Policy Statement

1/2026

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Global and Regional Economic Developments

1. In the July 2026 World Economic Outlook report, the International Monetary Fund (IMF) projects global growth to moderate from 3.4% in 2025 to 3.0% in 2026, before rebounding to 3.4% in 2027. The outlook remains uneven, with stronger artificial intelligence (AI)-driven investment and demand supporting growth in economies integrated into global technology value chains. However, risks remain elevated. An escalation of geopolitical tensions, including a renewed conflict in West Asia, could prolong commodity price volatility, disrupt global supply chains, increase inflationary pressures, and tighten financial conditions.

2. The IMF noted that the economic impact of the conflict will depend on its duration and scale. Economies directly affected, as well as low-income and emerging market economies that rely heavily on commodity imports, are expected to face the greatest challenges, given their heightened exposure to elevated energy and food prices, persistent inflationary pressures, tighter financial conditions and weaker investor sentiment. Nevertheless, the IMF highlighted several factors that could support a more favourable global outlook, including a swift resolution of the conflict, faster-than-expected productivity gains from AI, and further easing of global trade tensions.

3. Global inflation is projected to increase to 4.7% in 2026, temporarily reversing the moderation trend observed in recent years, before easing again in 2027. Inflationary pressures are expected to remain concentrated in emerging market and developing economies, particularly net commodity importers with existing fiscal and external vulnerabilities. In addition, the appreciation of the U.S. Dollar, amid increased demand for safe-haven assets during the conflict, has contributed to higher import costs, compounding elevated energy and food prices and intensifying imported inflationary pressures in many economies outside the United States.

4. Oil prices have risen significantly, breaching USD120 per barrel in May 2026. The increase was driven by heightened geopolitical tensions in West Asia, supply disruptions in key transit routes such as the Strait of Hormuz, continued production restraints by the Organization of the Petroleum Exporting Countries (OPEC+), and resilient global demand despite uneven economic recovery across major economies. Oil prices are expected to remain elevated in the near term before moderating once geopolitical tensions ease. In contrast, natural gas prices declined amid ample supply and elevated inventory levels, particularly in the United States. Softer demand, driven by milder weather and weaker industrial activity, also weighed on prices. Looking ahead, natural gas prices are expected to gradually recover as global liquefied natural gas (LNG) demand strengthens and inventories tighten. Meanwhile, gold prices continued to rise, supported by heightened geopolitical uncertainty, inflation concerns, and sustained central bank demand, with prices expected to remain elevated amid ongoing global risks.

5. Recent developments have also heightened volatility in global financial markets, reflecting increasingly interconnected risks to the global economic outlook. Escalating geopolitical tensions, particularly in West Asia, have led to volatility across global asset markets, including equities, bonds and commodities, as investors reassessed risk exposures and adopted more cautious positioning. These developments have also contributed to intermittent tightening in global financial conditions amid weaker investor sentiment and rising risk premia. In addition, commodity markets, especially energy prices, have remained highly sensitive to geopolitical developments and potential supply disruptions, resulting in increased price volatility.

Brunei Darussalam's Economic Developments

6. Following the strong rebound in the second half of 2025, Brunei Darussalam's economy continued to expand in Q1 2026, albeit at a slower pace. Real Gross Domestic Product (GDP) grew by 0.3% year-on-year in Q1 2026, compared with an upwardly revised 4.8% growth in Q4 2025, reflecting a moderation in economic activity after the surge in oil and gas production seen in late 2025. The Oil and Gas sector grew by 4.1%, supported by stronger production of crude oil, natural gas and LNG. The Non-Oil and Gas sector contracted by 3.0% in Q1 2026, driven by a 1.6% reduction in downstream activities and contractions in other sectors such as Finance, Business Services, and Construction.

7. The economic outlook for Brunei Darussalam in 2026 remains positive and is expected to improve further, supported by the continued recovery in oil and gas production and sustained expansion in

the Non-Oil and Gas sector. Growth is anticipated to benefit from ongoing upstream and downstream developments, as well as positive spillovers from key foreign direct investment (FDI) projects. In addition, the implementation of development initiatives under the 12th National Development Plan (RKN12) is expected to further support growth momentum.

8. In 2025, the Business Sentiment Index (BSI) averaged 52.8[1], remaining close to the neutral threshold of 50.0, indicating broadly stable business conditions throughout the year. However, sentiment varied across sectors and business sizes. Business optimism was supported mainly by seasonal and festive spending, while cross-border spending during extended holiday periods weighed on domestic demand. In addition, uncertainty surrounding project pipelines, weather-related disruptions and weak demand across selected sectors contributed to fluctuations in the business sentiment. In the first five months of 2026, the BSI averaged 55.7, indicating a very modest improvement in business confidence. This increase was partly supported by seasonal factors, particularly stronger festive-related consumer spending earlier in the year.

