



Brunei Darussalam: Fiscal & Monetary Review

2004

Annual

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EXECUTIVE SUMMARY

Brunei Darussalam's economy continued to be dominated by the oil and gas sector. Oil and gas accounts for 90 percent of total export earnings, over 40 percent of GDP and about 90 percent of government revenue. Economic performance has benefited from high oil and gas prices and the prudent management of fiscal resources. Although the oil sector registered negative growth, this was offset by stronger performance of the non-oil sector, leading to an overall GDP growth of 1.7 percent in 2004. The lower production of oil was due to repair work and upgrading of oil facilities. Given that most of the repair and upgrading work has been completed, output growth in 2005 is expected to be more robust in the range of between 2.5 to 3.5 percent. Inflation rate continued to be subdued last year and is expected to remain benign in 2005.

Total Government Revenue also increased and exceeded the Budgeted Government Revenue by 25.3 percent while actual Government Expenditure exceeded the budgeted amount by 10.6 percent. Current Expenditure, although decreased by 13.0 percent compared to the previous financial year, has exceeded its budgeted amount by 18.0 percent. Meanwhile, Capital Expenditure was under-utilised as only 54.0 percent of the allocated budget was spent. Brunei Darussalam continued to enjoy a healthy fiscal surplus of around 16 percent of GDP.

In the monetary sector, monetary aggregates have increased. Broad money increased by 14.4 percent while currency in circulation expanded by 8.7 percent. Average deposit interest rates rose for both the 6-month and 12-month period. In the banking sector, total assets and total deposits increased by 20.9 percent and 18.2 percent respectively. Meanwhile, total loans also increased by 2.3 percent. NPL ratio at the end of 2004 stood at 12.9 percent, showing an improvement over 2003.

Sustained by high oil prices, Brunei Darussalam's external trade balance continued to record a substantial surplus reaching B\$6,150.2 million this year a 14.1 percent increase despite the increase in total imports by 4.4 percent. Export earnings from the oil and gas sector increased by 16.0 percent amounting to B\$7,827.12 million, which was equivalent to 89 percent of GDP. As at end-December 2004, international reserves stood at B\$851.2 million, a 5.1 percent increase from the previous year.

GLOBAL SHORT TERM ECONOMIC REVIEW

The year 2004 saw a strong expansion in global economic growth in recent times. US robust growth, Japan and Eurozone enhanced growth together with the recovery of the world's information technology industry has presented East Asia with one of the most ideal external environments in the post-crisis years. The People's Republic of China (PRC), the largest economy within East Asia region, kept up its growth rate of above 9 percent whereas its domestic demand also kept pace. The notable exception was Korea which registered a below 5 percent GDP growth. Notwithstanding international oil prices rising sharply, random avian flu outbreaks and the Tsunami disaster, East Asia was still able to achieve an astonishing average GDP growth of 7.6 percent, which represents the second highest growth rate since the 1997 crisis.

The United States, as the world's largest economy, grew at 4.3 percent, an increase of 1.3 percent from 2003. This stronger than expected growth in the US was mainly led by its strong domestic demand relative to its trading partners together with higher oil prices which help offset the effect of the depreciation of the US dollar.

Despite the Euro's appreciation against the US dollar, the Euro economies registered a 2.2 percent growth rate in 2004, which was a significant increase in growth rate compared to 0.5 percent in 2003. The modest growth within Europe since mid-2003 lost its momentum in the second half of 2004. Volatile oil prices together with the longstanding structural weaknesses contributed to a weak final domestic demand within the Euro area whereas slower global growth and the appreciation of the euro negated export growth, which was the key driver of the economy during the first half of 2004.

GDP in the UK grew at 3.4 percent in 2004 compared to the previous year's growth of 2.2 percent. Activity continued at a robust rate in the first half of 2004 following a steady growth through 2003. Although growth slowed in Q3 2004, it rebounded in Q4 2004 from the strong performance of the services industries.

Japan's economic lethargy seems to be coming to an end as shown by the growth of its economy to 4.4 percent for the year 2004, as compared to 2.5 percent growth rate in 2003. Despite a vigorous upsurge in GDP growth of 1.6 per cent during Q1 2004, Japan's economy subsequently slowed down, recording hardly any growth for the remainder of the year. This is due to the simultaneous decline in private consumption and fixed investment together with destocking programs.

China's economic momentum remains very strong and buoyant, despite tightening measures by authorities

and investment remains unsustainably high. Strong growth in China supported activity elsewhere in the region; much continues to depend on extra regional developments, particularly the extent of the correction in the information technology (IT) markets, which has contributed to a marked slowdown in growth in some Asian countries during the year.

Improvement in growth performance has been prevalent in the emerging market as well as the transition economies. Rapid growth was not only limited to emerging Asia which includes China and India, but could also be seen in the transition economies of Europe including Russia, Ukraine, and the new members of the EU whose growth performance was largely unaffected by the sluggish growth in the euro area. Many parts of Africa and the Middle East have seen a very encouraging development where enhanced macroeconomic management has resulted in lower inflation, accelerating growth and improved economic stability.

It appears that the most prominent feature of global economic performance in 2004 was the widespread nature of the upturn. As always, the US economy remained the principal engine of growth. Japan's economy recorded its strongest performance in 2004 in recent years. The euro area seems to be almost alone in terms of growing at a continued lacklustre pace, in comparison to the other industrial economies.

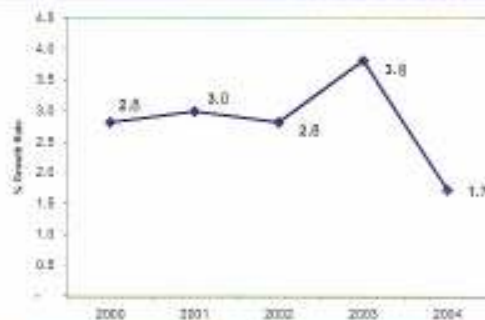
REAL SECTOR DEVELOPMENTS

OVERVIEW

- In 2004, real GDP growth was recorded at 1.7 percent.
- Oil and Gas Sector is estimated to account for 43.8 percent of the economy's total GDP.
- Oil and Gas Sector contracted by approximately 1.5 percent in 2004.
- Average crude oil price per barrel was US\$41.83 for 2004.
- Average LNG price per MMBtu was US\$4.88 for 2004.
- Average CPI was 101.2 for 2004.

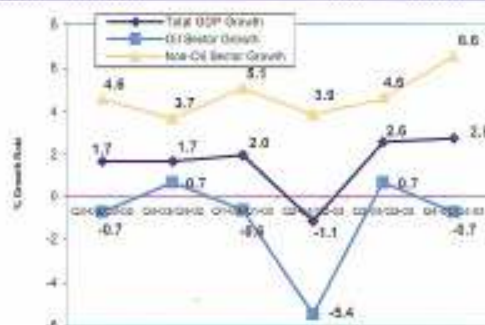
Brunel Darussalam's economy grew by 1.7 percent for the year 2004 (Figure 3.1), lower than the forecasted rate of 2.9 percent estimated earlier. The Oil and Gas Sector is estimated to have contributed 43.8 percent of nominal GDP, while the Non-Oil and Gas Sector accounted for 56.2 percent. Growth was mainly attributed to the expansion in various Non-Oil and Gas sectors.

