss category, mainly due to a Government loan. As in previous years, although lower, liquidity of the aggregate banking sector remained satisfactorily above 100 percent. Just as in 2021, it is worth noting that the capital base of a bank increased due to inflation correction of a banks' equity in 2022 because of IAS 29, following the implementation of IFRS.

In addition to solvency stress tests, two types of liquidity stress tests were performed, of which one with striking results. Overall, the stress tests showed that the resilience of the banking system has declined, in terms of the number of banks falling below the standard. More capital would also be needed to bring the capital up to the regulatory minimum. Concentration risk remained the highest risk, followed by exchange rate risk and credit risk. Regular liquidity stress test results revealed that the banking system is not resilient against liquidity risk, as several banks would become illiquid within five days in case of a bank-run.

Insurance Companies

Non-Life Insurance

The overall solvency position of non-life insurance companies remained stable and adequate throughout the last ten years, despite reported technical losses. The ratio "available capital compared to required capital" was above 100.0 percent in 2022, which indicates that the sector has more capital available than required. Upward movements in the exchange rate contributed significantly to income as investments are predominantly in foreign currency and were sufficient to absorb all technical losses. Technical losses occur when, in times of high inflation, premium income in the non-life insurance sector does not increase correspondingly with the claims and operating expenses.

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, amounted to 174.5 percent in 2021, implying ample capital 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 2021. The capital ratio, which measures equity capital adequacy in relation to the size of insurance business, deteriorated in 2022 when compared with 2021, with ratios of 266.3 and 88.2 percent respectively. The liquidity stance improved in 2022, reaching 70.2 percent and exceeding the minimum international standard of 60 percent. As in 2021, profitability remained satisfactorily in 2022, and sufficient to absorb the technical losses. Profitability was achieved due to high investment income. As in 2021, this source of income was the result of exchange rate depreciation.

Pension Funds

Data for 2021 indicate an aggregated solvency position of pension funds of 109 percent, which exceeds the standard of 100 percent. Both profitability indicators amply exceed the standard of 4 percent, with return on assets of 22 percent and return on investment of 25 percent. Consistent with the insurance companies, a significant part of the investment income for pension funds was realized by the effect of exchange rate depreciation.

Credit Unions

The credit union sector managed to comply with almost all standards as set out by the sector. The capital adequacy ratio increased by three percentage points to 12 percent, well above the minimum standard of 7 percent. The liquidity ratio is also satisfactory as it exceeds the minimum standard of 100 percent. CBvS has made efforts to routinely educate the institutions on reporting procedures in order to mitigate the governance risk.

Section IV of the report contains special topics, such as (1) Macroprudential Policy Framework, (2) Roadmap for Restructuring the Banking Sector and Reform of the Governance of Banks, (3) Financial Inclusion, (4) Financial Interconnectedness of the Banking and the Insurance Sector and (5) Residential Property Price Index.

Finally, the Appendices provide information on key macroeconomic indicators; financial soundness indicators; the stress test methodology for banks; supervisory laws and regulations for the financial sector; the formulas for financial soundness indicators; bank strength; national payment system developments; the supervision of exchange offices; and the effectiveness of the AML/CFT-integrity supervision.

I. OVERVIEW OF THE DOMESTIC FINANCIAL SECTOR

Central Bank of Suriname

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. CBvS was established on, April 1, 1957, and has played a crucial role in the financial and economic development of Suriname. Following the Central Bank Act 2022[2] , the core duties of CBvS are:

a. developing and implementing monetary policy;
b. providing cash circulation in Suriname;
c. exercising macroprudential supervision in order to develop a sound financial system in Suriname in accordance with the applicable statutory regulations;
d. exercising microprudential supervision on the banking and credit system, the pension and insurance system, foreign exchange transactions, and the transfer of financial resources to and from abroad, and on the capital market, in conformity with the applicable statutory regulations. Supervision shall include corporate governance, sound governance and the integrity of the institutions operating in these sectors and sub-sectors;
e. taking remedial or resolution measures regarding weak or failing credit institutions in accordance with the relevant statutory regulations;
f. supervising electronic and other non-cash transactions, in accordance with the relevant statutory regulations;
g. promoting the smooth operation of the domestic and foreign payment systems of Suriname.

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 financial institutions and markets in the economy.

Structure of the Financial Sector

As of October 2023, the six main laws that govern the financial sector of Suriname are:

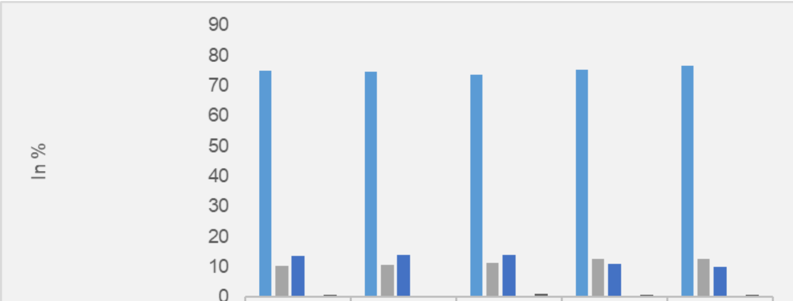
1. Central Bank Act 2022;
2. Banking and Credit System Supervision Act 2011 (for supervision of banks and credit unions) to be revised by end 2023.
   Also a new act – Bank Resolution Act will be approved by end 2023;
3. Pension Fund and Provident Fund Act 2005 (for supervision of the pension sector);
4. Banking and Credit System Supervision Act 1968 (G.D. 1968 no. 63 as last amended by O.G. 1986 no. 82). This act still applies to the insurance sector. A new Insurance Supervision Act has been submitted for approval;
5. Money Transaction Offices Supervision Act 2012 (for supervision of exchange of fices and money transfer offices);
6. Capital Market Act 2014 (for supervision of the Stock Exchange).

[2] The Central Bank Act 2022 was approved by the National Assembly in June 2022 and was proclaimed in the Official Gazette of the Republic of Suriname (no 65) in April 2023.

A comprehensive overview of the laws and regulations that govern the financial sector is provided in Appendix 7.

As of December 2022, the list of financial institutions under active supervision of CBvS consisted of 10 commercial banks, 6 finance and investment companies, 10 credit unions, 12 insurance companies (4 life insurance, 6 non-life insurance, 2 funeral insurance), 29 active pension funds, 1 provident fund, 16 exchange offices, 6 money transfer houses and 1 stock exchange. In Suriname, commercial banks are the premier financial institutions, holding 76.5 percent of the assets of the financial system, excluding CBvS (Figure I.1), while representing 90.8 percent of the Gross Domestic Product (GDP) (Figure I.2).

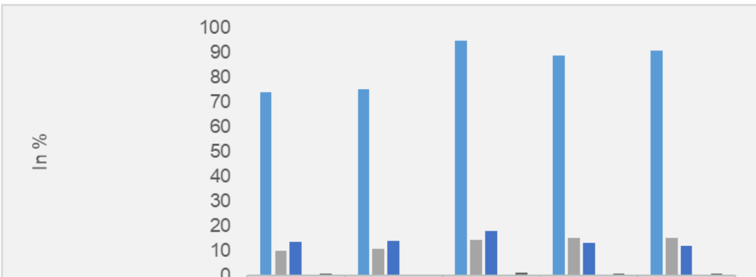
Figure I.1
Distribution of Financial Sector Assets
(in percentage of Total Assets)



	2018	2019	2020	2021	2022
Banks	75.0	74.7	73.5	75.1	76.5
Insurance Companies	10.3	10.8	11.3	12.8	12.6
Pension Funds	13.8	14.0	14.0	11.2	10.0
Credit Unions	0.2	0.2	0.1	0.1	0.1
Other	0.7	0.3	1.0	0.8	0.8

Source: Central Bank of Suriname

Figure I.2
Distribution of Financial Sector Assets
(in percentage of GDP[3])



	2018	2019	2020	2021	2022
Banks	73.8	74.9	94.5	88.8	90.8
Insurance Companies	10.2	10.8	14.5	15.1	15.0
Pension Funds	13.6	14.1	18.0	13.2	11.9
Credit Unions	0.2	0.2	0.2	0.1	0.1
Other	0.7	0.3	1.3	0.9	0.9

Source: Central Bank of Suriname

[3]GDP at market prices 2022: SRD 89.5 billion.

The financial instruments in Suriname mainly consist of demand deposits, time deposits, savings deposits, foreign currency deposits, Treasury bills, corporate bonds, CBvS gold certificates, CBvS term deposits and Central Bank Certificates. Other traded securities include the stocks of twelve companies listed on the local Stock Exchange.

Commercial Banks

CBvS supervised ten commercial banks in 2022. Total assets of the banking system expanded significantly in this year (Table I.1), due to a combination of highly dollarized balance sheets and exchange rate depreciation.

Commercial banks represent 76.5 percent of total financial system assets or the equivalent of 90.8 percent of GDP.

Insurance Companies

CBvS supervised four life insurance companies, six non-life insurance companies and two funeral insurance companies in 2022 (Table I.2). The Government holds forty percent of the shares of one non-life insurer, whereas the remaining insurers are all domestic privately-owned companies.

Insurance companies represent 12.6 percent of total financial system assets or the equivalent of 15.0 percent of GDP.

Pension Funds

CBvS supervised twenty-nine active pension funds in 2022. There are three types of pension funds in Suriname (Table I.3)

- Collective defined contribution: the level of contributions is known, while the future benefits, which are determined by income and employment history also depend on the investments decisions of a board of trustees.
- Defined contribution: the level of contributions to the accounts is known but not the future benefits, as they are based on investment earnings.
- Defined benefit funds guarantee: the payment of a specified level of benefits is conditional on the participants' income and employment history.

Pension funds represent 10.0 percent of total financial system assets or the equivalent of 11.9 percent of GDP.

Table I.1
Structure of the Banking Sector

Category	Dec-21	Dec-22
Structure (Count)		
Banks*	**10**	**10**
Systemic Banks	4	4
Non-systemic Banks	6	6
of which government banks	2	2
Assets (× SRD 1000)		
Banks	**53,896,893**	**81,260,223**
Systemic Banks	45,477,602	70,626,586
Non-systemic Banks	8,419,290	10,633,636
Assets in % of total financial system assets		
Banks	**75.1**	**76.5**
Systemic Banks	63.4	66.5
Non-systemic Banks	11.7	10.0
Assets in % of GDP		
Banks	**88.8**	**90.8**
Systemic Banks	74.9	78.9
Non-systemic Banks	13.9	11.9

Source: Central Bank of Suriname
* One non-systemic bank is not operational anymore, but is still a legal entity.

4 Financial information of one life insurance company, one non-life insurance company and two funeral insurance companies is not included in this rapport due to data inconsistencies. Furthermore a medical insurance company, which is a state-owned foundation, is not subject to supervision as such is not included in the report.

Table I.2
Structure of the Insurance Sector

	2021			2022		
	Number	% of Total Insurance Assets	% of Total Financial Assets	Number	% of Total Insurance Assets	% of Total Financial Assets
Life Insurance	4	60.9	7.8	4	64.0	8.1
Non-Life insurance	6	39.1	5.0	6	36.0	4.5
Total	**10**	**100**	**12.8**	**10**	**100**	**12.6**

Source: Central Bank of Suriname

Credit Unions

CBvS supervised ten credit unions in 2022. In November 2022, CBvS dissolved sixteen credit unions with the aim of transforming the institutions into more safe and sound financial institutions. As a result, the number of credit unions under supervision of CBvS shrank from twenty-five to ten (Table I.4).

Credit unions are member-owned financial entities and are divided in open-bond and closed-bond credit unions. Membership of closed-bond credit unions is limited to those who work for a specific firm, ministry, or other specific group or live in the same neighbourhood. In contrast, open-bond credit unions are of an open nature and are accessible to everyone.
Credit unions represent 0.1 percent of total financial system assets or the equivalent of 0.1 percent of GDP.

Table I.3
Structure of the Pension Fund Sector

Category*[1]	Count	in % of Total Assets of the Pension Sector	in % of GDP
Collective Defined Contribution	26	99.4	12.0
Defined Contribution	2	0.3	0.0
Defined Benefit	1	0.3	0.0
Total	**29**	**100.0**	**12.0**

Source: Central Bank of Suriname

*Preliminary data
[1]CBvS supervises a Pay-As-You-Go civil servant pension fund, however, the information is excluded due to provisions laid down by law.
Note: The pension funds in the above-mentioned categories are asset-backed pension funds, meaning that the schemes are focused on available assets to satisfy all obligations to current and future retirees.

Table I.4
Structure of the Credit Union Sector

Category	2021	2022
Open-bond credit unions	1	1
Closed-bond credit unions	22	8
Saving funds	1	1
Representative organizations	1	0
Total	**25**	**10**

Source: Central Bank of Suriname

II. OPERATING ENVIRONMENT

1. Global Environment[5]

The IMF reported risks to its outlook, of which the downside risks dominate. The downside risks include further tightening of global financial conditions (including interest rates), a global economic recession, higher inflation, weak economic growth in China and an escalation of the Russo-Ukrainian war. As a result of the global fight against inflation, the Russo-Ukrainian war, and a resurgence of the Covid-19 pandemic in China, the global economy grew by 3.4 percent in 2022. This growth is 2.9 percentage points lower than in 2021.

Global inflation surged from 4.7 percent in 2021 to 8.7 percent in 2022, due to pandemic-related supply chain disruptions, commodity price shocks, expansive monetary policy and fiscal support, and a surge in the consumer demand for goods. As global growth slowed down, most commodity prices fell from their peaks, induced by the Covid-19 pandemic and the Russo-Ukrainian war.

For the commodity market, an upside risk to the average oil price are possible disruptions in the supply of goods. The World Bank indicated that the gold price will depend on the path of global inflation, interest rates, the heightened geopolitical situation, and economic uncertainty. The average crude oil price equalled US$ 96.4 per barrel in 2022, 39.2 percent higher than the previous year. Crude oil[6] prices were particularly volatile during 2022, due to decreased global growth that reduced oil demand, concerns about a global recession, continued pandemic-induced restrictions in China, substantial releases of crude oil from strategic serves, and production cuts by members of the Organization of the Petroleum Exporting Countries (OPEC+).

In addition, the average gold price slightly increased, by 0.1 percent in 2022 to US$ 1,801.5 per troy ounce, driven by a slight pickup in demand that was outweighed by the demand for hedges, such as high-yield assets and a favourable U.S. dollar.

2. Domestic Environment

As of September 2023, Suriname has received three disbursements from the International Monetary Fund (IMF) under the Extended Fund Facility (EFF). Earlier, the IMF team had reached a staff-level agreement with the Surinamese authorities on the third review of Suriname's economic reform program supported by the 36-month EFF arrangement. This agreement was approved by IMF's Executive Board on September 25, 2023. The completion of the third review, has given Suriname access to SDR 39.4 million (about USD 52 million), bringing total program disbursements to SDR 118.2 million (about USD 156 million).

CBvS maintained its monetary policy tighten-

[5] The information used for the analysis is from the International Monetary Fund (World Economic Outlook (WEO) of October 2022, January 2023, and April 2023) and the World Bank (Commodity Markets Outlook (CMO) of April 2023). The data used is from the International Monetary Fund (WEO of April 2023) and the World Bank (CMO of April 2023).

[6] Average of U.K. Brent, Dubai, and West Texas Intermediate, equally weighted.

ing, under the reserve money targeting (RMT) framework in order to accomplish its main goal of price stability. Through OMOs, term deposit auctions were held weekly and were, complemented by the issuance of Central Bank Certificates for the wholesale and retail segments. Earlier, in April 2023, the Central Bank Act of 2022, which contains most of the duties assigned to CBvS regarding financial stability issues, had been promulgated.

2.1 Macroeconomic Performance

Real Sector

In 2022, Suriname experienced a strong rebound in economic activity with an estimated growth of 2.4 percent, following a recession of 2.4 percent in 2021. Economic growth was primarily driven by the non-mining sector, specifically the services sector, which saw a resurgence in activities after relaxation of Covid-19 measures. However, high production-costs resulting from elevated fuel prices and depreciation of the local currency, limited further growth.

Suriname's annual inflation rate amounted to 54.6 percent in December 2022, which is a decline of 6.1 percentage points compared to the previous year (2021: 60.7%). One of the main contributors to the rise in inflation was the adjustment of utility prices, as the Government reduced subsidies, leading to significant increases in especially electricity prices and, to a lesser extent, prices for water. A second driver was the surge in local fuel and food prices caused by an increase in international energy and food prices, stemming from the Russo-Ukrainian war. In response to elevated fuel prices, the Government raised pump prices resulting in higher transportation costs. Furthermore, expansionary fiscal policy and a steep increase in credit growth heightened the pressure on exchange rates, which also by itself translated into higher inflation.

Government Sector

Expansionary fiscal policy led to the deterioration of the overall balance of the Government, which resulted in a deficit of 1.4 percent of GDP in the last two quarters of 2022. Government expenditures rose by 66.3 percent compared to 2021, due to the implementation of a social safety net, fuel subsidy, and the inability to phase out the utility subsidies completely. Hence, the Government did not meet the agreed conditions and targets of the IMF, which, together with the delay in completing the prior action on enacting the VAT law, resulted in the suspension of IMF disbursements. Despite the absence of the VAT, Government revenue rose by 52.1 percent compared to 2021, due to mining sector windfalls stemming from high international oil and gold prices, the impact of the exchange rate depreciation on foreign currency denominated receipts, such as import-related indirect taxes and royalties from small-scale gold mining, and adjustments in the turnover tax percentage. Because of the deficit and other debt-creating flows, the debt-to-GDP ratio[7] increased from 114.4 percent in 2021 to 122.2 percent in 2022.

External Debt

A debt restructuring agreement, which is part of the Extended Fund Facility (EFF), was reached with the Paris Club. However, by the end of 2022, no agreements had been reached with other commercial and bilateral creditors. By December 2022, the total effective debt[8] amounted to US$ 3.2 billion (SRD 101.3 billion, equal to 117.8 percent of the GDP), marking a 51.3 percent increase compared to 2021.

Debt negotiations continued in 2023, reaching restructuring agreements with Oppenheimer and India. In the first half of 2023, while negotiations

[7] In accordance with Article 3, paragraph 3 of the State Debt Act, the conversion of foreign currency amounts into Surinamese currency is determined by the exchange rates provided by CBvS on the final business day of the calendar year in which the nominal gross domestic product is measured.

[8] The effective debt calculation, which is based on the international debt definition, uses the exchange rate at the time to which the debt relates.

with China are ongoing. Debt is now brought to sustainable levels creating more fiscal space for the Government. By May 2023, the total effective debt amounted to US$ 3.1 billion (SRD 117.7 billion) which is equal to 200.2 percent of the GDP.

Monetary Policy

Credit Development

The persistently high inflation rate, exchange rate fluctuations and the expansionary fiscal policy resulted in the growth of the SRD-M0, SRD-M2, and SRD-lending. Because of the rising inflation rate, households were prompted to seek short-term consumer credit, particularly personal loans, which contributed to the overall increase in SRD-M2 with 28 percent and SRD-lending with 32.2 percent, while increased Government spending drove the growth of SRD-M0 with 31.4 percent. Excessive credit growth that affected the demand for goods and foreign currency, prompted CBvS to adjust its monetary policy. In April 2023, CBvS increased its reserve requirement ratio from 39 percent to 44 percent and introduced a 20 percent limit on the annual (April 2023 - March 2024) credit growth of the banking sector. The credit cap of 20 percent implies that the credit growth of individual commercial banks may not exceed 20 percent in the given period. Both measures were implemented against the background of reducing the excessive growth of credit to the private sector that materialized since June 2022. Due to this excessive credit growth, the money supply increased rapidly, driving the exchange rate upwards.

Reserve Money Targeting Policy

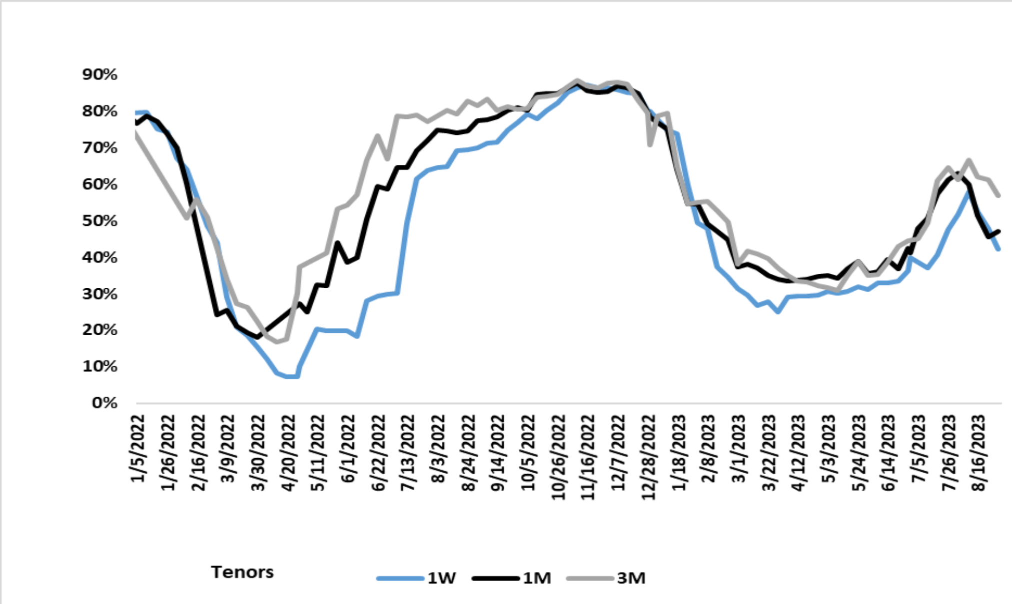
In 2022, CBvS continued its monetary policy tightening, under the reserve money targeting (RMT) framework in order to achieve its main goal of price stability. Through OMOs, term deposit auctions were conducted weekly and were supplemented by the issuance of Central Bank Certificates for the wholesale and retail segments. Based on inflation objectives and growth expectations, the Bank's aim for 2022, was to maintain a SRD-M0 target of SRD 11.1 billion, by mopping up the excess reserves in the banking system. The level of excess reserves rose by more than fifty percent to SRD 691.74 million by the end of 2022. However, excess reserves remained within range of the weekly average excess reserve between SRD 500 million and SRD 700 million. Although CBvS managed to mop up a significant part of the excess reserves of SRD 1,281.2 million, it did not succeed in meeting its base money target at the end of December 2022, which resulted in a breach of the target of SRD 1,238.54 million. Despite this, CBvS managed to somewhat dampen the effect of the depreciation of the local currency.

Development of OMO Interest Rates

The weighted average accepted bid rates (OMO-rates) of the 1-week, 1-month and 3-month instrument increased respectively by 0.5 percent point, 4.7 percent points and 2.1 percent points to the levels of 80.0 percent, 78.5 percent and 70.7 percent by the end 2022 (Figure II.1). The increase in these rates is the cause of less competitive auctions as the result of a significant increase in the levels of excess reserves and in turn, base money, which led to high announced OMO-volumes. In addition, this increase was also because of persistently high inflation risk, whereby commercial banks hedged this risk by placing higher bid rates against lower bid volumes. In the effort of meeting its monetary targets over 2022, CBvS deployed fine-tune auctions with 1-day tenors. The interest rate of the 1-day instrument increased with 45.9 percent points to 82.6 percent at the end of October 2022 (compared with May 2022: 36.7%). In the first week of January 2023, the OMO-rates started around 75.0 percent and noted a significant decrease towards the end of February, March, April and May 2023, partially due to the lower OMO-volumes in these months. In the following months until the end of August 2023, the 1-week instrument rate increased to 51.8 percent, the 1-month instrument rate increased to 61.3 percent and the 3-month instrument rate

[9] January 2022 – August 2023.

Figure II.1
Open Market Operations Interest Rate Development[9]



Source: Central Bank of Suriname

increased to 64.6 percent (Figure II.1).

