



بروني دارالسلام سنترال بنك
BRUNEI DARUSSALAM CENTRAL BANK

Brunei Darussalam Central Bank

Policy Statement

2/2021

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Global and Regional Economic Developments

1. In the October 2021 World Economic Outlook report, the International Monetary Fund (IMF) has downgraded its 2021 global growth forecast from 6.0% to 5.9%. The downward revision was led by a 0.4 percentage point reduction in the growth projection for advanced economies, partly due to supply chain disruptions. Meanwhile, the growth forecast for emerging and developing economies indicated a 0.1 percentage point increase, where the stronger near-term growth among commodity exporters partially offset the weaker growth in countries with worsening pandemic situations. As such, the pace of recovery varies across countries depending on their ability to mitigate the impact of COVID-19 and vaccination progress, as well as the provision of adequate stimulus. Nonetheless, downside risks to the outlook remain, including the rapid spread of Delta variant, the threat of new variants, and uneven access to vaccines.
2. Oil prices have risen to multi-year highs in recent months on the back of improving economic growth causing a rebound in global oil demand and tight global oil supply due to supply curbs by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC countries. This year, natural gas prices have also seen

significant gains attributed to weather-related factors and shortfall in inventory, but prices are expected to remain volatile in the near-term.

3. While many central banks continue to maintain their accommodative policy stances on account of still fragile economic recoveries, several have already moved to tighten monetary policy in the face of mounting inflation pressures and as a way to curb rising debt levels and resolve financial imbalances. Nonetheless, as COVID-19-related uncertainties are likely to remain a key concern for central banks until the pandemic abates, the global monetary policy environment is likely to stay accommodative over the near-term. In any case, policymakers are to monitor these developments and stand ready to take the necessary actions to safeguard financial stability.

Brunei Darussalam's Economic Developments

4. In the first half of 2021, the domestic economy posted negative growth of 1.5%. This was driven largely by the 4.5% contraction in the Oil and Gas Sector following decreases in the activities of Oil and Gas Mining and Manufacture of Liquefied Natural Gas (LNG) by 3.7% and 6.4% respectively. Meanwhile, the Non-Oil and Gas Sector expanded by 3.2%, mainly attributed to the growth in the Agriculture, Forestry and Fishery Sector by 57.1% as well as the Services Sector by 2.3%, followed by the Industrial Sector with a 0.4% increase. The sharpest gains in the Agriculture, Forestry and Fishery Sector were seen in the production of Livestock and Poultry [131.6%] and Fishery [31.8%], while the Services Sector was mainly supported by Restaurants [17.8%] and Other Private Services [11.8%]. Meanwhile, growth in the Industrial Sector was largely driven by the Manufacture of Wearing Apparel and Textiles [38.3%] and Manufacture of Food and Beverage Products [26.8%].
5. Looking ahead, the second wave of COVID-19 infections hitting the country in early August and the subsequent partial lockdown with the temporary closure of some business sectors and imposition of restrictions do not bode well for the domestic economy in the second half of 2021. Such expectations, coupled with negative

growth in the first half of the year, may indicate that the overall 2021 growth outlook for the economy may be subdued. However, relaxation of restrictions which commenced on 19 November 2021 may provide some optimism going forward.

6. The average Consumer Price Index (CPI) rose by 1.7% y-o-y in the first nine months of 2021. The increase was mainly driven by higher prices of Motor Vehicles, Passenger Transport by Air as well as food items such as Meat, Oil and Fats, and Vegetables.
7. Taking into account the potential impact from the second wave of COVID-19 infections, the increasing price trend in a variety of items within the CPI basket is expected to continue. Meanwhile, global inflation is expected to rise modestly as the global economy continues to recover. Furthermore, with the Monetary Authority of Singapore tightening its monetary policy stance by raising slightly the rate of appreciation of the Singapore dollar Nominal Effective Exchange Rate (S\$NEER) in October 2021, the implied exchange rate pass through to inflation in Brunei Darussalam will be more muted given the Brunei dollar's one-to-one parity to the Singapore dollar. Given these factors, BDCB's inflation forecast for 2021 remains in the range of 1% to 2%.

