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Policy Statement
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Global Economy

1. The global economy remains in a protracted period of low growth and low inflation amidst broad-based weakness in many economies worldwide. Commodities and financial markets continue to exhibit volatility with uncertainty playing a key role. Monetary policy normalisation in the US has yet to fully take off and worries continue to mount regarding the economic situation in China.

Brunei Darussalam's Economic Developments

2. The domestic economy continues to face headwinds from a weak global economic environment which has negatively impacted the oil and gas sector as well as government revenues.
3. Consumer prices in the first ten months of 2016 declined 0.6% y-o-y with Consumer Price Index (CPI) for October 2016 being -0.5% y-o-y. Prices for Housing, Water, Electricity, Gas & Other Fuels; Food and Non-Alcoholic Beverages; Restaurants and Hotels; Communication; Recreation and Culture; and Transport all fell. Global food prices have picked up with the UNFAO Food Price Index for November 2016 increasing by 10.4% y-o-y. There is a potential for continued rise in global food inflation in 2017. On domestic front, inflation in 2017 may be higher as the base effects of lower global oil price fade.

Financial Developments

4. As part of AMBD's commitment to implement the Basel Core Principles for Effective Banking Supervision and Basel II by 2020, AMBD has issued two Consultation Papers to the Brunei Association of Banks (BAB) with regard to (a) Code of Corporate Governance specifically for banks and (b) Notice on Appointment of Key Responsible Persons of Banks and Finance Companies. The former is aimed to promote effective corporate governance across banks which is critical to the proper functioning of the banking sector and economy as a whole. The latter provides detailed guidance on the assessment of fit and proper criteria for the appointment of Key Responsible Persons by banks and finance companies, as required by Section 8 of the Banking Order (2006) and Islamic Banking Order (2008). The Notice also represents an extension of the corporate governance framework.
5. AMBD has issued a Directive to all banks with regard to the Extension on the Arrangements for the use of Minimum Cash Balances (MCB) for Intraday Liquidity Maintenance in the Real-Time Gross Settlement (RTGS) System following a six-month trial period initiated on 11th April 2016. Given the positive feedback and support from the banks, this arrangement is extended indefinitely with effect from 4th October 2016.
6. Notwithstanding the economic challenges, the Bruneian banking sector continued to expand at a moderate pace. As of October 2016, there is a growth in overall banking assets and deposits by 3.0% y-o-y and 2.8% y-o-y respectively. The strong credit growth trend observed in previous quarters has subsided where there is a marginal decline in credit growth by 7.1% y-o-y to B\$5.6 billion. The decline in credit is mainly due to the decrease to credit extended to the manufacturing, telecommunications and information technology, infrastructure and traders sectors.
7. The key financial soundness indicators in the banking sector remained at healthy levels notwithstanding the expected deterioration in asset quality. The aggregate Capital Adequacy Ratio as of Q3 2016 stood at 20.5%, which is well above the 10% minimum requirement as required in the Banking

Order, 2006 and Islamic Banking Order, 2008. Aggregate Return on Assets and Return on Equity respectively stood at 1.1% and 7.2% as of October 2016. The Aggregate Net Non-Performing Loans/Financing (NPLF) ratio has increased from 1.5% in October 2015 to 2.0% in October 2016, particularly in the business sector such as services, traders and transportation. AMBD will continue to strengthen its supervisory effort to ensure appropriate measures are undertaken by the banks to address this trend, such as enhancing their credit risk management systems and taking additional provisions for NPLFs.

