



Policy Statement

2/2024

Date: 30 December 2024

Global and Regional Economic Developments

1. In the October 2024 World Economic Outlook report, the International Monetary Fund (IMF) projected the global growth rate for 2024 and 2025 to remain at 3.2%. However, this global economic growth is expected to be uneven across different economies with downward revisions made for advanced economies, the Middle East, Central Asia and sub-Saharan Africa. Meanwhile, forecasts for the United States and a large part of Asia improved. Nonetheless, the IMF described a bright outlook for the Asia Pacific region as a whole, expecting it to contribute 60.0% to global growth in 2024 despite increased downside risks. These include the uncertainty about the strength of global demand, escalating trade and geopolitical tensions, extreme weather conditions leading to economic losses, the pace of China's recovery, and lingering effects of past monetary tightening, particularly in Advanced Asia.
2. Global inflation is expected to decrease from 5.8% in 2024 to 4.3% in 2025. Advanced economies and most emerging Asian economies are experiencing the return of inflation rates close to their central banks' targets, making way for monetary easing. Since the COVID-19 pandemic, there has been a structural shift in global and regional demand from goods to services. This has enabled the price inflation of goods to stabilise while the price inflation of services has remained high amid wage pressures. Escalating trade and geopolitical tensions, as well as commodity price shocks, continue to pose risks to the global outlook.
3. In the commodities markets, oil prices had initially fallen in the third quarter of 2024 due to weaker economic performance in the United States and slow growth in China. However, they are expected to increase moderately with increasing geopolitical tensions, extension of production cuts by the Organization of the Petroleum Exporting Countries Plus (OPEC+), as well as the demand recovery

from China. Meanwhile, natural gas prices recovered in Q3 2024, stemming from higher demand due to the hotter summer. Moving forward, the direction of natural gas prices will depend on various factors, including consumption and level of natural gas inventories.

Brunei Darussalam's Economic Developments

4. Brunei Darussalam's Gross Domestic Product (GDP) expanded by 6.4% year-on-year in the first half of 2024 following an expansion in both the Oil and Gas sector and the Non-Oil and Gas sector by 8.3% and 4.8%, respectively. Growth in the Oil and Gas sector was due to the increased activities of Oil and Gas Mining, and Manufacture of Liquefied Natural Gas (LNG), which grew by 7.0% and 12.9%, respectively. Meanwhile, the growth in the Non-Oil and Gas sector was supported by growth in various sectors, primarily Downstream Activities, Air Transport, and Communications.
5. The growth momentum for Brunei Darussalam is expected to persist throughout 2024, driven by strong Oil and Gas production, expansion in the Non-Oil and Gas sector, and sustained positive developments in Foreign Direct Investment (FDI) projects. Based on the Business Sentiment Index (BSI), which recorded an average of 50.1 in the January-October 2024 period, private sector businesses were generally slightly optimistic about their business conditions. Domestic developments will depend on several other factors, including the level of domestic consumption and economic activities, as well as the progress of FDI projects. For the year ahead, external risks could also pose challenges to growth, including lower commodity prices and weaker demand from key trading partners.
6. In line with the global disinflationary trend, inflation in Brunei Darussalam averaged -0.4% year-on-year in the January-October 2024 period, compared to 0.3% in the same period last year. This decline was mainly due to lower prices in the Non-Food index, including Transport, Clothing and Footwear, and Communication.
7. This relatively low domestic inflation has also been driven by a combination of other factors, including subsidies, administrative price controls on selected items, and the country's monetary policy. The effects of imported inflation on domestic prices are minimised, contributed by the Brunei dollar's one-to-one parity to the Singapore dollar, and the Monetary Authority of Singapore's (MAS) decision to maintain the rate of appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S\$NEER) policy band in October 2024. Taking these factors and available Consumer Price Index

[CPI] data into consideration, BDCB's inflation forecast for Brunei Darussalam for 2024 is revised downwards within the range of -0.7% to 0.3%.

Brunei Darussalam's Monetary and Financial Sector Developments

8. Considering the developments in the global and domestic markets where market rates have declined, the Financial and Monetary Stability Committee (FMSC) cut the Overnight Deposit Rate and Overnight Lending Rate by a total of 50 basis points in its September and November 2024 meetings to 2.50% and 3.50%, respectively. These measures ensure that BDCB's monetary operations align with the Currency Board principles while encouraging domestic money market activities.
9. As of Q3 2024, assets of Brunei Darussalam's financial sector, comprising both Islamic and conventional financial institutions, grew by 4.1% year-on-year, with a total asset size of BND24.3 billion. The Islamic finance sector assets amounted to BND14.3 billion, constituting 58.7% of the total assets, while the conventional sector held BND10.0 billion. Deposit-taking institutions made up 91.5% of the sector with an asset base of BND22.2 billion.
10. Credit-to-GDP ratio increased from 45.0% in Q3 2023 to 49.4% in Q3 2024, primarily due to increased credit to corporate sectors, mainly in agricultural, telecommunication and IT, as well as commercial property financing, thus supporting ongoing economic expansion. Nonetheless, the financial sector faces several external risks, particularly from geopolitical tensions and potential policy shifts in the United States. The shift in the United States Federal Reserve's stance towards monetary policy easing following an interest rate cut in September 2024 could potentially affect the profitability of the financial sector's offshore assets.
11. Overall, the banking industry remained robust and resilient with an aggregate Capital Adequacy Ratio (CAR) of 21.7% in Q3 2024. The industry continued to hold surplus liquid assets with a Liquid Assets-to-Total Assets ratio of 43.0%, preserving its capability to facilitate financial intermediation activities. Total assets of the banking industry expanded by 3.2% year-on-year to BND20.0 billion, driven by the increase in banks' lending activities. Total loans/financing grew by 8.5% year-on-year to BND7.4 billion, contributed by increased loans to corporate sectors. The asset quality of the banking industry has also shown improvement with the Net Non-Performing Loans/Financing (NPLF) ratio at 1.3% compared to 1.6% in Q3 2023.
12. On the other hand, the banking industry's deposits declined slightly by 0.5% year-on-year in Q3 2024 to BND15.9 billion, mainly due to a fall in demand deposits. At the same time, the banking industry's

profitability has marginally declined from the previous year, with banks' Return on Assets (ROA) and Return on Equity (ROE) standing at 1.9% and 11.4%, respectively.

13. BDCB continues to undertake various industry consultations and stakeholder engagements as part of its efforts to promote regulatory and supervisory frameworks that reinforce the resilience and stability of the overall financial sector. BDCB has issued amendments to the Money Remittance Licensing Criteria, requiring new applicants to propose innovative, technology-based business solutions. This is in line with BDCB's commitment to fostering a dynamic digital economy and supporting national initiatives aimed at establishing a Digital Payment Nation.
14. In Q4 2024, BDCB issued the Brunei Darussalam Investment Data Supply-Side Survey Reporting Guideline to licensed capital market intermediaries in Brunei Darussalam, aimed to assess market participation and trends within the capital market sector. The survey aims to support research initiatives, providing a basis for informed policy decisions and the development of the capital market in Brunei Darussalam.

Data sources:

Brunei Darussalam Central Bank (BDCB)

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

International Monetary Fund (IMF)