Policy Statement

2/2022

Date: 13 December 2022

Global and Regional Economic Developments

1. Based on the October 2022 World Economic Outlook report issued by the International Monetary Fund (IMF), the global economic growth for 2022 is maintained at a forecast of 3.2%, and is projected to slightly decrease from 2.9% to 2.7% in 2023. The basis of this revised outlook is a combination of several shocks pummelling the world economy that has yet to fully recover from the COVID-19 pandemic. This includes slower growth in China which has primarily been caused by COVID-19 outbreaks and a strict policy towards the virus, in addition to the nation's real estate slowdown; higher-than-expected global inflation, particularly in major and advanced economies; and negative fallout from the Ukraine-Russia conflict. The risks to the global economic outlook remain on the downside, until there is evidence of stronger recovery in sight.

2. Oil prices which were on an upward trajectory from the beginning of the year, and peaked in early June, have started to decline with Brent Crude oil price falling by 17.4% at the end of October 2022. This downward trajectory has been attributed mainly to weaker demand for crude oil owing to the strong performance of the US dollar following several periods of interest rate hikes by the Federal Reserve; concerns about a global economic downturn; skyrocketing inflation rates; and the slowing down of China's economy. Meanwhile, natural gas prices have continued to trend upwards from the beginning of the year up to November 2022 due to a tight market driven mainly by geopolitical issues as Russia curtailed its natural gas supply to Europe following sanctions imposed on its energy commodities. Looking ahead, the outlook for both oil and natural gas prices will be determined by developments surrounding global output, geopolitics, and pace of economic recovery.

3. Early in the year when the global economy was on the cusp of recovery from the effects of the COVID-19 pandemic, central banks were expected to wind down stimulus and tighten monetary policy at a gradual pace. However, with the continuous rising price levels and the considerable impact on living standards globally, central banks have had to tighten monetary policy at a much faster pace than initially anticipated in order to bring down inflation. Although this may control inflation, it may also increase the likelihood of an economic recession in some economies.

Brunei Darussalam's Economic Developments

4. In the first half of 2022, the domestic economy recorded a negative Gross Domestic Product (GDP) growth of 4.3% year-on-year. This was largely driven by a 9.4% year-on-year contraction in the Oil and Gas sector, following decreased activities in Oil and Gas Mining, as well as Manufacture of Liquefied Natural Gas (LNG) by 7.1% and 16.1% year-on-year respectively. Meanwhile, the Non-Oil and Gas sector recorded an expansion of 1.2% year-on-year, mainly contributed by the 18.9% year-on-year growth in downstream activities, while other Non-Oil and Gas activities fell by 1.5% year-on-year.

5. In the second half of 2022, the domestic economy continued to face some challenges although certain sectors are expected to improve slightly with increased demand following further relaxation of pandemic-related restrictions, and the reopening of borders. Meanwhile, relatively high inflation compared to pre-COVID-19, coupled with low crude oil and LNG production levels, do not bode well for growth. In general, optimism in the private sector was reported in the Business Sentiment Index (BSI) findings with regards to their current business conditions in most months between January and October 2022, except in August and October. A number of businesses continued to cite challenges that affect their business performance including rising costs and manpower issues.

6. Consumer Price Index (CPI) inflation has recorded an increase of 3.8% year-on-year in the first nine months of 2022. The increase was mainly driven by higher prices of Food such as Meat, Oils, and Non-Food such as Insurance, Motor Cars and Passenger Transport by Air. Looking ahead, domestic inflation and global inflation will remain elevated over the near-term. Given Brunei Darussalam's monetary policy with the value of the Brunei dollar at par with the Singapore dollar, several tightening of Monetary Authority of Singapore's (MAS) monetary policy this year are expected to dampen the effects of imported inflation to the domestic economy. Taking these factors and available CPI data into consideration, BDCB has raised its 2022 inflation forecast for Brunei Darussalam to a range of 3.5% to 4.5%. BDCB will continue to monitor the development

of the economy and the financial sector to safeguard Brunei Darussalam's monetary and financial stability.

Brunei Darussalam's Monetary and Financial Sector Developments

7. In the global environment of rising interest rates, BDCB ensures that its monetary operations are consistent with the Currency Board principles. The Financial and Monetary Stability Committee (FMSC) has raised the Overnight Standing Facility rates twice by 50 and 75 basis points in its July and September 2022 meetings, bringing the Deposit and Lending rates to 1.50% and 2.50% respectively as at November 2022. The FMSC continues to ensure that there is sufficient liquidity to support the well-functioning of the domestic financial system.

8. Demand for, and use of, cash continues to increase despite the rise in digital payments during the COVID-19 pandemic as Brunei Darussalam adjusts to the new normal. As of September 2022, the currency in circulation stood at BND1.36 billion, an increase of 1.4% year-on-year. With cash still relevant in Brunei Darussalam's economy, BDCB continues to play an important role in the accessibility of physical cash to the banks to serve the public.