External Sector

In 2022, the exchange rate reached a level of SRD 31.14 per U.S. dollar, which constituted a depreciation of 45.2 percent compared to the previous year. Domestic demand for goods and services increased, which put pressure on the exchange rate. The domestic demand was driven due to expansionary fiscal policy. In response to the shortage of foreign currency for the major importers, the Government provided U.S. dollars through a state bank. The increase in domestic demand was reflected in imports, which resulted in a decline on the current account surplus by 59.5 percent to US$ 71.3 million compared to 2021. The decrease was partially offset by a higher export value due to advantageous global prices for gold and oil. In addition, the financial account deficit decreased to US$ 18.3 million. This decrease was mainly caused by a reduction of equity shares in the subsidiaries of their parent company, as well as the repayments of loans by the private sector. Consequently, the international reserves increased by US$ 220.0 million (excluding revaluation differences) to a total of US$ 1,194.6 million by the end of 2022, representing approximately 6.1 months of import coverage[10] .

2.2 Outlook 2023[11]

For 2023, the economic growth is projected to be approximately 2.3 percent, due to economic activity within the mining and service sector. Inflation is forecasted to be lower compared to 2022, as monetary and fiscal policies are tightly coordinated to stabilize the economy.
While the end-of-period inflation is currently

[10] The import coverage excluding the mining sector was equal to 7.9 months.
[11] Cut-off date for the projections is October 2023.

forecasted at 38.6 percent, policymakers are committed to reaching the program inflation target of 36.4 percent. In the first part of 2023, inflation was primarily influenced by fuel prices, exchange rate fluctuations and utility price adjustments. Policymakers have taken actions to stabilize the exchange rate in the second half of 2023. These actions include the efforts of the Government and CBvS to respectively limit expansionary fiscal policy and to tighten its monetary policy. The gradual phasing out of expansionary fiscal policy aligns with the goal of achieving debt restructuring with Oppenheimer & Co. INC and China Exim Bank by 2023, to provide the Government with fiscal space. Despite the efforts of policymakers, the current account surplus is expected to further deteriorate, because of higher imports from the private sector. The current account, together with the financial account, will generate gross international reserves of US$ 1,390.0 million by the end of 2023. Monetary policy measures such as lending restrictions and an increase of reserve requirements will result in a less robust growth in 2023 of SRD-M0, SRD-M2 and SRD-lending. Additional monetary measures must be taken in time if it appears that the targets will not be achieved.

3. Credit-to-GDP Gap

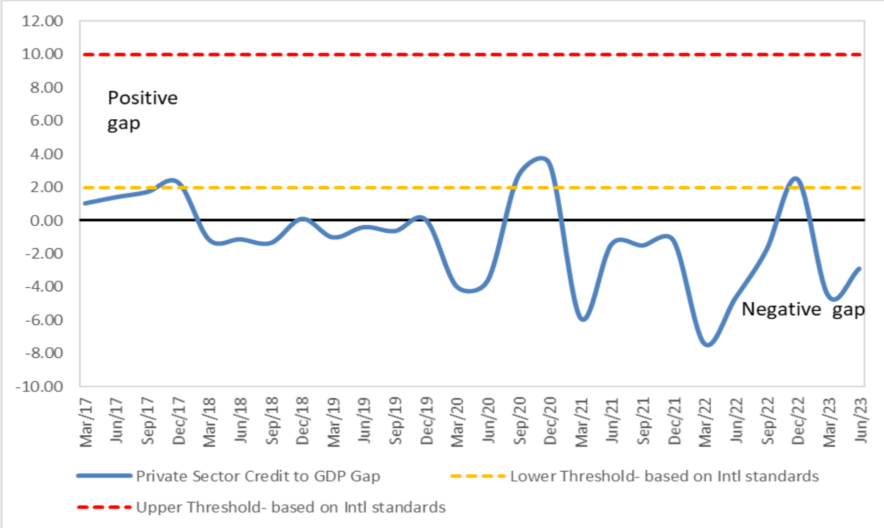
The credit-to-GDP gap serves as a macroprudential tool to determine the Countercyclical Capital Buffer (CCyB) rate for the banking system. The CCyB would provide banks with an additional capital buffer to protect them against potential future losses that may occur in case of a rapid credit expansion, which may increase system-wide risk. The Credit-to-GDP gap indicator shows periods of negative gaps, which lie below the benchmark level of 2 to 10 percent. After 2020, the economy grew slowly from -16.0 percent to 2.1 percent in 2022 as the negative gaps steadily decreased, reaching a positive gap in December 2022 (Gap: 2.48) (Figure II.2). This upswing was mainly attributable to an increase in the nominal volume of total private credit in local currency. In the last quarter of 2022, credit to the private sector grew to 14.2 percent (September 2022: 10.6%). The gap became negative gaps since 2023-Q1 as it stayed below the benchmark of 2 to 10 percent. The negative gaps were mainly the result of a decrease in the volume of private foreign currency credit expressed in Surinamese dollars.

4. Credit rating

The credit rating agencies maintained their last rating for Suriname, except for Moody's. Standard & Poor's credit rating for Suriname is at Selective Default (SD) with N/A outlook due to the debt of the country, while Moody's credit rating was last set at Caa3 with stable outlook and Fitch's was last reported at RD with n/a outlook. Fitch withdrew as a credit rating agency as they have chosen to stop participating in the rating process of the country. Accordingly, they will no longer provide ratings (or analytical coverage) for Suriname. Prior to the withdrawal, they affirmed Suriname's Long-Term Foreign Currency Issuer Default Rating (IDR) at "restricted default (RD)" reflecting the fact that Suriname does not service its 2023 and 2026 Oppenheimer bonds, which is viewed as an event of default. Suriname's Long-Term Foreign Currency IDR has therefore remained at "RD" since 1 April 2021.

Moody's has changed the rating outlook on the Government of Suriname to stable in February 2023 from negative in July 2020 but has affirmed the Caa3 issuer and senior unsecured debt ratings. The main driver behind the outlook stabilization is Moody's expectation that losses as a result of the ongoing restructuring of Suriname's debt will be consistent. The affirmation of Suriname's Caa3 ratings balances limited external financing sources, very weak governance, weak fiscal metrics and ongoing debt default against authorities' efforts to improve fiscal policy effectiveness, which over time should lead to improved fiscal metrics and macroeconomic stability.

Figure II.2
Private Sector Credit-to-GDP Gap



Source: Central Bank of Suriname

5. Risk Exposure

A key objective of the cobweb[12] (Figure II.3) is to depict the Bank's assessment of financial stability in a single diagram that will enable better communication of the main risks facing the banking system of Suriname. For this report, scores for the six selected dimensions of March 2022 and March 2023 were compared.

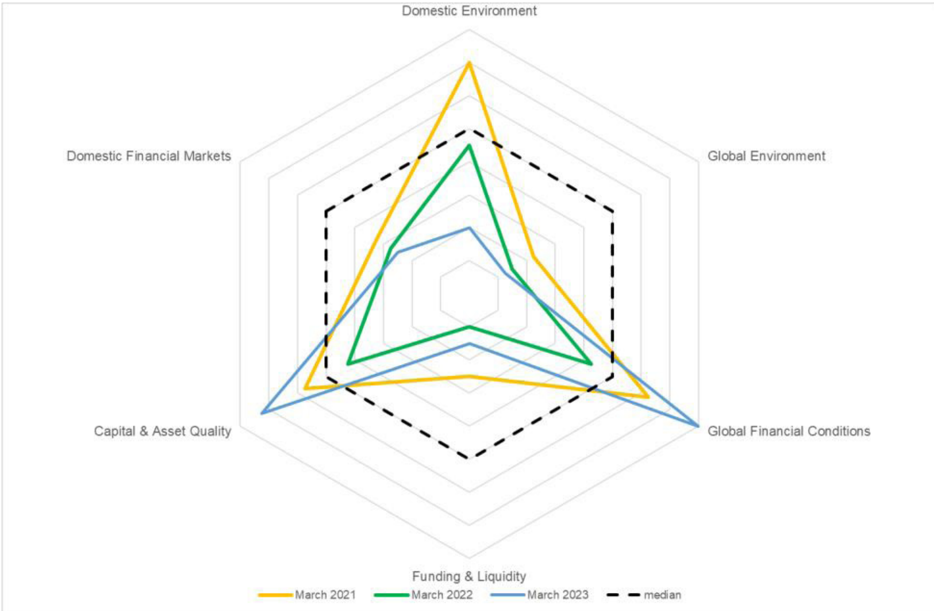
Global Financial Conditions, and Capital and Asset Quality, two financial stability risk dimensions portrayed in the cobweb diagram, expanded considerably, indicating significant increased risks in those areas.

Despite the rise of CBvS credit to the banking sector over the reporting period, Domestic Environment ranking improved. A lower inflation rate and increases in net foreign assets, total assets, and international reserves accounted for the better performance.

Risks associated with the Global Environment decreased due to an uptick in prices of gold and a reduction of the oil price while the risk score of Global Financial Conditions increased due to heightened volatility in returns in international stock markets and a widening of the spread between bonds from emerging market economies. Funding and Liquidity risk increased slightly as the loan-to-deposit ratio of banks rose and liquidity levels decreased. Capital and Asset Quality risk also increased due to the rise of non-performing loans, whereas favourable FX selling rate returns translated into a lower risk for Domestic Financial Markets.

[12] The cobweb diagram provides a graphical summary of the risk exposure across six dimensions: the domestic environment, the global environment, global financial conditions, funding and liquidity, capital and asset quality, and the domestic financial markets. The cobweb does not provide an aggregate indicator of risk. Movements from the center of the chart indicate an increase, while movements toward the center of the chart indicate a decrease in financial stability risks. The black dotted line represents the historical median outcome, and gives the reader a sense of the status of the financial stability conditions through time.

Figure II.3
Risk Profile of the Banking Sector



Source: Central Bank of Suriname

III. PERFORMANCE OF SURINAME'S FINANCIAL SECTOR

1. Commercial Banks

1.1 Market Activity

Since the start of the OMOs, the OMO interest income depicted an increasing trend while gradually dropping from December 2022 onwards.

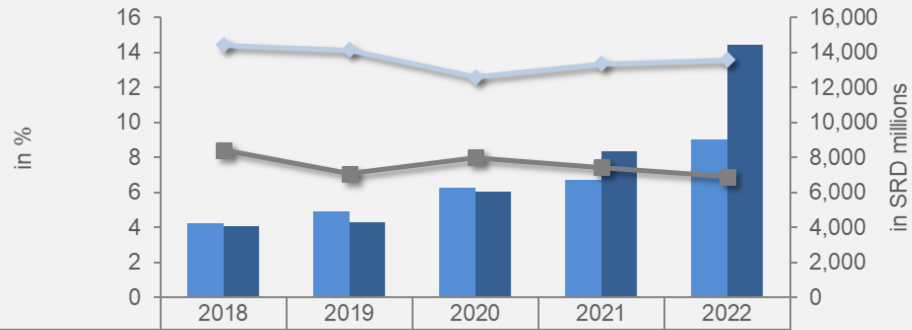
In August 2023, several banks participated in the financial inclusion fair organized by the Bank. CBvS is a member of the Alliance for Financial Inclusion (AFI) with the aim to increase access and usage of quality financial services for the underserved. In 2021, via the Banker's Association of Suriname, banks made a commitment with the Government to support financial inclusion. As a result, banks have adjusted their policy and procedures to accommodate individuals, especially underprivileged people and small businesses, and those 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 Regulation 2016 of CBvS has been 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 support the efforts of the authorities to shift informal economic activities gradually into the formal economy.

The Herfindahl-Hirschman index (HHI)[13] for the whole banking system is 1,803, which is above the benchmark of 1,800. Although the HHI is slightly higher than the benchmark, the market concentration of the banking system seems to be normal. The lower the HHI, the more power consumers hold.

As shown in Figure III.1, the SRD average loan rate of the banking sector increased, while the FX average loan rate decreased. In SRD, there has been a growth in loans with interest rates between 10.0 and 20.0 percent. In foreign currency, on the other hand, the growth is noticeable in loans with interest rates between 6.0 and 10.0 percent. Due to the large increase in the aforementioned interest categories of FX loans on the one hand and the decrease in FX loans with interest rates between 10 and 15 percent on the other hand, the FX average loan rate has decreased in 2022 compared to 2021.

[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). It is calculated by squaring the market share of each firm competing in a market, and then adding the resulting numbers. The HHI can range from close to zero to 10,000, with index values exceeding 1,800 indicating very high market concentration.

Figure III.1
Commercial Bank Average Loan Rates and Loan Growth



	2018	2019	2020	2021	2022
Loans in SRD	4,221.7	4,925.7	6,286.1	6,716.8	9,053.5
Loans in FX	4,062.6	4,304.6	6,060.5	8,368.6	14,465.2
Average loan rates (SRD)	14.4	14.2	12.6	13.4	13.6
Average loan rates (FX)	8.4	7.1	8.0	7.4	6.9

Source: Central Bank of Suriname

1.2. Main Threats

- **Exchange rate depreciation**
  Continuous depreciation, especially during the second half of 2022, had a negative impact on banks' capital position due to the highly dollarized risk-weighted assets (RWA)[14]. As a result, banks were forced to adjust their business models by, among other things, strengthening their financial position. In the past year, banks have made profits due to incidental (non-core) income.

- **De-risking**
  Due to de-risking, the relationships of local banks with correspondent banks in the U.S.A. and Europe are increasingly discontinued.

- **Country rating Suriname**
  Suriname had several credit rating downgrades in its recent history. This has added an extra challenge to the banks in Suriname, which have correspondence banks abroad. An indirect consequence of the low country rating is that banks in Suriname have to provide more information to their correspondence banks.

- **High financial dollarization**
  The financial dollarization ratio of December 2022 shows a slight increase compared to December 2021 in both the assets (from 71.9% to 72.0%) as well as in the liabilities (from 69.1% to 70.0%). The upward trend of the ex change rate of the USD and the EUR has only enlarged the FX components denominated in SRD.

- **Government exposures**
  The high interdependence between banks and the Government in terms of loans remains a concern. As of December 2022, the total loans to the Government amounted to approximately 67 percent of the banking sector's

[14] As of December 2022, the share of the foreign currency RWA in total RWA amounted to 71 percent.

Tier 1 capital (109% of Tier 1 capital, including treasury bills). According to International Financial Reporting Standards (IFRS), banks have to make provisions for government loans.

- **Implementation of IFRS**
  According to the Financial Statements Act of 2017, banks have to present their annual reporting in accordance with IFRS starting from the 2020 financial year. Not all banks have met this requirement, however, they are still in the process of conversion and implementation of IFRS.

- **Recovery of financial resilience**
  On an individual level, banks will have to further increase their capital ratios and tighten their risk management systems. The effects of IFRS on the capital position of banks in the form of additional loan loss provisions may undermine banks' ability to intermediate credit and contribute to economic recovery.

- **Funding and liquidity**
  Banks' funding is mostly in the form of deposits and is therefore not sufficiently diversified.

- **Cyber risk**
  Although there were no massive cyber attacks, such as fraud and phishing at tacks reported by banks, the banking sector must stay ahead of these operational risks due to the digital transformation. Al though face-to-face meetings resumed following the Covid-19 pandemic, virtual meetings are still held for convenience purposes. Therefore, there is still a need for adequate security sys - tems such as data security controls and maintaining confidentiality, integrity and availability of network to ensure business continuity.

1.3 Measures to Mitigate Risk

- **Exchange rate depreciation**
  Banks are encouraged to return to their core business and devise sustainable strategies to make profits.

- **De-risking**
  Several commercial banks' AML/CFT frameworks have been strengthened, based on FATF recommendations and legal and regulatory standards of the Bank.

- **Country rating Suriname**
  Banks should strive to achieve an international rating on its own terms.

- **High financial dollarization**
  According to the Regulation for Open Foreign Currency Positions that was revised in 2022 and entered into force on 17 February 2023, banks may not hold an open foreign currency position of more than 10.0 percent of Tier 1 capital. Banks must start to take measures at an open position of approximately 7.5 percent to prevent exceeding the 10.0 percent limit.

- **Government exposures**
  The Government must adhere to its agreed debt payment schedule.

- **Implementation of IFRS**
  Banks have to speed up the process of conversion and implementation of IFRS.

- **Recovery of financial resilience**
  On an individual level, banks will have to further increase their capital ratios and tighten their risk managment systems.

- **Funding and liquidity**
  The process of setting up a framework for the functioning of an effec-

tive capital market and the develop ment of an active interbank money market in order to regulate domestic liquidity is ongoing.

- **Cyber risk**
  The banking sector must stay ahead of operational risks due to the digital transformation and therefore need to digitize their services to customers, who are becoming more globally oriented.

- **On-site inspections**
  After not conducting on-site inspections for some time due to the Covid-19 pandemic, risk-based and theme-related on-site inspections have resumed in the last quarter of 2022. In case of non-compliance, banks must submit an action plan with realistic deadlines to CBvS that monitors strict implementation of the plan.

- **Strengthening of the legal, regulatory and supervisory framework**
  On the legal front, attention has been paid to the further evaluation of the Banking and Credit System Supervision Act 2011 in conjunction with related laws regarding bank resolution, financial statements, chartered accountants and anti-money laundering and the combating of the terrorist financing, while necessary adjustments were made in consultation with the Ministry of Finance and the IMF. Based on the Financial Statements Act 2017, a number of regulations were revised that require IFRS as the standard for financial statements of public interest organizations. In this context, a regulation on financial reporting and control was drawn up and has been implemented in 2023 together with the revised regulations.

  In order to carry out effective and continuous suitability and integrity assessments for directors, internal supervisors and qualified shareholders of banks in line with the applicable legal and regulatory standards, a 'fit & proper test' project has been launched. The purpose of this project is to contribute to strengthening or improving the integrity and soundness of the financial institutions under supervision. Also, through various MOUs, more substance has been given to the exchange of information between the national supervisors.

- **Increased off-site monitoring**
  The increased monitoring of banks since September 2016 through additional reports on the LCR, net open posi tion, credit classification and provision ing, and large exposures, continued in 2023. After consultation with the IMF, the reporting statements of the LCR, net open position and large exposures have been incorporated in the expand ed enhanced reporting since Septem ber 2021. Besides these components, the enhanced reporting also contains appendices of projections of balance sheet, profit & loss and risk weighted assets, interconnectedness, funding structure, stress testing, liquidity budget & realization, lending availability, liquid assets and deposits and Covid-19 facilities. The banks report, based on the established frequency, which varies from daily, to weekly, monthly and quarterly. To ensure data quality, the enhanced reporting statements have been reviewed in 2023 and tightened where necessary.

- **Improving risk-based supervision**
  In 2021 a set of risk classification models had already been developed, consisting of capital adequacy, asset quality, management, earnings, liquidity,

open foreign currency position, interest rate risk, operational risk management, risk management, internal audit and internal control. Each model contains qualitative and quantitative criteria that are individually assessed, based on a rating from 1 to 5, which ranges from very good to very poor. Depending on the rating, a classification of low, medium or high can be assigned to the component. The implementation of these risk classification models should be seen as preparation for the implementation of Basel II. In the context of corporate governance, banks responded to a survey that was sent in June 2022.
For the purpose of integrity supervision, the AML/CFT Directive of 2016 that was adapted in 2021 to international standards and best practices, was revised and the final draft was drawn up in 2022. At the same time, a manual for the AML/CFT on-site was compiled. The IMF Legal Department has provided feedback and recommendations on both documents. Pursuant to the Directive, a compliance-rating model had already been developed in which an assessment is made for each component as stated in the Directive on both technical compliance and effectiveness. The rating model will be subject to evaluation in due course.

- **Developing the supervisory frame work for payment systems**

  A start has been made on developing an oversight framework for payment systems. An IMF technical team reviewed the draft law 'Electronic Payments' that will be converted into the 'Electronic Payments Supervision Act'. Pending the implementation of this Act, guidelines have already been issued and a registration obligation is being prepared for participants in the payment chain. In addition, minimum conditions (guidelines) and guidance (appendices) were drawn up for the electronic payment service providers.

1.4 Financial Soundness

The financial soundness indicators for 2022 show that the overall capital position of the banking sector was strengthened due to improved results, mainly because of OMO income and exchange rate gains. The NPL ratio declined as a result of the relatively higher increase of the gross loans versus the increase of the non-performing loans. However, it may be stated that the overall quality of the loan portfolio deteriorated due to poor credit risk management of some banks. While overall financial health based on key indicators such as solvency, liquidity and profitability has improved, banks will have to tackle the repercussions of the economic crisis by adjusting their business and risk models and stress test scenarios. This is considered necessary in view of the high international prices for import products, which may have disrupting effects for households and businesses.

Capital Adequacy

Capital increase is mainly attributable to the inflation correction of a banks' equity in 2022 because of IAS 29. On the other hand, the risk-weighted assets (RWAs) have increased more than capital, due to the high dollarization of the RWA. As of December 2022, the banking system complied with the regulatory norm (Table III.1), though four banks were operating below the required regulatory minimum. Furthermore, additional provisions that banks will have to make in accordance with IFRS can also influence the CAR. Commercial banks' open position in USD is twice as high as the regulatory maximum of 10 percent of Tier 1 capital, which is attributable to three banks.

Asset Quality

The high NPL loans remain a concern. As of 2022, the NPL portfolio deteriorated further due

Table III.1
Financial Soundness Indicators of Commercial Banks

Financial Soundness Indicators (%)	Norm	2018	2019	2020	2021	2022
Capital Adequacy						
Capital Adequacy Ratio (CAR)	**≥ 10**	9.6	11.4	11.8	14.5	16.8
Tier 1 ratio		9	10.8	10.5	13.1	15.5
Tier 1 leverage ratio	**≥ 3**	4.4	4.8	4.3	4.9	5.9
Asset Quality						
Non-Performing Loans Ratio (NPL)	**≤ 5**	12.0	10.6	14.6	12.8	12.4
Provisions-to-NPLs		61.8	61.3	45.9	38.5	39.9
NPL categories in % of total NPLs:						
Substandard		42.5	35.3	14.7	16.8	14.7
Doubtful		3.3	25.2	48.6	6.5	2.6
Loss		54.2	39.5	36.7	76.7	82.7
Earnings and Profitability						
Return on Assets (ROA)	**≥ 1**	0.1	1.0	2.0	1.8	3.3
Return on Equity (ROE)	**≥ 20**	1.9	16.7	35.0	29.6	48.1
Liquidity						
Liquid-assets-to-short-term-liabilities	**≥ 100**	82.1	93.4	101.3	117.0	107.0
Liquid-assets-to-total-assets	**≥ 50**	40.2	46.8	51.5	58.8	54.3

Source: Central Bank of Suriname

to a 63 percent increase in the loss category, mainly due to the Government loan. Lending to the Government amounted to 21 percent of total lending and 67 percent of Tier 1 capital of commercial banks. With the implementation of IFRS standards, provisions need to be made for all loans, including Government loans.

Earnings and Profitability

The profitability of the banking sector increased significantly, mainly due to the interest income of banks obtained from the OMOs and the "unrealized gains from foreign currency positions", because of exchange rate depreciation during the second half of 2022. The larger banks have contributed significantly to the interest income from OMO investments, resulting in the strong growth of the gross income. The exchange rate increases have had a positive effect on the revaluation of banks' foreign currency items, which are mainly reflected in the high degree of financial dollarization.

As a result, total assets have increased substantially as has shareholders' equity, hence the increases in the return on equity and return on assets.

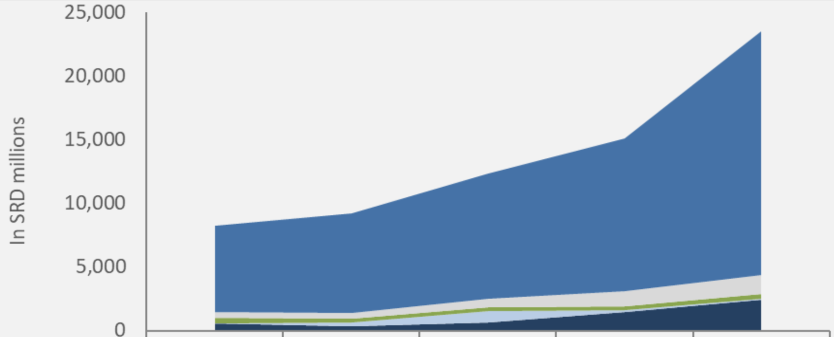
Due to the substantial increase in total interest income, partly caused by the OMOs, relative to the less strong increase in interest expenses, the net interest margin increased with 142.5 percent in 2022 in relation to the previous year (Table III.2). In addition, other expenses also showed an increase of 61.5 percent, mainly driven by staff and other operating expenses.

