

Autoriti Monetari Brunei Darussalam
Policy Statement
1/2018

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Global and Regional Economic Developments

1. The International Monetary Fund (IMF) forecasts the global economy to grow by 3.9% in 2018, faster than global growth of 3.8% seen in 2017. In Q1 2018, the growth rate of the global economy remained encouraging with continued acceleration in the United States and steady growth in the Euro Area and Japan. Growth in the United Kingdom continues to moderate amidst Brexit uncertainties. China's economic growth remained solid whilst India recorded stellar performance, a sign that the Indian economy has shaken off the impacts of demonetisation and the goods and services tax reforms.
2. The overall investor sentiment in the financial markets has been unsettled and continued to be influenced by global trade uncertainties and geopolitical risks. Commodity prices are recovering as crude oil prices have gained, driven by reductions in crude inventories, production cuts by OPEC and non-OPEC countries and geopolitical developments. Liquefied Natural Gas (LNG) prices have been strong despite fears over a supply glut, driven by strong global demand as well as geopolitical tensions.
3. A number of key central banks continued to normalise their monetary policies. Further expansion in the United States has prompted the Federal Reserve to raise interest rates in June 2018 amidst strong labour market conditions. It is widely expected that the Federal Reserve will hike rates further this year. The European Central Bank continues to wind down their assets purchase programme, which will end by December 2018. On the other hand, the Bank of England may maintain its current monetary policy stance. Central banks in Asia, aside from a few, are generally expected to

gradually increase interest rates. However, a rising interest rate environment globally may be a near term risk for countries with high debt levels denominated in foreign currency.

Brunei Darussalam's Economic Developments

4. Gross Domestic Product (GDP) in constant prices expanded 5.2% y-o-y in Q4 2017. The expansion was primarily driven by developments in oil and gas sector as well as progress in Foreign Direct Investment (FDI) projects. The oil and gas sector expanded by 9.1% y-o-y at constant prices, supported by the increase in the manufacture of LNG and methanol by 30.6% y-o-y and 41.8% y-o-y respectively. However, production of crude oil declined in Q4 2017. Meanwhile, the non-oil and gas sector expanded by 0.3% y-o-y in Q4 2017. This was mostly contributed by growth in water transport by 25.2%, which was due to higher activity of tankers transporting LNG. The construction sector, which expanded by 15.0% also contributed to the growth, with good progress on the Temburong bridge and development of the Pulau Muara Besar. For the whole of 2017, Brunei Darussalam's economy expanded by 1.3% y-o-y, ending the past four consecutive years of negative annual GDP growth rates. The mild expansion in 2017 was mainly driven by private investment and exports of oil and gas, potentially signalling a gradual U-shaped recovery. In current prices, the finance sector was 6.1% of GDP in 2017.
5. Brunei Darussalam's fiscal policy continues to be prudent whilst maintaining support for economic growth and productivity. The government continues to focus on initiatives to strengthen the nation's human capital and the development of economic clusters. The budget of BND5.3 billion for fiscal year 2018/2019, announced during the 14th session of Legislative Council in March 2018, was at the same level as fiscal year 2017/2018.
6. The average consumer price index (CPI) declined by 0.2% y-o-y in the whole year 2017. However, in April 2018 the CPI has increased to 0.4% y-o-y, driven by increases in Food & Non-Alcoholic Beverages, Education due

to higher school fees during the new school year, and Miscellaneous Goods and Services due to higher prices of jewellery, clocks, watches and other goods. Domestic inflationary pressures are expected to remain muted for the rest of the year due to a number of factors. First, global inflation, which affects the imported inflationary pressure into Brunei Darussalam is expected to remain soft. Second, the recent shift in the Monetary Authority of Singapore's stance to a slight appreciation of the Singapore dollar will help to further deflate imported inflationary pressures for Brunei Darussalam with the currency peg in place. Third, domestically driven inflationary pressures are likely to remain stable as the economy pursues its gradual path of recovery. Thus, AMBD forecasts inflation in Brunei Darussalam for 2018 to be in the range of 0% to 1%, although skewed towards the lower half of the range.

Brunei Darussalam's Financial Sector Developments

7. Brunei Darussalam's banking system has improved in line with the economic recovery. In Q1 2018, overall banking assets and deposits have marginally increased by 1.3% y-o-y to BND17.2 billion and 3.1% y-o-y to BND14.7 billion respectively. Loans/financing marginally declined by 2.0% y-o-y from BND5.2 billion in Q1 2017 to BND5.1 billion in Q1 2018. The decline in credit was mainly due to the settlement of outstanding loans/financing by corporate companies. The key corporate sectors that contributed to the decline in credit are the transportation and infrastructure sectors. On the other hand, the rise in deposits was mainly due to the increase in retail deposits.
8. The banking industry's asset quality has improved. Aggregate Net Non-Performing Loans/Financing (NPLF) ratio has decreased from 2.8% in Q1 2017 to 2.1% in Q1 2018. The decrease in Net NPLF was mostly contributed by the corporate sector, in particular manufacturing, transportation and traders sectors.
9. Overall, Brunei Darussalam's banking system remained resilient with strong capital adequacy ratio, high liquidity ratio and improved profitability ratios

amid challenging economic environment. The aggregate Capital Adequacy Ratio as of Q1 2018 stood at 18.6%, which is well above the 10% minimum stipulated in the Banking Order, 2006 and Islamic Banking Order, 2008. The banks in Brunei Darussalam remained highly liquid with the Liquid Assets-to-Total Asset ratio of 48.9% as of Q1 2018. The Aggregate Return on Assets and the Return on Equity indicators stood at 1.2% and 8.6% as of Q1 2018 respectively.

10. As part of AMBD's commitment towards enhancing the regulatory framework in line with international best practices, AMBD enhanced the requirement for approval to become Key Responsible Persons and Persons in Control Functions in Insurance and Takaful with effect from 1 January 2018. The framework aims to ensure the Key Responsible Persons and Persons in Control Functions are suitable to fulfil their respective roles and that the insurers and Takaful operators are managed soundly and prudently. This would then increase consumer confidence and enhance the protection of policyholders.
11. The Credit Bureau of AMBD has made further progress with the implementation of its first national credit scoring system, known as Bureau Credit Score. It was officially rolled out to the banks and finance companies on 16 April 2018. Brunei Darussalam's credit score is represented in a three digit numerical expression, which ranges between 215 and 570. A high credit score indicates that the borrower has a low credit risk whilst a low credit score would indicate otherwise. Based on the Credit Bureau's repository, the scorable coverage is considerably high at 76.8% of the population in Brunei Darussalam.
12. This additional provision of credit score in the credit report is a form of value-added service made available for banks and finance companies to provide them with a more objective credit assessment tool. This will assist the banks and finance companies in making better-informed lending decisions, and to further enhance their credit risk management. The introduction of Bureau Credit Score aims to further facilitate easier access

to financing for both individuals and businesses, particularly Micro, Small and Medium Enterprises (MSMEs). This is in line with government initiatives in improving the business environment in Brunei Darussalam.

13. At the same time, the Bureau Credit Score will inculcate greater financial discipline and promote responsible borrowing behaviour among the general public.