

BRUNEI DARUSSALAM

Fiscal and Monetary Review 1st Quarter 2004

Ministry of Finance

Commonwealth Drive

Bandar Seri Begawan BB3910

Brunei Darussalam

July 2004

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I. EXECUTIVE SUMMARY

Economic activity in Brunei Darussalam has continued to improve with real GDP growth estimated at 3.2% in 2003 compared to 2.8% in 2002. This growth was attributed to the higher oil and gas prices and enhanced performance in the Transport, Storage & Communications Sector as well as the Insurance Sector. The crude oil prices increased by 7.1% which closed at around US\$32.15 per barrel at the end of 2003. Transport, Storage & Communications Sector grew by 12.4% while the Insurance Sector grew by 17.9%. For 2004, the Oil and Gas Sector is expected to grow at 2 – 3 % while the Non-Oil Sector and Gas Sector is projected to grow at 4 – 5 %. With such positive outlooks for the year, a steady expansion of 3 – 4% has been forecasted for the economy's overall real GDP.

External trade, particularly oil and LNG exports, will continue to be the main income earner for Brunei Darussalam in view of the higher oil prices and remains 83% of the total exports. Trade and current account balances have recorded a surplus trend.

The fiscal position of the economy remained strong in 2003. Total Government Revenue showed an improvement of 9.5% in Q1 2004 with an increase in Tax Revenue by 24.5%. Total Government Expenditure rose by 28.3% to B\$1,429.5 million due to the increased spending of Current Expenditure, especially of Other Charges Annually Recurrent (OCAR). Ministry of Finance changed the financial year period to 1st April to 31st March cycle effective 2004 in line with international practices.

On 1st February 2004, the Brunei Currency and Monetary Order 2004, was introduced to replace the previous Currency Act of 1967 and the Brunei Currency Board has been renamed as the Brunei Currency and Monetary Board (BCMB). Broad money in the economy fell by 2.9% in Q1 2004 from an increase of 3.7% in the previous quarter. Claims on Private Sector fluctuated within its trend whereby it increased by 0.7% for Q1 2004. Net Foreign Assets composition and transferable deposits have remained stable with the Prime Lending Rate remaining relatively unchanged in Q1 2004. Total assets and total deposits have continued to show positively while total loans increased, with the majority of lending geared to personal loans. Non-performing loans continued to improve from 13.2% to 12.9% for Q1 2004.

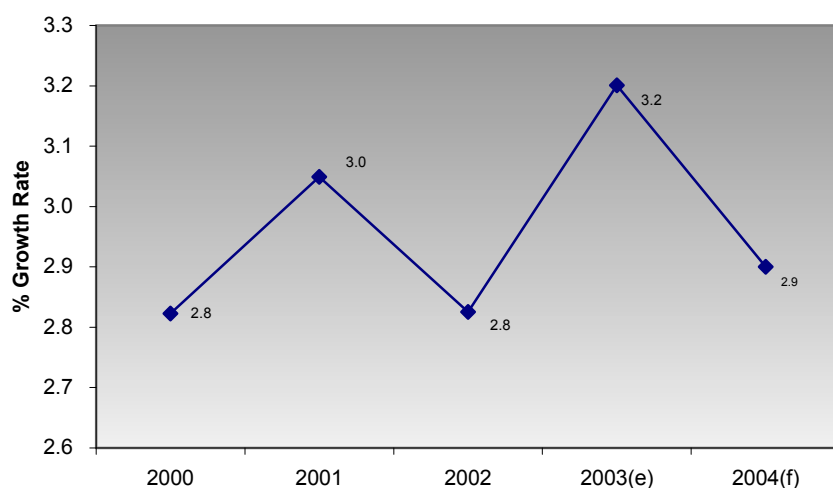
II. REAL SECTOR DEVELOPMENTS

OVERVIEW

- For the year 2003, the Oil and Gas Sector accounted for 53.4% of the economy's total GDP and about 90% of total exports.
- The oil and gas sector contracted by 0.5% during Q1 2004 relative to Q1 2003. The Oil and Gas Sector has expanded by 3.6% attributed to the higher prices of oil and LNG.
- In Oil prices closed at the end of 2003 at around US\$32.15 per barrel.

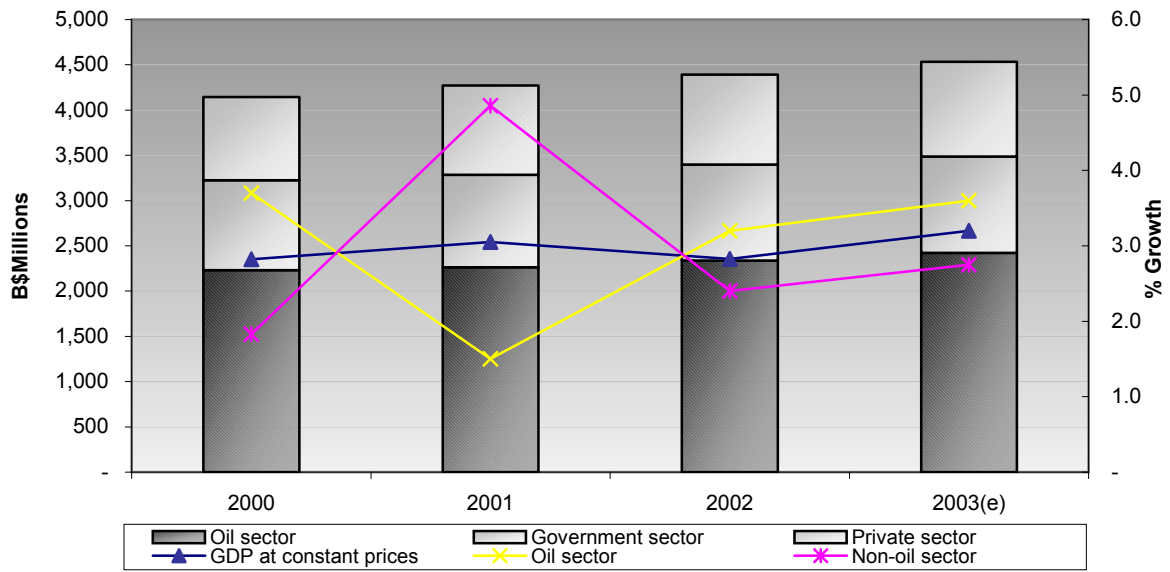
The Economy of Brunei Darussalam is projected to expand by 2.2% in Q1 2004 year-on-year. Relative to Q4 2003, the economy is estimated to expand by 2.5%. This expansion was mainly due to increased performance in a number of goods-producing and services-producing industries. Brunei Darussalam's 2003 real GDP growth was revised to 3.2% from 3.7%. The Oil Sector, which grew by 3.6%, remained the major contributor to the GDP. The Oil Sector and the Non-Oil Sector accounted for 53.4% and 46.6% of the GDP respectively. Meanwhile, the Government Sector contributed to 23.5% of Non-Oil Sector whereas the Private Sector contributed 23.1%.

Figure 2.1: GDP at Constant prices



Source: Economic Planning and Development Department, Prime Minister's Office
(e) – estimated

Figure 2.2: GDP by Oil and Non-Oil Sector at Constant Price

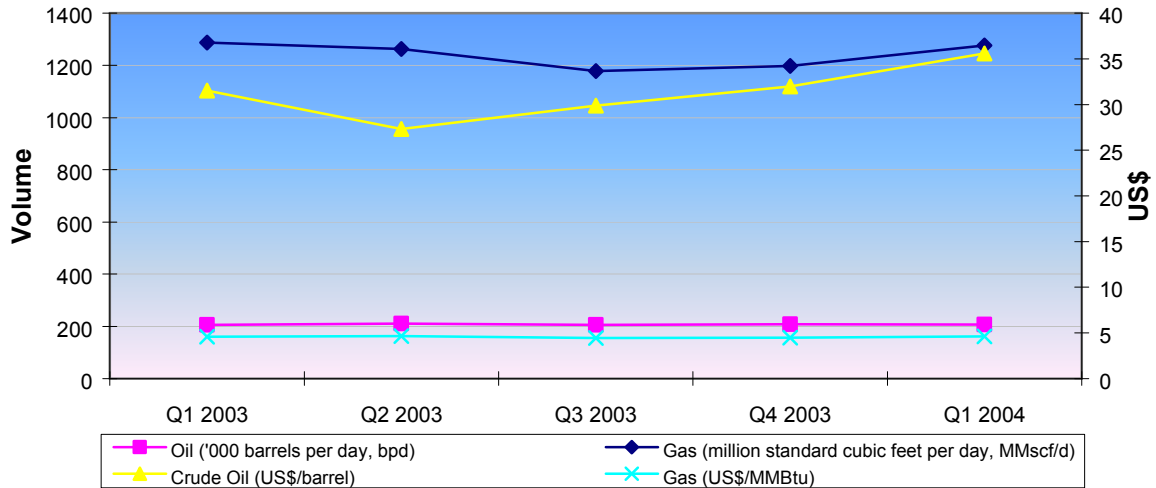


Source: Economic Planning and Development Department, Prime Minister's Office
 (e) – estimated

OIL AND GAS SECTOR

In Q4 of 2003, the price of crude oil averaged at US\$32 per barrel, an increase of 7.1% from the previous quarter. The Oil and Gas Sector continued to grow in 2003 by 3.6%. However, the fluctuation of the US Dollar and the volatility in the oil market will affect Brunei Darussalam's GDP performance.

