

BRUNEI DARUSSALAM

Fiscal and Monetary Review 3rd Quarter 2004

Ministry of Finance

Commonwealth Drive

Bandar Seri Begawan BB3910

Brunei Darussalam

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I. EXECUTIVE SUMMARY

Brunei Darussalam's economy is estimated to contract by 2.8 percent (q-o-q) and 1.1 percent (y-o-y) in Q2 2004. This contraction of GDP could be mainly attributed to the fall in production of Brunei Darussalam's Oil and Gas Sector during this quarter. In Q2, the Oil and Gas Sector contracted by 5.4 percent (y-o-y) and 5.8 percent (q-o-q). For the Non-Oil and Gas Sector, it is estimated to grow by 3.9 percent (y-o-y) mainly due to improvement in the Fishery; Non-Oil Mining, Quarrying and Manufacturing; and Wholesale and Retail Sectors. However, during Q3 2004, the economy grew by 1.5 percent (q-o-q) and 2.6 percent (y-o-y) with increased production in both the Oil and Gas, and Non-Oil and Gas Sectors.

For Q2 2004, Total Exports increased by 8.9 percent (q-o-q) while Total Imports decreased by 17.76 percent (q-o-q). Total Exports for Q3 2004 went up by 4.12 percent (q-o-q). This was reflected from a significant boost in exports of mineral fuels which increased by 20.12 percent and further supported by the improvement in exports of Miscellaneous Manufactured Articles. Total Imports for Q3 2004 increased by 5.69 percent (q-o-q) and 5.3 percent (y-o-y). Total International Reserves¹ stood at B\$1,164.29 million at the end of Q2 and increased by 2.67 percent in Q3 reaching B\$1,195.41 million. Overall, the trade balance improved by 27.13 percent over both quarters.

Brunei Darussalam continued to enjoy a healthy fiscal surplus of B\$536.1 million in Q3 2004, indicating an increase of 13.4 percent (q-o-q) and has been the highest amount recorded within the last 2 years. Total Government Revenue stood at B\$1,605.9 million (18.3 percent increase) mainly due to an increase of 31.8 percent in Tax Revenue. Total Government Expenditure amounted to B\$1,069.8 million (20.9 percent increase) mainly due to higher payments for Current and Capital Expenditure.

In the Monetary Sector, the Brunei Dollar was seen to be at its weakest performance year to date against the US Dollar by the end of June 2004. However, by the end of September 2004, the Brunei Dollar regained some strength to the rate of B\$1.6908. Broad Money increased by 3.5 percent (q-o-q) and 14.96 percent (y-o-y) largely contributed to the increase in net foreign assets. Deposit interest rates increased for the 12 months period while the others have stayed constant. Total Assets and Deposits from the Banking Sector grew by 4.9 percent and 6.2 percent respectively while Total Loans increased by 1.3 percent. NPL ratio stood at 13.1 percent.

¹ Brunei Currency and Monetary Board's external assets plus IMF quota subscriptions and holdings SDR

II. GLOBAL SHORT TERM ECONOMIC REVIEW

OVERVIEW

US GDP for the 3rd Quarter 2004 grew by 3.9 percent with consumer spending surging to 5.1 percent. Consumer confidence dropped to 96.8 in September from 98.7 in August, amid concern about hiring and rising oil prices. The unemployment rate fell to 5.4 percent, the lowest since October 2001, as more people returned to the labour force, a sign of growing confidence about job prospects. The U.S. Federal Reserve (FED) raised the benchmark U.S. interest rate for a 3rd straight time by 25 bps to 1.75 percent and restated a plan to carry out further increases at a “measured” pace, saying the labour market has improved and the economy is showing “moderate” growth even amid higher oil prices.

The European Central Bank (ECB) kept its benchmark interest rate at 2.00 percent, a 6-decade low, unchanged since June 2003. ECB President Jean-Claude Trichet said the outlook is “surrounded by uncertainty”, predominantly because of oil costs. He also commented that the bank raised its 2004 growth forecasts “slightly” to 1.9 percent and inflation to 2.2 percent, confirming his view of a “gradual recovery” in the Euro-zone. Unemployment in the Euro-zone stayed at 8.9 percent for the 19th month in September as record oil prices damped investment and consumer spending.

The data on UK generally pointed towards economic strength, with a fairly tight labour market, strong industrial production, low inflation and a consumer willing to spend. More focus was on the housing market. Rates were kept on hold at the start of the quarter as concerns mounted at the stability of the housing market and associated high levels of consumer indebtedness.

Japan's Q3 2004 GDP came in at 0.1 percent (q-o-q) and 0.3 percent (y-o-y), weaker than initially expected, but consistent with the weaker industrial production (-0.7 percent q-o-q) and machinery orders (-8.4 percent q-o-q) seen in Q3. The leading economic indicator fell to 30.0 percent in September, below the 50.0 percent threshold level for the 1st time in 1 ½ years. Q3 figures and other economic indicators so far do not suggest the economy has entered a phase of contraction or recession but rather a one-off slowdown.

The latest Chinese economic data continued to show slowdown in both money supply and fixed asset investment (FAI). Q3 2004 GDP growth came in at 9.1 percent (y-o-y), down modestly from 9.6 percent in Q2. Retail sales of consumer goods rose in the January-August period, with increasing urban and rural sales. The oil market remained a key influence over the period as oil prices continued to surge to US\$50 a barrel at the end of the quarter in response to continued strong global demand, particularly from China, and tight supply with OPEC producing close to its maximum capacity. Global growth forecasts were revised down over the quarter as economists focused on the growth dampening effect of higher oil prices.

West Texas Intermediate (WTI) crude price hit a new high of US\$49.64 by the end of September, rising more than US\$6 from the end of August. Supply factor, as often in the past, is the main cause in the recent price surge. Ongoing Iraqi violence, unrest and labour strikes in Nigeria and political instability in Venezuela with the added factor of speculative investment in oil especially hedge funds betting on the possibility of higher prices have themselves exacerbated price pressure in the oil market. The factors on the side of demand are mainly the brighter prospects of world economic recovery and growth, and growing oil consumption mainly from China, where demand is up 20.0 percent over the past year.

III. REAL SECTOR DEVELOPMENTS

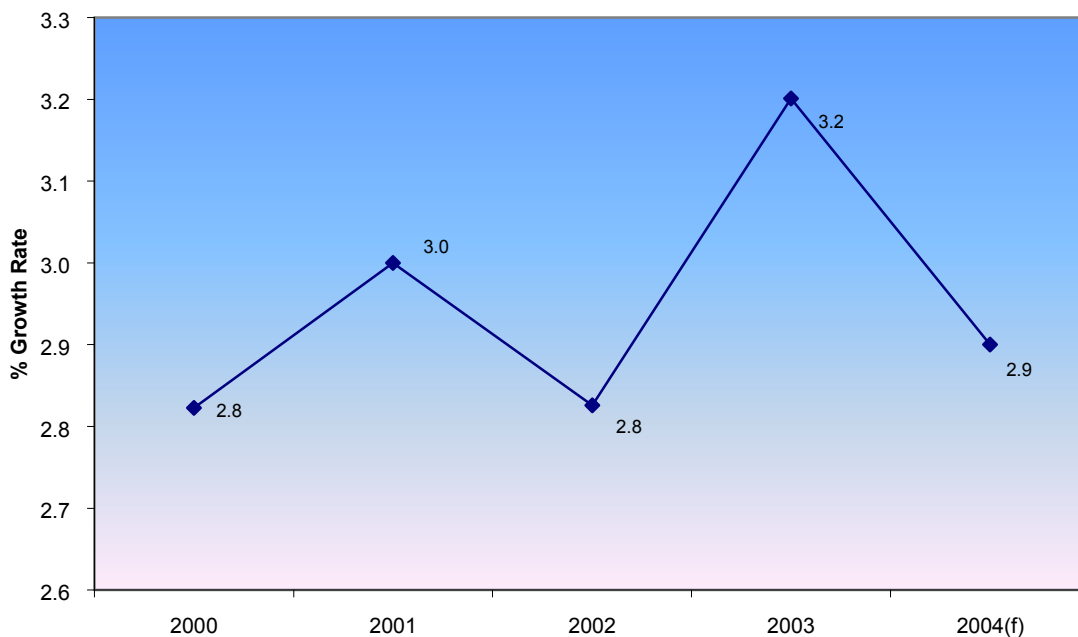
OVERVIEW

- For 2004, the Oil and Gas Sector is forecasted to account for 53.3 percent of the economy's total GDP.
- The Oil and Gas Sector is forecasted to grow by approximately 2.7 percent in 2004 due to increased production of crude oil and LNG.
- The average crude oil price per barrel was US\$38.20 and US\$46.31 for Q2 2004 and Q3 2004 respectively.
- The average LNG price per MMBtu was US\$4.75 and US\$4.84 for Q2 2004 and Q3 2004 respectively.
- The average CPI was 101.3 and 101.1 for Q2 2004 and Q3 2004 respectively.

Brunei Darussalam's forecasted real GDP growth rate for 2004 remains at 2.9 percent. However, the economy is estimated to contract by 2.8 percent in Q2 2004 compared to Q1 2004. This contraction of GDP could be mainly attributed to the fall in production of Brunei Darussalam's Oil and Gas Sector during Q2. In comparison to Q2 2003, the economy is also estimated to contract by 1.1 percent.

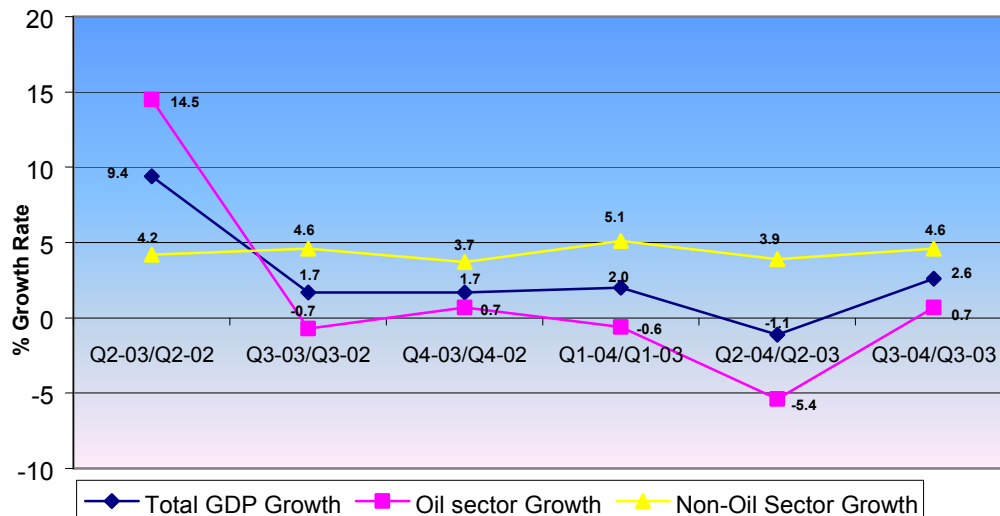
In Q3 2004, the economy is estimated to grow by 1.5 percent compared to Q2 2004, while compared to the Q3 2003, growth is estimated to be at 2.6 percent.

Figure 3.1: GDP at Constant prices



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

Figure 3.2: GDP at Constant prices Y-o-Y



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

OIL AND GAS SECTOR

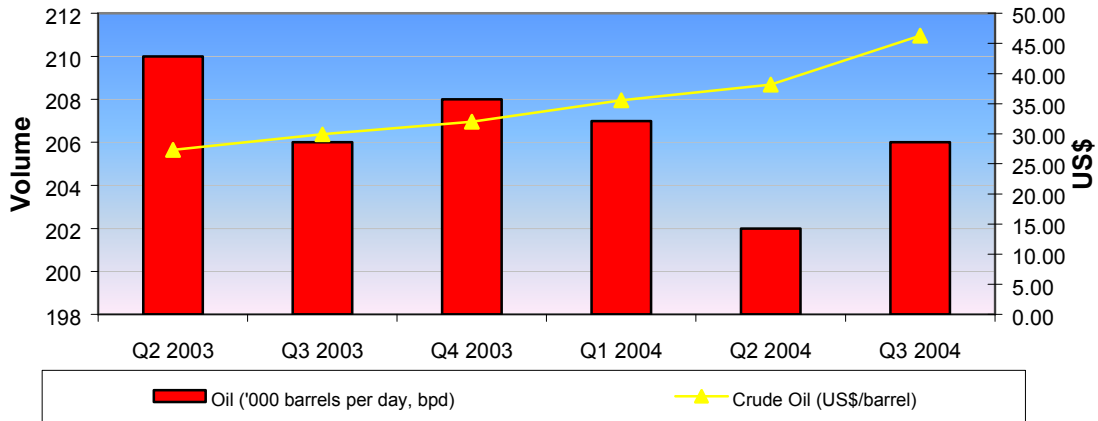
In Q2 2004, the Oil and Gas Sector contracted by 5.4 percent (y-o-y) and 5.8 percent (q-o-q). The average weighted oil production decreased by 3.8 percent (y-o-y), from 209,790 bpd to 201,738 bpd recorded in Q2 2004. Furthermore, oil production also declined by 2.7 percent, from 207,323 bpd in Q1 2004. Meanwhile, the average weighted LNG production per day decreased by 8.8 percent from 1,042,283.9 MMBtu in Q2 2003 to 950,639.01 MMBtu in Q2 2004. Similarly, as compared to Q1 2004, the LNG production per day also declined by 12.4 percent from 1,085,249.5 MMBtu.

The price of crude oil averaged at US\$38.20 per barrel, an increase of 7.3 percent (q-o-q) and an increase of 39.8 percent (y-o-y). Correspondingly, the price of LNG averaged at US\$4.75 per MMBtu, an increase of 1.7 percent from the previous quarter and an increase of 1.1 percent from the same period of the previous year.

The Oil and Gas Sector, in Q3 2004, grew by 0.7 percent (y-o-y) and 3.6 percent (q-o-q). The average weighted oil production decreased by 0.2 percent from 206,277 bpd in Q3 2003 to 205,935 bpd in Q3 2004. However, relative to Q2 2004, oil production increased by 2.0 percent from 201,738 bpd. LNG production per day also increased by 2.9 percent from 990,426.5 MMBtu in Q3 2003 to 1,019,037.39 MMBtu and on a quarter-on-quarter basis the increase was registered at 7.2 percent.

