



Policy Statement

2/2023

Date: 27 December 2023

Global and Regional Economic Developments

1. In the October 2023 World Economic Outlook report, the International Monetary Fund (IMF) projected global growth for 2023 at 3.0%, while 2024 growth rate was revised downwards from 3.0% to 2.9%. Despite the tighter global financial conditions, the 'hard landing' scenario predicted earlier this year did not materialise. However, global economic growth remains slow and uneven, with increasing divergences across different economies. There are still downside risks to global growth, including geopolitical fragmentations and increased trade restrictions, a worsening real estate crisis in China, reduced fiscal space in many countries due to elevated debt levels and climate change issues that continue to affect energy and food prices.
2. Global inflation is forecast to further decline from the high of 8.7% in 2022 to 6.9% in 2023, and 5.8% in 2024. This is due to the collective efforts made by central banks to control inflation. However, headline inflation remains above target for most economies. In the second half of 2023, global and regional central banks have become less hawkish with some pausing their consecutive interest rate hikes or maintaining their monetary policy stance. It is expected that monetary policy will remain tight for an extended period, where the central banks' future policy stance will depend on the passthrough effects from previous rate hikes.
3. In the commodities markets, oil prices recorded significant gains in Q3 2023. This was due to Saudi Arabia and Russia extending their voluntary production cuts until the end of 2023 and Russia's temporary ban on diesel exports in response to their domestic supply shortages. Looking ahead, the direction of oil prices is subject to supply factors such as global oil inventory levels and the Organisation of Petroleum Exporting Countries Plus [OPEC+] oil output decisions and global demand. Meanwhile, natural gas prices have been on a rising trend due to increased demand in

preparation for colder seasons and supply cuts by Russia. This uptrend in natural gas prices is expected to continue in the near-term.

Brunei Darussalam's Economic Developments

4. In the first half of 2023, Brunei Darussalam's Gross Domestic Product (GDP) contracted by 1.1% year-on-year. This was largely driven by a 7.8% year-on-year contraction in the Oil and Gas Sector, following decreased activities of Oil and Gas Mining, and Manufacture of Liquefied Natural Gas (LNG) by 7.4% and 9.4% respectively. Meanwhile, the Non-Oil and Gas Sector expanded 5.3% year-on-year, mainly attributed to the growth in Air Transport, Finance and Other Manufacturing Sectors while the Agriculture, Forestry and Fishery Sector contracted by 2.7% year-on-year due to decreasing activities in Fishery; and Vegetables, Fruits and Other Agriculture.
5. The economy's performance throughout 2023 and 2024 will depend on domestic economic activities, the performance of existing foreign direct investment (FDI) projects and the implementation progress of new FDI. However, key downside risks remain amid the weak external demand and lower crude oil and LNG production levels. In general, the sentiment in the private sector has been slightly optimistic with the Business Sentiment Index (BSI) averaging at 50.1 for the first ten months of 2023. Some businesses in the private sector expressed plans to increase their workforce and investment expenditure in the near term. However, there are some businesses experiencing ongoing challenges such as higher costs of running their businesses, and difficulties in recruiting and retaining workers.
6. Similar to the downward trend in global inflation, Brunei Darussalam has observed much lower inflation in 2023 compared to 2022. The Consumer Price Index (CPI) rose 0.3% year-on-year in the first ten months of 2023 in comparison to 3.8% in the same period last year, mainly driven by higher prices of Food including Meat, Rice and Cereals, and Restaurants and Hotels, which include Catering Services.
7. The relatively muted inflation in Brunei Darussalam can be attributed to a combination of factors such as subsidies, price controls on selected items and its monetary policy. The effects of imported inflation on domestic prices have been dampened, contributed by the Brunei dollar's one-to-one parity to the Singapore dollar, and with the Monetary Authority of Singapore (MAS) maintaining its monetary policy stance in October 2023. Taking these factors and available CPI data into

consideration, BDCB's inflation forecast for Brunei Darussalam for 2023 is revised downwards within the range of 0.0% to 1.0%.