Figure 2.3: Oil and Gas Production and Prices

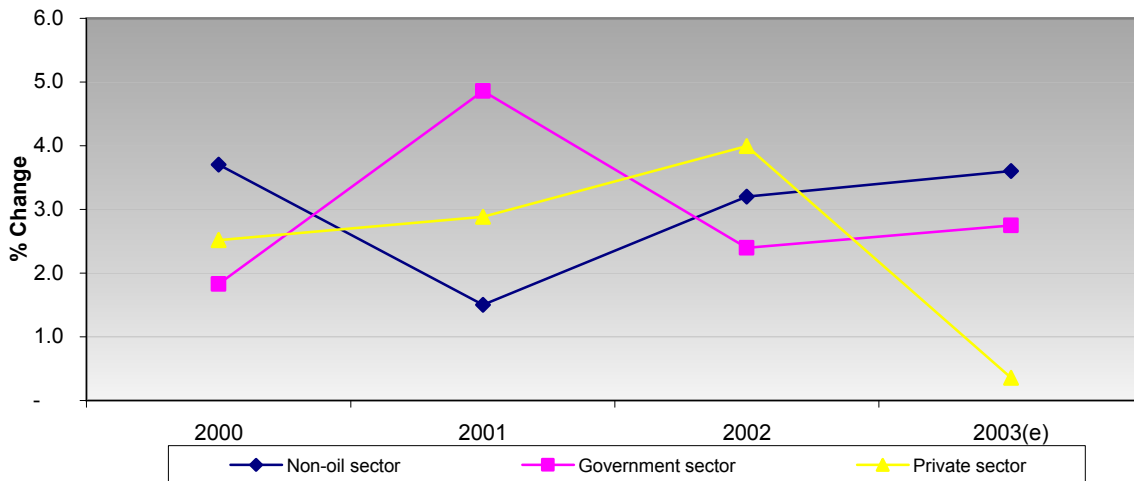


Source: Economic Planning and Development Department, Prime Minister's Office

NON-OIL AND GAS SECTOR

In 2003, the Non-Oil and Gas Sector increased slightly by 2.7% contributed by 0.4% increase in the Government Sector and 5.3% for the Private Sector. This increase was mainly due to the improved performance in Transport, Storage & Communications and Insurance Sectors. The former grew by 12.4% as a result of the boost in communication technology with the increase usage of mobile phones and services offered to consumers. Currently, with the introduction of the Multimedia Messaging Service (MMS) and Global Packet Radio System (GPRS), it is expected that the Communication Sector will continue to rise. Also contributing to the rise in this sector is the spending of the ICT sector of B\$2.7 million in Q4 2003.

Figure 2.4: Non-oil sector GDP Percentage Change



Source: Economic Planning and Development Department, Prime Minister's Office
(e) – estimated

The Banking & Finance Sector and Insurance Sector grew by 4.5% and 17.9% respectively in 2003. The enhancement of the services provided may explain the better performance in the Insurance Sector, registering an estimated 17.9% growth in 2003. The Takaful companies posted a stronger year-on-year growth of 26.8% in 2003.

Real Estate and Business Services showed a decline of 3.6% for 2003. Similarly, the Construction Sector remained weak, showing a further decline of 17.1% due to increase in the price of construction materials, particularly iron and steel. The negative growth of the Government Development Expenditure in 2003 was also apparent in the construction sector, causing the steady decline and hence remained at a low level in 2003. Up to Q4 of 2003, a total of 90 projects were completed out of 542 projects, involving a budget allocation of B\$ 113 Million.

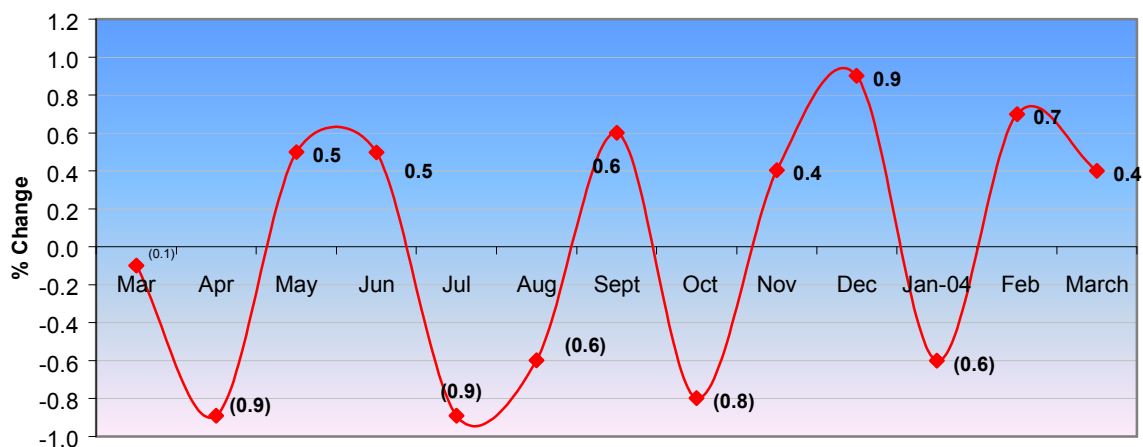
The Electricity, Gas and Water Sector growth increased slightly to 4.3% in 2003. Similarly, the Mining, Manufacturing and Quarrying Sector grew by 3.6%. The Retail Trade Sector however, contracted by 3.3%.

Despite the SARS epidemic being contained, the restaurants and hotels remained weak at -6.8% with occupancy rate for hotels rising only to 37% during the second half of 2003.

INFLATION

The CPI for 2003 remained subdued at 0.3% and is expected to remain low for Q1 2004.

Figure 2.5: Monthly Inflation Rate



Source: Economic Planning and Development Department, Prime Minister's Office

OUTLOOK FOR Q2 2004

Real GDP is forecasted to grow between 3 – 4 % in 2004. The Oil and Gas Sector is expected to post growth of between 2 – 3 % in 2004. External Sector will continue to remain strong, as the market demand for oil and LNG exports continues to pick up with the favourable forecast of the major key economies especially that of China, Japan and South Korea coupled with favourable oil prices.

The Non-Oil Sector, which includes the Government and the Private Sectors, is also projected to post continued growth of between 4 – 5 % in 2004. The Construction and related Manufacturing Industries; Wholesale and Retail trades; Transport, Storage and Communication; and Finance and Insurance are among the sectors that are projected to support the economic growth.

III. EXTERNAL SECTOR DEVELOPMENTS

OVERVIEW

- In Q4 2003, oil and gas exports comprised of 83.1% of the total export.
- Korea and Japan were the major markets for both the commodities respectively.
- In Q4 2003, export increased by 14.0% whereas import decreased by 0.5%.
- Both trade and current balances showed a surplus trend.
- The average prices of crude oil and gas were US\$32.00 per barrel and US\$4.4832/MMBtu respectively.
- Total international reserves¹ stood at B\$1,210 million equivalent to 6.3 months of imports.

EXPORTS

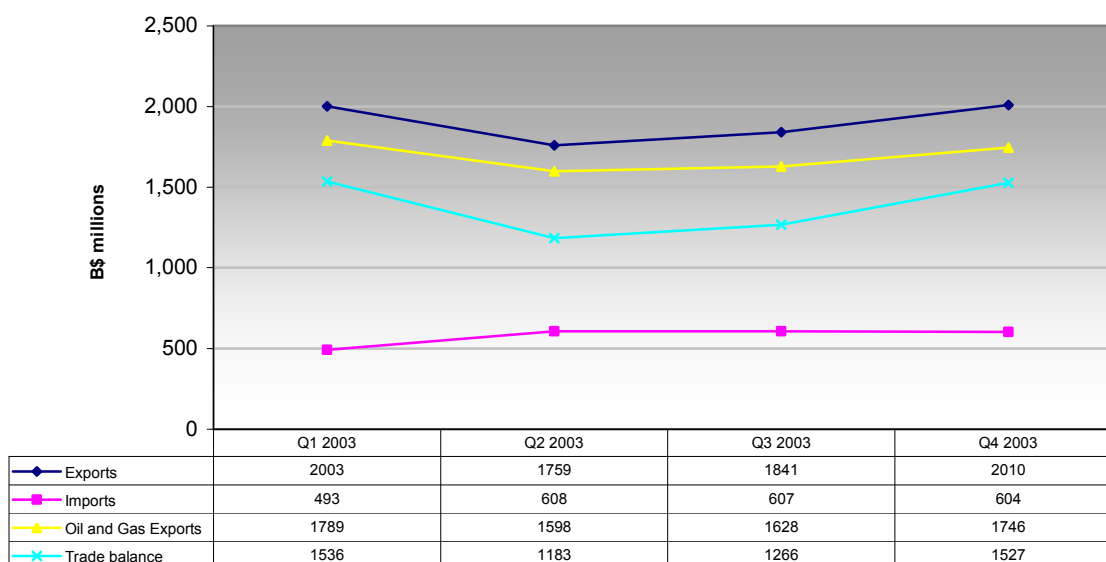
Total exports increased by 14.0% at B\$2,010 million in Q4 2003 compared to the previous quarter. Oil and gas exports increased by 7.2% at a value of B\$1,746 million. In the year 2003, oil and gas exports was at its highest in Q1 with a value of B\$1,789 million.

Table 3.1: Comparison of Oil and Gas Export Volume and Average Prices

	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Percentage change (Q3/Q4 2003)
EXPORT VOLUME					
Oil ('000 bpd)	197	201	197	201	+2.0
Gas (Trillion Btu per year)	95	96	89	90	+1.1
AVERAGE PRICES					
Crude Oil (US\$/barrel)	31.53	27.30	29.89	32.00	+7.1
Gas (US\$/MMBtu)	4.5820	4.6573	4.4351	4.4832	+1.1

Source: Economic Planning and Development Department, Prime Minister's Office

Figure 3.1: Brunei Darussalam – Exports and Imports



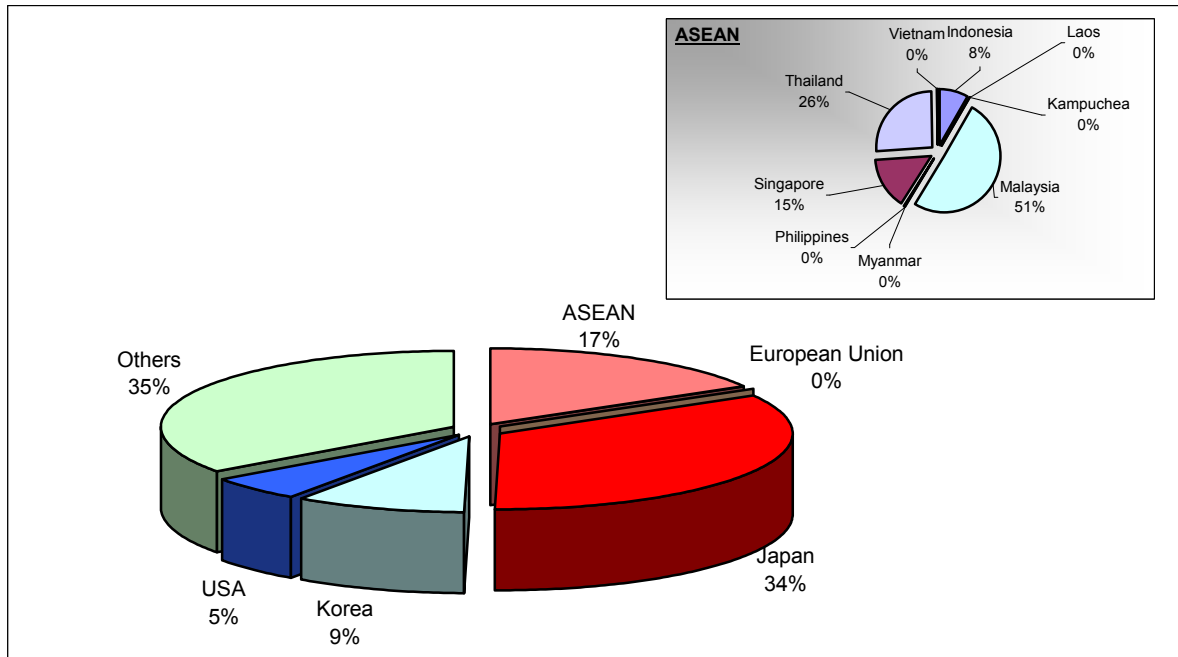
Source: Economic Planning and Development Department, Prime Minister's Office

¹ Brunei Darussalam's international reserves refer to Brunei Currency and Monetary Board's external assets plus IMF quota subscription and holdings of SDR.

