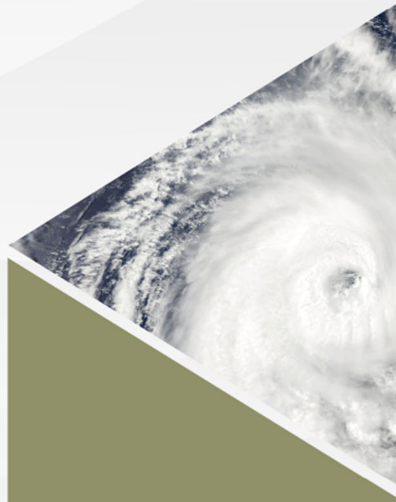
FINANCIAL SERVICES COMMISSION

2024 FINANCIAL STABILITY REPORT



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Preface

The Central Bank of Barbados (the Bank), the Financial Services Commission (FSC), and the Barbados Deposit Insurance Corporation (BDIC) share oversight of the financial system through the Financial Oversight Management Committee (FOMC). The Bank regulates commercial banks, finance companies, trusts and merchant banks, and money value transfer services. The FSC supervises credit unions, insurance companies, mutual funds, and occupational pension plans, while the BDIC provides a safety net for depositors at commercial banks and finance companies. The FOMC's mandate is to maintain financial stability by monitoring systemic developments, identifying and assessing vulnerabilities, and prescribing policies to enhance the system's resilience against potential adverse events.

Financial stability refers to the condition in which a country's financial system operates effectively, efficiently, and resiliently—facilitating economic processes, mitigating risks, and absorbing shocks. This stability is characterised by solvent, well-capitalised, and prudently managed financial institutions, efficient and transparent financial markets, and a robust and secure financial infrastructure. Promoting financial stability is essential for cultivating confidence among consumers, investors, and market participants, and for underpinning long-term economic growth and development. Central banks and other financial regulators play a critical role in preserving financial stability through targeted policies, prudent regulation, and proactive supervisory practices.

The Central Bank Act, passed in December 2020, explicitly recognises financial stability as a core mandate of the Bank and affirms the need for macroprudential considerations in policy formulation. The Act (Section 48: Macro-prudential powers) states: "*Where there is a perceived threat to the financial system, the Bank shall have the power to manage and control that risk by taking any steps that it deems suitable.*"

This fourteenth edition of Barbados' Financial Stability Report (FSR) represents a collaborative effort between the Bank and the FSC. It provides a comprehensive assessment of the risk exposures of key financial institutions, including domestic deposit-taking institutions (commercial banks, finance companies, and credit unions), insurance companies, mutual funds, and pension funds. The FSR remains a key instrument for promoting transparency and accountability in financial sector oversight. The 2024 report analyses recent trends in financial soundness indicators, institutional balance sheets, and income statements, with a focus on developments during 2024.

Abbreviations

ACH	Automated Clearing House
AFSI	Aggregate Financial Stability Index
ATM	Automated Teller Machine
BDIC	Barbados Deposit Insurance Corporation
BIN	Bank Identification Number
BSI	Banking Stability Index
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CRE	Commercial Real Estate
CZMU	Coastal Zone Management Unit
DB	Defined Benefit
DC	Defined Contribution
DIF	Deposit Insurance Fund
DSR	Debt Service Ratio
DTI	Deposit Taking Institution
FOMC	Financial Oversight Management Committee
FSC	Financial Services Commission
FSI	Financial Soundness Indicators
GDP	Gross Domestic Product
GPW	Gross Premiums Written
IMF	International Monetary Fund
LTD	Loan-to-Deposit
LTV	Loan-to-Value
NAUM	Net Assets Under Management
NDST	Natural Disaster Stress Testing
NFC	Non-Financial Corporation
NFPS	Non-Financial Private Sector
NOP	Net Open Position
NPL	Non-Performing Loan
ROA	Return on Assets
ROAA	Return on Average Assets
ROE	Return on Equity
RRE	Residential Real Estate
RSA	Interest Rate Sensitive Assets
RSL	Interest Rate Sensitive Liabilities
RTGS	Real-Time Gross Settlement
RWA	Risk-Weighted Assets
ST	Stress Testing
TCRM	Technology and Cyber Risk Management Guideline
YOY	Year-On-Year

Foreword

by the Governor of the Central Bank of Barbados and Chief Executive Officer of the Financial Services Commission

Dr. Kevin Greenidge
Governor
Central Bank of Barbados

Mr. Warrick Ward
Chief Executive Officer
Financial Services Commission

The Financial Stability Report (FSR) continues to play a vital role in monitoring, assessing, and addressing risks to Barbados' financial system. As global economic conditions grow more uncertain and complex, the 2024 FSR provides a comprehensive assessment of systemic vulnerabilities and resilience across the domestic financial sector. It highlights the system's underlying strength, while drawing attention to emerging risks linked to global financial tightening, geopolitical tensions, and structural shifts within the economy.

In 2024, Barbados' financial system remained stable and well-capitalised, supported by strong liquidity buffers, declining non-performing loans, and sustained credit growth. However, the financial environment is becoming more challenging. Slower global growth, rising protectionism, and tighter international financing conditions are increasing external pressures. The report identifies three core vulnerabilities shaping the outlook: (1) global economic uncertainty and its spillovers; (2) rising cyber threats; and (3) growing climate-related risks.

Cybersecurity remains a key supervisory focus as digitalisation deepens. Domestic financial institutions have strengthened their cyber resilience, but evolving threats require ongoing vigilance. The Bank and the Financial Services Commission (FSC), have worked closely with regulated entities to enhance oversight, including on the legislative front.

Climate-related risks also demand urgent attention. The impact of Hurricane Beryl underscores the need for climate-resilient financial systems. In this regard, the Bank and the FSC are advancing work to integrate climate risk into our supervisory frameworks, including our assessments of physical and transition risks across banks and insurers.

Notable progress in modernising and monitoring developments in the financial sector were achieved in 2024. The launch of the Barbados Payments System Modernisation Project, the quarterly Survey of Bank Lending Conditions, and efforts to expand deposit insurance coverage, mark important steps in strengthening financial sector infrastructure and resilience.

As we look ahead, the regulators' commitment to prudent oversight, sound policy frameworks, and proactive risk management, remains central to safeguarding financial stability. We extend sincere appreciation to the teams at the Central Bank of Barbados and the Financial Services Commission for their dedication in preparing this report.

Together, we remain committed to promoting a stable, inclusive, and resilient financial system, that supports Barbados' long-term development goals.

Executive Summary

Barbados' financial system remains resilient, underpinned by strong capital and liquidity buffers, despite heightened global and domestic risks. The economic expansion continued in 2024, supported by robust credit growth and stable household and corporate balance sheets. Looking ahead, global economic uncertainty, rising protectionism, and elevated interest rates may pose increased financial stability risks, particularly if they lead to weaker external demand, inflationary pressures, and tighter financing conditions.

Stress testing confirms that the financial system remains sound under baseline conditions, but highlight material vulnerabilities in scenarios involving severe external shocks, including tariff escalations and heightened geopolitical instability. Under an adverse scenario, the non-performing loan (NPL) ratio peaks at 6.2 percent, with four institutions falling below the 8 percent capital adequacy threshold, requiring recapitalisation equivalent to 1.2 percent of GDP. Liquidity stress tests show moderately lower resilience compared to 2023, with more banks and credit unions needing liquidity support under higher deposit withdrawal scenarios. Large exposure stress testing indicates a modest improvement in capital resilience under moderate provisioning assumptions, but vulnerabilities persist under extreme loss scenarios.

Physical climate risks remain a systemic concern for the financial sector, particularly in banking, insurance, and pensions, while transition risks are currently assessed as moderate and non-systemic. A simulated 1-in-100-year storm surge could reduce GDP by 7.1 percent and significantly increase loan defaults in coastal tourism and real estate portfolios. Transition stress testing identifies moderate credit risks in Agriculture, Accommodation & Food Services, and Government-linked sectors under delayed decarbonisation pathways. A dedicated thematic article accompanying this FSR provides further analysis of sector-specific climate transition risks and insurance sector stress tests.

While cyber risk is increasing with greater financial digitalisation, scenario-based assessments suggest limited capital impact, and commercial banks remain resilient. This FSR includes a first-time estimate of the potential cyber-related losses under a simulated payment system attack scenario, which is presented in a thematic article. Increased electronic transactions and interlinked payment systems have heightened exposure to cyberattacks, raising the risks of service disruptions, liquidity stress, and reputational damage. The Central Bank of Barbados (Bank) and the Financial Services Commission (FSC) continue to engage licensees on compliance with requirements of the Technology and Cyber Risk Management Guidelines that were issued by the regulators in 2023 and 2024, respectively.

Although profitability declined among deposit-taking institutions, credit quality strengthened and capital buffers remained comfortably above regulatory minimums. Declining profitability reflected lower provision write-backs and rising operating costs. Notwithstanding, the sector's profitability remained solid as core lending and investment income supported earnings. Credit quality improved modestly, with NPL ratios declining across household and corporate portfolios. Capital adequacy ratios remained well above regulatory minimums at 21.2 percent for banks and 19.5 percent for finance companies, providing buffers against credit and market shocks. However, rising mortgage exposures and real estate loan concentrations signal the growing importance of the sector for financial stability and warrants continued monitoring.

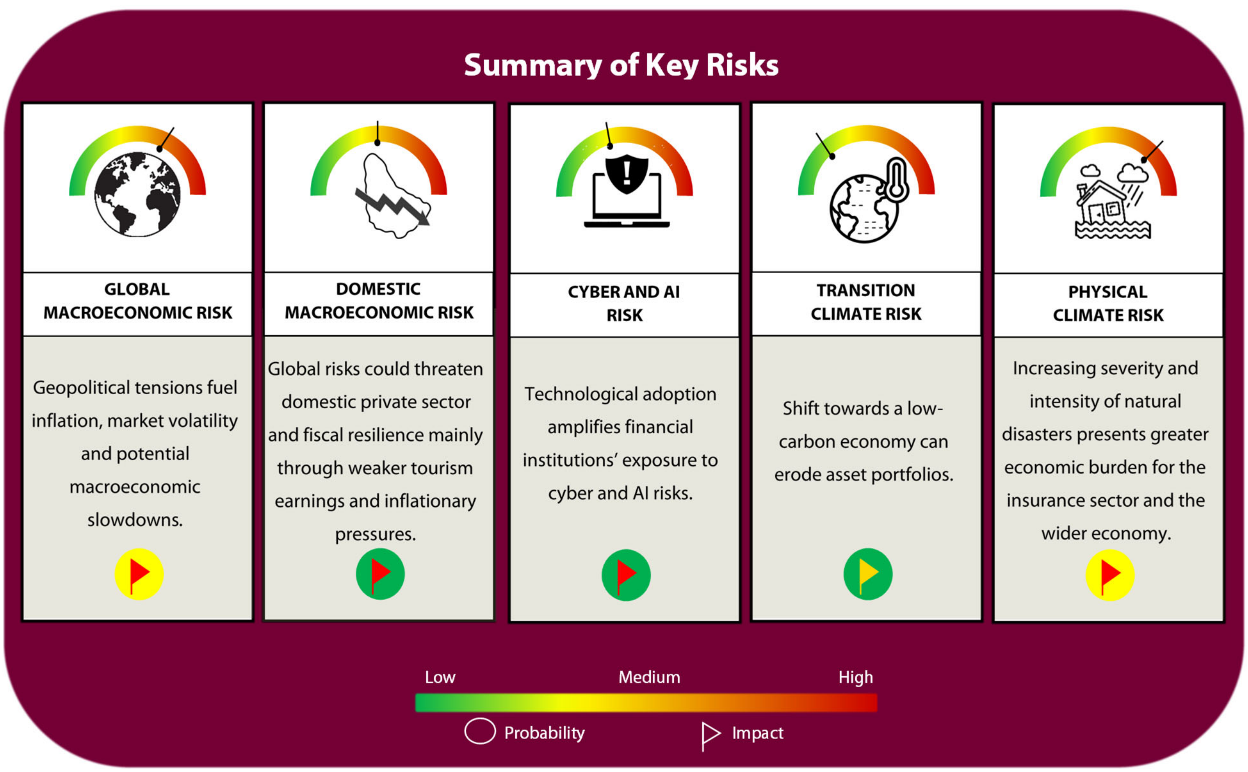
Looking ahead, preserving financial stability will require sustained proactive risk management and enhanced macro- and micro-prudential oversight. The evolving risk landscape, shaped by global economic trends, sectoral credit concentrations, and emerging cyber and climate risks, calls for strengthened credit risk monitoring, deeper integration of climate and cyber risk into supervisory frameworks, and contingency planning. The Bank and Financial Services Commission (FSC) will continue to prioritise measures to address sectoral vulnerabilities, support sound lending practices, and reinforce systemic resilience under its macroprudential mandate. Key regulatory actions include:

CBB

- → Enhanced Climate Risk Mapping
- → Promote National Instant Payments
- → Improve Data Collection and Analysis Framework

FSC

- → Further Development of Climate Risk Analysis
- → Discussions to Improve Resilience in the General Insurance Sector



1. Key Risks to Financial Stability

1.1 Global Economic Uncertainty

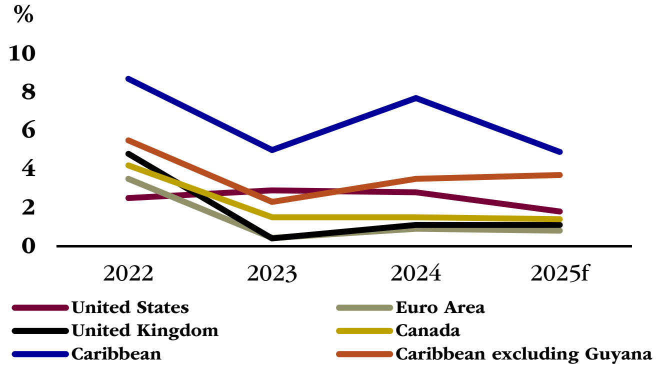
Risks to financial stability are transmitted mainly through weaker tourism earnings, rising import costs, and credit quality pressures. The IMF projects global growth to slow to 2.8 percent in 2025 and 3.0 percent in 2026, below the pre-pandemic average (WEO, April 2025). Slower growth among Barbados' major trading partners, including the U.S., UK, and euro area, is expected to reduce tourism arrivals, foreign exchange inflows, and the demand for services (Figure 1). These developments would depress employment in key sectors, lower household and corporate incomes, and ultimately raise credit risk through increased loan defaults and non-performing loans (NPLs), thereby reducing bank profitability and pressuring capital buffers.

Global trade tensions and protectionist measures are fuelling inflationary pressures, amplifying risks to household purchasing power and corporate margins (Figure 2). Rising tariffs and supply chain disruptions are increasing global trade costs, with potential spillovers for small open economies like Barbados. As a highly import-dependent economy, Barbados faces heightened exposure to imported food, fuel, and intermediate goods inflation, which may erode real household incomes and raise operating costs for businesses. Higher input costs could compress business profitability, increasing credit risk, particularly among consumer and small business borrowers (Figure 3).

Elevated global interest rates continue to tighten external financial conditions, raising borrowing and refinancing costs for Barbados. While capital controls limit large-scale private capital outflows, persistent interest rate differentials relative to the U.S. continue to incentivise reallocating funds towards higher-yielding foreign assets. Although domestic liquidity remains ample, prolonged differentials could gradually place pressure on the international reserves under external shocks, underscoring the importance of prudent reserve management and confidence preservation under the fixed exchange rate regime.

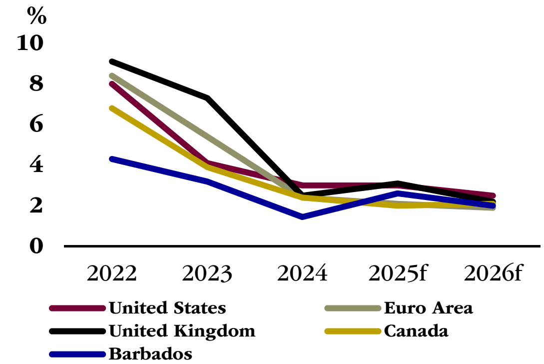
Global market volatility and geopolitical shocks affect the investment activities of non-bank financial institutions. Insurers, mutual funds, and occupational pension plans are exposed to international financial markets, making them vulnerable to external shocks (Figure 3). Recent fiscal uncertainty in the U.S., including elevated debt levels, policy unpredictability, and the sovereign credit downgrade by Moody's in May 2025, the third major rating agency to reduce its credit rating has disrupted global bond markets. As a result, even traditionally low-risk assets have become potential sources of valuation losses and portfolio volatility, heightening the sensitivity of domestic financial institutions to shifts in global financial conditions.

Figure 1: Real GDP Growth Rates of Barbados' Main Tourist Markets[1]



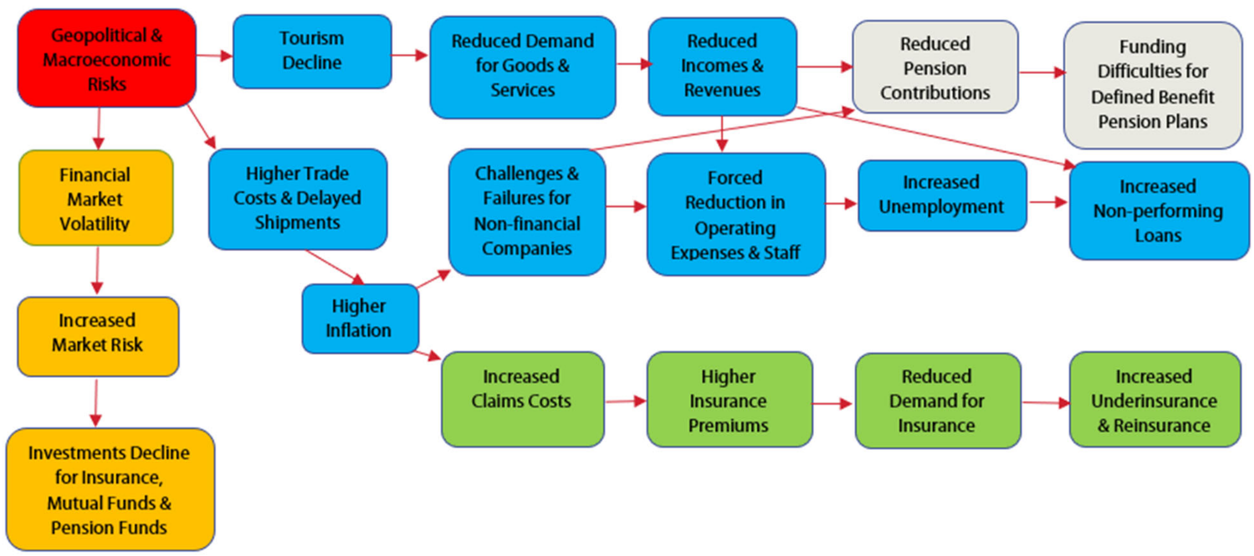
Sources: International Monetary Fund (World Economic Outlook, April 2025) and World Bank (Global Economic Prospects, January 2025)

Figure 2: Inflation Rates for Advanced Economies and Barbados



Sources: International Monetary Fund (World Economic Outlook, April 2025) and Central Bank of Barbados

Figure 3: Geopolitical & Macroeconomic Risks to Financial Stability



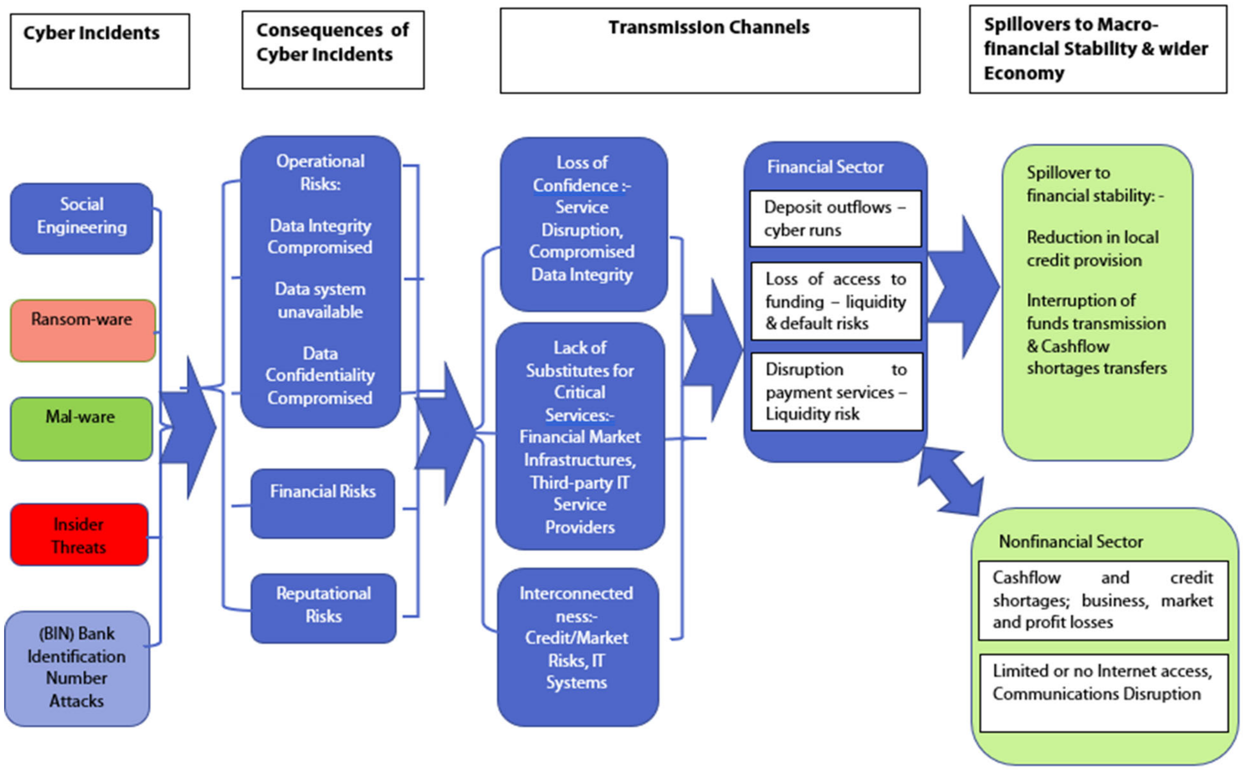
Sources: Central Bank of Barbados and Financial Services Commission

1.2 Cyber and AI Risk

Cyber incidents create operational, financial, and reputational risks for the financial system. As financial services digitalise, the sector faces heightened exposure to cyber incidents, including ransomware, malware, and social engineering attacks. Risks are transmitted through loss of confidence in critical financial infrastructure, disruption of services, and interconnected IT systems. This may trigger deposit outflows ("cyber runs"), restrict access to funding, or disrupt payment operations, potentially amplifying liquidity risks and spillovers to the wider economy. Such events also impose significant direct costs related to data recovery, customer compensation, and regulatory penalties (Figure 4).

[1]Guyana experienced a significant increase in its GDP after discovering and subsequently developing its offshore oil reserves. This development led to a surge in oil production and exports. In January 2020, Guyana started exporting oil, which marked a significant milestone for the country as it became a new player in the global oil market.

Figure 4: Cyber Risks to Financial Stability



Sources: Central Bank of Barbados and Financial Services Commission. Adapted from the IMF Global Financial Stability Report, 2024

Cyberattacks targeting payment systems pose particular systemic risk for Barbados. Given the reliance on shared infrastructure like the RTGS and ACH, an isolated cyber event could disrupt interbank settlements and real-time payments, affecting both the financial and non-financial sectors. For smaller institutions, especially credit unions and finance companies, capacity constraints may exacerbate vulnerability to cyber threats.