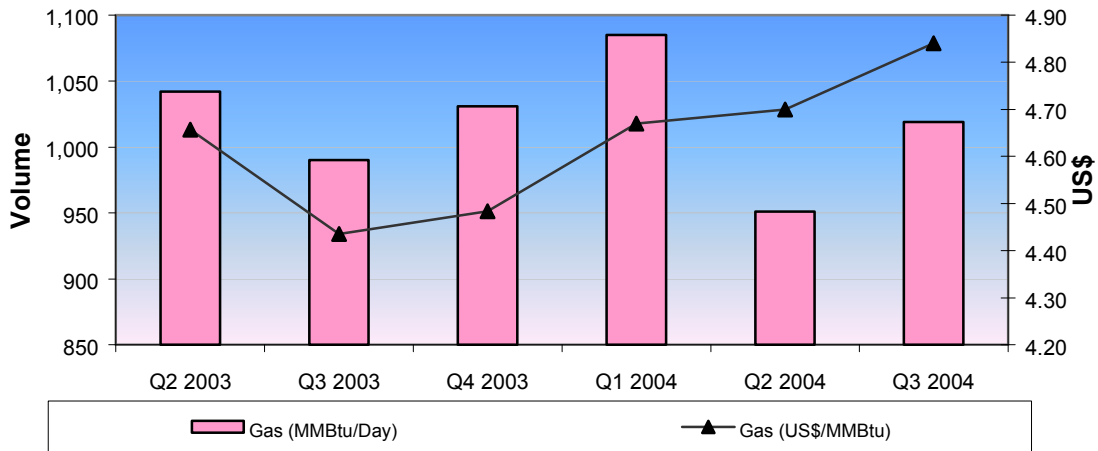
During the same period, the average price of crude oil increased significantly by 21.2 percent (q-o-q) and 57.9 percent (y-o-y) to US\$46.31 per barrel. The price of LNG averaged at US\$4.84 per MMBtu, an increase of 1.9 percent (q-o-q) and 8.5 percent (y-o-y).

Figure 3.3: Crude Oil Production and Prices



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

Figure 3.4: LNG Production and Prices



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

NON-OIL AND GAS SECTOR

The Non-Oil and Gas Sector is estimated to grow by 3.9 percent in Q2 2004 year-on-year. Quarter-on-quarter, this sector is estimated to register a slight growth of 0.4 percent. This was mainly due to improvements in the Fishery; Non-Oil Mining, Quarrying and Manufacturing; and Wholesale and Retail Sectors.

In Q3 2004, the non-oil and gas sector grew by 4.6 percent year-on-year but decreased by 0.5 percent quarter-on-quarter. It was highlighted that the enhanced year-on-year performance was attributed to growth in Agriculture; Forestry; Fishery; Construction; Retail; Real Estate and Business Services; and Transport and Communications Sectors.

The Agricultural Sector grew by 1.4 percent in Q2 2004 compared to Q2 2003 and 5.3 percent compared Q1 2004. This was mainly due to increased production in the vegetable and chicken egg industry which accounts for 53.0 percent and 13.0 percent of

the sector respectively. Encouraging growth of 21.0 percent was reported for the Forestry Sector during Q2 2004 year-on-year and relative to Q1 2004 growth was estimated at 17.8 percent. Production in the Fishery Sector, however, declined by 22.8 percent year-on-year and 60.1 percent relative to Q1 2004. This was largely caused by a reduction in the output of the capture industry.

The Banking and Finance Sector declined by 7.0 percent (y-o-y) but improved by 3.8 percent (q-o-q). Total interest income from loans and advances was B\$107.0 million in Q2 2004, a decrease of 7.0 percent compared to the same period a year ago and a decrease of 6.8 percent from the previous quarter. In Q3 2004, this sector contracted by 2.8 percent (y-o-y) but expanded by 3.2 percent (q-o-q). Total interest income from loans and advances was B\$110.1 million, an increase of 2.9 percent (q-o-q) but a decrease of 3.0 percent (y-o-y).

The Insurance Sector improved by 15.9 percent in Q2 2004 compared to Q1 2004. Total gross premium collected by Islamic Insurance (Takaful) companies was B\$10.7 million in Q2 2004 compared to B\$10.9 million collected in the previous quarter. However, conventional insurance companies collected B\$30.2 million in Q2 2004 compared to B\$24.4 million in Q1 2004, an increase of 23.8 percent. With respect to Q3 2004, total gross premium collected by Islamic Insurance (Takaful) companies was B\$11.8 million which was an increase of 10.2 percent (q-o-q). On the other hand, total gross premium collected by conventional insurance companies decreased to B\$29.8 million, a reduction of 1.3 percent (q-o-q).

The Non-Oil Mining, Quarrying and Manufacturing Sector grew by 8.6 percent compared to Q2 2003, and in comparison to Q1 2004 this sector expanded by about 4.1 percent. In Q3 2004, this sector grew by 4.5 percent (q-o-q). The continuous growth in this sector was attributed to increased production in the garments and cement industry over both quarters.

The Transport and Communication Sector continued to grow by an estimated 17.1 percent in Q2 2004 compared to Q2 2003, and relative to Q1 2004, this sector grew by 5.4 percent. Growth was also evident in the performance of this sector in Q3 2004, whereby growth was estimated at 13.7 percent (q-o-q) and 0.6 percent (y-o-y). The improved year-on-year performance for both quarters was attributed to increased volume of seaborne cargo handled and mobile phone subscribers.

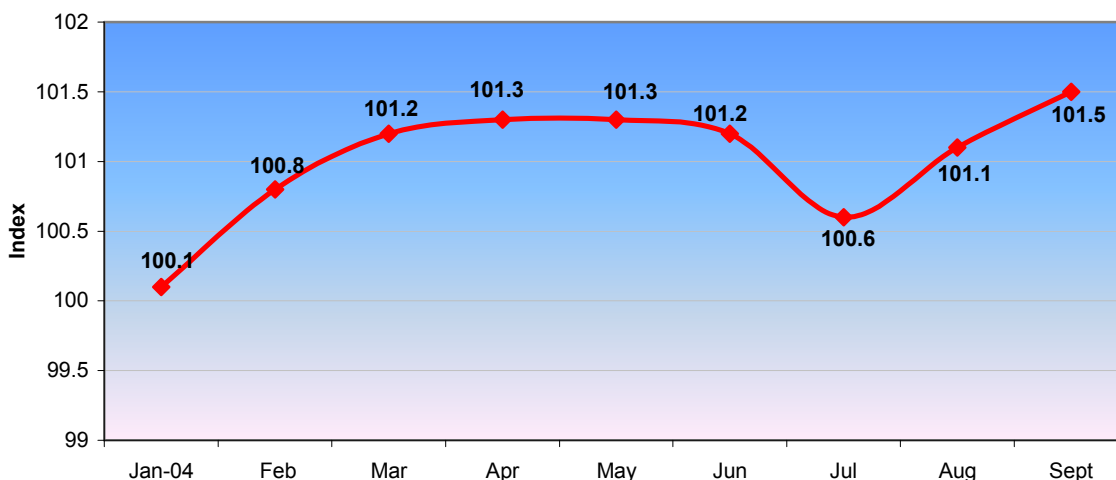
INFLATION

The average Consumer Price Index (CPI) recorded for Q2 2004 was 101.3, an increment of 0.6 percent relative to the figure recorded for Q1 2004. This was attributed to minor changes in the prices of significantly weighted commodity groups: Food & Non Alcoholic beverages (+0.7 percent); Housing, Water, Electricity & Maintenance (+0.4 percent); Household Goods & Operations (-0.7 percent); Transport (+0.4 percent); and Recreation & Entertainment (+4.8 percent). Correspondingly, the change in CPI compared to the same period last year was an increase of 0.7 percent.

In Q3 2004, the average CPI was 101.1, a decrease of 0.2 percent from that of the previous quarter but an increase of 1.0 percent year-on-year. Among others, the changes recorded were: Food & Non Alcoholic beverages (+0.2 percent); Housing,

Water, Electricity & Maintenance (+0.3 percent); Household Goods & Operations (-1.1 percent); Transport (+0.1 percent); and Recreation & Entertainment (-1.2 percent).

Figure 3.5: Consumer Price Index²



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

OUTLOOK FOR THE REST OF 2004

Continuous economic growth is expected for both the Oil and Gas Sector and the Non-Oil and Gas Sector during the course of the year. Economic growth experienced by the regional economies namely China, Japan, South Korea and ASEAN will sustain market demand for Brunei's oil and LNG exports. The positive effects of increased export revenue due to favourable oil and LNG prices will further add to the growth of Brunei's economy. Spill-over effects of greater economic activities in ASEAN and the Asia-Pacific region are expected to trickle through into the Bruneian economy and further enhance economic growth.

The Non-Oil Private Sector is expected to post further growth during the rest of 2004 as this sector has continuously expanded in previous quarters. There is optimism in the performance of the Wholesale and Retail Sector due to the upcoming festivities and the annual Brunei Grand Sale. The restaurant and hotel sector is forecasted to contribute to growth in the Non-oil Private sector due to the national festivities, various international conventions and meetings that will be held throughout the second half of the year. Increased influx of holidaymakers during the peak vacation season will also increase economic activities in the sector. Further growth will also be expected in the mining, quarrying and manufacturing; construction; and the transportation and communications sectors.

The CPI is expected to remain subdued during the course of the year, however, significant changes are likely to occur due to the annual Brunei Grand Sale which will influence a number of heavily weighted groups in the index.

² The Base year for CPI is 2002 (2002=100)

TABLE 3.1: Brunei Darussalam: REAL SECTOR INDICATORS
Gross Domestic Product by sector

| Annual Data | 1999 | 2000 | 2001 | 2002 | 2003 | 2004^(f) |
|---|--------------------------------|----------------|----------------|----------------|----------------|---------------------------|
| | (In million of Brunei Dollars) | | | | | |
| GDP at current prices | 7,144.7 | 7,441.1 | 7,481.9 | 7,651.7 | 8,236.9 | 8769.2 |
| Oil sector | 2,688.1 | 2,951.1 | 2,717.7 | 2,836.6 | 3,279.9 | 3599.6 |
| Non-oil sector | 4,456.6 | 4,490.0 | 4,764.2 | 4,815.1 | 4,957.0 | 5169.6 |
| Government sector | 1,783.6 | 1,803.6 | 1,855.5 | 1,929.8 | 1,936.5 | 1984.9 |
| Private sector | 2,673.0 | 2,686.4 | 2,908.6 | 2,885.3 | 3,020.5 | 3184.7 |
| GDP at constant prices | 4,031.4 | 4,145.2 | 4,271.6 | 4,392.3 | 4,532.9 | 4665.4 |
| Oil sector | 2,150.9 | 2,230.5 | 2,264.0 | 2,336.4 | 2,420.5 | 2485.9 |
| Non-oil sector | 1,880.3 | 1,914.7 | 2,007.7 | 2,055.9 | 2,112.4 | 2179.5 |
| Government sector | 968.3 | 992.7 | 1,021.3 | 1,062.1 | 1,065.9 | 1095.5 |
| Private sector | 912.0 | 922.0 | 986.4 | 993.8 | 1,046.5 | 1087.0 |
| | Growth Rate (%) | | | | | |
| GDP at current prices | 9.3 | 4.1 | 0.5 | 2.3 | 7.6 | 6.5 |
| Oil sector | 25.7 | 9.8 | (7.9) | 4.4 | 15.6 | 9.7 |
| Non-oil sector | 1.4 | 0.7 | 6.1 | 1.1 | 2.9 | 4.3 |
| Government sector | 1.1 | 1.1 | 2.9 | 4.0 | 0.3 | 2.5 |
| Private sector | 1.6 | 0.5 | 8.3 | (0.8) | 4.7 | 5.4 |
| GDP at constant prices | 2.6 | 2.8 | 3.0 | 2.8 | 3.2 | 2.9 |
| Oil sector | 4.6 | 3.7 | 1.5 | 3.2 | 3.6 | 2.7 |
| Non-oil sector | 0.3 | 1.8 | 4.9 | 2.4 | 2.7 | 3.2 |
| Government sector | 1.4 | 2.5 | 2.9 | 4.0 | 0.4 | 2.5 |
| Private sector | (0.8) | 1.1 | 7.0 | 0.8 | 5.3 | 3.9 |
| Memorandum items: | | | | | | |
| GDP per capita at current prices (B\$ Thousand) | 22.5 | 22.9 | 22.5 | 22.5 | 23.6 | 24.1 |
| Quarterly Data | Growth Rate Year-on-Year (%) | | | | | |
| | Q2-2003 | Q3-2003 | Q4-2003 | Q1-2004 | Q2-2004 | Q3-2004 |
| GDP at constant prices | 9.4 | 1.7 | 1.7 | 2.0 | (1.1) | 2.6 |
| Oil sector | 14.5 | (0.7) | 0.7 | (0.6) | (5.4) | 0.7 |
| Non-oil sector | 4.2 | 4.6 | 3.7 | 5.1 | 3.9 | 4.6 |

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

IV. EXTERNAL SECTOR DEVELOPMENTS

OVERVIEW

- Oil and gas exports comprised of 79.0 percent of the total export for Q2 2004 and 91.0 percent for Q3.
- In Q2 2004, exports increased by 8.90 percent and increased further by 4.12 percent in Q3.
- Imports decreased by 17.76 percent in Q2 and increased by 5.69 percent in Q3.
- Trade balance improved by 27.13 percent over both quarters.
- The average prices of both crude oil and gas picked up by 55.8 percent and 1.7 percent respectively.
- Total international reserves³ stood at B\$1,164.29 million at the end of Q2 and increased by 2.67 percent in Q3 reaching B\$1,195.41 million.

EXPORTS

Total exports increased by 8.9 percent to B\$2,211.0 million in Q2 2004 from the previous quarter. On a year-on-year basis, total exports increased by 25.7 percent from B\$1,759 million. Oil and gas still dominates exports despite a decrease of 4.5 percent to B\$1,746.48 million. Non-oil and gas however saw an increase of 121.9 percent to B\$464.52 million. This was mainly due to the increase in the exports of manufactured goods from B\$12.68 million to B\$140.81 million in Q2 2004.