DIRECTION OF EXPORTS

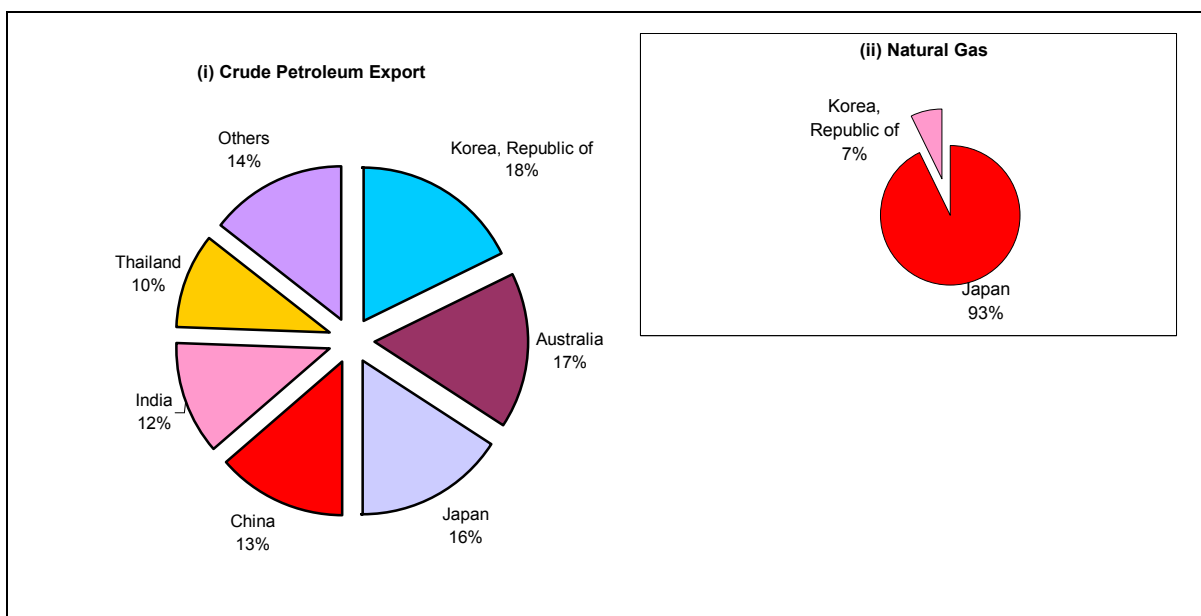
In Q4 2003, exports to the European Union and the USA contracted by 33.6% and 37.0% respectively compared to the previous quarter. Exports of crude petroleum to USA valued at B\$100.37 million have declined by 42.4% contributing to the contraction in exports to the USA. Meanwhile exports of this commodity to the EU reached its peak in Q2 2003 at B\$7.20 million, before subsequently declining in the following quarters. As for Japan, total exports increased by 10.2%, which can be attributed to the rise in the exportation of crude petroleum to Japan by 103.1%. Exports to Korea rose by 46.4% mainly due to the increased exportation in both crude petroleum and natural gas by 36.8% and 95.0% respectively.

Figure 3.2: Proportion of Total Exports by Country of Destination (Q4 2003)



Source: Economic Planning and Development Department, Prime Minister's Office

Figure 3.3: Oil and Gas Exports by Country of Destination (Q4 2003)

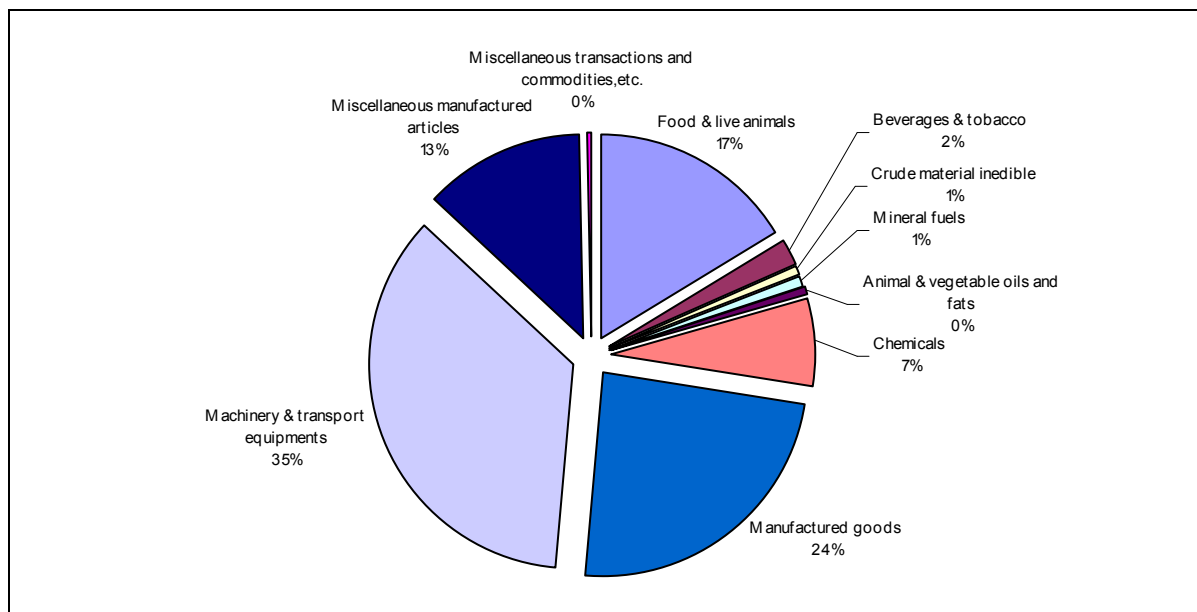


Source: Economic Planning and Development Department, Prime Minister's Office

IMPORTS

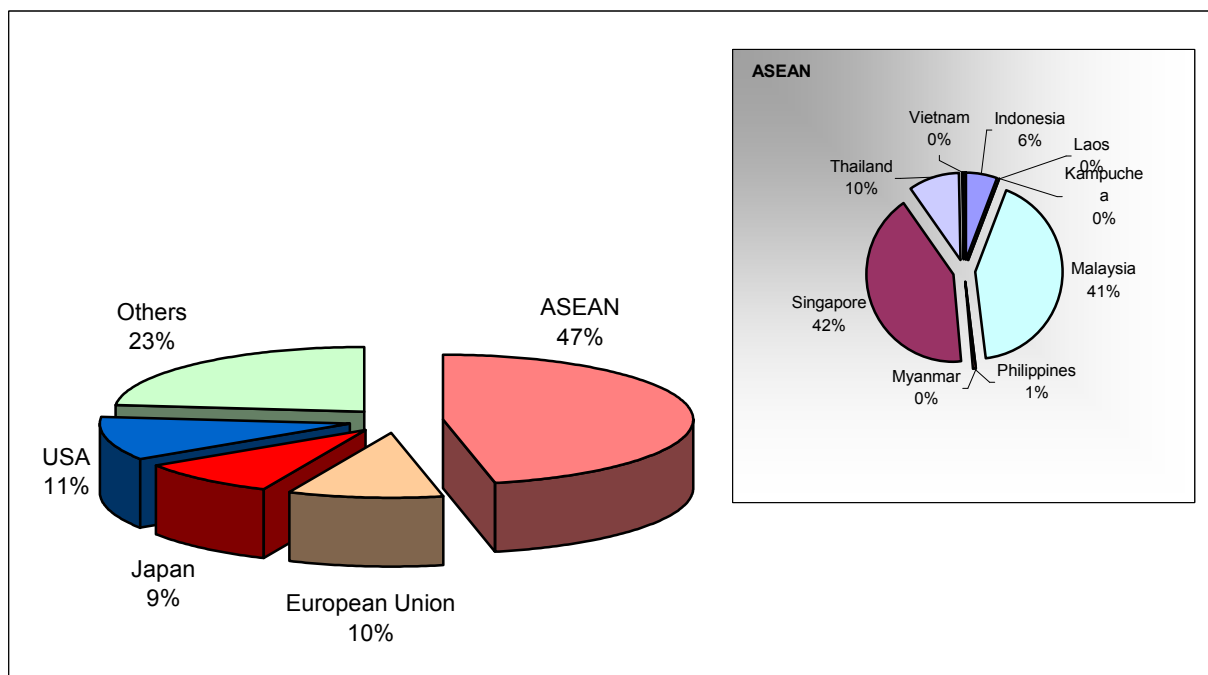
Total imports declined by 0.5% at a value of B\$604.0 million in Q4 2003 compared to its previous quarter. This decline was influenced by the decrease in the import of crude material inedible (14.6%), mineral fuels (8.5%), animal and vegetable oils and fats (0.4%), chemicals (7.2%), manufactured goods (9.5%) and miscellaneous transactions and commodities (15.9%). Manufactured imports declined by 4.9% amounted to a value of B\$263.2 million in Q4 2003. Imports from ASEAN and Japan increased by 0.91% and 4.6% respectively while imports from USA and EU declined by 22.9% and 18.3% respectively.

Figure 3.4: Composition of Total Imports (Q4 2003)



Source: Economic Planning and Development Department, Prime Minister's Office

Figure 3.5: Imports by Country of Origin (Q4 2003)



Source: Economic Planning and Development Department, Prime Minister's Office

TRADE AND CURRENT ACCOUNT BALANCE

The trade balance and current account balance continued to post significant surpluses in 2003. The trade balance showed a positive relationship with the average oil price showing an increasing trend of 20.6% to B\$1,527 million. In Q4 2004, average oil price increased by 7.1% to a value of US\$32.00 per barrel in Q4 2003.

