Policy Statement
1/2024

Date: 11 July 2024

Global and Regional Economic Developments

1. In the April 2024 World Economic Outlook report, the International Monetary Fund (IMF) projected that the global growth rate of 3.2% in 2023 will continue into 2024 and 2025. The forecast takes into account stronger-than-expected activity in advanced economies, particularly in the United States, which is balanced against a slowdown in emerging and developing economies. Global growth is generally expected to remain steady and resilient, though uneven. However, downside risks include higher-for-longer interest rates, rising trade tensions, the downturn in China's property market, and rising geopolitical uncertainties.

2. Global inflation is expected to decrease from 6.9% in 2023 to 5.9% in 2024. Significant declines in fuel and food price inflation have been observed, driven by the effect of still-tight monetary policies aimed at controlling inflation. Policymakers will have to move cautiously to balance price and growth objectives as well as navigate the challenging domestic and global conditions. There is a broad expectation that monetary policy will start to be less restrictive towards the end of the year, subject to developments in inflation data, particularly in advanced economies.

3. Oil prices have gradually increased since the beginning of the year, driven by China's economic recovery, ongoing geopolitical fragmentations between Russia and Ukraine, and tensions in the Middle East. The extension of supply cuts by the Organization of the Petroleum Exporting Countries Plus (OPEC+) since April 2023 provided further support to oil prices, with several OPEC+ countries announcing additional voluntary cuts for Q2 2024. Moving forward, the direction of oil prices will depend on various factors, including demand from China and supply from non-OPEC+ countries. Meanwhile, the price of natural gas fell significantly in Q1 2024. This was attributed to relatively low consumption and high inventory in the United States due to the warm winter. Natural gas prices are

likely to recover slowly towards the end of the year as cooler winters are expected and exports to Europe increase.

Brunei Darussalam's Economic Developments

4. Brunei Darussalam's Gross Domestic Product (GDP) expanded by 6.8% in the first quarter of 2024, largely driven by a growth of 8.9% in the Oil and Gas Sector and 5.0% in the Non-Oil and Gas Sector. The expansion of the Oil and Gas Sector was due to increased activities of Oil and Gas Mining and the Manufacture of Liquified Natural Gas (LNG), which grew by 7.3% and 14.1%, respectively. Meanwhile, the Non-Oil and Gas Sector's growth was supported by expansions in subsectors such as Downstream Activities, Communication, and Wholesale and Retail Trade.

5. Economic growth is anticipated to improve in 2024, with positive developments expected across different sectors. However, key downside risks remain, including uncertainty in commodity prices, and lower crude oil and LNG production levels. The Business Sentiment Index (BSI) averaged 50.0, reflecting mixed sentiments amongst private sector businesses in the first five months of 2024. Generally, sentiments are influenced by national events and festivities, school holidays, and manpower availability. The average investment, employment, and cost sub-indices were all slightly above the 50.0 threshold for the same period, driven by expansion plans as well as new and ongoing projects.

6. Following the global disinflation trend, Brunei Darussalam observed lower prices in the first five months of 2024, with inflation averaging at -0.3% year-on-year compared to 0.8% in the same period last year. This decline was mainly driven by lower prices of Non-Food index, including Clothing and Footwear, Transport, and Communication. The relatively muted inflation can be attributed to a combination of factors such as subsidies, price controls on selected items, and the country's monetary policy. The effects of imported inflation on domestic prices have been dampened by the Brunei dollar's one-to-one parity with the Singapore dollar, where the Monetary Authority of Singapore's (MAS) rate of appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) policy band was maintained in April 2024. Taking these factors and available Consumer Price Index (CPI) data into consideration, BDCB's inflation forecast for Brunei Darussalam for 2024 is within the range of -0.5% to 0.5%.

Brunei Darussalam's Monetary and Financial Sector Developments

7. With global rates expected to remain higher for longer, the Financial and Monetary Stability Committee (FMSC) adjusted the BDCB Overnight Standing Facility Rates. The FMSC increased the Overnight Deposit Rate thrice by 50 basis points in each of its April, May, and June 2024 meetings to 3.0% while maintaining the Overnight Lending Rate at 4.0%. These measures ensure that BDCB's monetary operations align with the Currency Board principles while encouraging domestic money market activities.

8. Brunei Darussalam's financial sector, comprising both Islamic and conventional financial institutions, grew by 2.9% year-on-year, with total assets amounting to BND24.6 billion as of Q1 2024. The Islamic finance sector's assets amounted to BND14.5 billion, while the conventional sector held BND10.1 billion in assets. Deposit-taking institutions made up 91.7% of the sector, with an asset base of BND22.5 billion.

9. Based on BDCB's macroprudential analysis and assessment for Q1 2024, external risks impacting the global economy may affect the domestic economy and financial industry. Nonetheless, the banking industry remains robust and resilient, with an aggregate Capital Adequacy Ratio (CAR) of 20.9%, which is well above the minimum regulatory requirement of 10.0%, as stipulated in the Banking Order, 2006 and Islamic Banking Order, 2008. The industry also continued to hold surplus liquid assets, with a Liquid Assets-to-Total Assets ratio of 43.7% to support financial intermediation activities. The banking industry's total assets increased by 2.1% y-o-y to BND20.4 billion, primarily driven by the increase in banks' lending activities.

10. In Q1 2024, the Credit-to-GDP ratio stood at 47.0% compared to 41.8% in Q1 2023. Total loans/financing grew by 14.0% y-o-y to BND7.2 billion in Q1 2024, driven by higher lending/financing activities to the corporate sectors, mainly the commercial property sector. The asset quality of the banking industry also improved, with the Net Non-Performing Loans/Financing (NPLF) ratio at 1.5% compared to 1.9% in Q1 2023.

11. On the other hand, the banking industry's deposits declined by 1.9% y-o-y to BND16.6 billion, driven by a fall in demand deposits. The banking industry's profitability also slightly declined from the previous year, with banks' Return on Assets (ROA) and Return on Equity (ROE) standing at 2.0% and 13.0%, respectively.

12. BDCB will continue to assess and ensure the appropriateness of the overall regulatory and supervisory frameworks to foster development within the financial system whilst maintaining financial stability. This includes introducing necessary adjustments to existing frameworks to align with the latest international standards and best practices. As part of the requirements to adopt International Financial Reporting Standards (IFRS) 17 for the financial year 2023, BDCB has granted a temporary six-month extension to allow takaful operators and insurance companies to carefully assess the unique changes that these new standards will bring to their annual Audited Financial Statements for the financial year ending 31 December 2023.

13. BDCB has also issued amendments to the Guidelines on the Issuance of Debentures, effective 5 January 2024, to facilitate the adoption of the ASEAN Sustainability-Linked Bonds Standards within Brunei Darussalam's capital markets. These guidelines set out necessary standards for any person who wishes to issue debentures in Brunei Darussalam.

14. In April 2024, BDCB also published the Financial Sector Manpower Survey Data Reporting Guideline to licensed financial institutions in Brunei Darussalam. The survey aims to support financial development by providing insights into manpower demand and identifying emerging employment trends and potential gaps in skills and qualifications within the financial sector.

Data sources:
Brunei Darussalam Central Bank (BDCB)
Department of Economic Planning and Statistics (DEPS), Ministry of Finance and Economy
International Monetary Fund (IMF)