

# **Brunei Darussalam Central Bank**

## **Policy Statement**

**1/2021**

Date: 3 September 2021

### **Global and Regional Economic Developments**

1. In its July 2021 World Economic Outlook, the International Monetary Fund (IMF) maintained its 2021 global growth forecast at 6.0%. Nevertheless, the forecast for emerging market and developing economies has been revised down from 6.7% to 6.3%, while the forecast was revised up for advanced economies from 5.1% to 5.6%. The economic recovery remains divergent across countries, depending on mitigation actions against the spread of coronavirus, while those relying on tourism are expected to face a slower recovery. Other downside risks to global growth prospects include uneven access to vaccine distribution as well as renewed lockdown measures in a number of countries with further new outbreaks.
2. With hopes of economic recovery and revival of oil demand, oil prices have gradually picked up. This is supported by the policies of the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC countries, who have also agreed to unwind the cutting of oil production in phases. Meanwhile, natural gas prices have also seen some gains attributed to weather-related factors and improvements in the global economy but are expected to remain volatile in the near term.
3. Many central banks have maintained their accommodative policy stance as economic recoveries remain fragile. However, there are concerns that while loose monetary policy can boost activities in the short term and cushion the impact of the pandemic, the rise in indebtedness of corporates and households may lead to financial vulnerabilities and downside risk to medium term growth. Policymakers

are to monitor these developments and stand ready to utilise their toolkit in safeguarding financial stability.

## Brunei Darussalam's Economic Developments

4. In Q1 2021, the domestic economy posted a negative growth of 1.4% in constant prices. This was driven largely by the 5.3% 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 3.1% and 11.4% respectively. Meanwhile, the Non-Oil and Gas sector expanded by 3.1%, mainly contributed by the growth in new downstream activities of 14.3% led by the production of petroleum and chemical products. Other Non-Oil and Gas activities also rose slightly by 1.5% in Q1 2021 on the back of expansions in the Agriculture, Forestry & Fishery sector by 21.5% and as the Services sector by 2.2%, while the Industrial sector declined by 3.8%. In Q1 2021, the sharpest gains in the Agriculture, Forestry & Fishery sector were seen in the production of Livestock and Poultry (28.4%) and Fishery (44.6%), while the Services sector was mainly supported by Business services (17.9%) and Wholesale and retail trade (9.6%).
5. Looking ahead, the economy was initially expected to do better in coming quarters with further easing in the COVID-19 measures implemented and rolling out of vaccinations. However, the second wave of COVID-19 infections, as well as a subsequent partial lockdown and closure of some businesses within the economy starting in August 2021 may hamper the growth outlook for the overall domestic economy for the rest of the year 2021. Growth will also depend on the performance of the Oil and Gas sector, downstream activities, and the extent of further economic activities.
6. The average consumer price index (CPI) rose by 1.6% y-o-y in the first six months of 2021. The increase was mainly driven by the higher prices of motor vehicles, passenger transport by air, oil and fats, meat and vegetables.

7. While inflationary pressures experienced in 2020 began to dissipate, the increasing price trend of a variety of items in the CPI basket in the first six months of 2021 may continue for the rest of the year, particularly considering the impact of the second wave of COVID-19 infections, contributing to upward pressures on overall inflation. Meanwhile, global inflation is expected to rise modestly as the global economy continues to recover. Furthermore, with the Monetary Authority of Singapore maintaining its monetary policy stance in April 2021, 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. Given these factors, BDCB's inflation forecast for 2021 is in the range of 1% to 2%.

### **Brunei Darussalam's Financial Sector and Regulatory Developments**

8. According to BDCB's macro-prudential analysis of the banking sector, the overall risk level in Q1 2021 remained the same as Q4 2020. Compared to Q3 2020, the risk level was slightly elevated in Q4 2020 and Q1 2021 due to heightened corporate sector risks attributed to the rise in corporate sector Non-Performing Loans/Financing (NPLF). Nonetheless, overall risk levels have by large improved from the first half of 2020, which saw challenges from the COVID-19 pandemic affecting the performance of the banking industry. Overall, Brunei Darussalam's financial sector managed to withstand the shocks caused by COVID-19 and continued to provide crucial financial services to the economy.
9. As part of BDCB's continued management of systemic risk in the financial sector, the Domestic Systemically Important Bank(s) [D-SIBs] for the period June to December 2021 have been identified. BDCB remains committed to ensuring the resilience of the D-SIB(s) and the wider banking sector, thus contributing to the country's financial stability and overall macroeconomic stability.
10. The Brunei Darussalam financial sector consists of both Islamic and conventional financial institutions which recorded a total asset value of BND22.4 billion as of Q4 2020, of which BND12.8 billion was held by the Islamic finance sector. Deposit-

taking institutions made up 91.3% of the total assets of the financial sector with an asset base of BND20.4 billion.