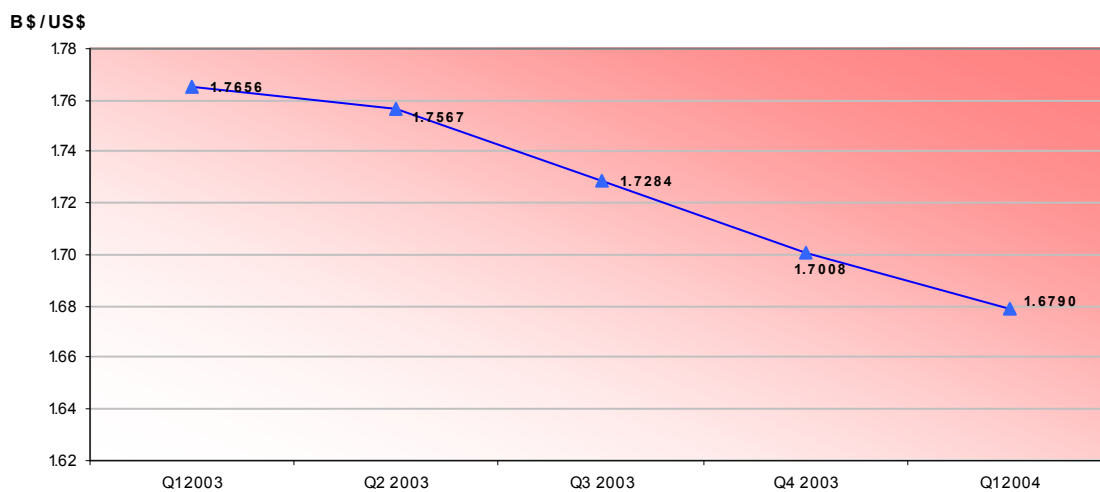
INTERNATIONAL RESERVES²

Brunei Darussalam's international reserves increased by 9.3% with a value of B\$1,210 million in Q4 2003 equivalent to 6.3 months of imports. This was due to the increase in both BCMB external assets and International Monetary Fund (IMF) holdings. The expansion in external assets was also followed by the increase in foreign exchange coverage of currency in circulation from 94% to 97% in Q3 2003 and Q4 2003 respectively.

EXCHANGE RATE³

The Brunei dollar strengthened against the US dollar by 1.3% in Q1 2004 from Q4 2003. Further weakening of the US dollar in addition to an increase in oil prices would have a favourable effect on the current account surplus.

Figure 3.6: Exchange rate B\$/US\$



Source: Various editions of International Financial Statistic (IMF)

² Consists of BCMB external assets plus IMF quota subscription and holdings of SDR

³ The Brunei dollar is pegged to the Singapore dollar on a one-to-one parity

IV. FISCAL DEVELOPMENTS

OVERVIEW

- For the Q4 of 2003, Total Government Revenue showed an improvement of 13.9% from the previous quarter; with an increase in Tax Revenue and Non-Tax Revenue of 14.2% and 13.7% respectively. This was followed by a further increase of 9.5% in Q1 2004, where Tax Revenue rose by 24.5%.
- In Q4 2003, Total Government Expenditure rose by 13.1% which was brought on by an increase of 15.0% and 18.9% in Current Expenditure and Capital Expenditure respectively. During Q1 2004, actual Government Expenditure rose by 28.3% quarter-on-quarter to B\$1,429.5 million due to the increased spending of Current Expenditure, especially of OCAR.
- Brunei Darussalam experienced a surplus balance of B\$162.3 million in Q4 2003 which was a 20.4% increase from Q3 2003, but had a provisional deficit balance of B\$31.5 million at Q1 2004.

CHANGE IN FINANCIAL YEAR

Brunei Darussalam released its 2004/2005 Budget on 1st April 2004, which is the commencement of the new Financial Year ending on 31st March 2005. Previously, the Financial Year would start on 1st January and end on 31st December of the same year. This change in Financial Year was undertaken to align the nation's accounts with international practices.

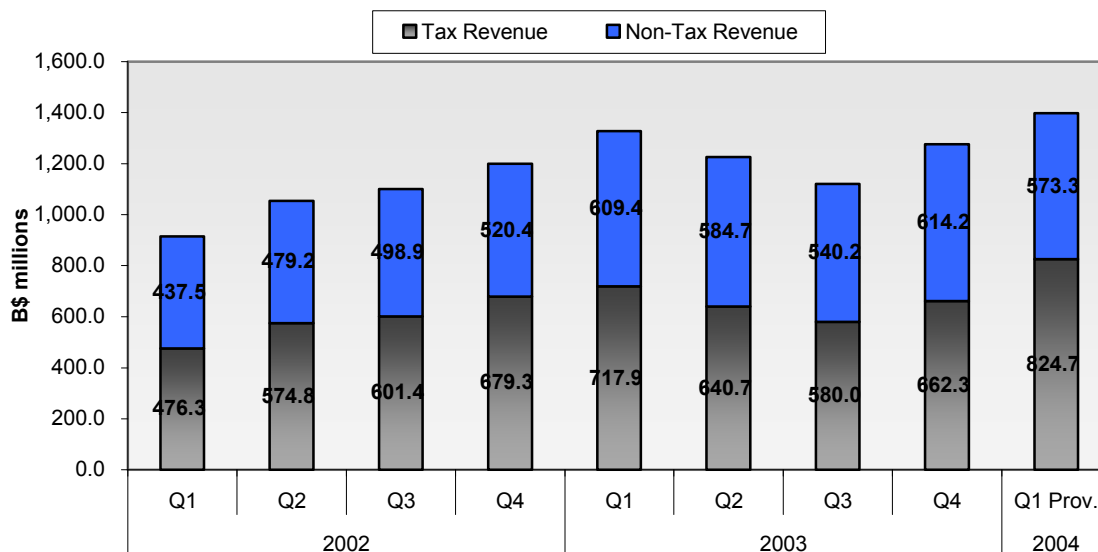
GOVERNMENT REVENUE

In Q4 2003, Total Government Revenue went up by 13.9% with an increase of 14.2% in Tax Revenue and 13.7% in Non-Tax Revenue. The Tax Revenue from the Oil and Gas Sector rose by 18.5% while Tax Revenue of the Non-Oil Sector declined by 27.3%. In contrast, the Non-Tax Revenue from the Oil and Gas sector contracted by 2.5% due to a fall in dividend collection. Meanwhile, Non-Tax Revenue of the Non-Oil sector rose more than 100% from B\$76.8 million to B\$162.6 million. This was due to the recording of cumulative profits from the sale of essential foodstuff by the Government into the account. The average oil price in Q4 stood at US\$32.00 per barrel as compared to US\$29.89 per barrel in Q3.

For Q1 2004, Total Government Revenue⁴ increased by 9.5% where Tax Revenue rose by 24.5%. This was the direct result of sustained increase in oil price since Q3 2003, boosting the income of the Oil Industry. The average oil price during Q1 2004 was reported to be US\$35.59. Tax Revenue for both the Oil and Gas and Non-Oil Sectors grew positively by 21.9% and 65.3% respectively. The considerable increase in the Non-Oil Sector was contributed by huge rise in corporate taxes collection from the Non-Oil companies. But the Non-Tax Revenue posted negative growth of 6.7% because of the decline in miscellaneous revenue as a result of the considerable one-off profits collected in Q4 2003. On the other hand, the Oil and Gas Sector of the Non-Tax Revenue remained buoyant with growth of 6.8%.

⁴ Provisional.

Figure 4.1: Quarterly Fiscal Revenue (Actual) 2002-Q1 2004



Source: Treasury Department, Ministry of Finance

The Actual Revenue collected for 2003 was B\$4,949.4 million, an increase of 45.7% compared to the Budgeted Revenue of B\$3,397.8 million (see Table 4.1) as a result of the rising global oil price. The rise in Non-Tax Revenue was most significant in the Oil Sector which grew by 63.2% due to an increase in dividends paid from the oil companies to the government. Substantial increase in tax revenue was also recorded in the Oil and Gas Sector. The Budgeted Tax Revenue of the Non-Oil sector decreased by 10.2% due to the decline in Motor Vehicle Import Duties.

Table 4.1: Actual Versus Budgeted Revenue 2003

	2003	2003	% Change
	Budgeted	Actual	
	(B\$ million)		
Total Revenue	3,397.8	4,949.4	45.7
Tax Revenue	1,941.6	2,600.9	34.0
Oil & Gas sector	1,710.0	2,393.0	39.9
Non-oil sector	231.6	207.9	(10.2)
Non-Tax Revenue	1,456.2	2,348.5	61.3
Oil & Gas sector	1,174.0	1,916.1	63.2
Non-oil sector	282.2	432.4	53.2

Source: Treasury Department, Ministry of Finance

GOVERNMENT EXPENDITURE

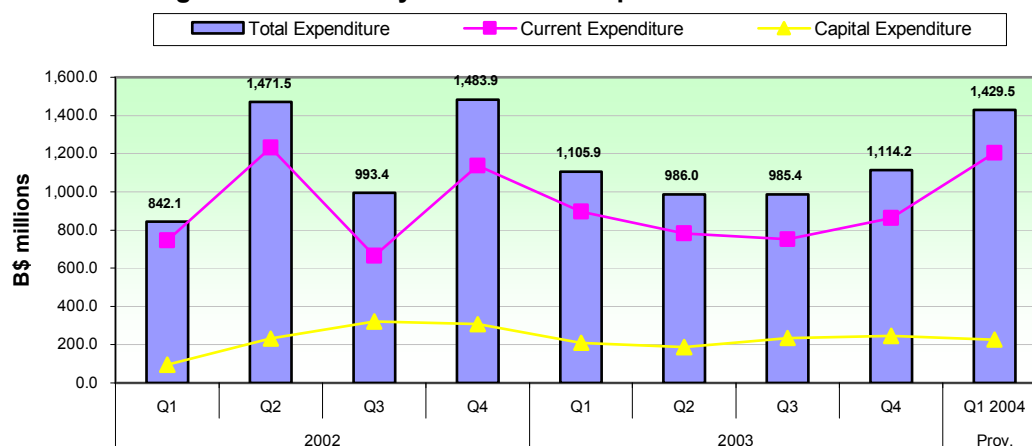
During Q4 2003, actual Government Expenditure⁵ was B\$1,114.2 million, which was an increase of 13.1% from Q3 2003. This was due to corresponding increases in the spending of Charged Expenditure and Development Expenditure by 59.6% and 50.6% respectively.

The cumulative expenditure for the year 2003 was B\$4,191.4 million which was a reduction of 12.5% from the previous year. This was caused by an overall reduction spending of the Charged Expenditure, Development Expenditure and Investments in Public Enterprises.

⁵ Based on the unaudited figures from Treasury Department, Ministry of Finance as at May 2004.

During Q1 2004, actual Government Expenditure rose by 28.3% q-o-q to B\$1,429.5 million. This was due to the increased spending of Current Expenditure, especially OCAR.

