

BRUNEI DARUSSALAM

Fiscal and Monetary Review 4th 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 have grown by 2.0 percent quarter-on-quarter and 2.8 percent year-on-year in Q4 2004. This increase in GDP is mainly attributed to the improved performance of various sub-sectors in the Non-Oil and Gas Sector. In Q4, the Oil and Gas Sector contracted by 0.7 percent (y-o-y) but grew by 0.4 percent (q-o-q). The Non-Oil and Gas Sector is estimated to grow by 6.6 percent (y-o-y) and 3.6 percent (q-o-q), mainly due to improvements in the Agriculture; Non-Oil Mining, Quarrying and Manufacturing; and Transport and Communications Sectors. Overall in 2004, real GDP grew by 1.7 percent.

In the External Sector, a 2.6 percent increase in trade surplus was recorded in Q4 2004, as a result of the increase in total exports value by 0.3 percent to B\$2,309.9 million and the decline in total imports by 5.5 percent to B\$604.1 million. Oil and LNG exports continue to be the main contributor to total exports at 93.3 percent. Total International Reserves stood at B\$1,260.25 million, an increase of 5.4 percent from the previous quarter and equivalent to 2.1 months of imports.

In Q4 2004, Government Revenue continued to strengthen, growing by 7.6 percent to B\$1,728.5 million from the previous quarter due to the higher collections of both Tax and Non-Tax Revenue mainly in the Oil Sector. Government Expenditure increased from B\$1,070.4 million to B\$1,363.1 million due to an increase in Current and Capital Expenditure. This quarter's fiscal surplus is able to cover about 26.8 percent of Total Government Expenditure.

In Q4 2004, the Brunei Dollar strengthened further against the US Dollar at B\$1.6338. Broad money expanded by 3.2 percent (q-o-q) and 14.4 percent (y-o-y). Deposit interest rates remained constant with the exception of the 12 months deposit rate which increased to 1.636 percent. Key indicators of the Banking Sector improved further with increases in Total Assets, Total Deposits & Total Loans of 6.9 percent, 9.3 percent and 1.0 percent respectively. The amount of outstanding NPLs reduced during the period and stood at 12.9 percent.

II. GLOBAL SHORT TERM ECONOMIC REVIEW

OVERVIEW

Q4 2004 growth for the US economy was unchanged as the economy expanded at a 3.8 percent annual rate, capping the best year of growth since 1999. Productivity grew a revised 2.1 percent in Q4 while unit labour cost rose at a slower pace of 1.3 percent, providing support for an increase in hiring. As expected, the FOMC raised their benchmark interest rate another 25 bps to 2.75 percent, reflecting increased pricing pressures.

The European Central Bank left interest rates unchanged at a 6-decade low of 2.0 percent and reduced its 2005 forecasts for economic growth to about 1.6 percent from 1.9 percent and inflation to 1.9 percent from 2.0 percent. Euro-zone's growth was unchanged in Q4 2004 at 0.2 percent (q-o-q) as a slow down in exports overshadowed an increase in consumer spending.

United Kingdom's Q4 2004 GDP growth was stronger than expected at 0.7 percent (q-o-q) and 2.8 percent (y-o-y) from 0.5 percent (q-o-q) and 3.1 percent (y-o-y) in Q3 2004, led by services industries (1.0 percent) while industrial production (-0.5 percent) dragged down growth. On inflation, core output prices fell unexpectedly but CPI surprised strongly on the upside at 1.6 percent (y-o-y). This meant that Q4 CPI was 0.2 percent higher than the Bank of England's assumption in November's inflation report of 1.4 percent (y-o-y).

Unemployment numbers improved to 4.4 percent in December from 4.5 percent, but largely due to companies slowing down their restructuring. Core consumer prices declined 0.2 percent (y-o-y) in December because of cuts in telephone and electricity charges, extending a more than 6-year bout of deflation. Japan's current account surplus widened for the first time in 3 months in November by 1.8 percent month-on-month to ¥1.39 trillion from ¥1.36 trillion on higher global demand for the nation's exports of autos and other goods. Household spending fell for the fourth straight month in December by -3.8 percent month-on-month, sapping growth in the world's second largest economy.

China's Q4 2004 GDP greatly exceeded most analysts' forecasts growing 9.5 percent (y-o-y), the fastest growth since 1996, due to stronger than expected exports. The economy grew 9.5 percent as a whole in 2004.

December 2004 started with a bearish tone after the price of crude oil dropped 14.0 percent in the wake of mild weather across the globe, rising inventory levels in the US, and early expectations that OPEC would refrain from cutting production. However, later in the month, oil prices revived back on a number of factors including OPEC's call to reduce output by 1 million bpd effective 1st January 2005, the halt of Iraq's exports and an expected cold snap in the Northern Hemisphere. The price of crude ended 2004 at US\$43.43 a barrel. This is US\$11.00 up from the beginning of the year, and US\$12.00 off its high of US\$55.67 a barrel reached on 25th October.

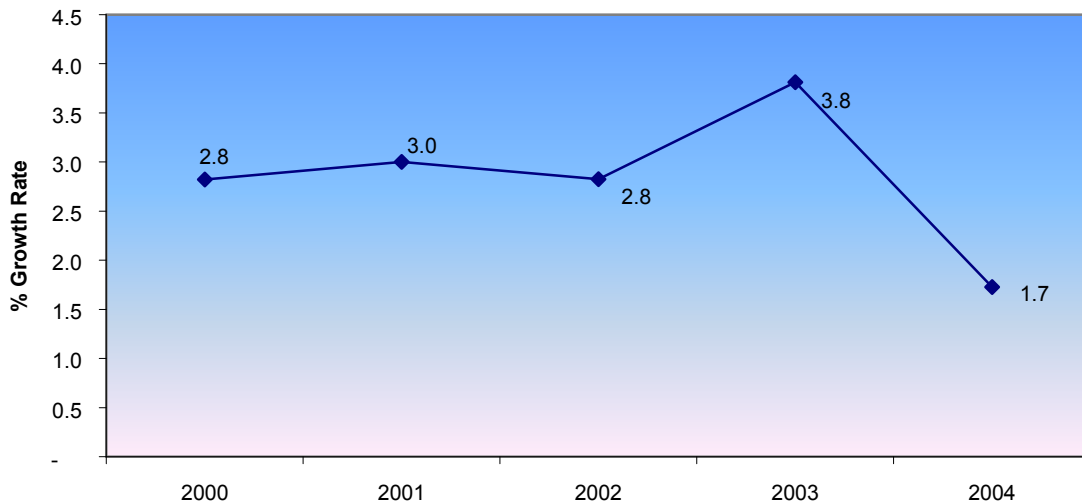
III. REAL SECTOR DEVELOPMENTS

OVERVIEW

- In Q4 2004, the growth was recorded at 2.8 percent (y-o-y) and 2.0 percent (q-o-q).
- Oil and Gas Sector is estimated to account for 43.8 percent of the economy's total annual GDP.
- Oil and Gas Sector contracted by approximately 1.5 percent in 2004.
- Average crude oil price per barrel was US\$46.66 for Q4 2004.
- Average LNG price per MMBtu was US\$5.09 for Q4 2004.
- Average CPI was 101.7 for Q4 2004.

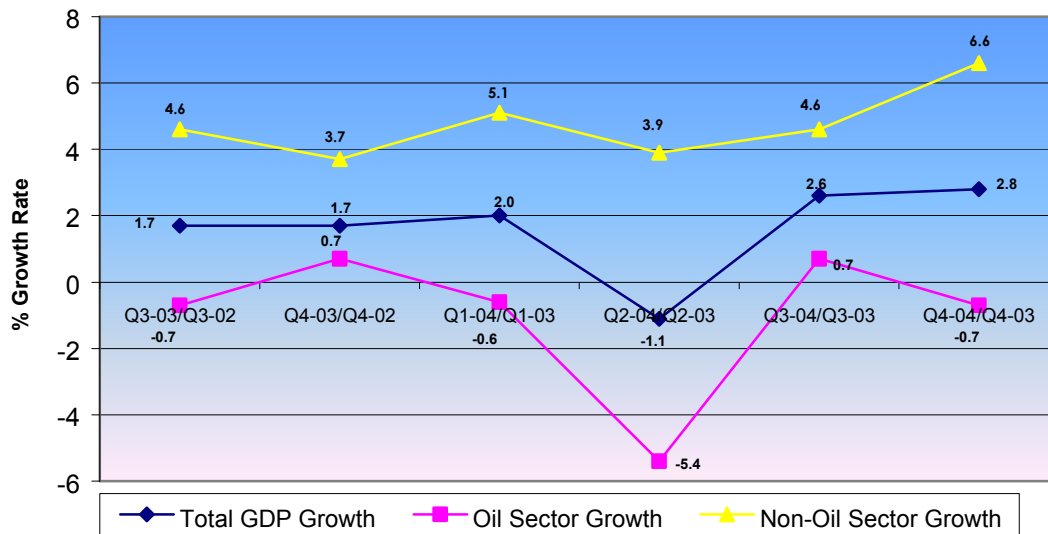
Brunei Darussalam's economy grew by 1.7 percent for the year 2004 (Figure 3.1). The Oil and Gas Sector is estimated to have contributed 43.8 percent of nominal GDP, while the Non-Oil and Gas Sector accounted for 56.2 percent. In Q4 2004, the economy is estimated to have grown by 2.0 percent compared to Q3 2004, where as, relative to Q4 2003, the economy grew by 2.8 percent. Both these annual and quarterly increases were due to increased economic activity in various sub-sectors in the Non-Oil and Gas sector thus compensating the contraction in the Oil and Gas Sector.

Figure 3.1: GDP at Constant prices



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

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



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

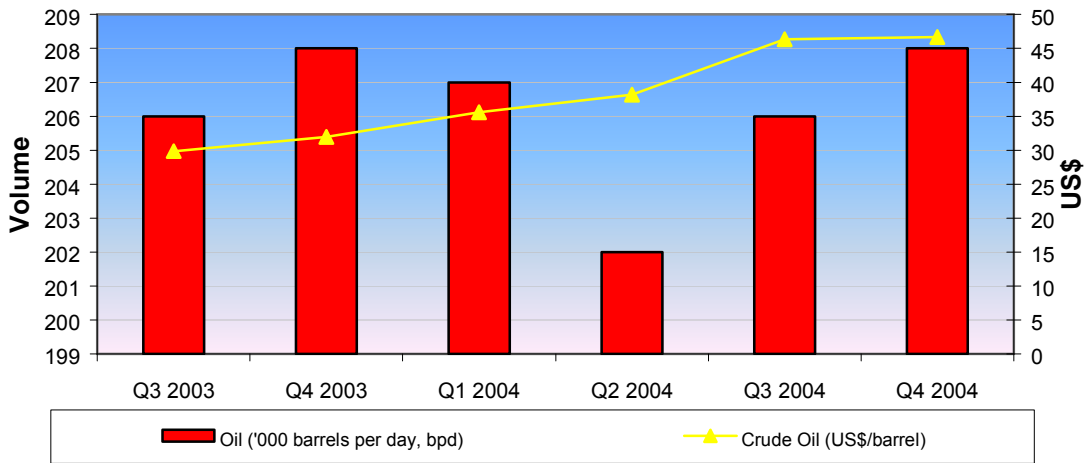
OIL AND GAS SECTOR

In 2004, the Oil and Gas Sector contracted by 1.5 percent. Average crude oil production declined from 207,240 bpd to 205,750 bpd (a reduction of 0.7 percent). Average LNG production also declined from 1,049,143.0 MMBtu per day to 1,016,001.86 (a reduction of 3.2 percent). The decline in production of both commodities were mainly due to the maintenance and upgrading of oil and gas production facilities.

For Q4 2004, the Oil and Gas Sector contracted by 0.7 percent (y-o-y) but grew by 0.4 percent (q-o-q). The average weighted oil production decreased by 0.04 percent (y-o-y) from 208,063 bpd to 207,978 bpd. However, oil production increased by 1.0 percent (q-o-q) from 205,935 bpd in Q3 2004 (Table 3.1). Meanwhile, the average weighted LNG production per day decreased by 2.1 percent from 1,031,013.2 MMBtu in Q4 2003 to 1,009,123.8 MMBtu in Q4 2004. Similarly, as compared to Q3 2004, the LNG production per day also declined by 1.0 percent from 1,019,037.39 MMBtu (Table 3.2).