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



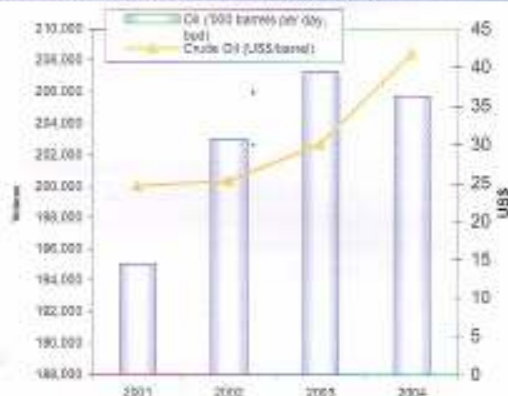
Source: Economic Planning and Development Department, Prime Minister's Office

OIL AND GAS SECTOR

The Oil and Gas Sector contracted slightly by 1.5 percent compared to production registered in 2003. Average crude oil production declined from 207,240 bpd to 205,750 bpd (a reduction of 0.7 percent), while 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.

The price of crude oil¹ averaged at US\$41.83 per barrel in 2004, an increase of 38.6 percent and 65.1 percent compared to the average price recorded for 2003 (US\$30.17) and 2002 (US\$25.33) respectively. Correspondingly, the price of LNG averaged at US\$4.88 per MMBtu, an increase of 7.5 percent from the average price recorded a year ago (US\$4.54).

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

	2001	2002	2003	2004
Oil Production (bpd)	195,065	203,021	207,240	205,750
Avg Oil Price (US\$/barrel)	24.67	25.33	30.17	41.83

Source: Petroleum Unit, Prime Minister's Office

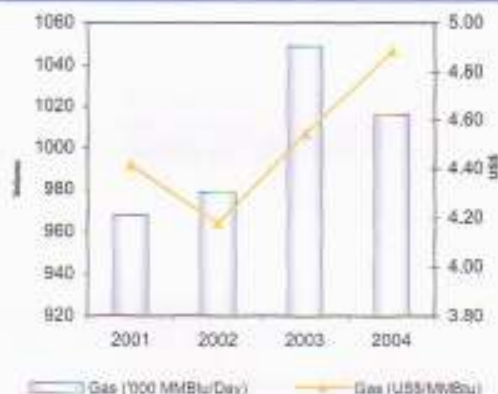
Table 3.2: Comparison of LNG Production and Prices

	2001	2002	2003	2004
LNG Production ('000 MMBtu per day)	968	979	1,049	1,016
Avg LNG Price (US\$/MMBtu)	4.41	4.17	4.54	4.88

Source: Petroleum Unit, Prime Minister's Office

¹ Weighted Average Export Prices

Figure 3.4: LNG Production and Prices



Source: Petroleum Unit, Prime Minister's Office

NON-OIL AND GAS SECTOR

The Non-Oil and Gas Sector continued to grow in 2004 recording a growth of 5.3 percent in 2004 after growing by 3.8 percent in 2003. This was mainly due to improvements in the Agriculture; Fishery; Non-Oil Mining, Quarrying and Manufacturing; Wholesale; Transport & Communications Sectors.

The primary sectors, namely Agriculture, Forestry and Fishery Sectors expanded robustly in 2004 by 9.8 percent, 28.7 percent and 29.2 percent, whilst contributing 2.1 percent, 0.4 percent and 1.1 percent to total GDP respectively.

The Banking and Finance Sector declined by 6.2 percent in 2004 after growing by 4.5 percent in 2003. Total interest income from loans and advances was B\$438.7 million in 2004 compared to B\$466 million accumulated in 2003. For the year 2004, this sector is estimated to have contributed 4.8 percent to the GDP.

The Non-Oil Mining, Quarrying and Manufacturing Sector grew by 5.9 percent and contributed 3.0 percent of total GDP 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).

The Transport and Communication Sector continued to expand, growing by an estimated 14.1 percent in 2004 compared to 2003. Relative to total GDP, this sector contributed 4.8 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.

INFLATION

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 expansion is 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 expansion in the various sectors of the economy, mostly those involved in Construction; Transport & Communication; Wholesale; and Retail

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

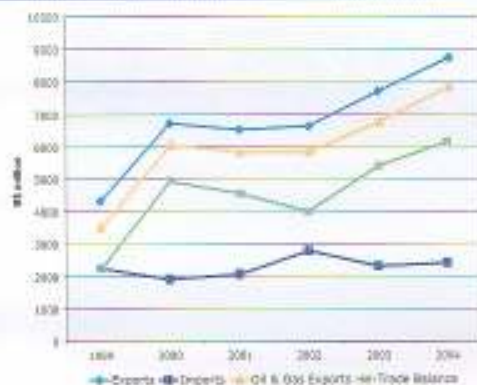
sectors. Other sectors such as Business Services; Banking, Finance and Insurance; and Primary Industries are also expected to contribute to growth. However, the expiration of the Multi-Fibre Agreement (MFA) is expected to affect growth prospects of the Non-Oil Sector due to its negative impact on the 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.

EXTERNAL SECTOR DEVELOPMENTS

OVERVIEW

- Total exports increased by 16.0 percent to B\$8,694 million in 2004.
- Total imports increased by 4.4 percent to B\$2,412.5 million.
- A trade surplus of B\$6,150.2 million was recorded.
- International Reserves increased by 5.1 percent to B\$851.2 million.

Figure 4.1: Exports and Imports, 1999-2004



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

Table 4.1: Export and Imports (B\$million), 1999-2004

	1999	2000	2001	2002	2003	2004
Exports	4,325	6,734	6,523	6,629	7,704	8,694
Imports	2,251	1,908	2,076	2,787	2,912	2,413
Oil & Gas Exports	3,498	6,042	5,826	5,835	6,754	7,827
Trade Balance	2,102	4,825	4,554	3,957	5,392	6,150

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

EXPORTS

Brunei Darussalam's export remains mainly dominated by oil and gas with the sector comprising 90 percent of total exports.

Total exports has been on an increase over the last four years, and has continued to rise by 16 percent from B\$7,704 million in 2003 to B\$8,694 million in 2004. This increase is mainly attributed to oil and gas exports continuing its positive trend, showing an increase of 16.0 percent to B\$7,827 million in 2004.

Table 4.2: Exports in B\$million by Major Commodities

	2003	2004	% Change
Oil and Gas	6754.15	7827.12	15.9%
Petroleum	3759.06	4912.55	30.7%
LNG	2964.51	2914.23	-1.70%
Non-Oil and Gas	950.18	867.00	-8.8%
Garments	398.38	308.84	-22.5%
TOTAL	7704.33	8694.12	12.8%

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

In terms of value, petroleum exports increased by 30.7 percent from B\$3,759 million to B\$4,913 million in 2004, despite a reduction in export volume. The increase in export value was due to higher oil prices. The average oil price for 2004 was US\$41.83 per barrel compared to US\$30.52 per barrel in the previous year.

Total export value for LNG exports however decreased by 1.7 percent from B\$2,965 million in 2003 to B\$2,914 million this year due to a reduction in LNG export volume by 1.5 percent to 364 trillion Btu per year.

