

Autoriti Monetari Brunei Darussalam
Policy Statement
2/2014

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Global Economy

1. Global growth in the first half of 2014 was weaker than expected. Economic growth in the advanced economies particularly the Euro area and Japan has continued to lag behind despite the rebound in economic activity in the US. As such, monetary policy will most likely remain accommodative in economies other than the US to stimulate economic growth.

Brunei Darussalam's Economic Developments

2. Brunei Darussalam's real GDP grew by 0.8% year-on-year in Q2 2014 after a mild contraction in Q1 2014. The Oil and Gas Sector continued its declining trend to 1.5% in Q2 2014 as oil production decreased. Meanwhile, the Non-Oil and Gas Sector grew by 2.5%, mainly supported by Government Services, Private Services and Trade. Economic growth forecast for 2014 has been revised downward to 1.1%¹ due to the expected decline in Oil & Gas Sector by 0.2%. However, the Non-Oil & Gas sector is expected to grow by 3.4%.
3. Inflation, as measured by CPI, remained subdued in the country where it fell by 0.7% year-on-year in October 2014². The decline was mainly due to a decrease in the indices for Clothing and Footwear; Transport; and Furnishings, Household Equipment and Routine Household Maintenance. On the other hand, there was a rise in the indices for Restaurants and Hotels; Miscellaneous Goods and Services; and Communication. Global food prices

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

² Department of Economic Planning and Development (DEPD), Prime Minister's Office, *Consumer Price Index (CPI), October 2014, Negara Brunei Darussalam*.

are expected to continue to decline as crop prospects remain strong. The latest FAO³ Food Price Index showed a decline of 6.4% year-on-year in November 2014. Furthermore, as the Singapore Dollar Nominal Effective Exchange Rate (S\$NEER) continues its gradual appreciation path, the Brunei Dollar is anticipated to strengthen. These underlying trends along with continued price controls on specified consumer goods via government subsidies are expected to keep inflation low.

Brunei Darussalam's Financial Developments

4. On 3 October 2014, AMBD issued a Notice on the deregulation of interest/profit rates on residential property loans/financing of licensed banks and Perbadanan Tabung Amanah Islam Brunei (TAIB), which removed the capping on rate set for residential property loans/financing. With this Notice, all banks are able to price their products competitively. However, the Authority will closely monitor this sector and reserves the right to intervene from time to time to ensure fair and reasonable financing costs for the consumers.
5. AMBD also issued a Notice on compounding and fines to all licensed banks which came into effect on 1 July 2014. Banks are now subjected to the prescribed penalties in the event of non-compliance with, or failure to meet, the requirements of Banking Order, 2006 and Islamic Banking Order, 2008. This Notice aims to ensure full compliance by all banks, thus reducing risks to the financial system and ensuring a level playing field in the banking industry.
6. In Q3 2014, total banking assets declined by 2.1% which was primarily due to the decline in deposits by 1.3% year-on-year. On the other hand, credit which represented 29.7% of total assets showed a positive growth of 2.3% year-on-year in Q3 2014. This was supported by a decline of 17.6% to BND7.7 billion year-on-year in the offshore placements of the banks which is

³ Food and Agriculture Organization of the United Nations.

in line with our objective to ensure more onshore deployment of funds in credit.

7. Bank's capital adequacy continued to be strong with an industry ratio of 19.3% as of Q3 2014, which is well above the 10% regulatory minimum and the international norm of 8%. As of Q3 2014, the key profitability indicators of Return on Assets (ROA) and Return on Equity (ROE) were at 1.3% and 9.7% respectively and fared well with international and regional norms. Non-performing loans/financing ratio has declined to 7.4% over the same period last year due to an improved credit risk management by the banks.
8. With the introduction of the Self-Inquiry & Dispute Resolution (SIDR) service to the public on 22 September 2014 during the official opening of the new Credit Bureau office at Dar Takaful IBB Utama, the public now has access and are able to verify their credit information. This service aims to encourage greater transparency to the public of their credit standing and promoting a responsible borrowing culture.
9. The modernisation process of the national payment and settlement systems has completed its first phase with the launch of the Real Time Gross Settlement (RTGS) system on 7 November 2014. AMBD also took over the Brunei Association of Banks (BAB) cheque clearing house on 1 December 2014 which will be replaced with the Automated Clearing House (ACH) by the middle of 2015.
10. With reference to the insurance/takaful industry, AMBD issued 3 guidelines which came into effect on 1 July 2014:
 - 10.1. Guidelines on the Registration of General Insurance Agents;
 - 10.2. Guidelines on the Registration of General Takaful Agents;
 - 10.3. Guidelines on the Fit and Proper Criteria for Key Responsible Persons in Insurance and Takaful.

All general insurance/takaful agents are now required to be registered with AMBD and fully comply with the requirements by 1 January 2015. AMBD

envisages that these new requirements will enhance their professionalism and improve market discipline resulting in increased public confidence in the country's takaful and insurance industry.

11. AMBD issued two notices under the Securities Markets Order (SMO), 2013 which took effect on 22 August 2014:
 - 11.1. The first notice on exemption from public offering registration requirement applies to holders of Capital Markets Services Licences under the SMO, 2013 and any securities that do not fall within the meaning of exempt securities and transactions under section 117 of the SMO, 2013;
 - 11.2. The second notice issued was regarding the withdrawal of exemptions granted under the repealed Securities Order, 2001 and Mutual Funds Order, 2001 and applies to banks, insurance companies, takaful operators and companies licensed under the Registered Agents and Trustees Licensing Order, 2000.

Future Developments

12. AMBD has commenced works on the second phase of its payment and settlement systems project, which is the implementation of the Automated Clearing House (ACH). The system will, among others, allow automated processing of cheques and facilitate direct debit and credit transfers and is expected to go live by the middle of 2015.