

BRUNEI DARUSSALAM

Fiscal and Monetary Review 2nd Quarter 2004

Ministry of Finance

Commonwealth Drive

Bandar Seri Begawan BB3910

Brunei Darussalam

August 2004

CONTENTS

I. Executive Summary	1
II. Global Short Term Economic Outlook	2
III. Real Sector Developments	
Overview	4
Oil and Gas Sector	5
Non-Oil and Gas Sector	5
Inflation	6
Outlook for 2004	7
Table 3.1 : Real Sector Indicators	8
IV. External Sector Developments	
Overview	9
Exports	9
Imports	11
Trade and Current Account Balance	12
International Reserves	12
Exchange Rate	12
Table 4.2 : External Sector Indicators	13
V. Fiscal Developments	
Overview	14
2004/2005 Budget	14
Government Revenue	16
Government Expenditure	17
Fiscal Position	18
Table 5.3 : Fiscal Indicators	19
VI. Money and Banking Developments	
Overview	20
Monetary Developments	20
Interest Rates	21
Banking Indicators	21
Structure of Lending	23
Non-Performing Loans	24
Table 6.2 : Monetary Indicators	25

All rights reserved. Copyright of the Government of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam. No part of this publication may be reproduced in any material form or by any means, electronic or mechanical, including photocopying, recording or in any information storage or retrieval system without prior permission from the Government, except for permitted fair dealing under Copyright Order 2000.

© Copyright 2004

I. EXECUTIVE SUMMARY

In the first half of 2004, the global economy has been stronger than anticipated. Both US and Japan economies have showed signs of improvement than previously anticipated. Even Europe is finally beginning to show signs of recovery despite stalling reforms. With expectations of a downturn, China is currently tightening its fiscal and monetary policies. However, in other Asian regions, economic growth has shown a sharp improvement.

Brunei Darussalam's economy is projected to expand by 2.2% in Q1 2004 year-on-year, mainly due to increased performance in a number of goods-producing and services-producing industries. The Oil and Gas Sector, forecasted to account for 53.3% of the economy's total GDP, contracted by 0.5% year-on-year but expanded by 1.4% relative to Q4 2003. For the Non-Oil and Gas Sector, an expansion of 5.4% is anticipated mainly due to improvements in the Fishery; Non-Oil Mining, Quarrying and Manufacturing; and Wholesale and Retail Sectors.

Total exports in Q2 2004 decreased by 3.3% while total imports increased by 21.7% thus showing a decline in the economy's trade balance. As 90% of total exports is attributed to the Oil and Gas sector, this decrease in trade balance is mainly due to the drop in oil exports despite an increase in oil price of USD\$35.59 per barrel in Q1 2004 (compared to USD\$32.00 per barrel in Q4 2003). Total international reserves (Brunei Currency and Monetary Board's external assets plus IMF quota subscriptions and holdings of SDR) stood at B\$1,207.4 million, which is equivalent to 5.2 months of imports.

Brunei Darussalam's 2004/5 Budget was released on 1st April 2004 with estimated revenue at B\$3,938.3 million (15.9% increase) and budgeted expenditure reaching B\$4,990.3 million (0.8% increase). Fiscal position of the economy improved in Q2 2004, experiencing a provisional surplus of B\$472.9 million despite the slight reduction in Government Revenue. Total Government Revenue decreased by 2.9% to B\$1,357.5 million, of which 53.5% was in the form of Tax Revenue. Total Government Expenditure decreased by 38.1% to B\$884.6 million mainly due to reduced Capital Expenditure by 41.9% followed by a reduction in Current Expenditure of 37.4%.

In the monetary sector, the Brunei Dollar continues to strengthen against the US Dollar since December 2001 reaching B\$1.7163 in June 2004. Broad money increased by 11.5% year-on-year. However, on quarterly basis broad money increased by 10.3% to B\$8,440.9 million compared to B\$7,652.4 million in Q1 2004. Deposit interest rates dipped slightly in this quarter which was a direct result of the reduction in rates by one particular bank. Total assets and deposits of the Banking Sector grew by 12.4% and 9.0% respectively, while total loans expanded by 3.1%. However, the NPL ratio dropped to 13.1%, being the lowest ever achieved in the past year.

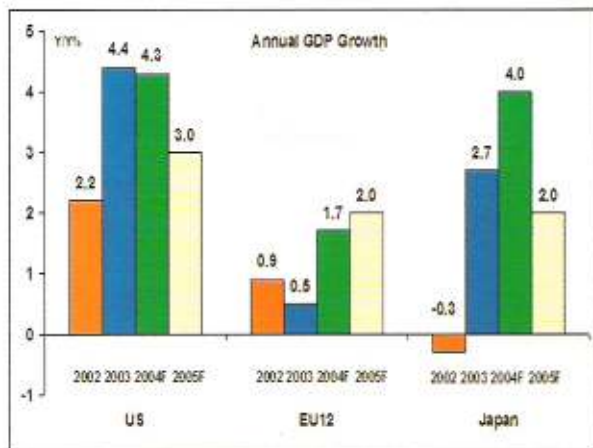
II. GLOBAL SHORT TERM ECONOMIC OUTLOOK¹

OVERVIEW

- Global growth for the first half of 2004 has proven to be higher than forecasted but a moderate growth is expected for the second half.
- Real global GDP growth is predicted at 4.0% for 2004, with a slowdown in 2005.

The global economic upturn in 2004 began stronger than anticipated, although some moderation in the second half of the year is expected. Real global GDP growth is predicted at 4.0% for 2004 while a slow down to 3.2% may occur in 2005.

Figure 2.1: Annual GDP Growth (2002 - 2005) for the US, Europe and Japan Economies



Source: Bloomberg

Figure 2.2: Quarterly GDP Growth (1996 - 2004) for the US, Europe and Japan Economies



Source: Bloomberg

In the first half of 2004, US growth, forecasted to be at 4.5%, was strong and remains above the trend. Although there was a long awaited improvement in employment figures confirming the economy's recovery, this also exerts inflationary pressure (wage demand pull inflation). The weaker than expected US payrolls in June (112,000 vs expectations of 250,000) was probably a one-off weakness (dragged down by the manufacturing sector) in contrast with improving data for the first half of the year.

Growth in the second half of 2004 is expected to drop to 4.0%. This is due to the US Federal Reserve's tightening cycle of a 25 basis points rate hike to 1.25%, which began in June, and fading fiscal stimulus, which ended in April.

Even Europe, which has been somewhat of a laggard to the US, is finally beginning to show signs of recovery despite stalling reforms. The European Central Bank (ECB) has left rates on hold in June, in line with market expectations. The most recent projections see a slightly higher forecast for inflation in 2004 and 2005, while growth projections have been revised down slightly.

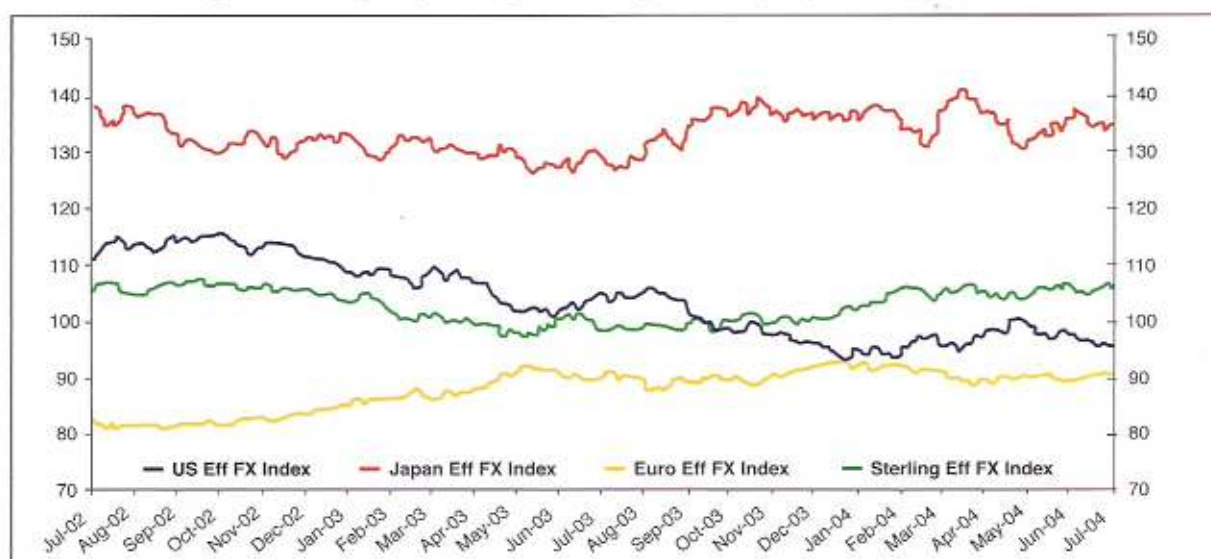
¹ Data and information in this section was obtained from Bloomberg, Brunel Investment Agency (BIA) and International Economics Weekly (7 June 2004) National Australia Bank.

On the other hand, the UK remains a robust economy assisted by buoyant consumers and the strong housing market, thus justifying further rate hikes by the Bank of England.

Japan currently experiences both a cyclical as well as a structural turnaround. The Japanese economy is strengthening faster than initially anticipated, helped by unexpected strong consumption plus solid exports and capital expenditure. The Bank of Japan should maintain its current policy regime of 0%.

However, China is on a tightening mode, laying the grounds for a soft landing. Recent data suggest that the measures are finally taking effect although there is still the risk of a hard landing.

Figure 2.3: Monthly Foreign Exchange Index (July 2002 – July 2004)



Source: Bloomberg

Economic growth in the other Asian regions may have peaked and a more moderate pace of expansion is likely to follow in the second half of 2004. The softer outlook largely stems from concerns about the outlook in China and higher US interest rates.

The US dollar, otherwise on a weakening trend, is stabilising for the moment supported by improving economic data and a shift in interest rate expectations. In addition, there has been a recent narrowing in the US trade deficit due to export growth outpacing imports, particularly exports to China and Taiwan.

Oil prices above US\$40 per barrel are a concern. If it persists at this level, it may drag down global growth. Geopolitics is currently in transition, with the US presidential election and Iraq being in the spotlight.

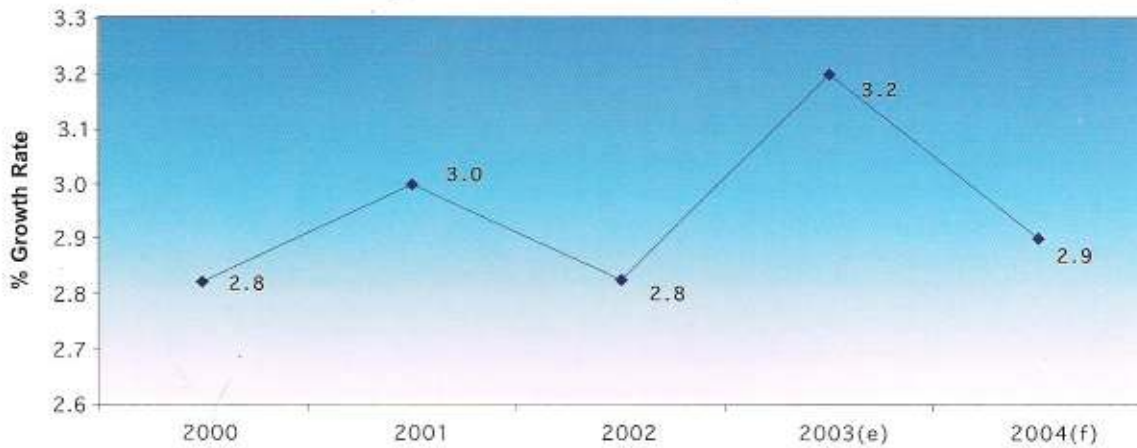
III. REAL SECTOR DEVELOPMENTS

OVERVIEW

- For 2004, the Oil and Gas Sector is forecasted to account for 53.3% of GDP.
- Oil and Gas Sector is forecasted to grow by approximately 2.7% in 2004 due to increased production of crude oil and LNG.
- Average oil price for Q1 2004 was US\$ 35.59.