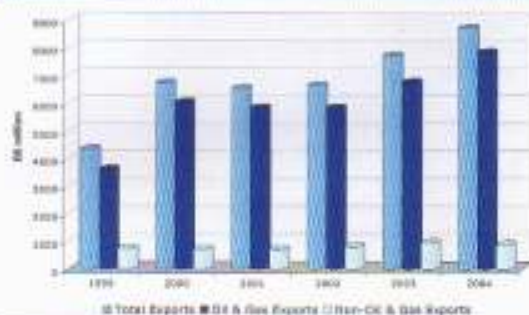
Table 4.3: Comparison of Oil and Gas Export Volume and Average Prices

	2003	2004	% change
Export Volume			
Oil ('000 bpd)	199	196	-1.51%
Gas (Trillion Btu per year)	370	364	-1.62%
Average Price			
Crude Oil (US\$/barrel)	30.52	41.83	37.06%
Gas (US\$/MMBtu)	4.5451	4.8786	7.34%

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

Non-oil and gas exports, however, fell from B\$950 million in 2003 to B\$867 million in 2004. This decrease was due to a reduction in garments exports, decreasing by 22.5 percent from B\$398 million to B\$309 million. Further reductions are expected with the expiration of a 30-year-old global textile quota system in December 2004. The conclusion of the multi-fibre agreement (MFA), which allocates textile quotas to developing nations for export and gave Brunei Darussalam its entry into the global market, signals the beginning of stiff competition from China in the textile business.

Figure 4.2: Brunei Darussalam Exports, 1999-2004

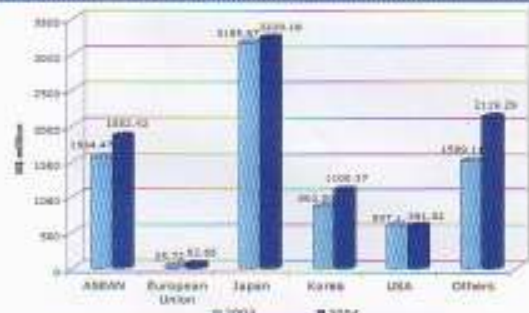


Source: Economic Planning and Development Department, Prime Minister's Office

DIRECTION OF EXPORTS

Japan remained the main export destination accounting for 35.0 percent of total exports followed by ASEAN (21.0 percent) and Korea (12.0 percent). India has overtaken China as a key export destination, holding 5.5 percent and 3.8 percent of Brunei's export market respectively. India's share of the export market, which increased from 2.0 percent in 2003, was due to its increasing demand for energy. India's demand for oil grows at a rate of 4.0 percent – 7.0 percent a year.

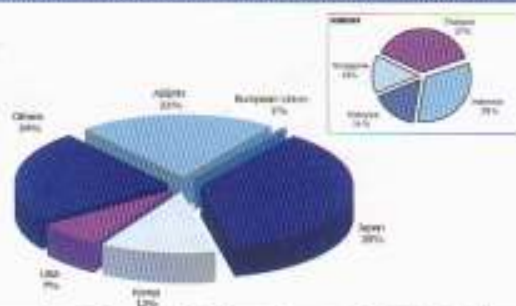
Figure 4.3: Exports by Region of Destination



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

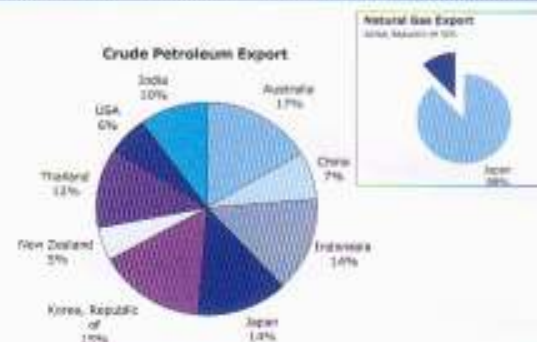
Other notable increases include exports to Australia which have increased by 56.0 percent, Korea by 28.0 percent and to the European Union by 105.0 percent.

Figure 4.4: Proportion of Exports by Destination



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

Figure 4.5: Proportion of Oil & Gas Exports by Destination



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

IMPORTS

In 2004, total imports reached B\$2,412.5 million, 4.4 percent higher compared to the previous year. This increase was attributable to the rise in imports of Miscellaneous Manufactured Articles by B\$31.2 million (11.8 percent) followed by Machinery & Transport Equipments by B\$26.7 million (3.3 percent). Beverages and Tobacco imports recorded the highest growth rate of 51.4 percent. As shown in table 4.3, imports of other commodities also increased, though to a lesser extent. Imports of food increased by 2.0 percent, Manufactured Goods by 2.3 percent, Chemicals, by 9.3 percent and Miscellaneous Transactions by 9.7 percent. Although total imports increased, imports in commodities such as Crude Material Inedible, Mineral Fuels and Animal & Vegetable Oil and Fats decreased by 15.7 percent, 1.2 percent and 18.4 percent respectively.

Table 4.4: Imports by Commodity (B\$million), 2003 – 2004

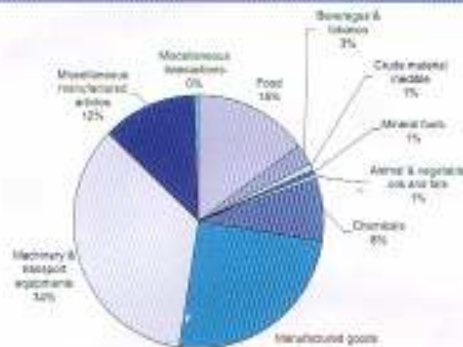
Commodity	2003	2004	% change
Food	348.02	354.83	1.96
Beverages & tobacco	42.53	64.39	51.42
Crude material inedible	23.91	20.17	-15.65
Mineral fuels	19.71	19.48	-1.17
Animal & vegetable oils and fats	14.96	12.21	-18.38
Chemicals	175.87	192.23	9.31
Manufactured goods	587.47	600.88	2.28
Machinery & transport equipments	815.20	841.93	3.28
Miscellaneous manufactured articles	264.03	295.27	11.83
Miscellaneous transactions	10.11	11.09	9.66
Total imports	2,301.82	2,412.49	4.81

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

The largest share of commodity imports in 2004 was Machinery & Transport Equipment, which amounted to

34.9 percent of total imports (as shown in Figure 4.6), a decline compared to its share of total imports in 2003 of 35.2 percent. However, the overall composition of commodity imports has remained relatively constant.

