Policy Statement

1/2025

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Global and Regional Economic Developments

1. In its World Economic Outlook (WEO) July 2025 report, the International Monetary Fund (IMF) forecasts global economic growth for 2025 at 3.0%, a decline from the 3.3% expansion in 2024, followed by a modest recovery to 3.1% in 2026. The downward revision from earlier estimates was driven by growth downgrades across advanced and emerging economies alike, in the wake of heightened economic uncertainties and increasing geopolitical risks. The global economic outlook remains fragile, with key risks stemming from unpredictable monetary and fiscal policy shifts, continued geopolitical tensions, and potential financial market volatility. Should these key risks intensify, the adverse effects on global growth could be further amplified, adding to the downward pressures on businesses, corporate investment, and household consumption.

2. The IMF also expects global headline inflation to ease from 5.7% in 2024 to 4.2% in 2025 and 3.6% in 2026. This disinflationary trend reflects softening demand from the lagged effects of restrictive monetary policy, and favourable supply-side conditions. However, the path towards price stability remains uneven in the face of ongoing global economic uncertainty, potential supply chain recalibrations, and subdued growth prospects. In this environment of uncertainty, the IMF reiterated the need to reinforce confidence, address macroeconomic imbalances, and promote sustainable growth. Priority should be given to ensuring a stable monetary landscape and safeguarding financial stability, while also avoiding actions that could undermine growth prospects or create additional tensions in financial and credit markets.

3. Global oil prices dipped to their lowest levels in more than three years in May 2025. This was largely attributed to re-supply risks from the Organization of the Petroleum Exporting Countries (OPEC+), as

well as concerns over weakening global demand. This was furtheramplified by the imposition of universal tariffs by the United States, which have negatively affected global trade flows and economic growth. Nonetheless, global oil prices rebounded sharply in June 2025 as a result of escalating geopolitical tensions in the Middle East. This increase was short-lived as prices retreated shortly after as the conflict de-escalated. Looking ahead, oil prices are expected to decline further due to the anticipated production boosts by both OPEC+ and non-OPEC+, and continued weakness in global demand. This may be exacerbated by ongoing geopolitical tensions, which may further affect market confidence and global economic activities.

4. Meanwhile, natural gas prices are on a rising trend, driven by factors that support demand and limit supply. These factors include stronger demand from Europe and Asia due to cooler weather conditions, production constraints caused by declining rig counts, and disruptions in global supply amid ongoing geopolitical tensions. Natural gas prices are likely to remain on an upward trajectory, contributed by factors such as rising demand bolstered by the development of new export facilities, particularly in North America, which will allow for increased shipments to international markets.

Brunei Darussalam's Economic Developments

5. Brunei Darussalam's Gross Domestic Product (GDP) posted a decline of 1.8% y-o-y in the first quarter of 2025, following a contraction in both the Oil and Gas Sector and the Non-Oil and Gas Sector by 1.5% and 2.0%, respectively. The decline in the Oil and Gas Sector was due to lower production of natural gas and liquified natural gas (LNG), which has made a significant impact on the economy's overall performance. The Non-Oil and Gas Sector also contributed to this weakness, with declines in sub-sectors such as Fishery, Manufacturing, Health Services, Manufacture of Petroleum and Chemical Products, Finance, and Business Services.

6. Despite the contraction recorded earlier in the year, overall economic growth in 2025 is expected to remain moderate. This will be driven by a gradual recovery in oil and gas production, and expansion in the Non-Oil and Gas Sector, including construction, tourism, trade, and info-communications and technology (ICT). It will also be supported by sustained positive developments in foreign direct investment (FDI) projects that are currently ongoing, especially in petrochemicals, halal foods, and manufacturing.

7. The Business Sentiment Index (BSI) recorded an average of 50.0 in the January to June 2025 period, indicating a neutral sentiment among private sector businesses regarding their business conditions.

Some optimism was driven by seasonal demand related to festivities, large-scale events, and the expectation of continued recovery in priority sectors. On the other hand, pessimistic sentiments were also observed, reflecting weaker than anticipated demand, slow mobilisation of projects, and weather-related risks. The economy is also faced with external risks that are expected to pose challenges to growth this year, including volatile commodity prices and softer demand from key trading partners.

8. In line with the global disinflationary trend, inflation in Brunei Darussalam recorded an average of -0.4% y-o-y in the first six months of 2025, attributed to lower prices of Food and Non-alcoholic Beverages, and Non-Food, especially Transport. Subdued inflation is underpinned by a combination of global and regional disinflationary trends, as well as domestic policy measures such as government subsidies, administrative price controls, and the domestic monetary policy framework. Under this framework, the effects of imported inflation on domestic prices have been minimised owing to the Brunei dollar's one-to-one parity to the Singapore dollar. Looking ahead, inflation is expected to remain low in the near-term supported by the Monetary Authority of Singapore's (MAS) decision to maintain the current rate of appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) in July 2025, after easing its monetary policy twice earlier this year. Taking into account Consumer Price Index (CPI) data alongside global and regional developments, Brunei Darussalam Central Bank (BDCB) forecasts inflation in 2025 to be in the range of -0.6% to 0.4%.