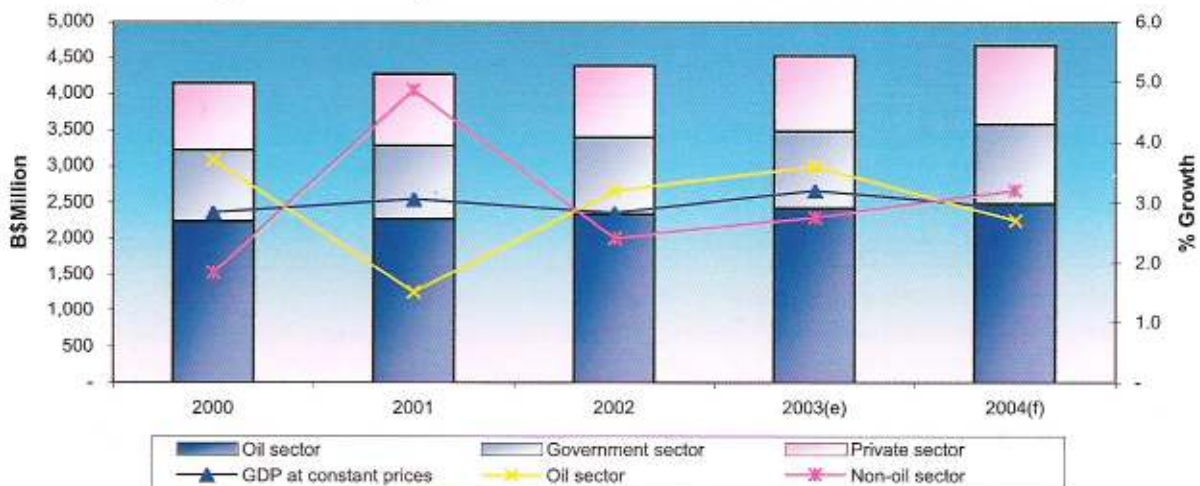
Brunei Darussalam's real GDP growth rate is forecasted at 2.9% for 2004. The economy is projected to grow by 2.2% in Q1 2004 year-on-year. Relative to Q4 2003, the economy is estimated to grow by 2.5%. This expansion was mainly due to increased performance in a number of goods and services-producing industries. The Oil Sector continues to be the main component with a forecasted 53.3% share of GDP. Correspondingly, the Non-oil sector, which can be divided into the Government Sector and the Private Sector, will contribute 23.4% and 23.3% towards GDP in 2004.

Figure 3.1: GDP at Constant prices



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

Figure 3.2: GDP by Oil and Non-Oil Sector at Constant Prices

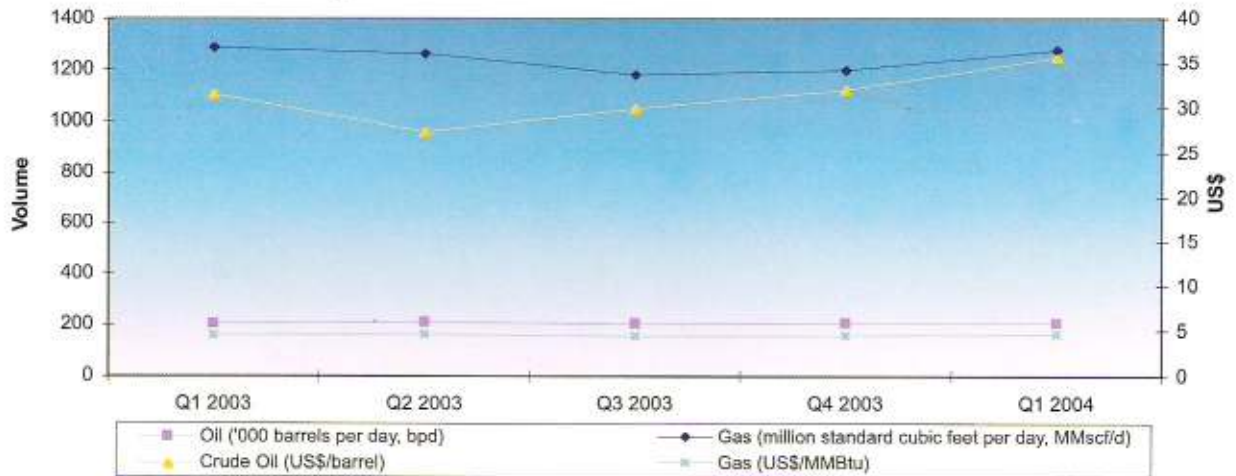


Source: Economic Planning and Development Department, Prime Minister's Office
(e) – estimated (f) – forecasted

OIL AND GAS SECTOR

In Q1 of 2004, the price of crude oil averaged at US\$35.59 per barrel, an increase of 11.2% from the previous quarter and also an increase of 6.6% from Q1 of the previous year. In Q1 2004, the Oil and Gas Sector contracted by 0.5% year-on-year but expanded by 1.4% relative to Q4 2003. The strengthening of the US dollar and increases in the price of oil and LNG will boost further the performance of Brunei Darussalam's GDP.

Figure 3.3: Oil and Gas Production and Prices

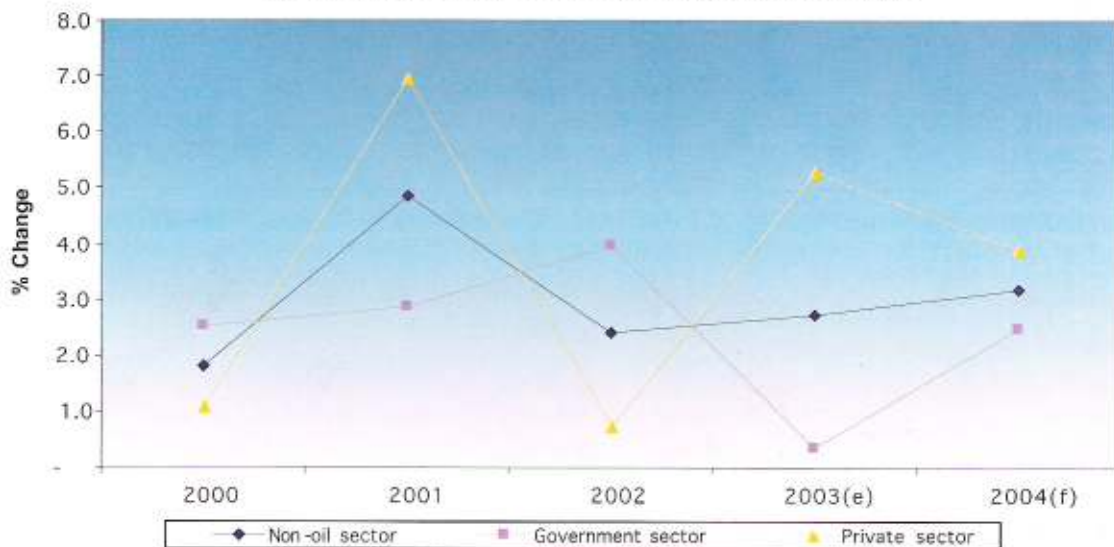


Source: Economic Planning and Development Department, Prime Minister's Office

NON-OIL AND GAS SECTOR

The Non-Oil and Gas Sector is estimated to register an expansion of 5.4% in Q1 2004 year-on-year. This was mainly due to improvements in the Fishery; Non-Oil Mining, Quarrying and Manufacturing; and Wholesale and Retail Sectors. Compared to Q4 2003, estimated growth for the Non-Oil and Gas Sector is 3.6%.

Figure 3.4: Non-Oil Sector GDP Percentage Change



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

The Agricultural Sector declined by 0.5% in Q1 2004 compared to Q1 2003, this was due to a fall in the production of vegetables. This sector also declined by 3.5% compared to Q4 2003. The Fishery Sector, however, showed significant growth of 119.5% year-on-year and 116% relative to Q4 2003. This was contributed by the increased output of small-scale fishermen.

The Banking and Finance Sector grew by 3.8% from the previous quarter but contracted by 9.5% in comparison to Q1 2003. Total interest income from loans and advances was B\$114.8 million in Q1, a decrease of 10% compared to the same period a year ago but an increase of 5% from the previous quarter.

The Insurance Sector also declined in Q1 2004 compared to Q4 2003, registering a contraction of 18.1% and relative to Q1 2003, the decline was estimated at 5.2%. Total gross premium collection by Islamic Insurance (Takaful) Companies was B\$8.1 million in Q1 2004 compared to B\$8.2 million collected in the previous quarter. A similar trend was also apparent in the performance of conventional insurance companies as they only collected B\$24.4 million in Q1 2004 compared to B\$ 31.5 million in Q4 2003.

The Non-Oil Mining, Quarrying and Manufacturing Sector recorded growth of 24.7% compared to Q1 2003. This was contributed by double-digit growths in the production of ready-made garments, roofing materials and switchboards. In comparison to Q4 2003, this sector expanded by about 6.6%.

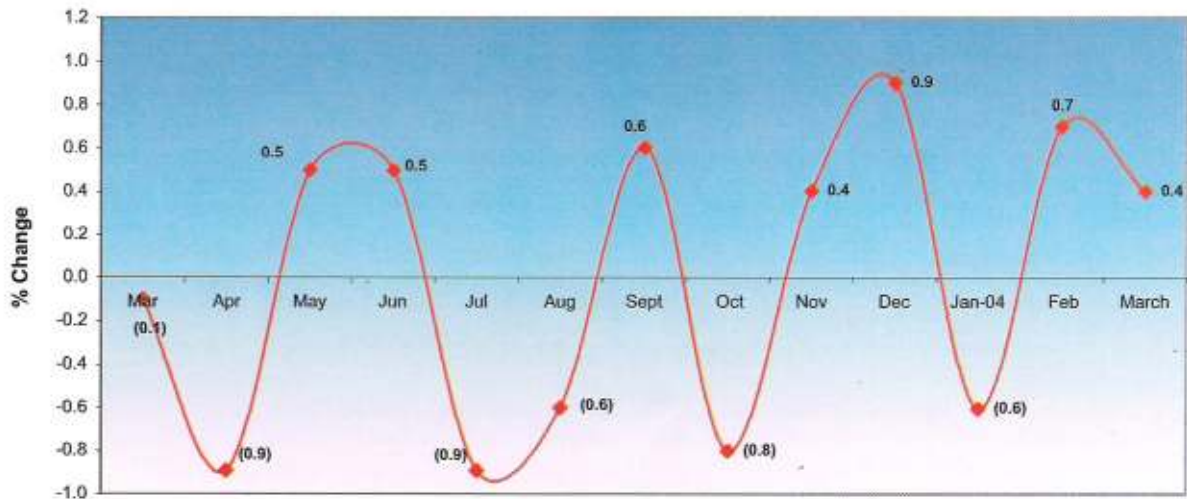
The Transport and Communication Sector grew at an estimated 2.8% in Q1 2004 compared to the same period in the previous year and relative to Q4 2003, this sector contracted by 6.2%. The improved year-on-year performance was mainly due to better performance in the sea transport sub sector. The volume of cargo handled grew by 45.5% in Q1 2004 compared to a year ago. The number of passenger boats licensed also increased during the same period. The air transport sub sector however registered a slowdown whereby air passengers were down by 9.2% in Q1 2004 compared to Q1 2003. Airfreight cargo and aircrafts movements were also down by 9.6% and 10.1% respectively during the same period. However, airmail cargo rose by 20.1% during the same period.