Cyber risk has risen alongside the digital transformation of the financial sector. Recent local news reports highlight cyber threats targeting local banks and credit unions, including attempts to compromise customer card data.[2] Results of the 2023 cyber-risk survey indicate that spam and phishing, a high-frequency but low-severity event, are the most common cyber threats. Although medium- and high-severity incidents are less common, they still pose serious operational and reputational risks. The expansion of electronic transactions, as an increasing number of payments are made online has enhanced efficiency but also elevated the sector's exposure to cyber threats. It is therefore critical that financial institutions have in place effective cyber security programmes, capabilities, and controls to mitigate current and emerging threats.

Financial institutions and regulators have taken steps to strengthen cyber resilience. Cybersecurity strategies, incident response plans, and staff training have been prioritised across the sector. The Bank and the FSC have introduced cyber incident reporting templates and

[2] A local credit union reported a data breach in October 2024 involving unauthorised use of debit card information obtained via a third-party service provider. Affected cards were subsequently blocked and replaced.

guidelines to their licensees, in order to standardise responses. In addition, the Cybercrime Bill (2024), which will replace the Computer Misuse Act once enacted, will provide an updated legal framework for combatting cybercrime. As part of this FSR, the Bank provides first-time estimates of potential cyber risk losses under a Bank Identification Number (BIN) attack scenario, which is published as a thematic article. These findings aim to enhance sectoral awareness and inform ongoing supervisory priorities.

Supervisory assessments continue to highlight disparities in cyber risk preparedness across non-bank financial institutions. A cybersecurity questionnaire issued by the FSC in September 2024 to credit unions and insurance companies revealed varying levels of cyber readiness, with larger institutions generally demonstrating stronger IT and cybersecurity controls. Smaller entities, however, exhibited gaps in key areas, underscoring the need for continued enhancement of sector-wide cyber risk management. To mitigate potential vulnerabilities and promote resilience, the Bank and the FSC are supporting registrants through guidance, knowledge sharing, and the promotion of best practices in cybersecurity governance.[3]

AI adoption is introducing new operational and systemic risks across the financial sector. Its use in underwriting, claims processing, and investment management raises concerns over algorithmic bias, opaque decision-making, and heightened cyber vulnerabilities. Weak governance may undermine underwriting fairness, increase reserving risks, or expose sensitive beneficiary data. In investment portfolios, reliance on AI strategies could amplify pro-cyclicality or market herding under stress. Strengthening governance, transparency, and cyber resilience will be critical to mitigate these risks and protect policyholders and beneficiaries.

1.3 Climate Risk

Both physical and transition climate risks, pose systemic challenges to Barbados' financial stability. These risks impact the banking, insurance, and pension sectors through multiple transmission channels (Figure 5). Physical risks such as hurricanes and storm surges, can damage economic assets, reduce collateral values, disrupt business continuity, and impair borrowers' repayment capacity. Transition risks, stemming from policy shifts or technological change, may trigger abrupt repricing of carbon-intensive assets and erode asset values in exposed sectors.

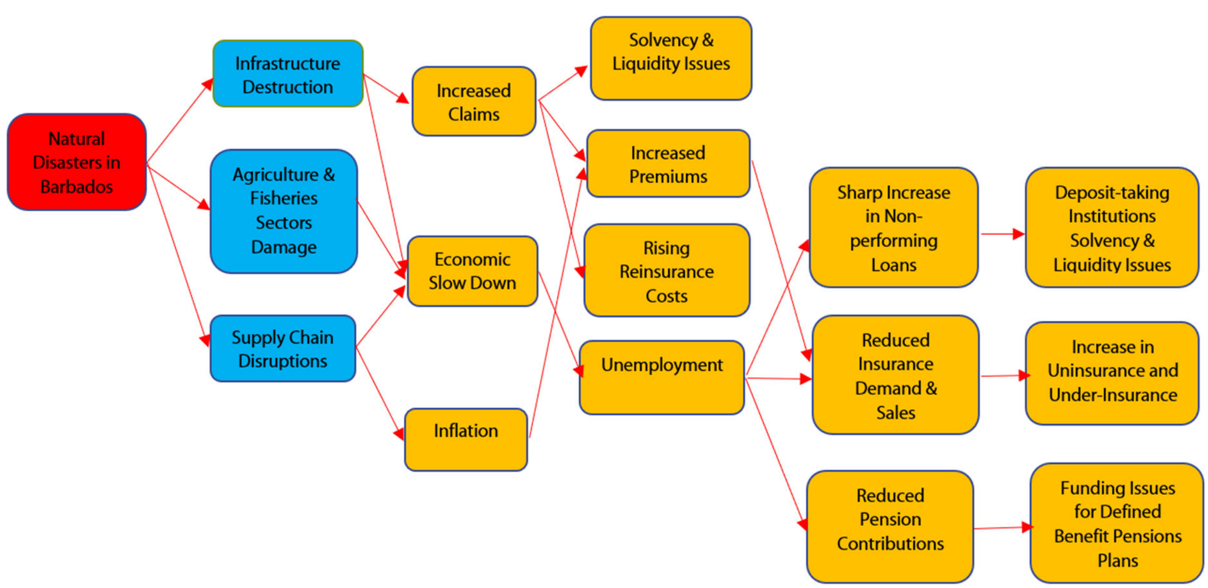
Recent climate risk assessments highlight potential vulnerabilities in the financial system under adverse physical shock scenarios. The Bank's climate risk assessments (CRAs)[4] indicated that severe physical events were associated with increased credit losses, reduced lending activity, and some erosion of capital buffers across deposit-taking institutions (DTIs). Although the sector as a whole remained above minimum regulatory thresholds, a small number of DTIs experienced capital pressures under the most adverse scenarios. These results underscore the importance of understanding how credit deterioration, identified as the main transmission channel, could affect financial institutions under extreme but plausible climate conditions (Figure 5).

[3] The FSC issued a Technology and Cyber Risk Management Guideline in 2024.
[4] The CRA was conducted on financial institutions licensed by the Central Bank of Barbados.

A second CRA, conducted with IMF-CARTAC support, identified coastal storm damage as a concentrated financial stability risk. A simulated 1-in-100-year storm surge was estimated to reduce GDP by up to 7.1 percent and generate significant loan losses in coastal tourism, housing, and commercial real estate portfolios. This scenario would increase non-performing loans (NPLs), reduce collateral values, and pressure capital adequacy, particularly in geographically concentrated lending portfolios. These findings underscore the importance of targeted resilience investments, location-specific risk mapping, and capital buffers to strengthen institutional resilience.

A recent assessment of climate transition stress test reveals that transition risks for the Barbadian banking sector, while present, are not currently systemic. Transition risks arise from the global shift towards a low-carbon economy, including changes in regulations, market dynamics, and technological advancements that can affect sectors such as tourism and construction. The initial study, shows moderate declines in capital adequacy ratios (CAR) and modest increases in NPLs under the most adverse scenario. These results suggest that while transition risks are manageable, physical climate risks pose a more immediate threat to Barbados' financial stability. The findings underscore the importance of tailored stress-testing frameworks that consider local economic structures, ensuring that climate-related risks are assessed in a way that aligns with Barbados' unique financial system and exposure (thematic article 2).

Figure 5: Climate & Natural Disaster Risks to Financial Stability



Sources: Central Bank of Barbados and Financial Services Commission Staff

Climate risks also affect insurance and pension sectors through higher claims, asset valuation losses, and funding pressures. Physical shocks can increase insurance claims' costs, underwriting, and operational costs, while also increasing reinsurance premiums, putting pressure on reserves and profitability. Meanwhile, transition risks may erode investment returns in carbon-intensive portfolios, affecting solvency and long-term liabilities. For pension funds, market repricing may reduce asset values and widen defined benefit funding gaps.[5]

Natural disaster stress testing has revealed varying levels of resilience among insurance companies operating in Barbados. While some insurers were able to withstand a scenario involving elevated claims and a macroeconomic downturn, the exercise also identified gaps in risk assessment practices and inconsistencies in the robustness of climate risk modelling. To support sector-wide resilience, the FSC issued the Natural Disaster Stress Testing (NDST) Guideline in 2021, requiring Class 2 insurers[6] to evaluate the potential impact of events such as hurricanes, floods, earthquakes, tsunamis, and volcanic eruptions on their operations and financial positions.

The large insurance protection gap in Barbados, where over a quarter of total property values remain uninsured, poses significant risks to the government's fiscal position in the event of a severe climatic event. In response, the FSC, supported by a CARTAC technical assistance mission in 2024, is developing a CRA framework to enhance the financial stability analysis of climatic events on the non-bank financial sector. Data collected from general insurers, who account for more the 90 percent of domestic property premiums, was used to estimate the domestic insurance coverage gap. This data, paired with damage estimates from the Coastal Zone Management Unit (CZMU), revealed an initial estimate of uninsurance and underinsurance. Addressing this gap is crucial to mitigate potential fiscal risks and enhance resilience to climate-related shocks.

Ongoing efforts to embed climate risk into the macroprudential framework are essential to understand how these risks transmit across the financial system. The Bank continues to enhance its risk mapping, sectoral stress testing, and climate data collection to inform supervisory practices. Future initiatives will focus on strengthening institutional capital planning, improving climate disclosure, and aligning supervisory approaches with evolving international standards.

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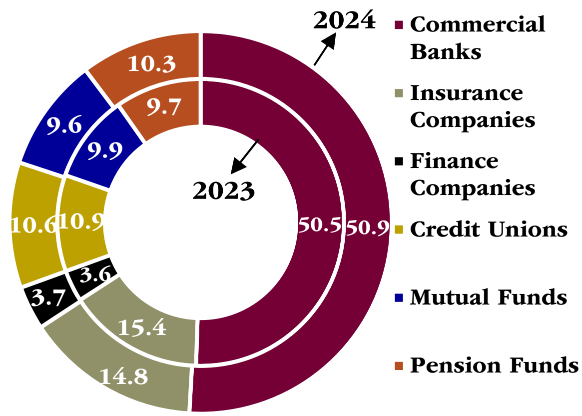
[5] Further insights into insurance sector climate stress testing are presented in a separate thematic article.
[6] Class 2 insurance companies underwrite risks of third parties.

2. Analysis of the Financial System

2.1 Structure of the Financial System

The structure of the financial system remains largely unchanged in 2024. Asset growth was concentrated in finance companies and commercial banks, while other segments remained stable. Commercial banks continue to play a central role as the dominant holder of assets in the financial sector (Figure 6).

Figure 6: Distribution of Assets



Sources: Central Bank of Barbados and Financial Services Commission

In 2024, overall financial stability was maintained. Favourable macroeconomic conditions supported stability despite lower profitability stemming from a combination of operational expenses and modest credit growth. This stability is reflected in the Aggregate Financial Stability Index (AFSI) in Figure A2, with no significant deterioration in credit quality. The decline in the Banking Stability Index (BSI) in Figure A1 was primarily due to weaker profitability and tighter liquidity conditions (see Appendix).

2.2 Deposit-Taking Institutions

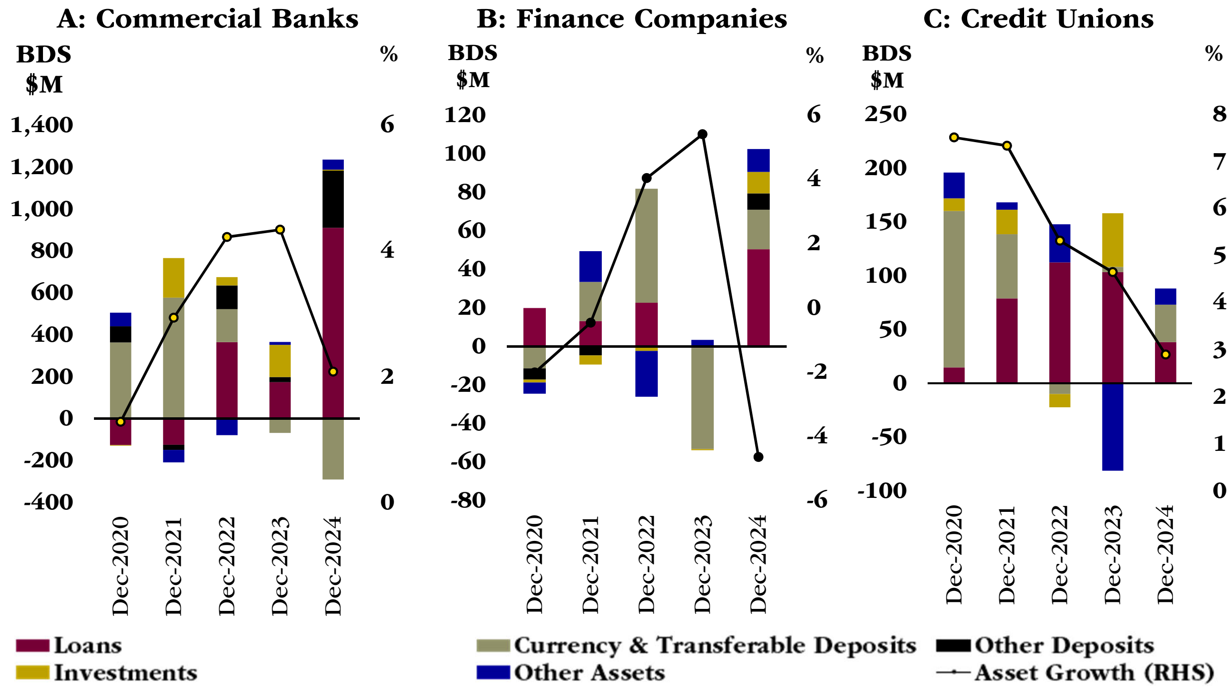
2.2.1 Asset Trends

Credit expansion propelled asset growth in 2024. Consolidated assets rose by 6 percent in 2024, accelerating from 2 percent in the prior year. This growth was driven by increased lending across all DTI segments (Figure 7). A key factor was the $592.7 million debt-for-climate-resilience swap, in which three (3) commercial banks participated. The transaction boosted net credit to the Government, expanded banks' balance sheets, and absorbed some of the excess liquidity in the system.

Commercial banks drew down liquidity to support credit expansion. Unlike finance companies and credit unions, banks experienced a notable liquidity decline as they used excess cash and reserves to meet rising demand from the Government, non-financial corporations, and households. This coincided with a dip in the BSI (see Appendix Figure A1). Nevertheless, banks maintained liquid asset ratios near the 5-year average and continued holding short-term government securities, supporting earnings and preserving buffers amid global uncertainty.

Global economic uncertainty may drive a gradual rebalancing of DTI portfolios towards lower-risk assets and more resilient sectors. Despite this potential shift, loans remain the dominant component of DTI assets, continuing to represent the primary source of risk exposure (Figure 7).

Figure 7: Asset Growth



Sources: Central Bank of Barbados and Financial Services Commission

2.2.2 Credit Conditions

Favourable credit conditions supported strong loan growth and improved credit-to-GDP dynamics (Figure D2). Increased economic activity boosted credit demand and contributed to a decline in loan delinquency rates. While the overall weighted average loan rate edged down slightly, a gradual increase in consumer lending rates may temper future credit growth, particularly for more vulnerable households.

Corporate Sector

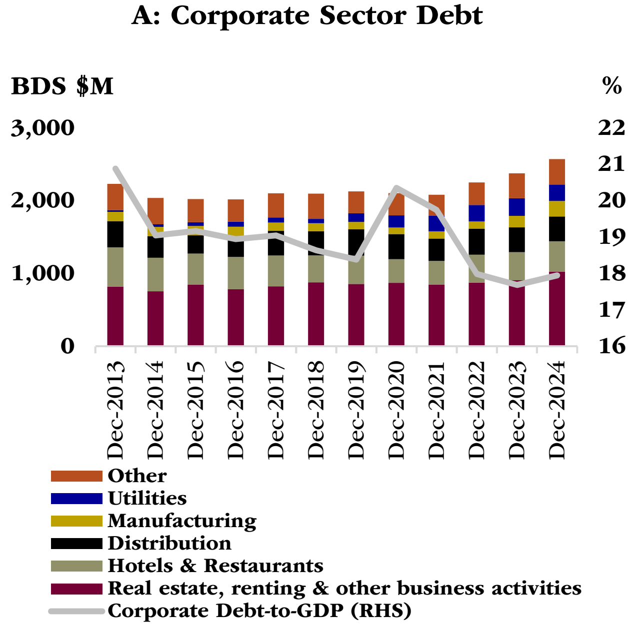
Non-financial corporations (NFCs) remain a key credit exposure, with lending growth supported by sustained economic activity. NFC credit balances grew by 8.2 percent in 2024, extending the upward trend since 2022. This expansion reflected stronger demand for credit to finance business expansions, mergers and acquisitions, working capital, and property investments. Lending growth was broad-based across the top five sectors[7] except for the utilities and distribution sectors, which recorded higher repayments. Corporate debt rose marginally to 15.4 percent of total DTI assets (up 0.2 percentage points), while corporate debt as a share of total DTI loans declined from 33.2 to 31.7 percent, reflecting a moderation in NFC exposure within loan portfolios.

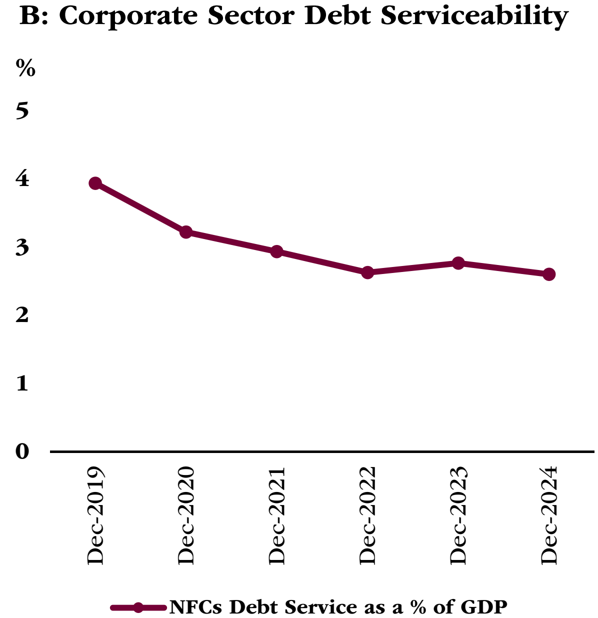
The corporate sector remains resilient, supported by moderate credit growth and a stable debt service burden. While corporate debt increased relative to 2023, the corporate debt-to-GDP ratio remained broadly stable, indicating that credit to NFCs continues to expand in line with overall economic growth (Figure 8A). The debt service burden, measured as interest

[7] The largest five NFCs sectorial exposures for DTIs include the real estate, renting & other business activities; manufacturing; distribution; utilities; and hotels & restaurants sectors.

payments relative to GDP, declined slightly by 0.2 percentage points to 2.6 percent (Figure 8B).[8] Although broadly unchanged from 2023, the debt service burden represents an improvement relative to pre-pandemic levels, reflecting sustained debt sustainability.

Figure 8: Corporate Sector Indebtedness Indicators



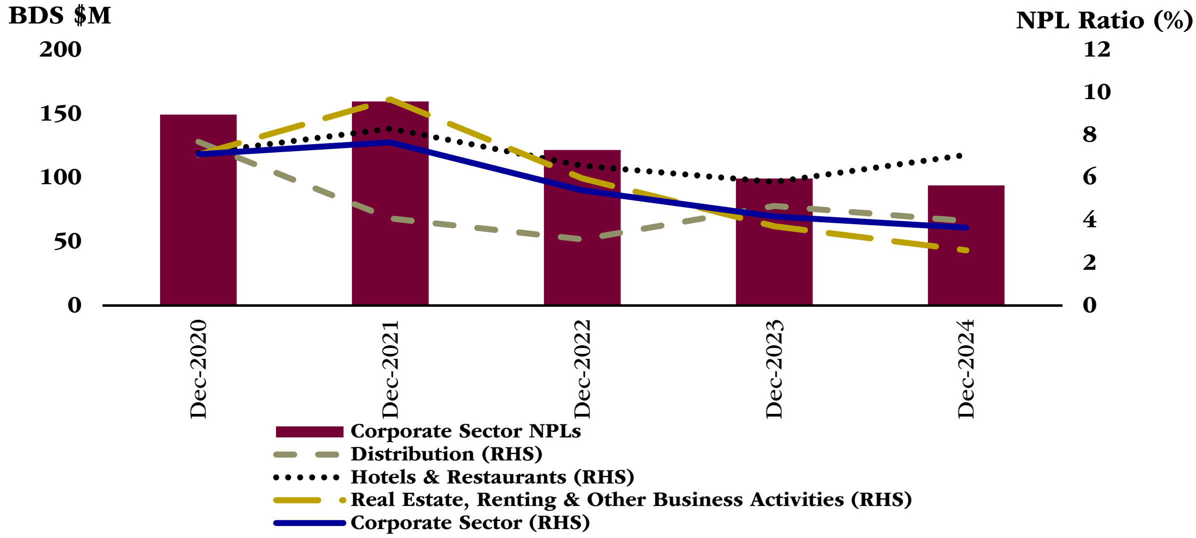


Sources: Central Bank of Barbados and Barbados Statistical Service

Corporate credit quality has improved, supported by stronger economic fundamentals and broad-based sectoral performance. The revival of tourism activity and an improved domestic labour market have benefitted NFCs across various industries, contributing to their consistent support of GDP growth. This improved operating environment led to a decline in corporate NPLs, with the stock of NPLs falling by over 5 percent and the NPL ratio decreasing by 0.6 percentage points to a 10-year record low of 3.6 percent (Figure 9). The hotel and restaurant sector recorded a higher NPL ratio due to a single loan turning non-performing, which does not reflect sector-wide credit distress.

[8] The debt service burden reflects interest payments on debt held with DTIs only and does not account for debt obligations to informal lenders or external creditors.

Figure 9: Corporate Credit Quality



Source: Central Bank of Barbados

Looking ahead, the resilience of the corporate sector is expected to persist, but inflation and slower growth pose downside risks. Firms are likely to maintain financial strength in the near term; however, rising inflation and weaker-than-expected growth could negatively affect corporate balance sheets. The Barbados Chamber of Commerce identifies supply chain disruptions and inflationary pressures as key risks to profitability (Barbados Chamber of Commerce & Industry, 2025). An economic slowdown may constrain consumption, dampening firm revenues. While companies continue to accumulate savings, a tight labour market may reduce household spending, indirectly affecting business performance. These pressures could increase NPLs, leading to weaker credit quality and lower bank profitability through reduced interest income and higher provisioning needs.

Cyber and climate-related risks remain material threats to corporate stability. Businesses face growing exposure to climate hazards and cyberattacks, which can disrupt operations, increase costs, and raise leverage. In Barbados, a 1-in-100-year storm surge is estimated to cause $3.6 billion in commercial property damage, with losses likely to rise as climate risks intensify.[9] Similarly, cyber incidents such as ransomware, malware, and denial-of-service attacks can halt operations and revenue generation. Further analysis of cyber risk exposures is presented in the thematic article on cyber risk.

Loan loss coverage remains robust, providing a key buffer against potential credit deterioration. Despite a weaker credit outlook amid slowing economic growth, DTIs' loan loss provisions mitigate concerns. Banks continue to hold nearly twice the required minimum, while finance companies and credit unions have also strengthened coverage, supporting sector resilience.

