

**Autoriti Monetari Brunei Darussalam**  
**Policy Statement**  
**2/2018**

Date: 24th December 2018

**Global and Regional Economic Developments**

1. The International Monetary Fund (IMF) has cut its outlook for global economic growth forecast to 3.7% in 2018 and in 2019, down from its July World Economic Outlook forecast of 3.9%. This revision took into account several factors including expectations of an escalation in global trade tensions and a weaker outlook for several key emerging market and developing economies. Economic activities had moderated more than expected in some large advanced economies from the strong pace last year, especially in the euro area and the United Kingdom. The US economy, on the other hand, maintained robust growth. Meanwhile, emerging market and developing economies continued to develop at broadly the same pace as in 2017, with India growing from a domestic demand-led pickup while activities in China continued to moderate with slower growth in fixed asset investment and industrial output as well as the ongoing trade tensions. The recent G20 summit recognised that international trade and investment will remain important engines of economic development.
  
2. The overall investor sentiment in the financial markets remained cautious given uncertainties surrounding trade and geopolitics, particularly the ongoing global trade tensions and Brexit negotiations. Most recently, these issues have shown positive progress as a result of multilateral cooperation, which helped reassure the financial markets. However, these concerns coupled with a stronger US dollar, have put a damper on most commodity prices in recent quarters. While crude oil prices were firm in recent quarters, they faced a decline in November due to a surge in the supply of crude oil amid fears of weakening demand. OPEC has indicated it will start controlling the supply of crude oil to prop up prices in 2019. On the other hand, Liquefied Natural Gas (LNG) prices appear relatively stable with strong

global demand and eased fears of a supply glut, although geopolitical tensions remain a key risk.

3. On monetary policy, there has been a clear shift from an era of monetary easing to monetary tightening, with interest rates in developed economies now averaging above 1% for the first time since 2009. The Federal Reserve has hiked interest rates a total of four times this year amidst continued robust expansion of the economy and strong labour market conditions. The European Central Bank continues to wind down their net asset purchase programme, which will end in December 2018. The Bank of England too has raised interest rates for the second time in a decade in August 2018. Central banks in Asia, aside from a few, have also raised interest rates this year. The rising global interest rate environment however, may be a near term risk for emerging market economies with high debts level and weak fundamentals. This has also been a major contributor to significant capital outflows, sharp currency depreciation and increased market volatility observed in recent months in those economies.

### **Brunei Darussalam's Economic Developments**

4. Gross Domestic Product (GDP) in constant prices fell by 2.8% y-o-y in Q2 2018. The decline was driven by negative growth in both the oil and gas and the non-oil and gas sectors. The oil and gas sector fell by 2.6% y-o-y at constant prices, due to a decrease in the manufacture of LNG and methanol by 3.5% and oil and gas mining by 2.3%. The sector had been unable to benefit from the rise in crude oil and LNG prices (49.6% y-o-y and 13.0% y-o-y respectively) due to low production volumes of both commodities in Q2 2018. Meanwhile, the non-oil and gas sector fell by 3.0% y-o-y in Q2 2018. The decline was attributed to the contraction of the finance sector by 37.0% y-o-y, followed by lower production of vegetables, fruits and other agriculture by 16.8%, as well as fishery by 11.8%. The finance sector recorded much lower growth in this said quarter due to lower investment income of the banking industry. The domestic economy contracted by 0.05% y-o-y for the first half of 2018, as the decline in Q2 2018 offset the growth in Q1 2018.

5. The average consumer price index (CPI) rose by 0.2% y-o-y in the first ten months of 2018, driven by *Food and Non-Alcoholic Beverages* due to higher prices across most categories of food and beverages; *Recreation and Culture* with an increase in the prices of books and stationery as well as package holidays and pilgrimages; and *Education* due to higher school fees of selected private schools. AMBD's inflation forecast for 2018 is maintained within the lower half of the 0% to 1% range.
  
6. Domestic inflationary pressures are expected to remain muted for the rest of the year due to a number of factors. Firstly, imported inflation is expected to remain soft as global commodity prices are likely to continue to be weighed down by trade issues. Secondly, the Monetary Authority of Singapore's further appreciation of the Singapore dollar in October 2018 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. These factors are likely to persist into next year. AMBD inflation forecast for 2019 is in the range of 0% to 1% with potential downside risks to the forecast if global inflationary pressures remain weak.