9. Consumer prices in Brunei Darussalam remained on a deflationary trend, with inflation averaging at -0.1% during January to May 2026. The decline was mainly attributed to lower prices in the Non-Food category, particularly within the Communication and Housing, Electricity, Water, Gas & Other Fuels sub-indices. Looking ahead, there remain upside risks to inflation stemming from potential increases in global food and commodity prices alongside persistent supply-side disruptions. As a highly import-dependent economy, Brunei Darussalam remains vulnerable to imported inflation, particularly through food and intermediate goods channels. Nonetheless, the pass-through to domestic prices is expected to remain contained, owing to government subsidies, administrative price controls and the prevailing monetary policy framework.

10. In addition, the Monetary Authority of Singapore's (MAS) decision in April 2026 to increase the rate of appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) policy band is expected to help mitigate imported inflationary pressures in Brunei Darussalam, given the one-to-one parity between the Brunei dollar and the Singapore dollar. Taking into account domestic Consumer Price Index (CPI) developments, as well as global and regional conditions, Brunei Darussalam Central Bank (BDCB) forecasts inflation for 2026 to fall within the range of -0.3% to 0.7%.

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[1] In February 2026, BDCB conducted an exercise to enhance the methodology to estimate the BSI. The index previously only took on values from 49.0 to 51.0, whereas the new formula allows the index to take on values from 0.0 to 100.0, with the neutral threshold between 45.0 and 55.0. The review of the BSI methodology was undertaken to enhance the robustness, consistency and analytical value of the index.

Brunei Darussalam's Monetary and Financial Sector Developments

11. Amid the prevailing interest rate environment and evolving global economic and financial market conditions, the Financial and Monetary Stability Committee (FMSC) maintained the BDCB Overnight Standing Facility rates unchanged since November 2025, with the Deposit Rate and Lending Rate remaining at 0.50% and 1.50%, respectively. These measures ensure that BDCB's monetary operations continue to align with the Currency Board arrangement while supporting domestic money market activities. The FMSC will continue to ensure that ample liquidity is maintained to support the orderly functioning of the domestic financial system.

12. While Brunei Darussalam's direct exposure to these external developments remains relatively contained, the uncertain global environment underscores the importance of maintaining strong macro-financial resilience, prudent risk management practices, and adequate policy buffers to safeguard domestic financial and economic stability.

13. Despite heightened global uncertainties, Brunei Darussalam's financial sector remained resilient, stable, and sound, with total financial sector assets at BND25.7 billion as of Q1 2026. The financial system continued to be supported by the strength of both Islamic and conventional financial institutions. The Islamic finance sector remained the dominant segment of the financial system, with total assets amounting to BND14.7 billion, representing 57.2% of the total financial sector assets, while the conventional sector accounted for BND11.0 billion. Deposit-taking institutions continued to dominate the financial system, comprising 91.1% of the total financial system assets with an asset base of BND23.4 billion. The Takaful and Insurance industry accounted for 8.9%, while the capital market industry accounted for 0.1%.

14. The banking sector remained well-capitalised and highly liquid amid a more challenging global environment. As of Q1 2026, the aggregate Capital Adequacy Ratio (CAR) stood at 19.5%, remaining well above regulatory minimum requirements. Liquidity conditions also remained ample as reflected by the Liquid Assets-to-Total Assets ratio of 39.1% and Liquidity Coverage Ratio of 444.7%. Total banking assets grew by 1.0% year-on-year to BND21.0 billion, driven primarily by an 11.3% year-on-year increase in lending/financing activities to BND8.7 billion, supported mainly by stronger corporate financing demand. Asset quality continued to improve, with the Net Non-Performing Loans/Financing ratio (NPLF) declining to 1.0% from 1.3% a year earlier, reflecting continued prudent risk management and adequate provisioning levels. Meanwhile, total deposits recorded a modest year-on-year decline of 1.9% to BND16.4 billion. Profitability moderated slightly, with Return on Assets

(ROA) at 1.3% and Return on Equity (ROE) at 8.1%. Overall, the banking sector remained profitable, supported by stable credit growth and strong capital buffers.

15. On the capital market front, BDCB issued the Notice on Offering of Debentures to Retail Investors (Notice No. CMU/N-1/2018/12) – Amendment No. 1, which came into effect on 10 April 2026. The Amendment Notice clarifies that, subject to prior regulatory approval, debentures issued through a foreign incorporated special purpose vehicle may be exempt from the foreign debenture requirements under the Notice, provided the underlying obligor is established in Brunei Darussalam, and the debentures are offered to investors in Brunei Darussalam.

16. To promote financial innovation, BDCB has introduced amendments to the Guidelines on FinTech Regulatory Sandbox to further support inclusive and responsible innovation in Brunei Darussalam's financial sector. The amendments expand eligibility for participation to qualified financial institutions, in addition to FinTech firms, enabling them to test new technologies and innovative solutions within the Sandbox. This is expected to encourage greater collaboration and accelerate the adoption of transformative financial solutions across the industry.

17. Looking ahead, BDCB will continue to closely monitor global and domestic economic and financial market developments, while remaining vigilant to emerging risks. BDCB remains committed to ensuring that its policy framework and regulatory measures remain responsive and appropriate in safeguarding macro-financial stability. Through continued vigilance, prudent policy calibration, and strong collaboration with relevant stakeholders, BDCB will continue to safeguard monetary and financial stability in Brunei Darussalam, while promoting sustainable economic growth and resilience.

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