

Autoriti Monetari Brunei Darussalam
Policy Statement
2/2015

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Global Economy

1. The global economy was weaker overall in 2015. China and other emerging economies continued to experience a slowdown in growth, with advanced economies making modest improvements in growth. Low commodity prices supported growth in consumer spending but at the same time lowered demand and growth prospects for commodity exporters.

Brunei Darussalam's Economic Developments

2. In the first half of the year, the domestic economy contracted by 2.6% y-o-y. Both the Oil and Gas Sector and the Non-Oil and Gas Sector experienced a decline by 3.4% y-o-y and 1.5% y-o-y respectively. The Services Sector declined by 2.5% y-o-y in particular due to weakness in Transport Services, Communication, Health Services, Education Services, Business Services and Government Services. However, a number of industries continued to prove resilient including Construction, Real Estate, Wholesale and Retail Trade, and Finance.
3. Consumer prices in the first eleven months of the year declined 0.4% y-o-y. CPI for November 2015 rose 0.1% y-o-y.¹ Price increases that contributed to the higher CPI include Housing, Water, Electricity, Gas and Other Fuels; Food and Non-Alcoholic Beverages; and Recreation and Culture. Global food prices continued to moderate with the UNFAO² Food Price Index for November 2015 decreasing by 18% y-o-y. Low food and

¹ Department of Economic Planning and Development (DEPD), Prime Minister's Office

² Food and Agriculture Organization of the United Nations.

commodity prices coupled with modest strengthening of the Brunei Dollar is anticipated to put downward pressure on domestic inflation.

Financial Developments

4. AMBD issued amendments to 5 Regulatory Notices to relevant financial institutions, on 28th October 2015, which had immediate effect, as follows:
 - 4.1. Notice on Total Debt Service Ratio (TDSR) – Amendment No. 1;
 - 4.1.1. This Notice allowed banks to include rental income and business income (sole proprietors) under the definition of Gross Monthly Income; and
 - 4.1.2. To exclude credit cards secured by fixed deposits from the TDSR calculation;
 - 4.2. Notice on Unsecured Credit Facility – Amendment No.1;
 - 4.3. Notice on Unsecured Financing Facility – Amendment No.1;
 - 4.3.1. Similar to the Notice above, this allowed rental income and business income (sole proprietors) to be included under the definition of Gross Monthly Income; and also allowed
 - 4.3.2. Flexibility to customers with different loan tenors, to top-up or restructure their credit/financing facility after 50% of the remaining tenor has lapsed; and
 - 4.4. Notice on Credit Cards (Banking Order, 2006) – Amendment No.1; and
 - 4.5. Notice on Credit Cards (Islamic Banking Order, 2008) – Amendment No.1;
 - 4.5.1. These Notices served to deregulate the requirement of salary assignment or fixed deposit under lien for the issuance of credit cards; and
 - 4.5.2. To align the contents of the Credit Card Notices with the amendments made to the above Regulatory Notices.

5. As of Q3 2015, despite the marginal decline in total bank assets and deposits by 5.9% and 8.3% y-o-y respectively, credit has shown a positive annualized growth of 7.4%. Offshore assets declined by 22.0% y-o-y due to a 30.8% decline in placements with banks and financial institutions abroad.
6. The key financial soundness indicators in the banking sector remained at healthy levels. As of Q3 2015, the aggregate regulatory capital adequacy ratio is 21.1%, well above the minimum regulatory requirement of 10%. The key profitability indicators of Return on Assets (ROA) and Return on Equity (ROE) as of Q3 2015 were at 1.3% and 9.0% respectively. Non-performing loans/financing ratio declined to 5.3%.
7. The total assets of companies providing capital markets services fell by 61% y-o-y in Q3 2015. The total asset under management (AUM), however, increased by 24% y-o-y in Q3 2015 to \$4.7 billion. Meanwhile, the total size of collective investment schemes declined by 18% y-o-y to \$145.6 million.
8. AMBD has introduced a provision which gives the Authority power to compound offences under Insurance Order, 2006 and Takaful Order, 2008 respectively. In addition, the amount of fines were raised and new fines were introduced to certain offences on the provisions that are prudential in nature such as the requirement of having a statutory deposit with the Authority.
9. The second phase of the modernization process of Brunei Darussalam's payment and settlement systems, which is the Automated Clearing House (ACH) is currently underway. The ACH system participants are performing testing as part of a structured market rehearsal period. This system is expected to go-live in the first quarter of 2016 at which point it will replace the existing manual Cheque Clearing House.

10. Under the sales and purchases agreement signed between Baiduri Bank Berhad (Baiduri Bank) and United Overseas Bank Limited, Brunei Darussalam Branch (UOB Brunei Branch) dated 30th July 2015 and subsequent court order dated 7th October 2015, UOB Brunei Darussalam Branch has agreed to the sale of its retail banking business to Baiduri Bank. A joint publication by Baiduri Bank and UOB Brunei Branch has been published in our local newspapers. The realignment of UOB Brunei Branch Business strategy is in line with the UOB Group's overall strategy to focus on corporate and commercial banking business.

Future Developments

11. The Monetary Policy Committee (MPC) of AMBD will continue to be vigilant of the economic environment and to assess the need of loosening credit conditions, if necessary, whilst preserving stability in the financial system.
12. AMBD in consultation with the insurance/Takaful industry is working on enhancing the industry's market conduct framework through the formulation of guidelines for general insurance/Takaful business as well as registration of life insurance and family takaful agents.