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Policy Statement
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Global and Regional Economic Developments

1. The International Monetary Fund, in its June 2020 World Economic Outlook, has cut its outlook for 2020 global growth from 3.4% to -4.9%, turning anticipated growth to a recession due to the economic impact from the unprecedented COVID-19 pandemic crisis. This forecast is worse than the contraction seen during the Global Financial Crisis over a decade ago. The pandemic has come at a time when global demand was already weak and economic uncertainties still lingered from the trade tensions. The pandemic has indeed caused a multi-faceted shock across the globe which prompted massive stimulus measures implemented by many economies in their attempts to mitigate the economic and financial impact of this crisis.

2. Investor sentiment has deteriorated with the pandemic outbreak, especially with the level of uncertainty around the virus and how long before it can be effectively contained so that economic activities can normalise. Oil prices fell as the members of the Organisation of the Petroleum Exporting Countries (OPEC) and non-OPEC oil exporters did not manage to come to an agreement to cut oil production in March 2020. Though they have reached a deal in April 2020 to slash global output to lend support to oil prices, the effect of global plunge in energy demand due to lockdown around the world is expected to offset the effect of production cuts; at least in the short run. Oil prices are likely to take some time to return to previous levels before January 2020. Demand for natural gas has also declined following the containment policies put in place to control the spread of COVID-19.

3. Several central banks have reactivated and expanded stimulus measures deployed during the Global Financial Crisis on the rising concerns over negative economic impacts caused by the pandemic. The Federal Reserve has cut interest rates twice in March 2020 and have introduced additional measures, including expanding its securities purchases. The European Central Bank announced a 'Pandemic Emergency Purchase Programme', in which the bank will be purchasing both government and private securities. On the other hand, the Bank of England has also cut interest rates to an all-time low and will temporarily resume its 'Ways and Means Facility' to support the economy. Meanwhile, the Bank of Japan has increased the size and frequency of its government bond purchases and will expand its purchases of corporate bonds until September 2020. Most central banks across Asia have also eased their monetary policies in response to the adverse economic impact of COVID-19.

Brunei Darussalam's Economic Developments

4. The domestic economy expanded by 3.9% year-on-year (y-o-y) in constant prices in 2019, compared to 0.1% y-o-y growth in 2018. Overall economic growth was driven by growth in both the Oil and Gas sector (4.9% y-o-y) and the Non-Oil and Gas sector (2.5% y-o-y). Growth in the Oil and Gas sector was mainly contributed by an increase in activity in the Manufacture of Liquefied Natural Gas while growth in the Non-Oil and Gas sector was driven by an increase in production of Other Petroleum and Chemical Products and the Hotels and Air Transport sub-sectors. A further decline in oil and gas prices will pose a key risk to Brunei Darussalam's economy. Domestically, the outbreak of COVID-19 also represents a risk to economic growth this year as this has disrupted a number of sectors, including Air Transport, Restaurants and Hotels, following the imposition of various containment and preventive

measures nationwide. The extent of the impact will also depend on how soon economic activities can return to normalcy.

5. The average consumer price index (CPI) rose by 1.4% y-o-y in the first quarter of 2020. The increase was mainly driven by the Miscellaneous Goods and Services index due to increased prices of insurance products; and the Restaurants and Hotels index from the higher prices of contract catering services.

6. Inflation in 2019 was -0.4%, in line with AMBD's forecast of -1% to 0%. Inflation for the remainder of the year is expected to be higher than initially anticipated. The increasing trend in the prices of a variety of items in the CPI basket is larger than expected, and is likely to continue for the rest of the year. This upward pressure may be partially offset by global inflation which is expected to be softer than initially anticipated, with some downside risks to domestic prices from the impact of COVID-19 in the country. The Monetary Authority of Singapore has further eased its exchange rate-based monetary policy at the end of March 2020 by adopting a zero appreciation rate of its policy slope with a lower midpoint of the policy band. Given the Brunei dollar's one-to-one parity to the Singapore dollar, the implied exchange rate pass through to domestic inflation will be neutral.