The price of crude oil averaged at US\$46.66 per barrel in Q4 2004, an increase of 45.8 percent (y-o-y) and an increase of 0.8 percent (q-o-q) (Table 3.1). Correspondingly, the price of LNG averaged at US\$5.09 per MMBtu, an increase of 13.3 percent (y-o-y) and an increase of 1.6 percent (q-o-q) (Table 3.2).

Figure 3.3: Crude Oil Production and Prices



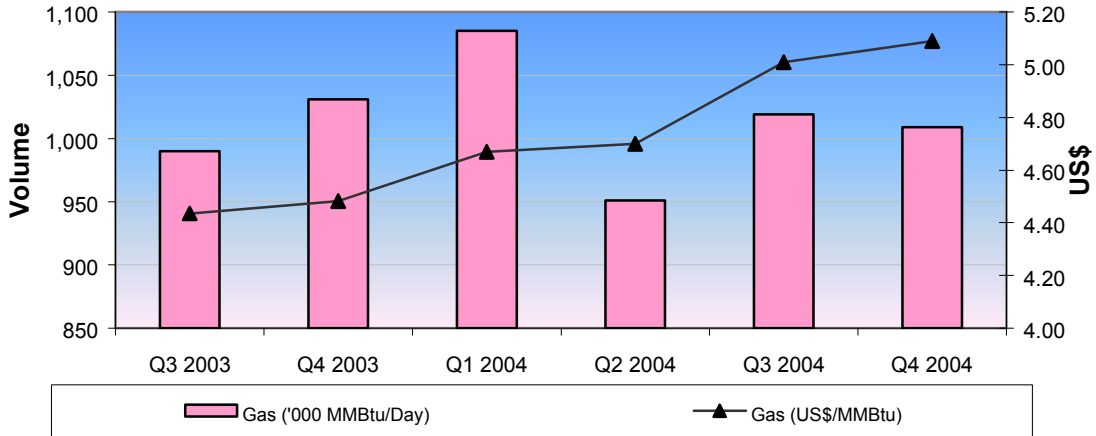
Source: Petroleum Unit, Prime Minister's Office

Table 3.1: Comparison of Crude Oil Production and Prices

	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Oil Production (bpd)	206,277	208,063	207,323	201,738	205,935	207,978
Avg Oil Price (US\$/barrel)	29.89	32.00	35.59	38.20	46.31	46.66

Source: Petroleum Unit, Prime Minister's Office

Figure 3.4: LNG Production and Prices



Source: Petroleum Unit, Prime Minister's Office

Table 3.2: Comparison of LNG Production and Prices

	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
LNG Production ('000 MMBtu)	990	1,031	1,085	951	1,019	1,009
Average LNG Price (US\$/MMBtu)	4.44	4.49	4.67	4.70	5.01	5.09

Source: Petroleum Unit, Prime Minister's Office

NON-OIL AND GAS SECTOR

The Non-Oil and Gas Sector is estimated to have recorded growth of 5.3 percent in 2004. This was mainly due to improvements in the Agriculture; Fishery; Non-Oil Mining, Quarrying and Manufacturing; Transport & Communications Sectors. For Q4 2004, this sector registered an expansion of 6.6 percent (y-o-y) and 3.6 percent (q-o-q).

The Banking and Finance Sector declined by 3.6 percent in Q4 2004 relative to Q4 2003. Similarly, a decrease of 3.5 percent was recorded compared to Q3 2004. Total interest income from loans and advances was B\$106.5 million in Q4 2004 compared to B\$110.5 million and B\$110.4 million accumulated in Q4 2003 and Q3 2004 respectively. For the year 2004, this sector is estimated to have contracted by 6.2 percent.

The Non-Oil Mining, Quarrying and Manufacturing Sector grew by 5.9 percent (y-o-y) in 2004. Growth in this sector was due to increased production of various industries within the sector namely garments (9.9 percent); cement (14.6 percent); bricks (27.5 percent); and roofing (4.6 percent). For Q4 2004, the Non-Oil Mining, Quarrying and Manufacturing Sector grew by 15.6 percent (y-o-y) but contracted by 4.0 percent (q-o-q).

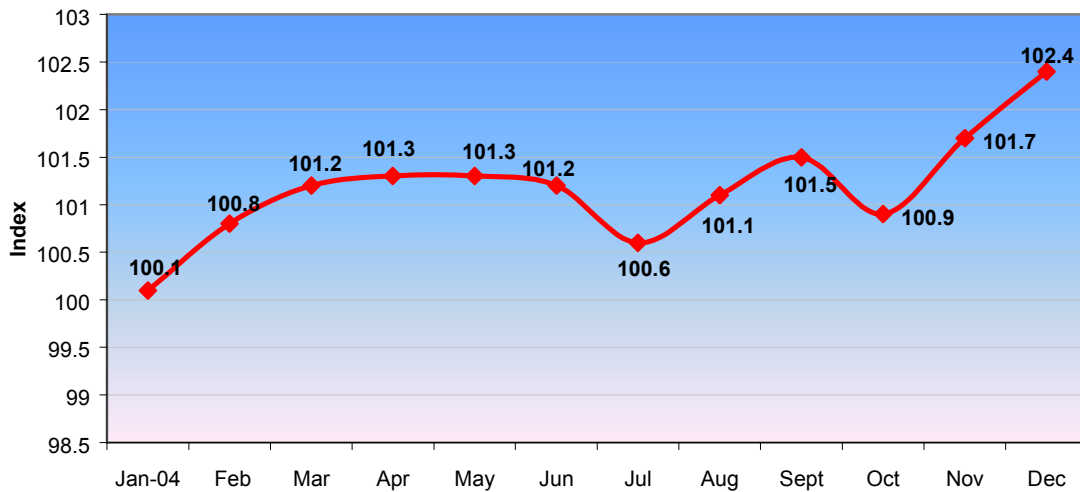
The Transport and Communication Sector continued to grow by an estimated 10.4 percent in Q4 2004 compared to the same period in 2003, and relative to Q3 2004, this sector also grew by 0.03 percent. The increased performance of this sector was caused by a rise in the volume of seaborne cargo handled; and increased activity in the communications sub-sector derived from increased usage of telecommunications facilities and also an enlarged number of mobile phone and internet subscribers. For 2004, this sector is estimated to have improved by 14.1 percent.

INFLATION

The average Consumer Price Index (CPI) recorded for Q4 2004 was 101.7, an increment of 0.6 percent relative to the figure recorded for Q3 2004. This was attributed to changes in the prices of significantly weighted commodity groups: Food & Non Alcoholic Beverages (+0.4 percent); Household Goods & Operations (-1.1 percent); Transport (+1.6 percent); and Recreation & Entertainment (+5.3 percent). Correspondingly, the change in CPI compared to the same period last year was an increase of 1.7 percent.

For 2004, the average CPI was 101.2, an increase of 0.9 percent from the CPI recorded for 2003 (average CPI 2003 = 100.3). Among others, the changes recorded were: Food & Non Alcoholic Beverages (+1.6 percent); Housing, Water, Electricity & Maintenance (-0.7 percent); Household Goods & Operations (-4.2 percent); Transport (+2.3 percent); and Recreation & Entertainment (+6.5 percent).

Figure 3.5: Consumer Price Index¹



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

OUTLOOK FOR 2005

The economy of Brunei Darussalam is forecasted to grow at a rate of between 2.5 percent and 3.5 percent in 2005. With the completion of the maintenance and upgrading of oil production facilities, robust growth is anticipated from the oil and gas sectors. Meanwhile, further expansions are foreseen in the Non-Oil and Gas Sector.

Economic growth experienced by the neighbouring economies namely China, India, South Korea and ASEAN will sustain market demand for Brunei Darussalam'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 Darussalam's economy. Spill-over effects of greater economic activities in ASEAN and the Asia-Pacific region are expected to trickle through into Brunei Darussalam's economy and further enhance economic growth.

The Non-Oil Private Sector is expected to post further growth during 2005 as this sector has continuously expanded in previous quarters. The year 2005 is the fifth and final year of the 8th National Development Plan, thus increased expenditure is expected due to the implementation, finalisation and completion of projects under the five year plan. This fiscal stimulus from increased government expenditure is expected to contribute to expansions in the various sectors of the economy mostly those involved in Construction; Transport & Communication; Wholesale; and Retail sectors. Other sectors such as Business Services; Banking, Finance and Insurance; and also Primary Industries are also expected to contribute to growth. However, the expiration of the Multi-Fibre Agreement (MFA) is expected to affect growth prospects of the Non-Oil Sector due to its negative impact on the textile and garment industry which is the second largest contributor to export earnings after oil and gas. The CPI has remained subdued during 2004 and it is anticipated that the trend will continue through 2005.

¹ The Base year for CPI is 2002 (2002=100)

TABLE 3.3: Brunei Darussalam: REAL SECTOR INDICATORS**Gross Domestic Product by sector**

Annual Data	1999	2000	2001	2002	2003	2004
	(In million of Brunei Dollars)					
GDP at current prices	7,144.7	7,441.1	7,481.9	7,651.7	8,254.9	9,266.8
Oil sector	2,688.1	2,951.1	2,717.7	2,836.6	3,279.9	4,058.1
Non-oil sector	4,456.6	4,490.0	4,764.2	4,815.1	4,957.0	5,208.7
Government sector	1,783.6	1,803.6	1,855.5	1,929.8	1,936.5	2,029.5
Private sector	2,673.0	2,686.4	2,908.6	2,885.3	3,020.5	3,172.2
GDP at constant prices	4,031.4	4,145.2	4,271.6	4,392.3	4,559.7	4,638.4
Oil sector	2,150.9	2,230.5	2,264.0	2,336.4	2,420.5	2,385.9
Non-oil sector	1,880.3	1,914.7	2,007.7	2,055.9	2,139.2	2,253.2
Government sector	968.3	992.7	1,021.3	1,062.1	1,065.9	1,117.0
Private sector	912.0	922.0	986.4	993.8	1,073.3	1,087.0
	Growth Rate (%)					
GDP at current prices	9.3	4.1	0.5	2.3	7.6	12.3
Oil sector	25.7	9.8	(7.9)	4.4	15.6	23.7
Non-oil sector	1.4	0.7	6.1	1.1	2.9	5.1
Government sector	1.1	1.1	2.9	4.0	0.3	4.8
Private sector	1.6	0.5	8.3	(0.8)	4.7	5.0
GDP at constant prices	2.6	2.8	3.0	2.8	3.8	1.7
Oil sector	4.6	3.7	1.5	3.2	3.6	(1.5)
Non-oil sector	0.3	1.8	4.9	2.4	4.1	5.3
Government sector	1.4	2.5	2.9	4.0	0.4	4.8
Private sector	(0.8)	1.1	7.0	0.8	8.0	5.9
GDP per capita at current prices (B\$ Thousand)	22.5	22.9	22.5	22.5	23.6	25.9
Population (in Thousands)	316.5	324.8	332.8	340.8	348.8	357.8
Consumer Prices Index (Percentage Change)	(0.1)	1.2	0.6	(2.3)	0.3	0.9
Quarterly Data						
	Growth Rate Year-on-Year (%)					
	Q3-2003	Q4-2003	Q1-2004	Q2-2004	Q3-2004	Q4-2004
GDP at constant prices	1.7	1.7	2.0	(1.1)	2.6	2.8
Oil sector	(0.7)	0.7	(0.6)	(5.4)	0.7	(0.7)
Non-oil sector	4.6	3.7	5.1	3.9	4.6	6.6

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

IV. EXTERNAL SECTOR DEVELOPMENTS

OVERVIEW

- Total exports stand at B\$2,309.9, a 0.3 percent increase from the previous quarter.
- A decline in total imports by 5.5 percent to B\$604.06 million.
- A trade surplus of B\$1,705.8 million was recorded in Q4 2004, a 2.6 percent increase q-o-q.
- International reserves² at the end of Q4 2004 stood at B\$1,260.25 million.