8. AMBD, besides being the champion for the Getting Credit indicator under the World Bank Group Ease of Doing Business (EODB) initiative has also been appointed as the champion for the Protecting Minority Investors (PMI) indicator. A PMI Taskforce consisting of representatives from AMBD, the Registry of Companies and Business Names, Ministry of Finance (RoCBN), and Darussalam Assets Sdn Bhd (DA) was set up. Some of the Taskforce's responsibilities are to review and assess the Companies Act (Cap.39) against similar legislations from other economies which have performed significantly well in the protection of minority investors. Brunei Darussalam was in the list of ten top improvers in the EODB ranking reported in Doing Business 2017 with several regulatory reforms. These reforms include improved access to credit information and the strengthening of minority investors protection.
9. Brunei Darussalam's Collateral Registry System has commenced operations on the 19th December 2016. It is a project under Brunei Darussalam's initiatives for EODB in making it much easier for the public, especially small and medium enterprises (SMEs) to obtain financing. Brunei Darussalam will be one of the first countries in the region to introduce this system whereby all movable properties can be registered under the national Collateral Registry. With this reform, all secured interests such as Bill of Sales, Companies Charges, Hire Purchase, mortgages of ships registered under Civil Aviation Order and Merchant Shipping Order can be registered under this unified Collateral Registry. The introduction of the Collateral Registry is expected to help stimulate economic growth by easing access to financing

for borrowers, and reducing risk by making it easier for lenders to secure their loans which will decrease the overall cost of borrowing particularly for riskier borrowers.

Future Developments

10. Aside from AMBD's main objective in maintaining and improving financial stability, AMBD also plays a role in stimulating economic growth, in particular via domestic consumption. Towards this, AMBD is currently reviewing the regulated rates on lending/financing to Micro, Small and Medium Enterprises (MSME) and on certain credit facilities that were introduced in March 2013.
11. In preparation for the implementation of the Basel II-Pillar 1 framework, AMBD has issued reporting template and regulatory framework to the banks in December 2016. Subsequently after receiving the comments from the banks, AMBD will be issuing a Notice and revised reporting instructions for Minimum Capital Adequacy Requirements to all banks for the effective reporting period of Q1 2017 onwards. The Basel II framework serves to ensure that a bank holds adequate capital according to the risk profile of the bank.
12. AMBD will also undertake a few initiatives next year to improve the banks' net non-performing loans/financing ratios. Firstly, AMBD will be issuing new credit risk management guidelines to the banks. With such issuance, the supervisors will be able to evaluate the bank's credit risk management system whether it is sufficient for the banks' activities and that they have instilled sufficient risk-return discipline in their credit risk management processes. Secondly, AMBD will set up a dedicated onsite examination function to inspect the loan/financing books of the banks on a more frequent basis. In order to make the onsite inspection process a more effective component of the supervisory process, AMBD will also develop a formalised onsite inspection methodology. The ultimate objective of the inspection methodology is to produce an objective risk-based assessment of a bank.

13. Furthermore in 2018, International Financial Reporting Standard (IFRS) 9 will replace the existing International Accounting Standard (IAS) 39 standard on impairment recognition. IFRS 9 will require banks to move to provisioning based on 'expected loss' rather than 'incurred loss'. Therefore IFRS 9 will make banks more risk aware and consequently may serve to reduce net NPLs.
14. AMBD is a member of the Steering Committee, the Secretariat and Working Group for the establishment of the Brunei Darussalam Stock Exchange. The Working Group consists of three sub Working Groups, namely the Working Group for Rules and Regulations (WGRR), the Working Group for Operations and Infrastructure (WGOI), and the Working Group for Promotion and Education (WGPE). The Working Group for Rules and Regulations has prepared the first draft of the stock exchange rules, including the listing rules particularly relating to publicly traded listed corporations, which are required to be in place and socialised to the relevant stakeholders well before the launch of the exchange. The Working Group for Operations and Infrastructure has also completed tender requirements for the new stock exchange system including the system functionality and technical requirements. The Working Group for Promotion and Education have prepared relevant training programs to educate and provide awareness on the stock exchange.
15. Advances in financial technology (FinTech) have led to the introduction of new business models, products and services that have contributed to improvements in customer experience and value as well as financial institutions' efficiency and risk management. At the same time, FinTech as a new technology could pose unforeseen risks. Therefore, AMBD seeks to develop a regulatory framework that is conducive for the deployment of FinTech while addressing its inherent risks.