



Policy Statement

1/2022

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Global and Regional Economic Developments

1. In its latest April 2022 World Economic Outlook, the International Monetary Fund (IMF) has revised down its 2022 global growth forecast from 4.4% to 3.6% due to global recovery being threatened mainly by the spillover effects from Russia's invasion of Ukraine, such as supply shocks and higher inflation. The conflict has exacerbated economic strains stemming from the ongoing COVID-19 pandemic, especially in emerging market and developing economies. The growth rate projections for both advanced economies, and emerging market and developing economies were revised down to 3.3% and 3.8% respectively. Other downside risks to the overall global growth outlook include a possible resurgence of the pandemic as well as the slowdown in China's economy.
2. Oil prices have been rising since late-2020 with Brent crude oil prices soaring further in the first quarter of 2022 to reach a ten-year high in early March 2022, amid the war in Ukraine and tight oil supply. In the near-term, however, downward pressure on oil prices is expected following easing oil demand due to the slowing global economic growth and restrictions relating to COVID-19 in China. Meanwhile, natural gas prices have also soared in the first half of 2022 and may remain elevated in the near-term due to continued supply disruptions. Nevertheless, the outlook for both oil and natural gas remains highly uncertain and is subject to the duration of the war in Ukraine, as well as related sanctions and import policies on Russia's oil and gas.
3. As economies started to recover towards the end of 2021, many central banks have begun to gradually unwind their monetary support. However, with global inflation rising persistently in recent times on the back of heightened supply disruptions due to the impact from COVID-19 and the war in Ukraine, central banks have had to tighten monetary policy at a much faster pace than initially expected. Although a higher interest rate environment could help to eventually bring down inflation, it could also bring about significant spillover effects, such as greater risk of recession and rising financing costs for corporate and household borrowings, especially

considering growth in some economies is still fragile. Such developments must be monitored by policymakers in order to ensure macroeconomic and financial stability.

Brunei Darussalam's Economic Developments

4. In 2021, the domestic economy posted negative Gross Domestic Product (GDP) growth of 1.6%. This was largely driven by a 4.8% 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 3.0% and 10.6%, respectively. Meanwhile, the Non-Oil and Gas sector expanded by 2.0%, largely contributed by the growth in the Agriculture, Forestry and Fishery sector (16.9%), as well as the Services sector (2.4%). The sharpest gains in the Agriculture, Forestry and Fishery sector were seen in the production of Fishery (27.1%), and Livestock and Poultry (19.3%); while the Services sector was mainly supported by Hotels (24.7%), Land Transport (14.7%), and Business Services (6.0%).
5. Looking ahead into 2022, the domestic economy is expected to rebound following further relaxation of COVID-19 measures. Despite the third wave of COVID-19 infections disrupting business operations since February 2022, recent findings from the Business Sentiment Index (BSI) indicated that businesses were generally optimistic about the economy in the near-term as restrictions have been lifted gradually. On the other hand, businesses cited concerns regarding, among others, the increased costs of running their businesses as well as broad-based manpower shortages. Such manpower issues include the departure of many foreign workers coupled with the slow process of bringing in new workers from abroad, as well as the difficulty in hiring and retaining local employees.
6. The Consumer Price Index (CPI) rose by 1.7% in 2021 compared to 2020, which is in line with BDCB's forecast range of 1.0% to 2.0% for 2021. The increase was largely driven by higher prices of Motor Vehicles; Passenger Transport by Air; Oil and Fats; Meat; Vegetables; and Clothing Materials.
7. Based on the latest published data on inflation, CPI rose 3.3% y-o-y in the first three months of 2022. Looking ahead, disruptions on global supply chains are likely to persist in the near-term while the global inflation may remain elevated over the same period which could put upward pressure on Brunei Darussalam's overall inflation for 2022. However, the tightening of Monetary Authority of Singapore's (MAS) monetary policy thrice so far in the first 7 months of 2022 might allow for a stronger dampening effect on the implied exchange rate pass through to inflation in Brunei Darussalam given the Brunei dollar's one-to-one parity to the Singapore dollar. Taking

into consideration these factors and available data, BDCB's inflation forecast for 2022 is in the range of 2.0% to 3.0%.

Brunei Darussalam's Monetary and Financial Sector Developments

8. 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 12.5 basis points each in its April and June 2022 meetings, bringing the Deposit and Lending rates to 0.25% and 1.25% respectively as of end-June 2022. The FMSC continues to ensure that there is sufficient liquidity to support the well-functioning of the domestic financial system.
9. Brunei Darussalam's financial sector consists of both Islamic and conventional financial institutions. The financial sector recorded a growth of 7.9% y-o-y with total asset value of BND23.9 billion as of Q1 2022, of which BND13.9 billion (58.0%) was held by the Islamic finance sector. Deposit-taking institutions made up 92.0% of the total financial sector assets with an asset base of BND22.0 billion.
10. The Refinitiv Islamic Finance Development Report 2021: Advancing Economies, which took into account data accumulated in 2020, revealed that Brunei Darussalam scored 34 points in the Islamic Finance Development Indicator (IFDI), ranking the country 12th out of 135 countries in 2021. Brunei Darussalam shared the top spot with Malaysia, Indonesia and Bahrain for Regulations – a sub-indicator of Governance, and ranked 5th for Research with notable improvement in Islamic finance knowledge. The Report also recognised Brunei Darussalam as one of the countries in the Southeast Asian region with sizeable sukuk issuance and one of the emerging Islamic finance markets with opportunities in Islamic FinTech.
11. According to BDCB's macro-prudential analysis and assessment of the banking industry, the overall risk level in Q1 2022 was assessed to have worsened slightly compared to Q4 2021. This was mainly due to the heightened banks' profitability risk attributed to the decline in the overall profit by 64.5% q-o-q, and 51.9% y-o-y. The macroeconomic risk level remained elevated largely due to the effect of the second and third waves of COVID-19 on the economy with stricter movement restrictions during those periods. Nonetheless, the banking industry managed to withstand the shocks caused by COVID-19 due to high levels of capitalisation and liquidity. Banks' credit quality risks stemming from the household and corporate sectors have improved with the non-performing loans/financing declining, both in terms of volume and ratio.
12. The capital position of the banking industry as of Q1 2022 remained robust, with an aggregate Capital Adequacy Ratio of 20.9%. 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 with a Liquid Assets-to-Total Assets ratio of 46.5% to facilitate financial intermediation activity. Total assets of the banking industry grew by 9.3% y-o-y to BND19.8 billion, mainly driven by the increase in offshore investments. In tandem with the assets growth, deposits have improved by 14.2% y-o-y to BND16.8 billion, with a notable increase in time deposits.