EXPORTS

On a year-on year basis, total exports grew by 10.0 percent from B\$2,100.0 million to B\$2,309.9 million. Quarterly, there was a modest increase of 0.3 percent, with mineral fuel exports contributing 93.3 percent of that figure. Oil and gas exports increased by 2.7 percent (q-o-q) and 23.9 percent (y-o-y) to B\$2,154.4 million. However, Non-oil and gas exports declined by 23.9 percent from the previous quarter. This was mainly due to considerable reduction in the export of Food, Chemicals, Manufactured Goods and Miscellaneous Manufactured Articles.

Table 4.1: Comparison of Oil and Gas Export Volume

	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	percent change (Q3 2004/Q4 2004)
Export Volume						
Oil ('000 bpd)	201	201	188	193	202	4.66%
Gas(Trillion Btu per year)	90	108	93	99	98	-1.01%

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

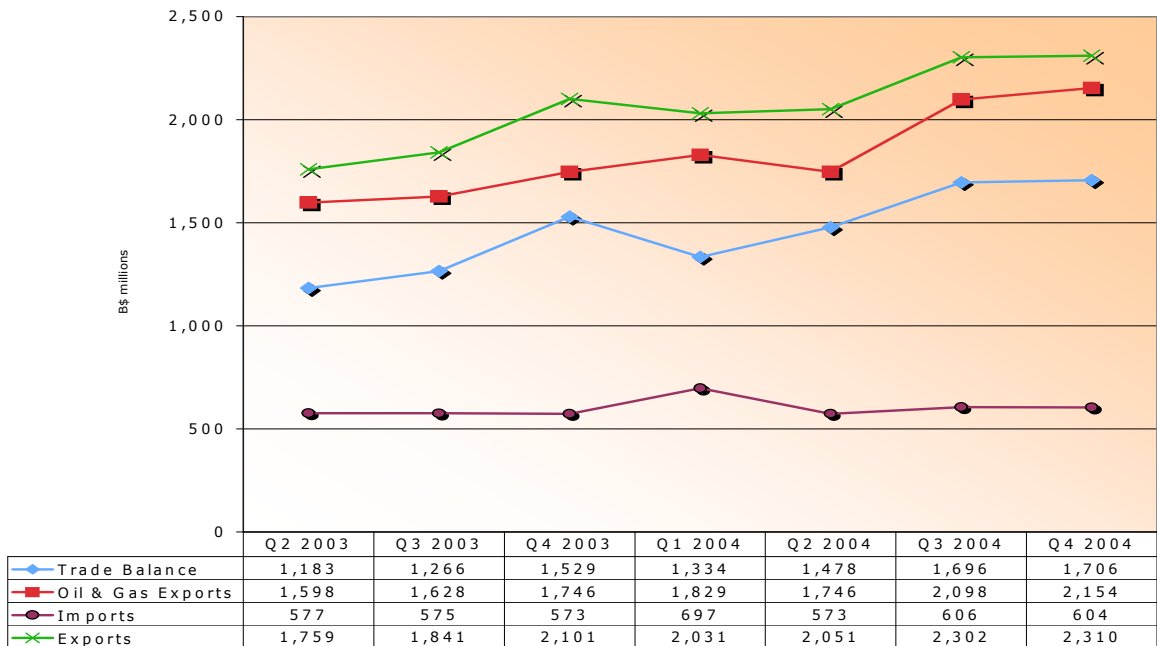
Table 4.2: Exports in B\$ millions by Commodities (Q3 and Q4 2004)

	Q3 2004	Q4 2004
Food	0.70	0.53
Beverages & Tobacco	0.06	0.09
Crude Materials Inedible	2.68	2.40
Mineral Fuels	2097.81	2154.43
Animal & Vegetable Oils	-	0.01
Chemicals	0.91	0.68
Manufactured Goods	10.82	7.69
Machinery & Transport Equip.	54.81	46.27
Miscellaneous Manufactured Articles	129.55	93.60
Miscellaneous Transactions	4.67	4.17
TOTAL	2302.00	2309.88

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

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

Figure 4.1: Brunei Darussalam – Exports and Imports

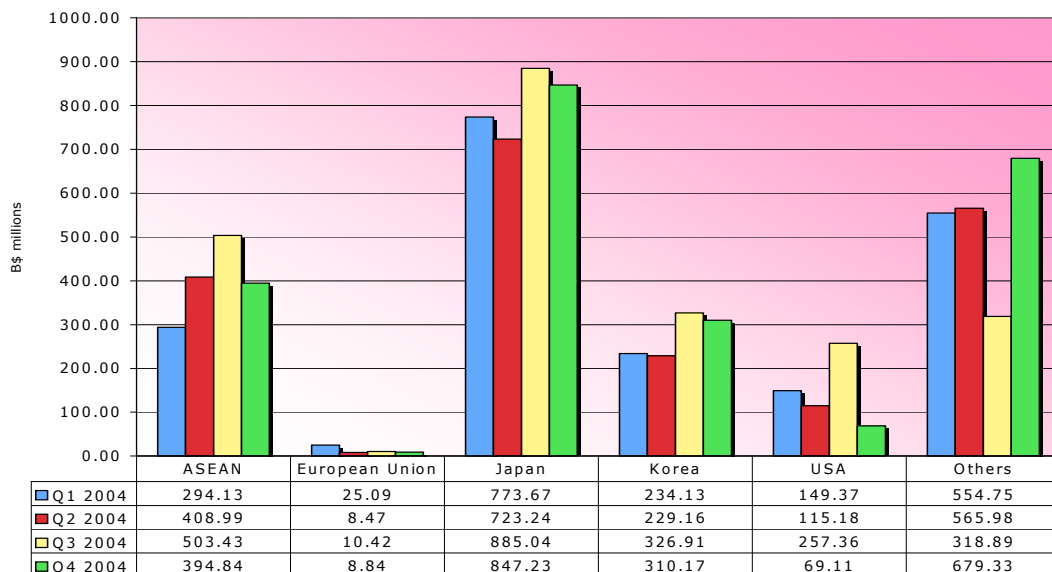


Source: Economic Planning and Development Department, Prime Minister's Office

DIRECTION OF EXPORTS

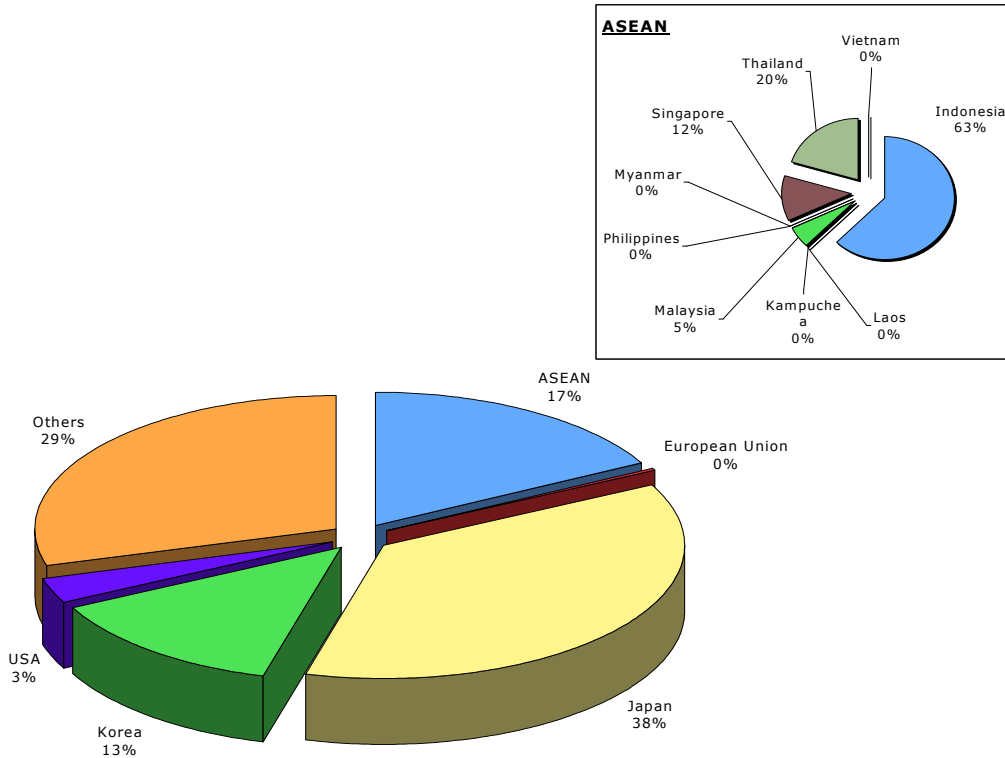
Despite reductions in crude oil exports to Japan, South Korea and ASEAN, total value of both Crude Oil and LNG exports increased by 3.6 percent and 1.1 percent to B\$1,398.7 million and B\$755.7 million respectively. India became a significant crude oil export destination with exports increasing substantially by 351.1 percent from B\$53.7 million to B\$242.3 million. LNG export to South Korea continued to grow, showing a 49.4 percent increase to B\$310.2 million.

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



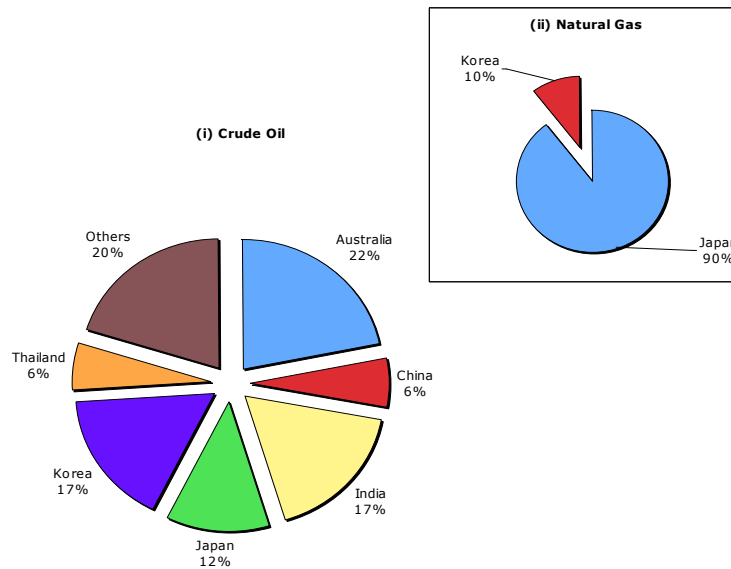
Source: Economic Planning and Development Department, Prime Minister's Office

Figure 4.3: Proportion of Total Exports by Country of Destination (Q4 2004)



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

Figure 4.4: Oil and Gas Exports by Country of Destination (Q4 2004)