The communications sub sector showed some mixed signals. Mobile phone subscribers and volume of postal articles handled registered an expansion of 16.1% and 19.0% respectively in Q1 2004 compared to Q1 2003. On the other hand, international call duration and internet services subscribers contracted by 44.5% and 3.6% respectively year-on-year in the quarter under review.

INFLATION

The average Consumer Price Index (CPI) recorded for Q1 2004 was 100.7, an increment of 0.7% relative to the figure recorded for Q4 2003. This was attributed to minor changes in the prices of significantly weighted commodity groups: Food & Non Alcoholic beverages (+0.9%); Housing, Water, Electricity & Maintenance (-0.1%); Housing Goods & Operations (+0.1); Transport (+1.4%); Recreation & Entertainment (-0.6%). However, relative to the same period last year, CPI increased by only 0.2%.

Figure 3.5: Monthly Inflation Rate



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

OUTLOOK FOR THE REST OF 2004

There is optimism for continuous economic growth for both the Oil and Gas Sector and the Non-Oil and Gas Sector during the course of the year. Market demand for oil and LNG export will continue to remain strong due to the strengthening of regional economies namely China, Japan, South Korea and ASEAN. Favourable oil and LNG prices will further add to the growth of Brunei's economy.

The Non-Oil Private Sector is expected to post further growth during the rest of 2004 as this sector has continuously expanded during the previous two quarters. This was brought about by upbeat performance of the manufacturing sector, particularly in the production of garments and construction-related materials. The performance of the Wholesale and Retail Sector has been encouraging and there is optimism that this will continue on throughout the year. Other sectors which are expected to contribute to growth are the Fisheries, Banking & Finance and Insurance Sectors.

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

	1996	1997	1998	1999	2000	2001	2002	2003(e)	2004(f)
	(In million of Brunei dollars)								
GDP at current prices	7,408.6	7,628.1	6,534.0	7,144.7	7,441.1	7,481.9	7,651.7	8,236.9	8769.2
Oil sector	2,686.3	2,991.7	2,139.2	2,688.1	2,951.1	2,717.7	2,836.6	3,279.9	3599.6
Non-oil sector	4,722.3	4,636.4	4,394.8	4,456.6	4,490.0	4,764.2	4,815.1	4,957.0	5169.6
Government sector	1,905.0	1,713.2	1,763.9	1,783.6	1,803.6	1,855.5	1,929.8	1,936.5	1984.9
Private sector	2,817.3	2,923.2	2,630.9	2,673.0	2,686.4	2,908.6	2,885.3	3,020.5	3184.7
GDP at constant prices	3,951.5	4,093.8	3,930.6	4,031.4	4,145.2	4,271.6	4,392.3	4,532.9	4665.4
Oil sector	2,145.4	2,262.3	2,056.3	2,150.9	2,230.5	2,264.0	2,336.4	2,420.5	2485.9
Non-oil sector	1,806.1	1,831.5	1,874.3	1,880.3	1,914.7	2,007.7	2,055.9	2,112.4	2179.5
Government sector	947.0	897.4	955.3	968.3	992.7	1,021.3	1,062.1	1,065.9	1095.5
Private sector	859.1	934.1	919.0	912.0	922.0	986.4	993.8	1,046.5	1087.0
	(% Growth Rate)								
GDP at current prices		3.0	(14.3)	9.3	4.1	0.5	2.3	7.6	6.5
Oil sector		11.4	(28.5)	25.7	9.8	(7.9)	4.4	15.6	9.7
Non-oil sector		(1.8)	(5.2)	1.4	0.7	6.1	1.1	2.9	4.3
Government sector		(10.1)	3.0	1.1	1.1	2.9	4.0	0.3	2.5
Private sector		3.8	(10.0)	1.6	0.5	8.3	(0.8)	4.7	5.4
GDP at constant prices		3.6	(4.0)	2.6	2.8	3.0	2.8	3.2	2.9
Oil sector		5.4	(9.1)	4.6	3.7	1.5	3.2	3.6	2.7
Non-oil sector		1.4	2.3	0.3	1.8	4.9	2.4	2.7	3.2
Government sector		(5.2)	6.5	1.4	2.5	2.9	4.0	0.4	2.5
Private sector		8.7	(1.6)	(0.8)	1.1	7.0	0.8	5.3	3.9
Memorandum items:									
GDP per capita at current prices (B\$ thousand)	25.2	25.3	21.1	22.5	22.9	22.5	22.5	23.6	24.1

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

IV. EXTERNAL SECTOR DEVELOPMENTS

OVERVIEW

- Oil and gas exports comprised 90% of the total export for Q1 2004.
- In Q1 2004, exports decreased by 3.3% whereas imports increased by 21.7 %.
- Trade balances showed a decline.
- The average prices of both crude oil and gas pickup by 11.2% and 4.3% respectively.
- Total international reserves² stood at B\$1,207.4 million equivalent to 5.2 months of imports.

EXPORTS

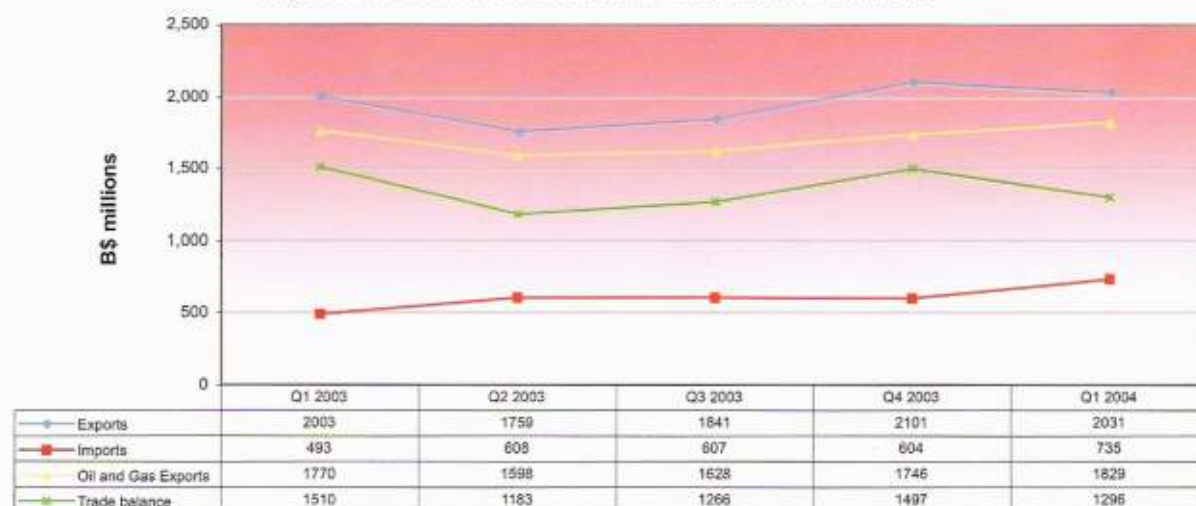
Total exports decreased by 3.3% to B\$2,031.2 million in Q1 2004 compared to B\$2,101.0 million in Q4 2003. However, there was an increase of 1.4% from B\$2,002.5 million in Q1 2003. Oil and gas which dominated exports, grew by 4.7% at a value of B\$1,828.9 million, while non-oil and gas declined by 42.9% to B\$202.3 million. This was mainly due to the decrease in machinery and transport equipment by 65.0% to B\$71.9 million compared to B\$205.3 million in Q4 2003. Other commodities which have declined include manufactured goods (65.2%), chemicals (44.4%) and beverages and tobacco (35.7%).

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

	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Percentage change (Q4 2003/Q1 2004)
EXPORT VOLUME						
Oil ('000 bpd)	197	201	197	201	194	-3.48
Gas (Trillion Btu per year)	95	96	89	90	98	+8.89
AVERAGE PRICES						
Crude Oil (US\$/barrel)	31.53	27.30	29.89	32.00	35.59	+11.22
Gas (US\$/MMBtu)	4.5820	4.6573	4.4351	4.4832	4.6731	+4.23

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

Figure 4.1: Brunei Darussalam – Exports and Imports



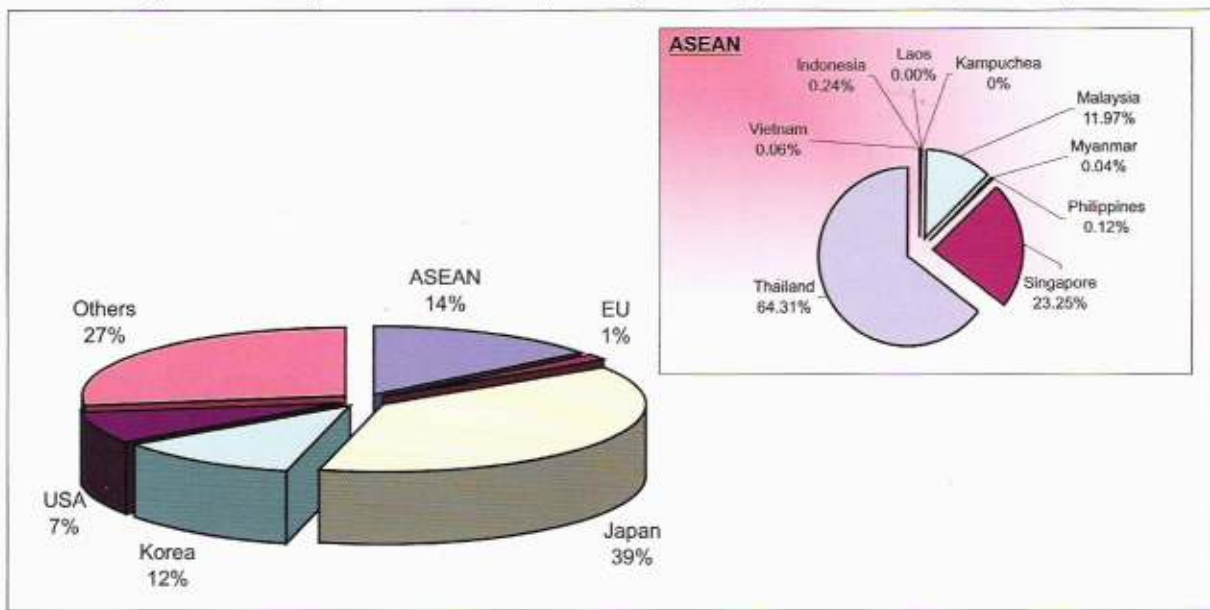
Source: Economic Planning and Development Department, Prime Minister's Office

² Brunei Darussalam's international reserves refer to Brunei Currency and Monetary Board's external assets plus IMF quota subscriptions and holdings of SDR.