13. Banks have been able to provide credit flows to the economy with the total loans/financing recording an improvement of 6.3% to BND6.2 billion in Q1 2022 compared to BND5.8 billion a year ago. This improvement was primarily contributed by lending/financing activities of the business sector, particularly to the manufacturing sector. Meanwhile, asset quality of the banking industry improved in Q1 2022 with Net Non-Performing Loans/Financing (NPLF) ratio standing at 1.7% compared to 2.5% in the same quarter last year.
14. In light of heightened uncertainties associated with the COVID-19 pandemic as well as the global still-low interest/profit rates environment, profitability of the banking industry has declined with the aggregate Return on Assets and Return on Equity recorded at 0.6% and 3.0% respectively. Despite the challenging situation, banks have been able to continue providing appropriate assistance to borrowers affected by the COVID-19 pandemic.
15. As the nation transitions into the endemic phase with restrictions being lifted gradually, some affected businesses and individuals have started to recover from the disruptions caused by the pandemic. As such, after 30 June 2022, BDCB has ceased to provide the temporary regulatory flexibility to banks and finance companies, initially introduced on 1 April 2020. Further assistance for businesses and individuals will be provided at the discretion of respective banks and finance companies.
16. The waiver of fees and charges for online local interbank fund transfers (excluding third-party charges) has contributed to y-o-y increase of over 126% in the utilisation of the Real-Time Gross Settlement (RTGS) system by banks' customers in 2021. Meanwhile, the total number of Direct Credit transfer in the Automated Clearing House (ACH) system has also showed an increase of 17.6% y-o-y during the same period. To further promote the use of digital payments, the waiver of fees and charges for online local interbank fund transfers via the RTGS and ACH systems has been extended until 31 December 2022.
17. Although the COVID-19 pandemic has accelerated the use of digital payments in Brunei Darussalam, physical cash remains an important means of payment. BDCB, as the sole issuer of currency in Brunei Darussalam, continues to issue cash to banks to ensure its availability, convenience and accessibility for the public. To support the banks during the introduction of

strict control measures, BDCB issued advisory letters and had engagements with the banks continuously on their cash management to ensure safe and secure business operations.

18. The money-changing sector continued to be severely impacted due to the pandemic with the values of both buying and selling of foreign currencies declining drastically by 62.9% and 79.2% respectively in 2021 compared to 2020. To further ease the financial burden faced by money-changing businesses, a second amendment to the Notice on Temporary Regulatory Relief Measure for Money-Changing Business was issued on 21 December 2021 to introduce additional interim measures. This includes a reduction to its annual license fee until the end of 2023; extension to submission of profit and loss statement to 30 June 2022; and opportunity to apply for deferment of business operations.
19. In line with Pillar III Strategic Goal of the Financial Sector Blueprint (2016-2025), which is to ensure that critical infrastructure of the financial sector meets international standards and taking into consideration recent technological developments and emerging risks in the financial services industry, BDCB issued Guidelines on Technology Risk Management and Guidelines on IT Third Party Risk Management for all financial institutions on 20 January 2022.
20. To further improve the level of professionalism within the financial sector, BDCB issued the Notice on Academic Qualification and Work Experience Requirement for Capital Markets Services Representative's Licence (CMSRL) on 2 February 2022. The aim of the Notice is to set out the minimum academic and qualification requirements pursuant to Regulations 31 and 40(2) of the Securities Markets Regulations, 2015 that CMSRL applicants are required to fulfil in order to be deemed as competent and capable. BDCB also issued the Guideline on Issuance of Debentures on 1 March 2022 to provide guidance to any person who wishes to issue debentures (such as corporate bonds) and sets out the necessary standards for any issue of debentures in Brunei Darussalam.
21. As part of BDCB's commitment to improve the supervisory regime for the protection of policyholders in Brunei Darussalam, BDCB issued a Notice on Application Process and Requirements of Investment-Linked Insurance Business for Insurance Companies to enhance the governance of this business undertaking. With this new requirement, insurance companies are required to provide fair treatment to their policyholders in preserving the value of their investment-linked policies, including management of funds, disclosure, payments, marketing and reporting. BDCB has also introduced new guidelines on underwriting and claims management. As part of the overall corporate governance framework, these guidelines aim for the industry to have an effective system of risk management and internal controls in relation to their core activities.

22. The financial industry plays a key role in supporting the economy and BDCB will continue to ensure the resilience of the financial sector. Given the global economic situation that is highly uncertain and difficult to predict, BDCB will continue to monitor the impact of any external shocks and COVID-19 pandemic on both the economy as well as the financial sector to safeguard Brunei Darussalam's monetary and financial stability and to ensure smooth operations and delivery of key financial services.

Data sources:

Department of Economic Planning and Statistics (DEPS)

International Monetary Fund (IMF)

World Bank (WB)