

Autoriti Monetari Brunei Darussalam
Policy Statement
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Global Economy

1. The first few months of 2016 brought renewed volatility in financial markets, particularly in emerging markets. Overall, three key events continue to shape the global economic environment: the economic slowdown in China, monetary policy normalisation in the United States, and low commodity prices.

Brunei Darussalam's Economic Developments

2. The domestic economy continued to face challenges. Gross Domestic Product (GDP) grew by 3.6% year-on-year (y-o-y) in the first quarter of 2016 with the Oil and Gas Sector expanding 7.6% y-o-y while the Non-Oil and Gas Sector declined by 1.9% y-o-y. Economic activity in the Services Sector remained subdued, contracting by 0.7% y-o-y mainly due to the decline in Government Services, Business Services, and Other Transport Services. The Industrial Non-Oil and Gas Sector also showed weakness with a decline of 11.0% y-o-y.
3. Consumer prices in the first five months of 2016 declined 0.5% y-o-y with Consumer Price Index (CPI) for May 2016 being -0.3% y-o-y. Prices for Housing, Water, Electricity, Gas & Other Fuels; Transport; Health; Restaurants and Hotels; Food and Non-Alcoholic Beverages; and Communication all fell. Global food prices continued to moderate with the UNFAO Food Price Index for June 2016 decreasing by 1.0% y-o-y. Low food and commodity prices coupled with a stable Brunei Dollar's exchange rate should continue to put downward pressure on domestic inflation.

Financial Developments

4. AMBD has issued a Directive to all banks on the Arrangements for the use of Minimum Cash Balances (MCB) for Intraday Liquidity Maintenance in the Real-Time Gross Settlement (RTGS) System. This Directive is effective from 4th April 2016 for an initial trial period of six months. This Directive allows banks to utilize and transfer a portion of their individual MCB on an intraday basis in the RTGS system. With this arrangement, it will provide banks with intraday liquidity to meet payment obligations to another banks on that day and at the same time, it will improve intraday settlement flows in the RTGS system by reducing bank's need for external funding.

5. AMBD has granted approval for Bank of China (Hong Kong) Limited (BOCHK) to establish a branch in Brunei Darussalam. BOCHK is incorporated in Hong Kong and is owned by the Bank of China Group ("BOC"). BOC Group has been listed as the fourth largest bank worldwide in terms of Tier 1 Capital and the seventh largest bank in terms of assets, according to the Top 1000 World Banks Ranking results in 2015 by The Banker¹. BOCHK is a leading and reputable commercial banking group in Hong Kong in terms of assets and customers deposits which offers a comprehensive range of financial products and services to personal, corporate and institutional customers. AMBD views the establishment of a banking presence by BOCHK in Brunei Darussalam as a positive boost for the local economy, in line with AMBD's strategic plan to welcome reputable financial institutions to operate in Brunei Darussalam. This will also help to spur vibrant and healthy competition among the market players in the country's banking industry.

6. On 5th April 2016, The Hongkong and Shanghai Banking Corporation Limited, Brunei Darussalam Branch (HSBC Brunei) has made a public announcement concerning its future strategic business plans to wind down its operations in the country. HSBC's decision was part of its global strategy

¹ The Banker is an independent banking industry publication which provides economic and financial intelligence for the world's financial sector and has built a reputation for objective and incisive reporting.

to focus on its core business in fewer markets. AMBD is working with HSBC Brunei to ensure that its customers and staff of the bank will be kept up to date with developments and how the bank's plans will affect them and at the same time ensuring that there is minimal disruption to customers, staff, the financial sector, and the economy of Brunei Darussalam.

7. Brunei's financial sector in particular the banking industry has seen a progressive redistribution of assets from offshore to onshore over the past six years. Offshore assets as of Q1 2016 were BND7.8 billion or 44.9% of total assets and have fallen since 2010. As of Q1 2016, there is a reduction in overall banking assets and deposits by 5.2% and 5.5% y-o-y respectively. However there is a positive credit growth of 8.5% y-o-y from BND5.6 billion in Q1 2015 to BND6.1 billion in Q1 2016. The primary driver of credit growth has been in the business/corporate sector with an increase of 11.7% y-o-y.
8. The Key Financial Soundness Indicators of the banking institutions continue to depict financial strength with the aggregate Capital Adequacy Ratio of 20.5% as of Q1 2016, which is well above the 10% minimum requirement as stated in the Banking Order, 2006 and Islamic Banking Order, 2008. As of Q1 2016, the profitability ratios of Return on Assets and Return on Equity were at 1.2% and 7.4% respectively. While, the gross non-performing loans/financing ratio has remained as of Q1 2016 at 4.7%.
9. AMBD, as champion for the Getting Credit indicator under the World Bank Group Ease of Doing Business (EODB) initiative, has taken several initiatives in making it much easier for small and medium enterprises (SMEs) to obtain financing. In the reform, a new Collateral Registry was established to register and publicise security interests in moveable properties. A new law based on international best practices and models called the Secured Transactions Order 2016 was introduced in March 2016, providing the legal basis for the registry. With these reforms, it is expected that Brunei Darussalam's ranking in the EODB would be improved.

10. In March 2016, AMBD has officially become a signatory under the Multilateral Memorandum of Understanding (MMOU) concerning Consultation and Cooperation and the Exchange of Information adopted by the International Organisation of Securities Commissions. The MMOU is part of AMBD's long term strategic plan to increase the effectiveness and capacity of our regulatory and supervisory powers in relation to the local capital markets, and is designed to facilitate exchange of information and cooperation between AMBD and the Capital Markets regulators from other jurisdictions.
11. AMBD through its Islamic Financial Advisory Unit (IFAU), is currently conducting Syariah audit on one banking financing product. Another Syariah audit will be conducted in Q3 2016 on one of the takaful products. The objective of Syariah audit is to ensure products offered by local Islamic financial institutions are in accordance with Hukum Syara' and also to comply with relevant orders as Syariah Financial Supervisory Board Order 2006, Islamic Banking Order 2008, Takaful Order 2008 and Securities Market Order 2013.

Future Developments

12. Reflecting the fiscal challenges, tepid economic growth and disinflationary environment, policymakers need to consider all possible tools to stimulate the economy that are consistent with maintaining macroeconomic stability. On the financial sector front, AMBD will enhance efforts to stimulate financial intermediation and lending to the business sector by supporting structural reforms. Structural reforms aim at improving the quality of information on potential borrowers and the quality of loan collateralization can reduce loan origination costs and loan default risks, and improve borrowers' overall business success rates.
13. AMBD has committed itself to implement a Basel II capital adequacy framework by 2017. The proposed implementation is AMBD's commitment to adopt international best practices and standards in strengthening the

resilience of the banking sector as well as in meeting AMBD's objective to ensure financial stability. As part of the initial process, AMBD has so far issued three Consultation Papers to the Brunei Association of Banks to seek their views on the proposed high level approaches to the implementation of the Basel II framework.