Brunei Darussalam's Monetary and Financial Sector Developments

9. Given the recent developments where global interest rates are declining, the Financial and Monetary Stability Committee (FMSC) in BDCB cut the Overnight Deposit Rate and Overnight Lending Rate by 25 basis points in April 2025, and by 50 basis points each in June 2025 and July 2025, to 1.00% and 2.00% respectively. These measures ensure that BDCB's monetary operations continue to align with the Currency Board principles while encouraging domestic money market activities. The FMSC will continue to ensure that there is ample liquidity for a well-functioning domestic financial system.

10. Brunei Darussalam's financial sector, consisting of both Islamic and conventional financial institutions, recorded a growth of 1.3% y-o-y with a total asset size, of BND24.6 billion as of Q2 2025. The Islamic finance sector assets amounted to BND14.6 billion, constituting 59.2% 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 BND22.5 billion.

11. The financial sector continued to demonstrate strength and resilience in Q2 2025, underpinned by sound fundamentals, prudent risk management, and a financial system that is relatively shielded from external shocks. Nevertheless, the external environment remains challenging, shaped by ongoing geopolitical tensions and persistent trade protectionist measures. BDCB continues to monitor systemic risks through robust macroprudential surveillance, with a particular focus on credit exposures and their interconnectedness within the financial system to safeguard financial stability amidst global volatility.

12. Despite these external headwinds, Brunei Darussalam's banking sector remains fundamentally strong in Q2 2025. The sector continues to be well-capitalised, with an aggregate Capital Adequacy Ratio (CAR) at 19.6%, comfortably above regulatory thresholds. Liquidity buffers remain robust, with the Liquid Assets-to-Total Assets ratio at 40.8%, ensuring that banks are well-positioned to support financial intermediation and absorb financial shocks. Total banking sector assets expanded by 0.4% y-o-y to BND20.3 billion, driven by an 8.4% y-o-y increase in lending, which reached BND8.1 billion. This credit growth was largely attributed to increased corporate lending. Asset quality also improved, with the Net Non-Performing Loans/Financing (NPLF) ratio declining to 1.0% from 1.4% a year earlier. This was supported by strengthened credit risk management practices and prudent provisioning.

13. Total deposits rose by 0.8% y-o-y to BND16.2 billion, driven by growth in time deposits and other deposit types, signalling continued public confidence in the banking system. Profitability indicators, namely Return on Assets (ROA) and Return on Equity (ROE), recorded a slight moderation to 1.6% and 9.7%, respectively. Nevertheless, the sector continued to deliver stable earnings, supported by sustained lending activity and strong capital positions.

14. As part of BDCB's continuous efforts to develop a more effective domestic money market, BDCB issued a notice revising the Minimum Cash Balance (MCB) requirement. Effective 17 April 2025, the MCB rate was reduced from 6% to 5%, while the MCB utilisation rate was increased from 30% to 50%. This measure aims to enhance liquidity in the banking system, subsequently enabling it to be mobilised more efficiently to support economic activity.

15. In advancing the Islamic finance sector in Brunei Darussalam, BDCB, in consultation with relevant stakeholders, has introduced Islamic windows for conventional banks to offer Islamic financial products. Consultations with the industry on the operationalisation of the Islamic windows regulatory framework have been undertaken to ensure its effective implementation.

16. Other notable regulatory developments introduced include the Liquidity Coverage Ratio (LCR) requirement for banks, effective 1 January 2026. This measure strengthens their short-term liquidity resilience by ensuring that they have sufficient high-quality liquid assets to withstand a 30-day liquidity stress scenario. Additionally, BDCB continues to support takaful operators and insurance companies in their second year of IFRS 17 adoption by granting an extended deadline for the publication of Audited Financial Statements for the financial year ending 31 December 2024. In the area of capital markets, BDCB introduced a mandatory Rules and Regulations Module for Representative's Licence holders and applicants as part of the licensing examination requirement under the Securities Markets Order, 2013. This aims to ensure that licensed representatives possess sufficient understanding of the regulatory framework governing capital market activities.

17. Acknowledging that digitalisation will drive the evolution of the payment industry, it is crucial that BDCB's regulatory framework can continue to support innovation while addressing any associated risks. BDCB granted approval for the National Digital Payments Network Sdn Bhd (ndpx) to launch the 'tarus' digital payment system that facilitates individuals to carry out instant fund transfers between participating financial institutions. To further facilitate interoperability of domestic payment systems and promote the use of digital payments in Brunei Darussalam, BDCB also introduced a requirement for financial institutions to adopt a unified and standardised quick response (QR) code for all payment transactions initiated by QR code. In addition, a consolidated regulatory framework for payment services and money services businesses under a new payment services legislation is currently being proposed, alongside consultations with the industry.

18. In the face of uncertainties surrounding the economic and financial market landscape, including shifting trade policies, ongoing geopolitical tensions, and fluctuating capital flows, BDCB remains steadfast in its commitment and mandate to maintaining monetary and financial stability in Brunei Darussalam. BDCB will continue to monitor developments closely and assess their potential implications on the domestic economy.

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