Liquidity

As shown in Figure III.3, the liquidity ratio of the banking sector is above CBvS' internal standard of 100 percent. Banks' liquidity positions are also monitored through the periodical reports regarding the Liquidity Coverage Ratio (LCR), which shows a liquidity surplus in SRD, USD and EUR. For banks that do not meet the standard, regular consultations take place between CBvS and individual banks' management and supervisory boards. In addition, the management of banks' liquidity and liquidity risk management is assessed by means of on-site inspections.

The total loan-to-deposit ratio increased from 33.6 percent in 2021 to 35.1 percent in 2022 Figure III.4), partly due to the revaluation of loans and deposits in foreign currency because of exchange rate depreciations. Foreign currency loans account for approximately 61.5 percent of total lending in SRD, while foreign currency deposits comprise 77.2 percent of total deposits in SRD.

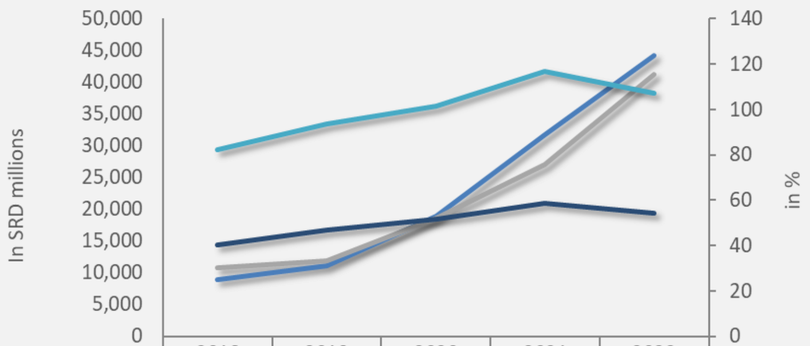
Figure III.2
Commercial Banks Classification of Loans



	2018	2019	2020	2021	2022
Gross Delinquency ratio	17.9%	15.4%	20.4%	20.4%	18.5%
Gross NPL ratio	12.0%	10.6%	14.6%	12.8%	12.4%
Pass	6,802	7,812	9,824	12,005	19,161
Special Mention	487	442	715	1,156	1,447
Substandard	423	344	265	324	427
Doubtful	33	246	878	125	76
Loss	539	386	664	1,476	2,407

Source: Central Bank of Suriname

Figure III.3
Commercial Bank Liquidity Indicators



	2018	2019	2020	2021	2022
Liquid assets	8,835.8	11,121.0	18,846.2	31,667.5	44,143.7
Short term liabilties	10,761.8	11,904.2	18,598.9	27,071.7	41,269.5
Liquidity ratio	82.1	93.4	101.3	117.0	107.0
Liquid assets / Total assets	40.2	46.8	51.5	58.8	54.3

Source: Central Bank of Suriname

Table III.2
Commercial Bank Earnings and Profitability

In SRD thousands unless in percentage	2018	2019	2020	2021	2022
Gross income	23,550	229,153	601,442	794,813	2,225,489
Total income	780,901	1,065,733	1,581,891	2,428,582	4,863,864
Expenses	757,351	836,580	980,449	1,633,769	2,638,374
Net interest Margin	474,917	729,430	708,607	1,253,509	3,039,138
Profit after tax	(33,862)	155,980	458,634	600,633	1,810,439
Average equity	1,235,095	1,373,324	1,727,358	2,689,196	4,623,589
Average assets	21,025,265	22,889,164	30,181,184	45,241,455	67,578,558
ROE (%)	1.9%	16.7%	34.8%	29.6%	48.1%
ROA (%)	0.1%	1.0%	2.0%	1.8%	3.3%
% Change average equity	24.2	11.2	25.8	55.7	71.9
% Change average assets	11.1	8.9	31.9	49.9	49.4
% Change gross income	(85.4)	873.1	162.5	32.2	180.0

Source: Central Bank of Suriname

Banking Stability

The banking stability index (BSI), part of the early warning framework of CBvS, provides insights into the stability and vulnerability of the banking sector. The average value of the BSI at the end of May 2023 was 0.29. This is one of the lowest values for the BSI when compared with the past four years. The BSI deteriorated due to diminished asset quality and lower liquidity of the banking system (Figure III.5).

Figure III.5
Banking Stability Index

Source: Central Bank of Suriname

1.5 Implementation of the IMF-program

- **Asset Quality Review**
  As a result of the Asset Quality Review (AQR) conducted at the commercial banks as part of the IMF program under the Extended Fund Facility (EFF) agreement, the CAR of the banks may be adjusted downwards. The main purpose of the AQR was to assess the adequacy of banks' loan loss provisions based on Regulation "Credit Exposure Classification and Provisioning" of CBvS. In addition, the AQR investigated to what extent the provisioning level was compliant with IFRS, where collateral on loans must now also be taken into account.

- **Roadmap**
  According to the planning of the IMF program, a roadmap for restructuring the banking sector and the reform of the governance of banks had to be drawn up in order to strengthen the financial sector. The roadmap has a time horizon of three years and may be reassessed every year, and adapted to current developments at home and/ or abroad. The roadmap is developed following the results of the AQR, whereby banks that do not (fully) comply with the supervisory requirements must submit a time-bound recapitalization and restructuring plan. CBvS will assess these plans for their credibility or feasibility and supervise their implementation (IV. Special Topic 2).

- **Crisis management**
  After the Bank Resolution Act comes into force, policies, supervisory measures and specific guidelines will be developed, and the starting points for the recovery plans of banks formulated. In addition, a Bank Resolution Unit has been set up and staffed within CBvS. The appropriate governance arrangements, funding and clear internal guidelines on how the unit should undertake crisis management and enforcement actions are in process.

1.6 Stress Test Results

Stress tests measure banking sectors' resilience in situations of increased uncertainty and economic downturns.

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 (Annex 6). Two types of liquidity stress tests are performed to assess the system's resilience to liquidity shocks. 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.

The starting point for the scenarios is a bank ing system, which as a whole has met the minimum required CAR, although on a bank-by-bank basis, two non-systemic banks did not comply with the minimum regulatory CAR (Annex 9.1 and Annex 9.2). Furthermore, according to regulation, not all banks were adequately provisioned at the end of May 2023. It was therefore necessary to supplement individual bank's capital to make up for insufficient provisioning prior to conducting the stress test. An additional provision of SRD 180.7 million would be needed per May 2023, which would cause the aggregate CAR to decline from 18.3 percent to 17.9 percent. The capital injection needed to keep all banks at the regulatory minimum of 10.00 percent as of May 2023 amounted to SRD 147.8 million or 0.2 percent of the GDP. The credit risk stress test starts with a NPL ratio of 8.7 percent excluding Government NPLs. Government NPLs are not included because there are no provisions yet made for Government NPLs, which is why additional tests are conducted, including Government NPLs. The adjusted CAR (17.9%) constitutes the basis in the following scenarios.

Main Results

Overall, the banking system was less resilient at the end of May 2023 when compared with December 2022. Despite higher pre-shock CAR, the results worsened in May 2023, which can be attributed to (i) higher NPLs and (ii) higher dollarization. The resilience against for eign exchange risk remains worrisome, due to the aforementioned high dollarization. This reflects the vulnerability of banks to exchange rate risk, as more capital is needed to absorb the exchange rate risk since March 2021. Furthermore, the resilience against credit risk declined. This is attributable to the increase in the volume of the NPLs. With the exception of concentration risk, only two systemic banks would be able to withstand nearly all shocks. his is not surprising as these two banks are the main contributors to the aggregate capital of the banking system.

Solvency Stress Testing

Concentration Risk

The Government exposes the banking system to credit concentration risk, as default of the Government would result in insolvency of the banking system. Credit to the largest borrowers at some banks is concentrated in the sectors Government, Mining, and Trade (Table III.3). This corresponds with the sectoral credit concentration, particularly credit to Government and Trade, which account for 24 percent, respectively 17 percent, of total credit.

Table III.3
Top Five borrowers: Allocation of Credit

May-23		
Sector	**Volume**	**In % of Total**
Government	2,725,745	39.3
Manufacturing/Mining	925,707	13.4
Trade	738,150	10.6
Manufacturing/Trade	673,549	9.7
Services	318,245	4.6
Agriculture	572,275	8.3
Construction	587,586	8.5
Transport	191,204	2.8
Other	200,167	2.9
Total	**6,932,626**	**100**

Source: Central Bank of Suriname

Table III.4
Top Five Borrowers: Credit Concentration

May-23	System Including Government Loans	System Excluding Government Loans
Pre-shock CAR (%)	15.9	15.9
Top 1 borrower default		
Post-shock CAR (%)	8.3	12.8
Recapitalization required (× SRD 1000)	1,434,641	1,177,905
Top 3 borrower default		
Post-shock CAR (%)	2.1	10.6
Recapitalization required (× SRD 1000)	2,819,758	2,131,297
Top 5 borrower default		
Post-shock CAR (%)	(3.5)	7.6
Recapitalization required (× SRD 1000)	3,963,711	2,794,412

Source: Central Bank of Suriname

Credit Risk

The aggregate banking sector is exposed to credit risk, especially the non-systemic banks, due to the high NPLs, which require higher provisioning. As a result of an increase in the volume of the NPLs, especially the NPL ratio for FX, (increased from 17.0 percent in December 2022 to 17.2 percent in May 2023) the banking system would be less resilient as depicted by the number of banks falling below the norm. Two additional banks would breach the minimum norm of 10 percent during the mild, adverse and severe shock (December 2022: no additional banks). However, the aggregate post shock CAR is still above the minimum norm during each shock, due to two systemic banks (Figure III.6).

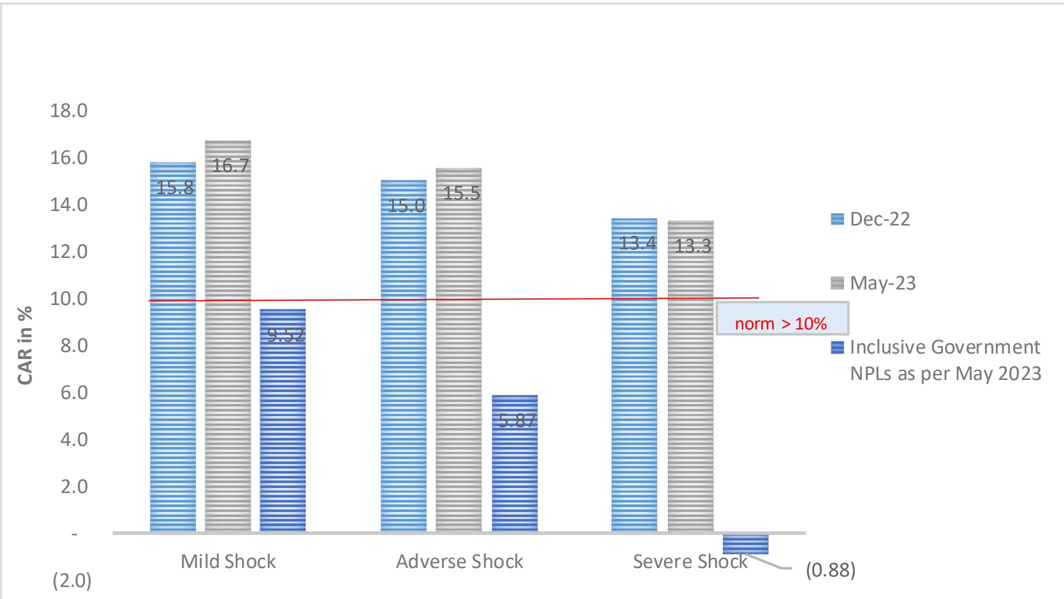
If Government NPLs are included, the share of the foreign currency NPLs in total NPLs amounts to 70 percent. Currently, there are no provisions made by banks for Government NPLs. That is why additional tests are conducted, including Government NPLs. If Government NPLs are included, the banking sector would not be able to withstand any shock (Figure III.6). Not surprisingly, the Government NPLs have a share of 43 percent in total NPLs.

Foreign Exchange Risk

Direct Foreign Exchange Risk

The resilience against foreign exchange risk diminished further in May 2023, as the share of dollarized RWA remained high* . As depicted in Figure III.7, the post-shock CAR remained above the 10 percent standard through all three shocks. Nevertheless, it may be concluded that banks are vulnerable to exchange rate risk as the high post-shock CAR is attributable to two systemic banks. Three additional banks will fall

Figure III.6
Results of Overall Non-Performing Loans Increase



Source: Central Bank of Suriname

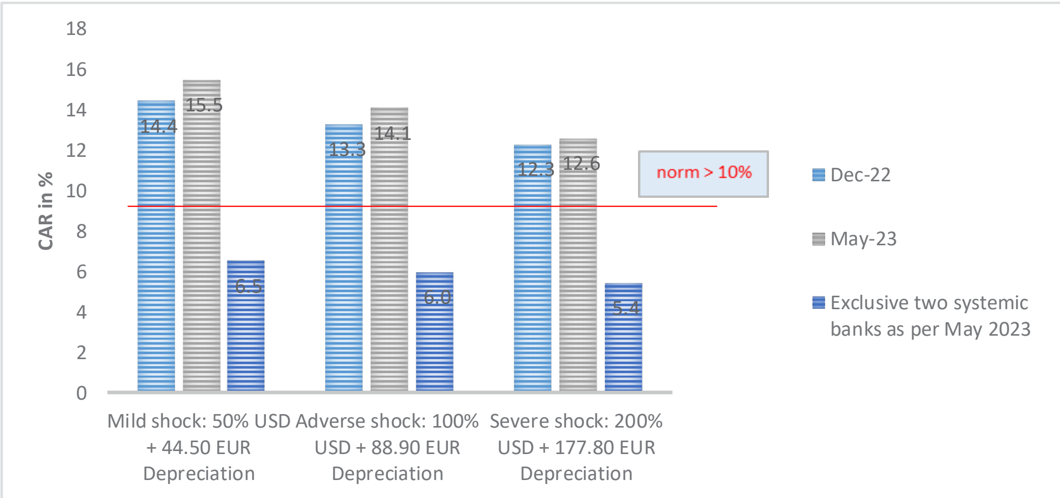
* Aggregately, 72% of total RWA is in foreign currency

below the standard during the mild and adverse scenario, while five additional banks fall below the standard under the severe scenario. It should be noted that, when the two systemic banks are excluded, the aggregate post-shock CAR would drastically fall below the minimum 10 percent (Figure III.7).

Multifactor Test

As of May 2023, in line with the previous “single factor” shocks, the aggregate post-shock CAR will still be above the minimum CAR, thanks to two systemically important banks, which would absorb all losses in both local currency and foreign currency due to their high pre-shock CAR. The banking sector remains vulnerable in terms of additional banks falling below the required CAR. On an aggregated level, the banking sector needs more recapitalization in May 2023. This amounts to SRD 1.9 million under the extreme shock, equivalent to 2.3 percent of GDP (December 2022: 1.4 million / 2.6% of GDP). Consistent with previous shocks, the CAR of the banking system will still be above the required CAR (Figure III.9) after the shock due to two systemic banks, which would absorb all losses in local currency and foreign currency due to their long NOPs. Although the aggregate post-shock CAR remained above the 10 percent, the multifactor results are worrisome, as seven out of the nine banks would fall below the minimum CAR under the severe shock, which is attributable to a depreciation over the course of the year. These six banks account for 50 percent of banking system assets.

Figure III.7
Results of USD/SRD and EUR/USD Depreciation

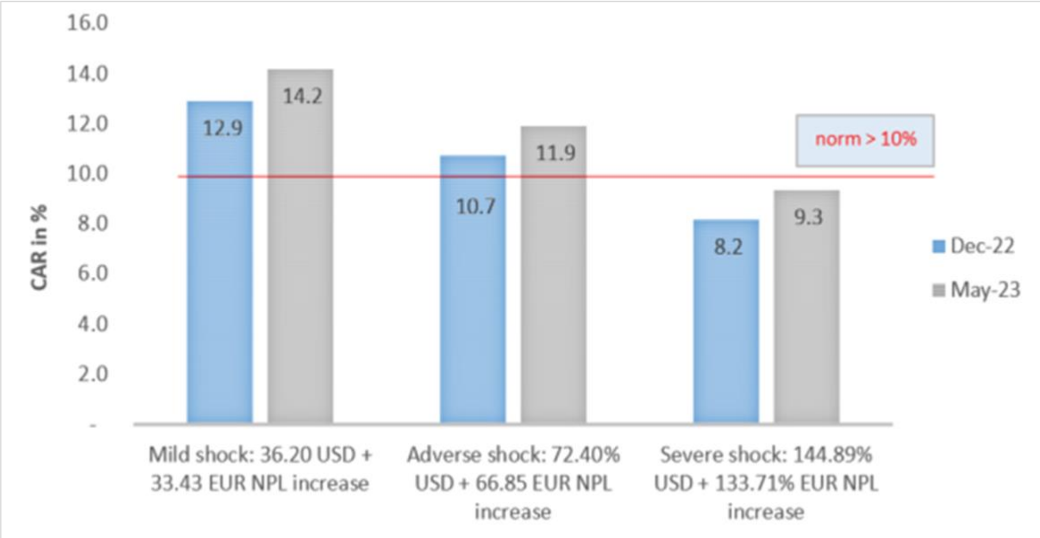


Source: Central Bank of Suriname

Exchange Rate-induced Credit Risk

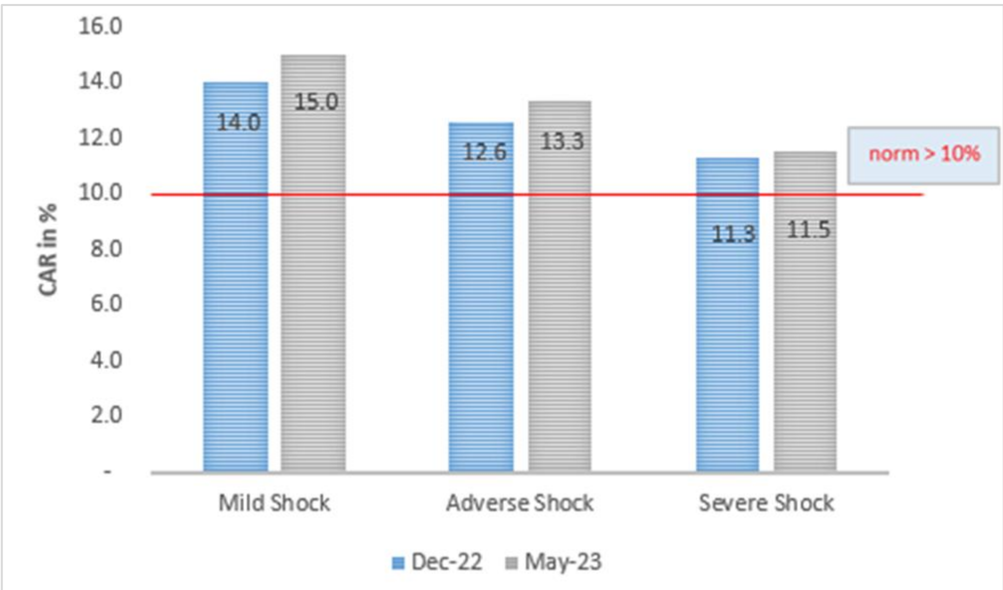
The increased volume of NPLs in USD and EUR worsened the banking sector’s resilience to indirect foreign exchange risk. The banking sector will record a larger capital loss in May 2023, due to additional provisions that need to be made. As shown in Figure III.8, the banking system would not be able to withstand the severe shock, as total post-shock CARs would fall below the minimum standard of 10 percent, consistent with the performance in December 2022. The latter shock drags four additional banks below the minimum standard of 10 percent, which requires a capital injection of SRD 2.5 billion equal to 2.9 percent of GDP (December 2022: SRD 2,269 million / 2.7% of GDP).

Figure III.8
Results of Exchange-Rate-Induced Credit Risk



Source: Central Bank of Suriname

Figure III.9
Results of Depreciations and Total NPL Increase



Source: Central Bank of Suriname

Liquidity Stress Test

The banking system is not resilient against a bank-run, as banks would become illiquid with in five days. Noteworthy is the increasing trend of digital banking that offers depositors the possibility to withdraw deposits at any given time, which could lead to a digital bank-run. Considering the options of a digital bank run, the assumptions for the liquid ity stress test have been revised (Box III.1). The stress test shows that banks become illiq uid faster in SRD. In FX, they become illiquid a day later (Table III.5).In order to better measure the liquidity risk, CBvS has already started calculating the Liquidity Coverage Ratio.

Box III.1
Liquidity Stress Test Assumptions

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 SRD deposits would be 13.6 percent for the first day and 13.8 percent per day for the remaining four days;
- The daily outflow of FX deposits would be 13.2 percent for the first day and 15.4 percent per day for the remaining four days;
- The daily fire sales of liquid assets will be 80 percent, while the daily fire sales of non-liquid assets will be 1 percent.

Table III.5
Results Deposit-Outflow Stress Test

		Dec-22	May-23
Withdrawal per day	SRD Deposit Outflow rate	Number of Banks illiquid	Number of Banks illiquid
1st day	13.6%		
2nd day	13.8%		
3rd day	13.8%	1	1
4th day	13.8%	5	2
5th day	13.8%	5	5

		Dec-22	May-23
Withdrawal per day	FX Deposit Outflow rate	Number of Banks illiquid	Number of Banks illiquid
1st day	13.2%		
2nd day	15.4%		
3rd day	15.4%		
4th day	15.4%	1	4
5th day	15.4%	5	6

Source: Central Bank of Suriname

Conclusion

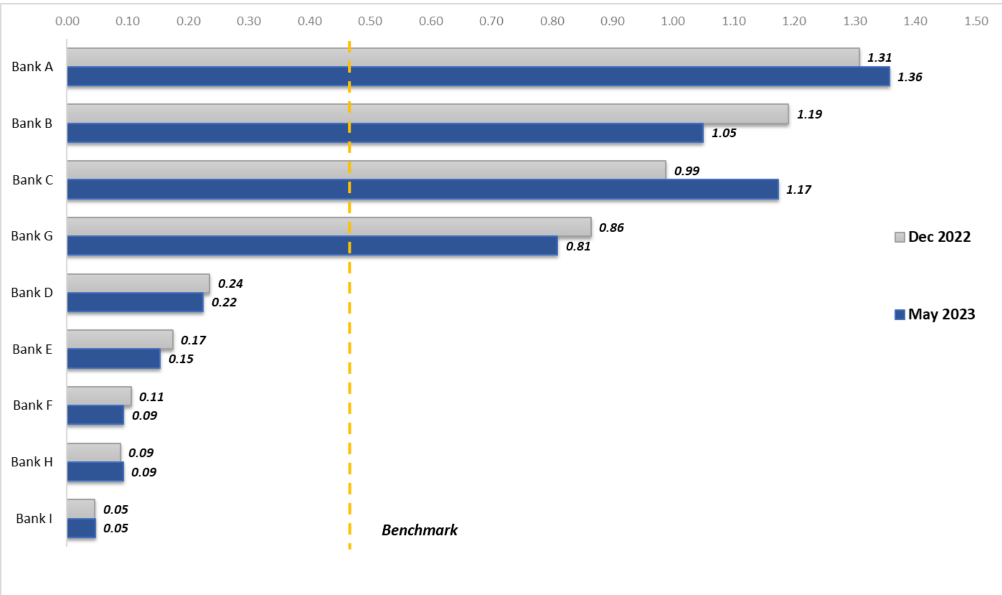
Although concentration risk causes the highest capital loss, exchange rate risk also poses a major risk that is currently materializing. This risk will remain and continues because of the high dollarization of the RWA. The resilience against credit risk has worsened due to the deterioration of the asset quality. Regular liquidity stress test results revealed that the banking system is not resilient, as banks would become illiquid within five days.

Systemically Important Banks

As of May 2023, four out of the nine active banks are categorized as Domestic Systemically Important Banks (D-SIBs). The D-SIBs scores of May 2023 are compared to the scores of December 2022. Figure III.10 indicates that four commercial banks have high systemic impact. In comparison to December 2022 (4.35), the cumulated total score of the D-SIBs increased to 4.39. These D-SIBs represent 86.5 percent of the Surinamese banking system assets. The remaining banks are not categorized as systemic banks as their total scores are individually below the benchmark of 0.5.