Total exports continued its upward trend in Q3 2004 from the previous quarter to B\$2,302 million by 4.12 percent. The overall increase reflected the significant boost in exports of Mineral Fuels, which increased by 20.12 percent, and further supported by the improvement in exports of Miscellaneous Manufactured Articles. Other Non-oil and gas exports however, have decreased. In Q3, on a year-on-year basis, total exports increased by B\$460.63 million (25.02 percent).

Table 4.1: Comparison of Oil and Gas Export Volume and Average Prices

| | Q2 2003 | Q3 2003 | Q4 2003 | Q1 2004 | Q2 2004 | Q3 2004 | Percentage Change (Q1 2004/Q2 2004) | Percentage Change (Q2 2004/Q3 2004) |
|--|------------|------------|------------|------------|------------|------------|--|--|
| Export Volume | | | | | | | | |
| Oil ('000 bpd) | 201 | 197 | 201 | 201 | 188 | 193 | -6.47 | +2.66 |
| Gas (Trillion Btu per year) | 96 | 89 | 90 | 108 | 93 | 99 | -13.89 | +6.45 |

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

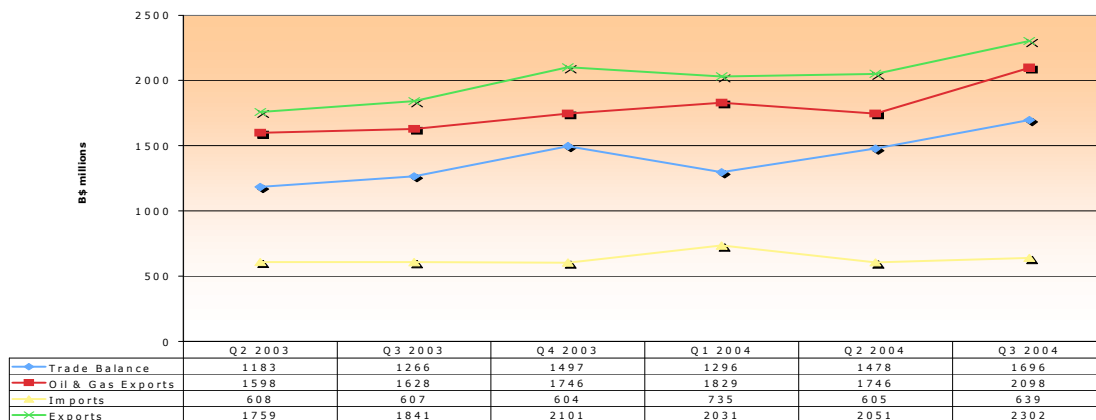
³ Brunei Darussalam's international reserves refer to Brunei Currency and Monetary Board's external assets plus IMF quota subscriptions and holdings of SDR.

Table 4.2: Exports in B\$ millions by Commodities

| | Q1 2004 | Q2 2004 | Q3 2004 |
|-------------------------------------|-----------------|-----------------|----------------|
| Food | 0.61 | 1.31 | 0.70 |
| Beverages & Tobacco | 0.09 | 0.03 | 0.06 |
| Crude Materials Inedible | 2.31 | 2.92 | 2.68 |
| Mineral Fuels | 1,828.40 | 1,746.48 | 2097.81 |
| Animal & Vegetable Oils and Fats | - | 160.00 | - |
| Chemicals | 0.99 | 1.25 | 0.91 |
| Manufactured Goods | 12.68 | 140.81 | 10.82 |
| Machinery & Transport Equip. | 71.89 | 63.90 | 54.81 |
| Miscellaneous Manufactured Articles | 110.96 | 90.07 | 129.55 |
| Miscellaneous Transactions | 3.25 | 4.24 | 4.67 |
| TOTAL | 2,031.19 | 2,211.00 | 2302.00 |

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

Figure 4.1: Brunei Darussalam – Exports and Imports



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

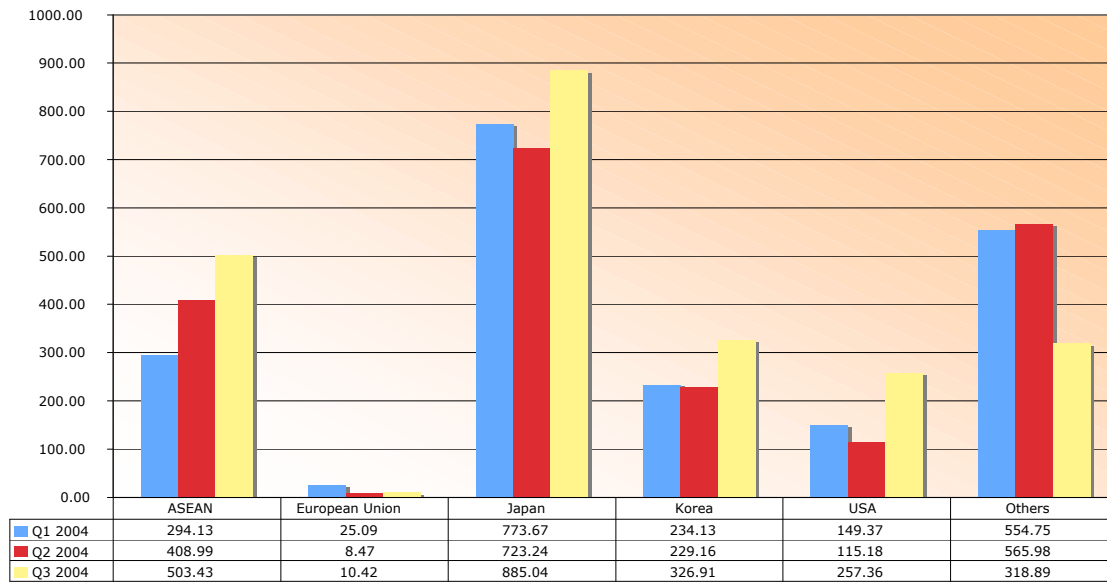
DIRECTION OF EXPORTS

Despite a 4.47 percent decrease in total value of oil and gas exports in Q2 2004, which was due to the contraction in exports of Liquefied Natural Gas to Japan by 55.27 percent to B\$68.1 million, total exports increased by 8.9 percent. There was an increase in the exports of crude oil to Japan by 63.9 percent to B\$118.7 million and New Zealand by 110.1 percent to B\$146.0 million.

Exports to most major regions have increased in Q3 2004 as illustrated in the figure below. Japan is still Brunei's largest importer with export figures rising by 22.37 percent to B\$885.0 million due to a substantial increase in crude oil export. Total exports to the Republic of Korea have also risen quarterly from Q2 2004 by 42.65 percent, mainly comprised of crude oil, which increased by 70.6 percent to B\$274.7 million.

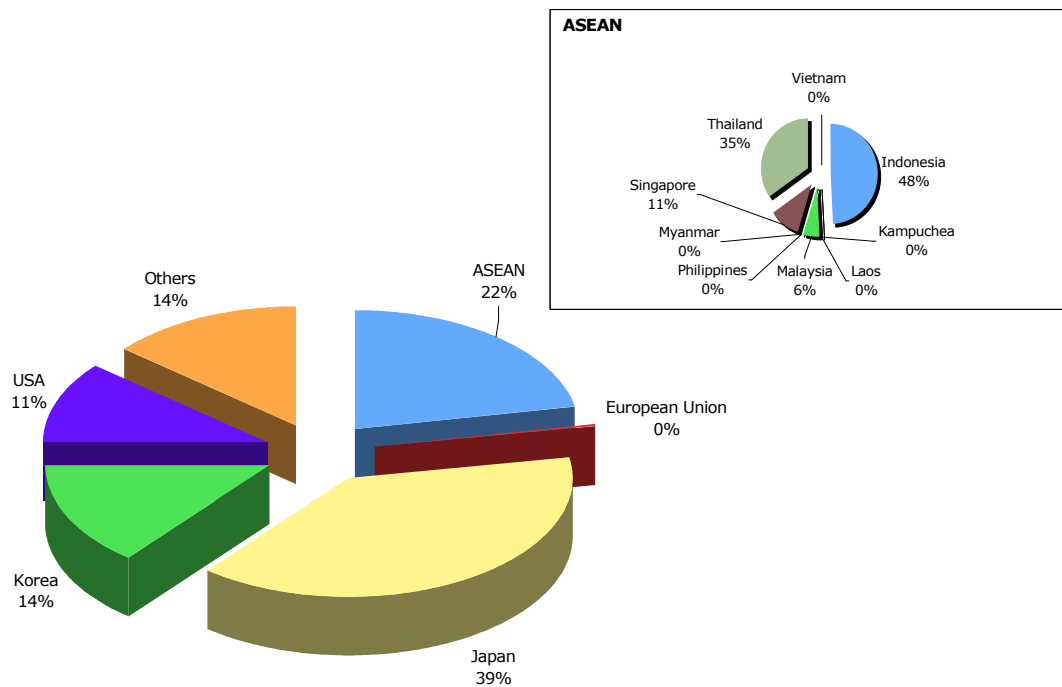
Exports to the ASEAN region also climbed steadily over the three quarters, standing at B\$503.4 million in Q3. Thailand remains one of the leading importers in the region, with its share of 34.6 percent of exports to the region. Exports to Indonesia continued to grow quarterly, increasing from B\$0.7 million to B\$41.1 million in Q2 and escalating to B\$247.5 million in Q3.

Figure 4.2: Exports by Country of Destination (Major Regions)



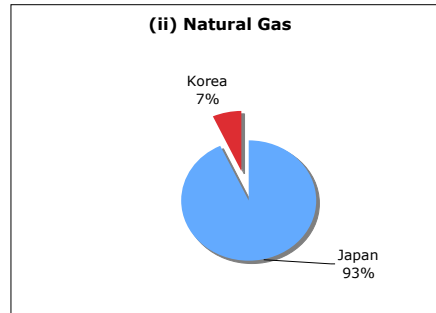
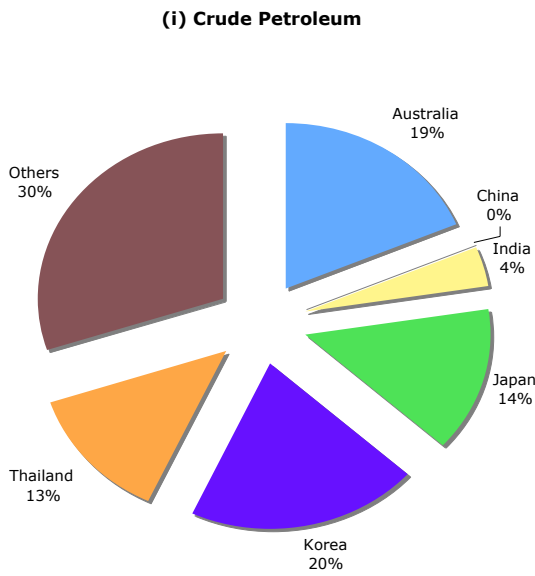
Source: Economic Planning and Development, Prime Minister's Office

Figure 4.3: Proportion of Total Exports by Country of Destination (Q3 2004)



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

Figure 4.4: Oil and Gas Exports by Country of Destination (Q3 2004)



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

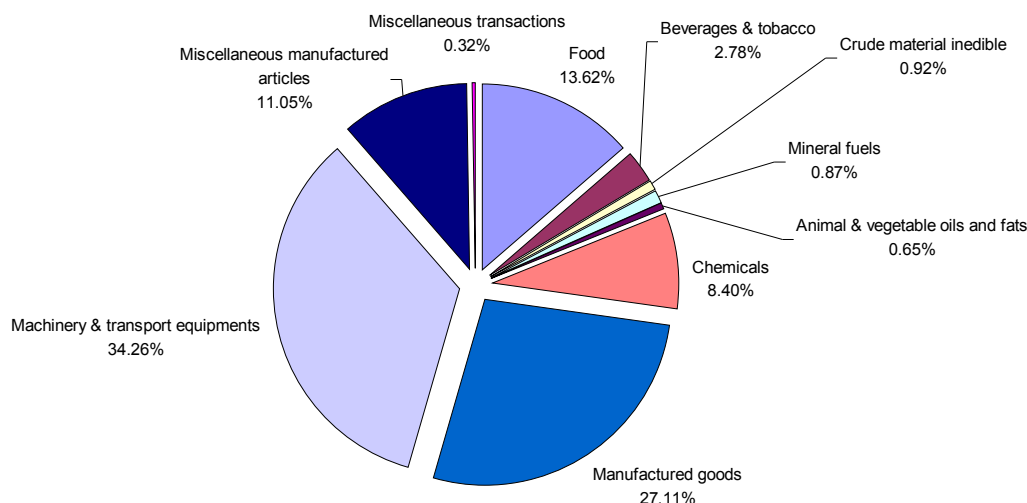
IMPORTS

In Q2 2004, total imports amounted to B\$604.8 million representing a 17.76 percent decline quarter-on-quarter from B\$735.42 million and a 0.57 percent decline on a year-on-year basis. The commodity composition and the geographical distribution of imports in Brunei have remained relatively stable during the past year with the largest share being taken up by Machinery and Transport Equipments (34.26 percent), followed by Manufactured Goods (27.11 percent) and Foodstuff (13.62 percent).

There were substantial increases in both the imports of Beverages and Tobacco (42.59 percent) and Animal and Vegetable Oil and Fats (49.43 percent) since the previous quarter. In spite of this, total imports still decreased. This was mainly due to the decline in imports of Machinery and Transport Equipments (47.88 percent), which holds the largest share of total imports, thus having a greater impact on total imports.

With the exception of Foodstuff and Miscellaneous transactions, which decreased by 0.37 percent and 32.06 percent respectively, imports of other commodities increased at a lower scale. These include Crude Material Inedible (25.27 percent), Mineral Fuels (28.40 percent), Chemicals (26.22 percent), Manufactured Goods (32.55 percent) and Miscellaneous Manufactured Articles (2.28 percent).