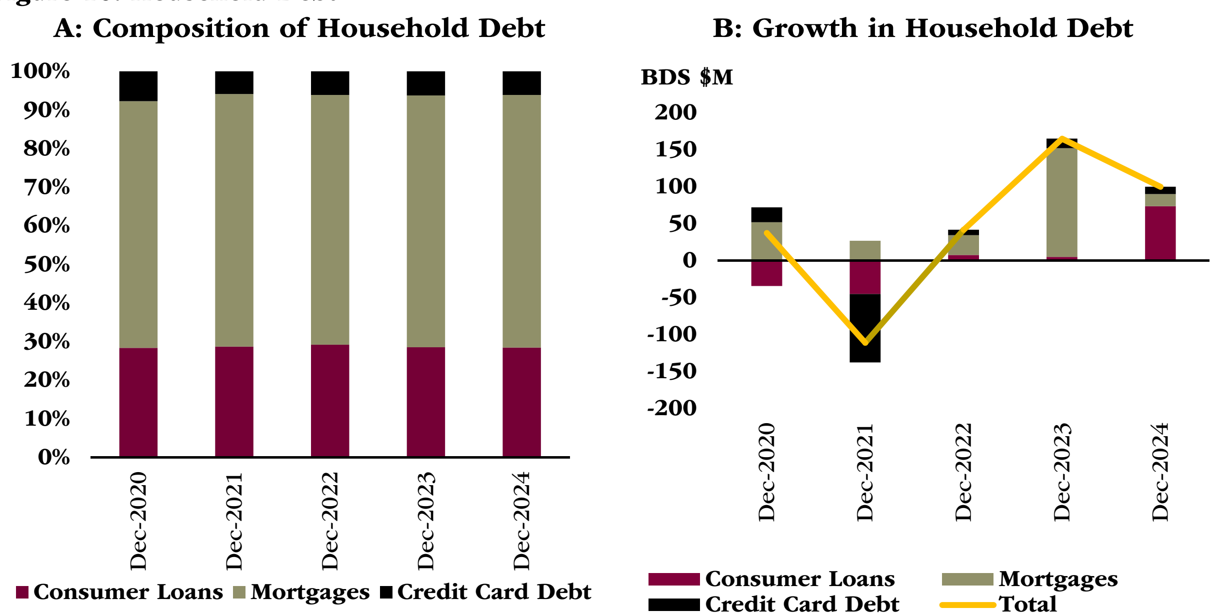
[9] Damage estimates were provided by the Coastal Zone Management Unit. For further details see thematic article "A Climate Risk Assessment of the Barbadian Deposit-taking Financial Sector" in FSR 2023 (pages 58-68).

Household Sector

Households remain the largest source of credit exposure, though indicators of indebtedness and debt serviceability remain stable. Household loans accounted for about 62 percent of DTIs' loan portfolios and grew modestly in 2024, driven mainly by demand for consumer loans and mortgages (Figure 10). Despite rising household debt, key measures of indebtedness and debt serviceability remained stable, supported by stronger wages and favourable lending conditions (Figure 11). Given the high share of household credit, preserving financial resilience remains critical, especially as labour market conditions and global developments may affect household income and credit quality over the medium term.

The composition of household debt remained broadly stable. Consumer loan growth accelerated, driven by higher demand for auto-financing, while mortgage debt, which remains the largest share of household borrowing, grew marginally as repayments offset new lending. Growth in new mortgages was supported by improved wage dynamics and seasonal credit campaigns in late 2024. Credit card debt increased at a more moderate pace (Figure 10).

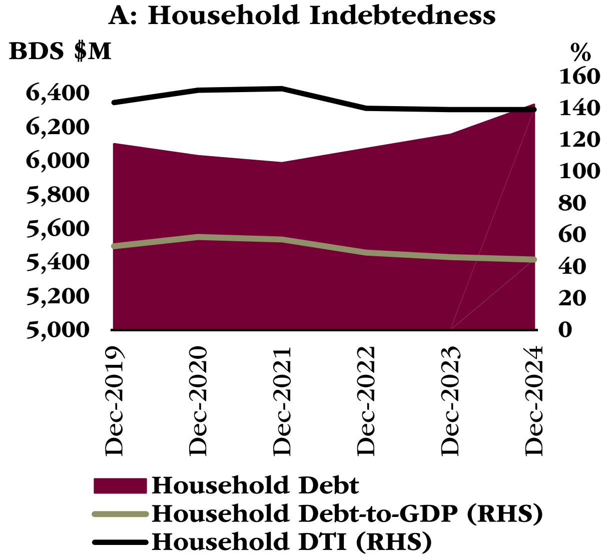
Figure 10: Household Debt

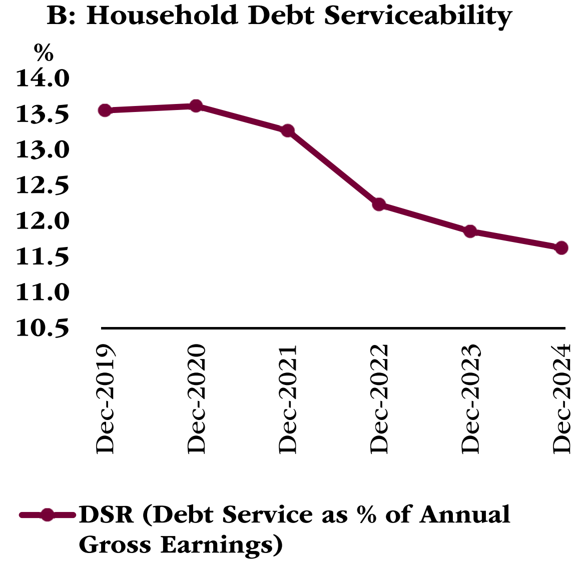


Sources: Central Bank of Barbados and Financial Services Commission

Household indebtedness indicators remained stable in 2024, supported by rising incomes and favourable financing conditions. The debt-to-income ratio held steady at approximately 140 percent, consistent with pre-pandemic levels, while the debt-to-GDP ratio declined as GDP growth outpaced household credit expansion (Figure 11A). The debt-service-ratio (DSR) fell to a five-year low, reflecting improved debt affordability (Figure 11B).

Figure 11: Household Indebtedness Indicators

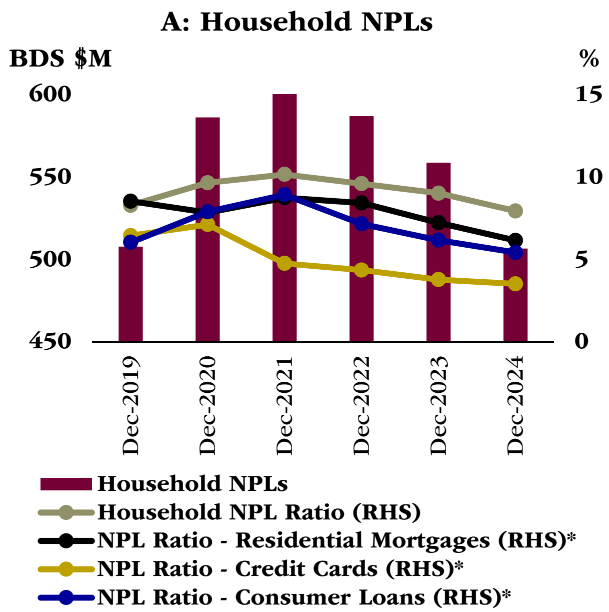


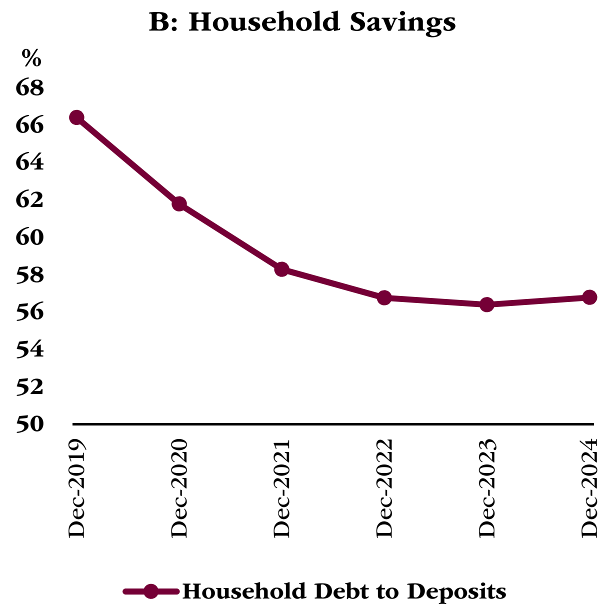


Sources: Central Bank of Barbados, Financial Services Commission, Barbados Revenue Authority, Barbados Statistical Service and Central Bank of Barbados' Staff Calculations

Household credit quality continued to improve in 2024, supported by higher repayments and increased savings buffers. The household NPL ratio declined across all major loan categories (Figure 12A), reflecting both improved repayment capacity and loan write-offs by banks. Household NPLs are now back to pre-pandemic levels.

Figure 12: Household Credit Quality and Savings





*NPLs by category is not available for Credit Unions
Sources: Central Bank of Barbados and Financial Services Commission

Household balance sheet risks remain contained, though vulnerable segments may face rising stress amid higher consumer lending rates. Household debt grew slightly faster than savings in 2024, leading to a marginal increase in the debt-to-deposits ratio (Figure 12B). Continued savings accumulation has helped preserve buffers against income shocks. However, further increases in the consumer lending rate could strain lower-income households with limited financial cushions, underscoring the need for close monitoring of household vulnerabilities.

Labour market developments remain a key determinant of household sector resilience. The outlook for the household sector is closely tied to labour market conditions, with unemployment risks emerging as a potential headwind to credit quality. While recent trends point to improved household resilience, a macroeconomic slowdown in Barbados and its major tourism source markets could exert pressure on household balance sheets over the medium term.

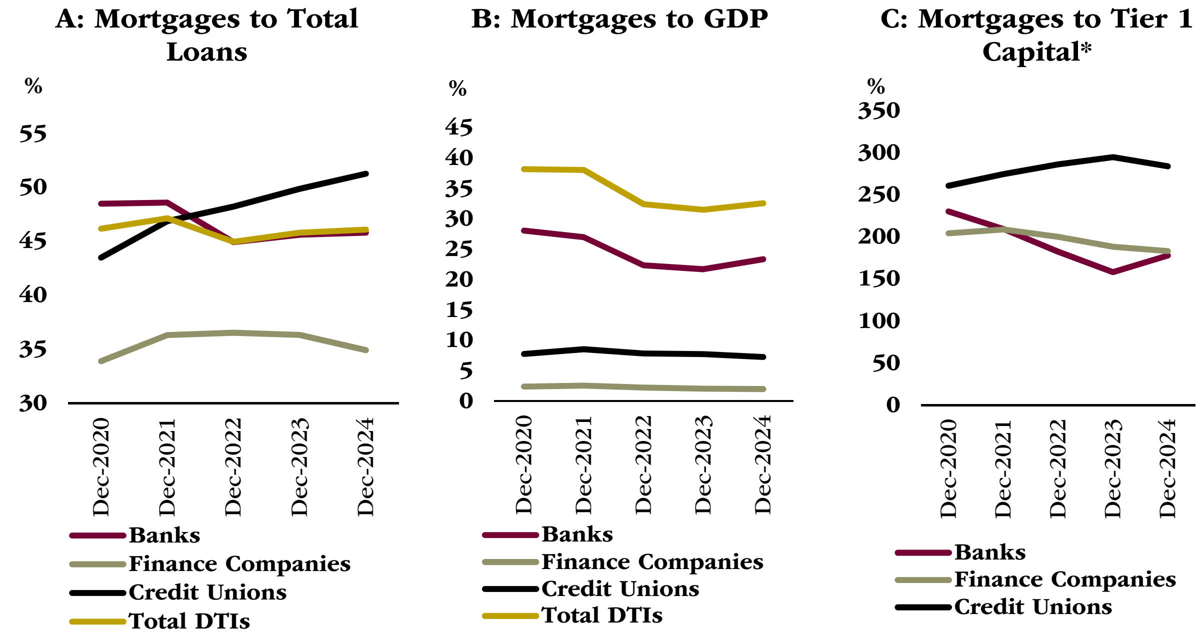
2.2.3 Real Estate Sector

Real estate remains a key credit concentration for DTIs, with mortgage lending set to rise further. Mortgages make up nearly half of total DTI loan portfolios, with banks holding the highest exposure (Figure 13A). In 2024, banks expanded lending to mortgages and the broader real estate sector, yet the share of real estate loans held steady at around 46 percent, as lending in other categories also grew.

Real estate exposure increased but is not an immediate threat to financial stability. Banks extended 35 percent more new mortgages than in 2023, reflecting robust lending in both commercial real estate (CRE) and residential real estate (RRE) markets. Outstanding residential mortgages rose slightly by 0.4 percent, while commercial mortgages more than doubled. While the modest 1.1 percentage point increase in mortgage depth[10] reflects ongoing expansion, real estate exposures remain concentrated and represent a key structural vulnerability (Figure 13B). In addition, the rising ratio of mortgages to Tier 1 capital for banks signals heightened sensitivity to a potential real estate market correction (Figure 13C).

[10] Mortgage depth refers to the size or significance of mortgage lending relative to the overall economy, typically measured as the ratio of total mortgage debt outstanding to Gross Domestic Product (GDP).

Figure 13: Mortgage Exposure



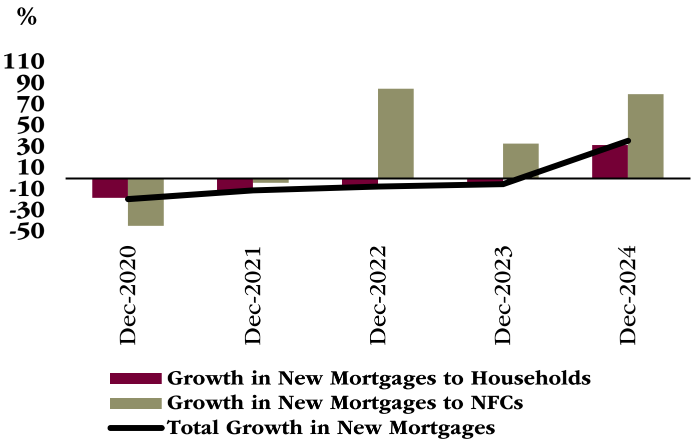
*Mortgages to Total Capital for credit unions
Sources: Central Bank of Barbados, Financial Services Commission and Barbados Statistical Service

Easier lending terms and a strong risk appetite supported mortgage growth in 2024. Increased mortgage activity reflected more accommodative lending conditions and greater willingness to lend, particularly among banks and finance companies (Figure 14). The weighted average mortgage lending rate for banks and finance companies declined by 0.1 and 0.3 percentage points, respectively (

Figure ***D3***). According to the Survey of Bank Lending Conditions (SBLC)[11] seasonal credit campaigns during the Christmas period featured reduced rates, allowing borrowers to secure larger mortgages at lower debt servicing costs. Banks also reported that strong capital positions boosted their appetite for commercial mortgage lending, further fuelling growth in real estate credit.

[11] The Bank issues the SBLC on a quarterly basis to obtain industry insights on trends in the credit market for mortgages, consumer loans and business loans.

Figure 14: Growth in the Number of New Mortgages



Source: Central Bank of Barbados

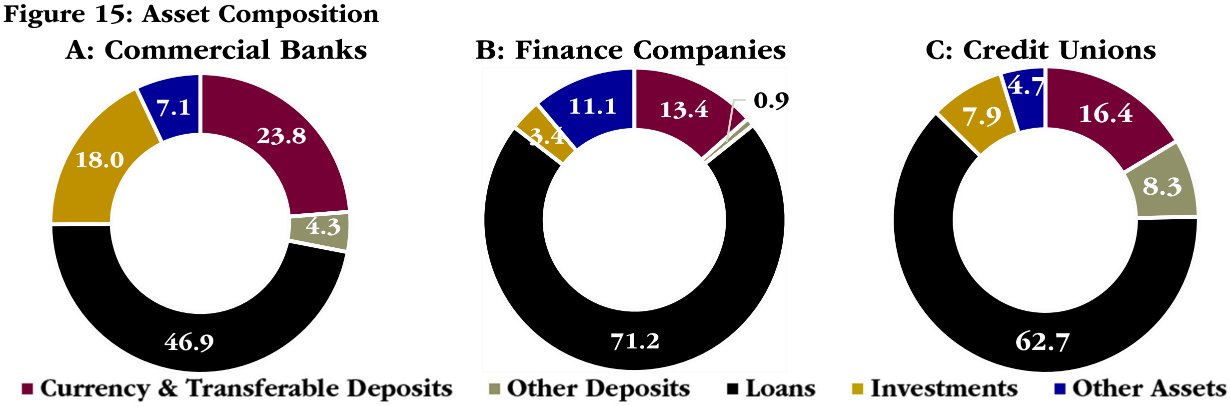
Elevated construction costs continue to constrain mortgage affordability and real estate supply, increasing downside risks to the market outlook. Although the building materials index declined modestly in 2024 (Figure D4), costs remain high relative to pre-2021 levels, providing only partial relief. Supply chain disruptions and inflation under adverse scenarios could renew cost pressures, limiting affordability, increasing household indebtedness, and dampening demand for new mortgages. Persistently high construction costs may also restrict new residential and commercial developments, further weighing on real estate market activity.

Formal lending standards remained stable in 2024, though some borrower segments may be more sensitive to adverse shocks. Banks maintained loan-to-value (LTV) ratios between 80–100 percent, debt service ratios (DSRs) between 40-45 percent, and debt service coverage ratios between 1.2–1.25 times. Responses from the SBLC indicated that a small but growing share of borrowers are approaching these limits. This development supports evidence from the 2023 Real Estate Survey (FSR 2023), which revealed that lower-income mortgagors more frequently report DSRs near the upper bound, suggesting greater sensitivity to potential economic downturns.

2.2.4 Investments

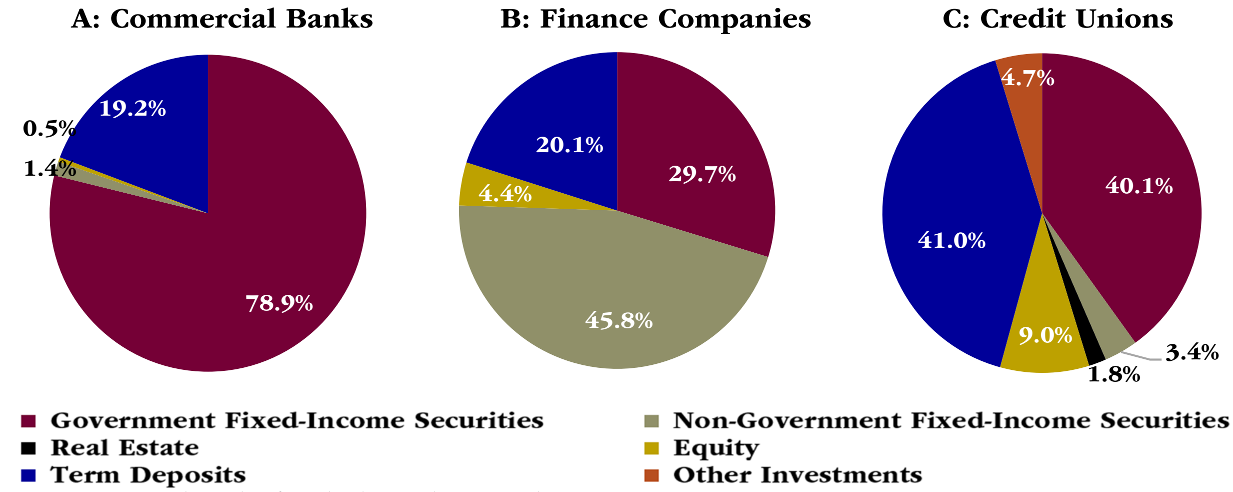
DTIs' government securities' portfolios rose during 2024. Investments continue to represent a significant asset exposure for DTIs, with a concentration in government securities, particularly among banks (Figure 15 and Figure 16). The increase, amounting to $165.2 million or 7.1 percent, reflected sustained appetite for domestic government instruments, primarily treasury bills.

Figure 15: Asset Composition



Sources: Central Bank of Barbados and Financial Services Commission

Figure 16: Investment Portfolio

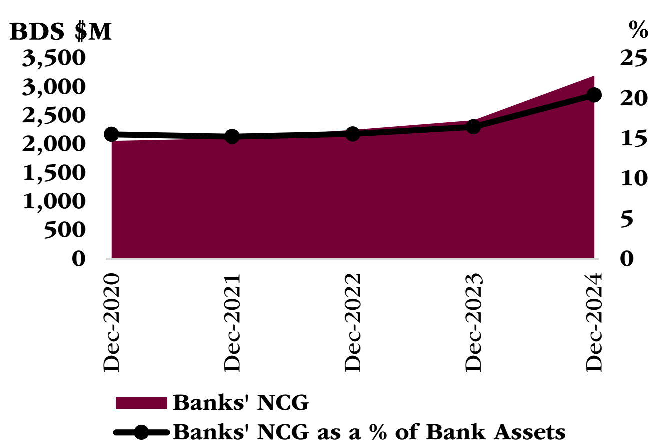


Sources: Central Bank of Barbados and Financial Services Commission

Sovereign exposure in the banking sector increased in 2024, remaining broadly consistent with recent trends. Banks' sovereign exposure, measured as net credit to government (NCG) relative to assets, rose by 3.9 percentage points to 20.4 percent (Figure 17), reflecting greater investment in domestic government securities and participation in the debt-for-climate-resilience swap. Sovereign assets continue to play an important role in bank portfolios, and developments in public sector credit will remain an area of regular monitoring, as part of the sector's overall credit dynamics.

Sovereign exposure remains a central component of banks' portfolios, with near-term fiscal risks assessed as contained. Banks maintain significant holdings of government instruments, reflecting the sovereign's role as a core investment asset. While this concentration could increase vulnerability under adverse fiscal or economic conditions, current assessments indicate declining default risk over the short to medium term. This outlook is supported by improved sovereign credit ratings for Barbados, which now carry stable and positive outlooks, and is further reinforced by the participation of highly rated multilateral institutions, such as the Inter-American Development Bank (IDB), as a guarantor in the debt-for-climate swap.

Figure 17: Sovereign Exposure of Banks



Source: Central Bank of Barbados

Cross-border exposures continue to play a key role in portfolio diversification, while interest rate risks evolve. While the share of U.S. investments in DTIs' portfolios has declined relative to previous years, exposures remain material through foreign deposits and debt securities (Figure D5). Despite the Federal Reserve's decision to maintain the federal funds rate at a target range of 4.25 to 4.5 percent in the first quarter of 2025, a decline to a range of 3.6 to 4.4 percent is anticipated by the end of 2025 (Federal Open Market Committee, 2025). The anticipated decline in 2025 may temporarily compress interest margins, particularly where maturity mismatches exist. However, over the medium term, negative U.S. dollar maturity gaps are expected to improve margins, if funding costs decline in line with anticipated monetary policy easing (Figure D6).

2.2.5 Foreign-Currency Exposure

Foreign-currency exposures increased modestly in 2024, while exchange rate risk remains contained under the peg. Foreign currency assets as a share of total assets rose by 0.7 percentage points for banks and 1.8 percentage points for finance companies, while the corresponding foreign currency liabilities increased by 1.0 percentage point and 3.3 percentage points, respectively, relative to 2023. Expectedly, given the fixed exchange rate regime, net open positions remain predominantly in U.S. dollars. While exchange rate risk remains contained, ongoing monitoring of foreign-currency positions is warranted to ensure resilience under evolving global financial conditions.