Figure 4.2: Quarterly Government Expenditure 2002 –Q1 2003



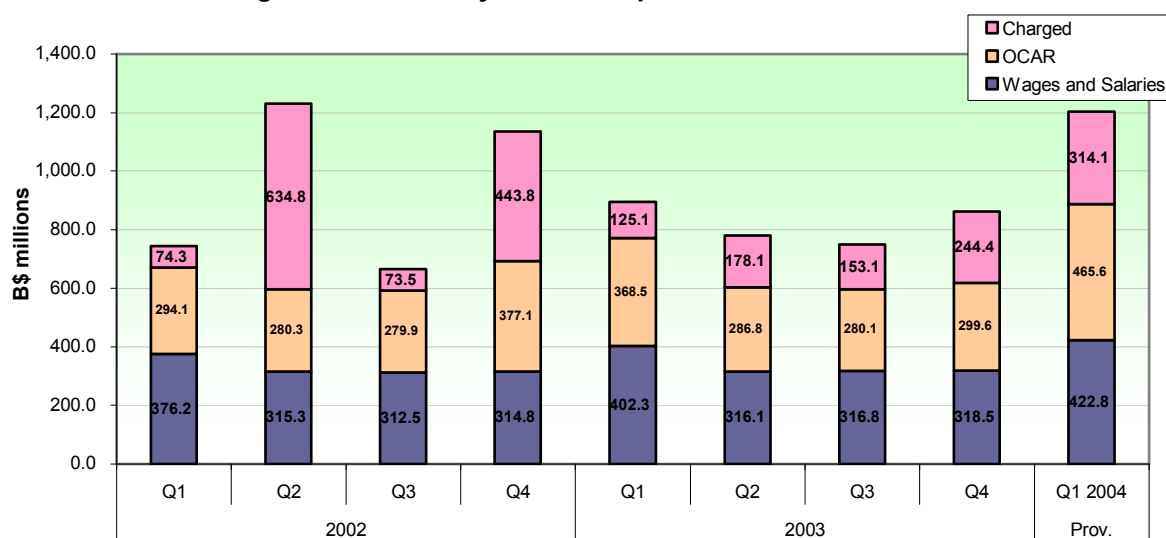
Source: Treasury Department, Ministry of Finance

Current Expenditure

In Q4 2003, Current Expenditure increased by 15.0% to B\$862.4 million from Q3 2003, mainly due to the 59.6% increased payments of Charged Expenditure, in which Oil Royalties Payments increased from B\$87.0 million in Q3 to B\$173.2 million in Q4. Personnel Emoluments increased by 0.5% to B\$318.5 million in Q4 2003, while OCAR increased by 7.0% to B\$299.6 million. Current Expenditure rose to B\$1,202.5 million in Q1 2004, with increases in Charged Expenditure (28.5%); OCAR (55.4%) and Personnel Emoluments (32.7%).

The actual Current Expenditure for the 12 months in 2003 was below the estimated amount for the year of B\$4,949.5 million. Personnel Emoluments remains the bulk of the total Current Expenditure at 41.2% followed by OCAR at 37.5% and Charged Expenditure at 21.3%. The actual cumulative amount for Personnel Emoluments and OCAR for 2003 was B\$1,353.7 million and B\$1,235.0 million respectively; which was less than their budgeted amounts of B\$1,437.8 million and B\$1,262.0million.

Figure 4.3: Quarterly Current Expenditure 2002 – Q1 2004



Source: Treasury Department, Ministry of Finance

Capital Expenditure

In 2003, total Capital Expenditure decreased by 8.1% from the previous year to B\$878.7 million, which was below the allocated budget of B\$1,707.6 million. This was mostly due to the low spending of Development Expenditure.

Capital Expenditure increased by 18.9% from B\$235.4 million in Q3 2003 to B\$246.4 million in Q4 2003. In Q1 2004, Capital Expenditure decreased by 7.9% to B\$227 million⁶; with an increase in OCSE of 8.0% (q-o-q), offset by a decrease of 30.9% (q-o-q) in Development Expenditure.

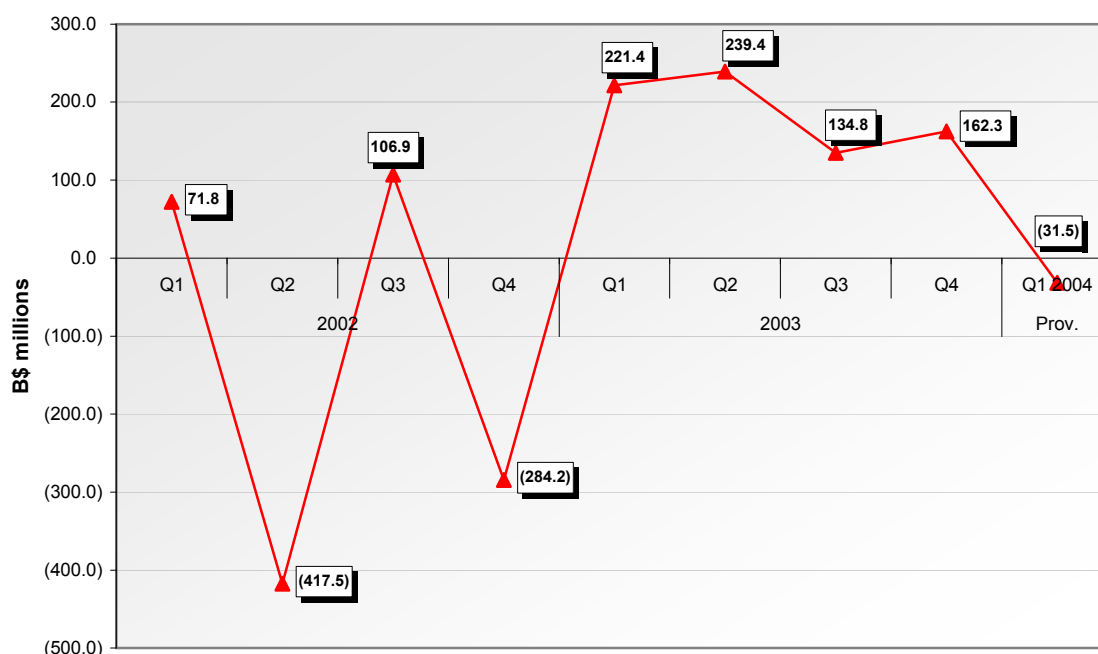
For 2003, B\$1 billion was allocated for Development Expenditure of which B\$283.8 million or 28.4% was spent during the whole year. Out of this amount, B\$101.5 million was spent in Q4 2003, an increase of 50.6% from Q3 2003. A provisional amount of B\$70.4 million was spent in Q1 2004.

FISCAL POSITION

In Q4 2003, a surplus of B\$162.3 million was recorded, an increase of 20.4% increase from Q3 2003. This led to a cumulative surplus balance of B\$757.9 million, which was brought about by the increase in oil revenue spurred on by favourable oil prices and reduced government spending.

However, in Q1 2004 despite the favourable oil price a provisional deficit balance of B\$31.5 million was recorded due to high government expenditure for that period.

Figure 4.4: Quarterly Surplus/Deficit Balances



Source: Treasury Department, Ministry of Finance

⁶ Provisional as at May 2004

V. MONEY & BANKING DEVELOPMENTS

OVERVIEW

- *BCB changed to BCMB with the new Brunei Currency and Monetary Order 2004 effective 1st February 2004.*
- *Broad money increased steadily over the quarters.*
- *Deposit Interest rate increased for the 3 periods in Q4 2003.*
- *Total asset, total deposits and total loans of the banks increased in Q4 2003.*
- *NPL ratio continues to decline.*

MONETARY DEVELOPMENTS

With effect from 1 February 2004, His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam has consented to the Currency and Monetary Order, 2004. With the new Order in place, the Currency Act 1967 has been repealed. The new Order establishes the Brunei Currency and Monetary Board (BCMB), which replaces the Brunei Currency Board (BCB). The Minister of Finance is the Chairman of the Board with the Deputy Minister of Finance as the Deputy Chairman and other members to be appointed by His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam, two of whom shall be persons with experience in banking and finance.

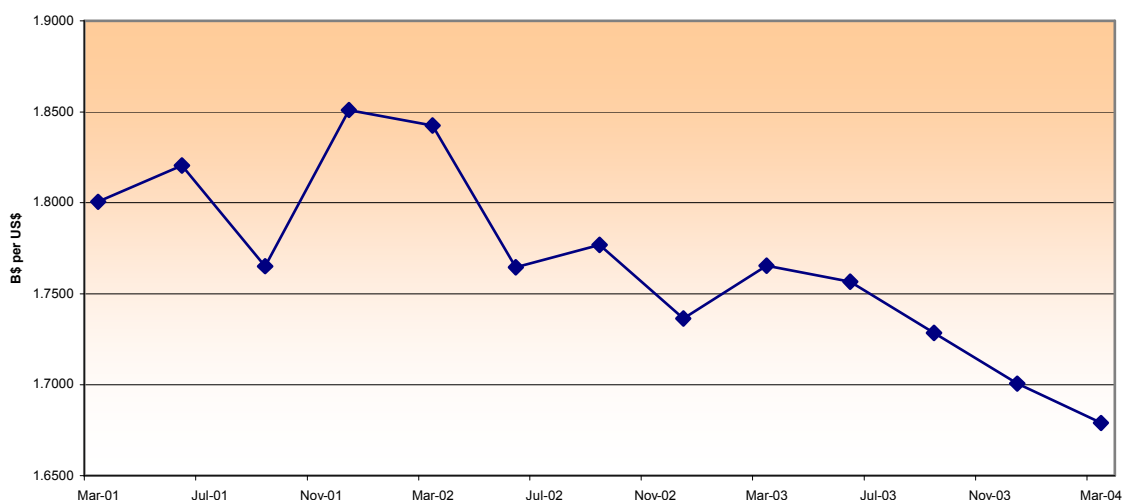
Similar to the previous Act, BCMB remains the sole authority in Brunei Darussalam to manage and issue currency notes and coins and to maintain external reserves in order to safeguard the international value of that currency. This legislation also provides an enabling framework to strengthen the mandate of the Board to act as an agent for the government on such conditions as may be agreed between BCMB and the government, where BCMB shall act within the provisions of this Order. Sanctions and penalties for violations related to currency issuance have also been made more forceful.

The Interchangeability Agreement between Brunei Darussalam and Singapore established since 1967, allowing both countries to interchange their currencies at par remains intact. Under this agreement, the authority and banks of both countries are obliged to accept and exchange each other's currencies without charge.