DIRECTION OF EXPORTS

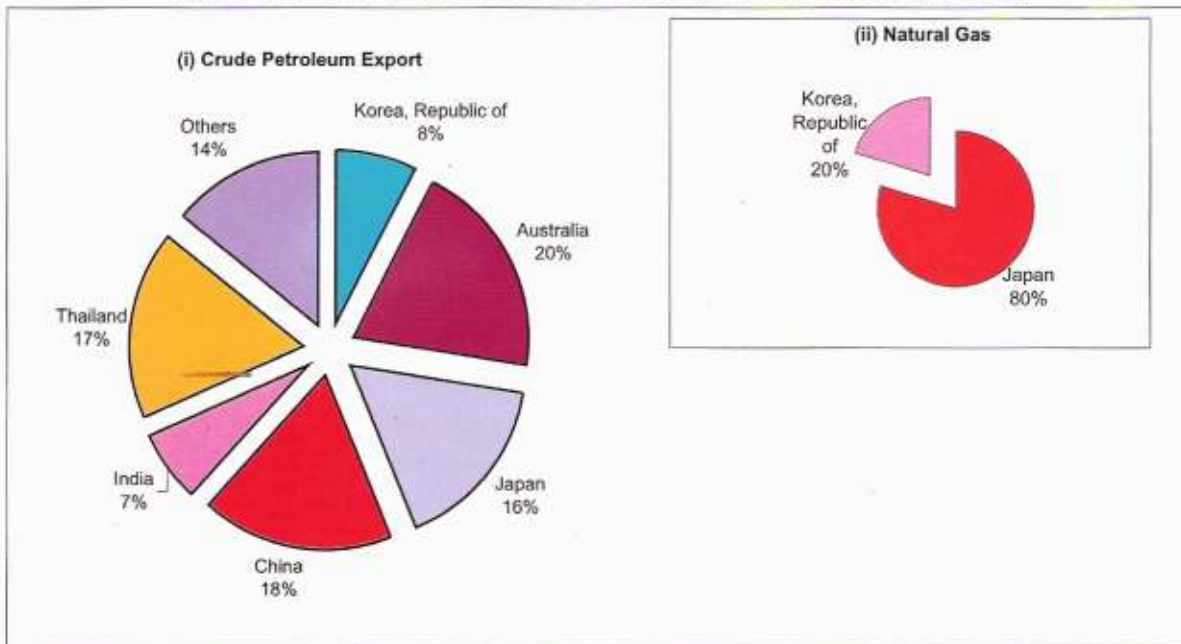
Total exports decreased by 3.3% in Q1 2004. This was due to exports of crude petroleum to the Republic of Korea which decreased by 55.1% to B\$81.8 million but this decline was compensated by an increase in crude oil petroleum exports to Australia, China and Thailand by an average of 43% to B\$595.3 million. Exports of Natural Gas to Japan in Q1 2004 recorded a decrease of 10.3% to B\$595.5 million while exports to the Republic of Korea increased by 196.8% to B\$152.3 million.

Figure 4.2: Proportion of Total Exports by Country of Destination (Q1 2004)



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

Figure 4.3: Oil and Gas Exports by Country of Destination (Q1 2004)

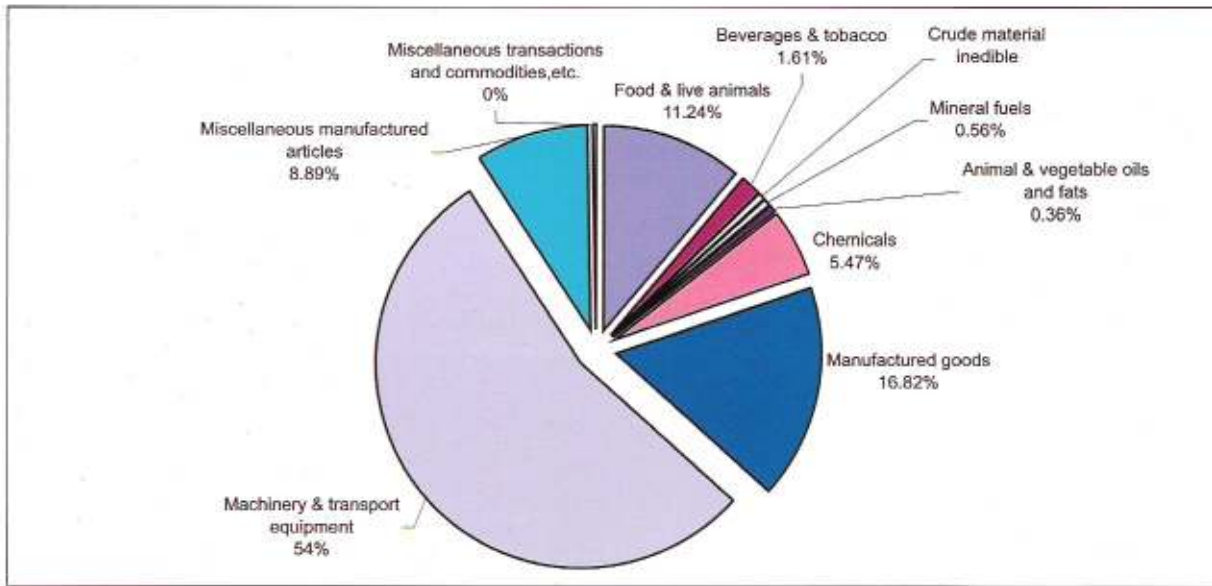


Source: Economic Planning and Development Department, Prime Minister's Office

IMPORTS

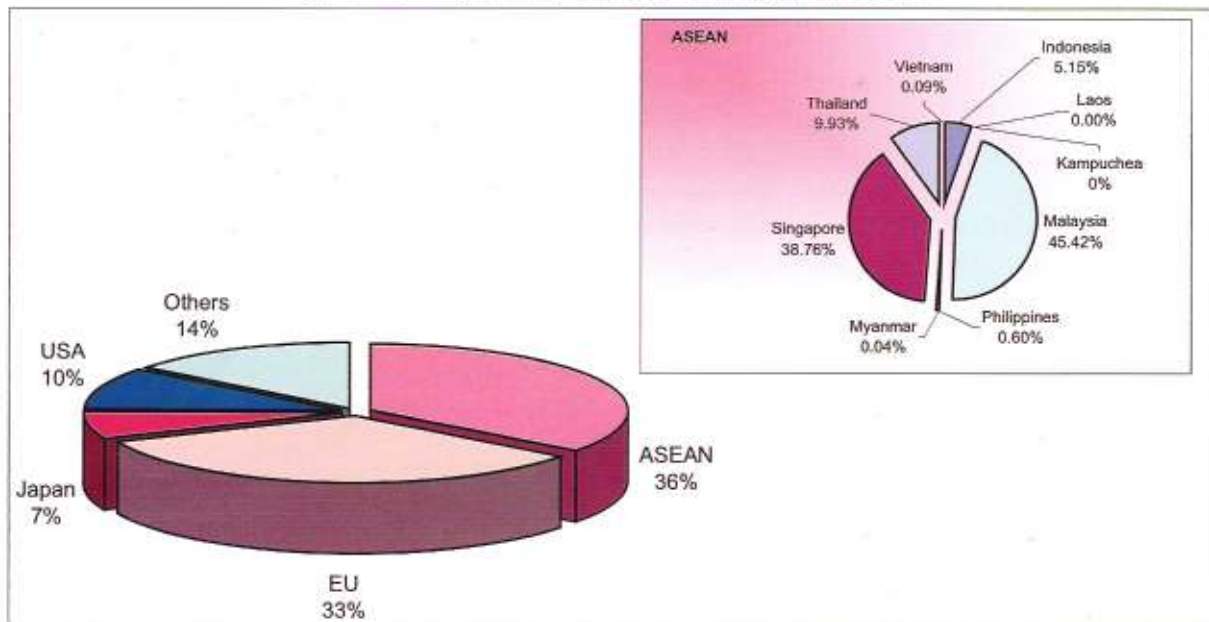
Total imports increased by 21.7% to B\$735.4 million in Q1 2004 compared to Q4 2003 and 49.3% higher compared to Q1 2003. This was mainly due to the increase in the import of machinery and transport equipment which contributes about 54% of total imports, i.e. an increase of 85.5% to B\$397.5 million. Other commodities which have increased include miscellaneous transactions and commodities (15.7%), crude material inedible (2.5%) and beverages and tobacco (0.3%). Imports from ASEAN and Japan declined by 8.4% and 8.3% respectively while imports from USA and EU increased by 14.6% and 309.1% respectively. This significant increase of import from EU was mainly due to machinery and transport equipment.

Figure 4.4: Composition of Total Imports (Q1 2004)



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

Figure 4.5: Imports by Country of Origin (Q1 2004)



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

TRADE AND CURRENT ACCOUNT BALANCE

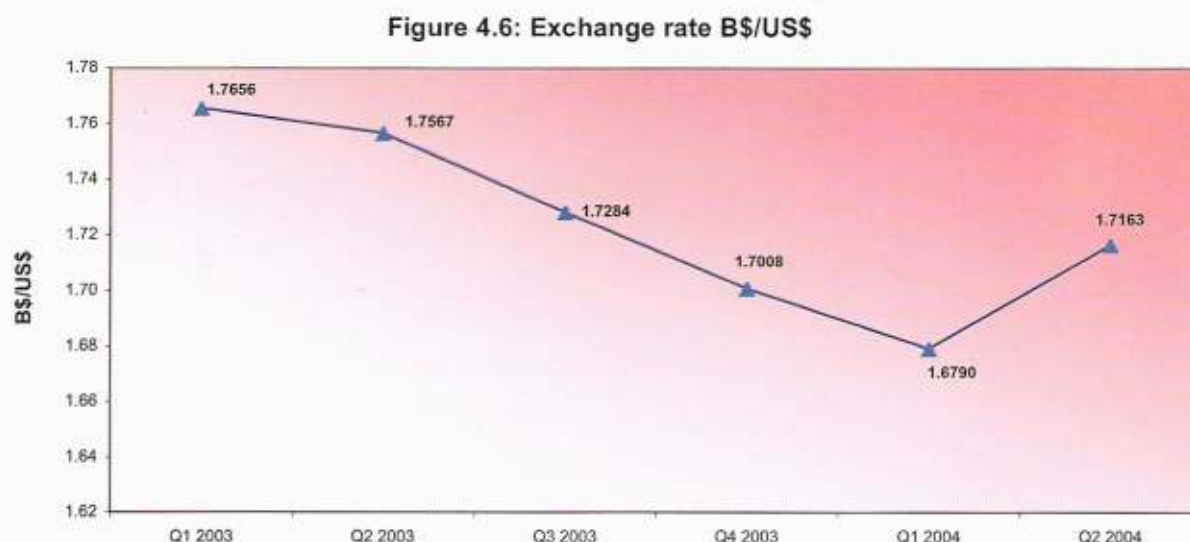
The trade balance declined in Q1 2004. It showed a decrease of 12.7% from B\$1,528.5 million in Q4 2003 to B\$1,334.1 million in Q1 2004. This was mainly due to the decrease in oil exports despite an increase in the oil price of US\$35.59 per barrel in Q1 2004 compared to US\$32.00 per barrel in Q4 2003. The current account surplus increased by 5.5% to B\$2,002.0 million in Q1 2004 from B\$1,898.1 million in Q4 2003.