Figure 4.6: Composition of Total Imports

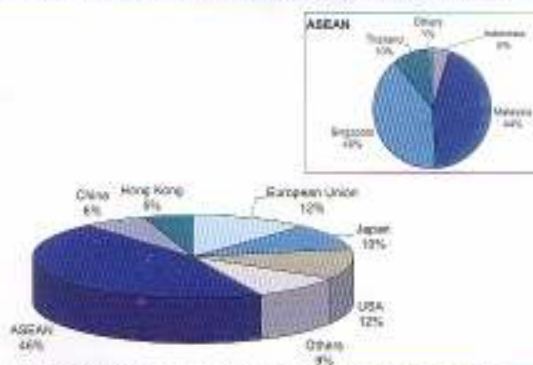


Source: Economic Planning and Development Department, Prime Minister's Office

For the year 2004, Brunei Darussalam's leading sources of imports include Malaysia, Singapore, USA, United Kingdom and Japan. As shown in Figure 4.7, 45.0 percent of total imports (B\$1,100.9 million) were from the ASEAN region while imports from the European Union accounted for 12.0 percent (B\$290.7 million). Imports from the USA, Japan, China and Hong Kong accounted for 12.0 percent, 10.0 percent, 6.0 percent and 5.0 percent of total imports respectively. Among the ASEAN countries, Malaysia and Singapore are the major sources of imports with 44.0 percent and 40.0 percent of ASEAN commodity imports respectively.

Imports from Germany, the United Kingdom, USA and China, which consisted of mainly Manufactured Goods and Machinery & Transport Equipments, increased significantly compared to the previous year.

Figure 4.7: Major Sources of Imports



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

TRADE BALANCE

The economy's balance of trade continued to record a surplus this year reaching B\$6,150.2 million, a 14.1

percent increase compared to that in 2003. This was attributable to the increasing world energy prices.

INTERNATIONAL RESERVES

International reserves of Brunei Darussalam, which refer to Brunei Currency and Monetary Board's (BCMB) external assets plus IMF quota subscription and holdings of SDR, increased by 5.1 percent from B\$809.6 million in 2003 to B\$851.2 million in 2004. This was due to an increase in BCMB's external assets, which was followed by an expansion in the foreign exchange coverage of currency in circulation to 102.2 percent.

EXCHANGE RATE

The Brunei dollar weakened against the US dollar in the first half of 2004 but strengthened significantly in the second half, reaching B\$1.6338 at the end of December. Concern about the US current account deficit caused the US dollar to plunge to multi-year lows against most major countries.

Figure 4.8: Exchange rate B\$1/US\$



Source: Various editions of International Financial Statistics (IMF)

FISCAL SECTOR DEVELOPMENTS

OVERVIEW

- In 2004/2005, Government Revenue increased to B\$6,371.1 million from the previous year.
- Government Expenditure amounted to B\$4,889.99 million, resulting in a 14.9 percent decrease.
- Provisional surplus of B\$1,481.14 million.

FISCAL POSITION

Brunei Darussalam continued to enjoy a healthy fiscal surplus of \$1,481.15 million. This surplus is equivalent to 30.3 percent of Total Government Expenditure.

Figure 5.1: Surplus/Deficit Balances

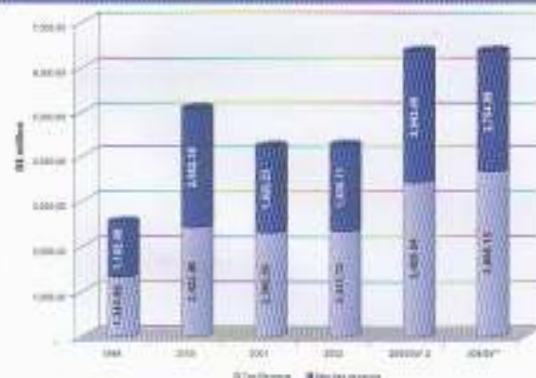


Source: Treasury Department, Ministry of Finance

GOVERNMENT REVENUE

For the period April 2004 to March 2005, the total revenue collected is B\$6,371.1 million which is 61.8 percent higher than the budgeted amount for the whole year. This is attributed to improved revenue outturn from both tax and non-tax sources.

Figure 5.2: Fiscal Revenue, 2000 – 2004/05



Source: Treasury Department, Ministry of Finance

Tax Revenue, which consists of taxes on net income and profits, taxes on international trade and licences and charges, increased by 7.0 percent from B\$3,426.0 million in 2003 to B\$3,666.2 million in 2004.

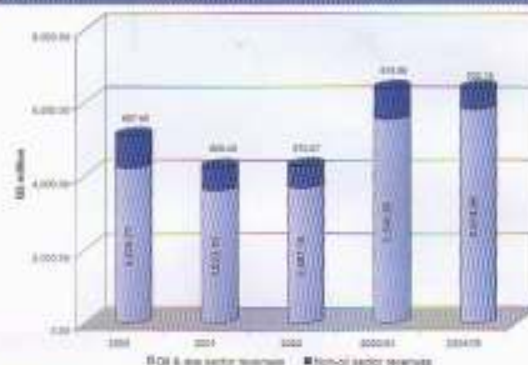
Taxes on net income and profits, which accounted for 96.7 percent of Tax Revenue increased due to higher income tax receipt of about 9.0 percent more from oil and gas companies.

Total Revenue received for April to December 2004 has already exceeded the budgeted amount of B\$3,938.26 million with Oil and Gas Revenue, being B\$4,298.32 million and Non-Oil Revenue being B\$435.53 million.

Revenue from the Oil and Gas Sector in 2004/2005 was budgeted to decrease by 38.1 percent from the

previous year. However, there was an increase of 69.3 percent from the budgeted amount of B\$3,434.0 million to B\$5,815.0 million.

Figure 5.3: Fiscal Revenue, 2000 – 2004/05



Source: Treasury Department, Ministry of Finance

Import duties, which accounted for 2.9 percent of Tax Revenue decreased by 16.9 percent because of reduction in import duties of motor vehicle and tobacco.

Non-Tax Revenue, which consists of property income; administrative fees and charges on sales of goods, and fines; and other non-tax revenue declined by 8.1 percent from B\$2,943.30 million in 2003 to B\$2,704.99 million. However, it exceeded the Budgeted Non-Tax Revenue by 61.8 percent.

Table 5.1: Budgeted & Actual Revenue Collection Comparison

	2004/05 Budgeted Revenue (B\$ million)	2004/05 Actual Revenue (B\$ million)	Proportion of Revenue Collected (Percent)
Total Revenue	3,938.3	6,371.1	161.8
Tax Revenue	2,266.4	3,666.2	161.8
Non-Tax Revenue	1,671.9	2,705.0	161.8

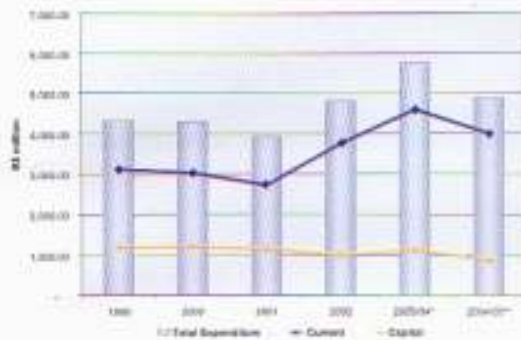
Source: Ministry of Finance

Compared to the Total Government Revenue in the year 2003, there is only a slight increase from B\$6,369.4 million to B\$6,371.1 million.

GOVERNMENT EXPENDITURE

In the fiscal year 2004/2005, Government Expenditure, which consists Current and Capital Expenditure, declined by 14.9 percent compared to the previous fiscal year. As can be seen from figure 5.4, the Government Expenditure decreased to B\$4,889.99 million compared to B\$5,747.75 million in fiscal year 2003/2004. This is attributed to the change in the financial year, from the calendar year to 1 April beginning 2004, covering a 15-months period for the financial year 2003/04.