The increased total score is mainly attributed to increases in the categories "Interconnectedness" and "Complexity". The significant change in the category "Complexity" is due to an increase in investments in foreign securities. Even so, the change in the category "Interconnectedness" is due to a significant increase in claims on foreign banks. Noteworthy is the fact that the foreign currency (FX) items within the D-SIB categories are attributable to a depreciation of 18.9 percent, when compared to December 2022. As of May 2023, the four D-SIBs have higher CARs when compared with the suggested CARs in relation to their systemic importance.

Figure III.10
Total Score of the Surinamese Commercial Banks*



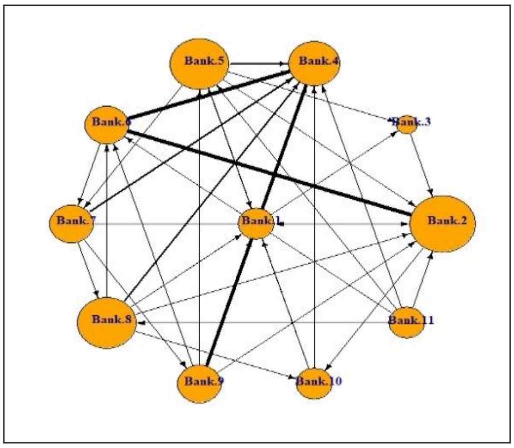
Source: Central Bank of Suriname
*Total score higher than 0.5 means high systemic importance.

Interconnectedness among Banks

The domestic interbank network for December 2022 and May 2023 is visualized in Figure III.11 and Figure III.12. The thickness of the lines[16] indicates strong interconnections between banks. The thickness of the lines increased in terms of nominal FX claims by 18.4 percent at the end of May 2023. The interbank claims consist of FX claims (94.7%), SRD claims (1.8%) and shares (3.5%). FX claims consists of long-term claims of more than one year (76%), short-term claims of 1 year or less (2%), current account deposits (12%), short-term de posits (8%), and time deposits of more than 1 year (2%).

The thickness of the lines increased in terms of volume at the end of May 2023, which is attributable to a depreciation of 18.9 percent. However, in real terms, the FX claims decreased by 17.4 percent. The SRD claims increased by 18.8 percent, but their share in total claims amounted to only 2 percent. The thickness of the lines increased in terms of volume at the end of May 2023, which is attributable to a depreciation of 18.9 percent. However, in real terms, the FX claims decreased by 17.4 percent. The SRD claims increased by 18.8 percent, but their share in total claims amounted to only 2 percent.

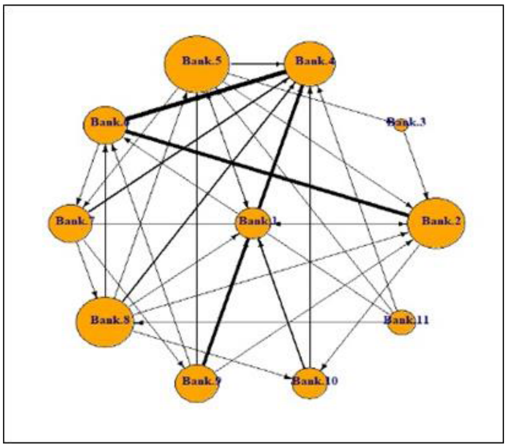
Figure III.11
Interconnection Net Exposures
(December 2022*)



Source: Central Bank of Suriname

* The size of the nodes represents the amounts of interconnectedness with each other, i.e. a bigger node indicates a higher number of connectedness with each bank. The thickness of the arrows refer to the volume of the connectedness.

Figure III.12
Interconnection Net Exposures
(May 2023*)



Source: Central Bank of Suriname

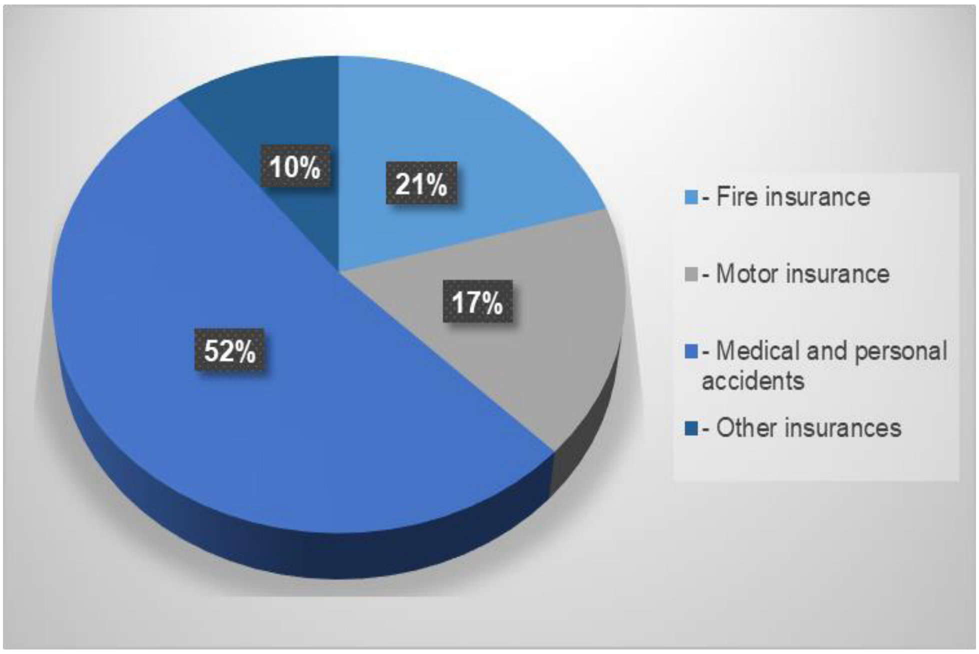
* The size of the nodes represents the amounts of interconnectedness with each other, i.e. a bigger node indicates a higher number of connectedness with each bank. The thickness of the arrows refer to the volume of the connectedness.

2. Insurance Companies

2.1 Market Activity

In 2022, the non-life insurance companies underwrote mainly medical and personal accidents insurance, fire damage insurance and motor vehicle insurance (Figure III.13). The third-party motor liability insurance and basic health care insurance, which respectively fall under motor vehicle insurance, and medical and personal accidents insurance, are mandatory insurances. The third-party motor liability insurance accounts for approximately 10.6 percent of the total gross premium income of the non-life insurance sector. Detailed information regarding the medical and personal accidents insurance was not available during the preparation of this report.

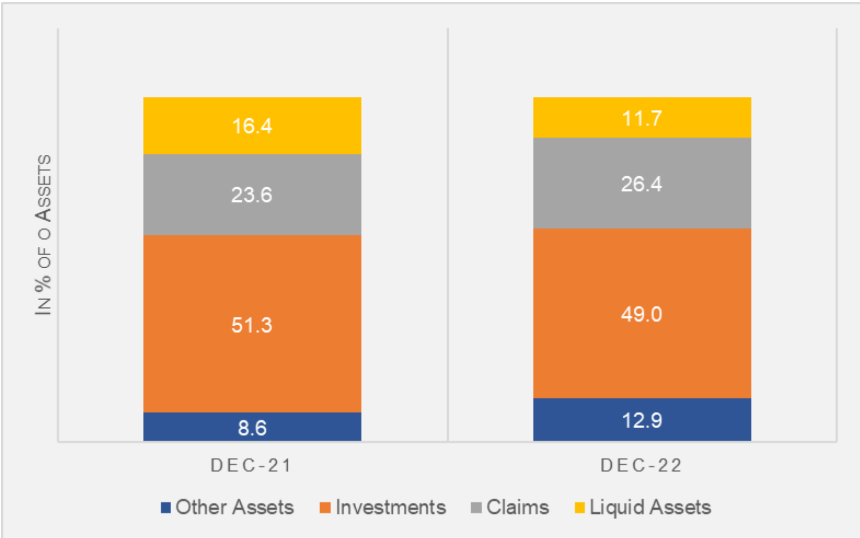
Figure III.13
Gross Premium of the Non-Life Insurance Companies



Source: Central Bank of Suriname

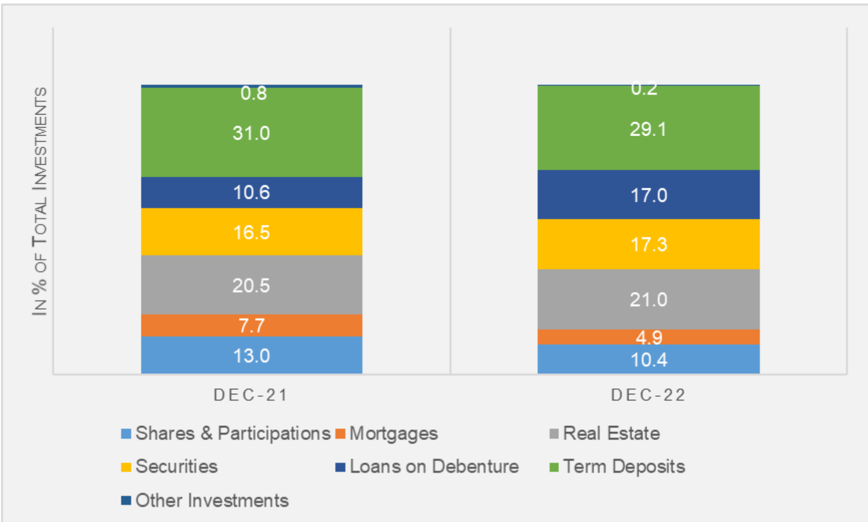
As shown in Figure III.14.a, total assets of the non-life in surance sector consist largely investments. Figure III.14.b gives an overview of the investments, comprised largely of term deposits (29%), followed by real estate (21%) and securities (17%).

Figure III.14.a
Asset Allocation of Non-Life Insuramce Companies



Source: Central Bank of Suriname

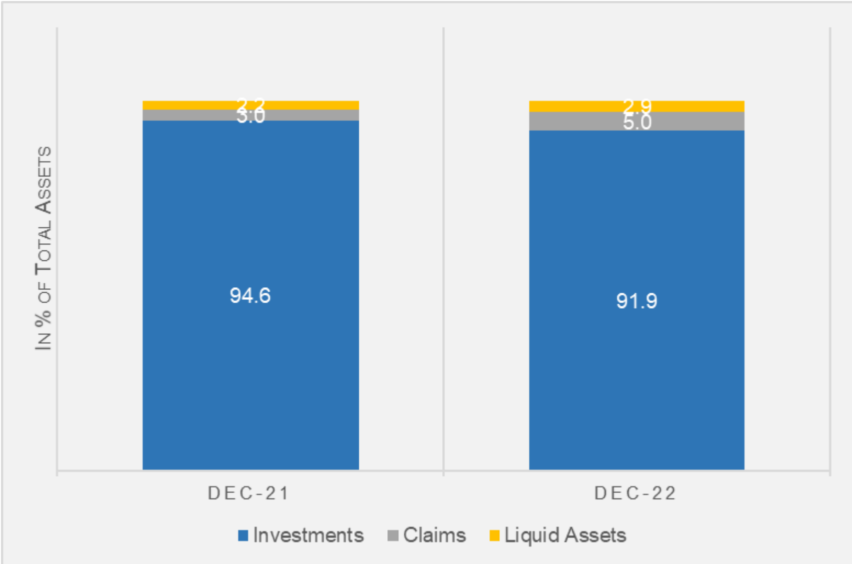
Figure III.14b
Investement Allocation of Non-Life Insurance Companies



Source: Central Bank of Suriname

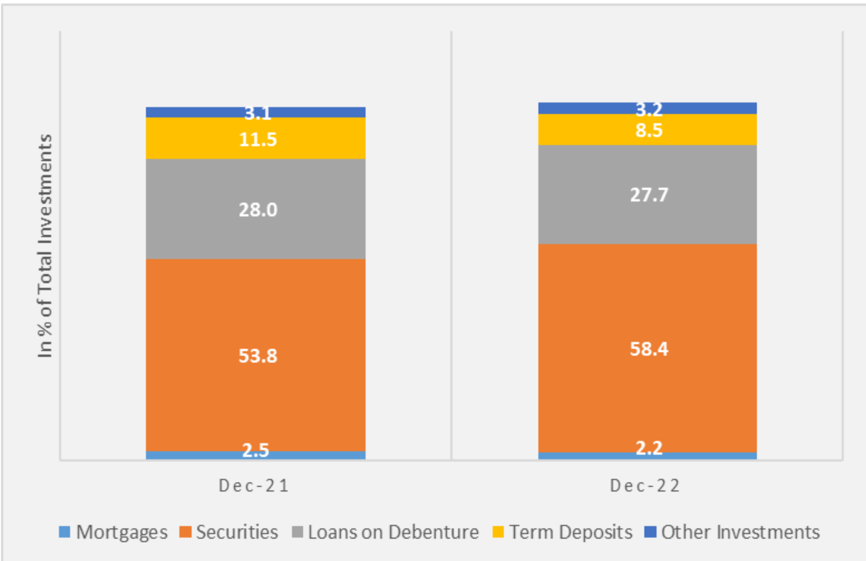
As depicted in Figure III.15.a, total assets of the life insurance sector consist largely of investments. Figure III.15.b gives an overview of the investments, where securities (58%) have the largest share followed by loans on debenture (28%). The main life insurance products underwritten in Suriname were term insurance (of which credit insurance), whole-life insurance and annuities. Insurance companies have reinsurance arrangements, primarily abroad, with A-rating reinsurers.

Figure III.15 a
Asset Allocation of Life Insurance Companies



Source: Central Bank of Suriname

Figure III.15.b
Investment Allocation of Life Insurance Companies

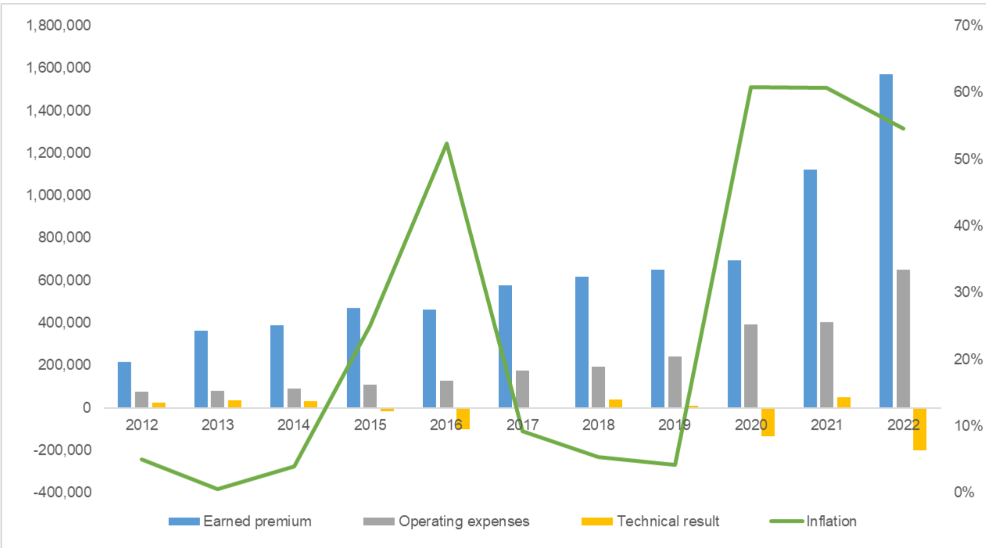


Source: Central Bank of Suriname

Non-Life Insurance

Financial information of the last 10 years reveals that in years of high inflation, the non-life insurance sector reported technical losses, but its overall solvency position remained stable. The high inflation also appears to have little impact on the sale of insurance products[17] . The section “Financial Soundness” in this report gives a short overview of financial soundness indicators over the period 2018 – 2022. In 2015, 2016, and 2020 up to and including 2022 in which high inflation was noted, the premium income in the non-life insurance sector did not increase correspondingly with the claims and operating expenses, resulting in a technical loss (Figure III.16). The non-life insurance products include short-term coverage and the premiums are accordingly calculated, established or a maximum of a year and laid down in the insurance contract. Therefore, insurance companies are not in the position to adjust the premium during the contract year when claims and expenses increase more than expected. The sector still made profits due to the foreign exchange gains and other benefits.

Figure III.16
Profitability of Non-Life Insurance Companies and Inflation



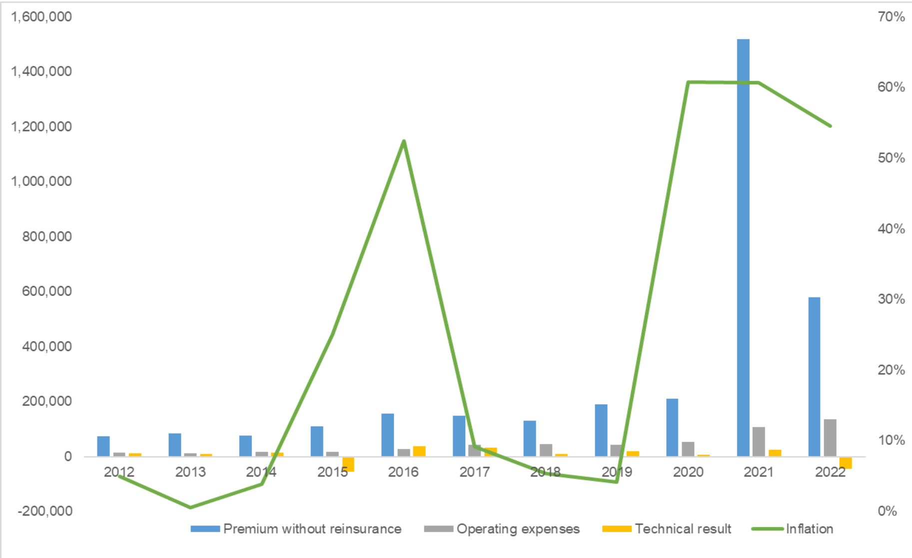
Source: Central Bank of Suriname

[17] Figure III.16 gives an overview of the development of the sale of insurance policies and inflation over 2012 – 2022. The figures indicate that the sale of insurance policies do not change significantly in years with high inflation.

Life Insurance

The high inflation had less impact on the claims and operating expenses of the life insurance sector (Figure III.17). The premium income increased more than the claims and operating expenses did. This is mainly due to the fact that a great part of the life insurance policies is denominated in foreign currency, which means that the premium income of these policies increases in SRD if exchange rates rise.

Figure III.17
Profitability of Life Insurance Companies and Inflation



Source: Central Bank of Suriname

2.2 Main Threats

- **Inflation risk**
  The main threat for the insurance industry is the high inflation. Although some individual insurance companies experience different types of problems, such as brain-drain and limited investment possibilities, these do not pose risks to the overall financial soundness of the insurance sector. It is a challenge for the insurance companies to operate successfully in the Surinamese economy, but as for 2023, there are no threats, which could cause a major disruption in the insurance sector.

- **Credit risk**
  For the insurance sector, inflation risk is the critical risk, which contributes to credit risk and liquidity risk. High inflation and the exchange rate depreciation may lead to payment problems for businesses and households due toreduced payment capacity. In 2022, mortgages and issued loans, accounted for approximately 22.7 percent of the total investments in the non-life insurance sector and for approximately 29.9 percent of the total investments in the life insurance sector (Table III.6). Furthermore, about 83.9 percent of the total loans extended by the insurance sector are loans denominated in foreign currency. Granular financial information about the repayments of the loans given by of the insurance sector are not yet available, thus the impact of inflation on loan repayments cannot be assessed adequately.

Table III.6
Breakdown of Loans

Type of Loan	In % of Total Loans	Volume (SRD million)	Volume (FX million)	Total Loans	in SRD (%)	in FX (%)
Mortgage Loans						
Life Insurance Sector	7%	93.42	137.83	231.26	40%	60%
Non Life Insurance Sector	14%	25.34	418.70	444.04	6%	94%
Issued Loans						
Life Insurance Sector	68%	51.01	2,154.03	2,205.04	2%	98%
Non Life Insurance Sector	12%	355.27	22.31	377.58	94%	6%
Total Loans		**525**	**2,733**	**3,258**		

Source: Central Bank of Suriname

2.3 Measures to Mitigate Risks

- **Inflation risk**
  Insurance companies should focus on their core business and devise sustainable strategies to make profits.

- **Credit risk**
  In January 2023, CBvS issued new annual and quarterly reporting schedules for insurance companies, in which financial information will be reported more extensively, giving CBvS more insights to be able to better determine this risk and implement mitigating measures.

- **Reporting financial statements**
  As mentioned above, in January 2023, CBvS issued new annual and quarterly reporting schedules for insurance companies, in which financial information will be reported more extensively, giving CBvS more insights to be able to better determine risks of the insurance sector in several areas.

- **Regulation for insurers**
  CBvS is working on several guidelines to tighten the supervision and better monitor risks in the insurance sector. These include the guideline on solvency, and the technical provisions and investments. Furthermore, CBvS will issue guidelines for the loan provisions in order to ensure that this is done correctly, thus mitigating the risk that the provisions are not sufficient to absorb losses from loans granted. The new reporting schedules will also provide more information on non-performing loans.

2.4 Financial Soundness Non-Life Insurance

Table III.7
Financial Soundness Indicators of Non-Life insurers*

Category	Norm	2018	2019	2020	2021	2022
Required Solvency						
Available Capital / Required Capital	**≥ 100**	424.5	428.9	620.1	594.3	456.1
Capital Adequacy						
Net Premium/Capital	**< 300**	129.6	123.4	83.2	95.1	105.4
Capital / Total Assets		30.9	29.0	33.7	32.8	31.1
Asset Quality						
(Real Estate + Unquoted Equities + Debtors) / Total Assets		51.0	40.5	39.0	42.7	44.3
Reinsurance						
Risk Retention Ratio		77.0	72.9	74.0	75.3	72.4
Earnings and Profitability						
Combined Ratio (Loss and Expense Ratio)		93.4	98.6	120.1	95.2	113.1
Loss Ratio		61.3	61.1	60.9	55.4	70.5
Expense Ratio		32.1	37.6	59.2	39.8	42.5
Return on Equity		2.8	7.5	36.2	26.0	18.6
Return on Assets		0.9	2.4	14.4	10.4	7.8
Liquidity						
Liquid Assets / Total Liabilities	**≥ 95**	55.6	62.3	70.8	65.6	55.7

Source: Central Bank of Suriname
* See Annex 8 for the formulas for the financial soundness indicators.

Capital

As shown in Table III.7, the capital of the non-life insurance sector may be qualified as adequate since the ratios indicating the adequacy of the capital comply with the generally used norms. The ratio "available capital compared to required capital" exceeded 100.0 percent in 2022, which indicates that the sector had more capital available than required. The ratio "net premium to capital" was 105.4 percent, which was far below the general maximum of 300.0 percent, indicating that the capital was adequate.

Assets

Real estate, unquoted equities and receivables have the largest probability of being impaired. The ratio real estate, unquoted equities and receivables to total assets was 44.3 percent in 2022, indicating that the assets may be qualified as inadequate as almost half of the assets had a large probability of being impaired.

Earnings and Profitability

In 2022, the net premium written was not sufficient to cover the claims and policyholders benefits and operating expenses, which was reflected by the combined ratio of 113.1 percent. Premium written, proved to be insufficient to cover the increased expenses due to high inflation, but the sector still managed to make profits due to the foreign exchange gains.

Table III.8
Financial Soundness Indicators of Life Insurers*

Category	Norm	2018	2019	2020	2021	2022
Required Solvency						
Available Capital / Required Capital	**≥ 100**	277.7	285.0	307.3	242.6	174.5
Capital Adequacy						
Net Premium/Capital	**< 300**	79.0	100.5	54.9	266.3	88.2
Capital / Total Assets		11.0	11.3	12.3	10.2	7.7
Asset Quality						
(Real Estate + Unquoted Equities + Debtors) / Total Assets		18.8	14.1	12.6	6.7	7.6
Reinsurance						
Risk Retention Ratio		96.8	98.0	97.7	99.6	99.1
Earnings and Profitability						
Return on Equity		5.3	5.3	50.7	31.0	32.8
Return on Assets		12.2	12.5	10.3	7.8	6.3
Liquidity						
Liquid Assets / Total Liabilities	**≥ 60**	53.0	57.3	62.2	71.5	70.2

Source: Central Bank of Suriname
* See Annex 8 for the financial soundness indicators

Capital

As in the non-life insurance sector in 2022, the capital of the life insurance sector may be qualified as adequate, based on the ratios “avaiable capital compared to required capital” and “net premium compared to capital” (Table III.8). In 2022, the first ratio exceeded 100.0 percent, which indicates that the sector had more capital available than required. The second ratio was 88.2 percent. A percentage lower than 300.0 percent is generally considered adequate.