INTERNATIONAL RESERVES³

Brunei Darussalam's international reserves decreased by 0.2% with a value of B\$1,207.4 million in Q1 2004 equivalent to 5.2 months of imports. This was due to the decrease in both BCMB external assets and International Monetary Fund (IMF) holdings. However, despite this slight contraction, foreign exchange coverage of currency in circulation increased from 97% to 99.5% in Q4 2003 and Q1 2004 respectively.

EXCHANGE RATE⁴

The US dollar strengthened against the Brunei dollar by 1.3% in Q2 2004 from Q1 2004. The strengthening of the US dollar, in addition to an increase in oil prices, would have a favourable effect on Brunei Darussalam's interest.



Source: Various editions of International Financial Statistic (IMF)

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

⁴ The Brunei dollar is pegged to the Singapore dollar on a one-to-one parity.

TABLE 4.2: Brunei Darussalam: EXTERNAL SECTOR INDICATORS
Balance of Payments

	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004
Trade balance	1,535.6	1,182.8	1,266.0	1,528.5	1,334.1
Exports, f.o.b.	2,002.5	1,759.4	1,841.4	2,101.0	2,031.2
Imports, f.o.b.	466.9	576.6	575.4	572.5	697.1
Services and Investment Income, net	753.1	788.5	824.6	472.0	744.4
Receipts	1,255.6	1,248.4	1,247.0	1,235.4	1,324.8
Payments	502.5	459.9	422.4	763.4	580.4
Current transfers, net	-32.3	-44.6	-62.6	-102.4	-76.5
Current account balance	2,256.4	1,926.7	2,028.0	1,898.1	2,002.0
Capital account balance (incl e.& o.)	-3.9	-2.8	-4.6	-4.9	-3.4
Overall balance	-19.2	9.7	-23.3	103.1	-2.6
Memorandum items:					
Average oil price (US\$/Barrel)	31.53	27.30	29.89	32.00	35.59
International reserves (B\$ millions) ¹	1,120.4	1,130.1	1,106.9	1,210.0	1,207.4
Import coverage	7.20	5.88	5.77	6.34	5.20
Foreign exchange coverage of currency (%)	93	95	94	97	99.5
B\$/US\$ (end of period)	1.7656	1.7567	1.7284	1.7008	1.6790

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

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

V. FISCAL DEVELOPMENTS

OVERVIEW

- Brunei Darussalam's 2004/2005 Budget was released on 1st April 2004.
- Estimated Revenue increased by 15.9% to B\$3,938.3 million.
- Budgeted Expenditure increased slightly by 0.8% to B\$4,990.3 million.
- Budgeted Development Expenditure reduced by 10%.
- In Q2 2004, Government Revenue fell by 2.9% to B\$1,357.5 million.
- Significant reduction in Government Expenditure by 38.1% to B\$884.6 million.
- Provisional surplus balance of B\$472.9 million, an increase of 97.6% from Q2 2003.

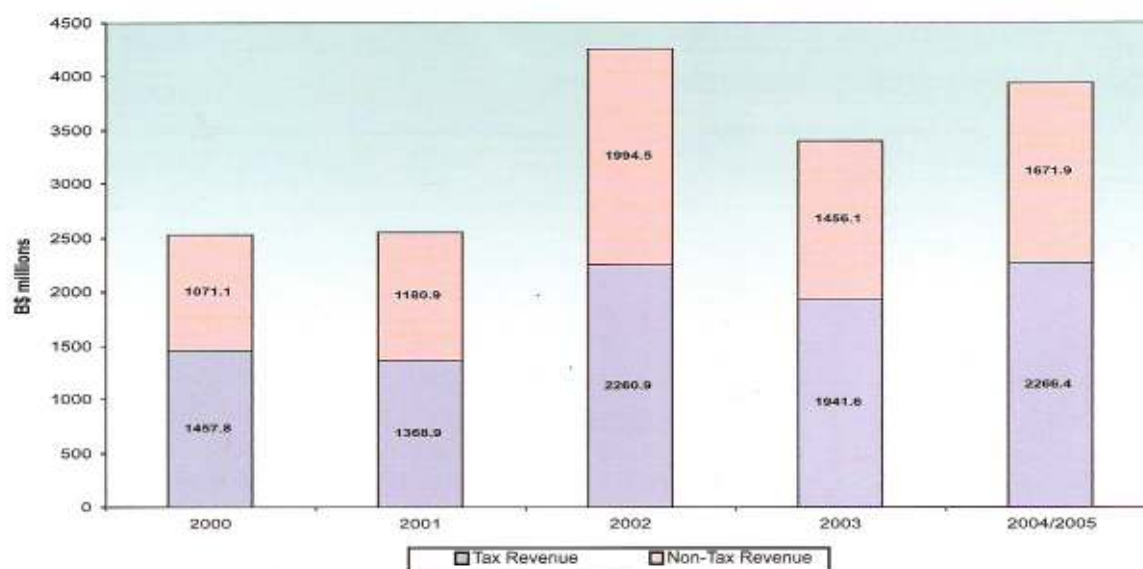
2004/2005 BUDGET

Brunei Darussalam released its 2004/2005 Budget on 1st April 2004, which is the commencement of the new Financial Year ending on 31st March 2005.

Estimated Revenue 2004/2005

Revenue collected by the Government is classified into two major groups; Tax Revenue⁵ and the Non-Tax Revenue⁶. The Estimated Government Revenue for 2004/2005 increased by 15.9% due to the increase in the Tax Revenue especially from the Oil Sector, owing to the positive outlook of oil prices since 2003 and throughout 2004.

Figure 5.1: Estimated Revenue 2000-2004/2005



Source: Expenditure Division, Ministry of Finance

The Estimated Tax Revenue rose by 16.7% to B\$2,266.4 million of which was mostly contributed by an increase of 28.5% in Tax on Oil Revenue. However, the estimated tax revenue from gas declined by 5%. The Oil and Gas Sector continues to be the key contributor to the Tax Revenue, constituting 90.4% of the Estimated Tax Revenue for 2004/2005, an increase of 2.3%. Import Duties, attributing to about 6% of 2003 Tax Revenue decreased marginally by 3.3%, reflecting the decline in the Motor Vehicles and Tobacco Taxes.

⁵ Components in the Tax Revenue consist of Taxes on Net Income and Profits; Taxes on International Trade and; Taxes on Goods and Services.

⁶ Non-Tax Revenue includes Property Income; Administrative Fees and Charges on Sales of Goods and Fine and; Other Non-Tax Revenue.

The Estimated Non-Tax Revenue increased by 14.8% to B\$1,671.9 million. One of the major contributors to the Non-Tax Revenue, the Electrical Service, is expected to increase by 7.4% or B\$7.61 million. Dividend paid by oil companies also contributed to the Estimated Non-Tax Revenue.

Budgeted Expenditure 2004/2005

Brunei Darussalam has allocated B\$4,990.3 million for Financial Year 2004/2005, which is an increase of 0.8% from the 2003 Budget.

Table 5.1: Budget Allocation for 2004/2005

	Budget FY 2003 (B\$)	% of total	Budget FY 2004/2005 (B\$)	% of total	% change FY 2003 – 2004/5
Prime Ministers' Office	279,394,783	5.6	311,573,798	6.2	11.5
Ministry of Defence	491,526,489	9.9	503,872,052	10.1	2.5
Ministry of Foreign Affairs	131,102,430	2.6	135,587,587	2.7	3.4
Ministry of Finance	211,747,800	4.3	230,452,911	4.6	8.8
Ministry of Home Affairs	124,048,958	2.5	129,483,092	2.6	4.4
Ministry of Education	564,201,083	11.4	603,624,809	12.1	7.0
Ministry of Industry & Primary Resources	58,624,299	1.2	61,429,812	1.2	4.8
Ministry of Religious Affairs	49,468,578	1.0	50,665,180	1.0	2.4
Ministry of Development	334,767,086	6.8	355,421,816	7.1	6.2
Ministry of Culture, Youth and Sports	69,119,626	1.4	73,127,095	1.5	5.8
Ministry of Health	225,461,463	4.6	233,319,763	4.7	3.5
Ministry of Communications	68,603,974	1.4	58,976,915	1.2	(14.0)
Development Expenditure	1,000,000,000	20.2	900,000,000	18.0	(10.0)
Charged Expenditure	542,121,318	11.0	569,214,352	11.4	5.0
Miscellaneous Expenditure ⁷	799,298,214	16.1	773,573,220	15.5	(3.2)
TOTAL	4,949,486,101	100.0	4,990,322,402	100.0	0.8

Source: Expenditure Division, Ministry of Finance

Development Expenditure has been decreased from its B\$1 billion allocation to B\$900 million. Based on the above budget allocations, Capital Expenditure⁸ will be B\$1,598.1 million (32.0%), whilst B\$3,392.1 million (68.0%) is for Current Expenditure⁹.

⁷ **Miscellaneous Expenditure** is a special provision to fund special activities which are not provided for under each Ministry's allocated budget.

⁸ **Capital Expenditure** comprises of 2 types:

- (i) Ordinary Charged Special Expenditure (OCSE), which is used for one-off projects or payments, and
- (ii) Development Expenditure, which is allocated for the projects under the Eighth National Development Plan.

⁹ **Current Expenditure** is made up of 3 types of expenditure:

- (i) Personnel Emoluments;
- (ii) Other Charges Annually Recurrent (OCAR), which is allocated for the operations and maintenance of government agencies; and
- (iii) Charged Expenditure, which are those expenses that have to be borne according to the Brunei Constitution.

Table 5.2: Development Expenditure Allocation for 2004/2005

	Planned Cost (B\$)	Budget 2004/2005	% of Total Budget
Development of Agriculture and Industrial Unit	1,103,506,400	88,048,000	9.8
Education and Development of Resources Unit	558,573,000	73,147,000	8.1
Communications, Broadcasting and Information Technology	1,443,146,600	134,212,000	14.9
Transportation	515,509,000	97,430,000	10.8
Construction	1,521,359,000	185,376,000	20.6
Public Facilities and Health	1,412,447,399	208,108,000	23.1
Securities and Defence	316,475,000	93,150,000	10.4
Others	428,983,601	20,529,000	2.3
TOTAL	7,300,000,000	900,000,000	100.0

Source: Expenditure Division, Ministry of Finance

With these allocations, the Gross Domestic Product is estimated to grow by 3 - 4%.

GOVERNMENT REVENUE

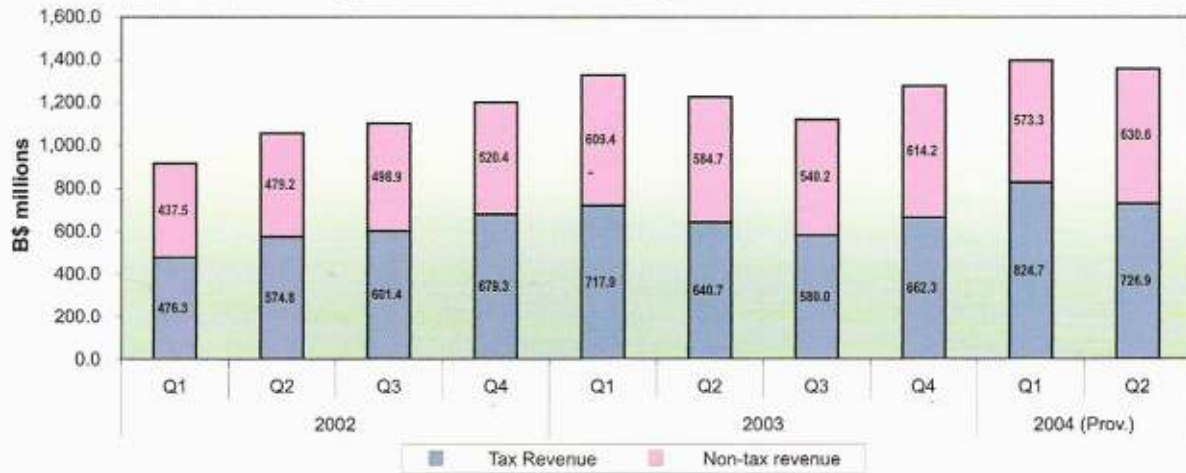
On a year-on-year basis, the Q2 2004 Total Government Revenue was B\$132.6 million (10.8%) more than the revenue collected in Q2 2003, due to a considerable rise in both Tax and Non-Tax Revenue of 13.4% and 7.8% respectively.