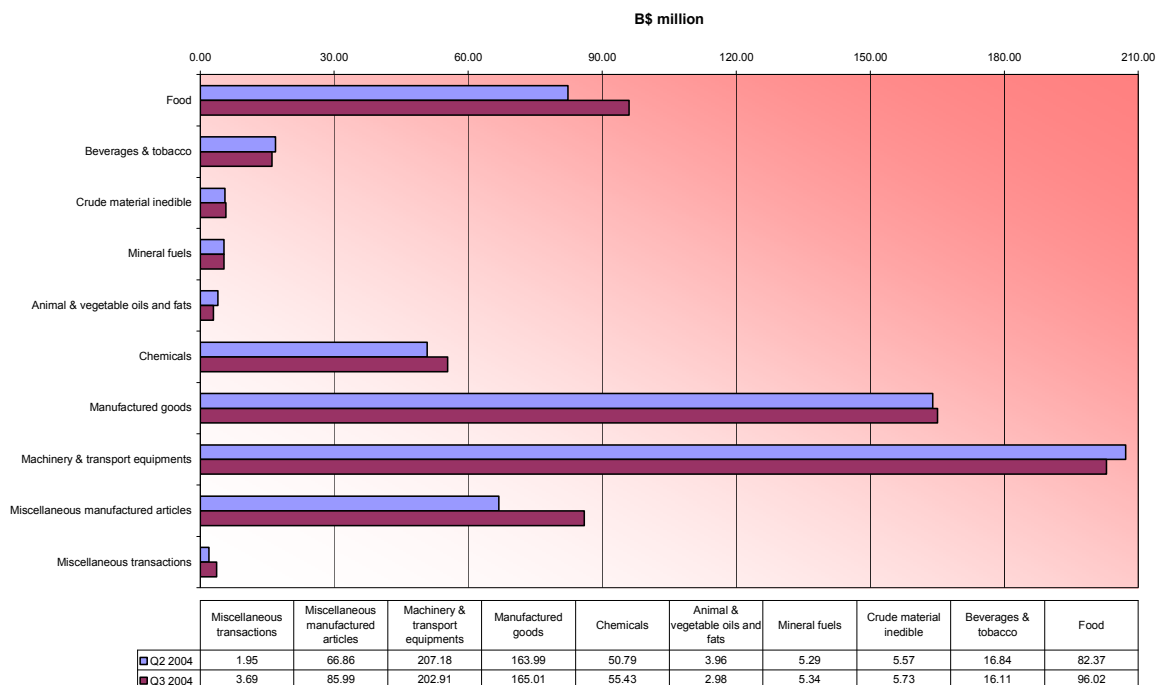
Figure 4.5: Composition of Total Imports (Q2 2004)



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

In Q3, total imports increased to B\$639.21 million by 5.69 percent from Q2 2004 and 5.30 percent from the same quarter in 2003. As indicated in Figure 4.6, this increase in total imports was brought about by increases in imports of the following commodities: Food (16.57 percent), Chemicals (9.14 percent), Manufactured Goods (0.62 percent), Miscellaneous Manufactured Articles (28.61 percent) and Miscellaneous Transactions (89.23 percent).

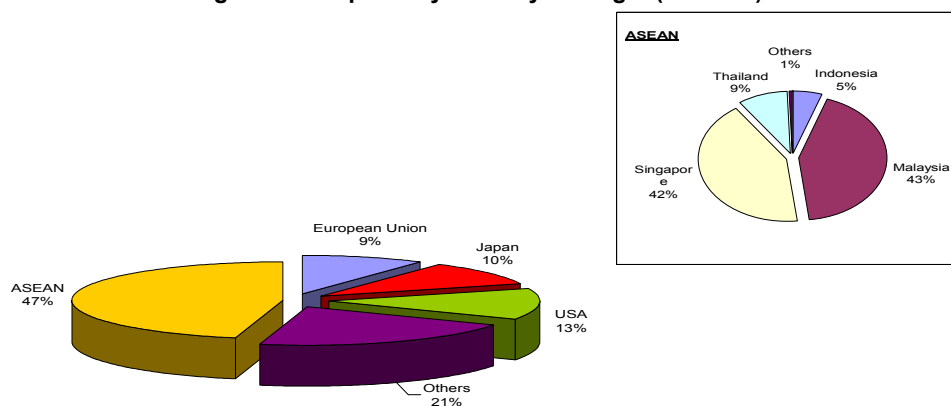
Figure 4.6: Imports by Commodities (Q2 and Q3 2004)



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

Brunei's leading sources of imports include Malaysia, Singapore, USA and Japan. In Q2 2004, imports from ASEAN (B\$279.78 million), USA (B\$79.92 million) and Japan (B\$62.59 million) increased by 8.18 percent, 6.10 percent and 22.90 percent respectively while imports from the EU (B\$56.41 million) declined by 76.97 percent. This sizeable decrease in imports from the EU, as compared to the previous quarter, was mainly due to the decrease in imports of Machinery and Transport Equipment by 95 percent.

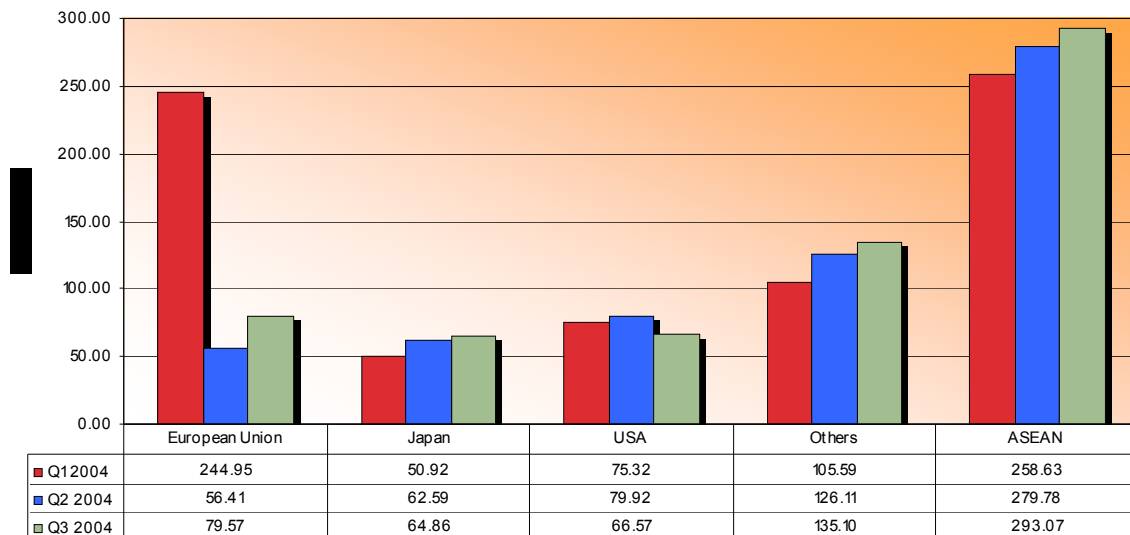
Figure 4.7: Imports by Country of Origin (Q2 2004)



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

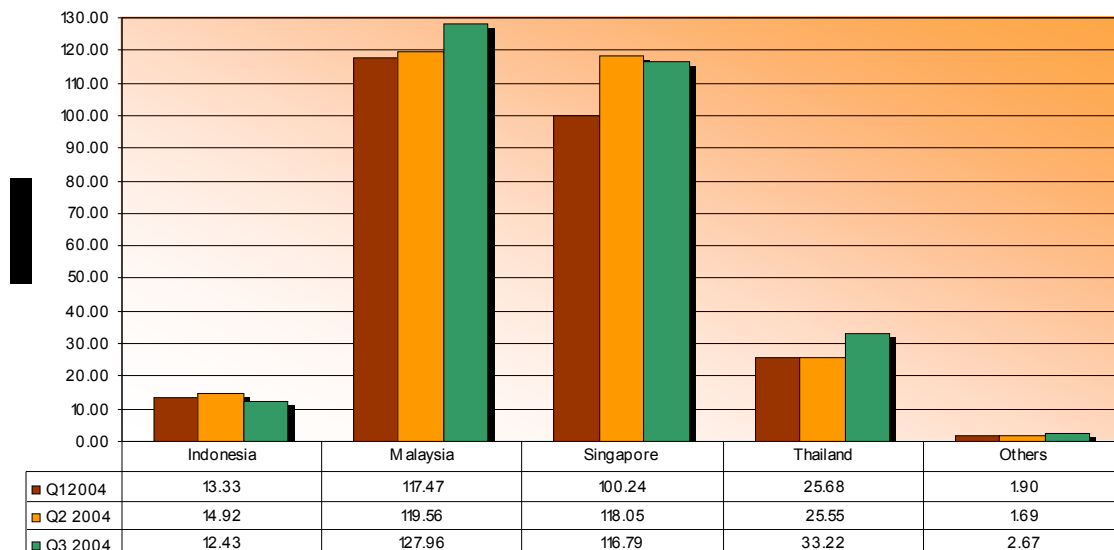
In Q3 2004, the increase of imports from the European Union and ASEAN by 41.06 percent and 4.75 percent respectively were the main contributors to the growth in total imports. Imports from Malaysia rose by 7.02 percent since the last quarter, reaching B\$127.96 million, while imports from Thailand increased by 30.02 percent amounting to B\$33.22 million. The following diagrams indicate the changes in imports from major sources from across ASEAN and the rest of the world.

Figure 4.8: Imports by Country of Origin (Major Regions)



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

Figure 4.9: Imports by Country of Origin (ASEAN)



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

TRADE AND CURRENT ACCOUNT BALANCE

Owing to the continuing rise in global oil prices, the economy's balance of trade increased by 10.76 percent and 14.78 percent in Q2 and Q3 respectively. On a year-on-year basis, it improved considerably by 24.93 percent from B\$1,334.1 million to B\$1,477.70 million in Q2 and by 33.97 percent to B\$1,696.10 million in Q3. Consequently, the current account also continued to show significant surplus with balances reaching B\$2,185.10 million and B\$2,544.60 million in the second and third quarter respectively, compared to B\$2,002.00 in Q1.

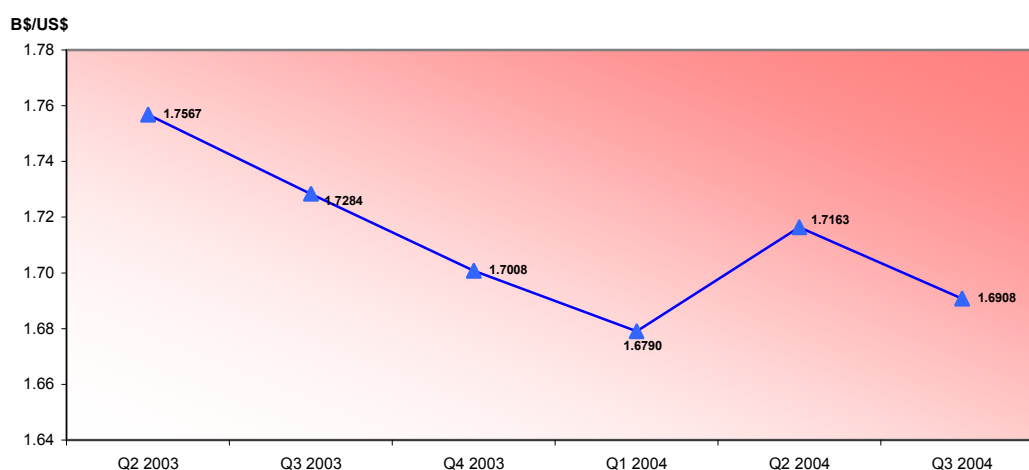
INTERNATIONAL RESERVES⁴

At the end of the second quarter of 2004, international reserves stood at B\$1,164.29 million, a 3.57 percent decline compared to the first quarter. However, at the end of the third quarter, international reserves increased by 2.67 percent, amounting to B\$1,195.41 million. This increase is a result of an expansion in the BCMB external assets.

EXCHANGE RATE⁵

The third quarter saw the Brunei Dollar strengthening against the US Dollar by 1.49 percent to 1.6908, compared to that in the previous quarter. The continued weakening of the US Dollar is currently being balanced out by the high oil prices. Since energy-related commodities make up the largest percentage of the economy's exports, oil prices remaining high for any length of time implies that the sector can only continue to prosper.

