

Autoriti Monetari Brunei Darussalam
Policy Statement
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Global and Regional Economic Developments

1. Preliminary data shows continued expansion of the global economy in the second half of the year, with advanced economies benefitting from largely accommodative monetary policies and firmer domestic demand growth. The United States (U.S.) grew strongly despite hurricane-related setbacks. Both the Euro Area and Japan also grew steadily with positive near-term prospects. Emerging economies, particularly Brazil and Russia, gained from stronger commodity prices and resilient dynamics in China.
2. Investor sentiment in financial markets remain elevated amid expectations that the broad-based upswing will continue in the near-term. Commodity prices continued to recover with gains from the energy sector; crude oil prices moved higher supported by a faster-than-expected fall in U.S. crude inventories and increased expectations for an extension of production cuts amid rising global demand. Meanwhile, liquefied natural gas (LNG) prices continued to face downward pressure and are likely to remain low in the near to medium-term.
3. The observed economic expansion is triggering a number of key central banks to consider reversing their earlier easing monetary policy. At the forefront is the Federal Reserve, which has raised interest rates for the third time this year in December and started the process of balance sheet normalization in October 2017. The European Central Bank has announced it will start tapering its asset purchases in January 2018. However, the pace at which this occurs remains gradual. A rising interest rate environment can potentially be a major near-term economic risk for some economies. Despite the positive outlook, growth remains weak and inflation is below target in many countries.

Brunei Darussalam's Economic Developments

4. Gross Domestic Product (GDP) in constant prices expanded 0.7% year-on-year (y-o-y) in Q2 2017, recovering from a 1.7% y-o-y contraction in Q1 2017. The oil and gas sector expanded by 1.1% y-o-y at constant prices, supported mainly by the increase in the manufacture of liquefied natural gas and methanol by 11.4% y-o-y. Meanwhile, the non-oil and gas sector also increased by 0.1% y-o-y in Q2 2017, mostly contributed by growth in the manufacture of food and beverage products by 13.5% y-o-y. In current prices, the finance sector was 6.9% of GDP in Q2 2017.
5. On-going diversification efforts of the economy include the attraction of foreign direct investments (FDIs), expansion of micro, small and medium enterprises (MSMEs), the development of economic clusters and the improvement of business climate. In 2017, the country received significant committed investment from Hengyi Industries Company of USD 3.445 billion in the downstream industry for the first phase. The downstream industry is also expected to expand rapidly with plans to develop the petrochemical and downstream industries in the second phase in Pulau Muara Besar. Several FDI projects have been realised through the setting up of food manufacturing factories such as Western Food and Packaging, Saahtain Asia and also in the services sector through the Muara Port Company. Meanwhile, Brunei Darussalam was listed as the world's most improved country in the Doing Business 2018 report released by the World Bank, with the ranking improved from 72nd to 56th. With reforms and improvements to the business climate, new company registrations also recorded a growth of 12% in the third quarter of 2017 compared to the third quarter of 2016. In the services sector, the tourism sector also recorded encouraging growth with a 25.7% increase in the second quarter of 2017 compared to the second quarter of 2016.
6. In order to improve productivity and reduce the unemployment rate, a number of reforms have been implemented in 2017 by Government agencies through policy formulation, job matching and re-skilling opportunities. This included the i-Ready initiative where 1,358 graduates had enrolled to work in the private and public sectors, which provide them with industry exposure. Apart from industry programmes such as the existing Industry Competency Framework, the Government has also set up a Capacity Building Centre that provides short-term courses that can improve employment opportunities for local residents in the manufacturing and services sectors. These efforts are expected to increase the capacity and

competence of local labour in contributing towards the country's economy in the medium and long term.

7. The average Consumer Price Index (CPI) declined by 0.2% y-o-y for the first ten months of 2017. However, the CPI increased by 0.3% y-o-y in October, the same rate as in the previous month. Prices for imported goods have continued to decline in the first ten months of 2017 in line with a decline in the global food price index, although it has been facing upward pressure in recent months, while oil prices continued to stabilize. Although Brunei Darussalam does not adopt inflation targeting, AMBD forecasts domestic inflation in 2017 to remain low and stable and within the range of -0.2% to 0.1%.