The Singapore dollar exchange rate is managed against a trade-weighted basket of currencies of its major trading partners and competitors and is allowed to float within a target band. The Monetary Authority of Singapore (MAS) intervenes in the foreign exchange market from time to time to ensure that movements of the Singapore dollar exchange rate are orderly and consistent with the objective to promote sustained and non-inflationary growth for the Singapore economy. It is with the Interchangeability Agreement that the Brunei dollar can be exchanged to other currencies at the same exchange rate that Singapore uses for its Singapore dollar towards other currencies.

The Brunei Dollar has been strengthening against the US Dollar since December 2001 at B\$1.8510 and reaching B\$1.6790 in March 2004. Among other things, this was due to the weak US economic fundamentals.

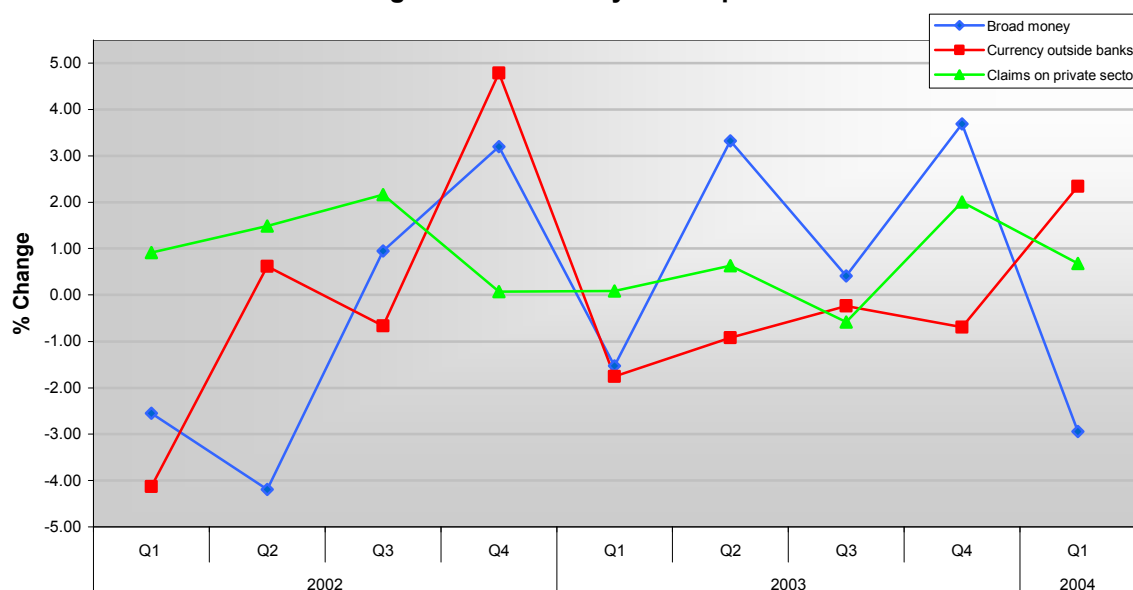
Figure 5.1: B\$ per US\$



Source: Various editions of International Financial Statistics (IMF)

In Q4 2003, overall broad money (M2) increased by 3.7% to B\$7,884.4 million compared to Q3 2003. Net foreign assets grew by 4.0% while claims on private sector increased from -0.6% to 2.0% for the same period. Meanwhile, growth in quasi money was 3.7% with an increase in transferable deposits of 4.6%. However, currency outside banks continues to decline and stood at B\$554.8 million at the end of Q4 2003.

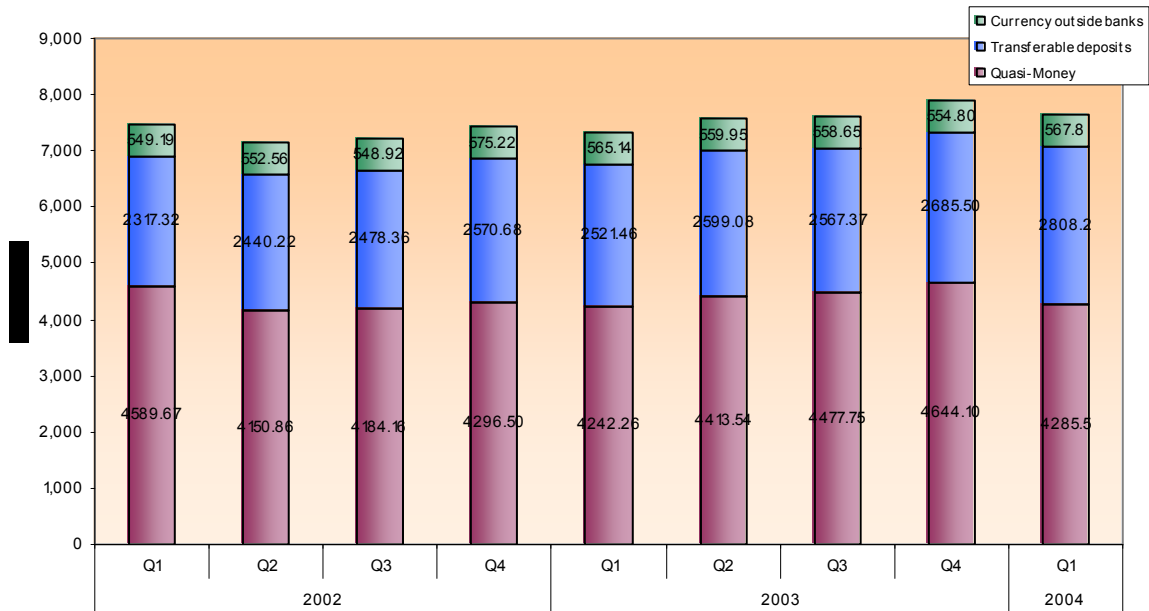
Figure 5.2: Monetary Developments



Source: Financial Institutions Division & Brunei Currency and Monetary Board, Ministry of Finance

Following the fluctuating trend, broad money fell by 2.9% for Q1 2004 from an increase of 3.7% in the previous quarter. Although total net foreign assets have picked up, its rate of increase has slowed down compared to its highest growth rate in Q2 2003 to 0.2% in Q1 2004 and 4.0% for the previous quarter. Claims on private sector fluctuated within its trend and grew at 0.7% from Q4 2003 to Q1 2004.

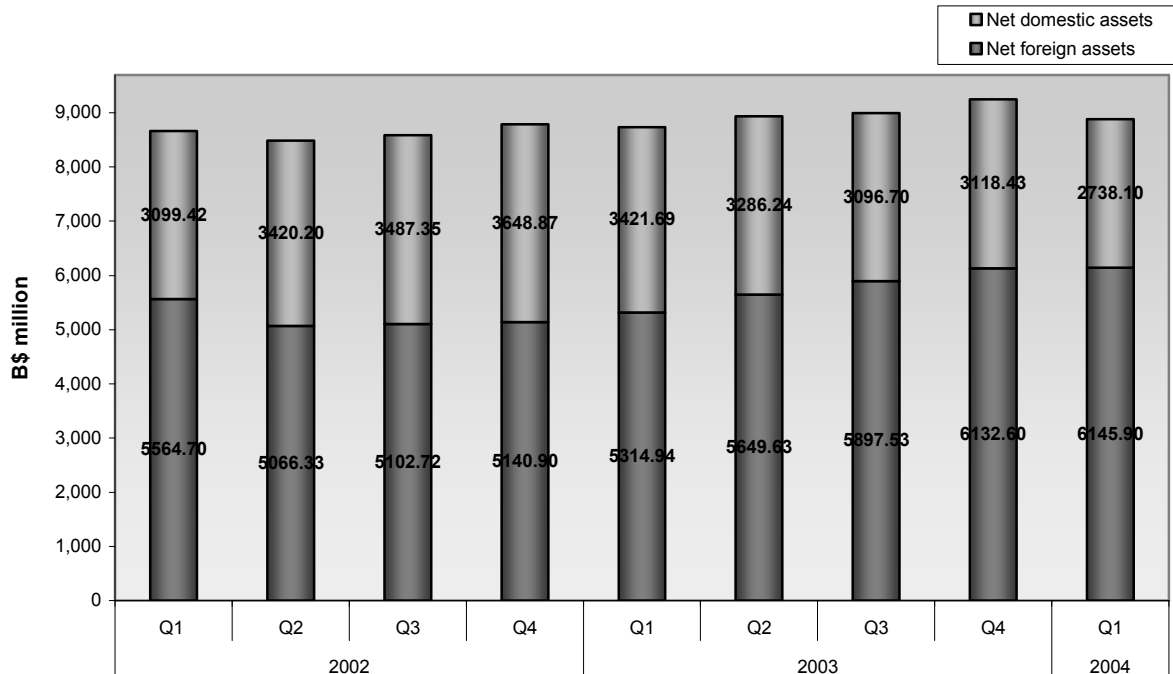
Figure 5.3: Broad Money – Liabilities Side



Source: Financial Institutions Division & Brunei Currency and Monetary Board, Ministry of Finance

Broad money on the liabilities side has remained stable over the period of Q1 2002 – Q1 2004 with an average of B\$4,364.9 million for quasi money, B\$2,554.2 million for transferable deposits and B\$559.1 million for currency outside banks.

Figure 5.4: Broad Money – Assets Side



Source: Financial Institutions Division & Brunei Currency and Monetary Board, Ministry of Finance

Broad money on the assets side remained constant, similar to the liabilities side with a decrease in total broad money. Average net foreign asset is B\$5,557.3 million and for net domestic asset, B\$3257.4 million.

INTEREST RATES

Prime lending rate from Q4 2003 to Q1 2004 is unchanged. Deposit rates have stayed constant for the “3 months”-period. Meanwhile, deposit rates for the “6 months” and “12 months” have declined for the periods due to change in the interest rates of two commercial banks in Brunei Darussalam.