Figure 4.10: Exchange rate B\$/US\$



Source: Various editions of International Financial Statistic (IMF)

⁴ Consists of BCMB external assets plus IMF quota subscription and holdings of SDR

⁵ The Brunei dollar is pegged to the Singapore dollar on a one-to-one parity

TABLE 4.3: BRUNEI DARUSSALAM - EXTERNAL SECTOR
BALANCE OF PAYMENTS

| | 2003 | | | | 2004 | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2* | Q3* |
| | (B\$ millions) | | | | (B\$ millions) | | |
| Current account balance | 2,256.4 | 1,926.7 | 2,028.0 | 1,898.1 | 2,002.0 | 2,185.1 | 2,544.6 |
| Trade balance | 1,535.6 | 1,182.8 | 1,266.0 | 1,528.5 | 1,334.1 | 1,477.7 | 1,696.1 |
| Exports, f.o.b. | 2,002.5 | 1,759.4 | 1,841.4 | 2,101.0 | 2,031.2 | 2,051.0 | 2,302.0 |
| Imports, f.o.b. | 466.9 | 576.6 | 575.4 | 572.5 | 697.1 | 573.3 | 605.9 |
| Services and Investment Income, net | 753.1 | 788.5 | 824.6 | 472.0 | 744.4 | 761.6 | 917.7 |
| Receipts | 1,255.6 | 1,248.4 | 1,247.0 | 1,235.4 | 1,324.8 | 1,271.4 | 1,455.7 |
| Payments | 502.5 | 459.9 | 422.4 | 763.4 | 580.4 | 509.8 | 538.0 |
| Current transfers, net | (32.3) | (44.6) | (62.6) | (102.4) | (76.5) | (54.2) | (69.2) |
| Capital account balance | (3.9) | (2.8) | (4.6) | (4.9) | (3.4) | (4.8) | (5.7) |
| Financial Account balance | (1,153.3) | (1,153.3) | (1,153.3) | (1,153.3) | (1,153.3) | (1,153.3) | (1,153.3) |
| Assets | (1,196.4) | (1,196.4) | (1,196.4) | (1,196.4) | (1,196.4) | (1,196.4) | (1,196.4) |
| Direct Investment | - | - | - | - | - | - | - |
| Portfolio Investment | 26.2 | 26.2 | 26.2 | 26.2 | 26.2 | 26.2 | 26.2 |
| Other Investment | (1,210.6) | (1,210.6) | (1,210.6) | (1,210.6) | (1,210.6) | (1,210.6) | (1,210.6) |
| Reserve Assets | (12.0) | (12.0) | (12.0) | (12.0) | (12.0) | (12.0) | (12.0) |
| Liabilities | (43.1) | (43.1) | (43.1) | (43.1) | (43.1) | (43.1) | (43.1) |
| Direct Investment | 52.9 | 52.9 | 52.9 | 52.9 | 52.9 | 52.9 | 52.9 |
| Portfolio Investment | - | - | - | - | - | - | - |
| Other Investment | (96.0) | (96.0) | (96.0) | (96.0) | (96.0) | (96.0) | (96.0) |
| Net Errors and Omissions | (1,099.2) | (770.6) | (870.1) | (739.9) | (845.3) | (1,027.0) | (1,385.6) |
| <u>Memorandum items:</u> | | | | | | | |
| Average oil price (US\$/Barrel) | 31.53 | 27.30 | 29.89 | 32.00 | 35.59 | 38.20 | 46.31 |
| International Reserves (B\$ millions) | 1,120.40 | 1,130.10 | 1,106.90 | 1,210.00 | 1,207.40 | 1,164.29 | 1,195.41 |
| Import coverage | 2.40 | 1.96 | 1.92 | 2.11 | 1.73 | 2.03 | 1.97 |
| Foreign exchange coverage of currency (percent) | 93.00 | 95.00 | 94.00 | 97.00 | 99.50 | 108.19 | 104.38 |
| B\$/US\$ (end of period) | 1.77 | 1.76 | 1.73 | 1.70 | 1.68 | 1.72 | 1.69 |

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

* Provisional

V. FISCAL DEVELOPMENTS

OVERVIEW

- *In Q3 2004, Government Revenue increase by 18.3 percent to B\$1,605.9 million from the previous quarter.*
- *Government Expenditure amounted to B\$1,069.8 million, resulting in a 20.9 percent increase.*
- *Provisional surplus of B\$536.1 million, an increase of 13.4 percent from Q3 2003.*

GOVERNMENT REVENUE

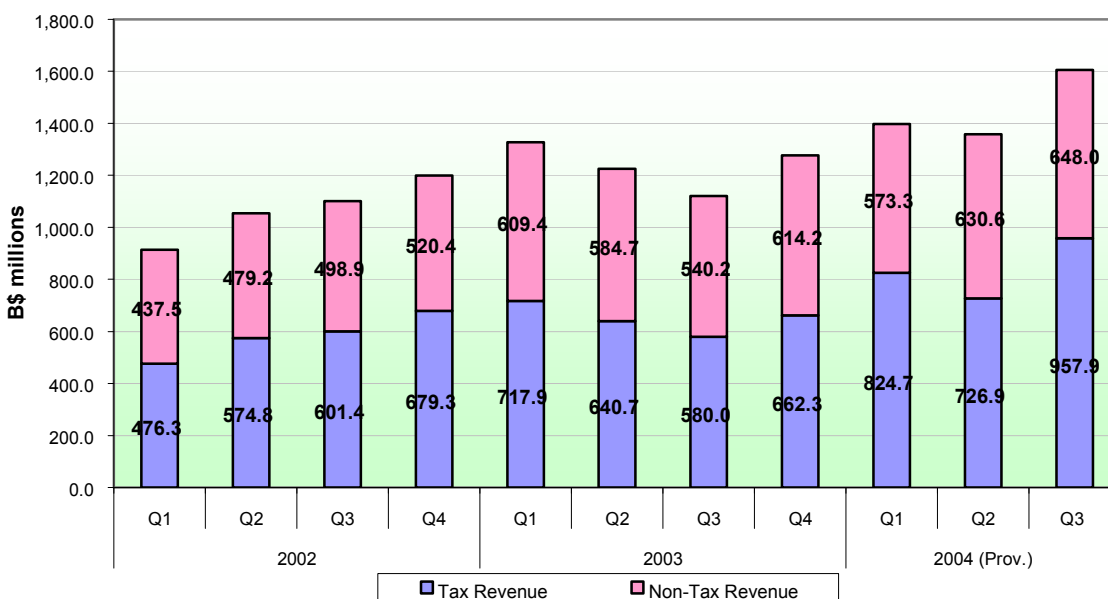
On a year-on-year basis, Total Government Revenue for Q3 2004 increased by B\$485.6 million (43.4 percent) attributed by the higher collections of both Tax and Non-Tax Revenues of 65.1 percent and 20.0 percent respectively.

In Q3 2004, Government Revenue stood at B\$1,605.9 million, an increase of 18.3 percent from B\$1,357.6 million in the previous quarter. Of that amount, 59.7 percent was derived from Tax Revenue while the remaining 40.3 percent was from Non-Tax Revenue. The rise in Government Revenue was mainly due to an increase of 31.8 percent in Tax Revenue, regardless of the decrease of 2.8 percent in the Non-Tax Revenue.

In comparison with Q2 2004, Tax Revenue from the Non-Oil Sector declined by 24.5 percent from B\$83.7 million to B\$63.3 million. However, this reduction was compensated by an increase of 39.1 percent in the taxation of Oil Sector amounting to B\$894.7 million. Taxes on International Trade improved slightly by 9.0 percent from the preceding quarter, from B\$25.6 million to B\$27.9 million due to higher collection of import duties.

Non-Tax Revenue stood at B\$648.0 million, of which B\$569.9 million (87.9 percent) came from the Oil Sector. In the Non-Oil Sector of Non-Tax Revenue, collection of revenue from Administrative Fees and Charges improved by 16.1 percent mainly due to the higher collection of Telecoms & Utilities.

Figure 5.1: Fiscal Revenue (2002 – Q3 2004)



Treasury Department, Ministry of Finance

Source:

Table 5.1: Budgeted & Actual Revenue Collection Comparison

| | Half-Year Budget (B\$ Millions) | Actual For 6 months (B\$ Millions) | Improvement Of Revenue Collection (Percent) |
|----------------------|------------------------------------|---------------------------------------|---|
| Total Revenue | 1,969.15 | 2,963.37 | 50.5 |
| Tax Revenue | 1,133.20 | 1,684.81 | 48.7 |
| Non-Tax Revenue | 835.95 | 1,278.56 | 52.9 |

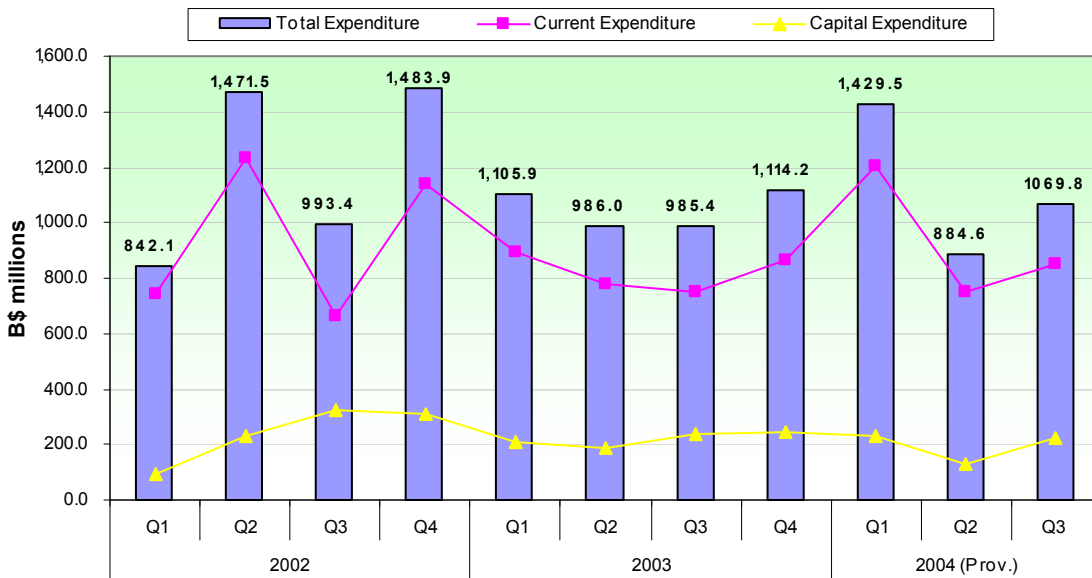
Source: Ministry of Finance

For the 6 month period (April to September), the total revenue collected is 50.5 percent more than the budgeted amount. Both Tax and Non-Tax Revenue have shown higher returns with Non-Tax Revenue yielding the highest returns. High oil prices throughout the period have contributed to the attainment of higher revenue of which 75.2 percent of total revenue was from the Oil Sector.

GOVERNMENT EXPENDITURE

Government Expenditure which consists Current and Capital Expenditure increased by 20.9 percent to B\$1,069.8 million in Q3 2004 compared to B\$884.6 million in Q2 2004. On a year-on-year basis, Government Expenditure increased slightly by 8.6 percent compared to B\$985.4 million in Q3 2003.

Figure 5.2: Government Expenditure for 2002 – Q3 2004



Treasury Department, Ministry of Finance

Source:

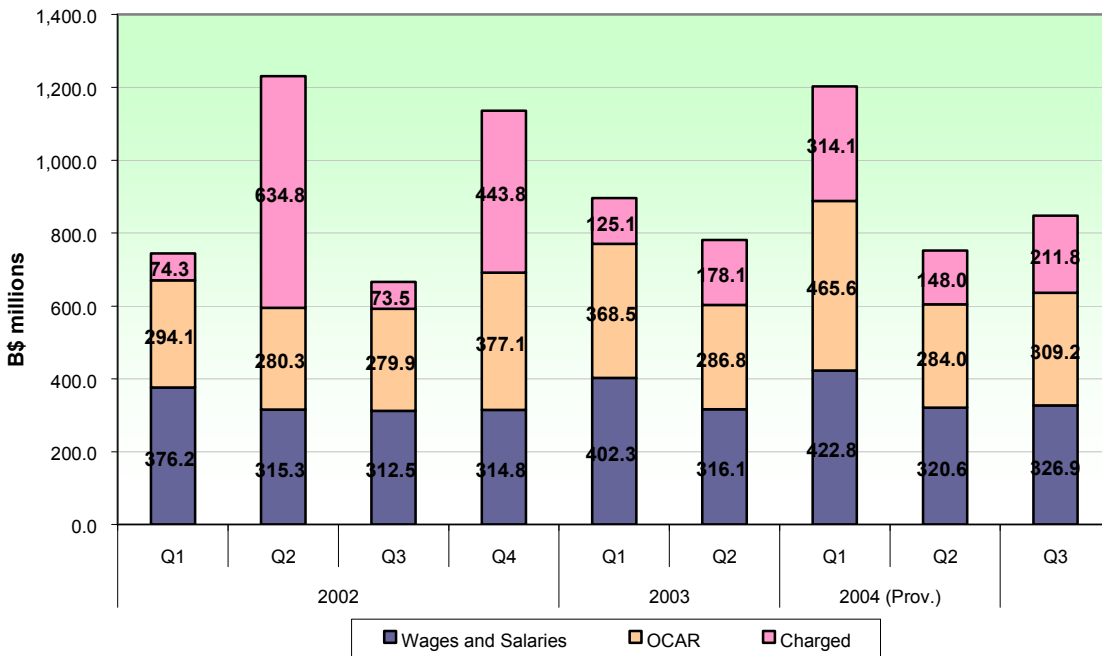
The total Government Expenditure for the 6-months period (April – September) amounted to B\$1,954.4 million against the budgeted amount for the same period is B\$2,495.1 million. Based on these figures, 78.3 percent of the allocated budget has been spent; indicating prudent Government spending.

Current Expenditure

The spending of Current Expenditure has risen in Q3 2004 and has resulted in an overall 12.9 percent increase to B\$847.9 million compared to B\$752.6 million in Q2 2004. This was largely due to higher payments for Charged Expenditure, which was 43.1 percent higher from Q2 2004.

Under Current Expenditure, Wages and Salaries are directly affected by the level of employment within the public sector. In Q3 2004, it remained the highest form of payment which accounted for 38.5 percent of Current Expenditure at B\$326.9 million, an increase of 2.0 percent from Q2 2004. Meanwhile, expenditure relating to the operations and maintenance of government agencies i.e. Ordinary Charges Annually Recurrent (OCAR) have decreased by 8.9 percent to B\$309.2 million in Q3 2004.

Figure 5.3: Current Expenditure



Treasury Department, Ministry of Finance

Source:

Table 5.2: Budgeted & Actual Current Expenditure Comparison

| | 6 months Budget (B\$ Millions) | Actual Current Exp For 6 months (B\$ Millions) | Percentage of Budget Spent |
|---------------------|--------------------------------|--|----------------------------|
| Current | 1696.1 | 1,600.5 | 94.4 |
| Personal Emoluments | 753.9 | 647.5 | 85.9 |
| OCAR | 657.6 | 593.2 | 90.2 |
| Charged | 284.6 | 359.8 | 126.4 |

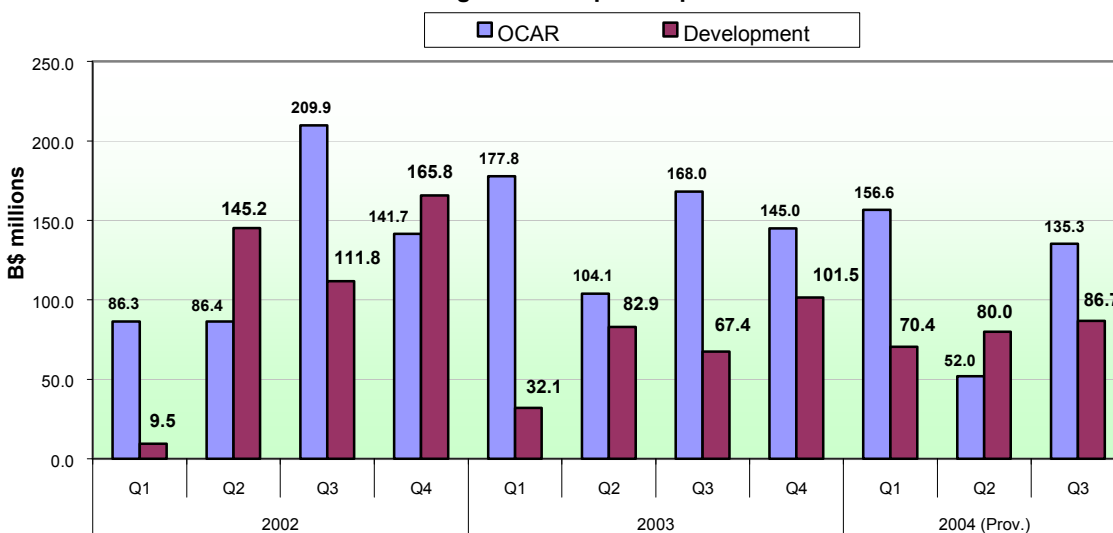
The level of spending has been within the budget for both Wages and Salaries and OCAR, while Charged Expenditure has been overspent during the period by 26.4 percent.