7. AMBD's inflation forecast for 2020 has been revised up to the range of 1% to 2%. However, there is considerable uncertainty surrounding this forecast 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 Developments

8. According to the AMBD's macro-prudential analysis of the financial sector, the overall financial stability risk is expected to be elevated in the first half of 2020. This is mainly due to the rise in risks in the external sector, the domestic economy, offshore assets as well as increased credit risk in the

corporate sector arising from the COVID-19 pandemic crisis. The risks in banks' income from offshore investments are also expected to be elevated and will be closely monitored due to the high volatility in the international financial markets and very low short-term interest rates globally.

9. The transport (especially aviation industry) and tourism sectors will be more severely affected in Brunei Darussalam. Thus, the credit risk of borrowers related to these sectors is expected to be elevated for the immediate term. However, the impact on the country's overall economy and the financial sector is expected to be moderate as the transport and tourism sectors constitute a small portion of the economy. In terms of banks' loans/financing, these two sectors constitute 7.2% and 0.6% of total loans/financing respectively as of 2019.

10. As of end 2019, financial sector assets recorded a growth of 1.5% year-on-year from BND21.9 billion to BND22.3 billion. Deposit-taking institutions made up 92.1% of the total assets of the financial sector with an asset base of BND20.5 billion in 2019.

11. In the first quarter of 2020, the capital position of the banking sector remains robust with an aggregate Capital Adequacy Ratio of 20.3%. This was well above the 10% minimum requirement stipulated in the Banking Order, 2006, and Islamic Banking Order, 2008. The banking sector also continued to hold surplus liquid assets with a Liquid Assets-to-Total Assets ratio of 46.7%.

12. Total loans/financing recorded an increase of 11% to BND6.0 billion in Q1 2020 compared to BND5.4 billion a year ago. This increase was primarily contributed by loans/financing to the corporate sector particularly in commercial property and financial sectors. The banking sector has shown improved asset quality with a decline of Net Non-Performing Loans/Financing ratio from 2.6% in Q1 2019 to 2.3% in Q1 2020, particularly in the corporate sector such as services and manufacturing sectors.

13. In the same quarter, the profitability of the sector has slightly declined with the aggregate Return on Assets and Return on Equity recorded at 1.2% and 7.3% respectively. Total assets and deposits decreased by 0.5% y-o-y to BND17.9 billion and 2.3% y-o-y to BND14.8 billion respectively. The contraction was mainly due to the maturity of time deposits and offshore placements with financial institutions.

14. Despite of the heightened uncertainties, the banking sector continued to exhibit resilience in the first quarter of 2020. This may be attributed to the banks' high level of capitalisation and liquidity; manageable credit risk and effective banks' risk management as well as the provision of comprehensive economic and financial stimulus package.

15. In light of the ongoing COVID-19 pandemic, AMBD has been in active engagement with key stakeholders including the Ministry of Finance and Economy (MoFE) as well as the Brunei Association of Banks (BAB) to address the negative impact of COVID-19 to the economy. AMBD together with BAB have agreed on a set of interim measures with the objective to alleviate the financial distress of the affected businesses and individuals. Effective from 1 April 2020, the measures come in multiple forms which include:-

    i. Principal deferment on loans/financing to the business and household sectors including personal loans/financing, property (home ownership and investment) and hire purchase facilities related to motor vehicle financing. The deferments shall commence upon the banks' approval, and the deferments will be applicable up to 31 March 2021, subject to individual banks' further assessments;
    ii. Restructuring of personal loans/financing and hire purchase facilities of up to no more than 10 years;
    iii. Affected borrowers in the private sector, including self-employed individuals, will have the option to convert their outstanding credit card balances into a term loan of up to 3 years, subject to individual banks' further assessments;
    iv. All bank fees and charges related to these facilities, except third party charges, will be waived; and

v. In facilitating the implementation of the interim measures undertaken by the banking sector, AMBD will further extend support to banks with flexibility to the Single Borrowing Limit.

16. In an effort to encourage social distancing and minimise unnecessary visits to banks, all online local interbank transfer fees and charges have been waived by banks for a period of 6 months between 1 April 2020 and 30 September 2020 for all customers.

17. AMBD continues to ensure that there is sufficient liquidity to support the well-functioning of the financial system through the expansion of liquidity management measures to banks in Brunei Darussalam. This includes the introduction of its own Islamic Bills Programme (AMBD I-Bills) in 2020 to support liquidity management of the banks in Brunei Darussalam which is also in line with AMBD's efforts towards the development of a more efficient domestic money market. The inaugural AMBD I-Bills will be based on a Wakalah structure, the first of its kind in Brunei Darussalam, and will have a tenor of two weeks.