Asset Quality

In 2022, the ratio “real estate, unquoted equities and receivables compared to total assets” was 7.6 percent, indicating that only a small part of the total assets had a large probability of be coming impaired. Therefore, the asset quality may be defined as adequate.

Profitability

The combined ratio is not calculated for the life-insurance sector. The industry makes profits mainly because of the foreign exchange gains.

Liquidity

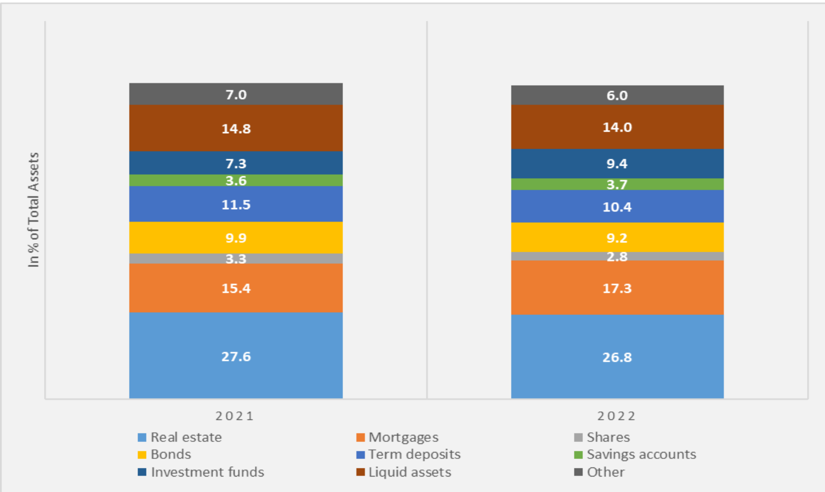
The liquidity ratio compares the liquid assets with the total liabilities. It is an indicator of the insurer’s ability to meet its short-term obligations. Internationally, the used minimum for this ratio for the life insurance industry is 60.0 percent. In 2022, the ratio was 70.2 percent.

3. Pension Funds

3.1 Market Activity

As of 2022, the pension funds had SRD 10.3 billion in assets in 2022, of which 87 percent were nvestments and the remaining 13 percent were liquid assets, consisting of cash and receivables. Most pension funds hedge themselves against inflation risk, and to a lesser extent against exchange rate risk, by holding assets in foreign currency or assets with a positive correlation to inflation, which improves the nominal value of the assets when the exchange rate rises. Because the obligations are mostly in local currency, the exchange rates have a dominant influence on the nominal coverage ratio.

Figure III.18
Allocation of Pension Funds' Assets

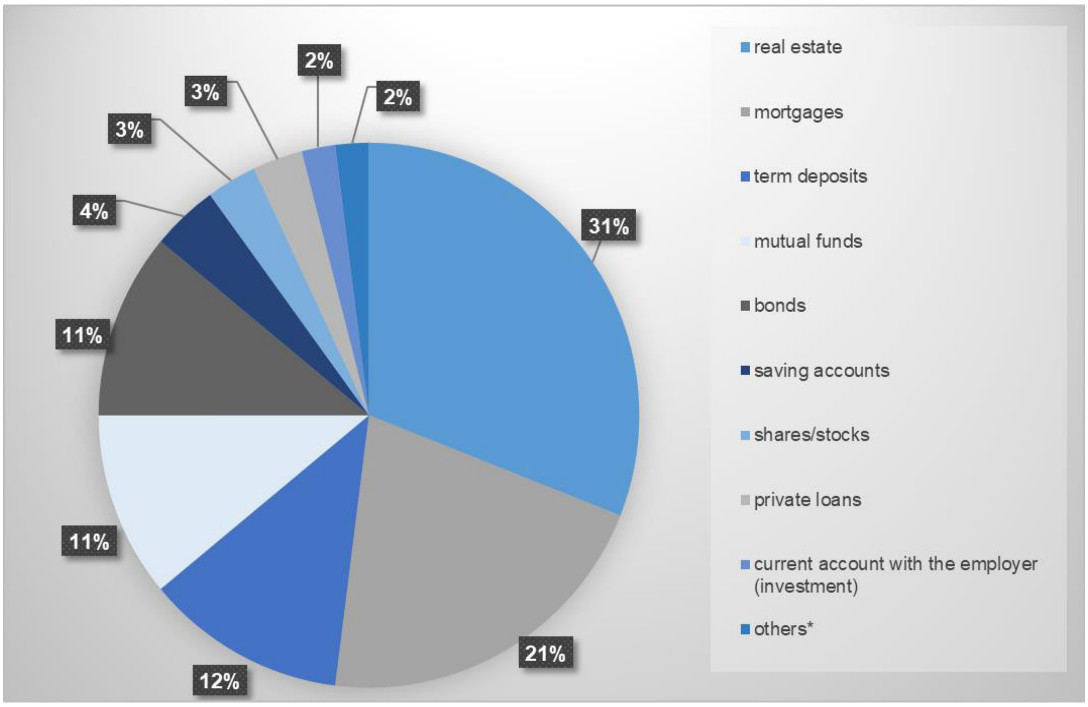


Source: Central Bank of Suriname

Pension funds' investments, expressed in percentages of the total assets, increased from 85.2 percent to 87.0 percent (Figure III.18). Although investing abroad is allowed, the majority (86%) of the investments are done locally. The reasons for this varies from the local investment opportunities in foreign currency and the ease of doing so to the extent of availability of expertise and access to the international capital market.

The pension funds have taken advantage of the investment opportunity given through the introduction of Central Bank Certificates. This is expected to increase further in 2023. Until now, 20 pension funds, which are supervised by CBvS, have invested in Central Bank Certificates, with a total amount of approximatly SRD 704 million.The investment income is differentiated into direct and indirect investment income. The indirect investment income was the largest income in 2022, amounting to 74.2 percent of the total investment income. The indirect investment income was mainly generated by exchange rates gains (51.9% of the total investent income). The direct investment income amounted to 25.8 percent of the total investment income. The main direct investment income stemmed from real mortgages (14.1% of the total investment income), followed by term deposits (11.3% of the total investment income) (Figure III.19).

Figure III.19
Allocation of Investments



Source: Central Bank of Suriname
*Others consists of gold certificates, treasury bills and personal loans

3.2 Main Threats

- **Operational risk**
  Pension funds are exposed to operational risk, resulting from internal events such as mismanagement by the board of trustees or failure of an IT-system. Based on periodic reviews, off-site monitoring and on-site inspections, the biggest shortcomings that indicate operational risk are:
  o Backlogs in submitting the provisional financial statements, actuarial reports and periodic reports on an annual basis;
  o The absence of a detailed administrative structure;
  o Inadequately written or absence of written and recorded meetings and decisions.

- **Inflation risk**
  Inflation risk might become a problem if the value of investments and other assets does not keep pace with inflation. During the reference periods, pension funds' coverage ratios remained quite stable, yet the purchasing power of the paid out pensions had eroded. It is expected that the robust position (as indicated by the coverage ratio including cash and receivables) of pension funds will decrease significantly if the Government decides to implement an (unbalanced) indexation of pensions. Even if pension funds, based on the fully funded method, are able to index pensions in the near future, indexation is in most cases unlikely to compensate for inflation at the current levels. The decision of the Government will lead to three options for some pension funds, namely (i) a deposit from the employer, (ii) a haircut on the pensions to keep their coverage ratio at or above

the standard or (iii) the termination of the pension scheme or pension fund.

- **Credit risk**
  The anticipated increased payment difficulties for households and enterprises might result in an increased credit risk for pension funds. Although there is no significant increase in non-performing mortgages and personal loans, credit losses, should they materialize, will have an impact on the pension funds' balance sheets, as the loan portfolio amounted to almost 20 percent of the pension funds' balance sheet (Table III.9) [18].

3.3 Measures to Mitigate Risks

- **Improved supervision**
  To improve the quality and effectiveness of its supervision, CBvS conducts top-down stress tests to analyse the resilience of the pension funds to adverse events. The objective is to improve prudential supervision by improving the stress testing tool. The board of a pension fund will eventually be obligated to conduct stress tests, using the scenarios suggested by the supervisors. CBvS strengthened the monitoring of pension funds' boards to comply with their obligations, by developing three levels of supervision. Improving awareness of board members regarding their responsibilities and accountability. In this regard, pension funds must have a code of conduct in place.

- **Strengthened monitoring**
  Designing a ladder of intervention that enables CBvS to take measures against pension funds with improper behaviour and who do not fulfil their commitments.

- **Dissolvement of inactive pension funds**
  Updating the requirements in the field of "fit and proper". CBvS initiated the process of dissolving pension funds and provident funds that are inactive or can no longer achieve their objectives.

Table III.9
Overview of Non-Performing Mortgages

Currency	Number of loans	Volume of Loans (SRD millions)	Number of NPLs	Volume of NPLs (SRD millions)
	2022	2022	2022	2022
SRD	976	56.0	6	11.5
USD	640	41.4	38	31.1
EUR	6	0.1	0	0

Source: Central Bank of Suriname

[18] Pension funds offer three kinds of loans: mortgages (11% of total loans), personal loans and private loans (89% of total loans). Only members of company pension funds are eligible for personal loans (in local currency) and mortgages, which are repaid by deducting the principal from the employee's paycheck, therefore covering the default on the repayment. Additionally, mortgages are also given to third parties, who are required to make payments by depositing the monthly payment fee into the pension funds' accounts at the commercial banks.

3.4 Financial Soundness

Overall, pension funds are financially sound. The coverage ratio has increased and stress test results confirm that pension funds remain resilient (Table III.10). The investment income as a percentage of the balance sheet total (ROA) has decreased in 2022 with 5 percent compared to 2021, which was, among other things, the result of a decrease in direct and indirect investment income in 2022. The return on investment (ROI) has decreased by 6 percent in 2022 compared to 2021, due to a more than significant decrease in the total investment income compared to the total investments.

In 2022, the coverage ratio[19] of the active pension funds increased from 108 percent to 109 percent. This increase in solvency may be attributed to the development of the exchange rate. This has led, among other things, to investments having increased more than proportionally compared to pension liabilities. However, it must be taken into account that the pension bases of the institutions have not (yet) been adjusted, the pension obligation has not yet been determined in certain cases, or that the financial statements have not yet been compiled in certain cases.

3.5 Stress Test Results

To improve the quality and effectiveness of its supervision, CBvS conducts top-down stress tests to analyse the resilience of the pension funds to adverse events. The objective is to improve prudential supervision by improving the stress testing tool. The board of a pension fund will eventually be obligated to conduct stress tests, using the scenarios suggested by the supervisor. A workbook utilizes the balance sheet of pension funds as a starting point for stress testing. Various scenarios are tested, estimating the effects of shocks on different items of the balance sheet. Overall, these tools and worksheets provide a comprehensive framework for assessing the strength and resilience of pension funds under various stress scenarios.

Table III.10
Financiall Soundness Indicators of Pension Funds*

Financial Soundness Indicators (%)	Norm	2021	2022
Coverage Ratio	**≥ 100**	108	109
Return on Assets	**≥ 4**	27	22
Return on Investment	**≥ 4**	31	25
Pension benefit paid / Contributions	**< 100**	51	48

Source: Central Bank of Suriname
*See Annex 8 for the formulas for the financial soundness indicators

[19] It is important to note that based on the solvency guideline cash and receivables are not included in calculating the coverage ratio. In practice, the coverage ratio of the pension funds would normally be higher than the results based on what the guideline prescribes. One of the reasons behind this is to encourage pension funds to invest most of their assets rather than holding the funds as fallow or idle money.

Financial Soundness Indicators (FSIs):

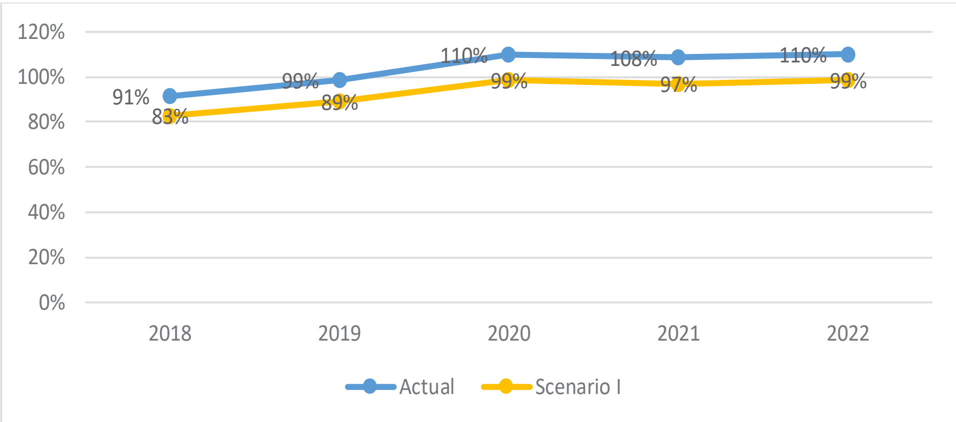
Calculations before and after shocks to assess quantitative effects.

Box III.2
Stress Test Scenario Assumptions

- Considers macroeconomic developments.
- Assumes a 10% drop in the value of stocks and bonds.
- Expects a 10% decrease in real estate investments.
- Expects a 15% decrease in mortgage loans.

Impact on pension funds:
Coverage ratio drops from 109 percent to 99 percent, based on CBvS guideline (Figure III.20).

Figure III.20
Total Assets and Foreign Currency Rates



Source: Central Bank of Suriname

Financial Interconnectedness

Pension funds are mostly interconnected with commercial banks and, to a lesser extent, with insurance companies and other pension funds. The interconnectedness between pension funds and commercial banks exists of shares, term deposits, savings deposits and current account deposits. This interconnectedness relates to 21.9 percent of pension funds' assets. The interconnectedness between pension funds and insurance companies exists of shares[20] and disability insurance policies. In most cases, the term of these disability insurance policies is 1 year. Due to the short duration, the interconnectedness is limited. Pension funds have no significant interconnectedness among themselves. The interconnectedness in the pension sector generally exists when pensionfunds participate in joint investments of loans of which some commercial banks are co-financiers and also act as administrators.

[20] This concerns approximately 5 percent of the shares of these insurance companies.

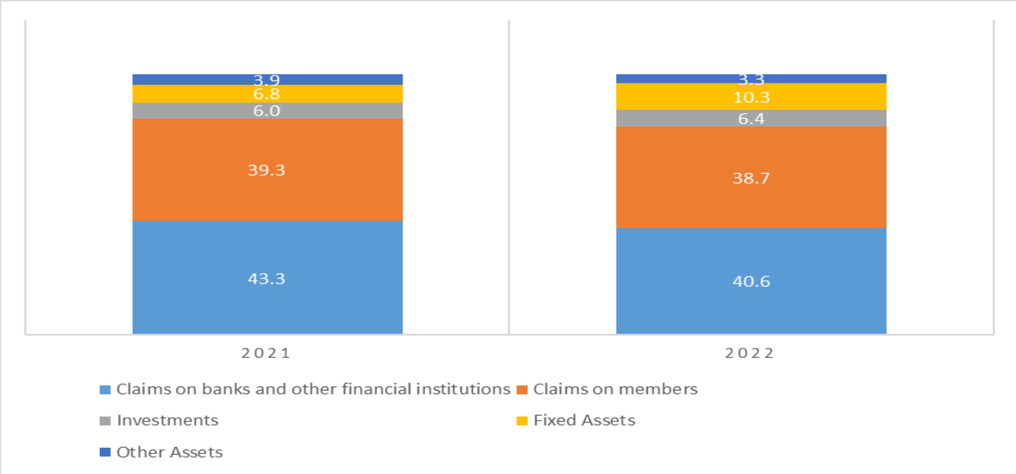
4. Credit Unions

4.1 Market Activity

The purpose of credit unions is to support members' financial growth by giving them the opportunity to save and borrow money.

Open-bond credit union lending accounted for 97 percent of total lending in 2022. This is mainly intended for rebuilding/renovating houses (67%) and purchasing furniture (16%). Closed-bond credit unions provided 50 percent of their loans for the purpose of rebuilding/renovating houses, and the other half for medical/funeral costs (21%), purchase of furniture (12%) and other purposes (17%).

Figure III.21
Assets of the Credit Unions



Source: Central Bank of Suriname

4.2 Main Threats

- **Governance**
  Lack of knowledge within the board, can lead to ineffectiveness, which could result in weak financial positions of credit unions. Therefore, decisions might not be made properly, resulting in mismanagement.

- **Compliance**
  Anticipating the introduction of the new prudential guidelines, it is expected that credit unions will not be able to comply with the IFRS standards.

- **Inflation**
  Inflation posed a risk for credit unions in 2022 due to the fact that most members' salaries decreased in purchasing power. Thus, fewer members will be borrowing, due to their reduced repayment capacity. When members borrow less, the credit unions will generate less interest income, which will result in a loss. In the long term, this will affect the equity of the institution. Due to inflation, the foreign currency loans cannot be repaid either.

4.3 Measures to Mitigate Risks

- **Governance**
  Credit unions have taken steps to mitigate

governance risk by restructuring the board, including appointing new board members, who are willing to take responsibility. CBvS supports this improvement process by allowing the credit unions to implement various risk-reduction strategies. Strong governance structures such as an effective board of directors, member engagement strategies and compliance programs, will all result in a better functioning of credit unions. Moreover, regular monitoring and evaluation of the process is necessary to manage governance risk. CBvS makes an effort to routinely educate the institutions on reporting procedures in order to mitigate the governance risk.

- **Compliance**
  Some credit unions have made an effort to mitigate compliance risk by improvement of the administrative management and appointing board members with the relevant expertise. Engaging in effective risk management by identifying, measuring, monitoring and controlling risk associated with conducting the credit union's business activities, can help credit unions to manage compliance risk even further.

- **Inflation**
  Inflation posed a risk for credit unions in 2022 due to the fact that most members' salaries decreased in purchasing power. Thus, fewer members will be borrowing, due to their reduced repayment capacity. When members borrow less, the credit unions will generate less interest income, which will result in a loss. In the long term, this will affect the equity of the institution. Due to inflation, the foreign currency loans cannot be repaid either.

4.4 Financial Soundness

CBvS divided the credit unions into two categories (A and B) based on their total assets. Category A consists of open and closed-bond credit unions with total assets larger than or equivalent to SRD 1.5 million. This category also includes credit unions that do foreign currency activities regardless of their total assets. Category B concerns open and closed-bond credit unions with total assets less than SRD 1.5 million.

Although the return on assets ratio has decreased by 100 percent in 2022, the sector complied with the majority of the norms (Table III.11). The result was a decrease of the net income in 2022 due to losses caused by inflation.

Table III.11
Financial Soundness Indicators of Credit Unions[21]

Financial Soundness Indicators (%)	Norm	2021	2022
Capital Adequacy	**≥ 7**	9	12
Claims on members vs liabilities to members	**≤ 80**	45	47
Return on assets	**≥ 1.5**	-1	-2
Liquidity	**≥ 100**	135	141
Equity to total assets	**≥ 10**	10	14

Source: Central Bank of Suriname
*See Annex 8 for the formulas for the financial soundness indicators

[21] The FSI's in Table III.11 regard the active credit unions

IV. SPECIAL TOPICS

1. Macroprudential Policy Framework

Background

Since the outbreak of the global financial crisis, a broad consensus has emerged on the need for a new type of policy framework, which gives authorities the mandate to contain risk for the financial system as a whole and also provides them with the instruments with which to do so. By adopting a system-wide perspective, macroprudential policy can help to fill the gaps left by traditional microprudential supervision, which focuses on idiosyncratic risk.

The global financial crisis has shown that sound and rigorous microprudential supervision is an essential component of any policy designed to maintain financial stability, but that it may, on its own, be insufficient. In other words, ensuring the safety and soundness of individual institutions alone will not necessarily protect the financial system from systemic risk or externalities, which, if ignored, could pose a threat to financial stability. CBvS 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. Financial stability is not an end in itself, but it is, like price stability, widely regarded as an important precon dition for sustainable economic growth.

Objective and Scope

The single objective of macroprudential policy is to limit the build-up of systemic risk among financial sector institutions and be tween the financial system and the economy in order to support sustained economic growth. Its scope is the financial system as a whole (including the interactions between the financial and real sectors) as opposed to individual components that take the rest of the system as given. Macroprudential policy primarily uses prudential instruments calibrated to target the sources of systemic risk. Non-prudential instruments, such as financial market infrastructure policies, which target systemic risk are also used.

Systemic risk is driven by economic and financial cycles over time, as well as by the degree of interconnectedness of financial institutions and markets. As such, the macroprudential approach has two dimensions, cyclical dimension and a structural dimension. The cyclical dimension deals with how aggregate risk in the financial system evolves over time, while the structural dimension, or cross-sectional dimension, deals with how risk is allocated across the financial system at a given point in time.

Intermediate Objectives

Cascading from the time and cross sectional dimensions, macroprudential policy pursues three interlocking intermediate three objectives:

- Strengthening the resilience of the financial system to aggregate shocks by building a robust infrastructure and buffers that help maintain the ability of the financial system to provide credit to the economy under adverse conditions.

- Contain the buildup of systemic vulnerabilities over time by reducing procyclical feedback between asset prices and credit and containing unsustainable increases in leverage and volatile funding.
- Control structural vulnerabilities within the financial system by managing risk from interlinkages that can render individual institutions "too important to fail."

Institutional Framework

Adequate institutional arrangements are important, so that macroprudential policies can effectively mitigate systemic risk. Three aspect are considered, namely: Mandate, Powers, and Domestic Cooperation.

- **Mandate**
  A clear mandate is essential for reducing the risks of policy inertia. The mandate should therefore be explicitly assigned to a single lead agency, due to the wide scope and challenging objective of macro prudential policy, and in the interest of efficiency and accountability.

The Central Bank Act of 2022 states that CBvS is formally designated as the macroprudential authority. This is appropriate as the Bank combines both the functions of monetary and supervisory authority and specifically:

- has regulatory responsibility while controlling prudential tools for the entire financial sector;
- is responsible for influencing conditions in money and credit markets including its essential function as a store of liquidity for the economy;
- is able to perform system-wide analyses conducive to playing a leading role in macroprudential policy;
- has the power to obtain information from other agencies to fill data gaps.

- **Macroprudential powers**
  The macroprudential authority needs sufficient powers to achieve its financial stability mandate. It is thus essential that CBvS be provided with direct hard powers in law to strengthen its ability to act.
  Macroprudential powers are appropriate in six broad areas, in order to carry out the macroprudential mandate effectively, namely:

- A clear mandate for macroprudential policy with operational independence to which it can be held accountable under transparent and effective governance arrangements.
- Collection of time-critical statistical or qualitative information relevant to macroprudential policy, not only from financial institutions or markets, but also from household, corporate and government sectors.
- Regulations regarding the design and calibration of an appropriate set of macroprudential tools for all financial sectors, including those, which lie outside of the regulatory perimeter.
- Designation or de-designation of Systemically Important Financial Institutions (SIFIs) that are subject to intrusive supervision.
- International arrangements to ensure coordination of actions that may be taken regarding foreign-based financial institutions that are the parent, subsidiary or branch affiliate of a domestic financial institution.

- **Domestic Cooperation**
  Problems can arise when the objectives of macroprudential policy are in conflict with the objectives of other policies that can affect financial stability (e.g. monetary policy). Inter-agency cooperation can be useful since it allows the relevant authorities to discuss different perspectives on systemic risks, possible tools and the potential for arbitrage opportunities across the various regulations being imposed on financial institutions.