Capital Expenditure

Capital Expenditure for Q3 2004 increased by 68.1 percent to B\$221.9 million from B\$132.0 million in Q2 2004. This increase was largely the result of increased spending of Ordinary Charges Special Expenditure (OCSE).

Development Expenditure, controlled by the Economic Planning and Development Department, Prime Minister's Office, was B\$86.7 million; an increase of 8.3 percent from Q2 2004.

Figure 5.4: Capital Expenditure



Source: Treasury Department, Ministry of Finance

Sour

Table 5.3: Budgeted & Actual Capital Expenditure Comparison

| | 6 Months Budget (B\$ Millions) | Actual Capital Exp For 6 months (B\$ Millions) | Percentage of Budget Spent |
|-------------|--------------------------------|--|----------------------------|
| Capital | 799.1 | 353.9 | 44.3 |
| Development | 450.0 | 166.7 | 37.0 |
| OCSE | 349.1 | 187.3 | 53.7 |

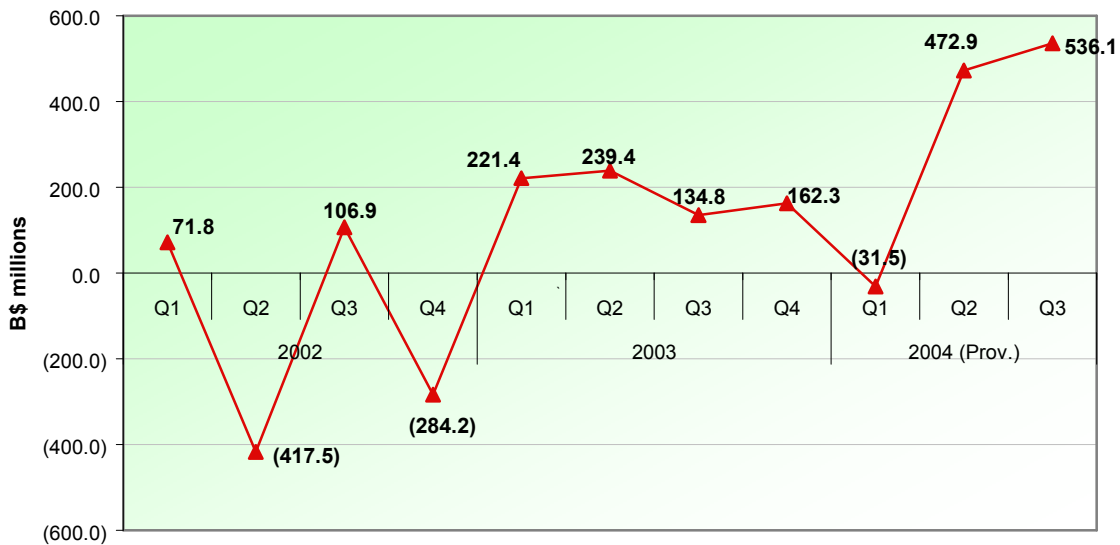
Source: Ministry of Finance

The table above (table 5.3) indicates that only 44.3 percent of the allocated amount for the period has been spent, especially in Development Expenditure. As explained in earlier issues of this review, the spending of the allocated Development Budget faces certain obstacles that are currently being resolved by all affected government agencies.

FISCAL POSITION

In Q3 2004, Brunei Darussalam continued to enjoy a healthy fiscal surplus of \$536.1 million, indicating an increase of 13.4 percent from Q2 2004 and has been the highest amount recorded within the last two years. This quarter's surplus is able to cover 50.1 percent of Total Government Expenditure. Being dependent on the Oil and Gas Sector, higher revenue from quarter to quarter coupled with a sustained level of spending that has brought to the continuous fiscal surpluses throughout the year and a similar trend is expected.

Fig 5.5: Surplus/Deficit Balances (2002 - Q2 2004)



Treasury Department, Ministry of Finance

Source:

TABLE 5.4: Brunei Darussalam: FISCAL INDICATORS
Fiscal Position

| | 2002 | 2003 | 2004 (Prov) | | |
|---|----------------|----------------|-----------------|-----------------|---------------|
| | Q3 | Q3 | Q1 | Q2 | Q3 |
| Total Revenue | 1,100.3 | 1,120.2 | 1,398.00 | 1,357.50 | 1605.9 |
| Tax Revenue | 601.4 | 580.0 | 824.7 | 726.9 | 957.9 |
| Oil & Gas sector | 559.1 | 524.9 | 758.4 | 643.2 | 894.7 |
| Non-oil sector | 42.3 | 55.1 | 66.3 | 83.7 | 63.3 |
| Non-tax revenue | 498.9 | 540.2 | 573.3 | 630.6 | 648.0 |
| Oil & Gas sector | 414.1 | 463.4 | 482.1 | 561.2 | 569.9 |
| Non-oil sector | 84.9 | 76.8 | 91.2 | 69.4 | 78.1 |
| Total Expenditure | 993.4 | 985.4 | 1,429.50 | 884.6 | 1069.8 |
| Current Expenditure | 665.9 | 750.0 | 1,202.50 | 752.6 | 847.9 |
| Wages & Salaries (PE) | 312.5 | 316.8 | 422.8 | 320.6 | 326.9 |
| OCAR | 279.9 | 280.1 | 465.6 | 284.0 | 309.2 |
| Charged | 73.5 | 153.1 | 314.1 | 148.0 | 211.8 |
| Capital Expenditure | 321.7 | 235.4 | 227.0 | 132.0 | 221.9 |
| Of which: Ordinary | 209.9 | 168.0 | 156.6 | 52.0 | 135.3 |
| Of which: Development | 111.8 | 67.4 | 70.4 | 80.0 | 86.7 |
| Investments in Public Enterprises | 5.8 | 0.0 | 0 | 0.0 | 0.0 |
| Surplus or deficit (-), excl. transfer | 106.9 | 134.8 | (31.50) | 472.9 | 536.1 |
| Memorandum items | | | | | |
| Consolidated Fund | - | - | - | - | - |
| Oil Price (US\$/barrel) | 27.59 | 29.89 | 35.59 | 38.2 | |
| Gas (US\$/Mmbtu) | 4.3352 | 4.4351 | 4.675 | 4.6905 | |
| Oil & Gas (in percent of total revenue) | 88.4 | 88.2 | 88.7 | 88.7 | 91.2 percent |
| Oil & Gas (in percent of GDP) | 12.7 | 12.0 | 15.1 | n/a | |

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

Sources: Treasury Department and Expenditure Division, Ministry of Finance

VI. MONEY & BANKING DEVELOPMENTS

OVERVIEW

- *Broad money increased by 3.5 percent*
- *Average Deposit Interest rates increased for the 12 months period*
- *Total assets and total deposits of banks grew by 4.9 percent and 6.2 percent respectively*
- *Total loans of banks increased by 1.3 percent*
- *NPL ratio stood at 13.1 percent*

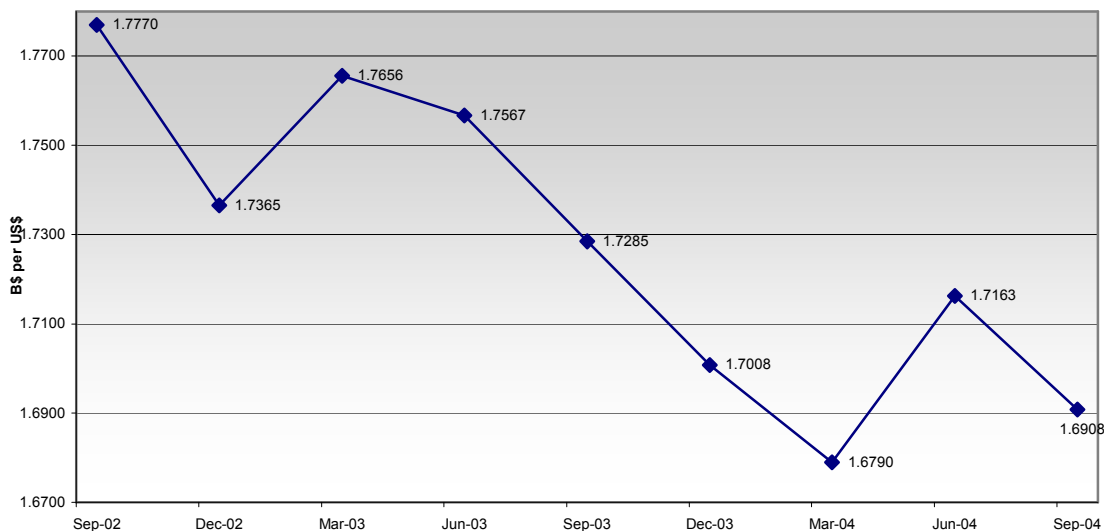
MONETARY DEVELOPMENTS

The Brunei dollar was seen to be at its weakest performance year to date against the US Dollar by the end of June 2004 despite gaining strength continuously from March 2003. However, by the end of September 2004, the Brunei Dollar regained some strength to the rate of B\$1.6908. There also exists concern for rising oil prices which has a dampening effect on the world economy as a whole and the US was not spared either as seen from the weakening of the US Dollar.

The performance of the US Economy slightly softened, however, to maintain price stability the US Federal Reserve (FED) raised its interest rate twice by 25 basis points to 1.75 percent during Q3 2004. Although the US Dollar continues to weaken, rising world oil prices still allow Brunei Darussalam's oil and gas exports to continue to be in a favourable position.

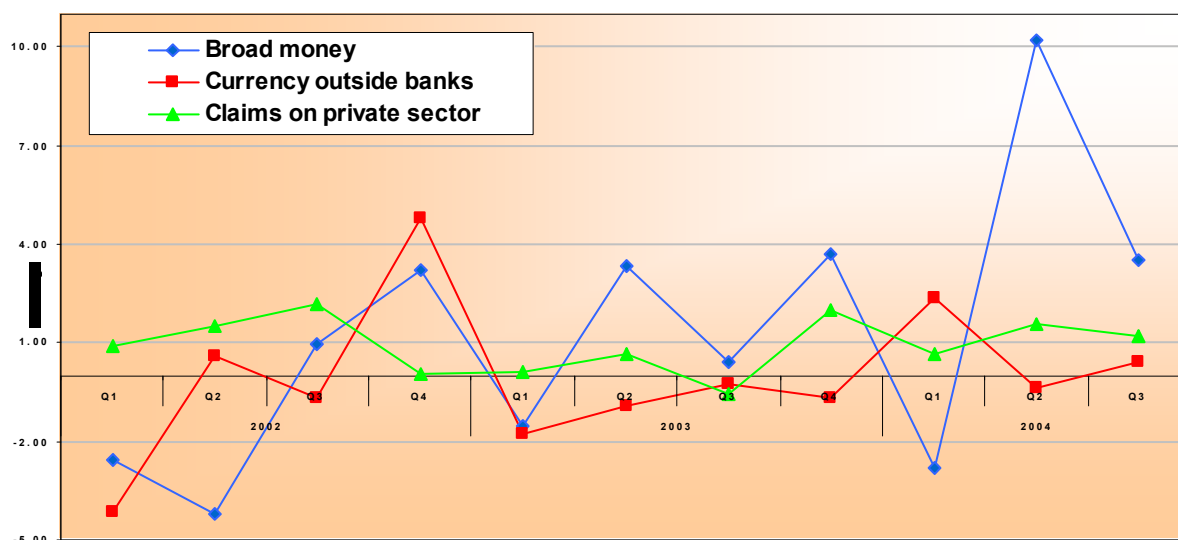
Outlook for Q4 2004, continual rise in oil prices together with the upcoming Presidential Elections in the U.S. coupled with the gradual rise of FED Fund rates, the US Dollar will be subjected to fluctuations.

Fig. 6.1: B\$ per US\$



Source: Various editions of International Financial Statistics (IMF)

Fig 6.2: Monetary Developments

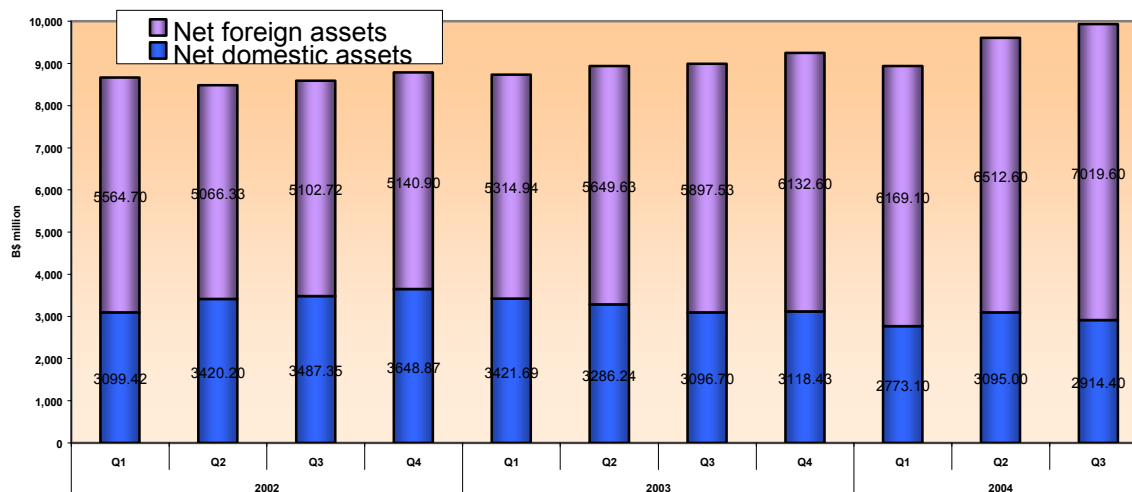


Source: Financial Institutions Division & Brunei Currency and Monetary Board, Ministry of Finance

Broad money, M2⁶, which consists of M1⁷ and Quasi Money⁸ increased by 14.96 percent year-on-year whilst experiencing an increase of 3.51 per cent to B\$8,445.1 million on a quarterly basis. This growth in M2 is due largely contributed to the increase in net foreign assets.