Figure 5.4: Government Expenditure, 1999 – 2004/05



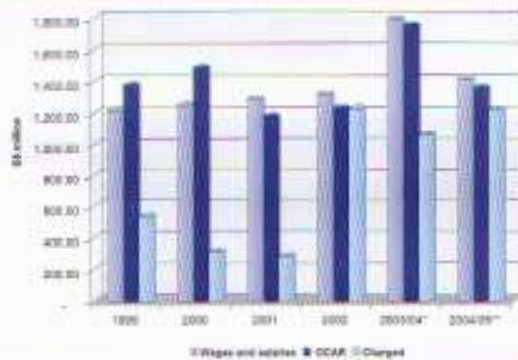
Source: Treasury Department, Ministry of Finance

The actual Government Expenditure in 2004/2005 was slightly higher by 10.6 percent of the budgeted amount at \$4,421.1 million. This was due to increases in the Current Expenditure.

Current Expenditure

The Current Expenditure, which amounted to B\$4,002.19 million, has decreased by 13.0 percent compared to B\$4,596.38 million in 2003/2004. However, compared to the last 5 years, the Current Expenditure was still higher because of the increase in the Personnel Emoluments component due to new recruitments by the Government agencies. Wages and Salaries represent 35.5 percent of the Current Expenditure.

Figure 5.5: Current Expenditure, 1999 – 2004/05



Source: Treasury Department, Ministry of Finance

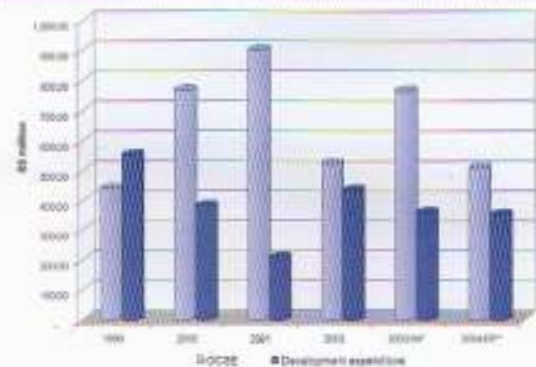
Comparison	Budgeted Expenditure (B\$million)	Actual Expenditure (B\$million)	Percentage of Budget Spent
Total	3,392.2	4,002.19	118.0
Personal Emoluments	1,507.8	1,420.14	94.2
OCAR	1,315.2	1,360.42	103.4
Charged	569.2	1,221.63	214.6

Source: Ministry of Finance

Capital Expenditure

Capital Expenditure was under utilised where only 54.0 percent of the allocated amount of B\$1,598.2 million was being spent. This is mainly due to the lower rate of spending under the National Development Plan, which only utilised 39.4 percent out of B\$900.00 million allocated for Development Expenditure.

Figure 5.6: Capital Expenditure, 1999 – 2004/05



Source: Treasury Department, Ministry of Finance

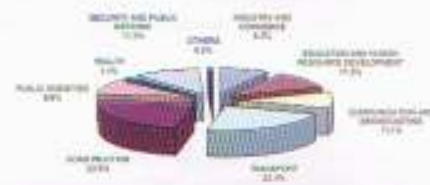
Table 5.3: Budgeted & Actual Capital Expenditure Comparison

Comparison	Budgeted Capital Exp (B\$million)	Actual Capital Exp For 2004/2005 (B\$million)	Percentage of Budget Spent
Capital	1,598.2	862.8	54.0
Development	900.0	354.56	39.4
OCSE	698.2	508.24	72.8

Source: Ministry of Finance

From Figure 5.6 below, Development Expenditure focused on three main sectors, namely, Construction (23.8 percent), Transport (22.4 percent) and Education and Human Resource Development (11.3 percent).

Figure 5.7: Development Expenditure, 2004/05



Source: Ministry of Finance

MONETARY & BANKING SECTOR DEVELOPMENTS

OVERVIEW

- Broad money increased by 14.4 percent.
- Currency in circulation expanded by 8.7 percent.
- Average Deposit Interest rates rose for both the 5-months and 12-months period.
- Total assets and total deposits of banks increased by 20.9 percent and 18.2 percent respectively.
- Total loans of banks increased by 2.3 percent.
- NPL ratio continues to decrease to 12.9 percent.

MONETARY DEVELOPMENTS

On 1 February 2004, Brunei Currency and Monetary Board (BCMB) was formed by the Currency and Monetary Order, 2004 replacing the Brunei Currency Board (BCB). In this Order, BCMB remains the sole authority in Brunei Darussalam to manage and issue currency notes and coins and to maintain external reserves in order to safeguard the international value of Brunei Darussalam's currency. The Currency Interchangeability Agreement of 1967 between Brunei Darussalam and Singapore remains intact.

This legislation also provides an enabling framework to strengthen the mandate of BCMB to act as an agent for the government on such conditions as may be agreed between BCMB and the government, where BCMB shall act within the provisions of this Order. Sanctions and penalties for violations related to currency issuance have also been made more forceful.

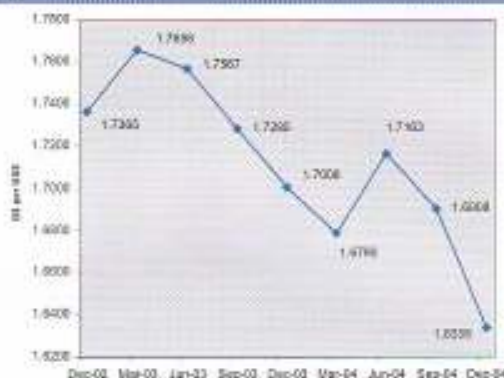
The Ministry of Finance, through BCMB, has taken steps to reduce counterfeit notes by issuing new polymer notes in B\$50 and B\$100 denominations on 15th July 2004 and to gradually phase out the circulation of paper notes of the same denominations.

In a monetary statement in April 2004, the Monetary Authority of Singapore (MAS) has announced the policy of gradual appreciation of the Singapore dollar nominal effective exchange rate (S\$NEER) to reflect the favourable growth outlook of the Singapore economy and to mitigate the risk of upside inflationary pressure over the medium term. This monetary stance remains unchanged since their last monetary statement in October 2004.

The effect of this policy would have an unfavourable outcome on Brunei Darussalam's revenue as the exports of oil and gas are priced in US Dollar. The Brunei Dollar appreciated against the US Dollar to B\$1.6338 from B\$1.7008 per US Dollar by the end of

2004. However, despite the weak US Dollar, Brunei Darussalam's revenue continued to be strong as rising oil prices in 2004 has muted the effect of the weakened US Dollar.

Figure 6.1: B\$ per US\$



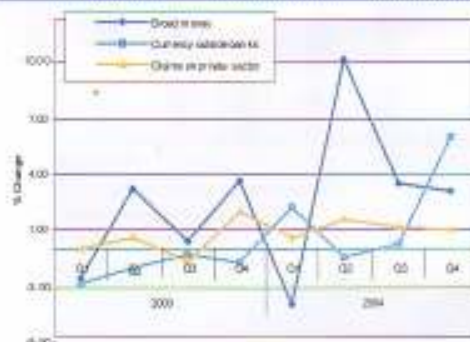
Source: Various editions of International Financial Statistics (IFS), IMF

M0² grew strongly by 8.7 percent at end-2004 (at end-2003: -3.6 percent). The growth in M0 was apparent in Q4 owing to the end-of-year festivities and school holidays.

