

Autoriti Monetari Brunei Darussalam
Policy Statement
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Global and Regional Economic Developments

1. The global economy continued to expand, though at a relatively moderate rate. Growth in the U.S. is likely to accelerate in Q2 2017 following an under trend performance in Q1 2017. Growth and near-term growth prospects have improved in the European Union and Japan. Among Asian economies, the economic expansion in China remained close to trend, while India's economic performance improved, further benefiting from the decline in inflation.

2. The prospects for modest near-term acceleration in economic growth in the environment of still supportive monetary policy have improved investor sentiment in the financial markets. Some commodity prices have recovered albeit still below their cyclical highs. Crude oil prices remain at moderate levels, driven by developments in crude inventories and supply dynamics among OPEC and non-OPEC countries. Downward pressure on LNG prices remains a medium term concern amidst a fundamental restructuring of the LNG market towards more flexible pricing and an ongoing supply glut. Improving global growth is supportive of the demand for commodities, though currently the supply side conditions are the main drivers for price changes.

3. The Federal Reserve has started normalizing monetary policy. The European Central Bank, Bank of Japan and Bank of England may soon follow suit. Central banks in most developing economies have either remained on hold or started raising policy rates, although only gradually.

4. The major near-term economic risks are related to the impact of monetary policy normalization on economic activities and asset valuations. Central

banks may face the daunting task of ensuring they can address the rise in inflation, while taking into account the impact of rising interest rates on the high levels of indebtedness in the corporate, government and household sectors. Due to the interconnectedness of the global financial market, risks that arise from major advanced and developing economies can potentially spill over into the small and open economies.

Brunei Darussalam's Economic Developments

5. Gross Domestic Product (GDP) in constant prices contracted in the last quarter of 2016 by 3.6% year-on-year (y-o-y), weighed down by a 6.1% y-o-y decline in the output of the Oil and Gas sector. Nonetheless, recent economic data show a slight improvement in the domestic economy at the start of 2017. In the first five months of 2017, higher crude prices have contributed to an increase in the value of exports by 12.4% y-o-y.
6. The average Consumer Price Index (CPI) declined by 0.4% y-o-y for the first six months of 2017. The CPI was 0.3% lower y-o-y in June 2017. Domestic inflationary pressures remain muted on the back of soft economic activity and ample supply in the housing market. Prices for imported goods have continued to decline in the first five months of 2017 despite the pickup in global inflation including food prices and stabilizing oil prices. Overall, AMBD forecasts domestic inflation in 2017 to be in the range of -1.1% to -0.1%.
7. Brunei Darussalam's fiscal policy continued along the long-established path of fiscal prudence that supports economic growth and continues to improve national productivity, while limiting the negative impact from the decline in global hydrocarbon prices on Brunei Darussalam's medium-term fiscal stability. The Government also continues to prioritise economic reforms through the development of clusters, and adopts a systematic and orderly approach to attract Foreign Direct Investment (FDI) to stimulate overall economic growth, including the downstream and non-oil and gas industries.
8. The Government will also continue to support and encourage small and medium enterprises (SMEs) to penetrate regional and international markets by enhancing their competitiveness in producing high quality products and

services. Increased productivity will enable them to penetrate the export market while at the same time contribute to GDP growth and improve the fiscal position of the government.

Brunei Darussalam's Financial Sector Developments

9. In Q1 2017, overall banking assets and deposits have decreased by 2.1% y-o-y to BND17.0 billion and 2.8% y-o-y to BND14.3 billion, respectively. Loans/financing recorded a decline of 14.8% to BND5.2 billion in Q1 2017 from BND6.1 billion in Q1 2016. The decline in credit was mainly due to the maturity or settlement of outstanding loans/financing by large corporate companies and the decrease in new credit extended to the business sector, particularly the manufacturing, infrastructure, telecommunications and information technology sectors. This decline in credit may also be indicative of limited opportunities to undertake the expansion of existing or new ventures. On the other hand, the decline in deposits was mainly due to the decrease in institutional clients' deposits.

10. The banking industry's asset quality deteriorated as reflected in the aggregate Net Non-Performing Loans/Financing (NPLF) ratio which has increased to 2.8% in Q1 2017 from 1.6% in Q1 2016; particularly in the business sector such as manufacturing, transportation and services. AMBD is taking measures to mitigate the high NPLF ratio which require banks to maintain certain level of provisioning according to international standards.

11. Overall, the key financial soundness indicators in the banking sector remained at healthy levels amid challenging global environment. The aggregate Capital Adequacy Ratio as of Q1 2017 stood at 24.0%, which is well above the 10% minimum required in the Banking Order, 2006 and Islamic Banking Order, 2008. The banks in Brunei Darussalam remain highly liquid with the Liquid Assets-to-Total Assets ratio of 48.9% as of Q1 2017. The Aggregate Return on Assets and the Return on Equity indicators stood at 0.9% and 5.3% as of Q1 2017 respectively.

12. AMBD continues to review the regulatory environment to provide a conducive financial sector landscape. Among the initiatives is the amendment of the March 2013 Notice on the Regulation of Interest/Profit Rates issued to all licensed banks and Perbadanan Tabung Amanah Islam Brunei (TAIB) on 12 May 2017. This amendment is to deregulate most of the lending/financing and fixed deposit rates. AMBD is developing and upgrading the legislative and regulatory framework in alignment with international standards and best practices. As of Q1 2017, AMBD has implemented Basel II Pillar I Capital Adequacy framework and other pillars will be rolled out in phases.
13. Brunei Darussalam remains committed to the Currency Board Arrangement and the Currency Interchangeability Agreement with Singapore. This provides Brunei Darussalam a credible and well-understood monetary policy arrangement. Brunei Darussalam continues to benefit from low domestic inflation and high confidence in the durability of the country's macroeconomic stability.
14. AMBD continues to enhance its policymaking and regulatory capacity to fully undertake the responsibilities placed upon it. AMBD will also contribute towards achieving the aspirations of the Government of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam to develop Brunei Darussalam as a reputable Islamic financial centre.

Data sources:

Department of Economic Planning and Development (DEPD), Prime Minister's Office
Food and Agriculture Organization of the United Nations