9. Brunei Darussalam's financial sector, which consists of both Islamic and conventional financial institutions, recorded a growth of 5.9% year-on-year with total asset value of BND24.8 billion as of Q3 2022. Of this, the Islamic finance sector constitutes 60.3%, equivalent to BND15.0 billion. Deposit-taking institutions comprised of 92.6% of the total financial sector assets with an asset base of BND23.0 billion.

10. In Q3 2022, BDCB conducted its macro-prudential research and assessment of the banking industry. Findings indicated that the overall risk level in Q3 2022 remained the same as Q2 2022. However, the risk level was slightly elevated in Q2 2022 compared to the previous quarter due to the heightened vulnerability to external risks. This is in line with the IMF's views that the global economy continues to face a number of challenges mainly due to the COVID-19 pandemic and Russia's invasion of Ukraine. Despite the elevated risk and uncertain environment, the banking industry continued to perform with high levels of capitalisation and liquidity.

11. The capital position of the banking industry remained robust with an aggregate Capital Adequacy Ratio of 20.1% as of Q3 2022. This was well above the 10.0% minimum requirement stipulated in the Banking Order, 2006, and Islamic Banking Order, 2008. The industry continued to hold surplus liquid assets to facilitate financial intermediation activities with a Liquid Assets-to-Total Assets ratio of 44.2%. Total assets of the banking industry grew by 8.4% year-on-year to BND20.8 billion, mainly driven by the rise in investments overseas. In tandem with the growth in

assets, deposits have improved by 9.8% year-on-year to BND17.7 billion, with a notable increase in time deposits.

12. Banks have been able to provide credit flows to the economy with total loans/financing recording an increase of 8.1% to BND6.5 billion in Q3 2022 compared to BND6.0 billion a year ago. This improvement was primarily attributed to lending/financing activities of the business sector, particularly the manufacturing sector. Meanwhile, asset quality of the banking industry improved slightly in Q3 2022 with Net Non-Performing Loans/Financing (NPLF) ratio at 1.98% compared to 2.01% in the same quarter last year.

13. In light of the heightened global market volatility, the profitability of the banking industry declined in Q3 2022 with the aggregate Return on Assets and Return on Equity recorded at 1.1% and 8.4% respectively, compared to 1.5% and 9.5% in the same quarter last year. Despite the challenging environment, the banking industry's strong capital position has enabled the banks to withstand a temporary impact on profitability while still continuing to support the local economy's demand for credit.

14. As part of BDCB's continuous efforts to develop the regulatory framework to promote best practices, BDCB introduced notices and guidelines for the respective financial sectors. To further strengthen the monitoring and mitigation of fraud incidents within the financial sector, the Notice on Reporting of Fraud Incidents was introduced to banks, finance companies, takaful operators and insurance companies. This notice outlines the requirement for the financial institutions to strengthen fraud detection procedures, and to report fraud incidents to BDCB within a stated scope and timeline.

15. Guidelines on Operational Risk Management were issued to all banks stipulating sound principles and practices in managing their risks relating to banking operations. Additionally, the Notice on Maintenance of Capital Adequacy Ratio was introduced to finance companies to ensure capital levels remain adequate against the identified risks under the Capital Adequacy Framework.

16. As for the takaful and insurance sector, existing guidelines, namely the Guidelines on Insurance Fraud Risk Management in Insurance and Takaful were further enhanced with the overarching aim of providing guidance on sound risk management practices for the identification and mitigation of risk exposures to takaful/insurance fraud incidents. In promoting efficient takaful business operations and sustainable takaful funds, while safeguarding takaful participants, a regulatory framework relating to the management of takaful funds and shareholders' fund, which

is the Notice on Establishment and Maintenance of Takaful Funds for Takaful Operators was issued. This framework also aims to promote uniformity in takaful undertaking practices.

17. To ensure that the regulations related to Islamic finance are at par with international best practices, BDCB issued Guidelines for Syariah Standards on Tawarruq, Murabahah, Wakalah and Mudharabah. These guidelines serve as references for financial institutions to structure Islamic products and services in accordance with Hukum Syara'.

18. BDCB has also introduced the Notice on Application Process of Islamic Product with the objective of providing guidance on the approval process for Islamic financial product applications. This notice repeals the previously issued Guidelines on Islamic Product and Services Approval Process. To further facilitate the approval process for application of takaful product as stipulated in the new notice, the Guidelines on Product Development and Pricing were issued. The guidelines identify sound practices for takaful operators to undertake when carrying out activities relating to product development and pricing.

19. The waiver of fees and charges for online local interbank fund transfers (excluding third party charges) has led to an increase in the number of transactions using the Real-Time Gross Settlement (RTGS) system by 91.7% year-on-year from January to October 2022 compared to the previous year. Meanwhile, the total number of direct credit transfers using the Automated Clearing House (ACH) system also increased by 54.1% year-on-year during the same period. The waiver has been put in place since 1 April 2020 to offer bank customers a safe alternative to make payments during the COVID-19 pandemic. The public is advised to check on the prevailing fees and charges imposed by their respective banks after the waiver expires on 31 December 2022.

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