M1⁴ rose by 9.8 percent at end-2004 (at end-2003: 3.0 percent). Similarly, Quasi Money⁵ and Broad money, M2⁶ showed positive growth of 17.6 percent and 14.4 percent respectively. Meanwhile, Claims on private sector expanded by 4.6 percent.

The expansion in the monetary aggregates reflected the positive performance of Brunei Darussalam's economy.

Figure 6.2: Monetary Developments



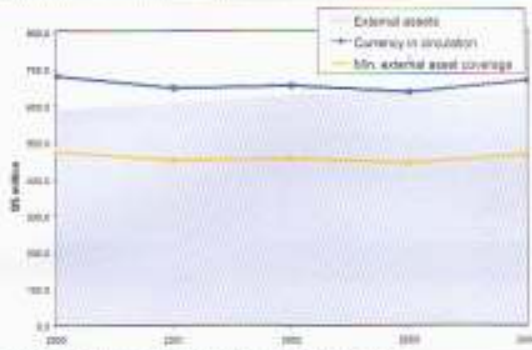
Source: Financial Institutions Division & Brunei Currency and Monetary Board, Ministry of Finance

As at Dec 2004, the currency in circulation backed by external assets stood at 95.1 percent while the amount

¹ M0 = Currency in circulation
² M1 = Currency in circulation + Demand Deposit of Private Sector
³ Quasi Money = Fixed Deposits + Savings and other deposits
⁴ M2 = M1 + Quasi Money

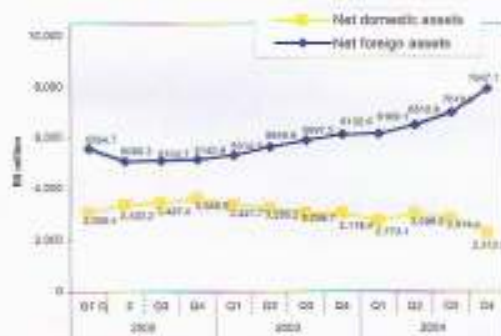
of liquid asset as part of currency in circulation is at 66.2 percent. This is in accordance to s24(2) of the Currency and Monetary Order, 2004 whereby external assets of the Board net of any liabilities shall at all times be not less than 70 percent of the face value of the currency issued by the Board and s24(4) deemed that liquid assets shall amount to not less than 30 percent of the face value of the currency issued by the Board.

Figure 6.3: Currency Back-up



Source: Brunei Currency and Monetary Board, Ministry of Finance

Figure 6.4: Broad Money – Assets Side

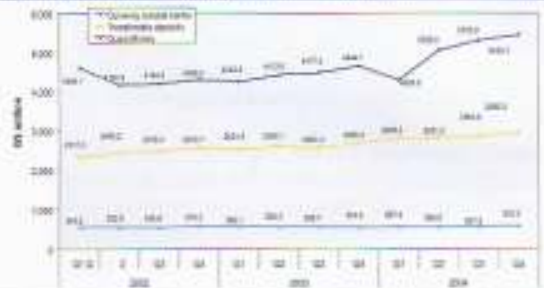


Source: Financial Institutions Division & Brunei Currency and Monetary Board, Ministry of Finance

On the assets side of broad money, Net foreign assets⁷ increased to B\$7,947.1 million, a rise of 29.6 percent at end-2004 (at end-2003: 5.9 percent). The increase was largely due to additional accumulation of the commercial banks' foreign assets totalling B\$7,244.1 million in 2004 in contrast with B\$5,308.2 million in 2003. Meanwhile, Net domestic assets posted negative growth of 25.8 percent at end-2004 (at end-2003: -14.5 percent).

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

Figure 6.5: Broad Money – Liabilities Side



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

As for the liability side of broad money, Quasi money, which mainly consist of fixed deposits and savings, showed robust growth of 17.6 percent to B\$5,459.3 million at the end of 2004 (at end 2003; 8.1 percent). The Transferable deposits with a total of B\$2,955.3 million, also experienced an increase of 10.1 percent annually.

INTEREST RATES

Prime lending rate remained unchanged at 5.5 percent. Deposit rates for the year have seen a very slight increase for the 6 and 12-months deposits.

BANKING SYSTEM

During 2004, there have been no new entries into the banking sector. The banking system in Brunei Darussalam comprises of nine banks, which includes two local Islamic banks and one local commercial bank. Key financial indicators have continuously improved compared to the previous year, signifying a positive and stable banking system.

Figure 6.6: Total Assets, Total Deposits and Total Loans



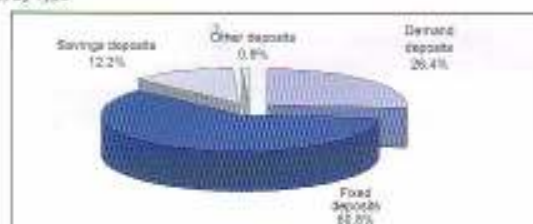
Source: Financial Institutions Division, Ministry of Finance

Total assets have decreased marginally with each year from 2000 to 2002. However, from 2003 onwards, the trend has changed and assets have continued to improve year-on-year. In 2004, total assets have increased further by B\$2,510.5 million to B\$14,471.4 million, a 21.0 percent increase compared to 2003.

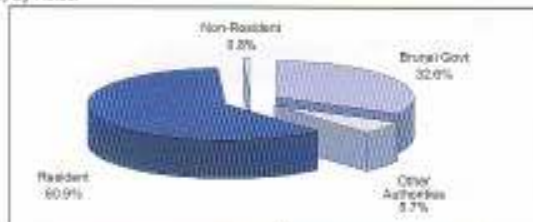
Deposits mobilised by the banking sector have also increased steadily throughout the years as indicated in Figure 6.7 below. At the end of 2004, total deposits rose by 18.2 percent y-o-y and were recorded at B\$10,652.1 million indicating growing confidence by the public in the recovery of Brunei's economy.

Figure 6.7: Deposits in percent for 2004

(a) By Type



(b) By Holder



Source: Financial Institutions Division, Ministry of Finance

In 2004, fixed deposits represented 60.5 percent of total deposits followed by demand deposits, savings deposits and other deposits. Prior to 2004, savings deposits were the second highest type of deposit. However, this trend has changed in 2004 whereby demand deposits constituted 12.2 percent of total deposits representing an increase of 45.7 percent compared to 2003.

Resident customers made up the majority of the deposit holders since 2000 and, at end of 2004, held 60.9 percent of overall deposits. Government deposits have also increased due to the significant fiscal surplus recorded during the year.