Brunei Darussalam's Financial Sector Developments

8. The Brunei Darussalam Financial Sector comprising of both Islamic and conventional financial institutions recorded growth of 7.5% year-on-year (y-o-y), bringing total financial system asset value to BND23.4 billion as of Q3 2021, of which 58.3% (BND13.6 billion) was made up of the Islamic finance asset. Meanwhile, total assets of the banking industry grew by 7.3% y-o-y to BND19.2 billion, which was mainly contributed by the increase in offshore investments. Deposits had also improved by 11.7% y-o-y to BND16.1 billion, mainly due to an increase in demand deposits.
9. In BDCB's macro-prudential analysis of the Banking Sector, the overall risk level has heightened slightly in Q3 2021 compared to Q2 2021. The main contributing factor was the outbreak of the second wave of COVID-19 in Brunei Darussalam that is

expected to have an adverse impact on the economy with a spillover effect on the financial sector.

10. Nevertheless, the capital position of the banking industry as of Q3 2021 remains robust, with an aggregate Capital Adequacy Ratio of 20.3%, well above the 10% minimum requirement stipulated in the Banking Order, 2006, and Islamic Banking Order, 2008. The industry also continued to hold surplus liquid assets with a Liquid Assets-to-Total Assets ratio of 49.2% to facilitate financial intermediation activity.
11. Underpinned by strong capital and liquidity buffers, banks have continued providing credit to the economy, where the total loans/financing recorded an improvement of 2.6% to BND6.0 billion in Q3 2021 compared to BND5.8 billion a year ago. Meanwhile, the asset quality of the banking sector slightly improved in Q3 2021 with a Net Non-Performing Loans/Financing (NPLF) ratio of 2.0% as compared to 2.4% in the previous year.
12. In light of the heightened uncertainties associated with the COVID-19 pandemic and the low global rates environment, profitability of the Banking Sector has declined with the aggregate Return on Assets and Return on Equity recorded at 1.5% and 9.5% respectively. Despite this, banks have been able to continue providing appropriate assistance to affected borrowers impacted by the pandemic.
13. The BDCB Islamic-Bills Programme (BDCB I-Bills), introduced in October 2020 to facilitate liquidity management for banks and diversify money market instruments, had a total of 50 issuances as of 18 November 2021. A year after its maiden offering, BDCB has issued BND1.3 billion worth of BDCB I-Bills with total outstanding issuance of BND49 million as of 19 November 2021.
14. In light of the second wave of the COVID-19 pandemic, BDCB had issued advisory letters to all licensed financial institutions in Brunei Darussalam and BDCB FinTech Regulatory Sandbox participants. They were advised to strengthen necessary steps to reduce the spread of COVID-19, protect the health of customers and staff, and ensure safe business operations. Advisory letters were also issued to all licensed

financial institutions to ensure sufficient cash was available in order to maintain the public's confidence in the banking sector. BDCB had also outlined the financial services deemed as essential that should continue to be offered and the types of reporting to be submitted.

15. Additionally, BDCB has continued to provide temporary regulatory flexibility to banks and finance companies on loan/financing classification, continue to assess the impact of the interim measures, and stands ready to withdraw such measures, as and when conditions permit. BDCB will continue to monitor the developments of the economy and financial sector and work closely with relevant stakeholders to support the recovery of economic activities while ensuring the stability of the Financial Sector.

Future Developments

16. As part of its efforts to go digital by leveraging technology, BDCB has added a licensing module to the Centralised Statistical System (CSS), enabling the automation of end-to-end processes for both new applications and renewal of licences to be issued by BDCB. This module will be rolled out to the financial institutions in phases in 2022. The CSS was launched in May 2017 as a single online portal to collect data from all relevant stakeholders, including financial institutions regulated by BDCB. CSS is a supervisory technology (SupTech) solution where further enhancements will be carried out from time to time to improve productivity, efficiency, and effectiveness while safeguarding the quality, consistency, and integrity of the data.

Data sources:

Department of Economic Planning and Statistics [DEPS]
International Monetary Fund [IMF]