Financial Stability Committee

Macroprudential oversight is fundamentally aimed at preventing, rather than managing, financial crisis. Establishment of a high-level Committee, supported by the inter-departmental technical committee within CBvS will reinforce "willingness to act". The tasks of this Committee should center on high-level oversight to the macroprudential work program of the technical committee. This high-level Committee, the Financial Stability Committee (FSC), has been established in 2022 and is alternately chaired by the Governor of CBvS and the Minister of Finance and Planning. The broad financial stability policies, which aims at preventing financial crises, and managing them in case they might occur, are shared and discussed within this committee. CBvS plays an active role in the FSC as it is best suited as the lender of last resort and overseer of the payments and settlement systems to provide the necessary logistic and analytic support for crisis contingency planning and management. In this context, the MoFP has a prominent role in the infusion of public funds or other measures to manage financial crises.

Financial Stability Advisory Committee

The inter-departmental technical committee of CBvS, named the Financial Stability Advisory Committee (FSAC) has been established since 2016 and currently functions as the technical secretariat of the FSC. FSAC is an internal professional advisory body established to advise the Executive Board of CBvS on essential matters relating to safeguarding of the stability of the financial sector in Suriname.

Macroprudential Surveillance

A key component of a macroprudential policy framework is a mechanism for early detection of systemic risk. The variation in systemic risks and vulnerabilities can be monitored by means of an early warning system (EWS), consisting of a relevant and complete suite of macroprudential indicators (MPIs), to guide decisions in relation to the selection, calibration, activation, and deactivation of instruments.

The EWS is designed to:

- monitor the cross-sectional and system-wide buildup of risks over time;
- analyze the developments and pick-up signals of risk buildup;
- interpret signals to derive a more holistic view of evolving risks;
- assess the vulnerabilities in the system based on a holistic view;
- identify a need for policy response;
- communicate assessments and warnings to initiate appropriate follow-up policy responses.

Policy Tools in the Cyclical Dimension

The cyclical dimension of systemic risk refers to how aggregate risk builds up over the course of macro-financial cycles. This dimension is amplified by the procyclical tendencies of institutions and borrowers in the financial system, whose risky behaviour is often reflected during the cyclical upswing, as asset prices rise and provide expanding collateral values for excessive credit growth, leverage and maturity transformation on the part of financial sector participants. Conversely, in the event of a financial downswing, as as set prices fall, and credit quality deteriorates, participants become excessively risk-averse resulting in a withdrawal of liquidity and loss of confidence in local asset and credit markets. Macroprudential policy instruments in the cyclical dimension, for the banking sector, can be grouped into three categories: (i) capital-based, (ii) liquidity-based and, (iii) asset-based.

Policy Tools in the Structural Dimension

The structural dimension refers to how aggregate risk is distributed across the financial system at a given point in time. Structural factors emanate mainly from inter-financial direct or indirect linkages among financial institutions. Depending on the network structure of the financial system, including the complexity of interconnectedness, the actions of systemically important financial institutions (SIFIs) may amplify and rapidly transmit risk throughout the financial system in the event of adverse shocks or failure of such a SIFI. Systemic risk in the structural dimension is related to factors, such as direct interconnectedness and indirectly from common exposures across financial institutions. The conduct of detailed network analysis on the structure of the financial system can give policymakers key insights into the use of measures to improve system resilience to the threat of contagion.

Identification of SIFIs

Systemically important financial institutions are large, highly interconnected institutions unable to exit the market without causing major disruption to the financial system and the real economy. In order to limit the risk of contagion from concentration of exposures to these institutions, with all the attendant consequences, there are tools used by SIFIs. International guidance on the selection of indicators for designating SIFIs cover indicators relating to (1) size (2) substitutability (3) complexity, (4) interconnectedness and (5) cross-jurisdiction activity. Based on this, CBvS has developed a methodology for the identifiation of Domestic Systemically Important Banks (D-SIBs).

Tools for Macroprudential Analysis

The policy toolkit for nonbanks covers tools to manage market and funding liquidity risks from the activities of Non-Bank Financial Institutions (NBFIs). It includes liquidity requirements tailored to nonbank activities (e.g., for collective investment schemes), restrictions on redemptions, and regulation of margins in securities lending transactions. In this context, CBvS has issued investment guidelines for the non-banking sector, including for insurance companies and pension funds.

For the banking sector, several macroprudential indicators are employed by CBvS, such as several Capital Adequacy ratios, Credit-to-GDP gap, Banking Stability Index and Cobweb Stability Index. Results of solvency and liquidity stress tests and identification and monitoring of D-SIBs are also included in the macroprudential analysis.

2. Roadmap for Restructuring the Banking Sector and Reform of the Governance of Banks

Introduction

Based on the IMF program, a roadmap for restructuring the banking sector and reform of the governance of banks had to be drawn up in order to strengthen the Surinamese financial sector. The roadmap for the banking sector is divided into phases and runs until the end of 2026, thus extending beyond the IMF program. The roadmap will be reassessed every year and adapted to current developments. It entails that banks that do not (fully) comply with the supervisory requirements must submit a time-bound recapitalization and restructuring plan. CBvS will assess the credibility and the feasibility of the recapitalization and restructuring plans. Taking into account the Asset Quality Review (AQR) results (see paragraph 1.4), banks are categorized, based on their Tier 1 and CAR level as of July 2023. The triage consists of four categories:

- C 1: Banks without solvency problems (CAR ≥ 10%);
- C 2: Banks with solvency problems (Tier 1 > 6% and CAR < 10%);
- C 3: Banks with significant solvency problems (0% < Tier 1 < 6%);
- C 4: Insolvent banks (Tier 1 < 0%).

For the first phase the banks need to meet the Tier-1 requirement of 6 percent at the end of 2024 and need to meet the minimum CAR of 10 percent by the end of 2026.

The banks with a capital shortfall must identify and detail the sources or possible alternatives for raising capital, as well as their feasibility with concrete time-bound milestones. The recapitalization should lead to achieving viability with a sustainable improvement of the profitability. Given the Government exposure of the banks, CBvS consulted with MoFP/SDMO on the details for their plan the arrears (mostly scheduled for year-end 2023). The Government has two options:

- contribute to (re)capitalization of the banks;
- eliminate the Government's arrears with the banks.

Concerning the non-performing loan (NPL) ratio, the banks must implement more stringent credit monitoring (credit policy) with the aim of lowering the NPL ratio within CBvS' internal benchmark of 5 percent. The banks should analyse and assess if any built-up of buffers (as included in the plan) would increase their resilience to cope in times of acute stress. CBvS should also take into account the Government exposure in its policy for reducing the NPL ratio. Another focus within the roadmap is strengthening the governance at the banks, e.g. the importance of effective board oversight, rigorous risk management, strong internal controls, compliance and other related areas. On the side of CBvS, this entails improving regulatory and supervisory oversight of corporate and risk governance of banks. These measures include strengthening of existing regulations or guidelines, raising supervisory expectations for critical functions and, more importantly, engaging more frequently with banks' management and supervisory boards.

3. Financial Inclusion

Introduction

Financial Inclusion (FI) refers to the greater access, use, and quality of formal financial products and services available to individuals and businesses for a better quality of life, which contributes to the financial stability of the economy.

International organizations and central banks are now increasingly involved in promoting Financial Inclusion as it results in access to other mainstream services, such as savings, pension schemes and essential utilities. Financial inclusion can also have a positive impact on a person, and it is commonly reported that people who are financially included often feel hopeful and better prepared for risk because they are able to store their money and belongings securely with a financial service. While financial inclusion is increasingly being promoted, regulators also face international and regional laws and regulations in the field of money laundering and terrorist financing. It is crucial for policymakers to en sure that international and regional legislative regulations are complied with, while financial inclusion efforts are at the same time encouraged.

Effects of Financial Inclusion

The positive effects of financial inclusion that can lead to financial stability are the possibility of easy access to finance, the improvement in -investment, a strong deposit base, diverse credit risk sharing, and an efficient allocation of funds.

There are also some negative effects of financial inclusion, such as banks being de-risked by their correspondent banks. Banks can manage debtor risk by outsourcing various functions like credit assessment to the Credit Registration Agency, in order to reach small and medium borrowers. This allows the credit history of such a financial consumer to be kept, which can then contribute to the assessment of such a customer. A bill has already been submitted to The National Assembly but has not yet been passed. In addition, the wide participation of microfinance (MFIs) will increase the credit base, which will create difficulties in credit assessment and can increase the probability of credit default. This will lead to liquidity crises in CBvS and dilute the overall regulation of the financial system. Nevertheless, it may be stated that the negative effects of FI do not outweigh the positive ones. As stated by Hannig and Jansen (2020)[22] : “The potential costs of financial inclusion are compensated for by important dynamic benefits that enhance financial stability over time through a deeper and more diversified financial system.”

Results of the National Financial Inclusion and Education Survey

Suriname is at a turning point of structural transformation. Financial inclusion is also included in the Government’s 2020-2022 Recovery Plan. CBvS is co-responsible for implementing Financial Inclusion, and has also included this in its strategic plan 2021-2024. CBvS is aware that data must be available for policy formulation.

In this context, CBvS conducted a demand side (from the consumer’s side) National Financial Inclusion and Education survey in all districts, to identify the gaps and bottlenecks of FI and Financial Education (FE) among the Surinamese workforce (15 years and older).

[22] Hannig, A., & Jansen, S. (2010). Financial inclusion and financial stability. Social Science Research Network.

The following important gaps and bottlenecks of FI and FE among the work force of Suriname have emerged:

1. Due to the low level of education (45%) of large parts of the population, that have only completed primary school or less, Financial Education (FE) has to take into account the language (simple and understandable) and the frame of reference of the different target groups (young people, women, SMEs);

2. Citizens are not sufficiently aware of financial institutions, products, and services. One in three people makes conscious choices when it comes to financial products and services;

3. Most people prefer cash payments because they have a better grip on spending. Although almost everyone has a smartphone and the banks promote digital payment methods, this is still insufficiently used by the general public;

4. The lack of finances is the biggest obstacle to opening and maintaining a bank account, and to borrow and save;

5. Of the citizens surveyed, 41 percent do not have a job. As a result, they are unable to meet the conditions set by financial institutions to use their products and services, such as an employer's statement and a fixed income. SMEs also face the problem of access to financial products and services, as most are not registered with the Chamber of Commerce and therefore operate informally. For rural areas and the interior, access is also a challenge because facilities are limited and people often have to incur additional costs to get their money;

6. Women with partners and children (14%) have reported being the most affected by the Covid-19 pandemic, as they spend more money on living expenses. Through the use of savings, support from the Government and family, and extra work, people got through the Covid-19 period. Not all banks have accommodated their customers with a payment arrangement during this period.

Current Activities to Promote Financial Inclusion

Now that adequate data is available, CBvS will proceed to write a National Financial Inclusion and Education Strategy (NFIES) for the period 2023-2026. With the results of the above mentioned survey, steps are being taken to formulate a financial inclusion and education policy. Based on these results, the projects are:

1. Financial Education Fair for adults and youth; a two day fair was held in cooperation with the financial sector, the Anton de Kom University of Suriname, MoFP, the Ministry of Education and NGOs.

2. School visits; in the different districts, employees of CBvS are educating high school students on “Budgeting”, “Digital Financial Services” and “Saving”. It is in the planning that insurance, pensions and entrepreneurship will be added to this program.

3. Training on entrepreneurships for youngsters; in this training 75 high school students are trained in writing a business plan.

4. A framework to implement financial education into the school curriculum has been formulated in collaboration with the Ministry of Education.

5. Promotion of FI awareness by Publishing articles on social media.

6. In collaboration with the World Bank, a Financial Inclusion Product Risk assessment module is being conducted, with the aim of assessing FI products against the anti-money laundering and counter terrorism financing standards.

7. Research is also conducted on the supply

side (from the side of the financial sector) of payment transactions or payment services in collaboration with the Inter-American Development Bank (IDB). This will provide a picture of the payment landscape of Suriname. The results should enable CBvS to develop policies to improve the provision of payment services in Suriname and public access to financial services.

Future Activities and Measures

In order to further develop FI in Suriname, the following policy actions will be undertaken:

1. Review of financial sector policies and regulations to make the use of financial products and services accessible to every citizen.

2. Awareness programs for entrepreneurs regarding the benefits of formal entrepreneurship, such as access to funds and credit.

3. Involving the various stakeholders in improving cashless transactions by offering more payment options and an improved Point Of Sale system.

4. Implementing information programs at schools and neighbourhood visits that inform citizens about money management and the benefits of digital payment and debit cards.

5. Developing policies that increase the earning capacity of the unemployed population for income generation.

6. Several awareness programs to promote FI, focused on the needs of identified target groups, including women and other vulnerable groups.

7. Formulating a National Financial Inclusion and Education Strategy for Suriname to promote financial inclusion and education.

8. Formulating legislation regarding Financial Inclusion that makes it possible that the unbanked or underserved have access to the formal financial system without infringing the financial integrity of the system.

4. Financial Interconnectedness of the Banking and Insurance Sector

Introduction

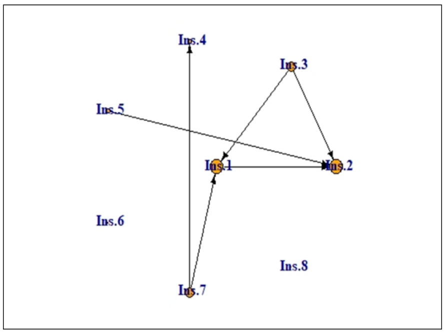
Interlinkages of other financial sub-sectors with the banking sector have long been known to be a source of systemic risk. In the past, researchers claimed that the insurance sector was not systemically risky, since it lacked the "special nature" of banks, which are primarily vulnerable to bank-runs. However, the near collapse and government bailout of the American International Group (AIG) in 2008 has challenged this conventional idea regarding the insurance sector.

The insurance sector plays an important role in providing critical financial services. First, transfer risk becomes a possibility through insurance coverage for households, corporations and public sector entities. For example, general insurance companies assist firms and households in limiting the financial costs associated with the occurrence of various risks to their physical property, legal liability and other financial losses. Second, insurers channel savings into investment. For example, insurers help individuals to cover risks resulting from uncertainty about their health (medical insurance) and lifespan (life insurance), by gathering funds from policyholders and investing these in debt securities, equity and other assets. Interconnectedness analysis among the various institutions in the financial system is essential for understanding the relations among these institutions and the possible transmission channels for the risks generated in each sector, to support current and future prudential policy actions. CBvS has already started investigating the interconnection among banks and is now expanding its investigation to include the insurance sector in order to examine the contagion risks. At this stage only the interconnection data among insurance companies and banks, and not yet results of the contagion risks, will be discussed.

Interconnectedness among Insurance Companies

As of March 2022, the interrelations among insurance companies were small, and consists mostly of shares (71.8%). In this respect, there is a strong interconnection between a non-life insurance and life insurance with a share of 92.1 percent. The remaining interconnection between insurance companies is in the form of other claims (Figure IV.1).

Figure IV.1
Interconnection Net Exposures among Insurance Companies
(March 2022[21])



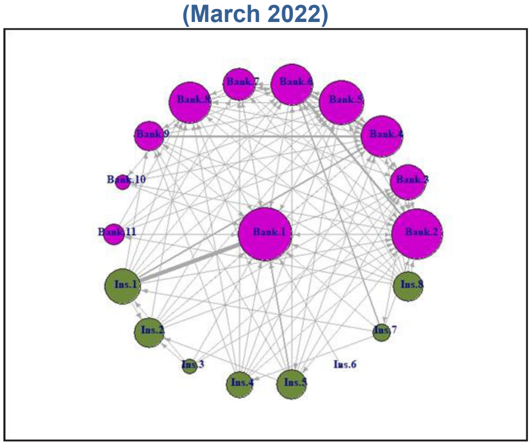
Source: Central Bank of Suriname

[21] The interconnection net exposures: claims are netted out. The size of the nodes means that the nodes have an importance in the network and thus deserves to be highlighted. In addition, the thickness of the arrows display the scale of the interconnectedness (the volume of exposures that each company holds with others).

Interconnectedness among Banks and Insurance Companies

The analysis of interconnection among banks and insurance companies regards data of March 2022. The visualization of the network highlights the relation among the banks and insurance companies (Figure IV.2). The development of the thickness of the lines pertains to short-term deposits (26.75%), long-term deposits (24.49%), savings deposits (5.59%), loans (12.13%), shares (7.63%) and current account deposits (22.1%).

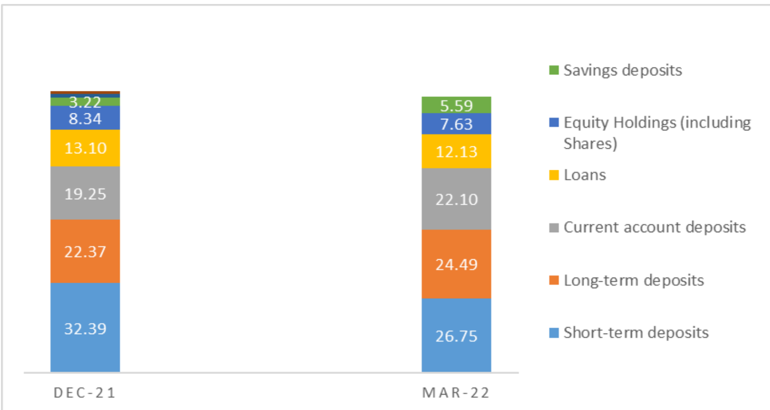
Figure IV.2
Interconnection Net Exposures[1] among Banks and Insurance Companies (March 2022)



Source: Central Bank of Suriname

[1] The interconnection net exposures: claims are netted out. The size of the nodes means that the nodes have an importance in the network and thus deserves to be highlighted. In addition, the thickness of the arrows display the scale of the interconnectedness (the volume of exposures that each company holds with others).

Figure IV.3
Asset Allocation of Insurance Companies in Banks (in percentage of Total Investment)



Source: Central Bank of Suriname

The total investments of the insurance companies at banks were valued at SRD 1.9 billion at the end of the first quarter of 2022. The subset of assets held by insurance companies is extracted from the collected data. Figure IV.3 depicts how the subset of assets was invested in various deposits, loans and shares of banks.

5. Residential Property Price Index

Introduction

The link between the collapse of the real estate market and financial crises has repeat edly been demonstrated, especially in the late 1980s and early 1990s. Some examples are namely the U.S. savings and credit crisis in the late 1980s, the financial crises in Sweden and Japan in the early 1990s, and the widespread collapse of the real estate market contributing to the financial crisis in Southeast Asia in 1997.

As a result, at a conference in Washington D.C. organized by the IMF and the BIS in October 2003, the need for reliable property price indices was recognized[23] . The purpose of this conference on real estate indicators and financial stability was to "promote the development of reliable, timely and consistent real estate price statistics" to support policy initiatives to promote macroeconomic stability[24] . The relationship between financial stability and the Residential Property Price Index (RPPI) is that rising debt to finance real estate can pose risks to households, banks and the entire economy. Rising house prices as a result of, for example, increasing demand, can eventually develop into crises, as debt repayments may become higher than house hold incomes, with the result that house holds default on their mortgages.

To ensure financial stability it is necessary to address the relationships between real estate activity, price cycles and the stability of banking institutions and financial systems.

The Development of the Residential Property Price Index for Suriname

Given the above importance, CBvS has taken the initiative to request technical assistance from the Caribbean Regional Technical Assistance Center (CARTAC), the regional arm of the IMF, to consider with relevant stakeholders, the composition of a RPPI for Suriname. In this context, a workshop was held in the period 24-28 April 2023. This workshop aimed at developing a house price index for Suriname and analyzing price developments within the housing market in relation to macroeconomic variables and the financial sector. The involvement of the relevant stakeholders, namely the Management Institute for Land Registration and Land Information System (MI-GLIS), the General Bureau of Statistics (ABS), and the Planning Office Suriname (SPS) is very important; in order to obtain an index that accurately reflects the volatility of house prices in Suriname. The RPPI will greatly benefit the assessments and decisions of households, investors, companies and policymakers alike. The development of the RPPI for Suriname is still in its early stages, especially with the data collection and processing. The data processing is conducted in close cooperation with MI-GLIS. The first results are expected in the 1st quarter of 2024, based on which analysis can be made. Next, the theoretical importance of the RPPI will be explained, as well as the influence of the development of house prices on the decisions of various segments within the economy.

What is a RPPI?

The RPPI is a house price index that shows the average price of all houses purchased by households, whether new or pre-existing. To the extent that property owners live in or on their properties, residential real estate is both a source of wealth and a major determinant of the cost of living. The RPPI is calculated based on the intended purpose. Accordingly,

[23] Handbook on Residential Property Prices Indices (RPPIs), Eurostat, 2013 edition.
[24] Residential real estate price indices as financial soundness indicators: Methodological issues by Bradford Case and Susan Wachter, BIS Papers No 21.

there are different types of RPPIs.

Purposes of RPPI for Different Stakeholders

- **Households**
  Real estate is often one of the largest investments made by households. Therefore, a change in the value of residential real estate has a direct effect on the value of the household's total assets. Furthermore, there is a relationship between renovation of a house and the price of the house; renovation costs are in many countries higher than the costs of building a new house.

- **Investors**
  This group turns to RPPIs not only to measure their wealth, but also to help assess current and future returns.

- **Policymakers**
  Theoretically, the residential real estate accounts for one of the largest shares in a country's national accounts. This makes the RPPI an important economic indicator for policymakers to map the state of the economy and the affordability of housing.

- **Financial Institutions**
  These institutions monitor house price developments to enhance their understanding of real estate and credit market conditions and to monitor the impact on economic activity and financial soundness.

- **Supervisors**
  Central banks monitor developments in house prices, among other things, to detect the development of a possible asset bubble at an early stage and to mitigate its impact for the sake of financial stability.

Other Purposes of the RPPI

a) As a macroeconomic indicator of economic growth:
The RPPI reflects the change in residential real estate prices. Increasing house prices are often accompanied by periods of economic expansion, while decreasing house prices are accompanied by economic contraction. For example, higher house prices followed by increased activity in the industrial and construction sectors, lead to employment and higher incomes for a wide range of workers in the housing market.

b) As a financial stability or soundness indicator to measure risk exposure:
Sharp falls in property prices affect the financial position and creditworthiness of households. For example, mortgage lenders will use information to measure default risk. Central banks monitor non-performing household loans as well as the decline in banking sector solvency in relation to the stability of the financial system.

c) To estimate the value of houses as part of the assets of households:
Buying or selling a house is often a household's largest financial transaction. The main reasons for purchasing a house are obtaining shelter and long-term value appreciation.

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d) For insight into an individual's decision-making on whether or not to buy (or sell) a property:
Current price levels and trends, along with expectations about future trends in house prices and mortgage interest rates, will influence an individual's decision.

e) For making interregional and international comparisons:
House price indices are used to compare investment opportunities in different regions, as well as cost of living comparisons.

The RPPIs are calculated, based on the structure of the housing market and the intended purpose. The housing market of a country with a high climate risk will differ from a country with a lower climate risk. For instance, the structure of houses in countries with a winter climate is different compared to houses in countries with a tropical climate as heating is essential in countries with a winter climate, but not in countries with a tropical one.