2.2.6 Liquidity

Liquidity conditions remained buoyant in 2024, supported by robust deposit growth. Deposits expanded by 8.3 percent across both domestic- and foreign-currency accounts (Figure D7), while the loan-to-deposit ratio increased modestly to 60 percent, a conservative level by international standards. Liquidity buffers remained ample, despite a temporary decline at year-end linked to increased lending inclusive of government borrowing under the debt-for-climate-resilience swap. The Deposit Insurance Fund continued to grow in 2024, further reinforcing liquidity resilience, while stress test results confirmed the sector's capacity to absorb potential interest rate shocks. Overall, the financial system maintained low funding risk and sufficient liquidity to support credit intermediation and further economic growth.

2.2.7 Profitability

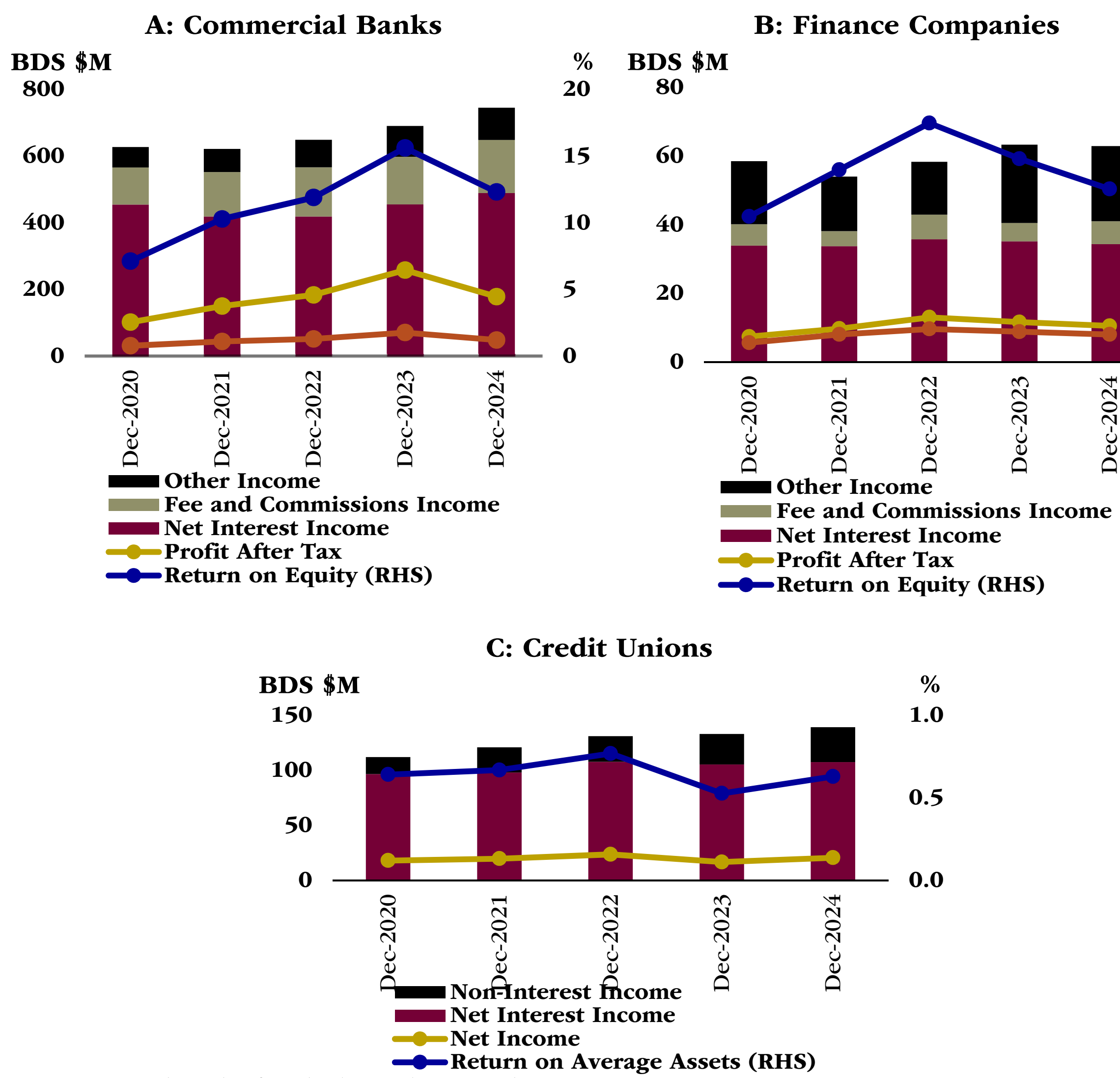
Commercial banks' profitability reverted to normal levels in 2024, following the one-off boost from provision write-backs in 2023. Retained profits after tax fell 31 percent to $178 million, amid the reduced impact of provision reversals that had previously boosted earnings. In 2023, the banks were responding to the declining NPL pressures initially brought on by COVID-19 and its effects, by reducing provisions. This inflated the profitability in that year compared to 2022. As a result of the reduction in net income, the return on average assets (ROAA) decreased from 1.8 percent to 1.2 percent, and the return on equity (ROE) declined from 15.6 percent to 12.3 percent (Figure 18A). Despite the decline in net earnings, core income generation remained resilient, as total interest income grew by 7.5 percent to $496.1 million, supported by broad-based gains from loans, deposits, and investments, amid stable interest rates and sustained economic activity. Similarly, net interest income rose by 7.4 percent to $488.4 million, underscoring the favourable credit demand conditions and improving loan quality.

Non-interest income increased modestly, but rising operating costs weighed on profitability. Non-interest income rose 8.8 percent to $255.8 million, driven by moderate gains in investment and credit fees. However, non-interest expenses increased by 30.6 percent to $544.8 million, reflecting an $80 million reduction in provision write-backs and a $43.4 million increase in operating expenses. A significant share of operating costs was classified under general categories, suggesting an opportunity to enhance cost reporting granularity over time.

Finance companies' profitability declined marginally in 2024, amid rising cost pressures. ROAA fell marginally from 1.1 percent to 1.0 percent, and the ROE decreased from 7.4 percent to 6.3 percent (Figure 18B). After-tax profits fell 9 percent to $10.5 million, reflecting higher interest and operating expenses, partly offset by lower depreciation and provisioning. Despite the modest decline, the sector remained profitable, although they should continue to monitor rising costs.

The credit union sector's profitability improved in 2024 compared to 2023. In 2024, net income grew by almost 24 percent ($3.9 million), after recording a decline of 30 percent ($6.9 million) in 2023 (Figure 18C). The sector's profitability in 2024 was driven mainly by significant growth in other non-interest income, reductions in interest paid on deposits, and reduced expenses related to NPLs. The results reflect the continued challenge of NPLs above pre-pandemic levels, with gradual improvements since the COVID-19 period. Given the improvement in net income, the sector's ROAA also improved, moving from 0.5 percent in 2023 to 0.6 percent in 2024.

Figure 18: Contribution to Profit by Source

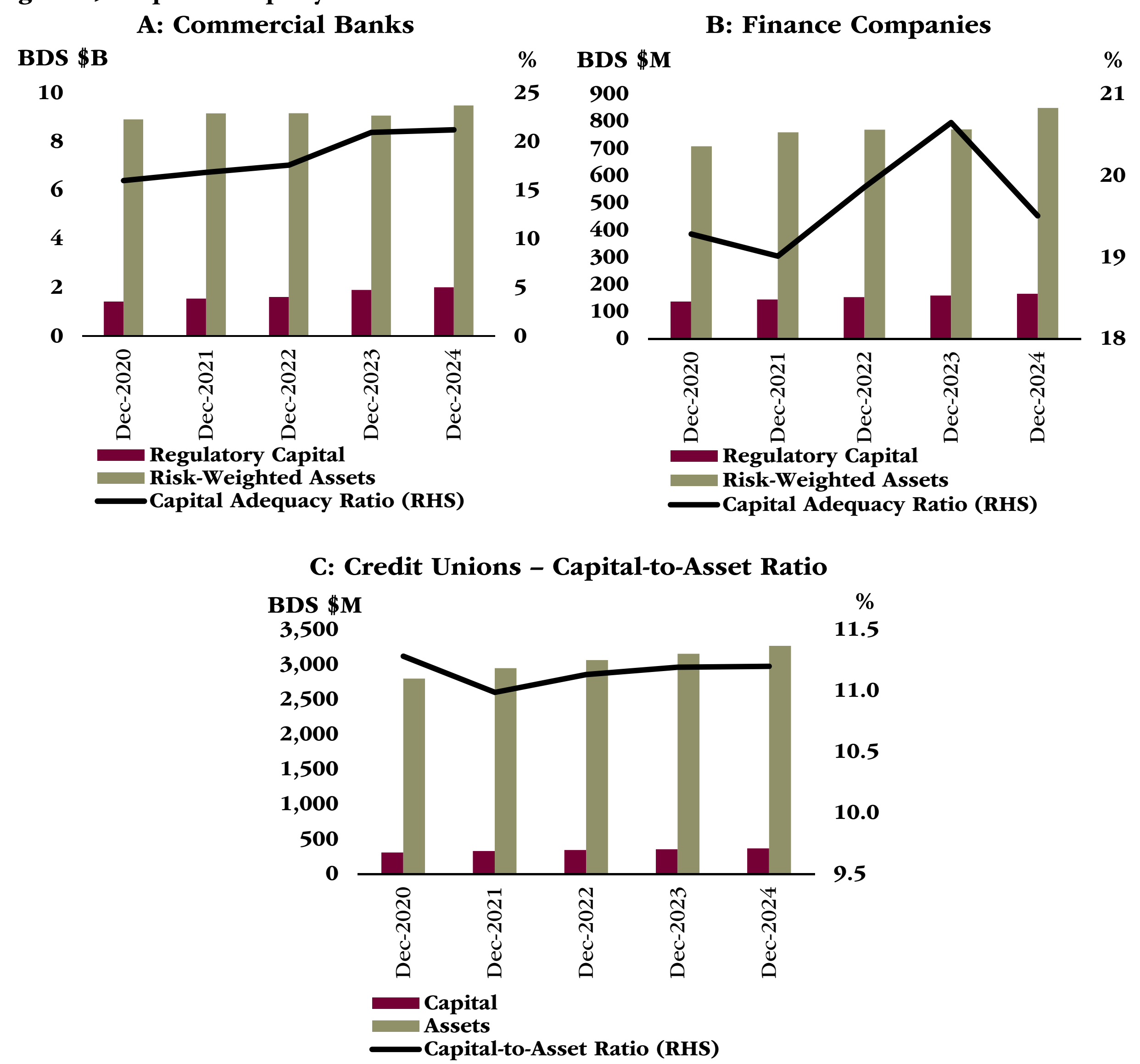


Sources: Central Bank of Barbados and Financial Services Commission

2.2.8 Capital Adequacy

Capital buffers remained robust in 2024, reinforcing the financial system's resilience against potential shocks. The CAR for commercial banks increased to 21.2 percent, supported by a 6 percent rise in regulatory capital (Figure 19A). Finance companies also expanded capital by 4.2 percent, although a 10.2 percent increase in risk-weighted assets led to a modest decline in their CAR to 19.5 percent (Figure 19B). Results from macroeconomic stress tests confirm that both commercial banks and finance companies would maintain capital levels above regulatory minimums under adverse scenarios, underscoring the sector's capacity to absorb credit and market shocks. Overall, the deposit-taking sector remains well capitalised, with capital buffers providing a critical safeguard to support financial intermediation under baseline and stressed conditions (Figure 19C).

Figure 19: Capital Adequacy Ratios



Sources: Central Bank of Barbados and Financial Services Commission

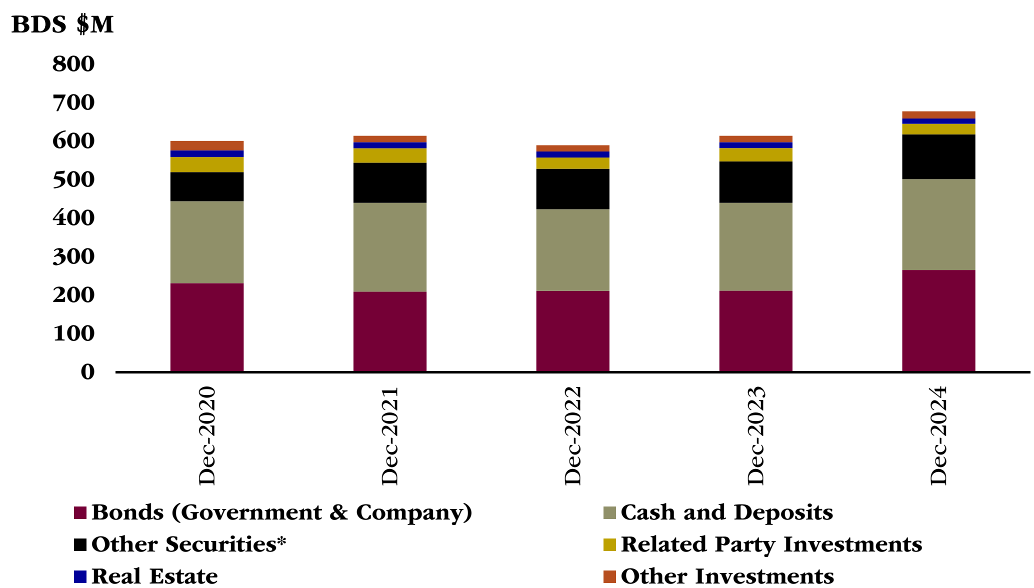
2.3 Insurance Sector[12]

2.3.1 General Insurance Industry

General insurers are expected to face headwinds from slowing growth and rising reinsurance costs in 2025. Geopolitical tensions and tariff disputes may dampen regional expansion and drive modest imported inflation, while climate-risk repricing is expected to push up reinsurance premiums. These pressures could temper premium growth and marginally widen the portion of total uninsured property (the protection gap[13]). Proactive monitoring and calibrated policy support will therefore be essential to sustain market resilience and coverage.

Amid ongoing uncertainty, general insurers are bolstering resilience through enhanced liquidity and safer asset allocations. In 2024, sector assets grew marginally by 0.7 percent, down from 10.7 percent in 2023, as insurers significantly increased holdings of government securities and modestly expanded cash and deposits (Figure 20). Concurrently, holdings of corporate debt and other less liquid, higher-risk instruments declined. This defensive repositioning reduces credit and market risks but may weigh on investment returns if yields remain low.

Figure 20: General Insurance Investment Positions



Source: Financial Services Commission

Lower underwriting and investment income growth highlighted continued sectoral profitability challenges in 2024. Gross premiums written (GPW) grew by 5.9 percent in 2024, a marginal slowdown from the 6.4 percent growth rate in 2023. Industry return on assets (ROA) was also marginal at 0.5 percent in 2024. Though net income for the sector was positive, it was less than that recorded in the prior year.

[12] Estimates were based on audited annual data from previous years and updated 2023 information, as 2024 audited submissions were largely unavailable at the time of writing.

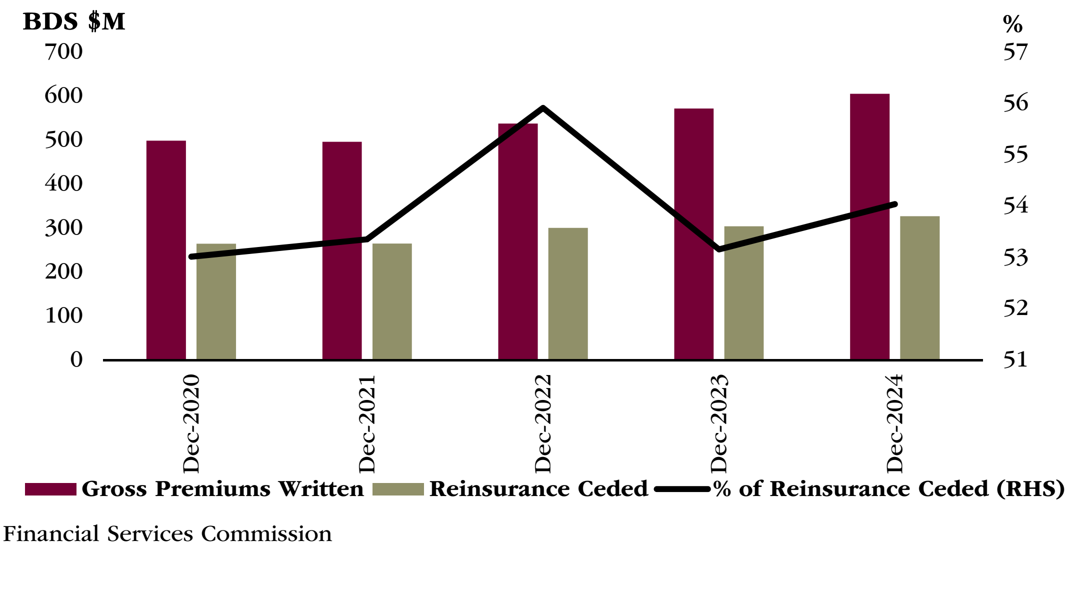
[13] The protection gap is the value of total properties on the island less the total insurance coverage of buildings and other structures.

Industry profitability was not evenly distributed and many of the smaller insurers continued to be under pressure. These smaller general insurers lack the quantum of domestic capital reserves of their larger competitors. However, many of the smaller general insurers are subsidiaries of regional financial institutions and can access additional financing or capital from their parent companies if needed.

Heightened climate risk poses near-term challenges to underwriting performance. Despite a stable five-year average claims ratio of 62.5 percent and a modest fall in the loss ratio from 62.4 percent in 2023 to 60.4 percent in 2024, more frequent and severe hurricanes threaten to reverse these gains. The passage of Hurricane Beryl in 2024, while avoiding direct landfall, still inflicted substantial damage on the fishing and maritime sectors, disrupting over 41 companies and damaging more than 200 vessels. Insurers must therefore adopt adaptive underwriting practices and recalibrate policy frameworks to absorb rising climate-driven losses and safeguard long-term market resilience.

Rising reinsurance costs driven by escalating climate risk threaten to undermine access to affordable insurance coverage, even as reinsurance remains a key risk-mitigation tool.[14] In 2024, insurers ceded an estimated 54.0 percent of general insurance business to reinsurers, employing both proportional and excess-of-loss treaties to guard against catastrophic events (Figure 21). As climate shocks become more frequent and losses mount, reinsurance premiums are set to rise further, constraining insurers' ability to absorb costs and offer adequate coverage. Consequently, local households and businesses may face growing protection gaps, and regional governments may increasingly need to shoulder the financial burden of post-disaster recovery.

Figure 21: General Insurance Gross Premiums Written versus Reinsurance Ceded



Source: Financial Services Commission

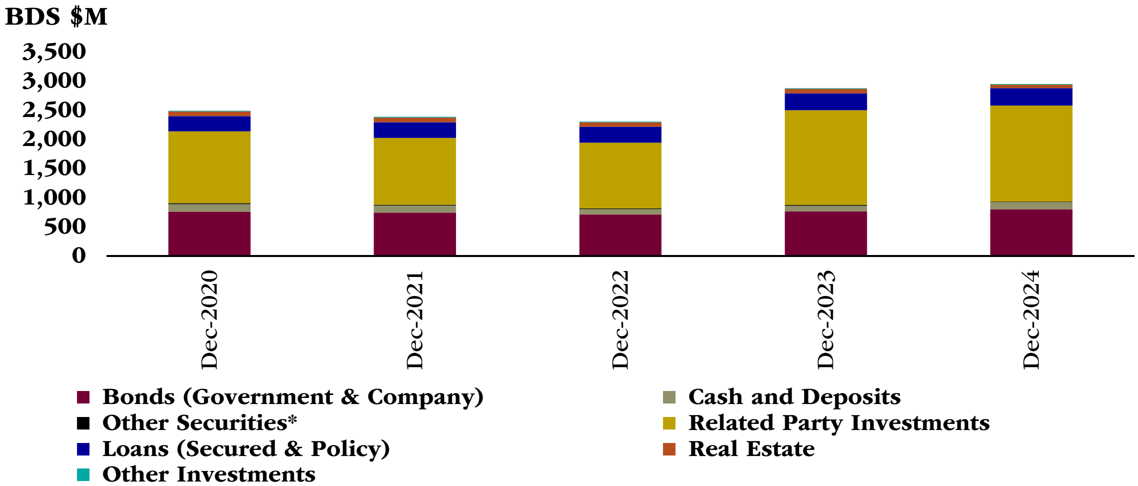
[14] Reinsurance ceded refers to the portion of risk that an insurance company (the ceding company) transfers to a reinsurance company. This process involves the ceding company purchasing reinsurance to protect itself from significant losses by spreading the risk. In return, the reinsurer receives a portion of the premiums paid by the policyholders of the ceding company.

2.3.2 *Life Insurance Industry*

Defensive asset reallocation will bolster resilience, but may constrain future returns. In 2024, sector assets grew by 2.2 percent, as holdings of government securities and cash and deposits climbed by 8.0 percent and 22.8 percent, respectively. Exposures to corporate bonds, debentures, and real estate declined (Figure 22). This shift reduces vulnerability to market and geopolitical shocks, but could pressure investment income if interest rates remain low, highlighting the importance of dynamic portfolio management.

Post-COVID penetration has declined steadily, falling from 28.8 percent in 2020 to 23.8 percent in 2024. The overall declining penetration ratio suggests a slowing demand for life insurance compared to other financial sub-sectors.

Figure 22: Life Insurance Investment Positions



* Mutual Funds, Shares , Unit Trusts

Source: Financial Services Commission

Slower premium growth poses a risk to revenue stability. GPW rose by just 1.2 percent, down from more robust post-pandemic gains, marking the end of a three-year expansion phase. This slowdown reflects subdued consumer demand amid economic uncertainty and resistance to higher rates, and signals potential downward pressure on future sector revenues.

Rising costs and geopolitical volatility threaten profitability resilience despite solid underwriting results. Net income rose by 5.6 percent, driven by improved underwriting results even as operating expenses increased at a similar rate. As a result, ROA edged up by 0.1 percentage points to 4.3 percent, reflecting insurers' effectiveness in containing business costs. Looking ahead, ongoing geopolitical tensions and slowing growth may dampen premium income and further pressure expense ratios, underscoring the need for cost-management and strategic portfolio adjustments.

Extensive related-party exposures amplify financial stability risks. Holdings in related parties now account for over half of domestic life insurers' assets. This concentration creates pathways for macroeconomic shocks in one market to transmit across borders via intercompany transactions and associated entities. As regional economies face volatility, vulnerabilities at a foreign affiliate could ripple back into the domestic sector, underscoring the need for vigilant monitoring of group-wide exposures. Regional regulators continue to collaborate on addressing related party exposures and work towards developing cohesive mitigation strategies.