Meanwhile, in Q3 claims on private sector increased slightly by 1.20 percent to \$5,317.9 million quarter-on-quarter but was up 5.57 percent year-on-year. Currency outside banks⁹ increased by 1.64 percent year-on-year. Similarly, quarter-on-quarter, it increased by 0.39 percent to B\$567.8 million.

Fig 6.3: Broad Money – Assets Side



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

⁶ M2= M1+ Quasi Money

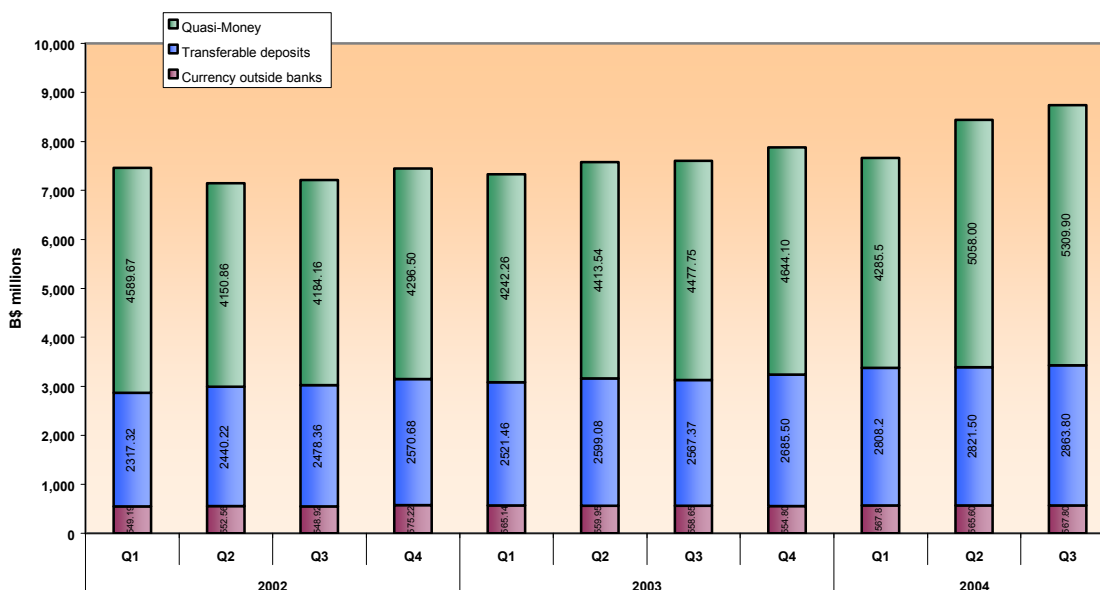
⁷ M1= Currency in circulation + Demand Deposit of Private Sector

⁸ Quasi Money = Fixed Deposits + Savings and other deposits

⁹ Currency outside Banks = Currency in circulation

On the assets side of broad money, net foreign assets¹⁰ stood at B\$7,019.6 million, which was an increase of 19.0 percent year-on-year and 7.78 percent quarter-on-quarter. Meanwhile, net domestic assets continues to decline by 5.9 percent and 5.8 percent for both year-on-year and quarter-on-quarter respectively to B\$2,914.4 million.

Figure 6.4: Broad Money – Liability Side



Sou

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

As for the liability side of broad money, quasi money, which totaled B\$5,309.9 million, rose by 18.58 percent year-on-year. The increase, on quarterly basis, was 4.98 percent. Transferable deposits stood at B\$2,863.8 million, an increase of 1.50 percent from the previous quarter and by 11.55 percent on a yearly basis.

Currency outside banks amounted to B\$567.8 million, an increase of 1.64 percent quarterly and slightly by 0.39 percent yearly. Currency in circulation backed up by foreign asset is 95.49 percent and the amount of liquid asset as part of currency in circulation is 70.30 percent.

INTEREST RATES

Prime lending rate remained unchanged at 5.5 percent. Deposit rates for this quarter has seen a very slight increase for the 12-months deposits while the others have stayed constant.

Table 6.1: Brunei Deposit Rates¹¹ for 2003 and 2004 (in per cent)

| Months | Q1 2003 | Q2 2003 | Q3 2003 | Q4 2003 | Q1 2004 | Q2 2004 | Q3 2004 |
|--------|---------|---------|---------|---------|---------|---------|---------|
| 3 | 1.132 | 1.046 | 1.035 | 1.046 | 1.046 | 1.044 | 1.044 |
| 6 | 1.335 | 1.224 | 1.216 | 1.224 | 1.205 | 1.232 | 1.232 |
| 12 | 1.789 | 1.624 | 1.609 | 1.620 | 1.619 | 1.616 | 1.636 |

Source: Financial Institutions Division, Ministry of Finance

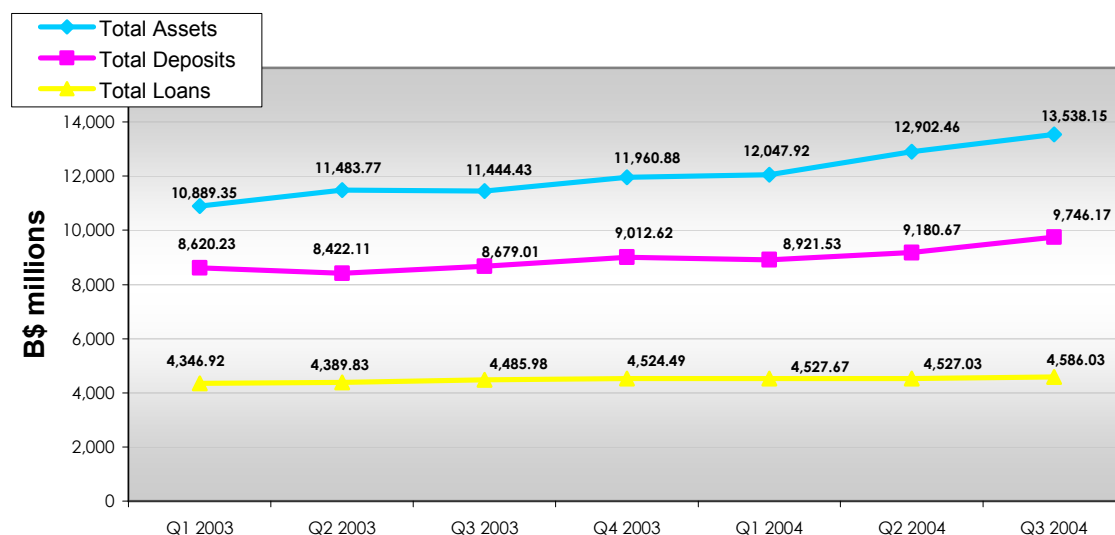
¹⁰ Net foreign assets = BCMB foreign assets less foreign liabilities + Commercial banks foreign assets less foreign liabilities

¹¹ Rates computed based on the average quoted by all the banks

BANKING INDICATORS

The banking sector continued to perform positively. On year-on-year, the total assets increased by 18.3 percent, total deposits increased by 12.3 percent and total loans by 2.2 percent. On a quarterly basis, total assets grew by 4.9 percent to B\$13,538 million; total deposits rose by 6.2 percent to B\$9,746 million and total loans increased slightly by 1.3 percent to B\$ 4,586 million (Figure 6.5). Despite the positive increase in total deposits during the same period, the banks' lending to the domestic economy was marginal which stood at 49.86 percent.

Figure 6.5: Total Assets, Total Deposits and Total Loans of Banks



Source: Financial Institutions Division, Ministry of Finance

In a continuing effort to provide a sound and stable financial environment, Ministry of Finance monitors the banks' minimum capital adequacy ratio according to the Basel requirement in ensuring of their financial strength to sustain any adverse economic condition.

The risk-weighted capital ratio (RWCR) for three local banks at the end of Q3 was 18.47 percent indicating the banking system in terms of capitalisation and asset quality are resilient which surpassed the Basel minimum requirement of 8.0 percent. In addition, the core capital ratio (CCR) recorded at 14.45 percent, was also above the minimum requirement of 4 percent.

RWCR and CCR are both calculated based on Total On and Off Balance sheet assets using Tier 1 + 2¹² and Tier 1¹³ capital respectively.

STRUCTURE OF LENDING

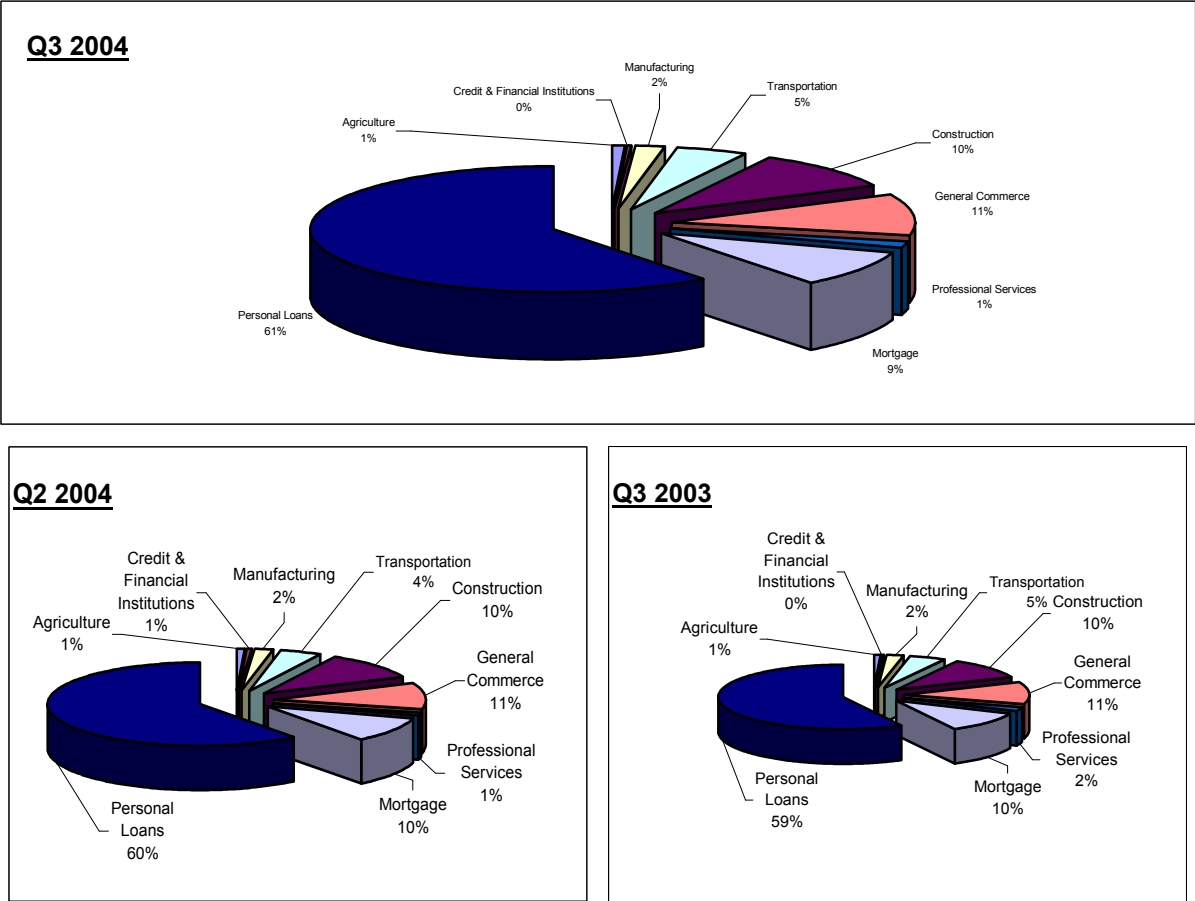
Notwithstanding the healthy growth in deposits, the overall pattern of lending behavior by most banks was still dominated by a risk averse approach resulting in high concentration of the loans

¹² Tier 2 capitals consist of financial instruments and reserves that are available to absorb losses, but which might lack permanency, have uncertain values, might entail costs if sold, or which otherwise lack the full loss-absorption capacity of Tier 1 capital items.

¹³ Tier 1 capital or "Core Capital" consists of equity capital and disclosed reserves that are considered freely available to meet claims against the bank.

portfolio into personal loans which constituted 60.6 percent of total loans. This is still the largest share of the bank's total loans which is a 1.0 percent increase from the previous quarter. Comparing to the same quarter last year, personal loan was recorded at 57.77 percent.

Figure 6.6: Comparison of Structure of Lending

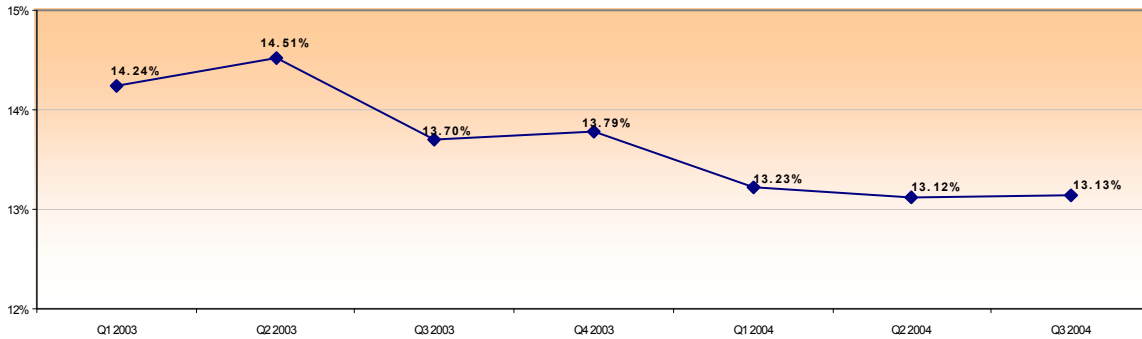


Source: Financial Institutions Division, Ministry of Finance

NON-PERFORMING LOANS

Non-performing loans (over 90 days) on average have been reduced over the years. The Ministry of Finance continues to monitor efforts undertaken by banks to reduce the ratio to a single digit, in the near future. As of Q3 2004, the average NPL ratio of the banking institutions stood at 13.3 percent compared to 13.70 percent in Q3 2003, a decline of 4.2 percent. (Figure 6.7).