APPENDICES

Appendix 1

SURINAME: SELECTED MACROECONOMIC INDICATORS	2018	2019*	2020*	2021*	2022*
Production [1]					
GDP market prices (mln SRD)	29,821.7	31,732.3	38,719.5	58,798.7	89,471.6
Real GDP growth (%)	4.9	1.2	-16.0	-2.7	2.4
GNI per capita (US$)	6,160.7	6,474.2	6,113.1	4,569.3	5,324.6
Government Finances **					
Revenue (mln SRD)	5,970.0	6,434.4	7,065.3	16,010.0	24,349.8
Expenditures (mln SRD)	7,934.0	12,291.5	11,363.4	15,119.2	25,149.0
Overall balance (mln SRD) (cash basis)	-2,956.9	-5,843.0	-3,732.5	1,015.0	-766.8
Overall balance in % of GDP (cash basis)	-9.9	-18.4	-9.6	1.7	-0.9
Balance of Payments					
Merchandise exports (mln US$)	2,065.1	2,129.4	2,343.8	2,203.5	2,456.6
Merchandise imports (mln US$)	1,402.9	1,597.6	1,282.5	1,338.5	1,701.4
Trade balance (mln US$)	662.3	531.7	1,061.3	865.0	755.2
Net services, income and current transfers (mln US$)	-781.0	-980.0	-801.5	-689.0	-683.9
Current account balance (mln US$)	-118.7	-448.3	259.8	176.1	71.3
Overall balance (mln US$)	-147.9	207.6	83.4	-417.0	-224.7
Gross international reserves (mln US$)	580.7	647.5	585.0	992.2	1,194.6
Import cover ratio (months) [2]	3.4	3.2	3.8	6.3	6.1
Financial Sector					
Base Money [M0] (mln SRD) [3]	4,849.0	9,454.0	12,709.8	18,821.9	27,286.5
Money stock [M1] (mln SRD) [4]	8,801.1	9,909.7	16,110.6	23,822.4	37,077.5
Broad Money [M2] (mln SRD) [4]	19,196.3	20,289.2	32,879.3	47,315.4	69,485.3
Net credit to the government (mln SRD)	3,496.1	4,977.2	11,213.6	10,143.7	4,623.4
Credit to the private sector in SRD (mln SRD)	4,243.4	4,950.9	5,500.5	6,213.8	8,970.4
Credit to the private sector in USD (mln USD)	399.2	339.6	288.7	262.2	316.5
Credit to the private sector in EUR (mln EUR)	107.8	91.2	72.1	47.1	46.7
Weighted average nominal SRD deposit rate (%)	9.2	8.8	7.4	6.9	7.8
Weighted average nominal SRD lending rate (%)	14.4	15.2	14.8	14.9	13.4
Exchange Rate and Inflation					
Official average buying rate (SRD per US$)	7.40	7.40	9.23	18.09	24.57
Official average selling rate (SRD per US$)	7.52	7.52	9.39	18.39	24.85
Annual average inflation (%) [5]	6.8	4.4	34.9	59.1	52.4
End-of-period inflation (%)	5.4	4.2	60.8	60.7	54.6
Central Government Debt Ratios [6]					
External debt (% of GDP)	56.2	57.9	57.6	81.2	88.5
Domestic debt (% of GDP)	25.3	28.7	53.8	42.6	33.7

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

* Preliminary figures

** All data is presented as published on the website by the Ministry of Finance.

For more information on methodology please refer to www.finance.gov.sr/overheidsfinancien-government-finance-statistics

[1] Rebased Series (Base Year 2015, SNA 2008 compliant, ISIC rev 4). The GDP figures for 2022 are the Planning Office Suriname estimates from May 2023, while the 2021 figures and before are from the General Bureau of Statistics.

[2] Based on imports of goods and services.

[3] Includes currency in circulation and liablties to other depository corporations in local and foreign currency.

[4] Includes foreign currency deposits.

Appendix 2

Financial Soundness Indicators: Commercial Banks

(in %)	2018		2019		2020		2021		2022		2023
Capital Adequacy	Jun	Dec	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	16.8	18.6
Regulatory Tier 1 capital/RWA	8.7	9.0	10.3	10.8	10.8	10.5	11.2	12.9	14.0	15.5	17.4
Capital (net worth)/assets	4.7	4.8	5.2	5.2	5.4	4.9	5.0	5.7	6.2	6.6	7.4
Asset Quality											
NPLs/gross loans	12.0	12.0	11.3	10.6	13.5	14.6	13.4	12.8	12.1	12.4	16.1
NPLs net of provision/capital	43.0	40.3	36.8	34.9	46.2	60.4	54.3	43.6	38.7	36.1	45.5
Earnings and profitability											
ROA	0.5	0.1	0.6	1.0	0.3	2.0	1.2	1.8	1.2	3.3	1.2
ROE	8.3	1.9	10.7	16.7	4.2	34.8	22.0	29.6	18.3	48.1	16.0
Liquidity											
Liquid assets/total assets	41.3	40.2	43.5	46.8	49.1	51.5	55.1	58.8	56.5	54.3	52.3
Liquid assets/total short-term liabilities	86.9	82.1	87.3	93.4	95.5	101.3	110.7	117.0	114.4	107.0	102.7

Source: Central Bank of Suriname

Appendix 3A

Financial Soundness Indicators: Non-Life Insurance Companies

	2017		2018		2019		2020		2021		2022		2023
(in %)	Jun[2]	Dec[1]	Jun[1]	Dec[1]	Jun[1]	Dec[1]	Jun[1]	Dec[1]	Jun[2]	Dec[2]	Jun[2]	Dec[2]	Jun
Required capital													
Available capital/required capital	494.0	424.0	889.0	425.0	884.0	428.9	814.2	664.7	1,148.0	567.0	960.1	480.9	1,039.9
Capital Adequacy													
Net premium/capital	78.0	110.0	57.0	119.0	59.0	113.1	63.1	77.6	46.3	99.6	64.2	90.2	51.9
Capital/total assets	30.0	39.0	38.0	34.0	35.0	31.7	32.7	36.0	38.2	31.3	34.3	34.8	33.1
Capital/technical reserves	102.0	120.0	117.0	93.0	113.0	105.6	112.8	141.2	167.4	130.5	143.5	134.4	127.1
Asset Quality													
(Real estate + unquoted equities + debtors)/total assets	25.0	50.0	51.0	51.0	48.0	40.5	46.4	39.7	40.8	43.4	42.0	43.8	47.8
Reinsurance and actuarial issues													
Risk retention ratio (net premium/gross premium)	91.0	90.0	77.0	77.0	77.0	72.9	78.2	75.6	74.8	75.3	73.1	73.0	81.6
Earnings and profitability													
Return on equity	-2.0	7.0	7.0	3.0	4.0	7.5	5,4	38.2	22.0	22.8	11.7	18.2	6.9
Return on assets	-1.0	3.0	3.0	1.0	2.0	2.4	1,8	15.7	8.9	8.8	4.5	7.4	3.1
Investment income/total investment assets	4.0	3.0	2.0	-3.0	2.0	2.7	1.9	2.4	1.6	2.2	2.2	3.6	3.4
Combined ratio (loss and expense ratio)	115.0	101.0	93.0	93.0	98.0	98.6	94.9	121.8	91.7	100.2	83.3	104.8	92.2
Loss ratio (net claims/net premium)	81.0	69.0	63.0	61.0	65.0	61.1	56.3	60.8	55.7	55.5	55.9	72.0	65.1
Expense ratio (expenses/net premium)	35.0	32.0	31.0	32.0	33.0	37.6	38.6	61.0	36.0	44.7	27.4	32.8	27.1
Liquidity													
Liquid assets/total liabilities	37.0	36.0	36.0	38.0	34.0	46.4	44.1	52.7	54.8	47.6	45.2	48.3	49.4

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 3B

Financial Soundness Indicators: Life Insurance Companies

	2017	2018		2019	2020		2021		2022		2023
(in %)	Dec[1]	Jun[1]	Dec[1]	Dec[1]	Jun[1]	Dec[1]	Jun[2]	Dec[2]	Jun[2]	Dec[1]	Jun[2]
Required capital											
Available capital/required capital	255.0	260.0	278.0	248.0	236.2	310.7	179.0	167.7	167.4	149.8	181.1
Capital Adequacy											
Net premium/capital	94.0	30.0	71.0	104.0	44.6	53.9	44.3	376.3	85.5	94.4	22.9
Capital/total assets	11.0	11.0	12.0	11.0	10.3	12.5	7.1	8.7	7.2	6.6	7.4
Capital/technical reserves	14.0	15.0	15.0	14.0	13.1	15.7	9.0	8.4	8.4	7.5	8.7
Asset Quality											
(Real estate+unquoted equities+debtors)/total assets	17.0	22.0	19.0	17.0	17.5	12.6	12.8	10.1	13.0	11.5	6.4
Reinsurance and actuarial issues											
Risk retention ratio (net premium/gross premium)	97.0	97.0	97.0	98.0	99.8	97.7	98.0	99.6	99.3	98.9	99.0
Earnings and profitability											
Return on equity	17.0	4.0	5.0	1.0	(0.4)	51.2	58.6	36.7	2.6	16.8	15.0
Return on assets	2.0	0.4	1.0	0.4	(0.1)	6.4	4.4	2.7	0.2	1.1	1.1
Investment income/total investment assets	7.0	3.0	6.0	7.0	2.5	5.2	2.8	5.5	0.6	1.5	1.9
Combined ratio (loss and expense ratio)	154.0	165.0	190.0	226.0	147.6	446.2	154.0	119.9	127.6	155.2	194.3
Loss ratio (net claims/net premium)	97.0	134.0	109.0	141.0	114.0	289.5	128.1	110.4	113.8	133.4	172.9
Expense ratio (expenses/net premium)	58.0	30.0	81.0	85.0	33.6	156.8	25.9	9.5	13.8	21.8	21.4
Liquidity											
Liquid assets/total liabilities	68.0	60.0	60.0	60.0	32.9	69.7	23.5	14.2	14.7	14.7	13.2

Source: Central Bank of Suriname

1Data based on the information of three life insurance companies

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

Appendix 4

Financial Soundness Indicators: Pension Funds

	2017		2018		2019		2020		2021		2022		2023
Indicators *(in %)*	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Solvency ratio	-	100.0	119.9	119.4	112.9	118.1	139.6	151.2	152.5	147.1	132.2	130.6	123.3
Return on assets	-	6.3	3.3	3.9	4.4	5.7	19.4	24.7	21.0	14.8	10.5	12.5	11.1
Return on investments	-	7.8	3.6	4.4	5.1	6.2	21.9	27.8	23.3	17.0	11.9	14.2	13.0
Pension benefit paid/contributions	-	60.1	59.3	70.8	64.2	67.8	66.1	61.7	73.2	62.6	52.6	48.2	51.4

Source: Central Bank of Suriname

Appendix 5

Financial Soundness Indicators: Credit Unions

	2017		2018		2019		2020		2021		2022		2023
Indicators *(in%)*	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Solvency													
Regulatory capital/Risk weighted assets	6.6	6.6	6.6	4.0	4.3	-16.9	2.3	-20.3	8.7	-41.4	9.5	11.4	33.2
Equity/Total assets	7.0	4.5	7.1	5.0	6.5	5.4	4.2	13.1	9.5	10.3	9.7	13.5	12.4
Claims vs Liabilities													
Claims on members /Liabilities to members	67.7	69.9	66.7	63.0	58.6	62.5	53.4	52.0	46.4	45.1	44.6	47.6	67.8
Profitability													
Return on assets (ROA)	0.2	-0.8	-0.1	-2.8	-0.3	0.5	1.0	1.1	0.2	-1.4	-0.6	-1.8	2.7
Liquidity													
Actual liquid assets/Required liquid assets	93.4	79.5	80.8	87.5	93.5	93.4	121.8	143.0	138.9	135.0	142.9	141.3	51.8

Source: Central Bank of Suriname

Appendix 6

Stress Test Methodology and Assumptions

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 three banks have classified some Government loans as NPLs. These NPLs are not included in the regular stress tests as no provisions are yet made for Government loans. 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, excluding the aforementioned Government NPL. Several tests with assumptions ranging from a 50 to 200 percent increases in NPLs are then 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.

Assumptions:

Mild Shock	50% Increase of NPLs
Adverse Shock	100% Increase of NPLs
Severe Shock	200% Increase of NPLs

Source: Central Bank of Suriname

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 1 capital, comprising common stock and retained earnings. A default of these borrowers requires 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.

Assumptions:

Mild Shock	Top 1 borrower default
Adverse Shock	Top 3 borrower default
Severe Shock	Top 5 borrower default

Source: Central Bank of Suriname

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 depreciations affect banks (both on-balance and off-balance sheet) instantly, but also in the face of currency mismatches through the FX 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 dominant effect as the majority of 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. The existing short or long open FX positions of banks are multiplied by the change in the exchange rate and can 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 would require additional provisioning resulting in a reduced CAR.

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.

Assumptions Direct FX Risk:

Mild Shock	50% USD/SRD Depreciation + 44.50% EUR/SRD Depreciation
Adverse Shock	100% USD/SRD Depreciation + 88.90% EUR/SRD Depreciation
Severe Shock	200% USD/SRD Depreciation + 177.80% EUR/SRD Depreciation

Source: Central Bank of Suriname

The assumptions of the direct FX stress test are based on a two-variable regression. The outcome shows that a 1 percent USD/SRD depreciation will result in the EUR/SRD depreciation of 0.89 percent. A 10 percent USD/SRD depreciation then leads to an 8.94 percent depreciation of the EUR/SRD exchange rate.

Assumptions Indirect FX Risk:

Mild Shock	36.20% USD NPL Increase + 33.43% EUR NPL Increase
Adverse Shock	72.40% USD NPL Increase + 66.85% EUR NPL Increase
Severe Shock	144.80% USD NPL Increase + 133.71% EUR NPL Increase

Source: Central Bank of Suriname

The assumptions of the indirect FX stress test are based on a two-variable regression that measures the following variables:

1. Linear relationships between EUR NPLs and EUR/SRD depreciation: the estimated coefficient = 0.752
   Assumption: A 1 percent increase in depreciation of EUR/SRD leads to a 0.752 percent increase in EUR non-performing loans.

2. Linear relationships between USD NPLs and USD/SRD depreciation: the estimated coefficient = 0.724
   Assumption: A 1 percent increase in depreciation of USD/SRD leads to a 0.724 percent increase in USD non-performing loans.

3. Linear relationships between SRD NPLs and USD/SRD depreciation: the estimated coefficient = 0.063
   Assumption: A 1 percent increase in depreciation of USD/SRD leads to a 0.063 percent increase in SRD non-performing loans.

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 two systemic banks can absorb all losses in local currency as well as in foreign currency due to their 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.

Assumptions:

Mild Shock	50% USD/SRD + 44.50% EUR/SRD Depreciation + 36.20% USD NPL + 33.43% EUR NPL Increase
Adverse Shock	100% USD/SRD + 88.90% EUR/SRD Depreciation + 72.40% USD NPL + 66.85% EUR NPL Increase
Severe Shock	200% USD/SRD + 177.80% EUR/SRD Depreciation + 144.80% USD NPL + 133.71% EUR NPL Increase

Source: Central Bank of Suriname

Appendix 7

Supervisory Laws and Regulations for the Financial Sector

Commercial Banks

Legislation

- Banking and Credit System Supervision Act 2011 (O.G. 2011 no. 155)

Regulations issued in accordance with IFRS

- Reg 1. Capital Adequacy
- Reg 2. Classification of Loans and Provisioning
- Reg 3. Large Exposure
- Reg 4. Insider Lending
- Reg 5. Fixed Assets
- Reg 8. International Audit
- Reg 14. Financial Reporting and Auditing

Regulations issued and still applicable

- Reg 6. Corporate Governance
- Reg 7. Fit and Proper Management, Board Members and Shareholders
- Reg 9. Integrity
- Reg 10. Internal Control
- Reg 11. Liquidity Risk
- Reg 12. Foreign Currency Risks
- Reg 13. Interest Rate Risk Management

Regulations in draft

- Risk Management
- Operational Risk Management
- Country and Transfer Risk

Guidance/Policies issued

- License Request for a Credit Institution
- Corporate Governance Code
- Fit and Proper Test Model

Money Transaction Offices **Legislation** • Money Transaction Offices Supervision Act 2012 (S.B. 2012 no. 170, as last modified by S.B. 2021 no. 53) (draft is ready for a subsequent amendment) • The Money Laundering and Terrorism Financing Prevention and Combating Act 2022 (S.B. 2022 no. 138) (approved in November 2022) **Regulation** • Guideline Annex VI Cost/capital Structure at Money Transaction Offices (amended and launched in January 2023) **Regulation in draft** • Guidelines with regard to Integrity, Corporate Governance and Internal Control for the Money Transfer Offices
Insurance Companies **Legislation** • Banking and Credit System Supervision Act 1968 (G.D. 1968 no. 63 as last amended by O.G. 1986 no. 82) • Third Party Motor Liability Act (O.G. 1979 no.33 as last amended by O.G. 2006 no. 16) **Legislation submitted to Parliament** • Insurance Industry Supervision Act **Regulations** • Annual Filing Requirements for Insurers • Quarterly Filings Requirements for Insurers • Guidelines for the Annual and Quarterly filings of Insurers • Guideline on Fit and Proper Directors, Supervisory Board and Shareholders

Regulations in draft for Life and General Insurers

- Guideline on Credit Classification and Provisions for Insurers
- Guideline on the Application of Declaration of No Objection
- Guideline for Articles of Associations of Insurers
- Guideline on Technical Provisions and Investment Assets
- Guideline on Solvency Margin and Deposit
- Guideline on Transactions with Related Parties
- Actuarial guideline for Insurers
- Corporate Governance Code
- Guideline on Regulation and Supervision of Insurance Intermediaries
- Guideline on Anti Money Laundering and Combating Financing Terrorism for Life Insurance Companies

Pension Funds

Legislation

- Pension Fund and Provident Fund Act (O.G. 2005 no.75)

Regulations

- Investment Guideline for Pension Funds
- Guideline for Solvency Regulation for Pension Funds
- Guideline for Registration by the Supervisory Authority and Obtaining a Declaration of No Objection for Pension Funds and Provident Funds
- Regulations on the Code of Conduct for Pension Funds and Provident Funds
- Regulation on Anti-Money Laundering, Fighting Terrorism Financing and Corruption for Pension Funds and Provident Funds
- Regulation for Board Members regarding Fit and Proper Requirements

Regulations in draft

- Administration and Investment Fees Guideline for Individual Defined Contribution Pension Funds
- Supplementary Investment Guideline for Individual Defined Contribution Pension Funds
- Guideline for Data Processing
  Guideline for Classification of Loans and Provisioning
- Actuarial guideline

Credit Unions

Legislation

- Banking and Credit System Supervision Act 2011 (O.G. 2011 no. 155)
- Act of Credit Unions ((G.D. 1944 no. 93), as last amended by G.D. 1968 no 82, O.G. 1981 no.23, O.G.1983 no.1, O.B. no. 93, O.G. 2004 no. 26)

Regulations

- Guideline on the Reporting Obligation for Credit Unions
- Guideline on the Management of Solvency Risk for Credit unions
- Guideline on Liquidity Risk Management for Credit Unions
- Guideline on Loan Classification and Provisions for Credit Unions
- Guideline on Loans to Insiders of Credit Unions
- Guideline on Terms and Conditions for Foreign Currency Lending for Credit Unions

Guidance

- Manual for Completing the Reporting Statements for All Supervised Credit Unions (Savings and Credit Cooperations and Savings Funds) in Suriname

Regulations in draft

- Guideline on AML/CFT

Appendix 8

Formulas for Financial Soundness Indicators

Commercial Banks	
Solvency	
Capital Adequacy ratio (CAR)	$\frac{Regulatory\ Capital}{Risk\ Weighted\ Assets} \times \mathbf{100\%}$
Tier 1 Ratio	$\frac{Tier\ 1\ Capital}{Risk\ Weighted\ Assets} \times \mathbf{100\%}$
Asset Quality	
Non-Performing Loans (NPL) ratio	$\frac{Total\ Non-Performing\ Loans}{Gross\ Loans} \times \mathbf{100\%}$
Earnings and profitability	
Return on Assets ratio	$\frac{Profit\ before\ tax}{Average\ Assets} \times \mathbf{100\%}$
Return on Equity ratio	$\frac{Profit\ before\ tax}{Average\ Equity} \times \mathbf{100\%}$
Liquidity	
Long-term Liquidity ratio	$\frac{Liquid\ Assets}{Total\ Assets} \times \mathbf{100\%}$
Short-term Liquidity ratio	$\frac{Liquid\ Assets}{Short-term\ Liabilities} \times \mathbf{100\%}$
Insurance Companies	
Capital Adequacy	
Insurance Risk ratio	$\frac{Net\ premium}{Capital} \times \mathbf{100\%}$
Capital to asset ratio[25]	$\frac{Capital}{Total\ Assets} \times \mathbf{100\%}$
Asset Quality	
Asset quality ratio	$\frac{Real\ Estate + Unquoted\ Equities + Debtors}{Total\ Assets} \times \mathbf{100\%}$
Reinsurance	
Risk retention ratio	$\frac{Net\ written\ premium}{Gross\ written\ premium} \times \mathbf{100\%}$
Earnings and profitability	
Combined ratio	$Net\ claims\ ratio + Expense\ ratio$
Loss ratio	$\frac{Net\ Claims}{Net\ earned\ premium} \times \mathbf{100\%}$
Expense ratio	$\frac{Expenses}{Net\ earned\ premium} \times \mathbf{100\%}$
Return on Equity ratio	$\frac{Net\ income\ after\ tax}{Total\ Capital} \times \mathbf{100\%}$

[25] *Revaluation reserve are excluded from the capital to adequacy ratio, according the solvency guideline.*

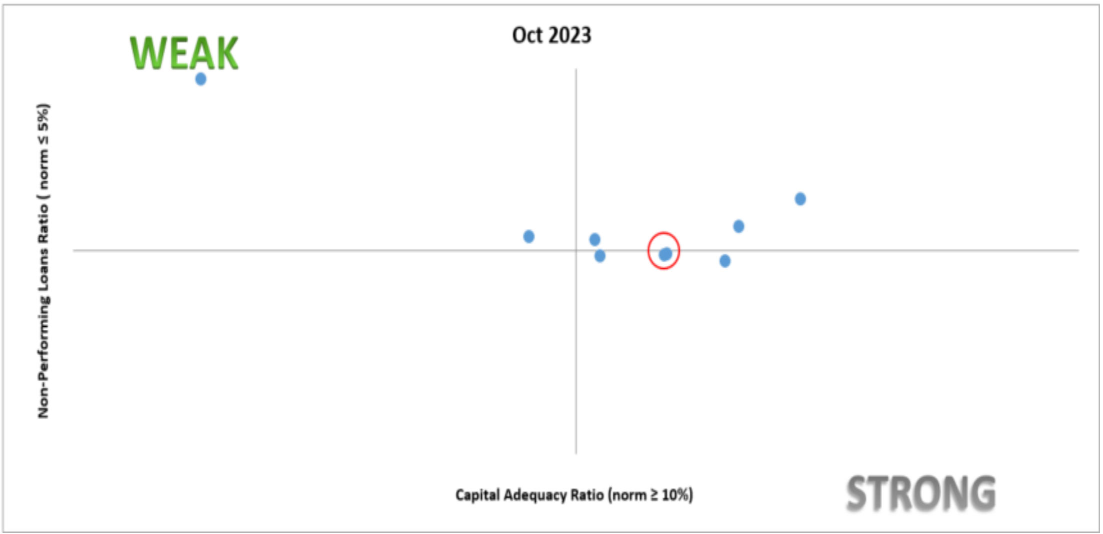
Return on Assets ratio	$\frac{Net\ income\ after\ tax}{Total\ Assets} \times \mathbf{100\%}$
Liquidity	
Liquidity ratio	$\frac{Total\ liquid\ Assets}{Total\ Liabilities} \times \mathbf{100\%}$
Pension Funds	
Coverage ratio[26]	$\frac{Investments - Resistance\ capital}{Provision\ for\ pension\ commitments} \times \mathbf{100\%}$
Return on Assets ratio	$\frac{Investment\ income}{Total\ assets} \times \mathbf{100\%}$
Liquidity ratio[27]	$\frac{Pension\ benefit\ paid}{Contributions} \times \mathbf{100\%}$
Credit Unions	
Capital Adequacy	
Capital Adequacy ratio	$\frac{Regulatory\ Capital}{Risk\ Weighted\ Assets} \times \mathbf{100\%}$
Equity to total assets ratio	$\frac{Equity}{Total\ Assets} \times \mathbf{100\%}$
Claims vs Liabilities	
Claims vs Liabilities ratio	$\frac{Claims\ on\ members}{Liabiloties\ to\ members} \times \mathbf{100\%}$
Profitability	
Return on Assets ratio	$\frac{Net\ income}{Total\ Assets} \times \mathbf{100\%}$
Liquidity	
Liquidity ratio	$\frac{Actual\ liquid\ Assets}{Required\ liquid\ Assets} \times \mathbf{100\%}$

[26] Cash and receivables are excluded from the coverage ratio calculation, according to the solvency guideline. In practice, the coverage ratio of the pension funds would normally be higher than the results based on what the guideline prescribes. One of the reasons behind this is to encourage pension funds to invest most of their assets rather than holding the funds as fallow or idle money.

[27] The main source of expenditure should be less than the direct source of income.