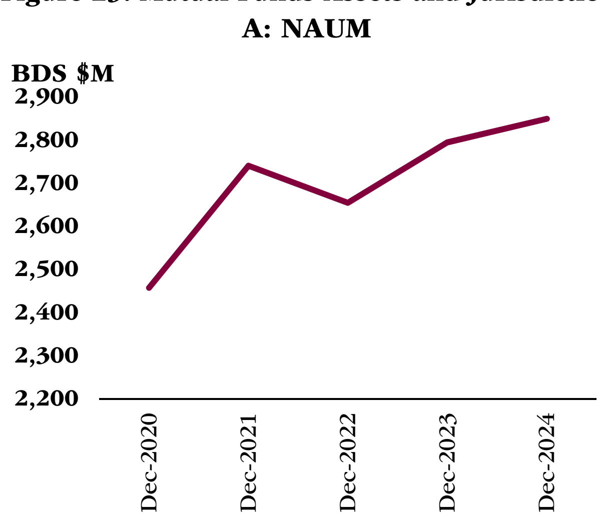
2.4 Securities Sector

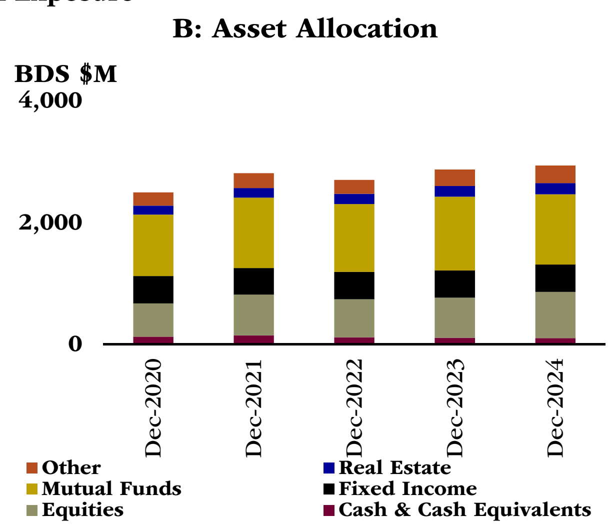
Heightened geopolitical tensions and policy uncertainty will continue to expose the mutual fund sector to market shocks. Significant cross-border equity and fixed-income holdings underpinned a modest 2 percent rise in net assets under management (NAUM) in 2024 (Figure 23A). However, ongoing tariff disputes and trade-bloc negotiations threaten to stall further growth and inject fresh volatility into global markets.

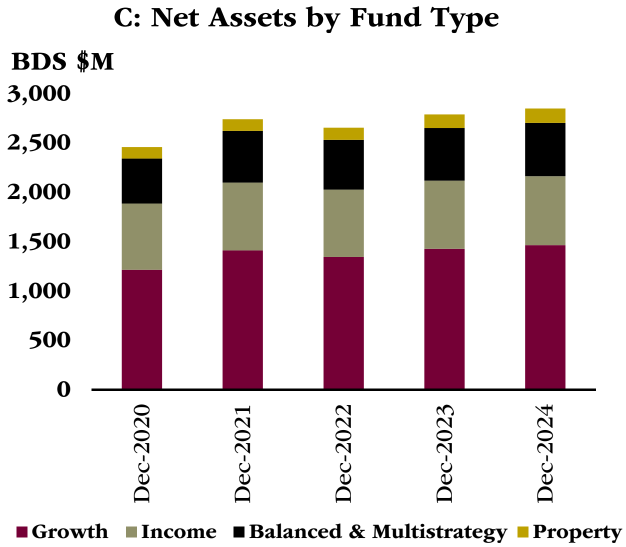
Recent shifts in tariff policy and sovereign debt concerns have triggered spikes in global bond yields, amplifying interest rate risk. Major economies' tariff revisions in early 2025 stoked imported inflation fears and recessionary expectations. Meanwhile, sovereign debt strains have rattled traditional safe-haven assets, driving bond yields higher and fuelling sharper swings in fund valuations.

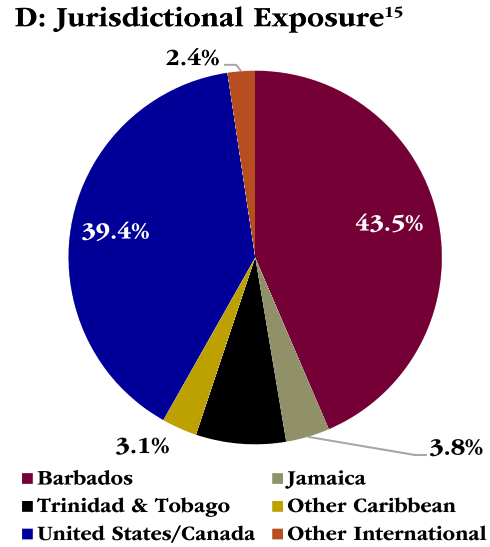
Mutual fund volatility poses spillover risk to pension schemes but limited broader transmission to the rest of the financial sector. Occupational pension plans, which invest heavily in the three largest domestic funds (53.9 percent of sector assets), are exposed to equity and interest rate swings. By contrast, linkages to banks and insurers remain minimal. Nonetheless, any sharp market shocks could still erode household wealth and dampen domestic consumption.

Figure 23: Mutual Funds Assets and Jurisdictional Exposure









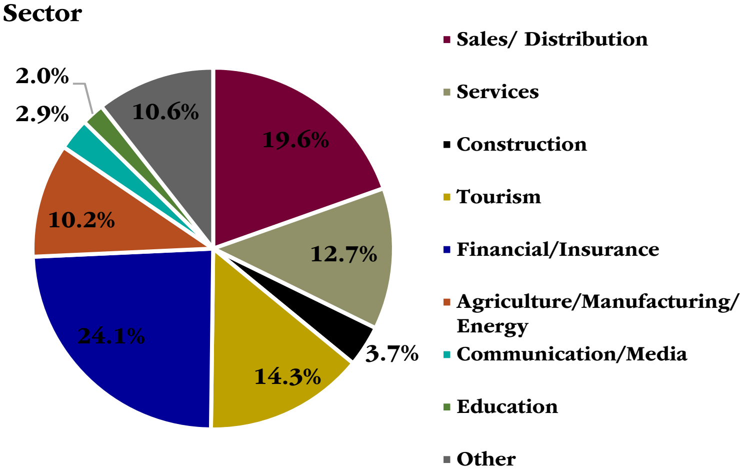
Source: Financial Services Commission

2.5 Occupational Pension Sector

Adverse economic conditions may undermine plan solvency. Potential elevated inflation due to supply chain disruptions from trade tension and subdued aggregate demand are likely to erode company revenue and constrain the ability of companies to meet required pension plan contributions. As a result, the number of plans with going concern deficits is likely to increase amid heightened macroeconomic uncertainty. The FSC continues to monitor pension plan solvency positions and work with employers and administrators to address funding deficiencies.

Mutual fund concentration amplifies contagion risk. Occupational pension plans rely heavily on local mutual funds to achieve diversification objectives and to meet their long-term investment needs. Approximately 39 percent of total pension plan assets are invested in mutual funds. Among smaller pension plans, over 50 percent of their investments are concentrated in three large domestic mutual funds.

Figure 24: Distribution of Pension Plans by Economic Sector



Source: Financial Services Commission

Market turbulence could widen pension funding gaps. Geopolitical and macroeconomic shocks are likely to trigger asset-price declines and lower investment returns, eroding pension asset values. Combined with high administrative fees and regulatory burdens, this dynamic can increase the divergence between assets and liabilities, driving up funding needs.

[15] Jurisdictional exposure is based on the statutory reports from regulated mutual funds however the location of underlying investments may differ from reported. The FSC continues to conduct research on the true location and jurisdictional exposure of investment instruments held by mutual funds.

Potential adverse macroeconomic conditions affecting sponsor profitability may threaten future contribution levels. Slowing economic activity and corporate earnings may force employers to cut back on pension contributions, undermining plan funding ratios. Since occupational pensions depend on both employer and employee contributions, any revenue squeeze amplifies the risk of going-concern deficits.

Employers in sectors with direct exposure to macroeconomic shocks experience greater pension plan funding and solvency challenges. Pension plans linked to tourism and services make up a sizable share of pension plans and accounted for most wind-ups between 2020 and 2024 (Figure 24). If the global economy experiences challenges, there would be heightened risk of sponsor distress and increased plan terminations. Continued volatility in these sectors could trigger additional wind-ups, exacerbating pension funding gaps in the most vulnerable industries.

Demographic shifts and funding strains may challenge defined-benefit sustainability. Defined-benefit[16] plans hold roughly half of all pension assets and promise guaranteed payouts, leaving them exposed to demographic shifts and potential sponsor underfunding. With employers likely to face challenges, amid slower growth and aging workforces, these plans face sustainability challenges and the risk of deeper funding shortfalls. This explains the increase in the number of defined contribution (DC) plans in recent years, where employees contribute to the plan as well as employers, and the disbursements at the end are based on the value of the contributions received, as well as the investment returns accruing to the employee.

3. Payments Systems Developments

Amid rising digital transactions, payment systems operated reliably in 2024, maintaining settlement continuity and supporting financial sector stability. Transaction volumes rose across retail and large-value payment systems, driven by the broader adoption of electronic payment channels by businesses and households. The real-time gross settlement (RTGS)[17] system operated smoothly, with no major disruptions, reinforcing its critical role in liquidity management.

Transaction values and volumes rose across the RTGS and ACH, signalling a sustained shift towards electronic and real-time settlement. RTGS transaction values increased by 31 percent, with volumes up by 3.1 percent and average transaction size rising by 27 percent (Figure 25A). ACH[18] payments increased 10.5 percent in value, driven by electronic fund transfers, now 64.8 percent of all transactions, up from 54.7 percent in 2023 (Figure 25B). In contrast, cheque usage declined by 11.9 percent, highlighting increased reliance on electronic transaction channels.

Electronic payment adoption deepened further as credit card use grew and the demand for cash declined. The value of credit card payments increased by 13.3 percent in 2024, slightly

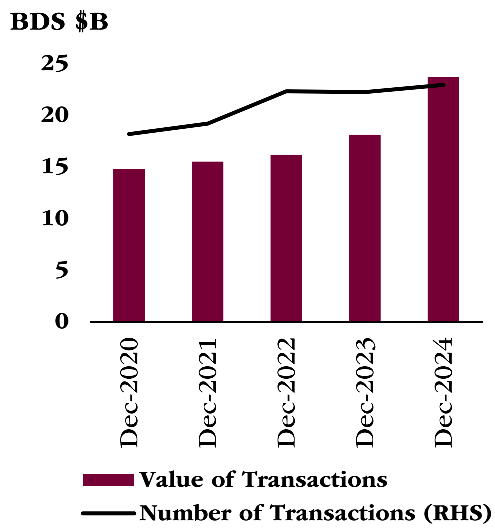
[16] Defined benefit (DB) plans are retirement plans in which the employer guarantees a specific payout to the employee at the end of service, based on a predetermined formula that includes years of service and salary levels within the last years prior to retirement.
[17] RTGS processes large value and/or time sensitive payments between the domestic banking system and the Central Bank.
[18] ACH facilitates the clearing of cheques, direct payments, and daily bank settlements.

below 2023's 14.7 percent growth (Figure 26A). Household transactions accounted for 76.3 percent of credit card use, with household spending up 12.2 percent and business spending up 17.1 percent. Meanwhile, currency in circulation fell by 6.4 percent, reducing its GDP share to 2.5 percent (Figure 26B), signalling some displacement of cash by digital payments.

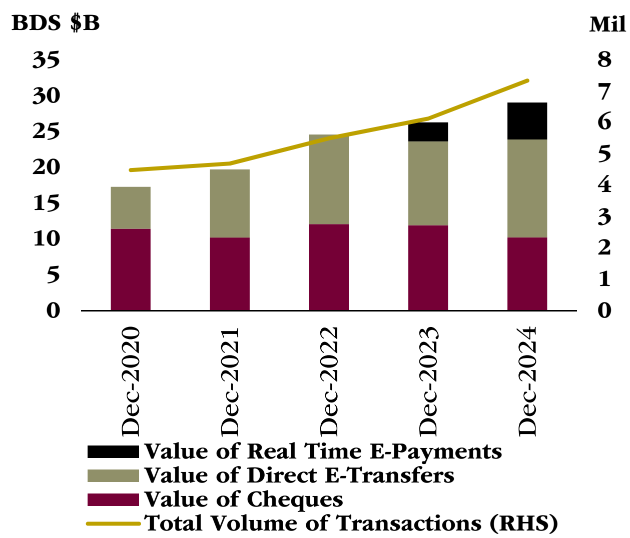
Growing dependence on digital platforms increased cyber and operational risks, underscoring the importance of enhanced safeguards. Key vulnerabilities include service disruptions, fraud, and concentration risks in critical systems such as RTGS and ACH. In response, the Bank strengthened regulatory oversight and introduced enhanced encryption, real-time fraud detection, and resilience measures. Sector-wide cybersecurity frameworks and continuous monitoring remain vital for safeguarding payment system stability.

Figure 25: RTGS and ACH Transactions

A: RTGS Transactions



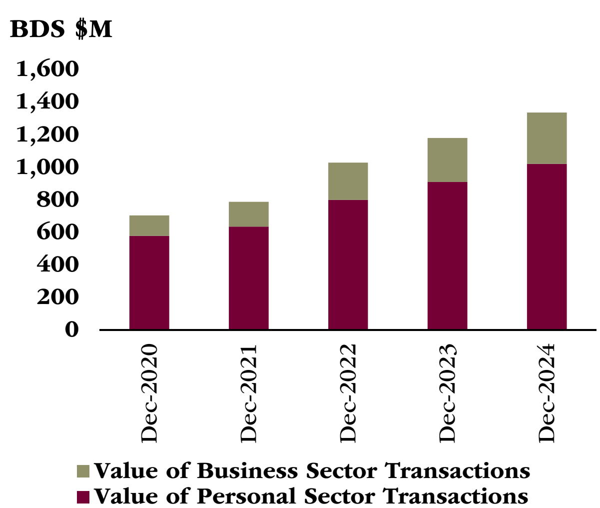
B: ACH Transactions



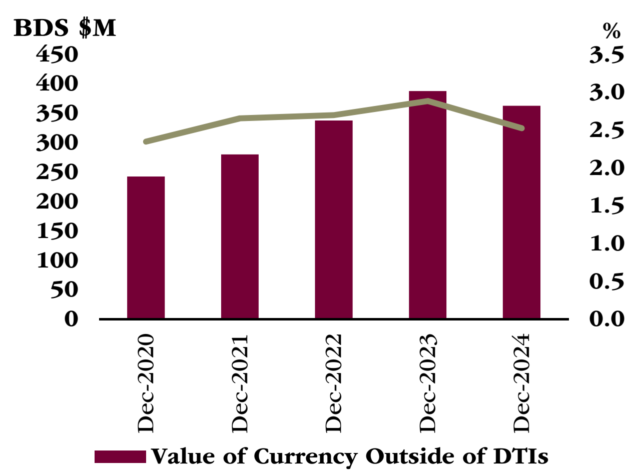
Source: Central Bank of Barbados

Figure 26: Domestic Credit Card Transactions and Currency Outside of DTIs

A: Domestic Credit Card Transactions



B: Currency Outside of DTIs



Source: Central Bank of Barbados

Progress on payments modernisation advanced over the review period, with key initiatives aimed at improving efficiency, inclusion, and crisis readiness. In August, the Bank announced a cheque digitisation system to reduce clearance times to one business day. In January 2025, a request for proposal was issued for a national instant payments system (IPS) by March 31, 2026. These initiatives support the transition toward a fully digital payments ecosystem.

4. Financial Sector Risk Assessment using Stress Testing

The financial system remains resilient under baseline conditions but faces heightened vulnerabilities under severe macroeconomic shocks. The Bank conducted a forward-looking stress test[19] to assess the impact of potential macrofinancial shocks on DTIs over the 2025–2027 horizon.[20] The exercise evaluated credit quality,[21] profitability, and capital adequacy under baseline, moderate, and severe scenarios,[22] providing critical insights for macroprudential policy and supervisory focus.

4.1 Deposit-Taking Institutions

4.1.1 Macroeconomic Stress Testing Assumptions

Stress testing confirms that financial system risks remain contained under baseline conditions, but adverse shocks would significantly weaken credit quality, profitability, and capital buffers. The baseline scenario anticipates continued economic expansion, with real GDP growth peaking in 2026, low unemployment, and modest inflation. A mild increase in NPLs is projected, reflecting labour market normalisation and tighter corporate balance sheets.[23]

A severe economic shock would significantly amplify credit risk and erode capital buffers. The Bank applied calibrated shocks to key macroeconomic indicators, based on recent historical data trends spanning the 2008/2009 Global Financial Crisis and the COVID-19 pandemic.[24] Under the severe scenario, heightened global economic uncertainty leads to a sharp contraction in real GDP by 2.7 percent in 2025, 4.3 percent in 2026, and 0.5 percent in 2027. These growth rates represent drops of 5.1, 8.1, and 2.5 percentage points, compared to the baseline. The moderate scenario reflects a milder recession, with GDP values set as averages of the baseline and severe forecasts (

Figure 27A).

Weaker economic activity would reduce credit demand, dampen profitability, and constrain earnings to absorb rising credit costs. Lower GDP, investor confidence, and

[19] Stress test results are hypothetical and based on standardized assumptions, not forecasts.
[20] Forecasts were prepared in February 2025.
[21] See thematic article 1 Navigating Credit Risk Uncertainty: A Framework for Financial Stability Stress Testing in the 2023 Financial St ability Report for details.
[22] See Appendix A: Macroeconomic Stress Testing Methodology in the 2023 Financial Stability Report for details.
[23] Forecasts were prepared in February 2025.
[24] Real GDP contracted by 5 percent in 2009 due to the Global Financial Crisis and 12.5 percent in 2020 amid the COVID-19 global pandemic.

consumer spending would reduce credit origination and fee income, cutting banks' revenue streams and weakening their ability to offset credit losses.

A sharp decline in tourism would increase sectoral credit risk and strain loan repayment capacity. Tourism-related industries, including accommodation, retail, and transport, would face reduced earnings, rising leverage, and elevated default risk. Credit losses remain contained in the baseline but rise substantially under severe conditions. Provisions peak at 1.7 times baseline levels over three years and annual credit loss rate[25] average 2.4 percent, compared to 0.8 percent in the baseline.

Global supply chain disruptions and geopolitical tensions would intensify inflationary pressures, eroding real incomes and margins. Under the severe scenario, inflation peaks at 3.7 percent in early 2026 (Figure 27B), raising household and business cost burdens and weakening repayment capacity across borrower segments.

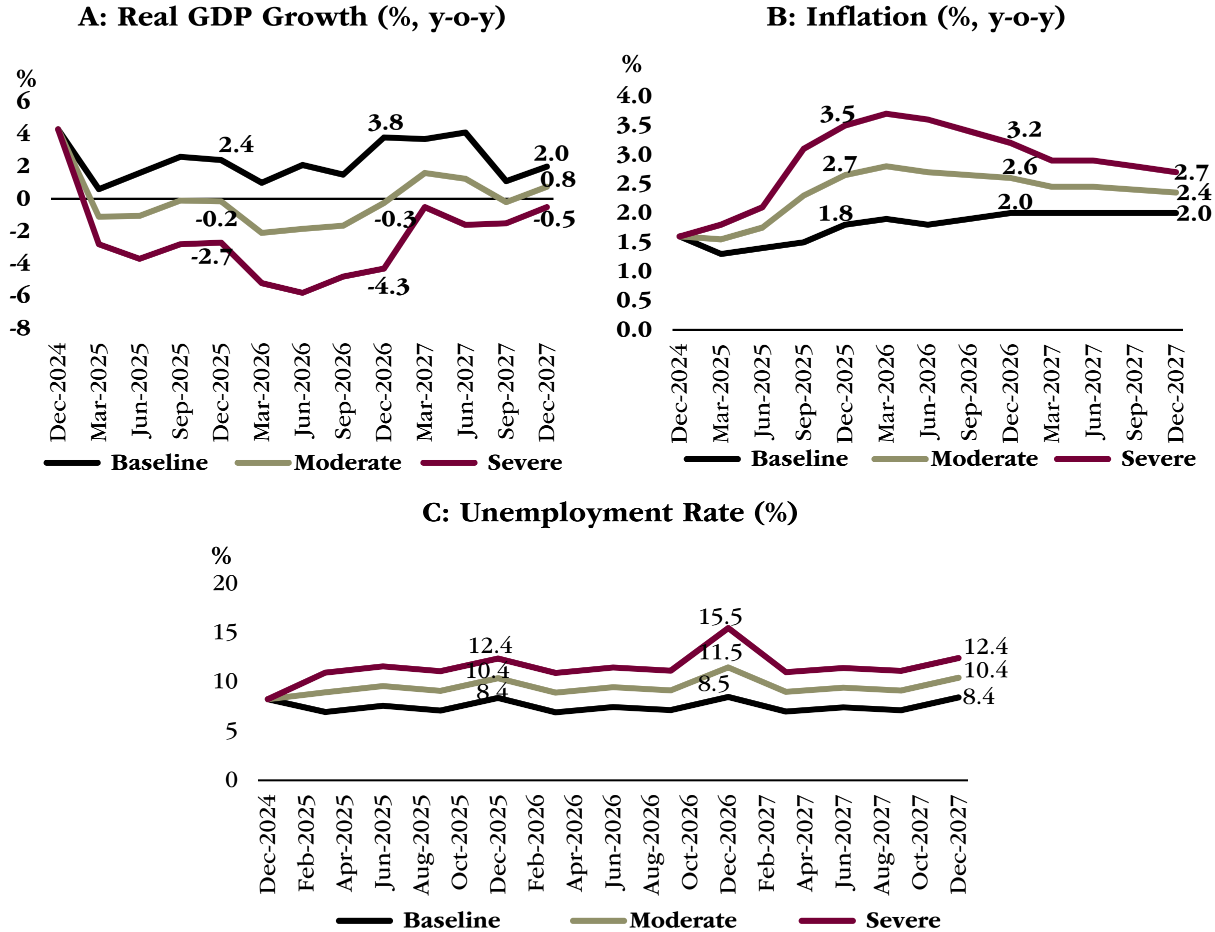
Labour market deterioration would further impair household and corporate balance sheets, increasing credit risk exposure. Unemployment peaks at 15.5 percent in 2026 under the severe scenario, compared to 8.5 percent in the baseline (Figure 27C). Higher joblessness reduces disposable income and consumption, raising delinquency risks in household and NFCs' loan portfolios. As a result, government revenue from consumption and income taxes would decline, narrowing fiscal space for public investment. Based on historical fiscal multipliers for Barbados (ranging from 0.3 to 0.5),[26] a moderate-to-severe contraction in public investment, by approximately 3 percent of GDP could reduce GDP growth by up to 1.5 percentage points relative to the baseline.

Credit quality deterioration would tighten lending conditions and deepen the economic downturn. Rising NPLs and provisioning needs would lower profitability, erode retained earnings, and pressure capital ratios. The NPL ratio peaks at 6.2 percent in 2026 under the severe scenario, 1.1 percentage points above baseline. Banks are assumed to increase lending spreads or curtail approvals, reinforcing the negative feedback loop between credit supply and economic activity.

Stress tests underscore the importance of robust capital buffers and active credit risk management for financial stability. The results help the Bank identify system-wide vulnerabilities and inform targeted oversight of the most exposed institutions under adverse scenarios, thereby bolstering banking sector resilience.

[25] Credit loss rate is defined as new provisioning booked in the Profit & Loss (P&L) over the initial stock of net loans.
[26] Wright, A., Kallicharan S., Mamingi N., and Maynard, T. 2015. *Estimation of Fiscal Multipliers in a Small Open Economy: The Case of Barbados*. Working Paper No. WP/15/15. Central Bank of Barbados. Available at: Estimation-of-Fiscal-Multipliers-in-a-Small-Open-Economy-The-Case-of-Barbados.pdf.

Figure 27: Key Macroeconomic Variables[1]



Sources: Central Bank of Barbados' Staff Calculations and Barbados Statistical Service

[1] Forecasts were prepared in February 2025.

4.1.2 Macroeconomic Stress Testing Results

Commercial Banks and Finance Companies

The Tier 1 CAR remained resilient across scenarios. In aggregate, the Tier 1 CAR for the sector would decline in both the moderate and severe scenarios but remain well above the 4 percent Tier 1 CAR minimum. In the severe scenario, three institutions with a share in total assets of the sector of less than 10 percent would fall below the Tier 1 CAR minimum and would require capital injections from their parents of around 1 percent of GDP.