In Q2 2004, Government Revenue stood at B\$1,357.6 million, a decrease of 11.9% from B\$1,398.0 million in the previous quarter. Of that amount, 53.5% was in the form of Tax Revenue while 46.5% was from Non-Tax Revenue. The drop in Government Revenue was mainly due to a decrease of 11.9% in Tax Revenue, offsetting an increase of 10% in the Non-Tax Revenue.

In comparison with Q1 2004, Tax Revenue from the Non-Oil Sector saw an increase of 26.2% from B\$66.3 million to B\$83.7 million. However, this increase was offset by a fall of 15.2% in the Oil Sector to B\$643.2 million reflecting the lower production of oil, thus subduing the effect of higher oil prices. The reduction in revenue can also be attributed to the nature of the collection period such as licences of Financial Institutions, which are paid annually in Q1. Taxes on International Trade improved by 5.6% from the preceding quarter, from B\$24.3 million in Q1 to B\$25.6 million in Q2 due to higher collection of import duties.

Non-Tax Revenue stood at B\$630.7 million, of which B\$561.2 million came from the Oil Sector and B\$69.5 million from the Non-Oil Sector. This corresponds to an increase of 16.4% and a decrease of 23.8% respectively. In the Non-Oil Sector of Non-Tax Revenue, collection of revenue of Administrative Fees and Charges declined by 20.4% mainly due to the lower collection of Telecoms & Utilities.

Figure 5.2: Fiscal Revenue (2002 – Q2 2004)

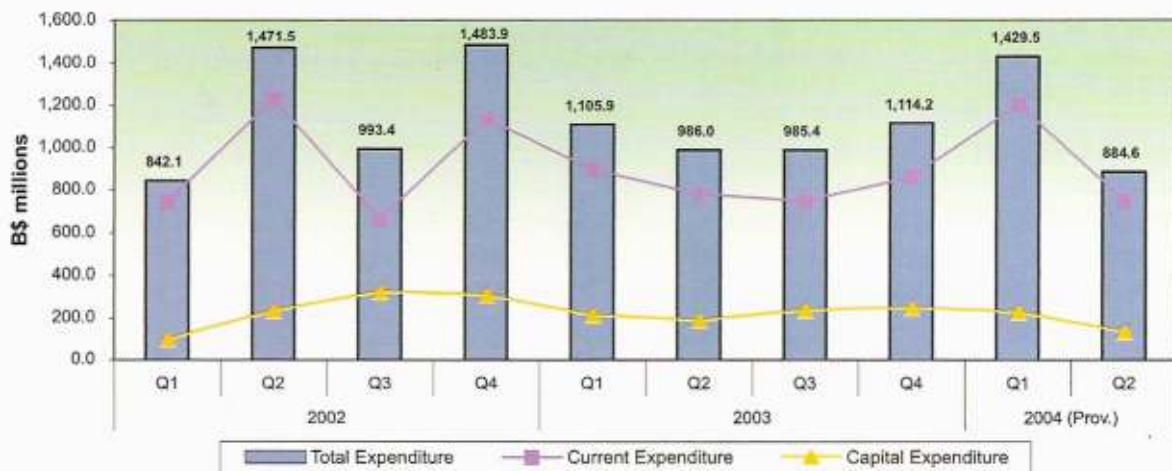


Source: Treasury Department, Ministry of Finance

GOVERNMENT EXPENDITURE

In Q2 2004, Government Expenditure was B\$884.6 million compared to B\$1,429.5 million in Q1 2004, a decrease of 38.1%. This was mainly due to a reduced spending in Capital Expenditure by 41.9% from last quarter to B\$132.0 million, followed by a reduction in Current Expenditure of 37.4% to B\$752.6 million. On a year-on-year basis, Government Expenditure in Q2 2004 was also lower than that of Q2 2003 by B\$101.4 million (10.3%).

Figure 5.3: Government Expenditure for 2002 – Q2 2004



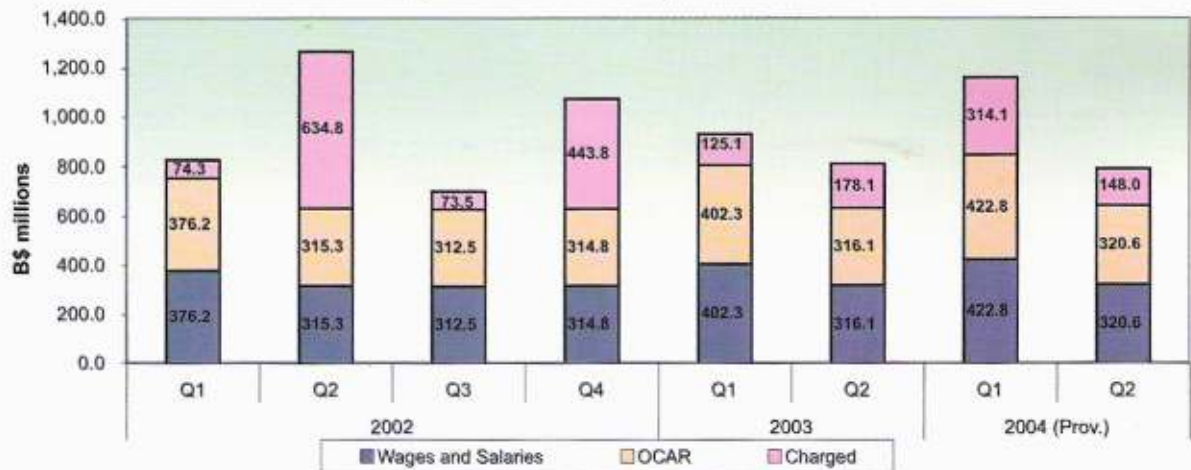
Source: Treasury Department, Ministry of Finance

Current Expenditure

Current Expenditure was B\$752.6 million in Q2 2004 compared to B\$1,202.5 million in Q1 2004, a decrease of 37.4%, mainly attributed to the overall reduction in spending in the three components of Current Expenditure as depicted in Figure 5.4. Other factors for the decrease were the cyclical nature of certain expenses such as bonuses which are paid in Q1 of each year; and the unique feature of Q1 2004, whereby an extra 3 months expenditure budget was allocated to all government agencies to accommodate for the change in Brunei Darussalam's Financial Year.

Personal Emoluments have been provisionally estimated at B\$320.6 million from B\$422.8 million in Q1 2004; a decrease of 24.2%. OCAR decreased by 39.0% to B\$284.0 million in Q2 2004 from B\$465.6 million in Q1 2004. Meanwhile, Charged Expenditure was B\$130.6 million in Q2 2004 from B\$314.1 million in Q1 2004, a decrease of 58.4%. Personal Emoluments accounted for 42.6% of Total Current Expenditure, followed by OCAR and Charged Expenditure at 37.7% and 19.7% respectively.

Figure 5.4: Current Expenditure



Source: Treasury Department, Ministry of Finance

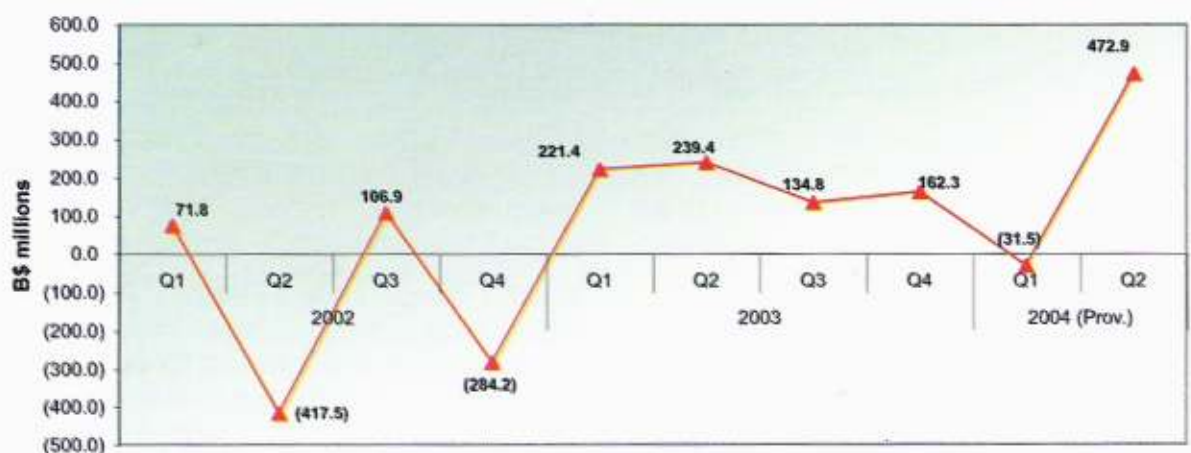
Capital Expenditure

Capital Expenditure decreased by 41.9% to B\$132.0 million in Q2 2004 from B\$227.0 million in Q1 2004. OCSE dropped to B\$52.0 million in Q2 2004 from B\$156.6 million in Q1 2004; a reduction of 66.8%. Development Expenditure in Q2 2004 was B\$80.0 million an increase of 13.6% from B\$70.4 million in Q1 2004.

FISCAL POSITION

In Q2 2004, despite the reduction in Government Revenue, Brunei Darussalam is experiencing a provisional surplus of B\$472.9 million due to the significant reduction in Government Expenditure. This is an increase of 97.6% compared to Q2 2003.