11. In addition, Brunei Darussalam came first for countries with the highest Takaful assets to GDP, fourth for countries with the highest share of Islamic banking to total banking assets, and was identified as the fastest growing market in *sukuk* assets by the ICD-Refinitiv Islamic Finance Development Report 2020: *Progressing Through Adversity*. The report, which takes into account data accumulated in 2019, revealed Brunei Darussalam scored 36 points in the Islamic Finance Development Indicator (IFDI), ranking the country at the eleventh position in 2020, and third in the ASEAN region, after Malaysia and Indonesia.
12. Despite the lingering impact from the COVID-19 outbreak, the capital position of the banking industry as of Q1 2021 remains robust, with an aggregate Capital Adequacy Ratio of 21.4%. This was 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 47.8% for facilitating financial intermediation activities.
13. The total loans/financing recorded a slight decline of 3.0% to BND 5.8 billion in Q1 2021 compared to BND 6.0 billion a year ago. This reduction was primarily contributed by reduced lending/financing activities of the household sector particularly in personal loans/financing. Meanwhile, the asset quality of the banking industry slightly deteriorated in Q1 2021, with the Net Non-Performing Loans/Financing (NPLF) ratio stood at 2.5% as compared to 2.3% in the previous year.
14. In light of the heightened uncertainties associated with the COVID-19 pandemic as well as the low global interest/profit rates environment, profitability of the banking industry has declined slightly with the aggregate Return on Assets and Return on Equity recorded at 1.1% and 6.3% respectively.
15. Total assets of the banking industry grew slightly by 0.8% y-o-y to BND 18.1 billion, which was contributed by the increase in offshore investments. Conversely,

deposits had declined by 0.6% y-o-y to BND14.7 billion mainly due to decreased demand in deposits.

16. The period for assistance to businesses and individuals affected by the COVID-19 pandemic has been extended for another six (6) months from 1 April 2021 to 30 September 2021 via amendments to the Regulatory Notice on *Temporary Regulatory Measures* issued on 27 February 2021. As part of the comprehensive interim measures to support specific private sectors in addressing the impact of COVID-19 in Brunei Darussalam, and as announced by the Honourable Minister at Prime Minister's Office and Minister of Finance and Economy II, the assistance offered by the banking sector to affected businesses and individuals is extended until 31 December 2021. In this regard, BDCB has issued the second amendments to the Regulatory Notice on *Temporary Regulatory Measures* on 14 August 2021 to facilitate the overall support measures. With these amendments, BDCB will continue to provide temporary regulatory flexibility to banks and finance companies on loan/financing classification. Banks and finance companies are encouraged to offer appropriate assistance to their customers in a fair and prudent manner.
17. BDCB and the Brunei Association of Banks (BAB) have initially extended the waiver of fees and charges (excluding third party charges) for online local interbank fund transfers for another six (6) months, until 30 September 2021. The waiver will also continue to be extended until 31 December 2021. This is to encourage the public to continue making payments through online channels such as the Real Time Gross Settlement (RTGS) system and the Automated Clearing House (ACH) system.
18. To further promote market transparency and discipline, BDCB has refined the existing public disclosure requirements by issuing a Regulatory Notice on *Pillar 3 – Public Disclosure Requirements*, which came into effect on 1 July 2021. To align and simplify disclosure requirements, the Regulatory Notice on *Disclosures on Risk Management, Credit Risk Management, Internal Audit Function, Compliance and Compliance Function and Internal Control Systems* has been revoked with effect from 31 March 2021.

19. New registration conditions have been issued to both general and life insurance (including general and family takaful) agents to ensure the conduct of their businesses in a professional and transparent manner. In addition, as part of BDCB's commitment to improve the supervisory regime for the protection of policyholders, a notice has also been introduced that sets out the roles and responsibilities of insurance companies and takaful operators in registering and monitoring the conduct of the agents.
  
20. BDCB had issued the Guideline on *Handling of Conflict of Interest upon Promoting Research Reports* on 24 December 2020 to ensure effective controls and management of conflict of interest when producing or disseminating research reports to any investors or potential investors concerning securities or issuers of securities, whether in electronic, print or other forms.
  
21. As part of BDCB's continuous efforts in strengthening financial consumer protection in the current developments in financial products and services, BDCB has issued two enhanced Notices which came into effect on 1 July 2021 as follows:
  - i. *Notice on Market Conduct* to enhance the requirements of financial institutions in ensuring disclosure and transparency of information, and fair treatment of financial customers. It also encompasses the protection of financial consumers relating to digital financial products and services, such as in the protection of customer data and information.
  
  - ii. *Notice for the Establishment of a Complaints Handling Function within Financial Institutions* requires banks and financial institutions to improve further their existing redress mechanism to address financial consumer complaints effectively. Greater emphasis is on the competency of banks' and financial institutions' staff, and using complaints received as feedback to improve banks' and financial institutions' quality of products, services and operations.

22. BDCB will continue to monitor the developments of the economy and financial sector, including the impacts of COVID-19. BDCB will also work closely with the relevant stakeholders to foster a conducive environment to support the recovery of economic activities while ensuring the stability of financial sector is safeguarded. In this connection, BDCB will endeavour to ensure that regulatory frameworks remain appropriate to the overall landscape.

Data sources:

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