The aggregate CAR trajectory differs across scenarios, reflecting divergent earnings dynamics and loss absorption capacity (Figure 28A, Figure D1A). In the baseline scenario, the sector's CAR increases due to higher retained earnings and no dividend distributions. In the moderate scenario, three institutions, with a combined share of less than 10 percent of sector assets, fall below the 8 percent minimum CAR, necessitating recapitalisation of under 1 percent of GDP. In the severe scenario, while the overall CAR remains above the regulatory threshold, four institutions breach the 8 percent minimum, requiring capital support amounting to 1.2 percent of GDP. In both adverse cases, on average, some banks are projected to become loss-making.

Despite elevated credit losses and capital pressures, the sector maintains resilience, supported by strong buffers and profitability. Commercial banks and finance companies are expected to withstand macroeconomic stress, even while absorbing statutory costs such as the asset-based tax of 0.35 percent of total assets and a 9 percent corporate income tax, where applicable. Among the five least-capitalised institutions, three would fall below the 8 percent CAR threshold in the severe scenario. However, all results are contingent on key assumptions, including the absence of defaults by large borrowers (i.e., no materialisation of concentration risk) and no losses on sovereign exposures.

Credit Unions

High concentrations of NPLs and below average profitability among major institutions continue to pose a risk to the credit union sector's overall financial performance and resilience. While aggregate NPLs in the sector have improved, they remain above historical levels. This persistently greater NPL level is primarily driven by a few larger institutions with a disproportionately higher share of NPLs in the sector. Additionally, these credit unions have also consistently reported profitability levels below the sector average,[27] further limiting their capacity to absorb shocks. Under moderate and severe stress scenarios, these institutions significantly elevate the risk profile of the sector.

Elevated credit risk in moderate and severe scenarios leads to a substantial increase in sectoral loan losses, with larger institutions accounting for the majority of the effect. The stress testing results indicated that under moderate and severe economic shocks, loan losses intensify significantly amidst higher loan delinquencies. From 2024 to 2027, loan losses are forecasted to double in the moderate scenario and triple in the severe scenario compared to the baseline. Larger institutions were the main drivers of loan loss increases and credit risk in these more adverse scenarios.

Stress tests show the credit union sector is broadly resilient, with capital levels above the 4 percent hurdle rate,[28] though failures among large institutions pose a material risk (Figure 28B, Figure D1B). The overall credit union sector appears more resilient against macroeconomic shocks and credit risk compared to last year. In the prior annual stress test, one credit union failed to meet the 4 percent hurdle rate. In this year's stress test, no entities failed the macroeconomic moderate scenario, indicating that the sector has improved its resilience to external shocks over the 12-month period.

Several factors contributed to this improvement, including higher provisioning levels and a marginally higher capital position at the start of the period. Nevertheless, the failure of two large institutions to meet the minimum capital level under the severe scenario highlights the need for continued monitoring. These larger entities are amongst those with a large proportion of the sector's assets. Should the forecasted severe macroeconomic shock materialise

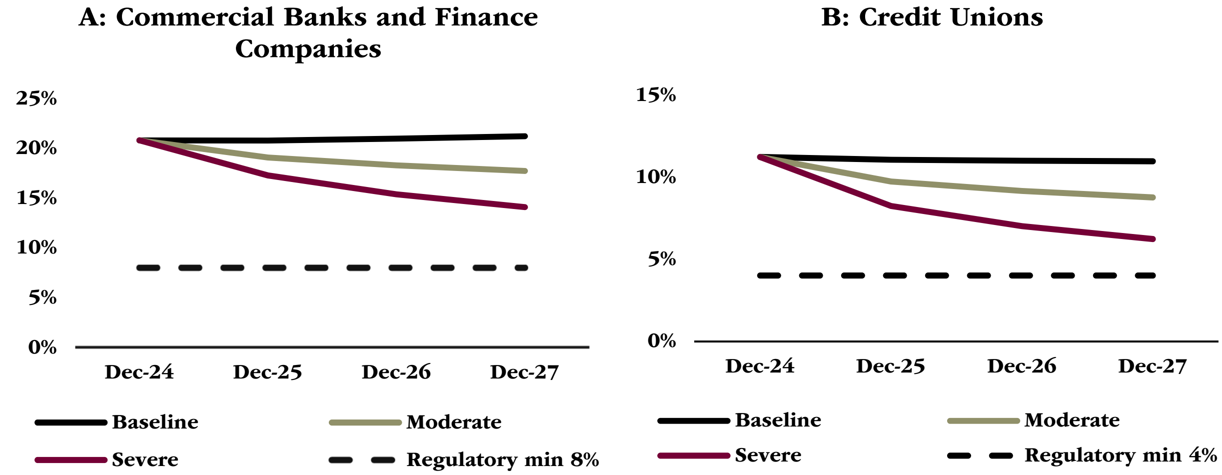
[27] As measured by the overall sectors average return on assets.

[28] Capital adequacy in the credit union sector is assessed using the minimum Tier 1 Leverage ratio (total capital as a percentage of non-risk weighted assets) of 4 percent, consistent with the Basel standards.

then these two entities would require a total capital injection of 0.03 percent of GDP in 2026 and 0.04 percent in 2027 to meet their respective 4 percent capital levels.

The test results suggest that under moderate and severe stressed scenarios larger institutions with higher loan losses and lower profitability levels, will experience erosion of capital. This prospect has a high likelihood of occurring, even with significant increases in institutional provisioning as a mitigant to higher NPLs.

Figure 28: Average Capital Ratios in the Stress Test



Source: Central Bank of Barbados' Staff Calculations

Source: Financial Services Commission's Staff Calculations

Box 1: Sensitivity Analysis of CAR to NPL Write-offs

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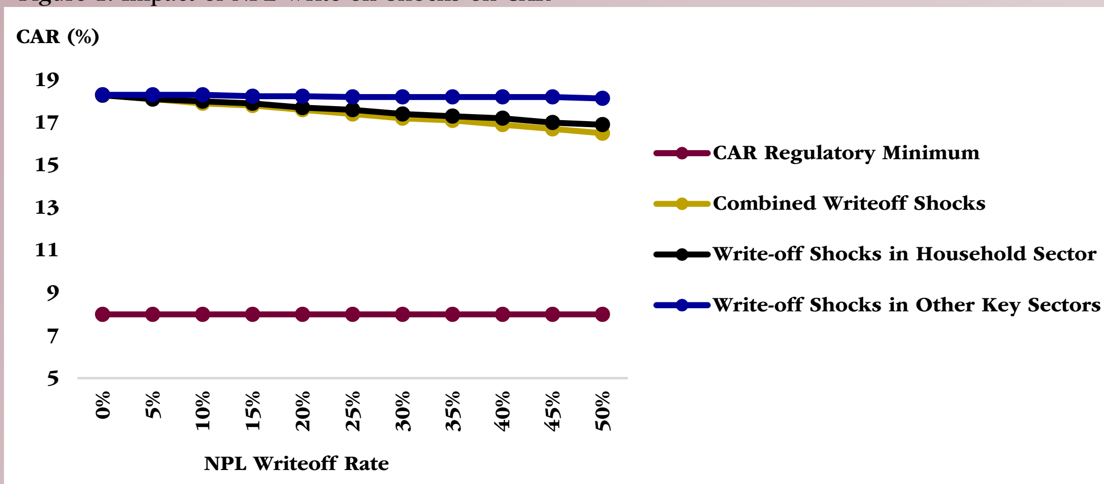
This sensitivity analysis complements the top-down macroeconomic stress test by examining the impact of amplified loan losses on DTIs' CAR. This assessment evaluates system-wide resilience by simulating credit shocks in key sectors under the adverse scenario. Escalating NPL write-off rates are applied to the household, distribution, hotels & restaurants, and real estate & other professional services sectors, which together account for the bulk of NPLs.

The results show that the overall DTI sector remains resilient even under severe credit losses. At a 50% write-off rate, the sector's CAR demonstrates minimal sensitivity, declining by only 1.8 percentage points and remaining well-above the regulatory minimum (Figure 1). This reflects the robust capital positions of the sector, keeping them well-buffered against credit shocks.

However, CAR sensitivity to write-offs varies by sector. Shocks to the household sector have the greatest impact on CAR, with CAR reducing by 0.14 percentage points on average for every 5 percentage points increase in the write-off rate. In contrast, write-off shocks in the other key sectors have a negligible impact, with CAR remaining virtually unchanged at 18.3 percent. The results re-emphasise the importance of the household sector for financial stability, given their concentration in DTIs' credit portfolio.

Figure 1: Impact of NPL Write-off Shocks on CAR



Source: Central Bank of Barbados' Staff Calculations

These findings reaffirm the sector's overall resilience and underscore the importance of sectoral monitoring. The results showcase the depth of capital buffer while the sectoral sensitivity analysis highlights the importance of sector-specific monitoring, as credit shocks are unlikely to be uniform across credit segments and DTIs. Hence, such results help identify sector-level vulnerabilities and can inform macroprudential risk monitoring.

4.1.3 Large Exposure Stress Test

The 2024 large exposure stress test indicates improved capital resilience among deposit-taking institutions. The assessment simulated sequential defaults of the five largest borrowers per institution under 10 percent, 50 percent, and 100 percent provisioning rates (Table 1). Fewer banks breached the prudential thresholds under moderate and severe loss assumptions compared to 2023.

Under mild provisioning (10 percent), results were unchanged from the prior period. Only one finance company breached the 8 percent CAR threshold by the second round; all other institutions maintained adequate capital.

Moderate provisioning (50 percent) showed stronger bank resilience relative to 2023. In the review period, only one bank breached the CAR requirement in the first round, compared to three in 2023. A second bank fell below the minimum by round five. Finance company outcomes were similar to 2023, with one company breaching from the first round.

Severe provisioning (100 percent) continued to expose vulnerabilities, but fewer early breaches were observed. One bank and one finance company breached the regulatory minimum capital requirement in the first round, an improvement from the three banks in 2023. There were additional bank breaches in rounds three and four.

Table 1: Results of Large Exposure Shocks

Scenario	10% Provisioning			50% Provisioning			100% Provisioning		
	No. of Banks	No. of Finance Companies	No. of Credit Unions	No. of Banks	No. of Finance Companies	No. of Credit Unions	No. of Banks	No. of Finance Companies	No. of Credit Unions
	Capital Adequacy Ratio < 8%								
Round 1	0	0	N/A	1	1	N/A	1	1	N/A
Round 2	0	1	N/A	1	1	N/A	1	1	N/A
Round 3	0	1	N/A	1	1	N/A	2	1	N/A
Round 4	0	1	N/A	1	1	N/A	3	1	N/A
Round 5	0	1	N/A	2	1	N/A	3	1	N/A
	Capital-to-Asset Ratio < 4%								
Round 1	0	0	1	1	0	1	1	1	1
Round 2	0	0	1	1	0	1	1	1	1
Round 3	0	0	1	1	1	1	2	1	1
Round 4	0	0	1	1	1	1	3	1	3
Round 5	0	0	1	2	1	1	4	1	3

Source: Central Bank of Barbados' Staff Calculations
N/A not applicable

Capital-to-assets results also improved slightly for banks but weakened for the credit unions in the more extreme rounds. At 50 percent provisioning, two banks breached the 4 percent minimum by round five, compared to three banks breaching by round two in 2023.

Finance company outcomes were broadly unchanged, with one finance company breaching at 100 percent provisioning. The credit unions weakened with three credit unions breaching at rounds four and five with 100 percent provisioning, compared to only one credit union breaching in 2023.

These results suggest modest improvements in capital resilience for the banks under concentrated credit shocks, though vulnerabilities persist under extreme loss assumptions for finance companies and credit unions. The findings underscore the importance of monitoring large exposures and engaging institutions with elevated borrower concentration risk.

4.1.4 Liquidity Risk

Liquidity buffers weakened relative to 2023, increasing the vulnerability of DTIs to potential liquidity pressures under adverse scenarios. The ratio of liquid assets to transferable deposits declined across all DTI segments, signalling reduced capacity to absorb deposit outflows in stress conditions. This decline in liquidity resilience was tested through a liquidity stress scenario simulating consecutive daily deposit withdrawals at 5 percent, 10 percent, and 15 percent, assuming 95 percent of liquid assets and 1 percent of non-liquid assets could be readily converted to cash. For credit unions, member shares were also assumed to be 95 percent convertible to cash, reflecting their withdrawal-on-demand nature.

Liquidity resilience deteriorated compared to 2023, with more institutions requiring support at earlier stages of the deposit runs. Under a 5 percent daily deposit run, banks maintained positive net cash flows without requiring liquidity support, similar to 2023. However, under 10 percent runs, three banks required liquidity support by day three in 2024, compared to two banks by day four in 2023. Under 15 percent runs, five banks required support by day five, compared to four banks in 2023. Finance companies remained more vulnerable than banks, requiring liquidity support from day one under both 10 percent and 15 percent runs, consistent with previous years.

Credit unions exhibited reduced liquidity resilience relative to the 2023 assessment, requiring earlier liquidity support under all deposit run scenarios. In 2024, one credit union required liquidity assistance by day three under 5 percent runs (unchanged from 2023), five credit unions required support by day five (up from three in 2023), and under 10 percent runs, eight credit unions required liquidity support by day four (up from six in 2023). Under the 15 percent run scenario, eight credit unions required support by day three (up from seven in 2023), indicating a gradual erosion of liquidity buffers across the credit union segment (Table 2).

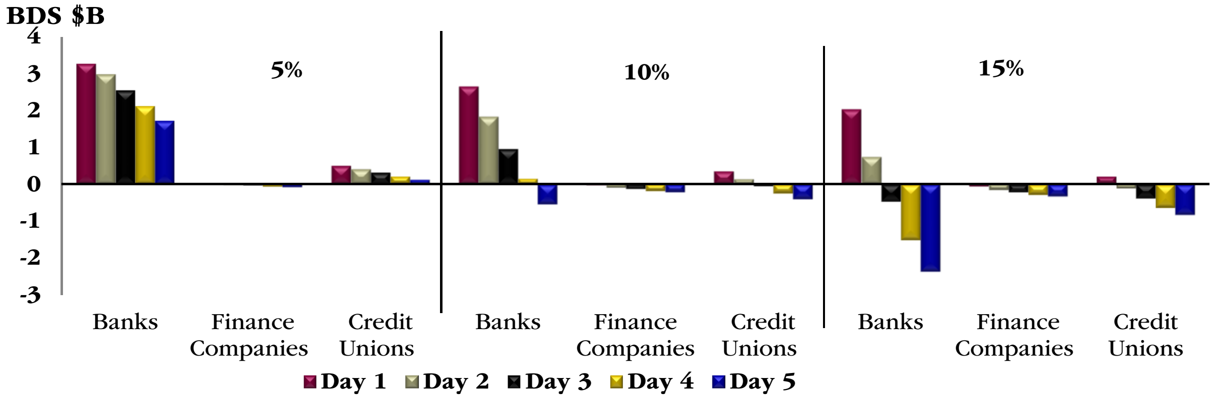
Table 2: Results of Deposit Runs

Scenarios	At 5%			At 10%			At 15%		
	No. of Banks	No. of Finance Companies	No. of Credit Unions	No. of Banks	No. of Finance Companies	No. of Credit Unions	No. of Banks	No. of Finance Companies	No. of Credit Unions
Day 1	0	1	0	0	4	0	0	4	3
Day 2	0	3	0	0	4	5	3	4	6
Day 3	0	4	1	3	4	6	4	4	8
Day 4	0	4	3	3	4	8	4	4	8
Day 5	0	4	5	4	4	8	5	4	8

Source: Central Bank of Barbados' Staff Calculations

Net cash flow dynamics confirmed a progressive deterioration in liquidity resilience across all DTI segments as withdrawal rates increased. Banks continued to demonstrate stronger liquidity positions under 5 percent runs, but showed increased sensitivity to higher withdrawal rates. Finance companies experienced persistent liquidity deficits across all scenarios, while credit unions showed reduced capacity to withstand deposit withdrawals beyond the third day of 10 percent and 15 percent runs (Figure 29).

Figure 29: Results of Deposit Runs (Net Cash Flow) 2024



Source: Central Bank of Barbados' Staff Calculations

These results highlight weaker liquidity positions relative to 2023, underscoring the need to preserve liquidity buffers, enhance funding contingency plans, and strengthen liquidity risk monitoring across DTIs, particularly amid rising macroeconomic and operational risks.

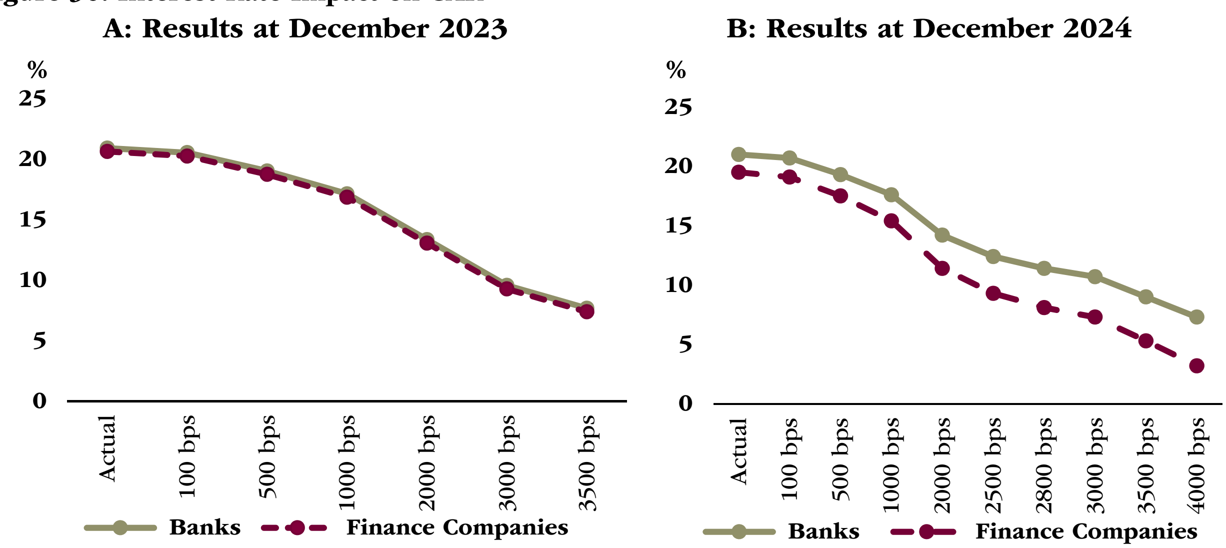
4.1.5 Funding Risk

Sector-level capital resilience to interest rate shocks remained strong in 2024, with a marginal improvement among banks and a slight deterioration among finance companies. As at December 2024, the aggregate CAR of banks rose modestly to 21.0 percent, up from 20.9 percent in the prior year, reflecting small gains in retained earnings and stable asset quality. In contrast, the CAR of finance companies declined to 19.5 percent, down from 20.6 percent in 2023, driven by increased risk-weighted assets and narrower net interest margins.

The sector remains broadly resilient to interest rate shocks, although institutional differences persist. Short-term maturity gap analysis[29] indicates that banks and finance companies could withstand deposit interest rate increases of up to 35 percent (3,500 basis points) and 28 percent (2,800 basis points), respectively, before breaching the 8 percent CAR threshold (Figure 30B). These results reflect a slight improvement in sectoral resilience among banks (up from 30 percent in 2023, Figure 30A), but a small decline for finance companies (down from 30 percent). At these stress thresholds, net interest margins would turn negative, with interest expenses exceeding interest income, leading to capital depletion.

Interest rate risk tolerance is lower at the institutional level, highlighting heterogeneity in exposures. The stress test shows that the most vulnerable bank would breach the prudential CAR threshold at a deposit rate increase of 14 percent (1,400 basis points), while the most vulnerable finance company would breach at 17 percent (1,700 basis points). This outcome compares to updated institutional-level breaches at 12 percent for the weakest bank to breach and 18 percent for the weakest finance company in 2023. This year-on-year improvement for the weakest bank and decline for the weakest finance company underscore the importance of institution-specific monitoring and targeted supervision in a higher interest rate environment.

Figure 30: Interest Rate Impact on CAR



Source: Central Bank of Barbados' Staff Calculations

4.2 Insurance[30]

All life insurance companies were solvent prior to the start of testing, with all but two companies having solvency ratios above 150 percent. All life insurance companies showed improved pre-shock solvency positions compared to the 2023 results. The average solvency margin for the

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[29] The maturity gap is the difference between the total market values of interest rate sensitive assets (RSA) versus interest rate sensitive liabilities (RSL) that will mature or be repriced over a given range of future dates and is used to assess institutions' vulnerabilities to funding costs and profitability.

[30] Estimates are based on audited annual data from previous years and updated 2023 provisional data, as complete 2024 audited submissions are largely unavailable at this time.

life insurance industry showed a marginal increase from 218 percent in 2023 to 221 percent in 2024 (Table 3).

General insurance companies, however had mixed pre-shock results. Four general insurance companies had smaller solvency margins than 2023 with one general insurer technically insolvent prior to the stress test. Irrespective, the average industry pre-shock solvency margin rose from 623 percent in 2023 to 636 percent in 2024.

4.2.1 Underwriting Risks

Life insurance companies demonstrated greater resilience, but concerns remain regarding general insurance underwriting. Life insurance companies recorded improvements in pre-shock solvency margins and had stronger results relative to 2023. Nonetheless, life insurance companies that offer health insurance, irrespective of size, are also likely to be impacted severely. Furthermore, claims experience estimates suggest that the most severe impacts would occur in general insurance companies with significant motor and health insurance business. The general insurance industry struggles with underwriting losses and uses investment income to make up for underwriting revenue shortfalls. Rising claims or unexpected investment volatility may present challenges to this strategy.

The first case of insolvency for the life insurance industry occurred around the 200 percent claim increase level, compared to 100 percent in 2023. At the extreme scenario of a 500 percent claims increase, the results remained on par with 2023's estimates. Only two smaller insurers fell below the required capital margin with an average solvency margin of 192 percent. The most significant effects were observed in smaller companies, which accounted for approximately three percent of the industry's total assets and less than two percent of the industry's capital.

For the general insurance industry, results weakened relative to 2023's estimates. Even with a marginally improved average industry solvency margin, a second general insurer became insolvent at a 25 percent increase in claims, compared to a 50 percent increase in 2023. At a more extreme scenario, with a 200 percent increase in claims, the average solvency margin fell to 176 percent, with seven insurers falling below the required solvency margin.

Though the industry's average solvency margin was higher than in 2023, the same number of companies became insolvent during the current stress test. This is a concern as the insolvent companies represent half of total companies in the industry but 32 percent of industry premium volume. High numbers of insolvencies could lead to systemic financial stability issues including significant erosion of policyholder protection and trust, market disruption from forced sales of assets, contagion effects, and a loss of public confidence in the industry or individual insurers.

Table 3: Results from Underwriting Risk Test (Claims Increase)

General Insurance			Life Insurance		
Claims Increase	Average Solvency Margin	No. Insolvent Insurers	Claims Increase	Average Solvency Margin	No. Insolvent Insurers
Baseline	636%	1	Baseline	221%	0
25%	578%	2	100%	215%	0
50%	521%	2	200%	209%	1
100%	406%	3	300%	203%	2
150%	291%	4	400%	197%	2
200%	176%	7	500%	192%	2

Source: Financial Services Commission's Staff Calculations

4.2.2 Macroeconomic and Catastrophic Risks

The largest impact of the macroeconomic scenario stress-testing is a significant rise in actuarial liabilities, which could impair the ability of insurers to meet obligations. The investment income and overall profitability of the sector will be affected by increases in changes in actuarial liabilities and claims expenses This will lead to reduced investment income, which could be a concern for general companies that have long relied on these returns. On the balance sheet, the investment portfolio of the general companies showed reduced equity investments, along with reduced cash deposits and real estate holdings, all of which contributed to a 3 percent drop in total assets. Considering the liabilities only, the general insurance companies experienced a post-shock increase of 5 percent of total liabilities, which was largely due to a 30 percent increase in actuarial liabilities and deposit administration funds.