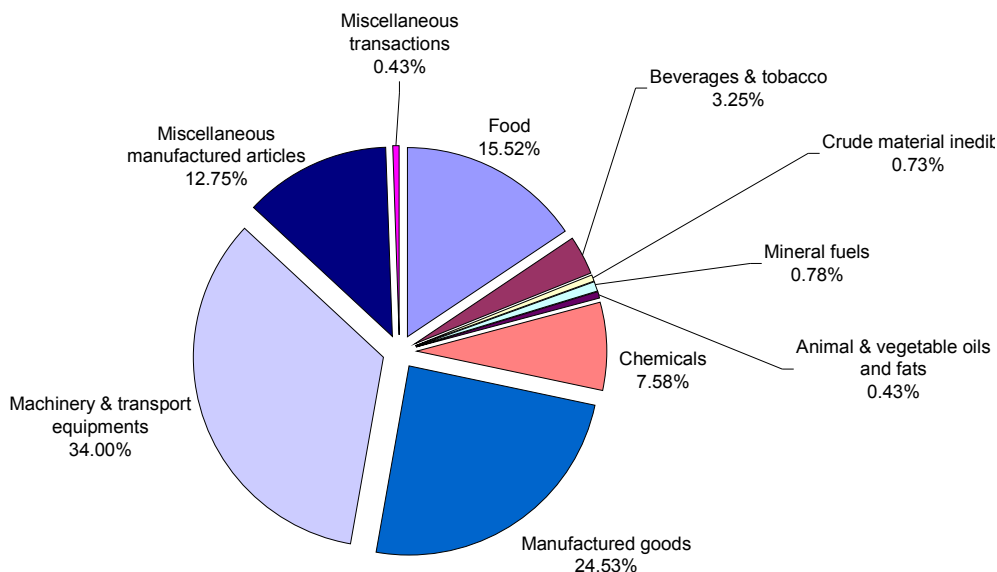


Source: Economic Planning and Development Department, Prime Minister's Office

IMPORTS

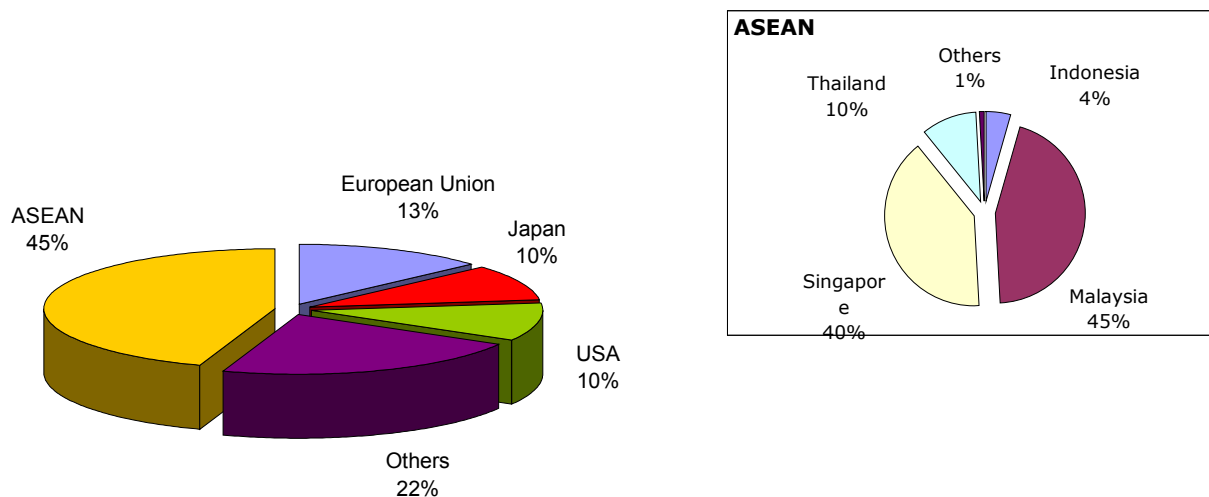
Total imports declined to B\$604.1 million in Q4 2004 by 5.5 percent from the previous quarter but remained relatively stable compared to the same quarter in 2003. This decline was mainly due to the decrease in the import of Chemicals (17.4 percent), Manufactured Goods (10.2 percent) and Miscellaneous Manufactured Articles (10.4 percent), as these commodities each hold significant proportions of total imports. Machinery & Transport Equipments take up the largest share of total imports at 34.0 percent in Q4 2004 and 31.0 percent in the previous quarter.

Figure 4.5: Composition of Total Imports



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

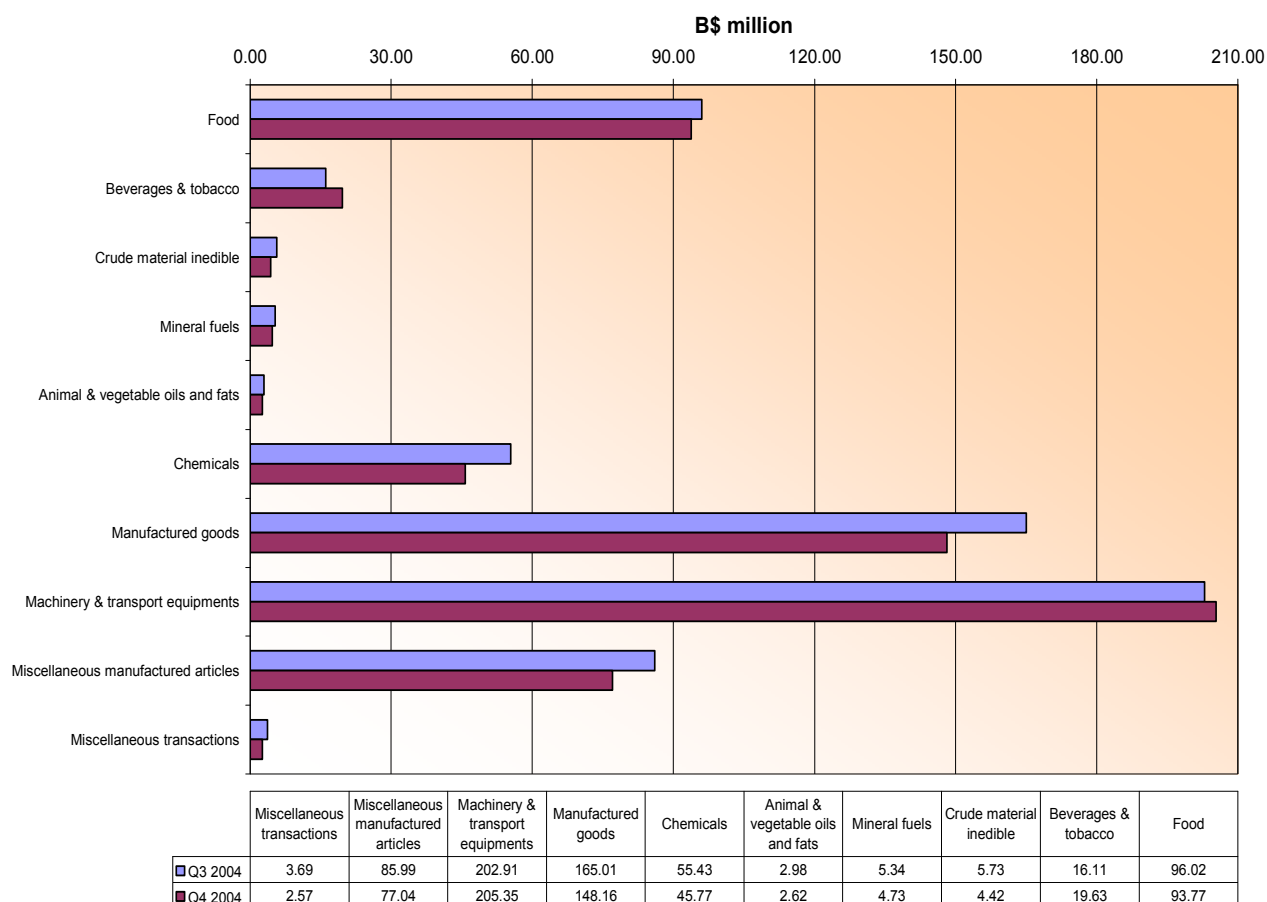
Figure 4.6: Imports by Country of Origin



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

As indicated in Figure 4.6, with the exception of Beverages & Tobacco and Machinery & Transport Equipments commodities, which increased by 21.9 percent and 1.2 percent respectively, imports of other commodities fell in Q4 2004. These include Food (2.3 percent), Crude Materials Inedible (23.0 percent), Mineral Fuels (11.5 percent), Animal & Vegetable Oils and Fats (12.0 percent) and Miscellaneous Transactions (30.4 percent).

Figure 4.6: Imports by Commodities (q-o-q)



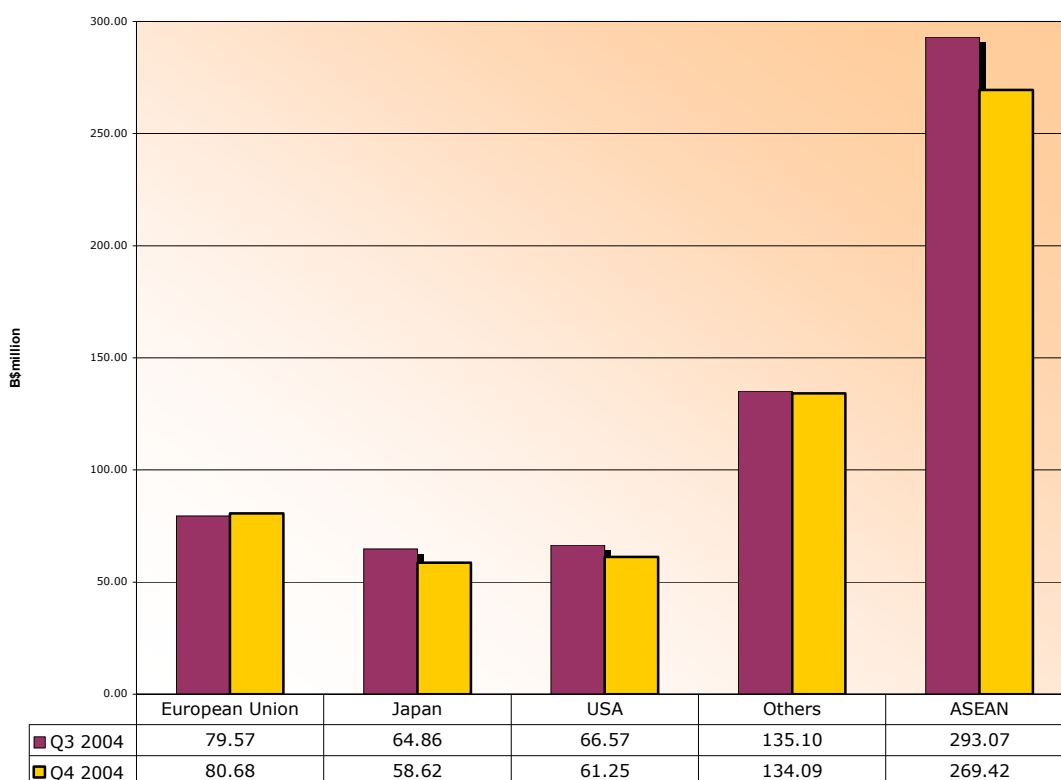
Source: Economic Planning and Development Department, Prime Minister's Office

On a year-on-year basis, although total imports was relatively similar, imports of Beverages & Tobacco and Chemicals increased considerably by 66.4 percent and 9.3 percent respectively. These increases in imports were balanced out by the decline in imports of Mineral Fuels by 10.8 percent, Animal & Vegetables Oils and Fats by 7.9 percent and Machinery & Transport Equipments by 4.3 percent.

With regards to geographical distribution, imports from China in this quarter, compared to the same quarter in 2003, increased significantly by 70.4 percent followed by the EU at 34.7 percent. However, imports from USA and ASEAN dropped by 6.8 and 4.5 percent respectively.

When compared to Q3 2004, as shown in figure 4.7, imports from ASEAN, Japan and USA fell by 8.1 percent, 9.6 percent and 8.0 percent respectively from Q3 2004, whereas imports from the EU increased slightly by 1.4 percent.

Figure 4.7: Imports by Country of Origin (Major Regions)



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

TRADE BALANCE

In Q4 2004, a trade surplus of B\$1,705.8 million was recorded. This balance represents a 2.6 percent increase from the previous quarter and a 13.9 percent increase year-on-year. This was mainly due to the increase in export value brought about by the rise in oil prices.

INTERNATIONAL RESERVES³

Brunei Darussalam's international reserves in this final quarter of 2004 increased by 5.4 percent q-o-q to a value of B\$1,260.25 million, equivalent to 2.1 months of imports. However, this was followed by a fall in foreign exchange coverage of currency from 95.8 percent in Q3 2004 to 95.1 percent in Q4 2004.

