

Autoriti Monetari Brunei Darussalam
Policy Statement
2/2019

Date: 26 December 2019

Global and Regional Economic Developments

1. The International Monetary Fund (IMF), in its October 2019 World Economic Outlook, has further cut its outlook for global growth of 2019 from 3.2% to 3.0%. This is the lowest global growth rate since the global financial crisis a decade ago. Weak global demand, trade tensions and increased uncertainty have contributed to the slow down in economic activities across China, Euro Area, Asia, and to some extent, the United States.
2. Investor sentiment has recovered since the last Policy Statement as trade tensions have slightly eased. However, there are more downside than upside risks to sentiment, as a result of a potential lack of progress in trade talks, worsening geopolitical tensions, uncertainty over Brexit and a global economic slowdown that is faster than expected. Financial conditions, have eased slightly in advanced economies, whilst some emerging markets and developing economies are expected to contribute positively to investor confidence. In terms of commodity prices, weaker economic growth prospects and overproduction have brought down oil prices this year, nevertheless, this is balanced by various supply outages and geopolitical tensions. Oil prices are expected to be supported by an extension of the agreement between the Organization for the Petroleum Exporting Countries (OPEC) and non-OPEC oil exporters to cut production until March 2020. Prices of natural gas have also been weak due to increased production and higher stock levels due to lower global demand.

3. The Federal Reserve has cut interest rates three times this year on rising concerns over an economic slowdown, whilst the European Central Bank (ECB) announced a fresh bond-buying programme in September 2019. The stimulus package will remain in place for as long as the ECB deems necessary. On the other hand, the Bank of Japan and Bank of England have, so far, maintained their monetary policy stance this year. Most central banks across Asia have also started to ease their monetary policies in response to weaker inflation outlooks. Though the shift towards accommodative monetary policy globally will support demand and cushion the impact of uncertainty on economic activity, there are concerns over the limited monetary policy space.

Brunei Darussalam's Economic Developments

4. The domestic economy expanded by 6.7% year-on-year (y-o-y) in constant prices in Q2 2019, reversing the contraction seen in Q1 2019. Overall economic growth was mostly driven by growth in the *Oil and Gas* sector (8.7% y-o-y) as the production of both crude oil and liquefied natural gas increased. The *Non Oil and Gas* sector also grew by 4.1% y-o-y, mainly contributed by *Finance, Health Services, and Electricity and Water* sub-sectors. Overall, the economy expanded by 2.9% y-o-y for the first half of 2019 with both the *Oil and Gas* and *Non-Oil and Gas* sectors growing by 2.7% y-o-y and 3.3% y-o-y respectively.
5. The average consumer price index (CPI) declined by 0.5% y-o-y in the first ten months of 2019. The decline was mainly driven by the *Transport* index, due to falling prices of motor vehicles; *Housing, Water, Electricity, Gas and Other Fuels* index, with the rental market remaining soft; as well as the *Food and Non-Alcoholic Beverages* index, from falling prices of both fresh and frozen food. The index was recently rebased to 2015 from 2010 to reflect the changes in consumption of domestic consumers.

6. Inflation for the remainder of the year is expected to be lower than initially anticipated based on a number of factors. First, the effects of global inflation on the rebased CPI are more deflationary than the previous assessment in Policy Statement 1/2019. Second, domestic inflationary pressures will remain muted, particularly in the rental market. Third, sustained decreases in prices in the domestic market for durable goods are expected to further depress consumer prices. In October 2019, the Monetary Authority of Singapore (MAS) slightly eased the appreciation rate of the Singapore dollar, which is likely to reduce inflationary pressures for Brunei Darussalam given the Brunei dollar's one-to-one parity to the Singapore dollar.
7. AMBD's inflation forecast for 2019 has been revised down to the range of -1% to 0% and are forecasted to remain at similar levels for 2020. Expectations for next year's inflation are in the upper half of this forecast range. Risks to the inflation outlook for 2020 appear balanced, with the movement of global inflation seen as a key factor for either upside or downside risks to the forecast.

Brunei Darussalam's Financial Sector Developments

8. In the third quarter of 2019, the capital position of the banking industry remains robust, with an aggregate Capital Adequacy Ratio that stood at 20.1%, which 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 47.5%. The profitability of the sector has improved with the aggregate Return on Assets and Return on Equity recorded at 1.8% and 12.6% respectively.
9. In the same quarter, total assets and deposits decreased by 3.8% y-o-y to BND16.9 billion and 6.1% y-o-y to BND14.1 billion respectively. The contraction was mainly due to the maturity of time deposits and offshore placements with banks. Conversely, total loans/financing recorded an

increase of 7.7% to BND5.8 billion in Q3 2019 compared to BND5.4 billion a year ago. This increase was primarily contributed by lending/financing activities to the corporate sector particularly in commercial property and manufacturing sectors. The banking industry has shown an improved asset quality with a decline of Net Non-Performing Loans/Financing (NPLF) ratio to 2.6% in Q3 2019 from 3.0% in Q3 2018, particularly in the corporate sector such as transportation, manufacturing and services sectors.