Table 5.1: Brunei Deposit Rates⁷ For 2003 and Q1 2004

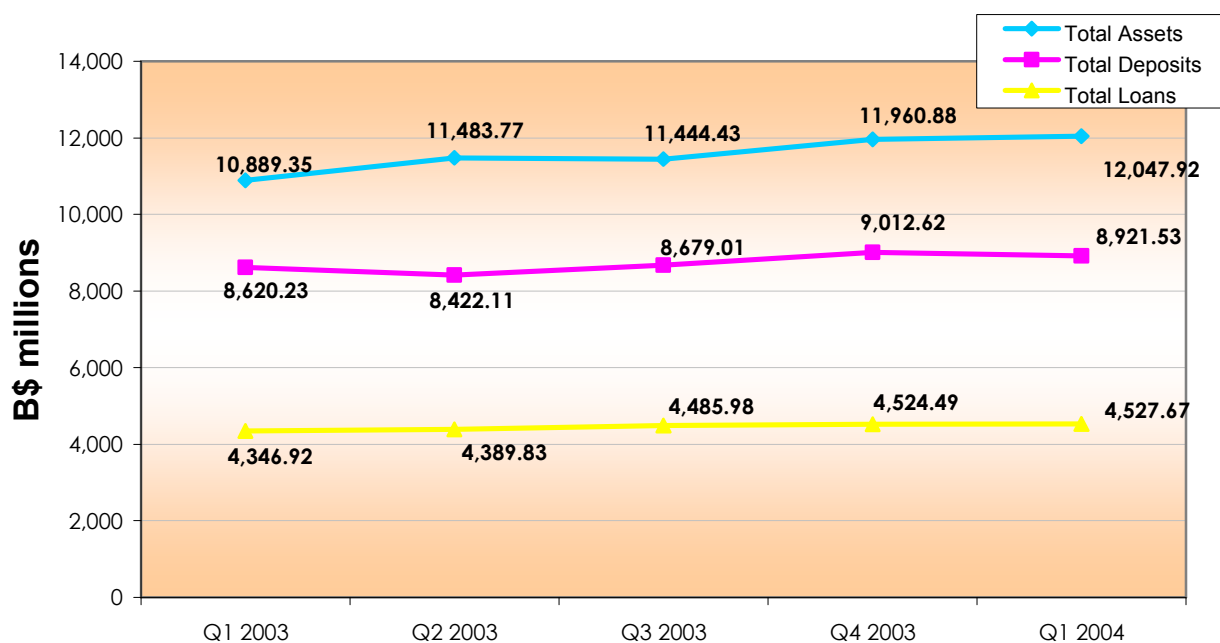
Months	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004
3	1.132%	1.046%	1.035%	1.046%	1.046%
6	1.335%	1.224%	1.216%	1.224%	1.205%
12	1.789%	1.624%	1.609%	1.620%	1.619%

Source: Financial Institutions Division, Ministry of Finance

BANKING INDICATORS

The banking sector⁸ in Brunei Darussalam has shown positive growth. The total assets of the banking sector increased from B\$11,444 million in Q3 2003 to B\$11,961 million in Q4, and continued to increase to B\$12,048 million in Q1 2004, an increase 0.7% from Q4 2003. The total deposits increased in Q4 2003 by 3.8%. However, the total deposits decreased slightly in Q1 2004 to B\$8,921 million from B\$9,013 million. In 2003, about 50% of the banks' total deposits were placed overseas for simple arbitrage due to lack of inter-bank market in Brunei Darussalam. The total loans rose by 0.9% in Q4 2003 from the previous quarter and continue to increase marginally by 0.1% in the first quarter of 2004.

Figure 5.5: Total Assets, Total Deposits and Total Loans of Banks



Source: Financial Institutions Division, Ministry of Finance

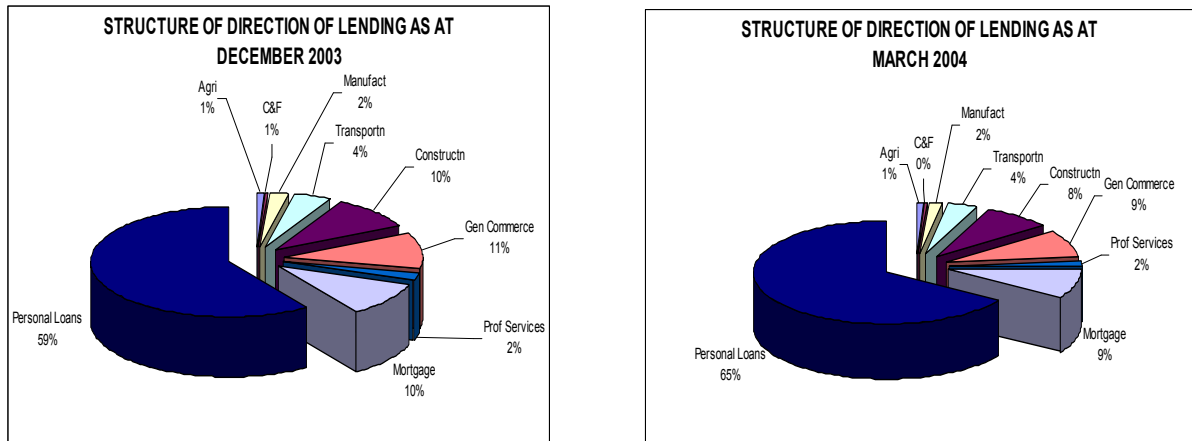
⁷ Rates computed based on the average quoted by all the banks

⁸ TAIB is not included in this section, as it is not classified as a bank.

STRUCTURE OF LENDING

The direction of lending by most banks in Brunei Darussalam tends to be dominated by a risk averse strategy. This can be seen by a significant percentage of loans being geared towards personal loans. In Q4 2003, personal loans recorded 59% of total loans and increased in Q1 2004 to 65% of total loans, an increase by 32.8%.

Figure 5.6: Comparison of Structure of Lending



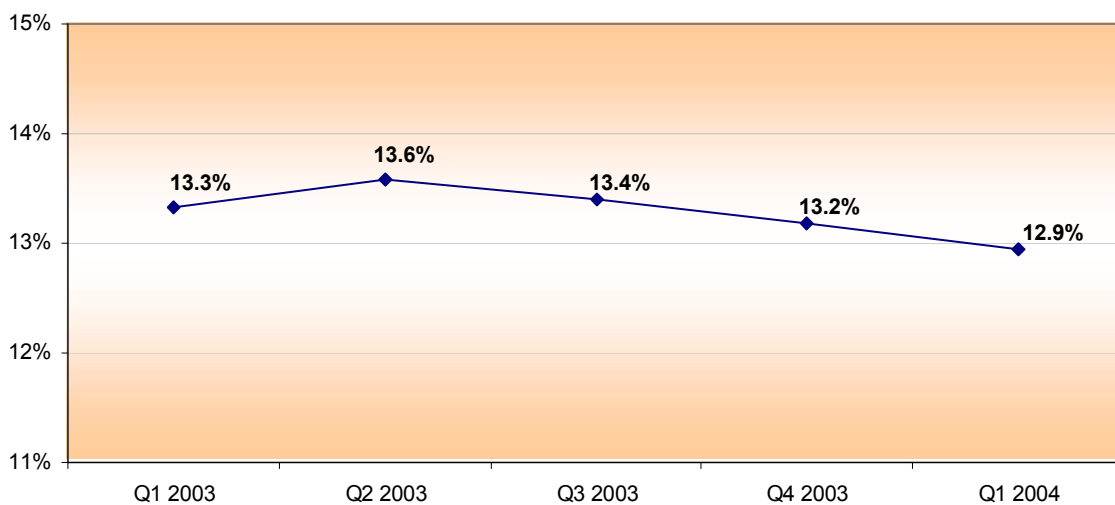
Source: Financial Institutions Division, Ministry of Finance

General Commerce which represent the second highest portion of total loans in Q4 2003 decreased by 3.2% in Q1 2004 followed by Mortgage which increased to B\$470 million in Q1 2004 from B\$461 million in Q4 2003.

NON-PERFORMING LOANS

The overall NPL ratio⁹ of the banks on average continued to show improvement attaining a single digit as the key objective. Figure 5.7 shows that the NPLs have been steadily declining from 13.4% in Q3 2003 to 13.2% in Q4 2003, and as of March 2004, the average NPLs was 12.9%.

Figure 5.7 Average NPL Ratios from Q1 2003 – Q1 2004



Source: Financial Institutions Division, Ministry of Finance

⁹ NPL ratio is calculated as follows = Over 120 days past due loans / Total loans.

TABLE 1: Brunei Darussalam: REAL SECTOR INDICATORS
Gross Domestic Product by sector

	1996	1997	1998	1999	2000	2001	2002	2003
	(In million of Brunei dollars)							
GDP at current prices	7,408.6	7,628.1	6,534.0	7,144.7	7,441.1	7,481.9	7,651.7	8,236.9
Oil sector	2,686.3	2,991.7	2,139.2	2,688.1	2,951.1	2,717.7	2,836.6	3,279.9
Non-oil sector	4,722.3	4,636.4	4,394.8	4,456.6	4,490.0	4,764.2	4,815.1	4,957.0
Government sector	1,905.0	1,713.2	1,763.9	1,783.6	1,803.6	1,855.5	1,929.8	1,936.5
Private sector	2,817.3	2,923.2	2,630.9	2,673.0	2,686.4	2,908.6	2,885.3	3,020.5
GDP at constant prices	3,951.5	4,093.8	3,930.6	4,031.4	4,145.2	4,271.6	4,392.3	4,532.9
Oil sector	2,145.4	2,262.3	2,056.3	2,150.9	2,230.5	2,264.0	2,336.4	2,420.5
Non-oil sector	1,806.1	1,831.5	1,874.3	1,880.3	1,914.7	2,007.7	2,055.9	2,112.4
Government sector	947.0	897.4	955.3	968.3	992.7	1,021.3	1,062.1	1,065.9
Private sector	859.1	934.1	919.0	912.0	922.0	986.4	993.8	1,046.5
	% Growth Rate							
GDP at current prices		3.0	(14.3)	9.3	4.1	0.5	2.3	7.6
Oil sector		11.4	(28.5)	25.7	9.8	(7.9)	4.4	15.6
Non-oil sector		(1.8)	(5.2)	1.4	0.7	6.1	1.1	2.9
Government sector		(10.1)	3.0	1.1	1.1	2.9	4.0	0.3
Private sector		3.8	(10.0)	1.6	0.5	8.3	(0.8)	4.7
GDP at constant prices		3.6	(4.0)	2.6	2.8	3.0	2.8	3.2
Oil sector		5.4	(9.1)	4.6	3.7	1.5	3.2	3.6
Non-oil sector		1.4	2.3	0.3	1.8	4.9	2.4	2.7
Government sector		(5.2)	6.5	1.4	2.5	2.9	4.0	0.4
Private sector		8.7	(1.6)	(0.8)	1.1	7.0	0.8	5.3
Memorandum items:								
GDP per capita at current prices (B\$ thousand)	25.2	25.3	21.1	22.5	22.9	22.5	22.5	23.6

Sources: Economic Planning and Development Department, Prime Minister's Office
Quarterly data is not available for this sector