³ Consists of BCMB external assets plus IMF quota subscription and holdings of SDR

Table 4.2: Brunei Darussalam - EXTERNAL SECTOR INDICATORS									
Balance of Payments									
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		2003	2003	2003	2003	2004	2004	2004	2004
Trade balance		1,535.6	1,182.8	1,266.0	1,528.5	1,334.1	1,477.7	1,696.1	1,705.8
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	2,309.9
Imports, f.o.b.		466.9	576.6	575.4	572.5	697.1	573.3	605.9	604.1
Services and Investment Income, net		753.1	788.5	824.6	472.0	744.4	761.6	917.7	N/A
Receipts		1,255.6	1,248.4	1,247.0	1,235.4	1,324.8	1,271.4	1,455.7	N/A
Payments		502.5	459.9	422.4	763.4	580.4	509.8	538.0	N/A
Current transfers, net		-32.3	-44.6	-62.6	-102.4	-76.5	-54.2	-69.2	N/A
Current account balance		2,256.4	1,926.7	2,028.0	1,898.1	2,002.0	2,185.1	2,544.6	N/A
Capital account balance (incl e. & o.)		-3.9	-2.8	-4.6	-4.9	-3.4	-4.8	-5.7	N/A
Financial account balance		-1,153.3	-1,153.3	-1,153.3	-1,153.3	-1,153.3	-1,153.3	-1,153.3	N/A
Net errors and omissions		-1,099.2	-770.6	-870.1	-739.9	-845.3	-1,027.0	-1,385.6	N/A
Memorandum items:									
Average oil price (US\$/Barrel)		31.53	27.30	29.89	32.00	35.59	38.20	46.31	46.66
International Reserves (B\$ millions)		1,120.4	1,130.1	1,106.9	1,210.0	1,207.4	1,164.3	1,195.4	1,260.25
Import coverage		2.40	1.96	1.92	2.11	1.73	2.03	1.97	2.09
Foreign exchange coverage of currency (%)		93.0	95.0	94.0	97.0	99.5	92.4	95.8	95.1
B\$/US\$ (end of period)		1.7656	1.7567	1.7284	1.7008	1.6790	1.7163	1.6908	1.6338
Source: Economic Planning and Development Department, Prime Minister's Office; Brunei Currency and Monetary Board, Ministry of Finance									

V. FISCAL DEVELOPMENTS

OVERVIEW

- Government Revenue was recorded at B\$1,728.5 million, an increase of 7.6 percent from the previous quarter.
- Government Expenditure increased by 27.3 percent to B\$1,363.1 million.
- Provisional surplus of B\$365.5 million, a decrease of 31.8 percent from Q3 2004.

GOVERNMENT REVENUE

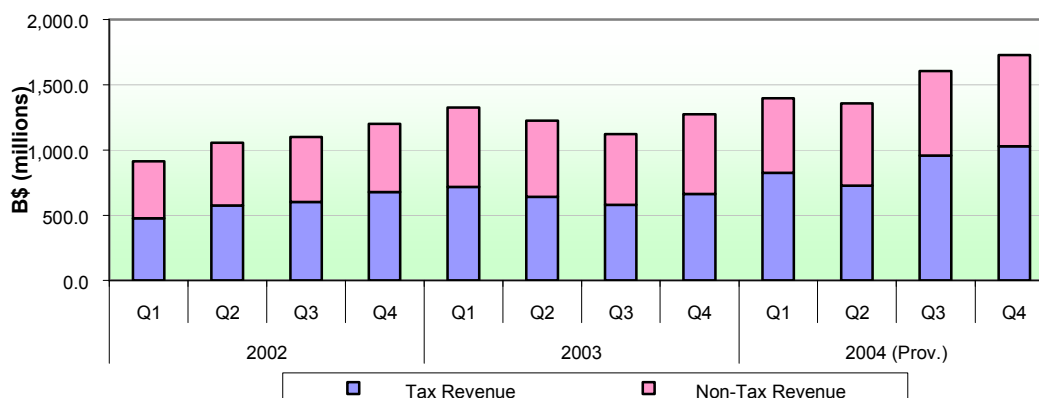
In Q4 2004, Government Revenue stood at B\$1,728.5 million, an increase of 7.6 percent from B\$1,606.1 million in the previous quarter. Of that amount, 59.5 percent was derived from Tax Revenue while the remaining 40.5 percent was from Non-Tax Revenue. The rise in Government Revenue was mainly due to an increase of both Tax Revenue and Non-Tax Revenue by 7.4 percent and 8.0 respectively.

On a year-on-year basis, Total Government Revenue for Q4 2004 increased by B\$452.1 million (35.4 percent) attributed by the higher collections of both Tax and Non-Tax Revenues.

In comparison with Q3 2004, Tax Revenue from the Non-Oil Sector declined by 17.6 percent from B\$141.5 million to B\$116.6 million. However, this reduction was compensated by an increase of 10.1 percent in the taxation of Oil Sector amounting to B\$1,612.0 million. Taxes on International Trade improved slightly by 1.6 percent from the preceding quarter, from B\$27.9 million to B\$28.3 million due to higher collection of import duties.

Non-Tax Revenue stood at B\$700.0 million, of which B\$617.7 million (88.3 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 3.2 percent mainly due to the higher collection of Telecoms & Utilities.

Figure 5.1: Fiscal Revenue (2002 – 2004)



Source: Treasury Department, Ministry of Finance

Table 5.1: Budgeted & Actual Revenue Collection Comparison

	For Financial Year 2004/05 Budgeted Revenue (B\$ Millions)	(Apr – Dec) Actual Revenue (B\$ Millions)	Proportion of Revenue Collected (Percent)
Total Revenue	3,938.3	4,733.1	120.2
Tax Revenue	2,266.4	2,730.1	120.5
Non-Tax Revenue	1672.0	2,003.0	119.8

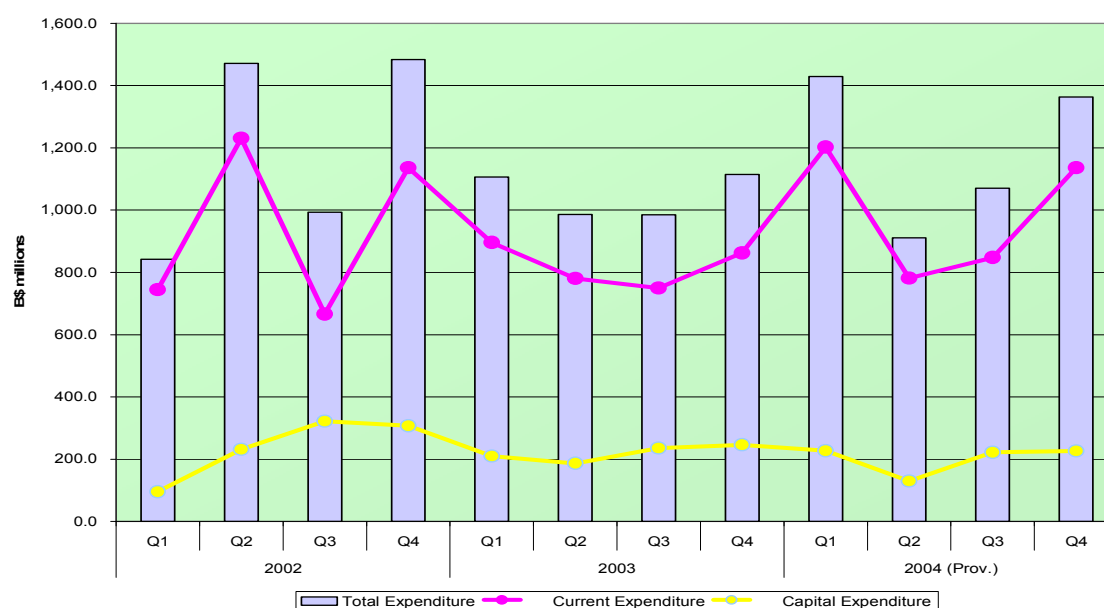
Source: Ministry of Finance

For the period April to December 2004, the total revenue collected is B\$4,733.1 million which is 20.2 percent higher than the budgeted amount for the whole year. This is attributed to improved revenue outturn from both tax and non-tax sources.

GOVERNMENT EXPENDITURE

Government Expenditure increased by 27.3 percent to B\$1,363.1 million in Q4 2004 compared to B\$1,070.4 million in Q3 2004. On a year-on-year basis, Government Expenditure increased slightly by 22.3 percent compared to B\$1,114.2 million in Q4 2003.

Figure 5.2: Government Expenditure for 2002 – 2004



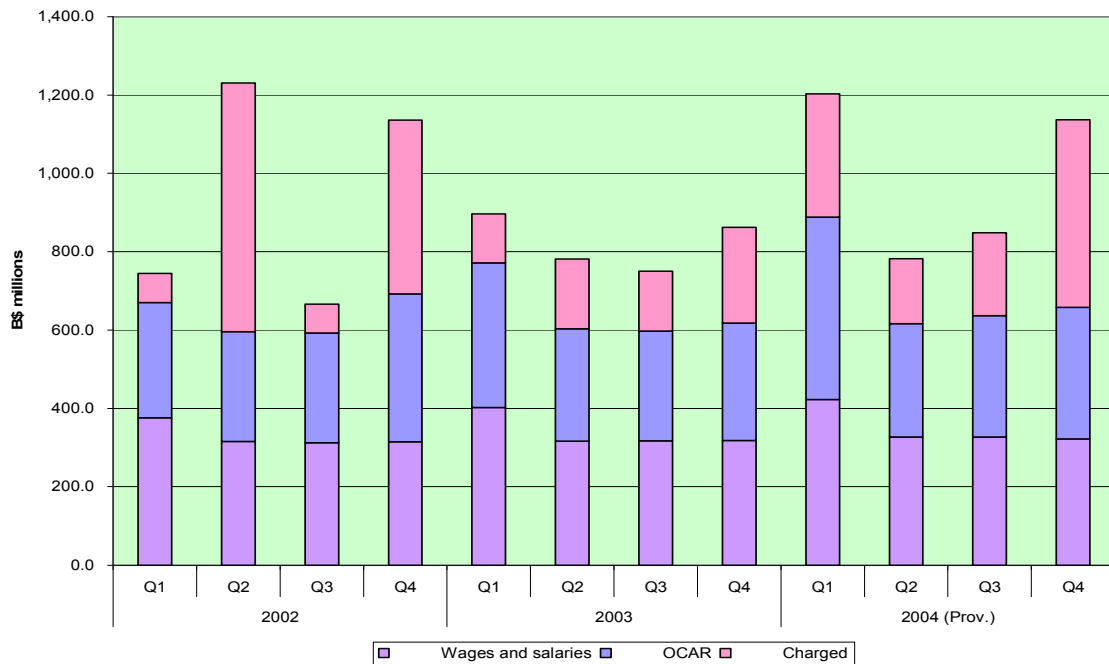
Source: Treasury Department, Ministry of Finance

The total Government Expenditure from April to December 2004 amounted to B\$3,345.3 million against B\$3,742.8 million budgeted for the same period. Based on these figures, 89.4 percent of the allocated budget has been spent; indicating prudent Government spending.

Current Expenditure

Current Expenditure in Q4 2004 has recorded an increase of 34.0 percent to B\$1,136.3 million from B\$848.0 million in Q3 2004. Wages and Salaries in Q4 2004 accounted for 28.3 percent of Current Expenditure at B\$322.04 million, a decline of 1.5 percent from Q3 2004. Meanwhile, expenditure relating to the operations of government agencies including maintenance of buildings i.e. Other Charges Annually Recurrent (OCAR) have increased by 8.7 percent to B\$335.9 million in Q4 2004.

