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Policy Statement
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Global and Regional Economic Developments

1. In April, the International Monetary Fund (IMF) cut its outlook for global economic growth to 3.3% in 2019, down from its January World Economic Outlook forecast of 3.5% due to downward revisions in the growth outlook of several major economies. While the US continued to show signs of economic strength, the Euro area struggled amidst weakening sentiment and slowing global demand. In China, regulatory tightening and ongoing trade tensions with the US continued to weigh on activity, which has also affected a number of trade-dependent emerging Asian countries.

2. Overall investor sentiment has been recovering, with optimism on planned stimulus packages in China as well as the increasing possibility of a pause in monetary policy tightening by some major central banks this year. However, the uncertain developments in the US-China trade dispute and UK's Brexit continue to drive financial market volatility. Oil prices have somewhat recovered this year, as oil exporting countries continued to cut production. The future direction of oil prices will depend on the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries' commitment to production cuts, the state of geopolitical tensions, as well as the rate of global growth. Meanwhile after a period of volatility at the end of last year, Liquefied Natural Gas (LNG) prices have been on a downward trend since the beginning of 2019 due to increased supply from the US and increased exports from Australia and Qatar.

3. The Federal Reserve has paused on their cycle of rate hikes and started to slow down their balance sheet reduction programme in May. The European Central Bank and the Bank of England kept interest rates unchanged in the first half of the year. Central banks in Asia have also mainly kept interest rates unchanged, with some central banks cutting rates. There is now more room for central banks in emerging markets to maneuver their monetary policy as the Federal Reserve has indicated no further rate hikes this year.

Brunei Darussalam's Economic Developments

4. Gross Domestic Product (GDP) in constant prices grew by 1.0% y-o-y in Q4 2018, driven by an expansion of 6.8% y-o-y in the *Non-Oil and Gas* sector. This growth was contributed by the *Finance* subsector, *Government Services/Public Administration* subsector as well as the *Wholesale and Retail Trade* subsector. Meanwhile, the *Oil and Gas* sector contracted by 3.3% as both *Oil and Gas Mining* and *Manufacture of LNG and Methanol* subsectors declined. Overall the domestic economy grew by 0.1% in 2018, with the expansion in both *Non-Oil and Gas Industrial* sector and the *Services* sector dampened by the overall contraction of the *Oil and Gas* sector and *Agriculture, Forestry and Fisheries* sector.

5. The average consumer price index (CPI) fell by 0.1% y-o-y in the first three months of 2019, driven by *Food and Non-Alcoholic Beverages* due to falling prices of fresh food as well as components with a high base in 2018; *Clothing and Footwear* with falling prices of clothing material for women and children shoes; and *Housing*, *Water, Electricity, Gas and Other Fuels* as the rental property market remains soft.

6. Inflation for the remainder of the year is expected to be lower than initially anticipated based on a number of factors. Firstly, downside risks highlighted last year on weak global inflationary pressures appears to have materialised. Secondly, the Monetary Authority of Singapore's

continued appreciation of the Singapore dollar is likely to contribute to some deflationary effects for Brunei Darussalam given the Brunei dollar's one-to-one parity to the Singapore dollar. Thirdly, domestic inflationary pressures are likely to hold steady, supported by stable domestic demand. Thus, AMBD's inflation forecast for 2019 has been revised down to the range of -0.5% to 0.5%.

Brunei Darussalam's Financial Sector Developments

7. In Q1 2019, the total assets in the financial sector increased by 5.1% y-o-y. In comparison to the composition in Q1 2018, the market share of Islamic financial assets has slightly increased to 62.4% from 61.0% while conventional financial assets made up 37.6% of the total assets in the financial sector in Q1 2019. Islamic and conventional financial assets grew by 7.5% y-o-y and 1.3% y-o-y respectively.

8. Based on AMBD's macro-prudential analysis, the overall risk level of the banking sector was slightly lower in Q1 2019 compared to Q4 2018. External risk was assessed to be lower, whilst the remaining risk areas were assessed to maintain their Q4 2018 risk level as follows:

Risks	**Score**	
	Q4 2018	**Q1 2019**
External Risks	High	Medium
Macroeconomic Risks	High	High
Credit Risks	Low	Low
Bank Liquidity and Funding Risks	Low	Low
Bank Health Risks	High	High
Household and Business Sector Risks	High	High
Offshore Placements & Investments Risks	Medium	Medium

Overall, despite uncertainties in the global and domestic economy, the banking sector in Brunei Darussalam remained healthy with high level of capitalisation and liquidity, as well as improved profitability.