Brunei Darussalam's Monetary and Financial Sector Developments

8. With the current interest rate environment and global economic and market conditions, the Financial and Monetary Stability Committee (FMSC) maintained the BDCB Overnight Standing Facility rates at the end of November 2023, with the Lending Rate at 4.0% and the Deposit Rate at 1.5%. This ensures that BDCB's monetary operations are consistent with the Currency Board principles, while encouraging domestic money market activities. BDCB will continue to ensure sufficient support to provide liquidity for a well-functioning domestic financial system.
9. Brunei Darussalam's financial sector, consisting of both Islamic and conventional financial institutions recorded a decline in assets of 5.9% year-on-year. The total asset value was BND23.3 billion as of Q3 2023, of which the Islamic finance sector constituted BND13.3 billion, while the conventional sector held BND10.0 billion. Deposit-taking institutions made up 91.7% of the total financial sector assets with an asset base of BND21.4 billion.
10. Based on BDCB's macroprudential analysis and assessment for Q3 2023, external and domestic macroeconomic risks are subject to vulnerabilities in the global economy. However, the overall risks are mitigated as the domestic banking industry remains robust and resilient with an aggregate Capital Adequacy Ratio (CAR) of 19.6% as of Q3 2023, which is well above the 10% minimum regulatory requirement stipulated in the Banking Order, 2006, and Islamic Banking Order, 2008. The industry continued to hold surplus liquid assets to facilitate financial intermediation activities with a Liquid Assets-to-Total Assets ratio of 45.5%. The banking industry's overall assets decreased by 6.7% year-on-year to BND19.4 billion, which moved in tandem with the decline in deposits by 9.7% year-on-year to BND16.0 billion, mainly contributed by the decrease in time deposits. However, the banking industry's profitability improved with Return on Assets (ROA) and Return on Equity (ROE) recorded at 2.2% and 14.2%, respectively, driven by the global interest/profit rate environment which remains elevated.
11. In Q3 2023, banks have continued to provide credit flows to the economy with the total loans/financing amounting to BND6.9 billion, indicating a growth of 6.2% year-on-year. This improvement was primarily contributed by lending/financing activities to the corporate sector

particularly the Commercial Property and Services sectors. Asset quality of the banking industry has also improved in Q3 2023 with Net Non-Performing Loans/Financing (NPLF) ratio at 1.6% compared to 2.0% in Q3 2022.

12. BDCB continues to identify and develop suitable regulatory frameworks that align with best practices. In line with this, a set of new Guidelines on Liquidity Risk Management, which outline sound principles and practices in managing liquidity risks across banking operations, was issued to all banks.
13. In the area of capital markets, BDCB issued the Notice on the Commencement of Continuing Professional Development (CPD) Framework to promote ongoing knowledge and skill development within the capital market industry. To further strengthen the business conduct of Capital Markets Services Licence (CMSL) holders who carry out Islamic investment business, BDCB also issued the Notice and Guidelines on Conducting Islamic Investment Business, which imposed new requirements and provided guidance regarding the operational aspect of conducting Islamic investment business.
14. BDCB also intends to issue the Notice on Adoption of National QR Code Standards for payments, which is expected to contribute towards the expansion of financial inclusion and adoption of digital payments; and Guidelines on the Issuance of Debentures - Amendment No. 1, which aims to provide direction on how to issue debentures in accordance to the ASEAN Sustainability-Linked Bond Standards.
15. Recognising the risk of Syariah non-compliance to the financial stability, BDCB amended the Notice on Syariah Governance Framework (SGF) to strengthen the roles and responsibilities of the Board of Directors, Syariah Advisory Body (SAB), and Senior Management, as well as to segregate the Syariah control functions depending on the nature, size and complexity of the financial institution. This Notice also enhances public trust and confidence by requiring financial institutions to disclose the state of the Syariah compliance of the institution in their annual financial statements. Furthermore, BDCB also issued a Notice on Syariah Non-Compliance, which mandates financial institutions to report any Syariah Non-Compliance events to BDCB, together with their rectification plans.
16. BDCB has also issued a Notice on Appointment of Syariah Advisory Bodies and Guidelines on Fitness and Propriety of Syariah Advisory Bodies. These aim to further strengthen the competence of Syariah

advisers, and enable them to perform their duties effectively in ensuring Syariah compliance in the business and activities carried out by Islamic financial institutions in Brunei Darussalam.

17. Brunei Darussalam completed its Asia Pacific Group on Money Laundering (APG) Mutual Evaluation process in 2023, which assessed the country's level of compliance with the global anti-money laundering and combatting the financing of terrorism (AML/CFT) standards through a peer review programme. The Mutual Evaluation Report was endorsed by the APG Plenary on 13 July 2023, where Brunei Darussalam was rated to be substantially effective in five key areas, including national risk, policy and coordination, international cooperation, use of financial intelligence, terrorism financing investigations and prosecutions, as well as terrorism financing preventive measures and financial sanctions. In preparation for the next Mutual Evaluation in 2030, BDCB remains dedicated to actively monitoring Brunei Darussalam's compliance towards international AML/CFT standards outlined by the Financial Action Task Force (FATF) Recommendations.
18. BDCB is committed to monitoring and supporting the growth and development of Brunei Darussalam's financial services industry and the economy as a whole. Given the complexities shaping global economic prospects, such as risks of tighter-for-longer monetary conditions and geopolitical tensions, BDCB remains vigilant in ensuring the adequacy of its regulatory and supervisory frameworks to safeguard the country's monetary and financial sector stability.

Data sources:

Brunei Darussalam Central Bank (BDCB)

Department of Economic Planning and Statistics (DEPS), Ministry of Finance and Economy

International Monetary Fund (IMF)