Figure 5.3: Current Expenditure



Source: Treasury Department, Ministry of Finance

Table 5.2: Budgeted & Actual Current Expenditure Comparison

	For the Financial Year 2004/05 Budget Expenditure (B\$ Millions)	(Apr – Dec) Actual Expenditure (B\$ Millions)	Proportion of Actual Expenditure (Percent)
Total	3,392.2	2,766.0	81.5
Personal Emoluments	1,507.8	975.6	64.7
OCAR	1,315.2	934.5	71.1
Charged	569.2	855.9	150.4

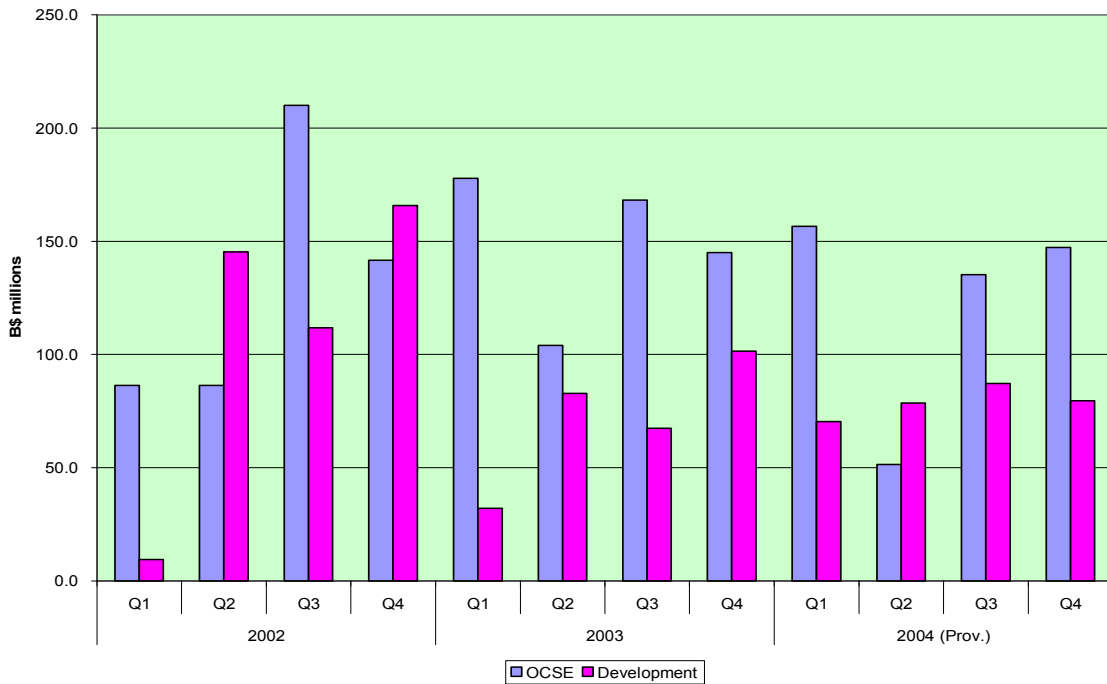
The level of spending for the period April to December for both Wages and Salaries and OCAR are 64.7 percent and 71.1 percent respectively.

Capital Expenditure

Capital Expenditure for Q4 2004 increased by 1.9 percent to B\$226.7 million from B\$222.4 million in Q3 2004. This was largely the result of increased spending of Other Charges Special Expenditure (OCSE) by 8.8 percent.

Development Expenditure, controlled by the Economic Planning and Development Department, Prime Minister's Office, was B\$79.5 million; a decline of 8.7 percent from Q3 2004.

Figure 5.4: Capital Expenditure



Source: Treasury Department, Ministry of Finance

Table 5.3: Budgeted & Actual Capital Expenditure Comparison

	For the Financial Year 2004/05 Budget Expenditure (B\$ Millions)	(Apr – Dec) Actual Expenditure (B\$ Millions)	Proportion of Actual Expenditure (Percent)
Capital	1,598.2	579.2	36.2
Development	900.0	245.2	27.2
OCSE	698.2	334.1	47.9

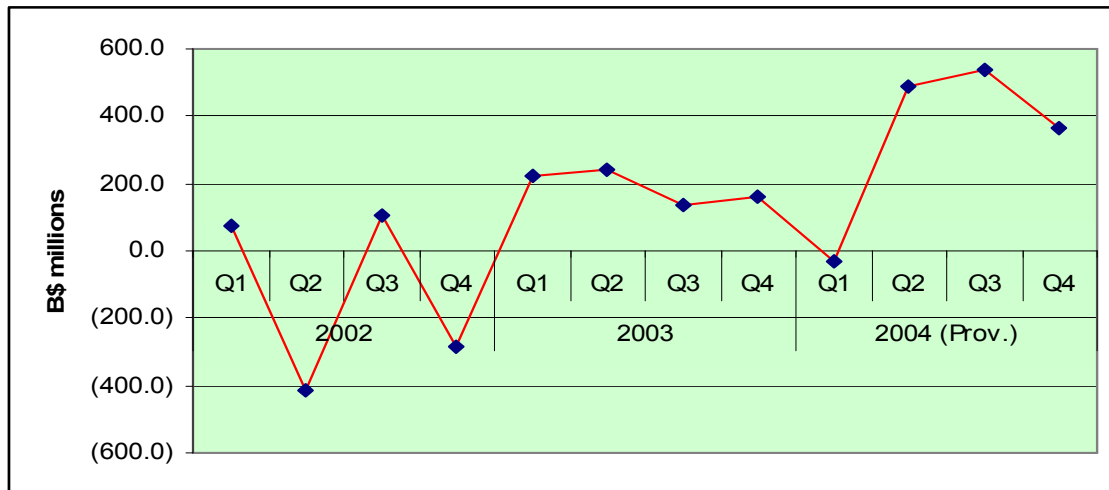
Source: Ministry of Finance

As in the preceding years, the Capital Expenditure was under-utilised. Only 36.2 percent of the allocated capital expenditure is being spent for the period April to December 2004, especially for Development Expenditure. Out of B\$900.0 million allocated, the government has only managed to spend 27.2 percent.

FISCAL POSITION

In Q4 2004, Brunei Darussalam continued to enjoy a healthy fiscal surplus of \$365.5 million, a decline of 31.7 percent from Q3 2004. This quarter's surplus is able to cover 26.8 percent of Total Government Expenditure.

Fig 5.5: Surplus/Deficit Balances (2002 – 2004)



Source: Treasury Department, Ministry of Finance

TABLE 5.4: Brunei Darussalam: FISCAL INDICATORS
Fiscal Position

	2002	2003	2004			
	Q3	Q3	Q1 (p)	Q2 (p)	Q3 (p)	Q4 (e)
Total Revenue	1,100.3	1,120.2	1,398.00	1,398.51	1,606.1	1,728.5
Tax Revenue	601.4	580.0	824.7	743.7	957.9	1,028.5
Oil & Gas sector	559.1	524.9	758.4	643.2	894.7	994.2
Non-oil sector	42.3	55.1	66.3	100.5	63.3	34.3
Non-tax revenue	498.9	540.2	573.3	654.8	648.2	700.0
Oil & Gas sector	414.1	463.4	482.1	578.6	569.9	617.8
Non-oil sector	84.9	76.8	91.2	76.2	78.3	82.2
Total Expenditure	993.4	985.4	1,429.50	911.8	1,070.4	1,363.1
Current Expenditure	665.9	750.0	1,202.50	781.7	848.0	1,136.3
Wages & Salaries (PE)	312.5	316.8	422.8	326.7	326.9	322.0
OCAR	279.9	280.1	465.6	289.3	309.2	336.0
Charged	73.5	153.1	314.1	165.7	211.9	478.3
Capital Expenditure	321.7	235.4	227.0	130.1	222.4	226.7
Of which: Ordinary	209.9	168.0	156.6	51.6	135.3	147.2
Of which: Development	111.8	67.4	70.4	78.5	87.1	79.6
Investments in Public Enterprises	5.8	0.0	0	0.0.0	0.0	0.0
Surplus or deficit (-)	106.9	134.8	(31.50)	486.8	535.7	365.5
Memorandum items						
Oil Price (US\$/barrel)	27.59	29.89	35.59	38.20	46.31	46.66
Gas (US\$/MMbtu)	4.34	4.44	4.67	4.70	5.01	5.09
Oil & Gas (in percent of total revenue)	88.4	88.2	88.7	87.4	91.2	93.3

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

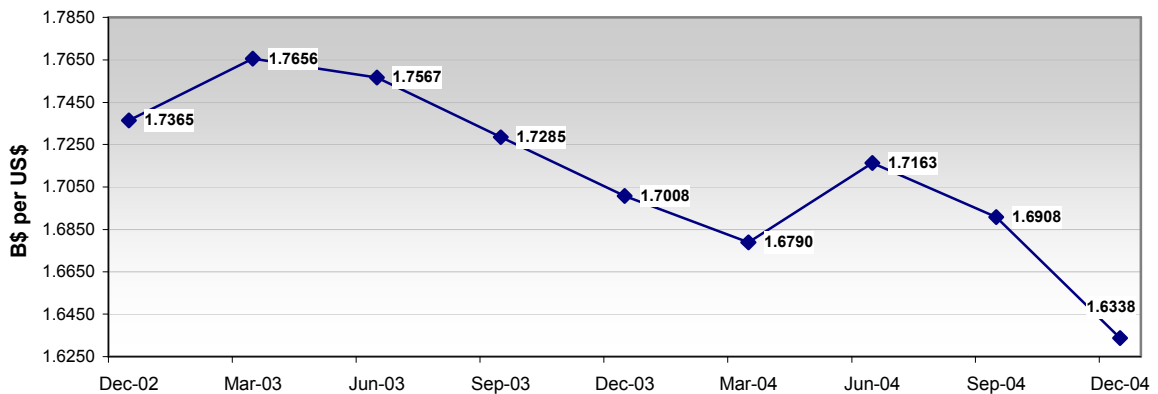
OVERVIEW

- Broad money increased by 3.2 percent
- Currency outside banks expanded by 6.2 percent
- Average Deposit Interest rates increased for the 12 months period
- Total assets and total deposits of banks grew by 6.9 percent and 9.3 percent respectively
- Total loans of banks increased by 1.0 percent
- NPL ratio stood at 12.9 percent

MONETARY DEVELOPMENTS

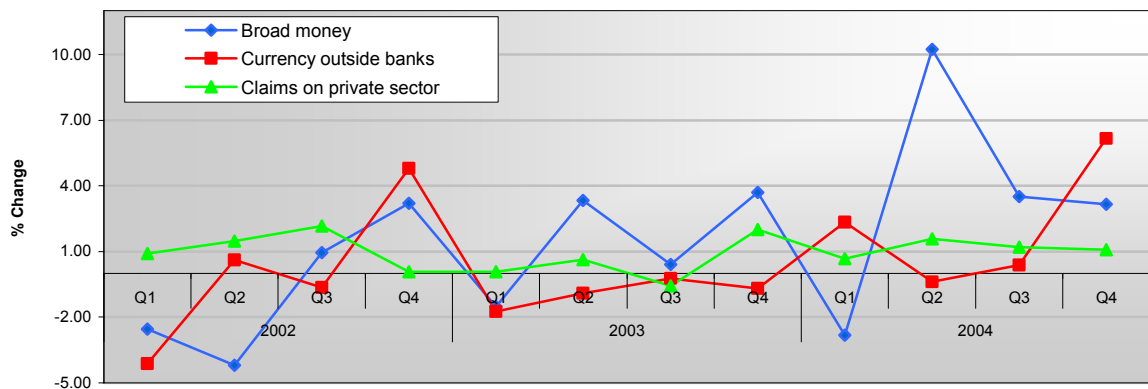
For Q4 2004, the Brunei Dollar continued to strengthen against the US Dollar. The depreciation of US dollar against many Asian currencies including the Brunei dollar reflected the on-going concern for the US current account deficit which continued to widen.

