Autoriti Monetari Brunei Darussalam
Policy Statement
2/2020

Date: 31 December 2020

Global and Regional Economic Developments

1. In its October 2020 World Economic Outlook report, the International Monetary Fund (IMF) revised its 2020 global growth forecast from -5.2% to -4.4%. The revision reflects better-than-anticipated second quarter gross domestic product (GDP) performance, mostly in China and advanced economies. Activities in these economies have improved sooner than expected after COVID-19 related restrictions were scaled back since May, and showed signs of a more rapid recovery in the third quarter. The IMF also indicated that the global economy's recovery back to its pre-pandemic state will be long and difficult and remains prone to setbacks, particularly since there is still uncertainty surrounding public health responses and the associated disruptions to activities with recurring spikes of COVID-19 cases in some countries. Nevertheless, the recent news on COVID-19 vaccines development could bring some optimism to the unprecendented crisis.

2. The pandemic outbreak has resulted in widespread declines in global commodity prices, particularly oil prices. Since their plunge in April 2020, oil prices have gradually picked up, supported by oil production cuts by members of the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC in addition to an easing of lockdowns in subsequent months. However, uncertainties over compliance to production cuts, high global oil inventory levels and resiliency of oil demand as well as concerns of subsequent waves of COVID-19 weigh on future price gains. As such, oil prices are not expected to return to pre-crisis levels anytime soon. Meanwhile, natural gas prices have also

seen sizeable declines amid a fall in consumption on account of COVID-19-related containment measures, and are likely to remain depressed in the near-term.

3. In attempts to counter the negative economic repercussions of the pandemic, many central banks have resorted to stimulus measures on an unprecedented scale since the start of the pandemic, and are still continuing to do so. The Federal Reserve recently announced a shift in its monetary policy framework towards Flexible Average Inflation Targeting (FAIT), where the central bank is not expected to raise interest rate as long as the average inflation is at 2% target in the United States. This signals that interest rates could remain low at least until 2023. The Federal Reserve has also expressed concerns that further fiscal support may be needed to aid with economic recovery in the United States. With global recovery remaining uncertain and with the COVID-19 pandemic set to leave long-lasting economic damage, the likelihood is that monetary policy will stay ultra-loose for years to come.

Brunei Darussalam's Economic Developments

4. In the first half of 2020, the domestic economy expanded by 2.6% year-on-year (y-o-y) in constant prices, compared to 3.9% for the whole of 2019. The Oil and Gas sector contracted by 2.6% y-o-y with declines in both Oil and Gas mining and Manufacture of LNG by 1.9% and 4.9% y-o-y respectively. Meanwhile, the Non-Oil and Gas sector rose 9.5% y-o-y during the period driven by a jump in downstream activities by 594.7% y-o-y with new production of petroleum and chemical products, while other non-oil and gas activities contracted slightly by 2.8% y-o-y. The latter was mainly due to weaknesses in the services sector, which had largely been negatively impacted by the COVID-19 outbreak and the subsequent imposition of various containment and preventive measures nationwide during the first half of 2020. The sharpest declines were seen in the Air Transport (-60.2%), Land Transport (-21.6%) and

Hotels (-21.5%) sub-sectors. Looking ahead, with the de-escalation measures rolled out in phases, some sectors are slowly returning to some form of new normal, while others will take a longer time to recover. The near-term domestic economic outlook will also depend on the performance of the oil and gas sector and the extent of further economic recoveries.

5. The average consumer price index (CPI) rose by 1.9% y-o-y in the first nine months of 2020. The increase was mainly driven by the Miscellaneous Goods and Services index; followed by higher prices of Passenger Transport by Air, Household Textiles, and Mineral Water and Soft Drinks. The increasing price trend for a variety of items in the CPI basket may continue in the near-term. However, there are downside pressures to domestic prices as global inflation is expected to be softer than initially anticipated. Additionally, with the Monetary Authority of Singapore maintaining its monetary policy stance in October 2020, the implied exchange rate pass through to inflation in Brunei Darussalam will be neutral given the Brunei dollar's one-to-one parity to the Singapore dollar. Domestically, the COVID-19 impact is expected to continue to pose downward pressures on the price indices of Restaurants and Hotels, and Recreation and Culture.

6. Although inflation in some months had consistently been above 2%, AMBD’s inflation forecast for 2020 remains in the range of 1% to 2% on expectations that inflation may ease slightly by the end of 2020. Looking ahead, weak price pressures may continue into 2021, and as such the inflation forecast for next year is within the range of 0% to 1%. While global inflation is expected to rise gradually in 2021 with the projected pickup in activities, the increase is likely to remain muted as overall demand may continue to be weak. Nonetheless, uncertainties surrounding the forecast remain as it also depends on the duration and intensity of the COVID-19 outbreak and thus its impact on global and domestic inflation.