TABLE 2: Brunei Darussalam: EXTERNAL SECTOR INDICATORS
Balance of Payments

	Q1 2003	Q2 2003	Q3 2003	Q4 2003
Trade balance	1,535.6	1,182.9	1,266.0	1,527.3
Exports, f.o.b.	2,002.50	1,759.4	1,841.4	2,099.7
Imports, f.o.b.	466.9	576.6	575.4	572.5
Services and Investment Income, net	679.7	775.0	871.1	-
Receipts	1,182.2	1235.0	1,293.6	-
Payments	502.5	459.9	422.4	-
Current transfers, net	-44.0	-41.4	-38.9	-
Current account balance	2,171.3	1,916.6	2098.3	-
Capital account balance (incl e.& o.)	-2,190.5	-1,906.9	-2121.6	-
Overall balance	-19.2	9.7	-23.3	103.1
Memorandum items:				
Average oil price (US\$/Barrel)	31.53	27.30	29.89	32.00
International reserves (B\$ millions) ¹	1,120.4	1,130.1	1,106.9	1,210.0
Import coverage	7.20	5.88	5.77	6.34
Foreign exchange coverage of currency (%)	93	95	94	97
B\$/US\$ (end of period)	1.7656	1.7567	1.7284	1.7008

¹ BCMB External Assets plus IMF Quota Subscription & Holdings of SDR

Sources: Economic Planning and Development Department, Prime Minister's Office, Brunei Currency and Monetary Board and International Financial Statistics (IMF)

TABLE 3: Brunei Darussalam: FISCAL INDICATORS**Fiscal Position**

	2002	2003	2003	2002				2003				2004
	Actual	Budget	Actual	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 Prov
B\$Million												
Total Revenue	4,267.8	3,397.8	4,949.4	913.9	1,054.0	1,100.3	1,199.7	1,327.3	1,225.3	1,120.2	1,276.5	1,398.0
Tax Revenue	2,331.7	1,941.6	2,600.9	476.3	574.8	601.4	679.3	717.9	640.7	580.0	662.3	824.7
Oil & Gas sector	2,115.5	1,710.0	2,393.0	447.5	479.9	559.1	629.0	685.4	560.5	524.9	622.2	758.4
Non-oil sector	216.2	231.6	207.9	28.8	94.8	42.3	50.3	32.6	80.2	55.1	40.1	66.3
Non-tax revenue	1,936.1	1,456.2	2,348.5	437.5	479.2	498.9	520.4	609.4	584.7	540.2	614.2	573.3
Oil & Gas sector	1,581.6	1,174.0	1,916.1	352.1	390.4	414.1	425.1	515.7	485.4	463.4	451.6	482.1
Non-oil sector	354.5	282.2	432.4	85.4	88.8	84.9	95.3	93.7	99.3	76.8	162.6	91.2
Total Expenditure	4,790.9	4,949.5	4,191.4	842.1	1,471.5	993.4	1,483.9	1,105.9	986.0	985.4	1,114.2	1,429.5
Current Expenditure	3,776.6	3,242.0	3,289.4	744.6	1,230.4	665.9	1,135.7	896.0	781.0	750.0	862.4	1,202.5
Wages & Salaries (PE)	1,318.8	1,437.8	1,353.7	376.2	315.3	312.5	314.8	402.3	316.1	316.8	318.5	422.8
OCAR	1,231.4	1,262.0	1,235.0	294.1	280.3	279.9	377.1	368.5	286.8	280.1	299.6	465.6
Charged	1,226.4	542.1	700.7	74.3	634.8	73.5	443.8	125.1	178.1	153.1	244.4	314.1
Capital Expenditure	956.5	1,707.6	878.7	95.8	231.6	321.7	307.4	209.9	186.9	235.4	246.5	227.0
Of which: Ordinary	524.2	707.6	594.9	86.3	86.4	209.9	141.7	177.8	104.1	168.0	145.0	156.6
Of which: Development	432.3	1,000.0	283.8	9.5	145.2	111.8	165.8	32.1	82.9	67.4	101.5	70.4
Investments in Public Enterprises	57.8	0.0	23.3	1.7	9.5	5.8	40.8	0.0	18.0	0.0	5.3	0.0
Surplus or deficit (-), excl. transfer	(523.1)	(1,551.8)	757.9	71.8	(417.5)	106.9	(284.2)	221.4	239.4	134.8	162.3	(31.5)
(In percent of GDP)												
Total Revenue	55.8	41.3	60.1	-	-	-	-	-	-	-	-	-
Tax Revenue	30.5	23.6	31.6	-	-	-	-	-	-	-	-	-
Oil & Gas sector	27.6	20.8	29.1	-	-	-	-	-	-	-	-	-
Non-oil sector	2.8	2.8	2.5	-	-	-	-	-	-	-	-	-
Non-tax revenue	25.3	17.7	28.5	-	-	-	-	-	-	-	-	-
Oil & Gas sector	20.7	14.3	23.3	-	-	-	-	-	-	-	-	-
Non-oil sector	4.6	3.4	5.2	-	-	-	-	-	-	-	-	-
Total Expenditure	62.6	60.1	50.9	-	-	-	-	-	-	-	-	-
Current Expenditure	49.4	39.4	39.9	-	-	-	-	-	-	-	-	-
Capital Expenditure	12.5	20.7	10.7	-	-	-	-	-	-	-	-	-
Surplus or deficit (-), excl. transfer	(6.8)	(18.8)	9.2	-	-	-	-	-	-	-	-	-
Memorandum items												
Consolidated Fund	2,683.6	n/a	n/a	-	-	-	-	-	-	-	-	-
Oil Price (US\$/barrel)	25.33	21.0	30.17	20.87	25.03	27.59	28.02	31.53	27.30	29.89	32.00	35.59
Gas (US\$/Mmbtu)	4.1745		4.5421	3.7557	4.0254	4.3352	4.5095	4.582	4.6573	4.4351	4.4832	4.6731
Oil & Gas (in % of total revenue)	86.6	84.9	87.1	87.5	82.6	88.4	87.9	90.5	85.4	88.2	84.1	88.7
Oil & Gas (in % of GDP)	48.3	35.0	52.3	10.5	11.4	12.7	13.8	14.6	12.7	12.0	13.0	15.1

Note: 2003 and 2004 figures are based on the unaudited figures from Treasury Department, Ministry of Finance as at May 2004.

Sources: Treasury Department and Expenditure Division, Ministry of Finance

TABLE 4: Brunei Darussalam: MONETARY INDICATORS
Monetary Survey

	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04
	B\$mil.	B\$mil.	B\$mil.	B\$mil.	B\$mil.	B\$mil.	B\$mil.	B\$mil.	B\$mil.
Net foreign assets	5,564.70	5,066.33	5,102.72	5,140.90	5,314.94	5,649.63	5,897.53	6,132.60	6,145.90
BCB	731.53	730.71	722.81	775.52	767.51	788.52	789.50	824.40	803.00
Commercial banks	4,833.17	4,335.62	4,379.91	4,365.38	4,547.43	4,861.11	5,108.03	5,308.20	5,343.00
Assets	5,259.26	4,671.11	4,729.73	4,678.20	4,802.64	5,109.77	5,231.60	5,493.20	5,451.10
Liabilities	426.09	335.49	349.82	312.82	255.21	248.66	123.57	185.00	108.10
Claims on private sector	4,848.46	4,920.46	5,027.04	5,030.60	5,034.74	5,066.51	5,037.21	5,138.10	5,173.00
Claims on Government Net	-1,937.49	-1,701.62	-1,748.86	-1,595.33	-1,833.21	-2,024.36	-2,203.80	-2,300.30	-2,725.30
Other assets	188.45	201.36	209.17	213.60	220.16	244.09	263.29	280.63	290.40
Commercial banks	187.17	199.62	208.01	207.61	215.11	222.57	224.21	233.80	242.60
Claims on Nonfinancial Public Corporations	1.28	1.74	1.16	5.99	5.05	21.52	39.08	46.83	47.80
Assets=liabilities	8,664.12	8,486.53	8,590.07	8,789.77	8,736.63	8,935.87	8,994.23	9,251.03	8,884.00
Money	2,866.51	2,992.78	3,027.28	3,145.90	3,086.60	3,159.03	3,126.02	3,240.30	3,366.90
Currency	549.19	552.56	548.92	575.22	565.14	559.95	558.65	554.80	567.80
Transferable deposits	2,317.32	2,440.22	2,478.36	2,570.68	2,521.46	2,599.08	2,567.37	2,685.50	2,808.20
Quasi-money	4,589.67	4,150.86	4,184.16	4,296.50	4,242.26	4,413.54	4,477.75	4,644.10	4,285.50
Other deposits at commercial banks	4,589.67	4,150.86	4,184.16	4,296.50	4,242.26	4,413.54	4,477.75	4,644.10	4,285.50
Other liabilities	1,207.94	1,342.89	1,378.63	1,347.37	1,407.78	1,363.30	1,390.46	1,366.60	1,231.40
Memorandum items:									
Currency with banks	87.02	79.94	87.49	79.59	89.15	86.02	92.26	85.99	88.40
Broad money	7,456.18	7,143.64	7,211.44	7,442.40	7,328.86	7,572.57	7,603.77	7,884.40	7,652.40
Prime lending rate (end of period)	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
	(Percent change)								
Net foreign assets	1.61	-8.96	0.72	0.75	3.39	6.30	4.39	3.99	0.22
Claims on private sector	0.91	1.49	2.17	0.07	0.08	0.63	-0.58	2.00	0.68
Claims on Government Net	9.20	-12.17	2.78	-8.78	14.91	10.43	8.86	4.38	18.48
Money	0.07	4.41	1.15	3.92	-1.88	2.35	-1.04	3.66	3.91
Currency	-4.13	0.61	-0.66	4.79	-1.75	-0.92	-0.23	-0.69	2.34
Transferable deposits	1.12	5.30	1.56	3.73	-1.91	3.08	-1.22	4.60	4.57
Quasi-Money	-4.11	-9.56	0.80	2.68	-1.26	4.04	1.45	3.72	-7.72
Other deposits at commercial banks	-4.11	-9.56	0.80	2.68	-1.26	4.04	1.45	3.72	-7.72
	(In percent of broad money 12 months ago)								
Contribution to broad money growth									
Net foreign assets	1.16	-6.68	0.51	0.53	2.34	4.57	3.27	3.09	0.17
Claims on private sector	0.57	0.97	1.49	0.05	0.06	0.43	-0.39	1.33	0.44
Claims on Government Net	-2.13	3.16	-0.66	2.13	-3.20	-2.61	-2.37	-1.27	-5.39
Memorandum item:									
Broad money	-2.55	-4.19	0.95	3.20	-1.53	3.33	0.41	3.69	-2.94

Source: Financial Institutions Division & Brunei Currency and Monetary Board, Ministry of Finance