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



Source: Treasury Department, Ministry of Finance

TABLE 5.3: Brunei Darussalam: FISCAL INDICATORS
Fiscal Position

	2002	2003	2003	2004/2005	2002	2003	2004	
	Actual	Budget	Actual	Budget	Q2	Q2	Q1 Prov	Q2 Prov
Total Revenue	4,267.8	3,397.8	4,949.4	3,938.3	1,054.0	1,225.3	1,398.0	1,357.5
Tax Revenue	2,331.7	1,941.6	2,600.9	2,266.4	574.8	640.7	824.7	726.9
Oil & Gas sector	2,115.5	1,710.0	2,393.0	2,049.5	479.9	560.5	758.4	643.2
Non-oil sector	216.2	231.6	207.9	216.9	94.8	80.2	66.3	83.7
Non-tax revenue	1,936.1	1,456.2	2,348.5	1,671.9	479.2	584.7	573.3	630.6
Oil & Gas sector	1,581.6	1,174.0	1,916.1		390.4	485.4	482.1	561.2
Non-oil sector	354.5	282.2	432.4		88.8	99.3	91.2	69.4
Total Expenditure	4,790.9	4,949.5	4,191.4	4,990.3	1,471.5	986.0	1,429.5	884.6
Current Expenditure	3,776.6	3,242.0	3,289.4	3,392.1	1,230.4	781.0	1,202.5	752.6
Wages & Salaries (PE)	1,318.8	1,437.8	1,353.7	1,507.7	315.3	316.1	422.8	320.6
OCAR	1,231.4	1,262.0	1,235.0	1,315.2	280.3	286.8	465.6	284.0
Charged	1,226.4	542.1	700.7	569.2	634.8	178.1	314.1	148.0
Capital Expenditure	956.5	1,707.6	878.7	1,598.2	231.6	186.9	227.0	132.0
Of which: Ordinary	524.2	707.6	594.9	698.2	86.4	104.1	156.6	52.0
Of which: Development	432.3	1,000.0	283.8	900.0	145.2	82.9	70.4	80.0
Investments in Public Enterprises	57.8	0.0	23.3	0.0	9.5	18.0	0.0	0.0
Surplus or deficit (-), excl. transfer	(523.1)	(1,551.8)	757.9	(1,052.0)	(417.5)	239.4	(31.5)	472.9
Memorandum items								
Consolidated Fund	2,683.60	n/a	n/a					
Oil Price (US\$/barrel)	25.33	21.00	30.17		25.03	27.3	35.59	38.20
Gas (US\$/Mmbtu)	4.1745		4.5421		4.0254	4.6573	4.6750	4.6905
Oil & Gas (in % of total revenue)	86.6	84.9	87.1		82.6	85.4	88.7	88.7
Oil & Gas (in % of GDP)	48.3	35	52.3		11.4	12.7	15.1	n/a

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

VI. MONEY & BANKING DEVELOPMENTS

OVERVIEW

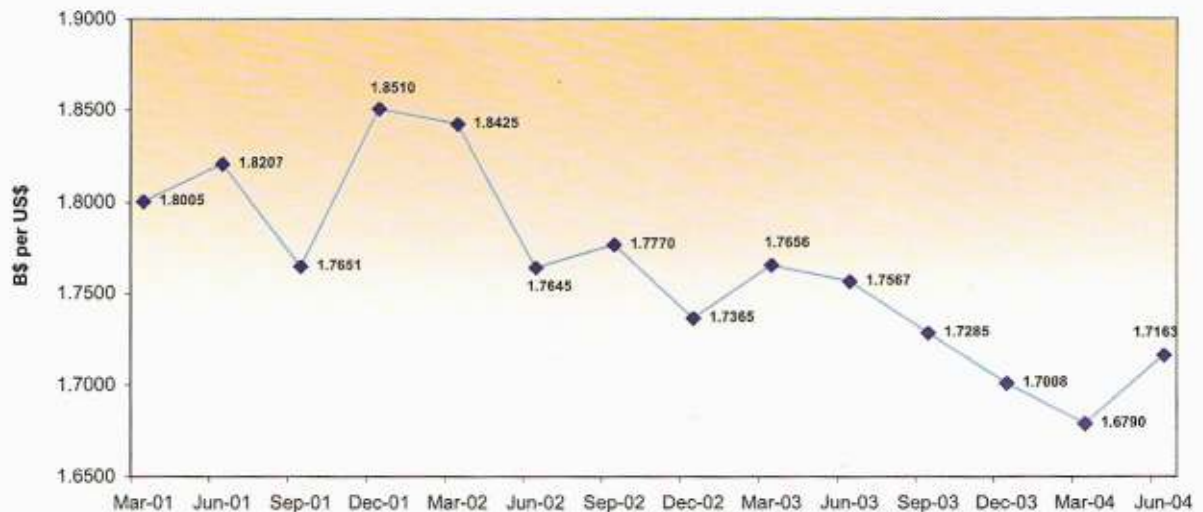
- Broad money increased by 10.3%
- Deposit Interest rates dipped slightly
- Total assets and total deposits of banks grew by 12.4% and 9.0% respectively
- Total loans of banks expanded by 3.1%
- NPL ratio declined at 13.1%

MONETARY DEVELOPMENTS

On 12 April 2004, Monetary Authority of Singapore (MAS) adopted a policy of steady and gradual appreciation of the Singapore dollar nominal effective exchange rate (S\$NEER) which previously had been kept at a zero appreciation path. This policy stance reflected the confidence in the favourable outlooks of Singapore's economic performance for 2004 and the desire of the government to curb inflationary pressure over the medium term.

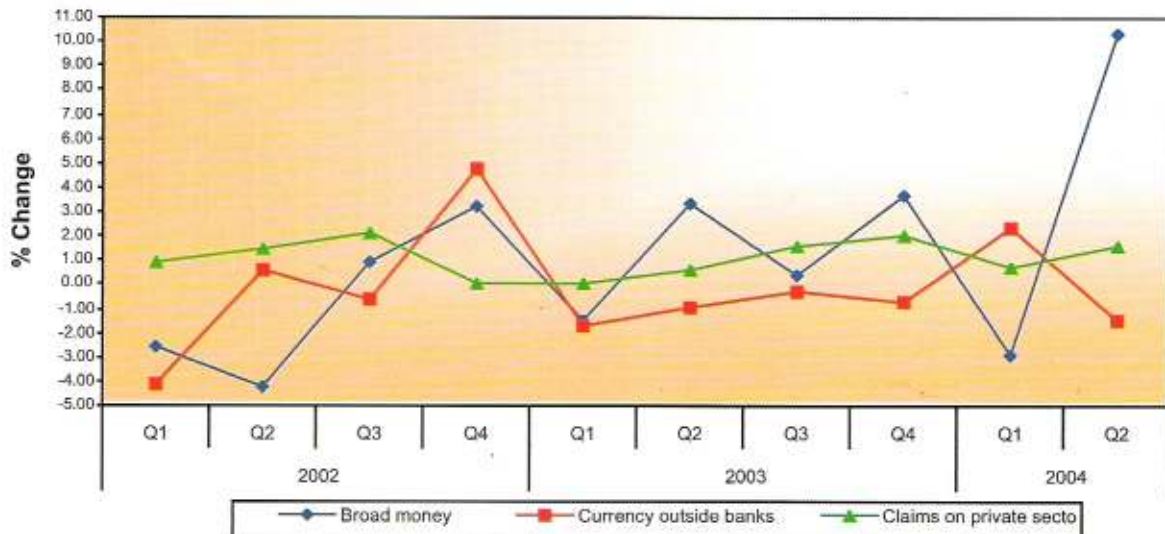
The resulting effect of this policy would have a slightly adverse effect on Brunei Darussalam's revenue as the exports of oil and gas are priced in the US Dollar. However, it was observed that since MAS announced the policy in April, the US dollar has actually gained strength against Singapore dollar and this coupled with the high oil price are favourable to Brunei Darussalam's interests.

Fig. 6.1: B\$ per US\$



Source: Various editions of International Financial Statistics (IMF)

Fig 6.2: Monetary Developments

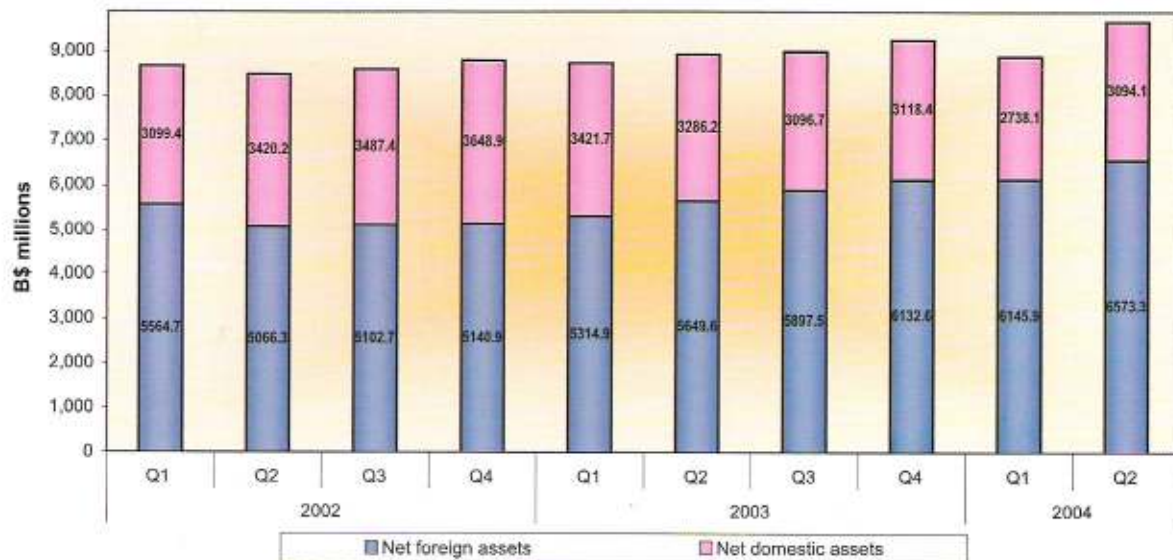


Source: Financial Institutions Division & Brunei Currency and Monetary Board, Ministry of Finance

Broad money (M2)¹⁰ which consists of M1¹¹ and Quasi Money¹² increased by 11.5% year-on-year. However, on quarterly basis, broad money increased by 10.3% to B\$8,440.9 million compared to B\$7,652.40 million in Q1 2004

Currency outside banks¹³ increased by 1.06% year-on-year. Similarly, quarter-on-quarter, it declined by 0.33% to B\$565.9 million. Claims on private sector¹⁴ which stood at B\$5,254.9 million showed an increase of 3.7% year-on-year basis. On quarterly basis, there was an increase of 1.6%.

Fig 6.3: Broad Money – Assets Side



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

¹⁰ M2= M1+ Quasi Money

¹¹ M1= Currency in circulation + Demand Deposit of Private Sector

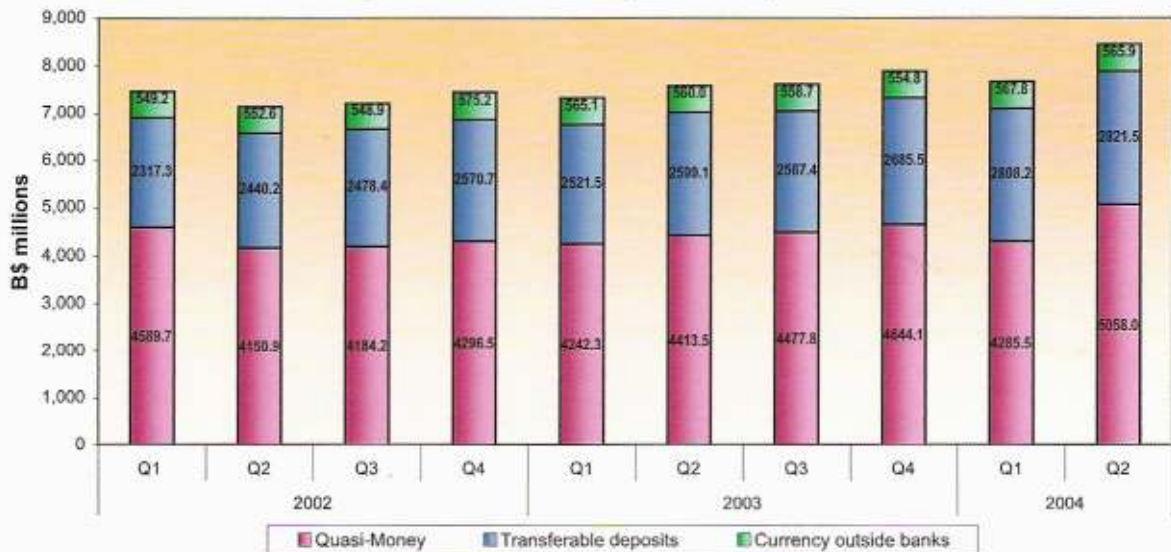
¹² Quasi Money = Fixed Deposits + Savings and other deposits

¹³ Currency outside Banks = Currency in circulation

¹⁴ Claims on private sector = Loans to private sector.