18. In terms of Islamic finance development, total assets have increased across the Islamic Banking, Takaful and Islamic Capital Market industries. Islamic Banking, which represents 65% of the total banking asset in 2019, demonstrated a stable Return on Assets of 2.1% and a Return on Equity of 13.8% during the year. Meanwhile, Takaful and Islamic funds maintained their average market shares of 32% and 5% of the total assets in the respective sectors, leaving room for more growth in the future.

19. Brunei Darussalam maintained its ranking as one of the top 10 performing Islamic finance markets out of 131 countries as reported in the recently published ICD-Refinitiv Islamic Finance Development Report 2019: Shifting Dynamics. The report, which took into account of data accumulated in 2018, revealed that Brunei Darussalam had scored 45 points in the Islamic Finance Development Indicator (IFDI), ranking Brunei Darussalam at the tenth position in 2019, and third in the ASEAN region, after Malaysia and Indonesia.

20. As part of AMBD’s commitment to improve the supervisory regime for the protection of policyholders in Brunei Darussalam, AMBD had issued 3 notices and guidelines for insurance companies and takaful operators in Q1 2020 with regards to recovery plans, online distribution and surplus distribution of takaful operators.

i. The requirement to develop recovery plan is to ensure that insurers and takaful operators are able to take appropriate actions to stabilise and restore its financial strength and viability under a situation of severe financial distress. Along with the requirement, AMBD had provided guidelines on the elements required in a recovery plan.

ii. In support of the digital transformation, guidelines on online distribution for insurers and takaful operators were issued to set AMBD’s expectations for insurance companies, takaful operators and intermediaries when conducting insurance-related transactions online, in terms of risk management and internal control.

iii. To ensure fair treatment and transparency to Takaful participants in Brunei Darussalam, takaful operators are required to specify the basis of determining the surplus or deficit and method of transferring it to Takaful participants. The new Notice specifies that surplus can only be distributed to participants who have not received indemnity during the financial period and any variation (wholly or partially) of the distribution method shall be approved by the Syariah Advisory Body and the Board of Directors of the Takaful operator.

21. AMBD had issued a Notice on Providing Market Access to a Foreign Market on 4 November 2019. The Notice imposes requirement on all Capital Markets Services Licence holders that conduct the regulated activity of dealing in investments, to notify AMBD prior to providing investors in Brunei Darussalam market access to a foreign securities exchange regulated by a foreign securities regulator.

22. The establishment of a securities exchange project in Brunei Darussalam is progressing. Among others, recent developments which have been recorded by MoFE and AMBD are as follows:

    i. Appointment of a company to spearhead this project;
    ii. Preparation of relevant rules and regulations;
    iii. Commencement in developing the securities exchange's system and infrastructure;
    iv. Closed-industry consultation; and
    v. Enhancement of policies, rules and regulations and operational infrastructure so as to ensure the well-functioning of capital market ecosystem.

23. In implementing the risk based supervision framework for the supervision of the capital market intermediaries, AMBD had completed a second onsite inspection using the risk based methodology in Q1 2020.

24. AMBD is currently implementing initiatives under the Digital Payment Roadmap for Brunei Darussalam 2019-2025 which, among others, calls for the establishment of a Payment Hub infrastructure to enable customers to make digital payments. AMBD will be taking a leading role in the implementation of the Digital Payment Hub Project, working together with Bank Islam Brunei Darussalam (BIBD), Baiduri Bank and Perbadanan Tabung Amanah Islam Brunei (TAIB). AMBD will continue to engage relevant stakeholders such as the Digital Economy Council in ensuring that the aims of the Project are aligned with other national initiatives.

Future Developments

25. With the issuance of the Notice on Banks' Recovery Plan on 20 December 2019, all banks are required to submit their recovery plans to AMBD, no later than 30 September 2020. This requirement will form part of AMBD's ongoing efforts to develop a wider recovery and resolution framework for identified financial sectors.

26. AMBD will continue to closely monitor the development of the COVID-19 situation and remains engaged with financial institutions to ensure necessary steps are taken for the well functioning of essential financial services. AMBD stands ready to implement additional measures, as and when necessary, to safeguard the financial stability of Brunei Darussalam.

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