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

7. As of Q3 2018, the domestic financial sector remained resilient despite heightened uncertainties in the global economy. Licensed financial institutions continue to have strong fundamentals underpinned by high levels of capitalisation, strong liquidity and improved profitability. The aggregate Capital Adequacy Ratio stood at 18.7% as of Q3 2018, well above the 10% minimum required in the Banking Order, 2006 and Islamic Banking Order, 2008. The domestic banks remain highly liquid with Liquid Assets-to-Total Assets ratio of 50.1% as of Q3 2018. The Aggregate Return on Assets and the Return on Equity indicators stood at 1.1% and 7.6% respectively as of Q3 2018.

8. In the same quarter, overall banking assets marginally increased by 0.9% y-o-y to BND17.5 billion and deposits increased by 2.4% y-o-y to BND15.0 billion. Loans/Financing recorded a marginal increase of 4.6% to BND5.4 billion in Q3 2018 compared to BND5.2 billion a year ago. This increase was mainly from the corporate sector particularly in transportation, services and manufacturing sectors. On the other hand, the rise in deposits was mainly due to an increase in deposits by state-owned corporations and institutions.
9. The banking industry's aggregate Net Non-Performing Loans/Financing (NPLF) ratio has increased from 2.4% in Q3 2017 to 3.0% in Q3 2018; particularly in the corporate sector such as services, manufacturing and transportation sectors.
10. On the capital markets front, AMBD issued a number of Notices this year to enhance investor protection and confidence. Notices relating to the offering of debentures were issued to strengthen the due diligence and client suitability requirements for licensed capital market product distributors who offer debentures to both sophisticated and retail investors. Another Notice was issued to inform holders and applicants of Capital Markets Services Representative Licence of the requirement to sit for licensing examinations at one of four examination centres recognised by AMBD.
11. On 1 November 2018, AMBD as the depository for the Brunei Government Sukuk Al-Ijarah, was appointed as the National Numbering Agency (NNA) for Brunei Darussalam. This demonstrates AMBD's continuous effort in developing a domestic capital market that aligns with international best practices. The next step is for AMBD to participate in the Association of National Numbering Agencies (ANNA), an organisation that is responsible for implementing and maintaining the International Organization for Standardization (ISO) standards relating to financial instruments.
12. In developing an efficient money market for Brunei Darussalam, AMBD issued Notices on Conventional and Syariah-compliant Overnight Standing Facilities, which took effect on 20 September 2018. The Overnight Standing Facilities aim to support effective and efficient liquidity management for the

banks, thereby facilitating the smooth functioning of the financial system. The instruments and operations in relation to the framework are 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.

13. In improving the supervisory regime for the protection of policyholders in Brunei Darussalam, AMBD will introduce a registration framework for all life insurance/family takaful agents carrying out insurance/takaful agency business with effect from 1 January 2019. The registration framework aims to enforce the requirements for professional and transparent conduct of insurance/takaful intermediaries.
14. As part of continued efforts to develop Islamic finance in Brunei Darussalam, AMBD issued a Notice on Syariah Governance Framework to ensure that the operations and financial instruments offered by financial institutions are Syariah-compliant and follow international best practices in Islamic finance. AMBD also issued Guidelines on Product Approval Process in pursuant to Section 14 of the Syariah Financial Supervisory Board Order, 2006.
15. In the recent Doing Business Report 2019, the World Bank acknowledged the implementation of the national credit scoring system, known as Bureau Credit Score, by the Credit Bureau of AMBD. Brunei Darussalam achieved the full score and ranked first out of 190 economies in the Getting Credit indicator, sharing the top spot with New Zealand.
16. AMBD has published the "Digital Payment Roadmap for Brunei Darussalam 2019-2025" which sets out key strategies towards a Digital Payment Nation. The Roadmap aims to guide all relevant stakeholders in the payment industry to rise to the challenge of becoming a digital economy and cater to the needs of the next generation. This is in line with the strategies presented in the Brunei Darussalam Financial Sector Blueprint 2016-2025 (FSBP) and Wawasan Brunei 2035's aspiration towards a dynamic and diversified economy.

Data sources:

Department of Economic Planning and Development (DEPD)

International Monetary Fund (IMF)