On the assets side of broad money, net foreign assets¹⁵ increased by 16.3% year-on-year and by 6.9% quarter-on-quarter. Meanwhile, net domestic assets totalled B\$3,094.1 million, declined by 5.85% year-on-year but an increase of 13.0% quarter-on-quarter.

Figure 6.4: Broad Money – Liability Side



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

As for the liability side of broad money, quasi money, which totalled B\$5,058 million, rose by 14.6% year-on year. The increase, on quarterly basis, was 18.0%. Transferable deposits stood at B\$2,821.5 million, an increase of 0.5% from the previous quarter and an increase of 8.6% on a yearly basis. Currency outside banks amounted to B\$565.9 million.

INTEREST RATES

Prime lending rate at 5.5% remained unchanged. Table 6.1 shows that deposit rates for Q2 decreased slightly particularly for 3-months deposits and 12-months deposits. The decline of deposit rates quarter-on-quarter was the direct result of the reduction of the rates by one particular bank.

Table 6.1: Brunei Deposit Rates¹⁶ For 2003 and 2004

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

Source: Financial Institutions Division, Ministry of Finance

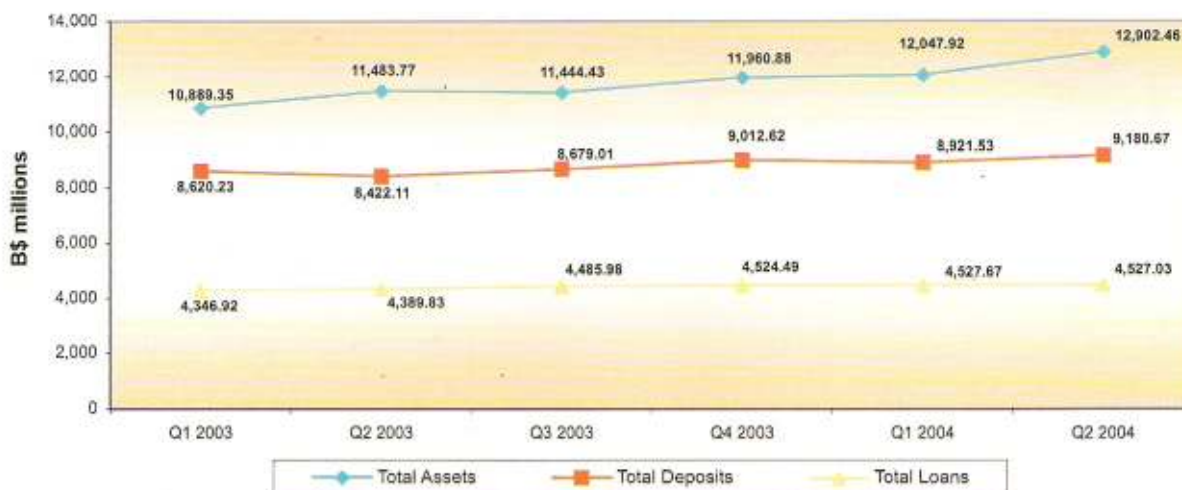
¹⁵ Net foreign assets = BCMB foreign assets less foreign liabilities + Commercial banks foreign assets less foreign liabilities

¹⁶ Rates computed based on the average quoted by all the banks

BANKING INDICATORS

The banking sector continued to perform positively. Total assets, deposits and loans increased by 12.4%, 9.0% and 3.1% respectively (year-on-year). As for quarter-on-quarter, the total assets grew by 7.1% to B\$12,902 million; Total deposits rose by 2.9% to B\$9,181 million. However, Total loans declined marginally to B\$4,527.03 million.

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

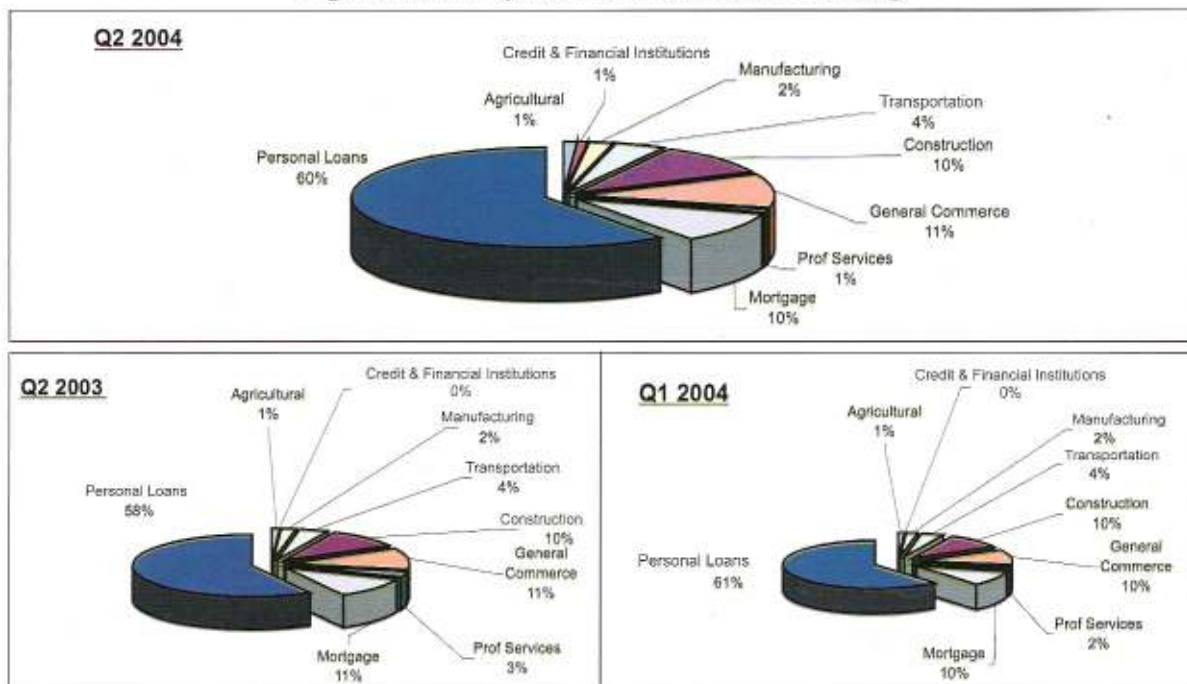


Source: Financial Institutions Division, Ministry of Finance

STRUCTURE OF LENDING

Personal loans remain the largest component of bank's total loans at 60.5%, showing a slight reduction from 61% in Q1 2004.

Figure 6.6: Comparison of Structure of Lending

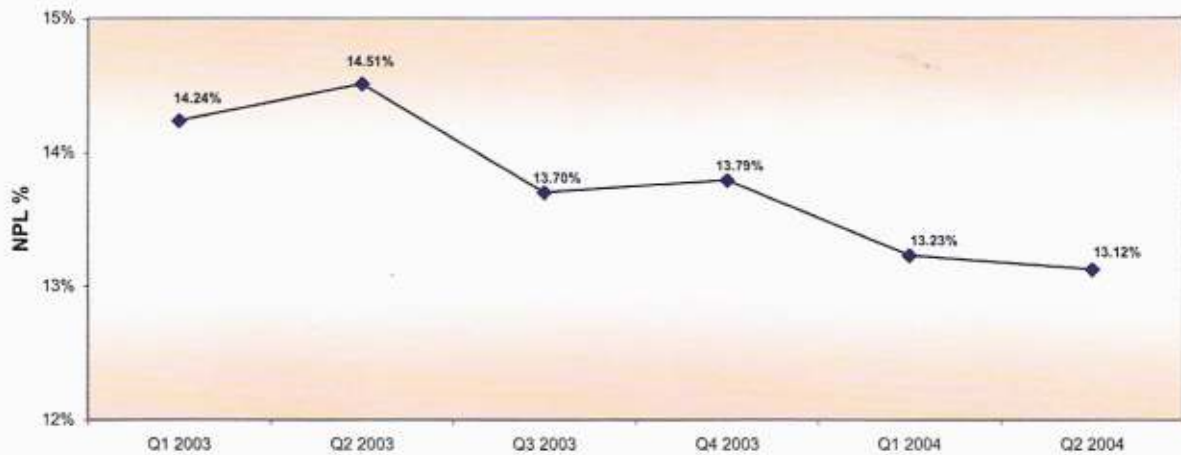


Source: Financial Institutions Division, Ministry of Finance

NON-PERFORMING LOANS

In line with Basel Accord II Standard, for the purpose of NPL ratio calculation "over 90 Days of Past Due Loans" has been adopted to replace "over 120 Days Past Due Loans". The NPL ratio dropped to 13.1%, being the lowest ever achieved in the past year. It peaked at 14.5% and in the previous quarter and has steadily improved since.

Figure 6.7 Average NPL Ratios from Q1 2003 – Q2 2004¹⁷



Source: Financial Institutions Division, Ministry of Finance

¹⁷ New calculation of NPL is based on new definition starting Q1 2003.

**Table 6.2: Brunei Darussalam: Monetary Indicators
Monetary Survey**

	Jun-03	Mar-04	Jun-04
	B\$mil.	B\$mil.	B\$mil.
Net foreign assets	5,649.63	6,145.90	6,573.30
BCB	788.52	803.00	815.00
Commercial banks	4,861.11	5,343.00	5,758.40
Assets	5,109.77	5,451.10	5,894.70
Liabilities	248.66	108.10	136.30
Claims on private sector	5,066.51	5,173.00	5,254.90
Claims on Government Net	-2,024.36	-2,725.30	-2,482.00
Other assets	2,44.09	290.40	321.20
Commercial banks	2,22.57	242.60	258.30
Claims on Nonfinancial Public Corporations	21.52	47.80	62.90
Assets=liabilities	8,935.87	8,884.00	9,667.40
Money	3,159.03	3,366.90	3,382.90
Currency	559.95	567.80	565.90
Transferable deposits	2,599.08	2,808.20	2,821.50
Quasi-money	4,413.54	4,285.50	5,058.00
Other deposits at commercial banks	4,413.54	4,285.50	5,058.00
Other liabilities	1,363.30	1,231.40	1,328.20
Memorandum items:			
Currency with banks	86.02	88.40	96.50
Broad money	7,572.57	7,652.40	8,440.90
Prime lending rate (end of period)	5.50	5.50	5.50
		(Percent change)	
Net foreign assets			6.62
Claims on private sector			1.58
Claims on Government Net			-8.93
Money			0.48
Currency			-0.33
Transferable deposits			0.47
Quasi-Money			18.03
Other deposits at commercial banks			18.03
		(In percent of broad money 12 months ago)	
Contribution to broad money growth			
Net foreign assets			5.34
Claims on private sector			1.07
Claims on Government Net			3.18
Memorandum item:			
Broad money			10.3

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