For life insurance companies, the largest impact on overall profitability was through the change in actuarial liabilities, which rose ten-fold in this scenario. As expected, life insurers were more sensitive to interest rate declines due to the larger proportion of long-term instruments on the balance sheet compared to general insurance companies. Falling interest rates increased life insurers' actuarial liabilities. The sub-sector's overall balance sheet saw minimal growth in assets, below 1 percent. However, loan balances rose 15 percent though greatly outpaced by the 26 percent increase in the total insurance liabilities, depleting total industry capital by 21 percent. Capital sufficiency to meet contractual obligations, as well as investment returns, is of major concern here.

Under the macroeconomic downturn scenario, the number of insolvencies remained unchanged despite increased baseline capital. Given improvements in the companies' pre-shock solvency positions, none of the life insurers fell below the required solvency margin for this test. This was similar to the post-shock number of insolvencies in 2023, with a slightly higher post-shock average solvency of 177 percent (Table 4). The largest impacts in this scenario were observed in companies that wrote either life business or a combination of life and general. The larger life insurers generated 99 percent of the combined impact on industry capital, but the solvency margins were proven to be sufficient. Similarly, the general insurance companies showed a marginally improved post-shock solvency margin of 486 percent. One company was already insolvent at the start, but following the shocks, no further companies fell below the threshold. In the general insurance industry, the largest overall impacts were observed in five large and medium companies (around 97 percent of the total impact on capital).

The most pressing concern in the multi-shock scenario would be the post-shock recovery for the affected companies. General insurance sectoral incurred claims would rise significantly by 96 percent, greatly reducing the underwriting income and ultimately resulting in substantial net losses during that period. Life insurers would also experience profitability challenges from reduced underwriting income from a 100 percent increase in incurred claims, adding to a rise of 1103 percent in actuarial liabilities.

While both sectors showed improved resiliency in the multi-shock scenario, there is still a need for general insurers to examine their capital and profitability. Given stronger pre-shock baseline capital positions, both life and general insurance companies showed improved post-shock results in terms of solvency margins and the number of companies that became insolvent. For the general insurance companies, the increased claims experience, along with decreased investment returns, led to severe profitability issues. The average post-shock solvency margin fell to 201 percent, with four companies having post-shock results below the required regulatory minimum. With reduced investment and underwriting income, companies would struggle to reach pre-shock capital levels and may require assistance to recover. Collectively, these four companies would need a total capital injection of 0.2 percent of GDP. In 2023, this same test showed five companies requiring a total capital injection of 0.3 percent of GDP to restore the affected companies' solvency positions. Given that the increasing effects of climate risk are expected to manifest with more frequent and intense shocks from severe weather events, further stress tests could see an increase in the number of failures as well as the capital injection required to restore solvency. It remains highly important for the industry to review and improve the current profitability, solvency margins, and risk mitigation to aid in the post-shock recovery period.

For the life insurance companies, the largest impacts were shown to be on the related-party investments. This category accounts for over half of the industry's entire investment portfolio. Significant impact was also seen in the industry's actuarial liabilities, reflecting the economic downturn assumption of falling interest rates. The industry's average solvency ratio fell to 143 percent, similar to the 2023 results (Table 4). There was an improvement in the number of companies that required post-shock assistance. There was only one medium-sized life company failing to meet the required solvency threshold compared to two in 2023, which needed a combined 0.1 percent of GDP to reach the minimum solvency margin. In 2024, this single insurer would require 0.03 percent of GDP to attain an acceptable solvency position.

Table 4: Results from Macroeconomic and Catastrophic Risks

Scenario	General Insurance		Life Insurance	
	Avg. Solvency Margin	No. Insolvent Insurers	Avg. Solvency Margin	No. Insolvent Insurers
Baseline	636%	1	221%	0
Economic Downturn Scenario	486%	1	177%	0
Multiple Shock Scenario	201%	4	143%	1

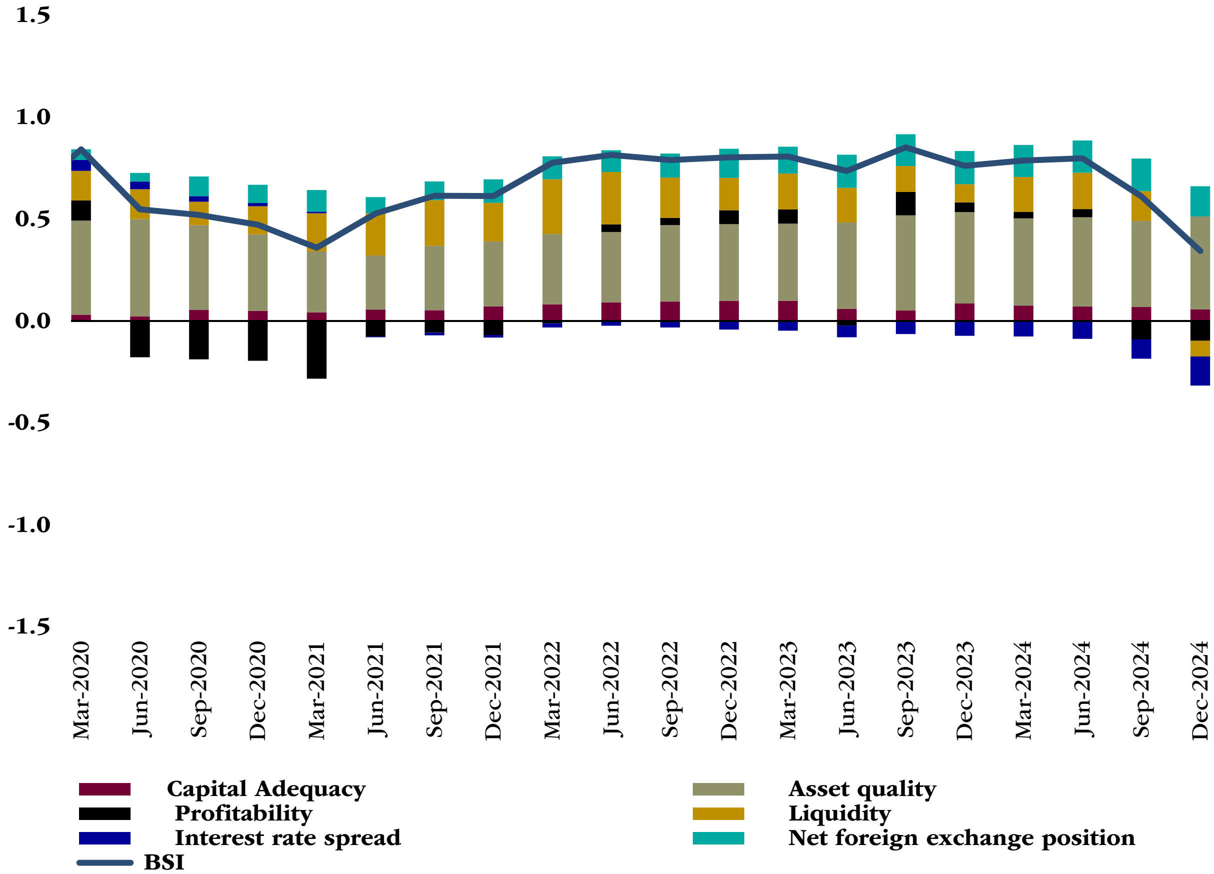
Source: Financial Services Commission's Staff Calculations

Appendix A: Macroprudential Indicators

Banking Stability Index (BSI)

The Banking Stability Index (BSI) deteriorated in 2024, primarily due to an increase in the liquidity risk indicator and a decline in profitability (Figure A1). However, despite the decline in the liquidity risk indicator, the banking system continues to maintain adequate liquidity, with the excess cash ratio of 20.1 percent. While profit levels have declined compared to 2023, they remain consistent with historical trends. The decline in profitability was largely driven by smaller releases of provisions relative to the previous year. A lower interest rate spread also contributed to the decrease in the BSI.

Figure A1: Banking Stability Index

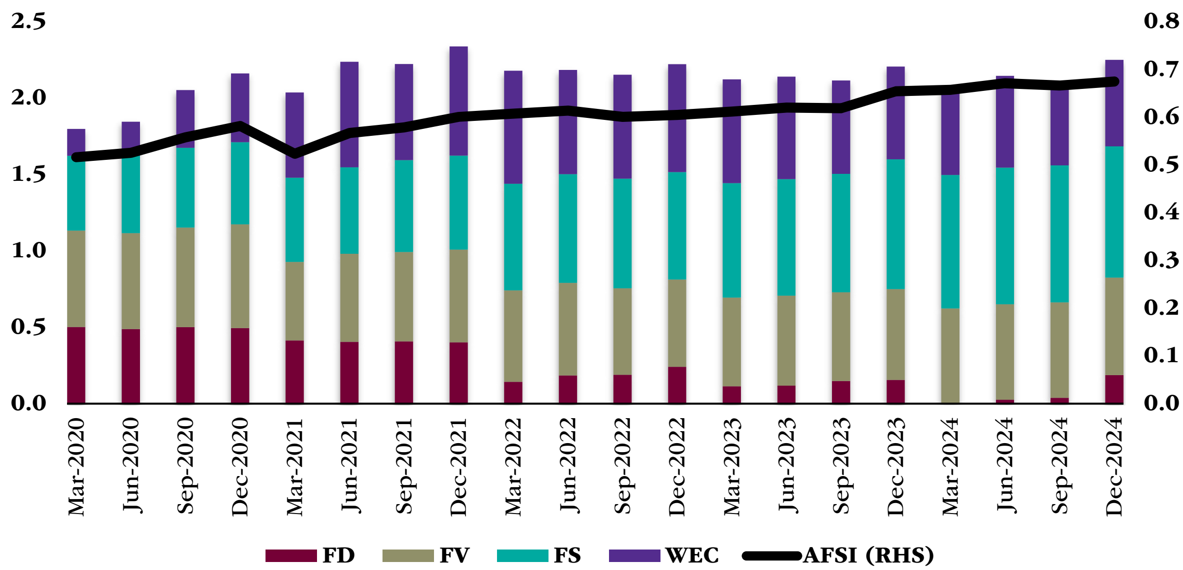


Source: Central Bank of Barbados' Staff Calculations

Aggregate Financial Stability Index (AFSI)[31]

The Aggregate Financial Stability Index (AFSI) continued to signal a stable and resilient commercial banking system in 2024. The upward trend in the AFSI highlights this resilience, driven by increases in the Financial Vulnerability (FV) and Financial Soundness (FS) sub-indices (Figure A2). The FV sub-index increased due to favourable macroeconomic conditions and a stronger external position, while the FS sub-index improved as local banks recorded lower non-performing loan ratios and stronger capital positions. In contrast, the Financial Development (FD) and World Economic Climate (WEC) sub-indices declined, reflecting sluggish credit growth and weak global economic performance.

Figure A2: Aggregate Financial Stability Index



Source: Central Bank of Barbados

[31] The Aggregated Financial Stability Index (ASFI) is a composite measure evaluating the stability of the commercial banking sector. It is derived as a weighted average of normalised macroeconomic and financial statement variables, with four key sub-indices: financial development (FD), financial vulnerability (FV), financial soundness (FS), and the world's economic climate (WEC). Each variable is normalised so that an increase denotes an improvement in financial stability. The sub-indices are equally weighted, and the ASFI is a weighted sum of these variables.

Appendix B: Financial Development Indicators

Table B1: Key Indicators of the Structure of the Financial System

	2018	2019	2020	2021	2022	2023	2024
Number of:							
Total DTIs	45	43	42	41	38	37	35
Commercial Banks	5	5	5	5	5	6	6
Finance Companies	7	5	5	4	4	4	4
Credit Unions	33	33	32	32	29	27	25
Insurance Companies	22	22	22	20	20	20	20
Life	7	7	6	6	6	6	6
Non-Life	15	15	16	14	14	14	14
Pension Plans	274	260	261	251	248	245	245
Mutual Funds	16	16	16	18	19	19	19
Assets to Total Financial System Assets (%)							
Total DTIs	66.5	65.3	65.5	64.6	66.5	65.0	65.3
Commercial Banks	52.3	51.0	50.9	50.1	51.6	50.5	50.9
Finance Companies	4.2	4.0	3.8	3.8	3.9	3.6	3.7
Credit Unions	10.0	10.4	10.8	10.7	11.0	10.9	10.6
Insurance Companies	14.3	14.5	14.6	13.9	13.6	15.4	14.8
Life	10.2	10.3	10.6	10.1	10.0	11.5	11.1
Non-Life	4.2	4.2	4.0	3.8	3.7	3.9	3.7
Pension Plans	10.2	10.5	10.4	11.2	10.1	9.7	10.3
Mutual Funds	8.9	9.7	9.6	10.2	9.7	9.9	9.6
Assets to GDP (%)							
Total DTIs	143.0	141.9	164.4	168.1	147.9	140.2	139.6
Commercial Banks	112.5	110.8	127.7	130.4	114.7	109.0	108.9
Finance Companies	9.0	8.6	9.6	9.8	8.7	7.7	7.9
Credit Unions	21.5	22.5	27.1	27.9	24.5	23.4	22.8
Insurance Companies	30.8	31.5	36.6	36.2	30.3	33.2	31.7
Life	21.8	22.5	26.6	26.2	22.1	24.8	23.8
Non-Life	9.0	9.0	10.0	10.0	8.2	8.4	8.0
Pension Plans	21.9	22.9	26.0	29.2	22.5	21.0	22.1
Mutual Funds	19.1	21.1	24.1	26.6	21.6	21.4	20.5
Memo:							
Credit Union Membership (000's)	206	216	222	228	235	240	248
Pension Plans Membership (000's)	29	26	24	28	27	29	26

Sources: Central Bank of Barbados and Financial Services Commission

Table B2: Key Indicators of the Payments System

$ Millions	2018	2019	2020	2021	2022	2023	2024
RTGs Transactions	27,001	11,668	14,771	15,488	16,163	18,092	23,698
ACH Transactions	19,559	19,293	17,268	19,710	24,566	23,626	23,892
Cheques	17,151	15,573	11,412	10,198	12,079	11,911	10,217
Direct Payments	2,408	3,719	5,855	9,512	12,487	11,715	13,675
Debit Card Transactions	1,248	1,324	1,223	658	N/A	N/A	N/A
ATM Transactions	675	698	611	329	N/A	N/A	N/A
Debit Card POS Transactions	573	626	612	328	N/A	N/A	N/A
Credit Card Transactions	779	795	703	786	1,027	1,178	1,335
Personal Sector	669	660	577	634	798	909	1,019
Business Sector	110	135	126	152	230	270	316
Currency in Circulation Outside of DTIs	384	291	243	280	338	388	364

Source: Central Bank of Barbados

N/A – Not Available

Appendix C: Financial Soundness Indicators

Table C1: Financial Soundness Indicators – Commercial Banks

	2018	2019	2020	2021	2022	2023	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Solvency Indicators (%)										
Capital adequacy ratio (CAR)	13.8	13.5	16.0	16.8	17.6	20.9	20.9	21.0	21.2	21.2
Leverage ratio	7.5	7.0	9.5	9.9	10.5	12.6	12.4	12.3	12.3	12.0
Non-performing loans net of provisions to capital	13.2	13.4	12.9	13.4	10.7	8.5	9.1	8.3	9.3	9.7
Liquidity Indicators (%)										
Loan-to-deposit ratio	63.0	61.7	57.1	53.0	53.1	54.3	52.9	53.6	54.2	57.0
Transferable deposits to total deposits	92.3	94.8	95.9	96.3	96.9	97.2	97.2	96.9	96.9	97.0
Transferable deposits to total deposits (Domestic currency)	92.7	94.9	95.9	96.4	96.9	97.3	97.3	96.8	96.8	97.0
Liquid assets to total assets	25.9	26.0	27.5	31.1	32.0	30.9	33.0	33.4	32.8	28.7
Liquid assets to total assets (Domestic currency)	26.1	21.8	25.4	28.8	28.9	28.1	29.1	30.1	30.4	26.2
Liquid assets to transferable deposits	36.5	35.5	36.1	40.2	40.4	39.5	42.5	43.4	42.8	36.0
Credit Risk Indicators (%)										
Total loans	-0.7	-0.6	-2.1	-2.1	6.2	2.8	9.7	11.5	9.2	17.4
NPL ratio	7.4	6.6	7.3	7.3	5.9	5.0	5.0	4.7	4.6	4.1
Substandard loans to total loans	5.7	5.2	5.5	5.7	4.9	4.2	4.3	3.9	3.9	3.5
Doubtful loans to total loans	0.9	0.5	1.3	1.0	0.6	0.4	0.4	0.4	0.4	0.3
Loss loans to total loans	0.8	0.9	0.5	0.6	0.4	0.3	0.3	0.3	0.3	0.2
Provisions to NPLs	59.5	52.5	56.3	53.0	53.1	54.1	52.6	53.9	46.3	46.5
Foreign Exchange Risk Indicators (%)										
Foreign-currency loans to total loans	4.0	2.9	1.8	1.7	1.6	1.3	1.0	0.9	0.8	1.2
Foreign-currency deposits to total deposits	6.8	6.7	6.6	7.8	9.0	8.8	9.5	9.3	9.7	9.6
Liquid assets to transferable deposits (Foreign currency)	73.1	140.8	96.2	92.8	82.3	83.5	98.1	90.6	74.4	70.9
Profitability Indicators (%)										
Return on equity	-1.8	5.4	7.1	10.3	11.9	15.7	16.6	17.0	11.7	12.3
Return on average assets	-0.2	0.6	0.8	1.1	1.3	1.8	1.7	1.8	1.2	1.2
Net interest margin	5.1	5.5	5.4	5.0	4.8	4.8	5.1	5.1	5.1	5.4
Interest rate spread	6.0	6.1	5.7	5.3	5.2	5.1	5.5	5.5	5.5	5.8

Source: Central Bank of Barbados

Table C2: Financial Stability Indicators (FSIs) – Finance Companies

	2018	2019	2020	2021	2022	2023	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Solvency Indicators (%)										
Capital adequacy ratio (CAR)	21.4	18.4	19.3	19.0	19.9	20.6	22.0	20.9	20.6	19.5
Leverage ratio	11.5	11.2	12.1	12.4	12.8	14.1	15.1	14.7	14.1	13.6
Non-performing loans net of provisions to capital	24.5	43.0	42.5	63.1	51.2	42.1	36.3	34.0	33.2	33.3
Liquidity Indicators (%)										
Loan-to-deposit ratio	97.3	97.2	103.0	100.6	107.8	119.2	117.9	114.8	115.7	112.9
Transferable deposits to total deposits	1.4	2.6	3.6	5.6	5.1	3.4	3.9	4.8	5.9	6.2
Transferable deposits to total deposits (Domestic currency)	1.3	1.6	2.3	2.1	2.6	2.5	2.5	2.5	2.6	2.6
Liquid assets to total assets	13.7	12.9	11.9	13.3	18.0	13.8	13.4	14.0	16.1	14.5
Liquid assets to total assets (Domestic currency)	12.2	9.7	8.8	6.9	12.7	8.8	8.8	9.5	9.8	8.7
Liquid assets to transferable deposits	1,382.0	678.2	459.3	332.0	544.7	652.5	553.1	465.5	447.1	368.2
Credit Risk Indicators (%)										
Total loans (y-o-y change)	-25.9	-0.4	2.8	1.8	3.1	-0.1	1.0	1.0	4.6	6.6
NPL ratio	8.4	11.3	11.7	16.1	14.1	12.2	10.9	10.2	9.9	9.7
Substandard loans to total loans	6.8	8.9	9.2	13.3	11.8	10.3	7.8	8.5	8.2	8.1
Doubtful loans to total loans	0.6	0.6	0.9	0.7	0.3	0.6	0.7	0.5	0.5	0.5
Loss loans to total loans	1.0	1.7	1.5	2.0	2.0	1.4	2.4	1.2	1.2	1.0
Provisions to NPLs	31.0	26.0	30.1	24.0	26.1	26.5	27.9	28.6	28.3	27.3
Foreign Exchange Risk Indicators (%)										
Foreign-currency loans to total loans	0.0	0.0	0.0	0.0	0.3	0.4	0.4	0.4	0.4	0.4
Foreign-currency deposits to total deposits	0.2	1.3	1.7	5.1	3.0	1.4	1.9	3.7	5.1	6.1
Liquid assets to transferable deposits (Foreign currency)	2,528.1	486.7	360.0	266.1	369.2	893.0	575.1	338.3	344.2	270.9
Profitability Indicators (%)										
Return on equity	1.9	7.8	5.3	7.0	8.7	7.4	6.9	6.3	5.6	6.3
Return on average assets	0.4	1.2	0.7	1.0	1.2	1.1	1.0	1.0	0.9	1.0
Net interest margin	4.7	4.4	4.5	4.4	4.6	4.8	4.8	4.7	4.6	4.6
Interest rate spread										

Source: Central Bank of Barbados

Table C3: Performance Indicators – Credit Unions

	2018	2019	2020	2021	2022	2023	2024
Capital Adequacy (%)							
Total capital to total deposits	13.7	13.0	12.6	12.8	12.9	12.9	13.0
Total capital to total assets	11.8	11.3	11.0	11.1	11.2	11.2	11.2
Total NPLs on total capital	53.3	58.1	76.7	73.0	73.6	73.7	63.7
Total NPLs net of provisions to total capital	37.7	41.2	58.7	50.1	50.3	54.5	46.0
Asset Quality (%)							
Total loans to total assets	70.8	68.1	64.0	63.5	64.7	64.7	64.0
Total NPLs to total loans	8.9	9.6	13.2	12.8	12.7	12.8	11.2
Total NPLs net of provisions to total loans	6.3	6.8	10.1	8.8	8.7	9.4	8.1
Provisions to total NPLs	29.3	29.2	23.4	31.4	31.7	26.0	27.8
Provisions to total loans	2.6	2.8	3.1	4.0	4.0	3.3	3.1
Earnings & Profitability (%)							
Return on average assets	0.9	0.9	0.6	0.7	0.7	0.5	0.6
Interest margin to gross income	62.1	68.7	67.6	65.1	67.8	66.1	65.0
Liquidity (%)							
Liquid assets to total assets	10.0	14.0	17.7	17.6	15.3	14.5	15.5
Liquid assets to total deposits	11.6	16.1	20.3	20.3	17.7	16.7	17.9
Total loans to total deposits	81.9	78.3	73.4	73.2	74.6	74.6	74.1
Growth Indicators (%)							
Total assets	9.6	7.5	7.3	5.3	4.0	2.9	3.6
Total deposits	10.4	8.3	7.6	4.8	4.0	2.8	3.2
Total loans	4.2	3.5	0.8	4.4	6.0	2.8	2.5

