



AMBD Article

THE ROLES AND RESPONSIBILITIES OF AUTORITI MONETARI BRUNEI DARUSSALAM:

Conduct of Monetary Policy

Autoriti Monetari Brunei Darussalam (AMBD) was established on 1 January 2011 as a statutory body as stipulated in the AMBD Order, 2010.

AMBD acts as a central bank of Brunei Darussalam with responsibilities including the conduct of monetary policy, the issuance of the Brunei currency, as well as regulating and supervising banks and other financial institutions.

In this article, we will be sharing about how AMBD conducts Brunei Darussalam's monetary policy.

What is Monetary Policy?

Monetary policy is a macroeconomic policy enacted by a country's central bank to affect the money supply or/and interest rates in the country. The goals or objectives of monetary policy varies across countries. Some examples include – to attain full employment; high economic growth; stable price level; or stable exchange rates. Monetary policy instruments may be adjusted from time to time, depending on the performance of the economy and what the central bank wishes to achieve.

What is Brunei Darussalam's Monetary Policy?

Brunei Darussalam's monetary policy regime is based on the Currency Board Arrangement, which is underpinned by the Currency Interchangeability Agreement (CIA) between Brunei Darussalam and Singapore.

- **The Currency Board Arrangement**

A monetary authority pegs its currency to another currency, or the reserve currency, and **issues domestic money only in exchange for foreign reserve currency**. The local currency is **fully convertible into the reserve currency** at a fixed rate, and on demand. In Brunei Darussalam, the Brunei dollar is pegged to the Singapore dollar as the reserve currency, at par under the CIA.

A currency board must fully **back up the total amount of currency** issued in the economy with an equivalent amount held in foreign reserves. This is also stated in the Currency Order, 2004, which requires AMBD to **back up every note and coin issued with foreign exchange reserves**. This is to ensure confidence and stability in the Brunei dollar, and hence, eases trade and investment.

Did you know?

There is BND 1,286.77 million worth of Brunei notes and coins currently in circulation. This means that we have at least BND 1,286.77 million in foreign exchange reserves!

Source: AMBD (September 2020)

The latest statistics can be found in our Monthly Statistical Bulletin on the AMBD website at www.ambd.gov.bn.

As the Singapore dollar anchors the Brunei dollar, Singapore's monetary policy has a direct influence on monetary conditions in Brunei Darussalam. Singapore uses the exchange rate as its monetary policy tool. The longstanding monetary policy framework based on the CIA has been beneficial for macroeconomic stability. Indeed, inflation in Brunei Darussalam has also been low and stable, averaging 1.1% over 1981–2019 [Department of Economic, Planning and Statistics, Ministry of Finance and Economy, 2019].

- **The Currency Interchangeability Agreement**

The CIA makes Brunei Darussalam and Singapore a unique case of a currency board.

Under the CIA, the **monetary authorities and licensed banks** in both countries are obliged to **accept and exchange** each other's currencies **at par and without charge**, into their own currency.

BND 1 = SGD 1

The value of the Brunei dollar and the Singapore dollar are always equal.

**Note: However, rates in money changers may differ due to administrative costs!*

As a result, the Brunei dollar is customary tender in Singapore and the Singapore dollar is customary tender in Brunei Darussalam. **Customary tender is different from legal tender.** Legal tender is any official medium of payment recognised by law that can be used for payments (and other financial obligations) in that country. Typically, the legal tender is the national currency issued by the country. Meanwhile, it is customary to accept Brunei dollars in Singapore and Singapore dollars in Brunei Darussalam.

So...

In Brunei Darussalam, Brunei dollars are legal tender, while Singapore dollars are customary tender.

In Singapore, Singapore dollars are legal tender, while Brunei dollars are customary tender.

This unique arrangement has been mutually beneficial for both Brunei Darussalam and Singapore.

The arrangement removes exchange rate risks between the two countries, which would typically cause uncertainty and become a risk to business operations and investments. It also reduces the cost of doing business between Brunei Darussalam and Singapore, and in turn eases tourism, trade and investments.

Under the CIA, the authorities agreed to return the customary tender collected through **currency repatriation**. What currency repatriation means is that AMBD returns the Singapore currency to the Monetary Authority of Singapore (MAS) and likewise, MAS returns the Brunei currency to AMBD.