Table 6.1: Loans-Deposits Ratio, 2000-2004

	2000	2001	2002	2003	2004
Loans/Deposit Ratio	46.8	51.0	52.4	50.2	43.5
Change in percent	-	9.3	2.8	-4.3	-13.4

Source: Financial Institutions Division, Ministry of Finance

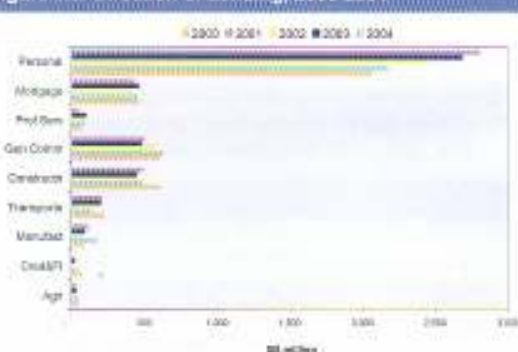
Loan deposits ratio for 2004 stood at 43.5 percent which was a continuous decrease from the previous year.

In terms of capital adequacy, the three local banks in Brunei Darussalam are well above the Basel minimum requirements. At the end of 2004, the risk-weighted capital ratio (RCWR) was 18.4 percent while core capital ratio (CCR) was 14.4 percent.

DIRECTION OF LENDING

Brunei Darussalam has experienced moderate economic recovery since the 1997 financial crisis. Credit growth has increased steadily throughout 2000 to 2004. In 2004, total loans extended by the banking sector increased by 2.3 percent to B\$4,524.5 million from B\$4,586.0 million in 2003.

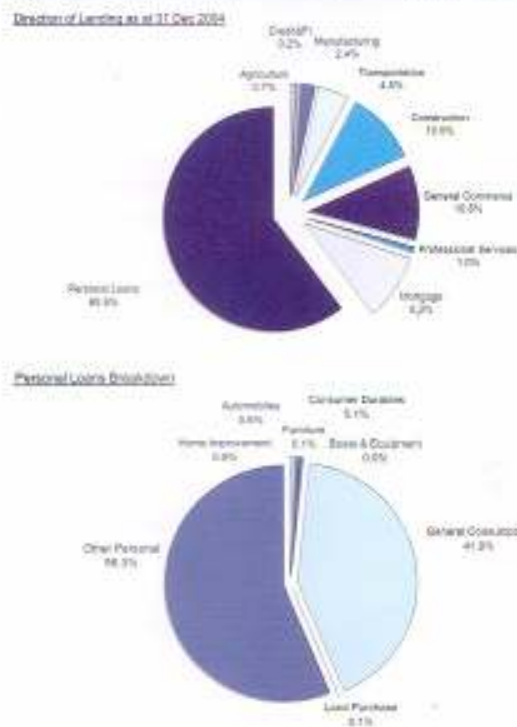
Figure 6.8: Direction of Lending, 2000-2004



Source: Financial Institutions Division, Ministry of Finance

Personal loans are primarily used for general consumption, albeit there are cases where customers have used the loans as a start-up working capital to set up their respective businesses. As reported in the inaugural FMR, banks are still extending personal loans at one of the highest multiples of income in the region. At the end of 2004, personal loans increased by 4.3 percent and stood at B\$2,802.5 million. Personal loans for the purchase of Automobiles saw the highest increase in 2004 of 26.7 percent to B\$16,267.4 million compared to B\$12,839.9 million in 2003. This was followed by loans for Consumer Durables which rose by 19.7 percent to B\$3,162 million in 2004.

Figure 6.9: Direction of Lending in percent, 2004



Source: Financial Institutions Division, Ministry of Finance

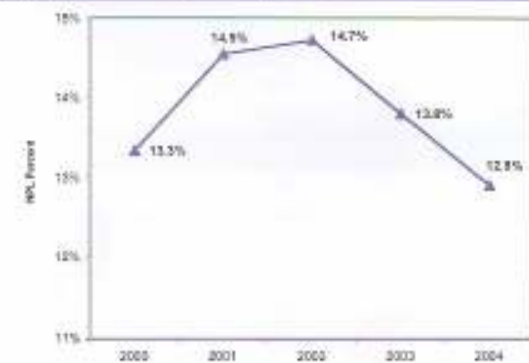
Private sector financing⁴ is led by General Commerce and Construction sector. In 2000, sectoral lending to construction was B\$607.3 million and constituted 36.2 percent of private sector financing. In 2004, General Commerce has replaced Construction as the major sectoral lending as it constituted 35.8 percent of private sector financing. The Transportation sector accounted for 14.7 percent of private sector financing in 2004. It increased by 2.6 percent compared to 2003 and stood at B\$206.7 million in 2004. Credit extended to the Manufacturing sector which increased by 119.4 percent to B\$174.8 million in 2001 compared to B\$79.5 million in 2000, however, has declined in the following years. In 2004, lending to the Manufacturing sector increased by 25.4 percent at B\$113.3 million compared to 2003 and accounted for 8.0 percent of private sector financing.

NON-PERFORMING LOANS

Non-performing loans (over 90 days) on average have been declining over the years. In 2004, NPL declined further to 12.9 percent compared to 13.8 percent in 2003. The Ministry of Finance, through the Financial Institutions Division (FID), continues to monitor efforts undertaken by banks to reduce the ratio to a single digit.

⁴ Excluding mortgage and personal loans

Figure 6.10: NPL percentage, 2000-2004



Source: Financial Institutions Division, Ministry of Finance

OTHER FINANCIAL DEVELOPMENTS

Money-changing and remittance businesses have been increasing since their licenses were first issued by the Ministry of Finance (MOF) in 1996. In response, to the high demand to run such businesses and based on the feasibility study conducted by the Ministry of Finance, additional new licences were issued in May 2004 i.e. 8 money-changer and 8 money-remittance licences.

As of December 2004, there were 34 remittance and 33 money-changing businesses including 4 hotels licensed under the Money-changing and Remittance Businesses Act, Cap 174. They are subject to the following requirements as follows:

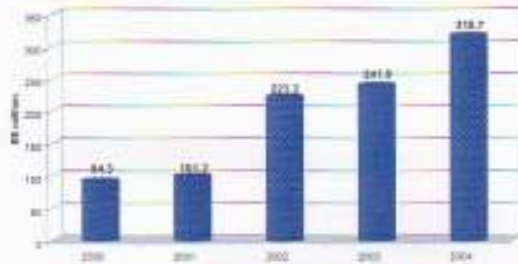
- Annual License fees for Remittance of B\$3,000;
- Annual License fees for Money-Changer of B\$2,000; and
- Remittance to provide deposits in the form of Bankers' Guarantee for the amount of B\$55,000.

The Ministry of Finance, through the Financial Institutions Division, regulates and supervises the activities of money-changer and money-remittance operators by requiring them to submit monthly reports, audited annual reports and by conducting on-site inspections. Owners and employees are urged to be vigilant and to report to any suspicious transaction to the MOF immediately. In an effort to upgrade the knowledge and skill of operators and to raise their awareness concerning money laundering activities which could occur through their operations. The MOF conducted a course on 'Introduction on Foreign Currency Exchange' in 2004. This is consistent with the recognition that money laundering has become a global problem which can threaten and destabilise the financial system. In this regard, Brunei Darussalam has introduced the Money Laundering Order, 2000 and is a member of the Asia-Pacific Group (APG).