10. As a result of the positive economic performance in Q2 2019, the banking sector is expected to witness a better performance, with continued high liquidity and improved profitability by the end of 2019. The volume of lending/financing to corporate sector is also projected to increase while credit quality risk in the corporate sector is expected to reduce by the end of 2019.
11. In AMBD's efforts to progressively implement the *Basel Core Principles for Effective Banking Supervision* and the Basel II framework, banks have submitted their first Internal Capital Adequacy and Assessment Process (ICAAP) documents in June 2019. A bank's ICAAP document shows how much capital is needed to fund itself on a 'business as usual' basis and whether the bank can maintain its capital adequacy above the regulatory minimum requirements as well as the bank's internal minimum requirement under stressed scenarios. The ICAAP must be forward looking in its assessment and take into account anticipated growth and business strategy over a minimum period of three years.
12. AMBD is undertaking a Risk Perception Survey (RPS) among banks for the development of forward looking data and information. Banks' perceptions regarding the potential vulnerabilities in the financial sector for the next six to twelve months could further facilitate macroprudential surveillance and policy formulation. This survey will be conducted twice a year, where a pilot survey has been conducted on four banks thus far, and will be extended to the remaining banks.
13. With the full implementation of risk-based insurance supervision in 2017, AMBD is enhancing the framework and has introduced a profiling tool for

insurers and Takaful operators. This tool provides the ability for supervisors to determine the category of supervisory stance for each insurer and Takaful operator based on the results of the overall risk ratings calculated within the tool. A new Early Warning System (EWS) has also been introduced which will help to determine the appropriate supervisory intervention, according to the level of risk.

14. As part of AMBD's commitment to strengthen the risk management of insurance companies and Takaful operators in Brunei Darussalam, AMBD has issued requirements and guidance on outsourcing to set standards for sound practices on risk management of material outsourcing arrangements. The extent and degree to which an insurance company or Takaful operator implements the guidance should commensurate with the nature of risks in, and materiality of, the outsourcing arrangement.
15. AMBD has issued a Guideline on Conducting the Regulated Activity of Giving or Offering Investment Advice in October 2019. The objectives of the guideline are to clarify the difference between undertaking the regulated activity as an investment adviser and as a financial planner; and clarify the boundaries of investment advice.
16. In line with the initiatives identified in the Brunei Darussalam Financial Sector Blueprint 2016-2025 (FSBP), AMBD has developed a risk-based supervision framework for the supervision of the capital market intermediaries. The first onsite inspection using the risk based methodology was conducted in October 2019. This framework optimises the use of resources by identifying areas that compound the highest risks and allowing effective mitigation of such risks. This will also contribute to a more balanced regulatory approach that provides investor protection while supporting market development initiatives.
17. AMBD has issued Guidelines on Product Transparency and Disclosure to financial institutions specifically for banks, finance companies, Takaful operators and insurance companies. Under these Guidelines, financial institutions are required to have a consistent and comprehensive product disclosure regime pertaining to the products and services that they offer.

The objectives of the Guidelines include, among others, to promote customer awareness and understanding of products and services offered; to facilitate consistency of disclosure of essential information on products and services; to prevent malpractices in selling products and services; and to ensure that products and services sold are appropriate to the needs and resources of the customer.

18. AMBD has additionally issued revised and amended licensing conditions which took effect from 1 June 2019 as part of strengthening compliance of the money changing and money remittance businesses. AMBD has also issued standard guidelines on technology risk management for the sector based on best practices.

Future Developments

19. AMBD is reviewing the Notice on Cyber Intrusion and Incident Reporting and Information Technology Risk Management Guidelines to ensure the framework on technology risk management remains relevant with the developments in technology and cybersecurity trends in the financial sector.
20. AMBD will also be establishing the AMBD-Financial Institutions Technology Committee, as an avenue for the financial industry to discuss the opportunities and issues related to the use of technology and align their efforts to the Brunei Darussalam Financial Sector Blueprint 2016-2025 (FSBP). The main objectives of this committee are to encourage collaboration between financial institutions, including information sharing on technology and cybersecurity, as well as to serve as a platform for AMBD to deliver and discuss on new technology initiatives and regulations with the financial institutions.
21. In further developing a more efficient money market in Brunei Darussalam, AMBD intends to launch its own programme of Islamic Bills (AMBD I-Bills) in early 2020. The AMBD I-Bills aim to support effective and efficient liquidity management for the banks. 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. This Syariah-compliant instrument is strictly consistent with the Currency Board principles as Brunei Darussalam remains fully committed to the Currency Board Arrangement, and the Currency Interchangeability Agreement with the Republic of Singapore.

Data sources:

Department of Economic Planning and Development (DEPD)

International Monetary Fund (IMF)