9. The Aggregate Capital Adequacy Ratio stood at 19.4% as of Q1 2019, which is well above the 10% minimum required in the Banking Order, 2006 and Islamic Banking Order, 2008. The banking sector continued to be highly liquid with a Liquid Assets-to-Total Assets ratio of 48.2% as of Q1 2019. The sector also recorded an Aggregate Return on Assets and Return on Equity of 1.5% and 10.4% respectively as of Q1 2019.

10. In the same quarter, assets increased by 4.9% y-o-y to BND18.0 billion and deposits increased by 2.6% y-o-y to BND15.1 billion. Loans/Financing also recorded an increase of 5.4% to BND5.4 billion compared to BND5.1 billion a year ago. This increase was primarily contributed by lending/financing activities to the corporate sector particularly in transportation, services and manufacturing sectors. On the other hand, the rise in deposits was mainly due to the increase in deposits by corporates. The banking industry has experienced an uptick in the Aggregate Net Non-Performing Loans/Financing (NPLF) ratio to 2.6% in Q1 2019 from 2.1% in Q1 2018, particularly in the corporate sector such as manufacturing, traders and services sectors.

11. AMBD continues to make significant progress in the implementation of the Basel II framework, and has successfully introduced all three pillars of the Basel II framework, where the pillars are complementary and mutually reinforce one another. Three additional regulatory Notices and one Guideline for all banks were issued by AMBD at the end of 2018. These are necessary key components for the effective implementation of the Basel II framework and Basel Core Principles.

12. As part of AMBD's commitment to strengthen governance and risk management of insurance companies and takaful operators in Brunei Darussalam, AMBD issued a guidance in Q4 2018 on effective framework of risk management and internal controls as part of its overall corporate

governance framework. AMBD also provided guidance on sound risk management practices to identify and mitigate insurers' exposure to the risk of insurance fraud.

13. With the full implementation of risk-based supervision for insurance and takaful in 2017, AMBD has embarked on a new project to develop a risk-based capital framework to take into account the different risk factors when assessing the capital adequacy of insurers and takaful operators, which can further enhance the protection of policyholders. This project is expected to be completed in 2020.

14. AMBD has issued a Notice on Peer to Peer (P2P) Financing Platform Operators on 10 April 2019 with the objective to introduce clear regulatory requirements in relation to the operation of a P2P Financing Platform in Brunei Darussalam. This effort is expected to facilitate the growth and development of the capital market sector in the country, particularly in the P2P financing industry, and to provide start-ups and small businesses with an alternative source of financing in raising capital.

15. On 24 April 2019, AMBD issued a consultation paper to relevant stakeholders in Brunei Darussalam to obtain feedback on a proposed legal and regulatory framework for an investor compensation scheme. This is part of AMBD's efforts to further enhance investor protection.

16. In providing better access to money changing services in the country, AMBD invited applications to conduct money changing business and three applicants have been offered licences to operate in 2019. This will include the opening of the first money changer in the Temburong district.

17. Other than strengthening regulatory policies to achieve the aforementioned objectives, AMBD continues to supervise and monitor licence holders to ensure compliance with its obligations under relevant laws administered by AMBD are met. This is part of AMBD's efforts to foster a sound and stable financial services sector.

18. In an effort to develop a progressive financial services sector, AMBD launched the Digital Payment Roadmap for Brunei Darussalam 2019-2025 on 21 January 2019; outlining AMBD's strategies to transform Brunei Darussalam into a "Digital Payment Nation" by 2025. The main objective is to drive digital transformation in payment services leading to the creation of a safe, sustainable, and efficient digital payment ecosystem, which is fundamental to a digital economy. One of the key initiatives for this Roadmap is to develop a National Payment Hub that promotes interoperability and easy-access to consumers and businesses in Brunei Darussalam. A key success factor is building trust in the digital payment ecosystem where the industry players can collaborate in improving public understanding about the benefits of digital payments.

Data sources:
Department of Economic Planning and Development (DEPD)
International Monetary Fund (IMF)