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Policy Statement

1/2014

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Global Economy

1. Global economic recovery continues to gain momentum with advanced economies' growth expected to strengthen this year and developing economies set to benefit from improved global conditions. Monetary policy in most economies continues to be accommodative to support economic recovery. However, a number of central banks have begun the process of monetary policy normalisation away from the highly accommodative and unconventional measures deployed after the Global Financial Crisis. Nonetheless, policymakers remain vigilant due to the uncertainty of the effects of this monetary policy normalisation process.

Brunei Darussalam's Economic Developments

2. The economy of Brunei Darussalam faced growth challenges in 2013. The economy contracted by 1.8%, mainly due to a decline in the Oil and Gas Sector by 7.2% stemming from reduced oil production¹. On the other hand, the Non-Oil and Gas Sector has continued to expand, recording growth of 2.7%. In the first quarter of 2014, the economy's downward trend continued with a decline of 3.3%, with the Oil and Gas Sector contracting by 10.3% and the Non-Oil and Gas Sector expanding by 3.1%².
3. Inflation rate for 2013 was 0.4%. The latest CPI for May 2014 declined by 0.2% year-on-year³. This decline was due to a decrease in the indices for Food & Non-Alcoholic Beverages; Clothing & Footwear; Housing, Water,

¹ Department of Economic Planning and Development (DEPD), Prime Minister's Office, *Quarterly Gross Domestic Product, Q4 2013, Negara Brunei Darussalam*.

² Department of Economic Planning and Development (DEPD), Prime Minister's Office, *Quarterly Gross Domestic Product, Q1 2014, Negara Brunei Darussalam*.

³ Department of Economic Planning and Development (DEPD), Prime Minister's Office, *Consumer Price Index (CPI), May 2014, Negara Brunei Darussalam*.

Electricity, Gas & Other Fuels; Furnishing, Household Equipment & Routine Household Maintenance; Communication; and Recreation & Culture, , with an increase in indices for Health; Transport; Education; Restaurants & Hotels; and Miscellaneous Goods & Services. Global food prices have been on an upward monthly trend since the start of the year due to bad weather but remain lower than last year. The UNFAO Food Price Index for May 2014 declined by 3.2% year-on-year, the eleventh consecutive month of year-on-year decreases⁴.

4. The latest economic growth forecast for 2014 is 5.1%, with the Oil & Gas Sector expected to recover at 7.1% and the Non-Oil & Gas Sector posting 3.7% growth⁵. The expected increase in production capacity of the oil and gas sector, as well as timely implementation of infrastructure projects are forecasted to be the main contributors to the higher growth in 2014. The Singapore Dollar Nominal Effective Exchange Rate (S\$NEER) is expected to continue its gradual appreciation path⁶, leading to an expectation for the Brunei Dollar to strengthen. The exchange rate trend and price control policy on specified essential consumer goods are expected to continue to contain inflation at a low level this year.

Brunei Darussalam's Financial Developments

5. In 2013, total financial sector assets in Brunei Darussalam showed a marginal decline by 0.3% to BND23.2 billion, with a further decrease of 0.8% to BND23.0 billion in Q1 2014. This is due to the contraction by 1.8% in total banking assets to BND19.3 billion, which represent 83% of total financial sector assets. However, other financial sectors such as the insurance/takaful sector⁷ and finance companies⁸ have shown positive growth in 2013 with an increase of 6.5% to BND1.3 billion and 10.9% to BND2.3 billion respectively. For Q1 2014, the insurance/takaful sector continued to grow by 2.8% to

⁴ United Nations Food and Agriculture Organization (UNFAO), *Food Price Index* as at May 2014.

⁵ Department of Economic Planning and Development (DEPD), Prime Minister's Office

⁶ Monetary Authority of Singapore *Monetary Policy Statement* 14 April 2014

⁷ Market share of 6% of total financial sector assets

⁸ Market share of 10% of total financial sector assets

BND1.4 billion. However, finance companies' assets declined by 5.4% to BND2.1 billion.

6. Despite the decline in deposits by 3.5% to BND16.7 billion in 2013, credit has shown a positive growth of 8.1% to BND5.6 billion after successive years of negative growth for the past 4 years since 2008 and marginal positive growth in 2012. The thrust of credit growth has been in the corporate sector with an increase of 13.2%, which was primarily contributed by the increased lending of 96.0% in transportation. Meanwhile, lending to the household sector grew by 4.2%, largely contributed by 15.0% loan growth in residential housing. This growth is encouraging, considering the declining trend in non-performing loans over the years to a level of 7.4% in 2013. The credit and deposit growth trend showed marginal decline by 2.4% and 0.5% respectively in Q1 2014.
7. Banking institutions continue to depict financial strength with Capital Adequacy Ratio for the industry of 19.4% as of 2013, which is well above the 10% minimum requirement under the Banking Order, 2006 and Islamic Banking Order, 2008 and the minimum international standard of 8%. Profitability ratios for 2013 in terms of Return on Assets and Return on Equity have improved from the previous year, at 1.4% and 10.6% respectively.
8. To stimulate a more conducive banking environment and to encourage the increased deployment of excess liquidity within the country, the Personal Loans cap has been relaxed starting February 2014, from 30% to 40% of total loans. This decision was taken in the background of enhancements to the financial system infrastructure, especially the AMBD Credit Bureau, which has greatly facilitated strong credit risk management by banks.
9. As a consequence of the global financial crisis, global regulatory and financial structure reforms, a number of internationally-active banks have consolidated their global operations in various countries in which they

operate. On 31 March 2014, Citibank N.A. Brunei Darussalam ceased its business operations and surrendered their full banking license to AMBD.

Future Developments

10. The modernisation of the national Payment and Settlement System is well in progress. The Real Time Gross Settlement is expected to be operational in the second half of this year. Among others, the system will help to mitigate systemic risk, facilitate the development of new financial products and services, and generally improve the provision of financial services. The Payment and Settlement System also serves as a very important platform for the further development of Brunei Darussalam's financial services industry.

11. Based on the recent Insurance and Takaful Survey conducted by AMBD, it was evident that a majority of respondents did not fully understand the benefits of takaful and insurance. This underscored the need to create greater public awareness and understanding on takaful and insurance, including product details and pricing. AMBD will embark on several initiatives with Brunei Insurance and Takaful Association (BITA) and other stakeholders towards this endeavour.