



**In Summary:**

- In 2022, global financial stability challenges increased due to risks arising from high inflation, rising interest rates, and deteriorating economic growth in many countries. Cyber and climate-related risks are becoming increasingly important and require attention.
- Banking stress in the United States and Europe in early 2023, highlighted the challenges posed by the interaction between tighter monetary and financial conditions, and financial stability. These include financial leverage, liquidity mismatches, and financial interconnectedness. Real estate and other categories of consumer debt are becoming more susceptible to risks.
- The domestic economy showed signs of a recovery in 2022 after two years of economic contraction. Unemployment rates declined, creating room for increased GDP levels. Risks related to sovereign concentrations remain relevant but do not pose near-term risks to financial stability.
- The domestic financial sector remained resilient throughout the year. Overall, institutions' capital and liquidity buffers were broadly stable, with improvements in asset quality and profitability ratios in some sectors.
- In 2022, domestic financial stability risks moderately increased. The three key risks to the health of the domestic financial sector for 2022 are rising international interest rates, larger liquidity requirements in financial institutions, and cyber-attacks.
- Over the period, the Central Bank continued to promote financial stability through legislative reform, regulatory amendments, and improved supervisory capacity based on an ongoing assessment of sectoral risks.

**GLOBAL FINANCIAL STABILITY RISKS**



**DOMESTIC MACRO-FINANCIAL CONDITIONS**



**Domestic economic activity** continued to show signs of recovery during 2022.

The **Central Government's financial position** improved during fiscal year 2021/2022, with an overall surplus of \$1.1 billion (0.6 per cent of GDP).

**Non-performing loans** for both household and corporate sectors were low and stable over 2022.

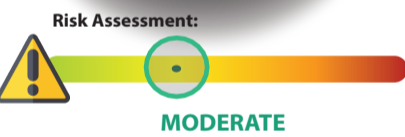
**DOMESTIC FINANCIAL STABILITY RISKS**

*Macprudential Early Warning Indicators suggest that aggregate financial stability conditions deteriorated moderately, primarily driven by external supply-side pressures, as inflation can undermine investor sentiment and risk appetites. Downside risks persisted, contributing to slightly elevated systemic risk levels at the end of the year. For 2022, the relevant domestic financial stability risks are:*

**Rising International Interest Rates**

**Larger Liquidity Requirements**

**Increasing Cyber-Attacks**



**Overall financial stability risk posed by these factors is assessed as MODERATE.**

**FINANCIAL SECTOR RESILIENCE**

Over the year, the interconnectedness of the domestic financial sector remained relatively stable, with the number of direct and indirect linkages broadly unchanged. However, ongoing concentrations and interlinkages between the individual financial industries underscore systemic risk concerns as adverse shocks to one sector can spill over to other financial segments.



**BANKING SECTOR**

During 2022, the sector experienced an improvement in profitability, but capital adequacy declined slightly. While credit risk remains contained, interest rate and liquidity risks require close monitoring.

**INSURANCE SECTOR**

The sector was resilient over the year with healthy profitability. However, general insurers saw an uptick in claims, which weighed on net loss ratios.

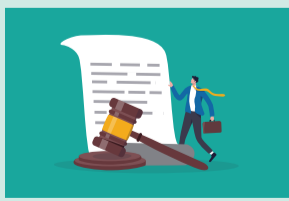
**PENSION SECTOR**

Despite a decline in assets, there was an improvement in funding positions with 56 plans reporting deficits in 2022, down from 65 plans in 2021. Government securities and equity dominated the funds' asset allocation.

**PAYMENTS SYSTEMS**

Digital payment activity continued to expand in both wholesale and retail systems. In 2022, the first non-bank E-Money Issuer was provisionally registered.

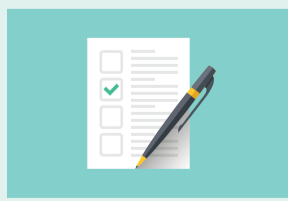
**POLICIES TO SAFEGUARD FINANCIAL STABILITY**



**Implementation of New Supervisory Standards**

Draft Liquidity Coverage Ratio (LCR) Guideline Consultation Paper and Reporting Framework under review.

Guideline on publishing of abridged Financial Statements effected.



**Compliance with Global AML/CFT and Tax Standards**

Updated Simplified Due Diligence (SDD) for Basic Banking accounts issued.

Finalisation of National Risk Assessment.

Finalisation of revised Central Bank's internal AML/CFT/CPF Policy.



**Strengthening Risk-Based Supervision and Analytical Capability**

Internal Capital Adequacy Assessment Process (ICAAP) timelines for submissions from licensees extended.

IFRS 17 implementation by the insurance industry in progress.

Draft Cybersecurity Best Practices Guideline circulated to institutions for feedback.



**Review of Payments Systems Developments**

Continuation of execution of Fintech Policy.

Registration of E-Money Issuer, PayWise.

Drafting of Payments System Bill in progress.