Brunei Darussalam's Financial Sector Developments

8. In Q3 2017, overall banking assets and deposits decreased by 8.5% y-o-y to BND17.4 billion and 6.4% y-o-y to BND14.7 billion, respectively. Loans/financing recorded a decline of 12.1% to BND5.2 billion in Q3 2017 from BND5.9 billion in Q3 2016. The decline in credit was mainly due to the maturity or settlement of outstanding loans/financing by large corporates and the decrease in new credit extended to the business sector, particularly the manufacturing, financial, and transportation sectors. This decline in credit may also be indicative of limited opportunities to undertake expansion of existing or new ventures. On the other hand, the decline in deposits was mainly due to the decrease in institutional clients' deposits.
9. The banking industry's asset quality has slightly declined as reflected in the aggregate Net Non-Performing Loans/Financing (NPLF) ratio which increased to 2.4% in Q3 2017 from 2.1% in Q3 2016; particularly from unsecured personal financing in the household sector, and also from a few business sectors such as services. In view of the implementation of IFRS 9 with effective from 1 January 2018, AMBD is revising its approach to regulatory classification and provisioning.
10. Overall, the key financial soundness indicators in the banking sector remained at healthy levels amid a challenging global environment. The aggregate Capital Adequacy Ratio as of Q3 2017 stood at 19.7%, which is well above the 10% minimum required in the Banking Order, 2006 and Islamic Banking Order, 2008. Banks in Brunei Darussalam remain highly liquid, as indicated by the Liquid Assets-to-Total Assets ratio of 51.8% as of Q3 2017. The Aggregate Return on Assets and the Return on Equity indicators stood at 1.7% and 11.5% as of Q3 2017 respectively.

11. AMBD issued an amendment to the Notice on Total Debt Service Ratio (TDSR) on 10 August 2017. This amendment increased the TDSR limit from 60% to a maximum of 70% for new credit/financing facilities to finance the purchase or construction of properties such as houses only. It aims to encourage home ownership and stimulate the domestic property market through increased bank lending which can contribute to economic growth, in line towards realizing Wawasan 2035. Meanwhile, on 9 November 2017, AMBD has allowed flexibility for relevant financial institutions to exceed the regulated TDSR limit under certain circumstances for Mortgage Equity Credit/Financing Facility; Credit/Financing Facilities secured by cash/fixed deposit under lien or principal protected investment products; and for customers with net monthly income of BND10,000 and above.
12. AMBD also issued a Notice on Equity Based Crowdfunding Platform Operators, which took effect on 11 August 2017. The purpose of the Notice was to set out relevant requirements in line with the Securities Markets Order, 2013 and the Securities Markets Regulations, 2015 relating to the operation of an equity based crowdfunding platform.
13. As part of AMBD's commitment towards enhancing the regulatory framework in line with international best practice, AMBD had issued Notices on Corporate Governance and Public Disclosure for Insurers and Takaful Operators to be effective on 1 January 2018. The framework aims to provide for sound and prudent management and oversight of the insurer's and takaful operator's businesses and adequately recognise and protect the interests of policyholders. This is also expected to enhance market discipline and understanding of the risks to which an insurer or takaful operator is exposed and the manner in which those risks are managed.
14. AMBD is also committed in embarking transformation from compliance-based offsite surveillance to a risk-based supervision (RBS) framework for insurers and takaful operators and focuses more on the nature, size, complexity and risk profile of the insurers and takaful operators. It requires the application of sound judgment in identifying and assessing risks, and determining, from a wide variety of supervisory and regulatory options available, the most appropriate method to ensure that the risks that an insurer or takaful operator faces are adequately managed. Where there are identified risks or areas of concern, the degree of intervention will be commensurate with the risk assessment.

15. With a modern international insurance and takaful market, legal framework is expected to be at par with the development. In line with this, AMBD is revamping the existing insurance and takaful legislation to be at par with the international standards. The process is endeavoured to take several years to be fully enforced with at least a year for transitional period.
16. AMBD has also issued a Notice revising the Minimum Cash Balance (MCB) Requirement to provide banks with greater flexibility in their daily liquidity management, which was effective from 1 December 2017. The Notice, which will introduce an averaging mechanism on the MCB, is AMBD's first milestone towards the development of the domestic money market in Brunei Darussalam.
17. Brunei Darussalam continues to enhance its efforts and remains committed to transform the country into a leading centre in Islamic finance through various initiatives implemented in a holistic approach by coordinating efforts with the Government, institutions of higher learning and Islamic financial institutions. As a result of this, Brunei Darussalam has raised its reputation and improved its ranking from 14th in 2016 to 9th this year in the Islamic Finance Development Indicator, as stated in the Islamic Finance Development Report 2017 issued by ICD-Thompson Reuters. The report also recognised Brunei Darussalam as one of the world's top 10 countries in Islamic Finance development and the most improved country among Southeast Asian countries. This achievement is a significant success and reflects international recognition of the development of the Islamic financial industry in the country. In this regard, AMBD continues to be committed in formulating and implementing conducive and progressive strategic action plans for the further development of Islamic finance, as one of the important agendas in promoting the country's economy and supporting Wawasan 2035.
18. AMBD will continue to review the regulatory environment to ensure financial stability is maintained, whilst encouraging the continued development of the financial sector. AMBD is committed to enhancing its regulatory capacity through improvements to reporting standards, legislation, supervisory best practices and the general regulatory framework. AMBD will also continue to undertake activities 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
FDI Action and Support Team, Prime Minister's Office
Registry of Companies & Business Names (ROCBN)
Ministry of Primary Resources and Tourism
Manpower Unit, Energy and Industry Department, Prime Minister's Office