

Autoriti Monetari Brunei Darussalam

Policy Statement

2/2013

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Global Economy

1. The global economy continued on its path of modest recovery this year with an expectation of strengthening in both advanced and emerging economies next year. Monetary policy in many countries has remained broadly accommodative to improve economic conditions. The volatility in the global financial markets has been a defining characteristic in the second half of this year at the back of uncertainty of the US Quantitative Easing (QE) tapering. Consequently, a number of emerging economies have faced heightened risks in maintaining the stability of their exchange rates and capital flows.

Brunei Darussalam's Economic Developments

2. Brunei Darussalam's economy remained resilient and inflation level continued to be low. In the first half of the year, Brunei Darussalam's economy expanded by 1.4% year-on-year. It grew by 2.0% year-on-year in Q2 2013 compared to the 0.9% growth recorded in Q1 2013¹. This was due to the growth in the non-Oil and Gas Sector by 4.1% contributed mainly by Transport and Communication, Trade, Real Estate & Ownership of Dwellings and Private Services. Meanwhile, the Oil and Gas Sector declined by 0.6% in the said quarter attributed by a decrease in oil production.
3. The Department of Economic Planning and Development (DEPD), Prime Minister's Office re-based the Consumer Price Index (CPI) on 23rd November 2013. The base year was changed from 2005 to 2010 and the basket of goods and services was re-weighted, taking into account the latest composition of household consumption based on the Household Expenditure

¹ Department of Economic Planning and Development (DEPD), Prime Minister's Office, *Quarterly Gross Domestic Product, Q2 2013, Negara Brunei Darussalam*.

Survey 2010/11. With the re-basing, the inflation rates from 2011 onwards have been adjusted accordingly. For the first eleven months of 2013, the average CPI rose by 0.4% compared to the same period in 2012.

4. The CPI for November 2013 increased by 1.0% year-on-year, contributed by the rise in indices for Transport; Clothing and Footwear; and Education². The Brunei Dollar may continue to appreciate in line with the continued appreciation path of the Singapore Dollar Nominal Effective Exchange Rate (S\$NEER). According to the current trend in the global food prices, food price inflation is expected to be contained. For November 2013, the UNFAO Food Price Index decreased by 4.4% year-on-year and showed a decline since July 2013³. With the stable Brunei Dollar and global food prices, as well as continued price controls for certain consumer goods, imported inflation in the country is expected to be low.

Brunei Darussalam's Financial Developments

5. Brunei Darussalam's financial sector is showing a steady growth in Q3 2013, evidenced by a growth of 1.8% in banking assets to BND20.0 billion and deposits by 1.1% to BND17.5 billion, with healthy credit growth of 5.3% to BND5.7 billion. Banking institutions in particular, have shown a sound financial position, with *Capital Adequacy Ratio* of 19.6% on average as of Q3 2013, which is well above the 10% minimum requirement under the Banking Order, 2006 and Islamic Banking Order, 2008. Expected profitability ratios for 2013 i.e. *Return on Assets* and *Return on Equity* on annualised bases are 1.3% and 9.9% respectively. Despite the stable market conditions in Brunei Darussalam, banks are aligning their operations with their global business strategy, which may have impacted their operations in the country.
6. With the consent of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam, the Securities Markets Order, 2013, (SMO) was approved in

² Department of Economic Planning and Development (DEPD), Prime Minister's Office, *Consumer Price Index (CPI), November 2013, Negara Brunei Darussalam*.

³ United Nations Food and Agriculture Organization (UNFAO), *Food Price Index* as at November 2013. The decline in UNFAO Food Price Index is based on year-on-year changes.

June 2013 as part of AMBD's efforts to strengthen the legal and regulatory framework to govern the activities, institutions and instruments in the capital markets. This legislation repeals the Securities Order, 2001 and Mutual Funds Order, 2001.

7. The SMO is a comprehensive legislation based on the International Organisation of Securities Commissions (IOSCO) objectives and principles of securities regulation. This Order is intended to provide better oversight of the capital markets and its participants, in addition to providing improved disclosure requirements that would result in greater investor protection and increased market confidence.
8. The SMO provides a framework for the licensing and supervision of capital market activities, including:-
 - market operators such as securities exchanges, clearing house, central securities depository, trading facilities and credit rating agencies;
 - capital market intermediaries such as those conducting dealings, transacting or arranging in investments, managing investments and investment advisory services; and
 - securities instruments such as shares, debentures and collective investment schemes.
9. In August 2013, AMBD issued a Notice on the appointment of external auditors for licensed banks and finance companies, which aims to improve the quality of audit by strengthening the qualifying criteria for their appointment, application procedures and reporting obligations, in line with best regulatory practices. This Notice shall be applicable to the appointment of an auditor for financial years beginning on and after 1st January 2013.
10. Since the commencement of the Credit Bureau services⁴, more than 79,000 Credit reports, to date, have been provided to banks and finance companies,

⁴ The Credit Bureau commenced its services to Members in September 2012.

in which 90% of the reports were used in connection with new application of credit facilities. With the availability of the Credit reports, banks and finance companies are able to make a more informed decision when granting credit. In this connection, it is observed that there had been a marked improvement in the assets quality since September 2012. On another positive note, the implementation of the Credit Bureau of AMBD has been recognised in the recent *Doing Business Report 2014* by The World Bank.

Future Developments

11. The issuance of regulations on lending/financing rates in March 2013 to licensed banks including Perbadanan Tabung Amanah Islam Brunei (TAIB), amongst other things, were intended to assist and enhance lending/financing to productive sectors at affordable rates, in particular to the Small and Medium Enterprises (SMEs). AMBD, in consultation with the banks, will continue to explore possible avenues for banks and other financial intermediaries to play a greater role in providing better financial access for the development of SMEs.
12. Recognising the importance of financial inclusion for economic development and financial stability, AMBD has placed financial literacy high on its agenda. With the main objective to raise the nation's financial literacy level, AMBD is working towards formulating a financial literacy strategy, including developing suitable programmes in collaboration with other key stakeholders.
13. The level of takaful/insurance penetration in the domestic market is still relatively low which could be due to lack of understanding and appreciation of the takaful/insurance benefits. AMBD is thus conducting a study with the objective of assessing the level of takaful/insurance awareness; customer satisfaction of existing products and services; and future takaful/insurance needs of the market. The outcome of the study will help in developing a long term strategic direction and to further promote the takaful/insurance industry.