Appendix 9

Bank Strength in October 2023

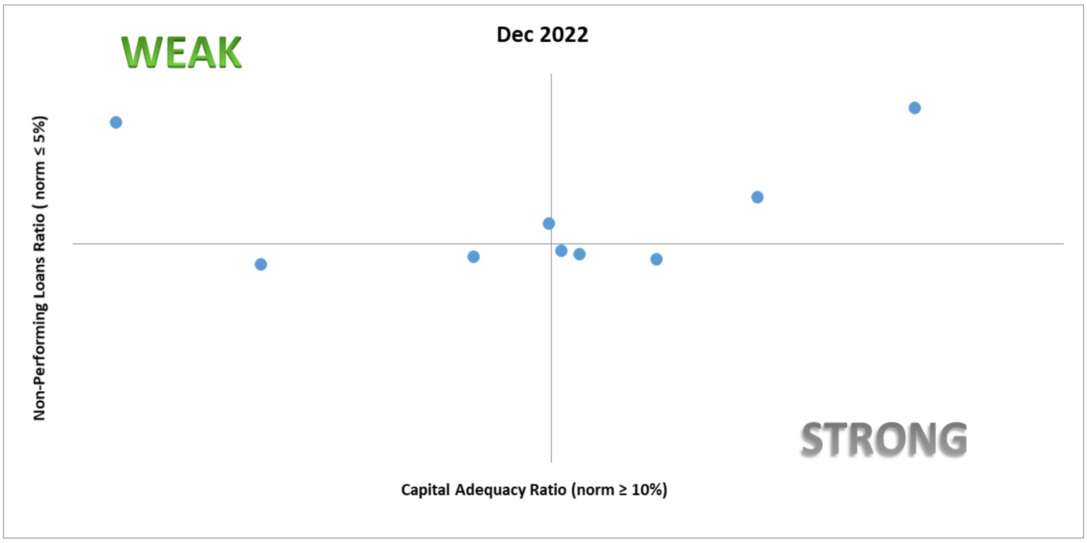


Source: Central Bank of Suriname

O As depicted in the graph, the CAR and NPL ratio of two banks have approximately the same value.

Appendix 10

Bank Strength in December 2022



Source: Central Bank of Suriname

Appendix 11
Development of the Straight through Processing and Ease of Payments

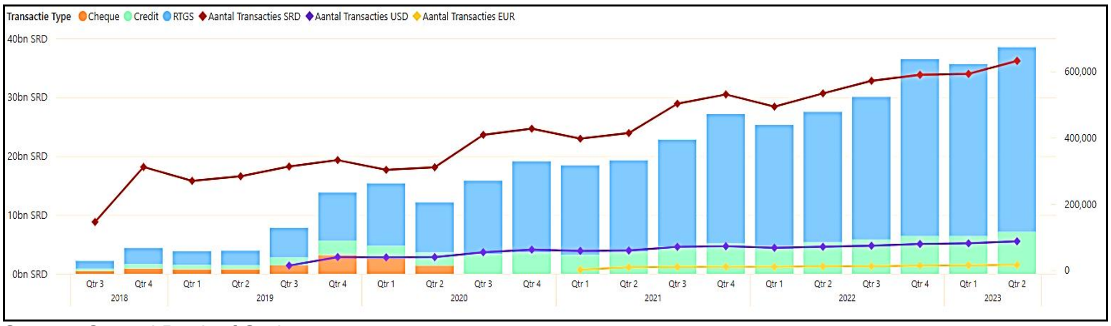
The Bank's aim is to increase the safety, efficiency and the integrity of the payment system by connecting the intra-banking system of the commercial banks straight through with the Suriname National Electronic Payment System (SNEPS). SNEPS fees were reinstated in 2021 and the processing of the third commonly used currency, the euro, was implemented in March 2022. Two commercial banks still have to upgrade their intra-banking system, before they can connect with SNEPS. The goal is to realize this before the end of 2023.

In 2022 a milestone was reached as the most commonly used currencies in the economy of Suriname, namely the Surinamese dollar (SRD), the United States dollar (USD) and the euro (EUR), were put into the system.

The "Financial Stability Report 2022" cited that in the first half of 2022, the process started to get two influential players on board in the national payment system. One of these players, Banking Network Suriname N.V. (BNETS) is allowed, under special conditions, to connect to the SNEPS, this after evaluation of our Compliance department. The intention is that they can start processing the transactions at the end of the third quarter in 2023.

Figure 11.1

Evolution of Transactions Processed in SNEPS



Source: Central Bank of Suriname

Figure 11.1 shows an upward trend in the payment of the SRD, USD and the EUR in both volumes and gross amounts, which can be seen again in this graph. This upward trend 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. The idea to run the system automatically for each currency type at the end of the day is being considered, as the system has run stable/well in the past period. Due to financial inclusion, the system will be prepared to run multiple clearing sessions.

Appendix 12
Supervision of Exchange Offices

Introduction

Exchange offices (also known as cambios) and commercial banks make up the local foreign exchange market. The supervision of exchange offices (and also of banks) resides under the Banking, Money Transaction Offices and Capital Market Supervision Department of CBvS. As a direct result of National Risk Assessment (NRA) and Caribbean Financial Action Task Force (CFATF) recommendations, CBvS has tightened the supervision on exchange offices since 2018. Currently, 16 exchange offices are subject to the supervision.

Compliance

Exchange offices must comply with regulatory guidelines, both prudential and AML/CFT, or will otherwise receive a red qualification. The majority of the exchange offices have a red or orange qualification. A red qualification implies that the exchange office in question will be subjected to a compliance interview and that it must submit an action plan to CBvS in order to enhance its risk profile.

Off-site Monitoring/On-site Inspection

Due to the Covid-19 pandemic, on-site inspections of exchange offices were not possible in 2020. Still, CBvS fulfilled all supervision duties through off-site monitoring. The suitability of the Supervisory Board members of exchange offices is of great importance. For this reason, CBvS screens nominated candidates by conducting assessment interviews.

Furthermore, beta analyses (monitoring of cash balances in the reports) of completed transactions and transaction monitoring have increased. If there are shortcomings in the reports, the exchange offices receive a letter from CBvS to provide an explanation. The same applies if the cash balances are not correct. As of October 2022, CBvS has resumed conducting on-site inspections at exchange offices.

Appendix 13

National Risk Assessment and Caribbean Financial Action Task Force Mutual Evaluation

In preparation for the 4th Round Mutual Evaluation, intensive work has been done on the collection, analysis, anonymization, translation and preparation for dispatch of documents, correspondence, on-site inspection reports and actions taken by CBvS to substantiate the effectiveness of the AML/CFT-integrity supervision. Based on the findings in the National Risk Assessment (NRA) report, the decision was made at the CFATF Plenary meeting of 1 December 2022, that Suriname will be placed in the Enhanced Follow-Up Procedure of the FATF-ICRG (Financial Action Task Force-International Cooperation Review Group). The Follow-Up in the ICRG means that Suriname must periodically report in the coming years on the adjustments and improvements with regard to the shortcomings found in the CFATF 4th Mutual Evaluation Report (MER). During the 1st year after adoption of the MER, Suriname will be observed by FATF and CFATF, who will monitor whether and how the shortcomings mentioned in the MER have been addressed.

Samenvatting

Belangrijkste blootstelling

De wisselkoers van de USD steeg per ultimo 2021 van SRD 20,89 naar SRD 31,77 per ultimo 2022 en zette de opwaartse trend voort tot SRD 38,18 ultimo oktober 2023. Naast andere kostenverhogende factoren dreef de hoge "exchange rate pass-through" de inflatie op jaar basis op tot 54.6 procent in 2022, zij het iets lager dan in 2021 (60.7%). Tegelijkertijd was er de afgelopen twee jaar sprake van een trage reële groei. Omdat huishoudens trachten hun gedaalde koopkracht op te vangen door leningen aan te gaan voor consumptiedoeleinden, was er een sterke stijging van verstrekte particuliere leningen in 2022. Door de jaren heen probeerden bedrijven, waaronder financiële instellingen, en huishoudens, zich in te dekken tegen de effecten van verdere depreciatie, wat resulteerde in substantiële financiële dollarisering. Suriname heeft sinds het midden van de jaren negentig te maken gehad met substantiële financiële dollarisering als gevolg van macro-economische instabiliteit, die zijn oorsprong vond in de jaren tachtig van de vorige eeuw.

Bedreigingen voor de financiële sector

Banken zijn blootgesteld aan wisselkoersrisico's, grotendeels vanwege het hoge aandeel van de risicogewogen activa (RWA – Eng. afkorting) in vreemde valuta (VV), dat per juni 2022, 64 procent bedroeg. In voorgaande jaren zou een depreciatie de CAR [solvabiliteitsratio] stimuleren, vanwege de wisselkoerswinsten als gevolg van hun positieve NOP (Netto Open Positie) en kapitaal in VV. Het aandeel van de RWA in VV die onderhevig zijn aan depreciatie, bereikte echter het punt dat het extra kapitaal dat nodig is voor de hogere RWA in VV, zwaarder woog dan de eerdergenoemde wisselkoerswinsten. Het hoge aandeel van NPL's (Niet-Presterende Leningen) in vreemde valuta (40%) in de totale NPL's had ook invloed op de NPL-ratio, die aanhoudend boven de 10 procent bleef. Derhalve is het kredietrisico zorgwekkend. Voorts, ingeval de NPL's van de overheid worden meegerekend, stijgt het aandeel van de NPL's in vreemde valuta in de totale NPL's naar 70 procent. Er is ook sprake van een verhoogd concentratierisico, aangezien de overheid de grootste kredietnemer is bij verschillende banken met totale verplichtingen aan de banken die een piek bereikten van 67 procent van het totale Tier 1-kapitaal van de banken. Er is een overheersend liquiditeitsrisico, aangezien uit stresstests is gebleken dat banken een "bank-run" van vijf dagen niet zouden kunnen weerstaan.

[28] Momenteel worden er geen voorzieningen getroffen voor NPL's van de overheid. De IFRS schrijft echter voor dat er voorzieningen worden getroffen voor NPL's van de overheid.

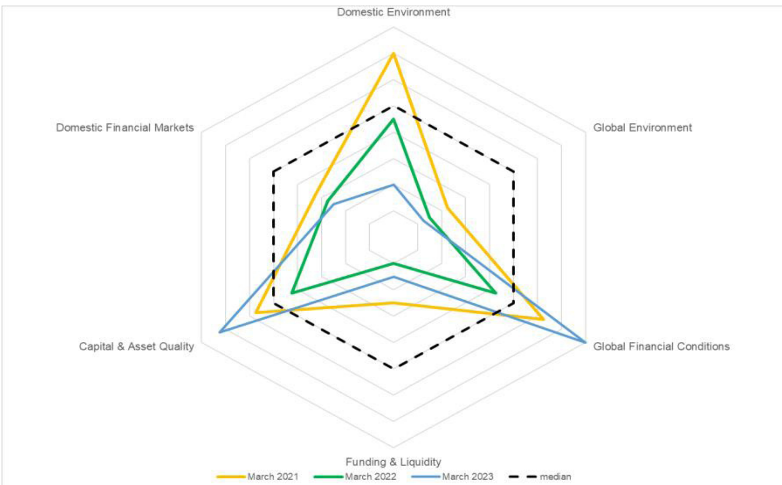
In 2022 vertrouwden banken vanwege de hoge rentetarieven sterk op inkomsten uit de OMO's (openmarktoperaties), waardoor ze hun rol als financiële intermediair verzwakten. Naarmate marktdeelnemers gewend raken aan OMO's, zullen de rentetarieven dalen. Daarnaast werd de winstgevendheid ook gedreven door wisselkoerswinsten, naast winst uit een eenmalige transactie.

Hoewel pensioenfondsen voldoen aan de dekkingsgraad, heeft de hoge inflatie de koopkracht van de pensioenen uitgehold. Het is verwachtbaar dat de robuuste solvabiliteitspositie (zoals aangegeven door de dekkingsgraad inclusief liquide middelen en vorderingen) van pensioenfondsen aanzienlijk zal afnemen indien de overheid besluit om een (onevenwichtige) indexatie van pensioenen door te voeren. Daarnaast kan het kredietrisico een bedreiging vormen voor de solvabiliteitspositie, omdat de aanhoudende inflatie het vermogen van huishoudens en bedrijven om hun leningen terug te betalen, zou kunnen aantasten. De huidige kredietportefeuille bedraagt 20 procent van de totale activa. Er zou een kredietrisico voor de verzekeringssector kunnen ontstaan in tijden van hoge inflatie vanwege afnemende terugbetalingscapaciteit. Bovendien bestaat ongeveer 85 procent van de verstrekte leningen in vreemde valuta. Verstrekte leningen vertegenwoordigen 28 procent van de totale investeringen. Er is echter nog geen afdoende bewijs beschikbaar, omdat de gedetailleerde gegevens van de bedrijven worden afgewacht.

Net als de verzekeringssector zijn ook kredietcoöperaties blootgesteld aan kredietrisico in tijden van hoge inflatie. Bovendien kan inadequaat bestuur bij sommige kredietcoöperaties ook leiden tot ineffectiviteit, wat zal resulteren in een zwakke financiële positie van deze kredietcoöperaties.

De implementatie van de IFRS, die voor het boekjaar 2020 van kracht moeten worden, blijft een uitdaging voor de financiële sector. Bovendien worden verschillende banken geconfronteerd met toenemende voorzieningseisen dat deze banken aanzienlijke kre-

Figuur 1
Risicoprofiel van de Bankensector



Source: Centrale Bank van Suriname

dieten aan de overheid hebben verstrekt. Hoewel het ingangsjaar met een jaar werd uitgesteld, konden niet alle financiële instellingen, inclusief pensioenfondsen en verzekeringsmaatschappijen, de IFRS voor jaarrekeningen toepassen voornamelijk wegens gebrek aan financiële middelen.

De-risking door de correspondentbanken een grote bedreiging ingeval de AML/CFT-regelgeving niet wordt nageleefd, terwijl een lagere kredietwaardigheid van het land, banken kan blootstellen aan een strengere behandeling door hun internationale partners.

Deel I van het rapport geeft een algemeen overzicht van de financiële sector in Suriname en biedt een passende institutionele context voor het rapport. Er wordt ingegaan op het wettelijke mandaat van de Centrale Bank van Suriname (CBvS), de belangrijkste wetten die van toepassing zijn op de financiële sector, de institutionele samenstelling van de sector en het monetaire en macroprudentiële beleid in het algemeen.

Deel II van het rapport 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 risicopositie van de bank sector in Suriname bij potentiële in Suriname bij potentiële systeemschokken in hun totale bedrijfsomgeving. Bewegingen vanuit het midden van het diagram vertegenwoordigen hierbij een verhoogd risico en bewegingen naar het midden toe een verlaagd risico voor de financiële stabiliteit. De zwarte stippellijn illustreert het normale risiconiveau.

Figure 2
Banking Stability Index

Source: Centrale Bank van Suriname

Volgens Figuur 1 zijn opmerkelijke veranderingen in de totale risicopositie van het banksysteem voor maart 2023 (blauwe lijn) in vergelijking met maart 2022 (groene lijn) afkomstig van twee dimensies, namelijk de dimensie "mondiale financiële omstandigheden" en de dimensie "kapitaal- en vermogenskwaliteit". Deze twee dimensies zijn aanzienlijk uitgebreid, wat duidt op aanzienlijk toegenomen risico's op die gebieden. De risicoscore van de dimensie "mondiale financiële omstandigheden" steeg door de toegenomen volatiliteit van de rendementen op de internationale aandelenmarkten en een grotere spread tussen obligaties van opkomende markteconomieën. Het kapitaal- en vermogenskwaliteitsrisico nam toe door een stijging van het aantal niet presterende leningen.

Ondanks de stijging van het krediet van de Centrale Bank aan de banksector in de verslag periode, verbeterde de binnenlandse omgeving. Een lagere inflatie en stijgingen van respectievelijk de netto buitenlandse activa, de totale activa en de internationale reserves waren verantwoordelijk voor de betere prestaties.

De risico's met betrekking tot de mondiale omgeving namen af dankzij een stijging van de goudprijzen en een daling van de olieprijs. Daarnaast vertaalden gunstige verkoopkoersen van vreemde valuta zich in een lagere risicoclassificatie voor de binnenlandse financiële markten. Tot slot namen het financierings- en liquiditeitsrisico enigszins toe doordat de ratio kredieten/deposito's van banken steeg en de liquiditeitsniveaus daalden.

Deel III van het rapport richt zich voornamelijk op de financiële prestaties en belangrijkste uitdagingen van commerciële banken, verzekeringsmaatschappijen, pensioenfondsen en kredietcoöperaties in Suriname, evenals op de risicobeperkende maatregelen die door deze instellingen zijn genomen.

Commerciële Banken

De OMO's hebben het beleggingslandschap van banken en hun rentabiliteit beïnvloed. De gemiddelde SRD-kredietrente steeg enigszins van 13,4 procent (december 2021) naar 13,6 procent per december 2022. Over het geheel genomen droegen de rente-inkomsten uit OMO-activiteiten dus aanzienlijk bij aan de winst, naast valutawinsten, en leidden ze tot een versterkte kapitaalsbasis voor banken. De algehele kwaliteit van de kredietportefeuille verslechterde daarentegen vanwege een aan zienlijke toename van de categorie “verliezen”, grotendeels als gevolg van een staatslening, naast de hoge inflatie. De liquiditeitspositie was lager, maar conform de norm.

De stabiliteit van de banksector, zoals gemeten door een stijging van de bancaire stabiliteitsindex (BSI) (Figuur 2), verslechterde aangezien de index eind mei met 0,29 de laagste gemiddelde waarde bereikte als gevolg van de eerdergenoemde lagere kwaliteit van de activa en lagere liquiditeit.

Aan de andere kant sloeg de negatieve Krediet-BBP-kloof in het laatste kwartaal van 2022 om in een positieve kloof, iets boven het referen tiekader van 2%. Dit kwam doordat de particuliere kredietgroei in lokale valuta toenam, vooral in de tweede helft van 2022.

In mei 2023 bleven de vier gecategoriseerde “Domestic Systemically Important Banks” (D-SIB’s – Binnenlande Systeemrelevante Banken) systeem relevant met een gecumuleerde totaalscore van 4,39, wat een stijging is ten opzichte van december 2022 (4,35). Alle systeem banken voldoen aan de voorgestelde CAR’s met betrekking tot hun systeembelang.

In termen van onderlinge verwevenheid is de nominale volume toegenomen per eind mei

2023, welke toegeschreven kan worden aan een depreciatie van 18,9 procent. Echter, in reële termen zijn de FX vorderingen af genomen met 17,4 procent.

De totale wettelijk vastgelegde solvabiliteitsratio (CAR) zette zijn opwaartse trend voort, aangezien deze in december 2022 met 2,3 procentpunt steeg tot 16,8 procent. De rentabiliteitsindicatoren, deels gedreven door rente-inkomsten uit OMO en wisselkoerswinsten, weerspiegelden de opwaartse trend, aangezien het rendement op eigen vermogen (ROE) en het rendement op totaal vermogen (ROA) stegen met respectievelijk 18,5 en 1,5 procentpunt. Dit gebeurde ondanks hogere exploitatiekosten. De hoge niet presterende leningen blijven een punt van zorg, aangezien de NPL-portefeuille verder verslechterde door een grote toename in de verlies categorie, voornamelijk als gevolg van een overheidslening. Net als in voorgaande jaren bleef de liquiditeit van de totale banksector, hoewel lager, bevredigend boven 100 procent. Voorts is het net als in 2021 vermeldenswaard dat de kapitaalsbasis van een bank toenam door inflatiecorrectie van het eigen vermogen van een bank in 2022 als gevolg van IAS 29, na de invoering van IFRS. Naast stresstests op solvabiliteit werden er twee soorten stresstests op liquiditeit uitgevoerd, waarvan één met opvallende resultaten. In het algemeen toonden de stresstests aan dat de veerkracht van het banksysteem is afgenomen, in termen an het aantal banken dat onder de norm valt. Er zou ook meer kapitaal nodig zijn om het kapitaal op het wettelijk vastgelegde minimum te brengen. Het concentratierisico bleef het grootste risico, gevolgd door het wisselkoersrisico en het kredietrisico. Reguliere stresstests voor liquiditeit lieten zien dat het banksysteem niet bestand is tegen liquiditeitsrisico's, aangezien verschillende banken binnen vijf dagen illiquide zouden worden.

Verzekeringsmaatschappijen

Schadeverzekeringen

De algehele solvabiliteitspositie van schade verzekeraars is de afgelopen tien jaar stabiel en toereikend gebleven, ondanks gerapporteerde technische verliezen. De ratio “beschikbaar kapitaal ten opzichte van vereist kapitaal” ligt in 2022 boven 100,0%, wat aangeeft dat de sector meer kapitaal beschikbaar heeft dan vereist. Opwaartse schommelingen in de wisselkoers hebben aanzienlijk bijgedragen aan de inkomsten, aangezien de beleggingen voor namelijk bestaan uit activa in vreemde valuta en voldoende waren om alle technische verliezen op te vangen. Technische verliezen ontstaan doordat in tijden van hoge inflatie de premie-inkomsten in de schadeverzekeringssector niet evenredig stijgen met de schadeclaims en de exploitatiekosten.

Levensverzekeringen

Net als in voorgaande jaren voldeden levensverzekeraars ruimschoots aan de minimaal vereiste standaardkapitaalratio van 100 procent. De ratio, het beschikbare kapitaal ten opzichte van het vereiste kapitaal, bedroeg 174,5 procent in 2021, wat betekent dat er voldoende kapitaal is voor herverzekering en bescherming voor exploitatie van het bedrijf. Hoewel boven de norm, daalden of verslechterden de bovengenoemde solvabiliteitsratio en andere kapitaalratio's in vergelijking met 2021. De kapitaalratio, die de toereikendheid van het eigen vermogen meet in verhouding tot de omvang van het verzekeringsbedrijf, verslechterde in 2022 ten opzichte van 2021, met ratio's van respectievelijk 266,3 en 88,2 procent. De liquiditeitspositie verbeterde in 2022 en kwam uit op 70,2 procent, boven de internationale minimumnorm van 60 procent. Net als in 2021 bleef de rentabiliteit in 2022 bevredigend en voldoende om de zogenoemde technische verliezen op te vangen. De rentabiliteit werd gerealiseerd dankzij hoge beleggingsopbrengsten. Net als in 2021 werden deze inkomsten gerealiseerd door het effect van de stijging van de wisselkoers.

Pensioenfondsen

Gegevens voor 2021 wijzen op een geaggregeerde solvabiliteitspositie van pensioenfondsen van 109 procent, wat boven de norm van 100 procent is. Beide rentabiliteitsindicatoren liggen ruim boven de norm van 4 procent, met een Rendement op Totaal Vermogen van 22 procent en een Rendement op Beleggingen van 25 procent. Net als bij de verzekeringsmaatschappijen werd een aanzienlijk deel van de beleggingsinkomsten van pensioenfondsen gerealiseerd door het effect van de stijging van de wisselkoers.

Kredietcoöperaties

De sector kredietcoöperaties slaagde erin om aan bijna alle normen als vastgelegd door de sector, te voldoen. De solvabiliteitsratio steeg met drie procentpunt naar 12 procent, ruim boven de minimumnorm van 7 procent. De liquiditeitsratio is ook bevredigend, aangezien deze boven de minimumnorm van 100 procent ligt. De Bank heeft zich ingespannen om de instellingen routinematig voor te lichten over rapportageprocedures om de “governance risk” ofwel het bestuursrisico te beperken.

Deel IV van het rapport bevat speciale onder werpen, zoals (1) Macroprudentieel beleidsraamwerk, (2) Stappenplan voor de herstructurering van de bankensector en het hervormen van het bestuur van banken, (3) Financiële inclusie, (4) Financiële verwevenheid van de bank- en verzekeringssector, (5) Prijsindex residentieel onroerend goed.

Tot slot verschaffen de Appendices informatie over belangrijke macro-economische indicatoren; financiële soliditeitsindicatoren; de stresstest methodologie voor banken; wet- en regelgeving voor toezicht op de financiële sector; de formules voor financiële soliditeitsindicatoren; de sterkte van banken; ontwikkelingen in het nationale betalingssysteem; het toezicht op wisselkantoren; en de effectiviteit van het AML/CFT integriteitstoezicht.