Source: Financial Services Commission

Table C4: Performance Indicators – General Insurance

	2018	2019	2020	2021	2022	2023	2024[e]
Capital Adequacy (%)							
Net prem. to capital	114.1	143.6	135.5	83.6	112.3	91.0	91.2
Capital-to-assets ratio	20.4	17.2	17.8	27.9	21.7	27.3	28.1
Capital-to-liabilities ratio	25.7	20.8	21.7	38.8	27.8	37.6	39.0
Asset Quality (%)							
Equities to total assets	5.0	3.9	4.8	7.9	7.9	7.3	8.6
Receivables to (GPW and Rein. Recoveries)	17.4	15.1	16.1	18.3	15.1	17.3	17.5
Reinsurance and Actuarial Issues (%)							
Rein. ceded to GPW	52.1	50.5	53.0	53.4	55.9	53.2	54.0
Earnings & Profitability (%)							
Loss Ratio	64.7	60.7	57.2	63.2	69.3	62.4	60.4
Return on assets	-2.4	2.1	4.0	5.1	-2.9	2.5	1.1
Return on equity	-11.8	12.2	22.3	18.1	-13.3	9.0	3.8
Net income to GPW	-5.2	4.4	8.2	10.7	-5.5	4.9	2.0
Liquidity (%)							
Liquid assets to total liabilities	26.2	28.6	25.2	30.5	26.5	27.7	28.8

Source: Financial Services Commission
e-Estimate

Table C5: Performance Indicators – Life Insurance

	2018	2019	2020	2021	2022	2023	2024[e]
Capital Adequacy (%)							
Net prem. to capital	21.2	19.9	17.7	17.6	18.1	14.0	14.5
Capital-to-technical reserves	91.8	93.7	100.6	98.8	102.1	130.6	127.4
Asset Quality (%)							
Equities to total assets	0.5	0.5	0.4	0.4	0.3	0.4	0.3
Real estate to total assets	3.5	3.3	3.0	2.9	2.8	2.3	1.7
Related-party investments to total assets	42.6	43.9	44.9	41.4	40.6	48.7	48.3
Earnings & Profitability (%)							
Investment income to invested assets	-1.8	2.8	2.3	2.4	2.6	2.5	2.3
Return on assets	6.3	4.8	4.4	3.5	4.0	4.2	4.3
Return on equity	14.0	10.4	9.0	7.3	8.1	7.5	7.8
Net income to GPW	58.5	46.3	45.5	38.3	41.6	50.3	52.3
Liquidity (%)							
Liquid assets to total liabilities	8.1	7.8	9.1	8.4	6.8	6.7	7.9

Source: Financial Services Commission

e -Estimate

Table C6: Performance Indicators – Mutual Funds

	2018	2019	2020	2021	2022	2023	2024
Asset Concentration (%)							
Related-party investments to total assets	28.4	30.0	30.7	30.7	30.1	27.8	30.7
Liquidity (%)							
Cash & cash equivalents to total assets	6.1	6.3	4.9	5.2	4.1	3.6	3.4
Liquid investments to total assets	28.1	27.5	25.8	25.1	24.8	26.4	34.1
Asset Growth (%)							
Return on net assets (net income/net assets)	-1.8	8.6	-3.6	24.0	-1.2	15.6	10.5
Net assets under management	-3.8	13.5	1.9	11.5	-3.1	5.0	2.0

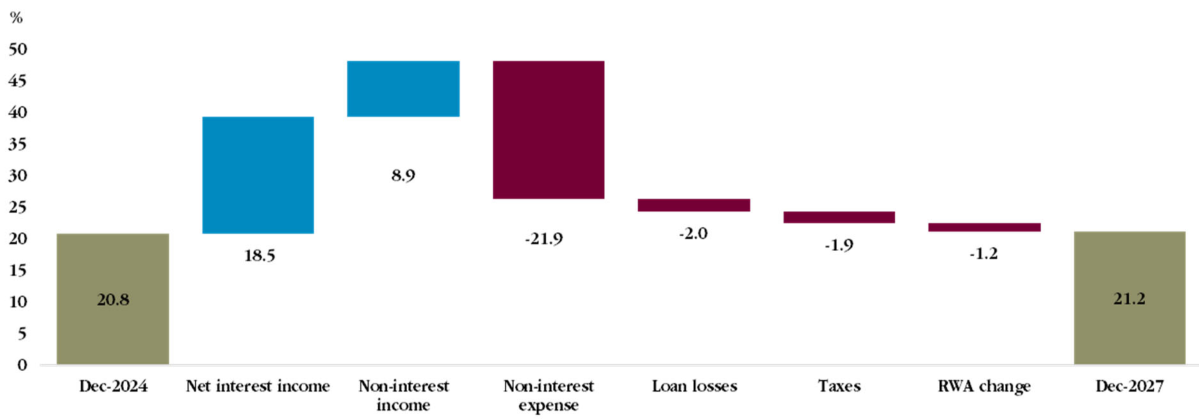
Source: Financial Services Commission

Appendix D: Chart Annex

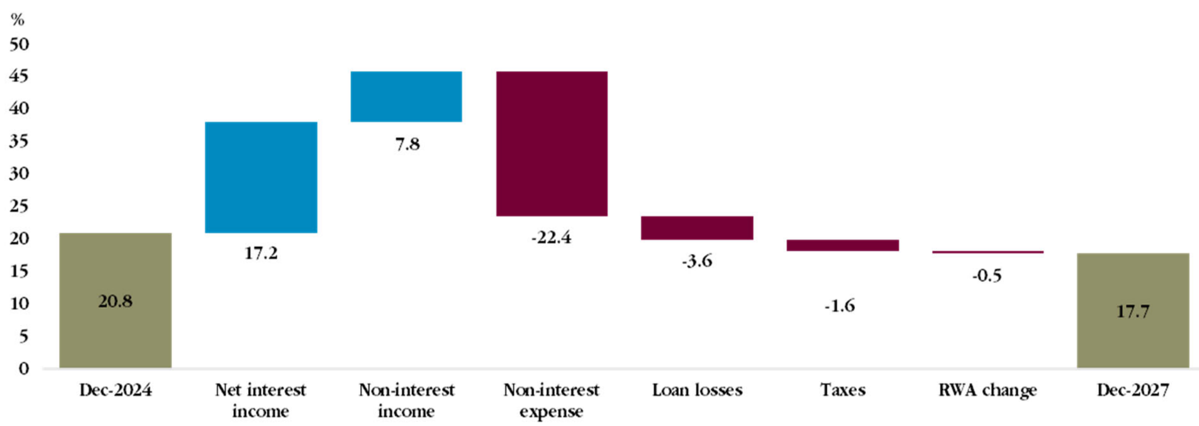
Figure D1: Factors Contributing to Changes in Capital Adequacy

A: Commercial Banks and Finance Companies

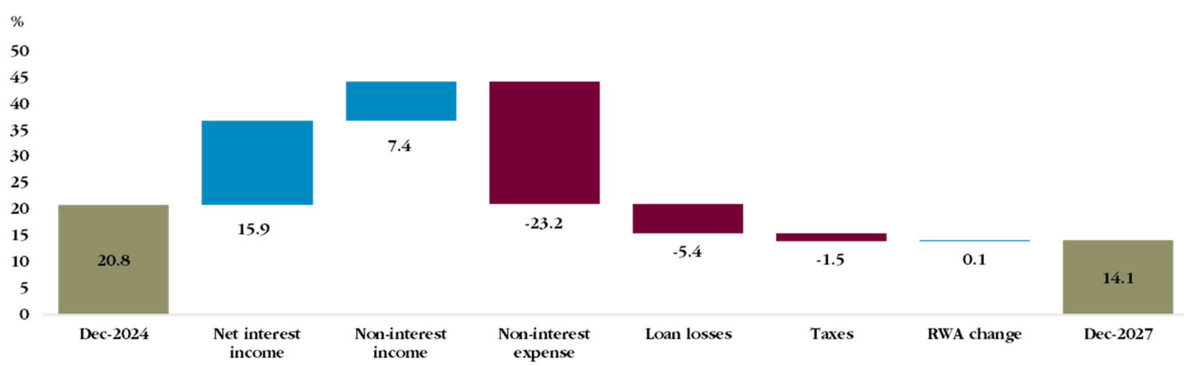
Baseline Scenario



Moderate Scenario

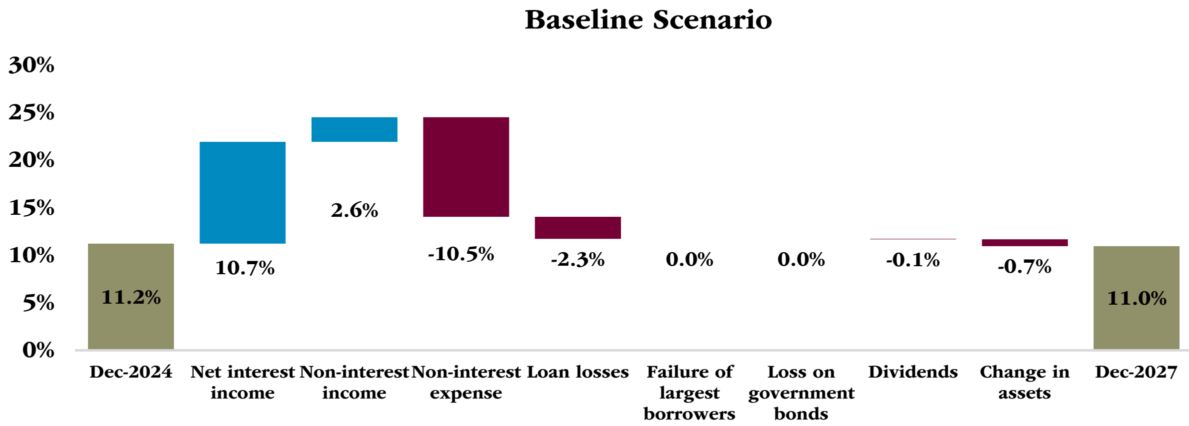


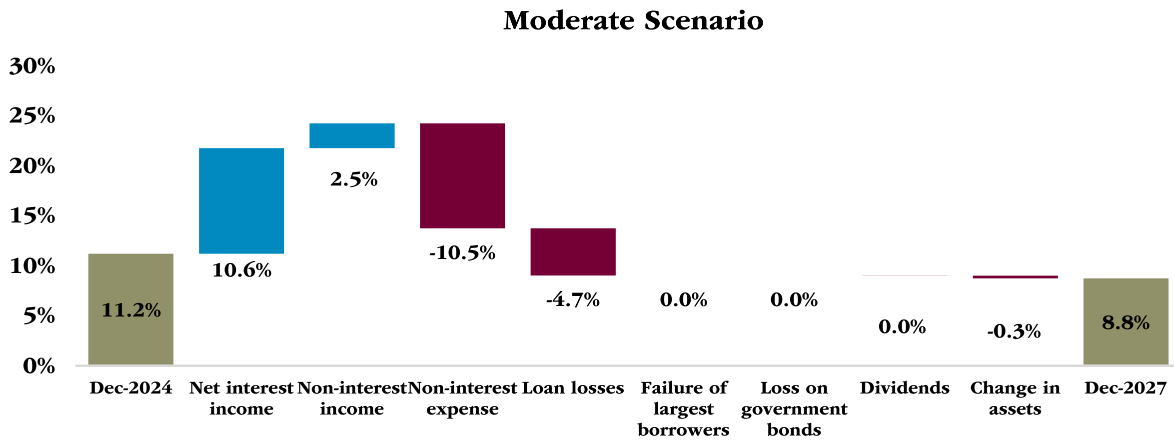
Severe Scenario

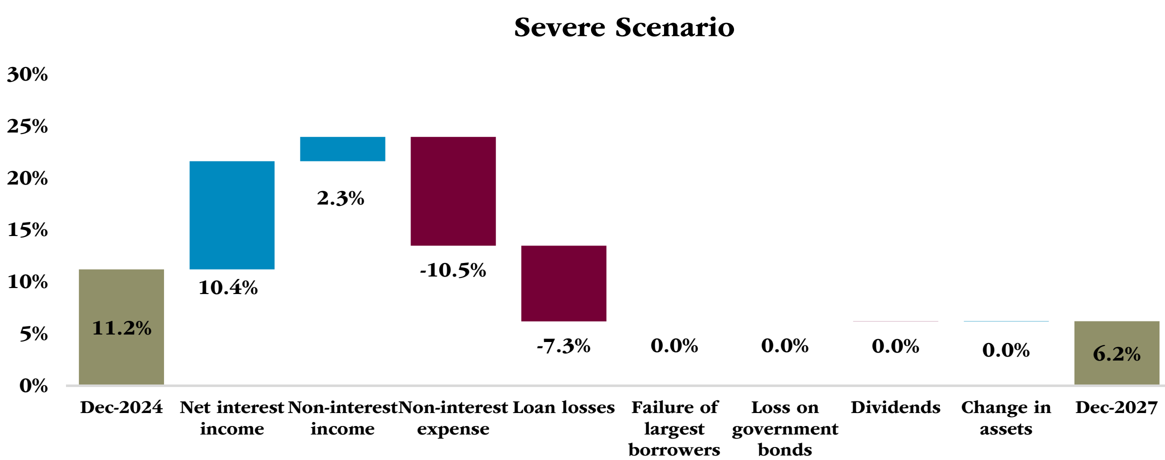


Source: Central Bank of Barbados' Staff calculations

B: Credit Unions







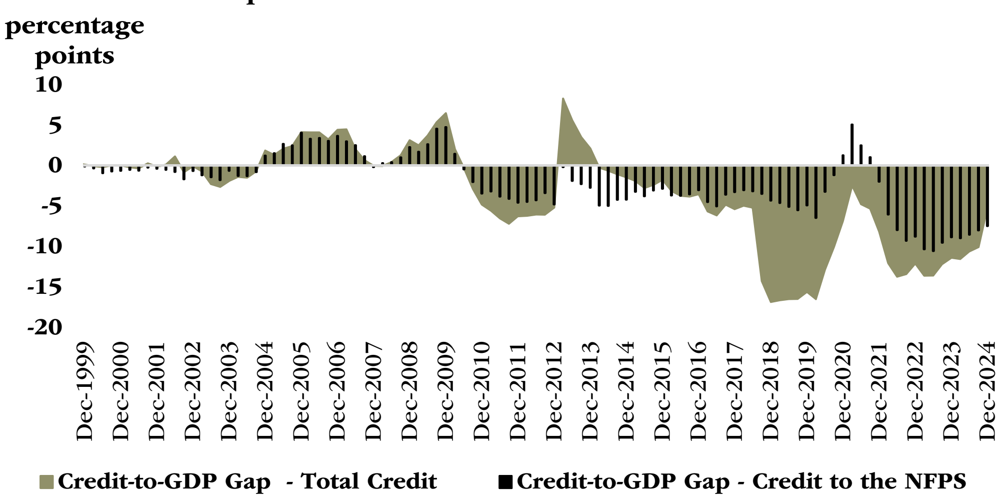
Source: Financial Services Commission's Staff calculations

Table D1: Total Assets of the Financial System (BDS $M)

	2020	2021	2022	2023	2024
Commercial Banks	13,202	13,760	14,357	14,655	15,608
Insurance Companies	3,780	3,817	3,795	4,464	4,548
Finance Companies	991	1,031	1,087	1,036	1,139
Credit Unions	2,797	2,946	3,063	3,152	3,266
Mutual Funds	2,494	2,811	2,702	2,871	2,936
Pension Funds	26,90	3,085	2,814	2,825	3,169
Total	**25,954**	**27,449**	**27,817**	**29,003**	**30,322**

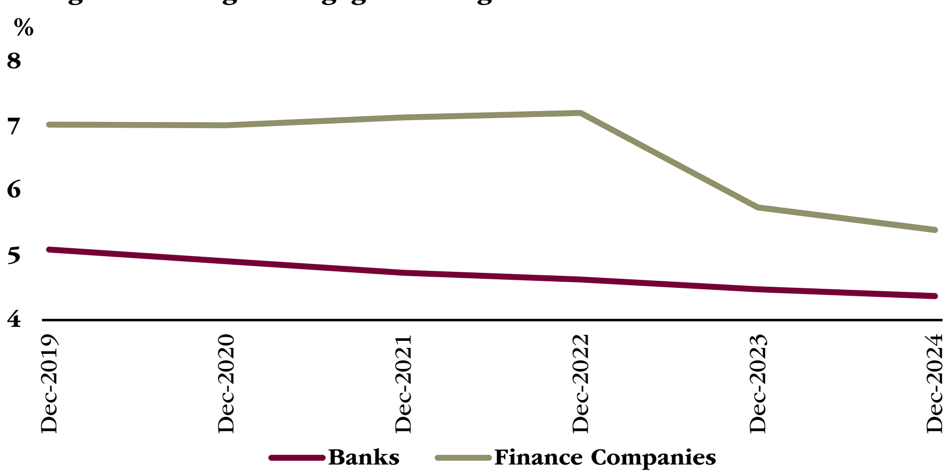
Sources: Central Bank of Barbados and Financial Services Commission

Figure D2:Credit-to-GDP Gap[32]



Sources: Central Bank of Barbados and Financial Services Commission

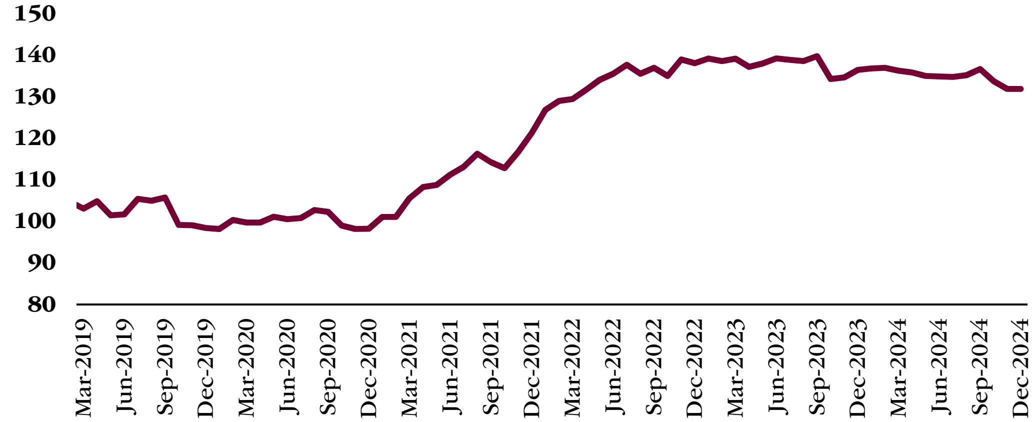
Figure D3: Weighted Average Mortgage Lending Rate



Source: Central Bank of Barbados

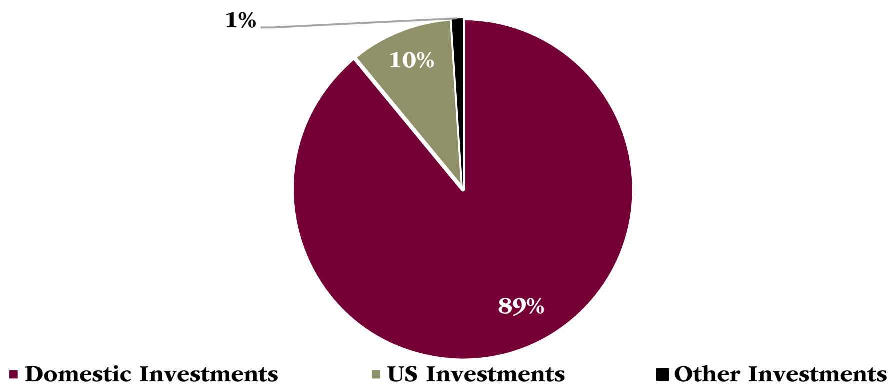
[32] The credit-to-GDP gap measures the deviation of the credit-to-GDP ratio from its long-term trend. It is calculated by applying the standard one-sided Hodrick-Prescott filter with the smoothing parameter (lambda) set at 400,000 to quarterly observations from March 1999 to December 2024.

Figure D4: Building Materials Index



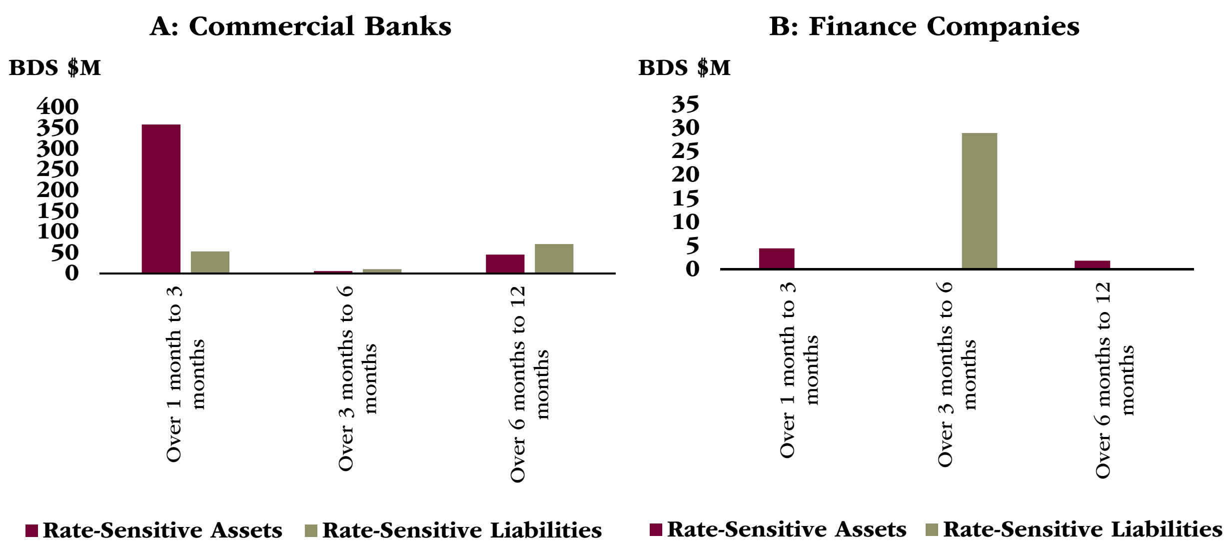
Source: Barbados Statistical Service

Figure D5: Investments by Country



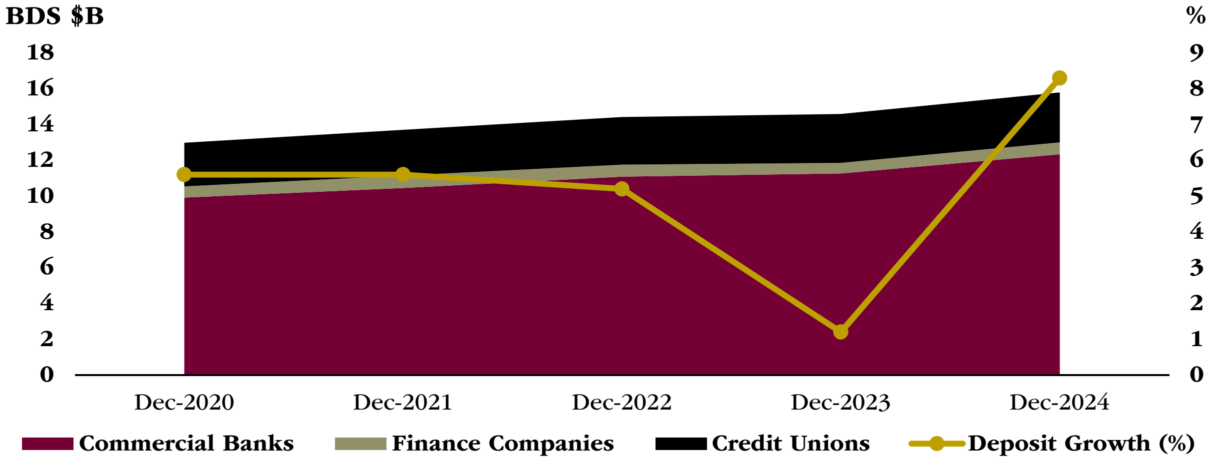
Source: Central Bank of Barbados

Figure D6: Maturity Gap Analysis



Source: Central Bank of Barbados

Figure D7: Consolidated Deposits



Sources: Central Bank of Barbados and Financial Services Commission