



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

BARBADOS

Financial Stability Report

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Prepared By

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High-Level Summary Technical Assistance Report Monetary and Capital Markets Department

Barbados: Financial Stability Report Prepared by Petr Jakubik

The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT:

The technical assistance is focused on enhancing the joint financial stability report of the Central Bank of Barbados and the Barbados Financial Services Commission. The mission concluded that the preparation of a detailed FSR production plan and communication strategy is of critical importance and could facilitate improvements and promote the report. The report should encompass all crucial elements of financial stability assessment and needs to be streamlined to follow the central storyline with key messages. The quality of the report could be further enhanced through advancements in the analytical toolkit employed and the utilization of all available data sources.

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Background

The technical assistance mission reviewed all relevant aspects to enhance the joint financial stability report (FSR) of the Central Bank of Barbados (CBB) and Financial Services Committee (FSC). The review encompassed an examination of organizational and operational aspects, communication strategy, report structure, and its content, inclusive of the analytical toolkit, and data sources. The mission's primary objective was to provide recommendations that would have a constructive influence on the report, directly and indirectly, with a focus on elevating the quality of the analyses and risk assessments.

Summary of Findings

The Financial Stability Report is the joint flagship product of the CBB and FSC in the financial stability area. Beyond its technical aspects, the mission highlighted the importance of collaboration, discussions, and bringing together of various economic and financial perspectives. It was observed that there is a lack of prior communication on key topics, both before and during the drafting process, which has resulted in a lack of alignment in the messages conveyed within the report. This deficiency is apparent in the final version of the report, which appears somewhat fragmented, lacking a unified narrative with clear messages. Furthermore, the report is deficient in providing a description of the relevant elements of the existing regulatory framework for different segments of the financial system. This omission can make it challenging for readers unfamiliar with the regulatory framework in Barbados to interpret certain indicators. Lastly, the absence of an analysis of the real sector, coupled with existing gaps in the financial stability analytical toolkit, hinders the ability to provide a comprehensive assessment of financial stability.

Summary of Recommendations

The mission provided several recommendations to the CBB and FSC. This encompassed the content and structure of the FSR and its related FSR processes, CBB's internal and external communication, the development of the financial stability analytical toolkit, the enhancement of economic research and the utilization of data sources and statistics. The preparation of a detailed FSR production plan is critical and could facilitate improvements and fostering synergies among different experts involved in the production. Moreover, the CBB and FSC should jointly prepare a communication strategy to establish the report as the key financial stability communication tool. This strategy should encompass the central risk story, based on a forward-looking, frank, and consistent financial stability risk assessment that is placed within a broader macroeconomic context, making it easily understandable for readers. The report can be strengthened in several ways to enhance the overall structure and readability. In particular, the structure of the report should be shifted to a top-down approach. Although, the CBB and FSC have made significant progress in developing financial stability analyses over the last years, the analytical toolkit needs further enhancement to identify, monitor, and assess all relevant financial stability risks. The banking top-down stress test is regularly performed, but the CBB and FSC should continue to work on its methodological improvements. Moreover, it is important to enhance the relevant economic research. It was emphasized that all available data sources should be utilized to identify and assess key financial stability risks. In this respect, the implementation plan to use credit registers for statistical and financial stability work should be prepared. In the meantime, existing data gaps could be addressed by conducting different surveys within the industry. Finally, the CBB and FSC should initiate a discussion on data warehouse and software/tools to be used for processing large data.