Brunei Darussalam's Financial Sector and Regulatory Developments

7. Based on AMBD's macro-prudential analysis, the overall risk level of the banking sector for Q3 2020 was lower compared to Q2 2020 due to improvement in the corporate sector's credit risk. Bank liquidity and funding risks, as well as capital adequacy risk continued to be low. On the other hand, the risks to banks' profitability; and offshore placements and investments were assessed to be at medium-low level.

8. As of Q3 2020, the financial sector recorded a total asset value of BND21.8 billion, of which BND12.5 billion was held by the Islamic finance sector. The banking sector represented the largest share of the financial sector as a whole at 82.3%. Total banking assets had grown by 6.3% y-o-y with total deposits increasing by 2.5% y-o-y to BND14.5 billion. Total Loans/Financing saw a modest reduction of 0.2% to BND5.83 billion.

9. During the same period, the banking sector maintained high capital buffers with a Capital Adequacy Ratio of 21.1% and has remained liquid with a Liquid Assets-to-Total Assets ratio of 49.8%. Asset quality has also improved with a decline of Net Non-Performing Loans/Financing (NPLF) ratio to 2.4%. This sector experienced a decline in profitability by 4.8% y-o-y mainly due to a decrease in interest/profit income on offshore placements with banks and financial institutions by 44.8%, while the overall Return on Assets (ROA) and Return on Equity (ROE) recorded at 1.7% and 11.4% respectively.

10. In promoting transparency of lending rates in the country, AMBD has recently launched its first quarterly publication on retail lending rates offered by the banking sector on AMBD's website. This initiative aims to empower consumers in their decision making, and at the same time, encourage healthy competition within the industry.

11. As part of AMBD's continuous efforts to improve the supervision of the financial sector, AMBD has established the Domestic Systemically Important Bank (D-SIB) framework to identify the D-SIB(s) in the country. This will further strengthen resilience of the banking sector and overall stability of the financial sector.

12. To further enhance risk-based supervisory approach in the insurance and takaful sector, AMBD has developed a risk-based capital and solvency framework. A requirement for proper attribution of their assets and liabilities was also introduced where funds are required to be appropriately segregated, effectively controlled with established policies and procedures. To ensure smooth transition to the new framework, trial run has started in September 2020 before full implementation of the framework.

13. With the imposition of travel restrictions to control the outbreak of COVID-19, the money-changing sector continued to be severely affected with the values of both buying and selling of foreign currencies declining by 82% and 95% respectively in Q3 2020 compared to the same period last year. Following the interim measure introduced in April 2020 that allows licensees to pay licence renewal fee in two phases to help ease their financial burden during this difficult period, AMBD issued a Notice on Temporary Regulatory Relief Measure for Money-Changing Business on 15 October 2020. This notice provides a one-time 80% reduction on annual licence fee to current money-changing licensees for the period between 1 January 2020 and 31 December 2021.

14. As part of the efforts towards the establishment of a securities exchange in Brunei Darussalam, AMBD had issued an Exposure Draft of the Listing Rules to the industry at the end of September 2020. The aim of the exposure draft was to gather inputs and views from relevant stakeholders on the proposed Listing Rules and the framework for a two-month period from October 2020 to November 2020.

15. AMBD also completed a consultation process for the proposed Notice on Requirements for Payment Systems to obtain feedback from stakeholders including prospective payment service providers (PSPs), banks, FinTech Regulatory Sandbox participants and telecommunication companies (Telcos). This is to ensure the Notice provides adequate regulatory and supervisory framework on payment services in line with international standards and best practices, before coming into force by the end of 2020.

16. The interim measure introduced by AMBD and the Brunei Association of Banks (BAB) in March 2020 to waive all local interbank transfer fees has led to over 90% y-o-y increase in the utilisation of the Real Time Gross Settlement (RTGS) system from April to September 2020, mainly due to bank customers' transfers. The use of the Automated Clearing House (ACH) Direct Credit system also showed a significant increase of 59.9% y-o-y in volume during the same period. AMBD and BAB have agreed to extend the fee waiver for another six months from 1 October 2020 to 31 March 2021.

Future Developments

17. AMBD continues to closely monitor the developments of COVID-19 pandemic and its impact to the financial sector. Since the introduction of the interim measures in March 2020, the banking industry has been active in providing assistance to the affected businesses and individuals in alleviating their financial burden. As the effects of COVID-19 continue to be felt and further development remains uncertain, banks are encouraged to continue to provide necessary and timely support to those who still require assistance.

18. Besides efforts to enhance and streamline the prudential regulatory framework for the financial sector that is consistent with international standards and best practices, AMBD has also expanded its macro-

prudential surveillance toolkit to mitigate systemic risk of the financial sector in Brunei Darussalam. Among others, AMBD is undertaking an analysis of the financial system's interconnectedness to address cross-sector linkages and common exposures as well as developing a Financial Stability Index to assess the overall stability and health of the financial system.

Data sources:
Department of Economic Planning and Statistics (DEPS)
International Monetary Fund (IMF)