Figure 6.7 Average NPL Ratios from Q4 2002 – Q3 2004¹⁴



Source: Financial Institutions Division, Ministry of Finance

S

OTHER FINANCIAL DEVELOPMENTS

Apart from banks which are licensed under the Banking Act, Cap 95 and the Islamic Banking Order, 1992, currently there are 34 Remittance and 33 Money-Changing businesses including 4 hotels licensed under the Money-Changing and Remittance Businesses Act, Cap 174.

Licenses for both businesses were first issued by the Ministry of Finance (MOF) in 1996 to 26 Remittance and 27 Money-Changers including 5 hotels. Due to high demand from the public to undertake such businesses coupled with the study conducted by the MOF of the existing industry, MOF had decided to open up new entrants to both businesses early last year and at the same time, effective 1 January 2004, introducing new requirements among others as follows:-

- Annual license fees for Remittance from B\$500-00 to B\$3,000-00;
- Annual license fees for Money-Changer from B\$1,000-00 to B\$2,000-00; and
- Remittance to provide deposits in the form of Bankers Guarantee for the amount of B\$55,000-00.

MOF early last year also introduced written examinations as well as interviews for the new entrants. This is to ensure that selection is done in the best way possible due to the limited number of quotas available for both businesses and the hundreds of applications received by the MOF. Written exams were also conducted for the existing players in considering their renewal of licenses on top of assessing their financial strength, management as well as their compliance to MOF's requirements.

As a follow up to the above, in Q1 2004, MOF had conducted a course on 'Introduction on Foreign Currency Exchange' for all owners of licensed operators, to upgrade their knowledge and skills in operating their respective businesses. At the same time, MOF had also conducted a forum to inform the owners on the new requirements as well as issues concerning money laundering and terrorist financing activities which could occur through their transactions. Owners and employees were urged to be alert and vigilant and to report to MOF immediately any

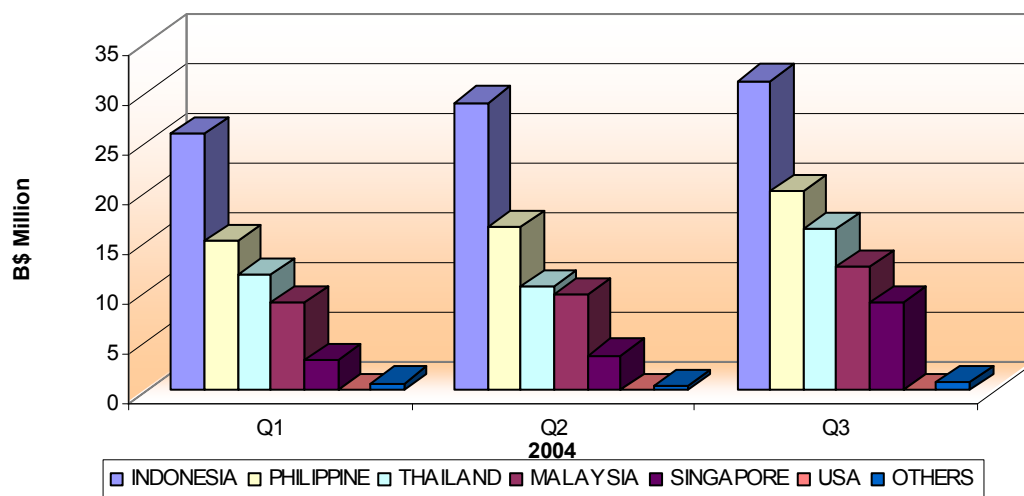
¹⁴ New calculation of NPL is based on new definition starting Q1 2003.

suspicious transactions. This forum also gave the owners the opportunity to raise any other matters concerning their businesses.

As at September 2004, total money remitted was B\$224.96 million, a tremendous increase of 491.8 percent from B\$38.01 million in 1996. Meanwhile, total purchase of foreign currencies was B\$40.82 million and total selling of foreign currencies was B\$41.94 million.

In Q3 2004, total money remitted was B\$89.91 million. Indonesia was the main destination with B\$31.26 million, a market share of 34.8 percent of the total money remitted. This was followed by Philippines B\$20.14 million; Thailand B\$16.29 million; Malaysia B\$12.45 million; Singapore B\$8.92 million, USA B\$14.95 thousand and Other countries B\$0.84 million (Figure 6.8).

Figure 6.8: Money Remitted for Q1 – Q3 2004



| | Q1 2004 | Q2 2004 | Q3 2004 |
|-------------------------------|------------------|------------------|------------------|
| Total | B\$65.26 million | B\$69.79 million | B\$89.91 million |
| Percent Change (q-o-q) | - | 6.94 percent | 28.83 percent |

Source: Financial Institutions Division, Ministry of Finance

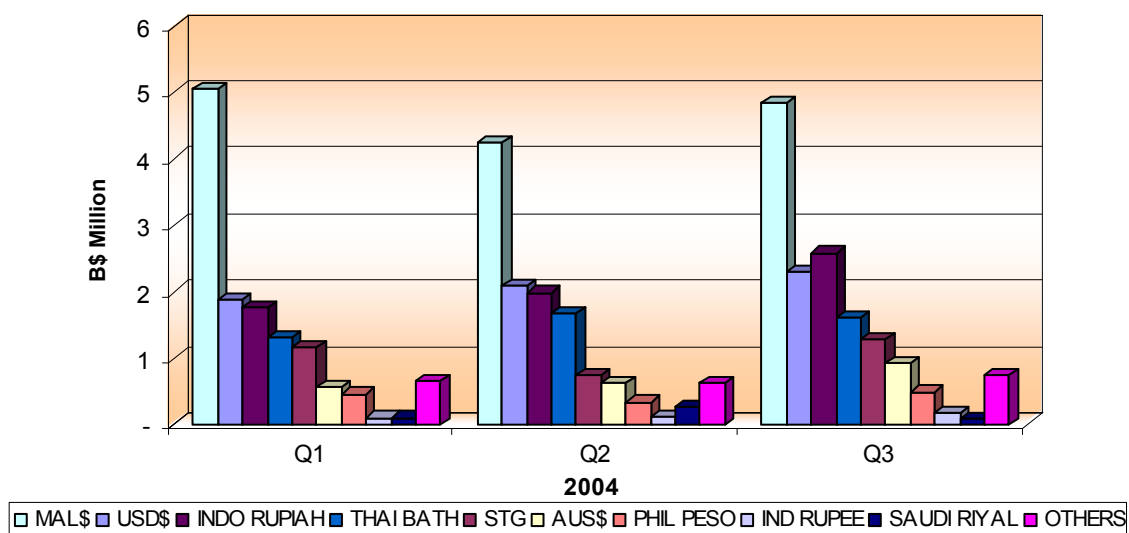
The total purchase of foreign currencies was valued at B\$15.05 million, as shown in Figure 6.9, as follows:

- Malaysian Ringgit recorded the highest totaling B\$4.84 million,
- Indonesia Rupiah B\$2.58 million;
- US Dollar B\$2.29 million;
- British Pound Sterling B\$1.29 million;
- Thailand Baht B\$1.61 million;
- Australian Dollar B\$0.92;
- Philippines Peso B\$0.49 million;
- Indian Rupees B\$0.19 million;
- Saudi Riyal B\$92.0 thousand; and
- Other currencies B\$0.74 million.

The total selling of foreign currencies was valued at B\$15.23 million, as shown in Figure 6.10 as follows:

- Malaysian Ringgit recorded the highest of B\$5.05 million
- Indonesian Rupiah B\$2.65 million;
- American Dollar B\$2.23 million;
- Thailand Baht B\$1.58 million;
- British Sterling Pound B\$1.20 million;
- Australian Dollar B\$0.84 million;
- Philippines Peso B\$0.45 million;
- Indian Rupee B\$0.19 million;
- Saudi Riyal B\$89.45 thousand and
- Other currencies B\$0.94 million;

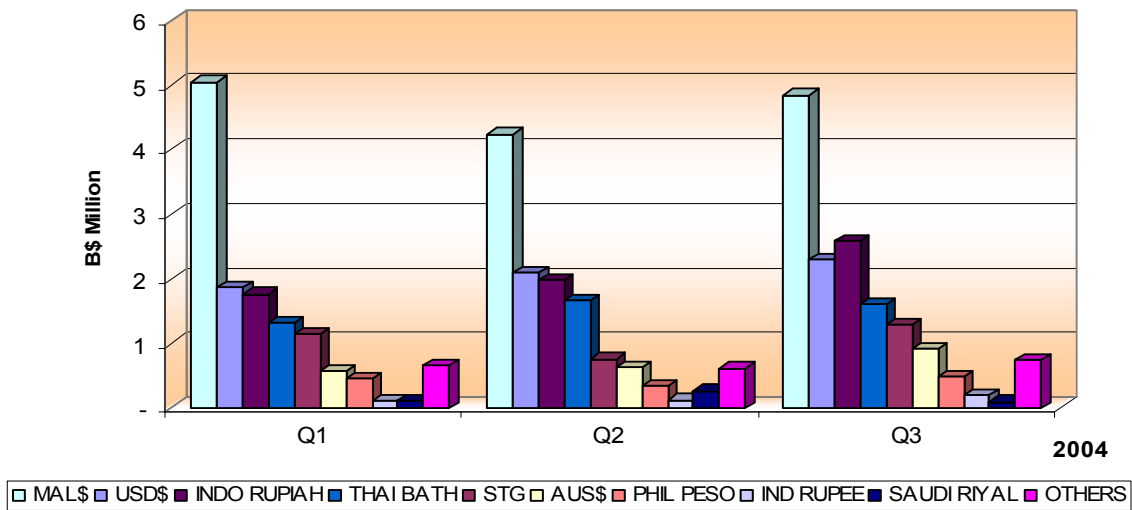
Figure 6.9: Buying of Foreign Currencies for Q1 – Q3 2004



| | Q1 2004 | Q2 2004 | Q3 2004 |
|-------------------------------|------------------|------------------|-----------------|
| Total | B\$13.04 million | B\$12.73 million | B\$15.05million |
| Percent Change (q-o-q) | - | -2.38percent | 18.22percent |

Source: Financial Institutions Division, Ministry of Finance

Figure 6.10: Selling of Foreign Currencies for Q1 – Q3 2004



| | Q1 2004 | Q2 2004 | Q3 2004 |
|-------------------------------|------------------|------------------|------------------|
| Total | B\$13.04 million | B\$13.67 million | B\$15.23 million |
| Percent Change (q-o-q) | - | 4.83 percent | 11.41percent |

Source: Financial Institutions Division, Ministry of Finance

Table 6.2 : Brunei Darussalam: MONETARY INDICATORS
Monetary Survey

| | Sept-03 | Jun-04 | Sept-04 |
|--|--|-----------|-----------------------------|
| | B\$mil. | B\$mil. | B\$mil. |
| Net foreign assets | 5897.53 | 6512.60 | 7019.60 |
| BCMB | 789.50 | 754.20 | 783.60 |
| Commercial banks | 5108.03 | 5758.40 | 6236.00 |
| Assets | 5231.60 | 5894.70 | 6371.60 |
| Liabilities | 123.57 | 136.30 | 135.60 |
| Claims on private sector | 5037.21 | 5,254.90 | 5317.90 |
| Claims on Government Net | -2203.80 | -2,481.10 | -2751.10 |
| Other assets | 263.29 | 321.20 | 347.60 |
| Commercial banks | 224.21 | 258.30 | 271.40 |
| Claims on Nonfinancial Public Corporations | 39.08 | 62.90 | 76.20 |
| Assets=liabilities | 8994.23 | 9,607.60 | 9934.00 |
| Money | 3126.02 | 3,387.10 | 3431.60 |
| Currency | 558.65 | 565.60 | 567.80 |
| Transferable deposits | 2567.37 | 2,821.50 | 2863.80 |
| Quasi-money | 4477.75 | 5,058.00 | 5309.90 |
| Other deposits at commercial banks | 4477.75 | 5,058.00 | 5309.90 |
| Other liabilities | 1390.46 | 1,192.50 | 1240.80 |
| Memorandum items: | | | |
| Currency with banks | 92.26 | 96.50 | 103.40 |
| Broad money | 7603.77 | 8,445.10 | 8741.50 |
| Prime lending rate (end of period) | 5.50 | 5.50 | 5.50 |
| | (Percent change) | | |
| | (Year on Year) | | (Quarter on Quarter) |
| Net foreign assets | 19.03 | | 7.78 |
| Claims on private sector | 5.57 | | 1.20 |
| Claims on Government Net | 24.83 | | 10.88 |
| Money | 9.78 | | 1.31 |
| Currency | 1.40 | | 0.39 |
| Transferable deposits | 10.19 | | 1.50 |
| Quasi-Money | 20.31 | | 4.98 |
| Other deposits at commercial banks | 20.31 | | 4.98 |
| | (In percent of broad money 12 months ago) | | |
| Contribution to broad money growth | | | |
| Net foreign assets | 3.27 | 4.48 | 6.00 |
| Claims on private sector | -0.39 | 1.07 | 0.75 |
| Claims on Government Net | -2.37 | 2.73 | -3.20 |
| | (In percent change) | | |
| Memorandum item: | (Year on Year) | | (Quarter on Quarter) |
| Broad money | 14.96 | | 3.51 |

Source:
Financial
Institio
ns
Division
& Brunei
Currency
and
Monetary
Board,
Ministry
of
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