Fig. 6.1: B\$ per US\$



Source: Various editions of International Financial Statistics (IMF)

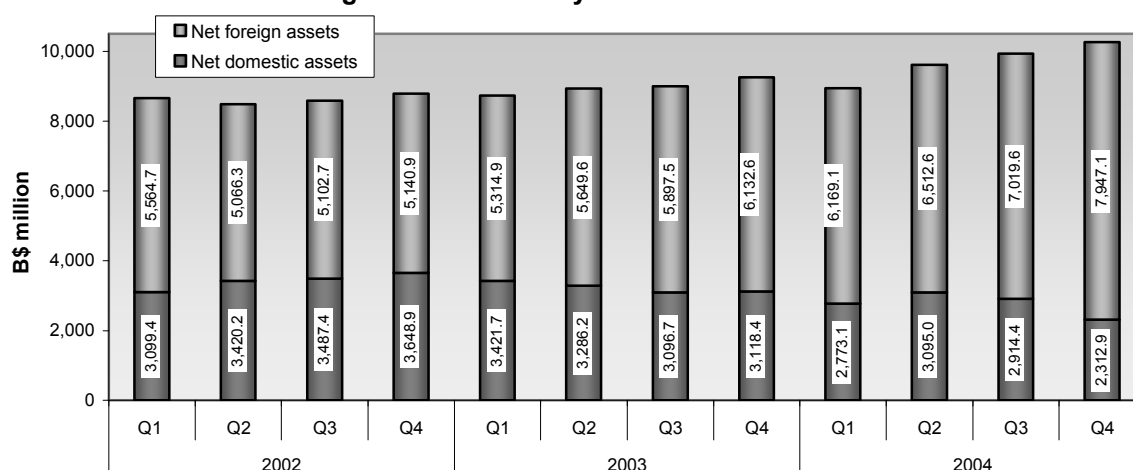
Fig 6.2: Monetary Developments



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

Broad money, M2⁴, which consists of M1⁵ and Quasi Money⁶ continued to expand by 14.4 percent year-on-year and 3.2 percent on a quarterly basis to B\$9,017.4 million. This expansion was in tandem with the stronger economic activities and also increased lending by the banks in Q4 as evident by the growth in Claims on private sector. Annually, Claims on private sector rose by 4.6 percent and it rose by 1.1 percent quarter-on-quarter. Currency outside banks showed significant growth for Q4 stemming from the Hari Raya Aidilfitri celebrations in November, followed by a month long school holiday in December.

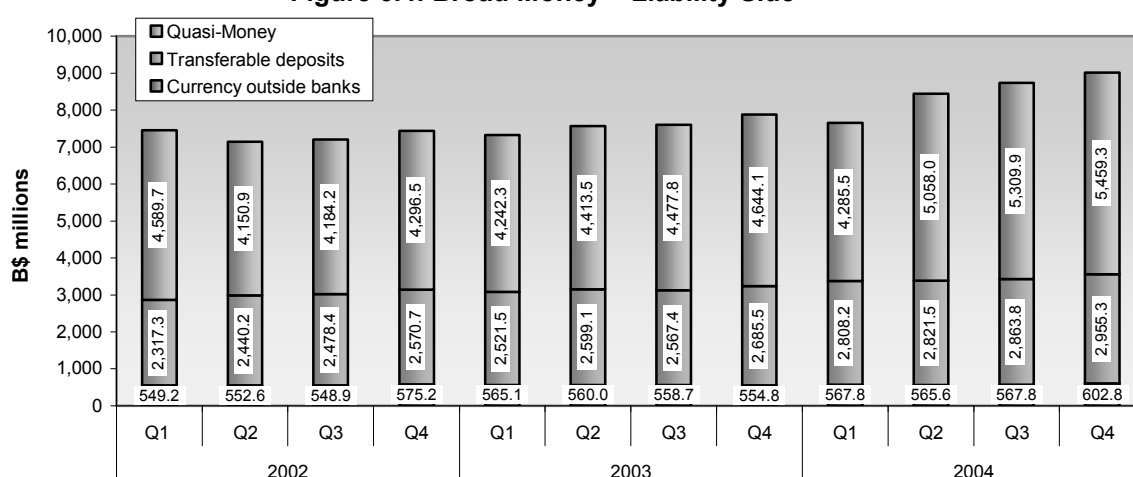
Fig 6.3: Broad Money – Assets Side



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

On the assets side of broad money, net foreign assets⁷ further increased to B\$7,947.1 million, a rise of 29.6 percent year-on-year and 13.2 percent quarter-on-quarter. The increase was largely due to additional accumulation of the commercial banks' foreign assets totalling B\$7,244.1 million for Q4 in contrast to B\$6,371.6 million for Q3. Meanwhile, net domestic assets posted negative growth of 25.8 percent annually and 20.6 percent quarterly as a result of higher government deposits in the banks.

Figure 6.4: Broad Money – Liability Side



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

⁴ M2= M1+ Quasi Money

⁵ M1= Currency in circulation + Demand Deposit of Private Sector

⁶ Quasi Money = Fixed Deposits + Savings and other deposits

⁷ Net foreign assets = BCMB foreign assets less foreign liabilities + Commercial banks foreign assets less foreign liabilities

As for the liability side of broad money, quasi-money which mainly consists of fixed deposits and savings, showed robust growth of 17.6 percent year-on-year and 2.8 percent quarter-on-quarter to B\$5,459.3 million. The transferable deposits with a total of B\$2,955.3 million, also experienced an increase of 10.1 percent annually and 3.2 percent from the previous quarter.

Increased consumer spending in Q4 brought about rapid expansion of the currency outside banks by 8.7 percent annually and 6.2 percent quarterly, making up a total of B\$602.8 million. Currency in circulation backed up by foreign assets is 95.1 percent and the amount of liquid assets as part of currency in circulation is 66.2 percent.

INTEREST RATES

Prime lending rate remained at 5.5 percent. Deposit rates for commercial banks remained constant with the exception of the 12-months deposits rate which increased slightly to 1.636 percent per annum.

Table 6.1: Brunei Deposit Rates⁸ for 2003 and 2004 (in percent)

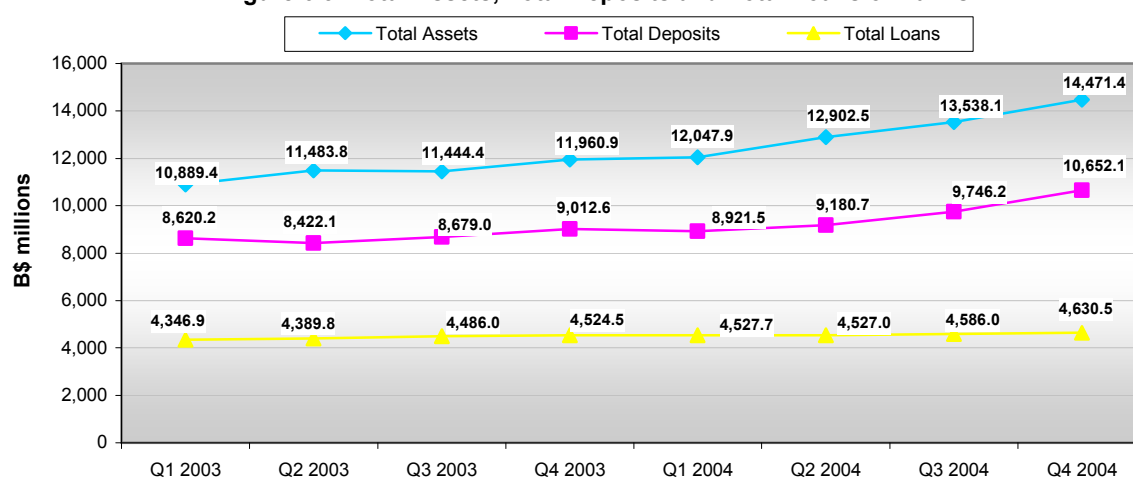
Months	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
3	1.132	1.046	1.035	1.046	1.046	1.044	1.044	1.044
6	1.335	1.224	1.216	1.224	1.205	1.232	1.232	1.232
12	1.789	1.624	1.609	1.620	1.619	1.616	1.623	1.636

Source: Financial Institutions Division, Ministry of Finance

BANKING INDICATORS

The Banking Sector strengthened further in Q4 2004 with improved key indicators. On a year-on-year basis, the total assets increased by 21.0 percent, total deposits increased by 18.2 percent and total loans increased by 2.3 percent. On a quarterly basis, total assets grew by 6.9 percent to B\$14,471.4 million; total deposits rose by 9.3 percent to B\$10,652.1 million and total loans increased slightly by 1.0 percent to B\$ 4,630.5 million.

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



Source: Financial Institutions Division, Ministry of Finance

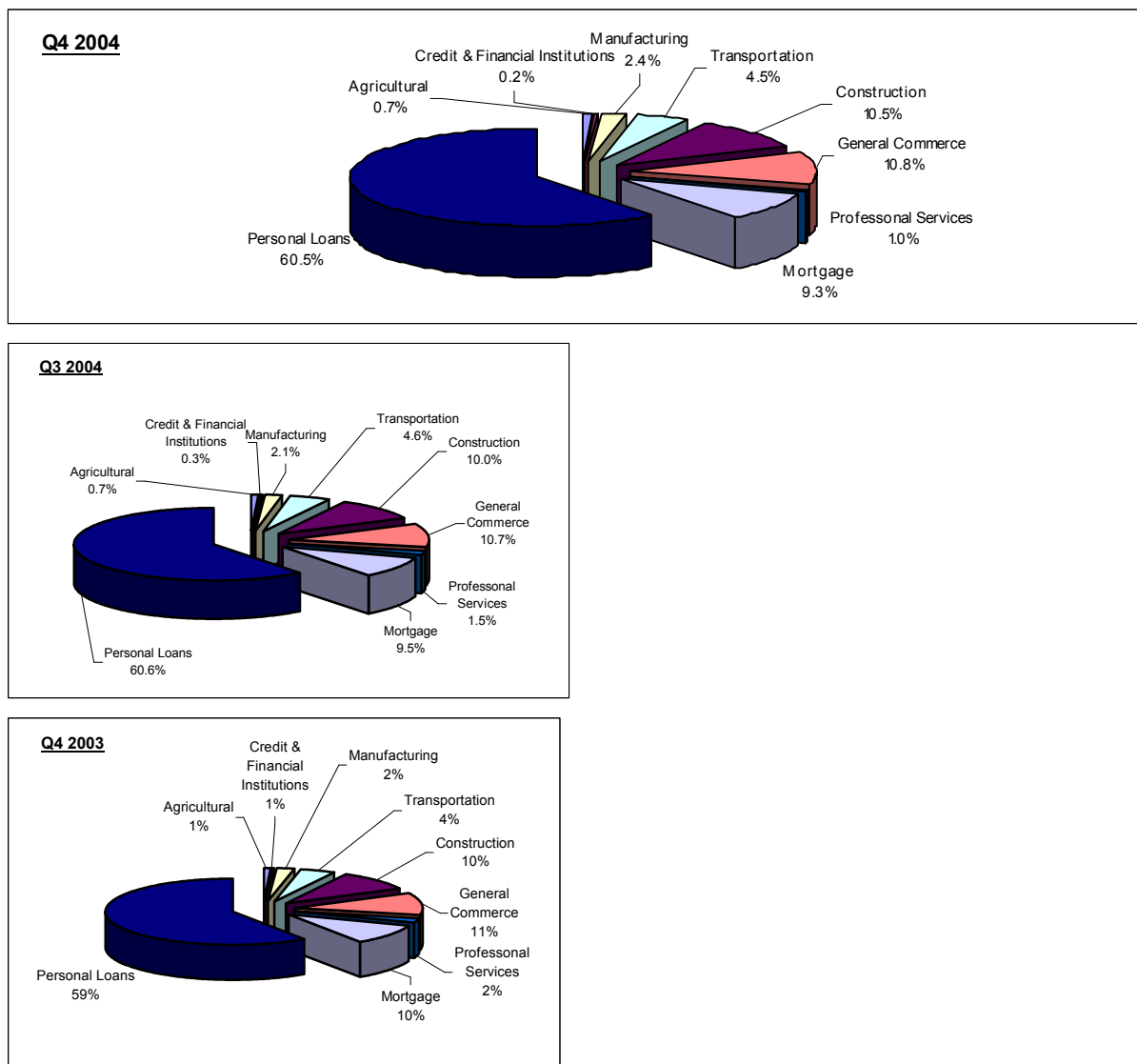
⁸ Rates computed based on the average quoted by all the banks.

The risk-weighted capital ratio (RWCR) and core capital ratio (CCR)⁹ for three local banks at the end of Q4 was 18.4 percent and 14.4 percent respectively. This exceeds the Basel minimum requirement.

STRUCTURE OF LENDING

Personal loans remain the largest share of the loans portfolio and accounts for 60.5 percent of total loans. This is followed by lending to the General Commerce Sector and the Construction Sector which accounts for 10.8 percent and 10.5 percent of total loans respectively.