Money remittance activity has increased rapidly within the last 5 years. At the end of 2004, total money remitted was recorded at B\$93.8 million with Indonesia as the main destination, which amounted to B\$32.4 million; representing a market share of 34.5 percent of the total money remitted. 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 in Figure 6.11 below.

Figure 6.11: Total Money Remitted, 2000-2004



Source: Financial Institutions Division, Ministry of Finance

At the end of 2004, the total amount of foreign currencies purchased during the year was B\$18.1 million. The Malaysian Ringgit was the highest purchased foreign currency at B\$6.7 million followed by the Indonesian Rupiah at B\$3.5 million.

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. All currencies purchased, 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 2004.

Figure 6.12: Total Money Exchanged, 2000-2004



Source: Financial Institutions Division, Ministry of Finance

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

Annual Data	1999	2000	2001	2002	2003	2004
	(B\$ million)					
GDP at current prices	7,144.7	7,441.1	7,481.9	7,651.7	8,254.9	8,266.8
Oil sector	2,888.1	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	4,975.0	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	3,038.4	3,179.2
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	2,385.2
Non-oil sector	1,880.3	1,914.7	2,007.7	2,055.9	2,139.2	2,253.2
Government sector	956.3	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	1,067.0
	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	4.6
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	324.6	332.8	340.6	348.8	357.6
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	2.6
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: Department of Economic Planning and Development, Prime Minister's Office

TABLE 2: Brunei Darussalam - EXTERNAL SECTOR INDICATORS (Balance of Payments)

	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
	(B\$ million)						
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
Current account balance	2,256.4	1,926.7	2,028.0	1,898.1	2,002.0	2,185.1	2,544.6
Capital account balance (incl e. & o.)	-3.9	-2.8	-4.6	-4.9	-3.4	-4.8	-5.7
Overall balance	2,252.5	1,923.9	2,023.4	1,893.2	1,998.6	2,180.3	2,538.9
Memorandum items							
Average oil price (US\$/Barrel)	31.53	27.30	29.69	32.00	35.59	38.20	46.31
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
Foreign exchange coverage of currency (%)	93.0	95.0	94.0	97.0	101.3	92.5	95.9
B\$/US\$ (end of period)	1.7656	1.7567	1.7284	1.7008	1.6790	1.7163	1.6908
	* Q4 2005 Balance of Payments data not available						

Source: Economic Planning and Development Department, Prime Minister's Office, Brunei Currency and Monetary Board, Ministry of Finance

TABLE 3: Brunei Darussalam – FISCAL INDICATORS (Fiscal Position)

	2000	2001	2002	2003/04	2004/05 Budgeted	2004/05 Provision
	(B\$ million)					
Total Revenue	5,084.4	4,232.6	4,267.8	6,369.4	3,938.3	6,371.1
<i>Tax Revenue</i>	2,422.1	2,306.4	2,331.7	3,426.0	2,266.4	3,666.2
Oil & Gas sector	2,256.1	2,125.3	2,115.5	3,151.4	2,049.5	3,438.9
Non-oil sector	166.0	181.1	216.2	274.7	216.9	227.3
<i>Non-tax revenue</i>	2,662.4	1,926.2	1,936.1	2,943.4	1,671.9	2,705.0
Oil & Gas sector	1,970.7	1,497.9	1,581.6	2,398.2	1,384.5	2,376.1
Non-oil sector	691.6	428.4	354.5	545.2	287.4	328.9
Total Expenditure	4,287.9	3,913.7	4,793.9	5,747.8	5,890.3	4,890.0
<i>Current Expenditure</i>	3,043.4	2,745.2	3,776.7	4,596.4	3,392.1	4,002.2
Wages and salaries	1,249.9	1,285.9	1,318.8	1,784.7	1,507.7	1,420.1
OCAR	1,483.2	1,178.4	1,231.4	1,751.5	1,315.2	1,360.4
Charged	310.3	280.9	1,226.4	1,060.3	569.2	1,221.6
<i>Capital Expenditure</i>	1,153.1	1,111.1	959.5	1,125.1	2,498.2	862.8
Of which: Ordinary	769.8	901.2	524.2	764.9	1,598.2	508.2
Of which: Development	383.3	209.9	435.3	360.2	900.0	354.6
<i>Investments in Public Enterprises</i>	91.4	57.5	57.8	26.3	-	25.0
Surplus or deficit (-), excl. transfer	796.6	318.8	(526.1)	621.7	(1,952.1)	1,481.2
Memorandum items						
Oil & gas sector revenues	4,226.8	3,623.2	3,697.2	5,549.6	3,434.0	5,815.0
Non-oil sector revenues	857.7	609.4	570.7	819.9	504.3	556.2
Oil & gas (in % of total revenue)	83.1%	85.6%	86.6%	87.1%	87.2%	91.3%
Non-oil & gas (in % of total revenue)	16.9%	14.4%	13.4%	12.9%	12.8%	8.7%

Source: Expenditure Division of Treasury Department, Ministry of Finance.

TABLE 4: Brunei Darussalam – MONETARY SECTOR (Monetary Survey)

	Dec-01	Dec-02	Dec-03	Dec-04
	(B\$ million)			
Net foreign assets	5476.32	5140.90	6132.60	7947.10
BCMB	705.48	775.52	824.40	850.80
Commercial banks	4770.84	4365.38	5308.20	7096.30
Assets	5117.49	4678.20	5493.20	7244.10
Liabilities	346.65	312.82	185.00	147.80
Claims on private sector	4804.68	5030.60	5138.10	6375.30
Claims on Government Net	-1774.21	-1595.33	-2300.30	-3427.30
Other assets	181.67	213.60	280.63	364.90
Commercial banks	181.08	207.61	233.80	283.00
Claims on Nonfinancial Public Corporations	0.59	5.99	46.83	81.90
Assets=liabilities	8688.46	8789.77	9251.03	10260.00
Money	2864.51	3145.90	3240.30	3558.10
Currency	572.84	575.22	554.80	602.80
Transferable deposits	2291.67	2570.68	2685.50	2955.30
Quasi-money	4786.54	4296.50	4644.10	5459.30
Other deposits at commercial banks	4786.54	4296.50	4644.10	5459.30
Other liabilities	573.92	1347.37	1366.60	1204.80
Memorandum items				
Currency with banks	75.49	79.59	85.99	90.30
Broad money	7851.05	7442.40	7884.40	9017.40
Prime lending rate (end of period)	5.50	5.50	5.50	5.50
		(Percent change y-o-y)		
Net foreign assets	-	-6.12	19.29	29.59
Claims on private sector	-	4.70	2.14	4.62
Claims on Government Net	-	-10.08	44.19	48.99
Money	-	9.82	3.00	9.81
Currency	-	0.42	-3.55	8.65
Transferable deposits	-	12.17	4.47	10.05
Quasi-Money	-	-10.24	8.09	17.55
Other deposits at commercial banks	-	-10.24	8.09	17.55
		(In percent of Broad Money 12 months ago)		
Contribution to broad money growth				
Net foreign assets	-	-0.50	3.16	11.76
Claims on private sector	-	0.05	1.36	0.73
Claims on Government Net	-	2.01	-1.30	-8.58
Memorandum item				
Broad money	-	11.52	14.96	14.37

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