Figure 6.6: Comparison of Structure of Lending



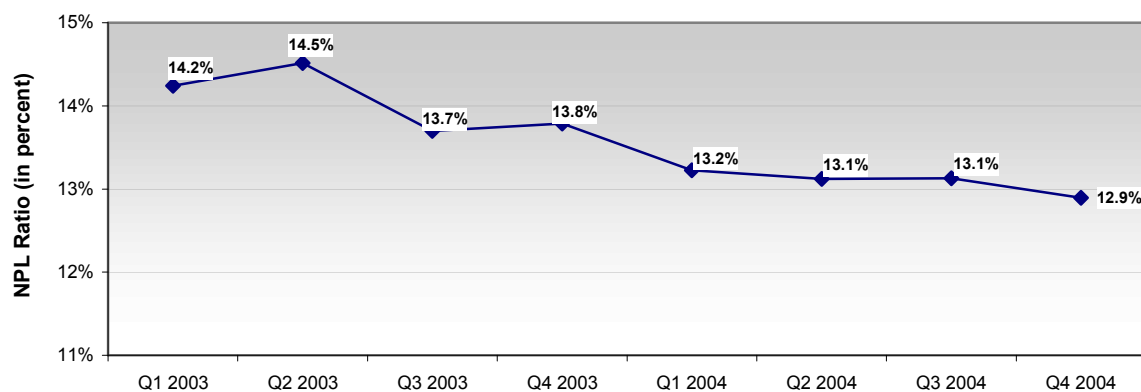
Source: Financial Institutions Division, Ministry of Finance

⁹ RWCR and CCR are both calculated based on Total On and Off Balance sheet assets using Tier 1 + 2 and Tier 1 capital respectively.

NON-PERFORMING LOANS

The outstanding amount of non-performing loans has been declining and the capital adequacy ratio has been improving. Non-performing loans stood at 12.9 percent compared to 13.1 percent in Q3 2004 and 13.8 percent in Q4 2003.

Figure 6.7 Average NPL Ratios from Q1 2003 – Q4 2004¹⁰

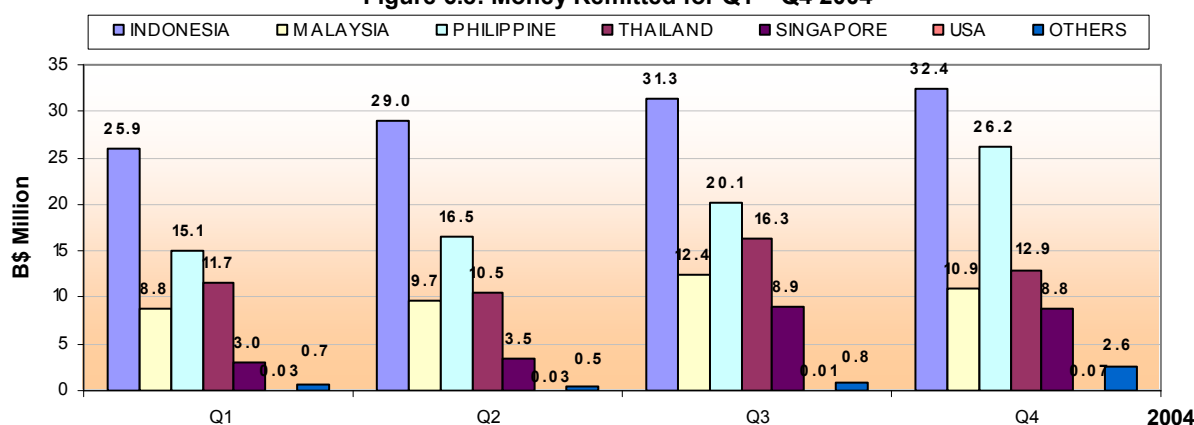


Source: Financial Institutions Division, Ministry of Finance

OTHER FINANCIAL DEVELOPMENTS

In Q4 2004 total money remitted recorded was B\$93.8 million. Indonesia remains the top destination and amounted to B\$32.4 million; representing a market share of 34.5 percent of the total money remitted. This is due to the large number of Indonesians working in the country. Other destinations included the Philippines with B\$26.2 million; Thailand with B\$12.9 million; Malaysia with B\$10.9 million; Singapore with B\$8.8 million, USA with B\$66.2 thousand and other countries B\$2.6 million as illustrated below.

Figure 6.8: Money Remitted for Q1 – Q4 2004



MONEY REMITTED	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Total (in B\$ millions)	65.3	69.8	89.9	93.8
% Change (q-o-q)	-	6.9%	28.8%	4.3%

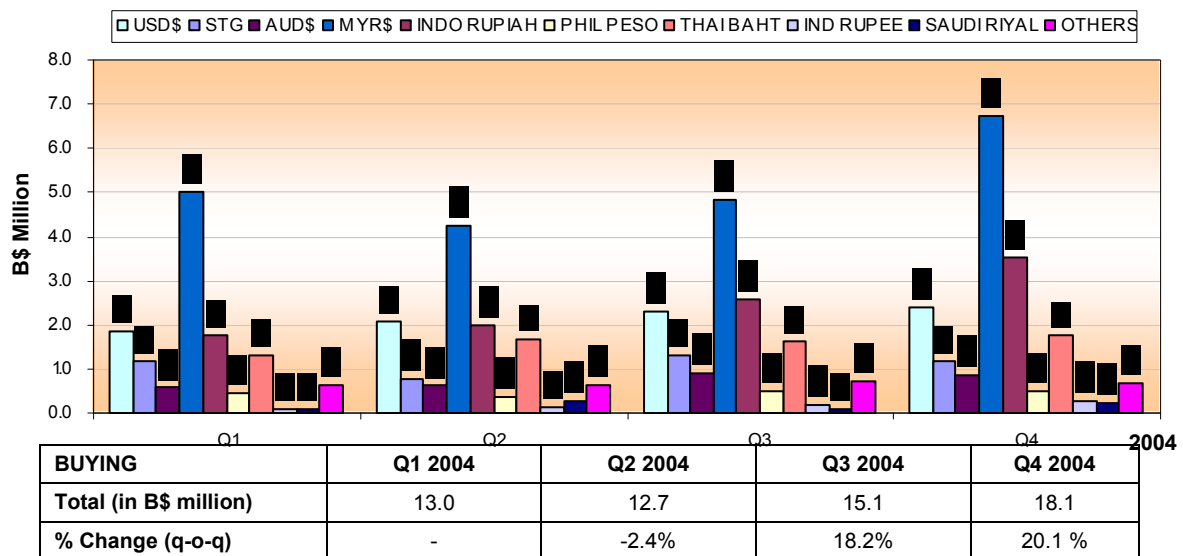
Source: Financial Institutions Division, Ministry of Finance

¹⁰ New calculation of NPL is based on new definition starting Q1 2003.

FOREIGN CURRENCY EXCHANGE

The total amount of foreign currencies purchased during the period increased by 20.1 percent to B\$18.1 million compared to the previous quarter. The Malaysian Ringgit was the highest purchased foreign currency at B\$6.7 million followed by the Indonesian Rupiah at B\$3.5 million. As shown in Figure 6.9, the amount of Malaysian Ringgit and Indonesian Rupiah purchased in Q4 2004 was the highest during the year representing an increase of 39.0 percent and 37.2 percent respectively compared to Q3 2004. This was in anticipation of the high amount of Malaysian Ringgit required during the period due to increased cross-border shopping in the run-up to the festive seasons such as Hari Raya Aidilfitri and Christmas which took place during the last quarter of 2004.

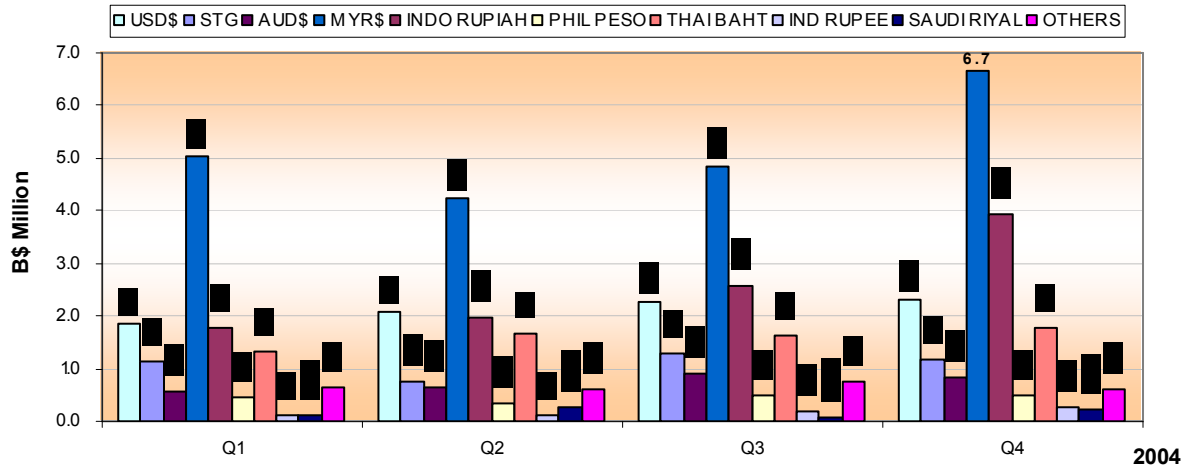
Figure 6.9: Buying of Foreign Currencies for Q1 – Q4 2004



Source: Financial Institutions Division, Ministry of Finance

On the other hand, the amount of foreign currencies sold in 2004 was slightly higher than those purchased and was recorded at B\$18.3 million. This was an increase of 20.2 percent compared to Q3 2004. All currencies with the exception of British Pound Sterling and 'Other Currencies', increased during the period. The Malaysian Ringgit recorded the highest amount of foreign currency sold during the period and amounted to B\$6.67 million in Q4 2004; an increase of 32.1 percent compared to Q3 2004. The Saudi Riyal recorded the highest increase of 134.8 percent to B\$210 thousand in Q4 2004 compared to B\$89.5 thousand in Q3 2004. This was mostly due to the Haj pilgrimage period which began in December 2004.

Figure 6.10: Selling of Foreign Currencies for Q1 – Q4 2004



SELLING	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Total (in B\$ millions)	13.0	13.7	15.2	18.3
% Change (q-o-q)	-	4.8%	11.4%	20.2 %

Source: Financial Institutions Division, Ministry of Finance

Table 6.2 : Brunei Darussalam: MONETARY INDICATORS
Monetary Survey

	Dec-03	Sept-04	Dec-04
	B\$mil.	B\$mil.	B\$mil.
Net foreign assets	6132.60	7019.60	7947.10
BCMB	824.40	783.60	850.80
Commercial banks	5308.20	6236.00	7096.30
Assets	5493.20	6371.60	7244.10
Liabilities	185.00	135.60	147.80
Claims on private sector	5138.10	5317.90	5375.30
Claims on Government Net	-2300.30	-2751.10	-3427.30
Other assets	280.63	347.60	364.90
Commercial banks	233.80	271.40	283.00
Claims on Nonfinancial Public Corporations	46.83	76.20	81.90
Assets=liabilities	9251.03	9934.00	10260.00
Money	3240.30	3431.60	3558.10
Currency	554.80	567.80	602.80
Transferable deposits	2685.50	2863.80	2955.30
Quasi-money	4644.10	5309.90	5459.30
Other deposits at commercial banks	4644.10	5309.90	5459.30
Other liabilities	1366.60	1240.80	1204.8
Memorandum items:			
Currency with banks	85.99	103.40	90.30
Broad money	7884.40	8741.50	9017.40
Prime lending rate (end of period)	5.50	5.50	5.50
	(Percent change)		
	(Year on Year)		(Quarter on Quarter)
Net foreign assets	29.59		13.21
Claims on private sector	4.62		1.08
Claims on Government Net	48.99		24.58
Money	9.81		3.69
Currency	8.65		6.16
Transferable deposits	10.05		3.20
Quasi-Money	17.55		2.81
Other deposits at commercial banks	17.55		2.81
	(In percent of broad money 12 months ago)		
Contribution to broad money growth			
Net foreign assets	3.09	6.00	10.61
Claims on private sector	1.33	0.75	0.66
Claims on Government Net	-1.27	-3.20	-7.74
	(In percent change)		
Memorandum item:	(Year on Year)		(Quarter on Quarter)
Broad money	14.37		3.16

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